

COMMONWEALTH OF PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

DOCUMENT 1  
FOLDER

Pike County,  
v.  
Pike County Light  
& Power Company

Docket No.:  
C-20065942, et al.

Further Hearings

Pages 1 - 157

Pennsylvania State Office  
Building  
Hearing Room 318  
100 Lackawanna Avenue  
Scranton, PA 18503

Tuesday, January 16, 2007  
Commencing at 10:00 a.m.

BEFORE:

EMBER S. JANDEBEUR, Administrative Law Judge

APPEARANCES:

DANIEL G. ASMUS, Esquire  
300 North Third Street  
Suite 1102  
Commerce Building  
Harrisburg, PA 17101  
For Office of Small Business Advocate

JIM MELIA, Esquire  
17 North Second Street  
Harrisburg, PA 17101  
For Pike County

ARON BEATTY, Esquire  
IRWIN POPOWSKY, Esquire  
555 Walnut Street  
Harrisburg, PA 17101  
For PA Office of Consumer Advocate

RECEIVED

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

REPORTER: KENNETH D. O'HEARN

Any reproduction of this transcript  
is prohibited without authorization  
by the certifying agency.

BA

B#8364 15

## APPEARANCES:

JOHN GALLAGHER, Esquire  
EDWARD G. LANZA, Esquire  
Saul Ewing, LLP  
2 North Second Street  
7th Floor  
Harrisburg, PA 17101  
For the Respondent, Pike County Light &  
Power Company

Deanne O'Dell, Esquire  
Wolf Block  
213 Market Street  
9th Floor  
Harrisburg, PA 17108  
For Direct Energy

Peter P. Kenny, Pro Se  
120 Elena Lane  
Milford, PA 18337

John W. Dalton, Jr., Pro Se  
209 Pond Drive  
Matamoras, PA 18336

INDEX TO WITNESSES

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Matthew Kahal	23	34		
Peter Lanzalotta	51	63, 91	92	
Angelo Regan	96	99, 110	123	128, 129
		115		
Joseph Holtman	132	134, 144		151
		153		

INDEX TO EXHIBITS

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>For the OCA:</u>		
No. 1 (Direct testimony of Mr. Kahal)	23	32
No. 2 (Direct testimony of Mr. Lanzalotta)	51	94
<u>For the OCA (Cross Exhibits):</u>		
No. 1 (Pike's Response to OCA Interrogatory Set Four, Question Three)	110	130
No. 2 (Pike's Response to OCA Interrogatory Set Ten, Question Three)	111	130
No. 3 (Pike's Response to OCA Interrogatory Set Six, Question One)	112	130
No. 4 (Pike's Response to OCA Interrogatory Set Three, Question Twenty-six)	112	130

INDEX TO EXHIBITS (cont.)

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>For PCL&amp;P:</u>		
No. 1	(Interrogatory Set Four, Question Three)	35            50
No. 2	(Interrogatory Set Four, Question Four)	36            50
No. 3	(Interrogatory Set Four, Question Six)	37            50
No. 4	(Interrogatory Set Four, Question Seven)	38            50
No. 5	(Interrogatory Set Four, Question Eight)	40            50
No. 6	(Interrogatory Set Four, Question Nine)	43            50
No. 7	(Interrogatory Set Four, Question 10)	44            50
No. 8	(Interrogatory Set Four, Question 11)	45            50
No. 9	(Interrogatory Set Two, Question 5)	63            95
No. 10	(Mr. Lanzalotta's response to Set Two, Question 7)	64            95

INDEX TO EXHIBITS (cont.)

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>For PCL&amp;P:</u>		
No. 11	(Mr. Lanzalotta's response to Set Two, Question 8)	65                      95
No. 12	(List of environmental zoning and regulatory permits and approvals)	66                      95
No. 13	(Mr. Lanzalotta's response to Set Two, Question 12)	67                      95
No. 14	(Map)	71                      95
No. 15	(Map)	75                      95
No. 16	(Mr. Lanzalotta's response to Set Two, Question 16)	87                      95
No. 17	(Mr. Lanzalotta's response to Set Two, Question 17)	88                      95

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>For PCL&amp;P (Statement Exhibits):</u>		
No. 2	(Rebuttal Testimony of Angelo M. Regan)	97                      131
No. 3	(Rebuttal Testimony of Joseph A. Holtman)	133                      156

P R O C E E D I N G S

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

-----  
JUDGE JANDEBEUR:

Let's go ahead and go on the record. I'm going to just go through a couple of preliminary, organizational things. If you would all put your cell phones either on off or on vibrate, I'd appreciate it. If anyone is immediately parked around the building, you need to go move your vehicle to public parking. If anyone needs a restroom, please just get up. It is just past the elevators. Same side as the elevators, but just past them. If you need a cafeteria, we have a bare bones one in the basement. Just take the elevator all the way down to the basement and take a left when you come off of the elevator. Coffee, tea, soft drinks, that's pretty much it. It's pretty bare bones. We will break at 12:30 for lunch.

We will need to finish at 4:00 today. However, the rest of the week we can go as late as everybody has brain power. As with the hearings that we held in November, we will do everything on the record. We are doing what is called realtime transcribing. If anyone is not familiar with that, you can ask me at a break and I'll explain it to you. But because of that, we will be doing everything on

1 the record.

2                   Now, going on the record for the actual  
3 hearing portion, this is the continuation of the  
4 hearings in the matter of County of Pike, et al.,  
5 versus Pike County Light & Power at Docket C-20065942.  
6 Now, I have in the courtroom the Office of the  
7 Consumer Advocate, the Office for the Small Business  
8 Advocate. And I have Jim Melia representing a large  
9 consumer group, variety of complainants. And I have  
10 numerous counselors for Pike County Light & Power.  
11 And I have Deanne O'Dell for Direct Energy, which I  
12 believe I brought in as an indispensable party. And  
13 again, Mr. Kenny, formal complainant. And Mr. John  
14 Dalton, formal complainant.

15                   We held hearings November 5th for some  
16 of, not all of, the formal complainants. And again,  
17 this is a continuation today. And my anticipation is  
18 that we will hear from two OCA witnesses and Pike  
19 County's rebuttal witnesses to those OCA witnesses.  
20 Does anybody disagree with that so far? Okay. That's  
21 a good start. We made it all the way into two or  
22 three minutes.

23                   Okay. Preliminary matters that I have on  
24 my notes that I'll just list, and then you all tell me  
25 if there's other things that need to be resolved

1 before we go into the actual hearing. Were you all  
2 able to resolve the motion to compel and sanctions  
3 issue? It looked like you had. It looked like  
4 there's a protective order on the table. And I'm  
5 seeing heads shake yes, and I'm seeing Mr. Dalton  
6 raise his hand. Mr. Dalton, yes?

7 MR. DALTON:

8 I have one motion to compel.

9 JUDGE JANDEBEUR:

10 Okay. And what is it?

11 MR. DALTON:

12 This is your copy.

13 JUDGE JANDEBEUR:

14 Did you share it with the attorneys?

15 MR. DALTON:

16 Towards Mr. O'Brien.

17 JUDGE JANDEBEUR:

18 I'm sorry. Say that ---.

19 MR. DALTON:

20 He will be testifying tomorrow. Excuse

21 me.

22 JUDGE JANDEBEUR:

23 Okay. Did you all receive this,

24 attorneys?

25 ATTORNEY MELIA:

1 Yes, we did, Your Honor.

2 JUDGE JANDEBEUR:

3 And Mr. Melia?

4 MR. DALTON:

5 I have copies for the rest.

6 JUDGE JANDEBEUR:

7 Okay. Very good.

8 ATTORNEY GALLAGHER:

9 Your Honor, I believe you were referring  
10 to the motion to compel with regard to our  
11 interrogatory requests to the OCA with regard to the  
12 confidential document.

13 JUDGE JANDEBEUR:

14 I was, yes.

15 ATTORNEY GALLAGHER:

16 And I'll let Mr. Lanza, since he dealt  
17 with Mr. Popowsky, discuss that. I believe we've  
18 resolved that issue. The only outstanding issue to be  
19 resolved is how to deal with the actual document in  
20 the hearing, ---

21 JUDGE JANDEBEUR:

22 Okay.

23 ATTORNEY GALLAGHER:

24 --- how we present ---.

25 JUDGE JANDEBEUR:

1                   Hold on one second, and let me take a  
2 look at what Mr. Dalton gave me. Mr. Dalton, is this  
3 the first that you have discussed this with Pike  
4 County Light & Power?

5                   MR. DALTON:

6                   The responses came late on Friday to me.  
7 By the time I had an opportunity to digest everything,  
8 it was very late on Friday.

9                   JUDGE JANDEBEUR:

10                  Okay.

11                  MR. DALTON:

12                  And I didn't feel it was possible to be  
13 in touch, after six o'clock, with the attorneys who  
14 are representing Pike or anybody else, so I proceeded  
15 to, as I described in this memorandum, to do the best  
16 I can and ended up finishing it last night.

17                  JUDGE JANDEBEUR:

18                  Okay. I will take a look at this when we  
19 take a break. Okay?

20                  MR. DALTON:

21                  Yes, ma'am.

22                  JUDGE JANDEBEUR:

23                  I'm going to set that aside for now.

24 Okay. Back to you, Mr. Lanza.

25                  ATTORNEY LANZA:

1 I think as you stated, Judge, that issue  
2 has been resolved. And like Mr. Gallagher said, the  
3 only issue to be resolved is how to deal with having  
4 that exhibit introduced into evidence. But I think  
5 --- and the OCA can speak to this, but the protective  
6 order entered by you should deal with that issue as  
7 well.

8 JUDGE JANDEBEUR:

9 Okay. And I reviewed the protective  
10 order. I don't --- it's a little bit different than  
11 our normal format, but there's --- I didn't see  
12 anything wrong with it. Now, do we need to go ahead  
13 and just have me enter this protective order as part  
14 of the record or do you want to see if you truly need  
15 it? It's your call, OCA.

16 ATTORNEY POPOWSKY:

17 It's really up to --- we would not need  
18 it. But if the company is going to utilize that  
19 document, then we would need it. And it's my  
20 understanding that the company may utilize it  
21 tomorrow.

22 JUDGE JANDEBEUR:

23 Okay. That being the case, I will go  
24 ahead and enter this into the record as a signed  
25 protective order by me, as written. I'm not going to

1 change it. So you are covered by the Protective  
2 Order.

3 ATTORNEY POPOWSKY:

4 Thank you, Your Honor.

5 JUDGE JANDEBEUR:

6 You're welcome. Ms. O'Dell, ---

7 ATTORNEY O'DELL:

8 Yes.

9 JUDGE JANDEBEUR:

10 you had requested whether or not  
11 anybody really wanted your witness to testify.

12 ATTORNEY O'DELL:

13 Correct.

14 JUDGE JANDEBEUR:

15 Everybody indicated that they didn't  
16 care.

17 ATTORNEY O'DELL:

18 Right.

19 JUDGE JANDEBEUR:

20 I do. I believe for purposes of this  
21 record it's to the company's benefit and to the  
22 benefit of the Utility Commission and the consumers  
23 that your witness testify, the record be complete on  
24 Direct Energy's position on all of this. That's fine  
25 that everybody disagrees with me. I'm more

1 comfortable with it being a full and complete ---

2 ATTORNEY O'DELL:

3 You certainly have the ---.

4 JUDGE JANDEBEUR:

5 --- it's a full and complete record that  
6 I would like to produce at the end of all this.

7 Therefore, I know it's time consuming and I know it's  
8 expensive, but I'd like your witness to go ahead and  
9 put their testimony on.

10 ATTORNEY O'DELL:

11 He'll plan on being here tomorrow, with  
12 everybody's agreement.

13 JUDGE JANDEBEUR:

14 I think that's how it's on the list, and  
15 that's fine, yes.

16 ATTORNEY ASMUS:

17 Your Honor?

18 JUDGE JANDEBEUR:

19 Sir.

20 ATTORNEY ASMUS:

21 Likewise, the OSBA witness, Robert Knecht  
22 (phonetic), there is nobody who wishes to cross him,  
23 so if you have questions ---.

24 JUDGE JANDEBEUR:

25 It's not that I have questions. It's

1 that to get the Direct testimony in, you need to at  
2 least put the witness on the stand, authenticate it  
3 and get it into the record. Otherwise, it's just  
4 paper that is not part of the record, just paper in my  
5 office. And that's not the way I would do this case.  
6 So yes, I would like your witness to get on the  
7 witness stand as well, Mr. Asmus.

8 ATTORNEY ASMUS:

9 Thank you. Your Honor, the practice ---  
10 at least my recollection of many years of practice is  
11 that we could all stipulate to the admission of that  
12 testimony into the record without going through the  
13 formal process.

14 JUDGE JANDEBEUR:

15 We can do that.

16 ATTORNEY ASMUS:

17 And I think for all parties involved,  
18 that's a lot easier. And it would save Ms. O'Dell the  
19 time and expense of her witness. We can stipulate the  
20 testimony directly into the record. It will be part  
21 of the record. And that would be much more efficient.

22 JUDGE JANDEBEUR:

23 That is something that we can do if  
24 everyone is comfortable with that. I just absolutely  
25 want these items in the record, not simply paper that

1 was mailed in to me. If you all want to enter that  
2 stipulation, why don't you go ahead and give us the  
3 language for that, Mr. Gallagher.

4 ATTORNEY GALLAGHER:

5 Oh, thank you, Your Honor, for  
6 volunteering me.

7 JUDGE JANDEBEUR:

8 You're welcome.

9 ATTORNEY GALLAGHER:

10 Never volunteer.

11 JUDGE JANDEBEUR:

12 That's the way school worked when I was  
13 there. I'm on the other side. I have to get back.  
14 I'm sorry.

15 ATTORNEY GALLAGHER:

16 I understand.

17 ATTORNEY POPOWSKY:

18 We would have no objection to that, Your  
19 Honor, to Mr. Gallagher's suggestion.

20 ATTORNEY MELIA:

21 Nor would Pike County.

22 JUDGE JANDEBEUR:

23 I did see a lot of shaking heads, that  
24 everybody was comfortable with that. And that's fine  
25 with me. Just as long as all these folks' testimony

1 is in the record so that I can use it and the citizens  
2 see it in there, that's my goal. So we'll let Mr.  
3 Gallagher work out the language.

4 ATTORNEY GALLAGHER:

5 I think, Your Honor, to elaborate a  
6 little bit more on this, I know --- my understanding  
7 is that Direct did not have testimony prepared; is  
8 that correct?

9 ATTORNEY O'DELL:

10 We submitted written testimony.

11 ATTORNEY GALLAGHER:

12 Oh, that's right. I'm sorry. That's  
13 right.

14 JUDGE JANDEBEUR:

15 It's short, but it's there.

16 ATTORNEY GALLAGHER:

17 It's short. That's right. No problem.

18 ATTORNEY O'DELL:

19 We'd be willing to --- we can do the  
20 written stipulation.

21 JUDGE JANDEBEUR:

22 Okay. Just you all work that out at a  
23 break. And then when we come back from the break or  
24 lunch, we'll put it on the record.

25 ATTORNEY GALLAGHER:

1 And that will also apply to Mr. Knecht.  
2 I know we've had discussions with the OSBA with regard  
3 to that testimony, and we can work on that, too.

4 JUDGE JANDEBEUR:

5 Okay. I think the last on my list is  
6 you, Mr. Kenny. You had requested an opportunity to  
7 address the rebuttal testimony of --- was it Mr.  
8 Regan?

9 MR. KENNY:

10 Yes, Your Honor.

11 JUDGE JANDEBEUR:

12 Okay. Now, what you requested is a  
13 little bit unusual. What I'd like from you is  
14 basically an offer of proof of why your additional  
15 Direct testimony is needed.

16 MR. KENNY:

17 Your Honor, I've reconsidered the request  
18 I made, and I understand Mr. Regan will be a witness.  
19 I intend to Cross Mr. Regan. That may be sufficient.

20 JUDGE JANDEBEUR:

21 Okay.

22 MR. KENNY:

23 If it is not, I will let Your Honor know,  
24 and I will make an offer of proof.

25 JUDGE JANDEBEUR:

1           Okay. Very good. Thank you, Mr. Kenny.  
2 That's it on my list. Does anyone have any additional  
3 preliminary matters we need to go over before we  
4 begin?

5                     ATTORNEY GALLAGHER:

6           Yes, Your Honor. That's the outstanding  
7 motion --- formal motion of Pike with regards to  
8 testimony of Ms. Brockway.

9                     JUDGE JANDEBEUR:

10           Yes, that is correct. And it's not on my  
11 list. And I have a big pile in front of me on Ms.  
12 Brockway. I disagree with your analysis of that, Mr.  
13 Gallagher, and so the motion is denied. Obviously,  
14 you will be able to address your disagreements with  
15 her during your rebuttal of her testimony, your Cross  
16 Examination and rebuttal.

17                     ATTORNEY GALLAGHER:

18           Your Honor, but we have a formal motion  
19 outstanding. We'd like to address your understanding  
20 and your analysis of that motion for any appeals of  
21 this issue. So we'd like to understand better your  
22 understanding or your appreciation of the issues.

23                     JUDGE JANDEBEUR:

24           My rationale for my decision?

25                     ATTORNEY GALLAGHER:

1 Yes.

2 JUDGE JANDEBEUR:

3 Your take on it is that Ms. Brockway is  
4 an attorney and that she is not an expert. And I do  
5 not think that her being an attorney precludes her  
6 from being an expert in other areas. What I have seen  
7 written so far is that she indeed can be brought in as  
8 an expert sufficiently for my purposes. Therefore, I  
9 disagree with your bumping her out.

10 ATTORNEY GALLAGHER:

11 Your Honor, our position in the motion is  
12 clear that Ms. Brockway is presenting legal argument  
13 and that her testimony is nothing more than a brief.

14 JUDGE JANDEBEUR:

15 I understand that, and I don't agree.

16 ATTORNEY GALLAGHER:

17 Even her discussions of Big Run ---.

18 JUDGE JANDEBEUR:

19 She is arguing. That is her --- the  
20 basis for her testimony is that she frankly disagrees  
21 with Pike County Light & Power's take on it.

22 ATTORNEY GALLAGHER:

23 And Your Honor, that's exactly the point  
24 we're making. She's making argument as opposed to  
25 testifying. There's a big difference.

1                   JUDGE JANDEBEUR:

2                   I'm not sure about that. I'm not sure  
3 that the line is quite as bright as you think it is.

4                   ATTORNEY GALLAGHER:

5                   I believe it's fairly bright in terms of  
6 what a witness in a proceeding such as this or any  
7 proceeding can testify about facts as opposed to  
8 testifying and arguing the law, which is what Ms.  
9 Brockway does.

10                  JUDGE JANDEBEUR:

11                  I think my take on what she has presented  
12 in her written Direct is more in the form of opinion  
13 testimony than it is legal argument. That's the way I  
14 read it. And that may be a difference between you and  
15 I and our take on what she's presented, but my ruling  
16 is that I disagree with you. I believe that she can  
17 come in. You can do an interlocutory appeal. I'm not  
18 sure how far it will get you. And you certainly have  
19 preserved it for the record.

20                  ATTORNEY GALLAGHER:

21                  Yes, Your Honor. Then we'll preserve the  
22 issue for the record.

23                  ATTORNEY POPOWSKY:

24                  Thank you, Your Honor.

25                  JUDGE JANDEBEUR:

1                   Anything else preliminarily? I believe  
2 you're up, Mr. Popowsky.

3                   ATTORNEY POPOWSKY:

4                   Mr. Beatty is going to present Mr. Kahal.

5                   JUDGE JANDEBEUR:

6                   Very good. Go ahead.

7                   ATTORNEY BEATTY:

8                   Good morning, Your Honor. We would like  
9 to present Mr. Matthew Kahal.

10                  JUDGE JANDEBEUR:

11                  Please raise your right hand.

12 -----  
13 MATTHEW KAHAL, HAVING FIRST BEEN DULY SWORN, TESTIFIED  
14 AS FOLLOWS:  
15 -----

16                  JUDGE JANDEBEUR:

17                  Thank you, sir. Be seated. Mr. Beatty?

18                  ATTORNEY BEATTY:

19                  Thank you, Your Honor.

20                  JUDGE JANDEBEUR:

21                  On each of these, if you would, because  
22 Mr. O'Hearn does not have these names in advance,  
23 please have your witness state their name and spell it  
24 and then business address for the record.

25 A. My name is Matthew I. Kahal. Last name is spelled

1 K-A-H-A-L. My address is 5565 Sterrett Place,  
2 Sterrett is spelled S-T-E-R-R-E-T-T, Columbia,  
3 Maryland, 21401.

4 DIRECT EXAMINATION

5 BY ATTORNEY BEATTY:

6 Q. Thank you, Mr. Kahal.

7 ATTORNEY BEATTY:

8 Your Honor, I would like to have marked  
9 for identification OCA Statement Number One.

10 (OCA Statement Number One marked for  
11 identification.)

12 BY ATTORNEY BEATTY:

13 Q. Mr. Kahal, do you have before you a copy of your  
14 prepared pre-filed Direct testimony in this case,  
15 consisting of 33 pages of questions and answers and  
16 one appendix?

17 A. Yes, I do.

18 Q. Was this testimony and appendix prepared by you or  
19 under your direct supervision?

20 A. Yes, I prepared it.

21 Q. Do you have any additions, corrections or  
22 modifications to make to your testimony at this time?

23 A. I have one very minor clarification to the  
24 testimony. And this is on page 28 of that testimony.

25 At line 14 there's a sentence that refers to the

1 acquisition of Pike County by Sussex and subject to  
2 the Allegheny Board of Directors. I now understand  
3 that, strictly speaking, it's not the actual  
4 acquisition that's subject to the Allegheny Electric  
5 Co-Op Board of Directors, but rather the power supply  
6 arrangement that would allow the Pike customers, if  
7 Pike was to be acquired by Sussex, to take service  
8 under the Allegheny generation and transmission  
9 wholesale rate. That's what's subject to the approval  
10 of the Allegheny Board of Directors. I think, as a  
11 practical matter, there's not really much of a  
12 difference between what's in my testimony and the  
13 statement that I just made. That's the only  
14 clarification and change that I had.

15 Q. Subject to these corrections, is the testimony and  
16 exhibit true and correct to the best of your  
17 knowledge, information and belief?

18 A. It is.

19 Q. If I were to ask you these same questions today  
20 under oath, would your answers be the same?

21 A. Yes, they would.

22 ATTORNEY BEATTY:

23 Your Honor, we ask that Mr. Kahal's  
24 testimony, including the attached appendix, marked for  
25 identification as OCA's Statement Number One be

1 admitted into evidence, subject to any timely motions  
2 by opposing Counsel.

3 JUDGE JANDEBEUR:

4 Any objections?

5 ATTORNEY BEATTY:

6 All parties and Your Honor were  
7 previously served with copies of Mr. Kahal's  
8 testimony, and I've provided two copies to the court  
9 reporter. And at this time, Your Honor, the OCA would  
10 like to proceed with Mr. Kahal's oral surrebuttal.

11 JUDGE JANDEBEUR:

12 Proceed.

13 BY ATTORNEY BEATTY:

14 Q. Mr. Kahal, what is the scope of your surrebuttal  
15 testimony today?

16 A. I'm planning on responding briefly to the rebuttal  
17 testimony of Mr. Joseph Holtman that was submitted in  
18 December. That testimony outlines a proposed plan by  
19 Pike County for the provider of last resort, or what  
20 we call POLR service. That would begin in 2008. And  
21 that POLR service would be based upon the integration  
22 of the Pike County load with that of Pike's New York  
23 affiliate, Orange & Rockland. Mr. Holtman only  
24 presented this plan in outline form in his rebuttal  
25 testimony to be subject to a formal filing that

1 presumably is in another docket. That filing was  
2 actually made earlier this month. I don't believe  
3 that filing is part of this record.

4 Q. And what specifically is Mr. Holtman presenting as  
5 the company's preferred POLR option?

6 A. Under this option that he presents for future POLR  
7 service to the Pike County customers, Pike County  
8 would integrate its load with the Orange & Rockland  
9 load sometime this year, in 2007. The dates haven't  
10 been provided, but it would be later this year.  
11 Orange & Rockland then would conduct an auction for  
12 what's known as financial swaps of energy. This would  
13 be for a period of three years. And ultimately they  
14 would phase in overlapping three-year contracts. One  
15 of the key assumptions, of course, is that the load  
16 that's acquired through this integrated Pike County  
17 and Orange & Rockland auction, this would be tethered  
18 to the New York ISO market, just as it is today.

19 Q. How does Mr. Holtman's rebuttal relate to your  
20 Direct testimony?

21 A. The theme of my Direct testimony is that Pike  
22 County suffers from certain structural problems. The  
23 structural problems most prominently are Pike County's  
24 very small size and Pike County's linkage to the New  
25 York Generation market. In addition to that, the

1 problems that we have today with Pike County power  
2 supply that resulted in the infamous 129-percent rate  
3 increase in generation costs and 73-percent overall  
4 rate increase is as a result of those structural  
5 problems, coupled with poor timing in terms of when  
6 the power supply was acquired in October of 2005.

7 I'm gratified that Mr. Holtman recognizes the same  
8 structural problems that I do. His integrated Orange  
9 & Rockland procurement proposal recognizes the problem  
10 of Pike County's small size load. He also recognizes  
11 the timing problem, which is why his proposal proposes  
12 a series of laddered three-year contract.

13 Unfortunately, it doesn't address one of the  
14 structural problems, and that is the linkage to the  
15 New York generation market.

16 In light of these structural problems, including  
17 this New York market linkage, I identified what I  
18 thought were the relevant alternatives in my  
19 testimony. The relevant alternates would include,  
20 first of all, the status quo; that is, just continuing  
21 to do something like what was done in the fall of  
22 2005. The second option is the acquisition of Pike  
23 County by Sussex Electric Cooperative. The third  
24 option that I identified in my testimony was the  
25 linkage or the integration of the Pike County load

1 with the New Jersey affiliate of Pike County, Rockland  
2 Electric Company, in their basic generation service  
3 auction which takes place annually in New Jersey. And  
4 fourth, Pike County conducting its procurement on a  
5 stand-alone basis, but is integrated with the PJM  
6 market rather than the New York market. All of these  
7 options, other than the status quo, would result from  
8 the integration of Pike County with the PJM market.  
9 Both Mr. Kolling and Mr. Lanzalotta have demonstrated  
10 the feasibility of doing that.

11 Mr. Holtman now provides us with one additional  
12 option in addition to the options that were in my  
13 testimony, and that's the integration with the New  
14 York affiliate, Orange & Rockland.

15 Q. Mr. Kahal, has Mr. Holtman demonstrated that his  
16 FOLR proposal is preferable to the POLR options you  
17 discuss in your Direct testimony?

18 A. It's preferable to one of the options that I  
19 identified in my testimony, and that is it's certainly  
20 preferable to the status quo, that is Pike County  
21 discontinuing on a kind of a stand-alone basis with  
22 its 15, 16 megawatts the way it did in the fall of  
23 2005. I don't think that he has demonstrated that  
24 it's superior to the other options I identified in my  
25 testimony, all of which assume a linkage of Pike

1 County to the PJM market.

2 Q. In particular, how does Mr. Holtman's proposal  
3 compare to the Sussex acquisition proposed by Mr.  
4 Kolling?

5 A. I think it's vastly inferior to the acquisition by  
6 Sussex. As Mr. Kolling explains in his testimony, if  
7 Pike County is acquired by Sussex, this will result in  
8 a significant decline in the rates that Pike County  
9 customers pay even immediately. But over a period of  
10 time, over a period of several years, Pike County will  
11 then be phased into the Allegheny electric bulk power  
12 rate. That bulk power rate is 5.8 cents. But 5.8  
13 cents is less than half of the generation rate that  
14 Pike County customers now pay.

15 I've also taken a careful look, and I explain this  
16 in my direct testimony, at the long-term prospects for  
17 the costs that Allegheny would charge its customers,  
18 which would include Pike if Pike were to be acquired  
19 by Sussex. And the information would indicate that  
20 that rate is --- it may not stay at exactly 5.8 cents,  
21 but it should, over a long period of time, remain  
22 fairly stable and inexpensive. The reason is that  
23 something like 70-percent of Allegheny's generation  
24 supply comes from very low costs, nuclear and  
25 hydroelectric power, the other 30-percent from the

1 market. So the very fact that 70-percent of its power  
2 supply is coming from these highly economical sources  
3 will help assure that the generation costs in the long  
4 run remain both attractive and stable.

5 In addition, Sussex has the advantage over Pike of  
6 a very, very low cost of capital, of financing. This  
7 means that although the PJM interconnection must be  
8 paid for, as Mr. Lanzalotta discusses in his  
9 testimony, he estimates that that cost be about a  
10 million to two million dollars, something in that  
11 range. Even if this is directly assigned to the Pike  
12 customers, because of the very low cost of capital of  
13 Sussex, this is going to be a very inexpensive charge  
14 to the Pike County customers. In a data response that  
15 I provided to the company, excuse me, to Pike County,  
16 I believe it set forth question three. I estimated  
17 that that cost would be in the range, on a long-term  
18 basis, of about one to two mils per kilowatt hour,  
19 which is only about one percent of the current rates  
20 that the customers now have.

21 Q. Mr. Kahal, how does Mr. Holtman's proposal compare  
22 to the option of integration with the New Jersey BGS  
23 auction, the Basic Generation Service auction?

24 A. It's actually similar except in one crucial  
25 respect, and that is that if the Sussex acquisition

1 doesn't take place and if the company were able to  
2 then integrate the Pike County load with the New  
3 Jersey Basic Generation Service auction, which I  
4 indicated takes place annually, the difference is that  
5 at least that would be based upon the PJM costs for  
6 power. The company estimates that that's on the order  
7 of about one-and-a-half to two cents per kilowatt hour  
8 less expensive than the New York market. And I think  
9 I agree with that assessment. That's about a ballpark  
10 of what the cost difference is. So that would have  
11 the advantage of providing a PJM-based price for the  
12 Pike customers, which puts PJ --- excuse me, put the  
13 Pike customers in the same position as other  
14 Pennsylvania customers who also pay --- who will, in  
15 the future, pay PJM prices or market prices for  
16 generations.

17 Q. Is there any merit to Mr. Holtman's O&R  
18 integration proposal?

19 A. I think that there is some merit to it in that it  
20 does address the small size problem. The laddering  
21 concept can provide more cost stability for customers.  
22 As I said, I think it is inferior to these other  
23 options that I've identified. However, there's also  
24 some uncertainty as to when --- and there's some  
25 disagreement on the record clearly as to when this PJM

1 integration can be accomplished. And certainly  
2 there's disagreement as to whether it can be  
3 accomplished by January 1, 2008. Therefore, if it's  
4 concluded that it will take a considerable amount of  
5 time to accomplish this PJM integration that Mr.  
6 Lanzalotta discusses in his testimony, the Orange &  
7 Rockland integration certainly might make sense as an  
8 interim measure, for example, for the year --- to  
9 provide service, say, for the year 2008. So on an  
10 interim basis it may make sense.

11 ATTORNEY BEATTY:

12 Your Honor, that's all the formal  
13 surrebuttal we have for Mr. Kahal. And I would ask,  
14 again, that Mr. Kahal's testimony, including the  
15 appendix, marked for identification as OCA Statement  
16 Number One be admitted into evidence, subject to any  
17 timely motions by opposing Counsel.

18 JUDGE JANDEBEUR:

19 Any objections?

20 ATTORNEY GALLAGHER:

21 No objection.

22 MR. KENNY:

23 No objection.

24 JUDGE JANDEBEUR:

25 So admitted.

1                   ATTORNEY BEATTY:

2                   Mr. Kahal is now available for Cross  
3 Examination.

4                   ATTORNEY GALLAGHER:

5                   Your Honor, if we may take some time to  
6 review his surrebuttal with our witnesses. This is  
7 the first time we've heard it.

8                   ATTORNEY BEATTY:

9                   We have no objection.

10                  JUDGE JANDEBEUR:

11                  That is fine, no. There are two options  
12 for you. As you know, there is a conference room  
13 here. I also have reserved across the hall a  
14 conference room, Room 308. So it's your choice. Do  
15 you want to take five minutes?

16                  ATTORNEY GALLAGHER:

17                  If you would give us 10 minutes, 10 or 15  
18 minutes, that will be fine.

19                  JUDGE JANDEBEUR:

20                  We'll take ten.

21                  ATTORNEY GALLAGHER:

22                  And we'll go across the hall.

23                  JUDGE JANDEBEUR:

24                  Okay.

25 SHORT BREAK TAKEN

1                   JUDGE JANDEBEUR:

2                   Let's go back on the record. Mr. Lanza?

3                   ATTORNEY LANZA:

4                   Yes, Your Honor.

5 CROSS EXAMINATION

6 BY ATTORNEY LANZA:

7 Q. Good morning, Mr. Kahal. How are you?

8 A. Good morning. I'm fine. Thank you.

9 Q. I have a few questions for you on Cross. But  
10 mostly I'm just going to be showing you responses that  
11 you submitted to our interrogatories and ask you  
12 basically whether what is in those responses is still  
13 accurate.

14 A. That would be fine.

15                   ATTORNEY LANZA:

16                   May I approach, Your Honor?

17                   JUDGE JANDEBEUR:

18                   You may.

19                   ATTORNEY LANZA:

20                   We'd like to have marked for  
21 identification, Your Honor, what we'll refer to as  
22 PCL&P Cross Examination Exhibit Number One. And that  
23 is PCL&P Set Four, Question Number Three.

24                   JUDGE JANDEBEUR:

25                   Do you have copies for the court

1 reporter?

2 ATTORNEY LANZA:

3 Yes, I do.

4 (PCL&P Cross Examination Exhibit One  
5 marked for identification.)

6 BY ATTORNEY LANZA:

7 Q. Mr. Kahal, this interrogatory basically requests  
8 that you provide estimates of the effective rates to  
9 be charged by Sussex to recover the cost of  
10 interconnection with New Jersey; is that correct?

11 A. Yes.

12 Q. And as part of your response, you said that the  
13 OCA has not fashioned a specific proposal for the  
14 recovery of the costs of the PJM interconnection; is  
15 that correct?

16 A. That's right.

17 Q. Is it fair to say that your estimates of the rate  
18 impact of the sale of Pike County Light & Power to  
19 Sussex are based on Mr. Lanza's analysis of the  
20 interconnection costs?

21 A. Yes. It's based specifically on his range of one  
22 to two million dollars, along with an assumed cost of  
23 capital for Sussex, which I assume for purposes of  
24 this interrogatory a seven-percent interest rate.

25 Q. And any impact on the customers in terms of rates

1 of the proposal to have Sussex acquire Pike County  
2 Light & Power, that would depend on an ultimate  
3 purchase price as well; wouldn't it?

4 A. That's right, which is obviously something that I  
5 don't and can't know.

6 Q. Thank you.

7 ATTORNEY LANZA:

8 Your Honor, we'd like to have marked for  
9 identification what we'll refer to as PCL&P Cross  
10 Examination Exhibit Number Two.

11 JUDGE JANDEBEUR:

12 So marked.

13 (PCL&P Cross Examination Exhibit Two  
14 marked for identification.)

15 BY ATTORNEY LANZA:

16 Q. Mr. Kahal, you have before you your response to  
17 Pike County Light & Power Interrogatory Set Four,  
18 Number Four?

19 A. Yes.

20 Q. This question just asks for information on which  
21 you rely regarding the fair market value of Pike  
22 County; is that correct?

23 A. Yes.

24 Q. In your response you say that you have not  
25 prepared an analysis to determine the fair market

1 value of Pike County Light and Power; is that correct?

2 A. Yes. That's not even the subject of my testimony.

3 Q. In your response you also say that you assume that  
4 the fair market value would be negotiated by the  
5 company and Sussex; is that correct?

6 A. That's right.

7 ATTORNEY LANZA:

8 Your Honor, we would have marked for  
9 identification what we would refer to as Pike County  
10 Light & Power Cross Examination Exhibit Number Three.

11 (PCL&P Cross Examination Exhibit Three  
12 marked for identification.)

13 JUDGE JANDEBEUR:

14 Thank you.

15 BY ATTORNEY LANZA:

16 Q. Mr. Kahal, you have before you your response to  
17 PCL&P's Interrogatories, Set Four, Number Six; is that  
18 correct?

19 A. Yes.

20 Q. And this request estimates of the costs for  
21 wholesale power from Allegheny for the next ten years?

22 A. Right.

23 Q. And in your response you say, Allegheny's ten-year  
24 wholesale rate projections are not in your possession;  
25 is that true?

1 A. Yes. Actually, I don't even know if they have  
2 projections of their rates over the next ten years.  
3 But if they do, I don't have them.

4 ATTORNEY LANZA:

5 Your Honor, we'd like to have marked for  
6 identification what we'll refer to as Pike County  
7 Light & Power Cross Examination Exhibit Number Four.  
8 (PCL&P Cross Examination Exhibit Four  
9 marked for identification.)

10 BY ATTORNEY LANZA:

11 Q. Mr. Kahal, you should have in front of you Pike  
12 County Light & Power Interrogatory Number Four --- Set  
13 Four, excuse me, Number Seven, and your response to  
14 that interrogatory. We asked that you provided a copy  
15 of the Williams' contract which you referred to in  
16 your testimony. And you stated in this response that  
17 you do not have a copy of the Williams contract; is  
18 that correct?

19 A. That's correct.

20 Q. On page 27 of your testimony, in addition to  
21 discussing the Williams' contract, you also speak  
22 about PPL Susquehanna ---

23 A. Yes.

24 Q. --- and agreements that the Allegheny co-op has in  
25 place with that particular power plant; is that

1 correct?

2 A. Actually, I don't think that the description of it  
3 is really on page 26, not 27.

4 Q. You're right. In fact, you say the Susquehanna  
5 unit has 20 years remaining in its NRC operating  
6 license; is that right?

7 A. Yes, approximately.

8 Q. And you also say that the owner of that plant  
9 tends to upgrade the plant by about ten percent; would  
10 that be correct?

11 A. Yes.

12 Q. And that Allegheny will share in this upgrade, as  
13 well as in its costs?

14 A. That's correct.

15 Q. Where did you get that information?

16 A. I don't know if I have it with me. I don't think  
17 I do. I got it from a press release, a PP&L press  
18 release announcing the plans for the unit upgrade or  
19 plant upgrade. I think it's the bulk units.

20 Q. And does that press release also give you  
21 information regarding who's going to share the costs  
22 of any upgrade to the plant?

23 A. The sharing of the costs? I don't recall whether  
24 it did or not. But as a co-owner of the plant,  
25 Allegheny would share in both the entitlement and the

1 costs. I think the press release stated that, but I  
2 don't recall.

3 Q. On page 27 of your testimony you referred to the  
4 Raystown hydro project?

5 A. Yes.

6 Q. And you also mentioned that Allegheny has entered  
7 into a new 18-year agreement with NYPA?

8 A. Yes.

9 Q. Do you have a copy of that agreement?

10 A. No, I don't have a copy of the agreement. This  
11 information was obtained from the Allegheny annual  
12 report.

13 Q. And does that include the description of the  
14 Allegheny --- I'm sorry, the Williams contract that  
15 you don't have?

16 A. There's a description of it in the annual report.  
17 There's also information from their financial  
18 statements on their purchase power policies. That  
19 annual report was also provided as a data response to  
20 you all.

21 ATTORNEY LANZA:

22 Your Honor, we'd like to have marked for  
23 identification what we're going to refer to as PCL&P  
24 Cross Examination Exhibit Number Five.

25 (PCL&P Cross Examination Exhibit Five

1 marked for identification.)

2 BY ATTORNEY LANZA:

3 Q. Mr. Kahal, you should have before you PCL&P  
4 Interrogatory Set Four and your response to Number  
5 Eight; am I correct?

6 A. I have that.

7 Q. You respond to a question with regard to  
8 transmission tariffs?

9 A. Yes.

10 Q. And you say that the transmission interconnection  
11 would be as described in Mr. Lanzalotta's testimony;  
12 is that right?

13 A. Yes. The physical interconnection, that's  
14 correct.

15 Q. So your assertions with regards to Allegheny's  
16 transmission rates rely on Mr. Lanzalotta's testimony  
17 regarding that information; is that correct?

18 A. I'm sorry. Could you repeat that question?

19 A. Your assertions regarding Allegheny ---, what the  
20 Allegheny cost of transmission is, are based on Mr.  
21 Lanzalotta's testimony with regard to interconnection?

22 A. No. I was a little confused by the question that  
23 you asked for transmission path. The term  
24 transmission path is a somewhat ambiguous term because  
25 the assumption is the operating assumption that we're

1 working with here is that the Pike load is going to be  
2 integrated into PJM. PJM doesn't have transmission  
3 paths, instead, all customers in PJM take service  
4 through the PJM open-access transmission tariff.  
5 That's the tariff.

6 There are really two tariffs at issue. One tariff  
7 is the bulk power supply agreement between Allegheny  
8 and the distribution electric co-op. In other words,  
9 when Allegheny charges Sussex for a power supply,  
10 that's a tariff and a contract. And that includes the  
11 cost of transmission. In addition, Allegheny must pay  
12 for transmission. And my understanding is that  
13 Allegheny pays for transmission through the PJM  
14 open-access transmission tariff. There really isn't a  
15 path, per se.

16 Q. So is your testimony now that the transmission  
17 tariffs that may be applicable would not be affected  
18 by a particular chosen transmission path under the  
19 OCA's proposal?

20 A. No. The transmission tariff would be the PJM  
21 open-access transmission tariff. That's what would be  
22 applicable. That's what Allegheny would take  
23 transmission service under. In addition, Allegheny,  
24 as I said in my response, owns a very, very small  
25 amount of the transmission plant itself. And that

1 transmission --- the cost of that transmission plant  
2 is included in the rates that Allegheny charges to  
3 member co-ops, such as Sussex.

4 Q. All right.

5 ATTORNEY LANZA:

6 Your Honor, I'd like to mark for  
7 identification what we'll refer to as PCL&P Cross  
8 Examination Exhibit Number ---

9 JUDGE JANDEBEUR:

10 Six.

11 ATTORNEY LANZA:

12 --- Six.

13 (PCL&P Cross Examination Exhibit Six  
14 marked for identification.)

15 BY ATTORNEY LANZA:

16 Q. Mr. Kahal, you should have before you Pike County  
17 Light & Power's Interrogatory Set Four, Number Nine.  
18 On page 27 of your testimony you discuss a surcharge.  
19 In fact, you said during a transmission period, it may  
20 be necessary for customers to incur a surcharge with  
21 caps on the contract; is that right?

22 A. Yes.

23 Q. Set Four, Question Nine asks you to provide  
24 information describing how the surcharge will operate.  
25 And in response you stated that you have not

1 calculated a surcharge; is that correct?

2 A. That's right.

3 ATTORNEY LANZA:

4 Your Honor, I'd like to have marked for  
5 identification what we'll refer to as PCL&P Cross  
6 Examination Exhibit Number Seven.

7 (PCL&P Cross Examination Exhibit Seven  
8 marked for identification.)

9 BY ATTORNEY LANZA:

10 Q. Mr. Kahal, you should have PCL&P Interrogatory Set  
11 Number Four, Number Ten, the response to that  
12 question. And this questions deals with the capital  
13 investments by Sussex and how that would be recovered;  
14 is that correct?

15 A. Yes.

16 Q. In your response you cite to Mr. Lanzalotta's  
17 testimony of a one to two million dollar  
18 interconnection adjustment; would that be correct?

19 A. Yes.

20 Q. Would you agree that if the capital investment  
21 estimate were higher, the rate impact on customers  
22 would be higher as well?

23 A. Yes. I think there's enough information in my  
24 data response to indicate what that would be. I  
25 estimated that it would be about one mil a kilowatt

1 hour for each one million dollars of the cost. That's  
2 why these are approximations, but that's in response  
3 to your Question Three, I had come up with a range of  
4 one to two mils per kilowatt hour, a mil being a tenth  
5 of a cent.

6 ATTORNEY LANZA:

7 I would like to mark for identification  
8 what we'll refer to as PCL&P Cross Examination Exhibit  
9 Number Eight.

10 (PCL&P Cross Examination Exhibit Eight  
11 marked for identification.)

12 BY ATTORNEY LANZA:

13 Q. Mr. Kahal, you should have in front of you PCL&P  
14 Set Four, Number 11. I think you testified to some of  
15 this in the course of your surrebuttal.

16 A. Yes, I provided clarification. And that would  
17 apply to this data response as well.

18 Q. With regard to the basis for your statement that  
19 the Sussex acquisition would have to be approved by  
20 the Allegheny Board, now your testimony is that the  
21 power supply arrangement would have to be approved by  
22 the Allegheny Board?

23 A. As applicable to the Pike load if acquired by  
24 Sussex, yes.

25 Q. Now, your initial response was that this

1 information was conveyed to you by Mr. Kolling. Now,  
2 is the clarification something that you also obtained  
3 from Mr. Kolling?

4 A. No. I got that clarification from Counsel. And  
5 the information in the original response was based  
6 upon a relatively brief telephone conversation between  
7 myself and Mr. Kolling. And I think in that telephone  
8 conversation we just didn't make these fine  
9 distinctions.

10 Q. So Mr. Kolling gave you the information that you  
11 initially provided in your testimony. You found out  
12 something different or you found clarification to that  
13 in subsequent conversation with Mr. Kolling?

14 A. Yes. I'm not suggesting that Mr. Kolling was  
15 implying anything different to me when we had this  
16 conversation. That was simply the interpretation that  
17 I took away from that conversation, which was later  
18 clarified by Counsel. I think it's really a  
19 distinction without a difference.

20 Q. When you say Counsel, do you mean OCA attorneys or  
21 Sussex Counsel?

22 A. OCA.

23 Q. You mentioned that you had a brief telephone  
24 conversation with Mr. Kolling with regard to the  
25 approvals needed on behalf of the Allegheny Co-Op

1 Board.

2 A. Well, I had just a general conversation with Mr.  
3 Kolling that this was one issue that came up. It was  
4 a conversation in which I was discussing the power  
5 supply arrangement with him.

6 Q. And how many conversations have you held with Mr.  
7 Kolling on this issue?

8 A. One.

9 Q. In your conversation with Mr. Kolling, did you  
10 discuss with him his thoughts on a purchase price?

11 A. No.

12 Q. Did you have any discussions with Mr. Kolling  
13 about future rates for Pike customers if Sussex  
14 acquiring Pike?

15 A. Yes.

16 Q. Did you have any discussion with Mr. Kolling with  
17 regard to interconnection costs?

18 A. With respect to actual cost estimates, I don't  
19 believe I did, no.

20 Q. I want to go back to your surrebuttal testimony.  
21 You compared the power supply option that Pike had  
22 submitted to the Commission for approval to the New  
23 Jersey BGS; is that correct?

24 A. Yes.

25 Q. And if I remember your testimony correctly, you

1 believe that taking advantage of the New Jersey BGS  
2 would be preferable to the option that has been  
3 presented by Pike to the Commission?

4 A. Yes, with the principal difference being one is a  
5 New York market price, the other is a PGM market  
6 price.

7 Q. Does that assume that Pike would be interconnected  
8 to PGM?

9 A. Yes, it does.

10 Q. And you understand any --- well, the  
11 implementation of that option would require PUC  
12 approval in Pennsylvania and BPU approval in New  
13 Jersey?

14 A. That's correct. That's what I assumed in my  
15 testimony when I discussed that option.

16 Q. But you're not an attorney, are you?

17 A. No, I'm not.

18 ATTORNEY LANZA:

19 That's all we have, Your Honor.

20 JUDGE JANDEBEUR:

21 Any Redirect?

22 ATTORNEY POPOWSKY:

23 Does anybody else have any Cross?

24 ATTORNEY MELIA:

25 I have no Cross.

1                   ATTORNEY BEATTY:

2                   No Cross.

3                   JUDGE JANDEBEUR:

4                   Anything else?

5                   ATTORNEY BEATTY:

6                   Your Honor, if we could have a minute  
7 with Mr. Kahal to see if we have any Redirect? Would  
8 that be okay?

9                   JUDGE JANDEBEUR:

10                   That's absolutely fine. We'll take three  
11 minutes. And again, conference room around the  
12 corner.

13 SHORT BREAK TAKEN

14                   JUDGE JANDEBEUR:

15                   Let's go ahead and go back on the record.  
16 Mr. Beatty?

17                   ATTORNEY BEATTY:

18                   Your Honor, we have no further questions  
19 for Mr. Kahal.

20                   JUDGE JANDEBEUR:

21                   Very good. Thank you, sir. You can step  
22 down.

23 A. Thank you, Your Honor.

24                   JUDGE JANDEBEUR:

25                   Mr. Beatty, do you want to try and put

1 these in? I'm sorry, Mr. Lanza. Excuse me.

2 ATTORNEY LANZA:

3 Yes, Your Honor. At this time, we would  
4 move the admission of PCL&P Cross Examination Exhibits  
5 1 through 8.

6 JUDGE JANDEBEUR:

7 Objections?

8 ATTORNEY BEATTY:

9 We have no objection, Your Honor.

10 JUDGE JANDEBEUR:

11 So admitted. Thank you.

12 JUDGE JANDEBEUR:

13 Mr. Beatty?

14 ATTORNEY BEATTY:

15 Your Honor, at this time we would call  
16 OCA witness Peter Lanzalotta.

17 -----  
18 PETER LANZALOTTA, HAVING FIRST BEEN DULY SWORN,  
19 TESTIFIED AS FOLLOWS:  
20 -----

21 JUDGE JANDEBEUR:

22 Mr. Beatty?

23 ATTORNEY BEATTY:

24 Your Honor, I would like to have marked  
25 for identification OCA Statement Number Two ---.

1                   JUDGE JANDEBEUR:

2                   Mr. Beatty, I'm going to ask you to back  
3 up and on the front of each one of these if you would,  
4 have your witness state their name, simply so that we  
5 can get it in front of Mr. Dalton and also so that Mr.  
6 O'Hearn has it. Thanks.

7 DIRECT EXAMINATION

8 BY ATTORNEY BEATTY:

9 Q. Mr. Lanzalotta, please state your name and  
10 business address for the record, and please spell your  
11 name.

12 A. Peter Lanzalotta, L-A-N-Z-A-L-O-T-T-A, 67 Royal  
13 Point Drive, Hilton Head Island, South Carolina,  
14 29926.

15                   JUDGE JANDEBEUR:

16                   Thank you.

17                   ATTORNEY BEATTY:

18                   Your Honor, I would like to have marked  
19 for identification OCA Statement Number Two.

20                   JUDGE JANDEBEUR:

21                   It is pre-marked.

22 BY ATTORNEY BEATTY:

23 Q. Mr. Lanzalotta, do you have before you a copy of  
24 your prepared pre-filed Direct testimony in this case,  
25 consisting of 17 pages of questions and answers and

1 two exhibits?

2 A. Yes, I do.

3 Q. Was this testimony and were these schedules and  
4 exhibits prepared by you or under your direct  
5 supervision?

6 A. Yes.

7 Q. Do you have any additions, corrections or  
8 modifications to make to your testimony or schedules  
9 and exhibits at this time?

