

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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Pike County
v.
Pike County Light and
Power Company,

Docket No.: C-20065942

Further Hearings

Pages 1 - 92

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

Friday, January 19, 2007
Commencing at 10:00 a.m.

BEFORE:

EMBER S. JANDEBEUR, Administrative Law Judge

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JUDGE JANDEBEUR:

This is the matter of County of Pike versus Pike County Light and Power and a number of other Complainants. Docket C-20065942. This is the final day of hearings. And I believe we're with you, Mr. Melia.

ATTORNEY MELIA:

Thank you, Your Honor. Your Honor, at this time I would like to call to the stand Mr. Richard Snyder.

JUDGE JANDEBEUR:

Good morning, Mr. Snyder. If you would raise your right hand for me, please?

RICHARD SNYDER, HAVING FIRST BEEN DULY SWORN,
TESTIFIED AS FOLLOWS:

JUDGE JANDEBEUR:

Thank you, sir. Be seated. Mr. Melia, all the same rules as the last three days apply.

ATTORNEY MELIA:

Correct.

DIRECT EXAMINATION

1 BY ATTORNEY MELIA:

2 Q. Mr. Snyder, would you state your name and business
3 address for the record?

4 A. Richard Snyder. Post Office Box 927, Milford,
5 Pennsylvania.

6 Q. And by whom are you employed or what is the nature
7 of your business?

8 A. I'm self employed, but I have a number of --- I
9 own a number of businesses.

10 Q. Correct. Have you prepared or caused to be
11 prepared what has been, and what I would propose to
12 have marked for the record, as a large company group,
13 LCG statement number one, the Direct Testimony of
14 Richard Snyder.

15 A. Yes.

16 Q. And you have copy of that before you?

17 A. I do.

18 Q. Okay. And was that Direct Testimony prepared by
19 you or under your supervision?

20 A. It was.

21 ATTORNEY MELIA:

22 Your Honor, there are a couple of changes
23 to the testimony that I would like to make. Mr.
24 Snyder will concur, but this came as a result of
25 discussions with Pike County Power and Light over some

1 discovery issues in one of the Exhibits.

2 JUDGE JANDEBEUR:

3 Okay.

4 ATTORNEY MELIA:

5 Your Honor, the company --- or excuse me,
6 Mr. Snyder will not be submitting as part of the
7 testimony LCG Exhibit Number Four, page one.

8 JUDGE JANDEBEUR:

9 Okay. So you'll simply remove that?

10 ATTORNEY MELIA:

11 Yes.

12 JUDGE JANDEBEUR:

13 Okay.

14 ATTORNEY MELIA:

15 Or strike it. We're not proposing to
16 move that in. However, the other two pages, which are
17 also parts of LCG Exhibit Number Four, pages two and
18 three we are going to retain those. They merely list
19 the businesses that he owns.

20 JUDGE JANDEBEUR:

21 Okay.

22 ATTORNEY MELIA:

23 That exhibit page that we're striking
24 related to the magnitude and the increase that Mr.
25 Snyder was trying to illustrate and because of the

1 voluminous responses that would've been required to
2 substantiate that number, we proposed and the company
3 I think agreed to delete the exhibit, as well as
4 references to the 79 percent increase in the
5 testimony.

6 JUDGE JANDEBEUR:

7 Can you tell me what pages those appear
8 on and we'll delete it?

9 ATTORNEY MELIA:

10 Sure. Okay. On page three we will be
11 deleting line 17 through 20 and a portion of line 21
12 that ends with 72 percent.

13 ATTORNEY ASMUS:

14 Are you deleting all of line 17?

15 ATTORNEY MELIA:

16 Yes. All of 17, 18, 19, 20 and 21 up to
17 72 percent. And then I ---.

18 JUDGE JANDEBEUR:

19 Mr. Melia, line 16 doesn't make a whole
20 lot of sense.

21 ATTORNEY MELIA:

22 Well, no, I'm not finished.

23 JUDGE JANDEBEUR:

24 Okay.

25 ATTORNEY MELIA:

1 Rather than 79 percent, I would like to
2 substitute, and Mr. Snyder can certainly address the
3 issue, instead of a specific percentage we'd like to
4 put in the word substantial.

5 JUDGE JANDEBEUR:

6 Was generally substantial?

7 ATTORNEY MELIA:

8 Substantial.

9 JUDGE JANDEBEUR:

10 Okay. Okay. So at the end of line 16
11 I've simply inserted the word substantial. I've
12 deleted 17, 18, 19, 20 and the first four words, the
13 range of 72 percent, of line 21; is that correct?

14 ATTORNEY MELIA:

15 That's right. And then one other minor
16 change. Back on page seven, line ten, I would delete
17 the words, in the range of 79 percent and substitute
18 the word substantially.

19 JUDGE JANDEBEUR:

20 Okay. I have marked my copy. The
21 sentence will now read, my common area elective bills
22 have increased substantially since January 1, 2006,
23 creating a further burden on my business; that's
24 correct?

25 ATTORNEY MELIA:

1 That's correct. And that's all the
2 changes that we would propose for his testimony.

3 JUDGE JANDEBEUR:

4 One question, Mr. Melia. On page eight,
5 on line 12, is 2003 the correct year or is 2004 the
6 correct year?

7 ATTORNEY MELIA:

8 That's a good question. Maybe Mr. Snyder
9 could go to that page eight, line 12, the date of the
10 closure of the PCL&P office.

11 A. I believe the 2003 is the correct date, yes.

12 BY ATTORNEY MELIA:

13 Q. Mr. Snyder, with those changes are the questions
14 and answers that are herein included in your testimony
15 true and correct to the best of your knowledge?

16 A. Yes.

17 Q. And referencing your Exhibit, which has been
18 designated LCG Exhibit Number Four, pages two and
19 three, was that Exhibit prepared by you or under your
20 direction?

21 (LCG Exhibit Number Four marked for
22 identification.)

23 A. Yes.

24 ATTORNEY MELIA:

25 Your Honor, at this point, having

1 recognized the changes to the testimony, I would make
2 Mr. Snyder available for Cross Examination and we
3 reserve the admission of the testimony Exhibits 'til
4 we conclude with Cross.

5 JUDGE JANDEBEUR:

6 Who's up today? Hold on one second.
7 We're going to go off the record for 15 seconds.

8 OFF RECORD DISCUSSION

9 JUDGE JANDEBEUR:

10 Back on the record. Who's up today?

11 ATTORNEY GALLAGHER:

12 Your Honor, Mr. Lanza will be conducting
13 the Cross Examination.

14 JUDGE JANDEBEUR:

15 Mr. Lanza?

16 ATTORNEY LANZA:

17 Just a couple of questions, Your Honor.

18 CROSS EXAMINATION

19 BY ATTORNEY LANZA:

20 Q. Good morning, Mr. Snyder.

21 A. Good morning.

22 Q. My name is Ed Lanza and I'm here on behalf of the
23 company. There are some references in your testimony,
24 and specifically on page five of your testimony.
25 Beginning on page three you discuss the effect of

1 rates on your tenants. You also say that you became
2 aware of the situation with tenants as a result of
3 communications with a Mr. William Mulson (phonetic),
4 and you say that he's responsible for managing your
5 rental occupation?

6 A. Uh-huh (yes).

7 Q. Do I understand that the tenants have mentioned
8 something to Mr. Mulson and Mr. Mulson has conveyed
9 that information to you and that's the basis of your
10 testimony?

11 A. Not in every case. In many cases it's direct
12 conversation with tenants.

13 Q. Okay. On page eight of your testimony and
14 beginning on line 13 you say, it is my understanding
15 that PCL&P service personnel must come from
16 Middletown, New York to respond to service issues or
17 outages. Is that still your understanding?

18 A. Yes.

19 Q. Are you aware of any personnel of PCL&P being
20 based in Port Jervis?

21 A. No, I'm not. They have never serviced any of my
22 facilities. They have always come from further away.

23 Q. Have you been told by personnel from PCL&P whether
24 they have responded to calls to your properties where
25 they came from?

1 A. Yes.

2 Q. And who did you speak to? Who told you that?

3 A. Well, it depends on the circumstances. Usually
4 whether it's the line person or in one case it was an
5 underground bumper crew. There was no specific person
6 in charge.

7 Q. Do you know the name of anybody that might have
8 told you they came from Middletown?

9 A. No.

10 Q. Continue down on page eight of your testimony and
11 beginning on line 20. You make a comment here in your
12 testimony regarding the decline in the quality of the
13 service that you received. Have you filed complaints
14 with the PUC regarding these service issues you
15 experienced?

16 A. Not until recently.

17 ATTORNEY LANZA:

18 Nothing further, Your Honor.

19 JUDGE JANDEBEUR:

20 Any Redirect?

21 ATTORNEY MELIA:

22 No Redirect.

23 JUDGE JANDEBEUR:

24 Anything, Ms. O'Dell, Mr. Aramus, Mr.
25 Popowsky, Mr. Dalton?

1 MR. DALTON:

2 No questions, Your Honor.

3 ATTORNEY MELIA:

4 You're done.

5 JUDGE JANDEBEUR:

6 No.

7 ATTORNEY MELIA:

8 Oh, I'm sorry.

9 JUDGE JANDEBEUR:

10 That's okay.

11 ATTORNEY MELIA:

12 I'm using to being ---.

13 JUDGE JANDEBEUR:

14 He's almost done. No, that's all right.

15 Mr. Snyder, on page nine, line 22, you state that upon
16 further examination it was determined that the outage
17 was, in fact, the fault of the utility. Do you recall
18 what the specific cause of that outage was?

19 A. Yes. You're referring to ---?

20 JUDGE JANDEBEUR:

21 We're on page nine and you're talking
22 about an outage. Originally, you thought the outage
23 was your responsibility ultimately. Apparently it was
24 not. It was the utilities. What happened?

25 A. Well, actually, I never thought it was our

1 responsibility. The utility said it was my
2 responsibility, which amazed me. They said it was
3 underground and that the underground --- what happened
4 is the electric service comes overhead until it gets
5 to my property then goes underground and goes under
6 goes under a parking lot to reach this 35,000 square
7 foot facility. And they said the problem was
8 underground and that I owned the underground. That's
9 the first time I heard that, but okay. I said, what
10 do I do?

11 They said, call the electric company that the
12 problem is underground. And the electrician said, we
13 can't access underground. The transformer is locked.
14 Only the power company can unlock it. Furthermore,
15 I'm not going to deal with live power service.
16 They've got to shut it off. They have to deal with
17 it. I can't deal with it. I called back the electric
18 company and said, you got to come and unlock the
19 transformer box to even --- and shut down the service
20 to enable it and further determine that it, in fact,
21 is underground.

22 Well, it took hours and hours and hours and
23 finally they sent a line crew and the line crew said,
24 we don't have the key to the transformer box. And
25 only a thumper crew, underground crew, has that.

1 They're in West Milford, New Jersey. That'll take
2 several more hours. The outage occurred at 7:00 in
3 the morning. The thumper crew didn't arrive 9:00 at
4 night. And they determined when they unlocked the
5 transformer box that, in fact, it was the transformer.
6 It wasn't the underground service after all. If that
7 answers your question.

8 JUDGE JANDEBEUR:

9 It did. Thank you. Anything else?

10 ATTORNEY MELIA:

11 No, Your Honor.

12 JUDGE JANDEBEUR:

13 Anything else, Mr. Lanza?

14 ATTORNEY LANZA:

15 No.

16 JUDGE JANDEBEUR:

17 Thank you very much, Mr. Snyder.

18 ATTORNEY MELIA:

19 Your Honor, we have two other witnesses
20 to present, Mr. Forbes. Commissioner Harry Forbes is
21 here to present some surrebuttal testimony orally.
22 Testimony of the company. Our second witness Darrin
23 Hervieux, who is the Altech Lancing (phonetic)
24 witness.

25 JUDGE JANDEBEUR:

1 Yes.

2 ATTORNEY MELIA:

3 He is not going to be able to be here
4 until noon or shortly before. So, you know, his
5 schedule is allowing him to get here. You know,
6 that's the earliest he can make it. Frankly, I'd
7 anticipated Mr. Snyder would have more cross than
8 there was and as I said, we have Mr. Forbes here to
9 deal with.

10 JUDGE JANDEBEUR:

11 I don't have a problem with that Mr.
12 Melia, but I do think we should have let both myself
13 and the other side know ---

14 ATTORNEY MELIA:

15 Well, ---

16 JUDGE JANDEBEUR:

17 --- that that was going to happen.

18 ATTORNEY MELIA:

19 --- I didn't find that out until last
20 night.

21 JUDGE JANDEBEUR:

22 Okay.

23 ATTORNEY MELIA:

24 I was planning on having him here earlier
25 today.

1 JUDGE JANDEBEUR:

2 Okay. So what you want to do is put Mr.
3 Forbes on ---

4 ATTORNEY MELIA:

5 Right.

6 JUDGE JANDEBEUR:

7 --- and then, in all likelihood, we're
8 going to need to take a break to allow Mr. Hervieux
9 time to get here, but we'll see.

10 ATTORNEY MELIA:

11 And once again, I don't know how much
12 cross there is for him.

13 JUDGE JANDEBEUR:

14 Okay. Do you want to go ahead and put
15 Mr. Forbes on?

16 ATTORNEY MELIA:

17 Yes. At this time I would like to call
18 Commissioner Harry Forbes.

19 ATTORNEY LANZA:

20 Your Honor, could we ---

21 JUDGE JANDEBEUR:

22 Yes.

23 ATTORNEY LANZA:

24 --- find out if there's going to be
25 surrebuttal from Mr. Hervieux?

1 ATTORNEY MELIA:

2 No. No. Mr. Hervieux is simply going to
3 be sponsoring his Direct testimony.

4 JUDGE JANDEBEUR:

5 So you're suggesting a stipulation? Is
6 that where you're going with that?

7 ATTORNEY LANZA:

8 Yeah. We can stipulate and get out of
9 here as soon as Mr. Forbes is done.

10 JUDGE JANDEBEUR:

11 That's up to you, Mr. Melia.

12 ATTORNEY MELIA:

13 That's fine, Your Honor. You know, as I
14 --- Your Honor has observed, I wish I had known sooner
15 and we could've, you know, not had to deal with any
16 delays. Mr. Hervieux certainly is going to come, but
17 if we want to stipulate, I have no problem with that.

18 JUDGE JANDEBEUR:

19 I did have marked one question for Mr.
20 Hervieux, but it is entirely possible that Counsel can
21 answer this question. If you want to take a look at
22 it, on page three of Mr. Hervieux's testimony, ---

23 ATTORNEY MELIA:

24 Yes.

25 JUDGE JANDEBEUR:

1 --- line 15 and 16. He makes a
2 statement, our facility is not in a position to be
3 served by these other utilities. My only question
4 was, he doesn't state whether that is a location not
5 in the position or some other --- something other than
6 location and, perhaps, either you or the company can
7 answer. If he simply is not on the map in a service
8 territory of one other the other two Pike County
9 providers, well, then that answers the question. I
10 don't need Mr. Hervieux.

11 ATTORNEY MELIA:

12 That's the answer.

13 JUDGE JANDEBEUR:

14 Okay.

15 ATTORNEY MELIA:

16 It's a physical inability.

17 JUDGE JANDEBEUR:

18 Okay. That was the only question I had
19 for him, so if you want to just put that into the
20 record, put your stipulation into the record.

21 ATTORNEY LANZA:

22 Your Honor, I think the only condition
23 that we would have in the stipulation is if Counsel
24 would agree that Mr. Hervieux is not an economist. I
25 think that would be the only other condition that we

1 would have attached to that stipulation to his
2 testimony.

3 JUDGE JANDEBEUR:

4 Do you two want a minute to word that or
5 you want to just go ahead and ---?

6 ATTORNEY MELIA:

7 I have no problem. I mean, I understand
8 that Mr. Hervieux made some statements regarding the
9 impact on the business community, which is largely his
10 observation, because he's the corporate base of Altech
11 in the Milford business community. So he gets this
12 stuff --- information. And so he's not an economist.
13 We can just give the testimony and create, you know,
14 the weight to which it's entitled.

15 JUDGE JANDEBEUR:

16 Okay.

17 ATTORNEY MELIA:

18 I could make the oral stipulation.

19 JUDGE JANDEBEUR:

20 Please do?

21 ATTORNEY MELIA:

22 Your Honor, based on the agreement
23 between Counsel for the company and Counsel for the
24 large customer group, parties would agree to stipulate
25 to the admission of the testimony of Darrin Hervieux

1 on behalf of Altech Lansing. That has been designated
2 LCG statement number two, with a cover page and three
3 pages of questions and answers. There is also ---
4 excuse me, four pages of questions and answers.
5 There's also a one page exhibit prepared by Mr.
6 Hervieux, which is designated LCG Exhibit Number Five.
7 Just comparison of costs from February through August
8 2006. We have agreed to a further condition on the
9 testimony that Mr. Hervieux is not an economist and
10 his testimony is not being presented as economic
11 expert testimony for purposes of this case.

12 JUDGE JANDEBEUR:

13 Thank you. Okay. I think we're ready
14 for Mr. Forbes.

15 ATTORNEY MELIA:

16 I would call Mr. --- Commissioner Forbes
17 to the stand.

18 JUDGE JANDEBEUR:

19 We probably better do that. He's two
20 hours out.

21 ATTORNEY MELIA:

22 Yeah. Why don't we do that.

23 JUDGE JANDEBEUR:

24 We'll take a break. Take five minutes.
25 We'll be right back.

1 ATTORNEY MELIA:

2 Mr. Hevieux is a hard man to get a hold
3 of so I can't guarantee he'll get this message, but
4 we'll try.

5 SHORT BREAK TAKEN

6 JUDGE JANDEBEUR:

7 Could you raise your right hand for me,
8 please?

9 -----
10 COMMISSIONER HARRY FORBES, HAVING FIRST BEEN DULY
11 SWORN, TESTIFIED AS FOLLOWS:

12 -----
13 JUDGE JANDEBEUR:

14 Thank you, sir. Be seated.

15 A. Thank you.

16 ATTORNEY MELIA:

17 Your Honor, before I proceed, the reason
18 we're bringing Mr. Forbes back, as you know, we're the
19 primary Complainant in the case with the burden of
20 proof in the proceeding. And with that burden, we
21 feel there should be an opportunity for Mr. Forbes to
22 respond just to some of the statements that were made
23 in the Direct testimony.

24 DIRECT EXAMINATION

25 BY ATTORNEY MELIA:

1 Q. Mr. Forbes, have you reviewed the testimony of the
2 Pike County Light and Power witnesses?

3 A. Yes, I have.

4 Q. With regard to Witness O'Brien, you read that
5 specifically in detail?

6 A. Yes, sir, I have.

7 Q. Do you have any responses to that testimony?

8 A. I have several responses to their witnesses and I
9 guess it's with hostility that I come here today to
10 talk out by ---.

11 Q. We're going to start with O'Brien, though; right?

12 A. Oh, yeah.

13 Q. Okay.

14 A. I was just going to make a general statement, I'm
15 sorry.

16 Q. I want to try to keep this organized.

17 A. But in reviewing these testimonies, I find that
18 they're better politicians than I am with some of the
19 comments and confusion that they've drawn into this
20 case. As far as --- do you want to ask questions or
21 you want me to just start.

22 Q. No, I can --- you had some --- just a few comments
23 on each would be appropriate.

24 A. Thank you.

25 Q. I mean, Mr. O'Brien's testimony spoke about

1 customer service and good relations, and I know that
2 you agree with some of that.

3 A. I do. I think that you've seen an improvement or
4 a heightened improvement in customer service or at
5 least looking at it since this situation has gone on.
6 They have been more attentive to details. The last
7 emergency we had more personnel than I've ever seen --
8 the life of the ones assigned during the flood.
9 However, that was in this recent year after the rate
10 increases.

11 Over my course of time of 12 years as a
12 Commissioner, and in then prior that as a township
13 supervisor in Milford Township, that is within their
14 jurisdiction, I've come to know very short the
15 customer relation person and some of their linemen and
16 different people. There was a heightened awareness
17 over the years of their cooperation as a company.
18 However, it seemed to have gone down after Con Edison
19 purchased them. There was a lack of personnel. There
20 was a lack of response, a lack of communication. And
21 I highlight strictly even just recently with this rate
22 increase when you look at it. To walk into a elected
23 official's office, and that's what Barry Short was
24 dispatched to do in December of 2005, and tell
25 everybody they were getting a 73 percent rate

1 increase, in my opinion was reprehensive. It was just
2 something that should not have been done that way.
3 They were planning a rate increase back in July.
4 They ---.

5 ATTORNEY LANZA:

6 I'm going to object. This testimony is
7 repetitive. I think this witness has already
8 testified to that meeting, has testified to his
9 reaction. It's repetitive.

10 ATTORNEY MELIA:

11 Yeah, maybe ---.

12 A. Okay. I'll stick to this then.

13 JUDGE JANDEBEUR:

14 When there's an objection you got to wait
15 and we'll fight it out, and then you get to talk
16 again.

17 A. I'm sorry.

18 JUDGE JANDEBEUR:

19 That's all right. Mr. Melia?

20 ATTORNEY MELIA:

21 Your Honor, I think if the witness would
22 want to focus on the specific statements of Mr.
23 O'Brien and respond to them ---

24 A. Okay.

25 ATTORNEY MELIA:

1 --- that would be fine.

2 A. All right.

3 JUDGE JANDEBEUR:

4 Does that satisfy your objection, Mr.
5 Lanza?

6 ATTORNEY LANZA:

7 If we could have specific references in
8 the testimony, as well, please.

9 ATTORNEY MELIA:

10 I can take the witness through that
11 stuff. That's no problem.

12 JUDGE JANDEBEUR:

13 Thank you.

14 BY ATTORNEY MELIA:

15 Q. Mr. Forbes, you had discussed already your
16 reaction to some of the proactive efforts that Pike
17 County Power and Light has taken. That's included on
18 pages two and three. Is there anything else with
19 regard to the cooperativeness that you would want to
20 elaborate on, or lack of cooperativeness?

21 ATTORNEY LANZA:

22 Excuse me, can we have references to the
23 testimony, please?

24 ATTORNEY MELIA:

25 Pages two and three in their entirety.

1 A. If you look at the answer by Mr. O'Brien in
2 reference to moving the office into Port Jervis, a
3 mile from Matamoras and several miles from Milford.
4 It's maintained. That it is not a well-known fact by
5 people until they have a complaint and have to get
6 involved with a billing error. The 800 line is just
7 nothing but cumbersome to get through and deal with
8 somebody on with billing errors. He testified to the
9 effect of emergency dispatching after an emergency
10 situation. It's all well and good in his testimony
11 and he says that they dispatch out of a Port Jervis
12 area. However, their crews do not live right in Port
13 Jervis or in the Milford area. They come from several
14 areas. And if you've ever dealt with some of their
15 people, they do come from Middletown and further. And
16 you are waiting over an hour sometimes or longer for a
17 crew to respond to an emergency. That affects a lot
18 of the County issues because of the amount of
19 emergency service personnel that we have to on the
20 road and disrupt their lives because they're all
21 volunteers.

22 The other issue he talks about here is the VRU,
23 their voice response unit. Their voice response unit
24 is nothing more than a prerecorded message telling you
25 that there's an outage. It really doesn't go into,

1 nor do you have a representative that you can talk to.
2 It is just nothing more than a telephone system to say
3 that you have problems.

4 BY ATTORNEY MELIA:

5 Q. And that's on page four?

6 A. Well, it's also --- he talks about it on page two.

7 Q. Two, okay.

8 A. All right. On page three he relates to how there
9 is a communication now with the Pike County
10 commissioners, mayors, township supervisors, emergency
11 management, police, township administrative staff.
12 There were always a communication network. However,
13 it is lapsed over a period of time and I go back and I
14 point out of not knowing that a rate increase was even
15 being suggested or imposed upon us. Over the years
16 the community relations has resolved in not only
17 billing numerous municipal requests, including, but
18 not limited to, billing issues, lighting requests,
19 tree trimming, electric service requests, and customer
20 inquiries in storms and resolutions.

21 I have had to, in my course of time, because I do
22 have very short numbers, able to get a hold of him,
23 but numerous calls, when our constituents cannot get
24 answers because all they get is a prerecorded message.
25 And in turn, I don't even get the responses sometimes

1 that need to be given and gone back to our
2 communications center so that we can cut down the
3 amount of conversations and calls that we get about
4 electric outages at the time.

5 Tree trimming services, and it's talked about by
6 all three of the witnesses here, about the services
7 they have done. I got to commend them. They have
8 worked with the Milford Tree Commission. However,
9 they do it in a lot of respects to be able to keep the
10 outages on their on-line, and that has backed off in
11 recent years. And they're getting back into that
12 again.

13 Let's see. The next issue is community response
14 team during storms. This has just been recent that we
15 had to heighten awareness with the response personnel
16 and being able to be on-call and working through
17 emergencies. Before we were still at the mercy of
18 when they could dispatch somebody. It was not similar
19 to this last storm. A lot due to this proceedings and
20 such that they did have crews assigned to us both at
21 our communication center and in Matamoros. That has
22 not been at that level in years past.

23 There is a conversation here about the sharing of
24 tower and our communication networks. Yes, that is
25 factual. Page four, may I go on?

1 ATTORNEY LANZA:

2 I was just going to ask you if we can
3 move beyond two and three.

4 BY ATTORNEY MELIA:

5 Q. Yes. Yeah. Please make reference to, you know,
6 the pages that you're addressing. And if you can kind
7 of generalize your response that's fine.

8 A. Yes. I'm trying to get to that in the testimony.

9 Q. Sure. That's fine.

10 ATTORNEY LANZA:

11 Judge, I think it would be much easier if
12 some questions were asked of the witness instead of
13 having a soliloquy.

14 JUDGE JANDEBEUR:

15 Mr. Melia?

16 ATTORNEY MELIA:

17 I can do that.

18 BY ATTORNEY MELIA:

19 Q. Mr. Forbes, on page four there's discussions
20 regarding the notification procedures during electric
21 outages. Do you see that?

22 A. Yes, sir.

23 Q. And you've talked about that before. Is there any
24 other comments you'd like to make on that subject?

25 A. Just that as it's outlined here under Mr.

1 O'Brien's testimony is that they --- and he goes into
2 quite detail about how, if there's an outage of over
3 25 customers and out they personally notify you. That
4 has never happened. Both as a person that uses their
5 service nor as a county and a community leader, I've
6 never had that happen. Outages, when it's a scheduled
7 outage, has never been to --- either to the county or
8 to the business community worked with them to do it at
9 night. It has been during their business hours and
10 interrupted their services, and I find that that's
11 just unacceptable because it does cut into not only
12 the county operation, but also in the business
13 communities.

14 Q. Okay. Page five there's discussions of the number
15 of complaints that have been filed, formal complaints
16 and informal complaints, with the PUC. Do you have
17 any response to that testimony?

18 A. Yes, I do. Because in reading both testimonies,
19 not only Mr. O'Brien's, but the other witnesses for
20 the Pike County Light and Power, seems to be
21 confusing. I can't even understand it because they
22 talk here from 2001 through 2006 a total of 69
23 complaints and when you read through their expert on
24 the other engineer there were numerous --- more
25 complaints. One customer alone, Mr. --- had over 16

1 in one time period, in one year. Let alone what is
2 being portrayed here. I think it's just nothing more
3 than confusing and not factual.

4 Q. Moving to page six. This is regarding the
5 customer surveys that are conducted. I don't know if
6 you have much familiarity with that process so ---.

7 A. I guess my only answer to this when I read through
8 this about the satisfaction here they talk --- he
9 talks about the decline in satisfaction is basically
10 because of the price increase. Well, I think that
11 just heightened the awareness to the complaints and
12 has brought it forward because of the price increases.
13 However, the lack of service, the lack of redundancy,
14 the lack of ability to provide service to a local that
15 should be being provided is also --- and it should be
16 put into this. That's my standpoint.

17 Q. And finally, Mr. Forbes, there's some discussion
18 of the proposal to bring into the PCPL territory the
19 PowerSwitch Esco Referral Program. Now, that was also
20 talked about in more detail by one of the other
21 witnesses so if you would like to defer your
22 comments ---.

23 A. I do 'til the other gentleman's testimony.

24 Q. And that concludes your ---?

25 A. Well, I had two other areas on statements that Mr.

1 O'Brien eluded to in whatever it is he gave me here.
2 I forgot what I tore these out of.

3 JUDGE JANDEBEUR:

4 Mr. O'Brien's testimony? Or something
5 else?

6 A. No, it's his transcript of what he said in the
7 answers ---

8 ATTORNEY MELIA:

9 No. I think we ---.

10 A. --- to the responses.

11 ATTORNEY MELIA:

12 No. That relates to, I think, discovery
13 responses, perhaps, that we really can't get into.

14 A. Oh, okay. Because they're in with ---.

15 BY ATTORNEY MELIA:

16 Q. Does it relate at all to the Direct testimony of
17 O'Brien?

18 A. It does, because he goes down in a little bit more
19 detail.

20 ATTORNEY LANZA:

21 Are we going to have something marked?

22 Are we going to have something introduced into

23 evidence? Is he just going to ---

24 JUDGE JANDEBEUR:

25 I don't know yet.

1 ATTORNEY LANZA:

2 --- read from an out of record document?

3 JUDGE JANDEBEUR:

4 What are you reading ---

5 ATTORNEY MELIA:

6 What are you reading?

7 JUDGE JANDEBEUR:

8 --- from, Mr. Snyder? I'm sorry, Mr.

9 Forbes.

10 A. Let me find it and I'll tell you because I tore
11 two points out that I wanted to make.

12 JUDGE JANDEBEUR:

13 Do you want to show your Counsel?

14 A. Yes, I will. I pulled it out of one of these
15 documents that was sent to me.

16 ATTORNEY MELIA:

17 I'll tell you, these really relate more
18 to the testimony and this has to do with some stuff
19 that Dalton talked about.

20 A. All right.

21 ATTORNEY MELIA:

22 Again, I think from an evidentiary
23 perspective it may be a problem.

24 A. Okay.

25 ATTORNEY MELIA:

1 Okay.

2 A. Very good.

3 ATTORNEY MELIA:

4 It's not helpful.

5 JUDGE JANDEBEUR:

6 Any additional questions?

7 ATTORNEY MELIA:

8 Well, Your Honor, what I'd like to do, I
9 would like to, if I could, try to condense maybe some
10 of the responses in the surrebuttal. And maybe to do
11 that, rather than going through on a page by page
12 basis, take a minute or so and just talk with Mr.
13 Forbes, try to capsulize some of these comments a bit.

14 JUDGE JANDEBEUR:

15 You would like to take a break?

16 ATTORNEY MELIA:

17 About two, three minutes.

18 JUDGE JANDEBEUR:

19 Why don't we take a five minute break.

20 ATTORNEY MELIA:

21 I'm always cognizant in trying to keep a
22 fairly concise record.

23 JUDGE JANDEBEUR:

24 That's fine. We'll take five minutes ---

25 ATTORNEY MELIA:

1 Let's do that.

2 JUDGE JANDEBEUR:

3 --- and you can work with your witness.

