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Public Utility Commission

BEFORE

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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In re: R-822169 - Pennsylvania Power & Light Company. Investigation into a requested $315 million annual rate increase. Hearing.

- - - - -

Harrisburg, Pennsylvania

April 13, 1983

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Pages 2277 to 2345, inclusive

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HOLBERT ASSOCIATES
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Harrisburg, Pennsylvania 17102

DOCKETED
APR 18 1983

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THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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In re: R-822169 - Pennsylvania Power & Light Company. Investigation into a requested $315 million annual rate increase. Hearing.

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Verbatim report of hearing held in Hearing Room 1, North Office Building, Harrisburg, Pennsylvania,

Wednesday,
April 13, 1983
at 9:30 a.m.

BEFORE

JOSEPH J. KLOVEKORN, ADMINISTRATIVE LAW JUDGE

- - - - -

APPEARANCES:

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JOHN M. QUAIN, ESQUIRE
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AND

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APPEARANCES: (Continued)

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DAVID MANN
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Appearing on behalf of Susquehanna Alliance

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INDEX TO WITNESSES

STAFF	DIRECT	CROSS	REDIRECT
Michael Gruber	2284	2285 2302	
Dennis M. Kalbarcyzk	2303	2304 2311	2313
Dr. James N. Giordano	2315	2319	2320
L. B. Jones	2322	2323	
A. R. O'Donnell	2325		
John T. Crawford	2326	2328	
MI			
Stephen E. Siwek	2331	2332	2338
Charles W. King	2339	2339 2341	

INDEX TO EXHIBITS

STAFF	IDENTIFIED	ADMITTED
Statement 10 and Exhibit 10-A, four-page and three-page documents respectively, entitled Direct Testimony of John T. Crawford	2283	2327
Statement 13 and Exhibit 13-A, 16-page and 22-page documents respectively, entitled Direct Testimony of Michael J. Gruber	2284	2285
Statement 14 and Exhibit 14-A, six-page and seven-page documents respectively, entitled Direct Testimony of L. B. Jones	2284	2322
Statement 15 and Exhibit 15-A, three-page and three-page documents respectively, entitled Direct Testimony of A. R. O'Donnell	2284	2326

EXHIBITS: (Continued)

	IDENTIFIED	ADMITTED
STAFF		
Statement 16 and Exhibit 16-A, nine-page and twenty-one-page documents respectively, entitled Direct Testimony of Dennis M. Kalbarcyzk	2284	2304
Statement 17, six-page document entitled Direct Testimony of Dr. James N. Giordano	2284	2319
MI		
Statement 2, a 23-page document entitled Testimony of Stephen E. Siwek	2331	2342
Statement 3, a nine-page document entitled Supplemental Testimony of Charles W. King	2331	2342
Exhibit 3, a one-page document	2338	2342
OCA		
PP&L Response to Interrogatory No. 200.282030	2342	
PP&L Response to Interrogatory No. 200.282055	2343	
PP&L Response to Interrogatory No. 200.282218	2343	
PP&L Response to Interrogatory No. 200.282235	2343	
PP&L Response to Interrogatory No. 200.282071	2343	
PP&L Response to Interrogatory No. 200.282081	2343	
PP&L Response to Interrogatory No. 200.282088	2343	
PP&L Response to Interrogatory No. 200.582014	2343	
PP&L Informal Data Request No. 175.282005	2343	

EXHIBITS: (Continued)

OCA	IDENTIFIED
PP&L Informal Data Request No. 175.282006	2343
PP&L Informal Data Request No. 175.282008	2343
PP&L Informal Data Request No. 175.282009	2343
PP&L Informal Data Request No. 175.282012	2343
PP&L Informal Data Request No. 175.282015	2343
PP&L Informal Data Request No. 175.282023	2343
PP&L Informal Data Request No. 175.282027	2344
PP&L Informal Data Request No. 175.282028	2344
PP&L Informal Data Request No. 175.282030	2344
PP&L Informal Data Request No. 175.282032	2344
PP&L Informal Data Request No. 175.582001	2344
PP&L Informal Data Request No. 175.282014	2344
PP&L Informal Data Request No. 175.282018	2344
PP&L Informal Data Request No. 175.282019	2344
PP&L Informal Data Request No. 175.282020	2344
PP&L Informal Data Request No. 175.282021	2344
PP&L Response to Interrogatory No. 200.282130	2344

EXHIBITS: (Continued)

	IDENTIFIED
OCA	
PP&L Response to Interrogatory No. 200.282131	2344
PP&L Response to Interrogatory No. 200.282136	2344
PP&L Response to Interrogatory No. 200.282137	2345
PP&L Response to Interrogatory No. 200.282142	2345
PP&L Response to Interrogatory No. 200.282144	2345
PP&L Response to Interrogatory No. 200.282145	2345
PP&L Response to Interrogatory No. 200.282146	2345
PP&L Response to Interrogatory No. 200.282148	2345
PP&L Response to Interrogatory No. 200.282150	2345
PP&L Response to Interrogatory No. 200.282152	2345
SUSQUEHANNA ALLIANCE	
PP&L Informal Data Request of Susquehanna Alliance No. 175.582003	2345

JUDGE KLOVEKORN: I will call to order this hearing, docket R-822169 - Pennsylvania Public Utility Commission versus Pennsylvania Power & Light. Do we have any preliminary matters before we begin today's witnesses?

Call the first witness.

MR. WILMARTH: Your Honor, I believe Staff is going to go first, although there are some other witnesses to be cross examined today. No problem. As our first witness we would like to call to the stand Mr. Michael Gruber.

At this time, Your Honor, I am going to provide the court reporter with three copies each of documents labeled Staff's Statement Number 1, Staff Exhibit -- strike that, Staff Statement 10, not Number 1, Staff Statement 10, Staff Exhibit 10-A, Staff Statement Number 13, Exhibit 13-A, Staff Statement Number 14, Exhibit 14-A, Staff Statement Number 15, Exhibit 15-A, Staff Statement Number 16, Exhibit 16-A, and Staff Statement Number 17. I would note by way of a correction that Statement Number 15 is improperly labeled as Exhibit Number 15, and that correction should be noted on everyone's copy.

I would ask at this time that the documents so labeled be so marked for purposes of identification in this proceeding.

JUDGE KLOVEKORN: Without objection, they may be so identified.

(Staff Statement Number 10 and Staff Exhibit 10-A, four-page and three-page documents respectively, entitled Direct Testimony of John T. Crawford, were produced and marked for identification.)

(Staff Statement Number 13 and Staff Exhibit Number 13-A, 16-page and 22-page documents respectively, entitled Direct Testimony of Michael J. Gruber, were produced and marked for identification.)

(Staff Statement Number 14 and Staff Exhibit Number 14-A, six-page and seven-page documents respectively, entitled Direct Testimony of L. B. Jones, were produced and marked for identification.)

(Staff Statement Number 15 and Staff Exhibit Number 15-A, three-page and three-page documents respectively, entitled Direct Testimony of A. R. O'Donnell, were produced and marked for identification.)

(Staff Statement Number 16 and Staff Exhibit Number 16-A, nine-page and twenty-one-page documents respectively, entitled Direct Testimony of Dennis M. Kalbarcyzk, were produced and marked for identification.)

(Staff Statement Number 17, six-page document entitled Direct Testimony of Dr. James N. Giordano, was produced and marked for identification.)

MICHAEL J. GRUBER, having been previously sworn, was recalled and examined and testified as follows:

DIRECT EXAMINATION

BY MR. WILMARTH:

Q Mr. Gruber, were you sworn?

A Last time I was on.

MR. WILMARTH: Mr. Gruber was previously sworn.

BY MR. WILMARTH:

Q Mr. Gruber, you have before you copies of the documents that have just been marked for purposes of identification as Statement Number 13 and Exhibit 13-A?

A Yes, I do.

Q Are you the witness responsible for the preparation of those documents?

A Yes, I am.

Q Are there any changes or corrections to either the Statement or the Exhibit that you wish to note at this time?

A No, I don't.

Q If I were to ask you today these questions contained in Statement Number 13, would your answers be the same as the responses contained therein?

A Yes, they would.

Q And are those responses true and correct to the best of your knowledge, information and belief?

A Yes, they are.

MR. WILMARTH: Your Honor, at this time I would move that Statement Number 13 and Exhibit 13-A be admitted into the record as evidence in this proceeding subject, of course, to any timely motion to strike which may be made by any party.

JUDGE KLOVEKORN: Without objection, they may be admitted.

MR. WILMARTH: Mr. Gruber is now available for cross examination. I would now ask that those documents be marked with today's date, April 13, 1983.

CROSS EXAMINATION

BY MR. YOUNG:

Q Good morning, Mr. Gruber. If you can't hear me, I will grab a mike. But in the meantime we will work this way.

MR. EATON: Could you use a microphone? We are having some difficulty hearing down here.

BY MR. YOUNG:

Q Do I understand, Mr. Gruber, that you graduated from Penn State in 1976?

A Yes.

Q With a Bachelor of Science in Civil Engineering, is that correct?

A That's correct.

Q And then you came directly to work with the PUC at that time?

A February of '77.

Q Did you have any work experience between graduation and working for the PUC?

A No.

Q I take it then you have never been involved yourself in any system planning for electric power or economic dispatch of power or construction of a power plant for an electric company?

A No, I haven't.

Q With respect to your testimony on excess capacity, would you agree that in the construction of any large base load plant there is a long lead time for planning and constructing the plant?

A Yes.

Q Have you undertaken any analysis as to the prudence of PP&L's decision in initially planning Susquehanna?

A No.

Q I take it it is your testimony that 29.6 percent is a reasonable reserve margin for PP&L to maintain at this time?

A Yes.

Q And that any megawatts of installed capacity above that level are excess?

A Yes.

Q And I take it you would make this calculation on an annual basis, is that correct, to determine how much is excess in each year?

A From year to year the amount could change, yes.

Q Your determination here is that PP&L has some 966 megawatts of excess capacity --

A That's correct.

Q -- when Susquehanna 1 comes on line?

A That's correct.

Q Under that formula, isn't it inevitable that whenever a utility adds a new base load plant, it would have excess capacity unless it was seriously deficient before the addition?

A I believe I do mention something along that line in my testimony.

Q Page 4, Line 11 you indicate that, "Immediately after

a new unit is placed in service, the reserve capacity would probably be higher than necessary"?

A That's correct.

Q And if the additional capacity added is a 1,000 megawatt station, the excess capacity would tend to be at least 1,000 megawatts, would it not?

A Not necessarily. The 29.6 percent reserve margin I used here isn't necessarily an exact number. PJM requires considerably less of its member companies. It could fall below that 29.6 percent margin that I have used and still be above PJM's requirement.

If when they added a new plant it did go above whatever number someone came up with the reserve capacity, you would have to look at many other factors, when their next plant is coming on line, what their growth rate is considered to be. There could be a case where they would have considerable excess capacity and it would still be beneficial to the ratepayer to have that capacity in some cases -- not necessarily with PP&L, but maybe with some other utility. The excess capacity isn't always a cut and dry type situation.

Q But if we accept your 29.6 for the purpose of your testimony, PP&L's excess capacity of 966 megawatts is almost exactly the excess created by the addition of Susquehanna, is it not?

A It's a little bit more than the excess created by

Susquehanna, yes.

Q Is it approximately 146 megawatts in excess?

A Susquehanna has 945 megawatts. That's only about 21.

Q Twenty-one megawatts. And that 21 megawatts, if Susquehanna were not added, would be used in the company's load forecast within a year or two, would it not?

A Possible -- probably, yes.

Q Assuming the company didn't add Susquehanna until that additional 21 megawatts was used, the addition of the plant itself would create the excess capacity to which you object, would it not?

A No.

Q Why not?

A The addition of Susquehanna at this point in time takes PP&L up to a 49 percent reserve margin.

Q But you have indicated that only the 29.6 of that is satisfactory or reasonable?

A That's correct. That's my judgment. If Susquehanna didn't exist, the calculation would change. The amount of reserve margin that I would find necessary would be different because you'd have other factors to consider. 29.6 at this time is just, you know, taking into consideration they do have Susquehanna, Number 1, they do have all their other plants that they do have on line. They do have the load that they have right now -- their projected loads. If you change any

factor, you have to change the -- you could possibly change the results of what a proper reserve margin could be.

Q Doesn't your testimony on Page 9, Line 7 indicate that without Susquehanna and using your techniques, the excess capacity would be 146 megawatts?

A It says there will be 146 megawatts over and above what is the reserve margin I would come up with using the procedure I used, yes.

Q Right. So that under that procedure, without Susquehanna the Company would at the moment, under your analysis, have an excess capacity of 146 megawatts?

A There would be an excess capacity of 146 megawatts, but whether or not you would have a legitimate adjustment for that 146 megawatts would depend on when your next plant was coming on line, how big it was, what the load growth is and whatever -- when the next plants to be retired are.

Q But that 146 megawatts under the projected loads of the Company will be exhausted in at least by 1985 or '86, will it not?

A Yes. Just because that 100 --

Q Isn't this the few years that you refer to on Page 4? I think Page 4, Lines 11 to 13 of your testimony says you would not treat excess for rate base purposes if it was expected to return to a reasonable level in the next few years, as load growth occurs.

A Which line was that, please?

Q That's Page 4, Line 11 to 13.

A That's correct. PP&L's reserve level doesn't return to a reasonable level within the next few years.

Q Your conclusion that it does not is only based on adding Susquehanna 2 and further expansion at Holtwood, is it not?

A Expansion of Safe Harbor.

Q Safe Harbor.

A If you look at Schedule -- Schedule 1, Page 6, without Susquehanna -- or without Susquehanna Unit 2 and without Safe Harbor, given that the Company load projections are correct, PP&L would still have a reserve margin of 27 percent in 1992.

Q But you are reaching that conclusion by adding Susquehanna 2 --

A No, I'm reading that --

Q -- to your analysis?

A That's only using Susquehanna 1. With the addition of Susquehanna 2, the reserve margin jumps to 43 percent in 1992.

Q But under your 29 percent reasonable reserve margin, the Company would be required on that third column to add new capacity in 1989 or '90, would it not?

A Not necessarily, no. That 29 percent is merely a bench mark figure. I realize that the Company can't be expected

to stay at exactly any one percentage of load for reserve capacity. I -- PJM requires a 22 percent reserve. PJM has a 22 reserve requirement. Twenty-nine percent gives PP&L a little bit over and above what PJM requires, so that they don't ever reach a point where they will be in a deficient capacity situation. The 27 percent with just Susquehanna 1 in 1992 is still over and above what PJM would require.

Q But we are talking about your 29.6 figure, not PJM's figure, because that is what you have testified is reasonable. And the Company does need new capacity under that 29.6 figure in 1990 even on your Schedule 1, Page 6?

MR. WILMARTH: Your Honor, I would object. I think this witness has said time and time again that that 29.6 figure is a figure that he has computed based on the facts as they exist at the future test year, to wit, Susquehanna 1 being on line. And he has testified that at some future date where circumstances have changed dramatically, that that number may be something entirely different. I would object to a continuation of this line of questioning on that basis.

MR. YOUNG: Your Honor, the witness clearly identifies 29.6 as a reasonable level of capacity for the Company. And it seems to me we're entitled to ask him how that relates to the addition of Susquehanna, which is what these questions concern.

JUDGE KLOVEKORN: Overrule the objection.

MR. YOUNG: Read the question back.

(Whereupon the referred to question was read back as follows: Q "But we are talking about your 29.6 figure, not PJM's figure, because that is what you have testified is reasonable. And the Company does need new capacity under that 29.6 figure in 1990 even on your Schedule 1, Page 6?")

BY MR. YOUNG:

A No, because they do have schedule -- Susquehanna Unit 2 and Safe Harbor scheduled to come on in '84 and '85.

Q Neither of those are claimed in this case or are a part of this proceeding, however?

A They aren't claimed in rate base in this proceeding, but there is a contention that they will be coming into service in 1984, 1985 and 1986, and I don't think the Company's trying to lie to me.

Q You think it is appropriate to consider those units in making an adjustment as to excess capacity in this case?

A Yes, I do. Just like it is -- you have to take into consideration the projected load growth of the Company in the next several years in order to calculate any excess capacity at this point in time.

Q Page 8 of your testimony, Mr. Gruber, you derive an availability factor of 66.2 percent which, if I understand your testimony correctly, is based on the hours that each unit is connected to load, is that correct?

A That's correct.

Q What do you mean by connected to load?

A That was the number I got out of the PP&L exhibit for their cost of service filing. I was informed that that meant the time the unit was available to generate electricity.

Q Is it your understanding that when a unit is available for the generating of electricity, it is operating at full capacity?

A No, it is not generally.

Q Isn't it possible that a unit will be available for generation but that the amount of its availability will depend on various factors, such as the need to reduce generation of coal units in the evening, the economics of other units that are operating, partial outages of units?

A The -- the capacity -- or the amount at which a unit operates would depend considerably on how much electricity PP&L needed, I'm sure.

Q So that at any given moment, the full capacity of that unit might not be available even though it was connected to the load?

A It may not be needed. Whether or not it would not be available, if it is connected to load, I would assume they would have available for generation, yes.

Q You don't accept then the possibility that there are operating conditions that might make the unit not available at full capacity even though it was connected to load?

A Yes, there would be -- I'm sure there would be some

situations where a unit could not operate at full capacity even when it was connected to load.

Q But you made no adjustment for that in deriving your 66.2 percent?

A That's correct, I did not.

Q And you made no calculation that would involve reloading the PP&L system under its conditions of operations to determine whether, in fact, all of this generation would be operated at full capacity during these periods?

A Well, I'm sure it wouldn't be operated at full capacity during all those periods. That's not necessary in my calculation.

Q But your 66.2 percent assumes that it is operating at full capacity during any time that it is connected to load or can?

A To get an available generating capacity -- available generation, yes.

Q Referring to your Page 10, it is my understanding that you propose a reduction in rate base of $2,087,692 on the grounds that those are contract retentions, is that correct?

A That's correct.

Q Are you questioning in your testimony the prudence or wisdom of using a contract retention system?

A No, I'm not.

Q Are you questioning that the work that has been performed as to which these retentions apply is now part of the

Susquehanna plant?

A No, I'm not.

Q Doesn't Schedule 3 of your Exhibit 13-A indicate that all of these retentions will be paid in the first year in which the rates of these proceedings are in effect?

A Yes, they do.

Q Would you refer to your Schedule 3 in your Exhibit 13-A.

Is there any indication on that Schedule that the contract retentions are anything but 100 percent of the retention rather than the 90 percent which represents PP&L's share of Susquehanna Number 1?

A Not on this page. But this is in answer to an interrogatory that I asked, where I asked for the amount that would be in rate base at the end of the future test year. So I assume that it's all in rate base.

Q But by deducting $2,087,692, you have made no adjustment for 10 percent of Susquehanna that is not PP&L's share?

A No. I asked for PP&L's share, and I just assumed this was PP&L's share.

Q The schedule also indicates that the substantial portions of these retentions relate to common plant, does it not?

A Yes, some of it is common plant.

Q And how much of common plant has PP&L claimed in this

case?

A I believe they've claimed 50 percent.

Q Have you made any adjustment for the fact that only 50 percent of the common plant is claimed in this case?

A Again, I say I just asked the Company how much they had in rate base at the end of the future test year, and these are the numbers they gave me. If it is wrong, then the Company supplied me a false answer.

Q Is it possible you just misunderstood the answer?

A Maybe the Company misunderstood the question. The question was, how much did you have in rate base at the end of the future test year. If the Company wants to admit that they provided the wrong answer, I'll change my adjustment.

Q I think the answer is exactly responsive to the interrogatory you directed to the Company, Mr. Gruber, but it is perfectly apparent that you have not made the adjustments for either the 90 percent that is PP&L's share or the common plant portion of this which is not claimed in rate base.

MR. WILMARTH: Your Honor, I would submit that counsel's comment amounted to testimony and was not in the form of a question. I think the matter is on the record. The issue is on the record. If the Company chooses to introduce the interrogatory response specifically, that would be fine. But I think Mr. Gruber has stated his position and need not go any further into it. And I would ask that that last comment be stricken

unless it is intended that counsel formalize it as a question to this witness.

JUDGE KLOVEKORN: Let's proceed.

BY MR. YOUNG:

Q Mr. Gruber, at the bottom Page 11 of your testimony, you propose a rate base reduction of $166,650,900 from PP&L based on what you describe as contractor errors, is that correct?

A PP&L gave me a list of projects that they are considering for litigation because of contract errors or deficiencies, and they wouldn't supply me with the amount of dollars associated with those projects. So I used 10 percent.

Q You performed no analysis yourself as to the cost of these alleged errors?

A I can't perform an analysis unless the Company gives me some numbers to work with, and they won't.

Q Unless you went and worked with the numbers yourself, is that correct?

A Unless I spent considerable amount of time at the PP&L offices. They claim they can't do it. Why should I be able to think I can do it?

Q You spent no time either examining the circumstances of these potential deficiencies that the Company advised Bechtel about other than as set forth in the exhibits attached to your testimony?

A I asked PP&L what the value of any construction -- any additional cost incurred by PP&L to remedy the described construction defect which they had supplied in an earlier interrogatory, and no such additional costs were accounted for in the Company's books. They claim -- if you look at the list of projects, the first one says, "Radwaste Building defective roof coating, defective surface material." All through it they're talking about damage to this, defective that, misalignment of this, inadequate weather protection. I don't think the ratepayers should have to pay for mistakes for defective construction technique. The cost of this plant is three times what the first preliminary estimate said it was going to be.

Q You made no analysis of PP&L's ability to recover any of these deficiencies from Bechtel, I take it?

A I don't know whether PP&L will be able to recover these deficiencies or not, but the fact remains that the customer shouldn't pay for defective construction.

Q You regard it, therefore, as irrelevant whether PP&L can recover for any of these deficiencies from Bechtel?

A That's correct. The ratepayers should only pay for that plant which could be considered used and useful. Defective construction can't be considered used and useful.

Q Doesn't your testimony indicate that a 10 percent factor is normal allowance for contingencies in any construction contract?

A I think I said -- let's see where I first mention it.

Q Say on Page 12, Line 9, "My estimate of 10 percent comes from various engineering studies I have seen which contain a cost factor of 10 percent which is listed as a contingency in case of a mistake in estimating a bid."

A That's one reason for contingency. But, yes, I have seen 10 percent as a contingency in a lot of engineering bids.

Q You are applying that 10 percent in this case to the entire cost of Susquehanna Number 1 as the basis for your deduction?

A I don't have any other basis to make my decisions on. The Company won't supply me with any numbers.

Q Since almost any construction contract would have a 10 percent contingency factor, will it be your policy hereafter to always deduct 10 percent from every claim that a company makes in a rate case?

A No.

Q Why not? They will all use a substantial part of that contingency in developing their construction, will they not?

MR. EATON: Objection. I think it is speculative what other companies may do in the future in contracts. I think we are getting a little far afield.

MR. WILMARTH: I would support that objection, Your Honor.

JUDGE KLOVEKORN: I will sustain the objection.

BY MR. YOUNG:

Q On Page 11, Line 12, you indicate that the Company has been unable and/or unwilling to provide the dollar amount of these claims, alleging that such data is not available. Have you made any analysis yourself as to the problems that would be involved in trying to develop such data?

A I'm sure it would involve a good deal of work to go back to the records and find out what the amounts are.

Q You think that such an investigation would involve and require access to Bechtel records as well?

A I'm not sure how complete PP&L's records on the plant are, but it might.

Q Do you think an adversary relationship with Bechtel at this stage of the construction contract is a desirable thing?

MR. EATON: Objection.

MR. WILMARTH: Your Honor, yes.

JUDGE KLOVEKORN: Overruled.

BY MR. YOUNG:

A Oh, it wouldn't probably help the rest of the construction of Susquehanna Unit 2.

Q Have you made any comparison between the cost of the delay versus -- that might result from that?

MR. EATON: Objection. Your Honor, I think it is entirely speculative to suggest that an interrogatory unanswered is going to result in the delay of the construction of Susquehanna Unit 2, and I think it is entirely beyond the competence of this

witness to suggest he can answer that.

MR. YOUNG: The witness was simply asked if he made any analysis of the cost of delay. That is a perfectly simple question.

MR. EATON: It suggests that there would be a delay involved.

MR. YOUNG: Is this your witness, counsel?

MR. EATON: He is testifying about things that affect the record --

MR. YOUNG: The witness just admitted that it might cause a delay in his previous answer.

JUDGE KLOVEKORN: Overrule the objection.

BY MR. YOUNG:

A I believe I remember reading the historical assessment of Susquehanna that it would cost about a million dollars a day at one point for a delay. But I didn't say there would be a delay. I said it might affect your relationship with the contractor.

MR. YOUNG: I have no other questions, Your Honor.

JUDGE KLOVEKORN: Thank you. Does counsel have questions?

MR. McCLELLAND: Yes, Your Honor, I have one question.

CROSS EXAMINATION

BY MR. McCLELLAND:

Q Mr. Gruber, have you had the chance to examine the contract between PP&L and Bechtel to see what the PP&L rights

under that contract to review Bechtel's records are?

A No, I haven't.

MR. McCLELLAND: That's all the questions I have.

JUDGE KLOVEKORN: Thank you. Mr. Eaton?

MR. EATON: I have no questions.

JUDGE KLOVEKORN: Mr. Mann?

MR. MANN: No.

JUDGE KLOVEKORN: Any redirect?

MR. WILMARTH: No, Your Honor.

JUDGE KLOVEKORN: There being no further questions, the witness may be excused. Thank you very much, sir.

(Witness excused.)

MR. WILMARTH: At this time, Your Honor, we would like to call to the stand Mr. Dennis Kalbarcyzk. Mr. Kalbarcyzk was previously sworn in this proceeding.

DENNIS M. KALBARCYZK, having been previously sworn, was recalled and examined and testified as follows:

DIRECT EXAMINATION

BY MR. WILMARTH:

Q Mr. Kalbarcyzk, you have before you copies of the documents that have been marked for purposes of identification as Statement Number 16 and Exhibit 16-A?

A Yes, I do.

Q And are you the witness responsible for the preparation of those documents?

A Yes, I am.

Q Are there any changes or corrections to either of them you may wish to note at this time?

A No, there are not.

Q If I were to ask you this morning the questions contained in Statement Number 16, would your answers be the same as the answers contained therein?

A Yes, they would.

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

A Yes, they are.

MR. WILMARTH: Your Honor, at this time I would move that Statement Number 16 and Exhibit Number 16-A be admitted into evidence in this proceeding subject, of course, to any timely motion to strike which may be made by any party.

JUDGE KLOVEKORN: Without objection, the motion is granted.

MR. WILMARTH: Mr. Kalbarcyzk is now available for cross examination.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. Kalbarcyzk, as I understand it, your training is in accounting?

A Yes, it is.

Q And that has been your principle experience with the PUC, in the area of accounting?

A Yes, it has.

Q Have you ever had any experience with the PJM interchange or its rules or regulations?

A I have reviewed and worked with some of the PJM interchange rules.

Q As I understand your testimony, you are proposing that calculation be made as to the excess capacity which PP&L has and that it be assumed or imputed to have sold that capacity and obtain the revenues from it as a credit against fuel expenses? Is that the substance of your testimony?

A That's the basis of my testimony, yes.

Q In pricing out those sales of excess generation, you have used a figure of a dollar per megawatt hour, is that correct?

A No, that's not correct.

Q Or $12, I'm sorry, $12 per megawatt hour?

A That's the price of the profit ratio, not the total selling price.

Q Your development of the revenue that is imputed to PP&L is based on the application of that $12 megawatt hour figure to the megawatt hours which you calculate are available?

A That's right. The adjustment reflects a profit ratio of $12 to the number of megawatt hours I feel went through the interchange process of sales.

Q Have you made any studies as to whether there is a

market for such sales?

A No, I have not.

Q Have you made any analysis as to whether such sales are physically possible?

A My analysis would be limited to the information that has been supplied to PP&L.

Q The $12 number that you use is derived from the Company's PJM sales, is it not?

A Yes, it is.

Q And the amount paid to the Company under those sales is based on the split saving principle, is it not?

A Let me elaborate a little more on Schedule 1 which develops the $12 per megawatt hour profit. The sales that are made for the off-system sales include two types of transactions, one that is going to the PJM transaction, which is the split savings profit, and the other the NU contract that has been negotiated which is an adjustable type profit ratio that could go as high as $20 a megawatt.

Q But you have assumed that all of those sales are made for profit, have you not?

A When PP&L sells power, it would not sell power unless it did make a profit.

Q And you are assuming that the entire revenue received from those sales is the profit?

A This is the profit ratio, that's correct. If --

Q But the profit ratio is the entire revenue received from those sales?

A No, that is incorrect. The entire revenue that would be collected would be the cost of fuel itself as well as the profit that has been assigned to this cost of fuel.

Q So the $152,300,000 does not include the cost of sales but is simply the split-saving of the portion of the sales?

A That's correct. It may be a little easier to refer to Exhibit -- PP&L Exhibit 200.182051.

Q Is that attached to your testimony?

A Yes, it is, Page 10 of Schedule 3. As I have mentioned, this information was furnished by PP&L, denotes the number of megawatt hours that are anticipated to be sold for the period ending July 30, 1983. The form is broken --

Q The schedule says 1982.

A I'm sorry, '83.

Q Pardon?

A '83. Schedule Attachment 2 is at the top.

Q Okay.

A This schedule is broken into two parts, one with the anticipated sales would be without Susquehanna and the second part of the sales with Susquehanna. As you can see, the far column on the right denotes the total profit anticipated of $152,300,000. Column C denotes the amount of revenue the Company would collect to cover their fuel costs would be

$412,500,000.

Q Now --

A Simply the total selling price then would be the combination of both Column C and the estimated profit column.

Q In this schedule, was the Company's projection as to how much could be sold on the interchange or through the Northeast Utilities contract during that year, July 31, '83?

A Can you repeat the question again, please?

Q I said the schedule derives from the Company's projection as to how much can be sold on the interchange in the year ending July 31, '83?

A This schedule represents at the time, fall, the Company's best estimate as to what the Company's sales would be as of July 31, 1983.

Q And you are imputing additional sales beyond this projected by the Company?

A That is correct. And I believe as of this date the Company has indicated that there would be some additional sales as well to the NU contract.