10 A. I have some corrections. Pages six of my  
11 testimony, in three different places, lines 22, 25 and  
12 30, I made reference to a Sussex 34.5 kV circuit.  
13 Those references should be to JCP&L.

14 JUDGE JANDEBEUR:

15 So at line 22, we're changing Sussex to  
16 JCP&L?

17 A. Yes, Your Honor.

18 JUDGE JANDEBEUR:

19 And ---.

20 A. Line 25.

21 JUDGE JANDEBEUR:

22 And line 29. Twenty-nine (29) and 30?

23 A. Thirty (30) on mine.

24 JUDGE JANDEBEUR:

25 Thank you.

1 BY ATTORNEY BEATTY:

2 Q. Mr. Lanzalotta, do these changes have any effect  
3 on the remainder of your testimony?

4 A. No, they do not.

5 Q. Subject to these corrections, are the testimony  
6 and schedule of exhibits true and correct to the best  
7 of your knowledge, information and belief?

8 A. Yes.

9 Q. Subject to these corrections, if you were asked  
10 these same questions today under oath, would your  
11 answers be the same?

12 A. Yes.

13 ATTORNEY BEATTY:

14 Your Honor, we ask that Mr. Lanzalotta's  
15 testimony, including the attached exhibits, marked for  
16 identification as OCA Statement Number Two be admitted  
17 into evidence, subject to timely motions by opposing  
18 Counsel.

19 JUDGE JANDEBEUR:

20 We'll hold it for Cross Examination. Go  
21 ahead.

22 ATTORNEY BEATTY:

23 Your Honor, all parties and Your Honor  
24 were previously served with copies of Mr. Lanzalotta's  
25 testimony, and I provided two copies to the court

1 reporter. And at this time we'd like to proceed with  
2 Mr. Lanzalotta's oral surrebuttal testimony.

3 JUDGE JANDBEUR:

4 Proceed.

5 BY ATTORNEY BEATTY:

6 Q. Mr. Lanzalotta, if I could direct your attention  
7 to the rebuttal testimony of Pike witness Angelo M.  
8 Regan, marked as PCL&P Statement Number Two.

9 A. Okay.

10 Q. On page two, line 15 of Mr. Regan's testimony, he  
11 expresses concern with the proposal to connect Pike to  
12 other electrical systems, utilizing a 34.5 kV line.  
13 Do you agree with Mr. Regan's assessment?

14 A. In my opinion, a 34.5 kV line has more than  
15 sufficient capacity to carry the current Pike load and  
16 the expected Pike load in the foreseeable future.

17 Q. And continuing on page two, Mr. Regan also  
18 testified that a 34.5 kV interconnection would not  
19 meet the load deliverability requirements of PJM.  
20 That's line 17?

21 ATTORNEY GALLAGHER:

22 I'm sorry, what page?

23 ATTORNEY BEATTY:

24 Also on page two.

25 ATTORNEY GALLAGHER:

1 Line 17?

2 ATTORNEY BEATTY:

3 Line 17.

4 BY ATTORNEY BEATTY:

5 Q. Do you agree with this conclusion?

6 A. No, I do not. In my opinion, the interconnection  
7 that we proposed in combination with the other  
8 existing interconnections that Pike has should be  
9 sufficient to meet the PJM deliverability requirement,  
10 in my opinion.

11 Q. Now, on pages three through nine of Mr. Regan's  
12 testimony, he outlines problems with the possible  
13 interconnection of Pike with the PPL Twin Lakes  
14 substation and the MetEd Walker substation. Do you  
15 have any comments on those criticisms?

16 A. My primary comment is to note that those are not  
17 the interconnection options that we're proposing here.  
18 Those are options that I looked at. I think in many  
19 respects I come to some of the same conclusions  
20 regarding those potential alternatives that Mr. Regan  
21 came to.

22 Q. Turning to page ten of Mr. Regan's testimony,  
23 lines four through six, Mr. Regan states that Sussex  
24 will need to extend service 17 to 21 miles to connect  
25 with Pike. Do you have any comment on this

1 assessment?

2 A. Yes.

3 ATTORNEY GALLAGHER:

4 Your Honor, --- excuse me. We're looking  
5 at lines four through six?

6 JUDGE JANDEBEUR:

7 On page ten, I believe.

8 ATTORNEY GALLAGHER:

9 Page ten?

10 JUDGE JANDEBEUR:

11 Is that correct, Mr. Beatty?

12 ATTORNEY BEATTY:

13 Yes.

14 ATTORNEY GALLAGHER:

15 Could you repeat the question?

16 BY ATTORNEY BEATTY:

17 Q. On page ten, lines four through six, Mr. Regan  
18 states that Sussex would need to extend service 17 to  
19 21 miles to connect with ---.

20 ATTORNEY GALLAGHER:

21 Your Honor, I object. That's not what  
22 the statement says. I have no objection if he would  
23 read that ---.

24 ATTORNEY BEATTY:

25 I'm sorry.

1 ATTORNEY GALLAGHER:

2 You're characterizing it differently.

3 You can read the line from four to six.

4 ATTORNEY BEATTY:

5 Sure.

6 JUDGE JANDEBEUR:

7 Sustained. Go ahead. Do you want to  
8 rephrase that, Mr. Beatty?

9 ATTORNEY BEATTY:

10 Yes, Your Honor.

11 BY ATTORNEY BEATTY:

12 Q. Starting on line three, on page ten, Mr. Regan  
13 states, quote, the distance from these sources to  
14 PCL&P along roadways is closer to 21 miles. Assuming  
15 that all of the ROW park land environmental and  
16 franchise approvals could be obtained and some  
17 combination of ROW and roadways utilized for the  
18 route, this line extension could be lessened to 17  
19 miles. Do you have any comment on this assessment?

20 A. Yes. Utilizing the JCP&L 34.5 kV line, the  
21 extension from Pike's service territory to this line  
22 is between one and two miles.

23 Q. On page ten, line 22, and onto page 11, Mr. Regan  
24 testified that your cost assumption for 34.5 kV  
25 Delaware River crossing ---.

1 ATTORNEY GALLAGHER:

2 Excuse me. I'm sorry. Just give me a  
3 second. What page are we on now?

4 ATTORNEY BEATTY:

5 Sorry, page ten, line 22.

6 ATTORNEY GALLAGHER:

7 Okay.

8 BY ATTORNEY BEATTY:

9 Q. Mr. Regan testified that your cost assumption for  
10 34.5 kV Delaware River crossing is, quote, most  
11 probably understated, end quote. Please comment on  
12 this portion of Mr. Regan's testimony.

13 A. The number that I used for the cost of the  
14 Delaware River crossing came from the company's  
15 response to a request --- data request that asked what  
16 would it cost to build this aerial crossing today.  
17 And the number that I was given was the number that I  
18 used.

19 Q. If you could turn to page 12. Page 12, lines 12  
20 through 19, Mr. Regan testified that the source costs  
21 for a new 34.5 kV line would be approximately \$1.6  
22 million. Do you agree with Mr. Regan that it would be  
23 necessary to incur these source costs under your  
24 proposal?

25 A. No, I don't. Based on what I know when I wrote my

1 testimony and what I know today, I believe that there  
2 is sufficient capacity in the existing JCP&L 34.5 kV  
3 line to carry the Pike load. If that understanding is  
4 correct, then these source costs should not be  
5 required.

6 Q. Mr. Regan also testified that Pike believes that  
7 there is a phase shift issue ---.

8 ATTORNEY GALLAGHER:

9 Where are you referring to?

10 ATTORNEY BEATTY:

11 Lines 19 and 20 of that same page, page  
12 12.

13 BY ATTORNEY BEATTY:

14 Q. Mr. Regan also testified that Pike believes that  
15 there's a phase shift issue between Sussex and Pike.  
16 Is this a concern?

17 A. No, it is not. And the reason for that is that  
18 the need for a phase shift transformer, such as the  
19 one described in Mr. Regan's rebuttal testimony, would  
20 only be needed if we were going to operate this  
21 configuration while it was connected --- while Pike  
22 was connected both to PJM and to the New York ISO at  
23 the same time. Then you would need some control over  
24 that time to prevent it from being completely free  
25 flowing. However, that's not the way that we propose

1 that this arrangement work. While Pike is connected  
2 to PJM, the ties to New York would be open. And that  
3 essentially means that no power would be flowing  
4 across those New York ties as long as they were open.  
5 And the phase shift would not affect Pike's service  
6 territory under those conditions.

7 Q. Referring to page 14 of Mr. Regan's testimony, on  
8 line 16, line 16 through page 15, line two, Mr. Regan  
9 testified that Pike is concerned that energy could  
10 flow from Orange & Rockland to Pike into Sussex if  
11 Pike remained interconnected with free-flowing ties to  
12 Sussex. And my understanding is that would not be an  
13 issue with your proposal; is that correct?

14 A. That is correct. As I just explained in my last  
15 answer, I don't believe that it's preferable to  
16 operate this arrangement with the Pike system being  
17 connected both to New York and to PJM at the same  
18 time.

19 Q. Now, on page 15, lines 21 and 22, Mr. Regan  
20 testified that you engaged in the selective use of the  
21 liability data when reviewing Pike reliability. Do  
22 you agree with this assertion?

23 A. Yes and no. And let me explain this. I did  
24 select reliability data such that when we looked at  
25 the number of years of performance prior to and

1 leading up to the con-Ed merger with Orange &  
2 Rockland, we wanted to have the same number of years  
3 of performance data prior to the merger and after the  
4 merger in order to make the comparison of that  
5 reliability. Because of the volatility that's  
6 inherent in Pike's reliability indices, that's a  
7 subject that Mr. Regan goes into in his rebuttal, if  
8 you were to use more years prior to the merger, as I  
9 believe he suggests I should have done, then you're  
10 taking more of the volatility out of those pre-merger  
11 numbers. And though you would be comparing a set of  
12 six years of data after the merger and many more years  
13 of data prior to the merger, and without equal footing  
14 with regard to volatility, the numbers I selected, six  
15 years of data I think prior to the merger and six  
16 years of data after the merger, should put the  
17 volatility in both of those sets of data onto equal  
18 footing.

19 Q. And turning to page 20 of Mr. Regan's testimony,  
20 Mr. Regan testified that Pike's reliability is  
21 improving. Could you comment on this assertion?

22 A. Yes, I agree with him. The last two quarterly  
23 reports indicate substantial reliability improvements.

24 ATTORNEY BEATTY:

25 Your Honor, that's all the oral

1 surrebuttal we have. I would again ask that Mr.  
2 Lanzalotta's testimony, including the attached  
3 exhibits, marked for identification as OCA Statement  
4 Number Two be admitted into evidence, subject to any  
5 timely motions by opposing Counsel.

6 JUDGE JANDEBEUR:

7 Again, we're going to hold it until we're  
8 finished. Who's up?

9 ATTORNEY GALLAGHER:

10 I am, Your Honor.

11 JUDGE JANDEBEUR:

12 Mr. Gallagher?

13 ATTORNEY GALLAGHER:

14 Can we take some time?

15 JUDGE JANDEBEUR:

16 Yes. Five? Ten? What are we looking  
17 at?

18 ATTORNEY GALLAGHER:

19 Ten minutes, please.

20 ATTORNEY MELIA:

21 Your Honor, before we go off the record,  
22 I have a few questions of Mr. Lanzalotta. And I don't  
23 know if Mr. Gallagher would want me to go first or how  
24 you prefer.

25 ATTORNEY GALLAGHER:

1 I would prefer to go first.

2 ATTORNEY MELIA:

3 Then that's fine by me.

4 JUDGE JANDEBEUR:

5 Okay. Let's take a ten-minute break.

6 SHORT BREAK TAKEN

7 JUDGE JANDEBEUR:

8 Let's go back on the record. Mr.

9 Gallagher?

10 ATTORNEY GALLAGHER:

11 Just bear with me, please. I have to get  
12 one document.

13 CROSS EXAMINATION

14 BY ATTORNEY GALLAGHER:

15 Q. Good morning, Mr. LanzaLotta. My name is John  
16 Gallagher. I represent Pike.

17 A. Good morning, Mr. Gallagher.

18 q. I have some questions for you this morning.

19 Q. I'm going to ask you some questions that were  
20 referenced in your Cross Examination Exhibit in  
21 response to Pike's Interrogatories.

22 ATTORNEY GALLAGHER:

23 Your Honor, I'd like to have marked as  
24 Pike County Light & Power Cross Examination Exhibit  
25 Number Nine ---

1                   JUDGE JANDEBEUR:

2                   Thank you.

3                   ATTORNEY GALLAGHER:

4                   --- in response to an interrogatory by  
5 Mr. Lanzalotta to Pike County Light & Power  
6 Interrogatory Set Number Two, Number Five.

7                                 (PCL&P Cross Examination Exhibit Nine  
8                                 marked for identification.)

9 BY ATTORNEY GALLAGHER:

10 Q.   Mr. Lanzalotta, you have before you what has been  
11 marked as Pike County Cross Examination Exhibit Number  
12 Nine. Do you see that?

13 A.   Yes.

14 Q.   Have you prepared any plans or schematics or  
15 drawings of the proposed system? I'm referring to  
16 your proposal on page six, line 29.

17 A.   No, I have not.

18                   ATTORNEY GALLAGHER:

19                   Your Honor, I would like to have marked  
20 for the record Pike County Light and Power Cross  
21 Examination Exhibit Number Ten, which is a response by  
22 Mr. Lanzalotta to Interrogatory Number Seven to Pike  
23 County Interrogatory Set Number Two.

24                                 (PCL&P Cross Examination Exhibit Ten  
25                                 marked for identification.)

1 BY ATTORNEY GALLAGHER:

2 Q. Mr. Lanzalotta, you have before you what has been  
3 marked as Pike County Light & Power Cross Examination  
4 Exhibit Number Ten. Do you see that?

5 A. Yes.

6 Q. In that interrogatory, you were asked to provide  
7 all load flow studies that you prepared relating to  
8 the proposal that I referred to on page six. Do you  
9 see that?

10 A. Yes, I do.

11 Q. Am I correct that this response is correct, that  
12 you have performed no load studies, flow studies?

13 A. That is correct.

14 Q. Thank you.

15 ATTORNEY GALLAGHER:

16 Your Honor, I'd like to have marked as  
17 Pike County Light & Power Company Exhibit Number 11.  
18 It's an interrogatory response by Mr. Lanzalotta to  
19 Interrogatory Question Number Eight, Set Two.

20 (PCL&P Cross Examination Exhibit 11  
21 marked for identification.)

22 BY ATTORNEY GALLAGHER:

23 Q. Mr. Lanzalotta, you have before you what has been  
24 marked as Pike County Light & Power Cross Examination  
25 Number 11. Do you have that?

1 A. Yes.

2 Q. That question asks whether or not you prepared a  
3 map of the route of proposed interconnection. Do you  
4 agree with that response, that you have not prepared a  
5 map with regards to that interconnection?

6 A. That's correct.

7 ATTORNEY GALLAGHER:

8 Your Honor, I'd like to have marked for  
9 the record Pike County Light & Power Cross Examination  
10 Exhibit Number 12.

11 (PCL&P Cross Examination Exhibit 12  
12 marked for identification.)

13 BY ATTORNEY GALLAGHER:

14 Q. Mr. Lanzalotta, you have before you what has been  
15 marked as Pike County Light & Power Cross Examination  
16 Exhibit Number 12. Do you see that?

17 A. Yes.

18 Q. Have you prepared or developed a list of various  
19 environmental zoning and regulatory permits and  
20 approvals that would require constructing the  
21 interconnection as proposed on page six?

22 A. No.

23 Q. Have you prepared any environmental studies or  
24 analysis relating to that interconnection?

25 A. No.

1 Q. I'll refer you to page eight, line 13. You see  
2 that?

3 A. Yes.

4 ATTORNEY GALLAGHER:

5 Your Honor, I'd like to have marked for  
6 the record Pike County Light & Power Company Cross  
7 Examination Exhibit Number ---

8 JUDGE JANDEBEUR:

9 Thirteen (13).

10 ATTORNEY GALLAGHER:

11 --- 13.

12 (PCL&P Cross Examination Exhibit 13  
13 marked for identification.)

14 ATTORNEY GALLAGHER:

15 Your Honor, this Cross Examination  
16 exhibit is Mr. Lanzalotta's response to Question  
17 Number 12 of Pike County's Interrogatories Set Two.

18 BY ATTORNEY GALLAGHER:

19 Q. Mr. Lanzalotta, you have before you what has been  
20 marked as Pike County Light & Power Cross Examination  
21 Exhibit Number 13. Do you see that?

22 A. Yes.

23 Q. And there we've asked you to identify the existing  
24 substation facilities on the Sussex system that the  
25 Sussex interconnection will make use of. And we asked

1 you to describe the upgrades that will be required to  
2 be made and their associated cost as a result of the  
3 Sussex interconnection. And you replied that you  
4 would rely on Mr. Kolling's representation that Sussex  
5 had the capability to pick up Pike's load; is that  
6 correct?

7 A. That is correct.

8 Q. And you have not separately investigated the  
9 Sussex system; correct?

10 A. That is correct.

11 Q. You have not visited the Sussex system. You have  
12 not examined the physical operations of Sussex; have  
13 you not? Isn't that correct?

14 A. Yes.

15 ATTORNEY GALLAGHER:

16 Your Honor, in light of Mr. Lanzalotta's  
17 statement --- and I'll ask him the question.

18 BY ATTORNEY GALLAGHER:

19 Q. It's now your understanding, Mr. Lanzalotta, based  
20 upon your response to an interrogatory that we  
21 propounded to you, that the owner of the line that is  
22 going to be used in this proposal is the Jersey  
23 Central Power & Light Company; correct?

24 A. Yes.

25 Q. Mr. Lanzalotta, have you examined the Jersey

1 Central Line?

2 A. I've seen it.

3 Q. Have you been to the entire length of the line  
4 that is going to be used in this proposal?

5 A. The entire length of the Jersey Central line, no.

6 Q. Do you know if the JCP&L line is radial feed or  
7 radial feeder?

8 A. I believe that it is.

9 Q. And on what basis do you make that comment?

10 A. On the basis of the map that was attached, I  
11 believe, to one of Mr. Kolling's data responses to the  
12 company.

13 Q. Do you have that map in front of you?

14 A. Yes.

15 ATTORNEY GALLAGHER:

16 Your Honor, we are going to have this map  
17 introduced as a Cross Examination exhibit tomorrow  
18 with Mr. Kolling. I think it would be appropriate  
19 now, given Mr. Lanzalotta's discussion about this map  
20 on which he's relied upon, that we discuss it now.

21 JUDGE JANDEBEUR:

22 I think you should simply mark it and  
23 bring it in now then.

24 ATTORNEY GALLAGHER:

25 All right.

1                   JUDGE JANDEBEUR:

2                   We'll just mark it Pike County Light &  
3 Power 14.

4 A.    Sorry, but this wasn't the map to which I was  
5 referring.

6 BY ATTORNEY GALLAGHER:

7 Q.    That's the map we have.

8                   JUDGE JANDEBEUR:

9                   Would you like this back?

10 A.   No.   I have OCA response to Pike County Light and  
11 Power, Set 1-19, and it's showing this map.

12                   ATTORNEY GALLAGHER:

13                   Your Honor, we can clear these maps up?  
14 Just give us a minute.

15                   JUDGE JANDEBEUR:

16                   Sure.

17                   ATTORNEY GALLAGHER:

18                   Thanks.

19                   JUDGE JANDEBEUR:

20                   Take what you need.   We'll just go off  
21 the record.   Let me know when you need to go back on.

22 SHORT BREAK TAKEN

23                   ATTORNEY GALLAGHER:

24                   Your Honor, what we'll do is we will mark  
25 his --- although we don't have copies of the one that

1 Mr. Lanzalotta is referring to.

2 ATTORNEY LANZA:

3 Can we have a minute to make copies?

4 JUDGE LANZALOTTA:

5 Well, why don't you just go ahead and  
6 mark it and give me one, and at lunch I will make  
7 copies for you.

8 ATTORNEY GALLAGHER:

9 Okay.

10 JUDGE JANDEBEUR:

11 So we're going to mark this PCL&P 14?

12 ATTORNEY GALLAGHER:

13 Correct.

14 (PCL&P Cross Examination Exhibit 14  
15 marked for identification.)

16 ATTORNEY LANZA:

17 I can go next door and run some copies  
18 quickly, if you would prefer that?

19 JUDGE JANDEBEUR:

20 No. That's fine. I'll do it at lunch.  
21 You need one to work off with the witness; yes?

22 ATTORNEY LANZA:

23 He has one.

24 ATTORNEY GALLAGHER:

25 Yes, I have one.

1                   JUDGE JANDEBEUR:

2                   Now, are you all comfortable working  
3 without a copy? If not, we'll take a second and I'll  
4 copy it. Everybody's comfortable?

5                   ATTORNEY POPOWSKY:

6                   Was the attachment to OCA Set --- I'm  
7 sorry, PCL&P Set One, Number 19?

8                   ATTORNEY GALLAGHER:

9                   Yes.

10                  ATTORNEY POPOWSKY:

11                  We have that.

12                  JUDGE JANDEBEUR:

13                  Then we're all set.

14                  ATTORNEY POPOWSKY:

15                  I have an extra.

16 A. Thank you.

17                  JUDGE JANDEBEUR:

18                  I'm ready if you are.

19 BY ATTORNEY GALLAGHER:

20 Q. Now, referring to that map, our Cross Examination  
21 Exhibit Number 14, you state that you understood that  
22 the JCPL lines radial feed from that map; correct?

23 A. Yes.

24 Q. Can you tell me where you received that map, who  
25 gave you that map?

1 A. I believe I saw it when these responses were  
2 produced to the company.

3 Q. Now, looking at that map, Mr. Lanzalotta, can you  
4 tell me what the distance is from Branchville to the  
5 tap point of your proposed interconnection to the Pike  
6 County system?

7 A. The tap point into the Branchville/Holiday Lakes  
8 line?

9 Q. No, that's not the question.

10 A. I'm sorry.

11 Q. What is the distance from Branchville, the  
12 Branchville sub, ---

13 A. Uh-huh (yes).

14 Q. --- to the tap point of the PCL&P system, if you  
15 know?

16 A. I'm not sure I understand what you're referring to  
17 when you say the tap point.

18 Q. The tap point will be two points. The first tap  
19 point will be from the Sussex system to the JCP&L  
20 line. The second tap point will be from the  
21 interconnection from Sussex to JCP&L's line in Pike  
22 County. So what I'm asking you is, what is the  
23 distance between the Branchville sub and the tap point  
24 by Sussex into the JCP&L line?

25 A. Well, you're confusing me. The distance from

1 Branchville to the Sussex system appears to be pretty  
2 close to zero. It appears that the Sussex system  
3 abuts come up very close to the Branchville  
4 substation.

5 Q. Are you familiar with the proposal --- strike  
6 that.

7 You didn't prepare any schematics for the  
8 interconnection proposed by Sussex in this matter, are  
9 you, or did you?

10 A. No, I have not.

11 Q. Are you aware of the location of the planned tap  
12 into the JCP&L line by Sussex --- by the Sussex  
13 system?

14 A. I visited that point with Mr. Kolling. We did not  
15 locate it on a map. It's essentially right across the  
16 Delaware River from Milford.

17 Q. Looking at that map then, is it your position that  
18 you cannot determine how far the Branchville sub for  
19 JCP&L is to that proposed tap point?

20 A. It's my understanding it's six or seven miles, in  
21 my discussions with Mr. Kolling.

22 Q. That's based upon Mr. Kolling's observations and  
23 not yours; correct?

24 A. Yes.

25 ATTORNEY GALLAGHER:

1                   Your Honor, I'd like to have marked as  
2 Pike County Light & Power Company Cross Examination  
3 Exhibit Number 15, which is a map to scale, indicating  
4 various points.

5                   (PCL&P Cross Examination Exhibit 15  
6                   marked for identification.)

7 BY ATTORNEY GALLAGHER:

8 Q.   You have before you what is marked as Pike County  
9 Light & Power Company Cross Examination Exhibit Number  
10 15. Do you see that?

11 A.   Yes, sir.

12 Q.   Do you see that map is drawn to scale?

13 A.   That's what it ---.

14 Q.   There's a scale at the bottom.

15 A.   That's what it says, yes.

16 Q.   Now, do you see at the bottom of that map what is  
17 indicated as the Branchville sub for JCP&L?

18 A.   Yes.

19 Q.   Now, do you see the Holiday Lakes sub for JCP&L?

20 A.   Yes.

21 Q.   Now, do you understand that the tap by Sussex will  
22 be in that location?

23 A.   That's my understanding.

24 Q.   Now, looking at this map again, could you estimate  
25 as to how far the Branchville sub is to the proposed

1 tap by Sussex?

2 A. It looks like it's something over eight miles.

3 Q. Would you agree, subject to check, that it's ten  
4 miles?

5 A. Yes.

6 Q. Now, are you aware that the line in question by  
7 the JCP&L line is predominantly constructed alongside  
8 the roadway on Route 206 for its entire length from  
9 Branchville?

10 A. The part that I saw was constructed alongside the  
11 road. And as I said earlier, I did not examine the  
12 entire length of the line.

13 Q. Are you aware of the present loading capacity of  
14 the Branchville line to the Holiday Lakes' 34.5 kV  
15 line?

16 A. No, I am not.

17 Q. Have you done any studies or analysis to determine  
18 whether any additional protection automation and SCATA  
19 (phonetic) requirements will be necessary for the  
20 proposed Sussex interconnection?

21 A. I have not.

22 Q. Now, you mentioned in your Direct and also in your  
23 surrebuttal testimony a connection with the O&R  
24 system, which is at Port Jervis; correct?

25 A. Part of it is, yes.

1 Q. Assuming that the O&R --- O&R does not maintain  
2 the interconnection with Sussex, do you know the  
3 radial distance from Branchville from Matamoras?

4 A. I haven't run that number, no.

5 Q. Are you familiar with the O&R source at Port  
6 Jervis?

7 A. Yes.

8 Q. Can you tell me how you're familiar with it? Have  
9 you inspected that source?

10 A. I've gone there and looked at it, yes.

11 Q. When was that?

12 A. The same day I met with Robert Kolling.

13 Q. Did you visit that source with any O&R personnel?

14 A. No.

15 Q. I believe it was --- you mentioned on your  
16 surrebuttal that it's the plan to not have O&R  
17 interconnect with the new proposal, the  
18 interconnection; correct?

19 A. That's not the way I would describe it. The plan  
20 is that the current O&R interconnections with Pike be  
21 maintained, but that when Pike is connected to JCP&L,  
22 those interconnections be left in an open position so  
23 that Pike would not be interconnected to both New York  
24 and PJM at the same time. However, these  
25 interconnections would be available should we lose the

1 feed from PJM for whatever reason such that Pike could  
2 be, if required, returned to service using these  
3 connections to New York.

4 Q. If the O&R source is used as a back-up always to  
5 be available if the JCP&L line or the source is down,  
6 wouldn't you agree that the source at O&R would be  
7 feeding Pike customers but also a significant amount  
8 of the JCP&L line?

9 A. You're telling me if we had all of our  
10 interconnections closed and Pike was simultaneously  
11 interconnected to both New York and PJM?

12 Q. No. I'm saying, as you just stated, if the JCP&L  
13 line was down and that O&R is providing power to the  
14 Pike, now Sussex, customers, wouldn't they also be  
15 providing power to that line, that JCP&L line?

16 A. Well, if --- no, not the way I envision the system  
17 working. If we interconnect with New York, we would  
18 have to make sure the connection with JCP&L was open.  
19 That is if we were picking up the entire Pike system  
20 through the existing connections to New York. There's  
21 a possibility, of course, that we might be supplying  
22 part of the Pike system through the JCP&L and part of  
23 it through New York. But again, we wouldn't want an  
24 electrical interconnection between those two pieces.

25 Q. If that's true, wouldn't you agree that --- strike

1 that.

2 If that's true, have you prepared any reports  
3 showing the type of upgrades that were required of the  
4 Port Jervis facility to accomplish that?

5 A. I'm not sure that there would be any upgrades  
6 required.

7 Q. Have you prepared any reports?

8 A. No, I have not.

9 Q. Have you done any analysis of that?

10 A. No.

11 Q. Are you familiar with the proposed upgrade that  
12 C&R is planning at the Port Jervis facility with  
13 regards to a 69 kV sub?

14 A. Yes. I first became aware of that when Mr. Regan  
15 filed his rebuttal testimony.

16 Q. Now, with regards to keeping that interconnection  
17 open with the O&R system, have you prepared any  
18 reports or analysis identifying the costs of any of  
19 those upgrades to the facilities?

20 A. The cost of the 69 kV upgrades?

21 Q. I'm sorry. Any cost of any upgrades that would be  
22 needed to maintain that interconnection with O&R if  
23 the Sussex JCP&L interconnection or connection is  
24 lost?

25 A. Apart from the existing facilities, which I

1 believe includes a switching device on the feeders  
2 coming from New York into Pike pretty much at the  
3 state line, I didn't assume that there would be any  
4 other upgrades.

5 Q. But you haven't done any analysis to determine  
6 whether or not that is, in fact, true?

7 A. That's correct.

8 Q. Because you only physically looked at the Port  
9 Jervis facility; correct?

10 A. That's correct.

11 Q. With regards to the proposal by Sussex to tap into  
12 that JCP&L line, do you envision that as a direct tap  
13 or something more extensive?

14 A. When you say direct tap, I guess we were assuming  
15 it would be a direct tap, but we weren't envisioning  
16 the construction of any substation or anything at this  
17 point.

18 Q. And did you receive that information from Mr.  
19 Kolling?

20 A. We discussed this approach, yes.

21 Q. And what did Mr. Kolling tell you with regards to  
22 how he planned on tapping into the JCP&L line?

23 A. We didn't go into a lot of detail as to the exact  
24 method that he planned to use.

25 Q. So again, you've done no analysis to determine

1 whether or not that kind of tap would entail any new  
2 facilities, extra facilities or costs?

3 A. It's my belief that it would include some kind of  
4 switching device. But other than that --- a metering  
5 device also. Other than that, I don't know that it  
6 will include anything else.

7 Q. Because once again, you relied upon Mr. Kolling to  
8 give you an outline of what he or Sussex proposed to  
9 do here; correct?

10 A. That's correct.

11 Q. Are you aware of the present load and capacity of  
12 the Branchville to Holiday Lakes' 34.5 kV line to the  
13 JCP&L line?

14 A. Not specifically. However, I discussed with Mr.  
15 Kolling the typical capacity of 34.5 kV feeder and his  
16 understanding as to the remaining available capacity  
17 on that feeder.

18 Q. So once again, you're relying on Mr. Kolling to  
19 give you his estimate as to what the capacity of that  
20 line is; correct?

21 A. That is correct.

22 Q. Have you done any analysis --- independent  
23 analysis, other than Mr. Kolling's conversations with  
24 you, as to whether or not this proposal to utilize the  
25 JCP&L line will meet PJM deliverability and the JCP&L

1 system requirements?

2 A. I've looked at the PJM manual regarding  
3 transmission requests.

4 Q. But since you don't know what the capacity is  
5 because you're depending on Mr. Kolling, you don't  
6 know, do you?

7 A. I don't know if PJM will find that there is enough  
8 available capacity to make this work or not.

9 Q. You've done no independent analysis or studies to  
10 determine whether the addition of the proposed Pike  
11 County Light & Power load, as proposed by Sussex,  
12 would require an upgrade of the Branchville to Holiday  
13 Lakes' 34.5 kV line, have you?

14 A. Other than asking Mr. Kolling what was his  
15 understanding as to the available capacity on that  
16 circuit, no.

17 Q. Forgive me, Mr. Lanzalotta, if I've asked this  
18 question. I'm sure your Counsel will tell me if I  
19 have, but if you assume that the O&R connection at  
20 Port Jervis is not maintained, do you know what the  
21 radial distance from Branchville to Matamoras is?

22 A. I believe they've already asked it. I said I  
23 didn't know specifically.

24 Q. Thank you. Have you --- are you aware of any  
25 discussions that Sussex --- strike that.

1 Have you had any discussions or met with JCP&L  
2 representatives regarding the proposal?

3 A. No.

4 Q. Have you met with any of the O&R representatives  
5 with regards to maintaining an interconnection at the  
6 Port Jervis substation?

7 A. I have not.

8 Q. Now, assume that --- if you assume that  
9 maintaining that O&R 34.5 kV interconnection is  
10 required and also that that interconnection will have  
11 --- strike that.

12 Assuming that Sussex acquires the PCL&P system by  
13 the proposal of Mr. Kolling and assume that the  
14 maintaining of the O&R 34.5 kV interconnection is  
15 required and that this will have little or no benefit  
16 to O&R customers, what is your position with regards  
17 to what could O&R expect of the Sussex and Pike  
18 customers to fund any 34.5 kV upgrades that are  
19 presently proposed for the Port Jervis substation?

20 A. Could I have that question again?

21 Q. Yes. I'm sorry. I'll rephrase the question.

22 Assuming that the Sussex proposal is --- goes forward,  
23 ---

24 A. Uh-huh (yes).

25 Q. --- and assume that maintaining of the current O&R

1 34.5 kV interconnection is required, would --- is it  
2 your position that O&R would expect the Sussex and  
3 Pike customers --- strike that.

4 Is it your position that the Sussex and Pike  
5 customers would fund any upgrades to that 34.5 kV  
6 substation?

7 A. I believe in that event that that would be a  
8 matter for FERC to decide. And whatever FERC decides  
9 on that, Sussex would have to comply.

10 Q. So it's possible that Sussex and Pike customers  
11 could be expected to fund all of the upgrades of that  
12 34.5 kV substation of O&R?

13 A. Whatever portion FERC decides is reasonable.

14 Q. To maintain that interconnection?

15 A. Yes, sir.

16 Q. Now, in your surrebuttal testimony, Mr.  
17 Lanzalotta, you --- I believe it's your testimony that  
18 the MetEd and PP&L interconnections are not the option  
19 that you are backing in this case; correct?

20 A. That is correct.

21 Q. I'll refer you to page seven, lines 22 following  
22 over to page eight, lines one and two.

23 A. Okay.

24 Q. You talk about the reliability of a configuration  
25 of the proposal which would utilize the JCP&L line.

1 Do you see that?

2 A. Yes.

3 Q. Isn't it your position that that interconnection  
4 should be maintained for the reliability of the system  
5 proposed by Mr. Kolling?

6 A. The interconnection to O&R, yes, but not  
7 necessarily operated in what we call a closed  
8 position, through which power can flow all the time.

9 Q. Well, let's assume that O&R does not agree to that  
10 interconnection.

11 A. Okay.

12 Q. That would decrease the reliability of the  
13 proposal for a Sussex interconnection; isn't that  
14 correct?

15 A. If there were no connections between Pike and O&R,  
16 yes, that would reduce the reliability.

17 Q. Now, you would agree that the reliability of a  
18 single line starting at the source at Branchville,  
19 terminating at Matamoras, with one line and no  
20 interconnection, the reliability would be severely  
21 impaired without an interconnection; isn't that  
22 correct?

23 A. Reliability would be less than desirable, in my  
24 opinion.

25 Q. Wouldn't you agree that it will be severely

1 impaired, given the distances from Branchville to  
2 Matamoras?

3 A. I'm not sure we work in a matter of degrees when  
4 we're looking at a radial feed. Radial feed is either  
5 available or it's not. And we try to plan for the  
6 circumstances in which it's not available.

7 Q. And once again, Mr. Lanzalotta, you've done no  
8 studies to determine, number one, the capacity of that  
9 JCP&L line. You've done no analysis whatsoever to  
10 know whether the added capacity from the Pike  
11 customers will impair the reliability of that line,  
12 have you?

13 A. I have not done the study. However, I would note  
14 that if PJM were to determine that upgrades on that  
15 line are needed to reliably carry the Pike load, then  
16 the cost of those would also be part of this  
17 comparison.

18 Q. And those costs would be assumed by whom?

19 A. I'm not sure if they would be assumed by Sussex,  
20 by Allegheny or by Pike.

21 ATTORNEY GALLAGHER:

22 Your Honor, if I may have one second.

23 BY ATTORNEY GALLAGHER:

24 Q. Mr. Lanzalotta, referring to page 15, line 14 of  
25 your testimony, ---.

1                    ATTORNEY GALLAGHER:

2                    Your Honor, I'd like to have marked for  
3 the record Cross Examination Exhibit Number 16, I  
4 believe, Pike County Light & Power Cross Examination  
5 Number 16.

6                    (PCL&P Cross Examination Exhibit 16  
7                    marked for identification.)

8 BY ATTORNEY GALLAGHER:

9 Q.    Mr. Lanzalotta, you have what's in front of you  
10 what has been marked as Pike County Light & Power  
11 Cross Examination Exhibit Number 16. Do you have  
12 that?

13 A.    Yes.

14 Q.    There we ask you to provide all of Sussex's  
15 outages referred to on Mr. Regan's statement, on  
16 Number Two, by cause in a form equivalent to your  
17 Table Three. Can you tell us what your response was?

18 A.    Sorry? There's a reference to Table Three?

19 Q.    Table Three, on page 13 of OCA Statement Number  
20 Two.

21 A.    I'm sorry. I thought I was looking at page 15.

22 Q.    Yes. There I'm referring to your analysis and  
23 evaluation of Sussex's reliability performance. I'm  
24 sorry. And here we ask you whether or not you've  
25 investigated Sussex's planning, maintenance and

1 operating philosophies.

2 A. I have not.

3 Q. I'm sorry. I was referring to the wrong  
4 interrogatory.

5 ATTORNEY GALLAGHER:

6 Your Honor, we'd like to have marked as  
7 Pike County Light & Power Cross Examination Exhibit  
8 Number 17, Mr. Lanzalotta's response to that question.  
9 And it's Set Number Two.

10 (PCL&P Cross Examination Exhibit 17  
11 marked for identification.)

12 BY ATTORNEY GALLAGHER:

13 Q. You have before you what has been marked as Cross  
14 Examination Number --- Pike County Cross Examination  
15 Number 16 ---

16 JUDGE JANDEBEUR:

17 Seventeen (17).

18 BY ATTORNEY GALLAGHER:

19 Q. --- 17. I'm sorry.

20 A. Yes.

21 Q. Did your response to that question state that you  
22 looked at all of the outage data made available by  
23 Sussex to the company?

24 A. That's what it says.

25 Q. Thank you. Is it your understanding that if

1 Sussex acquired Pike, that Sussex would be exempt from  
2 PUC regulations?

3 A. I believe they are, yes.

4 Q. Do you know if Sussex is currently subject to  
5 either New Jersey or Pennsylvania reliability  
6 performance standards?

7 A. It's my understanding they are not.

8 Q. In your surrebuttal testimony, Mr. Lanzalotta, you  
9 had talked about the volatility of the Pike data. Do  
10 you remember that?

11 A. Yes, I do.

12 Q. Now, with regards to volatility of data, Mr.  
13 Lanzalotta, wouldn't you agree that it is better to  
14 examine more data than less data when determining or  
15 when looking at a volatility issue?

16 A. It depends. In this case here, we're comparing  
17 data from two different time periods. And I think I  
18 said in my surrebuttal that the longer the time period  
19 you look at, the more you tend to smooth out that  
20 volatility in terms of average performance. However,  
21 if we're going to compare six years' worth of  
22 performance since the Con-Ed merger with performance  
23 before the merger, then the volatility issue really  
24 demands that we use an equal length of time so that  
25 we're not giving an advantage to one set of data over

1 the other. Volatility is going to have an equal  
2 impact, at least a time-based impact on both of these  
3 series of numbers.

4 Q. Doesn't volatility have an impact regardless of  
5 the ownership of a line? Isn't volatility --- strike  
6 that.

7 A. I'm sorry?

8 Q. Doesn't volatility --- can it be viewed exclusive  
9 ownership of a line? Volatility is what it is; isn't  
10 it?

11 A. It doesn't depend on who owns the line, ---

12 Q. Correct.

13 A. --- that's correct.

14 Q. So once again, wouldn't you agree that it's better  
15 to look at a longer set of data to determine  
16 volatility over any given line than a shorter period  
17 of time?

18 A. Not in every instance, no. I think I've already  
19 explained why using six years of data prior to the  
20 Con-Ed merger and six years of data subsequent to the  
21 Con-Ed merger is a more valid comparison than using 10  
22 or 12 years of data prior to the merger and only six  
23 years of data after the merger.

24 ATTORNEY GALLAGHER:

25 No further questions, Your Honor.

1                   JUDGE JANDEBEUR:

2                   Mr. Beatty?

3                   ATTORNEY BEATTY:

4                   Can we have a few minutes, Your Honor, to  
5 talk ---?

6                   ATTORNEY MELIA:

7                   I have a couple of questions, Your Honor,  
8 for the witness.

9                   JUDGE JANDEBEUR:

10                   Go ahead.

11 CROSS EXAMINATION

12 BY ATTORNEY MELIA:

13 Q. Mr. Lanzalotta, the options that you talk about in  
14 your testimony, the MetEd Walker station, PPL, Twin  
15 Lakes, it's my understanding you're not recommending  
16 those options, correct, ---

17 A. Yes.

18 Q. --- as a primary solution to this situation?

19 A. That's correct.

20 Q. In looking at those options and assigning costs,  
21 did you assign any timelines or look at it from a  
22 perspective of how long it would take to implement  
23 those two alternatives, even though they're not your  
24 primary recommendations?

25 A. No, I did not.

1                    ATTORNEY MELIA:

2                    That's all I have, Your Honor.

3                    JUDGE JANDEBEUR:

4                    Mr. Beatty, do you want to take a break  
5 for five minutes?

6                    ATTORNEY BEATTY:

7                    If we could, Your Honor.

8                    JUDGE JANDEBEUR:

9                    No problem. We'll go off the record for  
10 five minutes.

11 SHORT BREAK TAKEN

12                    JUDGE JANDEBEUR:

13                    Okay. Let's go ahead and get back on the  
14 record. Mr. Beatty?

15                    ATTORNEY BEATTY:

16                    Yes.

17 REDIRECT EXAMINATION

18 BY ATTORNEY BEATTY:

19 Q. So the record is clear, Mr. Lanzalotta, you  
20 mentioned FERC earlier under questioning. Could you  
21 spell out what that stands for?

22 A. That stands for the Federal Energy Regulatory  
23 Commission.

24 Q. You were asked to assume that if Orange & Rockland  
25 cut off ties to Pike, would Pike suffer from a

1 reliability perspective. Is it reasonable to assume  
2 that O&R could cut ties to Pike? Is that a reasonable  
3 assumption?

4 A. It's my understanding that, in this situation,  
5 that would be something that FERC would address. And  
6 it's been my experience, although I am not a lawyer,  
7 where at least one of the parties wants to maintain  
8 existing interconnections or even establish a new  
9 interconnection, FERC, in my experience, is  
10 supportive.

11 ATTORNEY GALLAGHER:

12 Your Honor, I'm going to have to object  
13 because it is calling for a legal conclusion. Even  
14 though he's saying it's his experience, it's still  
15 calling for a legal conclusion as to whether or not  
16 Pike --- and he's not a lawyer. He's already admitted  
17 it. So I would like to have that answer stricken.

18 JUDGE JANDEBEUR:

19 Your objection is that he's not allowed  
20 to have an opinion simply because he's stating that  
21 he's not a lawyer, but it's a lawyer position?

22 ATTORNEY GALLAGHER:

23 He's stating that it's his position or he  
24 knows of the fact that they wouldn't allow them to do  
25 that. He's stating a legal opinion -- a legal

1 conclusion. That would be on the record, and I object  
2 to that.

3 JUDGE JANDEBEUR:

4 That's fine. Your objection is noted,  
5 and it's overruled. What I heard him say is that in  
6 his experience that's how it's been handled. Is that  
7 what you said?

8 A. Yes, Your Honor.

9 JUDGE JANDEBEUR:

10 Overruled. Go ahead, Mr. Beatty.

11 ATTORNEY BEATTY:

12 That's all the questions I have.

13 JUDGE JANDEBEUR:

14 Any additional Cross?

15 ATTORNEY GALLAGHER:

16 No, nothing, Your Honor.

17 ATTORNEY MELIA:

18 No, Your Honor.

19 ATTORNEY GALLAGHER:

20 Mr. Beatty, do you want to get your  
21 exhibits in? They're marked but not in.

22 ATTORNEY BEATTY:

23 Yes. We'd move for the admission of OCA  
24 Statement Two at this time.

25 JUDGE JANDEBEUR:

1 Any objections?

2 ATTORNEY GALLAGHER:

3 Your Honor, and we'll move the Pike  
4 County Exhibits 9 through 17 Cross Examination into  
5 the record.

6 JUDGE JANDEBEUR:

7 I assume there were no objections to Mr.  
8 Beatty's. That is so admitted. Mr. Beatty, any  
9 objections to Mr. Gallagher's coming in?

10 ATTORNEY BEATTY:

11 No, Your Honor.

12 JUDGE JANDEBEUR:

13 So admitted. Thank you, sir. You may  
14 step down. And we will break for lunch. And come  
15 back --- do you all feel that you need more than an  
16 hour? Can we come back in one hour? If not, we can  
17 come back at 2:00 straight up. But if we can, I'd  
18 like to come back at quarter of.

19 ATTORNEY GALLAGHER:

20 1:45 would be fine.

21 JUDGE JANDEBEUR:

22 Okay. We'll be back at 1:45.

23 LUNCH BREAK TAKEN

24 JUDGE JANDEBEUR:

25 Go ahead and go on the record. And you

1 are Mr. Regan?

2 MR. REGAN:

3 Yes.

4 JUDGE JANDEBEUR:

5 Okay. Would you raise your right hand  
6 for me?

7 -----  
8 ANGELO M. REGAN, HAVING FIRST BEEN DULY SWORN,  
9 TESTIFIED AS FOLLOWS:

10 -----

11 JUDGE JANDEBEUR:

12 Just a reminder, if you would, when we  
13 start, please have them state their names, spell it  
14 and address. Thank you. Mr. Gallagher?

15 ATTORNEY GALLAGHER:

16 Thank you, Your Honor.

17 DIRECT EXAMINATION

18 BY ATTORNEY GALLAGHER:

19 Q. Would you please state your full name and business  
20 address for the record, please?

21 A. My name is Angelo M. Regan, spelled R-E-G-A-N.  
22 Business address is 390 West Route 59, Spring Valley,  
23 New York, 10977.

24 Q. By whom are you employed and in what capacity?

25 A. I'm employed by Orange & Rockland Utilities as the

1 director of the electrical engineering department.

2 Q. Are you authorized to testify on behalf of Orange  
3 & Rockland and Pike County Light & Power Company in  
4 this proceeding?

5 A. Yes, I am.

6 ATTORNEY GALLAGHER:

7 Your Honor, I'd like to have marked for  
8 the record PCL&P Statement Number Two, which is  
9 entitled the rebuttal testimony of Angelo M. Regan, on  
10 behalf of the Pike County Light & Power Company.

11 JUDGE JANDEBEUR:

12 It's pre-marked. Go ahead.

13 ATTORNEY GALLAGHER:

14 Your Honor, copies of this testimony have  
15 been previously given to all of the parties. Copies  
16 have been distributed to the court reporter.

17 BY ATTORNEY GALLAGHER:

18 Q. Mr. Regan, you have before you what has been  
19 marked as PCL&P Statement Number Two. Do you see  
20 that?

21 A. Yes.

22 Q. PCL&P Number Two is a statement --- 29-page  
23 statement, including one exhibit. Do you see that?

24 A. Yes.

25 Q. Did you prepare this testimony?

1 A. Yes, I did.

2 Q. Was this testimony prepared by yourself, under  
3 your direction?

4 A. Yes, it was.

5 Q. Looking at this testimony, Mr. Regan, do you have  
6 any corrections, additions or deletions?

7 A. I have one correction.

8 Q. Where is that?

9 A. On page 29, I have it as line three. It states,  
10 Exhibit Two. It should be changed to Exhibit One.

11 Q. Are those the extent of your corrections?

12 A. Yes, sir.

13 Q. Mr. Regan, if I were to ask you the questions  
14 contained within those 29 pages, would your answers be  
15 the same as contained therein?

16 A. Yes, they would.

17 ATTORNEY GALLAGHER:

18 Your Honor, I'd like to move the  
19 admission of PCL&P Statement Number Two into the  
20 record, subject to any Cross Examination or motions by  
21 the other parties.

22 JUDGE JANDEBEUR:

23 We'll hold it until we're finished.

24 Continue.

25 ATTORNEY GALLAGHER:

1 Mr. Regan is available for Cross  
2 Examination.

3 JUDGE JANDEBEUR:

4 Mr. Beatty, are you going to go first?

5 ATTORNEY MELIA:

6 I think I will go first.

7 JUDGE JANDEBEUR:

8 Mr. Melia? Okay.

9 ATTORNEY MELIA:

10 Thank you. Is that all right?

11 ATTORNEY BEATTY:

12 Yes.

13 CROSS EXAMINATION

14 BY ATTORNEY MELIA:

15 Q. Afternoon, Mr. Regan.

16 A. Good afternoon.

17 Q. My name is Jim Melia. I'm here on behalf of Pike  
18 County and a number of the larger commercial customers  
19 in the territory. Referencing pages --- the bottom of  
20 page two and the top of page three of your testimony,  
21 therein you discuss the proposal to construct an  
22 extension from PPL 69 kV line into the Twin Lakes  
23 substation ---

24 A. Yes.

25 Q. --- and also the proposal to upgrade 369 kV line

1 to the Port Jervis substation. Are those two projects  
2 considered to be two components of the overall plan by  
3 O&R to improve reliability to the Pike County Power &  
4 Light service area?

5 A. There are two separate plans that you're referring  
6 to. The first plan, the referenced PP&L  
7 interconnection was a proposal that we had made in  
8 response to an interconnection study that we prepared  
9 at the direction of the Public Service Commission ---  
10 Public Utility Commission. That was what we deemed to  
11 be the proper, long-term sustainable solution to  
12 providing overall reliable service for this area,  
13 including maintaining an interconnection between two  
14 systems. The second project you referred to is a  
15 project that's internal to Orange & Rockland utilities  
16 that we are in control over and are moving forward  
17 with to upgrade the sources into the Point Jervis  
18 substation, and the subsequent upgrading of that  
19 station to improve reliability to the entire area.

20 Q. So that subsequent project was kind of on the  
21 planning stages prior to 2006?

22 A. The Port Jervis plan you're referring to?

23 Q. Yes.

24 A. Yes, it was.

25 Q. And when is that --- well, going back to the prior

1 plan, the 69 kV extension, that was done, you said, in  
2 response to the Commission direction that came out of  
3 some of the activity at the Commission in early 2006?

4 A. Yes. I believe even before that, I believe.

5 Q. Oh, really? Okay. What's the timeline for  
6 completion? I'm sure, as a utility, you have various  
7 deadlines that you're working toward and timelines for  
8 completion of that 69 kV extension. What is the end  
9 date, when you anticipate it to be in service?