4 OFF RECORD DISCUSSION

5 JUDGE JANDEBEUR:

6 Mr. Melia?

7 ATTORNEY MELIA:

8 Thank you, Your Honor. After some off
9 the record discussions, Mr. Forbes is not going to be
10 providing any specific surrebuttal of Mr. Holtman.
11 We're going to limit the comments to the rebuttal
12 testimony of Mr. Regan. And I will be going through
13 references, specific page and line references to try
14 to focus the points that Mr. Forbes wants to make. I
15 think that'll be much more helpful for the record.

16 JUDGE JANDEBEUR:

17 Okay.

18 BY ATTORNEY MELIA:

19 Q. Okay. Mr. Forbes, with regard to the testimony of
20 Mr. Regan, do you have a copy of that?

21 A. Yes, I do.

22 Q. And you have reviewed it?

23 A. Yes, I have.

24 Q. I would like to take you to page two, line 13
25 through page three, line eight, which discusses

1 reliability. And if you would just review that
2 testimony and then just provide your surrebuttal
3 testimony?

4 A. You don't want me to read this?

5 Q. No. No.

6 A. Oh, okay.

7 Q. That's in the record.

8 A. My rebuttal to this statement from line 13, page 2
9 through line eight on page three is that, as you read
10 through this, this is a Pike County Light and Power
11 suggestion that they're looking to improve service to
12 the area. It actually says that, reliability for all
13 customers in PA. Mine is is where have they been and
14 why hasn't this been looked at in the future. It's
15 sitting here saying, okay, now that we're being
16 corrected and we're being asked and here's our
17 solution, versus any other later on, we'll talk about
18 other alternatives that have been suggested. And this
19 is their answer to that. And again, I just sit back
20 and say, why now versus looking at your customers over
21 the period of time that you've been here.

22 Q. Okay. Now, Mr. Forbes, I will take you to page
23 14, line 20 through 23. And I would ask you to review
24 that testimony and provide your surrebuttal.

25 ATTORNEY LANZA:

1 Can you repeat the line numbers again?

2 ATTORNEY MELIA:

3 Certainly, page 14, lines 20 through 23.

4 A. Yes. On page 14, lines 20 through ---.

5 BY ATTORNEY MELIA:

6 Q. I think it starts at line 12.

7 A. Line 12?

8 Q. Yeah. Twelve (12) through 23. That whole ---.

9 A. Oh, the answers?

10 Q. Yes.

11 A. Okay.

12 Q. Yes.

13 A. Again, it's self explanatory. It talks about, if
14 this were --- if this company was forced to sell to
15 another entity they're basically --- and I'm a layman
16 and I'm just a country bumpkin, but it's sitting here
17 saying, folks, we're going to take our electric and go
18 home. And I think this is a veiled threat. Not only
19 to the customers of the area, but to the whole area
20 when you look and read this. It says, we don't know
21 if we would want to stay connected. And I find that
22 just not a way to do business, nor a way to deal with
23 an area or territory that you're --- you want to be
24 provider of electric within that area. I find that
25 just down right insulting.

1 Q. Okay. Mr. Forbes, I'd like to direct you to page
2 17 of Mr. Regan's testimony. Lines 10 through 22,
3 which is the discussion of the vegetation management
4 program.

5 A. What lines to what?

6 Q. Page 17, lines 10 through 22.

7 A. Okay. Again, this is being discussed and talks
8 about tree trimming and vegetation and acknowledges
9 the interruption of customers affected within the
10 area. It also states here they were at an end of a
11 four year cycle and during that time frame and now it
12 has been --- through these proceedings it has been
13 brought to their attention and they have improved
14 their tree trimming and vegetation.

15 But it also goes back to reliability. It deals
16 with why this wasn't being done, why the attention to
17 detail and reliability to the customers during these
18 periods, which would've stopped a lot of the outages
19 for a rural county, rural in nature. This is a
20 utility that has been around and know this. And it
21 all goes back to when Con Edison purchased this and
22 pulled back their staffing and changed the way that
23 the old Pike County Light and Power did business and
24 was a reliable utility and has gone down hill until
25 this period of time for profit margins.

1 Q. Mr. Forbes, page 25, line 16 through 19.

2 A. Twenty-five (25) or 23? I got something on 23
3 that I ---.

4 Q. All right. Let me double check.

5 A. I'm sorry.

6 Q. Well, page 23, lines 16 through 19 deals with
7 staffing levels.

8 A. Correct.

9 Q. Is that an area that you wanted to respond to?

10 A. It goes to --- I do. Lines 16 through 23. It
11 talks about their staffing levels and the expectations
12 in 2000 --- June of 2007 and possibly beyond. And
13 crews can be dispatched from the Middletown, New York
14 facility which are 18 miles away and is quickly
15 accessible. Again, it goes back to the heart of the
16 issue that we talked about here that their crews ---
17 and this is their Con Edison representative who is in
18 direct conflict with Mr. O'Brien saying, yes, we do
19 dispatch our crews out of the New York and Middletown
20 area, which is 25 to 30 miles away from the area. And
21 then, of course, you know, the operations of
22 utilities, that they have to call them at home, the
23 person has to respond, the truck has to get there.
24 There's always a time delay in handling and responding
25 back to the area. And I'm sorry, that's all there.

1 Q. And then, Mr. Forbes, I'd like to direct you to
2 page 27.

3 A. Twenty-five (25) I thought we were going to.

4 Q. Did you have anything with regard to page 25, line
5 16 through 19? It didn't sound as though you might.

6 A. Hold on one sec. Let me read it. Yes, I do.

7 Q. Okay.

8 A. The gentleman talks here --- Mr. Regan talks about
9 the change. He conducts the change that Pike County
10 Light and Power is in the process of changing certain
11 system designs, maintenance operating perimeters, and
12 probe system performance and restoration, but
13 committed to improving on reliability to the service.
14 He directly states here that it hasn't been reliable,
15 if you read that statement. And that statement is
16 saying, okay, we're committed to improving our
17 service.

18 ATTORNEY LANZA:

19 Objection, Judge. That's a
20 mischaracterization of the testimony. If he wants to
21 quote the testimony that's fine, but it's going to
22 beyond that point.

23 JUDGE JANDEBEUR:

24 Sustained. Mr. Forbes, if you would just
25 quote it as it's stated?

1 A. Okay. It says, Pike, I'll read it if I may, must
2 conclude by noting that Pike County Light and Power
3 has changed or is in the process of changing certain
4 of its system designs, maintenance, and operating
5 parameters to improve system performance and
6 restoration. Pike County Light and Power is
7 committing to --- committed to improving reliability
8 for its customers. That speaks to the heart of the
9 issue that we're talking about here today.

10 BY ATTORNEY MELIA:

11 Q. Okay. Now, Mr. Forbes, your last specific
12 reference testimony you want to respond to is page 27.
13 I have that as lines 7 through 19, if you would review
14 that and correct me if I'm wrong.

15 A. Yes. If I could, this addresses Mr. Kennedy's
16 comments on outages. And it specifically talks to the
17 nature and the ability of Pike County Light and Power
18 to address outages and vegetation management
19 improvement within those areas, the overload
20 conditions. And it goes on within that --- those
21 lines to talk about how this will continue to be a
22 problem. It will likely continue to be more of an
23 outage than the Pike County Light and Power, more
24 rural in nature. The whole area has been. It's just
25 stating that, okay, Mr. Customer, you stay there.

1 You're just going to have outages and there's nothing
2 you can do about it.

3 ATTORNEY LANZA:

4 Objection again, Your Honor.
5 Mischaracterizing the testimony.

6 JUDGE JANDEBEUR:

7 Hold on one second, Commissioner.

8 ATTORNEY MELIA:

9 Go ahead.

10 ATTORNEY LANZA:

11 The objection is he's mischaracterizing
12 the testimony. That's not what the testimony says.
13 And it should be stricken from the record.

14 JUDGE JANDEBEUR:

15 I think what I heard is more of his
16 opinion of the verbiage of the testimony.

17 ATTORNEY LANZA:

18 Your Honor, he prefaced his statement by
19 saying, this is what the company says. And that is
20 not what the company says in his testimony. He's not
21 offering opinion. He's mischaracterizing the
22 testimony and that is not the way the testimony reads.

23 COURT REPORTER READS BACK SWORN TESTIMONY

24 JUDGE JANDEBEUR:

25 Sustained. Commissioner Forbes, ---.

1 ATTORNEY LANZA:

2 Can we have that stricken, Your Honor,
3 from the record, please?

4 JUDGE JANDEBEUR:

5 Yes. You can go ahead and strike that.

6 ATTORNEY MELIA:

7 Are we just striking that last portion?

8 JUDGE JANDEBEUR:

9 That last sentence. The problem that Mr.
10 Lanza has with what you're doing is you're assuming
11 that that is what the company is saying. That isn't
12 the company's position on what they're saying at all.
13 That's the problem that he has with it. Now, if you
14 want to rephrase that to say that's your opinion of
15 what the company --- that's your perception of what
16 this says to you, that I can accept. And I think Mr.
17 Lanza will probably sit still for that one. But
18 saying that that's what the company said won't work.
19 A. Yes, ma'am. Again, my view of this whole
20 statement here is that they feel that even though
21 they've tried to improve reliability, they're still
22 telling the customers within rural areas that you're
23 going to be susceptible to outages over the average
24 Pike County Light and Power customer within that. I
25 think that that's a heck of a way to handle customers.

1 BY ATTORNEY MELIA:

2 Q. Okay. Mr. Forbes, that concludes your --- do you
3 have another comment?

4 A. Yeah.

5 Q. I'm sorry.

6 A. Line 22 - page 27, line 22 ---

7 Q. I'm sorry.

8 A. --- through page 28. Through page 28.

9 Q. All of 28 or just ---?

10 A. You can cut it back probably to line three or four
11 the way it's addressed. There's comments that I'd
12 like to make on it.

13 Q. And just remember the preface that ---

14 A. I will.

15 Q. --- it's your opinion.

16 A. It's my opinion. Starting on page 27, line 22. I
17 just want to get into the record, in reviewing this
18 statement and it's my opinion that the company's
19 analysis of outages have --- out of the last six years
20 has increased in the number of interruptions, and the
21 number of customers affected, and the hours of
22 interruption predominantly occurred. They're looking
23 at one period of time, 2004, 2005 and that's in direct
24 conflict to what one of the other witnesses for them
25 explained. And then they go into their conditions of

1 it.

2 ATTORNEY LANZA:

3 Objection. If he's pointing out ---

4 A. But Mr. O'Brien ---.

5 JUDGE JANDEBEUR:

6 Hold on.

7 ATTORNEY LANZA:

8 --- another witnesses testimony I think
9 we need a reference to that. Specifically, if he's
10 saying that they contradict each other we'd like to
11 see that contradiction.

12 JUDGE JANDEBEUR:

13 Can you show that contradiction?

14 A. Yes, I can. They asking you to --- in that
15 particular area, they're saying one thing here which
16 they're stating that it was an increase, the number of
17 cutages. You go to Mr. O'Brien's testimony --- let me
18 find the exact page.

19 JUDGE JANDEBEUR:

20 Are you looking at testimony now or
21 answers to Interrogatories?

22 A. Testimony.

23 JUDGE JANDEBEUR:

24 Okay.

25 A. I learned that last time.

1 JUDGE JANDEBEUR:

2 Okay.

3 A. Maybe it's the way I'm reading it, but on page ---
4 Mr. O'Brien's testimony on page five it's addressing,
5 and then there's even a chart there throughout years
6 2001 to 2006, 69 complaints. And my reading of this
7 and my interpretation of this is saying that they did
8 not have --- that they did not have the type of
9 complaints that are being explained under here ---

10 ATTORNEY LANZA:

11 Your Honor, then I ---.

12 A. --- and it's the wrong number.

13 ATTORNEY LANZA:

14 I think it's --- I think we're going to
15 object to the testimony because he has testified that
16 there's a contradiction and there is no contradiction.
17 One piece of testimony in Mr. O'Brien's testimony
18 speaks of PUC complaints. And the other piece of
19 testimony, Mr. Regan's testimony speaks of outages.
20 There's no correlation whatsoever between these two
21 pieces of testimony. There's no contradiction
22 whatsoever between these two pieces of testimony.

23 JUDGE JANDEBEUR:

24 Mr. Melia?

25 ATTORNEY MELIA:

1 Your Honor, I think that Mr. O'Brien is
2 talking about formal and informal complaints that are
3 registered with the Commission. I think what Mr.
4 Forbes is getting to in his interpretations is that
5 outages lead to complaints by customers that are
6 registered with the company.

7 ATTORNEY LANZA:

8 Now, Counsel is testifying and putting
9 words in the witness's mouth. That's not what the
10 witness said. The witness said there was a
11 contradiction in the testimony. We asked that the
12 contradiction be pointed out and it's clear that there
13 is no contradiction.

14 JUDGE JANDEBEUR:

15 I'm not sure it's clear there's no
16 contradiction, but I'm not clear where the
17 contradiction is if there is one. So let's table your
18 objection for just a second. Mr. Snyder, can you more
19 carefully --- I'm sorry, I keep doing that. I do know
20 who you are and I do know who Mr. Snyder is, so it's
21 just going to keep happening.

22 A. Okay.

23 JUDGE JANDEBEUR:

24 Mr. Forbes, can you point us in these two
25 statements where you see a specific contradiction?

1 A. I will. If you start on line ten, which is the
2 response to the above.

3 JUDGE JANDEBEUR:

4 Okay. Line ten. Which witness? Are we
5 on O'Brien or Regan?

6 A. Mr. O'Brien.

7 JUDGE JANDEBEUR:

8 Okay.

9 A. Page five, line --- I guess the question starts
10 out at line eight and then the answer comes down and
11 follows the question that is, please comment on the
12 suggestions offered by OCA's witness that prior to
13 this increase in default service rates, customers were
14 willing to tolerate poor service. Answer, I don't
15 find such testimony credible. My experience of the
16 vast majority of which as I went above has been in
17 customer service area indicates that if services is
18 poor and unreliable customers complain about it.
19 Customer's inclination to complain about service
20 outages regardless of prices of such service only has
21 increased as households become increasing relying on
22 technology, computers, which require continuous
23 electric services.

24 To me, that isn't talking about complaints to the
25 Pennsylvania Utility Commission. It's directed ---

1 it's complaints to outages.

2 JUDGE JANDEBEUR:

3 Okay. And I understand what you're
4 saying.

5 A. To services.

6 JUDGE JANDEBEUR:

7 And where do you see a contradiction in
8 Mr. Regan's testimony?

9 A. I guess I take it with --- in reading the amount
10 of complaints up above on their chart. Taking those
11 statements and the pulling it back to where Mr. Regan
12 has admitted that there were major increases in
13 complaints. Whereas, this speaks to all ---.

14 ATTORNEY LANZA:

15 Your Honor?

16 JUDGE JANDEBEUR:

17 Hold on. Hold on. And where ---.

18 ATTORNEY LANZA:

19 Your Honor?

20 JUDGE JANDEBEUR:

21 Hold on, Mr. Lanza. And where does he do
22 that?

23 A. Mr. Regan states on page 22 --- page 27, line 22
24 it states the company in its analysis of outages that
25 have occurred over the past six years reveal that

1 increases the number of interruptions, the number of
2 customers affected by the customer hours of
3 interruption predominantly occurred --- and they're
4 trying to isolate it to 2004 and 2005.

5 JUDGE JANDEBEUR:

6 Okay. So you're seeing O'Brien page
7 five, line eight, plus ten through fifteen contradicts
8 Regan page 27, lines 22 all the way through the rest
9 of page of 28; is that correct?

10 A. Correct.

11 JUDGE JANDEBEUR:

12 Okay. Mr. Lanza, objection to that?

13 ATTORNEY LANZA:

14 Your Honor, there is no contradiction.
15 Both witnesses are not talking about the same thing so
16 it's not possible that they be contradicting each
17 other. Mr. O'Brien is talking about complaints. Mr.
18 Regan is talking about interruptions. And they're not
19 even talking about the same years. Mr. O'Brien has
20 not said anything about dramatic increases as Mr.
21 Kolling has stated. So there is no contradiction.
22 There's no basis in the fact the statement saying
23 anything about the testimony and whether there is a
24 contradiction in the testimony.

25 JUDGE JANDEBEUR:

1 Mr. Melia?

2 ATTORNEY MELIA:

3 Your Honor, I'm going to simply say that
4 I --- having talked with Mr. Forbes that it is his
5 interpretation. He is mixing formal complaints and
6 informal complaints with customer reactions to
7 outages. Although that's not specifically mentioned
8 here in the testimony. So it is an interpretive
9 contradiction, if you will. It's not apples to
10 apples.

11 ATTORNEY LANZA:

12 Your Honor, I believe Mr. Melia offered
13 Mr. Forbes as a fact witness and it's quickly becoming
14 apparent that he's going beyond the facts. And we ask
15 that that testimony be stricken with regard to the
16 contradiction.

17 JUDGE JANDEBEUR:

18 You're overruled because I believe that
19 it is interpretive and I think I can make my own
20 assessment on whether there is a contradiction or not.
21 Continue, Mr. Melia.

22 BY ATTORNEY MELIA:

23 Q. Mr. Forbes, is there any other page and line
24 specific surrebuttal that you want to present? My
25 notes ---.

1 A. One second, please.

2 Q. Sure.

3 A. Not at this time.

4 Q. Okay. Mr. Forbes, just as a final area of
5 surrebuttal, this really just goes to the --- it's
6 really the testimony of Mr. Regan. You've reviewed
7 it. He talks about a number of options that PCPL is
8 proposing to improve reliability, 69 KV line from the
9 Twin Lakes substation PPL, upgrade the Port Jervis
10 substation, lines feeding into there, some other
11 discussions with PPL and Med Ed regarding other
12 options. And then, of course, we have the Sussex
13 proposal. Having looked at all of those options,
14 recognizing the pros and cons, do you have any final
15 statements with regard to the option that you feel
16 would be best to resolve the issues facing the Pike
17 County Power and Light territory?

18 A. Yes, I do, and in my opinion. After meeting with
19 Sussex executives, talking about what they could do
20 for the customers within this customer base of Pike
21 County Light and Power .

22 ATTORNEY LANZA:

23 Your Honor, I think we're going to object
24 to this. The witness is going to testify about
25 Sussex. He has already testified to that. It sounds

1 like he's about to say that he believes the Sussex
2 proposal to be preferable. He has already said that
3 in testimony. This is repetitive.

4 JUDGE JANDEBEUR:

5 It is repetitive. Sustained.

6 ATTORNEY MELIA:

7 That's all the surrebuttal I have for the
8 witness, Your Honor.

9 JUDGE JANDEBEUR:

10 Questions?

11 ATTORNEY LANZA:

12 If we can have a minute, Your Honor?

13 JUDGE JANDEBEUR:

14 Yes. Take five.

15 SHORT BREAK TAKEN

16 JUDGE JANDEBEUR:

17 I think we were with you, Mr. Lanza.

18 ATTORNEY LANZA:

19 Yes, Your Honor. Thank you.

20 CROSS EXAMINATION

21 BY ATTORNEY LANZA:

22 Q. Mr. Forbes, why don't we start from the back. I
23 think you had some surrebuttal testimony with regard
24 to Mr. Regan and his testimony.

25 A. Yes, sir.

1 OFF RECORD DISCUSSION

2 JUDGE JANDEBEUR:

3 Go ahead, Mr. Lanza.

4 ATTORNEY LANZA:

5 Thank you, Your Honor.

6 BY ATTORNEY LANZA:

7 Q. Mr. Forbes, you had some surrebuttal testimony in
8 response to testimony that the company filed by way of
9 Mr. Regan; do you remember that?

10 A. Yes, I do.

11 Q. You made reference to, I believe it was page 2,
12 line 13 to page 3, line 8 with regards to Mr. Regan's
13 testimony about some improvements that the company is
14 working on making to the Pike County system; is that
15 right? Do you see where that is?

16 A. Yes, I have it here in front of me.

17 Q. And I believe at the time that you were testifying
18 about these references in the testimony your question
19 was, where has the company been. First question is,
20 are you an engineer, sir?

21 A. No, sir.

22 Q. And the second question is, with regard to the
23 plan that is described in the testimony that I just
24 referenced, do you know how long the company has been
25 working on that plan?

1 A. I didn't hear you, I'm sorry.

2 Q. Do you know how long the company has been working
3 on the plan that's described in that portion of the
4 testimony?

5 A. No, I do not.

6 Q. In reference to Mr. Regan's testimony, and I
7 believe you said beginning on page 14, line 12 ---.

8 A. We're done with this here?

9 Q. I may come back to it, but ---.

10 A. I'm just following along.

11 Q. Okay. Bear with me as we go to page 14.

12 A. Okay.

13 Q. You had some testimony regarding Mr. Regan's
14 assertions in his testimony about the interconnection
15 between its New York system and Pike County. And your
16 interpretation of it was that you saw he veiled a
17 threat in this idea that Orange and Rockland may
18 decide not to remain inner connected to Pike County.
19 Do I recall that correctly?

20 A. Yes, you do.

21 Q. Now, is it your view that Pike County Light and
22 Power has an obligation to make improvements at its
23 Port Jervis substation --- or Orange and Rockland has
24 an obligation to make improvements to the Port Jervis
25 substation for the benefit of Pike County customers

1 without being compensated for?

2 A. No, it's not my interpretation. I think I was
3 testifying directly to this statement and what my
4 opinion --- my opinion what was stated here. And I
5 believe my testimony was that it was a veiled threat
6 or a threat to --- if this were sold off he would not
7 cooperate or work. It has no bearing on whether you
8 are compensated or not compensated. It's just my
9 interpretation of what that testimony was.

10 Q. Before you finished your testimony you began to
11 discuss conversations that you had with Mr. Kolling;
12 do you recall that?

13 A. I'm not knowing what you want. Tell me what
14 you're referring to and I'll --- it might help me
15 remember what we're talking about here.

16 Q. You began to talk about conversations that you had
17 with people at Sussex; do you remember that?

18 A. Yes.

19 Q. Who did you have these conversations with?

20 A. The president of Sussex Co-op.

21 Q. And do you know his name?

22 A. I don't recall right this second. I have it in my
23 file back in the office.

24 Q. And do you know how many conversations and
25 meetings you may have had with this representative

1 from Sussex?

2 A. Probably three. You would have to ask Mr. Cohen.

3 Q. And what were the substances of those discussions
4 that you had with Mr. Kolling?

5 A. The substance of the conversations were basically
6 to understand Sussex Co-op, to understand what they
7 can do for Pike County, if they were, and
8 understanding that they had approached Pike County
9 Light and Power and Orange and Rockland to enter into
10 some discussions as to whether the company was
11 interested in settling this end of their territory ---
12 Pike County Light and Power territory. I wanted to
13 assure myself that if this were ever to happen that we
14 weren't in the same situation that we currently are
15 facing with businesses closing, peoples lives being
16 disrupted, families going out of business, things of
17 this nature, because of the high electric rate. It
18 might just jump from one situation to the next. In
19 discussions with them based on if they ever got a
20 meeting with Pike County Light and Power to ascertain
21 what a good number would be as to whether this was
22 reliable and would this be a reliable electric source.
23 I did a little research with them on what a co-op was,
24 how they secure it, what their holdings were as to
25 what they have to be able to produce and bring in the

1 reliable and cheaper electric service to the area.

2 Q. What did Mr. Kolling tell you with regard to
3 rates?

4 A. Could not determine the base rate based on that
5 they did not have an overall sale price at that
6 particular point, but ---.

7 Q. Did he mention --- I'm sorry.

8 A. But in their opinion they felt that they can
9 deliver a much more cost effective service to the
10 customers within the Pike County Light and Power
11 territory. It could be done with reliability. It
12 could be done with additional redundancy and bringing
13 in at a much lower rate than where were at even though
14 they didn't have the final numbers. And that would
15 have to be determined at a later point if they could
16 ever get to a point of getting across the purchase of
17 the territory.

18 Q. So did he guarantee you any particular level of
19 savings? Mr. Kolling ---

20 A. No.

21 Q. --- did he guarantee you ---?

22 A. No, there was no guarantee. This was just
23 preliminary discussions.

24 Q. And correct me if I'm wrong, it sounds to me as if
25 Mr. Kolling represented to you that the savings in

1 rates to Pike County customers would be dependant on
2 the ultimate purchase price if it ever came to Sussex
3 purchasing Pike County Light and Power; is that
4 correct?

5 A. No, that's not correct. That's just one portion
6 of what would determine that electric rate. A lot of
7 it had to do with what their holdings were, where they
8 were getting their electric service generation within
9 their portfolio and in their holdings. The number as
10 to if they purchased outright, and the line connection
11 and everything else had to factored in. There were a
12 lot of factors that would've had to go into it, but
13 they were very competent with their engineers that
14 they could provide a lower rate then what they
15 currently were offering.

16 Q. So he did mention to you that there were factors
17 other than the purchase price, and among those were
18 interconnection costs?

19 A. Correct.

20 Q. And did he mentioned to you who was going to bear
21 the cost of interconnection?

22 A. Again, the discussion was that, again, the cost
23 worked a lot differently than, of course, the private
24 utility company. But they felt that it would be born
25 by their current rate holders plus the increased rate

1 holders of buying into this.

2 Q. So Mr. Kolling represented to you that the cost of
3 interconnecting Sussex with Pike County would be born
4 by customer of Sussex and customers of Pike County?

5 A. Absolutely. And overall company holding.

6 Q. Were you present when Mr. Kolling testified here
7 this week?

8 A. No, I was not.

9 Q. Did you have any discussion with your Counsel
10 about the nature of the testimony that Mr. Kolling
11 presented here this week before you got here?

12 A. No, I did not.

13 ATTORNEY LANZA:

14 Judge, I'd like to approach the witness,
15 please.

16 JUDGE JANDEBEUR:

17 Go ahead.

18 BY ATTORNEY LANZA:

19 Q. I'd like to show you what has been previously
20 marked as PCL&P Cross Examination Exhibit Number 22,
21 which was entered into the record on January 17th.
22 And this is a Interrogatory Notice submitted by the
23 company to Mr. Kolling specifically requesting
24 information regarding who would bear the costs of any
25 interconnection between Sussex and Pike County

1 territory. And I'd like you to read that first
2 sentence. If you would read it out loud into the
3 record.

4 A. Can I read it first?

5 Q. Sure.

6 A. Thank you. Pike County Light and Power customers
7 would pay rates that included the cost of the
8 interconnection as part of their overall rates.

9 Q. Would you continue reading the sentence, please?

10 A. There are no formal documents, plans or studies
11 regarding this issue. None of the costs would be
12 passed to existing Sussex customers.

13 Q. Did Mr. Kolling mention to you whether he had
14 performed a feasibility study with regard to the
15 interconnection between Sussex and Pike County?

16 A. No.

17 Q. Do you know if Mr. Kolling discussed a proposal to
18 interconnect Sussex with Pike County with anyone else
19 other than you?

20 A. I believe there were --- I'm trying to remember
21 who was there. This goes back a while now. There was
22 somebody from the office of Consumer Affairs. There
23 were one of the experts that they had brought on board
24 and I can't remember their names at this point. I
25 believe that was all.

1 Q. Does the name Mr. Lonzalota (phonetic) ring a bell
2 to you?

3 A. No, it doesn't. Again, I know who the individual
4 is, but I don't know if that was anybody there.

5 Q. Would you accept that Mr. Lonzalota is the OCA's
6 expert with regard to this interconnection issue?

7 A. Yes.

8 Q. Do you know --- or were you here when Mr.
9 Lonzalota testified ---

10 A. No, I was not.

11 Q. --- with regard to the Sussex interconnection?

12 Are you aware that Mr. Lonzalota testified here in
13 this hearing room with regard to the interconnection,
14 that he had not prepared any plans and schematics or
15 any drawings of the proposed interconnection?

16 A. Your question to me is ---?

17 Q. Are you aware that that was his testimony?

18 A. No, I'm not aware. I have not read his testimony.

19 Q. Have you had any discussions with Counsel
20 regarding Mr. Lonzalota's testimony here earlier this
21 week?

22 A. No, I have not.

23 Q. Are you aware that Mr. Lonzalota testified that he
24 had performed no load studies with regard to this
25 interconnection?

1 A. No, I'm not.

2 Q. Do you know whether he had prepared any maps of
3 the interconnection?

4 A. No, I do not.

5 Q. Do you know if Mr. Lonzalota had prepared a list
6 of permits or approvals that would be needed to
7 implement the proposed interconnection?

8 A. No, I do not. I did not know of anything he
9 testified to or any prior to it, if I can save you
10 time. When I get it I'll read it, but I have not read
11 it as of yet.

12 Q. So you wouldn't know that Mr. Lonzalota testified
13 that there were no environmental studies?

14 ATTORNEY POPOWSKY:

15 Your Honor, I ---.

16 A. No. I'm sorry.

17 JUDGE JANDEBEUR:

18 Is there an objection or were you
19 thinking about one?

20 ATTORNEY MELIA:

21 I guess we both are, but Mr. Forbes has
22 indicated --- frankly we don't have a transcript. Mr.
23 Forbes wasn't here. Mr. Forbes is pretty busy I know
24 this past week. I haven't had much chance to talk to
25 him.

1 JUDGE JANDEBEUR:

2 He has already stated he didn't read it.

3 ATTORNEY MELIA:

4 Right.

5 JUDGE JANDEBEUR:

6 Okay. Continue, Mr. Lanza.

7 BY ATTORNEY LANZA:

8 Q. Would it surprise you to hear that Mr. Lonzalota
9 said in his testimony that he has not investigated the
10 Sussex system?

11 A. Would I what?

12 Q. Would you be surprised to hear that that was his
13 testimony?

14 A. I would be surprised, yes.

15 Q. Would you be surprised to hear that Mr. Lonzalota
16 testified here in this hearing room that he has not
17 investigated planning, maintenance or operations of
18 Sussex?

19 ATTORNEY MELIA:

20 I guess I'll renew the objection, Your
21 Honor.

22 ATTORNEY LANZA:

23 What is the objection?

24 JUDGE JANDEBEUR:

25 As repetitive? What is ---?

1 ATTORNEY MELIA:

2 Well, that he has already indicated that
3 he hasn't read the transcript so ---.

4 JUDGE JANDEBEUR:

5 But that's not what Mr. Lanza asked at
6 this point.

7 ATTORNEY MELIA:

8 Okay.

9 ATTORNEY LANZA:

10 I asked ---.

11 JUDGE JANDEBEUR:

12 Are you withdrawing the objection?

13 ATTORNEY MELIA:

14 I can. I think ---

15 JUDGE JANDEBEUR:

16 Okay.

17 ATTORNEY MELIA:

18 --- I know what Mr. Forbes' answer will
19 be ---.

20 A. I guess no, it wouldn't surprise me to what I've
21 heard here. However, in saying that I think that this
22 is in the --- first of all, it's in an extremely
23 exploratory state as to whether Sussex would even get
24 here. I think that if this were a true viable
25 solution all those T's would be cross and the I's

1 dotted and there would be a full plan put together. I
2 don't find --- I find that this is just exploratory in
3 nature.