Q And you are projecting that those additional sales would be at the same profit as the sales that were projected as the maximum available by the Company?

A No. What I've done is the profit that would be assigned to this would be representative of the excess profit adjustment which is assigned of $12 per megawatt. As I stated,

the NU contract, the way it's written, per megawatt hour profit under the NU contract could go as high as $24.

Q But that is a relatively small part of this total, is it not, only eight million out of 152?

A The number --

Q As reflected on your Schedule 1?

A That again was the Company's estimate at that time. It is my understanding at this point that the number that PP&L anticipates to sell is considerable -- is much larger than the 990,000.

Q And if, indeed, it sells more that would impact its energy cost rate, would it not, under its existing energy cost rate?

A Under the existing if the Company could sell at a higher rate than it has obtained, the $8.3 million for 990,000, yes, that would be correct.

Q Referring to your Schedule 1, have you made any analysis as to whether increased sales to NU would cause decreased sales to the PJM?

MR. WILMARTH: I object, Your Honor. I fail to see the relevance of that question to the positions being presented by Mr. Kalbarcyzk that on the basis of the Company's excess capacity as determined by Mr. Gruber, it is appropriate in lieu of making a rate base adjustment to impute to the Company additional off-system interchange sales revenues.

MR. YOUNG: Is it the Commission's position that those should be imputed regardless of the possibility of making such sales, the ability of the system to do so or anybody's desire to buy them? If that is your position, I will discontinue my question.

MR. WILMARTH: I think that is the Commission Staff's position, Your Honor. We have not proposed a rate base adjustment to reflect excess capacity in the neighborhood of 50 percent. And on that basis we are imputing another adjustment. Certainly any representation by the Company that the sales cannot be made or it would be difficult to make them is conjecture on their part as it would be conjecture on our part to assume that they couldn't be made -- or that they could be made.

MR. YOUNG: Is the counsel's statement for the record that this adjustment is to be made regardless of the ability of that power to be sold? If that is the Commission's position, I won't press my prior question.

MR. WILMARTH: I believe that is our position, Your Honor.

MR. YOUNG: And is it also the Commission's position that the $12 profit on each kilowatt that might be sold is the profit that simply will be applied to those because that is the profit that was derived on the sales that could be made?

MR. WILMARTH: That is correct.

MR. YOUNG: Okay. I have no other questions, Your Honor.

JUDGE KLOVEKORN: Any other counsel have any questions

of the witness?

MR. POPOWSKY: We have no questions, Your Honor.

JUDGE KLOVEKORN: Proceed.

CROSS EXAMINATION

BY MR. EATON:

Q Mr. Kalbarcyzk, the word profit has been used a great deal in the cross examination in dealing with sales to PJM. There certainly are revenues from these sales, is that correct?

A That's correct.

Q Now, if sales to PJM are profitable, would it not be in the best interest of PP&L and of the customers to build substantially additional capacity merely for sales to PJM?

A It would be my opinion that it would not.

Q If profit is the right word to use with regard to these sales, why would it not be beneficial to build additional capacity merely to sell to PJM?

A As I have mentioned in my testimony, the philosophy -- or my philosophy of a profit that is made on off-system sales is to compensate the customer for the rate of return that he is paid on plant that is not being used by that customer. So in an effort for the Company to reduce the cost that the customer is paying for the plant that is not being utilized, it in turn sells power on the off-system sales to assist the customer with the costs they are paying as a rate of return.

Q So the costs which are included do not include any

capital costs for that plant, is that correct?

A No, they don't. The method for determining the profit is -- use only one method of adding on a dollar value to recoup some additional revenue to be used against offsetting the rate of return.

Q From an accounting point of view, wouldn't it be more reasonable to refer to the monies coming from PJM sales simply as revenues rather than suggesting that PJM sales are profitable?

A I don't believe that I would like to make a decision as far as an accounting term because it certainly is a management decision as to how the revenue -- how the calculations or the charges for the profit are to be made. The revenues certainly would be accounted for as a profit over and above the cost it is being sold at.

Q Under normal accounting principles, isn't it appropriate to assign some of the costs of production of whatever is being sold in determining whether or not it is profitable?

A Yes.

Q And am I correct then that with regard to PJM sales, the costs of producing that as far as capital costs are not included when determining what you have referred to as profit?

A That's correct.

MR. EATON: No further questions.

JUDGE KLOVEKORN: Any redirect?

MR. WILMARTH: May we have a moment with our witness,

Your Honor?

(Whereupon a brief recess was held.)

JUDGE KLOVEKORN: Back on the record.

MR. WILMARTH: Your Honor, we have just three short questions, hopefully to clarify what will be the testimony of our following witness.

REDIRECT EXAMINATION

BY MR. WILMARTH:

Q Mr. Kalbarcyzk, are you aware of the testimony that has been identified this morning and will be presented shortly from Dr. James Giordano offering alternative excess capacity adjustments?

A Yes, I am.

Q And am I not correct that the position you've presented is the position that is being advocated by Prosecutory Staff in this proceeding?

A Yes, it is.

Q And can you explain the basis for that position in lieu of the alternatives that are presented by Dr. Giordano?

A Yes. The basis of my position for the adjustment that I am making would allow the Company or gives the Company the incentive to sell power through the off-system sales, and any profit that they would make above the level of 200 -- I will get the exact number.

MR. YOUNG: Your Honor, I object to the testimony. I

think the witness has already said that he does not care whether the Company can sell the power or not and, therefore, whether there is any incentive or not is pretty irrelevant.

MR. WILMARTH: First, Your Honor, the objection it seems to me should be to my question. It was not raised at that time. I am simply getting Mr. Kalbarcyzk to explain the basis of why the Staff has advocated excess capacity adjustment affecting revenues in lieu of rate base.

MR. YOUNG: I thought he was simply going to confirm what you said yourself so you would have it from the witness. If he is going to take off on a new thesis that this provides some new incentive which you don't really care about, I object.

MR. WILMARTH: I don't believe there is any new thesis in what he is going to testify to. Perhaps if you let him proceed --

MR. YOUNG: I think all he can testify is that you are making this adjustment regardless of whether the sales can be made or not. And, therefore, it is irrelevant whether there is any incentive and I do not want him testifying about incentive because he has removed that from his testimony.

MR. WILMARTH: I don't think he has, Your Honor.

JUDGE KLOVEKORN: I question myself whether or not it is appropriate on redirect. I think it is --

MR. WILMARTH: We will withdraw the question.

JUDGE KLOVEKORN: Thank you.

MR. YOUNG: I have no other questions.

JUDGE KLOVEKORN: The witness is excused. Thank you very much, sir.

(Witness excused.)

MR. WILMARTH: Your Honor, we'd like to call at this time Dr. James N. Giordano. Dr. Giordano has been previously sworn in this proceeding.

Your Honor, I would ask by way of housekeeping that Statement 16 and Exhibit 16-A entered into the record this morning be marked with today's date.

JUDGE KLOVEKORN: Okay.

JAMES N. GIORDANO, having been previously sworn, was recalled and examined and testified as follows:

DIRECT EXAMINATION

BY MR. WILMARTH:

Q Dr. Giordano, you have before you a copy of the document that has been marked for purposes of identification this morning as Staff's Statement Number 17?

A Yes, I have.

Q Are you the witness responsible for the preparation of that statement?

A Yes.

Q Are there any changes or corrections you wish to note thereto this morning?

A No, I haven't.

Q If I were to ask you the questions contained in Statement Number 17, would your answers this morning be the same as the answers contained therein?

A Yes.

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

A Yes, they are.

MR. WILMARTH: Your Honor, at this time I would ask that Staff Statement Number 17 be marked with today's date, 4/13/83, and I move its admission into evidence in this proceeding subject to any timely motion to strike which may be made by any party.

MR. YOUNG: Your Honor, before you respond to that, I would like some statement as to who is sponsoring this witness. My understanding is that from the last question directed to the last witness that he sets forth the Staff's position in this case. And, therefore, I am not quite clear what this witness is doing since I understood the last witness to say they were disallowing the position of this witness.

MR. WILMARTH: Your Honor, counsel for the Company understands very clearly Staff's position, that is that the excess capacity adjustment should be made through the methodology that has been proposed by Witness Kalbarcyzk. Prosecutory Staff, however, in this proceeding has a statutory obligation to assist in the development of a full and complete record in this proceeding.

PP&L at this time is proposing the addition of Susquehanna Unit 1 which will take the Company's excess capacity up to the neighborhood of 50 percent. Next year, 1984, we expect a claim that will suggest the excess capacity number of almost 70 percent with the addition of Unit 2, et cetera.

MR. YOUNG: Are you testifying, counsel?

MR. WILMARTH: Excuse me, Your Honor, may I please complete my statement?

It is our position that we have a responsibility to develop this record fully and to apprise the Commission not only of our position regarding appropriate adjustment here but also with regard to other alternatives that may be available to them in dealing with what we feel to be an extremely important issue.

MR. YOUNG: Is this an alternate Staff proposal then? I mean either you are proposing it or you are not. If you are not proposing it, I do not know if there is any rule that you can just throw testimony into the record because it happens to appeal to you.

MR. WILMARTH: I have explained my position, Your Honor. I think it is entirely appropriate that the Commission have this record developed by the inclusion of this, what is effectively -- what is essentially the position that was developed in the State of Iowa.

JUDGE KLOVEKORN: I am a bit perplexed. I have been

faced with this situation before. You are presenting it for the Commission's consideration but you are not endorsing it, is that correct?

MR. WILMARTH: That's right, Your Honor. We are endorsing the position that has been presented by a prior witness. There are -- however, Your Honor, because there are a number of ways to approach this excess capacity problem and because it does represent a significant problem, we feel it is appropriate to develop the record in this fashion.

JUDGE KLOVEKORN: Do you have any further comments, Mr. Young?

MR. YOUNG: I simply was trying to find out why we were getting this in the record, Your Honor. If it is an alternate position of the Commission, I suppose they are entitled to submit all their positions. If it is not an alternate position of the Commission Staff, then I don't quite understand what it is there for.

MR. WILMARTH: I think obviously it could be construed as an alternative position.

JUDGE KLOVEKORN: I believe the witness himself construes it as such on Line 17, Page 1.

MR. WILMARTH: To the extent I have indicated that Staff would not endorse these positions if the Commission rejected our main position, I am in error, Your Honor.

JUDGE KLOVEKORN: We are always happy to see that being

in error. Let's proceed. And Mr. Wilmarth's motion can be granted.

MR. YOUNG: I have no cross examination, Your Honor.

JUDGE KLOVEKORN: Does other counsel?

MR. POPOWSKY: I have a question.

CROSS EXAMINATION

BY MR. POPOWSKY:

Q Dr. Giordano, you present two -- actually two alternative Staff positions in this testimony, is that correct?

A Well, what I'm presenting is two alternative ways of making the adjustment based on -- based upon what was done in Iowa. And the first method involves making a final adjustment with a ratio of excess capacity to annual peak load is multiplied by the total dollar adjustment which represents return on equity on the excess capacity adjustment.

And making that final multiplication really sort of emasculates the adjustment that is imposed on stockholders. To eliminate that final multiplication is to impose on stockholders the responsibility of having to forego all of their return on -- on the investment in excess capacity but still allow for a division of those dollars between ratepayers and stockholders.

Q So then the second alternative which you present does only disallow, however, the equity return on the excess capacity, is that correct?

A That is correct.

Q And the first alternative, which is the one which was utilized by the Iowa Commission, reduces that adjustment fairly significantly by multiplying the original adjustment by a factor which is called excess capacity over annual peak load?

A Yes, that is true.

Q But the Commission, as I understand it, in Iowa had already determined -- had already multiplied the net investment and the cost of equity by the excess capacity over the total generating capacity, is that correct?

A Yes.

Q And do you happen to know why the Commission went on to multiply what was already an excess capacity adjustment further? That is when I say multiply, multiply by a fraction which consisted of excess capacity over annual peak load.

A No, I really can't -- I can't say what they had in mind when they made that final multiplication. All I can say is that it reduces the penalty significantly. I can understand its effect, but I really can't say why that final adjustment was made.

MR. POPOWSKY: That's all the questions I have.

JUDGE KLOVEKORN: Any other party have questions?

MR. WILMARTH: I have one question.

JUDGE KLOVEKORN: Proceed.

REDIRECT EXAMINATION

BY MR. WILMARTH:

Q Dr. Giordano, the alternate that you propose on Page 4 is not the procedure that was used by the Iowa Commission, that's your own?

A That is my own variation of what was done in Iowa.

MR. WILMARTH: I have no other questions.

JUDGE KLOVEKORN: There being no further questions for the witness, he may be excused. Thank you very much, sir.

(Witness excused.)

MR. WILMARTH: Your Honor, we have agreed at this time to allow Mr. Eaton to present His witnesses.

MR. YOUNG: Your Honor, I would just like to proceed with the Commission's witnesses. I don't think this is an appropriate time to shift over to the other party. We have relatively little of Messrs. Jones and Crawford and none of Mr. O'Donnell. So I would just as soon get them on and get them done.

JUDGE KLOVEKORN: At this point really being 10:55 I don't think it is a great problem, especially with the PP&L assurance that it has little questions of the Commission Staff witnesses.

MR. WILMARTH: At this time we would like to call our next witness, Mr. L. B. Jones. Mr. Jones has been previously sworn, Your Honor.

L. B. JONES, having been previously sworn, was recalled and examined and testified as follows:

DIRECT EXAMINATION

BY MR. WILMARTH:

Q Mr. Jones, do you have before you copies of documents that we have marked for purposes of identification as Statement Number 14 and Exhibit 14-A?

A Yes, I do.

Q And are you the witness responsible for the preparation of those exhibits -- for that exhibit and statement?

A Yes, I am.

Q Are there any changes or corrections you wish to note for either document at this time?

A No.

Q If I were to ask you today the questions contained in Statement Number 14, would your answers be the same as the answers contained therein?

A Yes, they would.

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

A Yes, they are.

MR. WILMARTH: Your Honor, at this time I would ask that Statement Number 14 and Exhibit 14-A be marked with today's date, April 13, 1983, and I move their admission into the record as evidence in this proceeding subject to any timely motion to strike which may be made by any party.

JUDGE KLOVEKORN: Without objection, the motion may be

granted.

MR. WILMARTH: Mr. Jones is now available for cross examination.

JUDGE KLOVEKORN: Proceed.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. Jones, as I understand, you propose a two year amortization of 467,000 which you are adjusting, is that correct?

A That's correct. I might add something to that. The amount of expenses that the Company has claimed in the future test year is $934,000, and my proposed adjustment would amortize it over two years which would -- which would allow the Company $467,000 for the test year.

Q And your basis for regarding this as nonrecurring is simply the testimony of Mr. Kenyon as it is quoted on Page 2 of your testimony?

A Essentially that is my basis.

Q And you are aware that the Company has deferred collecting on any sort of amortized basis the other costs of the first refueling outage expense amounting to approximately $9 million?

A Would you repeat that question, please?

Q None of the other first refueling outage expenses which have been estimated in this proceeding to be approximately

$9 million have been claimed by the Company in this proceeding, isn't that correct?

Are you aware of that?

A Are you talking about the window deferral?

Q No, I'm talking about the costs of the first refueling of Susquehanna 1. It is not your understanding that those costs only amount to $934,000?

A That's correct. There would be additional costs over and above that.

Q And there is testimony in the record that they amount to approximately $9 million, is that correct? Are you aware of that?

A I'm --

MR. WILMARTH: We can accept that subject to check, Your Honor.

BY MR. YOUNG:

Q And you made no provision for the amortization of that $9 million, I take it, in your allowance here?

A That's correct. My -- my adjustment strictly addresses the $934,000 as I've outlined on Pages 1 and 2 of my direct testimony.

MR. YOUNG: I have no other questions.

JUDGE KLOVEKORN: Thank you. Any other party have questions of Mr. Jones?

Any redirect?

MR. WILMARTH: No, sir.

JUDGE KLOVEKORN: There being no further questions, Mr. Jones may be excused. Thank you very much, sir.

(Witness excused.)

MR. WILMARTH: I'd like to call to the stand at this time Mr. A. R. O'Donnell, also previously sworn.

A. R. O'DONNELL, having been previously sworn, was recalled and examined and testified as follows:

DIRECT EXAMINATION

BY MR. WILMARTH:

Q Mr. O'Donnell, do you have before you copies of documents marked for purpose of identification as Statement Number 15 and Exhibit 15-A?

A Yes, I do.

Q Again I would note that Statement Number 15 was incorrectly identified as Exhibit Number 15 on the cover of the statement.

Are you the witness responsible for preparation of Statement Number 15 and Exhibit 15-A?

A Yes, I am.

Q Are there any changes or corrections to either document you wish to note at this time?

A No.

Q If I were to ask you this morning the questions contained in Statement Number 15, would your answers be the same

as the answers contained therein?

A Yes.

Q Are those answers true and correct to the best of your knowledge, information and belief?

A Yes.

MR. WILMARTH: Your Honor, at this time I would ask the documents be marked with today's date and move for their admission into the record as evidence in this proceeding subject to any timely motion to strike which may be made by any party.

JUDGE KLOVEKORN: Without objection, they may be admitted.

MR. WILMARTH: Mr. O'Donnell is now available for cross examination, Your Honor.

MR. YOUNG: We have no cross, Your Honor.

JUDGE KLOVEKORN: Does any party have any questions of Mr. O'Donnell?

MR. POPOWSKY: No, Your Honor.

JUDGE KLOVEKORN: The witness is excused. Thank you very much, sir.

(Witness excused.)

MR. WILMARTH: As our last witness today, Your Honor, we would like to call to the stand at this time Mr. John T. Crawford. Mr. Crawford has not been previously sworn.

JOHN T. CRAWFORD, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. WILMARTH:

Q Mr. Crawford, do you have before you copies of documents that have been identified this morning as Statement Number 10 and Exhibit 10-A?

A Yes, I do.

Q Are you the witness responsible for the preparation of those documents?

A I am.

Q Are there any changes or corrections to either that you wish to note at this time?

A No, sir.

Q If I were to ask you the questions contained in Statement Number 10, would your answers this morning be the same as the answers contained therein?

A Yes, they would.

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

A Yes, they are.

MR. WILMARTH: Your Honor, I would ask that the documents be marked with today's date, April 13. I move for their admission into evidence subject, of course, to any timely motion to strike that may be made by any party.

JUDGE KLOVEKORN: Without objection, motion may be granted.

MR. WILMARTH: Mr. Crawford is now available for cross

examination.

JUDGE KLOVEKORN: Mr. Young.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. Crawford, you indicate that from 1972 to 1980 Respondent was recovering through base rates an annual forced outage allowance which was credited to the forced outage reserve. Are you aware that the Company had been accumulating such a reserve prior to 1972?

A Yes, sir, I am aware of that.

Q And are you aware that the balance as of 1972 when it first became a matter of base rate allowance was $3,709,000?

A Yes, sir.

Q And that amount that had been reserved as of that date was charged to stockholders in effect or at least it was not charged to customers through base rates, wasn't it?

A Is that a conclusion from me?

Q I am asking you if it was charged to customers in base rates?

A It was not charged in base rate.

Q Or collected from customers in any other way other than as part of the total revenues --

A Well, it was collected from revenues in those total revenues, yes, it was.

Q But it was never allowed as an expense for rate

purposes prior to 1972?

A Not as a specific item.

Q Have you made any calculation as to whether that $3,709,000 might represent part of the current remaining balance in that account of $5,194,000?

A To the best of my knowledge, reserve balances aren't accounted for on a dollar per dollar item.

Q So that it is quite possible that 3.7 million of the 5 million balance may reflect that which was collected prior to 1972?

A The time of collection could not be determined either way.

Q Have you made any analysis of the Company's earnings in the period 1972 to 1980 to ascertain whether the Company, in fact, collected this expense allowance?

A I'm somewhat familiar with the figures for those years, yes.

Q And does that familiarity establish in your mind that, indeed, the Company collected this expense plus a full fair return on its rate base throughout each year?

A They did not collect their allowed rate of return in each of those years. I won't make a judgment whether it is fair or whatever. It's very common for utilities not to collect their total allowed rate of return.

Q And part of the reason for not collecting the fully

allowed rate of return would be increases in other expenses that occurred during these years for which no allowance was made, is it not?

A That could be one of many reasons causing such a deficiency.

Q It is not common Commission practice to adjust in future years for expenses that utilities fail to collect, is it?

A No, it's not.

Q Nonetheless, you don't regard the adjustment proposed by you as retroactive ratemaking?

A It's not retroactive ratemaking. No, I don't consider it that.

MR. YOUNG: No other questions.

JUDGE KLOVEKORN: Thank you. Any other party have questions of the witness?

Any redirect?

There being no further questions, Mr. Crawford, you are excused. Thank you very much, sir.

(Witness excused.)

MR. WILMARTH: Your Honor, I believe that completes our case in chief.

JUDGE KLOVEKORN: Thank you. Take a five minute recess.

(Whereupon a brief recess was held.)

JUDGE KLOVEKORN: Let's go back on the record. Proceed.

MR. EATON: Your Honor, we have provided the recorder

with copies of two statements, one of Stephen Siwek which I have marked MI Statement Number 2, and one of Charles W. King which I have marked MI Statement Number 3, and ask that they be so identified.

JUDGE KLOVEKORN: Without objection, they may be so identified.

(MI Statement No. 2, a 23-page document entitled Testimony of Stephen E. Siwek, was produced and marked for identification.)

(MI Statement No. 3, a nine-page document entitled Supplemental Testimony of Charles W. King, was produced and marked for identification.)

MR. EATON: I do not believe Mr. Siwek has been sworn.

STEPHEN E. SIWEK, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. EATON:

Q Would you state your name for the record, please.

A Yes, my name is Stephen E. Siwek.

Q Mr. Siwek, you have before you a document which is marked MI Statement 2, and I ask if that is a statement which you have prepared?

A Yes, it is.

Q Are the statements contained therein true and correct to the best of your knowledge, information and belief?

A Yes, they are.

MR. EATON: The witness is ready for examination, Your

Honor.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. Siwek, referring to Page 1 of your testimony, what was the year in which you obtained your Bachelor of Arts from Boston College?

A 1973.

Q And the year in which you obtained your MBA from GW?

A 1975.

Q And when did you go to work for Snavely, King & Associates, Inc.?

A Upon graduation from GWU.

Q That would be in 1975?

A Yes.

Q And so your entire business experience has been with that organization?

A No, I wouldn't say that. I had a number of summer jobs of various types throughout my educational career.

Q But since your graduation from GW with an MBA, your entire business experience has been with Snavely, King & Associates?

A Yes.

Q You indicate at the bottom of that page that you have testified in electric and gas proceedings and that in these cases you have represented state consumer agencies, industrial

groups and the Department of Defense?

A That's correct.

Q And that 18 of those occasions involved electric and gas. How many involved electric?

A Most of them I would say, 15 or 16. I provided a list to Mr. McGregor in your firm.

Q Yes, I have --

MR. EATON: Mr. Siwek, could you speak into the microphone.

BY MR. YOUNG:

Q I have a copy of that list, and the first eight items on the list, all of which appear to be in Maryland or the District of Columbia are headed -- with one exception which is New Jersey, I guess -- all are headed utility forecasting. What does that phrase mean? What was the actual subject of your testimony in those proceedings?

A Well, generally, if I can recall, the subject would involve the projection of electric demand and energy growth and the responses to that growth which utilities might or might not have been considering.

Q And were a number of these proceedings involving Potomac Electric Power Company?

A Yes.

Q Could you identify which?

A I don't have the list in front of me. I would attempt

to --

Q I am sorry, here.

A Several of the cases you will see phase one and phase two were generic cases in which all generating companies of Maryland were considered. In addition, the District of Columbia Case 685 would be a PEPCO case as would Columbia Case 737. I can't recall which other cases in Maryland were specific to PEPCO. I could provide that information for you.

Q What other companies have you appeared in opposition to in Maryland besides PEPCO?

A Baltimore Gas and Electric, Delmarva Power and Light Company and Potomac Edison Company.

Q Your list also contains one reference to Illinois in which it indicates that you were involved in rate base expenses and forecasting. Was that forecasting also the projection of demands in energy growth?

A Yes. That was Iowa-Illinois Gas and Electric.

Q Would it be fair, Mr. Siwek, to summarize this list of testimonies you have prepared by indicating that eight of them in Maryland -- that we have just referred to in Maryland, D.C. and New Jersey and one in Illinois are the only ones that involve utility forecasting for electric companies, that is?

A Well, you've crossed off several of the cases where forecasting was considered as part of my overall testimony. For example, I notice you have crossed out the Maryland Case

7222 which was a construction certificate case involving Delmarva Power and Light. And in that case, the issue of forecasting was very central to the company's calculations of costs and benefits associated with the Vienna 9 generating plant, which is a very similar situation to what we have here.

Q But is that the subject of your testimony? You listed here that your testimony related to plant construction and certificate issues.

A Yes. And one of the certificate issues in the State of Maryland is the need for power which was the subject of my testimony there. In addition, you've crossed out the Pennsylvania complaint case, energy costs and rate design, which I testified in connection with PP&L's ACR rate about a year ago before this Commission. And in that case, one of the subjects of my testimony was the Company's forecast. So with those two exceptions, I think what you said is generally true.

Q Thank you.

MR. EATON: Your Honor, may I ask that inasmuch as Mr. Young is questioning on a specific document, that it be marked and be identified for the moment?

MR. YOUNG: You have it. I don't. I have one that I just marked up. I mean if you want to present further qualifications of the witness by producing this, you are welcome to do so.

MR. EATON: You are questioning on that specific

document.

BY MR. YOUNG:

Q Mr. Siwek, on your testimony at the bottom of Page 11 you say that, "Despite Mr. Koppe's estimates, however, Mr. Hecht's exhibit apparently assumes a 60 percent capacity factor for each year over the life of Susquehanna's." Is that correct?

A Well, you'll see there's a footnote at the end of that sentence, Transcript Page 1380. And on that page, Mr. Hecht says, and I quote, "We have assumed 60 percent over the entire life of the study." And there he was making reference to the lower capacity factor scenario presented in his exhibit. So I took his statement on the record to be an explanation of that exhibit.

Q You made no examination of Mr. Hecht's Exhibit 3 at Schedules 10 and 11 then?

A Yes, I examined that as well. I assumed Mr. Hecht was clarifying that exhibit in his statement on the record.

Q Don't those exhibits make it clear that, in fact, the Company used substantially less than 60 percent in the first four years of Susquehanna's operation?

A No.

Q Pardon?

A No.

Q I show you Figure 10, Mr. Siwek. In Figure 10 it

says -- and this is the Company's base case -- 70 percent after initial four year period during which time availability expected to average about 60 percent?

A Yes.

Q Is that not correct?

And then I show you Figure 11 which is the 60 percent case to which you are referring, and it says capacity factors reduced by 10 percentile from the base case in each year, does it not?

A Mr. Hecht explained that it was assumed to be 60 percent over the entire life of the study, so I assume that Mr. Hecht better than I knows what his exhibit says.

Q That is the way you understood his testimony?

A Yes.

Q But, indeed, this figure shows that 10 percent off of 60 would be 54 in the first four years, does it not?

A It doesn't say that.

Q It says in a footnote that capacities are reduced 10 percentile from base case each year, and the prior schedule says that the first four years are an average of 60 percent, does it not?

MR. EATON: Your Honor, the witness has answered the question.

MR. YOUNG: I think he can answer the question that has been asked. He says it doesn't say that.

BY MR. YOUNG:

Q That is what it says, does it not?

A I didn't say 54 percent which was assumed in your question. It does say --

Q Ten percent off of 60.

MR. YOUNG: Your Honor, I have no other questions of this witness.

JUDGE KLOVEKORN: Thank you. Any other party have any questions of the witness?

No further questions of the witness, the witness may be excused. Thank you very much, sir.

MR. EATON: May I have just one redirect on the record please, sir.

(MI Exhibit Number 3, a one-page document, was produced and marked for identification.)

REDIRECT EXAMINATION

BY MR. EATON:

Q Mr. Siwek, I show you what has been marked as Exhibit MI 3.

A Yes.

Q I ask you, is that the document about which Mr. Young was questioning you at the beginning of your testimony relating to proceedings in which you have previously testified?

A Yes, except he had crossed out a number of the subject areas of the cases shown on the page.

MR. EATON: I have no further questions.

(Witness excused.)

CHARLES W. KING, having been previously sworn, was recalled and examined and testified as follows:

DIRECT EXAMINATION

BY MR. EATON:

Q Will you state your name for the record, please.

A My name is Charles W. King.

Q Mr. King, you have been previously sworn in this proceeding?

A Yes, I have.

Q Mr. King, before you is a document marked Statement MI 3 and ask if that statement was prepared by you for this proceeding?

A Yes, it was.

Q Are the statements you have made in there correct to the best of your knowledge, information and belief?

A Yes, but I do have one correction. On Page 5 at Line 18 appears the number $1,499.8 million. That number should be $1,190.2. With that exception, the statement is correct.

MR. EATON: The witness is available for cross examination.

JUDGE KLOVEKORN: Mr. Young.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. King, staying with that page for the moment, it is my understanding that this deduction from rate base which you have proposed would, nonetheless, continue to accrue AFUDC, is that your proposal?

A It probably shouldn't be characterized as a deduction from rate base because it is treated slightly differently. It is permitted to accrue full depreciation notwithstanding that it does not earn a cash return. Furthermore, it continues to accrue AFUDC. It was this rather peculiar characteristic of accruing both depreciation and AFUDC that lead me to suggest that we might want to designate this as a different category of investment which I have labeled allowance for plant held for future benefits.

Q Are you aware of any regulatory jurisdiction in which this type of handling of a new investment has ever been approved?

A I'm not aware of any regulatory jurisdiction which has been confronted with this kind of new investment and the various situations that surround it. So the answer is no.

Q Referring back to Page 4 of your testimony, you say on Line 20, "The company asserts that it requires an after-tax return on investment of 12.71 percent." Where is that derived?

A You will find that on Exhibit Fortune 1, Sheet B-9 sponsored by Mr. Fortune.

Q Referring to that Schedule B-9 in Fortune 1, am I not

correct that 5.45 percent of the total of 12.71 is related to long-term debt?

A That's correct.