10 A. Which one are you referring to?

11 Q. This is the one that's the 69 kV extension to the  
12 Twin Lakes substation.

13 A. At the moment, there is no plans to make that  
14 extension.

15 Q. This is what you reference at the bottom of page  
16 four of your testimony; correct?

17 A. That's correct.

18 Q. Does this have any type of management approval to  
19 at least do preliminary studies as to the feasibility  
20 of this line?

21 A. No.

22 Q. Have you had any discussions with PP&L about  
23 moving forward with the project?

24 A. We have attempted to contact PP&L to discuss the  
25 merit of projects such as that and the costs involved

1 and the possibility of sharing into those costs with a  
2 joint, you know, reliability benefits of both  
3 companies. To date, PP&L has been nonreceptive to our  
4 responses.

5 Q. Could that conceivably be another problem in terms  
6 of completing this project?

7 A. It could.

8 Q. So you haven't looked at anything in the way of  
9 site planning or right-of-way acquisition, the  
10 specific route that this line would take? You haven't  
11 done any of that?

12 A. Not in respect to the extension of the 69 kV PP&L,  
13 no.

14 Q. You don't have any cost estimates then at this  
15 juncture?

16 A. We put a preliminary cost estimate together as  
17 part of that interconnection study.

18 Q. Is that something that you can share or is that  
19 not something ---?

20 MR. MILLER:

21 It's a public document.

22 A. I believe it is.

23 ATTORNEY GALLAGHER:

24 All right. Thank you.

25 JUDGE JANDEBEUR:

1           Just a reminder, it's not a tag-team  
2 effort. The witness states it, and that's the only  
3 person that needs to be talking. Otherwise, it's an  
4 objection.

5                     ATTORNEY GALLAGHER:

6           That's a document that we responded to  
7 the Pennsylvania Public Utility Commission with, and  
8 they have a copy of that document. I would assume it  
9 would be, you know, open for public inspection.

10                    ATTORNEY MELIA:

11           Thank you.

12 BY ATTORNEY MELIA:

13 Q.   Going back to this upgrade of the three lines  
14 permitting Port Jervis, you say that is underway and  
15 you do have a timeline for completion of that project;  
16 correct?

17 A.   Correct.

18 Q.   Without the other project that we've talked about,  
19 would that, in and of itself, offer much in the way of  
20 improved reliability to the Pike County Power & Light  
21 service area?

22 A.   Oh, most definitely. Most definitely.

23 Q.   So I guess what I'm trying to determine is,  
24 incrementally, if that would provide adequate  
25 reliability, what is the need of the 69 kV line? Are

1 there benefits associated with the 69 kV line  
2 interconnection with PP&L, which are over and above  
3 the benefits accrued from the upgrade of the three 69  
4 kV lines at Port Jervis?

5 A. Sure, there would be. From the perspective of the  
6 Port Jervis upgrade and the 69 upgrade, that project  
7 is going to establish a 69 to 34.5 kV Boston  
8 connections physically at that station. And then the  
9 circuits, two of them specifically that currently feed  
10 Pike County right now and PCL&P customers, those  
11 circuits would be originating from the Port Jervis  
12 substation. Right now, one of them does. The other  
13 one emanates from the Clayback Hill (phonetic)  
14 substation. So with the improvement there, we're  
15 going to have a stronger source establishing about,  
16 physically, a quarter of a mile away from Pike County,  
17 where the circuits will emanate right from there as  
18 direct subtransmission from a load tap until it gets  
19 into Pike. So that would improve the reliability of  
20 pretty much all of Pike. The way that the 69 kV PP&L  
21 extension would provide even further improvements  
22 would be the radial portion of line seven that  
23 presently feeds out of our Port Jervis substation when  
24 it gets past Matamoras and basically the I-84  
25 geographic areas, predominantly radial until it gets

1 to the end of Milford. So from the point of having  
2 another interconnection with another utility at the  
3 back end of Pike, that would be a network solution, a  
4 network interconnection, as opposed to leaving that  
5 line radial. That's where the improvements would come  
6 in.

7 Q. Now, in pages --- I guess starting with page four  
8 of your testimony and through and onto page nine, you  
9 had some commentary with regard to Mr. Lanzalotta's  
10 testimony relating to his examination, what we'll call  
11 the MetEd Walker substation option and also the PP&L  
12 Twin Lakes option. And he had some specific testimony  
13 about those areas. You were here today, hearing his  
14 testimony; correct?

15 A. Yes.

16 Q. And you also heard that he indicated that those  
17 were not his primary recommended solutions; correct?

18 A. Correct.

19 Q. In fact, some of the criticism that you raised  
20 here, he somewhat shared with you or shared as far as  
21 holding the same opinions that these options provide  
22 less than an ideal solution?

23 A. Correct.

24 Q. Okay. With regard to your testimony on pages 14  
25 and 15, you expressed some reservations about in the

1 event that PCL&P is forced to sell and relinquish its  
2 service territory to Sussex, you have some  
3 reservations as to whether you would want to remain  
4 interconnected with the PCL&P service territory. Do  
5 you see that testimony?

6 A. Yes, I do.

7 Q. Is your primary concern there the issue that you  
8 talk about later in the testimony, that it could  
9 conceivably provide what we term a free ride to, in  
10 other words, service would be provided by O&R that  
11 would perhaps not be properly compensated for?

12 A. That's one of our concerns, yes.

13 Q. If that dual connection did continue to exist and  
14 O&R did, for whatever reason, decide to remain  
15 connected, would leaving the lines, the  
16 interconnection point between PCP&L and O&R in an open  
17 position resolve some of your concerns with regard to  
18 the free-ride scenario? In other words, whenever  
19 service was being provided through Sussex, there would  
20 be no possibility for power to be flowing from O&R  
21 into PCP&L?

22 A. I don't think so. I think as long as we're going  
23 to be required to be, you know, on standby or  
24 available for backup power, then many of our concerns  
25 still hold. We would have to construct those

1 facilities to be able to back up the PCL&P load. And  
2 for that matter, because the JCPL line is going to be  
3 interconnected, we would be backing up that load as  
4 well. So capacity would have to be into that station  
5 and physical facilities to step down to 34.5 kV, where  
6 in one instance, if PCL&P would not be our customers  
7 anymore, we would not have, you know, the requirement  
8 to serve there, then we would have to add facilities  
9 to our own portion of the substation to be able to  
10 back up customers that are not of our own. So there  
11 are issues with the capacity even having to be added  
12 at all and the size of that capacity and the costs  
13 having to be added to that station.

14 Q. But the other option would be to sever that  
15 connection; correct?

16 A. Yes. If the connection is severed, then our  
17 requirement to sever that load is effectively severed.  
18 Then some of those concerns go away.

19 Q. But you wouldn't generate any of those additional  
20 costs that you just went through as a result of having  
21 to provide backup; correct?

22 A. It depends on who would require us to have backup.  
23 I mean, you know, from our own perspective, we really  
24 haven't, you know, gone through the scenarios of  
25 exactly what's going to be expected of us in this

1 scenario, whether, you know, we remain interconnected,  
2 whether we have to remain interconnected, if FERC and  
3 PJM requires that. There's all kinds of different  
4 layers of cost and system interconnection interface  
5 issues that would arise from that.

6 Q. So the decision to remain interconnected or not  
7 isn't solely an O&R decision. You'd have conceivably  
8 requirements, input from some of these other  
9 regulatory bodies?

10 A. I wouldn't know the answer to that one at this  
11 point.

12 Q. Now, on page 15 you reference the fact that you're  
13 looking at some possible other interconnection  
14 relationships with PJM companies, JCP&L and MetEd. To  
15 the extent that these are not considered confidential,  
16 have they moved forward to any substantive degree?

17 A. They have not to date.

18 Q. Has there been responsiveness on the part of  
19 either JCP&L or MetEd?

20 A. There has been some responsiveness to meet with  
21 us.

22 Q. And then page 26 of the testimony, you have  
23 addressed some of the concerns raised by Mr. Kenny,  
24 the fact that he's experienced 16 outages from the  
25 January 2005 to November 2006 time frame. And they

1 were for various reasons. Have you looked at whether  
2 or not any other customers in the PCP&L service area,  
3 perhaps similarly situated to Mr. Kenny, are  
4 experiencing the same frequency of outages?

5 A. We haven't done detailed studies for any other  
6 particular customers. We addressed Mr. Kenny's  
7 concerns because it was part of the record and part of  
8 his testimony that we wanted to respond to.

9 Q. Now, he's located, as it's described here, into  
10 the heavily-treed row that is served by a step-down  
11 transformer. It's reasonable to assume he wouldn't be  
12 the only customer similarly situated?

13 A. Oh, that's correct.

14 Q. Would there be other customers who probably  
15 experienced the same frequency?

16 A. Correct, in his area, in particular.

17 Q. That's Cummins Hill. I don't know if  
18 you're ---.

19 A. Cummins Hill Road, yes.

20 ATTORNEY MELIA:

21 Your Honor, that's all the Cross I have  
22 for the witness. Thank you.

23 JUDGE JANDEBEUR:

24 Now, Mr. Gallagher, do you want to go  
25 back and forth in between these Crosses or do you want

1 to wait until Cross is completely finished?

2 ATTORNEY GALLAGHER:

3 We can wait until Cross is concluded.

4 JUDGE JANDEBEUR:

5 Mr. Beatty?

6 CROSS EXAMINATION

7 BY ATTORNEY BEATTY:

8 Q. Good afternoon, Mr. Regan.

9 A. Good afternoon.

10 Q. My name is Aron Beatty, and I'm here on behalf of  
11 the Office of Consumer Advocate.

12 ATTORNEY BEATTY:

13 I'd like to mark for identification OCA  
14 Cross Exhibit Number One, the company's response to  
15 OCA's Interrogatory Set Four, Number Two.

16 (OCA Cross Exhibit One marked for  
17 identification.)

18 BY ATTORNEY BEATTY:

19 Q. In this exhibit, OCA asked for information  
20 regarding costs of aerial crossing across the Delaware  
21 River. And regarding Pike's response to this request,  
22 when asked how much Pike's existing aerial Delaware  
23 River crossing would cost, if it was done today, the  
24 company's response was approximately \$260,000; is that  
25 correct?

1 A. That's correct.

2 ATTORNEY BEATTY:

3 That's all I have.

4 JUDGE JANDEBEUR:

5 That's it, Mr. Beatty?

6 ATTORNEY BEATTY:

7 No, no. That's for that exhibit.

8 BY ATTORNEY BEATTY:

9 Q. If you could turn to page 15 of your testimony.  
10 On lines four through nine, you say Pike is in  
11 discussions with Jersey Central Power & Light to  
12 investigate a possible interconnection; is that  
13 correct?

14 A. We started preliminary discussions with them.

15 ATTORNEY BEATTY:

16 And I'd like to mark for identification  
17 OCA Cross Exhibit Number Two, and that's Pike's  
18 response to OCA's Set Ten, Number Eight.

19 (OCA Cross Exhibit Two marked for  
20 identification.)

21 BY ATTORNEY REGAN:

22 Q. Mr. Regan, in the company's response to this  
23 interrogatory, the company responded that the current  
24 discussions between Pike and Jersey Central Power &  
25 Light are very --- and/or MetEd are very preliminary.

1 When did these discussions begin?

2 A. They actually began last month.

3 Q. Last month?

4 A. Uh-huh (yes).

5 Q. And do you know hat lines Pike would be looking to  
6 interconnect to JCP&L or MetEd, the actual location of  
7 those lines?

8 A. Not at the moment.

9 Q. Not at the moment?

10 A. Not at the moment. We're in very, very  
11 preliminary discussions with them to discuss these  
12 systems and if any sustainable solutions might exist.  
13 We don't hold out a lot of hope that something at the  
14 34.5 kV level would be the solution here.

15 ATTORNEY BEATTY:

16 I'd like to mark for identification OCA  
17 Cross Exhibits Three and Four.

18 (OCA Cross Exhibits Three and Four marked  
19 for identification.)

20 ATTORNEY BEATTY:

21 We have a copy of the responses to OCA  
22 Interrogatories Set 6, Number One and Set 3, Number  
23 26.

24 WITNESS REVIEWS DOCUMENT

25 BY ATTORNEY BEATTY:

1 Q. Have you had a chance to review the document?

2 A. Yes.

3 Q. Mr. Beatty, you've testified that Pike has  
4 shortened its vegetation ---.

5 ATTORNEY GALLAGHER:

6 Pardon me, Mr. Beatty. Which one is One  
7 and Two --- which one is Three and Four? I'm sorry.

8 ATTORNEY BEATTY:

9 Three and Four? Three is Set Six, Number  
10 One.

11 ATTORNEY GALLAGHER:

12 Thank you.

13 A. Repeat the question.

14 BY ATTORNEY BEATTY:

15 Q. Mr. Regan, you testified that Pike has shortened  
16 its vegetation management cycle, and that's described  
17 in OCA Six, number one, from a four-year cycle to a  
18 three-year cycle; is that correct?

19 A. That's correct.

20 Q. Turning now to Cross Exhibit Four. In that next  
21 interrogatory the OCA asks when the last two  
22 comprehensive tree trimmings were performed on the  
23 distribution feeders that serve Pike; is that correct?

24 A. Yes. That's correct.

25 Q. And you would agree that for one of the two

1 distribution feeders that served Pike, the last two  
2 comprehensive tree trimmings were in the third and  
3 fourth quarters of 2000 and 2005, a five-year  
4 interval?

5 A. Yes.

6 ATTORNEY GALLAGHER:

7 I'm sorry, could you ---I think the  
8 question, and I could be wrong, but I thought Mr.  
9 Beatty said 2000 to 2005?

10 ATTORNEY BEATTY:

11 2001 to 2005.

12 ATTORNEY GALLAGHER:

13 Okay. I just wanted to clarify. Thank  
14 you.

15 ATTORNEY BEATTY:

16 Your Honor, that's all the questions that  
17 we had for Mr. Regan. And at this time I would like  
18 to move for the admission of OCA Cross Examination  
19 Exhibits One, Two, Three and Four.

20 JUDGE JANDEBEUR:

21 Ms. O'Dell and Mr. Asmus, anything?

22 ATTORNEY ASMUS:

23 No Cross, Your Honor.

24 ATTORNEY O'DELL:

25 No Cross, Your Honor.

1 JUDGE JANDEBEUR:

2 Ms. O'Dell?

3 ATTORNEY O'DELL:

4 Nothing.

5 JUDGE JANDEBEUR:

6 Mr. Kenny?

7 CROSS EXAMINATION

8 MR. KENNY:

9 Q. Good afternoon, sir.

10 A. Good afternoon.

11 Q. My name is Peter Kenny. I guess I'm the famous or  
12 infamous Mr. Kenny that you refer to in your  
13 testimony?

14 A. Yes, sir.

15 Q. Let me call your attention, if you would, to page  
16 26, beginning with line 16, through page 27, line 19.  
17 And if I may have a minute, I would like to ask you a  
18 few questions about that.

19 A. Okay.

20 Q. Sir, you admitted there were, by your estimate, 16  
21 outages in that time frame, from January of 2005 to  
22 November of 2006?

23 A. That's what our statistics would confirm.

24 Q. And did you investigate those statistics yourself  
25 or was that what was told to you?

1 A. That was part of the information that my staff  
2 provided.

3 Q. Now, sir, did your staff provide you with any  
4 indication as to length of time of any of these  
5 outages?

6 A. No. We did not look at the duration of the  
7 outages, although that information is available.

8 Q. But you didn't include that, even though it was  
9 available?

10 A. No, we did not include that in the testimony.

11 Q. Would it surprise you to know that some of those  
12 outages were at least for 12 hours?

13 ATTORNEY GALLAGHER:

14 Your Honor, if I may, subject to check,  
15 we can check --- as Mr. Regan said, we can check that  
16 data, so I would say subject to check.

17 MR. KENNY:

18 Sir, he's here now. He's already given a  
19 direct testimony, and I've asked a simple question.

20 ATTORNEY GALLAGHER:

21 Right. And we can offer that testimony  
22 --- not that testimony, but information.

23 JUDGE JANDEBEUR:

24 Okay. Now, can you answer that question?

25 A. I don't have the statistics before me. I would

1 have to investigate.

2 JUDGE JANDEBEUR:

3 His question was, would it surprise you?

4 A. It would depend on when the outages occurred.

5 JUDGE JANDEBEUR:

6 Okay. So there's your answer.

7 MR. KENNY:

8 Thank you.

9 BY MR. KENNY:

10 Q. So I gather you wouldn't be surprised to know that  
11 some of them were at least 12 hours?

12 ATTORNEY GALLAGHER:

13 He's answered the question.

14 A. It would depend on when they would occur. I would  
15 assume that if they were off hours, they could have.

16 BY MR. KENNY:

17 Q. What is an off hour, sir?

18 A. Off hours would be basically weekends, nights,  
19 those type of things, when there's limited staffing  
20 available and we have to respond from ---.

21 Q. Limited staffing. Now, my question is, of course,  
22 what staffing is available during the time when it's  
23 not off hours?

24 A. When it's not off hours, when it's during working  
25 hours?

1 Q. Yeah. Whatever.

2 A. There's staffing available in our Port Jervis  
3 facilities with two crews during normal working hours.  
4 We also staff with trouble-shooter crews during the  
5 even hours until midnight and on Saturdays, during the  
6 normal working hours, from 8:00 to 4:30.

7 Q. Okay. So there's nothing available in Pike  
8 County, is there?

9 A. Not crew staffed in Pike County, but we do staff  
10 crews in Port Jervis, which is a quarter-mile away  
11 from Pike County.

12 Q. Now, other than whatever you have in Port Jervis,  
13 as you say, do you have anything available in Pike  
14 County for maintenance and repair?

15 A. As far as crews actually staffed out of Pike  
16 County?

17 Q. As far as anything?

18 A. We don't staff crews out of Pike County.

19 Q. Do you have anything available to do maintenance  
20 and repair in Pike County?

21 A. Sure. We have our Port Jervis facility crews and  
22 we have crews out of our Middletown office, that staff  
23 can respond.

24 Q. How far is Middletown, sir?

25 A. Middletown is approximately 18 miles away from

1 Pike County.

2 Q. Okay. Do you keep a record as to how long it  
3 takes your staffing at Port Jervis to get on the job,  
4 complete the work and get finished, come back?

5 A. We keep records with respect to when outages  
6 occur, when we're informed of them, and how long it  
7 takes to restore them.

8 Q. I'm going to ask you a hypothetical question, if I  
9 may. At some point in your Direct testimony you said  
10 --- well, let me quote you, if I may. Page 27, I  
11 believe, beginning with line 16, while PCL&P has taken  
12 action to improve his service reliability, his  
13 referring to myself, ---

14 A. Correct.

15 Q. --- given his location and the exacerbated radial  
16 nature of the system that serves him, Mr. Kenny likely  
17 will continue to be more susceptible to outages than  
18 the average PCL&P customer. Is that still your  
19 testimony?

20 A. Yes.

21 Q. Now, sir, if you were looking for a new home for  
22 your family, would you come to where I live, Cummins  
23 Hill?

24 ATTORNEY GALLAGHER:

25 Objection, Your Honor. That's not part

1 of Mr. Regan's testimony. He's asking for pure  
2 speculation.

3 JUDGE JANDEBEUR:

4 It is pure speculation. I also don't  
5 think that it's particularly relevant. Sustained.  
6 Different question, Mr. Kenny.

7 MR. KENNY:

8 Thank you, Your Honor.

9 BY MR. KENNY:

10 Q. Do you have any idea how many customers there are  
11 on Cummins Hill Road?

12 A. I don't know the exact number.

13 Q. Well, can you give an estimate?

14 A. I would expect it's a couple hundred.

15 Q. Are you aware, sir, that there was a petition  
16 circulated and signed by a number of Pike County  
17 residents in connection with this matter?

18 A. No.

19 Q. Have you had any complaints from other residents  
20 in Pike County --- I'm sorry, in Cummins Hill Road?

21 A. Not that I can recall.

22 Q. Now, in your Direct testimony you calculated there  
23 were 16 outages during the period from January 2005 to  
24 November of 2006, a total of approximately 23 months.

25 ATTORNEY GALLAGHER:

1                   Could you give us a reference, Mr. Kenny?

2                   MR. KENNY:

3                   I gave it to you earlier, sir. Do you  
4 need it again?

5                   ATTORNEY GALLAGHER:

6                   Yes.

7                   MR. KENNY:

8                   One moment, please.

9                   JUDGE JANDEBEUR:

10                   It's on the top of page 27. Bottom of  
11 26, top of 27.

12                   MR. KENNY:

13                   Do you need anything further, Mr.  
14 Gallagher?

15                   ATTORNEY GALLAGHER:

16                   What lines are we talking about?

17                   MR. KENNY:

18                   Well, I'm talking about from page 26,  
19 line 23, through page 27, line two.

20                   ATTORNEY GALLAGHER:

21                   I believe you talked about --- you  
22 referenced 16 outages. What line is that, Mr. Kenny?

23                   MR. KENNY:

24                   I believe that is, as I said, page 27,  
25 line one. And it's part of the business of ---.

1 ATTORNEY GALLAGHER:

2 Thank you.

3 MR. KENNY:

4 Just a second, sir. Allow me to finish.  
5 I wasn't concluded.

6 BY ATTORNEY KENNY:

7 Q. Sir, this 23-month period, 16 outages, why did you  
8 not include December 2006?

9 A. At the time that I was writing this testimony, it  
10 wasn't December 2006 yet.

11 Q. Are you aware of the number of outages in December  
12 of 2006?

13 A. No, I'm not.

14 Q. Would it surprise you to know that there were at  
15 least three?

16 A. I'm not aware of them.

17 MR. KENNY:

18 No further questions, Your Honor.

19 JUDGE JANDEBEUR:

20 I think we're back to you, Mr. Gallagher.

21 ATTORNEY GALLAGHER:

22 Your Honor, just a minute --- five  
23 minutes.

24 JUDGE JANDEBEUR:

25 Sure.

1 ATTORNEY GALLAGHER:

2 Thanks.

3 JUDGE JANDEBEUR:

4 We'll be off the record for five minutes.

5 SHORT BREAK TAKEN

6 JUDGE JANDEBEUR:

7 We'll go back on the record. Mr.

8 Gallagher?

9 ATTORNEY GALLAGHER:

10 Thank you, Your Honor.

11 REDIRECT EXAMINATION

12 BY ATTORNEY GALLAGHER:

13 Q. Mr. Regan, in response to a question by Mr. Melia  
14 in which he asked you questions regarding the PP&L  
15 interconnection, do you remember those questions?

16 A. Yes.

17 Q. Is it your understanding that it was a Pike County  
18 proposal that was submitted to the Commission?

19 A. Yes, it was.

20 Q. And was it submitted to the Commission, to the Law  
21 Bureau, in issuing their report?

22 A. Yes, it was.

23 Q. With regards to questions regarding the vegetation  
24 tree trimming cycle, do you recall those questions  
25 from the OCA?

1 A. Yes, I do.

2 Q. Was the three-year cycle of tree trimming changed  
3 to a three-year cycle in July of 2006?

4 A. Yes, it was.

5 Q. Now, with regards to the questions from the OCA  
6 regarding OCA Cross Examination Number One, do you  
7 have that there?

8 A. Yes, I do.

9 Q. Regarding the aerial crossing, do you see that?

10 A. Yes.

11 Q. And the approximate cost is listed as \$260,000.  
12 Do you see that?

13 A. Yes, I do.

14 Q. Is it your opinion that that \$260,000 is  
15 comparable to a project such as the Sussex  
16 interconnection project that will cross the Delaware  
17 in different locations?

18 A. No, I do not.

19 Q. Can you explain your thoughts as to why it is not?

20 A. Yes. The question, as it was posed in the  
21 interrogatory, asked for an update of the costs to  
22 present-day costs of what it would have cost us at the  
23 time that we completed the Delaware River crossing for  
24 our circuit 51034 in 1993 at a different location,  
25 being close to the Port Jervis, Matamoras geographic

1 area. At that time, we had an existing overhead  
2 crossing. It was a smaller crossing at a much lower  
3 capacity. And that crossing was updated and upgraded  
4 at that time to include beefier towers and an  
5 increased capacity conductor.

6 What's going to be required for the Sussex  
7 interconnection is something that's going to be  
8 significantly more detailed. And in particular, the  
9 area that they're proposing to cross is in the  
10 Delaware Valley watershed area. And it is a scenic  
11 vista area. First of all, just to make the assumption  
12 that the costs escalated to present-day values of that  
13 existing crossing that we performed in 1993 to just  
14 deflate the straight-line dollars to present worth  
15 costs is not valid. It doesn't take into account the  
16 fact that certain materials certainly have escalated  
17 higher in price from inflation all the time, that  
18 particularly being steel and conductor.

19 The other thing that would be necessary, even if  
20 they were allowing overhead crossing, is that  
21 something like that would certainly have to be  
22 designed based on the width of the river at that  
23 location. You'd have to do borings at those locations  
24 to see how much rock would be involved for the  
25 foundations of the towers. And in our opinion, I

1 don't believe that an overhead aerial crossing would  
2 be allowed at this location based on its location in  
3 the Delaware Valley watershed and scenic vista area.  
4 We would anticipate that if they would require this  
5 installation it would be underground, whether it be an  
6 underbridge crossing attached to the structure or  
7 maybe even a direct bore, even if they would allow  
8 that. And the costs of that type of construction is  
9 significantly more expensive than the costs provided  
10 here.

11 Q. In response to a question by Mr. Melia with  
12 regards to the hypothetical of severing the  
13 interconnection with O&R and severing the load coming  
14 from O&R, what consequences do you see happening with  
15 that eventually?

16 A. To sever the connection to O&R and to put all of  
17 PCL&P load onto LCP&L line, I see a number of major  
18 problems with that, from a load deliverability  
19 standpoint and also from a reliability standpoint. In  
20 my opinion, I don't believe an interconnection to PJM  
21 would meet the PJM load deliverability requirements  
22 and the available transfer capacity requirements. Not  
23 to mention with what you're looking to do there with  
24 that type of a plan, what you're going to effectively  
25 be doing is you're going to be tripling the exposure

1 of Pike County Light & Power customers as opposed to  
2 what they receive now. And particularly, the entire  
3 PCL&P territory will now be in a radial system where  
4 right now, 35-percent of PCL&P customers, particularly  
5 those in the Matamoras and West Fall areas, are served  
6 from dual services with automatic transfer capability.  
7 So the reliability would be degraded severely.  
8 Eighteen (18) miles of exposure is really what would  
9 be entailed from the Branchville source all the way to  
10 Matamoras if the ties to O&R were severed. And I  
11 wouldn't want to be a customer on that line with 18  
12 miles of exposure, radial exposure.

13 Q. Thank you.

14 ATTORNEY GALLAGHER:

15 That's all the questions I have.

16 ATTORNEY MELIA:

17 Your Honor, I've got some Cross based on  
18 that.

19 JUDGE JANDEBEUR:

20 Go ahead, Mr. Melia.

21 RE-CROSS EXAMINATION

22 BY ATTORNEY MELIA:

23 Q. You haven't conducted any --- well, you heard  
24 previously Mr. Lanzalotta's testimony; correct?

25 A. Yes.

1 Q. And he testified that he has not done any detailed  
2 studies regarding load flows and characteristics of  
3 the JCP&L line. You've heard all those responses?

4 A. That's correct.

5 Q. Have you done any of those sorts of studies  
6 yourself with regard to the JCP&L similar to the sorts  
7 of studies that Mr. Lanzalotta was questioned about?

8 A. No, I've not done any detailed studies. However,  
9 knowing that you're going to put 20 megawatts worth of  
10 load at the end of a source that's 12 to 18 miles away  
11 raises some significant concerns with respect to how  
12 that system is going to feed that load. There's  
13 certainly going to be called into question voltage  
14 quality issues and service reliability issues that are  
15 going to need to be addressed. You're certainly going  
16 to need, you know, protection improvements, data  
17 improvements, voltage quality improvements. And that  
18 still wouldn't mitigate the fact that all 18 miles of  
19 that line would be radial.

20 Q. Have you had any discussions with JCP&L regarding  
21 the concerns here?

22 A. We haven't at this point yet.

23 Q. Do you anticipate doing that?

24 A. We anticipate talking to both JCP&L and MetEd to  
25 find out if there are any joint sustainable solutions

1 with respect to interconnecting with our facilities.

2 We suspect that there will not be.

3 Q. And that's referencing back to your page 15  
4 testimony?

5 A. Correct.

6 ATTORNEY MELIA:

7 That's all the questions I have, Your  
8 Honor.

9 JUDGE JANDEBEUR:

10 Thank you. Mr. Beatty?

11 ATTORNEY BEATTY:

12 Yes.

13 RE CROSS EXAMINATION

14 BY ATTORNEY BEATTY:

15 Q. Mr. Regan, you would agree that the OCA's  
16 testimony and the Sussex proposal does not include  
17 severing the line from Port Jervis to Matamoras?

18 You'd agree with that; wouldn't you?

19 A. Severing the line from Port Jervis to Matamoras?

20 Q. Yes.

21 A. I heard from Mr. Lanzalotta's testimony that they  
22 planned to run that open, interconnected, without  
23 free-flowing ties.

24 Q. However, it would be available for liability  
25 purposes in neither; correct?

1 A. I don't think that's been decided at this point.

2 Q. But that is the proposal?

3 A. It still would leave 18 miles of that line on  
4 radial.

5 ATTORNEY BEATTY:

6 No further questions.

7 JUDGE JANDEBEUR:

8 Okay. Mr. Dalton?

9 MR. DALTON:

10 No questions.

11 JUDGE JANDEBEUR:

12 No questions. Okay. I think we are  
13 finished with you, sir. Everyone is finished with Mr.  
14 Regan? You may step down, sir. And Mr. Beatty, do  
15 you want to get these in?

16 ATTORNEY BEATTY:

17 Yes. We would move for the admission of  
18 OCA Cross Examination Exhibits One, Two, Three and  
19 Four at this time.

20 JUDGE JANDEBEUR:

21 Any objections?

22 ATTORNEY GALLAGHER:

23 No, Your Honor.

24 JUDGE JANDEBEUR:

25 So admitted. Mr. Gallagher?

1 ATTORNEY GALLAGHER:

2 Yes, Your Honor. I'd like to call Mr.  
3 Joseph ---.

4 JUDGE JANDEBEUR:

5 Wait one second. We need to get Mr.  
6 Regan's in. It's marked. I assume you want it in.  
7 Mr. Beatty, you have no objections to it coming in?

8 ATTORNEY BEATTY:

9 No, Your Honor.

10 JUDGE JANDEBEUR:

11 Anything else with that group? I don't  
12 think so. Mr. Kenny, you had none?

13 MR. KENNY:

14 I have none, Your Honor.

15 JUDGE JANDEBEUR:

16 And Mr. Kenny, did you want to tell me  
17 whether you're going to testify.

18 MR. KENNY:

19 May I respectfully request the Court ---  
20 that I am withdrawing my request to be a further  
21 witness?

22 JUDGE JANDEBEUR:

23 Thank you, sir. Back to you, Mr.

24 Gallagher.

25 ATTORNEY GALLAGHER:

1 Yes, Your Honor. I'd like to call Mr.  
2 Joseph A. Holtman to the stand.

3 JUDGE JANDEBEUR:

4 Mr. Holtman, if you'd raise your right  
5 hand?

6 -----  
7 JOSEPH A. HOLTMAN, HAVING FIRST BEEN DULY SWORN,  
8 TESTIFIED AS FOLLOWS:

9 -----  
10 JUDGE JANDEBEURA:

11 Thank you, sir. Be seated.

12 DIRECT EXAMINATION

13 BY ATTORNEY GALLAGHER:

14 Q. Would you please state your full name and address,  
15 business address for the record?

16 A. Yes. My name is Joseph A. Holtman, H-O-L-T-M-A-N.  
17 And my business address is 4 Irving Place, Room 1310,  
18 New York, New York, and the ZIP Code is 10003.

19 Q. Mr. Holtman, by whom are you employed and in what  
20 capacity?

21 A. I'm employed by Consolidated Edison Company of New  
22 York, Incorporated, as its director of electricity  
23 supply. And in that capacity I'm responsible for  
24 purchasing electric energy and capacity for  
25 Con-Edison and the Orange & Rockland family companies,

1 including Pike County Light & Power Company.

2 Q. Are you authorized on behalf of Pike County to  
3 testify here today?

4 A. Yes, I am.

5 ATTORNEY GALLAGHER:

6 Your Honor, I'd like to have marked for  
7 the record PCL&P Statement Number Three, which is the  
8 statement and rebuttal testimony of Joseph A. Holtman  
9 on behalf of Pike County Light & Power Company.

10 JUDGE JANDEBEUR:

11 It is pre-marked. Go ahead.

12 BY ATTORNEY GALLAGHER:

13 Q. Mr. Holtman, you have before you what has been  
14 marked as PCL&P Statement Number Three. It consists  
15 of 11 pages of testimony. Do you see that?

16 A. Yes, I do.

17 Q. Did you prepare this testimony?

18 A. Yes, I did.

19 Q. Do you have any additions, corrections or changes  
20 to this testimony?

21 A. No, I don't.

22 Q. If I were to ask you the questions contained on  
23 those ten pages, would your answers be the same as  
24 those contained in those ten pages?

25 A. Yes, they would.

1                   ATTORNEY GALLAGHER:

2                   Your Honor, I would move the PCL&P  
3 Statement Number Three into the record, subject to any  
4 Cross Examination of the parties and any motions.

5                   JUDGE JANDEBEUR:

6                   Mr. Melia?

7                   ATTORNEY MELIA:

8                   Yes, Your Honor. I'll go first.

9 CROSS EXAMINATION

10 BY ATTORNEY MELIA:

11 Q. Good afternoon, Mr. Holtman.

12 A. Good afternoon.

13 Q. You start off on page one referencing the default  
14 service implementation plan that was just recently  
15 filed on January 8th; correct? I think I'm  
16 referencing maybe --- I think I misspoke.

17 A. Page three?

18 Q. Yes. And in that --- I have a copy of that here  
19 and I've reviewed it. Is it safe to say that what  
20 you're proposing in this default service  
21 implementation plan is fairly identical to what you're  
22 talking about here in the testimony?

23 A. Yes.

24 Q. There are no substantive differences with regard  
25 to the proposal? You used the financial hedge and the

1 auction process, et cetera?

2 A. I would agree with that, yeah.

3 Q. Just for purposes of those of us who don't have a  
4 lot of background in the commodities area, what is a  
5 financial hedge?

6 A. A financial hedge is basically an agreement by two  
7 parties to a financial --- a monetary settlement  
8 usually against a fixed volume of a commodity, energy  
9 in this case, although it can be floating, which is  
10 what I propose here. And in that type of transaction  
11 one party agrees to pay a fixed price and another  
12 party agrees to pay a floating price. In this case,  
13 the floating price would be the New York, ISO, Hudson  
14 Valley zone day-ahead market price, which is an hourly  
15 price for electricity. There's usually a netting  
16 involved. So if the average fixed price is \$80 and  
17 the average floating price was \$81, there would be a  
18 dollar in change, depending on who agreed to pay the  
19 floating price. There is no physical transfer of  
20 energy, per se. It's strictly a monetary settlement.  
21 The results --- the reason the utility would enter  
22 into such a transaction is because those financial  
23 results are then netted with a physical energy  
24 purchase that alters the total price of the energy  
25 that is purchased.

1 Q. So there's always a balancing between the  
2 financial transaction, hedge transaction, and the  
3 physical aspect of purchasing electricity?

4 A. Yes. And in the case of these financial hedges,  
5 there's both a volumetric study involved and a price  
6 settlement involved.

7 Q. And O&R is utilizing what's currently in its  
8 service area for New York customers; correct?

9 A. That's correct.

10 Q. What is a web-based declining price option? I  
11 believe that was a term you used in your testimony?

12 A. Yes. Under this arrangement, Orange & Rockland,  
13 on behalf of Pike County & Power, would have an  
14 auctioneer. And in the past it's used World Energy  
15 Solutions out of Massachusetts. It's an independent  
16 auctioneer who establishes a web site on which the  
17 auction will be conducted. The web site is available  
18 to suppliers prior to the auction so that they can  
19 obtain auction information. They can pose questions.  
20 The answers to those questions are available to all  
21 suppliers to the auction. There's an agreed-upon time  
22 that the auction would begin and end. And it's  
23 usually just a very brief window, a 15-minute window.  
24 And during that 15 minutes suppliers must put in a bid  
25 that meets the company's criterion, a ceiling bid

1 criterion, if you will. They're welcome to bid below  
2 that. They may not bid above it. So long as they bid  
3 below it, they are allowed to participate in the  
4 auction, meaning that they can see what the current  
5 low bid is. They wouldn't know whether they had the  
6 low bid or not. And they would be able to witness the  
7 changing price to the end of the 15-minute close.

8 Q. So the person that comes in first, the supplier  
9 that comes in first is really --- he doesn't have the  
10 benefit of seeing what the lowest bid is at that  
11 point?

12 A. No. The winner would know that ---.

13 Q. The winner knows?

14 A. The winner would know --- somebody who didn't win  
15 would know what the low bid was.

16 Q. And this has been operating for how long in the  
17 O&R service territory?

18 A. I believe we've used it for at least three  
19 auctions now.

20 Q. And that's over a period of three years? Is it  
21 once a year?

22 A. Over the last two years. We mostly used that  
23 process once for Con-Edison.

24 Q. Do you utilize the same mechanism --- well, the  
25 mechanism you talked about here is a layered

1 mechanism. Is that the same terminology as tiering,  
2 when you say a layered auction process, where you do  
3 33-percent at a time?

4 A. I would use those two terms interchangeably in  
5 that context, yes.

6 Q. Now, as I understand, what you're proposing here,  
7 and correct me if I'm wrong, is that Pike County's  
8 load would be incorporated within the O&R auction  
9 process so that Pike County customers, if everything  
10 works out, would presumably benefit to the extent that  
11 this process works to a price advantage to the  
12 customers?

13 A. That's correct. The load curve against which the  
14 kind of party would be settling would include both  
15 Orange & Rockland and Pike County Light and Power  
16 energy.

17 Q. And on a going-forward basis, Pike County Light &  
18 Power's customers were not being viewed necessarily as  
19 a stand-alone group of customers for purposes of the  
20 hedging process?

21 A. That's correct.

22 Q. How much risk is there associated with a financial  
23 hedge for electricity?

24 A. Well, the risks are different, depending on the  
25 --- with respect to being a buyer or a seller.

1 Certainly the seller sees the volumetric risk, the  
2 market price risk, and the price will also reflect the  
3 risk appetite. They're competing against other  
4 suppliers for the business. So there's a downward  
5 pressure on prices. And the greater the market  
6 volatility or the greater the perceived volatility in  
7 the load, that puts upward pressure on prices.

8 Q. What's the risk for the customer who's going to be  
9 the --- hopefully, the beneficiary of this process?

10 A. Well, the risks --- we sent --- typically in  
11 markets we define those because uncertainty --- once  
12 the customer's price is fixed, the risk is relatively  
13 low. In fact, the way this particular auction  
14 operates, the customer is --- essentially it has an  
15 option. They may take any quantity of energy that  
16 they require at that price. But to the extent they  
17 --- you know, they can take more or less, depending on  
18 whether the price is relatively fixed.

19 Q. So you say that the hedging auction process has  
20 worked fairly well for O&R up until now in the home  
21 service territory?

22 A. I think the process has certainly achieved its  
23 objectives, yes.

24 Q. How about price?

25 A. The price tends to be reflective of the market

1 conditions at the time we enter into it. But we found  
2 that in terms of the risk appetite of the counter  
3 parties, that the risk premiums have been fairly  
4 attractive for the product we have.

5 Q. What do you mean by risk premium?

6 A. Well, I mentioned before that the seller is taking  
7 risks, that the buying will be different than they  
8 expect or that the market conditions --- you know, the  
9 market prices will be different than they expect.  
10 That, as I said, puts upward pressure on the prices.  
11 But to the extent that the price at auction is  
12 relatively low compared to those factors, then it  
13 seems that the risk premium is low. The risk appetite  
14 of the sellers gives to the customers a good price for  
15 the product they get.

16 Q. And you used the term on page six. Once again I  
17 think you're more familiar with these concepts than I  
18 am, a five-by-six team around the clock. What are  
19 those terms referencing?

20 A. I apologize for the jargon. A five-by-six team is  
21 an on-peak, it's a standard, on-peak energy block  
22 that's traded. It means that for five days a week,  
23 for 16 hours a day, which is 7:00 a.m. to 11:00 p.m.,  
24 you would take that subset of floating market prices  
25 and settle against that. So that's what they call an

1 on-peak product in the market. And around the clock  
2 would be all 24 hours of a given day. So the type of  
3 auction product that we'd be talking with respect to  
4 type would be around-the-clock type product, although  
5 the buying would not be fixed. It wouldn't be 25  
6 megawatts each hour between a 24-hour period, for  
7 instance.

8 Q. Do you have a sense --- now, this file was made up  
9 January 8th. It's not presumably going to go to  
10 hearing, although one can never tell with the  
11 Commission. Assuming that this would be approved  
12 maybe, you know, by March or April of this year, would  
13 this be something that you would be proposing to  
14 implement when?

15 A. Right now we would expect that implementation  
16 would be in the fall. We've also discussed in the  
17 proposal that some of these details would be worked  
18 out among the interested parties.

19 Q. Including the parties in this case?

20 A. Yes.

21 Q. With regard to the premium or administrative  
22 premium that you referenced, this type of process  
23 would not work for Pike County on a stand-alone basis  
24 because of its small size and because of the  
25 traditional lack of interest by suppliers. And that

1 would, in turn, be considered a premium, would it not,  
2 on the ability to serve a stand alone territory?

3 A. Yes. There would be a higher premium for where  
4 there's greater line variability and also because of  
5 the administration. The administrative costs would be  
6 spread over a much smaller volume, so there would be a  
7 higher administrative ---.

8 Q. Was there ever any consideration given to  
9 incorporating Pike County Power & Light into the O&R  
10 process prior to the events that gave rise to this  
11 proceeding?

12 A. No, primarily because they were on different  
13 schedules. Pike County had a hedge that was in place  
14 through the end of 2005. We had a process that was  
15 defined by Commission Order that put it on basically a  
16 different footing, if you will, than what we were  
17 doing for Orange & Rockland.

18 Q. So it's really the fortuitousness of the plan that  
19 you would enter into as part of the Pike County Light  
20 & Power restructuring, I guess, coming to an end, and  
21 now that enables you to consider integrating  
22 procurement process in with O&R's hedging process?

23 A. Well, the circumstances are such that, you know,  
24 now we can consider that.

25 Q. Have you given any consideration to some of the

1 proposals made by Mr. Knecht with regard to utilizing  
2 his spot market as part of the procurement for fully  
3 owning?

4 A. We proposed that in the event we had a failed  
5 auction, one that rides on the spot market would be a  
6 good alternative for the Pike customers.

7 Q. Have you ever had to do that with O&R?

8 A. Yes. Yes. A portion of Orange & Rockland's  
9 demand is still priced at the spot market price, if  
10 you will. And prior to 2001, I believe essentially  
11 all of Orange & Rockland's facilities acquired a spot  
12 price.

13 ATTORNEY MELIA:

14 That's all the Cross I have for the  
15 witness. Thank you, Mr. Holtman.

16 JUDGE JANDEBEUR:

17 Mr. Beatty?

18 ATTORNEY BEATTY:

19 Thank you, Your Honor.

20 CROSS EXAMINATION

21 BY ATTORNEY BEATTY:

22 Q. Good afternoon, Mr. Holtman.

23 A. Good afternoon.

24 Q. If I could direct you to page one of your rebuttal  
25 testimony. You described your duties for Con-Ed on

1 the opening page and stated that you're responsible  
2 for the development of overall electric power  
3 procurement plans for Con-Ed, O&R, Rockland Electric  
4 Company and Pike County; is that correct?

5 A. That's correct.

6 Q. Now, was Rockland Electric in New Jersey recently  
7 transferred from the New York ISO to PJM?

8 A. In 2002 it was, yes. A portion of it was,  
9 approximately 90-percent of it.

10 Q. Why was this done from your perspective, from the  
11 company's perspective?

12 A. I wasn't at the company at the time, but I believe  
13 the rationale has primarily to do with it. Certainly  
14 there was a push to participate in the BGS auction in  
15 New Jersey. Rockland Electric ---.

16 Q. Could you ---?

17 A. The Basic Generation Service auction --- there was  
18 a state proceeding that was established whereby  
19 essentially most of the customer demand in New Jersey  
20 is, but not always, supplied through annual auctions,  
21 physical supply.

22 Q. So it was done ---?

23 A. And in order for Rockland Electric to participate  
24 in that, they needed to be physically connected to  
25 PJM. So to the extent that we could transfer the

1 Bergen County portion of Rockland Electric Company  
2 with PJM, we did that. We made that move.

3 Q. Turning to page four of your testimony, on the  
4 bottom of page four you note that hedging a hundred  
5 percent of 2008 requirements creates a risk of  
6 one-time unusual market condition. Would you describe  
7 the results from the October 2005 default service  
8 auction for Pike County as an unusual market  
9 condition?

10 A. Yes.

11 Q. On page five, lines six through ten, there you  
12 mention for the next POLR plan that you would assume  
13 that the interconnection with PJM would remain in  
14 place through the three-year duration of the proposal.  
15 Are you assuming here that any interconnection with  
16 PJM would be a 69 kV line connected --- would be a 69  
17 kV line?

18 A. I'm sorry. Could you repeat that?

19 Q. Sorry. I'll repeat the question. Are you  
20 assuming here that any interconnection with PJM would  
21 be a 69 kV line connected either to PPL or MetEd  
22 facilities?

23 A. I haven't made any assumption with respect to how  
24 the connection would occur, simply what market Pike  
25 County Light & Power might be connected to.

1 Q. On page seven, lines 12 --- sorry, lines two  
2 through 14, you propose a ceiling price.

3 A. Yes.

4 Q. It's for acceptable bids to serve Pike's default  
5 service load. What would the ceiling price be based  
6 on and how would it be calculated? You may have  
7 answered this earlier, but if you could answer that.

8 A. It would be based on those same factors that I  
9 mentioned earlier, where we would estimate what is the  
10 volumetric risk that potential suppliers trace with  
11 respect to the combined Orange & Rockland and Pike  
12 County Light & Power, what is the market price risk  
13 that they face and how do those factors combine to  
14 create variability in a supplier's overall cost  
15 structure. The more variable the cost structure is,  
16 the larger a risk premium the suppliers may want to  
17 apply to the price to offset those risks.

18 Q. And was a similar ceiling price used in the 2005  
19 auction --- or should I say a similar methodology used  
20 in the 2005 auction?

21 A. We did compute a ceiling price in that auction.

22 Q. And the methodology was basically what you  
23 described?

24 A. It was similar. We would certainly want to update  
25 the factors just prior to conducting an auction.

1 Q. And on page nine, line five, lines four and five,  
2 you describe I guess an unsuccessful bid --- sorry, an  
3 unsuccessful --- or an uncompetitive auction as having  
4 two or fewer bidders; would that be accurate?

5 A. That is what I would've convinced them.

6 Q. How many bidders for energy were there in the 2005  
7 auction?

8 A. There were two.

9 Q. And for capacity?

10 A. There was one. I'd say that's one of the lessons  
11 learned from that auction.

12 Q. Do you have available the Answer to OCA  
13 Interrogatory Set 11, Number 1?

14 A. Yes, I do.

15 Q. On that exhibit ---.

16 ATTORNEY GALLAGHER:

17 Can you hold on a second?

18 ATTORNEY BEATTY:

19 Sure.

20 JUDGE JANDEBEUR:

21 What exhibit is it, Mr. Beatty?

22 ATTORNEY BEATTY:

23 We weren't going to make this an exhibit.

24 JUDGE JANDEBEUR:

25 Oh, okay. So I don't have it?

1 ATTORNEY GALLAGHER:

2 OCA set what?

3 A. Eleven (11).

4 ATTORNEY GALLAGHER:

5 Set 11?

6 JUDGE JANDEBEUR:

7 If it's not an exhibit, I won't have it.

8 If I don't need it, that's fine. Just checking.

9 ATTORNEY GALLAGHER:

10 Set 11, Number One?

11 ATTORNEY BEATTY:

12 Yes.

13 BY ATTORNEY BEATTY:

14 Q. Simply can you tell me how many bidders  
15 participated for the load following product in the  
16 latest Orange & Rockland auction? I believe on that  
17 response it's the auction date 9/21/2006.

18 A. Yes. There were two.

19 Q. That's all I have for that response. If you could  
20 turn to page ten of your testimony. On lines 13  
21 through 15 you testified that Pike is seeking to have  
22 Direct Energy inform the parties by September 1st,  
23 2007 as to whether it will continue in its aggregation  
24 service. And if I heard you correctly earlier, are  
25 you proposing that the auction, integrated auction

1 with O&R would be after that notification or before  
2 the notification?

3 A. It would help if it were after that notification.

4 Q. Is that your proposal?

5 A. Yes.

6 Q. Also on page ten, line 16 through page  
7 actually, through page 11, do you disagree with OCA  
8 Witness Brockway's contention that Pike is at a  
9 disadvantage when it comes to meeting the requirements  
10 of the Pennsylvania Alternative Energy Portfolio  
11 Standards Act; am I correct?

12 A. Yes.

13 Q. Has the New York ISO been designated by FERC as a  
14 regional transmission organization?

15 A. I believe it has not.

16 Q. And Mr. Holtman, is it your understanding that  
17 under the Alternative Energy Portfolio Standard Act  
18 that energy generated in the New York ISO can qualify  
19 as alternative energy under the Act?

20 ATTORNEY GALLAGHER:

21 Objection. Calls for a legal conclusion.

22 JUDGE JANDEBEUR:

23 Would you run that question by me again?

24 ATTORNEY BEATTY:

25 I asked if it was Mr. Holtman's

1 understanding that under the AEPSA, Alternative Energy  
2 Portfolio Standard Act, that energy generated in New  
3 York ISO can qualify as alternative energy under the  
4 Act.

5 JUDGE JANDEBEUR:

6 I agree with Mr. Gallagher. Sustained.  
7 Different question.

8 ATTORNEY BEATTY:

9 No further questions, Your Honor.

10 ATTORNEY MELIA:

11 Your Honor, I wonder if I might be able  
12 to ask the witness one or two questions based on this  
13 discovery response that we referenced previously.

14 ATTORNEY GALLAGHER:

15 Which one?

16 ATTORNEY MELIA:

17 This is Set 11, Number One, dealing with  
18 the auctions.

19 JUDGE JANDEBEUR:

20 Is this the number of bidders for  
21 9/21/06?

22 ATTORNEY MELIA:

23 Yes.

24 JUDGE JANDEBEUR:

25 Any problem with that, Mr. Gallagher?

1                    ATTORNEY MELIA:

2                    I'm not going to make an exhibit out of  
3 it. It just prompted an area of inquiry.

4                    JUDGE JANDEBEUR:

5                    Well, you can try it, and Mr. Gallagher  
6 can let you know if he's going to object.

7 RECROSS EXAMINATION

8 BY ATTORNEY MELIA:

9 Q. Mr. Holtman, you have this response before you?

10 A. Yes.

11 Q. I was just curious. The first auction date that's  
12 listed in the response is April 19th, 2005. You see  
13 that?