4 BY ATTORNEY LANZA:

5 Q. So as far as you know there are no concrete plans
6 with regard to the Sussex interconnection at this
7 point? You believe that at some point in the
8 future ---?

9 A. If this is successful, yes.

10 Q. If what is successful?

11 A. If it was successful as a solution to this problem
12 in Pike County Light and Power territory, that it was
13 ordered --- that the company had some compassion and
14 sold it to them that it would head to that direction
15 and focus.

16 Q. And you believe that based on what?

17 A. I believe what? That statement?

18 Q. Yeah.

19 A. I believe in my heart in reviewing what the
20 customers of Pike County Light territory, me being one
21 of them, and the County as a whole, have been put
22 through by Pike County Light and Power the best
23 direction is to sever relationships and move in a new
24 direction for any new view --- or a new look at what
25 is in the future of the customers within that

1 territory.

2 Q. You're an elected official and you serve on the
3 Pike County Commission; am I correct?

4 A. Yes, sir.

5 Q. Am I correct in assuming that proposals come
6 before you as a county commissioner or as a body, a
7 commission, which require commission approval before
8 they can go forward; is that a correct assumption?

9 A. Yes.

10 Q. When projects come before you do you do some sort
11 of investigation to find out what's behind the project
12 before vote to approve?

13 A. Yes.

14 Q. Do you ask questions of the people that are
15 proposing the project?

16 A. Yes.

17 Q. Do you expect that they will have some sort of
18 plan for the project that they're proposing when they
19 come before the commission before you approve?

20 A. Yes.

21 Q. Do you expect that they will have done their
22 homework so that they can present a plan to you that
23 you feel comfortable voting to approve?

24 A. Yes.

25 Q. I'm going to ask you a hypothetical question. A

1 developer comes to you in your rule as county
2 commissioner --- as a county commissioner, seeking
3 approval of a project and this developer tells you
4 that his project will benefit the citizens of Pike
5 County. And you ask the typical questions that you
6 would ask. You ask what the cost will be, what the
7 plan is. You might be able to tell me better what
8 sorts of questions you ask when a proposal like that
9 comes before you as a commissioner. But I'm assuming,
10 based on your response, that you do ask these
11 questions.

12 Would you approve a developer's project if they
13 told you that they have no plans, if they told you
14 that they haven't done any studies, that they don't
15 know what permits or approvals may be needed before
16 the project may be completed, and that they haven't
17 investigated the project in the least, and then they
18 tell you that the cost is going to be born by the
19 citizens of Pike County? Would you approve such a
20 plan, Mr. Forbes?

21 A. First of all, I have to ---.

22 Q. It's a ---.

23 A. It's a hypothetical situation. It's not ---.

24 Q. It's a yes or no question.

25 A. It's not.

1 Q. It absolutely is.

2 A. It is not.

3 Q. I'm asking you, would you approve such a plan, yes
4 or no?

5 A. I can't answer it that way.

6 Q. Is that a yes or a no?

7 A. It's not either.

8 ATTORNEY LANZA:

9 Judge, would you please direct ---?

10 JUDGE JANDEBEUR:

11 He's not accepting your hypothetical. He
12 can say, I'm sorry, I don't accept your hypothetical.
13 He just said, I'm sorry, I don't accept your
14 hypothetical.

15 BY ATTORNEY LANZA:

16 Q. Do you, in your role as commissioner, grant
17 approval to projects where you don't know what the
18 cost of the projects are?

19 A. No.

20 Q. Do you, as a commissioner, approve projects that
21 --- where the proponent of the project does not give
22 you concrete plans for implanting the project?

23 A. No.

24 ATTORNEY LANZA:

25 No more questions, Your Honor.

1 ATTORNEY MELIA:

2 Your Honor, if I can have a couple
3 minutes. I need to consult with my witness.

4 JUDGE JANDEBEUR:

5 Okay. Go ahead.

6 OFF RECORD DISCUSSION

7 JUDGE JANDEBEUR:

8 Let's go back on.

9 ATTORNEY MELIA:

10 Just a couple of questions on Redirect
11 for Mr. Forbes.

12 JUDGE JANDEBEUR:

13 Okay.

14 REDIRECT EXAMINATION

15 BY ATTORNEY MELIA:

16 Q. Mr. Forbes, you were asked a question by Mr. Lanza
17 regarding the cost of interconnection and who would
18 bear those costs would be the entire Sussex customer
19 base versus Pike County. You were shown a discovery
20 response, which apparently indicated what the
21 interconnection cost, how they would be born. Do you
22 have any clarification to your prior response, having
23 reviewed that in greater detail?

24 A. I do. In understanding the question --- I was
25 looking at the overall purchase of the company.

1 Eventually, if Sussex was successful and were able to
2 purchase this company, in those discussions, then the
3 overall company purchasing price, whatever that number
4 was determined to be, would be both shared with the
5 current stockholders and the new customers. The
6 interconnectivity line, which is, if my understanding
7 is correct not, just a small portion of that overall
8 number.

9 Q. But who would bear those costs?

10 A. That would be the Pike County Light and Power
11 customers within that area, but that's a minute number
12 compared to what it would be overall if you ever
13 determined an overall purchase price if Pike County
14 Light and Power, Orange and Rockland pair --- would
15 ever get into serious discussions with Pike County
16 Light and Power to truly ascertain a plan, a number,
17 and all the other details that would need to be worked
18 out and analyzed and looked at.

19 ATTORNEY LANZA:

20 Your Honor, I'm going to object because I
21 think his testimony goes beyond what my question was.
22 I didn't ask acquisition costs. My question was about
23 interconnection costs and his answer has to stay ---
24 he hasn't said anything different. And the question,
25 it goes beyond my question, which was specifically

1 relating to interconnection.

2 ATTORNEY MELIA:

3 Well, Your Honor, I think Mr. Forbes not
4 being a technical expert may have heard
5 interconnection and thought total --- you know, total
6 acquisition costs. He hasn't really had the benefit
7 of being present during the testimony when Mr. Kolling
8 gave specific cost allocations as to who would bear
9 what. So I think partly Mr. Forbes's prior answer was
10 somewhat hampered by the fact he hasn't had the
11 benefit of the earlier testimony.

12 JUDGE JANDEBEUR:

13 No, it's simply incorrect.

14 ATTORNEY MELIA:

15 Right.

16 JUDGE JANDEBEUR:

17 Which I think all he has done now is
18 acknowledge his incorrectness. Do you have an
19 objection to that?

20 ATTORNEY LANZA:

21 No. The objection is to the question
22 going beyond my cost. That's all.

23 JUDGE JANDEBEUR:

24 Overruled. Anything else?

25 ATTORNEY MELIA:

1 One more question.

2 BY ATTORNEY MELIA:

3 Q. Mr. Forbes, you were asked a hypothetical about
4 County planning process and the Judge did not require
5 you to respond to it because you didn't accept the
6 hypothetical. There were some further questions
7 regarding would you accept a plan from a developer
8 that had no studies associated, did not have the
9 necessary backup detail. Is there a fundamental
10 distinction in your mind between how a county
11 evaluates a development plan that comes before it
12 versus selecting a electric utility provider?

13 A. Yes. First of all, in the Commonwealth the lowest
14 form of government has the planning process. It goes
15 to the townships and boroughs. It does not go to the
16 county. The plan, once it's submitted to those
17 particular level people, it's then sent up to our
18 planning commission at a county level to where we have
19 a team of experts that will analyze that plan to make
20 recommendations back to the governing body, which is
21 the township, not the county commissioners nor the
22 Board of Commissioners. As far as any type of
23 planning process or anything that would be done with
24 Sussex co-op, if that were a solution and determined
25 to be the solution to this particular situation, an

1 entire plan, and planning process, and numbers and
2 experts would be looked at and analyzed, hopefully,
3 before any plan. And I would imagine that would have
4 to go through PUC scrutiny and a review process to
5 ensure that they have the reliability and the
6 resources to accomplish the mission and objectives
7 that they set forth.

8 Q. And PJM also?

9 A. And the PJM, yes.

10 ATTORNEY MELIA:

11 Your Honor, that's all the questions I
12 have for the witness.

13 JUDGE JANDEBEUR:

14 Mr. Lanza?

15 RECROSS EXAMINATION

16 BY ATTORNEY LANZA:

17 Q. I think I understand the difference between the
18 planning and approval at the commission level and what
19 would happen with regards to any approval of the
20 Sussex acquisition or interconnection. So my question
21 to you is this, do you believe that it would be
22 prudent for you, before you decide whether the Sussex
23 interconnection is an option, to review some plans,
24 and schematics and some drawings of the proposal?

25 A. I believe that if that option were on the table,

1 yes. I would ---.

2 Q. It would be prudent for you to review those
3 things?

4 A. I do. I think that it would be extremely prudent
5 to review any process that would go forward. The
6 problem and the frustration is Pike County Light and
7 Power hasn't even allowed that or entertained that.

8 Q. Are you saying that Pike County Light and Power is
9 preventing someone from conducting studies or putting
10 together plans for a proposed interconnection?

11 A. In my opinion and everything I've seen and heard,
12 yes, I do. I feel that they've been standoffish. I
13 feel that they've been protective of their territory
14 and probably with their own good reasons within their
15 own company to stay structured. However, I don't
16 think it has been served with the customer in mind nor
17 the people in mind of the territory, constituents that
18 I represent.

19 Q. Do you believe it would be prudent for you before
20 signing the Sussex interconnection it's a good option
21 for your constituents to review load flow studies with
22 regard to that interconnection?

23 A. I believe that PUC ---.

24 Q. It's a yes or no question. Do you think it's
25 prudent for you to review load flow studies before you

1 decide that the Sussex interconnection is a good
2 option for your constituents?

3 A. No. No, I do not.

4 Q. You don't think it's prudent? Do you believe it's
5 prudent --- it would be prudent for you before you
6 decide whether the Sussex is a good option to review
7 any permits or approvals that might be needed to
8 actually implement the interconnection?

9 A. No.

10 Q. Would the same apply to environmental studies or
11 analyses?

12 A. Correct.

13 Q. Would the same apply to investigations of the
14 Sussex system, its planning, maintenance and
15 operations?

16 A. Correct.

17 ATTORNEY LANZA:

18 Thank you, Judge. That's all.

19 ATTORNEY MELIA:

20 A couple --- one question, Your Honor?

21 It might lead to two questions.

22 JUDGE JANDEBEUR:

23 Okay.

24 REDIRECT EXAMINATION

25 BY ATTORNEY MELIA:

1 Q. Mr. Forbes, in that last series of questions about
2 the studies that would have to be done and that you
3 feel would be prudent to be done, first of all, you're
4 not an expert in any of those types of studies, are
5 you?

6 A. Correct.

7 Q. That would have to be done by other consultants,
8 either on the staff of Sussex or engaged by the
9 County, et cetera; correct?

10 A. Correct.

11 Q. Does it make any economic sense to engage in those
12 studies, especially if they're on the County's dime,
13 before you know if there's a viable option to even
14 interconnect with Sussex?

15 A. Absolutely.

16 Q. So, I mean, as a prudent county official that has
17 to watch how your money is spent, you're not going to
18 expend money on studies that may never even lead to
19 anything?

20 A. Correct.

21 ATTORNEY MELIA:

22 That's all I have.

23 JUDGE JANDEBEUR:

24 I have just a couple of questions,
25 Commissioner Forbes. And you may have already

1 answered it, but I guess I just want to hear it more
2 clearly. You stated that you think at this point it's
3 best to sever all relations between the Pike County
4 Light and Power customers and Pike County Light and
5 Power. And I understand from your complaint that it
6 is your wish that the commission order the sale of the
7 company. And I'm right so far?

8 A. So far.

9 JUDGE JANDEBEUR:

10 Okay. Is it also the County's position
11 that even at this point in time --- today as being the
12 last day of hearing, is it the County's position that
13 you are not willing to sit down with Pike County Light
14 and Power and discuss possible resolution of the rate
15 and service issues?

16 A. My answer, Your Honor, to that is that not just
17 the County and the Board of Commissioners that I
18 represent here today, but the constituents that have
19 constantly, since this proceeding has started back
20 several months ago, who have constantly talked with
21 me, seniors, young people, people in the territory,
22 just have no reliability, no trust. They feel they've
23 been violated.

24 ATTORNEY LANZA:

25 I would object to the hearsay, Your

1 Honor.

2 JUDGE JANDEBEUR:

3 I asked him the question so I'll overrule
4 you, Mr. Lanza. This is something that I need to hear
5 specifically in order to render a decision. And to
6 the extent that he says things that you don't like or
7 that are hearsay, he is a public official at the
8 County level. A lot of what he's going to tell me is
9 going to, by virtue of his position, be hearsay. So
10 I'm going to overlook it and I'd ask that you do the
11 same. Continue.

12 A. Just the proceedings and what they have led to to
13 this particular point have just led a no confidence
14 feeling in Pike County Light and Power, their
15 operating procedures, their billing errors, the
16 problems with reliability. I feel that had this
17 started in the early portions of back in December when
18 this rate became known and the customers became irate,
19 had the company at that particular time said, we need
20 to take a fresh look at this. We can see what we can
21 do. Put any type of public relations issues forward
22 and worked with their customers within that base that
23 feeling would not be there, nor would it be with the
24 Board of Commissioners. For a public executive at
25 their company to walk into my office a week or ten

1 days prior to this rate increase taking affect and
2 tell me that you're getting a 73 percent rate increase
3 and when, in fact, you analyze it for generation, it's
4 actually higher than that, that leads to a reliability
5 factor. It really --- it relies back to that I don't
6 know that I can trust them.

7 And then we're into a legal process whether it be
8 the Med Ed situation or the Pike Light and Power that
9 could be explored or the financial wherewithal. Even
10 addressing those in the upfront prior to getting into
11 a prior to getting into a public utility hearings all
12 the process that has taken place has led a lot of
13 people not to have the feeling. I've had businesses
14 that have had to alter their lifestyle, and had to cut
15 back staff, have had to close the doors. You've got
16 people that are not looking at the areas as a viable
17 place to do business. Well, that impacts the County.
18 It impacts the way we do business and life. And this
19 company has not addressed that. They have not worked
20 with the people.

21 There are customers like the Fretta's. They're
22 still paying the old rates, living day to day
23 threatened with a debt that they're incurring as to
24 how they continue to operate in the existence. And
25 that's just one. I can go down through hundreds of

1 those types of scenarios.

2 You look at --- and I take this because we've had
3 the same problems with Med Ed. Med Edison was
4 experiencing tremendous outages, problems from along
5 their route. They draw their electric energy up along
6 the river, up through a rural area with trees and all
7 the other problems that incur. They had a ballgame
8 plan of problems that were creating outages and
9 complaints. It led me and the County Board of
10 Commissioners met with Med Ed, setting up a hearing in
11 the Woodlands to where the majority of the outages
12 were, talked about it. That company reacted --- that
13 company invested putting in a new substation, back
14 feeding off PPL and coming in a back way. They
15 reacted responsibly. They reacted and looked at what
16 the problems were. They put the financial wherewithal
17 their company on the line, up graded their service and
18 said, we are here for the long term. We're here to
19 address your needs and complaints. And they reacted
20 to it as a responsible company.

21 I'm not saying that Orange and Rockland or PPL is
22 not a responsible type of company, but they didn't
23 take that same approach. They, in turn, fought and
24 have continued to fight for a territory which, in
25 their own testimony, is small in nature, which is not

1 a financial wherewithal for them according to their
2 own types of --- at least what I'm referring now to
3 some of your testimony. Because 2,500 customers is
4 not a big area, block of area for them. And just,
5 okay, we're here and yes, we'll improve now, but we've
6 been kind of slapped around a little bit. And move
7 forward with it. But I don't see them ever coming
8 back and getting the reputation that would need to
9 service our territory. And have created a very bad
10 light in our community.

11 ATTORNEY GALLAGHER:

12 Your Honor, if I may? I'm still waiting
13 for an answer to your question about whether he's
14 willing to sit down with Pike to address service and
15 rate issues.

16 JUDGE JANDEBEUR:

17 I think I heard it in there as a no.
18 Would that be correct?

19 A. It is. It's a no. I think that had they been
20 serious they would've resolved this problem long
21 before this point.

22 JUDGE JANDEBEUR:

23 So let me ask you another question. Do
24 you understand that the current rate is not the result
25 of a rate increase, but rather rate caps coming off?

1 A. Yes.

2 JUDGE JANDEBEUR:

3 I think everybody understands that at
4 this point. And if I understand your testimony
5 correctly, you just think the company mishandled that
6 from a PR prospective? There could've been a whole
7 host of other things that they could've, should've,
8 might've done had they thought of it, but the fact
9 that they didn't deal with it differently, but rather
10 walked in and said you're getting a 73 percent
11 increase, live with it, was really bad for them?

12 A. I don't think they treated their customers fairly.

13 JUDGE JANDEBEUR:

14 Okay. And that's fine. I did hear that.
15 My concern at this point, and I'm going to ask you
16 this question directly, assuming that I agree with you
17 that the service issues have been abysmal, okay? The
18 rate issue, you got problems with that one. It's a
19 rate cap coming off. So obviously everybody
20 understands there's a problem with you meeting your
21 burden of proof on that. The liability issues, assume
22 that I think that you have met your burden of proof on
23 that. Then the relief that you have requested is that
24 the PUC order Pike County Light and Power to sell.
25 Now, would you agree, number one, that whether they

1 sell or not is a company decision. That if you were
2 the company president you'd like to be in the position
3 of making that decision yourself, not having somebody
4 else tell you; would that be correct?

5 A. Yes. That's correct.

6 JUDGE JANDEBEUR:

7 Okay. So let's assume that Pike County
8 Light and Power would like the ability to make that
9 decision themselves. Do you think at this point in
10 time that there is enough information on the table to
11 make a decision to force Pike County Light and Power
12 to sell?

13 A. Yes, Your Honor, I do.

14 JUDGE JANDEBEUR:

15 Okay. That's fine. Because I'm assuming
16 it's going to be in the record. If there's enough
17 there? You think the answer to that is, yes. Now, we
18 already know that your constituents are not happy with
19 the legislation that put these caps in place and then
20 the caps came off. You're decidedly not happy about
21 how that legislation went. What do you think is going
22 to be good with the PUC decision telling Pike County
23 Light and Power, you must let Sussex buy you. Down
24 the road you don't get the rates you want, what are
25 you going to do at that point?

1 A. You're assuming that Sussex would be winner ---?

2 JUDGE JANDEBEUR:

3 Let's say the rates are identical to what
4 they are now, not even a reduction, just say that the
5 rates are identical to what they are now. And you're
6 going to come back at the PUC and say, you in your
7 bright wisdom said we would do better with Sussex and
8 we're not.

9 A. I guess I believe, Your Honor, that if the process
10 --- and I guess I'm complaining about the process of
11 how it got there, eventually you're going to pay
12 whatever the market bears. And again, and I've
13 watched and learned a lot through this process of how
14 generation happens and through the market and that.
15 And I guess this a long of way of answering your
16 question. But prices have gone down. Nobody has
17 readjusted a price or said, okay, customers, maybe I
18 can help you. Now, I've seen that just recently with
19 what they're proposing with some of their filings here
20 of trying to find a way to come about this a little
21 differently. I don't know that our customers would've
22 been as dissatisfied or disgruntled had the process
23 been done with them in mind. And it wasn't done. I
24 think the people accept where they get to in their
25 rate increases. This one here came at everybody

1 before they could build into it. It didn't come in
2 gradually. It didn't come in any other way. And the
3 company didn't act responsibly, at least even in
4 notifying us that they were looking for these types
5 of ---.

6 BRIEF INTERRUPTION

7 JUDGE JANDEBEUR:

8 Go ahead.

9 A. The process and what they --- and how they went
10 about it. Even if they had --- if people had the
11 opportunity to voice it prior to it being forced upon
12 them may have led to a lot different outcome than
13 where we're at at this particular time and place. And
14 I'm just assuming. My recommendation is Sussex co-op.
15 However, if this were ordered to be sold, I would hope
16 that you would have a couple other bidders. PPL, Med
17 Edison may take a serious look at this and say, okay,
18 maybe we need to enter into a contract. This area may
19 be good for our base and, in turn, we can deliver ---
20 and I already know that both of those companies
21 deliver a lot less rate increases along the way.
22 Along with PP&L --- or Orange and Rockland, and Con
23 Edison and Central Hudson, out of the New York grid.
24 Part of the process is is we're having to deal
25 with the New York grid mechanism here versus the

1 Sussex co-op as part of the PJM. And the other two
2 companies are part of PJM. I believe in my heart that
3 the rates would come down and eventually had they
4 crept back up --- they creep back up, we would accept
5 it. And I've watched PP&L and Med Ed address their
6 customer base. And it has allowed them to have a
7 reliability factor of their customers in their
8 operations.

9 That has not been the same here. And it's so
10 bitter and divided now I just don't know that we'll
11 ever get back to this. We may be here for PUC
12 hearings every other day of the week because of
13 complaints that --- people just don't understand the
14 process and I guess that's a part of this testimony
15 between Mr. O'Brien's and the other gentlemen's
16 testimony here. Prior to this I would've never
17 thought to file a formal complaint with the PUC on
18 problems. I would deal with the company and that's a
19 lot of what you don't see in these numbers and stuff.

20 JUDGE JANDEBEUR:

21 Okay. Did that drum up anything
22 additional for either of you?

23 ATTORNEY MELIA:

24 No, Your Honor.

25 JUDGE JANDEBEUR:

1 Okay. Mr. Lanza?

2 ATTORNEY LANZA:

3 Just one second, Your Honor. Nothing
4 further, Your Honor.

5 JUDGE JANDEBEUR:

6 Mr. Popowsky? Mr. Dalton?

7 MR. DALTON:

8 No, Your Honor.

9 JUDGE JANDEBEUR:

10 Ms. O'Dell?

11 ATTORNEY O'DELL:

12 No.

13 JUDGE JANDEBEUR:

14 Mr. Asmus?

15 ATTORNEY ASMUS:

16 No.

17 JUDGE JANDEBEUR:

18 Thank you, sir.

19 A. Thank you, Your Honor.

20 JUDGE JANDEBEUR:

21 Are we finished?

22 ATTORNEY MELIA:

23 Yes, Your Honor.

24 ATTORNEY LANZA:

25 We are.

1 JUDGE JANDEBEUR:

2 Okay. I believe the scheduling order
3 says that we have main briefs coming in February 9th,
4 reply briefs coming in February 23rd. Everybody is
5 okay with those dates still?

6 ATTORNEY MELIA:

7 Yes, Your Honor.

8 JUDGE JANDEBEUR:

9 Okay. I would add to that order that I
10 want you to specifically read Section 5.501 on content
11 of briefs. Follow it to the letter. With regard to
12 each of your specific clients you need to iterate
13 exactly what their complaint is, what their requested
14 relief is and tie the law exactly to that relief and
15 the evidence supporting it. And obviously the contra
16 for you all, as well. Anything else for the good of
17 the order? I believe we are adjourned. Thank you
18 all.

19 ATTORNEY MELIA:

20 Thank you.

21 ATTORNEY LANZA:

22 Thank you.

23 * * * * *

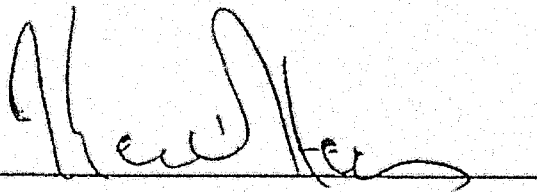
24 HEARING CONCLUDED AT 12:30 P.M.

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C E R T I F I C A T E

I hereby certify, as the
stenographic reporter, that the foregoing
proceedings were taken stenographically by
me, and thereafter reduced to typewriting
by me or under my direction; and that this
transcript is a true and accurate record
to the best of my ability.



Court Reporter

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LCG Statement No. 1

**DOCUMENT
FOLDER**

DIRECT TESTIMONY

OF

RICHARD SNYDER

PREPARED ON BEHALF OF

SAMALL PROPERTIES, COMMUNITY BUILDING PROJECTS,

FAUCHERE HOSPITALITY AND THREE LANE UTILITIES

Dated: November 20, 2006

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Richard Snyder and my business address is P.O. Box 927, Milford,
3 Pennsylvania, 18337.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am self-employed and own several businesses in the Milford area.

7

8 Q. GIVE US A BRIEF BACKGROUND ON WHY YOU ARE APPEARING IN THIS
9 PROCEEDING.

10 A. I am appearing as a witness on behalf of myself and my various businesses. The
11 purpose of my testimony is to express concern regarding the significant increase
12 in electric rates implemented by Pike County Light & Power Company ("PCLP")
13 as of January 1, 2006, as well as the increasingly poor service of PCLP. I will
14 also address the impact of these higher electric rates on my businesses as well
15 as on the Milford business community generally.

16

17 Q. FOR WHOM ARE YOU APPEARING FOR HERE TODAY?

18 A. I am appearing here today as a witness as partial or sole owner of four (4)
19 entities: Small Properties, Three Lane Utilities, Community Building Projects,
20 and Fauchere Hospitality.

21

22

23

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. PLEASE DESCRIBE THE NATURE OF THE BUSINESSES ENGAGED IN BY
2 EACH OF THESE FOUR (4) ENTITIES.

3 A. Samall Properties Inc. owns and operates several real estate properties including
4 Milford Professional Park and Sawkill Business Center

5
6 Community Building Projects LLC owns and operates the following real estate
7 interests: Historic Milford Schoolhouse, Old Lumberyard Shops and the Joybar
8 Building, all located in Milford.

9
10 Fauchere Hospitality LLC operates the following properties: Eagle and Eaglet,
11 Emerson House and the Hotel Fauchere, all located in Milford.

12
13 Three Lane Utilities, Inc. is a small water/wastewater utility serving approximately
14 300 customers.

15
16 My exhibit, LCG Ex. No. 4 (RS-1) pages 2-3 list my tenants and constituent
17 businesses. In my individual capacity, I operate a llama breeding farm.

18
19 Q. IS IT CORRECT THAT ALL OF THESE BUSINESSES YOU JUST DESCRIBED
20 ARE CUSTOMERS OF PCLP?

21 A. Yes, all of these businesses are customers of PCLP. Previously, my businesses
22 were customers for both generation and distribution service. Now my businesses
23 take generation service form Direct Energy.

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. PLEASE DESCRIBE YOUR INVOLVEMENT AS CHAIRMAN OF THE
2 MILFORD ENHANCEMENT COMMITTEE.

3 A. I have been Chairman of the Milford Enhancement Committee ("MEC") since I
4 founded it in 1997. The purpose of this Committee is to cause Milford to be a
5 better place to live, visit and do business. A principal means of doing this is to
6 raise funds (public and private) to improve public areas. The MEC has arranged
7 for public/private funds to enable the Borough to invest over three million dollars
8 in various improvements including blue stone sidewalks, street trees and other
9 landscaping, granite curbing and period lighting

10

11 Q. ARE YOU ALSO A MEMBER OF THE MILFORD CHAMBER OF COMMERCE?

12 A. Yes, I am. Also, I am on the Board of Directors of Wayne Bank.

13

14 Q. IN REFERENCE TO THE PCPL RATE INCREASE, CAN YOU DESCRIBE THE
15 IMPACT OF THAT RATE INCREASE ON YOUR BUSINESSES?

16 A. Yes, the magnitude of the overall increase on all of our businesses was generally
17 in the range of 79%. I have prepared as LCG Exhibit No. 4 (RS-1) a comparative
18 description of the increase in rates for the period January – August 2005 as
19 compared to January – August 2006 for one of my properties, the Milford
20 Professional Park. As you can see, the magnitude of the increase has been in
21 the range of 72%. This has created significant burdens on the budgets of Small
22 Properties and its constituent businesses. A similar burden has been placed on

DIRECT TESTIMONY OF RICHARD SNYDER

1 my other business interests Three Lane Utilities, Community Building Projects
2 and Fauchere Hospitality.

3
4 Q. HOW HAVE THESE INCREASED ELECTRIC RATES AFFECTED YOUR
5 BUSINESS OPERATIONS?

6 A. As a businessman, any inordinate increase in a particular expense must be met
7 with reductions in expenses associated with other activities. Needless to say, the
8 increase in electric expenses makes doing business less profitable.

9
10 Q. ARE YOU IN A POSITION TO INTERCONNECT WITH ANY OTHER
11 UTILITIES?

12 A. Some of my businesses, such as Milford Professional Park, are located in close
13 proximity to certain Metropolitan Edison Company ("MetEd") and PPL Utilities
14 distribution lines. I have not fully investigated the possibility of service by either
15 utility. If such an option was available and feasible, you may be certain that I
16 would connect with another electric utility.

17
18 Q. NOW AS A LANDLORD, DO YOUR TENANTS PAY THEIR OWN ELECTRIC
19 BILLS?

20 A. Yes, many of my tenants are responsible for payment of their own electric bills.
21 Currently I have 42 tenants across my various businesses.

22

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. HOW HAVE THE HIGHER RATES AFFECTED YOUR TENANTS ABILITY TO
2 STAY IN BUSINESS?

3 A. Unquestionably, the higher electric rates have caused my tenants significant
4 hardship. I am aware of this situation generally because I communicate on a
5 frequent basis with my property manager, Mr. William Malson, who is responsible
6 for managing my rental operations. I am informed that some of my tenants may
7 not be in a position to renew their leases due to the higher electric rates. Most, if
8 not all, of my tenants are not in a position to raise the prices of their products
9 enough in order to cover the costs of the higher electricity rates since raising
10 such prices, in a tourist community, will inevitably cause customers to seek the
11 same products elsewhere. Within the last year, I have had three tenants go out
12 of business.

13

14 Q. DO YOU EXPECT OTHER TENANTS TO GO OUT OF BUSINESS?

15 A. Yes. I am aware of several tenants who may not extend their current leases
16 primarily because of the higher electric rates. Once again, this is a tourist
17 community. Tourists are on budgets and will only spend what they deem
18 reasonable for products. If those products are priced too high, they will not make
19 the purchase or will look elsewhere. Additionally, small retail operations will not
20 realize a profit if they cannot raise their prices to cover higher electric rates. My
21 small tenants are thus caught in an economic "squeeze" that is untenable.

22

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. IS IT CORRECT THAT YOU ALSO HAVE, AS TENANTS, SEVERAL
2 GOVERNMENT AGENCIES?

3 A. Yes. Currently, I have, as tenants, the following state and federal agencies: PA
4 Department of Public Welfare, PA Department of Public Health, U.S. Geological
5 Survey, state-funded Maternal and Family Health Services and state-funded
6 Mental Health/Mental Retardation.

7

8 Q. HOW HAVE THE HIGHER ELECTRIC RATES IMPACTED THESE TENANTS?

9 A. These tenants are not negatively impacted by the higher electric rates. These
10 tenants negotiate fixed-rent leases which do not allow for annual increases. As a
11 result, higher expenses, such as electric rates, are not recoverable from these
12 tenants and must be absorbed by my businesses. Normally, routine higher
13 expenses can be negotiated into the fixed rent agreements utilizing such indices
14 as the Consumer Price Index. However, the PCLP rate increase far exceeded
15 any normal price indices. As a result, my business suffers a loss on these
16 tenants.