Q And that long-term debt is deductible for Federal income tax purposes, is it not?

A That's correct.

MR. YOUNG: I have no other questions of this witness.

JUDGE KLOVEKORN: Any other party have questions? Mr. Popowsky.

CROSS EXAMINATION

BY MR. POPOWSKY:

Q In reference, Mr. King, to the 12.71 as it relates to the 19.90 percent on Page 4 of your testimony, am I correct that the 19.90 percent is the return on investment which ratepayers would actually pay in that they also have to pay the taxes on the equity return?

A Yes, that is a pretax rate of return.

MR. POPOWSKY: That's all the questions I have.

JUDGE KLOVEKORN: Thank you. Any redirect?

MR. EATON: No redirect.

JUDGE KLOVEKORN: There being no further questions, Mr. King is excused. Thank you very much, sir.

(Witness excused.)

MR. EATON: Your Honor, I would like to move the admission of MI Statements 1 through 3 and MI Exhibits 1, 2, 3.

JUDGE KLOVEKORN: Without objection, they will be received into evidence. Let's go off the record.

(Whereupon a discussion was held off the record.)

JUDGE KLOVEKORN: Let's go back on the record. Mr. Popowsky.

MR. POPOWSKY: Your Honor, we would like to identify for the record several additional interrogatories and informal data requests, all of which have PP&L identifying numbers, but we'd like to identify for the record at this time. They have been grouped by us in several groups, but I will just read them consecutively as I have them here and then Mr. McClelland has an additional list.

We'd like to identify PP&L Exhibits 200.282030, 200.282055, 200.282218, 200.282235, 200.282071, 200.282081, 200.282088, 200.582014, 175.282005, 175.282006, 175.282008, 175.282009, 175.282012, 175.282015, 175.282023, 175.282027, 175.282028, 175.282030, 175.282032, and 175.582001.

MR. McCLELLAND: I have a few other numbers. Let me give them, 175.282014, 175.282018, 175.282019, 175.282020, 175.282021, 200.282130, 200.282131, 200.282136, 200.282137, 200.282142, 200.282144, 200.282145, 200.282146, 200.282148, 200.282150, 200.282152.

JUDGE KLOVEKORN: Without objection, they may be so identified.

(PP&L Response to Interrogatories of OCA Number 200.282030

was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282055 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282218 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282235 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282071 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282081 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282088 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.582014 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282005 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282006 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282008 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282009 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282012 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282015 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282023

was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282027 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282028 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282030 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282032 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.582001 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282014 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282018 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282019 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282020 was produced and marked for identification as an OCA exhibit.)

(PP&L Informal Data Request of OCA Number 175.282021 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282130 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282131 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282136 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282137 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282142 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282144 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282145 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282146 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282148 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282150 was produced and marked for identification as an OCA exhibit.)

(PP&L Response to Interrogatories of OCA Number 200.282152 was produced and marked for identification as an OCA exhibit.)

MR. MANN: Your Honor, I have one final Informal Data Request I would like to have identified for the record, PP&L Exhibit Number 175.582003.

JUDGE KLOVEKORN: Without objection, it may be so identified.

(PP&L Informal Data Request of Susquehanna Alliance Number 175.582003 was produced and marked for identification as a Susquehanna Alliance exhibit.)

JUDGE KLOVEKORN: Do we have any other matters to transact this morning?

If not, this hearing is then adjourned. The next meeting is in Harrisburg, April 18 at 10:00 o'clock.

(Whereupon the hearing was concluded at 11:45 a.m.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me during the hearing of the within cause, and that this is a true and correct transcript of the same.

Debra O. McHale

DEBRA O. McHALE
Registered Professional Reporter

HOLBERT ASSOCIATES
1001 North Second Street
Harrisburg, PA 17102

The foregoing certification of this transcript does not apply to any reproduction of the same by any means unless under the direct control and/or supervision of the certifying reporter.

Staff Statement No. 10
Witness: John T. Crawford
Date: 4/13/83
DOM
R-822169
Harrisburg.

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Public Utility Commission

PENNSYLVANIA POWER AND LIGHT COMPANY

Docket No. R-822169

DOCUMENT FOLDER

Direct Testimony

of

John T. Crawford

DOCKETED
APR 19 1983

Concerning: Forced Outage Reserve Credits
to The Energy Cost Rate

Q. Please state your name and business address.

A. My name is John T. Crawford and my business address is Room 203, North Office Building, Harrisburg, Pennsylvania 17120.

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

A. I am certified public accountant and an audit manager for the Bureau of Audits, Pennsylvania Public Utility Commission.

Q. Briefly describe your professional and educational background.

A. I graduated Magna Cum Laude from Peirce Junior College with an Associate of Science degree in Accounting in June 1972. I graduated Saint Joseph's University with a Bachelor of Science degree in Accounting in January 1975.

I became a certified public accountant in 1977 and worked for the Federal Bureau of Investigation as a Special Agent until 1978.

I served the Public Utility Commission from 1978 until the present as a senior auditor, audit supervisor and audit manager. I have provided testimony before the Commission in other proceedings similar to the instant case. I am a member of the American and Pennsylvania Institutes of Certified Public Accountants. I have served on the Pennsylvania Institutes' local chapter committees on Public Information and Relations with Secondary Schools.

Q. What is the purpose of your testimony in this proceeding?

A. To address Respondent's failure to credit $5,194,510 of Forced Outage Reserve credits to the cost of energy recovered from customers.

From 1972 to 1980, Respondent was recovering through base rates an annual forced outage allowance which was credited to a Forced Outage Reserve; since 1978, the recovery of forced outage replacement power expense has been permitted through the automatic adjustment clause (in 1978 called the Energy Clause - currently the Energy Cost Rate). During the course of Respondent's annual "1307(d) Audit" for 1981 (performed under my direct supervision), my attention was drawn to a February 1981 journal entry charging the Forced Outage Reserve and crediting Accumulated Deferred Income Taxes and Miscellaneous Nonoperating Income. The consequence of this transaction was that the balance then remaining in the reserve account was not passed through to customers but was retained by stockholders

Q. What accounting treatment do you consider should have been given to the transaction?

A. The $5,194,510 charge to the reserve should have been accompanied by a $5,194,510 credit to the cost of fuel. This would have the effect of returning the funds to the customers through the automatic adjustment clause mechanism.

Q. What justification do you have for recommending this particular accounting treatment?

A. Obviously, if forced outage expenses are recovered through the automatic adjustment clause, Respondent would not require the reserve. This makes necessary some mechanism to eliminate the double collection. As implied by the Company's June 9, 1980 letter

to the Commission, submitted as my Exh. 10-A, the mechanism originally elected by Respondent for the return of such reserve balance was to credit the automatic adjustment clause fuel cost account and charge the reserve.

Q. Do you agree with this accounting treatment as initially proposed by Respondent?

A. Yes.

Q. Did Respondent follow this accounting treatment when eliminating the reserve?

A. No. Instead, as I noted above, the credit was to Accumulated Deferred Income Taxes and Miscellaneous Nonoperating Income and thus given to the Company's shareholders.

Q. What is the issue here?

A. The issue is whether the $5,194,510 should be returned to ratepayers through the normal operation of the ECR as initially proposed by the Company or retained by stockholders. Respondent did not follow the appropriate accounting treatment when the reserve was eliminated.

Q. Do you believe the $5,194,510 should be returned to ratepayers?

A. Yes, via in appropriate credit to the fuel cost account.

Q. Does this conclude your direct testimony?

A. Yes.

Witness: John T. Crawford
Date: 4/13/83
DOM
R-822169
HARRISBURG

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Public Utility Commission

PENNSYLVANIA POWER AND LIGHT COMPANY

Docket No. R-822169

DOCKETED
APR 18 1983

Exhibit to Accompany the

Direct Testimony

of

John T. Crawford

Concerning: Forced Outage Reserve Credits
to The Energy Cost Rate

ROBERT K. CAMPBELL
President
821-5947

HAND DELIVERED

June 9, 1980

The Honorable Susan M. Shanaman, Chairman
The Honorable Michael Johnson, Commissioner
The Honorable James H. Cawley, Commissioner
The Honorable Linda C. Taliaferro, Commissioner
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pennsylvania 17120

Dear Commissioners:

One of Pennsylvania Power & Light Company's coal-fired generating units --- Sunbury Unit No. 3 --- will be out of service for the next 5 to 11 months as a result of cracking in the low pressure turbine rotor. This was discovered during the unit's recent scheduled outage in May. The peak capacity rating of the unit is 103 MW.

Early signs of distress in the rotor were detected during the unit's scheduled outage in 1979. At that time, after consultation with the manufacturer, the Company ordered a replacement rotor from the Westinghouse Electric Corporation. Even though it was ordered with an accelerated delivery date, it still takes at least 18 months to manufacture this customized part. It is scheduled for delivery in March, 1981. If the replacement is delivered in March, we estimate that the unit would be back in operation during April, 1981.

We are taking the following steps to try to get the Sunbury unit back in service as quickly as possible.

- Meetings with Westinghouse to determine if we can get the replacement rotor before March, 1981.
- Canvassing other utilities in the country with similar units to determine whether they have a suitable spare rotor which they would be willing to sell.
- Determining the feasibility of whether the rotor can be temporarily repaired.

Notwithstanding this, it now appears that unless we can temporarily repair the unit --- a remote possibility which could put it back in operation in October, 1980 --- the earliest Sunbury Unit No. 3 will be back in service is January, 1981. The latest should be April, 1981.

Even though under normal circumstances the unavailability of this coal-fired unit could have a dramatic impact on our customers' energy charges, fortunately in this instance the impact should not be significant. The reason for this is a self-insurance reserve which the Company established in 1968 to protect against major forced outages such as this. I have been advised that only a handful of utilities in the country have such a reserve. There is attached a memo explaining the history and the mechanics of this reserve.

The Pennsylvania Public Utility Commission first approved this reserve for PP&L --- which is reflected in base rates --- in its Order dated March 28, 1972 at Docket No. C.19244. In October, 1978 when PP&L converted to an energy clause, PP&L proposed, and the Commission accepted, that after the first million dollars amounts equal to such charges to the reserve be credited to energy costs recoverable under the energy clause.

As of December, 1979 there was approximately $10 million in this reserve. There would have been approximately $12 million in the reserve by the end of 1980 if there had been no major forced outages this year. In accordance with established practice, the Company intends to charge this reserve (after the first million dollars) with the increased energy costs which will be experienced as a result of the unavailability of Sunbury Unit No. 3. ~~At the same time, amounts~~ equal to such charges to the reserve will be credited to energy costs recoverable under the energy clause.

We intend to monitor this situation carefully and will keep the Commission fully advised. If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

Robert K Campbell

R. K. Campbell

Attachment

Witness: M. Gruber
Date: 4/13/83
DOM
R-822169
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SECRETARY'S OFFICE
Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA POWER AND LIGHT COMPANY

R-822169

DIRECT TESTIMONY

OF

MICHAEL J. GRUBER

CONCERNING:

RATE BASE
DEPRECIATION
EXCESS CAPACITY

DOCUMENT FOLDER

DOCKETED

APR 19 1983

Q. What is your name and business address?

A. Michael J. Gruber. My business address is Pennsylvania P.U.C., P.O. Box 3265, Harrisburg, Pennsylvania 17120.

Q. By whom are you employed?

A. I am employed by the Pennsylvania Public Utility Commission.

Q. In what capacity are you employed?

A. I am a Fixed Utility Engineer in the Engineering Section of the Electric Division of the Bureau of Rates.

Q. What is your educational background?

A. In May 1976, I received a B.S. in Civil Engineering from the Pennsylvania State University. After graduation, I was hired by the Pennsylvania Public Utility Commission. An Appendix describing my work experience with the Commission is attached.

Q. Do you have any professional accreditation?

A. Yes. Upon graduation from Penn State in 1976 and successfully completing the required examination, I was awarded an Engineer In Training Certificate. Presently, I am in the process of satisfying the necessary experience requirements in order to sit for my Professional Engineers License examination.

Q. Have you ever testified before the Pennsylvania Public Utility Commission?

A. Yes, I have testified in several general rate increase investigations before this Commission, as listed in Appendix A to my statement.

Q. What is the subject of your testimony in this proceeding?

A. In addition to my Staff Statement No. 4 concerning Staff's Adjustment to Plant Held For Use, I am testifying concerning staffs adjustment for contractor retentions, construction cost of Susquehanna Unit 1 and excess capacity reserve margin.

Q. What is the Capacity Reserve Margin (CRM) and how is it calculated?

A. The CRM is the amount of generating capacity needed by a company to insure that it will be able to meet its forecasted peak load if something unforeseen were to happen to one of its generating units.

It is calculated by dividing total generating capability of a company by its native peak load. In the case of PP&L it is 7495/5034 or approximately 49%.

Q. Why is it necessary to have a CRM?

A. Under ideal conditions, it would not be necessary. But we live in an imperfect world where things break unexpectedly and power plants are no exceptions. Under proper planning, all generating plants should be available at the time of a company's peak load. This does not always happen however and extra generation is needed when it does not -- no one can predict exactly what the peak load will be or when it will occur and forced outages frequently compound the problem.

There are other ways of preventing a generation shortfall at peak load conditions such as power pooling and buying power from other interconnected companies. Interrupting service to some large consumers could also alleviate small shortfalls but this method is not entirely acceptable. Even if some of these measures were taken it could be necessary to maintain some CRM to prevent a generation shortfall.

Q. What adjustment are you making to the capacity reserve margin claimed by the respondent?

A. The company has projected a capacity reserve margin (CRM) of 49% -- approximately 2461MW in excess of peak load. In my opinion this is considerably too high. Most state commissions feel that 20-25% is a more than adequate CRM; PJM, of which PP&L is a member, requires a CRM of only 22%.

To obtain my recommended level for PP&L's CRM I assumed the concurrent outages of their largest unit, Susquehanna Unit 1 (945MW) plus Keystone (210MW) and Conemaugh (194MW), the two units on the PP&L system which are not operated by PP&L, and Holtwood Hydro (102MW) and Wallenpaupak (44MW), the company's two hydro stations for a total generated capacity of 1495MW. This would give PP&L a CRM of approximately 29.6% over their peak load of 5034MW giving them an excess capacity of 966MW as shown on Page 1, Schedule 1, Exhibit 13-A.

Q. If as you state a CRM is necessary why limit it to an amount such as 29.6%?

A. Limiting the CRM becomes necessary to insure that the CRM's cost effective. The level of CRM is up to the best judgment of those involved.

My judgment of 29.6% is based on the largest unit plus those units for which PP&L has no control over the operation. While it is conceivable that a company would have a need for considerably more generation in an extreme case, I have used my judgment to come up with a reasonable amount.

The level of the CRM could fluctuate depending on the timing of new generation facilities. Immediately after a unit is placed into service, the CRM would probably be higher than necessary but should be expected to return to a reasonable level in the next few years, as load growth occurs. However, in the case of PP&L, Unit 1 is placing the company at a 49% CRM in 1983 and the addition of the 945MW from Susquehanna Unit 2 in 1984 raises the CRM to 66%, additionally PP&L's share of the Safe Harbor expansion will add 50MW in 1985 and 15MW in 1986 bringing the CRM to 65% and 60% respectively. These additions, along with the fact that no retirements are scheduled for the next ten years, will keep the PP&L CRM at least double that required by PJM through 1992 (Page 6 Schedule 1 Exhibit 13).

Q. Why did you use the output from PP&L's largest unit plus its uncontrolled units as your reserve capacity?

A. To prevent a generation shortfall a company should have some reserve capacity, how much can be calculated in any number of ways.

I used PP&L's largest unit plus its uncontrolled units because

it would allow PP&L to lose its largest unit (SSES Unit 1) and those units it does not operate and it still could meet its projected load.

Hopefully SSES Unit 1 would not be down at the time of peak. The hydro units might be down due to frozen water in the winter or drought in the summer and likewise Keystone and Conemaugh might be taken down by their operator during the time of PP&L's peak load condition.

Q. Has this Commission ever decided what the proper CRM should be?

A. No, not in any generic way. They have discussed what CRM might be proper on a couple of occasions.

In Pa. P.U.C. v. Duquesne Light Co., 46 P.U.C. 427, 437-438 (1972) the Commission stated:

> Following the blackout in the northeast section of the nation in November, 1965, this Commission began a comprehensive review of the existing and future electric power supply in Pennsylvania. In the interim years and to date, we have held extended meetings with all Pennsylvania electric utilities, representatives of several power pools, the Federal Power Commission and various State Commissions. After a review of actual and forecasted annual peak load growths and related system capacity reserves, we have concluded and urged that at least 20 percent reserve capacity margin is

necessary to cover peak loads, scheduled maintenance and forced outages in order to avoid blackouts, load curtailments, and voltage reductions. The attainment and maintenance of at least a 20 percent reserve capacity margin, which this Commission is advocating, and other factors such as growth rate in annual peak load, will require future generating sites and related transmission and distribution rights-of-way well in advance of actual use. (Emphasis supplied)

Then again in the Order at R-77110521 where the Office of Consumer Advocate argued that Pennsylvania Power had excess capacity the Commission found that any capacity over and above 20% over peak load is excess capacity for which some adjustment must be made.

Q. How did these two decisions affect your judgement of what level was best to set respondents CRM?

A. Very little. I was aware of them and used them as general background information but I did not rely upon them as the basis for my adjustment.

Q. How does your CRM adjustment affect this rate proceeding?

A. It only indirectly affects this proceeding in that it is used to develop an amount of available excess generation for sale.

Q. How did you determine your excess generation available for sale?

A. To find out how much PP&L could generate using their excess capacity of 966MW, I had to find out how long the average MW on the PP&L system was available for generating electricity. Page 2 Schedule 1 of Exhibit 13A, shows a calculation, for calendar year 1981, of the hours that the Avg. MW on PP&L system will be available. You then multiply the excess capacity in MW times the available hour to get possible excess generation in MWH.

Q. How did you develop your availability factor?

A. In Section 290.302 of PP&L's Cost of Service Information Filing under Section 133 PP&L has given the hours connected to load for all its generating units for 1981. I multiplied the net capacity rating on each unit times its hours connected to load to get avaliable generation. I then divided this total available generation by the total net capacity to get the number of hours the average MW was connected to the PP&L system. This number divided by the hours in a year (8760) gives my availability factor.

Q. Does this represent an accurate picture of how long each generating unit will be available on PP&L system during the test year?

A. It may, but in my opinion, the number I have used for availability is lower than might actually be expected? If you look at PP&L Exhibit Regs. I, Attachment I-B-4 you will see that the outages listed for each unit do not total to the answer you would get if you subtracted the hours connected to load from the total hours in a year. As an example, taking the first unit listed on Page 2 of

Schedule 1 Exhibit 13A. Brunner Island No. 1, you will see a total of scheduled and unscheduled outages. 8760 less 1142 is 7618 Hr. or 1397 Hr. more than the 6221 Hr. connected to load shown for Brunner Island No. 1 in 1981 in Attachment I-B-A. This is just one example, each unit would be different from one year to the next in any case.

I have used hours connected to load to determine availability so as to be conservative in my extimate of excess generation. I do think that PP&L would probably have an actual availability factor greater than 66.2% but in an effort to make my adjustment conservative I am using 66.2% (as shown in Exhibit 13A Schedule 1) as my availability factor.

Q. Have you taken into account the fact that PP&L is a net seller on interchange sales?

A. I have considered it however I think it has little bearing on the matter of excess capacity.

If you examine respondent's Attachment I-B-6(b) page 1, you will find that their native load projection for 1983 is 23,535,000 MWH. Now if you examine Page 1 Schedule 2 of my Exhibit 13 you will see that the company has a possible available generation of 37,862,454 MWH or 1.609 times their native load for calendar year 1983.

Further if you examine respondent's Attachment I-B-2 you will find that the respondents estimated net generation needed to meet native load and energy sales is 32,412,000 MWH for the test year and 34,732,000 MWH for calendar year 1983. Both of these figures are less than the 37,862,454 MWH available to the company using

only 6529 MW of capacity. Therefore the company should have sufficient resources available to meet its load without the 966 MW of capacity I feel is excess.

Q. Have you determined what PP&L excess capacity and generation would be without Susquehanna Unit 1?

A. Yes, using similar techniques they are 146MW and 838,998 MWH respectively.

Q. If PP&L did not have Susquehanna Unit No. 1 coming into service during the test year would you consider PP&L as having excess capacity?

A. It would be difficult to say. The method I have used is not exact and can only be used to assist judgement as to the amount of excess capacity. As I said earlier the timing of the last generating unit placed on line, the timing of the placement of the next generating unit, what load growth the company is expecting must all be considered before determining what and if excess capacity exists.

Q. What is a contractor retention?

A. A contractor retention is money not yet paid by the company to the contractor after the completion of a project.

Q. Why would the company withhold payment to a contractor?

A. It could be a number of reasons. It could be over some disputed cost or over some dispute in workmanship, or it simply could be

that payment is scheduled for some later date.

Q. What is your adjustment to contract retentions?

A. In Attachment 1 to PP&L Exhibit 200.182126, the respondent has supplied a list of 24 contractor retentions totaling some $2,087,692 attached as Schedule 3 Staff Exhibit 13-A is a reproduction of the company's Attachment with columns added for annual depreciation.

The noted contractor retentions are broken down into various accounts on Schedule 3, Staff Exhibit 13A. The appropriate adjustments are a deduction of $32,092 to annual depreciation expense and a reduction of $2,087,692 to rate base as shown in my exhibit.

Q. Why do you recommend that the contractor retentions not be allowed in rates?

A. The use of a future test year already allows money which is to be spent in the future into rate base, to make the customer pay for money not spent even at the end of a future test year would be to carry costs even further into the future.

Q. Has this Commission ever made an adjustment for contractor retentions before?

A. In the Duquesne Light proceeding at R-811470 this Commission made an adjustment to rate base and to annual depreciation expense. I feel a similar adjustment should be made in this proceeding.

Q. Are you making any other adjustments in this proceeding?

A. Yes, I am recommending that an adjustment to the original cost

valuation of the SSES Unit 1 be made due to contractor errors which have inflated the cost of the unit. The various projects listed in Schedule 4 of Exhibit 13A detail the projects for which PP&L feels that the contractor should be responsible as evidenced by the fact that they plan to litigate the recovery of these costs. These costs are associated with defects during the construction of SSES Unit 1, and as such should not be included in the overall original cost valuation for the respondent's rate base.

Q. Have you endeavored to assign a dollar value to this adjustment?

A. Yes. I have asked for the dollar amounts associated with PP&L's claims against its various contractors but the company has been unable and/or unwilling to provide this information alleging that such data is not available.

In asnwer to Staff Interrogatories V-12 & V-14 (attached as Schedule 4 Exhibit 13) PP&L has listed various projects which are under contention. The list includes many instances of defective or improper construction.

PP&L further states that their contract with Bechtel limits how much they can recover on certain claims. With the ballooning cost of construction the ratepayers for a power company are made to pay high enough rates for their electricity without having to pay for defective and improper construction techniques.

I am therefore making an adjustment of 10% of the original cost of SSES 1 ($166,650,900) to rate base and the applicable depreciation expense ($1,483,193) to the annual depreciation

expense for SSES 1 until PP&L can furnish documented evidence as to the cost of constructing the items, taking out the error in construction and redoing it correctly.

Q. Why did you use a factor of 10% to adjust the construction cost of SSES Unit 1?

A. Due to the fact that the company would not supply costs of the projects listed in Schedule 4 of Exhibit 13A I had to estimate what possible costs are involved. My estimate of 10% comes from various engineering studies I have seen which contain a cost factor of 10% which is listed as a contingency in case of a mistake in estimating a bid. How accurate this number is is subject to check and as soon as the company or anyone else can and/or will furnish more accurate costs I will alter my recommended adjustment.

However, until that time this remains my best estimate of what the adjustment should be.

Q. Has this Commission ever disallowed an item, claimed in the original cost of a unit, from rate base?

A. Yes, in the Three Mile Island Unit 1 original cost this Commission disallowed the cost of a faulty ring girder pour (R.I.D. 170 and 171 for Met Ed and R.I.D. 172 and 173 for Penelec).

The cost of some rework done on the steam valves in TMI Unit 2 were also disallowed.

Q. Does this conclude your testimony at this time?

A. Yes, it does.

Education and Professional Background

In May 1976, I received a B.S. in Civil Engineering from The Pennsylvania State University. After graduation, I was hired by the Pennsylvania Public Utility Commission and worked in the Valuation Section of the Bureau of Rates and Research in the area of electric and telephone valuation and depreciation. Later, when the Bureau was realigned into Divisions specializing in telephone valuation, I was placed in the Communications Division specializing in telephone valuation and depreciation. Recently, however, I was transferred to the Engineering Section of the Electric Division to work on electric company valuation and depreciation.

In October, 1977 I participated in a special Depreciation Training Program sponsored by Western Michigan University in Kalamazoo, Michigan, entitled Fundamentals of Service Life Forecasting.

In July, 1978, I participated in a special Depreciation Training Program sponsored by Western Michigan University at Calvin College in Grand Rapids, Michigan, entitled Dynamics of Life Estimation.

In the fall of 1977 and spring of 1979, I successfully completed accounting courses at the Harrisburg University Center which were sponsored by Elizabethtown College.

I took part in the early stages of the 1979 Triennial Review of The Bell Telephone Company of Pennsylvania Depreciation Studies which are submitted to this Commission and the Federal Communications Commission (FCC) for review and comment prior to the FCC's prescribing of annual depreciation rates for the next three-year period.

Since 1977 I have been a valuation engineer responsible for review and evaluation of claims for depreciation, original and trended original cost valuations, construction work in progress, plant held for future use, materials and supplies, and extraordinary property loss claim in many electric and telephone rate proceedings before this Commission.

I was a valuation engineer in the following major rate proceedings before the Pennsylvania Public Utility Commission: (1) The Duquesne Light Company at Docket Number R.I.D. 373; (2) The Pennsylvania Electric Company at Docket Number R.I.D. 392; (3) The Metropolitan Edison Company at Docket Number R.I.D. 434; (4) The Bell Telephone Company of Pennsylvania at Docket Numbers R.I.D. 367 and R-79060719; (5) The Bethel and Mt. Aetna Telephone and Telegraph Co. at Docket Number R-77090452; (6) The Mid-Penn Telephone Corporation at Docket

Number R-77090482. In addition, I have been a valuation engineer in various other informal rate investigations.

I have testified in the following cases:

1) General Telephone Company of Pennsylvania at R-7910062
2) West Penn Power Company at R-80021082
3) Pennsylvania Power and Light at R-8003114
4) Philadelphia Electric Company at R-80061226
5) Metropolitan Edison Company at R-80051196 and R-811601
6) Pennsylvania Electric Company at R-80051197 and R-811602
7) Pennsylvania Power Company at R-811510
8) UGI Luzerne Electric at R-811725 and
9) UGI Gas Division at R-821899

Staff Exhibit No. 13-A
Witness: M. J. Gruber
Date: 4/13/83
R-822169
DOM
Harrisburg

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Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA POWER AND LIGHT COMPANY

R-822169

EXHIBIT TO

ACCOMPANY THE

DIRECT TESTIMONY

OF

MICHAEL J. GRUBER

CONCERNING:

DEPRECIATION
RATE BASE
EXCESS CAPACITY

DOCKETED
APR 29 1983

Excess Capacity Reserve

Estimated Peak Load		5034 MW [1/]
Reserve Margin		
(Largest Unit + uncontrolled units, SSES 1 + Keystone + Conemaugh + Hydro 945 + 210 + 194 + 146	=	1495 MW
Total Capacity needed by Company		6529 MW
Installed Capacity		7495 MW [1/]
Excess Capacity		966 MW

Present capacity needed to meet the following percent reserves

1. Commission allowed reserve to Penn Power R-77110521 20%	6040 MW
2. PJM requirement 22% [2/]	6141 MW
3. Reserve allowed by Staff 29.6%	6529 MW
4. Reserve claimed by PP&L 49%	7495 MW

1/ Attachment I-B-6(a)

2/ Answer to Staff Interrogatory V-7

System Availability for 1981 *

Unit		Net Capacity (MW)	Hr. Connected to Load	Available Generation (MWH)
Brunner Island	1	321	6221	1,996,941
	2	378	7380	2,789,640
	3	730	6548	4,780,040
Martins Creek	1	149	7709	1,148,641
	2	149	7218	1,075,482
	3	820	3784	3,102,880
	4	820	4353	3,569,400
Holtwood	17	72	7202	518,544
Sunbury	1-3	234	8760	2,049,840
	4	128	7775	995,200
Montour	1	755	7228	5,457,140
	2	740	7022	5,196,280
Allentown	1-4	56	94	5,264
Harrisburg	1-4	56	152	8,512
Harwood	1-2	28	58	1,624
Williamsport	1-2	28	81	1,708
Jenkins	1-2	28	66	1,848
West Shore	1-2	28	146	4,088
Fishbach	1-2	28	100	2,800
Lock Haven		14	45	630
Martins Creek	1-4	72	83	5,976
Sunbury	1-2	36	99	3,564
PP&L Diesels		19	27	513
Suburban		20	36	720
Keystone	1	104	5448	566,592
Keystone	2	103	6661	686,083
Conemaugh	1	97	5200	504,400
	2	97	6123	593,931
Keystone	3-6	1.480	243,239 (271) 280,258 335 240,332 441	401
Conemaugh	A,B,C,D	1.367	361 (343)	469
Wallenpaupack	1&2	44	1452	63,888
Holtwood Hydro	1-10	102	8230	839,460
Total Without SSES 1		6258.847		35,972,234
Susquehanna		945	6115	5,779,000
Total		7203.847		41,751,234

Availability of the Avg MW on the PP&L System

Total Possible Available Generation/Total MW

41,751,234/7204 = 5796 Hr.

* Section 290.302 of PP&L's cost of service information filing under Section 133 for Calendar Year 1981.