14 A. Yes.

15 Q. And it shows 19 bids --- total bids and five  
16 bidders. How is it that the number of bids and number  
17 of bidders differ? I mean, are some of the suppliers  
18 providing more than one bid?

19 A. If you'll forgive the analogy, the process is  
20 similar to eBay, the prices changing and the same  
21 bidder can submit multiple offers during the process.  
22 Except where in eBay usually the price is increasing,  
23 here the price is usually --- must decrease.

24 Q. And as you proceed through time, through April of  
25 2005, November 2005, September 2006, September 21st,

1 2006, it seems like the trend is the number of bids  
2 and bidders is declining. What does that indicate,  
3 less interest in participating?

4 A. There have been a number of bidders who didn't  
5 participate in the last year. Some of them, it may  
6 have been a one-time decision. Some of them I know no  
7 longer bid this product.

8 Q. This is electricity?

9 A. No. This is a load following Zone G financially.

10 Q. Which is a subset of --?

11 A. Just this type of financial product. It may not  
12 be strategic for the same suppliers that were involved  
13 early on.

14 Q. I mean, are we talking about --- like Hess, some  
15 of the other big players in the electric marketing  
16 arena, or are they financial institutions, more than  
17 likely?

18 A. You see more financial institutions.

19 Q. Do you foresee an upturn in the number of bidders  
20 as we look into the future, beyond September 2006?

21 A. That's one of the things that we're going to have  
22 to put some effort to, making sure there's good  
23 interest for the auction. And I think we can do that.

24 Q. How would you do that?

25 A. Well, it's a matter of, you know, getting ---

1 making sure there's interest early on and contacting  
2 people, having discussions with them.

3 Q. Because presumably --- well, that's not really a  
4 question.

5 ATTORNEY MELIA:

6 That's all I have for the witness. Thank  
7 you.

8 JUDGE JANDEBEUR:

9 Anyone else on Cross? Mr. Asmus?

10 ATTORNEY ASMUS:

11 Your Honor, I have just a few for  
12 clarification purposes.

13 CROSS EXAMINATION

14 BY ATTORNEY ASMUS:

15 Q. Mr. Holtman, I'm Dan Asmus, with the Office of  
16 Small Business Advocate.

17 A. Good afternoon.

18 Q. Now, the proposal to integrate Pike's POLR  
19 procurement with Orange & Rockland, my understanding  
20 is that Pike's load is somewhere in the neighborhood  
21 of 18 or 19 megawatts. Is that roughly ---.

22 A. Approximately 18.

23 Q. Can you tell me how big Orange & Rockland's is?

24 A. Orange & Rockland's demand is over a thousand  
25 megawatts.

1 Q. So the disparity is quite big there?

2 A. Yes.

3 Q. Is the Orange & Rockland load similar to that of  
4 Pike in that it's all residential and commercial, or  
5 does it have an industrial component as well?

6 A. Orange & Rockland has a little more of an  
7 industrial component. But the load shapes on a  
8 unit-type basis, if you will, and they are not that  
9 dissimilar.

10 Q. Okay. Can you tell me how much of Orange &  
11 Rockland's thousand megawatt load is going to be  
12 integrated with that of Pike? All of it or a portion  
13 of it?

14 A. Well, approximately 35 percent of Orange &  
15 Rockland's customer energy demand is supplied by  
16 competitive suppliers. So it wouldn't be any more  
17 than two-thirds. And then there's a portion of the  
18 Orange & Rockland energy that we price at the spot  
19 market. So we don't fully hedge the Orange & Rockland  
20 demand, if you will.

21 Q. Do you anticipate having a single RFP for the 2008  
22 load, or is that going to be spread out over multiple  
23 dates with multiple auctions?

24 A. No. It will be one auction for that calendar  
25 delivery period is what I'm envisioning and what

1 they're proposing.

2 Q. And do you anticipate taking bids by rate class or  
3 is it going to be combined?

4 A. One bid for the combined load.

5 ATTORNEY MELIA:

6 That's all I have. Thank you.

7 A. You're welcome.

8 JUDGE JANDEBEUR:

9 Mr. Kenny? Mr. Dalton? Ms. O'Dell? Mr.  
10 Gallagher, we're back to you.

11 ATTORNEY GALLAGHER:

12 One minute.

13 SHORT BREAK TAKEN

14 JUDGE JANDEBEUR:

15 Mr. Gallagher?

16 ATTORNEY GALLAGHER:

17 Your Honor, I have no Redirect for Mr.  
18 Holtman. And with that, I move the admission of PCL&P  
19 Statement Number Two into the record.

20 JUDGE JANDEBEUR:

21 I think it's Statement Number Three.

22 ATTORNEY GALLAGHER:

23 Number Three. I'm sorry.

24 JUDGE JANDEBEUR:

25 That's okay. Any objection?

1           ATTORNEY MELIA:

2           No objection.

3           JUDGE JANDEBEUR:

4           So admitted. Mr. Holtman, you can step  
5 down. Thank you, sir.

6           MR. HOLTMAN:

7           Thank you.

8           JUDGE JANDEBEUR:

9           Do you all want to quit for the day?  
10 Actually, I don't think we have a choice. I don't see  
11 --- they're not here, yeah. Okay. So we're finished  
12 for today. We will start in again. Does anyone wish  
13 to start early? I have no problem starting with 9:30.  
14 It's up to you all. Everybody prefers to start at  
15 10:00?

16           ATTORNEY GALLAGHER:

17           Yes, 10:00's fine.

18           ATTORNEY GALLAGHER:

19           Okay. We will start at 10:00. I'll see  
20 you then.

21                           \* \* \* \* \*

22           HEARING CONCLUDED AT 3:10 P.M.

23                           \* \* \* \* \*

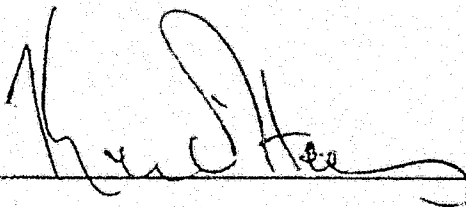
24

25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

C E R T I F I C A T E

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



Court Reporter

**RECEIVED**

JAN 22 2007

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

COUNTY OF PIKE )  
v. ) DOCKET NOS. C-200065942 et al.  
PIKE COUNTY )  
LIGHT AND POWER COMPANY )

DIRECT TESTIMONY

OF

MATTHEW I. KAHAL

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

**RECEIVED**

JAN 22 2007

NOVEMBER 17, 2006

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

---

**EXETER**

ASSOCIATES, INC.

5565 Sterrett Place

Suite 310

Columbia, Maryland 21044

## TABLE OF CONTENTS

	<u>PAGE</u>
I. QUALIFICATIONS .....	1
II. OVERVIEW AND FINDINGS .....	4
III. BACKGROUND ON THE RATE SHOCK PROBLEM .....	10
IV. GENERATION SUPPLY OPTIONS FOR PCL&P CUSTOMERS .....	20
A. The Supply Options .....	20
B. The Status Quo.....	21
C. Acquisition by Sussex.....	23
D. Integration with Affiliates.....	29
E. Retail Choice as Mitigation .....	31
V. CONCLUSION.....	34
APPENDIX A	

1 I. QUALIFICATIONS

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Matthew I. Kahal. I am employed as an independent consultant retained in  
4 this case by the Exeter Associates, Inc., an economic consulting firm. My business  
5 address is 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044.

6 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

7 A. I hold B.A. and M.A. degrees in economics from the University of Maryland and have  
8 completed course work and examination requirements for the Ph.D. degree in economics.  
9 My areas of academic concentration included industrial organization, economic  
10 development and econometrics.

11 Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

12 A. I have been employed in the area of energy, utility and telecommunications consulting for  
13 the past 25 years working on a wide range of topics. Most of my work has focused on  
14 electric utility integrated planning, plant licensing, environmental issues, mergers and  
15 financial issues. I was a co-founder of Exeter Associates, and from 1981 to 2001 I was  
16 employed at that firm as a Senior Economist and Principal. During that time, I took the  
17 lead role at Exeter in performing cost of capital and financial studies. In recent years, the  
18 focus of much of my professional work has shifted to electric utility restructuring, power  
19 supply markets and competition.

20 Prior to entering consulting, I served on the Economics Department faculties at the  
21 University of Maryland (College Park) and Montgomery College teaching courses on  
22 economic principles, development economics and business.

23 A complete description of my professional background is provided in Appendix A  
24

1 Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS BEFORE  
2 UTILITY REGULATORY COMMISSIONS?

3 A. Yes. I have testified before approximately two-dozen state and federal utility  
4 commissions in approximately 300 separate regulatory cases. My testimony has  
5 addressed a variety of subjects including fair rate of return, resource planning, financial  
6 assessments, load forecasting, competitive restructuring, rate design, purchased power  
7 contracts, merger economics and other regulatory policy issues. These cases have  
8 involved electric, gas, water and telephone utilities. In 1989, I testified before the U.S.  
9 House of Representatives, Committee on Ways and Means, on proposed federal tax  
10 legislation affecting utilities. A list of these cases may be found in Appendix A, with my  
11 Statement of Qualifications.

12 Q. WHAT PROFESSIONAL ACTIVITIES HAVE YOU ENGAGED IN SINCE  
13 LEAVING EXETER AS A PRINCIPAL IN 2001?

14 A. Since 2001, I have worked on a variety of consulting assignments pertaining to electric  
15 restructuring, purchase power contracts, environmental controls, cost of capital and other  
16 regulatory issues. Current and recent clients include the U.S. Department of Justice, U.S.  
17 Air Force, U.S. Department of Energy, the Federal Energy Regulatory Commission,  
18 Connecticut Attorney General, Pennsylvania Office of Consumer Advocate, New Jersey  
19 Division of the Ratepayer Advocate, Rhode Island Division of Public Utilities, Louisiana  
20 Public Service Commission, Arkansas Public Service Commission, Maryland  
21 Department of Natural Resources and Energy Administration, and MCI.

22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

23 A. Yes, I have testified on cost of capital and other matters before this Commission in gas,  
24 water, telecom and electric cases during the past 25 years. A listing of those cases is  
25 provided in my attached Statement of Qualifications, Appendix A.

1 Q. DO YOU HAVE ANY PAST EXPERIENCE WITH PIKE COUNTY LIGHT  
2 AND POWER COMPANY (PCL&P OR "THE COMPANY")?

3 A. Yes. I testified on behalf of the Office of Consumer Advocate (OCA) on the appropriate  
4 level of generation costs and Provider of Last Resort (POLR) service rates in the  
5 Company's 2001-2002 rate proceeding. (Docket No. P-00011872) I also assisted the  
6 OCA in monitoring and reviewing the Company's power procurement process conducted  
7 in late 2005 for 2006 and 2007 POLR service.

1 **II. OVERVIEW AND FINDINGS**

2 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

3 A. This case involves a Complaint brought by the County of Pike and many of its citizens  
4 against Pike County Light & Power Company (PCL&P or the Company). The Amended  
5 Complaint of the County of Pike addresses the problem of extremely high generation  
6 rates, service quality issues and the absence of a local service area presence by the  
7 Company. I have been asked by the Office of Consumer Advocate (OCA) to identify and  
8 evaluate potential generation supply arrangement for PCL&P retail customers that could  
9 be employed in the future to mitigate both the very high costs and potential volatility of  
10 generation service. Most likely, these alternatives would not be employed prior to  
11 January 1, 2008, which is when the existing "opt out" supply arrangement with Direct  
12 Energy Services is scheduled to end (absent an extension).

13 For the most part, the alternatives that I consider parallel certain recommendations  
14 of this Commission's Law Bureau in its June 1, 2006 report (Report on Competitive  
15 Market Conditions Regarding the Pike County Light & Power Company). This report  
16 was submitted in compliance with a Commission directive as part of its investigation of  
17 the recent rate shock problem, (Initiation of a Fact Finding Investigation of the  
18 Competitive Market Conditions Re: Pike County Light & Power Company, Docket No.  
19 P-00052168).

20 Q. DOES YOUR TESTIMONY ADDRESS THE PRUDENCE OF PCL&P'S  
21 CURRENT PROVIDER OF LAST RESORT (POLR) RATES?

22 A. No, that is not the central purpose of my testimony. Rather, I am attempting to evaluate  
23 alternative arrangements that can provide POLR rate relief to customers in the near future  
24 (i.e., potentially as soon as 2008) and that can provide customers with reasonable  
25 generation supply service on a long-term basis. That is, my testimony intends to be  
26 forward looking. Nonetheless, in order to evaluate the prospective options, it is important

1 to have an understanding of the structural conditions and circumstances that resulted in  
2 the present POLR rate shock that is the subject of the Complaint cases and the  
3 Commission's investigation from earlier this year.

4 Q. BEFORE TURING TO THE SUPPLY ISSUES, CAN YOU BRIEFLY  
5 DESCRIBE PCL&P?

6 A. Yes. PCL&P is a very small electric and gas distribution utility occupying a rural service  
7 territory in Northeast Pennsylvania. It has approximately 4,500 electric customers and  
8 1,100 gas customers, with annual electric retail sales of about 73,000 MWh per year and  
9 a peak demand of about 16 MW. It is interconnected with the New York Independent  
10 System Operator, the only such Pennsylvania utility that is part of that system. The  
11 Company is wholly-owned by Orange & Rockland Utilities, Inc. (O&R) which also has  
12 operating utilities in New Jersey and New York. O&R was acquired several years ago by  
13 Consolidated Edison, Inc. (Con Ed), one of the nations largest utilities. Thus, PCL&P is  
14 a second tier subsidiary of Con Ed.

15 Q. WHAT ARE THE STRUCTURAL CONDITIONS OR CIRCUMSTANCES  
16 THAT GAVE RISE TO THE PRESENT PREDICAMENT OF PCL&P  
17 CUSTOMERS?

18 A. I believe these conditions are well known to the Commission, but it nonetheless is useful  
19 to summarize them.

20 (1) PCL&P's very small size limits its flexibility and effectiveness in  
21 procuring wholesale requirements power to serve POLR loads.

22 (2) The O&R intra-system Power Supply Agreement (PSA) (apparently)  
23 restricted PCL&P to financial hedging instruments rather than the more  
24 conventional physical power purchase.

1 (3) PCL&P experienced unfortunate timing regarding its 2005 procurement  
2 process, with the procurement occurring during an unusual market spike.

3 (4) PCL&P is interconnected with the relatively expensive New York  
4 Independent System Operator (ISO) wholesale market and therefore lacks  
5 direct access to lower price power from the PJM Interconnection (PJM)  
6 that serves most of Pennsylvania.

7 It is these four structural conditions in combination, perhaps working synergistically, that  
8 have led to the disastrous rate shock problem. In addition, management's decision to  
9 wait until May 31, 2005 before communicating anything to the Commission (or customer  
10 representatives) concerning its post rate cap POLR supply plans probably was not  
11 helpful.

12 Q. THE COMPANY HAS ARGUED THAT POST RATE CAP RATE SHOCK IS  
13 NOT UNIQUE TO ITS POLR SERVICE BUT HAS AFFLICTED OTHER  
14 UTILITIES AS WELL. IS THE COMPANY CORRECT?

15 A. The Company made this observation in its August 4, 2006 Answer to the County of  
16 Pike's Amended Complaint, and it is true that other utilities have recently (or soon will)  
17 experience rate shock due to adverse market conditions coinciding with the end of rate  
18 caps. The Company specifically mentions Maryland, Delaware and Illinois, and I am  
19 generally familiar with those cases. However, none of those utilities has experienced (or  
20 will experience) rate shock as severe as PCL&P customers (73 percent bundled rate  
21 increase and a 129 percent generation rate increase), and these utilities (or their  
22 regulators) have taken steps to mitigate the impacts.

23 More importantly, each of these utilities (and/or their regulators) has developed or  
24 considered plans to avoid such rate shock in the future. So far, I have seen no such  
25 prospective planning efforts from the Company. As will be discussed further in my

1 testimony and that of OCA witness Ms. Brockway, the Company is actually standing in  
2 the way of the most promising solution to this deep-rooted structural problem. In doing  
3 so, it is elevating "management discretion" over providing reasonable cost, stable-priced  
4 service for its customers.

5 Q. WHAT ARE THE POLR OR SUPPLY ALTERNATIVES FOR FUTURE  
6 SERVICE THAT YOU HAVE REVIEWED IN THIS CASE?

7 A. My testimony considers the attributes of the following supply alternatives.

8 (1) "Business as Usual." Absent a change in attitude, it would appear that for  
9 post 2007 service the Company would seek one year or multiyear POLR  
10 supply in a manner similar to its 2005 procurement strategy. However,  
11 under this strategy all of the structural problems would remain (with one  
12 exception),<sup>1</sup> and the outcome will be governed in part by the vagaries of  
13 market timing risk.

14 (2) Acquisition by Another Utility. Sussex Rural Electric Cooperative  
15 (Sussex) has sought to acquire the Company in a negotiated market  
16 transaction. This would resolve this problem, both in the near and long  
17 term, assuring reasonable and stable-priced electric service.

18 (3) Integration with the Rockland BGS. It may be feasible to integrate the  
19 PCL&P procurement with that of its New Jersey affiliate's Basic  
20 Generation Service (BGS) and in the process mitigate the severe structural  
21 problems that have led to or exacerbated the severe rate shock. However,  
22 reaching this result will take considerable time and may involve  
23 complications.

---

<sup>1</sup> The one change is that PCL&P is no longer restricted to financial hedging instruments.

1 (4) PJM Integration. An interconnection with PJM would provide significant  
2 POLR cost savings under a "go it alone" strategy, and may be necessary to  
3 pursue (in an effective manner) the Rockland BGS option. The technical  
4 and economic feasibility of PJM integration is discussed by OCA witness  
5 Lanzalotta.

6 (5) Enhancing Retail Competition. There has been some discussion of  
7 enhanced retail competition (for example through the Company's Power  
8 Switch program) as a means of mitigating the POLR rate shock. As will  
9 be discussed, this simply is not an option that realistically can provide  
10 large benefits to PCL&P retail customers.

11 Q. DID THE COMMISSION MITIGATE THE RATE SHOCK BY APPROVING A  
12 RETAIL AGGREGATION PROGRAM?

13 A. Yes, in April 2006, the Company approved such a program culminating in the selection  
14 of Direct Energy as the "opt out" retail aggregator. This action provided welcome but  
15 rather modest mitigation of the extreme rate shock. I believe that the Commission  
16 recognized that the expedited introduction of opt-out aggregation was an unusual  
17 measure, reflecting the unique and dire circumstances at the time and not necessarily a  
18 long-term solution. This action obtained some modest rate relief, mostly as a result of  
19 improved wholesale market conditions. However, Direct Energy cannot change the  
20 PCL&P underlying structural problems that have given rise to the rate shock.

21 Q. WHAT IS YOUR CONCLUSION AND RECOMMENDATION?

22 A. The best solution to this severe and likely recurring problem would be to complete the  
23 sale of the Company to Sussex. If this cannot be accomplished, then the Company  
24 should be required to (a) pursue the PJM interconnection, as described by Mr. Lanzalotta;  
25 (b) pursue efforts to achieve an integration with the Rockland BGS; and (c) continue to

1 identify and describe other procurement strategies if it concludes that the Rockland BGS  
2 integration cannot be achieved.

3 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

4 A. Section III provides background information on the genesis of the current problem. It  
5 also describes the Company's structural problems. Section IV describes and evaluates  
6 the relevant power supply options.  
7

1                    **III. BACKGROUND ON THE RATE SHOCK PROBLEM**

2    Q.                HOW WERE THE COMPANY'S POLR RATES SET PRIOR TO THE  
3                    MASSIVE INCREASE ON JANUARY 1, 2006?

4    A.                In 2001, the Company filed a Petition seeking to increase the POLR rates established in  
5                    its original restructuring case due to claimed increases in its costs of procuring generation  
6                    supply from the wholesale market. The parties eventually reached a settlement  
7                    agreement in mid-2002 establishing a new, higher set of POLR rates that would remain in  
8                    effect through the end of 2005, with the "rate cap" for generation rates reaching 5.93  
9                    cents per kWh in 2005. The settlement had certain other important conditions including a  
10                   distribution rate cap, the Company's commitment to conduct a PJM interconnection study  
11                   (to determine whether customers would obtain net benefits from interconnecting with  
12                   PJM) and the Company's agreement to submit its post-2005 generation supply plan by  
13                   June 1, 2005. The Commission approved this settlement agreement, as filed, resulting in  
14                   relatively stable rates from mid 2002 through 2005. (Docket No. P-00011872, Order  
15                   entered August 9, 2001)

16   Q.                DID THE COMPANY SUBMIT A GENERATION SUPPLY PLAN BY JUNE  
17                    I, 2002, AS REQUIRED UNDER THE 2002 SETTLEMENT AGREEMENT?

18   A.                Yes, it did, on May 31, 2005. The plan called for the acquisition of "financial swap"  
19                    instruments through a computer-based auction (capacity and energy hedges) for varying  
20                    time periods, potentially up to three years. The auctions would have "ceiling prices" (not  
21                    revealed) to use as the basis for determining the acceptability of the bids. The auction  
22                    results (if successful) would serve as the basis for setting POLR retail rates, along with a  
23                    true-up mechanism to ensure dollar-for-dollar cost recovery.<sup>2</sup> The Company's proposal

---

<sup>2</sup> As I understood the Company's proposal, the financial swap instruments hedged for differences between a fixed price and the New York day-ahead market. However, load imbalances are resolved in the real time market, and there can be differences in price between the real time and day-ahead markets. This true-up mechanism ultimately was not approved by the Commission.

1 was similar to an auction held earlier in 2005 by its New York affiliate, Orange and  
2 Rockland, for a portion of its load.

3 Q. WHY DID THE COMPANY USE A FINANCIAL HEDGE AUCTION  
4 RATHER THAN A MORE CONVENTIONAL PROCUREMENT?

5 A. The Company believed that its intra-system Power Supply Agreement (PSA) approved  
6 by the Federal Energy Regulatory Commission (FERC) precluded the use of a more  
7 standard competitive procurement of physical (e.g., full requirements) power supplies to  
8 serve POLR loads. The Company's New Jersey affiliate, Rockland Electric, had  
9 obtained a FERC modification to the PSA to permit it to do just that, and there was no  
10 reason why PCL&P should not do the same. In early 2006, the Company obtained the  
11 needed FERC approval and no longer faces this procurement restriction.

12 Q. DID THE COMPANY PROCEED WITH ITS FILED PLAN?

13 A. Yes. After an opportunity for review by the parties, the Commission permitted the  
14 auction process to proceed, with certain modifications. (Docket No. P-00052168, Order  
15 entered September 23, 2005)

16 Q. WHAT WAS THE TREND IN MARKET PRICES DURING THIS TIME  
17 PERIOD?

18 A. Wholesale market generation prices since the time of the 2002 settlement had exhibited  
19 an upward trend and considerable volatility. There was also an upward price trend during  
20 calendar 2005, which was exacerbated by a very extreme summer. Prices in both gas and  
21 power markets spiked sharply in September 2005 in the wake of the Gulf hurricanes  
22 which for a period of time seriously disrupted gas supply markets, both the cash market  
23 and futures market. Wholesale power supply prices, including in NYISO Zone G, are  
24 closely linked to the gas market since natural gas is the marginal fuel for electric  
25 generation in many hours. The price spikes persisted from September 2005 through

1 much of the winter of 2006, but have abated somewhat since then due to a combination  
2 of a mild winter and gas supply recovery.

3 Q. WHEN DID THE COMPANY CONDUCT ITS MULTI-YEAR AUCTION?

4 A. The auction requires less than one day and was conducted on October 25, 2005, in the  
5 midst of the price spike problem.

6 Q. WAS THE AUCTION SUCCESSFUL?

7 A. The auction was "successful" in the sense that it functioned mechanically and produced a  
8 winning bidder. The pricing results were extremely high but did seem to bear some  
9 resemblance to prevailing published market indexes for power supply futures markets.

10 The auction clearly was not successful in generating a high degree of competition  
11 or aggressive bidding behavior, unlike competitive procurements that have occurred in  
12 other states. There were only two bids (and only one bid for the capacity product), with  
13 the winning bidder being the Company's unregulated affiliate, Consolidated Edison  
14 Energy, Inc. (Con Ed Energy).

15 Q. WHAT WERE THE RESULTS?

16 A. The all-in cost of power (energy, capacity and ancillary services) was well in excess of  
17 \$100 per MWh. After reflecting adders for line losses, taxes, etc., this produced  
18 residential generation rates in excess of 14 cents per kWh (for the first 1,000 kWh of  
19 monthly usage). This produced the unprecedented 73 percent bundled rate increase and  
20 129 percent POLR generation rate increase, taking effect on January 1, 2006.

21 This clearly is "rate shock" by any standard, and when the increases became  
22 known, this provoked a highly adverse customer reaction as described in more detail by  
23 OCA witness Ms. Brockway. This severe impact prompted the Commission to establish  
24 an investigation to review both the causes of the rate problem and potential mitigation

1 options, both near term and long term. (Order entered February 14, 2006) The  
2 investigation solicited comments from the parties on a range of issues.

3 Q. GIVEN THE WHOLESALE PRICE SPIKES BEGINNING LAST FALL, DID  
4 OTHER UTILITIES ALSO EXPERIENCE POLR RATE SHOCK?

5 A. Yes, this problem was shared by a number of other utilities that were procuring power  
6 supplies during this period and in the first half of 2006. However, none that I am aware  
7 of is as extreme as PCL&P, and in the more serious cases mitigation plans have been  
8 adopted. For example, Baltimore Gas & Electric Company (BGE) in Maryland has  
9 experienced a generation (POLR) rate increase in excess of 100 percent (compared to its  
10 capped rates), but that percentage increase is starting from a much lower base figure.  
11 Moreover, a phase-in plan has been adopted limiting the initial (bundled) rate increase to  
12 15 percent. Importantly, many other utilities (and/or regulators) that have experienced or  
13 anticipated this problem are exploring strategies for avoiding future rate shock such as  
14 the use of resource portfolios and a staggered (or "laddered") power procurement  
15 method. This includes the Company's New Jersey affiliate, Rockland Electric, which  
16 acquires power for its POLR customers using three-year staggered contracts.

17 Q. HAVE ANY SPECIFIC ACTIONS BEEN TAKEN TO DATE TO PROVIDE  
18 NEAR-TERM MITIGATION?

19 A. Toward the end of the winter of 2005/2006, wholesale prices moderated somewhat as  
20 mentioned above, creating a potential opportunity for rate mitigation. In that regard, a  
21 retail marketer, Direct Energy Services, submitted a Petition for an "opt out" retail  
22 aggregation plan to provide residential and small commercial customers an alternative to  
23 the onerous POLR rates. This program, which would involve a Commission-conducted  
24 auction to select the aggregator, was approved by the Commission on April 20, 2006.  
25 (Docket No. P-00062205) Direct Energy prevailed in the competitive auction, and

1 beginning on June 2, 2006 customers were switched to Direct Energy's supply service at  
2 its winning bid price in lieu of PCL&P's POLR rates.

3 Q. DID THIS LEAD TO LARGE SAVINGS?

4 A. The opt-out aggregation program provided only modest savings to customers relative to  
5 the Pike POLR rates. Direct Energy could provide these savings because of some  
6 moderation since last October in wholesale power prices, but it cannot correct the  
7 Company's underlying structural problems that have led to the extremely high generation  
8 costs.

9 Q. WHAT ARE THE STRUCTURAL PROBLEMS AFFLICTING PCL&P?

10 A. The Company's price spike from its October 2005 procurement is attributable to the  
11 following (a) poor market timing; (b) the extremely small size of its POLR load; (c)  
12 direct interconnection with only the New York ISO market; (d) restrictions under the  
13 PSA. The latter is no longer an issue, and therefore little comment is needed.  
14 Unfortunate market timing is not a structural attribute of PCL&P per se, since  
15 conceivably this could be a source of rate shock and instability for any utility market-  
16 based POLR service. However, the market timing problem is magnified severely for  
17 PCL&P (compared to larger utilities) because the very small loads make it difficult to  
18 employ diversified portfolio strategies or staggered contracting to help stabilize rates.

19 Q. DID RESTRICTIONS UNDER THE PSA, APPARENTLY LIMITING THE  
20 PROCUREMENT OF PHYSICAL POWER, ADVERSELY AFFECT THE  
21 RESULTS?

22 A. There is no way to unambiguously determine the impact of that restriction since the  
23 principal "driver" of the high costs obtained from the October 25, 2005 auction was  
24 market timing. However, the bidder market response to that auction was poor, with only  
25 two bidders, with one being an affiliate, and this may have been influenced by the

1 financial swap approach. Physical product auctions conducted by utilities for POLR have  
2 elicited far more active bidding (e.g., procurements in Maryland, New Jersey and  
3 Illinois). A less active bidding process likely means a higher price outcome, all else  
4 equal.

5 With the change in the PSA, this is not an issue that must be addressed in the  
6 future, and it obviously did not adversely affect the opt-out aggregation bidding in late  
7 April of this year.

8 Q. ARE THERE OTHER FACTORS THAT COULD EXPLAIN POOR  
9 PARTICIPATION IN THE OCTOBER 2005 PROCUREMENT?

10 A. Yes, both the small size of the load and the absence of a PJM interconnection may have  
11 chilled the interest of wholesale suppliers for participation in the auction. The load is  
12 very small and bidders incur significant administrative costs when participating in an  
13 auction. Thus, the relative contribution of the (financial swap) PSA restriction to the  
14 adverse price results cannot be determined.

15 Q. CAN YOU DETERMINE THE IMPORTANCE OF THE NEW YORK  
16 INTERCONNECTION?

17 A. Yes, it can be estimated. The table below shows the published wholesale market prices  
18 for forward (on-peak) block energy for calendar years 2006 and 2007, as of the date of  
19 the October 25, 2005 auction for the PJM West trading hub and New York's Zone G  
20 (which is PCL&P's interconnection point). While this is not precisely the product  
21 sought, it provides the best single indication of wholesale market costs relevant to POLR  
22 service.  
23

Forward Wholesale Market Prices as of October 24, 2005 (\$/MWh)			
<u>Forward Year</u>	<u>PJM West</u>	<u>New York</u>	<u>Difference</u>
2006	\$93.50	\$114.00	\$20.50
2007	\$79.25	\$103.70	\$24.50

Source: Megawatt Daily, October 25, 2005

1 The New York market price premium over PJM as of October 2005 was about \$20 per  
2 MWh.

3 Q. HOW HAVE WHOLESale MARKET CONDITIONS CHANGED SINCE  
4 LAST OCTOBER?

5 A. Market prices have declined significantly, and the New York versus PJM differences  
6 have somewhat narrowed. Consider the following comparisons for forward years 2007,  
7 2008 and 2009 as of November 3, 2006 (again, for on-peak block energy):  
8

Forward Wholesale Power Prices as of November 2, 2006 (\$/MWh)			
<u>Forward Year</u>	<u>PJM West</u>	<u>New York G</u>	<u>Difference</u>
2007	\$73.70	\$89.15	\$15.45
2008	74.60	87.30	12.70
2009	70.05	85.75	15.70

Source: Megawatt Daily, November 3, 2006

9  
10 This indicates a reduction from October 2005 in New York prices (for future years) of  
11 about \$15 per MWh (or about \$20 compared to last October's price for 2006 supply) and  
12 a New York/PJM differential of about \$15 per MWh.

13 Q. WHAT DO YOU CONCLUDE FROM THIS INFORMATION?

14 A. This implies that if PCL&P were to go to the market today for POLR power it might be  
15 able to reduce its costs by 1.5 to 2.0 cents per KWh. This would be about a 10 percent  
16 reduction in bundled rates and roughly a 15 percent reduction in generation POLR rates.

1 A PJM interconnection may provide further reductions on the order of another 1.5 cents  
2 per KWh. Thus, there could be the potential for total savings of 3 to 3.5 cents per KWh  
3 at current markets prices and if a PJM interconnection were deemed feasible (ignoring for  
4 the moment the cost of that interconnection). This would be a very large rate reduction,  
5 although it still leaves PCL&P's rates very expensive by historical standards and in  
6 relation to rates charged by other Pennsylvania utilities.

7 Even these results must be considered with caution, however. I base this analysis  
8 on published data from wholesale power markets, and this assumes that the Company can  
9 successfully and competitively procure power from these markets. Given the Company's  
10 small load, we cannot be certain of that. More importantly, PCL&P is not procuring  
11 power today and has no announced plans to do so any time soon. We have no idea what  
12 market conditions will be the next time it seeks to procure POLR supply. Hence, the cost  
13 reductions that are identified above may not be available next time PCL&P procures  
14 POLR power supplies from the wholesale market.

15 Q. WHY IS THE SMALL SIZE OF THE PIKE LOAD A STRUCTURAL  
16 IMPEDIMENT?

17 A. There are two reasons. The small POLR load simply will elicit less interest from the  
18 market, all else equal, due to the fixed costs of participating in a competitive solicitation  
19 and the various priorities of potential wholesale suppliers (i.e., suppliers may tend to  
20 focus on larger utility solicitations). I am not suggesting PCL&P will be unable to  
21 procure power for its roughly 16 MW of load, but the more active the bidding, the lower  
22 the market price results are likely to be (all else equal). Customers will be harmed by a  
23 weak competitive procurement process.

24 An even larger problem is that a small load has difficulty staggering power  
25 procurement and/or employing a portfolio approach. A number of utilities use or have

1 suggested the use of three-year laddered contracts that effectively spread market timing  
2 risk over three years, leading to a smoothing (though not necessarily a lowering) of  
3 prices. For example, PPL Electric Utilities Corp has proposed a Competitive Bridge  
4 Program for 2010 service based on six separate procurements spread over three years.  
5 (Docket No. P-00062227) This approach would appear to be impractical for full  
6 requirements service for the Company's 16 MW POLR load.

7 Q. YOU MENTION THE SAVINGS FROM A PJM INTERCONNECTION. HAS  
8 THE COMPANY CONSIDERED THAT?

9 A. Yes. On May 16, 2006, the Company submitted an updated feasibility study of  
10 interconnecting with PJM by extending a 69 KV line to PPL's Twin Lakes substation.  
11 The Company estimated a project investment of \$13.6 million (translating into an annual  
12 revenue requirement of \$2.7 million using a 20 percent carrying charge rate) and annual  
13 benefits (energy savings) of \$2.2 million. Since annual costs are estimated to exceed  
14 annual benefits, the study concludes that the interconnection would not be cost effective.  
15 The energy savings figures used by the Company seem to be roughly in line with those  
16 cited earlier in my testimony. However, the \$2.7 million levelized annual cost may be  
17 too high since it is based on a 20 percent levelized carrying charge rate which is not  
18 supported in the study. However, even at a lower 15 percent figure, the interconnection  
19 project would barely be break even for customers, assuming the accuracy of the  
20 Company's cost data.

21 OCA witness Lanzalotta has identified a far lower cost interconnection with  
22 Sussex for an investment cost of about \$1 to \$2 million, or annual costs of \$150,000 to  
23 \$400,000, depending on the carrying charge rate used. These costs are a very small  
24 fraction of the energy savings estimated by the Company of \$2.2 million per year, and on  
25 that basis appears to be highly cost effective.

1           The remainder of my testimony is based on the assumption that this  
2           interconnection is, in fact, accomplished. I understand that this interconnection is an  
3           integral part of the Sussex acquisition proposal.

1           **IV. GENERATION SUPPLY OPTIONS FOR PCL&P CUSTOMERS**

2   **A. The Supply Options**

3   **Q.**           AS PART OF THIS COMMISSION'S INVESTIGATION, THE LAW BUREAU  
4           SUBMITTED SEVERAL RECOMMENDATIONS IN ITS JUNE 1, 2006  
5           REPORT. WHAT AREAS DO THESE RECOMMENDATIONS COVER?

6   **A.**           Pages 16 to 20 of that report identify eight areas of recommendations for improving or  
7           solving the generation supply service problem for PCL&P customers. These include  
8           consideration or further study of the following:

- 9           (1)       Integration of POLR wholesale supply procurement with those of the  
10           Company's much larger New York or New Jersey utility affiliates.
- 11           (2)       Integration of the Company with PJM, including the Sussex  
12           interconnection option, which the Company has not yet analyzed.
- 13           (3)       A potential sale of the Company to another Pennsylvania electric utility or  
14           rural electric cooperative.
- 15           (4)       A longer review period for the Company's default service plan, including  
16           a filing by year-end 2006.
- 17           (5)       Potential savings from retail access, including an updated "Power Switch"  
18           program filed by the Company.
- 19           (6)       Commission waiver of electronic data interchange (EDI) rules to facilitate  
20           New York competitive suppliers serving PCL&P customers at retail.
- 21           (7)       Conduct a survey for alternative energy/renewable energy projects in the  
22           Company's service area to acquire possible lower cost generation supplies.
- 23           (8)       Possible transfer of a small number of "borderline" customers to  
24           Metropolitan Edison Company.  
25

1 While not all of these recommendations may prove productive in addressing the severe  
2 problem confronting customers, I believe this forms a good framework for discussion. In  
3 this section, I discuss several of these topical areas including Recommendation (1),  
4 integration with affiliate POLR power procurement; Recommendation (3), the potential  
5 sale of the Company; and Recommendations (5) and (6), which pertain to the role of  
6 retail competition. OCA witness Lanzallota discusses another important recommendation  
7 in that report pertaining to PJM integration (Recommendation 2).

8 Q. WHAT SUPPLY OPTIONS ARE YOU DISCUSSING IN THIS SECTION OF  
9 YOUR TESTIMONY?

10 A. Following the Law Bureau's outline, my testimony considers (1) a PCL&P-only  
11 procurement; (2) acquisition by another utility, specifically Sussex; (3) potential  
12 integration with the New Jersey BGS through Rockland Electric; (4) savings through  
13 enhanced retail access. These options must be considered in the context of the key  
14 structural limitations facing PCL&P, namely its small size and New York ISO  
15 integration.

16 B. The Status Quo

17 Q. WHAT DO YOU BELIEVE THE STATUS QUO TO BE?

18 A. This case is scheduled for completion and a Commission decision in early 2007. The  
19 Company's current financial swap contract with its affiliate and Direct's opt-out  
20 aggregation are both scheduled to end at year-end 2007 (absent an extension). Under a  
21 "business as usual" scenario, the Company could conduct a new procurement auction in  
22 2007 for POLR power supplies, either using financial swaps or a more conventional full  
23 requirements power acquisition.

24 The problem with the "business as usual" approach is that it does nothing to  
25 address the underlying structural problems, and for that reason it may provide little or no

1 improvement over the present circumstances. Wholesale prices have moderated  
2 somewhat since April 2006 when Direct Energy submitted its aggregation bid and have  
3 declined significantly since the October 2005 auction. A wholesale procurement today  
4 may produce a modest price improvement for 2008 and perhaps beyond, but we cannot  
5 be sure of that. It actually could produce a worse result. Recall that the Company  
6 received only two bids (one its affiliate) last October, and the next wholesale  
7 procurement will not occur today but sometime next year. Again, customers will be  
8 exposed to timing risk and very likely to sparse bidding.

9 Q. WOULD A PJM INTERCONNECTION HELP?

10 A. Yes, it would improve upon a bad situation, when such an interconnection is completed.

11 Q. HAS THE COMPANY ACKNOWLEDGED THESE STRUCTURAL  
12 PROBLEMS?

13 A. The Company's Comments of March 3, 2006 in the Commission's investigation docket  
14 seem to recognize these problems, and they speculate on whether they can be mitigated.  
15 The Company acknowledges the limitations of its "stand alone," small procurement,  
16 recognizing the poor bidder participation last October.

17  
18 All else, an increased number of bidders in the auction would  
19 increase the likelihood of more favorable results for consumers,  
20 and an auction format where Pike's supply is acquired over a  
21 period of time will reduce the likelihood that Pike's entire  
22 supply will be obtained at a period of very high market  
23 volatility. (page 7)

24 The Comments go on to say that the Company is "considering" staggered procurement to  
25 mitigate timing risk, for example, procuring one-third of the power in each of three  
26 separate procurements. (Id., page 8) The Company further and properly acknowledges  
27 that a "stand-alone" procurement could result in "small quantity [price] premiums" being  
28 incurred. (Id., page 8)

1 Q. WHAT IS YOUR RESPONSE?

2 A. I am encouraged that the Company seems to recognize that its structural problems cause a  
3 poor market response, timing risk and undue price premiums and that it is considering the  
4 feasibility of alternatives. However, so far it has not proposed or endorsed any changes.  
5 Given that the Company obtained such a poor market response to a 15 MW bid, then  
6 three 5 MW procurements might produce even worse results in terms of incurring small  
7 load price premiums. Staggered procurements for full requirements service for such  
8 small loads may or may not be feasible and could increase costs.

9 C. Acquisition by Sussex

10 Q. IS THE SALE OF PCL&P TO ANOTHER, LOWER COST UTILITY A  
11 FEASIBLE SOLUTION?

12 A. Yes. Sussex has expressed strong interest in entering into discussions to negotiate the  
13 purchase of PCL&P from the ultimate parent, Con Ed. To my knowledge, Con Ed's  
14 management has shown no interest in such a transaction and is not actively considering  
15 such an offer. In its Comments in the Commission's investigation, it stated that "While  
16 the Company has a duty to consider offers for the business, Pike is committed to the  
17 service of Pike County and its customers." (Comments, page 10, March 3, 2006) The  
18 Comments also express skepticism that a sale of the business would benefit customers  
19 due to the service area's "remote location and largely rural setting," the cost of  
20 interconnecting with PJM and the complicating factor that Pike is a combined gas and  
21 electric utility.

22 The Company goes even further in its August 4, 2006 reply to the County of Pike  
23 Complaint. It refers to the:

24  
25 unsupported and mistaken assumptions that acquisition by  
26 another utility with membership in PJM will provide long-term  
27 economic benefits to PCL&P's customers or that a sale of the

1 Company will result in lower rates for PCL&P's customers.  
2 (Paragraph #62)

3 Q. DO YOU SHARE THE COMPANY'S SKEPTICISM OVER POTENTIAL  
4 BENEFITS?

5 A. No, I disagree. I interpret the Company's comments as acknowledging that it has a  
6 public interest obligation to consider the best interests of its customers, as well as  
7 protecting (Con Ed) shareholders. Assuming a fair price for its investment in PCL&P,  
8 Con Ed clearly will not be adversely impacted by this sale since the Company is a  
9 miniscule part of the total Con Ed.

10 The Company's argument is that an acquisition would not change the basic  
11 economics of generation supply for its customers. However, in the case of a Sussex  
12 acquisition, the evidence indicates that this assumption is incorrect.

13 Q. PLEASE DESCRIBE SUSSEX.

14 A. Sussex is a rural electric distribution cooperative located across the Delaware River in  
15 New Jersey but in very close proximity to the PCL&P service area. It serves over 11,000  
16 customers in Sussex County, New Jersey and a small number in Orange County, New  
17 York. Sussex has a peak demand of about 40 MW and a power supply energy  
18 requirement of about 150,000 MWh per year. Thus, a PCL&P acquisition would increase  
19 the size of Sussex by about 40 to 50 percent. According to the coop's website, it charges  
20 its New Jersey customers a bundled service rate of 10.38 cents per kWh and a facility  
21 charge of \$9.50. There is no separate delivery charge. For example, a residential  
22 customer using 700 kWh per month would pay approximately \$82.16 under Sussex's  
23 current rates, as compared to \$132.31 under PCL&P's current default rates (roughly a 60  
24 percent premium). Using the Direct Energy generation rates, the 700 kWh residential bill  
25 is about \$121 per month (about a 48 percent premium).

1           Sussex obtains its power supply from Allegheny Electric Cooperative, Inc.  
2 (Allegheny), a Generation and Transmission (G&T) cooperative headquartered in  
3 Harrisburg, PA, and a member of PJM. Allegheny provides G&T service to 13  
4 distribution cooperatives in Pennsylvania plus Sussex. Sussex currently incurs a power  
5 supply cost of 5.8 cents per kWh based on Allegheny's blended cost of supply. Even  
6 after adjusting this wholesale cost for line losses, this is only about half what PCL&P  
7 customers are incurring for generation supply under the Direct Energy "opt-out" price.

8 Q.           THE WHOLESALE RATE THAT YOU DESCRIBE APPEARS TO BE  
9           BELOW MARKET. WHAT ARE ALLEGHENY'S SOURCES OF SUPPLY?

10 A.          Allegheny serves a peak load of 655 MW and serves indirectly about 222,000 retail  
11 customers. It serves this load with a combination of resources that includes the  
12 following:<sup>3</sup>

13           (1)   Nuclear. Allegheny owns ten percent of the Susquehanna Steam Electric  
14 Station (Susquehanna), a 2,360 MW, two-unit nuclear plant operated by  
15 PPL Corporation which also owns the remaining 90 percent. In 2005,  
16 Susquehanna accounted for 62 percent of Allegheny's total power supply,  
17 and the plant operated at a capacity factor of 88.8 percent.

18           (2)   Hydro. Allegheny purchases low-cost hydro from the New York Power  
19 Authority's (NYPA's) Niagara and St. Lawrence projects (about 33 MW).  
20 Allegheny also owns the two-unit Raystown hydro plant (42 MW).  
21 Together, these sources provide about 10 percent of Allegheny's total  
22 requirements.

23           (3)   Market Purchases. Since 2001, Allegheny has been obtaining about 30  
24 percent of its supply under a wholesale contract with Williams Energy

---

<sup>3</sup> This information is derived from Allegheny's 2005 Annual Report.

1 Marketing & Trade (Williams). A portion of the Williams energy is at  
2 fixed contract rates with hourly and monthly caps on the energy that must  
3 be supplied at those rates. Additional requirements above the caps are  
4 supplied at spot market prices.

5 (4) Coordinated Load Management System (CLMS). Allegheny sponsors a  
6 load management program for its members, which in 2005 provided a  
7 peak demand reduction of about 50 MW (about 8 percent of its peak load).  
8 Allegheny estimates that in 2005 this program provided \$4.4 million of  
9 cost savings. Sussex itself offers its customers participation in an Electric  
10 Thermal Storage (ETS) program at a large rate discount.

11 Q. DOES THIS WHOLESALE RATE OF 5.8 CENTS INCLUDE  
12 TRANSMISSION?

13 A. My understanding is that it does. Allegheny purchases transmission service from other  
14 PJM transmission owners at their FERC-approved rates and includes that cost in its  
15 bundled wholesale rate of 5.8 cents per kWh. These are the transmission owning PJM  
16 companies that are interconnected with the 14 member distribution cooperatives.

17 Q. THE 5.8 CENT RATE IS WELL BELOW PCL&P'S CURRENT COST OF  
18 POWER. WHAT IS LIKELY TO HAPPEN TO THAT RATE OVER TIME?

19 A. While power supply costs could change somewhat over time, I believe that on a long-run  
20 basis they are likely to remain reasonably stable. The largest asset, Susquehanna (a two-  
21 unit plant), has about 20 years remaining on its Nuclear Regulatory Commission (NRC)  
22 operating license and there are reasonable prospects for a 20-year NRC license extension.  
23 It is also my understanding that the owner (PPL Corporation) intends a power uprate of  
24 the plant by about 10 percent, and as a co-owner, Allegheny will share in any uprate (as  
25 well as uprate costs). At the present time, Allegheny's large original investment in

1 Susquehanna has been largely recovered, and as a result it seems unlikely that its "all-in"  
2 cost of power from this plant will increase significantly over time.

3 The cost of hydro should also remain stable over time. The owned Raystown  
4 hydro project is less than 20 years old, and Allegheny has entered in to a new 18-year  
5 agreement with NYPA for the low-cost purchased hydro generation.

6 The largest area of uncertainty is the Williams contract which is scheduled to  
7 expire under its terms at the end of 2008. Presumably, Allegheny must replace this  
8 supply at potentially a higher cost which could contribute to a modest increase in  
9 Allegheny's blended cost of power. This would depend on market conditions at that time  
10 assuming Allegheny intends to use a market purchase.

11 Since the vast majority of Allegheny's power supply comes from "locked in,"  
12 stable-cost resources, I conclude Allegheny's blended costs should remain relatively  
13 stable over time. While the wholesale rate may not be fixed over the long term at 5.8  
14 cents, I do not expect large changes. In addition to this relative stability, it is virtually  
15 certain that the Allegheny rate will be far below the POLR prices that PCL&P could offer  
16 its customers.

17 Q. UNDER A SUSSEX ACQUISITION, WILL THE PRESENT PCL&P  
18 CUSTOMERS PAY RATES THAT REFLECT THE ALLEGHENY BLENDED  
19 POWER SUPPLY COST?

20 A. My understanding is that Pennsylvania customers of PCL&P on a long-term basis would  
21 enjoy this favorable rate. However, during a transition period it may be necessary for  
22 customers to incur a surcharge due to "caps" on the Williams contract energy (i.e., over  
23 certain thresholds incremental energy purchased from Williams are priced at spot market  
24 prices).

1 Please note that it is the intent of Sussex to interconnect the current PCL&P load  
2 with PJM at Sussex, which will permit that load to be fully served by the Allegheny  
3 supply portfolio. As OCA witness Lanzallota explains, this could be accomplished at a  
4 capital investment cost of about \$1 to \$2 million.

5 Q. ARE THERE ANY OTHER ADVANTAGES TO THIS ACQUISITION?

6 A. Yes. A stand-alone PCI&P must meet the requirements of Pennsylvania's renewable  
7 energy regulations, which is a further complication to its procurement problems,  
8 particularly if it remains tethered to the New York market. This issue would be resolved  
9 under a Sussex acquisition. Allegheny's CLMS program provides compliance with this  
10 statutory and regulatory requirement, while at the same time providing customer savings.

11 Q. HOW MUCH WILL THE SUSSEX ACQUISITION ADD TO THE  
12 ALLEGHENY LOAD THAT IT MUST SERVE?

13 A. The Sussex acquisition of PCL&P would increase the total Allegheny load by about 2 to  
14 2.5 percent. I understand that the PCL&P acquisition is subject to approval by the  
15 Allegheny Board of Directors.

16 Q. DO YOU SEE ANY DISADVANTAGE TO THE SUSSEX ACQUISITION?

17 A. No. This would appear to resolve all issues in this case (and the Commission's earlier  
18 investigation) in a manner fair to all parties and highly favorable to PCL&P customers.

19 D. Integration with Affiliates

20 Q. SHOULD INTEGRATION OF POWER PROCUREMENT WITH AFFILIATES  
21 BE CONSIDERED?

22 A. This should be considered only if a PCL&P acquisition by Sussex cannot be achieved. In  
23 that case, the integration of the PCL&P POLR procurement with a larger utility affiliate  
24 potentially may provide lower and more stable costs for customers. As part of this

1 discussion, I assume that the PCL&P load can be (cost-effectively) interconnected with  
2 PJM, as discussed by OCA witness Lanzalotta.