17

18 Q. ARE YOU EXPERIENCING LONGER VACANCY PERIODS BECAUSE OF
19 THE HIGHER ELECTRIC RATES?

20 A. Yes. Since January 1, 2006, I am experiencing longer vacancy periods both for
21 tenants who have left as well as prospective tenants seeking to rent currently
22 available space. New tenants always request information on utility rates and, not
23 surprisingly, the high PCLP rates are a disincentive for businesses to locate in

DIRECT TESTIMONY OF RICHARD SNYDER

1 the Milford area. Additionally, these higher electric rates present a problem for
2 extending current leasing arrangements with current tenants as tenants are
3 uncertain regarding their ability to budget for future rate increases.
4

5 **Q. HOW HAVE YOU BEEN IMPACTED BY THE HIGHER ELECTRIC RATES**
6 **WITH REGARD TO COMMON AREAS?**

7 **A.** As a landlord, I am responsible for provision of electric service to all common
8 areas serving my tenants. However, in some cases, it is my company's
9 responsibility to pay and in other cases, it is the tenants' responsibility. My
10 common area electric bills have increased in the range of 79% since January 1,
11 2006 creating a further burden on my businesses.
12

13 **Q. AS CHAIRMAN OF THE MILFORD ENHANCEMENT COMMITTEE, DO YOU**
14 **INTERFACE WITH OTHER SMALL BUSINESS OWNERS?**

15 **A.** Yes. As Chairman, and also as a member of the Pike County Chamber of
16 Commerce, I routinely interface with Milford's small business owners and know
17 many of them personally. I have always considered myself a proponent of small
18 business activities in the Milford and Matamoros areas.
19

20 **Q. IN YOUR CAPACITY AS A LOCAL BUSINESS OWNER, HOW HAVE THE**
21 **HIGHER ELECTRIC RATES AFFECTED THE MILFORD BUSINESS**
22 **COMMUNITY?**

DIRECT TESTIMONY OF RICHARD SNYDER

1 A. The higher PCLP electric rates are having a devastating effect on the business
2 community. The impact of these higher rates are a major issue for both the
3 Chamber as well as Milford Borough and the county government. In just the first
4 nine months of 2006, I have personally observed a number of small businesses
5 close in the downtown Milford area and am aware that other businesses may
6 face a similar fate. Certainly, this sentiment was expressed at the October 4,
7 2006 Public Input Hearing.

8

9 Q. TO YOUR KNOWLEDGE, DOES PCLP MAINTAIN ANY OFFICES OR
10 FACILITIES IN THE MILFORD AREA?

11 A. Not currently. PCLP did maintain a small business office for bill payment along
12 Broad Street until October 31, 2003 when this office was closed. I am aware of
13 no service or maintenance facilities in the entire PCLP service area. It is my
14 understanding that PCLP service personnel must come from Middletown, New
15 York to respond to service issues or outages. To my knowledge, PCLP has
16 never maintained any service/maintenance facilities in the Milford area.

17

18 Q. WHAT IS YOUR OPINION OF PCLP SERVICE IN THE MILFORD AREA?

19 A. I have been a resident of the Milford area for over 15 years. In my opinion, PCLP
20 service has never been reliable or adequate. More recently, the quality of
21 service has declined based on my perception of the number of outages and
22 voltage fluctuations. I am not an electrical engineer nor have I maintained
23 records of outages and fluctuations. Those technical details will be addressed by

DIRECT TESTIMONY OF RICHARD SNYDER

1 experts working on behalf of the Office of Consumer Advocate. However, I can
2 speak with certainty as to the fairly frequent outage events that have interfered
3 with my business interests and those of my tenants.
4

5 **Q. CAN YOU GIVE A COUPLE OF EXAMPLES?**

6 **A.** Yes. In July of 2006, I just opened the Hotel Fauchere in Milford. As
7 background, I have invested \$8 million to restore this historical structure and
8 related facilities to their prior condition. The Hotel was built in 1880. The opening
9 included both the hotel and the hotel dining room. Unfortunately, an electric
10 outage resulted in a pump burnout which set off a smoke alarm, disrupted guests
11 and caused an evacuation all at great inconvenience and cost. Also, we have
12 invested in the installation of a generator to safeguard against future outage
13 events at the hotel.
14

15 Also, on June 1-2, 2006 there was an electric outage of about 16 hours which
16 resulted in the closure of my tenants' businesses at the Milford Professional
17 Park. One of these tenants was a dialysis center. As the outage occurred early
18 in the day, the dialysis center was required to transport its patients to another
19 dialysis center located in Honesdale, 60 minutes away. It took PCLP personnel
20 two days to address the outage event. Initially, PCLP personnel, upon inspecting
21 the facilities, stated that the reason for the outage was the customer's
22 responsibility. Upon further examination, it was determined that the outage was,
23 in fact, the fault of the utility. There was also a residual problem with sewage at

DIRECT TESTIMONY OF RICHARD SNYDER

1 this location due to the power failure. There were additional closures at Milford
2 Professional Park due to power outages on July 3-4, 2006.

3
4 These are two more prominent examples of what I have experienced as a
5 customer of PCLP.

6
7 **Q. AS A RESIDENTIAL CUSTOMER OF PCLP, WHAT HAS BEEN YOUR**
8 **EXPERIENCE WITH ELECTRIC SERVICE?**

9 **A.** My experience has been similar to other PCLP residential customers in that
10 service outages and voltage fluctuations are a routine experience in the Milford
11 area. For example, I have experienced damage to appliances and electronic
12 equipment due to voltage fluctuations. This damage has occurred despite the
13 use of surge protectors. I also invested in a generator for my house. Most
14 recently, there was a midday outage of more than two hours on November 8,
15 2006.

16
17 **Q. WHY DID YOU NOT FILE A COMPLAINT OVER THE POOR SERVICE?**

18 **A.** As with other customers, I have accepted the historically poor service of PCLP as
19 a fact of life in Milford. Poor service at historically reasonable rates was an
20 acceptable trade off. However, poor service coupled with rate increases in the
21 ranges of 70% or higher is not acceptable.

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. ARE YOU CURRENTLY BEING SERVED BY DIRECT ENERGY AS YOUR
2 GENERATION SUPPLIER?

3 A. Yes. I opted for service from Direct Energy as my generation supplier through
4 the end of 2007. However, the amount of savings from Direct Energy have been
5 minimal.

6
7 Q. WHAT DO YOU SEE AS THE ULTIMATE SOLUTION TO THE CURRENT
8 SITUATION REGARDING ELECTRIC SERVICE?

9 A. Based on my knowledge of the situation, I am aware that Sussex Rural Electric
10 Cooperative ("Sussex"), located across the border in New Jersey, is interested in
11 providing electric service to the PCLP service area. I would prefer that an
12 alternate provider such as Sussex be given the opportunity to serve this area
13 given PCLP's reluctance to provide adequate service at reasonable rates.

14
15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes, it does.

COMPARISON OF ELECTRIC USAGE AT MILFORD PROFESSIONAL PARK
JANUARY THROUGH JULY, 2005 AND 2006

Month	2005	2006	% Increase
January	\$2,652.00	\$3,690.00	71.87%
February	\$3,989.00	\$5,399.00	73.88%
March	\$4,432.00	\$5,739.00	77.23%
April	\$3,366.00	\$4,847.00	69.45%
May	\$2,024.00	\$3,285.00	61.61%
June	\$1,869.00	\$3,026.00	61.76%
July	\$1,798.00	\$2,523.00	71.26%
Total	\$22,135.00	\$30,515.00	72.54%

Source: PCL&P Electric Bills

SAMALL PROPERTIES TENANTS

Milford Professional Park

PA Department of Welfare

Pike County Maternal and Family Health Services

Wayne County Hospital

Verizon

ReDCo Group

U.S. Geological Survey

Advanced Life Support

PA Department of Health

Fiber Plus

Pike County Mental Health/Mental Retardation

Advanced Imaging Specialists

Sawkill Business Center

2 Private Residences

Cummings Development

Walker Incorporated

Regional Truck Service

FAUCHERE HOSPITALITY FACILITIES

Hotel Fauchere

The Eagle

The Eaglet

Emerson House

COMMUNITY BUILDING PROJECTS TENANTS

Old Lumberyard Shops

115 7th Street: Breath of Fresh Air
Nellie's Naturals
Nervous Nellie's
Hometown Pets
Firefly
Antiques at the Old Lumberyard Shops

113 7th Street: Pike Modern Gallery
Mail Net Milford
Curves
Advanced Chiropractic
Works Frames
Happy Nails
Luxe
Old Lumberyard Shops Antiques
Milford Magazine
Tom Duran Studio

The School House: Joey's Pizza
C&S Taxes
Dance Connection
A Finance Company
A Mortgage Company
PennDOT
Med Phone
Blue Sky, Red Earth
Milford Tourist Bureau

DIRECT TESTIMONY
OF
DARRIN HERVIEUX
PREPARED ON BEHALF OF
ALTEC LANSING TECHNOLOGIES, INC.

Dated: November 20, 2006

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Darrin Hervieux and my business address is Altec Lansing
3 Technologies, Inc., 535 Routes 6 & 209, Milford, PA 18337.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by Altec Lansing Technologies, Inc. as the Operations Manager.

7

8 Q. HOW LONG HAVE YOU WORKED AT THIS FACILITY?

9 A. I have been employed by Altec Lansing for approximately one year.

10

11 Q. WHY ARE YOU APPEARING IN THIS PROCEEDING?

12 A. I am appearing in this proceeding to address the issue of electric rates
13 implemented by Pike County Light & Power ("PCLP") on or about January 2006.

14

15 Q. PLEASE DESCRIBE THE ACTIVITIES OF THE ALTEC LANSING FACILITY.

16 A. The Altec Lansing facility serves as the headquarters and distribution point for
17 60% of all U.S. sales. Altec Lansing is a producer of high quality audio
18 components, primarily speakers and speaker-related products. Product
19 manufacturing takes place overseas but our Milford facility serves as the primary
20 receipt and distribution point for the United States. We employ approximately
21 130 persons at our facility. We are one of the largest employers in the Milford
22 area

23

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. IS ALTEC LANSING A SUPPORTER OF COMMUNITY ACTIVITIES?

2 A. Yes. We support the Milford community in a number of ways: (1) involvement in
3 United Way activities. (2) Pike County Chamber of Commerce; (3) Delaware
4 High School National Technology Program; and (4) sponsoring the annual
5 Milford Music Fest.

6

7 Q. ARE YOU A CUSTOMER OF PCLP CURRENTLY?

8 A. Yes. Prior to 2006, we were a customer of PCLP for distribution and generation
9 service. We continued to be served by PCLP until approximately May 2006
10 when we were given the option to move to Direct Energy as our generation
11 supplier. Generation service from Direct Energy has resulted in minimal savings.

12

13 Q. CAN YOU DISCUSS THE IMPACT OF THE HIGHER ELECTRIC RATES ON
14 YOUR FACILITY?

15 A. Yes. I am sponsoring Exhibit LCG No. 5 (DH-1). This exhibit provides a
16 comparison of electric cost from January 2006 through August 2006 comparing
17 the average cost per kilowatt hour prior to the increase with the new cost per
18 kilowatt hour. As can be seen, the cost increase for 2006 has been \$37,870
19 through August 2006. I will update this cost information when I testify in January
20 2007. I should note that there was no forewarning prior to the increase taking
21 effect on January 1, 2006.

22

23

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. HOW HAS THIS INCREASE AFFECTED YOUR BUSINESS OPERATIONS?

2 A. Obviously, the rate increase has a significant effect on our business operations.
3 We have had to modify our budget for 2006 to accommodate the larger electric
4 rate increase. This impact is both retrospective and prospective in nature.
5 Conceivably higher electric rates will cause Altec Lansing to review its allocation
6 of financial resources to other operations within the facility such as new
7 equipment and facility upgrades.

8

9 Q. HAS ALTEC LANSING RECENTLY MADE AN INVESTMENT IN NEW
10 FACILITIES?

11 A. Yes. Recently, we invested in expanding our Milford distribution facilities. This
12 expansion also increased our need for electric power.

13

14 Q. DO YOU HAVE ANY ALTERNATIVES TO SERVICE FROM PCLP?

15 A. No we do not. Although I am aware that two other electric utilities service Pike
16 County, our facility is not in a position to be served by these other utilities.

17

18 Q. HAVE YOU HAD TO INSTALL BACK UP GENERATORS AT YOUR
19 FACILITY?

20 A. Yes we have. We installed these generators at a cost of approximately \$20,000.
21 The reason for this investment was due to service outages in the past. Our
22 facility experiences outages of short duration and recently experienced an outage
23 caused by a transformer failure in the vicinity.

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. DO YOU HAVE ANY FINAL OBSERVATIONS REGARDING THE CURRENT
2 ELECTRIC RATE SITUATION?

3 A. Milford is a high growth area and is also a major tourist attraction. Any increase
4 in electric rates will obviously have a dampening effect on the ability of this area
5 to thrive and grow. As a result, I do not view the electric rate increase of PCLP
6 as being a positive factor for my company or the area.

7
8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes it does.

**ALTEC LANSING TECHNOLOGIES, INC.
COMPARISON OF ELECTRIC COST FOR JANUARY THROUGH AUGUST 2006**

	KWH (Energy)	Total Cost	New Cost Per KWH	Average Cost per KWH prior to increase	Cost with Old Rate	Cost Increase
January	63158	\$11738	0.19	0.11	\$6,821.06	\$4,917.50
February	58631	\$11014	0.19	0.11	\$6,332.15	\$4,682.49
March	55406	\$10326	0.19	0.11	\$5,983.85	\$4,342.38
April	51619	\$ 9754	0.19	0.11	\$5,574.85	\$4,179.47
May	61890	\$11699	0.19	0.11	\$6,684.12	\$5,014.98
June	65456	\$11643	0.18	0.11	\$7,069.32	\$4,574.06
July	71151	\$12660	0.18	0.11	\$7,684.31	\$4,975.69
August	74099	\$13186	0.18	0.11	\$8,002.69	\$5,183.53

Total Impact of Electric Rate Increase Through August 2006 \$37,870.00

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

COUNTY OF PIKE

v.

PIKE COUNTY LIGHT &
POWER COMPANY

:
:
:
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:
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Docket No. C-20065942

Direct Testimony and Exhibits of
ROBERT D. KNECHT

On Behalf of the
Pennsylvania Office of Small Business Advocate

Topics:

Rate Rollback
Enhancing Competition in Electric Supply

Date Served: November 17, 2006

Date Submitted for the Record: _____

DIRECT TESTIMONY OF ROBERT D. KNECHT

1 Q. Mr. Knecht, please state your name and briefly describe your qualifications.

2 A. My name is Robert D. Knecht. I am a Principal and the Treasurer of Industrial
3 Economics, Incorporated ("IEc"), a consulting firm located at 2067 Massachusetts
4 Avenue, Cambridge, MA 02140. As part of my consulting practice, I have prepared
5 analyses and expert testimony in the field of regulatory economics on a variety of topics.
6 I obtained a B.S. degree in Economics from the Massachusetts Institute of Technology in
7 1978, and an M.S. degree in Management from the Sloan School of Management at
8 M.I.T. in 1982, with concentrations in applied economics and finance. I am appearing in
9 these proceedings on behalf of the Pennsylvania Office of Small Business Advocate
10 ("OSBA"). My résumé and a listing of expert testimony that I have filed in utility
11 regulatory proceedings are attached in Exhibit RDK-1.

12 Q. Please summarize your understanding of the complaint and the requests for relief
13 for this proceeding.

14 A. On February 24, 2006, the County of Pike ("the County") submitted a complaint ("the
15 Complaint") to the Pennsylvania Public Utility Commission ("the Commission")
16 regarding the electric rates of Pike County Light & Power Company ("PCL&P" or "the
17 Company"). The Complaint indicated that a "73% to 129% rate increase . . . [is an]
18 unfair burden to budgets already in place prior to [the] increase taking effect," and
19 requesting a rate "rollback" as relief. On July 12, 2006, the County submitted an
20 amended complaint ("the Amended Complaint") alleging that the "rates of PCL&P are
21 not just and reasonable," that PCL&P's "service is not safe and adequate," that PCL&P's
22 service quality is inferior due to "lack of local control" and "lack of employee services in
23 Pike County," and that "PCL&P has made long-standing errors in billing for numerous
24 customers' demand charges." By way of relief, the Amended Complaint requests that, in
25 addition to the relief sought in the Complaint, the Commission "order the sale of PCL&P
26 to another Pennsylvania EDC or a rural electric cooperative" and that the "Commission
27 should take such other actions, including those set forth in the Law Bureau

1 recommendations, that the Commission determines to be just and reasonable, and in the
2 public interest.”

3 Q. What issues do you address in this testimony?

4 A. The OSBA asked me to address the issues relating to the prices that PCL&P ratepayers
5 now face for electric supply service, and to comment on steps that may reasonably be
6 taken to improve the competitive environment in PCL&P's service territory. This
7 testimony does not address the issues relating to PCL&P's service quality or reliability,
8 nor does it address the proposed sale of PCL&P to a different entity.

9 Q. Please provide a brief timeline of the key events leading up to the Amended
10 Complaint.

11 A. My view is that the following were the key events leading to the Amended Complaint:

- 12 • On May 31, 2005, PCL&P submitted a Default Service Implementation Plan to the
13 Commission, which was docketed at No. P-00052168. Generally, PCL&P proposed
14 that POLR generation rates for 2006, 2007, and 2008 be set based on a one-time
15 auction process, using a “fixed for floating” financial swap in lieu of a physical
16 purchase.¹
- 17 • In its order adopted August 25, 2005, the Commission generally approved PCL&P's
18 plan with certain modifications. These modifications included shortening the plan
19 period from three to two years (2006 and 2007 only), rejecting PCL&P's proposal for
20 reconciliation, and extending the Commission's review period for evaluating bids to
21 three days.²

¹ Due to the time constraints associated with conducting the auction and implementing rates, the POLR proceeding was not fully litigated, although parties including the OSBA were offered the opportunity to comment. In its comments, the OSBA indicated that PCL&P should reasonably have known that Commission regulations regarding POLR supply would not be available in time for PCL&P's updated POLR plan and that the Company should have made its submission earlier, thereby allowing parties to fully examine the proposal. However, the Commission ruled that OSBA's concerns were not relevant because the OSBA did not identify any facts that were in dispute. Docket No. P-00052168, Order entered August 25, 2005 at 16.

² Note that the Commission rejected the OCA proposal, which was supported by OSBA, that the auction be limited to a one-year period. Docket No. P-00052168, Order entered August 25, 2005 at 20.

- 1 • On October 25, 2005, PCL&P conducted the auction. The winning bids came from
2 PCL&P affiliate Consolidated Edison Energy, Inc. ("ConEd Energy").³ Because the
3 auction was held amid the energy price spike precipitated by Hurricane Katrina, the
4 winning bid POLR prices for both 2006 and 2007 were very high. When applied to
5 PCL&P's tariff charges, these prices resulted in rate increases for residential and
6 small commercial customers on the order of 70 to 75 percent effective January 1,
7 2006 on a total bill basis. The winning bids from ConEd Energy were as follows:

PCL&P Default Service Implementation Plan		
2006-2007 Low Price Bids		
	2006	2007
Energy (\$/MWh)	110.19	97.80
Capacity (\$/kw-month)	1.09	1.58

- 8 • The auction results and POLR tariff charges were subsequently approved by the
9 Commission.⁴ In my view, it is important to recognize that, as part of its procurement
10 plan, PCL&P developed an algorithm for evaluating whether a bid price contained an
11 excessive risk premium, relative to market futures prices. That is, because PCL&P
12 was able to observe on- and off-peak futures prices on the NYMEX for the 2006 to
13 2007 time period, it could estimate the market prices at which a POLR supplier could
14 lock in prices. PCL&P then estimated the impact of volume variation risk faced by a
15 POLR supplier, and derived a maximum risk premium that it was willing to accept in
16 the "fixed-for-floating" swap auction. (It is my understanding that this maximum
17 premium was not revealed to bidders.) As it turned out, the winning bid prices were
18 only slightly higher than the market futures prices, implying that the risk premiums
19 implicit in the ConEd Energy winning bids were considerably lower than the
20 maximum risk premiums that PCL&P had deemed to be reasonable prior to the
21 auction. In short, the reason that the bid prices were high was due to market prices

³ Note that the auction was conducted both for each year separately as well as for the two years combined. PCL&P determined that the separate bids for each year produced a lower overall cost for ratepayers.

⁴ The auction results were approved by a Commission Secretarial Letter dated October 28, 2005, and the new tariffs based on those results were approved by an Order entered December 21, 2005.

1 and contemporaneous expectations; the high prices were not due to a lack of
2 wholesale competition or an unreasonable risk premium.

- 3 • On February 14, 2006, the Commission initiated a fact-finding investigation into the
4 competitive markets in PCL&P's service territory, and directed its Law Bureau to
5 conduct a 60 day investigation to address 14 specific issues.
- 6 • On March 10, 2006, Direct Energy filed a petition seeking Commission approval for
7 an "opt-out" retail aggregation bidding program for customers in PCL&P's service
8 territory, a proceeding docketed at P-00062205. Under the proposed program, a
9 second auction would be held in which retail suppliers could bid to supply the
10 aggregated load of all PCL&P customers who did not affirmatively opt out of the
11 program. Although the proceedings were expedited, parties supporting and opposing
12 the petition submitted direct evidence, and public hearings were held.⁵
- 13 • On April 20, 2006, the Commission generally approved Direct Energy's petition, with
14 certain modifications.
- 15 • In a Secretarial Letter dated April 28, 2006, the Commission certified Direct Energy
16 as the winning bidder in the retail aggregation auction, although the savings to retail
17 customers under the winning bid were relatively modest. It is my understanding that
18 the winning bid price from Direct Energy was a flat 12.7 cents per kWh price, which
19 is about 1.7 cents per kWh below the PCL&P 2006 residential first block energy
20 price.⁶ However, on January 1, 2007, PCL&P's first block residential POLR price

⁵ In that proceeding, the OSBA expressed its concern that Commission sponsorship of an opt-out retail aggregation program in PCL&P's service territory would send a signal to other wholesale POLR bidders in Pennsylvania that they would face similar risks if their bid prices subsequently proved to be higher than market. It is almost certainly true that this decision increased the perceived risk of future wholesale POLR suppliers, although the magnitude of that effect cannot be measured. Some witnesses in that proceeding offered the hope that POLR suppliers will perceive the PCL&P situation as unique, thereby reducing the perceived risk associated with that decision. Also, the perceived risk may be lower if suppliers take to heart the Commission language in its order indicating that this particular decision does not serve as precedent. (Order at 17)

⁶ See Law Bureau Report at 11. Note that the Commission's press release indicated that an average residential customer with 712 kWh would achieve a \$10 per month saving from the Direct Energy bid, implying that the Direct Energy bid is some 1.4 cents per kWh below the POLR price.

1 drops to 13.1 cents per kWh, eliminating most of the benefit of the Direct Energy
2 price.

- 3 • On June 1, 2006, the Commission's Law Bureau issued its "Report on Competitive
4 Market Conditions Regarding the Pike County Light & Power Company" ("the Law
5 Bureau Report"), containing various recommendations for additional actions that
6 could potentially increase competition in PCL&P's service territory and reduce supply
7 rates.

8 **Q. Based on your participation in the aforementioned proceedings, and your analysis
9 of the record evidence in this proceeding, what other factors are important to
10 consider when evaluating supply service rates for PCL&P ratepayers?**

11 **A. The following issues are relevant:**

- 12 • Unlike other Pennsylvania electric distribution companies ("EDCs"), PCL&P is
13 interconnected with NYISO (Zone G) and is not interconnected with PJM. Wholesale
14 electric prices have consistently been higher in NYISO than PJM. However, PCL&P
15 conducted a study in March 2004, which it updated in May 2006, concluding that the
16 price differential between PJM and NYISO did not justify the transmission system
17 investment needed to interconnect PCL&P with PJM.
- 18 • PCL&P is a small EDC, with approximately 4500 customers and a total load of only
19 about 16 MW, virtually all of which is residential or small commercial. As such, the
20 load is too small to practicably break up into pieces for separate POLR supply bidding
21 as a risk reduction strategy. Moreover, the load is relatively unattractive to wholesale
22 bidders because it is dominated by residential and small commercial customers.
23 Finally, the small size of the service territory, combined with the mixed jurisdictional
24 problems of the NYISO and the Pennsylvania competition rules, makes PCL&P
25 particularly unattractive to retail suppliers. (See, for example, OSBA-I-4.⁷)

⁷ Copies of all referenced interrogatory responses are attached to this testimony as Exhibit IEC-2.

1 Q. Regarding the County's first specific prayer for relief, do you agree that it is
2 appropriate for PCL&P to roll back its rates?

3 A. At this writing, it is not clear to me exactly what the County envisions with respect to a
4 rate rollback, but I assume that such a rollback would apply to the POLR supply rates on
5 PCL&P's tariff. (It is possible that the County envisions a rollback of distribution rates,
6 although I am unsure whether such a rollback can be legally imposed as those rates were
7 presumably set and approved by the Commission in PCL&P's last base rates case.)
8 Moreover, because the County has filed a complaint against PCL&P, I must assume that
9 any such rollback would apply to PCL&P's posted tariff POLR rates, even though most
10 of PCL&P's customers currently take supply service from Direct Energy under the retail
11 aggregation program.

12 With those caveats and assumptions, and based on my review of the evidence that is
13 available at this stage of this proceeding, I conclude that a rate rollback would be unwise,
14 for a couple of reasons.⁸ First, PCL&P's tariff POLR rates were set based on a procedure
15 that was approved by the Commission. Any Commission-approved modification of those
16 posted tariff POLR rates will send a strong signal to potential future wholesale suppliers
17 in all of Pennsylvania that they face a high regulatory risk associated with providing
18 POLR supply in the Commonwealth.⁹ Second, a rollback of tariff POLR rates will send a
19 signal to retail suppliers in all of Pennsylvania that, even if they are successful in
20 aggregating retail customers in a particular jurisdiction, they face the regulatory risk that
21 the Commission may actively undermine their success by allowing for reductions in
22 POLR rates that were not envisioned at the time the customers were aggregated.

⁸ I cannot comment on the legal issues regarding whether such a rollback is permitted under Pennsylvania law. My recommendations are based on regulatory economics and the practical implications of the Commission imposing such a rollback.

⁹ Because the complaint is lodged against PCL&P, it is presumably the County's intent that PCL&P absorb any difference between the reduced rates that it recovers from POLR ratepayers and the cost that it incurs under its agreement with the POLR supplier, ConED Energy. However, while such a proposal does not directly harm the POLR supplier, it puts PCL&P at significant financial risk. This risk imposed on the EDC indirectly puts the POLR supplier at risk that the EDC will not be able to meet its obligations under the contract, thereby discouraging wholesale supplier participation in Pennsylvania.

1 In short, while a rate rollback would obviously benefit PCL&P ratepayers in the short
2 term, I am concerned that any specific rate rollback will have a serious negative effect on
3 electric competition in all of Pennsylvania. Thus, to the extent that the Commission
4 needs to take any actions regarding this complaint, I recommend that those actions be
5 focused on steps that will encourage both more wholesale competition and more retail
6 competition for electric supply service in PCL&P's service territory. Moreover, the
7 Commission needs to provide for a reasonable balance between wholesale and retail
8 competitors. The desire to encourage competition was apparently the focus of the
9 Commission's Law Bureau investigation.

10 Q. So let's turn to the Law Bureau Report. In your opinion, which of the
11 recommendations in that report should be most aggressively pursued in order to
12 facilitate balanced wholesale and retail competition in PCL&P's service territory?

13 A. I recommend focusing on the following two efforts:

- 14 • *Conducting an independent study of interconnecting PCL&P with PJM*
15 *(Recommendation #2):* The updated version of PCL&P's internal interconnection
16 study estimates that the net annual benefit to interconnection with PJM would be
17 some \$2.0 million in lower energy costs, compared to \$2.7 million in annual
18 additional costs, based on an estimated project cost of \$13.6 million and a 20 percent
19 carrying charge factor. However, that study was conducted at an overview level only.
20 The project cost estimate of \$13.6 million appears to be based on conservative
21 assumptions in some aspects and less so in others.¹⁰ Also, its 20 percent carrying
22 charge figure is not supported by any analysis (see OSBA-I-1(f)), and my own
23 calculations suggests that a lower figure may be appropriate (see Exhibit IEC-3,
24 attached to this testimony). In addition, I note that it appears that neither PCL&P nor
25 the County has investigated public funding options for such a project, which might
26 have the potential to reduce the carrying charge for the project.¹¹ Further, I note that

¹⁰ For example, PCL&P excludes potential costs associated with PJM interconnection. (See updated PCL&P interconnection study at page 9.) However, its estimates of the costs for distribution interconnections are identified as a worst case scenario. (See OCA-II-21.)

¹¹ See OSBA-II-1.

1 an interconnection with PJM would provide PCL&P with a permanent ability to shop
2 in either PJM or NYISO, and take advantage of any price differential in either
3 direction. It is not clear that this flexibility benefit is fully recognized in the existing
4 study. And finally, I note that PCL&P indicates that it is not opposed to an
5 independent study -- it just does not want to pay for it. (OSBA-I-10) In that respect,
6 PCL&P may be being penny-wise and pound-foolish. PCL&P's lack of
7 interconnection with PJM and higher energy costs appear to be long standing
8 concerns of Pennsylvania regulators, as evidenced by former Commissioner Shane's
9 statement in Docket No. P-00062205.¹² While PCL&P may be convinced that an
10 independent study would simply confirm its overview study, an independent review
11 would help to mitigate some of the concerns of regulators and local ratepayers.

- 12 • *Explore ways to integrate purchasing of energy with its O&R affiliates*
13 *(Recommendation #1):* As I noted earlier, the size and composition of PCL&P's load
14 is generally unattractive to both wholesale and retail suppliers, and makes it virtually
15 impossible for PCL&P to diversify the timing of its procurement auctions. These
16 problems can be mitigated by combining the PCL&P load with a larger service
17 territory. While there are logistical and jurisdictional issues to overcome, this
18 approach may have merit. I note that PCL&P appears to be investigating this option,
19 although it declines to comment on its progress (OSBA-I-7).

20 In addition to those two efforts, I note that PCL&P appears to generally agree with the
21 Law Bureau Report recommendations involving submission of its 2008 POLR plan prior
22 to December 31, 2006 (OSBA-I-11); provision of an indefinite waiver of Pennsylvania
23 EDI rules in favor of NY EDI rules for PCL&P (OSBA-I-12); and development of a
24 PowerSwitch program for PCL&P similar to that of Orange & Rockland in New York
25 (OSBA-I-5). I agree that these recommendations should also be adopted.

¹² See Statement of Commissioner Bill Shane, Public Meeting May 4, 2006, Docket No. P-00062205, page 3. "In 1983, this Commission placed Pike [PCL&P] on notice that their Energy acquisition costs were unreasonable. These circumstances continue to this day. The lack of interconnection with the PJM RTO has resulted in higher energy acquisition costs for Pike's customers."