Excess Annual Generation

Excess Capacity as found by the Staff	966 MW
Hours in a Year (24 x 36)	8,760
Total Excess Generation	8,462,160 MW
System Availability Factor Avg. Time Available/8,760 Hr. 5790 /8,760	.662
Potential Excess Generation based on Available Generation Time	5,601,950 MWH

*Respondent Attachment I-B-6(b) Page 1

EXCESS CAPACITY WITHOUT SUSQUEHANNA UNIT 1

Estimated Peak Load[1]	5034 MW
Reserve Margin	
Martins Creek 3 + Keystone + Conemaugh + Hydro 820 + 210 + 194 + 146[2]	1370 MW
Total Capacity needed by Company	6404 MW
Adjusted Installed Capacity[3]	6550 MW
Excess Capacity	146 MW

PRESENT CAPACITY NEEDED TO MEET FOLLOWING PERCENTAGE RESERVES

1. PJM requirement 22%[4]	6141 MW
2. Reserve allowed by Staff 27.2%	6404 MW
3. Adjusted reserve based on Installed Capacity 30%	6550 MW

1 Attachment I-B-6(a)
2 Largest unit without Susquehanna Martins Creek 3 or 4 820 MW
3 Company Installed Capacity from I-B-6(a) 7495 less Susquehanna Unit 1 945 MW = 6550
4 Answer to Staff Interrogatory V-7

ADJUSTED EXCESS ANNUAL GENERATION

Excess Capacity	146 MW
Hours in Year (24 x 365)	8760
Total Excess Generation	1,278,960 MWH
System Availability Factor	
Avg. Time Available/8760	
5747/8760	.656
Potential excess generation based on available generation time	838,998 MWH

Future Reserve Margins for PP&L

Year	Additions [1]	Projected Load [1]	Cap Without Any Addition After SSES 1		With SSES 2		With SSES 2 + Safe Harbor	
			Gen. (MW)	Res. %	Gen. (MW)	Res. %	Gen. (MW)	Res. %
1983	SSES 1 945 MW	5034	7494	49	7494	49	7494	49
1984	SESS 2 945 MW	5087	7486	47	8431	66	8431	66
1985	Safe Harbor 50 MW	5113	7466	46	8411	64	8461	65
1986	Safe Harbor 15 MW	5267	7446	41	8391	59	8454	60
1987		5378	7426	38	8371	56	8434	57
1988		5506	7406	34	8351	52	8414	53
1989		5590	7381	32	8325	49	8389	50
1990		5660	7366	30	8311	47	8374	48
1991		5800	7491	29	8436	45	8499	46
1992		5910	7491	27	8436	43	8499	44

1/ Attachment 1-B-6(a)

Available Generation Based On Staff Recommended Necessary Capacity

Capacity	6529 MW
Hours (365 x 24)	8760 HR
Total Generation	57,194,040 MWH
Availability Factor	.662
Available Generation	37,862,454 MWH

Comparison Of Available Generation To Projected Needs

Available Generation	37,862,454 MWH
Native Load (1983)	23,535,000 MWH
Total Test Year Load (Year Ending July 31, 1983)	32,412,000 MWH
Calendar Year Load	34,732,000 MWH
Available Generation/Native Load	1.609
Available Generation/Test Year Load	1.168
Available Generation/Calendar Year Load	1.090

Schedule 3

Account No.	Vendor/Subcontractor	Amount	Project Description	Date of Expected Payment	Annual Rate	Depreciation $
325	ITT Surprenant	$ 899.72	Susquehanna SES Unit 1 & Common (100%)	9/83	0.0089	8.01
324	Paige Electric	1,327.30	" " " " " " "	9/83	0.0089	11.81
322	ITT Grinnell	48,539.23	" " " " " " "	After 8/83	0.0089	432.00
322	Target Rock	1,117.19	" " " " " " "	8/83	0.0089	9.94
324	Pirelli Cable	1,495.76	" " " " " " "	9/83	0.0089	13.31
322	A. C. & S., Inc.	50,000.00	" " " " " " "	12/83	0.0089	445.00
322	Diamond Power	59,936.43	" " " " " " "	9/83	0.0089	533.45
321	Eastern Air Balance	1,557.98	" " " " " " "	9/83	0.0089	13.87
322	General Electric	21,800.15	" " " " " " "	5/84	0.0089	194.02
322	General Electric	46,929.24	" " " " " " "	8/83	0.0089	417.67
322	Nuclear Energy Services	46,021.21	" " " " " " "	4/84	0.0089	409.59
322	G.E.O. Construction Testing	50,000.00	" " " " " " "	2/84	0.0089	445.00
321	Peabody & Wind	287,263.57	" " " " " " "	1/84	0.0089	2,556.65
323	Research Cottrell	584,495.00	" " " " " " "	5/84	0.0089	5,202.00
321-325	Bechtel Power	255,600.00	" " " " " " "	After 8/83	0.0089	2,274.84
312	DeLaval Turbine, Inc.	57,225.33	Martins Creek SES - Unit 3	After 8/83	0.0325	1,859.82
321	Bechtel Power	41,675.67	SSES - Low Level Radiation Waste Facility	12/83	0.0089	370.91
321	Bechtel Power	8,346.51	SSES - S&A Building Modification	11/83	0.0089	74.28
312	O. B. Cannon	10,000.00	Montour SES Units 1 & 2 - Dry Fly Ash Conversion	10/83	0.0336	336.00
312	United Conveyors	419,748.60	Montour SES Units 1 & 2 - Dry Fly Ash Conversion	After 8/83	0.0336	14,103.55
365	R. Deschaine	3,150.00	Arrowhead 138 KV Tap Line	8/83	0.0370	116.55
390	Pettinato Assoc.	13,929.54	Scranton Area Maintenance Garage	8/83	0.0250	348.24
390	Ray B. Bracy	54,556.77	Pocono Service Center	9/83	0.0250	1,363.92
390	T. Armbruster	22,077.25	Van Sciver Building - Annex 6 Project	8/83	0.0250	551.93
		$2,087,692.45				32,092.36

PENNSYLVANIA POWER & LIGHT COMPANY
RESPONSE TO INTERROGATORIES
OF THE PUC TRIAL STAFF
SET VIII DATED JANUARY 13, 1983

Docket No. R-822169

Q.V-12. Are there any costs associated with PP&L's construction cost claim in this rate case which are presently the subject of litigation or which are recognized as the basis for future litigation claims? If so, list them and explain the nature of the litigation.

A.V-12. There are no costs associated with PP&L's construction cost claim in this rate case which are presently the subject of litigation. There are a number of outstanding issues among PP&L, its contractors and vendors with respect to the responsibility for certain costs. A list of those claims that PP&L has formally made against its contractors and vendors as of December 31, 1982, follows:

a. Bechtel:

1. Radwaste Building defective roof coating.
2. Defective Surface Material.
3. Nuclear Concrete Surfacer, Unit 1, Reactor Pedestal.
4. Nonconforming foundation for service and administration building.
5. Excessive panel check-out time, panel rework, cable shortening problems and cable re-inspection (ACR/PGCC Cable).
6. Unapproved costs resulting from modifications to fuel pool structure.
7. Misalignment of anchor bolts in the reactor building steel.
8. Damaged discharge pipe sleeves.
9. Damage to cable occurring during field pulling.
10. Damage to fuel pool liner plate.
11. Circulating water suction piping redesign.
12. Excessive fines in concrete aggregate.
13. Damage to epoxy coatings within circulating water piping.
14. Inadequate weather protection for fuel pool pour.

15. Turbine building plenum ductwork, bid award held up without apparent reason.

16. Failure to incorporate reversability in motor operated valves.

17. Use of non-quality related pilot solenoid valves in safety-related systems.

18. Administration of purchase order for large pipe.

19. Excessive excavation for patrol roads.

20. Administration of purchase order for pipe hangers.

21. Improper slope for installed piping to GE equipment.

22. Discrepancies between hanger stress isometric and fabrication drawings.

23. Residual Heat Removal System radiation monitors placed in area with too high background radiation.

24. Defective design of railroad bridge.

25. Defective testing of valves.

26. Correction of installed compression fittings on instruments.

27. Redesign of containment atmosphere sample lines.

28. Defective design of spent resin transport system.

29. Purchase of two (2) replacement startup transformers.

30. Deficient steel stud welding.

31. Inadequate review of vendor documentation.

32. Rewiring of switchgear for separation.

33. Redesign of turbine building shield wall.

34. Rewelding of turbine building vent stack.

35. Inadequate purchase specification for limitorque valve motor operators.

36. Unauthorized attachment of pipe hanger to Reactor Pressure Vessel.

37. Improper welding of restraints to Safety Relief Valve lines.

38. Modification of standby liquid control valve limit switches.

39. Excessive voltage drop in electrical cables.

40. Deficient engineering and construction services for piping systems.

41. Problems with models used in vertical/horizontal dynamic analyses.

42. Purchase of inadequate containment purge valves.

43. Deficient procurement of valves in plant water systems.

44. Deficient purchase of feedwater check valves.

45. Jet impingement modifications in primary containment and Reactor building.

46. Inadequate stiffness of pipe supports anchored on containment liner plate.

47. Undersized welds on downcomer bracing.

48. Changes necessary to accommodate pipe insulation at whip restraints.

49. Review of instrument lines due to insufficient separation cited in an NRC Inspection report.

50. Rework of socket welds using dissimilar metals.

51. Inadequate Chilled Water System for Emergency Switchgear Room.

52. Reinspection and rework caused by inadequate inspections on power cable termination.

53. Fire protection design not kept current with plant design, resulting in substantial modifications.

54. Copper cooling coils in drywell equipment drain tanks not needed.

55. Unit 2 quenchers improperly oriented.

56. Inadequate application of standards resulting in cable ampacity review.

57. Improper specification of the environment in the original design of the acid feed equipment.

58. Problems encountered with AC electrical distribution system design.

59. Caulking of reactor building metal siding.

60. Relocation of hydrogen recombiners.

61. Modifications to HPCI, RCIC, and RHR discharge lines.

62. Modification of Reactor Building air supply ducts.

63. Modification of positive pressure envelope for control structure.

64. Modification of Off Gas System.

65. Redesign and modification of HVAC equipment in Reactor Building.

66. Incorrect installation of primary feedwater flow elements.

67. Redesign and reinstallation of Reactor Building penetrations.

68. Incorrect design of control circuits in power circuit breakers.

69. Plant modifications to facilitate future maintenance.

70. Addition of isolation dampers to elevator machine room isolation duct.

71. Redesign/modifications of valve operators to meet GE specified opening/closing times.

72. Containment hydrodynamic phenomena.

b. General Electric

1. Efforts to minimize the effects of Intergranular Stress Corrosion Cracking (IGSCC).

2. Containment hydrodynamic phenomena.

3. GE licensing support including additional FSAR work required to conform to Regulatory Guide 1.70, Rev. 2.

4. Problems related to GE Advanced Control Room.

5. Shroud head fitup problems

c. Others

There are various purchase orders and subcontracts that are the subject of continuing disputes over technical and commercial issues.

PP&L also anticipates that Bechtel and GE as well as other contractors and vendors will assert claims directly or indirectly against PP&L. Whether the claims by and against PP&L will result in litigation depends upon a variety of factors including further evaluation by PP&L, and negotiations among the relevant parties.

Pennsylvania Power & Light Company
Response to Interrogatories
of the PUC Trial Staff
Set XI Dated February 8, 1983

Docket No. R-822169

Q.V.14. In response to Staff Interrogatory No. V-12, PP&L itemized some 72 outstanding SSES construction cost claims against Bechtel Power Corporation and five against General Electric. With regard to each enumerated construction claim, please indicate:

a) whether the claim is specifically associated with construction of Unit I, Unit II or common plant,

b) the additional cost incurred by PP&L to remedy the described construction defect,

c) how such additional costs are accounted for in the Company's books and records and in the instant rate case.

A.V.14. a. The requested information is set forth on Attachment 1.

b & c. The information requested with regard to Bechtel is not presently available. Under the terms of the Bechtel-PP&L contract, PP&L is required to notify Bechtel of deficiencies in Bechtel's performance on the project. In order to protect its rights to the fullest extent possible, PP&L aggressively monitored Bechtel's performance and notified Bechtel of deficiencies, even in instances where Bechtel's responsibility for the problem was uncertain. While no detailed evaluation has been completed at this time, PP&L expects that a substantial number of the 72 notices arose out of problems typical of any major construction project or problems caused by the evolution of nuclear plant design, changes in government regulation, and technology improvements, all of which continued throughout the course of the project. In addition, some of the potential deficiencies may have had little or no impact on PP&L's costs. Moreover, PP&L's contract with Bechtel limits the amounts which can be recovered on certain claims.

PP&L has not completed an evaluation or quantifiication of the costs incurred to remedy the problems identified or to identify those claims which relate to "construction defects." Evaluation and quantification of these claims during construction would disrupt PP&L's close and efficient working relationship with Bechtel and would reduce the manpower available to complete the project on schedule. The potential savings from expeditious completion of the project far outweigh the magnitude of any possible claims. Moreover, the Company believes it can properly evaluate the merits and cost of the 72 claims for use in later negotiations with Bechtel when the plant is completed. At this date, any costs incurred for Susquehanna Unit No. 1 are included in the rate case claims for that unit.

The information requested with regard to G.E. is set forth on Attachment 1, except that an estimate of the costs associated with the containment hydrodynamic load phenomena is not presently available. It is important to note that the data provided is necessarily tentative and preliminary in nature. The amounts associated with these claims cannot be finally calculated until it is determined whether the increased costs were G.E.'s responsibility under the contract.

Attachment No. V-14

Bechtel

Item No.	Description	Unit I	Unit II	Common
1	Radwaste Building defective roof coating.			C
2	Defective Surface Material.	I	II	C
3	Nuclear Concrete Surfacer, Unit 1, Reactor Pedestal.	I		
4	Nonconforming foundation for service and administration building.			C
5	Excessive panel check-out time, panel rework, cable shortening problems and cable re-inspection (ACR/PGCC Cable).	I	II	
6	Unapproved costs resulting from modifications to fuel pool structure.	I	II	
7	Misalignment of anchor bolts in the reactor building steel.	I	II	
8	Damaged discharge pipe sleeves.			C
9	Damage to cable occurring during field pulling.	I	II	C
10	Damage to fuel pool liner plate.	I		
11	Circulating water suction piping redesign.			C
12	Excessive fines in concrete aggregate.	I	II	C
13	Damage to epoxy coatings within circulating water piping.	I	II	
14	Inadequate weather protection for fuel pool pour.	I		
15	Turbine building plenum ductwork, bid award held up without apparent reason.			C
16	Failure to incorporate reversability in motor operated valves.	I	II	C
17	Use of non-quality related pilot solenoid valves in safety-related systems.	I	II	C

Attachment No. V-14

Bechtel

(Continued)

Item No.	Description	Unit I	Unit II	Common
18	Administration of purchase order for large pipe.	I	II	C
19	Excessive excavation for patrol roads.			C
20	Administration of purchase order for pipe hangers.	I	II	C
21	Improper slope for installed piping to GE equipment.	I	II	C
22	Discrepancies between hanger stress isometric and fabrication drawings.	I	II	C
23	Residual Heat Removal System radiation monitors placed in area with too high background radiation.	I	II	
24	Defective design of railroad bridge.			C
25	Defective testing of valves.	I	II	
26	Correction of installed compression fittings on instruments.			C
27	Redesign of containment atmosphere sample lines.	I	II	
28	Defective design of spent resin transport system.			C
29	Purchase of two (2) replacement startup transformers.	I	II	
30	Deficient steel stud welding.	I	II	C
31	Inadequate review of vendor documentation.	I	II	
32	Rewiring of switchgear for separation.	I		
33	Redesign of turbine building shield wall.	I	II	
34	Rewelding of turbine building vent stack.	I	II	

Attachment No. V-14

Bechtel

(Continued)

Item No.	Description	Unit I	Unit II	Common
35	Inadequate purchase specification for limitorque valve motor operators.	I	II	C
36	Unauthorized attachment of pipe hanger to Reactor Pressure Vessel.	I		
37	Improper welding of restraints to Safety Relief Valve lines.	I	II	
38	Modification of standby liquid control valve limit switches.	I	II	
39	Excessive voltage drop in electrical cables.	I	II	C
40	Deficient engineering and construction services for piping systems.*			
41	Problems with models used in vertical/ horizontal dynamic analyses.	I	II	C
42	Purchase of inadequate containment purge valves.	I	II	
43	Deficient procurement of valves in plant water systems.	I	II	C
44	Deficient purchase of feedwater check valves.	I	II	
45	Jet impingement modifications in primary containment and Reactor building.	I	II	
46	Inadequate stiffness of pipe supports anchored on containment liner plate.	I	II	
47	Undersized welds on downcomer bracing.	I	II	
48	Changes necessary to accommodate pipe insulation at whip restraints.	I	II	C
49	Review of instrument lines due to insufficient separation cited in an NRC Inspection report.	I		
50	Rework of socket welds using dissimilar metals.	I	II	C

Attachment No. V-14

Bechtel

(Continued)

Item No.	Description	Unit I	Unit II	Common
51	Inadequate Chilled Water System for Emergency Switchgear Room.		II	
52	Reinspection and rework caused by inadequate inspections on power cable termination.	I	II	C
53	Fire protection design not kept current with plant design, resulting in substantial modifications.	I	II	C
54	Copper cooling coils in drywell equipment drain tanks not needed.	I	II	
55	Unit 2 quenchers improperly oriented.		II	
56	Inadequate application of standards resulting in cable ampacity review.	I	II	C
57	Improper specification of the environment in the original design of the acid feed equipment.			C
58	Problems encountered with AC electrical distribution system design.	I	II	
59	Caulking of reactor building metal siding.	I	II	
60	Relocation of hydrogen recombiners.	I	II	
61	Modifications to HPCI, RCIC, and RHR discharge lines.	I	II	
62	Modification of Reactor Building air supply ducts.	I	II	
63	Modification of positive pressure envelope for control structure. (Included with #70.)			
64	Modification of Off Gas System.			C
65	Redesign and modification of HVAC equipment in Reactor Building.	I	II	
66	Incorrect installation of primary feedwater flow elements.	I	II	

Attachment No. V-14

Bechtel

(Continued)

Item No.	Description	Unit I	Unit II	Common
67	Redesign and reinstallation of Reactor Building penetrations.	I	II	
68	Incorrect design of control circuits in power circuit breakers.	I	II	
69	Plant modifications to facilitate future maintenance.	I	II	
70	Addition of isolation dampers to elevator machine room isolation duct.			C
71	Redesign/modifications of valve operators to meet GE specified opening/closing times.	I	II	
72	Containment hydrodynamic phenomena.*			

General Electric

Item No.	Description	Estimated Costs	Unit I	Unit II	Common
1	Efforts to minimize the effects of Intergranular Stress Corrosion Cracking (IGSCC).	$4.2M	I	II	
2	Containment hydrodynamic phenomena.	*	I	II	C
3	GE licensing support including additional FSAR work required to conform to Regulatory Guide 1.70, Rev. 2.	$3.9M	I	II	C
4	Problems related to GE Advanced Control Room.	$ .5M	I	II	
5	Shroud Head Fitup problems.	$1.0M	I	II	

*Not Available.

Schedule 5

Original Cost Adjustment to SSES 1

Original Cost	$1,666,509,000
x 10%	.10
	$ 166,605,900
Depreciation Rate	0.0089
Annual Expense Adjustment	$ 1,483,193

Staff Statement No. 14
Witness: L. B. Jones
Date: 4/13/83
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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-822169

Direct Testimony

of

L. B. Jones

Concerning:

Susquehanna Operation and Maintenance Expense Adjustments

PENNSYLVANIA POWER & LIGHT COMPANY

Docket No. R-822169

SUMMARY OF TESTIMONY

A downward adjustment of $467,000 to the Company's claim for operation and maintenance expense is proposed so as to reflect a two-year amortization of non-recurring expense associated with Susquehanna's initial fuel cycle.

A disallowance of claimed return of $146,000 and annual depreciation expense of $11,000 associated with the MAC Nuclear Projects audits (PP&L Exh. RCT-1 and RCT-2) is proposed so as to appropriately allocate the $1,228,000 audit costs between Unit 1 and Unit 2 and to correctly characterize such allocated costs not as plant, but rather as rate case expense.

Q. State your name and the name and address of your employer.

A. Llewellyn B. Jones. I am employed by the Pennsylvania Public Utility Commission, P. O. Box 3265, Harrisburg, Pennsylvania 17120.

Q. Have you previously presented testimony in this proceeding?

A. Yes. I have testified in the instant case concerning various non-Susquehanna expense claims (Staff Stmt. No. 7). My testimony at this time concerns necessary adjustment to Company claims for Susquehanna related expenses.

Q. Would you briefly state the conclusions of your analysis?

A. Yes, I have prepared Exh. 14-A, Schs. 1-3, to explain the adjustments I would make to claimed Susquehanna expenses. My analyses with appropriate Susquehanna-related operating expense adjustments would increase the Company's income available at present rates by $302,000.

Q. Have you reviewed the nuclear related operating expenses claimed by the Company for the future test year ended July 31, 1983?

A. Yes, I have.

Q. What conclusions do you have from this review?

A. What I have done is to examine PP&L's operating and maintenance expense claims for Susquehanna Unit 1 so as to identify expenses not of an annual or recurring nature. After a review of the Company's claim, I have concluded that PP&L's claims for maintenance-engineering support ($488,000), planning-plant staff scheduling needs ($270,000) and planning-outage plan-

ning ($176,000) are improperly characterized as recurring on an annual basis (See: Exh. 14-A, Sch. 2, PP&L's response to Staff Interrogatory No. E-27). I recommend amortization of each such claim over a two-year period, effectively allowing only one-half of each claim as an annual operating expense for ratemaking purposes.

In reading the direct testimony of Company witness Jerome S. Stefanko (PP&L Stmt. No 10, page 3, lines 17 and 18), it can be learned the reactor at SSES Unit 1 will run approximately 12 to 18 months before its first refueling outage. Witness Kenyon confirms this time frame in his projection of the first refueling outage commencing in September 1984 (Tr. 1458). The items of expense, above, are exclusively related to the first full operating cycle, i.e., the period of time from the commercial start-up to the first refueling outage. What I mean by "exclusively" is that the services represented by these expenses are admitted by the Company to be in excess of a normal operating annual level. This conclusion is further bolstered by a review of the record and the testimony of Company witness Kenyon on cross-examination (Tr. 1468-1470).

Essentially, the Company has expressly recognized that additional planning and technical support will be required to handle initial start-up problems during the first cycle which should not be experienced during subsequent cycles. Witness Kenyon attests to this at Tr. 1468:

> "During the first year of operation, you find more problems than you find in subsequent years. We have staffed for the long range. Thus, during the first year of operation, we have a need for resources that's over and above the long range need."

Also, at Tr. 1469 he stated:

> "In other words, we expect to have a larger than normal number of problems during the first cycle. The problems need to be corrected, correcting them on a timely basis involves planning, so we have supplemental planning resources for that activity."

Therefore, due to the non-recurring nature of these expenses, I have amortized them over a two-year period. This time span is more consistent with the length of the operating cycle and serves to more fairly spread the extraordinary costs of the initial fuel cycle. My calculations as shown on Exh. 14-A, Sch. 1, indicate an adjustment disallowing $467,000 of the Company's operating expense.

Q. Do you propose any other adjustment to PP&L's claimed expenses related to Susquehanna?

A. Yes. Nearing the completion of Unit 1 construction, PP&L engaged the services of Management Analysis Company (MAC) to perform historical assessment audits of the Susquehanna nuclear project.

Costs of these audits totaled $1,228,000 (Tr. 1099) and were included in overhead and capitalized as cost of plant; in this case, PP&L includes $1,228,000 in claimed SSES rate base plus $10,949 in annual depreciation expense for these audits. In my opinion, rate base treatment is inappropriate.

Q. What treatment do you propose for costs associated with the MAC audit?

A. It is obvious to me that the audits were not necessary to Unit 1 construction, but rather were performed "after the fact" (Tr. 1064) so as to substantiate the propriety of PP&L's construction cost claim in this rate case. As such the cost is more properly reflected (at least with regard to Unit 1 and probably also with regard to Unit 2) as rate case expense. In my judgement the $1,228,000 MAC total cost should be split between Units 1 and 2. Further, consistent with my previous analysis of

claimed rate case expenses the $614,000 allocated to Unit 1 in this rate case should be shared by ratepayers and stockholders and normalized over a two-year period for a total increase in rate case expense of $154,000 (See Exh. 14-A, Sch. 3).

Q. What, if any, further adjustment is required?

A. Since PP&L presently included the $1,228,000 MAC cost in rate base and an associated annual depreciation expense of $10,949, PP&L's rate base and depreciation expense claim must be reduced by these figures to reflect proper treatment of the MAC costs as rate case expense as discussed above.

Q. Is your testimony now complete?

A. Yes, it is.

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Staff Exhibit No. 14-A
Witness: L. B. Jones
Date: 4/13/83
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PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-822169

DOCUMENT FOLDER

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Exhibit to Accompany

the Direct Testimony

of

L. B. Jones

Concerning:

Susquehanna Operation and Maintenance Expense Adjustments

Schedule 1

PENNSYLVANIA POWER & LIGHT COMPANY
AMORTIZATION OF SUSQUEHANNA UNIT 1 EXPENSES
($000's)

	Company's Proposed Position $	Recommended Position $	Recommended Adjustment $
1. SSES Unit #1 expenses (A)	934	467(D)	(467)
2. State and Federal income tax effect @ 49.77% (B) x L1	(465)	(232)	233
3. (Decrease)/Increase in total expenses (L1 + L2)	469	235	(234)
4. (Decrease)/Increase in income	(469)	(235)	234
5. Pa. jurisdictional @ .9564 (C) x L4	(449)	(225)	224

Sources: (A) Staff Exh. 14-A, Sch. 2

(B) State taxes 6.9767% x 1 = 6.9767%

Federal taxes: 46% (1 - 6.9767%) = 42.7907%

49.7674%

(C) Exhibit Future 1, Schedule D-1, page 1, line 2, cols. 6 & 7:
$633,735/$662,613 = .9564.

(D) Amortization of claim over two years; 934/2 = 467

Pennsylvania Power & Light Company

Response to Interrogatories
of the PUC Trial Staff-Set IX
Dated: January 17, 1983

Docket No. R-822169

Q.E-27 Refer to response to E-8 and to Attachment 2 of the direct testimony of B. D. Kenyon. Provide support by major components for each of the following annualized expenses:

		$(000's)
a)	materials and supplies	4,493
b)	work by outsiders	5,992
c)	services	4,411

A.E-27 A breakdown of these Budget Items by major cost component is provided in the attached tables.

PUC Trial Staff - Set IX
Answer: E-27 a

The following table is a list of items that represent the major cost components of Budget Item 25-Materials and Supplies. Since the items were budgeted in 100% dollars, the table shows both the budgeted 100% amount and the corresponding PP&L 90% share.

Item Description	($ x 1000) 90%	100%
Consumables		
Radwaste Materials		
Radwaste Resins	404.4	449.3
Drums and Liners	381.1	423.4
Cement	14.2	15.8
Gases and Fuels	120.2	133.6
Sulfuric Acid	106.4	118.2
Other Chemicals/Supplies	197.9	219.9
Storeroom Items	86.7	96.3
Spare Parts		
Mechanical/Electrical Spares	302.8	336.5
Valves and Valve Parts	124.4	138.3
Instruments and I&C Spares	445.7	495.2
Special Spares and Materials	117.1	130.1
Equipment, Equipment Spares and Other Materials	214.3	238.1
Other Materials	292.6	325.1
Total	2,807.8	3,119.8
Annualization is calculated by multiplication of the 90% total by 1.6.	x 1.6	
	4,493.0	

PUC Trial Staff - Set IX
Answer: E-27 b

The following table is a list of items over $50,000 that represent the major components of Budget Item 32 - Work by Outsiders. Since the items were budgeted in 100% dollars, the table shows both the budgeted 100% amount and the corresponding PP&L 90% share.

Item Description	($ x 1000) 90%	100%
Disposal of Low Level Radwaste		
Transportation	792.9	881.0
Burial	619.0	687.8
Maintenance of Equipment		
Welding		
Motor/Generator Repairs		
Transformer Repairs	481.3	534.8
Pump/Diesel Servicing		
Decontamination		
Chemical Cleaning		
Laundry Services for Protective Clothing	425.3	472.6
Assistance for Plant Staff		
Health Physics	360.0	400.0
Instrumentation & Controls	54.9	61.0
Chemistry	54.7	60.8
Employee's Physical Exams	71.1	79.0
GPA Maintenance Contractor	577.5	641.7
Other	308.4	342.6
Total	3,745.1	4,161.3
Annualization is calculated by multiplication of the 90% total by 1.6.	x 1.6	
	5,992.2	

PUC Trial Staff - Set IX
Answer: E-27 c

The following table is a list of items over $50,000 that represent the major components of Budget Item 33-Services. Since the items were budgeted in 100% dollars, the table shows both the budgeted 100% amount and the corresponding PP&L 90% share.