3 Q. HOW DOES THE COMPANY'S NEW JERSEY AFFILIATE OBTAIN POLR  
4 SUPPLY?

5 A. PCL&P's New Jersey affiliate, Rockland Electric Company (Rockland), participates in  
6 the annual statewide New Jersey (fixed price) wholesale auction that is used for the  
7 provision of Basic Generation Service (BGS), which is that state's POLR arrangement.  
8 The BGS auction procures power annually under three-year contracts, with each  
9 procurement covering one-third of the load. Thus, BGS is based on a series of  
10 overlapping or "laddered" three-year contracts. BGS bidding has been robust and  
11 competitive, and the laddered contract approach has helped mitigate rate shock. For  
12 example, in the most recent auction, market-clearing prices increased by about 50 percent  
13 over the previous year, while the BGS rates only rose by about 12 or 13 percent.

14 Rockland's circumstances are somewhat more complex, since about 90 percent of  
15 its load is located within PJM (about 400 MW) while the remainder (about 40 MW) is  
16 tied to the New York market. Hence, the 90 percent PJM portion is served in the  
17 statewide auction, whereas the New York market supply portion is separately procured.  
18 The final Rockland BGS price is a blend of the two sources. However, since the New  
19 York portion of supply is very small, this blending results in only a slight increase over  
20 the PJM auction results.

21 Q. HOW COULD PCL&P PARTICIPATE?

22 A. If the PJM interconnection is accomplished, the PCL&P load could be included in the  
23 annual Rockland BGS auction thereby slightly increasing the size of the auctioned load.  
24 Once the power is procured, PCL&P could reimburse Rockland for the cost of serving its  
25 load at the BGS rate. PCL&P would obtain the advantages of contract laddering and

1 scale economics of the larger auction. Rockland may also benefit slightly from (a)  
2 having a larger load to bid out in the auction; (b) having Pike contribute pro rata to the  
3 auction's administrative costs; and (c) increasing the percentage of the total Rockland  
4 load in PJM (i.e., the higher cost New York portion would be slightly "diluted" in  
5 calculating the BGS blended price).

6 Q. ARE THERE DISADVANTAGES TO THIS APPROACH?

7 A. Yes, there may be several. First, I assume that this approach must obtain both  
8 Pennsylvania and New Jersey approvals, and there is no assurance the approvals of both  
9 states will be granted. Second, there is a timing problem. The first BGS auction after  
10 this case presumably will occur in February 2008 (with a contract start date of June). If a  
11 three-year laddering approach is used, the PCL&P & load would not be fully integrated  
12 until June 2010. In the interim, PCL&P must procure power for the remaining one-third  
13 and two thirds of its load. Finally, we have no way of knowing whether on a long-term  
14 basis New Jersey will retain this framework or adopt a new POLR model. This leaves a  
15 significant long-term uncertainty for retail customers.

16 Q. SUPPOSE THAT A PJM INTERCONNECTION CANNOT BE ACHIEVED?

17 A. In that case, integration with the New Jersey statewide auction probably would not be  
18 feasible. The only potential affiliate arrangement then would be to include the PCL&P  
19 load with the Rockland New York market procurement. This would likely involve a  
20 significantly higher cost, based on the prevailing PJM versus New York price differences.

21 Q. WHAT DO YOU CONCLUDE?

22 A. In the event the Sussex acquisition cannot take place, the Company should pursue  
23 integrating the PCL&P procurement for POLR supplies with the annual New Jersey  
24 process, as described above. This should include the PJM interconnection as discussed  
25 by OCA witness Mr. Lanzalotta.  
26

1 **E. Retail Choice as Mitigation**

2 Q. CAN RETAIL COMPETITION MITIGATE THE SEVERE PROBLEMS  
3 CURRENTLY FACED BY PCL&P CUSTOMERS?

4 A. In theory, this could help, but all available information to date (and most stakeholder  
5 opinion) suggests that mitigation of expensive POLR service from retail choice is  
6 unlikely. For example, Recommendation (5) of the Law Bureau report (page 19)  
7 observes, "To the extent that wholesale energy prices fall in the coming months, there  
8 may be an opportunity for customers to realize savings through the PowerSwitch [the  
9 Company's retail access promotion] program." That report also suggests facilitating  
10 retail access by waiving Pennsylvania EDI rules.

11 In fact, wholesale market power supply prices have moderated both since last  
12 October and even since April (when Direct Energy submitted its bid). It is my  
13 understanding that this has elicited no small customer retail competition activity in the  
14 PCL&P service area. Moreover, I have been informed that a similar lack of retail  
15 competition has been the case for other small Pennsylvania electrics, post rate cap. In the  
16 case of PCL&P, the Commission provided the requested waivers of its rules in its April  
17 20, 2006 Order, and this has not changed things.

18 Q. WHAT ACCOUNTS FOR THIS LACK OF ACTIVITY?

19 A. A retail marketer inevitably incurs fixed costs in entering a given market, and the PCL&P  
20 load may simply be too small to warrant that expense and effort. Moreover, the greatest  
21 area of competitive retail of activity for other utilities has involved large business  
22 (industrial) customers because the revenues for these customers and potential savings are  
23 large relative to transaction costs.

1 PCL&P has stated its intent to be supportive of efforts to attract competitive EGSs  
2 to its service area through its PowerSwitch program. However, the Company has  
3 candidly acknowledged the barriers to this happening.

4 Other [post rate cap] challenges to the implementation of retail  
5 competition in Pike's service territory remain. The size (i.e., only  
6 4,500 electric customers), location vis-à-vis transmission access,  
7 and load characteristics of Pike's service territory (i.e., residential  
8 and small commercial) present fundamental difficulties in  
9 implementing retail competition. (Comments, March 3, 2006,  
10 Docket No. P-00052168)  
11

12 Q. HAS THE COMMISSION ADDRESSED THE EFFICACY OF RETAIL  
13 COMPETITION AS A MEANS OF MITIGATING THE COMPANY'S RATE  
14 SHOCK PROBLEM?

15 A. Yes. The Commission in its April 20, 2006 Order in Docket No. P-00062205 sought to  
16 be supportive of future opportunities for retail competition, but at the same time it was  
17 realistic about near-term benefits. The Order noted:

18  
19 No Party argued that adoption of the New York O&R retail supplier  
20 protocols and procedures, combined with a voluntary purchase of  
21 receivables program, would be sufficient to attract competitive  
22 offers to the Pike County service area. The OCA provided,  
23 perhaps, the most detailed explanation as to why this approach  
24 would be unsuccessful. Among the barriers were significant market  
25 entry costs, such as customer acquisition costs, customer  
26 information and service record costs, sales costs, and start-up costs  
27 which can be spread over a small number of customers. (pages 10-  
28 11)

29 As mentioned earlier, there has been little if any retail competition activity for  
30 small customers since April of this year despite moderating wholesale market costs.  
31 Realistically, we cannot look to retail access as the solution since it cannot overcome the  
32 underlying structure problems faced by PCL&P. Commission waivers of regulatory  
33 requirements are not likely to change that reality.  
34

1 V. CONCLUSION

2 Q. WHAT DO YOU CONCLUDE?

3 A. Sussex has stepped forward in this case to provide an attractive near-term and long-term  
4 solution to the issues raised in both the Commission's investigation and the County of  
5 Pike et al. Compliant. Available information indicates that the Sussex cost structure  
6 (supported by the Allegheny G&T portfolio) is both moderate and will be stable on a  
7 long-run basis. The Company has provided no convincing reason for opposing this  
8 favorable resolution.

9 If this acquisition cannot be completed, I recommend (a) the Company pursue the  
10 low-cost PJM interconnection identified by Mr. Lanzalotta; and (b) pursue a possible  
11 integration with the Rockland BGS. While likely superior to the "business as usual"  
12 approach, the Rockland BGS integration introduces important uncertainties and  
13 complications. This reinforces my conclusion that a Sussex acquisition is clearly the best  
14 option available for all concerned.

15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes, it does.  
17

18 00091596.DOC

**APPENDIX A**  
**QUALIFICATION OF**  
**MATTHEW I. KAHAL**

## MATTHEW I. KAHAL

Mr. Kahal is currently an independent consulting economist, specializing in energy economics, public utility regulation and financial analysis. Over the past two decades, his work has encompassed electric utility integrated resource planning (IRP), power plant licensing and a wide range of utility financial issues. In the financial area he has conducted numerous cost of capital studies and addressed other financial issues for electric, gas, telephone and water utilities. Mr. Kahal's work in recent years has shifted to electric utility restructuring, mergers and competition.

Mr. Kahal has provided expert testimony on more than 250 occasions before state and federal regulatory commissions and the U.S. Congress. His testimony has covered need for power, integrated resource planning, cost of capital, purchased power practices and contracts, merger economics, industry restructuring and various other regulatory policy issues.

### Education:

B.A. (Economics) - University of Maryland, 1971.

M.A. (Economics) - University of Maryland, 1974.

Ph.D. candidate - University of Maryland, completed all course work and qualifying examinations.

### Previous Employment:

1981-2001 - Exeter Associates, Inc. (founding Principal).

1980-1981 - Member of the Economic Evaluation Directorate, The Aerospace Corporation, Washington, D.C. office.

1977-1980 - Economist, Washington, D.C. consulting firm.

1972-1977 - Research/Teaching Assistant and Instructor, Department of Economics, University of Maryland (College Park).

1975-1977 - Lecturer in Business/Economics, Montgomery College.

### Professional Work Experience:

Mr. Kahal has more than twenty years experience managing and conducting consulting assignments relating to public utility economics and regulation. In 1981, he and five colleagues founded the firm of Exeter Associates, Inc. and for the next 20 years he served as a Principal and corporate officer in the firm. During that time, he supervised multi-million dollar support

contracts with the State of Maryland and directed the technical work conducted both by Exeter professional staff and numerous subcontractors. Additionally, Mr. Kahal took the lead role at Exeter in consulting to the firm's other governmental and private clients in the areas of financial analysis, utility mergers, electric restructuring and utility purchase power contracts.

At the Aerospace Corporation, Mr. Kahal served as an economic consultant to the Strategic Petroleum Reserve (SPR). In that capacity he participated in a detailed financial assessment of the SPR, and developed an econometric forecasting model of U.S. petroleum industry inventories. That study has been used to determine the extent to which private sector petroleum stocks can be expected to protect the U.S. from the impacts of oil import interruptions.

Before entering consulting, Mr. Kahal held faculty positions with the Department of Economics at the University of Maryland and with Montgomery College teaching courses on economic principles, business and economic development.

#### **Publications and Consulting Reports:**

Projected Electric Power Demands of the Baltimore Gas and Electric Company, Maryland Power Plant Siting Program, 1979.

Projected Electric Power Demands of the Allegheny Power System, Maryland Power Plant Siting Program, January 1980.

An Econometric Forecast of Electric Energy and Peak Demand on the Delmarva Peninsula, Maryland Power Plant Siting Program, March 1980 (with Ralph E. Miller).

A Benefit/Cost Methodology of the Marginal Cost Pricing of Tennessee Valley Authority Electricity, prepared for the Board of Directors of the Tennessee Valley Authority, April 1980.

An Evaluation of the Delmarva Power and Light Company Generating Capacity Profile and Expansion Plan, (Interim Report), prepared for the Delaware Office of the Public Advocate, July 1980, (with Sharon L. Mason).

Rhode Island-DOE Electric Utilities Demonstration Project, Third Interim Report on Preliminary Analysis of the Experimental Results, prepared for the Economic Regulatory Administration, U.S. Department of Energy, July 1980.

Petroleum Inventories and the Strategic Petroleum Reserve, The Aerospace Corporation, prepared for the Strategic Petroleum Reserve Office, U.S. Department of Energy, December 1980.

Alternatives to Central Station Coal and Nuclear Power Generation, prepared for Argonne National Laboratory and the Office of Utility Systems, U.S. Department of Energy, August 1981.

"An Econometric Methodology for Forecasting Power Demands," Conducting Need-for-Power Review for Nuclear Power Plants (D.A. Nash, ed.), U.S. Nuclear Regulatory Commission, NUREG 0942, December 1982.

State Regulatory Attitudes Toward Fuel Expense Issues, prepared for the Electric Power Research Institute, July 1983, (with Dale E. Swan).

"Problems in the Use of Econometric Methods in Load Forecasting," Adjusting to Regulatory, Pricing and Marketing Realities (Harry Trebing, ed.), Institute of Public Utilities, Michigan State University, 1983.

Proceedings of the Maryland Conference on Electric Load Forecasting, (editor and contributing author), Maryland Power Plant Siting Program, PPES-83-4, October 1983.

"The Impacts of Utility-Sponsored Weatherization Programs: The Case of Maryland Utilities," (with others), in Government and Energy Policy (Richard L. Itteilag, ed.), 1983.

Power Plant Cumulative Environmental Impact Report, contributing author, (Paul E. Miller, ed.) Maryland Department of Natural Resources, January 1984.

Projected Electric Power Demands for the Potomac Electric Power Company, three volumes with Steven L. Estomin), prepared for the Maryland Power Plant Siting Program, March 1984.

"An Assessment of the State-of-the-Art of Gas Utility Load Forecasting," (with Thomas Bacon, Jr. and Steven L. Estomin), published in the Proceedings of the Fourth NARUC Biennial Regulatory Information Conference, 1984.

"Nuclear Power and Investor Perceptions of Risk," (with Ralph E. Miller), published in The Energy Industries in Transition: 1985-2000 (John P. Weyant and Dorothy Sheffield, eds.), 1984.

The Financial Impact of Potential Department of Energy Rate Recommendations on the Commonwealth Edison Company, prepared for the U.S. Department of Energy, October 1984.

"Discussion Comments," published in Impact of Deregulation and Market Forces on Public Utilities: The Future of Regulation (Harry Trebing, ed.), Institute of Public Utilities, Michigan State University, 1985.

An Econometric Forecast of the Electric Power Loads of Baltimore Gas and Electric Company, two volumes (with others), prepared for the Maryland Power Plant Siting Program, 1985.

A Survey and Evaluation of Demand Forecast Methods in the Gas Utility Industry, prepared for the Public Utilities Commission of Ohio, Forecasting Division, November 1985, (with Terence Manuel).

A Review and Evaluation of the Load Forecasts of Houston Lighting & Power Company and Central Power & Light Company -- Past and Present, prepared for the Texas Public Utility Commission. December 1985, (with Marvin H. Kahn).

Power Plant Cumulative Environmental Impact Report for Maryland, principal author of three of the eight chapters in the report (Paul E. Miller, ed.), PPSP-CEIR-5, March 1986.

"Potential Emissions Reduction from Conservation, Load Management, and Alternative Power," published in Acid Deposition in Maryland: A Report to the Governor and General Assembly, Maryland Power Plant Research Program, AD-87-1, January 1987.

Determination of Retrofit Costs at the Oyster Creek Nuclear Generating Station, March 1988, prepared for Versar, Inc., New Jersey Department of Environmental Protection.

Excess Deferred Taxes and the Telephone Utility Industry, April 1988, prepared on behalf of the National Association of State Utility Consumer Advocates.

Toward a Proposed Federal Policy for Independent Power Producers, comments prepared on behalf of the Indiana Consumer Counselor, FERC Docket EL87-67-000, November 1987.

Review and Discussion of Regulations Governing Bidding Programs, prepared for the Pennsylvania Office of Consumer Advocate, June 1988.

A Review of the Proposed Revisions to the FERC Administrative Rules on Avoided Costs and Related Issues, prepared for the Pennsylvania Office of Consumer Advocate, April 1988.

Review and Comments on the FERC NOPR Concerning Independent Power Producers, prepared for the Pennsylvania Office of Consumer Advocate, June 1988.

The Costs to Maryland Utilities and Ratepayers of an Acid Rain Control Strategy -- An Updated Analysis, prepared for the Maryland Power Plant Research Program, October 1987, AD-88-4.

"Comments." in New Regulatory and Management Strategies in a Changing Market Environment (Harry M. Trebing and Patrick C. Mann, editors), Proceedings of the Institute of Public Utilities Eighteenth Annual Conference, 1987.

Electric Power Resource Planning for the Potomac Electric Power Company, prepared for the Maryland Power Plant Research Program, July 1988.

Power Plant Cumulative Environmental Impact Report for Maryland (Thomas E. Magette, ed.) authored two chapters, November 1988, PPRP-CEIR-6.

Resource Planning and Competitive Bidding for Delmarva Power & Light Company, October 1990, prepared for the Maryland Department of Natural Resources (with M. Fullenbaum).

Electric Power Rate Increases and the Cleveland Area Economy, prepared for the Northeast Ohio Areawide Coordinating Agency, October 1988.

An Economic and Need for Power Evaluation of Baltimore Gas & Electric Company's Perryman Plant, May 1991, prepared for the Maryland Department of Natural Resources (with M. Fullenbaum).

The Cost of Equity Capital for the Bell Local Exchange Companies in a New Era of Regulation, October 1991, presented at the Atlantic Economic Society 32nd Conference, Washington, D.C.

A Need for Power Review of Delmarva Power & Light Company's Dorchester Unit 1 Power Plant, March 1993, prepared for the Maryland Department of National Resources (with M. Fullenbaum)

The AES Warrior Run Project: Impact on Western Maryland Economic Activity and Electric Rates, February 1993, prepared for the Maryland Power Plant Research Program (with Peter Hall).

An Economic Perspective on Competition and the Electric Utility Industry, November 1994. Prepared for the Electric Consumers' Alliance.

PEPCO's Clean Air Act Compliance Plan: Status Report, prepared for the Maryland Power Plant Research Plan, January 1995 (w/Diane Mountain, Environmental Resources Management, Inc.).

The FERC Open Access Rulemaking: A Review of the Issues, prepared for the Indiana Office of Utility Consumer Counselor and the Pennsylvania Office of Consumer Advocate, June 1995.

A Status Report on Electric Utility Restructuring: Issues for Maryland, prepared for the Maryland Power Plant Research Program, November 1995 (with Daphne Psacharopoulos).

Modeling the Financial Impacts on the Bell Regional Holding Companies from Changes in Access Rates, prepared for MCI Corporation, May 1996.

The CSEF Electric Deregulation Study: Economic Miracle or the Economists' Cold Fusion?, prepared for the Electric Consumers' Alliance, Indianapolis, Indiana, October 1996.

Reducing Rates for Interstate Access Service: Financial Impacts on the Bell Regional Holding Companies, prepared for MCI Corporation, May 1997.

The New Hampshire Retail Competition Pilot Program: A Preliminary Evaluation, July 1997, prepared for the Electric Consumers' Alliance (with Jerome D. Mierzwa).

Electric Restructuring and the Environment: Issue Identification for Maryland, March 1997, prepared for the Maryland Power Plant Research Program (with Environmental Resource Management, Inc.)

An Analysis of Electric Utility Embedded Power Supply Costs, prepared for Power-Gen International Conference, Dallas, Texas, December 1997.

Market Power Outlook for Generation Supply in Louisiana, December 2000, prepared for the Louisiana Public Service Commission (with others).

A Review of Issues Concerning Electric Power Capacity Markets, prepared for the Maryland Power Plant Research Program, December 2001 (with B. Hobbs and J. Inon).

The Economic Feasibility of Air Emissions Controls at the Brandon Shores and Morgantown Coal-fired Power Plants, February 2005, (prepared for the Chesapeake Bay Foundation).

The Economic Feasibility of Power Plant Retirements on the Entergy System, September 2005 with Phil Hayet (prepared for the Louisiana Public Service Commission).

Expert Report on Capital Structure, Equity and Debt Costs, prepared for the Edmonton Regional Water Customers Group, August 30, 2006.

Maryland's Options to Reduce and Stabilize Electric Power Prices Following Restructuring, with Steven L. Estomin, prepared for the Power Plant Research Program, Maryland Department of Natural Resources, September 2006.

**Conference and Workshop Presentations:**

Workshop on State Load Forecasting Programs, sponsored by the Nuclear Regulatory Commission and Oak Ridge National Laboratory, February 1982 (presentation on forecasting methodology).

Fourteenth Annual Conference of the Michigan State University Institute for Public Utilities, December 1982 (presentation on problems in forecasting).

Conference on Conservation and Load Management, sponsored by the Massachusetts Energy Facilities Siting Council, May 1983 (presentation on cost-benefit criteria).

Maryland Conference on Load Forecasting, sponsored by the Maryland Power Plant Siting Program and the Maryland Public Service Commission, June 1983 (presentation on overforecasting power demands).

The 5th Annual Meetings of the International Association of Energy Economists, June 1983 (presentation on evaluating weatherization programs).

The NARUC Advanced Regulatory Studies Program (presented lectures on capacity planning for electric utilities), February 1984.

The 16th Annual Conference of the Institute of Public Utilities, Michigan State University (discussant on phase-in and excess capacity), December 1984.

U.S. Department of Energy Utilities Conference, Las Vegas, Nevada (presentation of current and future regulatory issues), May 1985.

The 18th Annual Conference of the Institute of Public Utilities, Michigan State University, Williamsburg, Virginia, December 1986 (discussant on cogeneration).

The NRECA Conference on Load Forecasting, sponsored by the National Rural Electric Cooperative Association, New Orleans, Louisiana, December 1987 (presentation on load forecast accuracy).

The Second Rutgers/New Jersey Department of Commerce Annual Conference on Energy Policy in the Middle Atlantic States, Rutgers University, April 1988 (presentation on spot pricing of electricity).

The NASUCA 1988 Mid-Year Meeting, Annapolis, Maryland, June 1988, sponsored by the National Association of State Utility Consumer Advocates (presentation on the FERC electricity avoided cost NOPRs).

The Thirty Second Atlantic Economic Society Conference, Washington, D.C., October 1991 (presentation of a paper on cost of capital issues for the Bell Operating Companies).

The NASUCA 1993 Mid-Year Meeting, St. Louis, Missouri, sponsored by the National Association of State Utility Consumer Advocates, June 1993 (presentation on regulatory issues concerning electric utility mergers).

The NASUCA and NARUC annual meetings in New York City, November 1993 (presentations and panel discussions on the emerging FERC policies on transmission pricing).

The NASUCA annual meetings in Reno, Nevada, November 1994 (presentation concerning the FERC NOPR on stranded cost recovery).

U.S. Department of Energy Utilities/Energy Management Workshop, March 1995 (presentation concerning electric utility competition).

The 1995 NASUCA Mid-Year Meeting, Breckenridge, Colorado, June 1995, (presentation concerning the FERC rulemaking on electric transmission open access).

The 1996 NASUCA Mid-Year Meeting, Chicago, Illinois, June 1996 (presentation concerning electric utility merger issues).

Conference on "Restructuring the Electric Industry," sponsored by the National Consumers League and Electric Consumers Alliance, Washington, D.C., May 1997 (presentation on retail access pilot programs).

The 1997 Mid-Atlantic Conference of Regulatory Utilities Commissioners (MARUC), Hot Springs, Virginia, July 1997 (presentation concerning electric deregulation issues).

Power-Gen '97 International Conference, Dallas, Texas, December 1997 (presentation concerning utility embedded costs of generation supply).

Consumer Summit on Electric Competition, sponsored by the National Consumers League and Electric Consumers' Alliance, Washington, D.C., March 2001 (presentation concerning generation supply and reliability).

National Association of State Utility Consumer Advocates, Mid-Year Meetings, Austin, Texas, June 16-17, 2002 (presenter and panelist on RTO/Standard Market Design issues).

Louisiana State Bar Association, Public Utility Section, October 2, 2002. (Presentation on Performance-Based Ratemaking and panelist on RTO issues). Baton Rouge, Louisiana.

Virginia State Corporation Commission/Virginia State Bar, Twenty Second National Regulatory Conference, May 10, 2004. (Presentation on Electric Transmission System Planning.) Williamsburg, Virginia.

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
1 2:774 & 27375 October 1978	Long Island Lighting Company	New York Counties	Nassau & Suffolk	Economic impacts of proposed rate increase
2 6807 January 1978	Generic	Maryland	MD Power Plant Siting Program	Load forecasting
3 78-676-EL-AIR February 1978	Ohio Power Company	Ohio	Ohio Consumers' Counsel	Test year sales and revenues
4 17667 May 1979	Alabama Power Company	Alabama	Attorney General	Test year sales, revenues, costs and load forecasts
5 None April 1980	Tennessee Valley Authority	TVA Board	League of Women Voters	Time-of-use pricing
6 R-80021082	West Penn Power Company	Pennsylvania	Office of Consumer Advocate	Load forecasting, marginal cost pricing
7 7259 (Phase I) October 1980	Potomac Edison Company	Maryland	MD Power Plant Siting Program	Load forecasting
8 7222 December 1980	Delmarva Power & Light Company	Maryland	MD Power Plant Siting Program	Need for plant, load forecasting
9 7441 June 1981	Potomac Electric Power Company	Maryland	Commission Staff	PURPA standards
10 7159 May 1980	Baltimore Gas & Electric	Maryland	Commission Staff	Time-of-use pricing
11 81-044-E-42T	Montgomery Power	West Virginia	Commission Staff	Time-of-use rates
12 7259 (Phase II) November 1981	Potomac Edison Company	Maryland	MD Power Plant Siting Program	Load forecasting, load management
13 1606 September 1981	Blackstone Valley Electric and Narragansett	Rhode Island	Division of Public Utilities	PURPA standards
14 RID 1819 April 1982	Pennsylvania Bell	Pennsylvania	Office of Consumer Advocate	Rate of return
15 82-0152 July 1982	Illinois Power Company	Illinois	U.S. Department of Defense	Rate of return, CWT

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
16. 7559 September 1982	Potomac Edison Company	Maryland	Commission Staff	Cogeneration
17. 820150-EU September 1982	Gulf Power Company	Florida	Federal Executive Agencies	Rate of return, CWP
18. 82-057-15 January 1983	Mountain Fuel Supply Company	Utah	Federal Executive Agencies	Rate of return, capital structure
19. 5200 August 1983	Texas Electric Service Company	Texas	Federal Executive Agencies	Cost of equity
20. 28069 August 1983	Oklahoma Natural Gas	Oklahoma	Federal Executive Agencies	Rate of return, deferred taxes, capital structure, attrition
21. 83-0537 February 1984	Commonwealth Edison Company	Illinois	U.S. Department of Energy	Rate of return, capital structure, financial capability
22. 84-035-01 June 1984	Utah Power & Light Company	Utah	Federal Executive Agencies	Rate of return
23. U-1009-137 July 1984	Utah Power & Light Company	Idaho	U.S. Department of Energy	Rate of return, financial condition
24. R-842590 August 1984	Philadelphia Electric Company	Pennsylvania	Office of Consumer Advocate	Rate of return
25. 840086-EI August 1984	Gulf Power Company	Florida	Federal Executive Agencies	Rate of return, CWP
26. 84-172-F August 1984	Carolina Power & Light Company	South Carolina	South Carolina Consumer Advocate	Rate of return, CWP, load forecasting
27. CGC-83-G & CGC-84-G October 1984	Columbia Gas of Ohio	Ohio	Ohio Division of Energy	Load forecasting
28. R-842621 October 1984	Western Pennsylvania Water Company	Pennsylvania	Office of Consumer Advocate	Test year sales
29. R-842710 January 1985	ALLTEL Pennsylvania Inc	Pennsylvania	Office of Consumer Advocate	Rate of return

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
30. ER-504 February 1985	Allegheny Generating Company	FERC	Office of Consumer Advocate	Rate of return
31. R-842632 March 1985	West Penn Power Company	Pennsylvania	Office of Consumer Advocate	Rate of return, conservation, time-of-use rates
32. 83-0537 & 84-0555 April 1985	Commonwealth Edison Company	Illinois	U.S. Department of Energy	Rate of return, incentive rates, rate base
33. Rulemaking Docket No. 11, May 1985	Generic	Delaware	Delaware Commission Staff	Interest rates on refunds
34. 29450 July 1985	Oklahoma Gas & Electric Company	Oklahoma	Oklahoma Attorney General	Rate of return, CWP in rate base
35. 1811 August 1985	Bristol County Water Company	Rhode Island	Division of Public Utilities	Rate of return, capital structure
36. R-850044 & R-850045 August 1985	Quaker State & Continental Telephone Companies	Pennsylvania	Office of Consumer Advocate	Rate of return
37. R-850174 November 1985	Philadelphia Suburban Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return, financial conditions
38. U-1006-265 March 1986	Idaho Power Company	Idaho	U.S. Department of Energy	Power supply costs and models
39. EL-86-37 & EL-86-38 September 1986	Allegheny Generating Company	FERC	PA Office of Consumer Advocate	Rate of return
40. R-850287 June 1986	National Fuel Gas Distribution Corp.	Pennsylvania	Office of Consumer Advocate	Rate of return
41. 1849 August 1986	Blackstone Valley Electric	Rhode Island	Division of Public Utilities	Rate of return, financial condition
42. 86-297-GA-AIR November 1986	East Ohio Gas Company	Ohio	Ohio Consumers Counsel	Rate of return
43. U-16945 December 1986	Louisiana Power & Light Company	Louisiana	Public Service Commission	Rate of return, rate phase-in plan

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
44. Case No. 7972 February 1987	Potomac Electric Power Company	Maryland	Commission Staff	Generation capacity planning, purchased power contract
45. EL-86-58 & EL-86-59 March 1987	System Energy Resources and Middle South Services	FERC	Louisiana PSC	Rate of return
46. ER-87-72-001 April 1987	Orange & Rockland	FERC	PA Office of Consumer Advocate	Rate of return
47. U-16945 April 1987	Louisiana Power & Light Company	Louisiana	Commission Staff	Revenue requirement update phase-in plan
48. P-870196 May 1987	Pennsylvania Electric Company	Pennsylvania	Office of Consumer Advocate	Cogeneration contract
49. 86-2025-EL-AIR June 1987	Cleveland Electric Illuminating Company	Ohio	Ohio Consumers' Counsel	Rate of return
50. 86-2026-EL-AIR June 1987	Toledo Edison Company	Ohio	Ohio Consumers' Counsel	Rate of return
51. 87-4 June 1987	Delmarva Power & Light Company	Delaware	Commission Staff	Cogeneration/small power
52. 1872 July 1987	Newport Electric Company	Rhode Island	Commission Staff	Rate of return
53. WO 8606654 July 1987	Atlantic City Sewerage Company	New Jersey	Resorts International	Financial condition
54. 7510 August 1987	West Texas Utilities Company	Texas	Federal Executive Agencies	Rate of return, phase-in
55. 8063 Phase I October 1987	Potomac Electric Power Company	Maryland	Power Plant Research Program	Economics of power plant site selection
56. 00439 November 1987	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration	Cogeneration economics
57. RP-87-103 February 1988	Panhandle Eastern Pipe Line Company	FERC	Indiana Utility Consumer Counselor	Rate of return

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
58. EC-88-2-000 February 1988	Utah Power & Light Co. PacifiCorp	FERC	Nucor Steel	Merger economics
59. 87-0427 February 1988	Commonwealth Edison Company	Illinois	Federal Executive Agencies	Financial projections
60. 870840 February 1988	Philadelphia Suburban Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return
61. 870832 March 1988	Columbia Gas of Pennsylvania	Pennsylvania	Office of Consumer Advocate	Rate of return
62. 8063 Phase II July 1988	Potomac Electric Power Company	Maryland	Power Plant Research Program	Power supply study
63. 8102 July 1988	Southern Maryland Electric Cooperative	Maryland	Power Plant Research Program	Power supply study
64. 10105 August 1988	South Central Bell Telephone Co	Kentucky	Attorney General	Rate of return, incentive regulation
65. 00345 August 1988	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration	Need for power
66. U-17906 September 1988	Louisiana Power & Light Company	Louisiana	Commission Staff	Rate of return, nuclear power costs Industrial contracts
67. 88-170-EL-AIR October 1988	Cleveland Electric Illuminating Co	Ohio	Northeast-Ohio Area-wide Coordinating Agency	Economic impact study
68. 1914 December 1988	Providence Gas Company	Rhode Island	Commission Staff	Rate of return
69. U-12636 & U-17649 February 1989	Louisiana Power & Light Company	Louisiana	Commission Staff	Disposition of litigation proceeds
70. 00345 February 1989	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration	Load forecasting
71. RP88-209 March 1989	Natural Gas Pipeline of America	FERC	Indiana Utility Consumer Counselor	Rate of return

Expert Testimony  
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
72. 8425 March 1989	Houston Lighting & Power Company	Texas	U.S. Department of Energy	Rate of return
73. EL89-30-000 April 1989	Central Illinois Public Service Company	FERC	Soyland Power Coop. Inc.	Rate of return
74. R-891208 May 1989	Pennsylvania American Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return
75. 89-0033 May 1989	Illinois Bell Telephone Company	Illinois	Citizens Utility Board	Rate of return
76. 881167-EI May 1989	Gulf Power Company	Florida	Federal Executive Agencies	Rate of return
77. R-891218 July 1989	National Fuel Gas Distribution Company	Pennsylvania	Office of Consumer Advocate	Sales forecasting
78. 8063, Phase III Sept 1989	Polomac Electric Power Company	Maryland	Depart. Natural Resources	Emissions Controls
79. 37414-S2 October 1989	Public Service Company of Indiana	Indiana	Utility Consumer Counselor	Rate of return, DSM, off- system sales, incentive regulation
80. October 1989	Generic	U.S. House of Rep's Comm. on Ways & Means	NA	Excess deferred income tax
81. 38728 November 1989	Indiana Michigan Power Company	Indiana	Utility Consumer Counselor	Rate of return
82. RP89-49-000 December 1989	National Fuel Gas Supply Corporation	FERC	PA Office of Consumer Advocate	Rate of return
83. R 891364 December 1989	Philadelphia Electric Company	Pennsylvania	PA Office of Consumer Advocate	Financial impacts (surrebuttal only)
84. RP89-160-000 January 1990	Trunkline Gas Company	FERC	Indiana Utility Consumer Counselor	Rate of return

Expert Testimony  
of Matthew J. Kahal

Docket Number	Utility	Jurisdiction	Client	Subject
85. EL90-16-000 November 1990	System Energy Resources, Inc.	FERC	Louisiana Public Service Commission	Rate of return
86. 89-624 March 1990	Bell Atlantic	FCC	PA Office of Consumer Advocate	Rate of return
87. 8245 March 1990	Potomac Edison Company	Maryland	Dept. Natural Resources	Avoided Cost
88. 000586 March 1990	Public Service Company of Oklahoma	Oklahoma	Smith Cogeneration Mgmt.	Need for Power
89. 38868 March 1990	Indianapolis Water Company	Indiana	Utility Consumer Counselor	Rate of return
90. 1946 March 1990	Blackstone Valley Electric Company	Rhode Island	Division of Public Utilities	Rate of return
91. 000776 April 1990	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration Mgmt	Need for Power
92. 890366 May 1990. December 1990	Metropolitan Edison Company	Pennsylvania	Office of Consumer Advocate	Competitive Bidding Program Avoided Costs
93. EC-90-10-000 May 1990	Northeast Utilities	FERC	Maine PUC, et. al.	Merger, Market Power, Transmission Access
94. ER-891109125 July 1990	Jersey Central Power & Light	New Jersey	Rate Counsel	Rate of return
95. R-901670 July 1990	National Fuel Gas Distribution Corp.	Pennsylvania	Office of Consumer Advocate	Rate of return Test year sales
96. 8201 October 1990	Delmarva Power & Light Company	Maryland	Dept. Natural Resources	Competitive Bidding, Resource Planning
97. EL90-45 000 April 1991	Entergy Services, Inc	FERC	Louisiana PSC	Rate of return
98. GR90080786J January 1991	New Jersey Natural Gas	New Jersey	Rate Counsel	Rate of return

Expert Testimony  
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
99. 90-256 January 1991	South Central Bell Telephone Co	Kentucky	Attorney General	Rate of return
100 U-17949A February 1991	South Central Bell Telephone Co	Louisiana	Louisiana PSC	Rate of return
101. ER90091090J April 1991	Atlantic City Electric Company	New Jersey	Rate Counsel	Rate of return
102 824I, Phase I April 1991	Baltimore Gas & Electric Co	Maryland	Dept. of Natural Resources	Environmental controls
103 824I, Phase II May 1991	Baltimore Gas & Electric Company	Maryland	Dept. of Natural Resources	Need for Power, Resource Planning
104 39128 May 1991	Indianapolis Water Company	Indiana	Utility Consumer Counselor	Rate of return, rate base, financial planning
105. P-900485 May 1991	Duquesne Light Company	Pennsylvania	Office of Consumer Advocate	Purchased power contract and related ratemaking
106. G900240 P910502 May 1991	Metropolitan Edison Co. Pennsylvania Electric Co.	Pennsylvania	Office of Consumer Advocate	Purchased power contract and related ratemaking
107. GR901213915 May 1991	Elizabethtown Gas Co	New Jersey	Rate Counsel	Rate of return
108. 91-5032 August 1991	Nevada Power Co	Nevada	U.S. Dept. of Energy	Rate of return
109. EL90-48-000 November 1991	Entergy Services	FERC	Louisiana PSC	Capacity transfer
110. 000662 September 1991	Southwestern Bell Telephone	Oklahoma	Attorney General	Rate of return
111 U-19236 October 1991	Arkansas Louisiana Gas Company	Louisiana	Louisiana PSC Staff	Rate of return
112 U-19237 December 1991	Louisiana Gas Service Company	Louisiana	Louisiana PSC Staff	Rate of return

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
113. ER9103356J October 1991	Rockland Electric Company	New Jersey	Rate Counsel	Rate of return
114. GR91071243J February 1992	South Jersey Gas Company	New Jersey	Rate Counsel	Rate of return
115. GR91081303J March 1992	New Jersey Natural Gas Company	New Jersey	Rate Counsel	Rate of return
116. P-870235 et al. March 1992	Pennsylvania Electric Company	Pennsylvania	Office of Consumer Advocate	Cogeneration contracts
117. 8413 March 1992	Potomac Electric Power Company	Maryland	Dept. of Natural Resources	IPP purchased power contracts
118. 39236 March 1992	Indianapolis Power & Light Company	Indiana	Utility Consumer Counselor	Least-cost planning Need for power
119. R-912164 April 1992	Equitable Gas Company	Pennsylvania	Office of Consumer Advocate	Rate of return
120. ER-91111698J May 1992	Public Service Electric & Gas Company	New Jersey	Rate Counsel	Rate of return
121. U-19631 June 1992	Trans Louisiana Gas Company	Louisiana	PSC Staff	Rate of return
122. ER-91121820J July 1992	Jersey Central Power & Light Company	New Jersey	Rate Counsel	Rate of return
123. R-00922314 August 1992	Metropolitan Edison Company	Pennsylvania	Office of Consumer Advocate	Rate of return
124. 92-049-05 September 1992	US West Communications	Utah	Committee of Consumer Services	Rate of return
125. 92PIUE0037 September 1992	Commonwealth Gas Company	Virginia	Attorney General	Rate of return
126. EC92-21-000 September 1992	Energy Services, Inc.	FERC	Louisiana PSC	Merger Impacts (Affidavit)

Expert Testimony  
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Clients</u>	<u>Subject</u>
127. ER92-341-000 December 1992	System Energy Resources	FERC	Louisiana PSC	Rate of return
128. U-19904 November 1992	Louisiana Power & Light Company	Louisiana	Staff	Merger analysis, competition competition issues
129. 8473 November 1992	Baltimore Gas & Electric Company	Maryland	Dept. of Natural Resources	QF contract evaluation
130. IPC E 92-25 January 1993	Idaho Power Company	Idaho	Federal Executive Agencies	Power supply clause
131. E002/GR-92-1185 February 1993	Northern States Power Company	Minnesota	Attorney General	Rate of return
132. 92-102, Phase II March 1992	Central Maine Power Company	Maine	Staff	QF contracts prudence and procurements practices
133. EC92-21-000 March 1993	Energy Corporation	FERC	Louisiana PSC	Merger issues
134. 8489 March 1993	Delmarva Power & Light Company	Maryland	Dept. of Natural Resources	Power plant certification
135. 11735 April 1993	Texas Electric Utilities Company	Texas	Federal Executives Agencies	Rate of return
136. 2082 May 1993	Providence Gas Company	Rhode Island	Division of Public Utilities	Rate of return
137. P-00930715 December 1993	Bell Telephone Co. of Pennsylvania	Pennsylvania	Office of Consumer Advocate	Rate of return, financial projections, Bell/TCI merger
138. R-00932670 February 1994	Pennsylvania-American Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return
139. 8583 February 1994	Conowingo Power Co.	Maryland	Dept. of Natural Resources	Competitive bidding for power supplies
140. E-015/GR-94-001 April 1994	Minnesota Power & Light Co.	Minnesota	Attorney General	Rate of return

Expert Testimony  
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
141. CC Docket No 94-1 May 1994	Generic Telephone	FCC	MCI Comm. Corp	Rate of return
142. 92-345, Phase II June 1994	Central Maine Power Co	Maine	Advocacy Staff	Price Cap Regulation Fuel Costs
143. 93-11065 April 1994	Nevada Power Co.	Nevada	Federal Executive Agencies	Rate of return
144. 94-0065 May 1994	Commonwealth Edison Co	Illinois	Federal Executive Agencies	Rate of return
145. GR94010002J June 1994	South Jersey Gas Co.	New Jersey	Rate Counsel	Rate of return
146. WR94030059 July 1994	New Jersey-American Water Co.	New Jersey	Rate Counsel	Rate of return
147. RP91-203-000 June 1994	Tennessee Gas Pipeline Company	FERC	Customer Group	Environmental Externalities (oral testimony only)
148. ER94-998-000 July 1994	Ocean State Power	FERC	Boston Edison Co	Rate of return
149. R-00942986 July 1994	West Penn Power Co.	Pennsylvania	Office of Consumer Advocate	Rate of return, emission allowances
150. 94-121 August 1994	South Central Bell Telephone Co	Kentucky	Attorney General	Rate of return
151. 35854-S2 November 1994	PSI Energy, Inc	Indiana	Utility Consumer Counsel	Merger savings and allocations
152. IPC-E-94-5 November 1994	Idaho Power Co	Idaho	Federal Executive Agencies	Rate of return
153. November 1994	Edmonton Water	Alberta, Canada	Regional Customer Group	Rate of return (rebuttal only)
154. 90-256 December 1994	South Central Bell Telephone Co.	Kentucky	Attorney General	Incentive Plan True-Ups

Expert Testimony  
of Matthew J. Kahal

Docket Number	Utility	Jurisdiction	Client	Subject
155. U-20925 February 1995	Louisiana Power & Light Company	Louisiana	PSC Staff	Rate of return Industrial contracts Trust fund earnings
156. R-00943231 February 1995	Pennsylvania-American Water Company	Pennsylvania	Consumer Advocate	Rate of return
157. 8678 March 1995	Generic	Maryland	Dept. Natural Resources	Electric Competition Incentive Regulation (oral only)
158. R-000943271 April 1995	Pennsylvania Power & Light Company	Pennsylvania	Consumer Advocate	Rate of return Nuclear decommissioning Capacity Issues
159. U-20925 May 1995	Louisiana Power & Light Company	Louisiana	Commission Staff	Class cost of service issues
160. 2290 June 1995	Narragansett Electric Company	Rhode Island	Division Staff	Rate of return
161. U-17949E June 1995	South Central Bell Telephone Company	Louisiana	Commission Staff	Rate of return
162. 2304 July 1995	Providence Water Supply Board	Rhode Island	Division Staff	Cost recovery of capital spending program
163. ER95-625 000 et al. August 1995	PSI Energy, Inc.	FERC	Office of Utility Consumer Counselor	Rate of return
164. P-00950915 et al. September 1995	Paxton Creek Cogeneration Assoc.	Pennsylvania	Office of Consumer Advocate	Cogeneration contract amendment
165. 8102 September 1995	Potomac Edison Company	Maryland	Dept. of Natural Resources	Allocation of DSM Costs (oral only)
166. ER95-533-001 September 1995	Ocean State Power	FERC	Boston Edison Co.	Cost of equity
167. 40003 November 1995	PSI Energy, Inc	Indiana	Utility Consumer Counselor	Rate of return Retail wheeling

Expert Testimony  
of Matthew J. Kahal

Docket Number	Utility	Jurisdiction	Client	Subject
168. P-55, SUB 1013 January 1996	BellSouth	North Carolina	AT&T	Rate of return
169. P 7, SUB 825 January 1996	Carolina Tel.	North Carolina	AT&T	Rate of return
170. February 1996	Generic Telephone	FCC	MCI	Cost of capital
171. 95A-531EG April 1996	Public Service Company of Colorado	Colorado	Federal Executive Agencies	Merger issues
172. ER96-399 000 May 1996	Northern Indiana Public Service Company	FERC	Indiana Office of Utility Consumer Counselor	Cost of capital
173. 8716 June 1996	Delmarva Power & Light Company	Maryland	Dept. of Natural Resources	DSM programs
174. 8725 July 1996	BGE/PEPCO	Maryland	Md. Energy Admin	Merger Issues
175. U-20925 August 1996	Energy Louisiana, Inc.	Louisiana	PSC Staff	Rate of return Allocations Fuel Clause
176. EC96-10-000 September 1996	BGE/PEPCO	FERC	Md. Energy Admin.	Merger issues competition
177. EL95-53-000 November 1996	Energy Services, Inc.	FERC	Louisiana PSC	Nuclear Decommissioning
178. WR96100768 March 1997	Consumers NJ Water Company	New Jersey	Ratepayer Advocate	Cost of Capital
179. WR96110818 April 1997	Middlesex Water Co.	New Jersey	Ratepayer Advocate	Cost of Capital
180. U-11366 April 1997	Ameritech Michigan	Michigan	MCI	Access charge reform/financial condition
181. 97-074 May 1997	BellSouth	Kentucky	MCI	Rate Rebalancing financial condition

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
182. 2540 June 1997	New England Power	Rhode Island	PUC Staff	Divestiture Plan
183. 96-336 TP-CSS June 1997	Ameritech Ohio	Ohio	MCI	Access Charge reform Economic impacts
184. WR97010052 July 1997	Maxim Sewerage Corp.	New Jersey	Ratepayer Advocate	Rate of Return
185. 97-300 August 1997	LG&E/KU	Kentucky	Attorney General	Merger Plan
186. Case No. 8738 August 1997	Generic (oral testimony only)	Maryland	Dept. of Natural Resources	Electric Restructuring Policy
187. Docket No. 2592 September 1997	Eastern Utilities	Rhode Island	PUC Staff	Generation Divestiture
188. Case No. 97-247 September 1997	Cincinnati Bell Telephone	Kentucky	MCI	Financial Condition
189. Docket No. U-20925 November 1997	Energy Louisiana	Louisiana	PSC Staff	Rate of Return
190. Docket No. D97.7.90 November 1997	Montana Power Co.	Montana	Montana Consumers Counsel	Stranded Cost
191. Docket No. E097070459 November 1997	Jersey Central Power & Light Co.	New Jersey	Ratepayer Advocate	Stranded Cost
192. Docket No. R-00974104 November 1997	Duquesne Light Co.	Pennsylvania	Office of Consumer Advocate	Stranded Cost
193. Docket No. R-00973981 November 1997	West Penn Power Co.	Pennsylvania	Office of Consumer Advocate	Stranded Cost
194. Docket No. A-1101150F0015 November 1997	Allegheny Power System DQE, Inc.	Pennsylvania	Office of Consumer Advocate	Merger Issues
195. Docket No. WR97080615 January 1998	Consumers NJ Water Company	New Jersey	Ratepayer Advocate	Rate of Return

Expert Testimony  
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
196. Docket No. R-00974149 January 1998	Pennsylvania Power Company	Pennsylvania	Office of Consumer Advocate	Stranded Cost
197. Case No. 8774 January 1998	Allegheny Power System DQE, Inc.	Maryland	Dept. of Natural Resources MD Energy Administration	Merger Issues
198. Docket No. U-20925 (SC) March 1998	Energy Louisiana, Inc.	Louisiana	Commission Staff	Restructuring, Stranded Costs, Market Prices
199. Docket No. U-22092 (SC) March 1998	Energy Gulf States, Inc.	Louisiana	Commission Staff	Restructuring, Stranded Costs, Market Prices
200. Docket Nos. U-22092 (SC) and U-20925(SC) May 1998	Energy Gulf States and Energy Louisiana	Louisiana	Commission Staff	Standby Rates
201. Docket No. WR98010015 May 1998	NJ American Water Co.	New Jersey	Ratepayer Advocate	Rate of Return
202. Case No. 8794 December 1998	Baltimore Gas & Electric Co.	Maryland	MD Energy Admin./Dept. Of Natural Resources	Stranded Cost/ Transition Plan
203. Case No. 8795 December 1998	Delmarva Power & Light Co.	Maryland	MD Energy Admin./Dept. Of Natural Resources	Stranded Cost/ Transition Plan
204. Case No. 8797 January 1998	Potomac Edison Co.	Maryland	MD Energy Admin./Dept. Of Natural Resources	Stranded Cost/ Transition Plan
205. Docket No. WR98090795 March 1999	Middlesex Water Co.	New Jersey	Ratepayer Advocate	Rate of Return
206. Docket No. 99-02-05 April 1999	Connecticut Light & Power	Connecticut	Attorney General	Stranded Costs
207. Docket No. 99-03-04 May 1999	United Illuminating Company	Connecticut	Attorney General	Stranded Costs
208. Docket No. U-20925 (FRP) June 1999	Energy Louisiana, Inc.	Louisiana	Staff	Capital Structure
209. Docket No. EC-98-40-000 et. al. May 1999	American Electric Power/ Central & Southwest	FERC	Arkansas PSC	Market Power Mitigation

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
210 Docket No 99-03-35 July 1999	United Illuminating Company	Connecticut	Attorney General	Restructuring
211. Docket No 99-03-36 July 1999	Connecticut Light & Power Co.	Connecticut	Attorney General	Restructuring
212. WR99-0249 Oct. 1999	Environmental Disposal Corp.	New Jersey	Ratepayer Advocate	Rate of Return
213 2930 Nov 1999	NEES/EUA	Rhode Island	Division Staff	Merger/Cost of Capital
214. DE99-099 Nov. 1999	Public Service New Hampshire	New Hampshire	Consumer Advocate	Cost of Capital Issues
215. 00-01-11 Feb. 2000	Con Ed/NU	Connecticut	Attorney General	Merger Issues
216. Case No. 8821 May 2000	Reliant/ODEC	Maryland	Dept. of Natural Resources	Need for Power/Plant Operations
217. Case No. 8738 July 2000	Genenc	Maryland	Dept. of Natural Resources	DSM Funding
218. Case No. U-23156 June 2000	Energy Louisiana, Inc	Louisiana	PSC Staff	Fuel Prudence Issues Purchased Power
219 Case No 21453 et al July 2000	SWEPSCO	Louisiana	PSC Staff	Stranded Costs
220 Case No. 20925 (B) July 2000	Energy Louisiana	Louisiana	PSC Staff	Purchase Power Contracts
221 Case No. 24889 August 2000	Energy Louisiana	Louisiana	PSC Staff	Purchase Power Contracts
222 Case No 21453 et al February 2001	CLECO	Louisiana	PSC Staff	Stranded Costs
223 P-00001860 and P-0000181 March 2001	GPU Companies	Pennsylvania	Office of Consumer Advocate	Rate of Return