1 Q. Are there any other options that PCL&P should consider for encouraging wholesale
2 competition in its service territory, as part of its next POLR procurement?

3 A. As I indicated earlier, in its last POLR procurement, the winning bids for wholesale
4 POLR supply to PCL&P were not significantly higher than the future market prices at the
5 time of the bid, reflecting a relatively low risk premium from the winning bidder. (I was
6 not able to evaluate whether the winning retail aggregation bid from Direct Energy
7 reflected a significant risk premium.) However, in light of subsequent events, there is
8 some likelihood that wholesale bidders will require a more significant risk premium in
9 the next round, particularly if PCL&P is unable to bundle its load with an affiliate for
10 bidding purposes. Thus, as part of its 2008 POLR filing, I recommend that PCL&P retain
11 and, to the extent feasible, upgrade its algorithm for evaluating whether the risk premium
12 from the low-price wholesale bidder is reasonable. In addition, I recommend that PCL&P
13 develop and submit a backstop plan in the event that the risk premiums from wholesale
14 suppliers are determined to be excessive.

15 For example, the Commission has generally favored obtaining bids for POLR supply
16 prices that are fixed for some reasonable term, and which do not provide an opportunity
17 for the EDC to reconcile differences between revenues and incurred costs.¹³ This
18 approach has the advantage that the fixed price option is generally preferred by smaller
19 retail customers. Furthermore, the absence of reconciliation avoids providing an undue
20 competitive advantage to wholesale suppliers at the expense of retail suppliers.
21 Moreover, if the wholesale price becomes significantly out of line with market prices,
22 customers generally have the opportunity to shop for lower-priced power.

23 However, in a service territory such as PCL&P's where there is very little supplier
24 interest in retail competition (see OSBA-I-4), consumers do not have the protection that
25 they can shop if the wholesale POLR prices are set at unreasonably high levels. Thus, for
26 those service territories where competition is limited, at both the wholesale and the retail
27 level, and where wholesale bid prices for the fixed price product reflect an inordinate risk

¹³ The OSBA has generally supported the idea of setting fixed POLR rates for a reasonable term. The OSBA recognizes that reconciliation has the advantage that it will tend to reduce risk for wholesale suppliers and thereby lower POLR bid prices, with the disadvantage that it puts retail suppliers at a competitive disadvantage.

1 premium, the Commission may wish to consider allowing the EDC to procure power on
2 the spot market and reconcile variances between revenues and costs. To limit the
3 competitive disadvantage faced by retail competitors associated with such a scheme, rates
4 should be adjusted and reconciled on at least a quarterly basis. I recommend that PCL&P
5 and the Commission consider and evaluate such a backstop proposal as part of the
6 Company's 2008 POLR proceeding.

7 Q. Does this conclude your direct testimony?

8 A. Yes it does.

EXHIBIT RDK-1

RÉSUMÉ AND EXPERT TESTIMONY LIST

FOR

ROBERT D. KNECHT

ROBERT D. KNECHT

Robert D. Knecht specializes in the practical application of economics, finance and management theory to issues facing public and private sector clients. Mr. Knecht has more than twenty years of consulting experience, focusing primarily on the energy, metals, and mining industries. He has consulted to industry, law firms, and government clients, both in the U.S. and internationally. He has participated in strategic and business planning studies, project evaluations, litigation and regulatory proceedings and policy analyses. His practice currently focuses primarily on utility regulation, and he has provided analysis and expert testimony in numerous U.S. and Canadian jurisdictions. In addition, as Treasurer of IEC since 1995, Mr. Knecht is responsible for the firm's accounting, finance and tax planning, as well as administration of the firm's retirement plans. Mr. Knecht's consulting assignments include the following projects:

- For the Pennsylvania Office of Small Business Advocate, Mr. Knecht provides analysis and expert testimony in industry restructuring, base rates and purchased energy cost proceedings involving electric, steam and natural gas distribution utilities. Mr. Knecht has analyzed the economics and financial issues of electric industry restructuring, stranded cost determination, fair rate of return, claimed utility expenses, cost allocation methods and rate design issues.
- For independent power producers and industrial customers in Alberta, Mr. Knecht has provided analysis and expert testimony in a variety of electric industry proceedings, including industry restructuring, cost unbundling, stranded cost recovery, transmission rate design, cost allocation and rate design.
- For industrial customers in Québec, Mr. Knecht has prepared economic analysis and expert testimony in regulatory proceedings regarding cost allocation, compliance with legislative requirements for cross-subsidization, and rate design.
- As part of international teams of experts, Mr. Knecht has prepared the economic and financial analysis for industry restructuring studies involving the steel and iron ore industries in Venezuela, Poland, and Nigeria.
- For the U.S. Department of Justice and for several private sector clients, Mr. Knecht has prepared analyses of economic damages in a variety of litigation matters, including ERISA discrimination, breach of contract, fraudulent conveyance, natural resource damages and anti-trust cases.
- Mr. Knecht participates in numerous projects with colleagues at IEC preparing economic and environmental analyses associated with energy and utility industries for the U.S. Environmental Protection Agency.

Mr. Knecht holds a M.S. in Management from the Sloan School of Management at M.I.T., with concentrations in applied economics and finance. He also holds a B.S. in Economics from M.I.T. Prior to joining Industrial Economics as a principal in 1989, Mr. Knecht worked for seven years as an economic and management consultant at Marshall Bartlett, Incorporated. He also worked for two years as an economist in the Energy Group of Data Resources, Incorporated.

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ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-00061365	Pennsylvania Public Utility Commission	PG Energy	July 2006	Pennsylvania Office of Small Business Advocate	Merger savings, cost allocation, revenue allocation, rate design
R-00061519	Pennsylvania Public Utility Commission	PPL Gas Utilities, Inc.	July 2006	Pennsylvania Office of Small Business Advocate	Design day weather and throughput forecasts; gas supply hedging.
R-00061518	Pennsylvania Public Utility Commission	PG Energy	July 2006	Pennsylvania Office of Small Business Advocate	Design day weather and throughput forecasts; gas supply hedging.
A-125146	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Southern Union Company	June 2006	Pennsylvania Office of Small Business Advocate	Public benefits of proposed sale of PG Energy to UGI; transfer to upstream asset contracts.
R-00061355	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2006	Pennsylvania Office of Small Business Advocate	Gas supply and hedging plan; procedural issues
R-00061296	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2006	Pennsylvania Office of Small Business Advocate	Gas procurement and procedural issues.
R-00061246	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2006	Pennsylvania Office of Small Business Advocate	Gas procurement; unaccounted for gas retention rates
2005-002 Refiling	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Company	February 2006	New Brunswick Public Intervenor	Cost allocation, rate design
P-00052188	Pennsylvania Public Utility Commission	Pennsylvania Power Company	December 2005	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design for POLR supplies.
R-3579-2005	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2005	AQIE/CIFQ	Generation cost allocation, cross-subsidization; revenue allocation
2005-002	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Company	August 2005	New Brunswick Public Intervenor	Cost allocation, rate design

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-00050538	Pennsylvania Public Utility Commission	PG Energy	July 2005	Pennsylvania Office of Small Business Advocate	Gas procurement diversification
R-00050540	Pennsylvania Public Utility Commission	PPL Gas Utilities, Inc.	July 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, hedging, retention rates, sharing mechanism
R-00050340	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, hedging and diversification.
R-3563-2005	Régie de l'Énergie, Québec	Hydro Québec Distribution	April 2005	AQCIE/CIFQ	Generation cost allocation, industrial demand response
R-00050264	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, risk hedging, financing costs in the gas cost rate.
R-00050216	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2005	Pennsylvania Office of Small Business Advocate	Gas supply procurement and forward pricing policies.
EB-2004-0542	Ontario Energy Board	Union Gas Limited	March 2005	Tribute Resources Inc.	Cost allocation and rate design for service to embedded storage pools.
R-00049884	Pennsylvania Public Utility Commission	Pike County Light and Power (Gas Service)	January 2005	Pennsylvania Office of Small Business Advocate	Fair rate of return, cost allocation, class revenue assignment.
R-00049656	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	December 2004	Pennsylvania Office of Small Business Advocate	Fair rate of return, uncollectibles costs, automatic rate adjustments, cost allocation, rate design.
R-3541-2004	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2004	AQCIE, CIFQ	Allocation of post-patrimonial generation costs.
C-20031302	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	July 2004	Pennsylvania Office of Small Business Advocate	Customer assistance program funding and cost allocation.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-049255	Pennsylvania Public Utility Commission	PPL Electric Utilities Corporation	June 2004	Pennsylvania Office of Small Business Advocate	Transmission and distribution cost allocation, rate design, automatic distribution increases
P-042090 et al	Pennsylvania Public Utility Commission	Philadelphia Gas Works	June 2004	Pennsylvania Office of Small Business Advocate	Collections and universal service cost issues
RP-2003-0203	Ontario Energy Board	Enbridge Gas Distribution	May 2004	Vulnerable Energy Consumers Coalition et al.	Cost allocation, rate design for pipeline and storage costs
R-049157 P-042090	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2004	Pennsylvania Office of Small Business Advocate	Cost: receipts reconciliation clause
R-049108	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2004	Pennsylvania Office of Small Business Advocate	Uncollectible cost responsibility for standby charges
Application 1306819	Alberta Energy and Utilities Board	ENMAX Power Corporation	January 2004	Calgary Industrial Group Calgary Building Owners	T&D cost allocation, rate design, ratepayer equity funding
R-3492-2002 Phase 2	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2003	AQCIE, CIFQ	Rate policy, cross-subsidization
R-038168	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	July 2003	Pennsylvania Office of Small Business Advocate	Cost allocation, deficiency assignment, rate design, pension cost reconciliation, rate of return
R-3492-2002 Phase 1	Régie de l'Énergie, Québec	Hydro Québec Distribution	January 2003	AQCIE, AIFQ	Cost allocation, maintenance of historical cross-subsidization
M-021612	Pennsylvania Public Utility Commission	Philadelphia Gas Works	September 2002	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, cost allocation, rate unbundling
R-027385	Pennsylvania Public Utility Commission	PG Energy (Southern Union)	July 2002	Pennsylvania Office of Small Business Advocate	Purchased gas cost incentive mechanisms
1259932	Alberta Energy and Utilities Board	Aquila Networks Canada (Alberta) Ltd.	July 2002	Senior Petroleum Producers Association	Distribution plant and cost allocation, rate design.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-027204	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2002	Pennsylvania Office of Small Business Advocate	Purchased gas cost incentive mechanisms, rate design
R-3477-2001	Régie de l'Énergie, Québec	Hydro Québec Distribution	May 2002	AQCIE, AIFQ	Classification/allocation of generation costs, subject to constant unit cost constraint.
1248859	Alberta Energy and Utilities Board	ESBI Alberta Limited	March 2002	IPPSA	Transmission congestion management principles
R-016378	Pennsylvania Public Utility Commission	Philadelphia Gas Works	August 2001	Pennsylvania Office of Small Business Advocate	Cost of gas; commodity price forecasting
R-016179	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2001	Pennsylvania Office of Small Business Advocate	Recovery of CAP costs; PGC treatment of pipeline credits
R-005277	Pennsylvania Public Utility Commission	PFG Gas Inc. and North Penn Gas Company	November 2000	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design.
R-3443-2000	Régie de l'Énergie, Québec	Société en commandite Gaz Métropolitain	November 2000	Industrial Gas Users Association (ACIG)	Tariff unbundling
990005	Alberta Energy and Utilities Board	ESBI Alberta Limited	November 2000	IPPSA	Location-based credits for transmission rates
R-005119	Pennsylvania Public Utility Commission	PG Energy (Southern Union)	July 2000	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design, weather normalization
R-994788	Pennsylvania Public Utility Commission	PFG Gas, Inc. and North Penn Gas Company	February 2000	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
R-994785	Pennsylvania Public Utility Commission	National Fuel Gas Distribution Corp.	December 1999	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
R-994783	Pennsylvania Public Utility Commission	PG Energy, Inc.	November 1999	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
99005	Alberta Energy and Utilities Board	ESBI Alberta Limited (Transmission Administrator)	September 1999	IPPSA	Transmission tariff cost allocation, rate design, industry restructuring
RE95080	Alberta Energy and Utilities Board	Alberta Power Limited	December 1998	Independent Power Producers Society of Alberta and SPPA	Electric industry restructuring, rate unbundling, cost allocation and rate design.
RE95081	Alberta Energy and Utilities Board	TransAlta Utilities Corporation	November 1998	IPPSA and Senior Petroleum Producers Assn.	Industry restructuring, cost allocation, rate design.
Expansion Feasibility Test	Public Utilities Board of Manitoba	Centra Gas Manitoba	August 1998	Simplot Canada Limited	Expansion feasibility and customer contribution methodology
R-984280	Pennsylvania Public Utility Commission	PG Energy, Inc.	August 1998	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue deficiency assignment, rate design
EO97070455	New Jersey Board of Public Utilities	Atlantic City Electric Company	February 1998	New Jersey Board of Public Utilities	Industry restructuring, audit of unbundled rates
R 973981	Pennsylvania Public Utility Commission	Allegheny Power (West Penn Power)	January 1998	Pennsylvania Office of Small Business Advocate	Industry restructuring, cost unbundling, cost allocation, and rate design.
R-973954	Pennsylvania Public Utility Commission	Pennsylvania Power & Light	August 1997	Pennsylvania Office of Small Business Advocate	Restructuring, stranded costs, market price forecasting, cost allocation, and rate design
1996 Electric Utility Tariff Applications	Alberta Energy & Utilities Board	TransAlta Utilities, Alberta Power Edmonton Power, Grid Company of Alberta	October 1996	Independent Power Producers Society of Alberta (IPPSA)	Industry restructuring; transmission cost allocation and rate design.
R-963612	Pennsylvania Public Utility Commission	PG Energy, Inc.	October 1996	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and rebuttal.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-953444	Pennsylvania Public Utility Commission	Trigen-Philadelphia Energy Corp.	November 1995	Pennsylvania Office of Small Business Advocate	Steam energy cost rate -- direct and rebuttal.
R-953406	Pennsylvania Public Utility Commission	T. W. Phillips Gas & Oil Company	October 1995	Pennsylvania Office of Small Business Advocate	Weather normalization, cost allocation and rate design.
R-953297	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Gas Division)	May 1995	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and surrebutal.
R-943271	Pennsylvania Public Utility Commission	Pennsylvania Power & Light	April/May 1995	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and rebuttal
EBRO 488	Ontario Energy Board	Natural Resource Gas Limited	November 1994	Natural Resource Gas Limited	Customer classification, cost allocation and rate design.
RE92071	Alberta Public Utilities Board	Alberta Power Limited	November 1994	Independent Power Producers Society of Alberta	Cost allocation and rate design for export transmission service.
R-942986	Pennsylvania Public Utility Commission	West Penn Power Company	August 1994	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design.
R-932862	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Electric Division)	March 1994	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct, rebuttal and surrebutal.
EBRO 485, and Generic Direct Purchase Hearings	Ontario Energy Board	Consumers' Gas Company, Ltd.	August 1993, September 1993.	Canadian Independent Gas Marketing Association	Classification and allocation of marketing and administrative costs.
Hearings for Cost of Service and Rate Design	Nova Scotia Utility and Review Board	Nova Scotia Power, Inc.	May 1993	Bowater Mersey Paper Company, Ltd.	Classification of bulk power costs, rate design for interruptible service and other rate design issues.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
Generic Hearing #4	Board of Commissioners of Public Utilities, Province of New Brunswick	New Brunswick Power Corporation	November 1991	Large Power Users Group	Review of cost allocation and rate design.
EBRO-473	Ontario Energy Board	Consumers' Gas Company, Ltd.	October 1991	Ontario Energy Board Staff	Cost allocation and rate design
EBRO-470	Ontario Energy Board	Union Gas, Ltd.	February 1991	Ontario Energy Board Staff	Cost allocation and rate design; evaluation of load shifting study.
Rate Area Boundaries Hearings	Prince Edward Island Public Utilities Commission	Maritime Electric Co., Ltd.	February 1991	Prince Edward Island Department of Energy and Forestry	Customer classification by geographical area.
EBRO-467	Ontario Energy Board	Centra Gas, Ltd.	January 1991	Ontario Energy Board Staff	Cost allocation and rate design for technology, cogen and bypass.
Arbitration Hearings	Arbitrator	ARINC, Inc.	July 1990	ARINC Inc.	Cost allocation and rate design for aircraft to ground data communications service.
EBRO-462	Ontario Energy Board	Union Gas, Ltd.	January 1990	Ontario Energy Board Staff	Seasonal cost allocation study, and allocation of costs to export markets.
NSPC-857	Nova Scotia Board of Commissioners of Public Utilities	Nova Scotia Power Corp.	February 1989	Interruptible industrial customers	Cost allocation and rate design of interruptible electric service.

August 2006

EXHIBIT RDK-2

REFERENCED INTERROGATORY RESPONSES

(in numerical order)

OCA-II-21

OSBA-I-1

OSBA-I-4

OSBA-I-5

OSBA-I-7

OSBA-I-9

OSBA-I-11

OSBA-I-12

OSBA-II-1

County of Pike

v.

Pike County Light & Power Company
Docket No. C-20065942, et al

Office of Consumer Advocate
Interrogatories Set II

21. Please provide any workpapers that support the cost estimate of \$2 million to do the work under the project description of "Distribution Interconnections" on page 8.

Response: Sponsoring Witness: James W. Tarpey, Vice President – Operations

The exact location for the Milford substation was unknown at the time Pike prepared the estimate. Costs were based on a worst-case scenario that would require three -1000' underground feeder exits and the installation of two manholes. The experienced cost per foot for underground feeder exits is \$150 and the cost per manhole installation is \$40,000. This results in a total cost for the underground exits of approximately \$500,000.

In addition to the underground exits, overhead distribution facilities would have to be rebuilt to provide the necessary circuit configurations. Again, because the exact location of the Milford substation was unknown, costs were based on a worst-case scenario. Pike assumed that three miles of rebuild would be required per feeder. The estimated installed cost per foot for rebuild of existing overhead distribution facilities is \$46.00. This results in a total cost for the overhead rebuild work of approximately \$1.5 million.

Interrogatories of the
Office of Small Business Advocate to
Pike County Light & Power Company
Docket No. C-20065942

Set I

1. Reference the updated 2006 PJM Transmission Interconnection Analysis, attached as Appendix B to the Pennsylvania Public Utility Commission Law Bureau report entitled "Report on Competitive Market Conditions Regarding the Pike County Light & Power Company" dated June 1, 2006 ("Law Bureau Report"):
 - a. Please provide the URL source and original source data for the forward prices presented on page 11 for NYISO Zone G and the "PJM PP&L" prices on-peak and off-peak prices. Please include any workpapers used to derive averages.
 - b. Please provide an updated version of the forward prices reported at page 11, including forward prices for any years beyond 2009 for which forward prices are reasonably available. Please include any supporting workpapers.
 - c. If PCL&P were to invest the \$13.6 million to effect the interconnection, how would it recover that investment in rates? Please explain your response.
 - d. How long would it take PCL&P to construct an interconnection, and get the necessary approvals from PJM (assuming PJM approves an interconnection)?
 - e. Please reconcile the peak demands shown at Table 1 with those reported in OCA-II-26. Please include an explanation as to why the peak demand in Table 1 is higher for Line 7, while the reverse is true in OCA-II-26.
 - f. Please provide the complete basis for the 20 percent carrying charge identified on page 13. Please indicate whether that value is on a current dollar or constant dollar (inflation-adjusted basis). As part of your response, please include the assumed asset life, PCL&P's capital structure, PCL&P's assumed cost of new debt, PCL&P's cost of equity, PCL&P's expectations for federal and state income tax rates, PCL&P's assumed O&M cost rate for the new assets, and the assumed uncollectibles rate.
 - g. Regarding the potential for interconnection with Sussex Rural Electric Cooperative (discussed at page 6 of the updated report), please provide PCL&P's estimate of the interconnection distance and explain why such an interconnection is not technically practical.

Response: Sponsoring Witness: James W. Tarpey, Vice President – Operations

- a. For the NYISO - http://www.nyiso.com/public/market_data/pricing_data.jsp and for PJM - <http://www.pjm.com/markets/energy-market/day-ahead.html>. These prices were copied directly from each webpage to the tables.
- b. Please see Attachment I.
- c. PCL&P would need to file a base rate case to recover the costs associated with such a major system investment.

d. The Company cannot provide a definitive answer on PJM's timetable for approving and implementing such an interconnection.

e. The loads shown for Line 7 and Circuit 5-10-34, in Table 1 of the Pike-PJM Transmission Interconnection Investigation report, were the projected weather-normalized loads served from those lines solely within the Pike service territory. Line 7's entire load is within Pike, while Line 5-10-34 serves load in both Pike and Orange and Rockland Utilities, Inc.'s (O&R) service territory. Table 1 projected peak loadings of 11.4MVA and 6.5MVA, for Line 7 and Line 5-10-34(Pike portion) respectively, in 2006. The actual 2006 peak loads for Line 7 and Line 5-10-34(Pike portion) were 12.2MVA and 6.6MVA respectively. The actual Line 5-10-34 load shown in OCA-II-26 was for the load of the entire line, both its O&R and Pike loading.

f. The 20 percent carrying charge is a typical levelized carrying rate for long-lived utility plant. The details requested were not relied upon in this instance.

g. The Company has not performed any formal studies to dismiss the technical practicality of such an interconnection. However, informal investigations have revealed that interconnection with Sussex Rural Cooperative facilities would require a line extension of approximately 22 miles of 34.5kV line construction, with a considerable amount needed to be constructed through High Point State Park, as well as a crossing of the Delaware River, which is a federally protected watershed. Even if it were technically feasible to support Pike's short-term load requirements with this type of line extension, the costs to complete it along with certain additional cost upgrades that would appear to be required to Sussex Rural Cooperative's facilities, the associated environmental hurdles, and Pike's long-term growth concerns, all combine to make this alternative relatively infeasible.

4. Please detail all of PCL&P's activities designed to encourage additional retail competition in its service territory. Please provide an update to PCL&P's comments in response to Question 2 as reported in Appendix A to the Law Bureau Report. Please identify any new initiatives that PCL&P will pursue either in the short-term or that it is considering for its next default POLR service proceeding.

Response: Sponsoring Witness: James O'Brien, Vice President - Customer Service

PCL&P continues to face difficulties in attracting interested EGSs to provide competitive electric supply services in its service territory. The reasons EGSs are reluctant to enter the service territory include: (1) regulatory uncertainty created by the on-going investigations by the PAPUC in the service territory; (2) the existence of a competitively-bid, PAPUC approved, opt-out aggregation program in which 93% of PCL&P's customers are already participating; (3) the limited size of the service territory, *i.e.*, 4,500 customers; (4) the nature of the customer base in the service territory, *i.e.*, primarily residential and small commercial and industrial; (5) for EGSs that are already licensed and participating in retail choice in Pennsylvania, but not in New York, the fact that PCL&P is not interconnected with PJM and does not use the Pennsylvania EDI protocols; and (6) for EGSs that are approved in New York and are participating in Orange and Rockland's retail choice program in New York, but are not already active in Pennsylvania, the licensing requirements in Pennsylvania and the need to develop regulatory expertise in Pennsylvania.

In order to encourage additional retail competition in its service territory, PCL&P has: (1) cooperated fully and efficiently with the establishment of an opt-out aggregation program in the service territory under which 93% of PCL&P's customers have already enrolled in service with Direct Energy Services, LLC, a Pennsylvania-licensed EGS; (2) cooperated fully and efficiently in providing every new customer in its service territory the opportunity to participate automatically in Direct Energy's aggregation program unless they expressly request to stay with PCL&P for their electric supply service; (3) finalized a Billing and Assignment Agreement for use by EGSs; (4) agreed to purchase the receivables **without discount** for any EGS participating in retail choice in PCL&P's service territory that executes a Billing and Assignment Agreement; (5) repeatedly solicited the interest of EGSs in being listed as eligible EGSs on its website; (6) repeatedly solicited the interest of EGSs, most recently by e-mail dated September 27, 2006, in participating in an ESCO referral program, similar to O&R's PowerSwitch Program; and (7) facilitated contacts between primary service customers that were not included in the opt-out aggregation program and EGSs interested in serving them, to the extent these customers wanted to be contacted. Aside from the participation of the aggregator, Direct Energy, to date, only one EGS, Con Edison Solutions, has executed a Billing and Assignment Agreement with PCL&P, agreed to be listed on the Company's website as an eligible EGS, and expressed an interest in participating in an ESCO referral program in PCL&P's service territory,

5. Please detail the status of implementing a PowerSwitch program at PCL&P

Response: Sponsoring Witness: James O'Brien, Vice President – Customer Service

PCL&P has delayed filing an ESCO referral program for its service territory because it has received virtually no interest from eligible EGSs in participating in such a program. To date, only a single EGS, the Company's affiliate Con Edison Solutions, has expressed an interest. Given the limited number of EGS participants for the program, PCL&P does not believe it is in its customers' best interests to initiate a program at this time. Nonetheless, PCL&P will file a proposal before year end. This way, assuming the program is approved, at such time as EGSs decide that they want to participate, PCL&P will be in a position to implement the program without any regulatory delays.

7 Reference: PCL&P's response to Commission directed question #9 as printed in the Law Bureau Report Appendix A:

- a. Please provide an update regarding PCL&P's investigation of the potential for bundling the PCL&P load with the load of its affiliates for energy procurement purposes. Please provide all analyses performed and identify the major costs and benefits of such an approach.

Response: Sponsoring Witness: James Tarpey, Vice President - Operations

PCL&P is currently studying this matter and has not arrived at any definitive conclusions.

9. Reference: PCL&P's response to Commission directed question #10 as printed in the Law Bureau Report Appendix A.

- a. Please provide the specific details of the "interstate jurisdictional difficulties" identified in these comments regarding a virtual interconnection.
- b. Please explain why the NYISO would need to cede control of its facilities to PJM to implement a virtual interconnection.

Response: Sponsoring Witness: James Tarpey, Vice President - Operations

- a. With a virtual interconnection, PCL&P would need to arrange for a transmission path between PJM and PCL&P sufficient to meet PCL&P's loads, and turn over that path to PJM control. By necessity, any such path would need to include facilities controlled by PJM.
- b. Please see the response to (a).

11 Regarding the Law Bureau Report recommendation #4, please state PCL&P's intention regarding the timing of its default POLR service plan for 2008 and beyond.

Response: Sponsoring Witness: James W. Tarpey, Vice President - Operations

PCL&P will file a plan, for the default POLR service plan for 2008 and beyond, by 12/31/06.

12 Does PCL&P have any objections to implementing Law Bureau Report recommendation #6? If so, please state them.

Response: Sponsoring Witness: James O'Brien, Vice President – Customer Service

The Company supports an indefinite waiver of the Pennsylvania EDI rules for so long as it purchases its electric supply through the NYISO.

**Interrogatories of the
Office of Small Business Advocate to
Pike County Light & Power Company
Docket No. C-20065942**

Set II

- 1 Reference the updated 2006 PJM Transmission Interconnection Analysis, attached as Appendix B to the Pennsylvania Public Utility Commission Law Bureau report entitled "Report on Competitive Market Conditions Regarding the Pike County Light & Power Company" dated June 1, 2006 ("Law Bureau Report"):
- a. Please provide the complete basis for the assertion that no government funding is available. As part of your response, please identify each potential source of government funding that PCL&P considered and explain how PCL&P concluded that no funding was available.

Please identify any and all communications with the County of Pike or local development agencies (such as, but not limited to, PIDCO) regarding potential government funding, and explain why no such funding is available.

Response: Sponsoring Witness: James W. Tarpey, Vice President - Operations

It is Pike's understanding that electric substations that are constructed for the benefit of a utility's general body of customers are not eligible for such funding. Neither the County of Pike nor any local development bodies has offered to make such funding available. Moreover, at no time has OSBA or any other party to this proceeding indicated that such funding was available for the interconnection process.

EXHIBIT IEc-3

CAPITAL RECOVERY FACTOR CALCULATIONS

EXHIBIT IEc-3

SUMMARY OF CAPITAL RECOVERY FACTOR CALCULATIONS

	<i>Without O&M Costs</i>	<i>With O&M Costs</i>	<i>Basis for Assumption</i>
Return on Equity	10.70%	10.70%	PUC Approved Rate for PPL Electric
Long Term Debt Rate	6.02%	6.02%	Current 20-Year AA Bond Rate
Equity Share of Capital	48.70%	48.70%	PUC Approved Rate for PPL Electric
Inflation	2.50%	2.50%	Philadelphia FRB Survey for LT CPI
Federal Income Tax Rate	35.00%	35.00%	
State Income Tax Rate	9.99%	9.99%	
Effective Income Tax Rate	41.49%	41.49%	Calculated
O&M Factor	0%	3%	Estimated annual percent of investment

Methodology

- This exhibit calculates the annual revenues that a project must earn to fully recoup its cost of capital over its expected life, using two methods.
- The first method derives the constant dollar annual revenue necessary to recover capital and O&M costs and income taxes, measured as a percent of the original investment. As shown in the accompanying pages, that value for the two scenarios is:

Without O&M	9.3%
With O&M	11.7%

Note that both values are well below PCL&P's 20 percent assumption.
- The second method derives the annual revenue consistent with a utility revenue requirement approach, in which costs are generally derived from a declining rate base. In this method, the annual revenue declines each year. As a percent of revenue, the figures from this method are:

	First Year	Last Year
Without O&M	14.5%	2.8%
With O&M	17.6%	5.9%

On average, the revenue requirement from this approach also falls well below PCL&P's assumption.
- Note that the first method is derived using an iterative model.
- In the first method, both revenues and O&M costs increase with inflation. The revenue increase with inflation implicitly assumes that the NYISO-PJM differential increases with inflation, in this comparison. In the second method, only the O&M costs increase with inflation, while revenues generally decline since the rate base effect outweighs the increasing O&M costs.