Item Description	($ x 1000) 90%	100%
Environmental		
Ecological Monitoring	391.7	435.1
Radioactivity in SSES Environment	251.4	279.4
Radiological Monitoring	183.9	204.4
Maintenance		
Engineering Support	304.9	338.8
Inspections for Maintenance QA	96.3	107.0
Instr. & Controls Maintenance Program	61.2	68.0
1-3 Year Procurement Approval Cycles	90.0	100.0
Planning		
Plant Staff Scheduling Needs	168.8	187.5
Outage Planning	109.8	122.0
Operations		
Nuclear QA During Operations	91.8	102.0
Review & Revise Plant Admin. Procedures	58.5	65.0
Emergency		
Emergency Plans & Drills	69.4	77.1
Upgrade Emergency Plan	61.1	67.8
Security Clearance Services	77.0	85.5
Personnel Placement		
Executrans Fees	54.8	60.9
Agencies-Candidate Searches	54.7	60.8
Physicians-Pre-Employment Physicals	54.7	60.8
Other	577.4	641.7
Total	2,757.4	3,063.8
Annualization is calculated by multiplication of the 90% total by 1.6.	x 1.6	
	4,411.8	

PENNSYLVANIA POWER & LIGHT COMPANY
HISTORICAL ASSESSMENT AUDIT OF THE SUSQUEHANNA NUCLEAR PROJECT
($000's)

	Company's Proposed Position $	Recommended Position $	Recommended Adjustment $
1. MAC historical assessment audits expenses (A)	-	614	614
2. Fifty-fifty split of amount and charge to ratepayers (line 1 ÷ 2) (B)	-	307	307
3. Normalization allowance over a two-year period (line 2 ÷ 2) (B)	-	154	154
4. Annual depreciation expense (C)	11	-	(11)
5. State and Federal income tax effect @ 49.77% (D) x L3 and L4	(5)	(77)	(72)
6. Decrease)/Increase in total expenses	6	77	71
7. (Decrease)/Increase in income	(6)	(77)	(71)
8. Pa. jurisdictional @ .9564 (E) x L7	(6)	(74)	(68)
9. Return on MAC audits capitalized in rate base (F)	(146)	-	146
Total Income Return	(152)	(74)	78

Sources:
(A) Tr. 1099; $1,228,000 divided equally between SSES #1 and #2 and Unit #1 share expensed to agree with Company claim of rate base recognition.
(B) Staff Exhibit No. 7-A, Schedule 1.
(C) $1,228,000 x .00891621038649 (annual depreciation factor).
(D) State Taxes: 6.9767% x = 6.9767%
Federal Taxes: 46% (1 - 6.9767%) = 42.7907
Total = 49.7674%
(E) Exhibit Future 1, Schedule D-1, page 1, line 2, cols. 6 & 7: $633,735/$662,613 = .9564.
(F) $3,588,858 PUC jurisdictional rate base; Exhibit Future 1, Sch. C-1, pg. 2, line 16.
3,843,607 Total Company rate base; Exhibit Future 1, Sch. C-1, pg. 1, line 16.
12.71% Rate of Return at proposed rates; Exhibit Future 1, Sch. C-1, pg. 2.
$\frac{\$3,588,858}{3,843,607}$ x 1,228,000 x 12.71% = $145,734

Statement

Prosecutory Staff ~~Exhibit~~ No. 15

Witness: A. R. O'Donnell

Date: 4/13/83

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Pennsylvania Power & Light Company

Docket No.: R-822169

PA PUBLIC UTILITY COMMISSION
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APR 19 1983

Direct Testimony

of

Andrew R. O'Donnell

Concerning:

Proper Return Rate on

Escrow Funds for

Disposal of Spent Fuel

and

Decommissioning at

Susquehanna Unit 1

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Andrew R. O'Donnell. My business address is: Pennsylvania Public Utility Commission, P. O. Box 3265, Harrisburg, Pennsylvania, 17120. I am a Fixed Utility Financial Analyst assigned to the Rate of Return Section, Finance Division of the Bureau of Rates.

Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

A. Yes, I earlier submitted Prosecutory Staff Statement No. 8 and Exhibit 8-A.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The purpose of this testimony is to recommend a return rate to be used for the accrual of earnings on funds to be accumulated in escrow for the disposal of spent fuel and decommissioning of Susquehanna Unit 1.

Q. WHAT RETURN RATE DO YOU RECOMMEND ON THE ACCRUAL OF EARNINGS ON FUNDS TO BE ACCUMULATED IN THE ESCROW ACCOUNT?

A. The annuity formula discussed in Mr. Pachul's testimony (P.S. Stmt. No. 1 and 2) calls for a tax exempt rate. I recommend that an 8.5 percent return based on estimated tax exempt yields be used.

Q. WHAT JUSTIFICATION IS THERE FOR AN 8.5 PERCENT TAX EXEMPT YIELD?

A. Recently there has been a dramatic decline in interest rates from the record high levels experienced during the 1980-1982 level. Schedule 1 of Exhibit 15A is a reproduction of page 153 of the March 1983 "Moody's Bond Record." Note the high yields of 1981-1982 and by comparison the lower

yields at February, 1983. It is important that this trend be observed in conjunction with the economic outlook. Schedule 2 is a reproduction of "Municipal Bond Yields By Ratings" for the period 1945-1983 ("Moody's Bond Record," March, 1983); the aberation of 1980-1982 is readily apparent from this graph. Looking toward the future, the majority of evidence in the market place is pointing toward controlled lower inflation. The inflation rate for 1983 and 1984 as forecasted by "Fortune" and the Conference Board's "Statistical Bulletin," a concensus of eight leading econometric forecasting agencies, is in the range of 4-6 percent. Value Line Investment Survey is currently using 5 percent in its 1985-1987 forecasting. Compared to the double digit inflation rates experienced during the 1980-1982 period, the forecasted inflation rates are considerably lower. Since inflation and interest rates go hand-in-hand, it is logical to expect lower bond yields. There are, however, some monetarists who believe the current increases in the money supply will exert upward inflationary pressures beyond 1984. Further, the new S.E.C. ruling which will require registration of tax exempt bonds may tend to make tax exempts less attractive to investors which would exert some upward pressure on tax exempt yields. Thus it is my judgment that 8.5 percent is a conservative tax exempt yield reflecting the aforementioned variables and is a reasonable rate to be used in Mr. Pachul's annuity calculation.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Prosecutory Staff Exhibit No. 15A
Witness: A. R. O'Donnell

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Exhibit to

the Direct Testimony

of

Andrew R. O'Donnell



Concerning:

Proper Return Rate on

Escrow Funds for

Disposal of Spent Fuel

and

Decommissioning of

Susquehanna Unit 1

Moody's Bond Ratings

Purpose: The purpose of Moody's ratings is to provide the investors with a simple system of gradation by which the relative investment qualities of bonds may be noted.

Absence of Rating: Where no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue.

Should no rating be assigned, the reason may be one of the following:

1. An application for rating was not received or accepted.
2. The issue or issuer belongs to a group of securities that are not rated as a matter of policy.
3. There is a lack of essential data pertaining to the issue or issuer.
4. The issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date data to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

Changes in Rating: The quality of most bonds is not fixed and steady over a period of time, but tends to undergo change. For this reason changes in ratings occur so as to reflect these variations in the intrinsic position of individual bonds.

A change in rating may thus occur at any time in the case of an individual issue. Such rating change should serve notice that Moody's observes some alteration in the investment risks of the bond or that the previous rating did not fully reflect the quality of the bond as now seen. While because of their very nature, changes are to be expected more frequently among bonds of lower ratings than among bonds of higher ratings; nevertheless, the user of bond ratings should keep close and constant check on all ratings—both high and low ratings—thereby to be able to note promptly any signs of change in investment status which may occur.

Limitations to Uses of Ratings: Bonds carrying the same rating are not claimed to be of absolutely equal quality. In a broad sense they are alike in position, but since there are only nine rating classes used in grading thousands of bonds, the symbols cannot reflect the fine shadings of risks which actually exist. Therefore, it should be evident to the user of ratings that two bonds identically rated are unlikely to be precisely the same in investment quality.

As ratings are designed exclusively for the purpose of grading bonds according to their investment qualities, they should not be used alone as a basis for investment operations. For example, they have no value in forecasting the direction of future trends of market price. Market price movements in bonds are influenced not only by the quality of individual issues but also by changes in money rates and general economic trends, as well as by the length of maturity, etc. During its life even the best quality bond may have wide price movements, while its high investment status remains unchanged.

The matter of market price has no bearing whatsoever on the determination of ratings which are not to be construed as recommendations with respect to "attractiveness." The attractiveness of a given bond may depend on its yield, its maturity date or other factors for which the investor may search, as well as on its investment quality, the only characteristic to which the rating refers.

Since ratings involve judgments about the future, on the one hand, and since they are used by investors as a means of protection, on the other, the effort is made when assigning ratings to look at "worst" potentialities in the "visible" future, rather than solely at the past record and the status of the present. Therefore, investors using the rating should not expect to find in them a reflection of statistical factors alone, since they are an appraisal of long—term risks, including the recognition of many non-statistical factors.

Moody's ratings represent the mature opinion of Moody's Investors Service as to the relative investment classification of bonds. As such, they should be used in conjunction with the description and statistics appearing in Moody's Municipal & Government Manual and Municipal Credit Reports. Reference should be made to these for information regarding the issuer.

Key to Moody's Municipal Ratings

Aaa

Bonds which are rated **Aaa** are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa

Bonds which are rated **Aa** are judged to be of high quality by all standards. Together with the **Aaa** group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in **Aaa** securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long—term risks appear somewhat larger than in **Aaa** securities.

A

Bonds which are rated **A** possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa

Bonds which are rated **Baa** are considered as medium grade obligations; i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba

Bonds which are rated **Ba** are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments
may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B

Bonds which are rated **B** generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa

Bonds which are rated **Caa** are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca

Bonds which are rated **Ca** represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C

Bonds which are rated **C** are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Con. (---)

Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Note: Those bonds in the **Aa, A, Baa, Ba** and **B** groups which Moody's believes possess the strongest investment attributes are designated by the symbols **Aa 1, A 1, Baa 1, Ba 1** and **B 1.**

MOODY'S MUNICIPAL BOND YIELD AVERAGES

	Aver. Munic.	—Municipal by Ratings— Aaa	Aa	A	Baa
1981					
Jan.	9.39	8.98	9.19	9.50	9.90
Feb.	9.81	9.46	9.74	9.88	10.15
Mar.	9.95	9.50	9.80	10.08	10.40
Apr.	10.34	9.78	10.19	10.53	10.85
May	10.59	9.90	10.35	10.82	11.28
June	10.54	9.86	10.30	10.76	11.21
July	10.86	10.21	10.63	11.04	11.55
Aug.	12.07	11.10	11.98	12.38	12.78
Sept.	12.76	11.55	12.60	13.25	13.60
Oct.	12.68	12.05	12.50	12.84	13.34
Nov.	11.73	10.98	11.21	12.05	12.69
Dec.	12.44	11.70	12.16	12.60	13.30

	Aver. Munic.	—Municipal by Ratings— Aaa	Aa	A	Baa
1982					
Jan.	13.14	12.30	12.84	13.48	13.95
Feb.	12.98	12.20	12.68	13.20	13.83
Mar.	12.81	11.95	12.21	13.39	13.70
Apr.	12.45	11.66	12.09	12.74	13.29
May	11.76	11.05	11.40	12.03	12.54
Jun.	12.15	11.55	11.96	12.36	12.74
Jul.	12.36	11.47	12.16	12.64	13.17
Aug.	11.33	10.68	10.90	11.37	12.36
Sept.	10.64	9.70	10.34	10.63	11.88
Oct.	9.80	9.15	9.51	9.88	10.66
Nov.	10.03	9.45	9.73	10.15	10.79
Dec.	10.06	9.34	9.85	10.24	10.80

	Aver. Munic.	—Municipal by Ratings— Aaa	Aa	A	Baa
1983					
Jan.	9.85	9.00	9.54	9.88	10.98
Feb.	9.52	8.80	9.11	9.58	10.59
Mar.	----	----	----	----	----
Apr.	----	----	----	----	----
May	----	----	----	----	----
Jun.	----	----	----	----	----
Jul.	----	----	----	----	----
Aug.	----	----	----	----	----
Sept.	----	----	----	----	----
Oct.	----	----	----	----	----
Nov.	----	----	----	----	----
Dec.	----	----	----	----	----

The averages have been constructed from a small sampling of general market issues. Under the relatively stable market conditions that system performed satisfactorily. However, under depressed market conditions, an average geared to specific issues quickly becomes an average based upon discount bonds. Consequently, for some time Moody's averages have been in a transitory stage, as weight has been given not only to quality and maturity but also to factors of prevailing interest rates to determine what the present yields would be if bonds of the same quality bore current coupons. Consequently, it was by degrees that Moody's averages have become colored by the new-issue market.

Thus, Moody's municipal bond averages are constructed from a broad sampling of general market names selling in the new-issue market. Moody's believes that this is the only accurate means of sampling and reporting market trends.

WISCONSIN (cont'd)

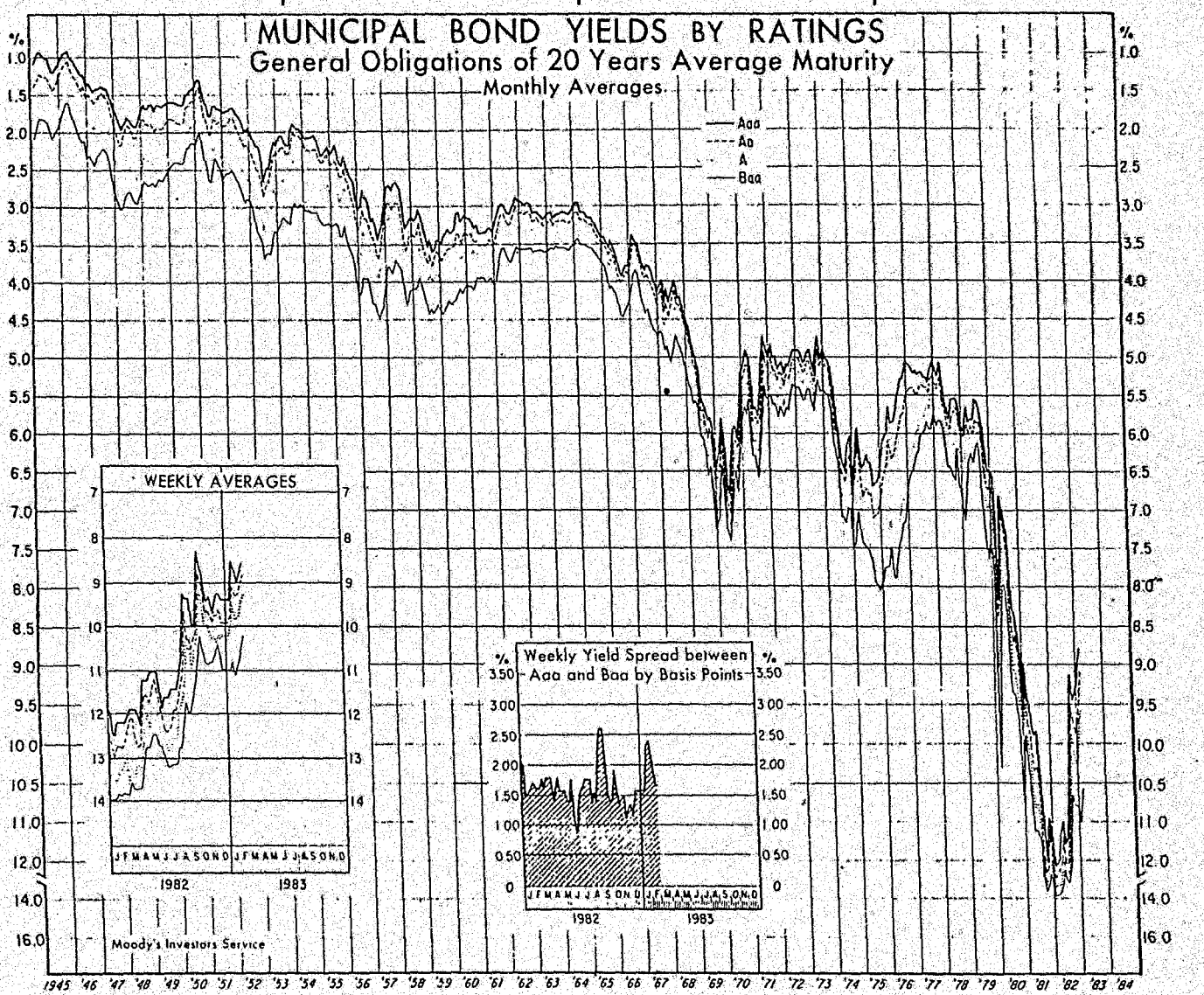
Waukesha ... Aa
Sewer Mortgage Rev ... Con.(A)
Waukesha Memorial Hosp. rev. ... A
Wwks. rev. ... Aa
Waukesha County ... Aa1
Waunakee (Village) et al., Jt. S.D. 4 ... A
Waupaca ... Baa1
Waupun (City) et al., Jt. S.D. 1 ... A
Wausau ... Aa
Sew. mtge. rev. ... Baa1
Wausau Hosp. rev., Ser. A ... A
Wwks. mtge. rev. ... Aa
Waushara County ... A
Wautoma (City) et al. Jt. Com. S.D. 1 Baa
Wauwatosa ... Aaa
Kurtis R. Froedtert Memorial Lutheran Hosp. Lease rental ... Con.(A)
Wwks. mtge. rev. ... A
Webster S.D. (form. Jt. S.D. 1) ... A
West Allis ... A1
West Allis-West Milwaukee et al S.D. A1
West Bend ... A1
West Bend (City), et al., Jt. S.D. 1 ... Aa
West Bend Housing Auth. Meadowbrook II mtge. rev. ... Con.(A1)
West Grant S.D. ... A
West Milwaukee ... A
West Salem S.D. (form. Jt. S.D. 1) ... A
Westby Schs. (form. Jt. S.D. 7) ... A
Western Wisconsin V.-T. & A. E. D. ... Aa
Weyauwega (City), et al., Jt. S.D. 2 ... A
Whitefish Bay ... A1
Whitefish Bay Village S.D. 1 ... A
Whitewater ... A
Sewer rev. ... A
Whitewater (City) Unif. Jt. S.D. 1 ... A
Wild Rose Jt. S.D. 2 ... Baa
Wilmot U.H.S.D. ... A
Winnebago County ... Aa
Winnebago Co. Hsg. Auth. First mtge. rev., ser. '78 ... A1
Winneconne (Vill.), et al., Jt. S.D. 1 ... A
Winter, Couderay & Radisson Jt. S.D. 1 ... Baa1
Wisconsin Dells ... Baa1
Wisconsin Heights S.D. ... A
Wisconsin Indianhead V.-T. & A. E. D. A1
Wisconsin Rapids ... A
Combined util. mtge. rev. ... Baa1
Wittenberg (Vill.), et al., Jt. S.D. 2 ... Baa
Wonewoc & Union Ctr. S.D. ... A
Wood County ... Aa

WYOMING

Northern Wyoming Comm. Coll. Dist. A
University of Wyoming
Dorm. & din. rev., 6-1-65 ... # Aaa
Facil. Imp. rev., 2-1-71 & 10-1-71 ... # Aaa
Facil. imp. rev., 6-1-75 ... A1
Facil. ref. rev., 1-15-74 ... A1
Ref. & imp. rev., 6-1-67 ... # Aaa
Second lien fac. rev. ... A
Wyoming Capitol Bldg. Comm. Collateralized ... Aaa
Wyoming Comm. Devel. Auth. Single family mtge. ... Aa
Wyoming Farm Loan Board Mineral royalties rev. ... Baa
Wyoming Munic. Power Agcy. Power supply rev. ... Con.(A)
Albany County ... A
Albany County S.D. 1 (Laramie) ... A1
Big Horn Co. S.D. 2 ... A
Big Horn Co. S.D. 3 (Greybill) ... A
Big Horn Co. S.D. 4 ... A
Campbell County ... Aa
Campbell Co. Hosp. Dist. ... Aa
Campbell Co. S.D. 1 (Gillette) ... Aa
Carbon County ... A1
Carbon County S.D. 1 ... Aa
Carbon County S.D. 2 ... Aa
Casper ... Aa
Casper-Natrona Co. Jt. Powers Brd. Lease revenue 8-1-80 ... A
Castle Rock Hospital Dist. ... Aa
Cheyenne ... Aa
Cheyenne Housing Auth. Hsg. rev. ser. '77 (Section 8 assisted) ... Con.(Baa1)
Converse County ... A1
Converse Co. S.D. 1 (Douglas) ... A1
Converse Co. S.D. 2 (Glenrock) ... A1
Fremont County ... Aa
Fremont Co. Comm. Coll. Dist. ... Aa
Fremont Co. S.D. 1 ... A1
Fremont Co. S.D. 2 ... A
Fremont Co. S.D. 9 ... A
Fremont Co. S.D. 25 ... A
Fremont County Voc. H.S.D. (Assmd. by S.D. 1) ... A1
Gillette ... A
Water & sewer rev. ... A
Goshen Co. S.D. 1 ... A
Green River-Sweetwater Co. S.D. 2 Jt. Powers Bd. Recreat. facils. rev. ser. 1982 ... A
Johnson Co. S.D. 1 ... A1
Laramie ... A
Laramie Co. Comm. Coll. Dist. ... Aa
Laramie Co. S.D. 1 (Cheyenne) ... Aa
Lincoln Co. S.D. 1 (Kemmerer) ... A
Lincoln Co. S.D. 2 ... A1
Natrona County Airport rev. ... Baa1
Natrona Co. S.D. 1 (Casper) ... Aa
Niobara Co. S.D. 1 ... A
North Big Horn Hosp. Dist. ... A
Northwest Comm. Coll. Dist. ... A1
Park Co. S.D. 1 ... A1
Park Co. S.D. 6 ... A1
Platte County ... A
Platte Co. S.D. 1 (Wheatland) ... A
Platte Co. S.D. 1 School Facilities Auth. Lease rental ... Con.(Aa)
Platte Co. S.D. 2 ... A
Powell ... A
Rawlins ... A
Riverton ... A
Rock Springs-Sweetwater Co. Jt. Powers Bd. Recreation facils. ser. A ... A
Sewage Treatment plant Ser. B ... A
Sheridan ... A
Wtr. & sew. rev. ... A
Sheridan County ... A
Sheridan Co. S.D. 2 ... A
Sublette Co. S.D. 1 ... A1
Sublette Co. S.D. 9 (Big Piney) ... A1
Bonds dated 4-15-81 ... # Aaa
Sweetwater County ... Aa
Sweetwater Co. S.D. 1 ... Aa
Bonds dtd. 1-1-75 ... # Aaa
Sweetwater Co. S.D. 2 ... Aa
Teton Co. S.D. 1 ... A
Uinta County Lutheran Homes & Hosp. Society-Evanston proj. '83 rev ... A1
Uinta Co. S.D. 1 ... A1
Washakie Co. S.D. 1 (Worland) ... A1
West Park Hosp. Dist. ... A1
Western Wyoming Comm. Coll. Dist. A1
Weston County ... A1
Weston Co. S.D. 1 ... A1
Worland ... A

MISCELLANEOUS
(Taxable)

Alaska Housing Finance Corp. State assist. mtge. ser. G ... Aa
State assist. mtge. ser. H ... Aa
State assist. mtge. ser. I ... Aa
Colorado School of Mines Bldg. Corp. (U.S. Geological Survey) bldg. rev. A1
General Rose Mem. Hosp. (now Rose Medical Ctr.) Colo. HEW gtd. hosp. financing ... Aaa
Columbia Hospital (Milwaukee, Wis.) Ser. 1982 direct obligation notes ... A
Gulf Coast Indust. Devel. Auth. Tex. Big Chief Interests S.B.A. gtd. ... Aaa
Travis Wastewater Auth., Cal. Swr. rev. '76 U.S. Govt. lessee ... Con.(A1)



NOTES: For footnotes see page 154. Moody's ratings are subject to change. Because of the possible time lapse between Moody's assignment or change of a rating and your use of this monthly publication, we suggest you verify the current rating of any security or issuer in which you are interested. For standard abbreviations, see page 3.

Statement
Staff ~~Statement~~ No. 16
Witness: Dennis M. Kalbarcyzk
Date: 4/13/83
DOM
R-822169
Harrisburg

RECEIVED
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SECRETARY'S OFFICE
Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-822169

Direct Testimony

of

Dennis M. Kalbarczyk

DOCUMENT FOLDER

DOCKETED
APR 18 1983

Concerning:

Imputed Revenue from Off-System Sales

Q. Please state your full name and business address.

A. My name is Dennis M. Kalbarczyk. My business address is P. O. Box 3265 Harrisburg, Pa. 17120.

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

A. I am employed by the Pa. Public Utility Commission, Bureau of Rates as a Fixed Utility Analyst in the Electric Division.

Q. Have you testified previously in this proceeding?

A. Yes. I submitted Staff Stmt. No. 12 and Exh. 12-A.

Q. What items will you be addressing through this statement of testimony?

A. The propriety of a ratemaking adjustment for imputed revenue from off-system sales profit to reflect PP&L's excess generating capacity.

Q. Can you explain how Susquehanna Unit 1 affects off-system sales profits in this rate case?

A. Yes. When PP&L puts its $1.6 billion Susquehanna Unit 1 (950 MW) into rate base, the jurisdictional customers will be charged through base rates some $381 million extra per year (this covers requested rate of return, income taxes, depreciation, and annualized operation and maintenance expense of this unit). The Company estimates it will save the customers an additional $186 million in net energy cost ($104 million in fossil fuel cost and an additional $82 million in profits from off-system sales).

Q. What is your opinion of the $186 million claimed savings?

A. PP&L has in effect an ECR tariff through which it recovers its excess costs of fuel (energy costs) not recovered in base rates. The energy cost rate is merely an estimate of what the Company feels energy cost will be for a twelve-month period. In this case, the Company estimates its cost will be $186 million less due to the commercial operation of Susquehanna Unit 1; however, there is no guarantee to the customer that this savings will actually be realized. At the end of the twelve-month period, the Company will file for a new ECR for the next year (its next Section 1307(e) filing) which will include an error correction factor for the prior twelve-month period. Thus, for example, if the actual savings to the customer were only $150 million the Company would then theoretically collect $37 million from the customer through the error correction factor as part of its next ECR; of course, if the Company saved more than estimated, it makes refunds back to the customer through the same mechanism. To summarize, the $186 million is merely an estimate incorporated into the instant base rate increase claim at no risk whatever to the utility and subject to adjustment in future ECR tariffs so as to make the Company whole for any over or under collection.

Q. You stated that the $186 million estimate saving includes $82 million of increased sales. What is your opinion of why sales are made?

A. During certain periods, generating units are sitting idle. Since the customers are paying a rate of return whether the units run or not, interchange or off-system sales are made with the profit used to offset fixed cost paid by the utility customers.

Q. You mentioned that PP&L estimates $82 million dollars in additional off-system sales revenue. How many MWH does this represent and can you define the type of interchange sales?

A. Yes. Exh. 16-A, Sch. 1, outlines the Company's claim for off-system sales with and without Susquehanna Unit 1; this information was supplied in a PP&L interrogatory response (PP&L 200.182050) included in Exh. 16-A, Sch. 3, p. 10). As you can see, PP&L will sell 12,663,000 MWH for a profit of $152,300,000 as compared to 7,688,000 MWH and a $69,700,000 profit without Unit 1; this represents an increase of 4,975,000 MWH and $82,600,000 in off-system sales. Accepting as given PP&L's estimate of the Company's total test year generation, it is apparent that off-system sales with Unit 1 will account for some 34% of PP&L's total generation (12,663,000 ÷ 37,292,000 Sch. 3, page 7).

Q. What is your opinion of the Company's claimed $152,300,000 additional profit for off-system sales with Unit 1?

A. When PP&L places Unit 1 into rate base, it will create a situation where current customer demand for power is minimal compared to what the Company can reasonably produce. The Company will rely on off-system sales to lessen the total revenue requirements reflected in this rate case and, in fact, has estimated for ratemaking purposes that 34% of the power to be generated will be for off-system sales. The $152 million projected by the Company, however, is merely a projection which may or may not occur, as I discussed earlier, if it does not occur, the Company will simply make up its loss through its ECR tariff.

Q. So far you've addressed only the Company's claimed off-system sales, can you explain your position with regard to PP&L's excess capacity and its effect on off-system sales revenues?

A. As I previously stated, the customer pays a rate of return on all of the units whether they operate or not. Staff witness Gruber (Staff Stmt. No. 13) testified that the Company can generate substantially more power than what it has projected and can more than adequately supply its own customers. The Company, in order to utilize its excess power, has entered into agreements with other utilities to sell this excess power; however, sales under such contracts as currently exist will not generate profits which can reasonably offset the cost associated with the return to be paid by the customer. In order to encourage the Company to act more aggressively on behalf of its customers, and taking into consideration that I have not recommended removal of any generating plant from rate base, I recommend that the 5,601,950 MWH identified by Staff witness Gruber as excess capacity (Exh. 13, Sch. 1, p. 3) be valued at an average profit ratio of $12.00 per MWH and the total of $67,223,400 be included as an adjustment to increase the revenue credit to fuel expenses. The $12.00 per MWH number represents the current profit ratio to be realized through sales to other utilities; Exh. 16-A, Sch. 1, shows the derivation of that figure.

Q. Then you recommend that an additional $67,223,400 be imputed as a revenue credit to fuel expenses for ratemaking purposes in this case?

A. That is correct.

Q. Under the current ECR procedures what effect would the $152,300,000 off-system sales profit and $67,223,400 credit for excess capacity to fuel expense have?

A. The current ECR would be lower; my calculations are incorporated in Exh. 16-A, Sch. 2. However, the next ECR proceeding (April 1, 1984) would reflect the difference between the actual off-system sales profit versus the estimated $152,300,000 and $67,223,400. If the Company did not attain this goal, it would simply include the difference to be collected from the customer in that ECR as I have discussed earlier. In order to preclude this, I recommend modifying PP&L's ECR tariff so as to guarantee the off-system sales profits associated with the base rate recognition of the Company's entire generating capacity.

Q. What is your recommendation regarding necessary modification of the Company's ECR tariff?

A. I recommend that the ECR be based at zero consistent with the Company's intention. However, for purposes of the Computation of Base Energy Cost (PP&L Exh. Future I-D-3, p. 6), I propose that the 9.683 mills/KWH figure incorporated by the Company be reduced by $67,223,400 for a fuel base of 6.782 mills/KWH. See Exh. 16-A, Sch. 2 for details of this calculation. I note that the Company-claimed $152,300,000 off-system sales profit is included in PP&L's calculation of the 9.683 mill rate.

Q. How would this adjustment effect PP&L's 1307(e) proceedings?

A. For purposes of the 1307(e) proceeding, the Company would reflect the 6.782 mills/KWH as follows:

Energy Cost to native load	16.009 mills/KWH
Guaranteed Off-System Sales & Excess Capacity cost ($219,523,000)	(9.227) mills/KWH
Total Base Energy Cost	6.782 mills/KWH

The Company would then determine actual revenue collected, which is the M/KWH rate number times actual KWH sales billed. The revenue collected for each part would then be compared to the actual native load energy cost and the $219,523,000 guaranteed interchange profits.

Q. Do you have any other comments regarding off-system sales and excess capacity?

A. Yes. As a further incentive for the sale of additional interchange power, I recommend that once the profit levels required in the ECR for the total adjustment of $219,523,400 ($152,300,000 and $67,223,400) are reached, all further profits be split 50/50 between PP&L and the customer.