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
224. CVOL-0505662-S March 2001	ConEd/NU	Connecticut Superior Court	Attorney General	Merger (Affidavit)
225. U-20925 (SC) March 2001	Energy Louisiana	Louisiana	PSC Staff	Stranded Costs
226. U-22092 (SC) March 2001	Energy Gulf States	Louisiana	PSC Staff	Stranded Costs
227. U-25533 May 2001	Energy Louisiana/ Gulf States	Louisiana Interruptible Service	PSC Staff	Purchase Power
228. P-00011872 May 2001	Pike County Pike	Pennsylvania	Office of Consumer Advocate	Rate of Return
229. 8893 July 2001	Baltimore Gas & Electric Co.	Maryland	MD Energy Administration	Corporate Restructuring
230. 8890 September 2001	Potomac Electric/Connectiv	Maryland	MD Energy Administration	Merger Issues
231. U-25533 August 2001	Energy Louisiana / Gulf States	Louisiana	Staff	Purchase Power Contracts
232. U-25965 November 2001	Generic	Louisiana	Staff	RTO Issues
233. 3401 March 2002	New England Gas Co.	Rhode Island	Division of Public Utilities	Rate of Return
234. 99-833-MJR April 2002	Illinois Power Co.	U.S. District Court	U.S. Department of Justice	New Source Review
235. U-25533 March 2002	Energy Louisiana/ Gulf States	Louisiana	PSC Staff	Nuclear Upgrades Purchase Power
236. P-00011872 May 2002	Pike County Power & Light	Pennsylvania	Consumer Advocate	POLR Service Costs
237. U-26361, Phase I May 2002	Energy Louisiana/ Gulf States	Louisiana	PSC Staff	Purchase Power Cost Allocations

Expert Testimony  
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
238. R-00016849C001 et al. June 2002	Generic	Pennsylvania	Pennsylvania OCA	Rate of Return
239. U-26361, Phase II July 2002	Energy Louisiana/ Energy Gulf States	Louisiana	PSC Staff	Purchase Power Contracts
240. U-20925(B) August 2002	Energy Louisiana	Louisiana	PSC Staff	Tax Issues
241. U-26531 October 2002	SWEPCO	Louisiana	PSC Staff	Purchase Power Contract
242. 8956 October 2002	Delmarva Power & Lt.	Maryland	Energy Administration Dept. Natural Resources	Standard Offer Service
243. U-25965 November 2002	SWEPCO/AEP	Louisiana	PSC Staff	RTO Cost/Benefit
244. 8908 Phase I November 2002	Generic	Maryland	Energy Administration Dept. Natural Resources	Standard Offer Service
245. 02S-315EG November 2002	Public Service Co. of Colorado	Colorado	Fed. Executive Agencies	Rate of Return
246. EL02-111-000 December 2002	PJM/MISO	FERC	MD PSC	Transmission Rate-making
247. 02-0479 February 2003	Commonwealth Edison	Illinois	Dept. of Energy	POLR Service
248. PL03-1-000 March 2003	Generic	FERC	NASUCA	Transmission Pricing (Affidavit)
249. U-27136 April 2003	Energy Louisiana	Louisiana	Staff	Purchase Power Contracts
250. 8908 Phase II July 2003	Generic	Maryland	Energy Admin. Dept. of Natural Resources	Standard Offer Service
251. U-27192 June 2003	Energy Louisiana and Gulf States	Louisiana	LPSC Staff	Purchase Power Contract Cost Recovery

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
252	C2-99-1181 October 2003	U.S. District Court	U.S. Department of Justice E.L.H.	Clean Air Act Compliance Economic Impact (Report)
253	RP03-198-000 December 2003	FERC	Municipal Distributors Group/Gas Task Force	Rate of Return
254	8738 December 2003	Maryland	Energy Admin Department of Natural Resources	Environmental Disclosure (oral only)
255	U-27136 December 2003	Louisiana	PSC Staff	Purchase Power Contracts
256	U-27192, Phase II October/December 2003	Louisiana	PSC Staff	Purchase Power Contracts
257	WC Docket 03-173 December 2003	FCC	MCI	Cost of Capital (TELRIC)
258	ER 030 20110 January 2004	New Jersey	Ratepayer Advocate	Rate of Return
259	E-01345A-03-0437 January 2004	Arizona	Federal Executive Agencies	Rate of Return
260	03-10001 January 2004	Nevada	U.S. Dept. of Energy	Rate of Return
261	R-00049255 June 2004	Pennsylvania	Office of Consumer Advocate	Rate of Return
262	U-20925 July 2004	Louisiana	PSC Staff	Rate of Return Capacity Resources
263	U-27866 September 2004	Louisiana	PSC Staff	Purchase Power Contract
264	U-27980 September 2004	Louisiana	PSC Staff	Purchase Power Contract
265	U-27865 October 2004	Louisiana	PSC Staff	Purchase Power Contract
266	RP04-155 December 2004	FERC	Municipal Distributors Group/Gas Task Force	Rate of Return
267	U-27836 January 2005	Louisiana	PSC Staff	Power plant purchase and cost recovery

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
268.	U-199040 et al. February 2005	Louisiana	FSC Staff	Global Settlement, Multiple rate proceedings
269.	EF03070532 March 2005	New Jersey	Ratepayers Advocate	Securitization of Deferred Costs
270.	05-0159 June 2005	Illinois	Department of Energy	POLR Service
271.	U-28804 June 2005	Louisiana	LPSC Staff	QF Contract
272.	U-28805 June 2005	Louisiana	LPSC Staff	QF Contract
273.	05-0045-EJ June 2005	Florida	Federal Executive Agencies	Rate of Return
274.	9037 July 2005	Maryland	MD Energy Administration	POLR Service
275.	U-28155 August 2005	Louisiana	LPSC Staff	Independent Coordinator of Transmission Plan
276.	U-27866-A September 2005	Louisiana	LPSC Staff	Purchase Power Contract
277.	U-28765 October 2005	Louisiana	LPSC Staff	Purchase Power Contract
278.	U-27469 October 2005	Louisiana	LPSC Staff	Avoided Cost Methodology
279.	A-313200F007 October 2005	Pennsylvania	Office of Consumer Advocate	Corporate Restructuring
280.	EM05020106 November 2005	New Jersey	Ratepayer Advocate	Merger Issues
281.	U-28765 December 2005	Louisiana	LPSC Staff	Power plant certification, financing, rate plan
282.	U-29157 February 2006	Louisiana	LPSC Staff	Storm Damage Financing

Expert Testimony  
of Matthew J. Kahal

Docket Number	Utility	Jurisdiction	Client	Subject
283. U-29204 March 2006	Energy Louisiana Energy Gulf States	Louisiana	LFSC Staff	Purchase power contracts
284. A-310325F006 March 2006	Alltel	Pennsylvania	Office of Consumer Advocate	Merger, Corporate Restructuring
285. 9056 March 2006	Generic	Maryland	Maryland Energy Administration	Standard Offer Service Structure
286. C2-99-1182 April 2006	American Electric Power Utilities	U. S. District Court Southern District, Ohio	U. S. Department of Justice	New Source Review Enforcement (expert report)
287. EM05121058 April 2006	Atlantic City Electric	New Jersey	Ratepayer Advocate	Power plant sale
288. ER05:21018 June 2006	Jersey Central Power & Light Co.	New Jersey	Ratepayer Advocate	NUG contracts cost recovery
289. U-21496, Subdocket C June 2006	Cleco Power LLC	Louisiana	Commission Staff	Rate stabilization plan
290. GR0510085 June 2006	Public Service Electric & Gas Company	New Jersey	Ratepayer Advocate	Rate of return (gas services)
291. R-000061366 July 2006	Metropolitan Ed. Co. Penn Electric Co.	Pennsylvania	Office of Consumer Advocate	Rate of return
292. 9064 September 2006	Generic	Maryland	Energy Administration	Standard Offer Service
293. U-29599 September 2006	Cleco Power LLC	Louisiana	Commission Staff	Purchase Power Contracts
294. WR06030257 September 2006	New Jersey American Water Co	New Jersey	Rate Counsel	Rate of return
295. U-27866/U-29702 October 2006	Southwestern Electric Power Co	Louisiana	Commission Staff	Purchase Power/Power Plant Certification
296. 9063 October 2006	Generic	Maryland	Energy Administration Department of Natural Resources	Generation Supply Policies
297. EM06090638 November 2006	Atlantic City Electric	New Jersey	Rate Counsel	Power plant sale
298. C-2000065942 November 2006	Pike County Light & Power	Pennsylvania	Consumer Advocate	Generation Supply Service

Expert Testimony  
of Matthew J. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
299	Rockland Electric Company	New Jersey	Rate Counsel	Rate of Return

ER06060483  
November 2006



COMMONWEALTH OF PENNSYLVANIA  
BEFORE THE PUBLIC UTILITY COMMISSION

County of Pike

v.

Pike County Light & Power Company

:  
:  
:  
:  
:

Docket No. C-20065942, et al.

**RECEIVED**

JAN 22 2007

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

DIRECT TESTIMONY OF  
PETER J. LANZALOTTA

ON BEHALF OF THE  
OFFICE OF CONSUMER ADVOCATE

November 17, 2006

1 Q. Please state your name, affiliation and business address.

2 A. Peter J. Lanzalotta, Lanzalotta & Associates LLC, 67 Royal Pointe Drive, Hilton Head  
3 Island SC 29926.

4 Q. Please describe your educational background.

5 A. I am a graduate of Rensselaer Polytechnic Institute, where I received a Bachelor of  
6 Science degree in Electric Power Engineering. In addition, I hold a Masters degree in  
7 Business Administration with a concentration in Finance from Loyola College in  
8 Baltimore.

9 Q. Please describe your professional experience.

10 A. I am a Principal of Lanzalotta & Associates LLC, which commenced operations in  
11 January 2001. Prior to that, I was a partner of Whitfield Russell Associates, with which I  
12 had been associated since March 1982. My areas of expertise include electric utility  
13 system planning and operation, electric service reliability, cost of service, cost allocation,  
14 and utility rate design. I am a registered professional engineer in the states of Maryland  
15 and Connecticut. My prior professional experience is described in Exhibit PJJ-1, which  
16 is attached hereto.

17  
18 I have been involved with the planning, operation, and analysis of electric utility systems  
19 and with utility regulatory matters, including reliability-related matters, certification of  
20 new facilities, cost of service, cost allocation, and rate design, as an employee of and as a  
21 consultant to a number of privately- and publicly-owned electric utilities, regulatory  
22 agencies, developers, and electricity users over a period exceeding thirty years.

23 Q. Have you given expert testimony in any judicial or quasi-judicial proceedings?

24 A. Yes, I have presented expert testimony before the Federal Energy Regulatory  
25 Commission and before regulatory commissions and other judicial and legislative bodies  
26 in 20 states, the District of Columbia, and the Provinces of Alberta and Ontario. My  
27 clients have included utilities, regulatory agencies, ratepayer advocates, independent  
28 producers, industrial consumers, the federal government, and various city and state  
29 government agencies. The proceedings in which I have testified are listed in Exhibit  
30 PJJ-2.

31

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony, on behalf of the Office of Consumer Advocate ("OCA"), is  
3 (1) to review the attractiveness of available options by which the electric system of Pike  
4 County Light & Power Company ("PCL&P" or "the Company") can be interconnected to  
5 the electric system operated by PJM and its members,<sup>1</sup> and (2) to review the electric  
6 service reliability that the Company has provided to its electric service area.  
7

8 At the direction of the OCA, I have conducted a review of discovery responses that have  
9 been produced in this proceeding, as well as prior studies that have looked at  
10 interconnecting the PCL&P electric service territory to electric systems in the PJM  
11 system. I have also reviewed other documents summarizing the testimony at the public  
12 hearings concerning PCL&P's electric service, and other documents relevant to this  
13 proceeding. In addition, I visited the PCL&P system in August 2006, met with  
14 representatives of PPL Electric Utilities, Inc. ("PPL"), and with a representative of  
15 Sussex Rural Electric Cooperative ("Sussex"), and reviewed electric facilities that  
16 bordered the PCL&P electric service area.

17 **Q. What conclusions have you reached?**

18 A. My conclusions are as follows:

- 19 1. The service area of PCL&P can be interconnected to the 34.5 kV electric system  
20 of Sussex and can be served as part of Sussex's electric system in PJM for  
21 significantly less investment than indicated in the prior studies prepared by the  
22 Company.
- 23 2. Electric service reliability on the PCL&P electric system has worsened  
24 significantly since the merger of Consolidated Edison and Orange & Rockland, of  
25 which PCL&P is a subsidiary. The average PCL&P electric service customer  
26 experienced more than 16 hours of electric outages in 2004, and more than 18  
27 hours of outages in 2005, as compared to an average of barely more than 3 hours  
28 (3 hours, 9 minutes) in the six years leading up to the merger.

---

<sup>1</sup> PJM is the FERC-approved Regional Transmission Operator that oversees the bulk transmission grid and organized energy markets for most of Pennsylvania

1 Q. Please describe the Company and its service area.

2 A. PCL&P is a tiny investor-owned electric and gas utility in Pennsylvania, which, for many  
3 years, was a subsidiary of Orange & Rockland Utilities, Inc. ("O&R"), an investor-owned  
4 electric utility in New York, just across the Delaware River from the PCL&P service  
5 area. O&R also has a utility subsidiary in New Jersey named Rockland Electric  
6 Company.

7  
8 In July, 1999 O&R was acquired by Consolidated Edison Inc. ("ConEd"), a large New  
9 York utility with an electric system in and around New York City. With this acquisition,  
10 PCL&P went from being a small piece of a larger utility, to being an infinitesimal piece  
11 of one of the largest and most complex utilities in the US, in terms of revenue and system  
12 complexity. This acquisition seems to coincide with a deterioration of PCL&P's electric  
13 service reliability performance, as will be discussed in detail, later in my testimony.

14  
15 The Company's 51 square mile electric service area is located in northeastern  
16 Pennsylvania and abuts both New York and New Jersey, being separated from both by  
17 the Delaware River. Most of the Company's 4,400-plus customers are located in the  
18 extreme southern and eastern portions of the Company's electric service area. The  
19 northern and western areas of the Company's service area are sparsely populated and  
20 have limited development potential due to the presence of substantial state gameland and  
21 state forest areas. The bulk of the Company's electric service customers are supplied by  
22 two 34.5 kV circuits, which both originate in New York.

23  
24 The first of these 34.5 kV circuits, line 7-6-34, runs overhead from the Port Jervis  
25 substation in New York, crosses the Delaware River in conduit along a road bridge over  
26 the river, and then goes overhead again, serving approximately 2,700 customers, mostly  
27 in the vicinity of Milford, PA.

28  
29 The second 34.5 kV circuit, line 5-10-34, originates in the Cuddybackville substation in  
30 New York, runs overhead to the vicinity of the Port Jervis substation, crosses the  
31 Delaware River on an aerial crossing, and primarily supplies the Matamoras substation,

1 which feeds two 13.2 kV distribution circuits that supply about 1,700 customers in the  
2 Borough of Matamoras.

3  
4 There are two other 34.5 kV circuits that originate in substations in New York and which  
5 serve about 150 electric customers in the northern part of the Company's service area.  
6 Metropolitan Edison Company ("MetEd") also serves some 44 electric customers located  
7 on the boundaries of PCL&P's electric service area.

8  
9 **Interconnection Costs**

10  
11 **Q. Please describe the options you considered for interconnecting the PCL&P electric**  
12 **service area to PJM.**

13 **A.** Other than O&R, there are at least three different electric utility service areas that abut  
14 the electric service of the Company, PPL, Metropolitan Edison Company ("Met-Ed"),  
15 and Sussex Rural Electric Cooperative ("Sussex"). I considered interconnections with  
16 each of these three.

17 **Q. Please describe the possible PJM interconnections that have been considered by**  
18 **PCL&P to this point?**

19 **A.** The Company studied interconnecting with PJM through ties primarily with PPL, and to  
20 a lesser extent with Met-Ed. The PPL and Met-Ed alternatives that have been considered  
21 in studies prepared by the Company involve extending the 69 kV transmission line that  
22 currently supplies Met-Ed's and PPL's substations in the area 8 miles or so, to a point  
23 closer to the load centers within PCL&P's electric service territory, and building a  
24 distribution substation with outgoing 34.5 kV circuits to supply electric power to  
25 PCL&P's electric customers. The Company, in a May, 2006 updated analysis of the  
26 costs and benefits of interconnecting the PCL&P electric system with PJM, estimated that  
27 this approach requires some \$13.6 million in investment to extend the 69 kV line (\$8  
28 million), to build the new distribution substation (\$3.6 million), and to reconfigure the  
29 PCL&P distribution system so that it can be fed from the west, rather than from the east,  
30 as is currently the case (\$2 million).

1 Q. What steps did you take to consider these alternatives?

2 A. I met with representatives from PPL in August, 2006 and reviewed the transmission,  
3 substation, and distribution facilities that were in and around PPL's Twin Lakes  
4 substation. We discussed the nature of their facilities in the area and some of the  
5 implications of trying to serve the PCL&P electric service load from their facilities.

6 Q. What are your conclusions about interconnecting with PJM through a 69kV  
7 transmission line from the PPL or Met-Ed service territories at this time?

8 A. All in all, interconnection options that require a transmission line extension, and then  
9 construction of a new substation, are too expensive to permit PCL&P to be economically  
10 interconnected with PJM. The transmission line extension costs at least \$8 million, and  
11 the new substation costs another \$3.6 million. Interconnection options that can permit  
12 the avoidance of these costs will be much more financially viable options.

13 Q. Did the Company's study consider all possible options for interconnecting with  
14 PJM?

15 A. No. The prior interconnection studies by the Company did not look at picking up the  
16 PCL&P load by simply extending existing distribution circuits from existing PPL or Met-  
17 Ed substations, or at extending new distribution circuits from these existing substations.  
18 The limited data available suggest that it is possible that distribution circuits of this type  
19 could be used to supply the Company's electric service area, although reinforcement  
20 might be required.

21  
22 For example, Met-Ed serves about 44 electric service customers that are located on the  
23 edges of PCL&P's electric service area. Because little is known about the distribution  
24 circuits to which these customers are connected, it is impossible to say whether they are  
25 capable of picking up the entire PCL&P load, currently about 16 MW, without  
26 substantial modification or reinforcement.

27  
28 Alternatively, Met-Ed's Walker substation, located near the current end of the 69 kV line  
29 discussed above, has 34.5 kV distribution facilities that extend towards the Milford load  
30 center in the southern tip of PCL&P's electric service area. The substation has one 69  
31 kV- to-34.5 kV transformer, and appears to have space for another. There appears to be

1 at least one 34.5 kV distribution circuit exiting the Walker substation and running south  
2 along US Rt. 6 towards Milford. The PCL&P load could potentially be served out of this  
3 substation over existing and new 34.5 kV distribution lines. Even if the existing  
4 substation transformer does not have the capacity to handle the additional PCL&P  
5 electric loads, the addition of a 69 kV-to-34.5 kV transformer at the substation could  
6 remedy this. To add a substation transformer of from 20 to 25 MVA would cost from  
7 \$500,000 to \$600,000, much less than the \$3.6 million included in the Company's study  
8 to construct a new substation.

9 **Q. Is it possible to interconnect with PPL's substation without extending a 69 kV**  
10 **transmission line to PCL&P's load centers?**

11 A. Yes, the potential also exists for the PCL&P to be served from distribution circuits from  
12 the PPL Twin Lakes substation, right across the street from the Met-Ed Walker  
13 substation, although such potential is not as attractive as that of using distribution circuits  
14 supplied out of Walker. That is because the Twin Lakes substation has a secondary  
15 distribution voltage of about 12 kV. This voltage does not match up well with the  
16 PCL&P system, which is largely supplied by 34.5 kV circuits. This voltage also typically  
17 does not do as well as 34.5 kV does in carrying loads located at a distance, due to  
18 increased losses and voltage drops for the lower voltage.

19 **Q. Please discuss the interconnection costs associated with the Sussex option.**

20 A. Sussex is located to the east of the Milford load center area, in the southern portion of the  
21 Company's electric service area, and is separated from the Company's service area by the  
22 Delaware River. Sussex has a 34.5 kV circuit, which has the capacity to pick up the  
23 PCL&P electric load that is approximately one mile from the river. Based on  
24 conversations with Sussex, I estimate that the PCL&P electric system could be initially  
25 hooked up to the Sussex 34.5 kV, with an aerial river crossing and anywhere from five to  
26 thirteen miles of 34.5 kV construction to connect and initially integrate the two systems,  
27 for as little as \$1 to \$2 million.

28 **Q. What is included in your cost estimate of \$1 to \$2 million?**

29 A. These costs are made up of three major components. The first is the cost to run a 34.5 kV  
30 line from the existing Sussex facilities to interconnect with a point somewhere on the  
31 PCL&P distribution system. Based on my conversations with Sussex, I have estimated

1 that no more than 3 miles of 34.5 kV construction would be needed for this line, at a cost  
2 estimated by Sussex to be up to \$115,000 per mile, for a subtotal of \$345,000. If less  
3 34.5 kV line construction is needed to make the interconnection, then the remainder of  
4 the funds would be available for system reconfiguration (see the third cost component  
5 discussed below).

6  
7 The second major cost component is the cost to cross the Delaware River. PCL&P  
8 estimated that it would cost about \$275,000 to replace the existing aerial river crossing it  
9 currently uses to deliver power to the PCL&P service area from Port Jervis, NY. I am  
10 using PCL&P's estimate of an aerial 34.5 kV Delaware river crossing in my analysis.

11  
12 The third major cost component is the cost to reconfigure the PCL&P system in order to  
13 prepare it to be fed from the Sussex 34.5 kV circuit. While I have not performed a  
14 reconfiguration study, I have estimated a range of construction costs to perform a  
15 reconfiguration, which range from the equivalent of 2 miles of line construction to the  
16 equivalent of 10 miles of line construction. The costs for this would range from  
17 \$230,000 to \$1,150,000, again based on estimates I received from Sussex.

18  
19 These costs sum up to a range of from \$850,000 to \$1,770,000, to which I have applied a  
20 15% contingency factor<sup>2</sup>, bringing my estimated costs up to a range roughly from \$1  
21 million to \$2 million.

22 **Q. Would this option eliminate the need for maintaining the existing interconnection**  
23 **with O&R?**

24 **A.** No. Because, this initial configuration would be dependent on a single feed from Sussex,  
25 reliability concerns would recommend that, while this initial configuration is in effect,  
26 one or more of the 34.5 kV interconnections to O&R substations be retained until further  
27 interconnections with the Sussex system, or other sources of supply, are developed. A  
28 similar requirement was part of the interconnection to PJM performed earlier by the

---

<sup>2</sup> Estimators typically apply a range of contingency factors to cost estimates

1 PCL&P. Maintaining this interconnection adds reliability to both the PCL&P system and  
2 the O&R system.

3 **Q. What do you conclude regarding interconnection with PJM?**

4 A. The cost to connect and integrate the PCL&P and Sussex systems are far less than the  
5 cost of alternatives that require miles of 69 kV line extensions and/or the construction of  
6 a new substation with a 69kV to 34.5 kV substation transformer, as was assumed in the  
7 Company's prior PJM interconnection studies. The Company's prior studies assume the  
8 construction of an 8 mile 69 kV transmission line, at a cost of \$1 million per mile. The  
9 Sussex interconnection makes use of an existing 34.5 kV circuit that is a mile or less<sup>3</sup>  
10 away from the edge of the Company's service area, so a shorter line can be used for the  
11 interconnection. Also, the 34.5 kV line that Sussex would use for the interconnection is  
12 much less expensive per mile. I use an estimated cost for this construction of \$115,000  
13 per mile.<sup>4</sup> Finally, the Sussex interconnection makes use of existing substation facilities  
14 on the Sussex system, rather than requiring the construction of a new \$3.6 million  
15 substation, as the Company's prior interconnection studies assumed. The effect of all this  
16 is to enable an interconnection for the PCL&P service area to PJM for \$1 million to \$2  
17 million, as compared to the Company's estimates of \$13.6 million.

18  
19 **Reliability Performance**

20  
21 **Q. Please discuss the reliability performance of the PCL&P electric system since the**  
22 **acquisition of O&R, PCL&P's parent company, by ConEd.**

23 A. Electric system reliability performance, as reflected in the Company's reliability data,  
24 reflects a substantial degradation in the Company's electric service reliability  
25 performance since 1999, when ConEd and O&R were merged.

---

<sup>3</sup> Although it a mile or less to the edge of the PCP&L system, the edge of the system may not be the optimal place for Sussex to interconnect. I included up to three miles of 34.5 kV line in my estimates for this purpose.

<sup>4</sup> Sussex estimated that a 34.5 kV circuit costs them about \$100k to \$115k per mile.

1 Q. What reliability data are used in Pennsylvania to look at reliability performance?

2 A. Reliability index data is typically used in Pennsylvania to look at electric service  
3 reliability performance. These data include the reliability indices SAIFI, CAIDI, and  
4 SAIDI. For each of these indices, a higher number reflects worse performance.  
5

6 SAIFI refers to the System Average Interruption Frequency Index, and is calculated by  
7 dividing the total number of sustained customer service interruptions by the total number  
8 of customers served. For a calendar year period, SAIFI represents the average number of  
9 sustained electric service interruptions per customer served during that period. SAIFI  
10 may be calculated for time periods other than a calendar year as well. Outages occurring  
11 during Major Events are excluded for purposes of reporting and determining compliance  
12 with state reliability regulations.  
13

14 CAIDI refers to the Customer Average Interruption Duration Index, and is calculated by  
15 dividing the sum of the individual customers' minutes of sustained electric service  
16 interruption by the total number of individual customer interruptions. For a calendar year  
17 period, CAIDI represents the average number of minutes of electric service interruption  
18 for each customer service interruption during that year, or, put another way, the average  
19 outage duration. CAIDI may be calculated for time periods other than a calendar year as  
20 well, and is sometimes calculated in hours, rather than in minutes. Outages occurring  
21 during Major Events are excluded for purposes of reporting and determining compliance  
22 with state reliability regulations.  
23

24 SAIDI refers to the System Average Interruption Duration Index, and is calculated by  
25 dividing the sum of the individual customers' minutes of sustained electric service  
26 interruption by the total number of customers served. SAIDI can also be calculated by  
27 multiplying SAIFI times CAIDI. For a calendar year period, SAIDI represents the  
28 average number of minutes of electric service interruption experienced by the average  
29 customer for the year. SAIDI may be calculated for time periods other than a calendar  
30 year as well, and is sometimes calculated in hours, rather than in minutes. Outages

1 occurring during Major Events are excluded for purposes of reporting and determining  
2 compliance with state reliability regulations.

3 **Q. You mentioned that major events are excluded from reliability indices. Could you**  
4 **explain this exclusion and the impact it has on Pike customers?**

5 A. A Major Event occurs when at least 10% of the customers in an electric utility service  
6 area experience a sustained<sup>5</sup> electric service interruption. Although the reliability index  
7 data that excludes outages that occur during Major Events is what is used to evaluate  
8 whether the level of electric service reliability has been maintained at pre-restructuring  
9 levels under Chapter 28 of the Public Utility Code, the reliability index data that includes  
10 all outages, including Major Events, is more indicative of the electric service reliability  
11 experienced by PCL&P electric customers for the purposes of these cases. This is  
12 because the PCL&P electric system is so small, that the lockout of the substation breaker  
13 on either of the two circuits that are the primary sources of electric supply to the PCL&P  
14 service area is considered a Major Event, whereas, on larger electric systems, which  
15 typically can include hundreds of distribution circuits, the lockout of a single distribution  
16 circuit is not considered a Major Event. Even the operation of a recloser or other  
17 protective device on one of these circuits, taking out only a portion of one of the circuits,  
18 could conceivably interrupt 10% of the Company's customers and thereby qualify as a  
19 Major Event. This difference in system size means that, for the PCL&P electric system,  
20 the reliability index data that excludes Major Events, excludes so much outage data, that  
21 the resultant indices are typically less useful than are the similar indices for larger utility  
22 systems. The reliability index data that include all outages, including those that occur  
23 during Major Events, is most useful for purposes of this case when looking at electric  
24 service reliability from the perspective of the electric service customer.

25 **Q. What does the data show for PCL&P?**

26 A. Reliability index data for PCL&P for the period 1994 through 2005 are contained in  
27 Table 1, below. These were provided by the Company in response to interrogatories.  
28 Table 1 has two sets of data. One set of data, on the left side of Table 1, includes all

---

<sup>5</sup> "Sustained" interruptions last more than five minutes, as compared to "momentary" interruptions which last five minutes or less.

1 outage data, including those outages that occur during Major Events. The second set of  
 2 data, to the right side of Table 1, excludes outages that occur during Major Events.

3 **Table 1**

Year	Including Major Events			Excluding Major Events		
	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI	SAIDI
1994	3.25	84	274	0.44	114	50
1995	1.58	142	224	0.38	179	67
1996	1.64	115	189	0.22	208	45
1997	1.15	112	129	0.47	140	67
1998	1.33	132	176	0.42	247	103
1999	1.18	121	143	0.51	161	83
2000	2.61	140	366	0.51	357	183
2001	2.58	145	376	0.35	200	69
2002	4.09	115	471	1.05	224	234
2003	3.74	112	420	0.52	184	96
2004	3.04	318	965	0.52	172	90
2005	7.79	141	1,102	1.85	109	202
94-99 ave	1.69	118	189	0.41	175	69
00-05 ave	3.98	162	617	0.80	208	146
Ratio	2.35	1.38	3.26	1.97	1.19	2.11

4  
 5 It is clear that, by any of these measures of electric service reliability, that PCL&P's  
 6 reliability has declined since 1999, when PCL&P's parent company merged with ConEd.  
 7 Looking at the average reliability performance during the 1994 to 1999 period leading up  
 8 to the merger, as compared to the 2000 to 2005 time period which follows this merger,  
 9 the frequency of service interruptions, SAIFI, the average length of such service  
 10 interruption, CAIDI, and the average annual minutes of electric service interruptions per  
 11 customer, SAIDI, have all increased since 1999. The Ratio at the bottom of Table 1  
 12 reflects the amount of this increase by dividing the post-1999 reliability performance by  
 13 the reliability performance in the years leading up to and including 1999. Please note  
 14 that, even if Major Events are excluded, SAIFI (outage frequency) and SAIDI (average  
 15 outage minutes per year) have roughly doubled for the average PCL&P electric customer  
 16 since 1999. If Major Events are included, we see that SAIFI has more than doubled since  
 17 1999 while SAIDI has more than tripled over the same period.

1 For the reasons discussed above, as to these cases, electric service reliability  
2 performance, as seen from the customer's perspective, is most accurately reflected by the  
3 outage data that includes outages that occur during Major Events. This data is shown by  
4 itself in Table 2, below.

5 **Table 2**

	Including Major Events		
Year	SAIFI	CAIDI	SAIDI
1994	3.25	84	274
1995	1.58	142	224
1996	1.64	115	189
1997	1.15	112	129
1998	1.33	132	176
1999	1.18	121	143
2000	2.61	140	366
2001	2.58	145	376
2002	4.09	115	471
2003	3.74	112	420
2004	3.04	318	965
2005	7.79	141	1,102
94-99 ave	1.69	118	189
00-05 ave	3.98	162	617
Ratio	2.35	1.38	3.26

6  
7 Based on the electric service reliability data shown in Table 2 above, it becomes clear the  
8 extent by which electric service reliability in the PCL&P electric service area has, from  
9 the electric customers' perspectives, declined since 1999, the year in which O&R,  
10 PCL&P's parent company, was merged with ConEd. Contrasting the six years before the  
11 merger with the six years since the merger, (1) the frequency of electric service outages  
12 (SAIFI) has increased from 1.69 outages per customer per year to 3.98 outages per year,  
13 an increase of 2.35 times, (2) the average duration of each outage (CAIDI) increased  
14 from 118 minutes to 162 minutes, an increase of 1.38 times, and (3) the annual average  
15 minutes of outage per customer (SAIDI) has increased from 189 minutes to a whopping  
16 617 minutes (more than 10 hours) per year, an increase of 3.26 times.

17  
18 Of particular note are the annual average minutes of electric service outages per  
19 customer, as reflected by the SAIDI index in 2004 and 2005. In 2004, the average

1 PCL&P electric customer saw 965 minutes of electric outages, more than 16 hours. In  
 2 2005, this increased to 1,102 minutes of electric outages per customer, more than 18.5  
 3 hours. The pre-merger average was 189 minutes of outages per customer per year, about  
 4 3 hours, 9 minutes per year. It is little wonder that PCL&P's electric customers are  
 5 displeased with the reliability of their electric service.

6 **Q.** Do you have any data on what causes contributed to this big increase in electric  
 7 outages?

8 **A.** Yes. The Company has made data available for five years ending in 2005. This data is  
 9 reflected in Table 3, below.

10 **Table 3**

<b>Analysis of PCL&amp;P's Sustained Outages by Cause and By Year</b>					
	<b>Customer-Minutes of Sustained Outages</b>				
<b>Cause of Outage</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Animal</b>	282,680	12,803	396	259	17,010
<b>Customer Problem</b>			187,474		
<b>Equipment Failure</b>	11,804	135,979	499,580	85,569	263,310
<b>Lightning</b>	389,469	678,356	26,523	1,264,668	535,321
<b>NoCause\Other</b>	2,850	257,052	30,626	18,510	47,120
<b>Non-Company Accident</b>	51,651	70,047	418,899	1,192,847	937,109
<b>Company Overload</b>	121,735	144,093	956		21,881
<b>PreArranged-Company</b>		637	170,700	32,049	659,943
<b>Tree Contact</b>	707,346	702,550	480,180	1,582,852	2,348,484
<b>Work Error Company</b>		8,296	48		3,066
<b>Total</b>	1,567,535	2,009,813	1,815,382	4,176,754	4,833,244

11 This data is in the form of customer-minutes of electric service outages by year, by  
 12 outage cause, and includes all outages, even those that occur during Major Events. The  
 13 total customer-minutes of outages in 2004 and 2005 exceed 4 million customer minutes,  
 14 while, in the three previous years, the total was as high as 2 million customer minutes  
 15 only in 2002, with 2001 and 2003 well below 2 million. The number one contributor to  
 16 these increases in 2004 and 2005 is tree contact. Other significant contributors to these  
 17 increases are lightning, non-company accidents, and planned outages. While the  
 18 Company has less than complete control over things such as trees, lightning, or non-  
 19

1 company accidents, there are things it could do to lessen the susceptibility of its system to  
2 these types of outage causes. Instead, its electric system seems to be becoming more  
3 susceptible to these outage causes. Note that the customer minutes of outages due to tree  
4 contact in 2005 are more than the total customer minutes of outages from all causes in  
5 2001, 2002, and in 2003.

6  
7 As for the large number of customer minutes interrupted from planned outages in 2005,  
8 these are under direct control of the Company, which couldn't find a way to upgrade its  
9 Matamoras substation without inflicting massive service interruptions on a service area  
10 already suffering a huge increase in electric outages. Even without the outages in 2005  
11 due to planned outages by the Company, 2005 still had more than 4 million customer  
12 minutes of outages, just as 2004 did. At that level, the Company's electric customers  
13 would still be experiencing a big increase over the levels in 2001, 2002, and 2003, only  
14 one of which had as many as 2 million customer minutes of electric outages.

15 **Q. Has the Company's electric service reliability shown any indications of**  
16 **improvement in 2006?**

17 **A.** Through the 12 month period ending with the 2<sup>nd</sup> quarter of 2006, (1) the Company's  
18 SAIFI was down to 4.28 outages per year per customer, from 7.79 in 2005, (2) its CAIDI  
19 had increased from 141 minutes in 2005 up to 168 minutes, and (3) its SAIDI was down  
20 to 719 minutes of outage per customer per year, from its 2005 level of 1,102 minutes.  
21 While outage frequency has improved, outage duration has gotten worse, resulting in an  
22 improvement in annual average minutes of outage per customer. I note that all of the  
23 reliability indices for the twelve months ending with the second quarter of 2006 are still  
24 less reliable than the post-merger (2000-2005) average reliability indices. This indicates  
25 that reliability performance, while improving over the dismal 2005 levels, is still below  
26 both the Company's pre-merger reliability performance and its post-merger average  
27 reliability performance.

28 **Q. Will becoming part of the Sussex electric system improve the electric service**  
29 **reliability seen by electric customers on the PCI.&P system?**

30 **A.** It is tricky to compare reliability data for two different electric utility systems. This is  
31 because there are many different variables that are reflected in the reliability performance

1 of an electric utility. Service territories may be different. One of the utilities may have  
2 very little heavy vegetation to deal with, thus potentially affecting the frequency of  
3 outages. One of the utilities may have a larger service territory, thus potentially  
4 increasing travel times for outage restoration crews. The methods used to collect outage  
5 data can vary from one utility to another, and could affect the apparent reliability  
6 performance. Therefore, care should be taken to try to appreciate the potential pitfalls of  
7 such comparisons.

8  
9 Also, connecting the PCL&P system to the Sussex system will not necessarily change  
10 some aspects of the reliability performance of the PCL&P system right away. For  
11 example, the frequency of outages tends to reflect, in part, the electric system facilities in  
12 place in the field, and how well they are maintained.<sup>6</sup> Simply connecting PCL&P to  
13 Sussex won't necessarily have an immediate major impact in this regard. However, over  
14 time, as Sussex's planning, maintenance, and operating philosophies are increasingly  
15 reflected in the PCL&P distribution system, the reliability performance of the PCL&P  
16 system should increasingly reflect that of the Sussex system in this aspect.

17  
18 However, making the PCL&P system part of the Sussex system should be expected to  
19 have an immediate effect, or at least a near-term effect, on the duration of electric service  
20 outages. This is because outage duration tends to reflect, in part, the utility's  
21 commitment to restoring service when outages occur. To the extent that Sussex is more  
22 successful in quickly restoring electric service after outages on its own system, I would  
23 expect such performance to have a more immediate impact on the duration of electric  
24 service outages on the PCL&P system once Sussex takes over the PCL&P system.

25 **Q. Were you able to analyze or evaluate Sussex reliability performance?**

26 **A.** Based on the data available, Sussex's electric service customers have been experiencing  
27 fewer annual average minutes of service outages than PCL&P customers over the past six  
28 years. Table 4, below, reflects the annual average hours and annual average minutes of  
29 electric service interruption per customer for Sussex, with all outages included.

---

<sup>6</sup> This is not necessarily the case for outages caused by operating errors, for planned outages to accommodate work on the system, or for outages caused by transmission system or generation problems.

Table 4

Sussex Reliability Data - Sustained Interruptions			
	Ave Hours		Ave Min
	Per Customer		Per Customer
2000	2.23		133.8
2001	1.01		60.6
2002	7.54		452.4
2003	2.15		129.0
2004	8.00		480.0
2005	3.35		201.0
2006	2.09	estimate <sup>7</sup>	125.1

The data reflecting average minutes of electric service interruptions per customer per year, as kept by Sussex, is roughly equivalent to the SAIDI reliability index for the PCL&P electric system, which also reflects the average minutes of service interruptions per customer per year. Since Sussex includes all outages in its reliability data, and does not exclude outages that occur during "Major Event" types of system problems, the proper comparison is against the PCL&P SAIDI with Major Events included. Table 5 below reflects this comparison.

Table 5

Annual Minutes of Outages Per Customer		
	PCL&P	Sussex
2000	366	134
2001	376	61
2002	471	452
2003	420	129
2004	965	480
2005	1,102	201
2006 (est.)	719	125
Average (7yrs)	631	226
Ratio	2.79	

<sup>7</sup> Data for 2006 reflects performance through September 2006. The 2006 annual performance was estimated by extrapolating the last four months of the year, using the average monthly performance for the first eight months.

1           Although the reliability performance of both utilities varies significantly from year to  
2           year, the Sussex electric service customers have experienced fewer annual average  
3           minutes of outages in every year since 2000. The seven year average annual minutes of  
4           outage per customer is 226 minutes for Sussex, versus 631 minutes for PCL&P, more  
5           than 2.7 times the annual outage minutes for Sussex.

6   **Q.    Does this conclude your testimony?**

7   **A.    Yes, at this time.**

8

9   *00091599 DOC*

COMMONWEALTH OF PENNSYLVANIA  
BEFORE THE PUBLIC UTILITY COMMISSION

County of Pike

v.

Pike County Light & Power Company

:  
:  
:  
:  
:

Docket No. C-20065942, et al.

EXHIBITS TO THE  
DIRECT TESTIMONY OF  
PETER J. LANZALOTTA

ON BEHALF OF THE  
OFFICE OF CONSUMER ADVOCATE

November 17, 2006

1  
2 **Prior Experience Of Peter J. Lanzalotta**  
3

4 Mr. Lanzalotta has more than twenty-five years experience in electric utility system  
5 planning, power pool operations, distribution operations, electric service reliability, load  
6 and price forecasting, and market analysis and development. Mr. Lanzalotta has appeared  
7 as an expert witness on utility reliability, planning, operation, and rate matters in more  
8 than 75 proceedings in 20 states, the District of Columbia, the Provinces of Alberta and  
9 Ontario, and before the Federal Energy Regulatory Commission. He has developed  
10 evaluations of electric utility system cost, value, reliability, and condition. He has  
11 participated in negotiations between utilities and customers or regulators in more than ten  
12 states regarding transmission access, the need for facilities, electric rates, electric service  
13 reliability, the value of electric system components, and system operator structure under  
14 wholesale competition.

15  
16 Prior to his forming Lanzalotta & Associates LLC in 2001, he was a Partner at Whitfield  
17 Russell Associates for fifteen years and a Senior Associate for approximately four years  
18 before that. He holds a Bachelor of Science in Electric Power Engineering from  
19 Rensselaer Polytechnic Institute and a Master of Business Administration with a con-  
20 centration in Finance from Loyola College of Baltimore.

21  
22 Prior to joining Whitfield Russell Associates in 1982, Mr. Lanzalotta was employed by  
23 the Connecticut Municipal Electric Energy Cooperative ("CMEEC") as a System  
24 Engineer. He was responsible for providing operational, financial, and rate expertise to  
25 Coop's budgeting, ratemaking and system planning processes. He participated on behalf  
26 of CMEEC in the Hydro-Quebec/New England Power Pool Interconnection project and  
27 initiated the development of a database to support CMEEC's pool billing and financial  
28 data needs.

29  
30 Prior to his CMEEC employment, he served as Chief Engineer at the South Norwalk  
31 (Connecticut) Electric Works, with responsibility for planning, data processing,  
32 engineering, rates and tariffs, generation and bulk power sales, and distribution  
33 operations. While at South Norwalk, he conceived and implemented, through Northeast  
34 Utilities and NEPOOL, a peak-shaving plan for South Norwalk and a neighboring  
35 municipal electric utility, which resulted in substantial power supply savings. He  
36 programmed and implemented a computer system to perform customer billing and  
37 maintain accounts receivable accounting. He also helped manage a generating station  
38 overhaul and the undergrounding of the distribution system in South Norwalk's  
39 downtown.

40  
41 From 1977 to 1979, Mr. Lanzalotta worked as a public utility consultant for Van Scoyoc  
42 & Wiskup and separately for Whitman Requart & Associates in a variety of positions.  
43 During this time, he developed cost of service, rate base evaluation, and rate design

1 impact data to support direct testimony and exhibits in a variety of utility proceedings,  
2 including utility price squeeze cases, gas pipeline rates, and wholesale electric rate cases.  
3

4  
5 Prior to that, He worked for approximately 2 years as a Service Tariffs Analyst for the  
6 Finance Division of the Baltimore Gas & Electric Company where he developed cost and  
7 revenue studies, evaluated alternative rate structures, and studied the rate structures of  
8 other utilities for a variety of applications. He was also employed by BG&E in Electric  
9 System Operations for approximately 3 years, where his duties included operations  
10 analysis, outage reporting, and participation in the development of BG&E's first  
11 computerized customer information and service order system.  
12

13 Mr. Lanzalotta is a member of the Institute of Electrical & Electronic Engineers, the  
14 National Society of Professional Engineers, the Association of Energy Engineers, the  
15 National Fire Protection Association, the American Solar Energy Society, and the  
16 Financial Management Association. He is also registered Professional Engineer in the  
17 states of Maryland and Connecticut.

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

1. **In re: Public Service Company of New Mexico**, Docket Nos. ER78-337 and ER78-338 before the Federal Energy Regulatory Commission, concerning the need for access to calculation methodology underlying filing.
2. **In re: Baltimore Gas and Electric Company**, Case No. 7238-V before the Maryland Public Service Commission, concerning outage replacement power costs.
3. **In re: Houston Lighting & Power Company**, Texas Public Utilities Commission Docket No. 4712, concerning modeling methods to determine rates to be paid to cogenerators and small power producers.
4. **In re: Nevada Power Company**, Nevada Public Service Commission, Docket No. 83-707 concerning rate case fuel inventories, rate base items, and O&M expense.
5. **In re: Virginia Electric & Power Company**, Virginia State Corporation Commission, Case No. PUE820091, concerning the operating and reliability-based need for additional transmission facilities.
6. **In re: Public Service Electric & Gas Company**, New Jersey Board of Public Utilities, Docket No. 831-25, concerning outage replacement power costs.
7. **In re: Philadelphia Electric Company**, Pennsylvania Public Utilities Commission, Docket No. P-830453, concerning outage replacement power costs.
8. **In re: Cincinnati Gas & Electric Company**, Public Utilities Commission of Ohio, Case No. 83-33-EL-EFC, concerning the results of an operations/fuel-use audit conducted by Mr. Lanzalotta.
9. **In re: Kansas City Power and Light Company**, before the State Corporation Commission of the state of Kansas, Docket Nos. 142,099-L and 120,924-U, concerning the determination of the capacity, from a new base-load generating facility, needed for reliable system operation, and the capacity available from existing generating units.
10. **In re: Philadelphia Electric Company**, Pennsylvania Public Utilities Commission, Docket No. R-850152, concerning the determination of the capacity, from a new base-load generating facility, needed for reliable system operation, and the capacity available from existing generating units.
11. **In re: ABC Method Proposed for Application to Public Service Company of**

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

- Colorado, before the Public Utilities Commission of the State of Colorado, on behalf of the Federal Executive Agencies ("FEA"), concerning a production cost allocation methodology proposed for use in Colorado.
12. **In re: Duquesne Light Company**, Docket No. R-870651, before the Pennsylvania Public Utilities Commission, on behalf of the Office of Consumer Advocate, concerning the system reserve margin needed for reliable service.
  13. **In re: Pennsylvania Power Company**, Docket No. I-7970318 before the Pennsylvania Public Utilities Commission, on behalf of the Office of Consumer Advocate, concerning outage replacement power costs.
  14. **In re: Commonwealth Edison Company**, Docket No. 87-0427 before the Illinois Commerce Commission, on behalf of the Citizen's Utility Board of Illinois, concerning the determination of the capacity, from new base-load generating facilities, needed for reliable system operation.
  15. **In re: Central Illinois Public Service Company**, Docket No. 88-0031 before the Illinois Commerce Commission, on behalf of the Citizen's Utility Board of Illinois, concerning the degree to which existing generating capacity is needed for reliable and/or economic system operation.
  16. **In re: Illinois Power Company**, Docket No. 87-0695 before the State of Illinois Commerce Commission, on behalf of Citizens Utility Board of Illinois, Governors Office of Consumer Services, Office of Public Counsel and Small Business Utility Advocate, concerning the determination of the capacity, from a new base-load generating facility, needed for reliable system operation, and the capacity available from existing generating units.
  17. **In re: Florida Power Corporation**, Docket No. 860001-EI-G (Phase II), before the Florida Public Service Commission, on behalf of the Federal Executive Agencies of the United States, concerning an investigation into fuel supply relationships of Florida Power Corporation.
  18. **In re: Potomac Electric Power Company**, before the Public Service Commission of the District of Columbia, Docket No. 877, on behalf of the Public Service Commission Staff, concerning the need for and availability of new generating facilities.

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

19. **In re: South Carolina Electric & Gas Company**, before the South Carolina Public Service Commission, Docket No. 88-681-E, On Behalf of the State of Carolina Department of Consumer Affairs, concerning the capacity needed for reliable system operation, the capacity available from existing generating units, relative jurisdictional rate of return, reconnection charges, and the provision of supplementary, backup, and maintenance services for QFs.
20. **In re: Commonwealth Edison Company**, Illinois Commerce Commission, Docket Nos. 87-0169, 87-0427, 88-0189, 88-0219, and 88-0253, on behalf of the Citizen's Utility Board of Illinois, concerning the determination of the capacity, from a new base-load generating facility, needed for reliable system operation.
21. **In re: Illinois Power Company**, Illinois Commerce Commission, Docket No. 89-0276, on behalf of the Citizen's Utility Board Of Illinois, concerning the determination of capacity available from existing generating units.
22. **In re: Jersey Central Power & Light Company**, New Jersey Board of Public Utilities, Docket No. EE88-121293, on behalf of the State of New Jersey Department of the Public Advocate, concerning evaluation of transmission planning.
23. **In re: Canal Electric Company**, before the Federal Energy Regulatory Commission, Docket No. ER90-245-000, on behalf of the Municipal Light Department of the Town of Belmont, Massachusetts, concerning the reasonableness of Seabrook Unit No. 1 Operating and Maintenance expense.
24. **In re: New Hampshire Electric Cooperative Rate Plan Proposal**, before the New Hampshire Public Utilities Commission, Docket No. DR90-078, on behalf of the New Hampshire Electric Cooperative, concerning contract valuation.
25. **In re: Connecticut Light & Power Company**, before the Connecticut Department of Public Utility Control, Docket No. 90-04-14, on behalf of a group of Qualifying Facilities concerning O&M expenses payable by the QFs.
26. **In re: Duke Power Company**, before the South Carolina Public Service Commission, Docket No. 91-216-E, on behalf of the State of South Carolina Department of Consumer Advocate, concerning System Planning, Rate Design and Nuclear Decommissioning Fund issues.
27. **In re: Jersey Central Power & Light Company**, before the Federal Energy Regulatory

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

Commission, Docket No. ER91-480-000, on behalf of the Boroughs of Butler, Madison, Lavallette, Pemberton and Seaside Heights, concerning the appropriateness of a separate rate class for a large wholesale customer.