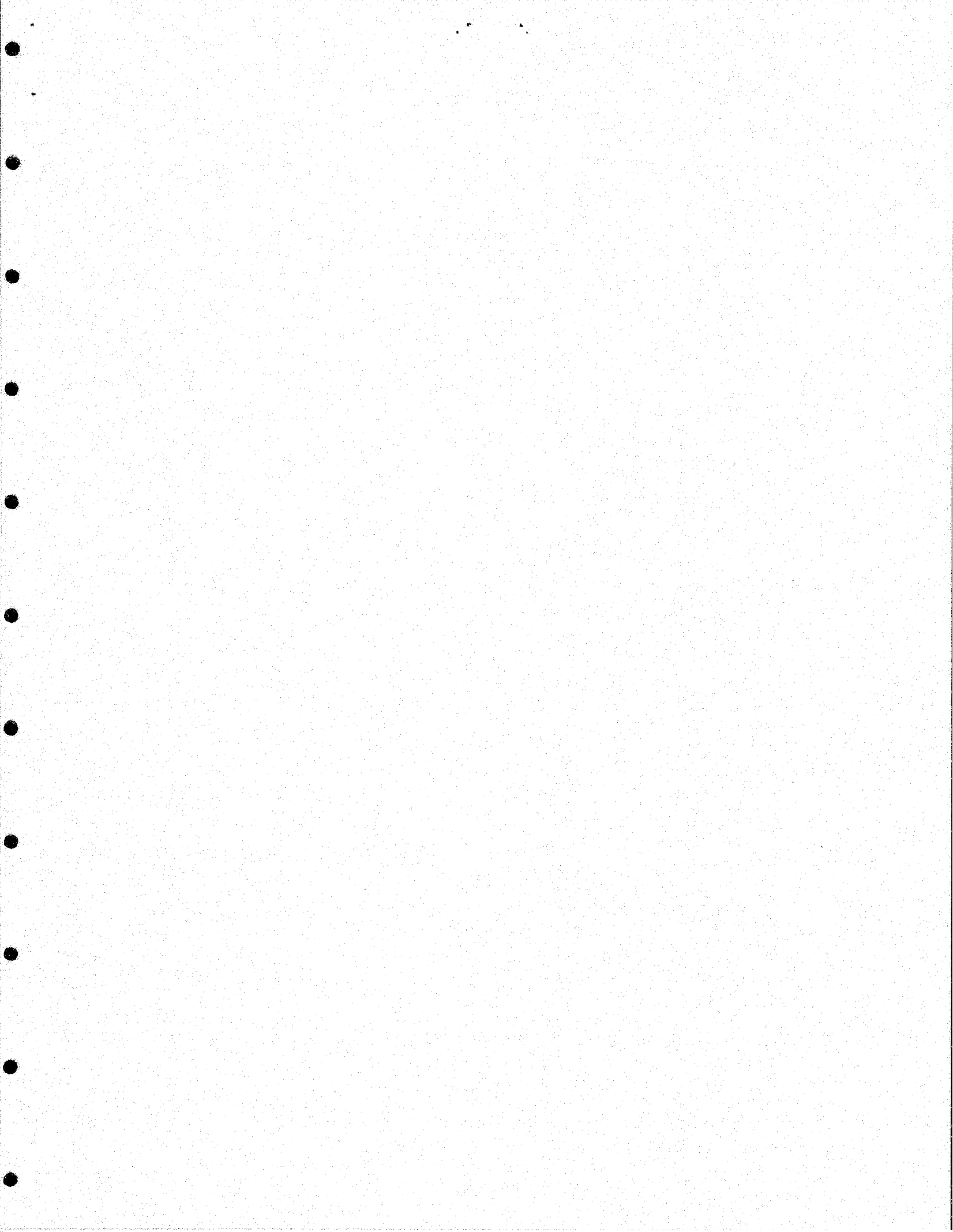
EXHIBIT IEC-3

Year	Capital Recovery Factor and Utility Revenue Requirement Comparison: Without O&M Expenses				Investment	20	30	40						
	6.0%	10.7%	41.5%	51.3%										
	Nominal Debt Rate	Nominal AT Equity Rate	Debt Share	O&M Percent										
	0	1	2	3	4	5	6	7	8	9	10	20	30	40
	(1,000,000)													
Levelized Cash Flow Methodology														
YE Book Value	1,000.00	950.00	902.50	857.38	814.51	773.78	735.09	698.34	663.42	630.25	598.74	558.49	519.24	-
Dep'n (DDB-40)	1,000.00	50.00	47.50	45.13	42.87	40.73	38.69	36.75	34.92	33.17	31.51	18.87	17.92	17.92
Debt Balance	513.00	487.35	462.98	439.83	417.84	396.95	377.10	358.25	340.31	323.32	307.15	183.90	91.95	-
Equity Balance	487.00	462.65	439.52	417.54	396.66	376.83	357.99	340.09	323.09	306.93	291.58	174.58	87.29	-
Revenue	93.00	95.33	97.71	100.15	102.66	105.23	107.86	110.55	113.32	116.15	119.03	148.68	190.32	243.63
Dep'n	(50.00)	(47.50)	(45.13)	(42.87)	(40.73)	(38.69)	(36.75)	(34.92)	(33.17)	(31.51)	(30.00)	(18.87)	(17.92)	(17.92)
Debt Cost	(30.88)	(29.34)	(27.87)	(26.48)	(25.15)	(23.90)	(22.70)	(21.57)	(20.49)	(19.46)	(18.46)	(11.65)	(6.09)	(0.55)
Maintenance Cost														
Book Income	12.12	18.49	24.72	30.81	36.78	42.64	48.40	54.07	59.66	65.17	70.63	118.16	166.31	225.15
Income Taxes	(5.03)	(7.67)	(10.26)	(12.78)	(15.26)	(17.69)	(20.08)	(22.44)	(24.75)	(27.04)	(29.29)	(49.03)	(69.01)	(93.42)
Net Income	7.09	10.82	14.46	18.02	21.52	24.95	28.32	31.63	34.90	38.13	41.34	69.13	97.30	131.73
Depreciation	50.00	47.50	45.13	42.87	40.73	38.69	36.75	34.92	33.17	31.51	18.87	17.92	17.92	17.92
Debt Cash Flow	(5513.00)	(25.65)	(24.37)	(23.15)	(21.99)	(20.89)	(19.85)	(18.86)	(17.91)	(17.02)	(16.17)	(9.68)	(9.20)	(9.20)
Net Equity Cash Flow	\$487.01	31.44	33.55	36.44	38.90	41.35	43.79	46.22	48.64	51.06	53.48	78.32	106.03	140.46
Capital Recovery Factor ==>														
Utility Revenue Requirement Methodology	1,000.00	975.00	950.00	925.00	900.00	875.00	850.00	825.00	800.00	775.00	750.00	500.00	250.00	-
Debt Balance	513.00	500.18	487.35	474.53	461.70	448.88	436.05	423.23	410.40	397.58	384.75	256.50	128.25	-
Equity Balance	487.00	474.83	462.65	450.48	438.30	426.13	413.95	401.78	389.60	377.43	365.25	243.50	121.75	-
Depreciation (SL)	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Interest	30.88	30.11	29.34	28.57	27.79	27.02	26.25	25.48	24.71	23.93	23.16	16.21	8.49	0.77
Maintenance														
Income Taxes	36.96	36.03	35.11	34.18	33.26	32.34	31.41	30.49	29.57	28.64	27.72	19.40	10.16	0.92
Equity Return	52.11	50.81	49.50	48.20	46.90	45.60	44.29	42.99	41.69	40.38	39.08	27.36	14.33	1.30
Utility Revenue Requir.	144.95	141.95	138.95	135.95	132.95	129.95	126.96	123.96	120.96	117.96	114.96	87.97	57.99	28.00
Debt Cash Flow	(5513.00)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)
Equity Cash Flow	\$487.00	64.28	62.98	61.68	60.38	59.07	57.77	56.47	55.16	53.86	52.56	39.53	26.50	13.48
Percent of Original Cost	52.4%	53.4%	54.4%	55.4%	56.4%	57.4%	58.4%	59.4%	60.4%	61.4%	62.4%	83.4%	93.4%	103.4%

Note: Values for years 11 to 19, 21 to 29, and 31 to 39 are bidden

EXHIBIT IEC-3													
Capital Recovery Factor and Utility Revenue Requirement Comparison: With O&M Expenses													
	6%	10.7%	41.5%	Debt Share	51.3%								
	10.7%	41.5%	O&M Percent	30%									
			Inflation Rate	2.5%									
Year	1	2	3	4	5	6	7	8	9	10	20	30	40
Investment	(1,000,000)												
Levelized Cash Flow Methodology													
YE Book Value	1,000.00	902.50	857.38	814.51	773.78	735.09	698.34	663.42	630.25	598.74	558.40	529.24	-
Depr (DDB-40)	1,000.00	47.50	45.13	42.87	40.73	38.69	36.75	34.92	33.17	31.51	18.87	17.92	17.92
Debt Balance	513.00	487.35	462.98	439.83	417.84	396.95	377.10	340.33	323.32	307.15	183.90	91.95	-
Equity Balance	487.00	462.65	439.52	417.54	396.66	376.83	357.99	323.09	306.93	291.58	174.58	87.29	-
Revenue	117.28	120.22	123.22	126.30	129.46	132.69	136.01	139.41	142.90	146.47	187.49	240.01	307.23
Depr	(50.00)	(47.50)	(45.13)	(42.87)	(40.73)	(38.69)	(36.75)	(34.92)	(33.17)	(31.51)	(18.87)	(17.92)	(17.92)
Debt Cost	(30.88)	(29.34)	(27.87)	(26.48)	(25.15)	(23.90)	(22.70)	(21.57)	(20.49)	(19.46)	(11.65)	(8.09)	(0.55)
Maintenance Cost	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)
Book Income	5.65	12.63	19.47	26.20	32.83	39.36	45.81	52.18	58.49	64.74	126.22	185.25	258.00
Income Taxes	(2.34)	(5.24)	(8.08)	(10.87)	(13.62)	(16.33)	(19.01)	(21.65)	(24.27)	(26.86)	(52.37)	(76.86)	(107.05)
Net Income	3.31	7.39	11.39	15.33	19.21	23.03	26.80	30.53	34.22	37.88	73.85	108.38	150.95
Depreciation	50.00	47.50	45.13	42.87	40.73	38.69	36.75	34.92	33.17	31.51	18.87	17.92	17.92
Debt Cash Flow	(5513.00)	(24.37)	(23.15)	(21.99)	(20.89)	(19.85)	(18.86)	(17.91)	(17.02)	(16.17)	(9.66)	(9.20)	(9.20)
Net Eq. Cash Flow	5487.01	30.52	33.37	36.21	39.04	41.87	44.70	47.53	50.37	53.23	83.04	117.11	159.68
Capital Recovery Factor ==>													
Utility Revenue Requirement Methodology													
Rate Base	1,000.00	975.00	950.00	925.00	900.00	875.00	850.00	825.00	800.00	775.00	500.00	250.00	-
Debt Balance	513.00	487.35	462.98	439.83	417.84	396.95	377.10	340.33	323.32	307.15	183.90	91.95	-
Equity Balance	487.00	462.65	439.52	417.54	396.66	376.83	357.99	323.09	306.93	291.58	174.58	87.29	-
Depreciation (S/L)	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Interest	30.88	30.11	29.34	28.57	27.79	27.02	26.25	25.48	24.71	23.93	16.21	8.49	0.77
Maintenance	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75
Income Taxes	36.96	36.03	35.11	34.18	33.26	32.34	31.41	30.49	29.57	28.64	19.40	10.16	0.92
Equity Return	52.11	50.81	49.50	48.20	46.90	45.60	44.29	42.99	41.69	40.38	27.36	14.33	1.30
Utility Revenue Reqmt.	175.70	172.70	169.70	166.70	163.70	160.70	157.71	154.71	151.71	148.71	118.72	88.74	58.75
Debt Cash Flow	(5513.00)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)
Equity Cash Flow	5487.00	62.98	61.68	60.38	59.07	57.77	56.47	55.16	53.86	52.56	39.53	26.50	13.48
Percent of Original Cost													

Note: Values for years 11 to 19, 21 to 29, and 31 to 39 are hidden.



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LCG Statement No. 1

JAN 24 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**DIRECT TESTIMONY
OF
RICHARD SNYDER
PREPARED ON BEHALF OF
SAMALL PROPERTIES, COMMUNITY BUILDING PROJECTS,
FAUCHERE HOSPITALITY AND THREE LANE UTILITIES**

Dated: November 20, 2006

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Richard Snyder and my business address is P.O. Box 927, Milford,
3 Pennsylvania, 18337.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am self-employed and own several businesses in the Milford area.

7

8 Q. GIVE US A BRIEF BACKGROUND ON WHY YOU ARE APPEARING IN THIS
9 PROCEEDING.

10 A. I am appearing as a witness on behalf of myself and my various businesses. The
11 purpose of my testimony is to express concern regarding the significant increase
12 in electric rates implemented by Pike County Light & Power Company ("PCLP")
13 as of January 1, 2006, as well as the increasingly poor service of PCLP. I will
14 also address the impact of these higher electric rates on my businesses as well
15 as on the Milford business community generally.

16

17 Q. FOR WHOM ARE YOU APPEARING FOR HERE TODAY?

18 A. I am appearing here today as a witness as partial or sole owner of four (4)
19 entities: Small Properties, Three Lane Utilities, Community Building Projects,
20 and Fauchere Hospitality.

21

22

23

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. PLEASE DESCRIBE THE NATURE OF THE BUSINESSES ENGAGED IN BY
2 EACH OF THESE FOUR (4) ENTITIES.

3 A. Small Properties Inc. owns and operates several real estate properties including
4 Milford Professional Park and Sawkill Business Center

5
6 Community Building Projects LLC owns and operates the following real estate
7 interests: Historic Milford Schoolhouse, Old Lumberyard Shops and the Joybar
8 Building, all located in Milford.

9
10 Fauchere Hospitality LLC operates the following properties: Eagle and Eaglet,
11 Emerson House and the Hotel Fauchere, all located in Milford.

12
13 Three Lane Utilities, Inc. is a small water/wastewater utility serving approximately
14 300 customers.

15
16 My exhibit, LCG Ex. No. 4 (RS-1) pages 2-3 list my tenants and constituent
17 businesses. In my individual capacity, I operate a llama breeding farm.

18
19 Q. IS IT CORRECT THAT ALL OF THESE BUSINESSES YOU JUST DESCRIBED
20 ARE CUSTOMERS OF PCLP?

21 A. Yes, all of these businesses are customers of PCLP. Previously, my businesses
22 were customers for both generation and distribution service. Now my businesses
23 take generation service form Direct Energy.

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. PLEASE DESCRIBE YOUR INVOLVEMENT AS CHAIRMAN OF THE
2 MILFORD ENHANCEMENT COMMITTEE.

3 A. I have been Chairman of the Milford Enhancement Committee ("MEC") since I
4 founded it in 1997. The purpose of this Committee is to cause Milford to be a
5 better place to live, visit and do business. A principal means of doing this is to
6 raise funds (public and private) to improve public areas. The MEC has arranged
7 for public/private funds to enable the Borough to invest over three million dollars
8 in various improvements including blue stone sidewalks, street trees and other
9 landscaping, granite curbing and period lighting.

10

11 Q. ARE YOU ALSO A MEMBER OF THE MILFORD CHAMBER OF COMMERCE?

12 A. Yes, I am. Also, I am on the Board of Directors of Wayne Bank.

13

14 Q. IN REFERENCE TO THE PCPL RATE INCREASE, CAN YOU DESCRIBE THE
15 IMPACT OF THAT RATE INCREASE ON YOUR BUSINESSES?

16 A. Yes, the magnitude of the overall increase on all of our businesses was generally
17 in the range of 79%. I have prepared as LCG Exhibit No. 4 (RS-1) a comparative
18 description of the increase in rates for the period January – August 2005 as
19 compared to January – August 2006 for one of my properties, the Milford
20 Professional Park. As you can see, the magnitude of the increase has been in
21 the range of 72%. This has created significant burdens on the budgets of Small
22 Properties and its constituent businesses. A similar burden has been placed on

DIRECT TESTIMONY OF RICHARD SNYDER

1 my other business interests Three Lane Utilities, Community Building Projects
2 and Fauchere Hospitality.

3

4 Q. HOW HAVE THESE INCREASED ELECTRIC RATES AFFECTED YOUR
5 BUSINESS OPERATIONS?

6 A. As a businessman, any inordinate increase in a particular expense must be met
7 with reductions in expenses associated with other activities. Needless to say, the
8 increase in electric expenses makes doing business less profitable.

9

10 Q. ARE YOU IN A POSITION TO INTERCONNECT WITH ANY OTHER
11 UTILITIES?

12 A. Some of my businesses, such as Milford Professional Park, are located in close
13 proximity to certain Metropolitan Edison Company ("MetEd") and PPL Utilities
14 distribution lines. I have not fully investigated the possibility of service by either
15 utility. If such an option was available and feasible, you may be certain that I
16 would connect with another electric utility.

17

18 Q. NOW AS A LANDLORD, DO YOUR TENANTS PAY THEIR OWN ELECTRIC
19 BILLS?

20 A. Yes, many of my tenants are responsible for payment of their own electric bills.
21 Currently I have 42 tenants across my various businesses.

22

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. HOW HAVE THE HIGHER RATES AFFECTED YOUR TENANTS ABILITY TO
2 STAY IN BUSINESS?

3 A. Unquestionably, the higher electric rates have caused my tenants significant
4 hardship. I am aware of this situation generally because I communicate on a
5 frequent basis with my property manager, Mr. William Malson, who is responsible
6 for managing my rental operations. I am informed that some of my tenants may
7 not be in a position to renew their leases due to the higher electric rates. Most, if
8 not all, of my tenants are not in a position to raise the prices of their products
9 enough in order to cover the costs of the higher electricity rates since raising
10 such prices, in a tourist community, will inevitably cause customers to seek the
11 same products elsewhere. Within the last year, I have had three tenants go out
12 of business.

13
14 Q. DO YOU EXPECT OTHER TENANTS TO GO OUT OF BUSINESS?

15 A. Yes. I am aware of several tenants who may not extend their current leases
16 primarily because of the higher electric rates. Once again, this is a tourist
17 community. Tourists are on budgets and will only spend what they deem
18 reasonable for products. If those products are priced too high, they will not make
19 the purchase or will look elsewhere. Additionally, small retail operations will not
20 realize a profit if they cannot raise their prices to cover higher electric rates. My
21 small tenants are thus caught in an economic "squeeze" that is untenable.

22

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. IS IT CORRECT THAT YOU ALSO HAVE, AS TENANTS, SEVERAL
2 GOVERNMENT AGENCIES?

3 A. Yes. Currently, I have, as tenants, the following state and federal agencies: PA
4 Department of Public Welfare, PA Department of Public Health, U.S. Geological
5 Survey, state-funded Maternal and Family Health Services and state-funded
6 Mental Health/Mental Retardation.

7
8 Q. HOW HAVE THE HIGHER ELECTRIC RATES IMPACTED THESE TENANTS?

9 A. These tenants are not negatively impacted by the higher electric rates. These
10 tenants negotiate fixed-rent leases which do not allow for annual increases. As a
11 result, higher expenses, such as electric rates, are not recoverable from these
12 tenants and must be absorbed by my businesses. Normally, routine higher
13 expenses can be negotiated into the fixed rent agreements utilizing such indices
14 as the Consumer Price Index. However, the PCLP rate increase far exceeded
15 any normal price indices. As a result, my business suffers a loss on these
16 tenants

17
18 Q. ARE YOU EXPERIENCING LONGER VACANCY PERIODS BECAUSE OF
19 THE HIGHER ELECTRIC RATES?

20 A. Yes. Since January 1, 2006, I am experiencing longer vacancy periods both for
21 tenants who have left as well as prospective tenants seeking to rent currently
22 available space. New tenants always request information on utility rates and, not
23 surprisingly, the high PCLP rates are a disincentive for businesses to locate in

DIRECT TESTIMONY OF RICHARD SNYDER

1 the Milford area. Additionally, these higher electric rates present a problem for
2 extending current leasing arrangements with current tenants as tenants are
3 uncertain regarding their ability to budget for future rate increases.
4

5 **Q. HOW HAVE YOU BEEN IMPACTED BY THE HIGHER ELECTRIC RATES**
6 **WITH REGARD TO COMMON AREAS?**

7 **A.** As a landlord, I am responsible for provision of electric service to all common
8 areas serving my tenants. However, in some cases, it is my company's
9 responsibility to pay and in other cases, it is the tenants' responsibility. My
10 common area electric bills have increased in the range of 79% since January 1,
11 2006 creating a further burden on my businesses
12

13 **Q. AS CHAIRMAN OF THE MILFORD ENHANCEMENT COMMITTEE, DO YOU**
14 **INTERFACE WITH OTHER SMALL BUSINESS OWNERS?**

15 **A.** Yes As Chairman, and also as a member of the Pike County Chamber of
16 Commerce, I routinely interface with Milford's small business owners and know
17 many of them personally. I have always considered myself a proponent of small
18 business activities in the Milford and Matamoras areas.
19

20 **Q. IN YOUR CAPACITY AS A LOCAL BUSINESS OWNER, HOW HAVE THE**
21 **HIGHER ELECTRIC RATES AFFECTED THE MILFORD BUSINESS**
22 **COMMUNITY?**

DIRECT TESTIMONY OF RICHARD SNYDER

1 A. The higher PCLP electric rates are having a devastating effect on the business
2 community. The impact of these higher rates are a major issue for both the
3 Chamber as well as Milford Borough and the county government. In just the first
4 nine months of 2006, I have personally observed a number of small businesses
5 close in the downtown Milford area and am aware that other businesses may
6 face a similar fate. Certainly, this sentiment was expressed at the October 4,
7 2006 Public Input Hearing.

8

9 Q. TO YOUR KNOWLEDGE, DOES PCLP MAINTAIN ANY OFFICES OR
10 FACILITIES IN THE MILFORD AREA?

11 A. Not currently. PCLP did maintain a small business office for bill payment along
12 Broad Street until October 31, 2003 when this office was closed. I am aware of
13 no service or maintenance facilities in the entire PCLP service area. It is my
14 understanding that PCLP service personnel must come from Middletown, New
15 York to respond to service issues or outages. To my knowledge, PCLP has
16 never maintained any service/maintenance facilities in the Milford area.

17

18 Q. WHAT IS YOUR OPINION OF PCLP SERVICE IN THE MILFORD AREA?

19 A. I have been a resident of the Milford area for over 15 years. In my opinion, PCLP
20 service has never been reliable or adequate. More recently, the quality of
21 service has declined based on my perception of the number of outages and
22 voltage fluctuations. I am not an electrical engineer nor have I maintained
23 records of outages and fluctuations. Those technical details will be addressed by

DIRECT TESTIMONY OF RICHARD SNYDER

1 experts working on behalf of the Office of Consumer Advocate. However, I can
2 speak with certainty as to the fairly frequent outage events that have interfered
3 with my business interests and those of my tenants.
4

5 Q. CAN YOU GIVE A COUPLE OF EXAMPLES?

6 A. Yes. In July of 2006, I just opened the Hotel Fauchere in Milford. As
7 background, I have invested \$8 million to restore this historical structure and
8 related facilities to their prior condition. The Hotel was built in 1880. The opening
9 included both the hotel and the hotel dining room. Unfortunately, an electric
10 outage resulted in a pump burnout which set off a smoke alarm, disrupted guests
11 and caused an evacuation all at great inconvenience and cost. Also, we have
12 invested in the installation of a generator to safeguard against future outage
13 events at the hotel.
14

15 Also, on June 1-2, 2006 there was an electric outage of about 16 hours which
16 resulted in the closure of my tenants' businesses at the Milford Professional
17 Park. One of these tenants was a dialysis center. As the outage occurred early
18 in the day, the dialysis center was required to transport its patients to another
19 dialysis center located in Honesdale, 60 minutes away. It took PCLP personnel
20 two days to address the outage event. Initially, PCLP personnel, upon inspecting
21 the facilities, stated that the reason for the outage was the customer's
22 responsibility. Upon further examination, it was determined that the outage was,
23 in fact, the fault of the utility. There was also a residual problem with sewage at

DIRECT TESTIMONY OF RICHARD SNYDER

1 this location due to the power failure. There were additional closures at Milford
2 Professional Park due to power outages on July 3-4, 2006.

3
4 These are two more prominent examples of what I have experienced as a
5 customer of PCLP.

6
7 **Q. AS A RESIDENTIAL CUSTOMER OF PCLP, WHAT HAS BEEN YOUR**
8 **EXPERIENCE WITH ELECTRIC SERVICE?**

9 **A.** My experience has been similar to other PCLP residential customers in that
10 service outages and voltage fluctuations are a routine experience in the Milford
11 area. For example, I have experienced damage to appliances and electronic
12 equipment due to voltage fluctuations. This damage has occurred despite the
13 use of surge protectors. I also invested in a generator for my house. Most
14 recently, there was a midday outage of more than two hours on November 8,
15 2006.

16
17 **Q. WHY DID YOU NOT FILE A COMPLAINT OVER THE POOR SERVICE?**

18 **A.** As with other customers, I have accepted the historically poor service of PCLP as
19 a fact of life in Milford. Poor service at historically reasonable rates was an
20 acceptable trade off. However, poor service coupled with rate increases in the
21 ranges of 70% or higher is not acceptable.

22

DIRECT TESTIMONY OF RICHARD SNYDER

1 Q. ARE YOU CURRENTLY BEING SERVED BY DIRECT ENERGY AS YOUR
2 GENERATION SUPPLIER?

3 A. Yes. I opted for service from Direct Energy as my generation supplier through
4 the end of 2007. However, the amount of savings from Direct Energy have been
5 minimal.

6
7 Q. WHAT DO YOU SEE AS THE ULTIMATE SOLUTION TO THE CURRENT
8 SITUATION REGARDING ELECTRIC SERVICE?

9 A. Based on my knowledge of the situation, I am aware that Sussex Rural Electric
10 Cooperative ("Sussex"), located across the border in New Jersey, is interested in
11 providing electric service to the PCLP service area. I would prefer that an
12 alternate provider such as Sussex be given the opportunity to serve this area
13 given PCLP's reluctance to provide adequate service at reasonable rates.

14
15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes, it does.

COMPARISON OF ELECTRIC USAGE AT MILFORD PROFESSIONAL PARK
 JANUARY THROUGH JULY, 2005 AND 2006

Month	2005	2006	% Increase
January	\$2,652.00	\$3,690.00	71.87%
February	\$3,989.00	\$5,399.00	73.88%
March	\$4,432.00	\$5,739.00	77.23%
April	\$3,366.00	\$4,847.00	69.45%
May	\$2,024.00	\$3,285.00	61.61%
June	\$1,869.00	\$3,026.00	61.76%
July	\$1,798.00	\$2,523.00	71.26%
Total	\$22,135.00	\$30,515.00	72.54%

Source. PCL&P Electric Bills

SAMALL PROPERTIES TENANTS

Milford Professional Park
PA Department of Welfare
Pike County Maternal and Family Health Services
Wayne County Hospital
Verizon
ReDCo Group
U.S. Geological Survey
Advanced Life Support
PA Department of Health
Fiber Plus
Pike County Mental Health/Mental Retardation
Advanced Imaging Specialists

Sawkill Business Center
2 Private Residences
Cummings Development
Walker Incorporated
Regional Truck Service

FAUCHERE HOSPITALITY FACILITIES

Hotel Fauchere
The Eagle
The Eaglet
Emerson House

COMMUNITY BUILDING PROJECTS TENANTS

Old Lumberyard Shops

115 7th Street: Breath of Fresh Air
Nellie's Naturals
Nervous Nellie's
Hometown Pets
Firefly
Antiques at the Old Lumberyard Shops

113 7th Street: Pike Modern Gallery
Mail Net Milford
Curves
Advanced Chiropractic
Works Frames
Happy Nails
Luxe
Old Lumberyard Shops Antiques
Milford Magazine
Tom Duran Studio

The School House: Joey's Pizza
C&S Taxes
Dance Connection
A Finance Company
A Mortgage Company
PennDOT
Med Phone
Blue Sky, Red Earth
Milford Tourist Bureau

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

COUNTY OF PIKE

v.

PIKE COUNTY LIGHT &
POWER COMPANY

:
:
:
:
:
:
:

Docket No. C-20065942

Direct Testimony and Exhibits of

ROBERT D. KNECHT

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

Rate Rollback
Enhancing Competition in Electric Supply

Date Served: November 17, 2006

Date Submitted for the Record: _____

BA

DIRECT TESTIMONY OF ROBERT D. KNECHT

1 Q. Mr. Knecht, please state your name and briefly describe your qualifications.

2 A. My name is Robert D. Knecht. I am a Principal and the Treasurer of Industrial
3 Economics, Incorporated ("IEC"), a consulting firm located at 2067 Massachusetts
4 Avenue, Cambridge, MA 02140. As part of my consulting practice, I have prepared
5 analyses and expert testimony in the field of regulatory economics on a variety of topics.
6 I obtained a B.S. degree in Economics from the Massachusetts Institute of Technology in
7 1978, and an M.S. degree in Management from the Sloan School of Management at
8 M.I.T. in 1982, with concentrations in applied economics and finance. I am appearing in
9 these proceedings on behalf of the Pennsylvania Office of Small Business Advocate
10 ("OSBA"). My résumé and a listing of expert testimony that I have filed in utility
11 regulatory proceedings are attached in Exhibit RDK-1.

12 Q. Please summarize your understanding of the complaint and the requests for relief
13 for this proceeding.

14 A. On February 24, 2006, the County of Pike ("the County") submitted a complaint ("the
15 Complaint") to the Pennsylvania Public Utility Commission ("the Commission")
16 regarding the electric rates of Pike County Light & Power Company ("PCL&P" or "the
17 Company"). The Complaint indicated that a "73% to 129% rate increase . . . [is an]
18 unfair burden to budgets already in place prior to [the] increase taking effect," and
19 requesting a rate "rollback" as relief. On July 12, 2006, the County submitted an
20 amended complaint ("the Amended Complaint") alleging that the "rates of PCL&P are
21 not just and reasonable," that PCL&P's "service is not safe and adequate," that PCL&P's
22 service quality is inferior due to "lack of local control" and "lack of employee services in
23 Pike County," and that "PCL&P has made long-standing errors in billing for numerous
24 customers' demand charges." By way of relief, the Amended Complaint requests that, in
25 addition to the relief sought in the Complaint, the Commission "order the sale of PCL&P
26 to another Pennsylvania EDC or a rural electric cooperative" and that the "Commission
27 should take such other actions, including those set forth in the Law Bureau

1 recommendations, that the Commission determines to be just and reasonable, and in the
2 public interest.”

3 Q. What issues do you address in this testimony?

4 A. The OSBA asked me to address the issues relating to the prices that PCL&P ratepayers
5 now face for electric supply service, and to comment on steps that may reasonably be
6 taken to improve the competitive environment in PCL&P's service territory. This
7 testimony does not address the issues relating to PCL&P's service quality or reliability,
8 nor does it address the proposed sale of PCL&P to a different entity.

9 Q. Please provide a brief timeline of the key events leading up to the Amended
10 Complaint.

11 A. My view is that the following were the key events leading to the Amended Complaint:

- 12 • On May 31, 2005, PCL&P submitted a Default Service Implementation Plan to the
13 Commission, which was docketed at No. P-00052168. Generally, PCL&P proposed
14 that POLR generation rates for 2006, 2007, and 2008 be set based on a one-time
15 auction process, using a “fixed for floating” financial swap in lieu of a physical
16 purchase.¹
- 17 • In its order adopted August 25, 2005, the Commission generally approved PCL&P's
18 plan with certain modifications. These modifications included shortening the plan
19 period from three to two years (2006 and 2007 only), rejecting PCL&P's proposal for
20 reconciliation, and extending the Commission's review period for evaluating bids to
21 three days.²

¹ Due to the time constraints associated with conducting the auction and implementing rates, the POLR proceeding was not fully litigated, although parties including the OSBA were offered the opportunity to comment. In its comments, the OSBA indicated that PCL&P should reasonably have known that Commission regulations regarding POLR supply would not be available in time for PCL&P's updated POLR plan and that the Company should have made its submission earlier, thereby allowing parties to fully examine the proposal. However, the Commission ruled that OSBA's concerns were not relevant because the OSBA did not identify any facts that were in dispute. Docket No. P-00052168, Order entered August 25, 2005 at 16.