Q. What happens if the Company is over or under collected from this procedure?

A. If the Company is over or under collected in any of these parts, the Company would then utilize the over-under collection figure in its next ECR filing as an error correction factor. In the error correctiou factor, as noted above, the Company would include only 50% of any actual interchange profit over $219,523,400. Further, when the Company calculates any subsequent ECR, it would continue use of the guaranteed

profit of $219,523,400 for interchange sales until such time as there is a change in available excess capacity as determined in a subsequent rate proceeding.

Q. Would the ECR tariff as currently written require any change?

A. Yes. The Company would have to adjust its base rate factor to 6.782 mills/KWH, as well as modifty the working in its ECR so as to include a provision to the effect that customers shall pay only energy cost for what they consume plus a credit for the guranteed interchange sales profit of $219,523,400 and the 50/50 split of any interchange sales profit above this figure. Of course, the Company would have to file the actual ECR tariff revision with the Commission for review prior to implementation to make certain it complies, that filing would be in conjunction with its base rate compliance filing incident to conclusion of this base rate investigation.

Q. Can you summarize your recommendation in this testimony?

A. Yes. I recommend modifying the ECR to reflect the following:

- Guarantee the $152,300,000 off-system sales profit.
- Gurantee additional revenues of $67,223,400 due to excess capacity.
- Profit from all interchange sales above $219,523,400 should be split 50/50 between the customer and Company.
- Amend the ECR tariff language accordingly.

Q. Do you have any other comments regarding your adjustment?

A. Yes, as an overall review of my testimony, it is my opinion that this is

the most viable method for the Commission in dealing with PP&L's excess capacity. The method proposed allows and encourages the Company to utilize all of its assets while adequately compensating the customer for the rate of return it pays to PP&L. Absent a firm commitment by the Company to sell additional power at a reasonable profit, the excess plant should be excluded from rate base.

Q. Does this conclude your testimony?

A. Yes, it does.

Staff Exhibit No. 16-A
Witness: Dennis M. Kalbarczyk
Date: 4/13/83
DOM
R-822169
Harrisburg

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Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-822169

Exhibit to Accompany

Direct Testimony

of

Dennis M. Kalbarczyk

Concerning:

Imputed Revenue from Off-System Sales

Schedule 1

PP&L Interchange Sales*
Twelve Months Ended 7/31/83

Type of Sale by Fuel	With Susquehanna Unit 1 Sales (000) MWH	Profit $(000) $	$/MWH $	Without Susquehanna Unit 1 Sales (000) MWH	Profit $(000) $	$/MWH $
NU						
Coal	990	8,300	8.38	756	6,400	8.47
PJM						
Coal	6,629	112,700	12.00	2,519	33,200	13.18
Heavy Oil	4,753	28,300	5.95	4,120	26,200	6.36
Light Oil	25	-	-	25	-	-
Resale of Pur. Power	266	3,000	11.28	268	3,900	14.55
Total PJM	11,673	144,000	12.34	6,932	63,300	9.13
Total Interchange Sales	12,663	152,300	12.03	7,688	69,700	9.07

*Source: PP&L Exh. 200.182050 (Sch. 3, p. 10)

Schedule 2

Computation of Base Energy Cost
with Susquehanna Cost and Output
Period Ending July 31, 1983
($000's)

Fuel Expense	PP&L Request Total System Fuel Exp. $		PUC Proposed Native Load Fuel Expense $	
Fuel Cost	764,371		355,921	
Nuclear Fuel	26,590(1)		24,835(1)	
Total Fuel Expense	790,961		380,756	
Power Purchase	30,995		126	
Total Fuel Expense	821,956		380,882	16.009 mills/KWH
Less:				
Expenses Not Recoverable	25,750	Less: PUC ADJ.	152,300	
		Guar. Off-System Sales Profit		
Power Sales	565,819	Excess Capacity Adj.	67,223	
Total Credits	591,569(2)		219,523	(9.227) mills/KWH
Net Energy Cost to be collected	230,387		161,359	
Total Sales 23,792,467,300 KWH	9.683 mills/KWH		6.782 mills/KWH	6.782

(1) Note: $26,590 includes $1,775 of nuclear fuel cost to Atlantic City Electric (ACE). PUC proposal excludes this since total sales of 23,792,67,300 KWH does not have any ACE sales in that figure.

(2) Total Credits represents the fuel cost to generate and the $152,300,000 in off-system sales profit estimated by the Company.

List of Interrogatories Applicable to

Direct Testimony

of

Dennis M. Kalbarczyk

Interrogatory Submitted by & Number Pa. P.U.C.	PP&L No. Assigned
V-3	200.182003
R-9	200.182046
R-11	200.182048
R-13	200.182050
R-14	200.182051
RS-11	200.182089

Pennsylvania Power & Light Company
Response to Interrogatories
of the PUC Trial Staff
Set I Dated December 8, 1982

Docket No. R-822169

Q. V-3. Provide a detailed calculation of the fuel cost savings of $106 million (Statement 12, P. 11, 1.9) due to the operation of Susquehanna Unit 1.

A. V-3. The $106 million fuel cost savings is the portion of total savings in fuel cost applicable to PUC jurisdictional customers. The value is determined by first calculating the savings in fuel costs for total PP&L customers, both FERC jurisdictional and PUC jurisdictional, then allocating the portion applicable to PUC customers. Details of the calculation are shown below.

FUEL AND PURCHASE EXPENSE EXCLUDING
FUEL EXPENSE FOR INTERCHANGE SALES

	Without Susquehanna 1 $ Millions	With Susquehanna 1 $ Millions	Fuel Cost Savings (Difference) $ Millions
Coal			
Coal Expense	436.5	354.1	82.4
Oil			
Oil Expense	54.9	1.8	
Interchange Purchases (Assumed to be oil)	0.7	0.2	
Total Oil Expense	55.6	2.0	53.6
Nuclear (PP&L Share)			
Fuel Expense	0	26.6	
Fuel cost of AE Buyback	0	1.8	
Minus fuel cost of Sale to ACE	0	(1.8)	
Total Nuclear Expense	0	26.6	(26.6)
Total Fuel Expense for PP&L Customers	492.1	382.7	109.4
Percent of Energy Expense Allocated to PUC Customers			96.4324%
Total fuel cost savings times percentage			105.5

Pennsylvania Power & Light Company
Response to Interrogatories
of the PUC Trial Staff
Set IV Dated December 16, 1982

Docket No. R-822169

Q. R-9. Refer to Exhibit Regs. III, Attachment III-E-6, Page 2 and Exhibit Future I D-4:

a. Provide the dollars and MWH associated with Interchange Receipts, Deliveries and Test Power shown in Column 7 of D-4 (Lines 5, 6, 7 & 8 in the same format as Attachment III-D-6, Page 2 on a monthly basis for the twelve months ended July 31, 1983.

b. Please provide a similar schedule on a monthly basis for the twelve months ended July 31, 1982.

A. R-9. Attachments 1 and 2 provide the requested information. Test power was not included in the pro-forma future test year or in the historic test year and hence was not addressed in either of the attachments.

DOCKET NO. R-822169
PRO FORMA WITH SSES UNIT NO. 1 12 MONTHS OPERATION
PURCHASE AND INTERCHANGE POWER EXPENSE
YEAR ENDING JULY 31, 1983

INTERCHANGE PURCHASES AND SALES	AUGUST 1982		SEPTEMBER 1982		OCTOBER 1982		NOVEMBER 1982		DECEMBER 1982		JANUARY 1983	
	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT
Economy Interchange Purchased												
PJM	0	$ 0	0	$ 800	0	$ 1,100	0	$ 100	0	$ 1,200	0	$ 1,100
Outside Pools	10,000	239,700	7,000	168,300	29,000	716,700	5,000	138,700	24,000	687,600	34,000	1,053,600
Total	10,000	$239,700	7,000	$169,100	29,000	$717,800	5,000	$138,800	24,000	$688,800	34,000	$1,054,700
Economy Interchange Sold												
PJM	1,030,000	40,573,400	951,000	38,078,800	865,000	35,015,200	1,091,000	51,091,500	1,133,000	56,831,300	825,000	44,162,300
Outside Pools	7,000	398,500	2,000	107,900	0	0	0	0	0	0	0	0
Northeast Utilities	121,000	3,412,200	120,000	3,432,000	103,000	3,048,800	45,000	1,395,000	36,000	1,141,200	41,000	1,295,600
Total	1,158,000	$44,384,100	1,073,000	$41,618,700	968,000	$38,064,000	1,136,000	$524,865,000	1,169,000	$57,972,500	866,000	$45,457,900

INTERCHANGE PURCHASES AND SALES	FEBRUARY 1983		MARCH 1983		APRIL 1983		MAY 1983		JUNE 1983		JULY 1983		TOTAL	
	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT
Economy Interchange Purchased														
PJM	0	$ 0	0	$ 13,200	2,000	$107,300	0	$ 0	0	$ 800	0	$ 0	2,000	$ 125,600
Outside Pools	21,000	555,000	37,000	1,177,100	35,000	969,400	29,000	853,500	18,000	366,600	17,000	301,600	266,000	7,227,800
Total	21,000	$555,000	37,000	$1,190,300	37,000	$1,076,700	29,000	$853,500	18,000	$367,400	17,000	$301,600	268,000	$7,353,400
Economy Interchange Sold														
PJM	1,036,000	53,747,700	1,144,000	61,535,700	774,000	38,932,200	680,000	26,764,800	933,000	38,730,700	1,197,000	49,743,600	11,659,000	535,207,200
Outside Pools	0	0	1,000	65,300	0	0	0	0	2,000	118,600	2,000	110,800	14,000	801,100
Northeast Utilities	60,000	1,758,000	32,000	1,024,000	52,000	1,606,800	132,000	3,867,600	125,000	3,525,000	123,[illegible]	3,308,700	990,000	28,814,900
Total	1,096,000	$55,505,700	1,177,000	$62,625,000	826,000	$40,539,000	812,000	$30,632,400	1,060,000	$42,374,300	1,322,000	$53,163,100	12,663,000	$564,823,200

Attachment 1
200.182046

DOCKET NO. R-822169
HISTORIC TEST YEAR
PURCHASE AND INTERCHANGE POWER EXPENSE
YEAR ENDING JULY 31, 1982

INTERCHANGE PURCHASES AND SALES	AUGUST 1981		SEPTEMBER 1981		OCTOBER 1981		NOVEMBER 1981		DECEMBER 1981		JANUARY 1982	
	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT
Economy Interchange Purchased												
PJM	1,679	$ 65,361	167	$ 10,591	20,348	$1,223,915	54,323	$2,552,130	40,106	$2,377,562	56,344	$4,753,511
Outside Pools	8,384	244,881	9,129	280,523	27,610	1,100,181	14,744	434,094	21,919	844,521	19,950	868,776
UGI	1,368	32,313	1,119	26,985	35	963	64	1,418	0	0	0	0
Total	11,431	342,555	10,415	318,099	47,993	2,325,059	69,131	2,987,642	62,025	3,222,083	76,294	5,622,287
Economy Interchange Sold												
PJM	655,007	28,730,310	599,881	25,910,627	342,600	14,578,871	225,206	7,450,143	251,618	9,509,416	362,673	19,866,720
Outside Pools	5,412	(7,280)	2,304	(53,663)	2,704	(1,390)	3,548	(31,573)	2,174	(15,756)	5,380	550,626
Total	660,419	28,723,030	602,185	25,856,964	345,304	14,577,481	228,754	7,418,570	253,792	9,493,660	368,053	20,417,346

INTERCHANGE PURCHASES AND SALES	FEBRUARY 1982		MARCH 1982		APRIL 1982		MAY 1982		JUNE 1982		JULY 1982		TOTAL	
	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT	MWH	AMOUNT
Economy Interchange Purchased														
PJM	13,113	$765,819	(289)	$ (13,669)	7,603	$345,639	55,187	$2,070,103	7,212	$273,645	(1,950)	$ (76,796)	253,843	$14,347,811
Outside Pools	17,774	804,271	28,856	1,393,733	48,913	2,065,202	58,502	1,999,303	62,235	2,352,191	83,900	3,486,789	401,916	15,874,465
UGI	0	0	17	427	76	1,882	573	13,860	712	16,203	950	19,169	4,914	113,220
Total	30,887	1,570,090	28,584	1,380,491	56,592	2,412,723	114,262	4,083,266	70,159	2,642,039	82,900	3,429,162	660,673	30,335,496
Economy Interchange Sold														
PJM	596,878	31,335,921	781,720	37,837,506	492,175	24,558,536	459,061	20,130,421	630,137	25,021,356	564,951	23,610,935	5,961,907	268,540,762
Outside Pools	265	(8,554)	1,052	(26,436)	1,275	(9,611)	2,592	(34,510)	3,475	29,924	4,561	18,847	34,742	499,644
Total	597,143	31,327,367	782,772	37,811,070	493,450	24,548,925	461,653	20,184,931	633,612	25,051,280	569,512	23,629,782	5,996,649	269,040,406

(5)

Attachment 2
200.182046

Pennsylvania Power & Light Company
Response to Interrogatories
of the PUC Trial Staff
Set IV Dated December 16, 1982

Docket No. R-822169

Q. R-11. Refer to Exhibit Regs. I, Attachment I-B-2, Page 3 and, Exhibit Future 1, D-4: Provide the information shown on D-4, column 7, Lines 1, 2 and 3 in the same format and breakdown by station, net generation (MWH), capacity factors, etc. as shown on Attachment I-B-2, Page 3.

A. R-11. Refer to Attachment I.

PENNSYLVANIA POWER & LIGHT COMPANY
PRO FORMA WITH SSES UNIT NO. 1 12 MONTHS OPERATION
UNIT AND STATION GENERATION AND EXPENSE
YEAR ENDED JULY 31, 1983

		UNIT			STATION FUEL BURN			STATION EXPENSE	
		Installed Capacity (MW)	Net Generation (MWH)	Capacity Factor (%)	Coal (Tons)	Heavy Oil (BBL)	Light Oil (BBL)	Fuel ($000)	Operation and Maint. ($000)
STEAM									
Brunner Island	1	334	2,183,000	74.6					
	2	390	2,648,000	77.5					
	3	740	4,673,000	72.1					
	STA	1,464	9,504,000	74.1	3,846,000		84,167	$ 180,502	$ 22,607
Holtwood	17	73	462,000	72.3	301,000		6,238	7,974	9,525
Martins Creek	1	150	949,000	72.2					
	2	150	878,000	66.8					
	3	820	2,394,000	33.3					
	4	820	2,440,000	34.0					
	STA	1,940	6,661,000	39.2	871,000	8,098,000	219,000	303,952	30,632
Montour	1,11	765	4,995,000	74.5					
	2	750	5,030,000	76.6					
	STA	1,515	10,025,000	75.5	3,834,000		62,691	182,631	25,309
Sunbury	1,2,3	255	1,787,000	80.0					
	4	134	854,000	72.8					
	STA	389	2,641,000	77.5	1,452,000		6,429	47,751	15,531
Keystone (PL Share)	STA	210	1,160,000	63.1	480,000		10,119	15,448	5,367
Conemaugh(PL Share)	STA	194	1,104,000	65.0	463,000		9,357	19,578	4,341
STEAM POWER GENERATION (AS SHOWN ON LINE 1, COL. 7 OF D-4)								757,836	
Susquehanna(PL Share) (Excl. Sale to ACE)	1	883	5,044,000	65.2				24,837	58,388
NUCLEAR POWER GENERATION (AS SHOWN ON LINE 2, COL. 7 OF D-4)								24,837	
DIESELS	ALL	22	2,000	1.0			3,524	148	47
COMBUSTION TURBINES	ALL	517	28,000	0.6			76,000	3,203	3,123
HYDRO									
Holtwood	STA	102	584,000	65.4					5,309
Wallenpaupack	STA	44	77,000	20.0					211
OTHER POWER GENERATION (AS SHOWN ON LINE 3, COL. 7 OF D-4)								3,351	
TOTAL			37,292,000		11,247,000	8,098,000	477,525	$ 786,024	$ 180,390

Attachment 1
200.182048

7

200.182050
W. R. Scheffley

Pennsylvania Power & Light Company
Response to Interrogatories
of the PUC Trial Staff
Set IV Dated December 16, 1982

Docket No. R-822169

Q. R-13. Provide copies of any monthly or annual forecast reports, schedules, workpapers, etc. identifying the PP&L station, and/or individual units which will sell power on the PJM interchange or through firm power sales. Provide a copy of the twelve months ended July 31, 1983 and 1982 highlighting the following areas (provide 1 copy with interrogatory):

a. MWH to be sold by station or units.
b. Fuel Cost associated with the stations or units.
c. Applicable Cost to be charged or identified on PJM system.
d. Estimated Selling Price and Profit to be realized thru the PJM transactions.

A. R-13abc. The MWH to be sold by stations and the fuel cost associated with these stations for the 12 months ended July, 31, 1982 are shown on Attachment 1. Interchange from specific stations is not identifiable in the pro-forma forecast of the 12 months ended July 31, 1983. However, estimates of MWH, total fuel cost, and fuel cost applicable to PJM Interchange sales by station fuel type are supplied on Attachment 2.

A. R-13d. Selling price and profit are only available by station fuel type for the 12 months ended July 31, 1982 as shown on Attachment 1. Estimates of selling price and profit by station fuel type for the 12 months ended July 31, 1983 on a pro-forma basis are included on Attachment 2.

HISTORICAL TEST YEAR (12 MONTHS ENDED JULY 31, 1982)

Station	(a) Output For Intersystem Deliveries (MWH)	(b) Total Fuel Cost	(c) Fuel Cost Applicable To Interchange Sales	(d) Selling Price (Billing Rate) (Mills/Kwh)	Estimated Profit ($)
Martins Creek 1-2 (Coal)	$ 730,037	$ 38,475,480	$ 17,619,441		
Brunner Island (Coal)	1,262,947	163,083,772	22,436,340		
Sunbury (Coal)	327,079	45,272,235	5,875,924		
Montour (Coal)	560,807	154,852,391	9,266,692	33.03 (2)	$41,625,028(3
Holtwood (Coal)	0	7,651,785	0		
Keystone (Coal)	15,799	13,152,308	193,495		
Conemaugh (Coal)	84,631	16,140,596	1,450,227		
Martins Creek 3-4 (Heavy Oil)	2,621,460	200,058,393	142,783,296	57.79	8,702,826
CT's & Diesels (Light Oil)	3,764	1,676,531	382,959	101.74	0
Total PP&L Stations	5,606,524	640,363,491	200,008,374		
Resale of Purchases	390,125		16,970,567(1)	47.94	1,733,611
Total Interchange Sales	5,996,649	$ 640,363,491	$216,978,941	44.87	$52,061,465

(1) Cost of Purchases
(2) Average for all Coal Energy Sold to PJM
(3) Total for all Coal Energy Sold to PJM

Attachment 1
200.182050

PRO-FORMA FUTURE TEST YEAR (12 MONTHS ENDING JULY 31, 1983)

Pro-forma Without SSES Unit 1 Station Fuel Type	(a) Output For Intersystem Deliveries (MWH)	(b) Total Fuel Cost (000)	(c) Fuel Cost Applicable To Interchange Sales (000)	(d) Selling Price (Billing Rate) (Mills/Kwh)	Estimated Profit (000)
Coal (Sold to PJM)	2,519,000	$ -	$ 46,806	31.8	$ 33,200
Coal (Sold to NU)	756,000	-	15,740	29.3	6,400
Total Coal	3,275,000	499,076	62,546		39,600
Heavy Oil (Sold to PJM)	4,120,000	277,392	222,993	60.5	26,200
Light Oil (Sold to PJM)	25,000	3,351	2,818	112.7	0
Total PP&L Stations	7,420,000	779,819	288,357		65,800
Resale of PP&L Share of PJM Pool Purchases	268,000	0	7,568 (Purchase Cost)	42.7	3,900
Total Interchange Sales	7,688,000	$ 779,819	$ 295,925	47.6	$ 69,700
Pro-forma With SSES Unit 1 Station Fuel Type					
Coal (Sold to PJM)	6,629,000	$ -	$ 123,448	35.6	$112,700
Coal (Sold to NU)	990,000	-	20,534	29.1	8,300
Total Coal	7,619,000	498,086	143,982		121,000
Heavy Oil (Sold to PJM)	4,753,000	259,750	258,466	60.4	28,300
Light Oil (Sold to PJM)	25,000	3,351	2,818	112.7	0
Total PP&L Stations	12,397,000	761,187	405,266		149,300
Resale of PP&L Share of PJM Pool Purchases	266,000	-	7,234 (Purchase Cost)	38.4	3,000
Total Interchange Sales	12,663,000	$ 761,187	$ 412,500	44.6	$152,300

Attachment 2
200.182050

10

Pennsylvania Power & Light Company
Response to Interrogatories
of the PUC Trial Staff
Set IV Dated December 16, 1982

Docket No. R-822169

Q. R-14. In regard to Firm Purchase Power Sales:

a. List all existing firm purchase power sales agreements? Provide a table showing the customer, the duration and terms of the agreement including amount of power to be sold. Provide copies of agreements.

b. Is PP&L currently in negotiations for any firm purchase power sales agreements? If so, provide a table as specified in R-14a.

c. Has PP&L been actively seeking to negotiate additional firm purchase power sales? If so, provide a narrative describing the initiatives being utilized. Identify PP&L employees involved and provide their job titles. List all contacts and indicate those which have expressed strong positive interest.

A. R-14. a. Attachment 1 is a tabulation of Pennsylvania Power & Light Company's firm purchase power sales agreement showing the customer, the duration, and terms of the agreement including the amount of power to be sold. Attachment 2 is a copy of the agreement covering this transaction. The firm power sales to FERC jurisdictional customers are covered by FERC rate schedules and as such are not described in this response.

b. PP&L has been actively negotiating for firm power sales agreements with General Public Utilities (GPU), Public Service Electric and Gas (PSE&G) and Northeast Utilities (NU). Since the duration, amount of power to be sold, and specific terms of these potential agreements are negotiable items, it is not possible to predict what the final agreements might look like. A general description of the latest negotiations with each of the utilities follows.

Negotiations with GPU have centered around a purchase of an equal 10% share of each of PP&L's owned generating units from now through December 31, 1995. The pricing would be based on cost of service in the early years of the agreement and would switch to a value based pricing scheme in the later years. The cost of service pricing would be based on bulk power supply facilities (generation and transmission facilities) and the value pricing scheme would be a certain percentage of PP&L interchange receipts.

Latest negotiations have focused on the exact items to include in the cost of service pricing, the method for determining the transition point from cost of service to value of service pricing and the percentage of interchange receipts to utilize in the value pricing scheme.

PSE&G has indicated that they may be interested in purchasing 300 to 400 megawatts from PP&L through 1995. Discussions have taken place regarding the mix of capacity to be purchased and the pricing scheme to be utilized.

Recent discussions with Northeast Utilities have taken place regarding the possible purchase of 300 megawatts by Northeast Utilities from the PP&L system for a 3 year period 1983 through 1985. Several possible pricing schemes for such a sale are being considered.

c. For the past several years PP&L has actively attempted to market capacity and energy from the Susquehanna Steam Electric Station (SSES) with proposals in the form of a sale of an ownership share or a cost of service contract for a share of the output (see Attachment 3). Various contacts and communications took place with nearly a dozen different utilities, most of which were outside of PJM. With the exception of the contracts now in place with Atlantic City Electric and Allegheny Electric Cooperative, no utilities have indicated a serious interest in purchasing an ownership interest in or purchasing firm power from SSES.

In 1980 GPU proposed to purchase a percentage of PP&L's system capacity and energy. This purchase as projected at that time appeared uneconomic to PP&L. Subsequently PP&L offered to sell portions of Martins Creek #3 & #4 and Susquehanna to GPU. The parties have not been able to reach an agreement.

In 1982 because of changing projections for the future, PP&L re-examined the possibility of a sale of a percentage of PP&L capacity and energy. An offer was extended to utilities within and surrounding PJM (see Attachment 4). PP&L's offer was to sell a percentage of capacity and energy from each of PP&L's owned generating units. The percentage would be predetermined for each year and would be the same for each unit. The term of the sale was not to exceed 10 years. In return PP&L would collect proportionate charges for each of PP&L's generating units and bulk power transmission system as costs are incurred (i.e. full cost of service price).

Discussions regarding this proposal have taken place with General Public Utilities, Public Service Electric & Gas, Northeast Utilities and Massachusetts Municipal Wholesale Electric Company. The present status of negotiations has been described in the response to part b of question R-14.

The principle negotiators involved in these efforts have been

Mr. H. L. Collins - Senior Vice President - System Power and Engineering

Mr. G. F. Vanderslice - Vice President and Comptroller

Mr. W. F. Hecht - Manager - System Planning

Mr. R. H. Ballard - Manager - Energy Analysis & Capacity Planning.

PENNSYLVANIA POWER & LIGHT COMPANY
FIRM POWER SALES

Customer	Duration	Terms	Pro Forma Year Ended 6/31/83 Estimated Power Sold
Atlantic City Electric Co.	Sept. 30, 1991	As per Agreement	356 Gwh*

* 6.6% of the Susquehanna plant's total output.

UTILITIES CONTACTED REGARDING SUSQUEHANNA SES MARKETING

Baltimore Gas & Electric

General Public Utilities

Philadelphia Electric Company

Potomac Electric Power Company

Public Service Electric & Gas Company

Atlantic City Electric

Delmarva Power & Light Company

UGI Corporation

Allegheny Power System

Bangor Hydro Electric

Boston Edison

Central Hudson G&E

Central Maine Power

Cleveland Electric Illuminating

City of Dover, Del.

City of Vineland, N.J.

Consolidated Edison Co. of New York, Inc.

Delaware Municipal Electric Corp.

Duquesne Light

Eastern Utilities Assoc.

Easton Utilities Commission, Easton, MD.

Fitchburg G&E

Holyoke, City of

Hudson Light & Power

Long Island Lighting Company

Mass. Municipal Wholesale Electric Company

Narragansett Electric

New England Electric System

New England G&E Assoc.

Newport Electric

Niagara Mohawk

Northeast Utilities

New York State Electric & Gas Co.

Ohio Edison

Orange & Rockland Utilities, Inc.

P.S. of New Hampshire

Rochester G&E

Taunton Municipal

Toledo Edison

United Illuminating Company

Vermont Electric Power

Virginia Electric Power Company

UTILITIES WHICH WERE SENT PP&L'S 1982 PROPOSAL TO SELL A PERCENTAGE OF PP&L'S CAPACITY AND ENERGY

Public Service Electric & Gas Company

Philadelphia Electric Company

Baltimore Gas and Electric Company

Potomac Electric Power Company

General Public Utilities

Atlantic City Electric

Delmarva Power & Light Company

Central Hudson Gas & Electric

Consolidated Edison Company of New York, Inc.

Orange and Rockland Utilities

Boston Edison Company

Northeast Utilities

New England Electric System

United Illuminating Company

New England Power Exchange

New York Power Pool

Pennsylvania Power & Light Company
Response of Interrogatories
of the PUC Trial Staff
Set VII Dated January 7, 1983

Docket No. R-822169

Q. RS-11 Provide the net interchange transaction by month budgeted for the test years ending 7/31/83 and 7/31/82 and also the twelve months ending 7/31/81. Provide actual figures for the same time periods, and to date.

A. RS-11 The net of interchange purchases and sales for each month of the periods requested is shown on Attachment 1. Net interchange transactions are only one component of energy cost and should be evaluated in conjunction with the other components.

NET INTERCHANGE TRANSACTIONS

Month	Year	ACTUAL Thousands Of Kwh	ACTUAL Thousands $	BUDGET Thousands Of Kwh	BUDGET Thousands $
August	1980	932,100	41,363	1,076,000	47,426
September	1980	694,101	29,484	772,000	35,433
October	1980	471,268	21,881	574,000	29,551
November	1980	546,839	25,085	520,000	28,076
December	1980	594,795	35,530	795,000	40,213
January	1981	462,637	27,974	662,000	39,234
February	1981	439,804	22,538	461,000	28,587
March	1981	459,162	26,356	408,000	26,319
April	1981	764,324	44,316	745,000	39,165
May	1981	255,508	10,727	707,000	34,771
June	1981	852,640	50,427	1,037,000	53,855
July	1981	666,057	35,303	1,024,000	59,811
Total Twelve Months Ended July 31, 1981		7,139,235	370,984	8,781,000	462,441
August	1981	648,988	28,380	955,000	57,163
September	1981	591,770	25,539	779,000	43,673
October	1981	297,311	12,252	288,000	17,362
November	1981	159,623	4,431	452,000	27,904
December	1981	191,767	6,272	657,000	40,308
January	1982	291,759	14,795	319,000	18,120
February	1982	566,256	29,757	466,000	27,110
March	1982	754,188	36,431	714,000	40,405
April	1982	436,858	22,136	253,000	13,374
May	1982	347,391	16,102	378,000	17,399
June	1982	563,453	22,409	639,000	28,406
July	1982	486,612	20,201	810,000	36,219
Total Twelve Months Ended July 31, 1982		5,335,976	238,705	6,710,000	367,443
August	1982	364,942	15,772	713,000	33,179
September	1982	263,631	10,346	520,000	25,133
October	1982	280,651	9,937	440,000	20,600
November	1982	795,526	32,884	869,000	46,574
December	1982	983,608	39,199	991,000	56,093
January	1983			764,000	44,055
February	1983			973,000	54,677
March	1983			1,077,000	62,381
April	1983			714,000	38,371
May	1983			651,000	27,159
June	1983			887,000	39,787
July	1983			1,145,000	52,610
Total Twelve Months Ended July 31, 1983				9,744,000	500,619

Staff Statement No. 17
Witness: James N. Giordano
Date: 4/13/83
DOM
R-822169
Harrisburg

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Public Utility Commission

Pennsylvania Public Utility Commission

v.

Pennsylvania Power & Light Company

R-822169

Direct Testimony

of

Dr. James N. Giordano

FILE FOLDER

Concerning: An Alternative Excess Capacity Adjustment

DOCKETED
APR 19 1983

Q Please state your name and business address.

A My name is James Giordano and my business address is P.O. Box 3265, Harrisburg, PA 17120.

Q By whom are you employed and in what capacity?

A I am employed by the Pennsylvania Public Utility Commission. My current position is that of economist in the Rate Structure and Valuation Section of the Electric Division within the Bureau of Rates.