28. **In re: Potomac Electric Power Company**, before the Public Service Commission of the District of Columbia, Formal Case No. 912, on behalf of the Staff of the Public Service Commission of the District of Columbia, concerning the Application of PEPCO for an increase in retail rates for the sale of electric energy.
29. **Commonwealth of Pennsylvania, House of Representatives**, General Assembly House Bill No. 2273. Oral testimony before the Committee on Conservation, concerning proposed Electromagnetic Field Exposure Avoidance Act.
30. **In re: Hearings on the 1990 Ontario Hydro Demand\Supply Plan**, before the Ontario Environmental Assessment Board, concerning Ontario Hydro's System Reliability Planning and Transmission Planning.
31. **In re: Maui Electric Company**, Docket No. 7000, before the Public Utilities Commission of the State of Hawaii, on behalf of the Division of Consumer Advocacy, concerning MECO's generation system, fuel and purchased power expense, depreciation, plant additions and retirements, contributions and advances.
32. **In re: Hawaiian Electric Company, Inc.**, Docket No. 7256, before the Public Utilities Commission of the State of Hawaii, on behalf of the Division of Consumer Advocacy, concerning need for, design of, and routing of proposed transmission facilities.
33. **In re: Commonwealth Edison Company**, Docket No. 94-0065 before the Illinois Commerce Commission on behalf of the City of Chicago, concerning the capacity needed for system reliability.
34. **In re: Commonwealth Edison Company**, Docket No. 93-0216 before the Illinois Commerce Commission on behalf of the Citizens for Responsible Electric Power, concerning the need for proposed 138 kV transmission and substation facilities.
35. **In re: Commonwealth Edison Company**, Docket No. 92-0221 before the Illinois Commerce Commission on behalf of the Friends of Illinois Prairie Path, concerning the need for proposed 138 kV transmission and substation facilities.
36. **In re: Commonwealth Edison Company**, Docket No. 94-0179 before the Illinois

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

- Commerce Commission on behalf of the Friends of Sugar Ridge, concerning the need for proposed 138 kV transmission and substation facilities.
37. **In re: Public Service Company of Colorado**, Docket Nos. 95A-531EG and 95I-464E before the Colorado Public Utilities Commission on behalf of the Office of Consumer Counsel, concerning a proposed merger with Southwestern Public Service Company and a proposed performance-based rate-making plan.
  38. **In re: South Carolina Electric & Gas Company, Duke Power Company, and Carolina Power & Light Company**, Docket No. 95-1192-E, before the South Carolina Public Service Commission on behalf of the South Carolina Department of Consumer Advocate, concerning avoided cost rates payable to qualifying facilities.
  39. **In re: Lawrence A. Baker v. Truckee Donner Public Utility District**, Case No. 55899, before the Superior Court of the State of California on behalf of Truckee Donner Public Utility District, concerning the reasonableness of electric rates.
  40. **In re: Black Hills Power & Light Company**, Docket No. OA96-75-000, before the Federal Energy Regulatory Commission on behalf of the City of Gillette, Wyoming, concerning the Black Hills' proposed open access transmission tariff.
  41. **In re: Metropolitan Edison Company and Pennsylvania Electric Company** for Approvals of the Restructuring Plan Under Section 2806, Docket Nos. R-00974008 and R-00974009 before the Pennsylvania PUC on behalf of Operating NUG Group, concerning miscellaneous restructuring issues.
  42. **In re: New Jersey State Restructuring Proceeding** for consideration of proposals for retail competition under BPU Docket Nos. EX94120585U; E097070457; E097070460; E097070463; E097070466 before the New Jersey BPU on behalf of the New Jersey Division of Ratepayer Advocate, concerning load balancing, third party settlements, and market power.
  43. **In re: Arbitration Proceeding In City of Chicago v. Commonwealth Edison** for consideration of claims that franchise agreement has been breached, Proceeding No. 51Y-114-350-96 before an arbitration panel board on behalf of the City of Chicago concerning electric system reliability.
  44. **In re: Transalta Utilities Corporation**, Application No. RE 95081 on behalf of the

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

ACD companies, before the Alberta Energy And Utilities Board in reference to the use and value of interruptible capacity.

45. **In re: Consolidated Edison Company**, Docket No. EL99-58-000 on behalf of The Village of Freeport, New York, before FERC in reference to remedies for a breach of contract to provide firm transmission service on a non-discriminatory basis.
46. **In re: ESBI Alberta Ltd.**, Application No. 990005 on behalf of the FIRM Customers, before the Alberta Energy And Utilities Board concerning the reasonableness of the cost of service plus management fee proposed for 1999 and 2000 by the transmission administrator.
47. **In re: South Carolina Electric & Gas Company**, Docket No. 2000-0170-E on behalf of the South Carolina Department of Consumer Affairs before the Public Service Commission of South Carolina concerning an application for a Certificate of Environmental Compatibility and Public Convenience and Necessity for new and repowered generating units at the Urquhart generating station.
48. **In re: BGE**, Case No. 8837 on behalf of the Maryland Office of People's Counsel before the Maryland Public Service Commission concerning proposed electric line extension charges.
49. **In re: PEPCO**, Case No. 8844 on behalf of the Maryland Office of People's Counsel before the Maryland Public Service Commission concerning proposed electric line extension charges.
50. **In re: GenPower Anderson LLC**, Docket No. 2001-78-E on behalf of the South Carolina Department of Consumer Affairs before the Public Service Commission of South Carolina concerning an application for a Certificate of Environmental Compatibility and Public Convenience and Necessity for new generating units at the GenPower Anderson LLC generating station.
51. **In re: Pike County Light & Power Company**, Docket No. P-00011872, on behalf of Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission concerning the Pike County request for a retail rate cap exception.
52. **In re: Potomac Electric Power Company and Conectiv**, Case No. 8890, on behalf of the Maryland Office of People's Counsel before the Maryland Public Service Commission concerning the proposed merger of Potomac Electric Power Company and

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

Connectiv.

53. **In re: South Carolina Electric & Gas Company**, Docket No. 2001-420-E on behalf of the South Carolina Department of Consumer Affairs before the Public Service Commission of South Carolina concerning an application for a Certificate of Environmental Compatibility and Public Convenience and Necessity for new generating units at the Jasper County generating station.
54. **In re: Connecticut Light & Power Company**, Docket No. 217 on behalf of the Towns of Bethel, Redding, Weston, and Wilton, Connecticut before the Connecticut Siting Council concerning an application for a Certificate of Environmental Compatibility and Public Need for a new transmission line facility between Plumtree Substation, Bethel and Norwalk Substation, Norwalk.
55. **In re: The City of Vernon, California**, Docket No. EL02-103 on behalf of the City of Vernon before the Federal Energy Regulatory Commission concerning Vernon's transmission revenue balancing account adjustment reflecting calendar year 2001 transactions.
56. **In re: San Diego Gas & Electric Company et. al.**, Docket No. EL00-95-045 on behalf of the City of Vernon, California before the Federal Energy Regulatory Commission concerning refunds and other monies payable in the California wholesale energy markets.
57. **In re: The City of Vernon, California**, Docket No. EL03-31 on behalf of the City of Vernon before the Federal Energy Regulatory Commission concerning Vernon's transmission revenue balancing account adjustment reflecting 2002 transactions.
58. **In re: Jersey Central Power & Light Company**, Docket Nos. ER02080506, ER02080507, ER02030173, and EO02070417 on behalf of the New Jersey Division of Ratepayer Advocate before the New Jersey Board of Public Utilities concerning reliability issues involved in the approval of an increase in base tariff rates.
59. **In re: Proposed Electric Service Reliability Rules, Standards, and Indices To Ensure Reliable Service by Electric Distribution Companies**, PSC Regulation Docket No. 50, on behalf of the Delaware Public Service Commission Staff before the Delaware Public Service Commission concerning proposed electric service reliability rules, standards and indices.
60. **In re: Central Maine Power Company**, Docket No. 2002-665, on behalf of the Maine

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

Public Advocate and the Town of York before the Maine Public Utilities Commission concerning a Request for Commission Investigation into the New CMP Transmission Line Proposal for Eliot, Kittery, and York.

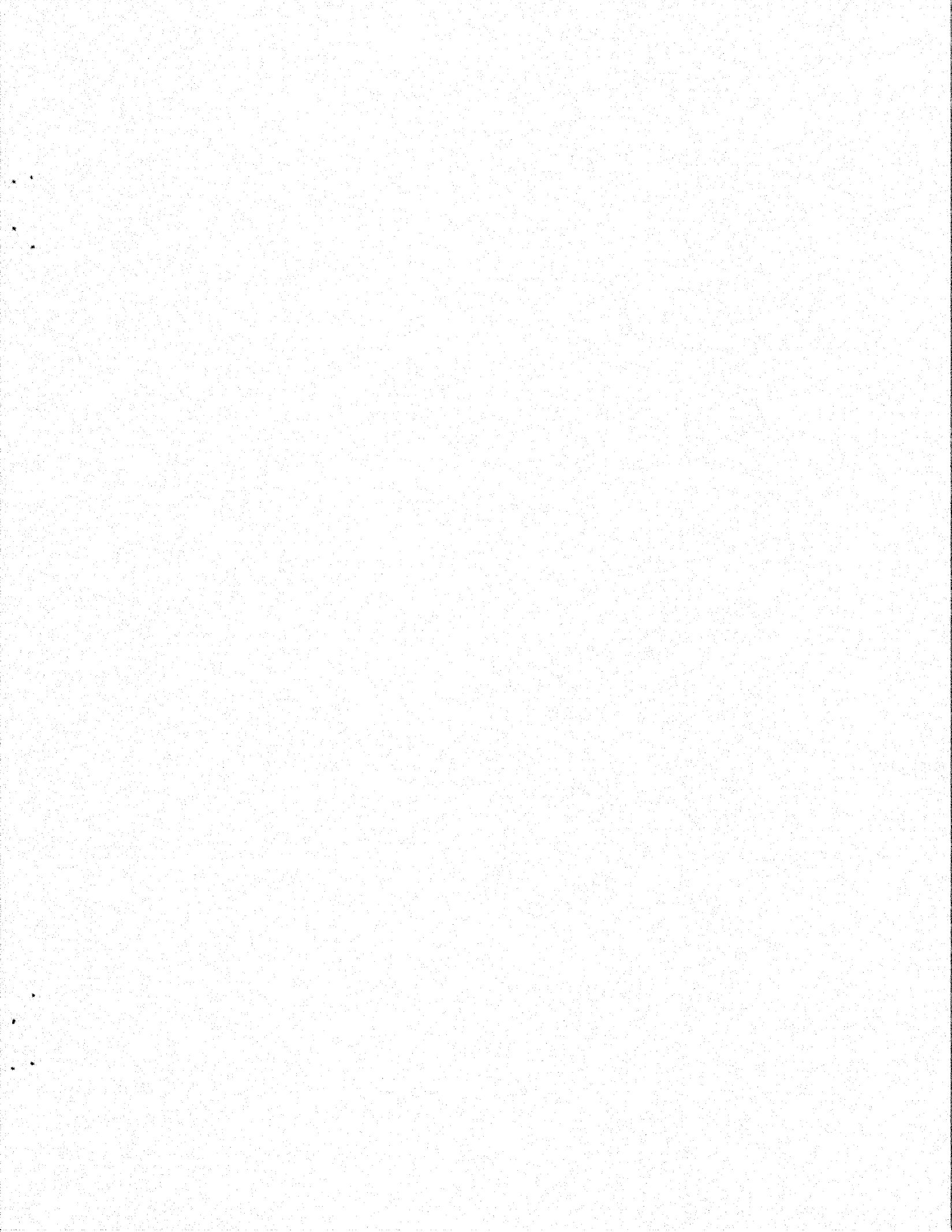
61. **In re: Metropolitan Edison Company**, Docket No. C-20028394, on behalf of the Pennsylvania Office of Consumer Advocate, before the Pennsylvania Public Utility Commission concerning the reliability service complaint of Robert Lawrence.
62. **In re: The California Independent System Operator Corporation**, Docket No. ER00-2019 *et al.* on behalf of the City of Vernon, California, before the Federal Energy Regulatory Commission concerning wholesale transmission tariffs, rates and rate structures proposed by the California ISO.
63. **In re: The Narragansett Electric Company**, Docket No. 3564 on behalf of the Rhode Island Department of Attorney General, before the Rhode Island Public Utilities Commission concerning the proposed relocation of the E-183 transmission line.
64. **In re: The City of Vernon, California**, Docket No. EL04-34 on behalf of the City of Vernon before the Federal Energy Regulatory Commission concerning Vernon's transmission revenue balancing account adjustment reflecting 2003 transactions.
65. **In re: Atlantic City Electric Company**, Docket No. ER03020110 on behalf of the New Jersey Division of Ratepayer Advocate before the New Jersey Board of Public Utilities concerning reliability issues involved in the approval of an increase in base tariff rates.
66. **In re: Connecticut Light & Power Company and the United Illuminating Company**, Docket No. 272 on behalf of the Towns of Bethany, Cheshire, Durham, Easton, Fairfield, Hamden, Middlefield, Milford, North Haven, Norwalk, Orange, Wallingford, Weston, Westport, Wilton, and Woodbridge, Connecticut before the Connecticut Siting Council concerning an application for a Certificate of Environmental Compatibility and Public Need for a new transmission line facility between the Scoville Rock Switching Station in Middletown and the Norwalk Substation in Norwalk, Connecticut.
67. **In re: Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company**, Docket No. I-00040102, on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission concerning electric service reliability performance.

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

68. **In re: Entergy Louisiana, Inc.**, Docket No. U-20925 RRF-2004 on behalf of Bayou Steel before the Louisiana Public Service Commission concerning a proposed increase in base rates.
69. **In re: Jersey Central Power & Light Company**, Docket No. ER02080506, Phase II, on behalf of the New Jersey Division of Ratepayer Advocate before the New Jersey Board of Public Utilities concerning reliability issues involved in the approval of an increase in base tariff rates.
70. **In re: Maine Public Service Company**, Docket No. 2004-538, on behalf of the Main Public Advocate before the Maine Public Utilities Commission concerning a request to construct a 138 kV transmission line from Limestone, Maine to the Canadian border near Hamlin, Maine.
71. **In re: Pike County Light and Power Company**, Docket No. M-00991220F0002, on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania Public Utility Commission concerning the Company's Petition to amend benchmarks for distribution reliability.
72. **In re: Atlantic City Electric Company**, Docket No. EE04111374, on behalf of the New Jersey Division of Ratepayer Advocate before the New Jersey Board of Public Utilities concerning the need for transmission system reinforcement, and related issues.
73. **In re: Bangor Hydro-Electric Company**, Docket No. 2004-771, on behalf of the Main Public Advocate before the Maine Public Utilities Commission concerning a request to construct a 345 kV transmission line from Orrington, Maine to the Canadian border near Baileyville, Maine.
74. **In re: Eastern Maine Electric Cooperative**, Docket No. 2005-17, on behalf of the Main Public Advocate before the Maine Public Utilities Commission concerning a petition to approve a purchase of transmission capacity on a 345 kV transmission line from Maine to the Canadian province of New Brunswick.
75. **In re: Virginia Electric and Power Company**, Case No. PUE-2005-00018, on behalf of the Town of Leesburg VA and Loudoun County VA before the Virginia State Corporation Commission concerning a request for a certificate of public convenience and necessity for transmission and substation facilities in Loudoun County.

**Proceedings In Which  
Peter J. Lanzalotta  
Has Testified**

76. **In re: Proposed Electric Service Reliability Rules, Standards, and Indices To Ensure Reliable Service by Electric Distribution Companies**, PSC Regulation Docket No. 50, on behalf of the Delaware Public Service Commission Staff before the Delaware Public Service Commission concerning proposed electric service reliability reporting, standards, and indices.
77. **In re: Proposed Merger Involving Constellation Energy Group Inc. and the FPL Group, Inc.**, Case No. 9054, on behalf of the Maryland Office of Peoples' Counsel before the Maryland Public Service Commission concerning the proposed merger involving Baltimore Gas & Electric Company and Florida Light & Power Company.
78. **In re: Proposed Sale and Transfer of Electric Franchise of the Town of St. Michaels to Choptank Electric Cooperative, Inc.**, Case No. 9071, on behalf of the Maryland Office of Peoples' Counsel before the Maryland Public Service Commission concerning the sale by St. Michaels of their electric franchise and service area to Choptank.



OCA Cross Examination Exhibit   1  

Date Entered: \_\_\_\_\_

County of Pike

v.

Pike County Light & Power Company

Docket No. C-20065942, *et al.*

DOCUMENT  
FOLDER

RECEIVED

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

BA

County of Pike  
v.  
Pike County Light & Power Company

Docket No. C-20065942, et al

Office of Consumer Advocate  
Interrogatories Set IV

2. Regarding the existing aerial 34.5 kV line across the Delaware River that serves the Company:

- a. Identify the circuit number of the circuit in this crossing.
- b. When was this crossing constructed?
- c. What was its cost?
- d. What would such a crossing cost today?

Response: Sponsoring Witness: James W Tarpey, Vice President – Operations

- a. Circuit 5-10-34
- b. 1993
- c. \$155,800
- d. Pike estimates that it would cost approximately \$260,000

OCA Cross Examination Exhibit 2

Date Entered: \_\_\_\_\_

County of Pike

v.

Pike County Light & Power Company

Docket No. C-20065942, *et al.*

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

County of Pike  
v.  
Pike County Light & Power Company  
Docket No. C-20065942, et al

Pike County Light and Power  
Interrogatories Set X Responses

8. Regarding the rebuttal testimony of Angelo M. Regan, page 15, lines 4 through 9, please describe the potential locations of the interconnections being investigated between PCI.&P and JCP&L and/or MetEd. Is it anticipated that these potential interconnections would allow for the procurement of PJM power supplies to meet the PCL&P default generation load?

Response: Sponsoring Witness: James W. Tarpey, Vice President – Operations

The Company will investigate if any feasible, cost effective, and sustainable solutions exist from interconnecting with the MetEd and JCP&L local electric delivery systems. PCL&P has commenced very preliminary discussions with these companies, and there is nothing of substance to report at this time.

OCA Cross Examination Exhibit 3

Date Entered \_\_\_\_\_

County of Pike

v.

Pike County Light & Power Company

Docket No. C-20065942, *et al.*

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

County of Pike  
v.  
Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate  
Interrogatories Set VI

1. Please describe all of the different vegetation management policies and practices that have been in use on the Company's system since 2000.

Response: Sponsoring Witness: James W. Tarpey, Vice President – Operations

Since 2000, there has only been one vegetation management policy and practice in place on the Company's system. Specifically, the Company's policy and practice has been to trim and remove and manage the vegetation along the distribution conductors to establish and maintain a 10 feet to the side, 10 feet below, and 15 feet overhead aerial corridor to operate the electrical facilities. To establish and maintain this aerial corridor, Pike has employed a program of trimming and removing vegetation and brush under, adjacent, and over the conductors on a four-year cycle. Commencing in July 2006, Pike has reduced this program to a three-year cycle.

OCA Cross Examination Exhibit

4

Date Entered: \_\_\_\_\_

County of Pike

v.

Pike County Light & Power Company

Docket No. C-20065942, *et al.*

County of Pike  
v.  
Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate  
Interrogatories Set III

26. When were the last two comprehensive tree-trimmings performed on the distribution feeders that serve the Pike electric service area?

Response: Sponsoring Witness: James W. Tarpey, Vice President – Operations

The Pike electric service area underwent scheduled tree maintenance activities in third and fourth quarter of 2000 (L7-6), and third and fourth quarter of 2001 (the 5-10 that crosses the Delaware River). The service territory was again maintained in the third and fourth quarter of 2005 (L7-6), and in the first quarter of 2006 (the 5-10 that crosses the Delaware River). During these trimming periods, all primary electric conductor clearances were achieved.

**PCL&P**

**Cross-Examination**

**Exhibit  /**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January \_\_\_\_\_, 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

3. Refer to OCA Statement No. 1 page 17. Provide all estimates (and associated calculations) of the effect on the delivery rate to be charged by Sussex to PCL&P customers (under OCA's Sussex proposal) to recover the costs of the connection to the 34.5 line in New Jersey.

Response

The OCA has not fashioned a specific proposal for recovery of the costs of the PJM interconnection. However, based on Mr. Lanzalotta's interconnection cost estimates and the Sussex very low cost of capital (as compared to an investor-owned utility), if the entire cost were to be directly assigned to the current Pike customers the rate impact would be relatively modest (roughly 1 to 2 mills per kWh). However, the cost assignment and ratemaking arrangements may depend upon the price at which Sussex is able to purchase PCL&P, and that price is not presently known.

**PCL&P**

**Cross-Examination**

**Exhibit 2**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

4. Refer to OCA Statement No. 1 page 24, lines 5-9. Provide all information relied on by Mr. Kahal regarding the fair market value of the PCL&P system. Did Mr. Kahal calculate the value of the PCL&P system pursuant to the Pennsylvania law on eminent domain? If so, provide such calculations.

Response

Mr. Kahal has not prepared analysis to determine fair market value of the PCL&P system, nor does his testimony seek to reach a conclusion on that issue. He assumes that the fair market value will be negotiated by the Company and Sussex.

**PCL&P**

**Cross-Examination**

**Exhibit 3**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 14, 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

6. Refer to OCA Statement No. 1 pages 25-26. Provide all estimates of the cost of wholesale power from Allegheny for the next 10 years. Provide the actual capacity factors of the Susquehanna Plant for the last 10 years and projected for the next 10 years.

Response

Allegheny's ten-year wholesale rate projections are not in Mr. Kahal's possession. However, Mr. Kahal believes the approximately 70 percent of Allegheny's power supply obtained from its nuclear and hydro resources are not likely to increase in cost substantially over the next ten years. The hydro consists of owned capacity and long-term NYPA contracts that are unaffected by volatile fuels markets. The fuel/O&M costs of the Susquehanna plant can be expected to change over time with normal power plant cost escalation trends. However, there are two important factors that will help stabilize or even decrease Allegheny's nuclear costs. First, PPI plans a 205 MW power uprate of the Susquehanna plant that when completed will provide approximately a ten percent increase in capability. Allegheny will share in that power uprate based on its ten percent ownership share. Second, Allegheny's current wholesale rate includes revenues associated with stranded cost recovery. According to Allegheny's 2005 Annual Report, the income statement included \$35.4 million as an amortization expense in 2005 (about 20 percent of total revenue) for "amortization of capital retirement asset" related to Susquehanna. This amortization will be completed after 2008. (See Note 8 to the Allegheny financial statements.)

County of Pike  
v.  
Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

Response to Question 6 (Continued)

Based on information from the U.S. Nuclear Regulatory Commission, the historical Susquehanna capacity factors are:

	<u>Unit 1</u>	<u>Unit 2</u>
1996	81.0%	95.0%
1997	95.2	80.6
1998	68.9	94.7
1999	92.3	81.3
2000	85.4	97.3
2001	98.6	86.3
2002	82.9	95.6
2003	96.3	85.5
2004	80.3	100.0
2005	94.6	88.7
Average	87.6%	90.5%

**PCL&P**

**Cross-Examination**

**Exhibit   7**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January   16  , 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

Responsible Witness: Matthew Kahal

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

7. Refer to OCA Statement No. 1 pages 25-26. Provide a copy of the Williams Contract.

Response

Mr. Kahal does not have a copy of the Williams contract. There is descriptive information on that contract in the Allegheny 2005 Annual Report.

**PCL&P**

**Cross-Examination**

**Exhibit 5**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

8. Refer to OCA Statement No. 1 pages 25-26. Provide the transmission path for the Allegheny power to PCL&P service territory under your proposal. What are the applicable transmissions tariffs?

Response

The transmission interconnection would be as described in Mr. Lanzallota's testimony. It is Mr. Kahal's understanding that the cost of transmission is a blended figure embedded as part of the current 5.8 cent wholesale rate. A very minor portion of that cost would be for Allegheny's own transmission. The remainder would be for the transmission service (i.e., Network Integrated Transmission Service) purchased by Allegheny from PJM through its Open Access Transmission Tariff (OATT) for the various transmission "zones" in which the Allegheny member coops are located. As Mr. Kolling explains, after a transition phase-in period, the Pike customers would be charged the Allegheny wholesale rate which includes this "blended" cost of transmission.

**PCL&P**  
**Cross-Examination**  
**Exhibit 6**

**County of Pike, et al. v. PCL&P**  
**Docket No. C-20065942, et al.**  
**January 14, 2007**

**RECEIVED**

JAN 22 2007

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

9. Refer to OCA Statement No. 1 pages 27. lines 20-24. Provide all information describing how the surcharge would operate. Provide, with all calculations, the amount of the surcharge in each year it would be in effect.

Response

Mr. Kahal has not calculated a surcharge, but any additional charge (i.e., "surcharge") above the standard Allegheny wholesale rate during the transition described in Mr. Kolling's testimony may depend on market prices and the terms under which Sussex acquires PCL&P. Neither of these factors is presently known. However, Mr. Kolling estimates an immediate 20 percent rate reduction, with the "G&T" portion of the bundled rates available to the current Pike customers approaching the Allegheny wholesale charges after a transition period.

**PCL&P**

**Cross-Examination**

**Exhibit 7**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

10. Refer to OCA Statement No. 1 page 28, line 1-4. How would the capital investment be recovered by Sussex? Would it be paid for by all customers of Sussex or just PCL&P customers?

Response

The cited passage refers to the \$1 to \$2 million interconnection adjustment. Mr. Kahal is not aware of a decision on the cost recovery of that investment. However, if it is directly allocated to the current Pike customers (rather than over all customers), the rate impact nonetheless would be relatively modest. (See response to IV-3.)

**PCL&P**

**Cross-Examination**

**Exhibit 4**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 14, 2007**

**RECEIVED**

JAN 22 2007

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set IV

11. Refer to OCA Statement No. 1 pages 28. Provide the basis for the statement that the Sussex acquisition would have to be approved by the Allegheny Board. Has such approval been sought? Has it been obtained?

Response

This was conveyed to Mr. Kahal by Mr. Kolling based on the context that Pike customers eventually would fully obtain the benefits of the relatively low and stable power supply costs. Mr. Kahal has no information on the timing of such a decision by Allegheny, nor is he aware of any opposition by Allegheny management to the Sussex acquisition of PCL&P.

( )  
00091849.DOC

( )

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

County of Pike

v.

Pike County Light & Power Company

Docket No. C-20065942, et al.

---

VERIFICATION

---

I Matthew L. Kahal, hereby state that I am the witness responsible for responding to the Pike County Light & Power Company Interrogatories Set IV, and that the facts above set forth are true and correct to the best of my knowledge, information and belief in the listed interrogatory responses.

I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Signature:



Matthew L Kahal

Consultant Address: Exeter Associates, Inc  
Suite 310  
5565 Sterrett Place  
Columbia, MD 21044

DATED: December 7, 2006

Email: mkahal@exeterassociates.com

Phone: 410-992-7500

Fax: 410-992-3445

00091843.DOC

**PCL&P**

**Cross-Examination**

**Exhibit   9**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January   14  , 2007**

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Responsible Witness: Peter J. Lanzalotta

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

5. Please provide all plans, schematics, and drawings of the system envisioned in the proposal from page 6, line 29 to page 7, line 21 of OCA Statement No.2.

Response:

Respondent has not prepared any plans, schematics, or drawings.

**PCL&P**  
**Cross-Examination**

**Exhibit 10**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Responsible Witness: Peter J. Lanzalotta

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

7. Please provide all load flow studies that have been prepared by Mr. Lanzalotta or others relating to the proposal from page 6, line 29 to page 7, line 21 of OCA Statement No.2.

Response:

Respondent prepared no load flow studies.

**PCL&P**

**Cross-Examination**

**Exhibit   11**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January   14  , 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

Responsible Witness: Peter J. Lanzalotta

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

8. Please provide a detailed map showing the route of the interconnection proposal discussed from page 6, line 29 to p. 7, line 21 of OCA Statement No.2.

Respondent:

Respondent does not have a map showing the route of the proposed interconnection.

**PCL&P**

**Cross-Examination**

**Exhibit 12**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

9. Please list the various environmental and other zoning and regulatory permits and approvals that will be required to construct the interconnection page 6, line 29 to p. 7, line 21 of OCA Statement No.2. Please identify the organization that issues each of these permits and approvals, as well as the expected time it will take to secure each of these permits and approvals. Please provide all environmental studies and analyses relating to this interconnection proposal.

Response:

Respondent has not developed a list of the various permits or approvals needed, nor of the expected time needed to secure such permits or approvals. Respondent has not prepared any environmental studies or analyses.

**PCL&P**

**Cross-Examination**

**Exhibit 13**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Responsible Witness: Peter J. Lanzalotta

County of Pike

v.

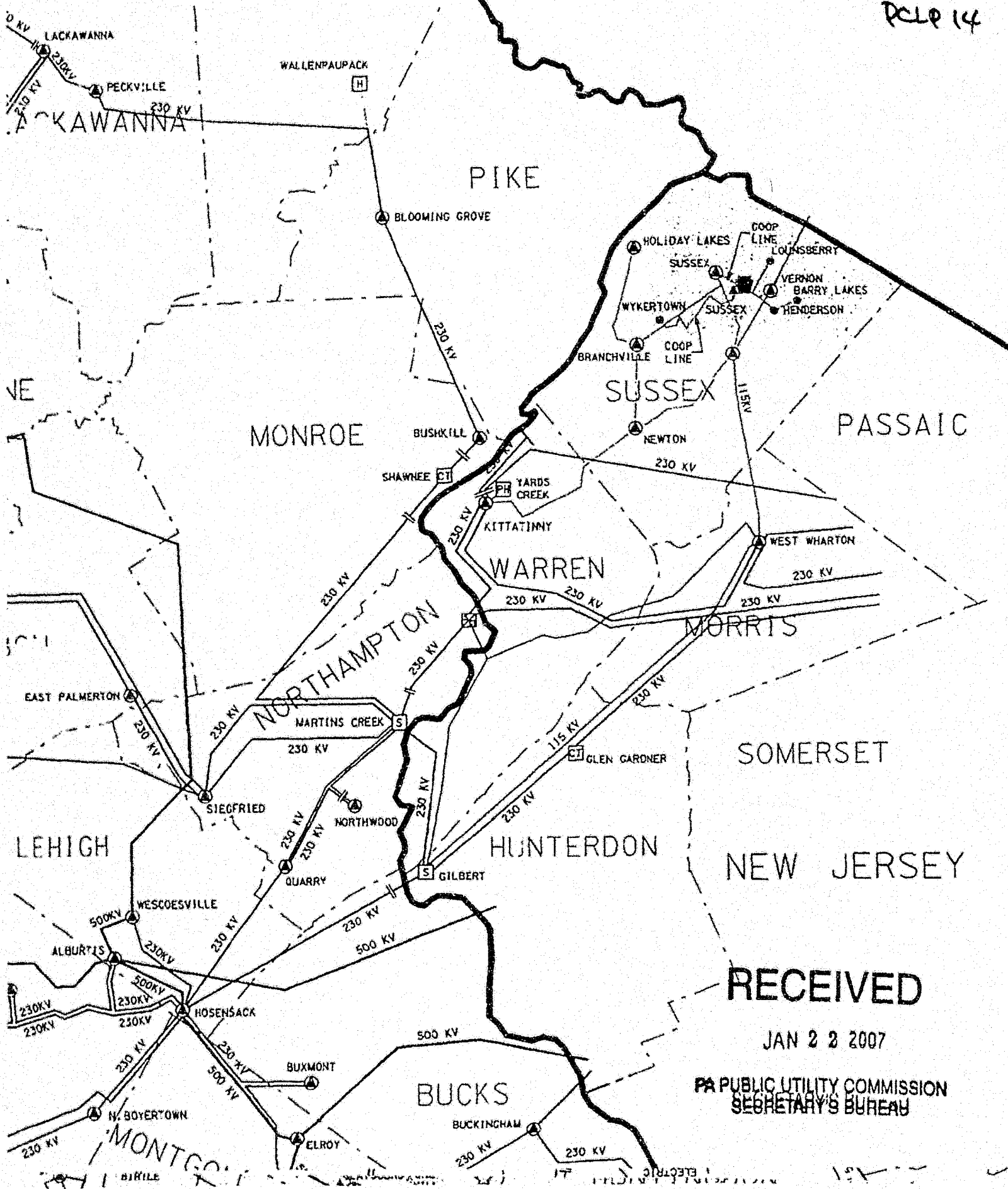
Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

12. Referring to page 8, line 13, please identify the "existing substations facilities on the Sussex system" that the Sussex interconnection will make use of. Please describe the upgrades that will be required to be made, and their associated cost, as a result of the Sussex interconnection.

Response:

Respondent has relied on Mr. Kolling's representation that Sussex has the capability to pick up the Pike loads and has not separately investigated Sussex's system.



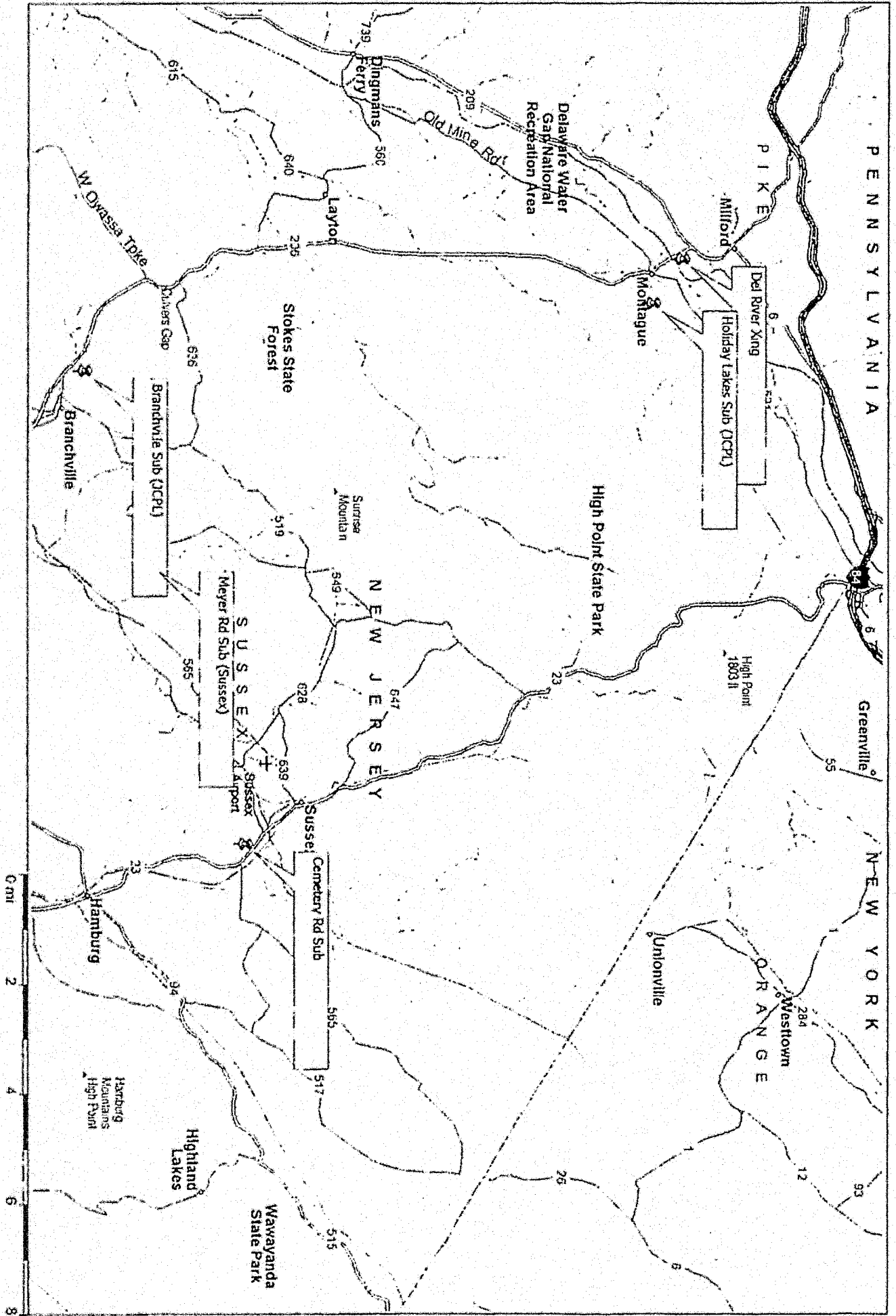
RECEIVED

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

17 ELECTRIC

# Sussex area station locations



Copyright © 1999, 2003 Autodesk Corp. and/or its suppliers. All rights reserved. <http://www.autodesk.com/stations>  
 © Copyright 2002 by Geographic Data Technology, Inc. All rights reserved. © 2002 Navigation Technologies. All rights reserved. This data and other information taken with permission from Canadian authorities © 1997, 2002 Government of Canada  
 Statistics Canada and/or Géomatique Canada; all rights reserved.

PUP 15

**PCL&P**

**Cross-Examination**

**Exhibit 16**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

**JAN 22 2007**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

Responsible Witness: Peter J. Lanzalotta

County of Pike

v.

Pike County Light & Power Company

Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

16. Provide in detail Sussex's "planning, maintenance, and operating philosophies" described on page 15, line 14 of OCA Statement No.2, including all available sources, manuals, and written materials.

Response:

Respondent has not investigated Sussex's planning, maintenance, and operating philosophies, only the effect of those philosophies on system performance.

**PCL&P**

**Cross-Examination**

**Exhibit 17**

**County of Pike, et al. v. PCL&P**

**Docket No. C-20065942, et al.**

**January 16, 2007**

**RECEIVED**

JAN 22 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Responsible Witness: Peter J. Lanzalotta

County of Pike

v.

Pike County Light & Power Company  
Docket No. C-20065942, et al

Office of Consumer Advocate Responses  
to Pike County Light & Power Company  
Interrogatories Set II

17. Please provide all of Sussex's outages referred to on page 16 of OCA Statement No.2 by cause in a form equivalent to your Table 3 on page 13 of OCA Statement No.2.

Response:

The response to No. 4 above includes all the outage data made available by Sussex to Respondent.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

COUNTY OF PIKE, ET AL.

COMPLAINANTS,

V.

PIKE COUNTY LIGHT & POWER COMPANY

RESPONDENT.

DOCKET NO.: C-20065942, et al.  
(Consolidated)

REBUTTAL TESTIMONY

OF

ANGELO M. REGAN

ON BEHALF OF

RESPONDENT

PIKE COUNTY LIGHT & POWER COMPANY

**RECEIVED**

JAN 2 2 2007

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

DECEMBER 11, 2006

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 Q. Please state your name and business address.

2 A. Angelo M. Regan, 390 West Route 59, Spring Valley, New York 10977.

3 Q. By whom are you employed and in what capacity?

4 A. I am employed by Orange and Rockland Utilities, Inc. ("Orange and Rockland"),  
5 the corporate parent of Pike County Light & Power Company ("PCL&P" or the  
6 "Company"), as Director of Electrical Engineering.

7 Q. Please briefly describe your educational and business experience.

8 A. I received a Bachelor of Science degree in Electrical Engineering in 1985, and a  
9 Masters of Science degree in Industrial Engineering Management Science in  
10 1987, both from Fairleigh Dickinson University, in Teaneck, New Jersey. I am a  
11 registered professional engineer in the State of New York. I was employed by  
12 Central Hudson Gas and Electric Corporation as an overhead distribution systems  
13 engineer from 1985 to 1987. Since then, I have worked for Orange and Rockland  
14 as an overhead and underground Systems Engineer, as Manager of the  
15 Distribution Engineering Department, and then as Chief Distribution Engineer,  
16 prior to assuming my present position as Director of Electrical Engineering.

17 Q. What is the purpose of your testimony in this proceeding?

18 A. The purpose of my testimony is to discuss the possible interconnection of PCL&P  
19 to PPL Electric Utilities, Inc. ("PPL"), Metropolitan Edison Company ("MetEd"),  
20 and/or Sussex Rural Electric Cooperative ("Sussex"), and the Company's electric  
21 service reliability. I also will address certain issues raised by witnesses during the  
22 public input hearings in this proceeding, as well as by formal complainants during

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 the evidentiary hearing held before Administrative Law Judge Jandebour on  
2 November 6, 2006 in Scranton, Pennsylvania.

3 **Q. Has PCL&P completed an interconnection study?**

4 **A.** Yes. PCL&P has completed an interconnection study ("Interconnection Study")  
5 exploring the costs and benefits of interconnecting its service territory with PJM.  
6 A copy of the Interconnection Study was attached as Appendix B to the Report on  
7 Competitive Market Conditions Regarding the Pike County Light & Power  
8 Company dated June 1, 2006 prepared by the Pennsylvania Public Utility  
9 Commission's ("PAPUC") Law Bureau ("Law Bureau Report").

10 **Q. Please describe why the Interconnection Study focused solely on a 69kV**  
11 **transmission line extension option from PP&L or MetEd?**

12 **A.** The 69kV transmission line extension that PCL&P proposed and examined in the  
13 Interconnection Study is the proper solution both to improve reliability and to  
14 allow for future load growth. PCL&P has serious concerns with proposals, such as  
15 those advanced by Office of Consumer Advocate ("OCA") witness Mr.  
16 Lanzalotta, utilizing lower voltage systems that offer significant line exposure,  
17 and thus added reliability risk, and do not meet the load deliverability  
18 requirements of PJM. While alternatives that involve interconnecting the existing  
19 area 34.5kV systems may be a short-term solution, the eventual connection to,  
20 and service from, the area 69kV transmission systems is the correct long-term  
21 solution. At present, as described in the Interconnection Study, the nearest 69kV  
22 transmission system is PP&L's 69kV line into the Twin Lakes Substation.  
23 However, by the end of 2008, Orange and Rockland will have three 69kV lines

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1        terminating at its Port Jervis Substation, which will also be upgraded in 2008 to  
2        provide significantly improved reliability to the 13.2kV and 34.5kV systems that  
3        it serves. This extremely strong source will be providing substantially improved  
4        system reliability to the PCL&P system and its customers from just a quarter mile  
5        away from Pike County. The eventual tying of the Orange and Rockland and  
6        PP&L 69kV systems is what PCL&P envisions as the ultimate and correct long-  
7        term solution to improving reliability for all of the customers in this area of  
8        Pennsylvania.

9        **Q. At pages 5 and 6 of his testimony, Mr. Lanzalotta describes additional**  
10       **possible alternatives, with their associated costs, for interconnecting with**  
11       **PP&L and MetEd. Do you agree with his assessment and conclusions?**

12       **A.** No, I do not. First I will address Mr. Lanzalotta's assessment that new  
13       distribution circuits could be extended from PP&L's Twin Lakes Substation to  
14       supply PCL&P's service area and load. From a field investigation, and in the  
15       absence of having actual system information from PP&L, it appears that the Twin  
16       Lakes substation has lower voltage distribution circuits serving local area load,  
17       probably at 12kV. Even if the Twin Lakes Substation transformer had the  
18       capacity to serve an additional 12kV distribution circuit that could be extended to  
19       PCL&P, this distribution would not have the capacity to serve PCL&P's present  
20       peak load, let alone its projected load growth. There would certainly be adequacy  
21       of service and voltage quality issues with serving load centers between eight and  
22       14 miles away from the source. Put simply, Mr. Lanzalotta's proposal does not  
23       constitute good utility design or practice. I would note that his proposal would

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 more than double the line exposure of the system that PCL&P presently utilizes to  
2 serve its customers. All of the line transformers in PCL&P would have to be  
3 changed as well to accommodate the 12kV distribution voltage. With the addition  
4 of MetEd's new 34.5kV circuit along Route 6, this corridor, which would remain  
5 the most viable one to extend additional circuits towards Milford, is becoming  
6 increasingly congested. Any new circuits either would have to be double or triple  
7 circuited as overhead construction, or extended for a considerable distance as  
8 underground construction. This will significantly raise the difficulty and cost of  
9 extending additional circuits in this direction on limited public roads. Moreover,  
10 there are other substantial unknown factors which could require significant  
11 upgrades and increase costs; namely the actual available capacity of the Twin  
12 Lakes Substation transformer, and PP&L's 69kV radial transmission line that  
13 presently serves the load at both the Twin Lakes Substation and MetEd's Walker  
14 Substation.

15 Q. Please go on.

16 With respect to MetEd's Walker Substation, it is apparent that the Walker  
17 Substation has an open position where a transformer can be connected to provide  
18 an independent 34.5kV source to interconnect with the PCL&P's 34.5kV system.  
19 At first glance, this solution appears more viable than the Twin Lakes distribution  
20 proposal from the perspective of similar system voltage and more available  
21 capacity. Many of the issues and cost concerns that I raised for the non-viability  
22 of the Twin Lakes distribution alternative, however, apply to this alternative as  
23 well. These include the increased length of exposure to PCL&P's load centers, the

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 corridor congestion along Route 6 to extend this circuit, and PP&L's available  
2 transmission line capacity. There certainly could be adequacy of service and  
3 voltage quality issues with serving load centers between eight and 14 miles away  
4 from the source. Should the MetEd system have to feed the PCL&P service  
5 territory radially from the Walker Substation, it would more than double the line  
6 exposure (i.e., from the Walker Substation to Matamoros) of the system that  
7 PCL&P presently utilizes to serve its customers. In proposing that PCL&P  
8 interconnect at the Walker Substation, Mr. Lanzalotta has failed to address  
9 whether MetEd has any future plans for the Walker Substation, and what  
10 additional cost and/or operating implications there would be to utilize this space  
11 and capacity. It appears that Mr. Lanzalotta has not spoken with representatives  
12 of MetEd regarding his interconnection proposal. Indeed, Mr. Lanzalotta has  
13 failed to provide any evidence that MetEd would even entertain accommodating  
14 PCL&P as an additional tenant in their substation. This is far from an academic  
15 question, since PCL&P's interconnection at the Walker Substation would have  
16 limited benefit to MetEd.

17 **Q. Do you have any concerns regarding the cost estimates Mr. Lanzalotta uses**  
18 **for interconnection at the Walker Substation?**

19 **A.** While it is true that just the substation costs to increase capacity at the Walker  
20 Substation would be less expensive than constructing a completely new substation  
21 in PCL&P's service territory, I do not agree with Mr. Lanzalotta's assessment  
22 (page 6, line 6) that the addition of a 20 to 25 MVA substation transformer would  
23 cost from \$500,000 to \$600,000. PCL&P has considerable recent experience in

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1       estimating the costs for, and constructing similar projects. PCL&P projects that  
2       the fully installed cost of this facility would be approximately \$1.45 million, with  
3       the estimated cost of the transformer to be \$600,000 alone. The substation  
4       improvements provided for in this estimate would include the 25 MVA  
5       transformer, high and low side breaker protection and protective relay systems,  
6       control and SCADA systems, foundations and conduits, and design and  
7       construction labor. This cost projection does not include certain other costs, which  
8       upon closer inspection could be required, such as any additional costs to modify  
9       the PP&L and MetEd systems, or provide any upgrades to the Walker Substation  
10      to accommodate an additional tenant.

11   **Q.   Do you agree with the size of the transformer that Mr. Lanzalotta**  
12      **recommends?**

13   **A.   No, I do not agree with Mr. Lanzalotta's recommendation that PCL&P install a**  
14      **substation transformer of from 20 to 25 MVA. With PCL&P's recent 2006 peak**  
15      **load of 19 MVA, and utilizing its present weather normalized system load growth**  
16      **of 3% for annual future projections, a 25 MVA transformer would exceed its**  
17      **base rating in less than 10 years. A more appropriate size transformer to install**  
18      **would be one with a base rating of 35 MVA. This may provide a 20-year solution,**  
19      **and would increase the cost by an additional \$150k above the \$1.45 million**  
20      **estimate (or to a total cost of \$1.6 million). Additional costs would be required for**  
21      **the 34.5kV circuits, including upgrades to PCL&P's Line 7 mainline facilities, the**  
22      **installation of distribution automation and sectionalizing schemes, and voltage**  
23      **support. The Route 6 corridor congestion likely would require undergrounding or**

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 double circuiting, or a combination of both, for a portion of the new 34.5kV line  
2 where there are presently facilities on both sides of the road. PCL&P is estimating  
3 that the extension of this line from the Walker Substation to Milford would cost  
4 \$1.6 million, upgrades to the PCL&P 34.5kV system to interconnect with the new  
5 line would cost \$300,000, voltage support costs are estimated at \$300,000, and  
6 automation monitoring and control to cost an additional \$200,000. In total, the  
7 line costs associated with interconnecting to the Walker Substation would be  
8 approximately \$2.4 million.

9 **Q. Has Mr. Lanzalotta adequately considered the electrical characteristics of  
10 MetEd's and PCL&P's 34.5kV systems?**

11 **A.** No. Even accounting for the lack of detail in Mr. Lanzalotta's proposal, it would  
12 appear that he has not considered the electrical characteristics of the 34.5kV  
13 systems in question. PCL&P believes there is a 30-degree phase shift between the  
14 MetEd and PCL&P 34.5kV systems that would require the installation of a  
15 special transformer to correct. This phase shift could be corrected with the new  
16 transformer installation discussed above, however, it should be noted that this  
17 new circuit would be 30-degrees out of phase with the existing MetEd 34.5kV  
18 circuit presently extending along Route 6, precluding close transition ties.

19 **Q. Do you have any concerns with Mr. Lanzalotta's assessment at page 6, lines  
20 2-3, which states that the PCL&P load could potentially be served out of the  
21 MetEd Walker Substation over the existing 34.5kV line?**

22 **A.** Yes The utilization of the existing MetEd 34.5kV circuit as a stand-alone solution  
23 would be even less viable than the second transformer and new 34.5kV line

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 alternative discussed above, due to capacity issues and the requirement to install a  
2 transformer station to correct the phasing problem discussed above. The cost for  
3 this transformer station would exceed the projected costs of the station additions  
4 at the Walker Substation described above. In order to satisfy PJM deliverability  
5 requirements and PCL&P system load growth, as well as the growth on MetEd's  
6 own system, likely upgrades would be required to the existing Walker Substation  
7 transformer and the existing 34.5kV circuit that would make this alternative even  
8 more expensive than the new transformer and line alternative discussed above.

9 **Q. Do you have any other concerns with Mr. Lanzalotta's proposal?**

10 **A.** Yes. As noted above, PCL&P has numerous serious concerns regarding Mr.  
11 Lanzalotta's proposal given the speculative and undocumented nature of many of  
12 its components. At a minimum, a detailed engineering investigation, local area  
13 study and load flow studies would need to be performed to determine  
14 conclusively the sizing of facilities and system equipment needs, or even if such  
15 an interconnection would be viable from engineering and system operating  
16 perspectives. PCL&P estimates that the known costs for a possible  
17 interconnection with the MetEd 34.5kV system at the Walker Substation are \$4  
18 million at minimum, without any payments to the hosting utility (i.e., MetEd) for  
19 upgrades and any other associated fees that may be required as a result. There are  
20 still too many unknown variables and costs, many of which could be significant,  
21 to determine at present if this is even possible, let alone a cost-effective  
22 alternative. As noted above, however, regardless of cost, Mr. Lanzalotta's  
23 34.5kV proposal suffers from the fact that it is not as reliable as, and does not

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 offer the long-term deliverability and system operating requirements that are  
2 inherent with, the 69kV alternative.