² Note that the Commission rejected the OCA proposal, which was supported by OSBA, that the auction be limited to a one-year period. Docket No. P-00052168, Order entered August 25, 2005 at 20.

- On October 25, 2005, PCL&P conducted the auction. The winning bids came from PCL&P affiliate Consolidated Edison Energy, Inc. ("ConEd Energy").³ Because the auction was held amid the energy price spike precipitated by Hurricane Katrina, the winning bid POLR prices for both 2006 and 2007 were very high. When applied to PCL&P's tariff charges, these prices resulted in rate increases for residential and small commercial customers on the order of 70 to 75 percent effective January 1, 2006 on a total bill basis. The winning bids from ConEd Energy were as follows:

PCL&P Default Service Implementation Plan 2006-2007 Low Price Bids		
	2006	2007
Energy (\$/MWh)	110.19	97.80
Capacity (\$/kw-month)	1.09	1.58

- The auction results and POLR tariff charges were subsequently approved by the Commission.⁴ In my view, it is important to recognize that, as part of its procurement plan, PCL&P developed an algorithm for evaluating whether a bid price contained an excessive risk premium, relative to market futures prices. That is, because PCL&P was able to observe on- and off-peak futures prices on the NYMEX for the 2006 to 2007 time period, it could estimate the market prices at which a POLR supplier could lock in prices. PCL&P then estimated the impact of volume variation risk faced by a POLR supplier, and derived a maximum risk premium that it was willing to accept in the "fixed-for-floating" swap auction. (It is my understanding that this maximum premium was not revealed to bidders.) As it turned out, the winning bid prices were only slightly higher than the market futures prices, implying that the risk premiums implicit in the ConEd Energy winning bids were considerably lower than the maximum risk premiums that PCL&P had deemed to be reasonable prior to the auction. In short, the reason that the bid prices were high was due to market prices

³ Note that the auction was conducted both for each year separately as well as for the two years combined. PCL&P determined that the separate bids for each year produced a lower overall cost for ratepayers.

⁴ The auction results were approved by a Commission Secretarial Letter dated October 28, 2005, and the new tariffs based on those results were approved by an Order entered December 21, 2005.

1 and contemporaneous expectations; the high prices were not due to a lack of
2 wholesale competition or an unreasonable risk premium.

- 3 • On February 14, 2006, the Commission initiated a fact-finding investigation into the
4 competitive markets in PCL&P's service territory, and directed its Law Bureau to
5 conduct a 60 day investigation to address 14 specific issues.

- 6 • On March 10, 2006, Direct Energy filed a petition seeking Commission approval for
7 an "opt-out" retail aggregation bidding program for customers in PCL&P's service
8 territory, a proceeding docketed at P-00062205. Under the proposed program, a
9 second auction would be held in which retail suppliers could bid to supply the
10 aggregated load of all PCL&P customers who did not affirmatively opt out of the
11 program. Although the proceedings were expedited, parties supporting and opposing
12 the petition submitted direct evidence, and public hearings were held.⁵

- 13 • On April 20, 2006, the Commission generally approved Direct Energy's petition, with
14 certain modifications.

- 15 • In a Secretarial Letter dated April 28, 2006, the Commission certified Direct Energy
16 as the winning bidder in the retail aggregation auction, although the savings to retail
17 customers under the winning bid were relatively modest. It is my understanding that
18 the winning bid price from Direct Energy was a flat 12.7 cents per kWh price, which
19 is about 1.7 cents per kWh below the PCL&P 2006 residential first block energy
20 price.⁶ However, on January 1, 2007, PCL&P's first block residential POLR price

⁵ In that proceeding, the OSBA expressed its concern that Commission sponsorship of an opt-out retail aggregation program in PCL&P's service territory would send a signal to other wholesale POLR bidders in Pennsylvania that they would face similar risks if their bid prices subsequently proved to be higher than market. It is almost certainly true that this decision increased the perceived risk of future wholesale POLR suppliers, although the magnitude of that effect cannot be measured. Some witnesses in that proceeding offered the hope that POLR suppliers will perceive the PCL&P situation as unique, thereby reducing the perceived risk associated with that decision. Also, the perceived risk may be lower if suppliers take to heart the Commission language in its order indicating that this particular decision does not serve as precedent. (Order at 17)

⁶ See Law Bureau Report at 11. Note that the Commission's press release indicated that an average residential customer with 712 kWh would achieve a \$10 per month saving from the Direct Energy bid, implying that the Direct Energy bid is some 1.4 cents per kWh below the POLR price.

1 drops to 13.1 cents per kWh, eliminating most of the benefit of the Direct Energy
2 price.

- 3 • On June 1, 2006, the Commission's Law Bureau issued its "Report on Competitive
4 Market Conditions Regarding the Pike County Light & Power Company" ("the Law
5 Bureau Report"), containing various recommendations for additional actions that
6 could potentially increase competition in PCL&P's service territory and reduce supply
7 rates.

8 Q. Based on your participation in the aforementioned proceedings, and your analysis
9 of the record evidence in this proceeding, what other factors are important to
10 consider when evaluating supply service rates for PCL&P ratepayers?

11 A. The following issues are relevant:

- 12 • Unlike other Pennsylvania electric distribution companies ("EDCs"), PCL&P is
13 interconnected with NYISO (Zone G) and is not interconnected with PJM. Wholesale
14 electric prices have consistently been higher in NYISO than PJM. However, PCL&P
15 conducted a study in March 2004, which it updated in May 2006, concluding that the
16 price differential between PJM and NYISO did not justify the transmission system
17 investment needed to interconnect PCL&P with PJM.
- 18 • PCL&P is a small EDC, with approximately 4500 customers and a total load of only
19 about 16 MW, virtually all of which is residential or small commercial. As such, the
20 load is too small to practicably break up into pieces for separate POLR supply bidding
21 as a risk reduction strategy. Moreover, the load is relatively unattractive to wholesale
22 bidders because it is dominated by residential and small commercial customers.
23 Finally, the small size of the service territory, combined with the mixed jurisdictional
24 problems of the NYISO and the Pennsylvania competition rules, makes PCL&P
25 particularly unattractive to retail suppliers. (See, for example, OSBA-I-4.⁷)

⁷ Copies of all referenced interrogatory responses are attached to this testimony as Exhibit IEc-2.

1 Q. Regarding the County's first specific prayer for relief, do you agree that it is
2 appropriate for PCL&P to roll back its rates?

3 A. At this writing, it is not clear to me exactly what the County envisions with respect to a
4 rate rollback, but I assume that such a rollback would apply to the POLR supply rates on
5 PCL&P's tariff. (It is possible that the County envisions a rollback of distribution rates,
6 although I am unsure whether such a rollback can be legally imposed as those rates were
7 presumably set and approved by the Commission in PCL&P's last base rates case.)
8 Moreover, because the County has filed a complaint against PCL&P, I must assume that
9 any such rollback would apply to PCL&P's posted tariff POLR rates, even though most
10 of PCL&P's customers currently take supply service from Direct Energy under the retail
11 aggregation program.

12 With those caveats and assumptions, and based on my review of the evidence that is
13 available at this stage of this proceeding, I conclude that a rate rollback would be unwise,
14 for a couple of reasons.⁸ First, PCL&P's tariff POLR rates were set based on a procedure
15 that was approved by the Commission. Any Commission-approved modification of those
16 posted tariff POLR rates will send a strong signal to potential future wholesale suppliers
17 in all of Pennsylvania that they face a high regulatory risk associated with providing
18 POLR supply in the Commonwealth.⁹ Second, a rollback of tariff POLR rates will send a
19 signal to retail suppliers in all of Pennsylvania that, even if they are successful in
20 aggregating retail customers in a particular jurisdiction, they face the regulatory risk that
21 the Commission may actively undermine their success by allowing for reductions in
22 POLR rates that were not envisioned at the time the customers were aggregated.

⁸ I cannot comment on the legal issues regarding whether such a rollback is permitted under Pennsylvania law. My recommendations are based on regulatory economics and the practical implications of the Commission imposing such a rollback.

⁹ Because the complaint is lodged against PCL&P, it is presumably the County's intent that PCL&P absorb any difference between the reduced rates that it recovers from POLR ratepayers and the cost that it incurs under its agreement with the POLR supplier, ConED Energy. However, while such a proposal does not directly harm the POLR supplier, it puts PCL&P at significant financial risk. This risk imposed on the EDC indirectly puts the POLR supplier at risk that the EDC will not be able to meet its obligations under the contract, thereby discouraging wholesale supplier participation in Pennsylvania.

1 In short, while a rate rollback would obviously benefit PCL&P ratepayers in the short
2 term, I am concerned that any specific rate rollback will have a serious negative effect on
3 electric competition in all of Pennsylvania. Thus, to the extent that the Commission
4 needs to take any actions regarding this complaint, I recommend that those actions be
5 focused on steps that will encourage both more wholesale competition and more retail
6 competition for electric supply service in PCL&P's service territory. Moreover, the
7 Commission needs to provide for a reasonable balance between wholesale and retail
8 competitors. The desire to encourage competition was apparently the focus of the
9 Commission's Law Bureau investigation.

10 Q. So let's turn to the Law Bureau Report. In your opinion, which of the
11 recommendations in that report should be most aggressively pursued in order to
12 facilitate balanced wholesale and retail competition in PCL&P's service territory?

13 A. I recommend focusing on the following two efforts:

- 14 • *Conducting an independent study of interconnecting PCL&P with PJM*
15 *(Recommendation #2):* The updated version of PCL&P's internal interconnection
16 study estimates that the net annual benefit to interconnection with PJM would be
17 some \$2.0 million in lower energy costs, compared to \$2.7 million in annual
18 additional costs, based on an estimated project cost of \$13.6 million and a 20 percent
19 carrying charge factor. However, that study was conducted at an overview level only.
20 The project cost estimate of \$13.6 million appears to be based on conservative
21 assumptions in some aspects and less so in others.¹⁰ Also, its 20 percent carrying
22 charge figure is not supported by any analysis (see OSBA-I-1(f)), and my own
23 calculations suggests that a lower figure may be appropriate (see Exhibit IEC-3,
24 attached to this testimony). In addition, I note that it appears that neither PCL&P nor
25 the County has investigated public funding options for such a project, which might
26 have the potential to reduce the carrying charge for the project.¹¹ Further, I note that

¹⁰ For example, PCL&P excludes potential costs associated with PJM interconnection. (See updated PCL&P interconnection study at page 9.) However, its estimates of the costs for distribution interconnections are identified as a worst case scenario. (See OCA-II-21.)

¹¹ See OSBA-II-1.

1 an interconnection with PJM would provide PCL&P with a permanent ability to shop
2 in either PJM or NYISO, and take advantage of any price differential in either
3 direction. It is not clear that this flexibility benefit is fully recognized in the existing
4 study. And finally, I note that PCL&P indicates that it is not opposed to an
5 independent study -- it just does not want to pay for it. (OSBA-I-10) In that respect,
6 PCL&P may be being penny-wise and pound-foolish. PCL&P's lack of
7 interconnection with PJM and higher energy costs appear to be long standing
8 concerns of Pennsylvania regulators, as evidenced by former Commissioner Shane's
9 statement in Docket No. P-00062205.¹² While PCL&P may be convinced that an
10 independent study would simply confirm its overview study, an independent review
11 would help to mitigate some of the concerns of regulators and local ratepayers.

- 12 • *Explore ways to integrate purchasing of energy with its O&R affiliates*
13 *(Recommendation #1):* As I noted earlier, the size and composition of PCL&P's load
14 is generally unattractive to both wholesale and retail suppliers, and makes it virtually
15 impossible for PCL&P to diversify the timing of its procurement auctions. These
16 problems can be mitigated by combining the PCL&P load with a larger service
17 territory. While there are logistical and jurisdictional issues to overcome, this
18 approach may have merit. I note that PCL&P appears to be investigating this option,
19 although it declines to comment on its progress (OSBA-I-7).

20 In addition to those two efforts, I note that PCL&P appears to generally agree with the
21 Law Bureau Report recommendations involving submission of its 2008 POLR plan prior
22 to December 31, 2006 (OSBA-I-11); provision of an indefinite waiver of Pennsylvania
23 EDI rules in favor of NY EDI rules for PCL&P (OSBA-I-12); and development of a
24 PowerSwitch program for PCL&P similar to that of Orange & Rockland in New York
25 (OSBA-I-5). I agree that these recommendations should also be adopted.

¹² See Statement of Commissioner Bill Shane, Public Meeting May 4, 2006, Docket No. P-00062205, page 3. "In 1983, this Commission placed Pike [PCL&P] on notice that their Energy acquisition costs were unreasonable. These circumstances continue to this day. The lack of interconnection with the PJM RTO has resulted in higher energy acquisition costs for Pike's customers."

1 Q. Are there any other options that PCL&P should consider for encouraging wholesale
2 competition in its service territory, as part of its next POLR procurement?

3 A. As I indicated earlier, in its last POLR procurement, the winning bids for wholesale
4 POLR supply to PCL&P were not significantly higher than the future market prices at the
5 time of the bid, reflecting a relatively low risk premium from the winning bidder. (I was
6 not able to evaluate whether the winning retail aggregation bid from Direct Energy
7 reflected a significant risk premium.) However, in light of subsequent events, there is
8 some likelihood that wholesale bidders will require a more significant risk premium in
9 the next round, particularly if PCL&P is unable to bundle its load with an affiliate for
10 bidding purposes. Thus, as part of its 2008 POLR filing, I recommend that PCL&P retain
11 and, to the extent feasible, upgrade its algorithm for evaluating whether the risk premium
12 from the low-price wholesale bidder is reasonable. In addition, I recommend that PCL&P
13 develop and submit a backstop plan in the event that the risk premiums from wholesale
14 suppliers are determined to be excessive.

15 For example, the Commission has generally favored obtaining bids for POLR supply
16 prices that are fixed for some reasonable term, and which do not provide an opportunity
17 for the EDC to reconcile differences between revenues and incurred costs¹³ This
18 approach has the advantage that the fixed price option is generally preferred by smaller
19 retail customers. Furthermore, the absence of reconciliation avoids providing an undue
20 competitive advantage to wholesale suppliers at the expense of retail suppliers.
21 Moreover, if the wholesale price becomes significantly out of line with market prices,
22 customers generally have the opportunity to shop for lower-priced power.

23 However, in a service territory such as PCL&P's where there is very little supplier
24 interest in retail competition (see OSBA-I-4), consumers do not have the protection that
25 they can shop if the wholesale POLR prices are set at unreasonably high levels. Thus, for
26 those service territories where competition is limited, at both the wholesale and the retail
27 level, and where wholesale bid prices for the fixed price product reflect an inordinate risk

¹³ The OSBA has generally supported the idea of setting fixed POLR rates for a reasonable term. The OSBA recognizes that reconciliation has the advantage that it will tend to reduce risk for wholesale suppliers and thereby lower POLR bid prices, with the disadvantage that it puts retail suppliers at a competitive disadvantage.

1 premium, the Commission may wish to consider allowing the EDC to procure power on
2 the spot market and reconcile variances between revenues and costs. To limit the
3 competitive disadvantage faced by retail competitors associated with such a scheme, rates
4 should be adjusted and reconciled on at least a quarterly basis. I recommend that PCL&P
5 and the Commission consider and evaluate such a backstop proposal as part of the
6 Company's 2008 POLR proceeding.

7 **Q. Does this conclude your direct testimony?**

8 **A. Yes it does.**

EXHIBIT RDK-1

RÉSUMÉ AND EXPERT TESTIMONY LIST

FOR

ROBERT D. KNECHT

ROBERT D. KNECHT

Robert D. Knecht specializes in the practical application of economics, finance and management theory to issues facing public and private sector clients. Mr. Knecht has more than twenty years of consulting experience, focusing primarily on the energy, metals, and mining industries. He has consulted to industry, law firms, and government clients, both in the U.S. and internationally. He has participated in strategic and business planning studies, project evaluations, litigation and regulatory proceedings and policy analyses. His practice currently focuses primarily on utility regulation, and he has provided analysis and expert testimony in numerous U.S. and Canadian jurisdictions. In addition, as Treasurer of IEC since 1995, Mr. Knecht is responsible for the firm's accounting, finance and tax planning, as well as administration of the firm's retirement plans. Mr. Knecht's consulting assignments include the following projects:

- For the Pennsylvania Office of Small Business Advocate, Mr. Knecht provides analysis and expert testimony in industry restructuring, base rates and purchased energy cost proceedings involving electric, steam and natural gas distribution utilities. Mr. Knecht has analyzed the economics and financial issues of electric industry restructuring, stranded cost determination, fair rate of return, claimed utility expenses, cost allocation methods and rate design issues.
- For independent power producers and industrial customers in Alberta, Mr. Knecht has provided analysis and expert testimony in a variety of electric industry proceedings, including industry restructuring, cost unbundling, stranded cost recovery, transmission rate design, cost allocation and rate design.
- For industrial customers in Québec, Mr. Knecht has prepared economic analysis and expert testimony in regulatory proceedings regarding cost allocation, compliance with legislative requirements for cross-subsidization, and rate design.
- As part of international teams of experts, Mr. Knecht has prepared the economic and financial analysis for industry restructuring studies involving the steel and iron ore industries in Venezuela, Poland, and Nigeria.
- For the U.S. Department of Justice and for several private sector clients, Mr. Knecht has prepared analyses of economic damages in a variety of litigation matters, including ERISA discrimination, breach of contract, fraudulent conveyance, natural resource damages and anti-trust cases.
- Mr. Knecht participates in numerous projects with colleagues at IEC preparing economic and environmental analyses associated with energy and utility industries for the U.S. Environmental Protection Agency.

Mr. Knecht holds a M.S. in Management from the Sloan School of Management at M.I.T., with concentrations in applied economics and finance. He also holds a B.S. in Economics from M.I.T. Prior to joining Industrial Economics as a principal in 1989, Mr. Knecht worked for seven years as an economic and management consultant at Marshall Bartlett, Incorporated. He also worked for two years as an economist in the Energy Group of Data Resources, Incorporated.

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ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-00061365	Pennsylvania Public Utility Commission	PG Energy	July 2006	Pennsylvania Office of Small Business Advocate	Merger savings, cost allocation, revenue allocation, rate design
R-00061519	Pennsylvania Public Utility Commission	PPL Gas Utilities, Inc.	July 2006	Pennsylvania Office of Small Business Advocate	Design day weather and throughput forecasts; gas supply hedging
R-00061518	Pennsylvania Public Utility Commission	PG Energy	July 2006	Pennsylvania Office of Small Business Advocate	Design day weather and throughput forecasts; gas supply hedging.
A-125146	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Southern Union Company	June 2006	Pennsylvania Office of Small Business Advocate	Public benefits of proposed sale of PG Energy to UGI; transfer to upstream asset contracts.
R-00061355	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2006	Pennsylvania Office of Small Business Advocate	Gas supply and hedging plan; procedural issues
R 00061296	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2006	Pennsylvania Office of Small Business Advocate	Gas procurement and procedural issues.
R-00061246	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2006	Pennsylvania Office of Small Business Advocate	Gas procurement; unaccounted for gas retention rates
2005-002 Refiling	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Company	February 2006	New Brunswick Public Intervenor	Cost allocation, rate design
P-00052188	Pennsylvania Public Utility Commission	Pennsylvania Power Company	December 2005	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design for POLR supplies
R-3579-2005	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2005	AQCIE/CIÉQ	Generation cost allocation; cross-subsidization; revenue allocation
2005-002	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Company	August 2005	New Brunswick Public Intervenor	Cost allocation, rate design

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-00050538	Pennsylvania Public Utility Commission	PG Energy	July 2005	Pennsylvania Office of Small Business Advocate	Gas procurement diversification
R-00050540	Pennsylvania Public Utility Commission	PPL Gas Utilities, Inc.	July 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, hedging, retention rates, sharing mechanism
R-00050340	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, hedging and diversification
R-3563-2005	Régie de l'Énergie, Québec	Hydro Québec Distribution	April 2005	AQCIE/CIFQ	Generation cost allocation; industrial demand response
R-00050264	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, risk hedging, financing costs in the gas cost rate.
R-00050216	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2005	Pennsylvania Office of Small Business Advocate	Gas supply procurement and forward pricing policies.
EB-2004-0542	Ontario Energy Board	Union Gas Limited	March 2005	Tribute Resources Inc.	Cost allocation and rate design for service to embedded storage pools.
R-00049884	Pennsylvania Public Utility Commission	Pike County Light and Power (Gas Service)	January 2005	Pennsylvania Office of Small Business Advocate	Fair rate of return, cost allocation, class revenue assignment.
R-00049656	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	December 2004	Pennsylvania Office of Small Business Advocate	Fair rate of return, uncollectibles costs, automatic rate adjustments, cost allocation, rate design.
R-3541-2004	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2004	AQCIE, CIFQ	Allocation of post-pairmonial generation costs.
C-20031302	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	July 2004	Pennsylvania Office of Small Business Advocate	Customer assistance program funding and cost allocation.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-049255	Pennsylvania Public Utility Commission	PPL Electric Utilities Corporation	June 2004	Pennsylvania Office of Small Business Advocate	Transmission and distribution cost allocation, rate design, automatic distribution increases.
P-042090 et al	Pennsylvania Public Utility Commission	Philadelphia Gas Works	June 2004	Pennsylvania Office of Small Business Advocate	Collections and universal service cost issues.
RP-2003-0203	Ontario Energy Board	Enbridge Gas Distribution	May 2004	Vulnerable Energy Consumers Coalition et al.	Cost allocation, rate design for pipeline and storage costs
R-049157 P-042090	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2004	Pennsylvania Office of Small Business Advocate	Cash receipts reconciliation clause
R-049108	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2004	Pennsylvania Office of Small Business Advocate	Uncollectible cost responsibility for standby charges
Application 1306819	Alberta Energy and Utilities Board	ENMAX Power Corporation	January 2004	Calgary Industrial Group Calgary Building Owners	T&D cost allocation, rate design, ratepayer equity funding
R-3492-2002 Phase 2	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2003	AQCIE, CIFQ	Rate policy, cross-subsidization
R-038168	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	July 2003	Pennsylvania Office of Small Business Advocate	Cost allocation, deficiency assignment, rate design, pension cost reconciliation, rate of return
R-3492-2002 Phase 1	Régie de l'Énergie, Québec	Hydro Québec Distribution	January 2003	AQCIE, AIFQ	Cost allocation, maintenance of historical cross-subsidization
M-021612	Pennsylvania Public Utility Commission	Philadelphia Gas Works	September 2002	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, cost allocation, rate unbundling
R-027385	Pennsylvania Public Utility Commission	PG Energy (Southern Union)	July 2002	Pennsylvania Office of Small Business Advocate	Purchased gas cost incentive mechanisms.
1250932	Alberta Energy and Utilities Board	Aquila Networks Canada (Alberta) Ltd.	July 2002	Senior Petroleum Producers Association	Distribution plant and cost allocation, rate design.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-027204	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2002	Pennsylvania Office of Small Business Advocate	Purchased gas cost incentive mechanisms, rate design
R-3477-2001	Régie de l'Énergie, Québec	Hydro Québec Distribution	May 2002	AOCIE, AIFQ	Classification/allocation of generation costs, subject to constant unit cost constraint
1248859	Alberta Energy and Utilities Board	ESBI Alberta Limited	March 2002	IPPSA	Transmission congestion management principles
R-016378	Pennsylvania Public Utility Commission	Philadelphia Gas Works	August 2001	Pennsylvania Office of Small Business Advocate	Cost of gas; commodity price forecasting
R-016179	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2001	Pennsylvania Office of Small Business Advocate	Recovery of CAP costs; PGC treatment of pipeline credits
R-005277	Pennsylvania Public Utility Commission	PFG Gas Inc. and North Penn Gas Company	November 2000	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design.
R-3443-2000	Régie de l'Énergie, Québec	Société en commandite Gaz Métropolitain	November 2000	Industrial Gas Users Association (ACIG)	Tariff unbundling
990005	Alberta Energy and Utilities Board	ESBI Alberta Limited	November 2000	IPPSA	Location-based credits for transmission rates
R-005119	Pennsylvania Public Utility Commission	PG Energy (Southern Union)	July 2000	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design, weather normalization
R-994788	Pennsylvania Public Utility Commission	PFG Gas, Inc. and North Penn Gas Company	February 2000	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
R-994785	Pennsylvania Public Utility Commission	National Fuel Gas Distribution Corp.	December 1999	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
R-994783	Pennsylvania Public Utility Commission	PG Energy, Inc.	November 1999	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
99005	Alberta Energy and Utilities Board	ESBI Alberta Limited (Transmission Administrator)	September 1999	IPPSA	Transmission tariff cost allocation, rate design, industry restructuring
RE95080	Alberta Energy and Utilities Board	Alberta Power Limited	December 1998	Independent Power Producers Society of Alberta and SPPA	Electric industry restructuring, rate unbundling, cost allocation and rate design.
RE95081	Alberta Energy and Utilities Board	TransAlta Utilities Corporation	November 1998	IPPSA and Senior Petroleum Producers Assn.	Industry restructuring, cost allocation, rate design.
Expansion Feasibility Test	Public Utilities Board of Manitoba	Centra Gas Manitoba	August 1998	Simplot Canada Limited	Expansion feasibility and customer contribution methodology
R-984280	Pennsylvania Public Utility Commission	PG Energy, Inc.	August 1998	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue deficiency assignment, rate design
EO97070455	New Jersey Board of Public Utilities	Atlantic City Electric Company	February 1998	New Jersey Board of Public Utilities	Industry restructuring, audit of unbundled rates
R-973981	Pennsylvania Public Utility Commission	Allegheny Power (West Penn Power)	January 1998	Pennsylvania Office of Small Business Advocate	Industry restructuring, cost unbundling, cost allocation, and rate design.
R-973954	Pennsylvania Public Utility Commission	Pennsylvania Power & Light	August 1997	Pennsylvania Office of Small Business Advocate	Restructuring, stranded costs, market price forecasting, cost allocation, and rate design.
1996 Electric Utility Tariff Applications	Alberta Energy & Utilities Board	TransAlta Utilities, Alberta Power Edmonton Power, Grid Company of Alberta	October 1996	Independent Power Producers Society of Alberta (IPPSA)	Industry restructuring; transmission cost allocation and rate design.
R-963612	Pennsylvania Public Utility Commission	PG Energy, Inc.	October 1996	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and rebuttal.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-953444	Pennsylvania Public Utility Commission	Trigen-Philadelphia Energy Corp	November 1995	Pennsylvania Office of Small Business Advocate	Steam energy cost rate -- direct and rebuttal.
R-953406	Pennsylvania Public Utility Commission	T. W. Phillips Gas & Oil Company	October 1995	Pennsylvania Office of Small Business Advocate	Weather normalization, cost allocation and rate design.
R-953297	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Gas Division)	May 1995	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and surrebuttal.
R-943271	Pennsylvania Public Utility Commission	Pennsylvania Power & Light	April/May 1995	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and rebuttal
EBRO 488	Ontario Energy Board	Natural Resource Gas Limited	November 1994	Natural Resource Gas Limited	Customer classification, cost allocation and rate design.
RE92071	Alberta Public Utilities Board	Alberta Power Limited	November 1994	Independent Power Producers Society of Alberta	Cost allocation and rate design for export transmission service.
R-942986	Pennsylvania Public Utility Commission	West Penn Power Company	August 1994	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design.
R-932862	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Electric Division)	March 1994	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct, rebuttal and surrebuttal.
EBRO 485, and Generic Direct Purchase Hearings	Ontario Energy Board	Consumers' Gas Company, Ltd.	August 1993, September 1993.	Canadian Independent Gas Marketing Association	Classification and allocation of marketing and administrative costs.
Hearings for Cost of Service and Rate Design	Nova Scotia Utility and Review Board	Nova Scotia Power, Inc.	May 1993	Bowater Mersey Paper Company, Ltd.	Classification of bulk power costs, rate design for interruptible service and other rate design issues.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
Generic Hearing #4	Board of Commissioners of Public Utilities, Province of New Brunswick	New Brunswick Power Corporation	November 1991	Large Power Users Group	Review of cost allocation and rate design.
EBRO-473	Ontario Energy Board	Consumers' Gas Company, Ltd	October 1991	Ontario Energy Board Staff	Cost allocation and rate design
EBRO-470	Ontario Energy Board	Union Gas, Ltd.	February 1991	Ontario Energy Board Staff	Cost allocation and rate design; evaluation of load shifting study.
Rate Area Boundaries Hearings	Prince Edward Island Public Utilities Commission	Maritime Electric Co., Ltd.	February 1991	Prince Edward Island Department of Energy and Forestry	Customer classification by geographical area.
EBRO-467	Ontario Energy Board	Centra Gas, Ltd.	January 1991	Ontario Energy Board Staff	Cost allocation and rate design for technology, cogen and bypass.
Arbitration Hearings	Arbitrator	ARINC, Inc.	July 1990	ARINC Inc.	Cost allocation and rate design for aircraft to ground data communications service.
EBRO-462	Ontario Energy Board	Union Gas, Ltd.	January 1990	Ontario Energy Board Staff	Seasonal cost allocation study, and allocation of costs to export markets.
NSPC-857	Nova Scotia Board of Commissioners of Public Utilities	Nova Scotia Power Corp.	February 1989	Interruptible industrial customers	Cost allocation and rate design of interruptible electric service.

August 2006

EXHIBIT RDK-2

REFERENCED INTERROGATORY RESPONSES

(in numerical order)

OCA-II-21

OSBA-I-1

OSBA-I-4

OSBA-I-5

OSBA-I-7

OSBA-I-9

OSBA-I-11

OSBA-I-12

OSBA-II-1

County of Pike
v
Pike County Light & Power Company
Docket No. C-20065942, et al

Office of Consumer Advocate
Interrogatories Set II

21 Please provide any workpapers that support the cost estimate of \$2 million to do the work under the project description of "Distribution Interconnections" on page 8.

Response: Sponsoring Witness: James W. Tarpey, Vice President - Operations

The exact location for the Milford substation was unknown at the time Pike prepared the estimate. Costs were based on a worst-case scenario that would require three -1000' underground feeder exits and the installation of two manholes. The experienced cost per foot for underground feeder exits is \$150 and the cost per manhole installation is \$40,000. This results in a total cost for the underground exits of approximately \$500,000.

In addition to the underground exits, overhead distribution facilities would have to be rebuilt to provide the necessary circuit configurations. Again, because the exact location of the Milford substation was unknown, costs were based on a worst-case scenario. Pike assumed that three miles of rebuild would be required per feeder. The estimated installed cost per foot for rebuild of existing overhead distribution facilities is \$46.00. This results in a total cost for the overhead rebuild work of approximately \$1.5 million.