Q Have you previously given testimony in this proceeding?

A Yes. I submitted Staff Statement No. 6 and Exhibit 6-A concerning rate design for large commercial customers.

Q Dr. Giordano, what is the purpose of your second direct testimony in the current proceeding?

A My purpose is to introduce on the record an alternative revenue adjustment to that proposed by Staff witness Kalbarczyk (Staff Statement No. 16 and Exhibit No. 16-A.) The need for a revenue adjustment (or reduction) is occasioned by the excess generating capacity with which Respondent finds itself as Susquehanna Unit I comes on line. The alternative revenue adjustment which I propose for the Commission's consideration is one which has been implemented by the Iowa State Commerce Commission. In 1982 rate cases involving Iowa-Illinois Gas and Electric Company (Docket No. RPU-81-5) and Iowa Public Service Company (Docket Nos. RPU-80-65, RPU-81-8), the

Iowa Commission denied a portion of the equity holder's return on investment in excess generating capacity; this means that the equity cost associated with excess capacity was shared by ratepayers and stockholders. In those proceedings, the excess capacity was caused by the addition of the Ottumwa generating station which is partly owned by both companies. That situation is therefore analogous to the one created by the presence of Susquehanna in the PP&L rate base.

Q Please explain the Iowa adjustment.

A The dollar value of the return adjustment was determined through the following formula:

$$\text{Return Adjustment} = \frac{\text{Excess Capacity}}{\text{Total Generating Capacity}} \times \frac{\text{Net Investment in Total Generating Capacity}}{} \times \text{Weighted Cost of Common Equity} \times \frac{\text{Excess Capacity}}{\text{Annual Peak Load}}$$

This formula can be summarized as follows:

First, the revenue reduction is based upon the percentage of total generating capacity which is found to be excessive. Second, that return will be reduced only on the common equity portion of net investment in total generating capacity which represents excess capacity; the excess capacity financed by debt and preferred stock will still command a full return from ratepayers (It is in this sense that ratepayers and stockholders are sharing this burden). Third, the revenue reduction is proportional to the ratio of excess capacity to annual peak load; this means that for a company with a given MW annual peak, the dollar adjustment will vary directly with

the amount of excess capacity. In other words, the penalty is proportionately greater for a company which overbuilds significantly than for a company which overbuilds only slightly.

Q When applied to Pennsylvania Power & Light Company, what return adjustment does this approach suggest?

A The indicated return adjustment would be $6,823,772.

Q What values did you employ to represent total generating capacity, annual peak load, and excess capacity in computing this adjustment?

A I have used the following data: Total Generating Capacity - 7,495 MW, Estimated Annual Peak Load - 5,304 MW and Estimated Excess Capacity - 966 MW. These figures were all taken from Staff Exh. 13-A, Sch. 1, p. 1.

Q What do you take to be the value of net investment in total generating capacity for PP&L?

A In PP&L Exhibit AJB3, Section III, page 2, total production plant is reported to be $2,927,897,000. Subtracting the reserve for depreciation of $441,981,000, (Section III, page 3) leaves a total of $2,485,916,000. This is the value I used to compute the return adjustment cited above.

Q What do you take to be the weighted cost of common equity.

A Respondents equity ratio is 35.2%. Using Staff's recommended return of 15.5%, the weighted cost of common equity would be .0546

or 5.46%. Of course, any final return adjustment based on the Iowa alternative would necessarily incorporate whatever return on equity the Commission allows in this case.

Q When the data you have just described are plugged into the Iowa formula, does the adjustment of $6,823,772 appear as the result?

A No. Plugging these data into that formula results in an adjustment of $3,359,179. One must then adjust for federal and state income taxes. This is done by dividing $3,359,179 by .492276. One then arrives at the final required revenue adjustment of $6,823,772. This is the adjustment I mentioned earlier.

Q Dr. Giordano, do you wish to add any additional comments?

A Yes. So far I have described the Iowa adjustment and discussed its direct application in the case of PP&L. However, I would note for the Commission's consideration that the Iowa method can be easily modified so as to eliminate all of the common equity return on that portion of net investment in total generating capacity which is found to be excessive. This is done by eliminating the ratio (excess capacity)/(annual peak load) from the formula. In the case of PP&L, this amounts to .192 = (966/5034). In other words, we eliminate that feature of the algorithm which renders the size of the adjustment proportional to the degree to which the Company has overbuilt. The net effect is that there is no equity return whatsoever on excess capacity, be it a lot or a little.

Q What is the amount of the adjustment when this factor is eliminated?

A The adjustment would be $17,495,727 divided by .492276 or $35,540,483. This is more than five times greater than the straightforward Iowa adjustment.

Q Does the larger adjustment still provide for a sharing of the cost of excess capacity between ratepayers and stockholders?

A Yes. Whether the (excess capacity)/(annual peak load) factor is eliminated or not, ratepayers are still left to pay all return associated with the debt and preferred stock which was issued to finance the excess capacity. When the noted factor is eliminated, stockholders pay (forgo) the entire return associated with the common equity that was issued to finance the excess capacity; when the factor is included, stockholders forgo only a portion of their return on excess capacity investment, and ratepayers pay only a portion of the return on equity-financed excess capacity.

Q Does this conclude your direct testimony?

A Yes.

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Before the

PENNSYLVANIA PUBLIC UTILITIES COMMISSION

Application of the Pennsylvania Power & Light Co. for an Increase in Electric Rates	)))	Docket No. R-822169

DOCKETED
APR 19 1983

Testimony of Stephen E. Siwek

on behalf of

Penn Linen & Uniform Services (R-822169-C-085)
Modern Slacks Creation, Inc. (R822169-C-086), et al.

March 28, 1983

Introduction

Q. Please state your name, address and occupation.

A. My name is Stephen E. Siwek. I am an economic consultant specializing in public utility regulatory matters, rates, costs and economic analyses. I am affiliated with the firm of Snavely, King & Associates, Inc., 1747 Pennsylvania Avenue, N.W., Washington, D.C. 20006.

Q. Please describe your education and experience.

A. I hold a Bachelors of Arts degree in econonimcs from Boston College and a Master of Business Administration degree from George Washington University. Since the beginning of my association with Snavely, King & Associates, Inc., I have been responsible for the preparation of studies, reports, direct testimony and exhibits in the field of public utility regulation. Topics addressed in these reports and testimony included but were not limited to utility demand and energy forecasts, cost of service adjustments, rate design, marketing and advertising practices, parent company transactions and service termination regulations. These activities involved electric, gas and telecommunications entities and the United States Postal Service.

In electric and gas proceedings I have testified as an expert witness in connection with utility demand and energy forecasts, electric generation economics, revenue requirement issues, energy conservation and rate design. In these cases I have represented state consumer agencies, industrial groups and the Department of Defense. I have testified on behalf of these clients as an expert witness in electric and gas proceedings on 18 occasions in the states of Illinois, Maryland, New Hampshire, New Jersey, Pennsylvania and the District of Columbia.

Q. For whom are you appearing in this proceeding?

A. I am appearing on behalf of the East Penn Energy Association, which consists of a number of industrial intervenors small and medium sized industrial customers of Pennsylvania Power & Light (PP&L).

Q. What are the objectives of your testimony?

A. My testimony addresses the costs and benefits of the Susquehanna Steam Electric Station (SSES) as developed in Exhibit WFH-3, Analysis of the Costs and Benefits of Susquehanna SES sponsored by PP&L witness Hecht. Specifically, I will show that under all scenarios presented by the Company, the economic burdens borne by current and near-term future ratepayers far exceed the costs shown by PP&L. I will demonstrate that purely on an economic basis, a substantial rate decrease would be appropriate to reflect correctly the costs and benefits associated with Susquehanna.

Q. Does your testimony address the East Penn Energy Association's recommendation as to the appropriate ratemaking treatment to be afforded the Susquehanna nuclear station in this proceeding?

A. No. Mr. Charles W. King, Vice President of Snavely, King & Associates, will present the East Penn Energy Association's recommeded ratemaking treatment for the Susquehanna plant.

PP&L's Cost-Benefit Presentation

Q. Can you briefly describe PP&L's analysis of the costs and benefits associated with Susquehanna?

A. Yes. In Exhibit WFH-3, PP&L witness Hecht presents his analysis of the costs and benefits associated with Susquehanna. Mr. Hecht calculates annual costs and benefits for the period 1983 to 2002, inclusive for Units 1

and 2 of the Susquehanna station. His costs include depreciation, return on investment and taxes, as well as operating and maintenance costs.

Mr. Hecht's calculation of benefits considers two types of fuel savings associated with Susquehanna. First, there are savings on fuel needed to serve PP&L's native load. Since Susquehanna, as a nuclear station, is expected to be the least-cost operating unit in PP&L's dispatch hierarchy, (exclusive of hydro), operation of these units will displace coal and heavy oil presently used to generate electricity for PP&L's customers. In addition, operation of the nuclear station will reduce PP&L's purchases from other utilities to meet the Company's native load. The second type of savings, interchange sales benefits reflects primarily savings credited to PP&L's ratepayers as a result of the increase in the Company's sales to the Pennsylvania-New Jersey-Maryland (PJM) Interconnection. Thus, the total benefits expected from Susquehanna equate to the Company's savings on fuel and purchases for its own load and savings resulting from interchange sales to other utilities. These total savings are then compared with expected annual costs from Susquehanna in order to produce annual net cost and savings streams for the forecasted period.

Mr. Hecht develops a "base case" in Figure 8 of his Exhibit WFM-3. Presumably, this case represents the Company's best estimate of future developments. Mr. Hecht also presents "sensitivity runs" demonstrating the impact of changes in basic assumptions used in the "base case" analysis. Under all of the Company's studies, the costs and benefits are chacterized by substantial negative savings, that is, net costs in the early years of the unit's operation, followed by a gradual turnaround, so that in the later years benefits outweigh the costs.

Q. Are the Company's analyses reasonable, in your opinion?

A. Absolutely not. The Company's analyses tend to overstate benefits for a number of reasons which I will discuss later in this testimony. However, the most glaring error is the failure to discount the cost and benefit streams to reflect the time value of money. This single error obscures all conclusions drawn by Mr. Hecht in his testimony. It is essential to correct for this omission of discounting effects prior to any discussion of the merits of the underlying assumptions of the study.

Need for Present Value Discounting

Q. Mr. Siwek, why is it necessary to reflect the time value of money in cost benefit studies of the type provided by PP&L in Exhibit WFH-3?

A. It is axiomatic that the value of a dollar tomorrow does not equal the value of a dollar today. If I have a dollar today, I can use it for immediate consumption or I can invest it and earn interest. In either case, it is worth more to me than a dollar I may receive, say, five years from now. During the intervening five years, I am deprived of the consumption benefit of that dollar and of its income-generating capability.

In recognition of this value relationship between present and future dollars, virtually all financial and economic studies which cover extended time periods employ present value discounting as a basic tool. The merits of this procedure have long been recognized in the regulated and non-regulated sectors alike. For example, in Engineering Economy, A Manager's Guide to Economic Decision-Making, the American Telephone & Telegraph Company flatly states, "If an amount of money is to have a precise meaning, then it must be fixed in time as well as in amount. Before comparing

different amounts of money in an economy study, the analyst must first express them all in terms of a common date or some equivalent period of time."[1/] The touchstone of all methods used to express money into equivalent periods of time is to calculate the present worth of money through the use of a discount factor.

Q. Is present value discounting particularly important in evaluating the Susquehanna nuclear units?

A. Yes. Present value discounting is particularly important in evaluating the Susquehanna station because most of the unit's costs occur in the early years, while the net benefits are experienced in the later years. Failure to employ present value discounting thus overstates the net benefits relative to costs. In addition to this disparity in the present value, there is also a disparity in the confidence which can be attached to the early costs relative to the later benefits. The early costs are not likely to vary appreciably in the short run, and the risk associated with predicting these costs is not substantial. By contrast, the projection of deferred fuel savings to the year 2002 involves a great deal of uncertainty. The use of a present value discount factor quantifies this difference in confidence. While there may be some philosophical disagreement as to the choice of the particular discount factor, the need to use some discount factor to adjust expected future cost and benefit streams is simply not controvertible.

Q. Is there reason to believe that PP&L's projected level fuel savings will not materialize?

[1/] Engineering Economy, A Manager's Guide to Economic Decision-Making. American Telephone & Telegraph Company, McGraw-Hill Book Company, p. 91.

A. Yes. As I will discuss subsequently in this testimony, each of PP&L's analyses includes assumptions which inherently bias savings calculations upward in favor of the Company. I am more concerned, however, about PP&L's own reservations regarding the accuracy of its savings forecasts for even a single year as a result of the Company's somewhat unique status as the largest net seller in the PJM Interconnection.

Q. Has PP&L ever publicly expressed its concerns regarding its ability to project energy savings relating to PJM transactions?

A. Yes. In its Tentative Energy Cost Rate Filing of November 2, 1981, PP&L indicated that to derive even a one-year energy cost projection, PP&L must forecast:

- performance of its generating plants and those of other companies which belong to PJM;
- price of coal throughout the period;
- price of oil throughout the period;
- sales with its retail and wholesale customers;
- transactions to Power Pool, particularly interchange sales to other PJM companies. 1/

The Company went on to suggest that although other Pennsylvania utilities also must make such forecasts, PP&L encounters "an additional burden because it has been a consistent net seller on the interconnection." In fact, the Company's perceived difficulties with projecting annual energy costs apparently were so severe that in 1981 it proposed to implement a levelized energy cost rate for 1982 on a quarterly step basis. While the Company's

1/ Pennsylvania Power & Light Co., 1982 Tentative Energy Cost Rate Filing, Proposed Tariff Changes, November 2, 1981, p. 2.

quarterly step proposal was ultimately rejected by the Commission, I believe that the Company's motive in proposing such adjustments correctly reflected the uncertainty which PP&L encounters in making any projection of energy costs. More important, the potential for error associated with making such a projection would increase exponentially within the extension of the forecast horizon into the future. The Company's cost-benefit calculations supporting Susquehanna rely on energy forecasts over a 20-year period. PP&L's failure to equalize the future uncertainty of these distant energy cost savings with the relatively certain near-term capital-related costs through the use of a discount factor overstates the benefits expected from Susquehanna by a significant margin.

Q. Was PP&L witness Hecht asked why he did not use discounted costs and benefits in his evaluation of Susquehanna?

A. In his cross-examination, Mr. Hecht appeared to suggest two reasons for his failure to discount costs and benefits associated with SSES. First, Mr. Hecht appeared to distinguish PP&L as a regulated utility from non-regulated firms which would probably make investment decision on the basis of present value analyses.[1/] Since PP&L is a regulated utility, Mr. Hecht argued, the Company's decisions are made on the basis of future revenue requirements and thus need not be discounted. The second argument propounded by Mr. Hecht asserts that most consumers pay their electric bills out of current revenue. Present value analysis is therefore not

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1/ Tr. 1370.

appropriate, since these customers would not be borrowing funds to pay their electric bills from PP&L.[1/]

Q. Are either of these arguments valid reasons for ignoring the present value of future cost and benefit streams?

A. No, they are not.

Q. Why is the distinction between a regulated utility and a non-regulated enterprise not a valid basis for ignoring the present value of future money?

A. Regulated utilities are not exempt from the law of economics which holds that a future dollar is always less valuable than a present dollar. This principal is embedded in such regulatory concepts as Allowance for Funds Used During Construction (AFUDC), which is a mechanism for compensating investors for the deferral of their return on funds devoted to plant under construction. If a utility dollar is indifferent to time, then utility investors should not require compensation for the deferral of their return. But, of course, they do. If the time value of money is important to investors, it is important to ratepayers as well.

Q. Why is the asserted fact that most electric consumers pay their bills out of current revenue not a valid basis for ignoring the present value of future money?

A. This assertion -- assuming it were true -- ignores the fact that money has other uses than investment. It also has consumption value. Even if an electric customer never saves a dime, the requirement to pay a higher

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[1/] Tr. 1371.

electric bill now rather than in the future deprives him of the consumption which he could have enjoyed in the interim. For poor and elderly ratepayers, this consumption-related difference in the present versus the future value of money is very high indeed. To a ratepayer in his seventies, the value of a dollar saved from his electric bill now is one dollar; the value of a dollar saved in the year 2000 is zero.

Moreover, for non-residential customers, Mr. Hecht's arguments would have no bearing whatsoever. Mr. Hecht conceded that a non-regulated industrial firm would employ present value budgeting as a means to assess investment decisions. Since future electric charges from PP&L would be a component in those decisions, it follows that from the customer's point of view future electric charges differ from present charges. Stated another way, PP&L's revenue requirements approach almost certainly departs from the cost-benefit analyses performed by many large and medium industrial customers themselves in assessing the impact of electric rates on investment decisions. For these reasons, Mr. Hecht's second stated justification for his failure to discount costs and benefits of the Susquehanna units is without foundation.

Costs and Benefits of Susquehanna

Q. Mr. Siwek, have you restated PP&L's cost and benefit analysis to reflect present value discounting?

A. Yes. Exhibit SS-1, page 1, restates PP&L's so-called base case analysis to reflect discounting at the Company's requested rate of return of 12.71 percent.

Q. Can you discuss the results of your analysis on Exhibit SS-1, page 1?

A. Yes. By simply discounting PP&L's stated base case costs and savings, and assuming no additional changes, Exhibit SS-1, page 1 of 5, reveals that the ratepayers can expect a cumulative net present value savings from the Susquehanna station of $1,310.4 million over the 20-year period 1983 to 2002. While these cumulative present value savings are substantial, they are far less than are shown by PP&L's undiscounted analysis. For example, PP&L shows net savings in 1998 alone of $1,360 million or some 3.8 percent more than the total cumulative present value saving which I have calculated for the entire 20-year period. This difference results from my reduction of the deferred net savings to their proper relatiionship to the up-front costs of the units.

Q. At what point do PP&L's customers begin to benefit from the Susquehanna station under your analysis?

A. As shown at the final column of page 1 of Exhibit SS-1, the crossover year during which PP&L customers will experience cumulative net savings in excess of their cumulative costs is 1997, some 14 years from now. For all years prior to 1997, ratepayers will have experienced more losses than benefits as a result of the Susquehanna plant.

Q. Mr. Siwek, have you restated PP&L's sensitivity runs to recognize present value factors?

A. Yes. For each of PP&L's three alternative cost-benefit analyses, I have used the same procedure as shown on page 1 of Exhibit SS-1 and restated net savings into the form of a discounted flow. Pages 2, 3 and 4

of Exhibit SS-1 restate each of PP&L's sensitivity analyses using discount factors based on the Company's 12.71 percent rate of return. Each of these analyses show lower cumulative present value savings associated with Susquehanna than does the Company's base case. Moreover, each senstivity analysis shows crossover years beyond 1997, and in two of the three sensitivity studies the crossover year, if it occurs at all, is beyond 2002, the terminal year of the PP&L study.

Q. What is the cumulative net present value for the Susquehanna units under PP&L's assumption of reduced capacity factor?

A. PP&L's cumulative net present value associated with Susquehanna station under the assumption of reduced capacity factor is $359.1 million. The crossover point for the Company's ratepayers extends from 1997 to the year 2001, one year short of the terminal point for the analysis itself. Accordingly, if PP&L's reduced capacity factor scenario proves to be the more realistic estimate, ratepayers will not begin to benefit from the Susquehanna investment until the 20th year of the unit's operations, or roughly half way through its service life.

Q. Mr. Siwek, in your judgment, was PP&L's reduced capacity factor scenario realistic?

A. While I have not attempted to evaluate in any detail the reasonableness of the Company's capacity factor estimates themselves, I do note that PP&L witness Koppe has testified that the capacity factor for Susquehanna is expected to be lower during the first four years of operation than in later years.[1/] Despite Mr. Koppe's estimates, however, Mr. Hecht's

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[1/] PP&L Exhibit 15, p. 4.

exhibit apparently assumes a 60 percent capacity factor for each year over the life of Susquehanna's.[1/] If, contrary to Mr. Hecht's assumption, the Susquehanna units experience capacity factors lower than 60 percent during the initial years of operation, and greater than 60 percent in later years, the associated savings on a present value basis will be less, since additional savings from the higher capacity factor in later years will be more heavily discounted and thus reduced in value. For this reason, it would be possible to retain Mr. Hecht's assumptions as to average capacity factor over the life of the Susquehanna unit and yet reduce the cumulative net present value shown on Exhibit SS-1, page 2. Furthermore, such a change would appear to track Mr. Koppe's expectations more accurately than would Mr. Hecht's own assumption.

Q. What is the cumulative net present value of the Susquehanna station under PP&L's assumed low-load growth scenario?

A. As shown on page 3 of Exhibit SS-1, if the low-load growth scenario develops, PP&L's Susquehanna station will yield cumulative present value costs to ratepayers in excess of $808 million. PP&L's ratepayers will never experience benefits equal to cumulative costs at any time during the first 20 years of the station's operation. Moreover, it is possible that if the low load growth scenario were trended out for 40 years of expected operation, PP&L's ratepayers might never experience net present value benefits throughout the station's entire service life. This possibility is demonstrated by the decline in rate of increase in discounted

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[1/] Tr. 1380.

savings in the last few years. In the last year of the study period, 2002, discounted savings increased only $300,000 relative to 2001. If this trend in diminishing present value savings were to continue beyond the study period, it is quite possible that the Company's ratepayers would never experience positive net savings from the Susquehanna plant.

Q. Is it reasonable to believe that PP&L's low load growth scenario is more likely than the Company's base case?

A. Since both PP&L and most PJM companies with which I am familiar have consistently overforecasted peak demand in recent years, it is reasonable to assume they might continue to overforecast such growth. For this reason, I believe the alternate peak load growth scenario on page 3 of Exhibit SS-1 warrants serious consideration.

Q. What are the cumulative net present value savings associated with PP&L's alternate low fuel price scenario?

A. As shown on page 4 of Exhibit SS-1, restatement of PP&L's cost-benefit study assuming lower than expected fuel price increases results in a cumulative net present value of negative $169 million for the 20-year period 1983 to 2002. Thus, as with low load growth, the lower fuel price increases defer the crossover year beyond the scope of the 20-year study period. Under this scenario, ratepayers will not benefit from the Susquehanna station during at least the first 20 years of its operation.

Q. What is your assessment of the manner in which Mr. Hecht has projected oil prices under his reduced fuel price scenario?

A. Based on my understanding of the manner in which Mr. Hecht estimated future fuel prices, I believe that the low fuel price scenario must be given a great deal of consideration in any evaluation of the costs and benefits to Susquehanna. First of all, PP&L's starting fuel prices appear to be well in excess of the actual price that the Company will experience. Residual oil, for example, was projected to increase from $31 a barrel in 1982 to $48 a barrel in 1990,[1/] all well in excess of the current OPEC price of $29 a barrel. More importantly, Mr. Hecht's sensitivity analysis assumes price increases still in excess of the expected inflation rate.[2/] Mr. Hecht apparently believes it is not realistic, even as a low bound, to show oil prices only at the expected rate of inflation. I am in serious disagreement with his stated justification for this decision.

Q. What is your understanding of Mr. Hecht's justification for failing to consider the possibility of oil price increases at rates less than the rate of inflation?

A. As he explained during his cross-examination, Mr. Hecht believes that the future depletion of existing oil fields will of necessity lead to development of new oil fields by means of tertiary recovery processes which in turn will generate real price increases.[3/] First of all, this conclusion fails to consider the rate at which present oil reserves are consumed. That rate has declined dramatically in recent years, a fact which influences the

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[1/] Tr. 1382.

[2/] Tr. 1386.

[3/] Id.

need for tertiary recovery methods in the next 20 years. Furthermore, the future ability of the Organization of Petroleum Exporting Companies (OPEC) to control world prices and production of oil will have a tremendous impact on the degree to which tertiary recovery is required. Given the continued existence of OPEC as an influence on oil production, the price of oil should have little or no direct relationship to the cost and timing of tertiary recovery over the next 20 years. The fact is that oil price forecasting is now essentially political forecasting and will likely remain so during the 20 years covered by Mr. Hecht's analysis.

Q. Mr. Siwek, you have demonstrated that under PP&L's base case, the benefits of Susquehanna will not outweigh costs until 1997 and that under any of the alternative cases suggested by the Company the crossover year will not occur until the next century, if then. What are the implications of these analyses for present ratepayers?

A. Under the base case, the long-term benefits exceed the long-term costs, even on a present value basis. Appropriately, then, the addition of the Susquehanna units should reduce, not increase, present revenue requirements. If I divide the total cumulative benefits of $1,310.4 million by the sum of the discount factors, I arrive at a level annual savings associated with Susquehanna of $162.6 million. Thus, if one were to assume that PP&L's base case were actually to occur, and one were further to attempt to equalize the resulting net savings as between present and future ratepayers, revenue requirements during the first year of operation should decline by $162.6 million.

This, of course, is not what the Company is proposing. The Company's proposal is to increase rates by $195 million, after fuel cost savings. The Company thus proposes to load the near-term costs of the Susquehanna station on present ratepayers so that future ratepayers, out in the 21st century, can enjoy the benefits of the plant.

Q. Mr. Siwek, suppose the Commission were to conclude that one or more of PP&L's alternative scenarios were indeed more realistic than the base case scenario. What are the implications of these conclusions?

A. If the Commission were to conclude that PP&L's lower load growth or lower oil price scenarios were more realistic, the economic implications are clear, namely, ratepayers will not benefit for at least the first half of the life of these units. More importantly, it would become more likely that extending cost-benefit studies out into the end of the 40-year life service life would reveal no offsetting savings over the entire life of the investment. If the Commission were to accept any of the alternative scenarios, it would implicitly be concluding that PP&L has made a serious error in its decision to invest in Susquehanna, and that all efforts should be directed to sell off as much as possible of this investment as soon as possible.

Q. In your opinion, what accounts for the questionable economics of the Susquehanna units?

A. The single development which is probably most responsible for the possibility that Susquehanna will yield no benefits to ratepayers is the slowing of load growth during the decade of the 1970's. This slower load

growth means that the net costs in the form of new capital-cost burdens far outweigh the benefits in the early years of the plant's service life.

This observation appears to be supported by the Company's own actions, as shown in the cross-examination of Mr. Hecht by the Consumer Advocate.[1/] PP&L has unsuccessfully attempted to sell upwards of 500 megawatts in Susquehanna for many years. Further, Mr. Hecht indicated that the Company's efforts to sell 500 megawatts of Susquehanna Units 1 and 2 are still continuing[2/] and that the Company is even willing to negotiate on the basis of sales in excess of 1,000 megawatts.[3/] Unfortunately, the consistent rejection of PP&L's offers by many utilities strongly suggests that these utilities have made the same calculations as PP&L and have themselves decided that the unit is not cost-effective at least on the terms offered by the Company.

Q. What are your conclusions?

A. My prime conclusion is that <u>for near term</u> ratepayers, PP&L's Susquehanna units are clearly not cost-justified under any reasonable cost-benefit analysis whatsoever. Furthermore, a real possibility exists that Susquehanna Units 1 and 2 can <u>never</u> be justified economically to PP&L's ratepayers. Thus, if the Commission were to consider only the economic analyses conducted by Mr. Hecht in its deliberations regarding Susquehanna in this proceeding, it would be forced to conclude that no set increase

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1/ Tr. 1325, 1337.

2/ Tr. 1294.

3/ Tr. 1344.

in cost burden should be imposed on ratepayers as a result of the installation of the Susquehanna unit.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

PENNSYLVANIA POWER & LIGHT COMPANY

Present Value Analysis: PP&L - Base Case [1]
(millions)

Year	Net Savings	Discount Factor [2]	Discounted Savings Annual	Discounted Savings Cumulative
1983	$(154)	1.000	$(154.0)	$(154.0)
1984	(294)	.8872	(260.8)	(414.8)
1985	(413)	.7872	(325.1)	(739.9)
1986	(358)	.6984	(250.0)	(989.9)
1987	(250)	.6197	(154.9)	(1,144.8)
1988	(102)	.5498	(56.1)	(1,200.9)
1989	44	.4878	21.5	(1,179.4)
1990	213	.4328	92.2	(1,087.2)
1991	311	.3840	119.4	(967.8)
1992	394	.3407	134.2	(833.6)
1993	519	.3023	156.9	(676.7)
1994	717	.2682	192.3	(484.4)
1995	816	.2379	194.1	(290.3)
1996	958	.2111	206.5	(83.8)
1997	1,158	.1873	216.9	133.1
1998	1,360	.1662	226.0	359.1
1999	1,577	.1474	232.4	591.5
2000	1,816	.1308	237.5	829.0
2001	2,068	.1161	240.1	1,069.1
2002	2,343	.1030	241.3	1,310.4
	Cumulative Net Present Value		$ 1,310.4	$ 1,310.4
	Crossover Year		1997	

[1] PP&L Exhibit WFH-3, figure 8.

[2] Computed on PP&L's requested return of 12.71 percent.

PENNSYLVANIA POWER & LIGHT COMPANY

Present Value Analysis: Reduced Capacity Factor [1]
(millions)

Year	Net Savings	Discount Factor [2]	Discounted Savings Annual	Discounted Savings Cumulative
1983	$(165)	1.000	$(165.0)	$(165.0)
1984	(316)	.8872	(280.4)	(445.4)
1985	(476)	.7872	(374.7)	(820.1)
1986	(429)	.6984	(299.6)	(1,119.7)
1987	(328)	.6197	(203.3)	(1,323.0)
1988	(194)	.5498	(106.7)	(1,429.7)
1989	(59)	.4878	(28.8)	(1,458.5)
1990	85	.4328	36.8	(1,421.7)
1991	163	.3840	62.6	(1,359.1)
1992	232	.3407	79.0	(1,280.1)
1993	332	.3023	100.4	(1,179.7)
1994	508	.2682	136.2	(1,043.5)
1995	592	.2379	140.8	(902.7)
1996	731	.2111	154.3	(748.4)
1997	887	.1873	166.1	(582.3)
1998	1,062	.1662	176.5	(405.8)
1999	1,249	.1474	184.1	(221.7)
2000	1,456	.1308	190.4	(31.3)
2001	1,671	.1161	194.0	162.7
2002	1,907	.1030	196.4	359.1
	Cumulative Net Present Value		$ 359.1	$ 359.1
	Crossover Year		2001	

[1] PP&L Exhibit WFH-3, figure 11.