3 **Q. At page 6, Line 20 of Mr. Lanzalotta's testimony, he discusses PCL&P's**  
4 **possible interconnection with Sussex. Do you agree with his assessment and**  
5 **conclusions?**

6 **A.** I must preface my response to this question by noting that to date I have been  
7 provided no system maps or other relevant information on the Sussex electric  
8 delivery system. Accordingly, my response is based on limited field observations.  
9 Mr. Lanzalotta suggests that Sussex has a 34.5kV circuit with the capacity to  
10 serve the PCL&P load, by extending this circuit between 3 and 13 miles, at a cost  
11 of \$1 to \$2 million. He has broken this down to three major components; the costs  
12 to connect the Sussex 34.5kV line to PCL&P, the Delaware River crossing, and  
13 costs to reconfigure the PCL&P system to prepare it to be fed from the Sussex  
14 system. I will address these components in the same order.

15 **Q. Please discuss the first component of Mr. Lanzalotta's Sussex**  
16 **interconnection proposal.**

17 **A.** With respect to the first component, Mr. Lanzalotta has not identified the location  
18 of the Sussex sources, or the path of interconnection and the facilities that would  
19 need to be upgraded to interconnect with the PCL&P 34.5kV system. The nearest  
20 34.5kV sources that PCL&P could locate within the Sussex territory are  
21 approximately 12 to 14 miles in straight-line distance from PCL&P's facilities;  
22 those being at the Sussex Substations located off of Meyer Road and Cemetery  
23 Road. In order to reach the PCL&P service territory, the most logical route that

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1       this line would have to traverse would be through New Jersey State parkland, and  
2       then proceed through Jersey Central Power and Light's ("JCP&L") service  
3       territory. The distance from these sources to PCL&P along roadways is closer to  
4       21 miles. Assuming that all of the ROW, parkland, environmental and franchise  
5       approvals could be obtained, and some combination of ROW and roadway is  
6       utilized for the route, this line extension could be lessened to 17 miles. Mr.  
7       Lanzalotta has also utilized a cost of \$115,000 per mile for 34.5kV construction,  
8       as provided by Sussex. While this cost is not entirely out of line for just the base  
9       34.5kV line construction, PCL&P is not sure if these costs contain other ancillary  
10      costs that can typically be part of the overall cost, such as vegetation  
11      management, rock holes, flagging or other contingency costs. PCL&P has seen  
12      these factors escalate the costs to approach \$150,000 per mile or higher.  
13      Assuming there will be stretches of straightforward, as well as more difficult  
14      construction, PCL&P estimates that \$130,000 per mile is more representative for  
15      this type of construction. Based on this estimate, the cost for this portion of the  
16      interconnection would be at least \$2.2 million. This does not include any  
17      additional costs that may be required to, among other things, secure ROW, obtain  
18      permits, and complete environmental studies.

19    **Q. Please discuss the second component of Mr. Lanzalotta's Sussex**  
20    **interconnection proposal.**

21    **A.** The second major component is to cross the Delaware River. Mr. Lanzalotta  
22    utilized the cost that PCL&P incurred over 15 years ago, updated to present day  
23    dollars, to cross the Delaware River between Port Jervis and Matamoras. The

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 costs, that were requested of and supplied by PCL&P, were updated costs to re-  
2 construct an existing aerial crossing, not to install a completely new crossing.  
3 PCL&P believes that utilizing this cost to be representative of what will be  
4 required to cross the Delaware River, particularly if it is near or adjacent to the  
5 Route 206 Bridge in south Milford, is inaccurate and most probably understated.  
6 A straightforward increase just to correct to present day dollars would not  
7 properly account for increases in materials that have escalated at a higher rate  
8 than inflation, such as steel, or for factors such as rock removal that certainly  
9 could be prevalent near a river bed. If it is permitted to span the Delaware River  
10 as overhead construction, the cost to complete this will depend on the location and  
11 distance of the crossing. PCL&P is estimating that this cost could exceed  
12 \$400,000. However, issues relating to permitting and approvals, including the  
13 time required to secure them, could substantially raise this cost. This crossing will  
14 be in the Delaware Water Gap National Recreation Area, and the permitting  
15 agencies may require the line to be attached to an existing structure, such as the  
16 Route 206 Bridge, or installed under the river. More investigation needs to be  
17 completed before a reasonable cost estimate can provided. If this section is  
18 required to be attached to an existing structure or installed under the river,  
19 PCL&P's preliminary observations indicate that the costs to complete this section  
20 of the line extension will be extremely expensive, and could be double or more of  
21 PCL&P's estimated overhead cost to complete this crossing.

22 Q. Please discuss the third component of Mr. Lanzalotta's Sussex  
23 interconnection proposal.

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 A. The third major component is to reconfigure the PCL&P system to prepare it to be  
2 fed from the Sussex system. As with the MetEd alternative discussed above, this  
3 component would include at a minimum upgrades to PCL&P's Line 7 mainline  
4 facilities, the installation of distribution automation and control/monitoring  
5 schemes, and voltage support. Upgrades to the PCL&P 34.5kV system to  
6 interconnect with the new line are estimated to cost \$350,000, voltage support  
7 costs are estimated at \$450,000, and automation monitoring and control are  
8 estimated to cost \$200,000. Together, these line upgrade requirements are  
9 estimated to cost \$1 million.

10 Q. Are there any other costs that Mr. Lanzalotta should have considered with  
11 this Sussex alternative?

12 A. Yes. A fourth major cost component that Mr. Lanzalotta seems to have  
13 overlooked is the source costs for this new Sussex 34.5kV line. As with the  
14 MetEd alternative discussed above, in order to meet full PJM deliverability  
15 requirements and PCL&P system load growth, it is anticipated that a new express  
16 feeder, with a 477 AAC conductor and a capacity of 35 MVA at minimum, would  
17 need to be installed. As such, and at a minimum, substation upgrade costs would  
18 be required to provide a new feeder position, breaker and relay protection,  
19 SCADA, and other associated costs. In addition, as noted above, PCL&P believes  
20 that there is a 30-degree phase shift between the Sussex and PCL&P 34.5kV  
21 systems that would require the installation of a special transformer to correct this  
22 phasing problem. Similar to the MetEd alternative, PCL&P estimates that the cost  
23 of these substation upgrades would be approximately \$1.6 million. Additionally,

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1       the Sussex sources in this area are fed from 34.5kV lines, and with the proposed  
2       load addition of the PCL&P load and projected PCL&P system growth to the  
3       Sussex system, it is likely that the Sussex source feeders will need to be upgraded  
4       in the short-term. These costs can be substantial and should be identified and  
5       accounted for in any cost analysis.

6   **Q.   Do you have any other concerns regarding Mr. Lanzalotta's Sussex**  
7       **interconnection proposal?**

8   **A.   Yes. PCL&P also has serious concerns regarding adequacy of service and voltage**  
9       **quality issues associated with this alternative. This alternative proposes to serve**  
10       **PCL&P's load centers that are located between 17 to 23 miles away, from the**  
11       **sources I have described above, with a single radial 34.5kV line. As noted**  
12       **previously, this constitutes neither good utility design nor practice. Should this**  
13       **Sussex line have to feed the PCL&P service territory radially from the proposed**  
14       **Sussex source, it would more than triple the line exposure of the system that**  
15       **PCL&P presently utilizes to serve its customers. A detailed engineering**  
16       **investigation, local area study and load flow studies would need to be performed**  
17       **to determine the sizing of facilities and system equipment needs, or even if such**  
18       **an interconnection would be viable from engineering and system operating**  
19       **perspectives. PCL&P estimates that the known costs for this alternative are \$5.2**  
20       **million, and could easily exceed \$6 million depending on the construction**  
21       **required to cross the Delaware River. There are still too many unknown variables**  
22       **and costs, many of which could be significant, to determine at present if this is a**  
23       **viable and cost-effective alternative. Depending on the resolution of these**

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 outstanding issues and unknown costs, while this alternative could seem less  
2 expensive than the 69kV alternative that PCL&P originally proposed, it is not  
3 nearly as reliable, nor does it offer the long-term deliverability and system  
4 operating requirements that are inherent with the 69kV alternative. In conclusion,  
5 PCL&P questions the overall adequacy of Mr. Lanzalotta's Sussex proposal, and  
6 further contends that this will not be a more reliable solution to the system that  
7 presently serves PCL&P customers.

8 **Q. At Page 7, lines 24-27, Mr. Lanzalotta describes the need for PCL&P to**  
9 **remain interconnected to maintain the reliability of this interconnection.**  
10 **Does PCL&P agree that it should maintain this interconnection should its**  
11 **service territory be taken over by Sussex?**

12 **A.** In the event that PCL&P is forced to sell and relinquish its service territory to  
13 Sussex or any another entity, it would be under no obligation to remain  
14 interconnected with its present facilities in Pennsylvania from its New York based  
15 sources. PCL&P will provide no guaranties that it will remain so interconnected.  
16 Additionally, it is quite possible that if PCL&P remained interconnected with  
17 free-flowing ties to Sussex, in the scenario that Mr. Lanzalotta describes, that  
18 PCL&P's significantly stronger source in Port Jervis would not only continue to  
19 serve all of PCL&P's current load, but it could end up serving some of the Sussex  
20 system load. This would put more demand requirements on Orange and  
21 Rockland's Port Jervis substation and the sources feeding it, with no benefits to  
22 PCL&P's parent company, Orange and Rockland. Such a free rider scenario is  
23 neither attractive nor acceptable to Orange and Rockland. At a minimum, that

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 interconnection would be subject to rules and regulations of both PJM and the  
2 NYISO and require proper payment and accounting of the energy flows.

3  
4 **Q. Is PCL&P presently aware of, or investigating any other possible**  
5 **interconnections with, PJM Companies?**

6 **A.** PCL&P has initiated preliminary discussions with JCP&L and MetEd, and will  
7 investigate if any opportunities exist to interconnect with its existing electric  
8 delivery systems that could improve reliability, while satisfying PJM  
9 deliverability requirements.

10 **Q. Please discuss Mr. Lanzalotta's contention that the reliability performance of**  
11 **the PCL&P electric system has deteriorated since the merger of Orange and**  
12 **Rockland, PCL&P's parent company, with Consolidated Edison, Inc.**  
13 **("CEI").**

14 **A.** Mr. Lanzalotta states that electric system reliability performance, as reflected in  
15 the Company's reliability data, reflects a substantial degradation in the  
16 Company's electric service reliability performance since 1999, the year of the  
17 Orange and Rockland and CEI merger. He also contends that this is somehow  
18 related to the timing of the merger between Orange and Rockland and CEI. Mr.  
19 Lanzalotta's contentions are not justified for the following three reasons. First,  
20 Mr. Lanzalotta failed to account for the entire set of data the Company provided  
21 in response to the OCA's interrogatories. Mr. Lanzalotta's selective use of this  
22 data presents an inaccurate view of the Company's service reliability  
23 performance. Second, Mr. Lanzalotta failed to adjust for weather-related outages

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 or other outages beyond the control of the Company. A utility has virtually no  
2 control over the number of these incidents, nor their location, and therefore has  
3 little control over their impact on reliability performance. Third, Mr. Lanzalotta  
4 failed to account properly for the two major factors that contributed to the  
5 customer hours of interruption in 2004 and 2005.

6 **Q. Please discuss the first factor.**

7 **A.** The first factor involved customer outages related to the construction and  
8 energization of the new Matamoras Substation. Prior to the completion of the  
9 Matamoras Substation, the majority of the customers in the Matamoras area were  
10 fed from 34.5kV stepdown transformers at 2.4kV. Prior to the completion of the  
11 Matamoras Substation, the local distribution facilities were upgraded and made  
12 ready for conversion from the existing antiquated 2.4kV delta system to a modern  
13 13.2kV grounded wye connected system that provides a higher level of safety for  
14 the general public. All of this construction and make ready work for the new  
15 distribution system was performed under live line conditions and had minimal  
16 effect on customer service. At page 14, lines 7-12, Mr. Lanzalotta implies that the  
17 planned outages associated with the upgrade of the Matamoras substation were  
18 somehow avoidable. Mr. Lanzalotta should be aware that system conversion  
19 work, that requires taking customer outages to "cut-over" to the new distribution  
20 voltage, is unavoidable and is an industry-accepted practice. Planned outages  
21 were necessary to complete the upgrade and modernization of this system. The  
22 Company took proper measures to minimize the extent of such outages, and  
23 followed appropriate procedures and steps to notify customers in advance of

2  
PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1        scheduled outages. Please refer to the rebuttal testimony of Company witness  
2        James O'Brien for a detailed description of these procedures. Even though there  
3        was some inconvenience to customers during the scheduled outages associated  
4        with this system upgrade, it is undeniable that the completion of the new  
5        Matamoras Substation, and the upgrade to a new, more reliable 13.2kV system,  
6        provides substantially improved reliability to the customers that are now served  
7        from the new Matamoras Substation (i.e., approximately 35% of all PCL&P  
8        customers).

9        **Q. Please discuss the second factor.**

10      **A.** The second major factor contributing to customer hours of interruption in 2004-  
11      05, were those due to tree contacts. PCL&P acknowledges that interruptions and  
12      customers affected were significantly increased during this period due to tree  
13      contacts. PCL&P was at the very end of its four-year trimming cycle for the  
14      distribution lines that serve PCL&P during this timeframe. Significant vegetation  
15      management was performed and the reliability performance with respect to tree  
16      incidents has improved in 2006. In recognition of these effects, in the summer of  
17      2006, PCL&P committed to improving its vegetation management cycle on its  
18      PCL&P distribution system to a three-year program. Therefore, because of the  
19      outage anomalies associated with the Matamoras Substation conversions, and in  
20      recognition of the proposed improvements that will be gained by improvements to  
21      the vegetation management program, the data from the 2004-2005 period should  
22      not be used for trending analysis.

23      **Q. Do you have any other observations on Mr. Lanzalotta's analysis?**

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 A. Yes I do. Notwithstanding the above objections to this analysis, Mr. Lanzalotta's  
2 testimony is misleading because the six years (1994-1999) that were used as a  
3 basis for this analysis are insufficient to determine a trend because of the volatility  
4 of PCL&P's system performance. Inclusion of the 1981-1999 data in the analysis  
5 will provide a more complete and objective view of the overall historical  
6 reliability performance of the PCL&P system (Refer to Exhibit 1 for the complete  
7 PCL&P reliability statistics from 1981 – 2005). During this period, the variability  
8 of the interruption data is clearly evident. The mean SAIFI (i.e., System Average  
9 Frequency Index, or the frequency of electric service outages) for that nineteen-  
10 year period is 2.98, with a standard deviation of 1.69, or 57%. For the years 2000-  
11 2003, SAIFI was below the mean twice, and was within one standard deviation  
12 above the mean for the other two years. CAIDI (i.e., Customer Average  
13 Interruption Duration Index, or the average customer restoration time for electric  
14 service outages) and SAIDI (which is calculated by multiplying SAIFI times  
15 CAIDI) are within one standard deviation for each of the four years. These  
16 results do not indicate a substantial degradation. However, even this analysis may  
17 not produce statistically valid results due to the relatively small number of  
18 incidents, the variability in the number of customers affected by individual  
19 incidents, and the type of incidents that have occurred. It must be noted that the  
20 extreme variability in PCL&P's reporting statistics, particularly those that have  
21 been reported with major events excluded, is due largely to the fact that its  
22 electric delivery system is exceptionally small (i.e., during most of this reporting  
23 period, PCL&P had two distribution circuits and approximately 4,400 customers).

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 As such, all outages in excess of approximately 440 customers qualified as a  
2 major event that is excludable from the reporting statistics that generate SAIFI.  
3 Therefore, typical interruptions for a larger utility that would never qualify as a  
4 major event, such as a tree contact or equipment failure that might trip an entire  
5 distribution circuit, or even half of the customers on a circuit with a midpoint  
6 recloser, do get excluded for PCL&P, as long as they meet the 10% criteria. This  
7 only allows smaller outages, with the associated lower number of customers  
8 affected, to count towards the reportable indices, which in turn results in SAIFI  
9 indices that are considerably lower than those of a utility with a substantial  
10 customer base. This effect of reflecting relatively low SAIFI numbers has the  
11 inverse effect of reflecting higher CAIDI numbers, as the remaining outages that  
12 do count towards the reportable statistics are smaller and with more localized  
13 damage that requires longer time to restore. Additionally, because of PCL&P's  
14 small size and customer base, the number of interruptions that are experienced  
15 each year is extremely low as compared to many of the other Pennsylvania  
16 utilities, both with and without major events.

17 **Q. Please discuss PCL&P's statistical volatility.**

18 **A.** The problem that exists for PCL&P is that of significant statistical volatility since  
19 the standards are based on an extremely small number of incidents that can vary  
20 widely year to year. This volatility in the statistics makes it difficult to put a tight  
21 bracket on expected performance, without accounting for proper measures to  
22 address this volatility. For example and referring to PCL&P's statistics without  
23 major events, from 1994 through 2005 the average annual number of interruptions

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 for PCL&P was 50 with the low being 32 and the high being 90. This equates to a  
2 volatility of 36% below and 80% above the 12-year mean. Further adding to the  
3 volatility is the number of customers affected by an interruption. From 1994-  
4 2005, the average number of customers affected per incident was 47, with the low  
5 being 24 and the high being 90. This equates to a volatility of 48% below to 92%  
6 above the 12-year mean. Due to the combination of these factors during the period  
7 1994 to 2005, the customers affected each year varied from 850 to 8,123, with  
8 2,527 being the arithmetic mean. Thus the volatility ranged from 66% below the  
9 mean to 221% above the mean. Since the number of customers affected each year  
10 is directly proportional to SAIFI, SAIFI is directly affected by the volatility of the  
11 number of interruptions and the number of customers affected by those  
12 interruptions. Likewise for CAIDI, because of the small number of interruptions,  
13 CAIDI also exhibits extreme volatility. From 1994-2005 the average annual  
14 customer minutes was 448,179 with the high being 997,007 and the low being  
15 176,719. This equates to a volatility of 61% below the mean and 122% above the  
16 mean.

17 **Q. Has the Company's electric service reliability shown any indications of**  
18 **improvement in 2006?**

19 **A.** Yes. Based on 12-month rolling data through November 2006, SAIFI was 1.77,  
20 which is below the 2000-05 and 1981-99 means (i.e., 3.97 and 2.98 respectively);  
21 CAIDI was 196 minutes which is within one standard deviation of the 2000-05  
22 mean and above the 1981-99 mean (i.e., 162 and 111 respectively); and, SAIDI  
23 was 347 minutes which is below the 2000-05 mean and within one standard

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 deviation of the 1981-99 mean (i.e., 617 and 317 respectively). These values  
2 directly contradict Mr. Lanzalotta's assertion, at page 8, line 23, that the  
3 "reliability data reflects a substantial degradation in the Company's electric  
4 service reliability". Customers' perception of reliability is driven predominately  
5 by the frequency of service interruptions (as measured by SAIFI), as opposed to  
6 the duration of outages (as measured by CAIDI). The Company's 2006 SAIFI  
7 performance indicates better reliability than either the pre- and post-merger  
8 average reliability performance. Additionally, the 2006 data includes a major  
9 event that significantly impacted these statistics. On February 19, 2006 a tree fell  
10 from outside of PCL&P's right-of-way, in a relatively inaccessible location, on to  
11 PCL&P's facilities causing an outage. Without this incident, SAIFI would  
12 improve to 1.19, CAIDI would improve to 128 minutes, and SAIDI would  
13 improve to 153 minutes. Again, this demonstrates the type of variability that  
14 exists for PCL&P's system performance, in that a single incident can have an  
15 inordinate impact on each of the performance measurements. It also demonstrates  
16 the inequity of including outages that are beyond the control of the utility in this  
17 analysis. Additionally, through November 2006, PCL&P's reliability is better than  
18 the rolling 12-month criteria set by the PAPUC. The rolling 12-month Frequency  
19 (SAIFI) of 1.18 is better than the target of 1.31. The rolling 12-month Restoration  
20 (CAIDI) of 108 minutes is significantly better than the target of 215 minutes. The  
21 rolling 12-month Duration (SAIDI) of 127 minutes is significantly better than the  
22 target of 282 minutes. Contrary to Mr. Lanzalotta's comments, this data supports

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 the fact that PCL&P's reliability in 2006 is not degrading, but is improving and  
2 exceeding the PAPUC's criteria.

3 **Q. Please describe the validity of comparing PCL&P's reliability data with that**  
4 **of Sussex?**

5 **A. PCL&P does not believe that any meaningful comparisons can be made with the**  
6 **Sussex electric system reliability data contained in Mr. Lanzalotta's testimony.**  
7 **Sussex is not required by the New Jersey Board of Public Utilities to report its**  
8 **data with any substantial regulatory oversight. Accordingly, any data that is**  
9 **provided as part of interrogatories or testimony must be thoroughly evaluated as**  
10 **to its definitions and completeness, to the extent that this can even be determined.**  
11 **PCL&P has a sophisticated Outage Management System that captures each and**  
12 **every electric service interruption, and all interruption data is rigorously reviewed**  
13 **prior to its inclusion as part of the Company's reliability database. PCL&P cannot**  
14 **be sure that Sussex reliability data is as strenuously accounted for and scrutinized**  
15 **as those utilities that are subject to regulatory oversight and consequences. As**  
16 **discussed above, Mr. Lanzalotta's Sussex interconnection proposal will result in**  
17 **less reliable service for the customers in Pike County. To assume that any**  
18 **reliability level that has been experienced by Sussex would be maintained, after**  
19 **the addition of a 51 square mile area that would be located and fed from a single**  
20 **radial line at the end of their distribution system, is both unrealistic and incorrect.**  
21 **Q. On page 15, lines 18 - 24, Mr. Lanzalotta asserts that the annexation of the**  
22 **PCL&P system onto the Sussex System will have an immediate impact on**

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1        **reducing the duration of electric service outages on the PCL&P system. Do**  
2        **you agree with this assertion?**

3        A.    No, I do not. Mr. Lanzalotta has made this assertion based solely on an extremely  
4        limited comparison and analysis of outage statistics, to which for reasons as stated  
5        above, PCL&P lends little credence. Additionally, Mr. Lanzalotta has not  
6        provided any other key and critical information that would be required to make  
7        such comparisons, such as the number of resources that Sussex devotes in  
8        responding to system outages, the location that they respond from, and how this  
9        may differ for normal work hours, off schedule work hours (such as weeknights,  
10       weekends and holidays), and for storm conditions, both expected and unexpected.  
11       It must be noted that the nearest facility from which PCL&P staffs its crews from  
12       is the Port Jervis facility, located just one quarter mile away from Matamoras.  
13       During normal working hours of Monday through Friday 8:00AM - 4:30PM, the  
14       Port Jervis facility is staffed with two crews. When additional projects are  
15       scheduled in the area, staffing is increased to a range of three to five crews.  
16       Currently our staffing in the facility is five crews due to capital improvement  
17       work being done on both Line 7 and circuit 5-10-34, which are the two sources  
18       serving the PCL&P load. This level is expected to remain in effect through June  
19       2007, and possibly beyond. During other times of the day, or for weekends and  
20       holidays, crews can be dispatched from Orange and Rockland's Middletown, New  
21       York facilities, which are approximately 18 miles away from Pike County and is  
22       quickly accessible to Pike County via Interstate highway Route 84. In addition, in  
23       June 2004, Orange and Rockland modified and enhanced the Troubleshooter

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 classification to include the Northern Division, which includes the area that  
2 provides service to PCL&P. The troubleshooter classification included two-  
3 person crewing who are scheduled on the 1600 to 2400 hour period during the  
4 normal workweek, and on the Saturday 0800 to 1600 hour period, with out the  
5 call out process required. This enhancement was implemented in September 2004  
6 to help reduce response time to the PCL&P area and other areas served by the  
7 division. Absent having been provided with any details regarding the Sussex  
8 facilities and crew reporting locations, PCL&P was able to locate the main  
9 headquarters for Sussex across from the Sussex airport on NJ local Route 639. It  
10 appears that the most direct driving route, from this location to the nearest point  
11 on the PCL&P system in Milford, Pennsylvania, is approximately 16 miles along  
12 single lane roads. I would note that this distance is not substantially closer to  
13 where PCL&P crews respond from during off-hour periods, and significantly  
14 farther away from its Port Jervis facility during normal working hours. With the  
15 additional information that I have provided above, combined with the lack of key  
16 Sussex information and supportable statistics, one cannot assume that, under  
17 Sussex, system restoration and customer hours of interruption will show  
18 immediate improvement. In fact, it is just as likely that customer hours of  
19 interruption may deteriorate, particularly when accounting for the significant  
20 radial line exposure concerns inherent with the Sussex option.

21 Q. Does the nature of the PCL&P service territory affect the service reliability that  
22 the Company's customer's experience?

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1    **A.**    Most definitely. The type of outages that PCL&P customers experience and the  
2            resultant hours of interruption, are directly related to geography, customer  
3            density, vegetation density, system design, and other system and operating  
4            specific parameters. The nature of the PCL&P service territory, where many  
5            customers are fed from radial lines in heavily treed areas at the very end of the  
6            Company's service territory, explains why, as discussed above, customers are  
7            particularly susceptible to tree related interruptions and longer duration outages.  
8            Given the more rural characteristics of PCL&P's service territory, it is simply  
9            unrealistic for many of the Company's customers to expect that they will  
10           experience the same levels of high service reliability as customers who reside in  
11           predominately urban or suburban environments, where the electric delivery  
12           infrastructure is considerably more developed with higher levels of redundancy  
13           available. I would note further that the characteristics of the Company's service  
14           territory, and their impact on service reliability, would remain regardless if  
15           service were provided by PCL&P, Sussex, or another utility. I must conclude by  
16           noting that PCL&P has changed, or is in the process of changing certain of its  
17           system design, maintenance and operating parameters to improve system  
18           performance and restoration. PCL&P is committed to improving service  
19           reliability for its customers.

20    **Q.**    Please discuss the outages experienced over the past few years by the  
21           Municipal Authority of the Borough of Milford ("Municipal Authority"),  
22           and the Delaware Valley School District ("DVS").

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 A. Previously in this proceeding both the Municipal Authority and DVS provided  
2 PCL&P with data regarding the service interruptions that they had experienced  
3 during the period from August 2004 through February 2006. PCL&P analyzed  
4 this data against its records and substantiated that there were nine of the listed  
5 outages that affected service to the Municipal Authority and DVS. Of those  
6 outages, three were from stormy weather, one was due to a non-Company  
7 accident, and two were from the failure of the customer's underground  
8 facilities/equipment that supply the school. Two incidents were due to tree  
9 contacts, one of which was a tree from well outside of the ROW that fell into Line  
10 7 and disrupted service to all of the customers served from Line 7. The remaining  
11 incident was a pre-scheduled outage to relocate a pole. Therefore, with respect to  
12 these nine outages, seven were due to extenuating circumstances or incidents over  
13 which PCL&P has little control. Aside from tree contacts, which PCL&P has  
14 addressed with the proposed improvements to its vegetation management  
15 program, these outages are not indicative of recurring problems.

16 Q. Do you have any observations regarding the service interruptions  
17 experienced by Mr. Peter Kenny?

18 A. During cross-examination on November 6, 2006, Mr. Kenny testified that he has  
19 suffered from many service outages over the past few years. PCL&P performed a  
20 review of the recent service interruptions experienced by Mr. Kenny. Mr.  
21 Kenny's residence is located in Milford, Pennsylvania, near the end of a long  
22 heavily treed road that is served by a step-down transformer and a long radial line  
23 off of the radial portion of Line 7. The Company's analysis substantiated that

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 there were 16 outages that affected this customer in the January 2005 to  
2 November 2006 timeframe. The make-up of interruptions are broken down as  
3 follows: one storm related, three non-Company accidents, one scheduled, one  
4 animal contact, one overloaded fuse, four equipment failures, one of which was  
5 the DVS riser pole failure, and five tree contacts, one of which was a tree from  
6 well outside of the ROW that fell into Line 7 and disrupted service to all of the  
7 customers served from Line 7. PCL&P would note that seven of these sixteen  
8 outages were due to extenuating circumstances or incidents over which PCL&P  
9 has little control. PCL&P anticipates that its vegetation management program  
10 improvements will address the tree conditions. The overload condition occurred  
11 from a blown fuse on Cummins Hill Road, and, as a result, the Company  
12 upgraded the fuse size. PCL&P acknowledges that this customer has experienced  
13 a higher than average number of interruptions. It must be noted, however, that this  
14 customer is located near the end of a long heavily treed single-phase spur that is  
15 fed from a stepdown transformer, off of a radial feeder at the end of the  
16 Company's service territory. While PCL&P has taken action to improve his  
17 service reliability, given his location, and the exacerbated radial nature of the  
18 system that serves him, Mr. Kenny likely will continue to be more susceptible to  
19 outages than the average PCL&P customer.

20 Q. Have you come to any conclusions regarding the service interruptions that  
21 occurred in PCL&P's service territory?

22 A. Yes. The Company's analysis of outages that have occurred over the past six  
23 years reveals that increases in the number of interruptions, the number of

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

1 customers affected, and the customer-hours of interruption predominantly  
2 occurred in 2004 and 2005. The reasons for this were primarily due to the  
3 following:

- 4 • Pre-scheduled outages associated with the constructing and energizing the  
5 Matamoras Substation.
- 6 • Tree contacts towards the end of the Company's four-year vegetation  
7 management program. Significant vegetation management has been  
8 completed, and improvements have been made regarding reliability  
9 performance with respect to tree outages in 2006. Additional  
10 improvements are expected as a result of improving the vegetation  
11 management plan to a three-year program.
- 12 • An increase in non-Company accidents that resulted in outages. It is  
13 expected that this increase is a statistical anomaly, could certainly be  
14 related to growth and increasing customer density in Pike County, and is  
15 not related to any deficiency in PCL&P's system or work practices.

16 As discussed earlier in my testimony, in analyzing the reliability of the PCL&P  
17 system, it should be noted that the service area is rural, and is primarily a radial  
18 system, resulting in reliability performance that is somewhat lower than more  
19 urban locations that are serviced by loop systems and multiple sources. The  
20 relatively small size of the service area and its topology, also contribute to  
21 volatility in reliability performance. PCL&P operates and maintains this system  
22 in a manner that is consistent with regulations and industry standards. The  
23 Company makes necessary improvements to the system, and adjusts its practices

PCL&P COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
ANGELO M. REGAN

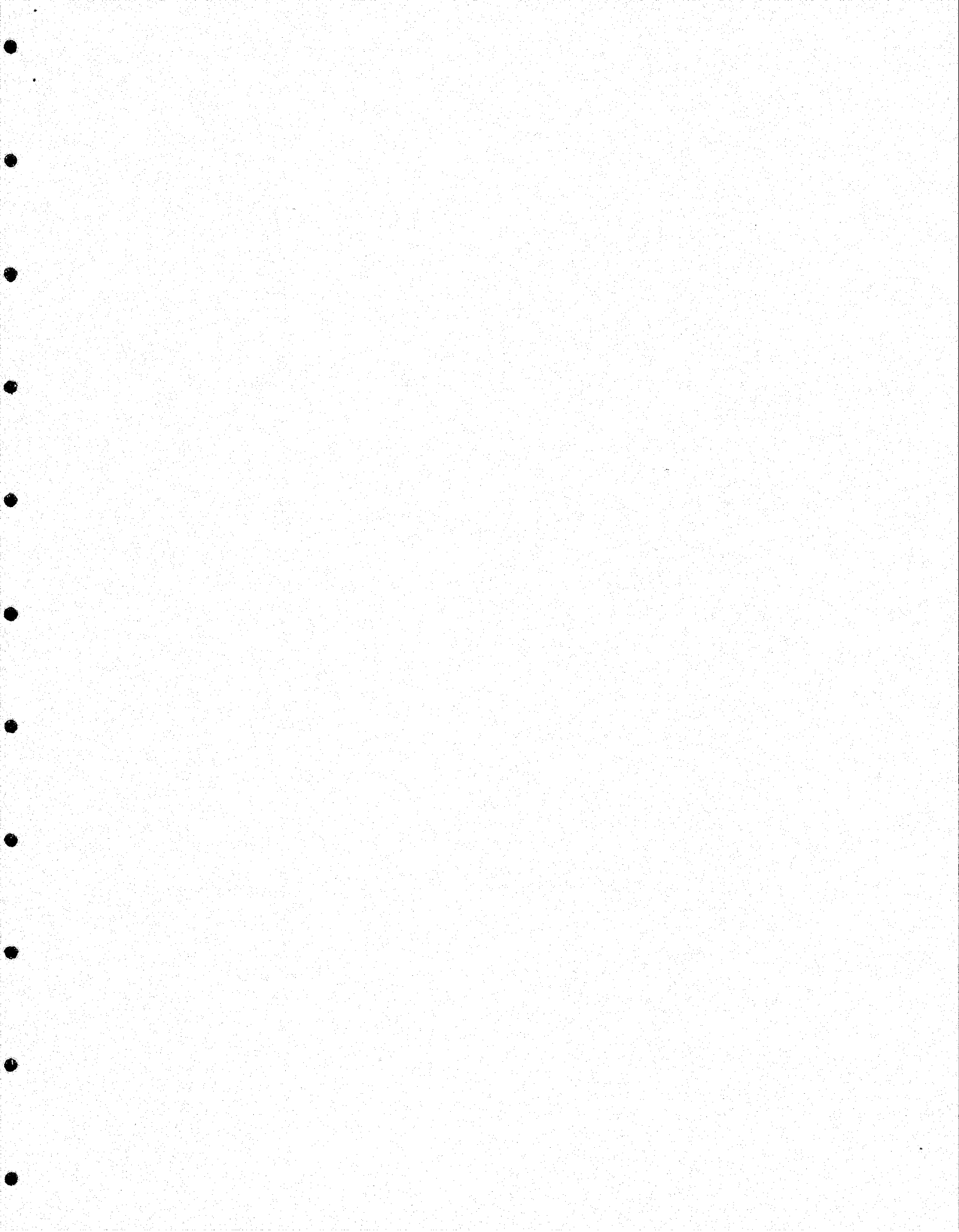
1           when appropriate. The implementation of the Matamoras Substation and  
2           improved vegetation management will contribute to improved system reliability.  
3           As evidenced by Exhibit 2, PCL&P interruption data, year-to-date through  
4           November, has improved as compared to the 2004 – 2005 statistics. The number  
5           of customers affected and the customer hours of interruption are the lowest since  
6           2001 through November of each year.

7    **Q.**    Does this conclude your rebuttal testimony?

8    **A.**    Yes, it does.

Angelo M. Regan  
Exhibit I

Year	All Outages			Excluding Pre-Arranged, Storms and Major Events		
	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI	SAIDI
1981	6.52	127	828			
1982	3.67	98	361			
1983	1.81	59	107			
1984	2.69	77	206			
1985	0.88	58	51			
1986	3.49	99	347			
1987	1.61	225	361			
1988	5.72	79	453			
1989	4.26	53	227			
1990	4.36	108	471			
1991	4.43	120	533			
1992	4.85	108	525			
1993	2.13	193	410			
1994	3.25	84	274	0.44	114	50
1995	1.58	142	224	0.38	179	67
1996	1.64	115	189	0.22	208	45
1997	1.15	112	129	0.47	140	67
1998	1.33	132	176	0.42	247	103
1999	1.18	121	143	0.51	161	83
2000	2.61	140	366	0.51	357	183
2001	2.58	145	376	0.35	200	69
2002	4.09	115	471	1.05	224	234
2003	3.74	112	420	0.52	184	96
2004	3.04	318	965	0.52	172	90
2005	7.79	141	1102	1.85	109	202



BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

COUNTY OF PIKE, ET AL.	:	
	:	
COMPLAINANTS,	:	
	:	
V.	:	DOCKET NO.: C-20065942, et al.
	:	(Consolidated)
PIKE COUNTY LIGHT & POWER COMPANY	:	
	:	
RESPONDENT.	:	

REBUTTAL TESTIMONY

OF

JOSEPH A. HOLTMAN

ON BEHALF OF

RESPONDENT

PIKE COUNTY LIGHT & POWER COMPANY

DECEMBER 11, 2006

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 Q. Please state your name, title, employer, and business address.

2 A. My name is Joseph A. Holtman. I am Director – Electricity Supply for  
3 Consolidated Edison Company of New York, Inc. (“Con Edison”). My  
4 office is located at 4 Irving Place, New York, New York.

5 Q. Please describe your responsibilities in that position.

6 A. On behalf of Con Edison, Orange and Rockland Utilities, Inc. (“O&R” or  
7 “Orange and Rockland”), Rockland Electric Company (“RECO”) and Pike  
8 County Light & Power Company (“PCL&P” or the “Company”), I am  
9 responsible for day-to-day electricity supply operations, including the  
10 scheduling of generation and load bids with the New York Independent  
11 System Operator (“NYISO”), the PJM Interconnection, L.L.C. (“PJM”),  
12 ISO New England, and Hydro-Quebec; development of overall electric  
13 power procurement plans; development and implementation of electric  
14 hedging programs; strategic development and participation in capacity and  
15 transmission congestion contract auctions, management of contractual  
16 rights with various non-utility generators; and the preparation of monthly  
17 invoices in support of wholesale purchases and sales, including capacity,  
18 energy and transmission congestion contracts. Electric service in the  
19 service territories of PCL&P, Orange and Rockland, and RECO  
20 (collectively the “System”) is provided as an integrated operation by  
21 Orange and Rockland.

22 Q. Please describe your professional background.

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1           A.    I rejoined Con Edison in March, 2002, in my current capacity. From  
2                    April, 2000, through March, 2002, I was employed by Mirant New York,  
3                    Inc. as Director-Regulatory Affairs with responsibility for New York  
4                    regulatory and NYISO matters. From July, 1999, through April, 2000, I  
5                    was Director- Corporate Planning for Con Edison, working primarily on  
6                    matters related to potential mergers and acquisitions. From 1996 through  
7                    July, 1999, I was Director- Energy Resources for O&R, with  
8                    responsibilities similar to my current position; I also had general  
9                    responsibility for the procurement of natural gas energy and capacity, and  
10                   associated regulatory and accounting matters. From March through July,  
11                   1997, I assumed the position of Acting President for NORSTAR Energy  
12                   Limited Partnership, a Houston, Texas-based retail gas marketing  
13                   enterprise, with general responsibility for day-to-day operations of the  
14                   firm. In 1995, I was named Director-Fuel Resources, with general  
15                   responsibility for procurement of natural gas for resale, and natural gas,  
16                   coal and oil for O&R's electric generation facilities. From 1991 through  
17                   1995, I was Manager-Fuel Resources Administration, with similar  
18                   responsibilities. From 1989 through 1991, I was a Program Administrator  
19                   in O&R's Demand-Side Management department. From 1985 through  
20                   1989, I was employed by O&R as an Economic Analyst, with  
21                   responsibility for forecasting, capital appropriations analysis, and various  
22                   other statistical studies.

23                   I received a Bachelor of Arts degree in Physics (cum laude) from the State  
24                   University of New York College at Plattsburgh in December 1984, and a  
25                   Masters degree in Business Administration with a major in Financial  
26                   Management from Iona College's Hagan School of Business in July 1989.

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1           Q.    Have you previously testified before the Pennsylvania Public Utility  
2                    Commission ("PAPUC")?

3           A.    Yes, I have submitted testimony before the PAPUC in Dockets R-922516  
4                    and P-00011872.

5           Q.    What is the purpose of your testimony in this proceeding?

6           A.    I will discuss PCL&P's proposed default service supply plan, and respond  
7                    to certain statements contained in the direct testimony of Office of  
8                    Consumer Advocate ("OCA") witnesses Nancy Brockway, and Matthew  
9                    Kahal, as well as Office of Small Business Advocate ("OSBA") witness  
10                  Robert Knecht.

11          Q.    Please discuss how PCL&P proposes to secure its default service supply  
12                  for the period commencing January 1, 2008?

13          A.    PCL&P will be filing in the very near future a proposal with the PAPUC  
14                  to secure its default service supply for the period commencing January 1,  
15                  2008. Specifically, PCL&P will propose the following:

16                  ▪    Acquire financial hedges of energy and capacity purchases made  
17                        from NYISO's spot market for the Hudson Valley Zone (i.e., Zone  
18                        G). PCL&P is connected to the bulk power grid in the NYISO's  
19                        Hudson Valley Zone.

20                  ▪    Hedges to be acquired through a web-based, declining price  
21                        auction.

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

- 1                   ▪       Term of the hedges would be from January 1, 2008 through  
2                               December 31, 2010.
- 3                   ▪       PCL&P would integrate its proposed auction with the hedging  
4                               procurement efforts of Orange and Rockland. The quantity of  
5                               energy and capacity hedged will be dependent on whether Direct  
6                               Energy Services, LLC ("Direct") will continue its aggregation  
7                               program in 2008.
- 8                   ▪       PCL&P will confer with interested parties as to whether its hedges  
9                               should be layered in over a multi-year period.
- 10                  ▪       If so, the quantity of energy and capacity hedged would be 100% of  
11                               PCL&P's requirements in 2008, 67% of its 2009 requirements, and  
12                               33% of its 2010 requirements, computed on an hourly basis and  
13                               financially settled monthly. Thereafter, at annual intervals,  
14                               PCL&P could obtain financial hedges for 33% of its requirements  
15                               for three-year terms, resulting in "layered" hedges that reflect the  
16                               longer-term market price while protecting customers from short-  
17                               term market fluctuations.
- 18                  ▪       The prospect of hedging 100% of 2008 requirements creates risk of  
19                               one-time unusual market conditions that will be monitored closely  
20                               at the time of the 2008 auction.

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1           \*       If hedges are not layered in, then PCL&P would seek to hedge  
2                   100% of its 2008-2010 requirements in the Fall of 2007.

3           Q.       Why is PCL&P proposing to utilize financial hedges, rather than physical  
4                   purchases to fix the prices of the energy and capacity required to meet its  
5                   default service load?

6           A.       The proposal assumes that PCL&P will continue to be electrically  
7                   connected to the NYISO's Hudson Valley Zone through 2010, based on  
8                   construction and regulatory/environmental approval lead times associated  
9                   with any project to interconnect PCL&P with PJM, even if such project  
10                  were to be agreed upon. There is no clear discount for fixed-price, load  
11                  following physical energy purchases, similar to those acquired in New  
12                  Jersey's Basic Generation Service auction. In fact, some prospective  
13                  suppliers have indicated to PCL&P that given the Company's size, the  
14                  physical energy scheduling and credit requirements for PCL&P would  
15                  command an administrative premium over financial load following hedges  
16                  since it is an additional administrative burden with which they must  
17                  contend. Load following financial hedges will fix the energy and capacity  
18                  prices sufficiently to lock in customer prices, while ensuring that PCL&P  
19                  does not bear undue market price risks.

20          Q.       Why has PCL&P proposed a three year term?

21          A.       Natural gas is the primary fuel for electricity generation in southeastern  
22                  New York State, the area to which PCL&P is connected. A review of

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 historical natural gas prices over the last 15 years shows that customer  
2 prices are more stable when hedged over longer periods, up to three years.  
3 Beyond three years, little additional volatility reduction is achieved.  
4 Shorter hedge periods, such as one year or less, could result in a situation  
5 where the hedges are all acquired in a rising or falling market, which  
6 would then magnify their impact on rates. For these reasons, PCL&P has  
7 proposed a three year hedge term.

8 Q. Please discuss the type of auction that PCL&P has proposed.

9 A. A load following hedge is a customized product. It is not readily traded  
10 like other standard hedge products such as "5x16s" and "around-the-  
11 clock" hedges, which hedge the cost of a fixed volume of energy. To  
12 ensure a competitive result when acquiring such a unique product, an  
13 auction or request for proposals ("RFPs") are preferred formats.

14 Because electric energy is such a volatile product, hedge suppliers risk  
15 market prices moving against them while they hold offer prices open to  
16 hedge buyers such as PCL&P. The longer a price must be held, the greater  
17 the risk and so the greater the risk premium they must charge the hedge  
18 buyer. If the market is too volatile or the time from offer to  
19 acceptance/rejection is too great, a hedge seller may decline to participate  
20 in the RFP or auction. The three-day review period after the close of  
21 PCL&P's last default service auction was a significant factor in the low  
22 supplier participation. Electronic auctions are superior to traditional RFPs  
23 since they foster a competitive offer process in a relatively short  
24 timeframe. Offers can be selected or rejected within minutes of the close  
25 of an auction, greatly reducing a hedge supplier's risk and therefore the

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 risk premium paid by customers. In PCL&P's case, it is recognized that  
2 PAPUC would like to approve hedge prices before they are accepted. If  
3 PCL&P is to integrate its hedging efforts with those of Orange and  
4 Rockland, PCL&P requires that three days before the auction, it would  
5 submit to the PAPUC, (with copies to OCA and OSBA), a ceiling price.  
6 This submission would be subject to strict confidentiality protections. The  
7 PAPUC could then determine if it approves the ceiling price. Once a  
8 ceiling price is approved, PCL&P would hold an electronic auction and  
9 immediately make awards so long as prices are below the ceiling. This  
10 methodology would minimize premiums that would be paid to hedge  
11 providers and maximize supplier participation in the auction. Without  
12 prior agreement on a ceiling price, an integrated auction with Orange &  
13 Rockland is not possible. PCL&P would work with the PAPUC to  
14 schedule the auction at a time convenient to the PAPUC. Representatives  
15 of PAPUC, OCA and OSBA are welcome to view the auction in real time,  
16 either in person or electronically.

17 Q. Please discuss the alternatives for implementing a three year hedge term.

18 A. There are two alternatives for implementing a three year hedge term. First,  
19 PCL&P can secure hedges of energy and capacity purchases for a three  
20 year term (i.e., January 1, 2008 though December 31, 2010).

21 Alternatively, PCL&P can layer hedges in over time, as is done in New  
22 Jersey's Basic Generation Service auction. The first alternative is  
23 administratively more convenient. Fixing the price of energy over a multi-  
24 year period, based on a single snapshot in time, can lead to situations

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 where the hedged price is much lower than market prices at time of  
2 delivery (PCL&P's situation from 2003-2005) or much higher than market  
3 prices at time of delivery (PCL&P's situation in 2006). By layering  
4 hedges in over time, PCL&P may be better able to maintain the hedged  
5 price closer to long-term market prices while still protecting consumers  
6 from short-term market perturbations. To put such a structure in place, the  
7 first 'tranche' or portion of hedges must set the stage for the three-year  
8 tranches to follow annually. PCL&P proposes to discuss with interested  
9 parties how to structure the hedge term. .

10 Q. Please comment on Mr. Knecht's recommendation (page 9, lines 10-12)  
11 that PCL&P upgrade its algorithm for evaluating whether the risk  
12 premium from the low-price wholesale bidder is reasonable.

13 A. As part of the process described above, in which PCL&P would submit an  
14 auction ceiling price to the PAPUC, PCL&P would review its algorithm  
15 and the data used to estimate an appropriate risk premium with the  
16 PAPUC.

17 Q. Please comment on Mr. Knecht's suggestion (page 9, line 23 through page  
18 10, line 6) that as a backstop proposal, the PAPUC may wish to consider  
19 allowing PCL&P to procure power on the spot market and reconcile  
20 variances between revenues and costs.

21 A. PCL&P concurs with Mr. Knecht's proposed contingency plan in the event  
22 that its proposed auction is unsuccessful. PCL&P recognizes that due to

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 its relatively small size, location, and the volume risk inherent in the  
2 proposed default service structure, and despite its best efforts, insufficient  
3 interest may be shown by hedge sellers to conduct a successful auction. In  
4 the event that PCL&P is unable to conduct a successful competitive  
5 auction (e.g., two or fewer bidders, prices exceeding the pre-determined  
6 ceiling), it proposes that customers be charged monthly for the actual cost  
7 of energy used to supply their default service requirements, as acquired on  
8 the spot markets operated by the NYISO, and that that charge be  
9 reconcilable on a current basis. Although the prices under such service are  
10 volatile, they also tend to be lower over the long-term than hedged prices,  
11 since hedges include risk premiums. Such a procedure would have the  
12 benefit of keeping both PCL&P and its customers whole.

13 Q. Please comment on the Recommendation No. 1 contained in the *Report on*  
14 *Competitive Market Conditions Regarding the Pike County Light & Power*  
15 *Company* issued June 1, 2006 by the Commission's Law Bureau ("Law  
16 Bureau Report").

17 A. This recommendation provides that the Commission should explore the  
18 integration of PCL&P's energy procurement after 2007 with either its New  
19 York or New Jersey affiliates (i.e., O&R and RECO). While, as noted in  
20 the testimony of Mr. Knecht (page 8, lines 17-18), such an approach has  
21 both logistical and jurisdictional issues, PCL&P is proposing to integrate  
22 its proposed auction with the hedging procurement efforts of Orange and  
23 Rockland. PCL&P should benefit from the economies of scale inherent in  
24 such an integrated procurement. That said, given the vagaries of market

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 conditions, PCL&P plainly can make no guaranties, or provide any iron  
2 clad assurances regarding the results of such an integrated procurement.  
3 PCL&P will be discussing with interested parties the mechanics for such  
4 an integrated auction. As noted above, however, the most critical factor to  
5 implementing a successful integrated auction is the PAPUC's agreement  
6 to the ceiling price approach.

7 Q. Please discuss the possible impact of Direct Energy Services, LLC  
8 ("Direct") on any auction.

9 A. The quantity of energy and capacity hedged by PCL&P will be dependant  
10 on whether Direct continues its aggregation program in 2008. In addition,  
11 potential bidders' perception of the auction may vary depending on  
12 whether Direct's aggregation program will continue or not. Accordingly,  
13 PCL&P requests that the PAPUC require Direct to inform parties by  
14 September 1, 2007 as to whether it will continue its aggregation program  
15 in 2008.

16 Q. Do you agree with Ms. Brockway's contention (page 28, lines 11-13) that  
17 because it is part of the NYISO, rather than PJM, PCL&P is at a  
18 disadvantage when it comes to meeting the requirements of the  
19 Pennsylvania Alternative Energy Portfolio Standards Act?

20 A. No. The Pennsylvania Alternative Energy Portfolio Standards Act will  
21 require PCL&P, in its role as an electric distribution company ("EDC") to  
22 acquire alternative energy credits in quantities equal to a percentage of its  
23 total retail sales of electricity (as measured in MWh) to all retail electric

PIKE COUNTY LIGHT & POWER COMPANY  
REBUTTAL TESTIMONY OF  
JOSEPH A. HOLTMAN

1 customers for that reporting period. PCL&P's obligation to acquire  
2 alternative energy credits will be reduced to the extent that other electric  
3 generation suppliers ("EGS") such as Direct are providing commodity  
4 service to retail electric customers. Even if PCL&P serves all the retail  
5 access customers in its service territory, due to the small size of its service  
6 territory, the total number of alternative energy credits that PCL&P would  
7 have to acquire would be minimal. PCL&P expects that a market for  
8 alternative energy credits will develop and that PCL&P will be able to  
9 purchase any needed alternative energy credits from such market. This is  
10 exactly what has happened in New Jersey. PCL&P's New Jersey affiliate,  
11 RECO, has been able to purchase alternative energy credits required to  
12 serve its Central and Western Divisions' loads at reasonable prices.

13 Q. Does this complete your testimony?

14 A. Yes, it does.