**Interrogatories of the
Office of Small Business Advocate to
Pike County Light & Power Company
Docket No. C-20065942**

Set I

- I. Reference the updated 2006 PJM Transmission Interconnection Analysis, attached as Appendix B to the Pennsylvania Public Utility Commission Law Bureau report entitled "Report on Competitive Market Conditions Regarding the Pike County Light & Power Company" dated June 1, 2006 ("Law Bureau Report"):
- a. Please provide the URL source and original source data for the forward prices presented on page 11 for NYISO Zone G and the "PJM PP&L" prices on-peak and off-peak prices. Please include any workpapers used to derive averages.
 - b. Please provide an updated version of the forward prices reported at page 11, including forward prices for any years beyond 2009 for which forward prices are reasonably available. Please include any supporting workpapers.
 - c. If PCL&P were to invest the \$13.6 million to effect the interconnection, how would it recover that investment in rates? Please explain your response.
 - d. How long would it take PCL&P to construct an interconnection, and get the necessary approvals from PJM (assuming PJM approves an interconnection)?
 - e. Please reconcile the peak demands shown at Table 1 with those reported in OCA-II-26. Please include an explanation as to why the peak demand in Table 1 is higher for Line 7, while the reverse is true in OCA-II-26.
 - f. Please provide the complete basis for the 20 percent carrying charge identified on page 13. Please indicate whether that value is on a current dollar or constant dollar (inflation-adjusted basis). As part of your response, please include the assumed asset life, PCL&P's capital structure, PCL&P's assumed cost of new debt, PCL&P's cost of equity, PCL&P's expectations for federal and state income tax rates, PCL&P's assumed O&M cost rate for the new assets, and the assumed uncollectibles rate.
 - g. Regarding the potential for interconnection with Sussex Rural Electric Cooperative (discussed at page 6 of the updated report), please provide PCL&P's estimate of the interconnection distance and explain why such an interconnection is not technically practical.

Response: Sponsoring Witness: James W. Tarpey, Vice President – Operations

- a. For the NYISO - http://www.nyiso.com/public/market_data/pricing_data.jsp and for PJM - <http://www.pjm.com/markets/energy-market/day-ahead.html>. These prices were copied directly from each webpage to the tables.
- b. Please see Attachment I
- c. PCL&P would need to file a base rate case to recover the costs associated with such a major system investment

d. The Company cannot provide a definitive answer on PJM's timetable for approving and implementing such an interconnection.

e. The loads shown for Line 7 and Circuit 5-10-34, in Table 1 of the Pike-PJM Transmission Interconnection Investigation report, were the projected weather-normalized loads served from those lines solely within the Pike service territory. Line 7's entire load is within Pike, while Line 5-10-34 serves load in both Pike and Orange and Rockland Utilities, Inc.'s (O&R) service territory. Table 1 projected peak loadings of 11.4MVA and 6.5MVA, for Line 7 and Line 5-10-34(Pike portion) respectively, in 2006. The actual 2006 peak loads for Line 7 and Line 5-10-34(Pike portion) were 12.2MVA and 6.6MVA respectively. The actual Line 5-10-34 load shown in OCA-II-26 was for the load of the entire line, both its O&R and Pike loading.

f. The 20 percent carrying charge is a typical levelized carrying rate for long-lived utility plant. The details requested were not relied upon in this instance.

g. The Company has not performed any formal studies to dismiss the technical practicality of such an interconnection. However, informal investigations have revealed that interconnection with Sussex Rural Cooperative facilities would require a line extension of approximately 22 miles of 34 5kV line construction, with a considerable amount needed to be constructed through High Point State Park, as well as a crossing of the Delaware River, which is a federally protected watershed. Even if it were technically feasible to support Pike's short-term load requirements with this type of line extension, the costs to complete it along with certain additional cost upgrades that would appear to be required to Sussex Rural Cooperative's facilities, the associated environmental hurdles, and Pike's long-term growth concerns, all combine to make this alternative relatively infeasible.

Attachment I

I. ECONOMIC ANALYSIS OF TRANSFER OF PIKE LOADS TO PJM

Source of Data: NY ISO and PJM websites

Month	DAM Zone G Prices (\$/MWh)		PJM PP&L Prices (\$/MWh)		Price Differences (\$/MWh)	
	On-Peak	Off-Peak	On-Peak	Off-Peak	On-Peak	Off-Peak
Cal 2003	61.33	43.99	48.28	27.54	13.05	16.45
Cal 2004	60.89	43.75	51.29	34.56	9.60	9.20
Jan-05	77.78	54.48	60.23	46.84	17.55	7.64
Feb-05	62.99	49.24	48.89	39.20	14.10	10.04
Mar-05	72.29	56.26	58.96	44.89	13.33	11.37
Apr-05	75.44	54.45	57.57	39.86	17.87	14.59
May-05	69.51	46.17	52.57	31.90	16.94	14.27
Jun-05	87.37	55.46	77.25	39.51	10.12	15.95
Jul-05	94.47	63.67	96.08	48.59	(1.61)	15.08
Aug-05	113.25	76.76	113.17	57.67	0.08	19.09
Sep-05	124.28	90.39	111.57	56.68	12.71	33.71
Oct-05	124.63	86.24	110.22	58.72	14.41	27.52
Nov-05	92.37	62.83	77.39	49.91	14.98	12.92
Dec-05	113.91	85.40	102.10	77.12	11.81	8.28
Cal 2005	92.36	65.11	80.50	49.24	11.86	15.87
Jan-06	84.47	61.41	66.63	45.74	17.83	15.66
Feb-06	74.57	58.72	63.15	52.43	11.42	6.29
Mar-06	68.62	53.21	61.00	48.26	7.62	4.96
Apr-06	70.97	49.99	59.38	37.58	11.58	12.41
May-06	71.53	45.46	53.28	30.92	18.25	14.54
Jun-06	78.09	45.53	63.58	32.49	14.51	13.05
Jul-06	99.22	53.84	86.56	42.76	12.66	11.08
Aug-06	101.53	56.23	97.01	45.26	4.52	10.97
Sep-06	56.08	38.14	43.59	28.70	12.49	9.44
Oct-06	64.86	41.05	50.87	30.90	14.00	10.15
2006	77.00	50.36	64.51	39.50	12.43	11.31
2007	74.07	44.47	60.59	35.50	13.47	8.97
2008	69.72	43.88	58.13	33.85	11.58	10.04
2009	69.02	42.33	55.62	32.56	13.41	9.77

II. FORWARD PRICES

Year	On-Peak	Off-Peak	Price Difference
2007	74.07	44.47	29.60
2008	69.72	43.88	25.84
2009	69.02	42.33	26.69

NOTES: (1) Forward prices for NYISO Zone G and PPL (PJM West) as per PIRA study dated October 2006.

4 Please detail all of PCL&P's activities designed to encourage additional retail competition in its service territory. Please provide an update to PCL&P's comments in response to Question 2 as reported in Appendix A to the Law Bureau Report. Please identify any new initiatives that PCL&P will pursue either in the short-term or that it is considering for its next default POLR service proceeding.

Response: Sponsoring Witness: James O'Brien, Vice President - Customer Service

PCL&P continues to face difficulties in attracting interested EGSs to provide competitive electric supply services in its service territory. The reasons EGSs are reluctant to enter the service territory include: (1) regulatory uncertainty created by the on-going investigations by the PAPUC in the service territory; (2) the existence of a competitively-bid, PAPUC approved, opt-out aggregation program in which 93% of PCL&P's customers are already participating; (3) the limited size of the service territory, *i.e.*, 4,500 customers; (4) the nature of the customer base in the service territory, *i.e.*, primarily residential and small commercial and industrial; (5) for EGSs that are already licensed and participating in retail choice in Pennsylvania, but not in New York, the fact that PCL&P is not interconnected with PJM and does not use the Pennsylvania EDI protocols, and (6) for EGSs that are approved in New York and are participating in Orange and Rockland's retail choice program in New York, but are not already active in Pennsylvania, the licensing requirements in Pennsylvania and the need to develop regulatory expertise in Pennsylvania.

In order to encourage additional retail competition in its service territory, PCL&P has: (1) cooperated fully and efficiently with the establishment of an opt-out aggregation program in the service territory under which 93% of PCL&P's customers have already enrolled in service with Direct Energy Services, LLC, a Pennsylvania-licensed EGS; (2) cooperated fully and efficiently in providing every new customer in its service territory the opportunity to participate automatically in Direct Energy's aggregation program unless they expressly request to stay with PCL&P for their electric supply service; (3) finalized a Billing and Assignment Agreement for use by EGSs; (4) agreed to purchase the receivables **without discount** for any EGS participating in retail choice in PCL&P's service territory that executes a Billing and Assignment Agreement; (5) repeatedly solicited the interest of EGSs in being listed as eligible EGSs on its website; (6) repeatedly solicited the interest of EGSs, most recently by e-mail dated September 27, 2006, in participating in an ESCO referral program, similar to O&R's PowerSwitch Program, and (7) facilitated contacts between primary service customers that were not included in the opt-out aggregation program and EGSs interested in serving them, to the extent these customers wanted to be contacted. Aside from the participation of the aggregator, Direct Energy, to date, only one EGS, Con Edison Solutions, has executed a Billing and Assignment Agreement with PCL&P, agreed to be listed on the Company's website as an eligible EGS, and expressed an interest in participating in an ESCO referral program in PCL&P's service territory.

5. Please detail the status of implementing a PowerSwitch program at PCL&P

Response: Sponsoring Witness: James O'Brien, Vice President – Customer Service

PCL&P has delayed filing an ESCO referral program for its service territory because it has received virtually no interest from eligible EGSs in participating in such a program. To date, only a single EGS, the Company's affiliate Con Edison Solutions, has expressed an interest. Given the limited number of EGS participants for the program, PCL&P does not believe it is in its customers' best interests to initiate a program at this time. Nonetheless, PCL&P will file a proposal before year end. This way, assuming the program is approved, at such time as EGSs decide that they want to participate, PCL&P will be in a position to implement the program without any regulatory delays.

7. Reference: PCL&P's response to Commission directed question #9 as printed in the Law Bureau Report Appendix A.

- a. Please provide an update regarding PCL&P's investigation of the potential for bundling the PCL&P load with the load of its affiliates for energy procurement purposes. Please provide all analyses performed and identify the major costs and benefits of such an approach.

Response: Sponsoring Witness: James Tarpey, Vice President - Operations

PCL&P is currently studying this matter and has not arrived at any definitive conclusions.

9. Reference. PCL&P's response to Commission directed question #10 as printed in the Law Bureau Report Appendix A:

- a. Please provide the specific details of the "interstate jurisdictional difficulties" identified in these comments regarding a virtual interconnection.
- b. Please explain why the NYISO would need to cede control of its facilities to PJM to implement a virtual interconnection.

Response: Sponsoring Witness: James Tarpey, Vice President - Operations

- a. With a virtual interconnection, PCL&P would need to arrange for a transmission path between PJM and PCL&P sufficient to meet PCL&P's loads, and turn over that path to PJM control. By necessity, any such path would need to include facilities controlled by PJM.
- b. Please see the response to (a).

11. Regarding the Law Bureau Report recommendation #4, please state PCL&P's intention regarding the timing of its default POLR service plan for 2008 and beyond.

Response: Sponsoring Witness: James W. Tarpey, Vice President - Operations

PCL&P will file a plan, for the default POLR service plan for 2008 and beyond, by 12/31/06.

12. Does PCL&P have any objections to implementing Law Bureau Report recommendation #6? If so, please state them.

Response: Sponsoring Witness: James O'Brien, Vice President – Customer Service

The Company supports an indefinite waiver of the Pennsylvania EDI rules for so long as it purchases its electric supply through the NYISO.

**Interrogatories of the
Office of Small Business Advocate to
Pike County Light & Power Company
Docket No. C-20065942**

Set II

1 Reference the updated 2006 PJM Transmission Interconnection Analysis, attached as Appendix B to the Pennsylvania Public Utility Commission Law Bureau report entitled "Report on Competitive Market Conditions Regarding the Pike County Light & Power Company" dated June 1, 2006 ("Law Bureau Report"):

- a. Please provide the complete basis for the assertion that no government funding is available. As part of your response, please identify each potential source of government funding that PCL&P considered and explain how PCL&P concluded that no funding was available.

Please identify any and all communications with the County of Pike or local development agencies (such as, but not limited to, PIDCO) regarding potential government funding, and explain why no such funding is available.

Response: Sponsoring Witness: James W. Tarpey, Vice President - Operations

It is Pike's understanding that electric substations that are constructed for the benefit of a utility's general body of customers are not eligible for such funding. Neither the County of Pike nor any local development bodies has offered to make such funding available. Moreover, at no time has OSBA or any other party to this proceeding indicated that such funding was available for the interconnection process.

EXHIBIT IEc-3

CAPITAL RECOVERY FACTOR CALCULATIONS

EXHIBIT IEC-3

SUMMARY OF CAPITAL RECOVERY FACTOR CALCULATIONS

	<i>Without O&M Costs</i>	<i>With O&M Costs</i>	<i>Basis for Assumption</i>
Return on Equity	10.70%	10.70%	PUC Approved Rate for PPL Electric
Long Term Debt Rate	6.02%	6.02%	Current 20-Year AA Bond Rate
Equity Share of Capital	48.70%	48.70%	PUC Approved Rate for PPL Electric
Inflation	2.50%	2.50%	Philadelphia FRB Survey for LT CPI
Federal Income Tax Rate	35.00%	35.00%	
State Income Tax Rate	9.99%	9.99%	
Effective Income Tax Rate	41.49%	41.49%	Calculated
O&M Factor	0%	3%	Estimated annual percent of investment

Methodology

- This exhibit calculates the annual revenues that a project must earn to fully recoup its cost of capital over its expected life, using two methods.
- The first method derives the constant dollar annual revenue necessary to recover capital and O&M costs and income taxes, measured as a percent of the original investment. As shown in the accompanying pages, that value for the two scenarios is:

Without O&M	9.3%
With O&M	11.7%

Note that both values are well below PCL&P's 20 percent assumption.
- The second method derives the annual revenue consistent with a utility revenue requirement approach, in which costs are generally derived from a declining rate base. In this method, the annual revenue declines each year. As a percent of revenue, the figures from this method are:

	First Year	Last Year
Without O&M	14.5%	2.8%
With O&M	17.6%	5.9%

On average, the revenue requirement from this approach also falls well below PCL&P's assumption.
- Note that the first method is derived using an iterative model.
- In the first method, both revenues and O&M costs increase with inflation. The revenue increase with inflation implicitly assumes that the NYISO-PJM differential increases with inflation, in this comparison. In the second method, only the O&M costs increase with inflation, while revenues generally decline since the rate base effect outweighs the increasing O&M costs.

EXHIBIT IEC-3

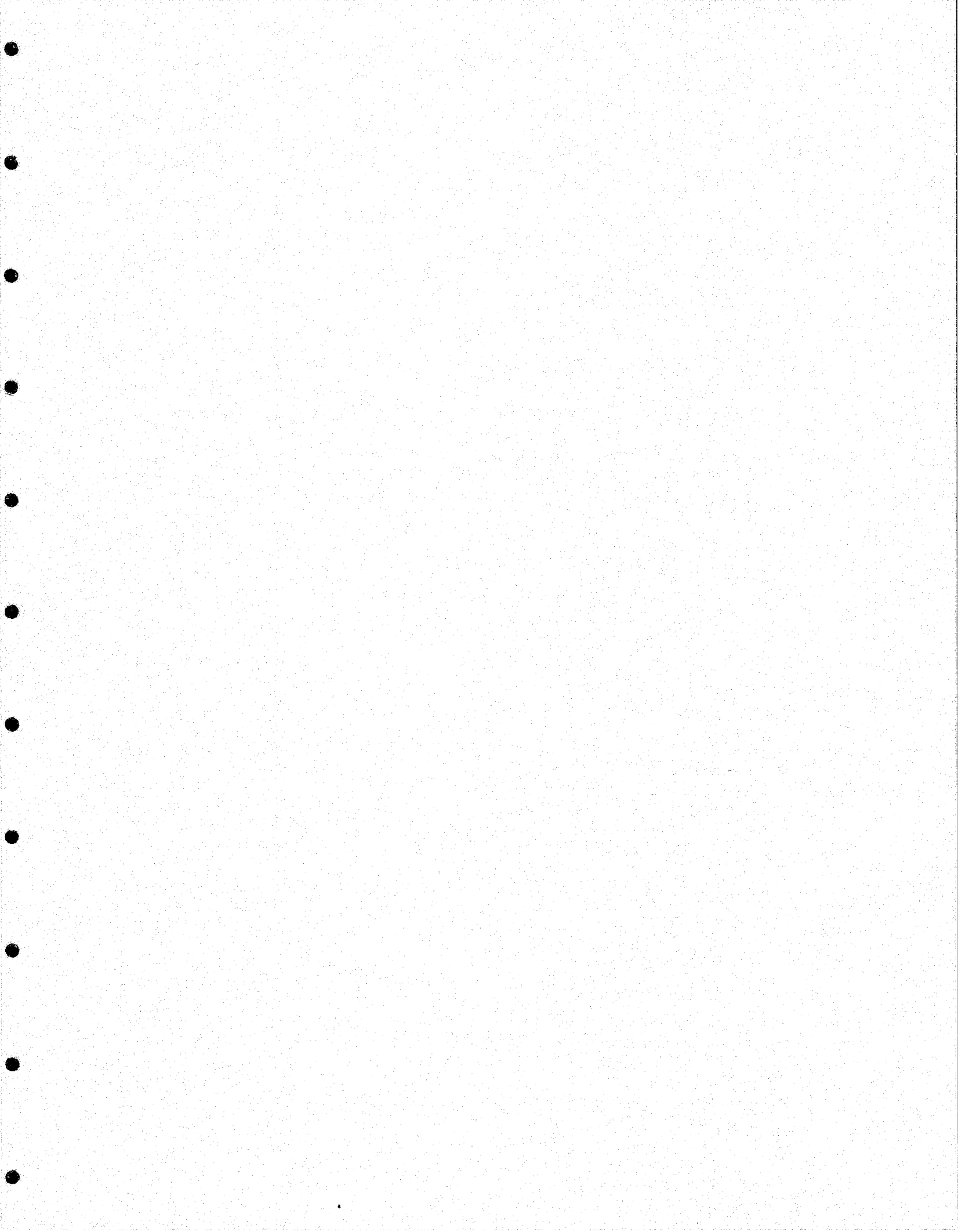
	Capital Recovery Factor and Utility Revenue Requirement Comparison: Without O&M Expenses													
	0	1	2	3	4	5	6	7	8	9	10	20	30	40
Nominal Debt Rate	5.0%													
Nominal AT Equity Rate	10.7%													
Tax Rate	41.5%													
Year Investment	(1,000.00)													
Levelized Cash Flow Methodology														
YE Book Value	1,000.00	950.09	902.50	857.38	814.51	773.78	735.09	698.34	663.42	630.25	598.74	568.49	539.24	510.00
Dep'n (DDB-40)	1,000.00	50.00	47.50	45.13	42.87	40.73	38.69	36.73	34.92	33.17	31.51	29.94	28.46	27.02
Debt Balance	513.00	487.35	462.98	439.83	417.84	396.95	377.10	358.25	340.33	323.32	307.15	291.58	276.45	261.75
Equity Balance	487.00	467.65	439.52	417.54	396.66	376.83	357.99	340.09	323.09	306.93	291.58	276.45	261.75	247.50
Revenue		93.00	95.33	97.71	100.15	102.66	105.23	107.86	110.55	113.32	116.15	119.03	121.95	124.92
Dep'n	(53.00)	(53.00)	(47.50)	(45.13)	(42.87)	(40.73)	(38.69)	(36.73)	(34.92)	(33.17)	(31.51)	(29.94)	(28.46)	(27.02)
Debt Cost	(30.88)	(30.88)	(29.34)	(27.87)	(26.48)	(25.15)	(23.90)	(22.70)	(21.57)	(20.49)	(19.46)	(18.47)	(17.52)	(16.61)
Maintenance Cost														
Book Income	12.12	18.49	24.72	30.81	36.78	42.64	48.40	54.07	59.66	65.17	70.63	76.04	81.41	86.74
Income Taxes	(5.01)	(7.67)	(10.26)	(12.78)	(15.26)	(17.69)	(20.08)	(22.44)	(24.75)	(27.04)	(29.29)	(31.51)	(33.69)	(35.83)
Net Income	7.09	10.82	14.46	18.02	21.52	24.95	28.32	31.63	34.90	38.13	41.34	44.53	47.70	50.91
Depreciation	59.00	59.00	47.50	45.13	42.87	40.73	38.69	36.73	34.92	33.17	31.51	29.94	28.46	27.02
Debt Cash Flow	(5513.00)	(25.65)	(24.37)	(23.15)	(21.99)	(20.89)	(19.85)	(18.86)	(17.91)	(17.02)	(16.17)	(15.34)	(14.53)	(13.74)
Net Eq. Cash Flow	\$487.01	31.44	33.95	36.44	38.90	41.35	43.79	46.22	48.64	51.06	53.48	55.89	58.30	60.71
Capital Recovery Factor =>														
Utility Revenue Requirement Methodology														
Rate Base	1,000.00	975.00	950.00	925.00	900.00	875.00	850.00	825.00	800.00	775.00	750.00	725.00	700.00	675.00
Debt Balance	513.00	500.18	487.35	474.53	461.70	448.88	436.05	423.21	410.40	397.58	384.75	371.92	359.09	346.26
Equity Balance	487.00	474.83	462.65	450.48	438.30	426.13	413.95	401.78	389.60	377.43	365.25	353.07	340.90	328.72
Depreciation (\$/l)	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Interest	30.88	30.88	30.11	29.34	28.57	27.79	27.02	26.25	25.48	24.71	23.93	23.16	22.39	21.62
Maintenance														
Income Taxes	36.96	36.03	35.11	34.18	33.26	32.34	31.41	30.49	29.57	28.64	27.72	26.80	25.88	24.96
Equity Return	52.11	50.81	49.50	48.20	46.90	45.60	44.30	42.99	41.69	40.38	39.08	37.77	36.47	35.16
Utility Revenue Reqmt	144.95	141.95	138.95	135.95	132.95	129.95	126.96	123.96	120.96	117.96	114.96	111.96	108.96	105.96
Debt Cash Flow	(5513.00)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)
Equity Cash Flow	\$487.00	64.28	62.98	61.68	60.38	59.07	57.77	56.47	55.16	53.86	52.56	51.26	49.96	48.66
Percent of Original Cost														

Note: Values for years 11 to 19, 21 to 29, and 31 to 39 are hidden

EXHIBIT IEC-3

	Capital Recovery Factor and Utility Revenue Requirement Comparison: With O&M Expenses													
	0	1	2	3	4	5	6	7	8	9	10	20	30	40
Nominal Debt Rate	6.0%													
Nominal AT Equity Rate	10.7%													
Tax Rate	41.5%													
Year	0	1	2	3	4	5	6	7	8	9	10	20	30	40
Investment (1,000,000)														
Levelized Cash Flow Methodology														
YE Book Value	1,000.00	950.00	902.50	857.38	814.51	773.75	735.09	698.34	663.42	630.25	598.74	558.49	529.24	500.00
Deprn (DDB-40)	1,000.00	50.00	47.50	45.13	42.87	40.73	38.69	36.75	34.92	33.17	31.51	29.87	28.32	26.87
Debt Balance	513.00	487.35	462.98	439.83	417.84	396.95	377.10	358.25	340.33	323.32	307.15	291.58	276.29	261.29
Equity Balance	487.00	462.65	439.52	417.54	396.66	376.83	357.99	340.09	323.09	306.93	291.58	276.29	261.29	246.29
Revenue	117.28	120.22	123.22	126.30	129.46	132.69	136.01	139.41	142.90	146.47	150.11	153.87	157.68	161.54
Deprn	(50.00)	(47.50)	(45.13)	(42.87)	(40.73)	(38.69)	(36.75)	(34.92)	(33.17)	(31.51)	(29.87)	(28.32)	(26.87)	(25.42)
Debt Cost	(30.88)	(29.14)	(27.87)	(26.48)	(25.15)	(23.90)	(22.70)	(21.57)	(20.49)	(19.46)	(18.46)	(17.50)	(16.58)	(15.69)
Maintenance Cost	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)	(30.75)
Book Income	5.65	12.63	19.47	26.20	32.83	39.36	45.81	52.18	58.49	64.74	70.94	77.09	83.19	89.24
Income Taxes	(2.34)	(5.24)	(8.08)	(10.87)	(13.62)	(16.33)	(19.01)	(21.65)	(24.27)	(26.86)	(29.41)	(31.92)	(34.39)	(36.82)
Net Income	3.31	7.39	11.39	15.33	19.21	23.03	26.80	30.53	34.22	37.88	41.53	45.17	48.80	52.42
Depreciation	50.00	47.50	45.13	42.87	40.73	38.69	36.75	34.92	33.17	31.51	29.87	28.32	26.87	25.42
Debt Cash Flow	(5513.00)	(25.65)	(24.37)	(23.15)	(21.99)	(20.85)	(19.85)	(18.86)	(17.91)	(17.02)	(16.17)	(15.35)	(14.55)	(13.78)
Net Eq. Cash Flow	\$487.01	27.66	30.52	33.37	36.21	39.04	41.87	44.70	47.53	50.37	53.23	56.04	58.81	61.54
Capital Recovery Factor =>														
Utility Revenue Requirement Methodology														
Rate Base	1,000.00	950.00	902.50	857.38	814.51	773.75	735.09	698.34	663.42	630.25	598.74	558.49	529.24	500.00
Debt Balance	513.00	487.35	462.98	439.83	417.84	396.95	377.10	358.25	340.33	323.32	307.15	291.58	276.29	261.29
Equity Balance	487.00	462.65	439.52	417.54	396.66	376.83	357.99	340.09	323.09	306.93	291.58	276.29	261.29	246.29
Depreciation (S/L)	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Interest	30.88	30.11	29.34	28.57	27.79	27.02	26.25	25.48	24.71	23.93	23.15	22.38	21.61	20.84
Maintenance	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75
Income Taxes	36.96	36.03	35.11	34.18	33.26	32.34	31.41	30.49	29.57	28.64	27.72	26.80	25.88	24.96
Equity Return	52.11	50.81	49.50	48.20	46.90	45.60	44.29	42.99	41.69	40.38	39.08	37.78	36.48	35.18
Utility Revenue Reqmt	175.70	172.70	169.70	166.70	163.70	160.70	157.71	154.71	151.71	148.71	145.71	142.71	139.71	136.71
Debt Cash Flow	(5513.00)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)	(12.83)
Equity Cash Flow	\$487.00	64.28	62.98	61.68	60.38	59.07	57.77	56.47	55.16	53.86	52.56	51.26	49.96	48.66
Percent of Original Cost														

Note: Values for years 11 to 19, 21 to 29, and 31 to 39 are hidden



DIRECT TESTIMONY
OF
DARRIN HERVIEUX
PREPARED ON BEHALF OF
ALTEC LANSING TECHNOLOGIES, INC.

Dated: November 20, 2006

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Darrin Hervieux and my business address is Altec Lansing
3 Technologies, Inc., 535 Routes 6 & 209, Milford, PA 18337.

4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by Altec Lansing Technologies, Inc. as the Operations Manager.

7

8 Q. HOW LONG HAVE YOU WORKED AT THIS FACILITY?

9 A. I have been employed by Altec Lansing for approximately one year.

10

11 Q. WHY ARE YOU APPEARING IN THIS PROCEEDING?

12 A. I am appearing in this proceeding to address the issue of electric rates
13 implemented by Pike County Light & Power ("PCLP") on or about January 2006.

14

15 Q. PLEASE DESCRIBE THE ACTIVITIES OF THE ALTEC LANSING FACILITY.

16 A. The Altec Lansing facility serves as the headquarters and distribution point for
17 60% of all U.S. sales. Altec Lansing is a producer of high quality audio
18 components, primarily speakers and speaker-related products. Product
19 manufacturing takes place overseas but our Milford facility serves as the primary
20 receipt and distribution point for the United States. We employ approximately
21 130 persons at our facility. We are one of the largest employers in the Milford
22 area.

23

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. IS ALTEC LANSING A SUPPORTER OF COMMUNITY ACTIVITIES?

2 A. Yes. We support the Milford community in a number of ways: (1) involvement in
3 United Way activities; (2) Pike County Chamber of Commerce, (3) Delaware
4 High School National Technology Program; and (4) sponsoring the annual
5 Milford Music Fest.

6

7 Q. ARE YOU A CUSTOMER OF PCLP CURRENTLY?

8 A. Yes. Prior to 2006, we were a customer of PCLP for distribution and generation
9 service. We continued to be served by PCLP until approximately May 2006
10 when we were given the option to move to Direct Energy as our generation
11 supplier. Generation service from Direct Energy has resulted in minimal savings.

12

13 Q. CAN YOU DISCUSS THE IMPACT OF THE HIGHER ELECTRIC RATES ON
14 YOUR FACILITY?

15 A. Yes. I am sponsoring Exhibit LCG No. 5 (DH-1). This exhibit provides a
16 comparison of electric cost from January 2006 through August 2006 comparing
17 the average cost per kilowatt hour prior to the increase with the new cost per
18 kilowatt hour. As can be seen, the cost increase for 2006 has been \$37,870
19 through August 2006. I will update this cost information when I testify in January
20 2007. I should note that there was no forewarning prior to the increase taking
21 effect on January 1, 2006.

22

23

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. HOW HAS THIS INCREASE AFFECTED YOUR BUSINESS OPERATIONS?

2 A. Obviously, the rate increase has a significant effect on our business operations.
3 We have had to modify our budget for 2006 to accommodate the larger electric
4 rate increase. This impact is both retrospective and prospective in nature.
5 Conceivably higher electric rates will cause Altec Lansing to review its allocation
6 of financial resources to other operations within the facility such as new
7 equipment and facility upgrades.

8

9 Q. HAS ALTEC LANSING RECENTLY MADE AN INVESTMENT IN NEW
10 FACILITIES?

11 A. Yes. Recently, we invested in expanding our Milford distribution facilities. This
12 expansion also increased our need for electric power.

13

14 Q. DO YOU HAVE ANY ALTERNATIVES TO SERVICE FROM PCLP?

15 A. No we do not. Although I am aware that two other electric utilities service Pike
16 County, our facility is not in a position to be served by these other utilities.

17

18 Q. HAVE YOU HAD TO INSTALL BACK UP GENERATORS AT YOUR
19 FACILITY?

20 A. Yes we have. We installed these generators at a cost of approximately \$20,000.
21 The reason for this investment was due to service outages in the past. Our
22 facility experiences outages of short duration and recently experienced an outage
23 caused by a transformer failure in the vicinity.

DIRECT TESTIMONY OF DARRIN HERVIEUX

1 Q. DO YOU HAVE ANY FINAL OBSERVATIONS REGARDING THE CURRENT
2 ELECTRIC RATE SITUATION?

3 A. Milford is a high growth area and is also a major tourist attraction. Any increase
4 in electric rates will obviously have a dampening effect on the ability of this area
5 to thrive and grow. As a result, I do not view the electric rate increase of PCLP
6 as being a positive factor for my company or the area.

7

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes it does.