[2] Computed on PP&L's requested return of 12.71 percent.

PENNSYLVANIA POWER & LIGHT COMPANY

Present Value Analysis: With Reduction in Load Growth Rates 1/
(millions)

Year	Net Savings	Discount Factor 2/	Discounted Savings Annual	Discounted Savings Cumulative
1983	$(160)	1.000	$(160.0)	$(160.0)
1984	(300)	.8872	(266.2)	(426.2)
1985	(456)	.7872	(359.0)	(785.2)
1986	(417)	.6984	(291.2)	(1,076.4)
1987	(334)	.6197	(207.0)	(1,283.4)
1988	(210)	.5498	(115.5)	(1,398.9)
1989	(129)	.4878	(62.9)	(1,461.8)
1990	(39)	.4328	(16.9)	(1,478.7)
1991	27	.3840	10.4	(1,468.3)
1992	39	.3407	13.3	(1,455.0)
1993	64	.3023	19.3	(1,435.7)
1994	161	.2682	43.2	(1,392.5)
1995	210	.2379	50.0	(1,342.5)
1996	282	.2111	59.5	(1,283.0)
1997	361	.1873	67.6	(1,215.4)
1998	451	.1662	75.0	(1,140.4)
1999	540	.1474	79.6	(1,060.8)
2000	637	.1308	83.3	(977.5)
2001	728	.1161	84.5	(893.0)
2002	824	.1030	84.9	(808.1)
Cumulative Net Present Value			$(808.1)	$(808.1)
Crossover Year			Beyond 2002	

1/ PP&L Exhibit WFH-3, figure 13.

2/ Computed on PP&L's requested return of 12.71 percent.

PENNSYLVANIA POWER & LIGHT COMPANY

Present Value Analysis: With Reduction in Rate of Increase of Fossil Fuel Prices 1/
(millions)

Year	Net Savings	Discount Factor	Discounted Savings	
			Annual	Cumulative
1983	$(156)	1.000	$(156.0)	$(156.0)
1984	(298)	.8872	(264.4)	(420.4)
1985	(441)	.7872	(347.2)	(767.6)
1986	(403)	.6984	(281.5)	(1,049.1)
1987	(322)	.6197	(199.5)	(1,248.6)
1988	(206)	.5498	(113.3)	(1,361.9)
1989	(104)	.4878	(50.7)	(1,412.6)
1990	14	.4328	6.1	(1,406.5)
1991	90	.3840	34.6	(1,371.9)
1992	122	.3407	41.6	(1,330.3)
1993	207	.3023	62.6	(1,267.7)
1994	348	.2682	93.3	(1,174.4)
1995	385	.2379	91.6	(1,082.8)
1996	497	.2111	104.9	(977.9)
1997	622	.1873	116.5	(861.4)
1998	763	.1662	126.8	(734.6)
1999	911	.1474	134.3	(600.3)
2000	1,074	.1308	140.5	(459.8)
2001	1,241	.1161	144.1	(315.7)
2002	1,421	.1030	146.4	(169.3)
	Cumulative Net Present Value		$(169.3)	$(169.3)
	Crossover Year		Beyond 2002	

1/ PP&L Exhibit WFH-3, figure 15.

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Application of the Pennsylvania Power & Light Co. for an Increase in Electric Rates	)))	Docket No. R-822169

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Supplemental Testimony of Charles W. King

on behalf of

Penn Linen & Uniform Services (R-822169-C-085)
Modern Slacks Creation, Inc. (R822169-C-086), et al.

March 28, 1983

Q. Would you please state your name, position and address?

A. My name is Charles W. King. I am Vice President of the economic consulting firm of Snavely, King & Associates, Inc., with offices at 1747 Pennsylvania Avenue, N.W., Washington, D.C. 20006.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I submitted prefiled testimony on March 14, 1983 on behalf of the East Penn Energy Association. That testimony dealt with PP&L's class revenue requirements and rate design.

Q. Did that testimony contain a summary of your qualifications and experience?

A. Yes. Attachments A and B to that testimony were summaries of my qualifications and experience.

Q. Is this supplemental testimony also submitted on behalf of the East Penn Energy Association?

A. Yes, it is.

Q. What is the objective of this supplemental testimony?

A. This supplemental testimony deals with the appropriate treatment of the revenue requirement associated with the Susquehanna nuclear generating unit. Although the immediate issue is the revenue requirement for Susquehanna Unit 1, the principles and procedures which I will outline in this testimony will also be applicable to Susquehanna Unit 2 when it comes into service. The recommended treatment which I outline in this testimony is based on the analysis of Mr. Stephen Siwek in testimony which accompanies my own.

Q. What did Mr. Siwek's testimony consider?

A. Mr. Siwek analyzed the cost/benefit studies of the Susquehanna units submitted by PP&L witness William F. Hecht.

Q. What were the conclusions of Mr. Siwek's analysis of these studies?

A. Mr. Siwek concluded that in the near term, the Susquehanna units are not cost-justified. Specifically, they generate much greater costs to present ratepayers than benefits. Mr. Siwek expects that, at the earliest, the cumulative benefits from the Susquehanna units will exceed their cumulative costs in 1997, 14 years from now. Mr. Siwek further concludes that under certain future scenarios, it is possible that the Susquehanna units will never become cost-justified and will be a permanent burden on ratepayers if their full costs are passed through to ratepayers. Mr. Siwek concludes that from an economic standpoint, no net increase in costs should be borne by present ratepayers as a result of the initiation of the Susquehanna units.

Q. Do you agree with these conclusions of Mr. Siwek?

A. Yes, I do.

Q. Does Mr. Siwek's conclusion that no increase in cost be borne by present ratepayers because of the initiation of the Susquehanna units justify their total disallowance from PP&L's rate base and revenue requirements?

A. No. The Company forecasts that in its first year of operation, Susquehanna Unit 1 will generate benefits in the form of fuel cost savings and net interchange proceeds of $185,240,000. If these savings materialize, they will flow through to ratepayers as reductions in energy charges. To allow these benefits to flow through to ratepayers without granting the

Company offsetting revenue recovery to compensate for the generating plant which made these savings possible would, in my opinion, be unreasonable. While the Susquehanna units should impose no net cost increase to present ratepayers, I believe it inappropriate that they should generate any net cost reduction to ratepayers either, at least in the near term.

Q. How would you treat the revenue requirement associated with Susquehanna units so that there would be neither net cost increases nor net benefits to present ratepayers?

A. I would include in the Company's revenue requirement an amount which exactly equals the fuel cost savings and interchange benefits generated by the Susquehanna units. Specifically, the revenue requirement to offset costs associated with the Susquehanna Unit 1 should equal the forecast $185,240,000 in fuel cost savings and interchange benefits from that plant.

Q. What specific costs of the Susquehanna units should this revenue requirement cover?

A. This revenue requirement should cover Susquehanna costs in an order of priority. First, the revenue requirement should be applied to recapture all operating and maintenance costs of the new plant. It is these costs which permit the fuel savings and interchange benefits to be realized. To the extent that the revenue requirement permits, the next cost to be recovered should be depreciation charges computed on a straight-line basis. This procedure permits investors to recapture their capital. It also acknowledges that the plant's useful life is being used up while it is operating. All remaining revenue requirement should be applied to return and income taxes on the net investment in the plant.

Q. Assuming the fuel cost savings and interchange benefits forecast by the Company are accurate, how would the $185,240,000 revenue requirement which you would allow for the Susquehanna unit be allocated?

A. Based on the Company's forecasts of the first 12 months of the unit's operation, the revenue requirement would be allocated as follows:

Operating & Maintenance	$ 87 million
Depreciation	39 million
Return & Income Taxes	60 million
Total	$186 million

Q. How would the amount of Susquehanna investment in the rate base be determined?

A. The amount of the Susquehanna investment included in the rate base would be calculated according to a procedure the reverse of that usually followed. Conventionally, the rate base is established first and the returns are derived by applying the allowed pretax return on investment. Under this reverse procedure, the pretax return on investment would be established, and the investment includable in the rate bas would be calculated from that number.

Q. What would be the rate base investment?

A. The Company asserts that it requires an after-tax return on investent of 12.71 percent, which translates into a pre-tax return on investment of 19.90 percent. The calculation of revenue requirement just discussed yields a return and income tax amount of $60 million. This amount is 19.90 percent of $301.5 million, which is the amount of Susquehanna investment that should be included in PP&L's rate base for the test year.

Q. Using this calculation, how much of the Susquehanna Unit 1 investment would be excluded from the rate base?

A. The total investment in the Susquehanna 1 unit is $1,499.8 million. The residual after subtracting the rate base investment would be $1,190.2 million.

Q. Should this $1,190.2 million in non-rate base investment receive no return whatever?

A. No, it is not my testimony that investors should receive no return on their investment in this facility. Rather, it is my testimony that the return on the investment in this plant should be deferred until such time as the plant's benefits match its costs.

Q. What is the mechanism for deferring return on investment?

A. The mechanism which I recommend is the same procedure that is employed to defer the return on investment in construction work in progress. The procedure is to create an income credit which is capitalized and added to the investment eventually to be recovered. This income credit is known as Allowance for Funds Used During Construction (AFUDC).

Q. Do you therefore recommend that the ~~$1,499.8~~ $1,190.2 million in non-rate base Susquehanna investment be retained in the Construction Work In Progress account?

A. Such a procedure might be used, although I would recommend that a separate account be established. Conventionally, investment in CWIP is not depreciated. I am proposing that the full amount of straight-line depreciation on the entire Susquehanna unit be included in the revenue requirement. Because of this difference in accounting treatment, I recommend that a

separate account be estabilshed, which I would call "Plant Held for Future Benefits" (PHFB). The annual income credit to be capitalized into this account would be called "Allowance for Plant Held for Future Benefits" (APHFB).

Q. How would the Company ever recover the investment set aside in the PHFB account?

A. Periodically, the Company would conduct a new calculation of the fuel and interchange benefits resulting from the operation of its nuclear plants. According to Mr. Hecht, these benefits will increase. As they increase, the amount of plant which can be transferred from the PHFB account to rate base will increase correspondingly. If the Company is correct that the long-term benefits of the Susquehanna plants exceed their long-term costs, then eventually the entire amount of PHFB investment will be absorbed into the rate base. In the meantime, ratepayers will have suffered no costs as a result of the Company's initiation of the nuclear plant.

Q. Will investors be adequately compensated for the funds that they have committed to the Susquehanna plant?

A. Yes. Every dollar of investor capital committed to the Susquehanna plant will have received a return every year. Inititally, most of the return will be in the form of APHFB income credits to be capitalized for future recovery. As the savings from the plants increase, more and more of this return will take the form of cash.

Q. Is there a possibility that the full investment in the Susquehanna units, plus accumulated APHFB, might never be fully incorporated into the rate base?

A. Mr. Hecht is very confident of the net long-term benefits of the Susquehanna units. If he is correct, the entire Susquehanna investment, inclusive of accumulated APHFB, will eventually be incorporated into the rate base, and investors will be fully compensated for their investment.

On the other hand, Mr. Siwek indicates that there is a possibility that the Susquehanna plant will never be cost-effective. If so, the entire investment will never be fully includable in the rate base, and investors will lose a portion of their return. They will not, however, lose the investment itself, since that is recaptured through depreciation charges which, under my prioritization method, will be recovered in current revenue requirement.

Q. Is it reasonable to expose investors to the risk that the Susquehanna units will not be cost-effective?

A. Yes. The alternative, favored by the Company, is to expose ratepayers to the risk that the plant will not be cost-effective. Indeed, the Company's proposal is to collect the certain, near-term net costs of the plant in the hope that in future years the much less certain net benefits will accrue to ratepayers. My proposal would impose no net costs on ratepayers, nor would it flow the subsequent net benefits through to ratepayers until the Company's investors are fully compensated.

The principal difference between my proposal and the Company's is that it shifts the risk that the plants might not be cost-effective from ratepayers to investors. That risk is properly borne by investors. It was their employees, the management, who decided to construct the Susquehanna

units in the first place. More importantly, it is investors, not ratepayers, who appropriately should bear the risks associated with making an investment.

Q. Does this conclude your testimony?

A. Yes, it does.

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Docket No. R-822169

Q. 30. Is the Company utilizing the tax credit for Research and Experimental Expense? If yes, what is the credit applied to the future test year and what account would it be in?

A. 30. The "Credit for Increasing Research Activities" is not reflected in the future test year. The IRS has not issued regulations on this new credit provision; therefore, there is uncertainty as to calculation of a valid credit.

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Q.55. Please provide the detailed backup calculations for each deferred tax amount shown in Future 1, C-7.

A.55. The backup calculations for each deferred tax amount shown in Future 1, C-7 are shown below:

Accumulated Deferred Taxes On Income
As of July 31, 1983

(Thousands of Dollars)

Description	Actual Balance July 31, 1982	Test Year Ending July 31, 1983 Deferrals	Test Year Ending July 31, 1983 Amortizations	Projected Balance July 31, 1983
Accelerated Amortization Property				
Certified Defense Facilities	$ 538	$ -0-	$ (300)	$ 238
Pollution Control Facilities	2,270	-0-	(126)	2,144
Liberalized Depreciation				
Class Life Depreciation System	41,868	-0-	(47)	41,821
Deduction of Costs of Removing Retired Depreciable Property	15,152	-0-	(777)	14,375
Accelerated Cost Recovery System (ACRS) of Economic Recovery Tax Act of 1981 1/				
Susquehanna Property	-0-	107,110	-0-	107,110
Other Property	4,228	7,818	-0-	12,046
Test Power - Martins Creek	6,923	-0-	(249)	6,674
Test Power - Susquehanna	-0-	(48,161)	67	(48,094)
Conversion to Monthly Billing	3,581	-0-	(562)	3,019
Total Accumulated Deferred Taxes on Income	$74,560	$66,767	$(1,994)	$139,333

1/ Reflects claim for Federal income tax portion only.

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Accounting/Revenue Requirements - Set IV
Dated January 28, 1983

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Q. 113. Please respond with data to the following question which was previously asked as OCA, Set I, Question 5:

With regard to the Accumulated Deferred Income Tax Balance for the fusure test year of $139,333,000 what would this balance be if such deferred taxes had been accrued at the 46% rather than the 48% level all along?

A. 113. The requested data is provided in Attachment 1 of this response.

It should be noted that through December 31, 1980 the Company provided deferred taxes related to the difference in tax depreciation resulting from using class lives under ADR system of depreciation versus tax depreciation resulting from the use of Guideline Lives in effect prior to ADR system of depreciation. In accordance with the Commission's Order adopted January 30, 1981, at Docket No. R-80031114, provisions for deferred income taxes were terminated and reversals of amounts deferred through December 31, 1980 started as of January 1, 1981.

Since the Company has not fully provided for the normalization of deferred income taxes under the ADR system of depreciation, and since other deferrals were booked at 46% or are being amortized at the tax rates used to establish the deferred taxes, there is no "surplus" balance in the July 31, 1983 or July 31, 1982 deferred income tax balances.

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Pennsylvania Power & Light Company
Accumulated Deferred Taxes on Income
As of July 31, 1983

(Thousands of Dollars)

	As Reported	Adjustment (A)	Proforma	
Accelerated Amortization Property				
Certified defense facilities	$ 238		$ 238	
Pollution control facilities	2,144		2,144	
	2,382		2,382	$ 2,382
Liberalized Depreciation				
Class life depreciation system	41,821	(1,060)	40,761	
Deduction of costs of removing retired depreciable property	14,375		14,375	
	56,196		55,136	55,136
Accelerated Cost Recovery System				
Susquehanna property	107,110		107,110	
Other property	12,046		12,046	
	119,156		119,156	119,156
Test Power - Martins Creek				6,674
Test Power - Susquehanna				(48,094)
Conversion to Monthly Billing				3,019
Total Accumulated Deferred Taxes on Income	$139,333	(1,060)		$138,273

(A) Adjustment required to give effect to utilization of 46% versus 48% Federal tax rate.

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Dated January 28, 1983

Docket No. R-822169

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Q.130. Please make reference in the filing to where, if any, credit is made for amortization of consolidated tax losses of $525,000 as ordered by the Commission in R-80031114.

A.130. The referenced credit for amortization of consolidated tax losses was a Commission ratemaking adjustment to the test year ended December 31, 1980 filed at R-80031114 and is not an amortization reflected on the books of the Company. Consequently, the budget for the 12 months ended July 31, 1983 which serve as the basis of this filing reflects no such amortization.

It is the Company's position that the income tax allowance in this case should be that level of income taxes applicable to electric utility operations for the test period. The costs incurred by Oneida Mining Company, a former subsidiary of PP&L, which produced the tax loss were not charged to PP&L's electric operations ratepayers, but rather those costs were borne in full by PP&L's shareowners. In view of this, continuation of this inequitable sharing of benefits and costs through the above-mentioned amortization of income tax recoveries is unwarranted unless the costs that gave rise to those tax losses are amortized over a like time frame and included in electric utility operations.

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W. F. Hecht

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Response to Interrogatories
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Set I - Capacity Requirements/Energy Savings
Dated January 3, 1983 REC'

Docket No. R-822169

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Q.13. Referring to WFH-1, page 3-15, where it [illegible] Susquehanna SES is projected to provide a substantial benefit to PP&L customers," in the Company's opinion, are the net benefits proportional to the share of Susquehanna which the Company maintains? That is, if the Company's share were reduced by 50%, would the net benefits to customers be reduced by 50% or by a greater or less amount?

a) If the benefit is disproportionate, please provide any and all available estiamtes of the net benefits assuming a partial selloff of Susquehanna.

b) Please provide copies of any studies, workpapers, and computer printouts used in analyzing such sales.

A.13. Theoretically, the first kw of Susquehanna installed and retained by PP&L should be the most beneficial to PP&L's customers because it effectively displaces its highest operating cost alternative. Each additional kw retained would have the effect of displacing a slightly lower operating cost alternative than the first. It should follow that percent reductions, through sales, in the total share of Susquehanna retained would not result in identical percent reductions in the net benefit obtained from the retained share. There are other factors, however, that influence the costs and benefits of a sale to a greater extent. For instance, since PP&L is part of the PJM interconnection, different cost effects will be seen for sales to different interconnection members depending on the extent to which these members are normally net buyers or sellers of interchange. A sale to a utility outside of the interconnection may have a slightly different effect. The time period of the sale also affects analyses.

Experience has shown that participation in a large interconnection tends to maintain the proportionality of the effects of retaining varying portions of Susquehanna. For reasons mentioned above, analyses of proposed sales would be done on a case by case basis to address all effects, not just amount sold.

a) The benefit is proportionate.

b) No formal analysis is available.

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W. F. Hecht

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Docket No. R-822169

Q.23. Please provide the forecasts of summer and winter peak loads and energy demands annually for each of the other members of the PJM pool, as used in developing Figures 5 and 11 of Exhibit WFH-3.

A.23. Annual summer peak loads, winter peak loads, and energy demands for each of the other members of the PJM pool used in developing Figures 5 and 11 of WFH-3 (for the years thru 1995) are provided in the attached tables. Results provided in Figures 5 and 11 for years after 1995 were based on an extrapolation of earlier results and detailed load projections for the 1996-2002 period were not used. Aggregate load data for PJM is contained in the response to Question 20.

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SUMMER PEAK LOAD PROJECTIONS (MW) FOR PJM COMPANIES* (EXCLUDING PP&L)

CO	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95
A	7290	7440	7600	7690	7810	7930	8040	8150	8250	8340	8430	8520	8600
B	5850	5900	5950	6000	6050	6100	6150	6210	6270	6330	6390	6450	6510
C	4270	4350	4470	4560	4650	4750	4840	4930	5020	5100	5200	5290	5390
D	6130	6240	6280	6420	6500	6600	6760	6910	7080	7240	7400	7550	7690
E	4000	4060	4110	4150	4210	4260	4300	4360	4400	4440	4480	4520	4570
F	1400	1440	1470	1510	1560	1590	1640	1670	1720	1760	1790	1830	1870
G	1840	1890	1950	2000	1950	2010	2060	2110	2160	2220	2280	2340	2400
H	110	110	110	120	120	120	120	130	130	130	140	140	140

*SUMMARY INCLUDES DATA FOR ATLANTIC CITY ELECTRIC CO., BALTIMORE GAS & ELECTRIC CO., DELMARVA POWER & LIGHT CO., GENERAL PUBLIC UTILITIES CORPORATION, PHILADELPHIA ELECTRIC CO., POTOMAC ELECTRIC POWER CO., PUBLIC SERVICE ELECTRIC AND GAS CO., AND UGI CORPORATION.

Attachment 1
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WINTER PEAK LOAD PROJECTIONS (MW) FOR PJM COMPANIES* (EXCLUDING PP&L)

CO	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95
A	5390	5550	5700	5830	5960	6090	6210	6340	6460	6580	6700	6830	6950
B	4800	4900	5000	5100	5200	5300	5410	5520	5630	5740	5850	5960	6080
C	3600	3680	3890	4060	4210	4360	4520	4680	4820	4900	5090	5220	5360
D	6350	6470	6620	6820	7020	7210	7420	7620	7830	7980	8140	8290	8450
E	2850	2900	2950	3010	3070	3120	3170	3220	3270	3310	3350	3390	3430
F	1230	1260	1290	1330	1380	1420	1450	1490	1530	1570	1600	1630	1670
G	1700	1750	1800	1780	1830	1890	1950	2010	2070	2140	2200	2270	2300
H	160	170	170	180	180	190	190	200	210	210	220	220	230

*SUMMARY INCLUDES DATA FOR ATLANTIC CITY ELECTRIC CO., BALTIMORE GAS & ELECTRIC CO., DELMARVA POWER & LIGHT CO., GENERAL PUBLIC UTILITIES CORPORATION, PHILADELPHIA ELECTRIC CO., POTOMAC ELECTRIC POWER CO., PUBLIC SERVICE ELECTRIC AND GAS CO., AND UGI CORPORATION.

ANNUAL NET ENERGY PROJECTIONS (GWH) FOR PJM COMPANIES (EXCLUDING PP&L)

CO	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95
A	33421	34407	35286	36070	36843	37656	38495	39260	39993	40803	41601	42405	43221
B	29782	30245	30713	31187	31676	32187	32684	33185	33690	34166	34678	35184	35688
C	20281	20879	21661	22437	23149	23785	24427	25063	25675	26240	26783	27370	27882
D	35735	36505	37232	38304	39030	39746	40441	41121	41782	42442	43087	43732	44376
E	17555	17895	18163	18437	18759	19063	19343	19639	19896	20146	20396	20646	20895
F	7220	7389	7621	7873	8083	8304	8483	8714	8955	9149	9342	9553	9764
G	9447	9701	9998	10156	10058	10370	10687	11011	11312	11640	11976	12320	12676
H	707	718	736	758	782	805	829	854	880	906	933	961	990

*SUMMARY INCLUDES DATA FOR ATLANTIC CITY ELECTRIC CO., BALTIMORE GAS & ELECTRIC CO., DELMARVA POWER & LIGHT CO., GENERAL PUBLIC UTILITIES CORPORATION, PHILADELPHIA ELECTRIC CO., POTOMAC ELECTRIC POWER CO., PUBLIC SERVICE ELECTRIC AND GAS CO., AND UGI CORPORATION.

200.282088
W. F. Hecht

4/13/83
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Harrisburg

Pennsylvania Power & Light Company
Response to Interrogatories
of the Office of Consumer Advocate
Set I - Capacity Requirements/Energy Savings
Dated January 3, 1983

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Docket No. R-822169

Q.30. On page 32 beginning at line 9, there is discussion of capital costs incurred after plant is placed in service. Please provide estimates of the future costs associated with the Susquehanna plants showing direct and AFUDC components separately. Please indicate whether these costs represent total costs or PP&L's share of costs.

A.30. PP&L's share of cost of capital additions estimated to be placed in service through the period of the economic analysis are as follows:

$ MILLIONS

YEAR	ADDITIONS INCLUDING AFUDC	AFUDC
1984	27	3
1985	38	4
1986	47	5
1987 & AFTER	45	5

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Pennsylvania Power & Light Company
Response to Interrogatories
of the Susquehanna Alliance
Set II Dated February 6, 1983

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Q.14. Please provide a table for all BWR's in operation through 1982 showing the capacity factor for each calendar year from 1971 through 1982.

A.14. Table A shows capacity factors for the 20 BWR-3's and BWR-4's by calendar year through September, 1982. (Numbers in parentheses on all tables indicate the number of unit-months, where different from 12.)



Table A

BWR 3+4 CAPACITY FACTORS BY CALENDAR YEAR (Through 9/82)

GENERAL ELECTRIC BWR-3 NUCLEAR UNITS

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Dresden 2	-	-	58.1(6)	72.1	48.9	42.5	62.7	50.9	82.0	71.1	65.7	49.1	79.5(9)
Millstone Point 1	-	70.4(9)	54.6	32.5	62.3	67.4	64.8	83.4	80.5	73.1	58.6	43.7	79.5(9)
Monticello	-	49.2(5)	74.4	68.5	61 3	60.4	83.3	74.8	80.8	92.2	72.2	68.3	66.4(9)
Dresden 3	-	-	71.1(12)	53.2	46.2	31.7	57.9	74.6	55.1	50.1	63.0	74.4	47.7(9)
Pilgrim 1	-	-	-	69.6(12)	33.7	44.2	41.2	45.3	74.8	82.8	51.9	58.9	50.8(9)
Quad Cities 1	-	-	-	70.0(10)	50.1	61.8	49.1	51.0	68.3	69.3	50.1	82.9	62.4(9)
Quad Cities 2	-	-	-	73.6(9)	64.7	36.1	62.3	63.2	64.1	57.8	52.7	54.6	71.6(9)

GENERAL ELECTRIC BWR-4 NUCLEAR UNITS

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Vermont Yankee	-	-	44.3(1)	40.3	55.1	79.1	72.2	78.6	72.0	76.6	66.0	79.3	92.0(9)
Peach Bottom 2	-	-	-	-	76.5(5)	54.5	59.7	43.4	72.8	91.9	46.8	71.1	41.1(9)
Browns Ferry 1	-	-	-	-	70.7(5)	14.8	13.9	54.1	62.4	80.3	64.9	47.2	82.8(9)
Cooper Station	-	-	-	-	50.6(6)	56.5	53 3	66.6	71.7	73.3	55.4	56.5	71.7(9)
Duane Arnold	-	-	-	-	-	50.9(11)	55.0	64.3	26.0	61.5	61.8	49.2	48.7(9)
Browns Ferry 2	-	-	-	-	-	7.0(10)	16.8	66.7	59.5	79.8	60.1	80.1	63.8(9)
Peach Bottom 3	-	-	-	-	-	56.6(12)	64.7	51.3	74.7	65.5	77.3	34.0	91.3(9)
Hatch 1	-	-	-	-	-	-	59.8(12)	54.0	62.1	48.6	69.5	40.2	53.7(9)
Fitzpatrick	-	-	-	-	-	50.4(5)	57.6	54.1	58.4	41.2	60.1	66.5	67.5(9)
Brunswick 2	-	-	-	-	-	63.7(1)	34.5	33.9	66.7	50.8	26.0	45.7	25.3(9)
Browns Ferry 3	-	-	-	-	-	-	-	74.8(10)	59.5	58.8	74.1	67.1	38.0(9)
Brunswick 1	-	-	-	-	-	-	-	42.0(9)	71.2	44.1	54.6	35.8	43.4(9)
Hatch 2	-	-	-	-	-	-	-	-	-	85.4(3)	53.1	65.3	42.1(9)
BWR 3+4 Avg.*	-	62.8	65.0	59.3	54.5	48.0	53.5	59.4	66.5	67.0	59.2	58.5	61.0

*Through September, 1982

Attachment 1
200.582014

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W. F. Hecht
175.282005
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Informal Data Request
Of the Office of Consumer Advocate

Docket No. R-822169

Q.5. Will any property in the future use claim be used for utility service during the future test year? (Hearing 2/10/83)

A.5. No. Any property going in-service during the future test year is included as part of Exhibit WFH-2 which contains the estimate of electric plant additions for the future test year.

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W. Hecht

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From R-822169 Harrisburg

Q.6. Has the company ever had in rate base as land held for future use sites which the company subsequently decided not to use? Has any property related to the Stony Creek project ever been included in land held for future use?

A.6. Yes, the company has in the past had land included in rate base which it subsequently decided not to use.

The Stony Creek Pumped Storage site (PP&L's portion) and the associated transmission right of way were included in Electric Plant Held for Future Use Claim in the 1980 rate case (Docket R-8003114). The claim for these facilities was disallowed by the commission and was not included in rate base.

In March, 1980, Stony Creek was designated a Wild and Scenic River under the Pennsylvania Scenic River Act of 1972. As a result, the joint owners, PP&L and Metropolitan Edison Co., on April 27, 1981, agreed to terminate the project and permit the land to revert back to the Pennsylvania Game Commission. No claims were made for Stony Creek related property in subsequent rate filings.

APR 18 1983

R. R. Fortune
175.282008

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Q.8. Please describe how the Company determined that its common stock dividends would be 100% taxable in 1984. Please supply work papers. (Hearing 2/15/83)

A.8. In determining the actual amount of non-taxable dividends, the Company first calculates its cumulative balance of "Earnings & Profits" according to Internal Revenue Service Guidelines. From this balance, payments during the year of Preferred Stock dividends, Preference Stock dividends and Common Stock dividends are deducted in that order. To the extent that payments of these dividends exceed accumulated Earnings & Profits, the dividends are treated as non-taxable return of capital for income tax purposes.

The calculation used to determine what percentage, if any, of the Company's dividends paid in a calendar year are non-taxable (as a return of capital) is dependent on a number of factors and the detailed information required to make this calculation has not been projected for calendar year 1984. However, the Company provided an estimate of 100% taxability of Common Stock dividends in 1984 by making the following general observations.

In 1982 the Company paid out about $200 million in Common Stock, Preference Stock and Preferred Stock dividends that were non-taxable. In the Company's present situation, essentially any increase in Federal taxable income would be reflected as an increase in Earnings & Profits. The increase in taxable income resulting from the Company's current rate filing is $269 million, as set forth in Exhibit Future 1, Schedule D-16 (page 6, line 6). The addition of $269 million in Earnings & Profits should be enough of a margin to override earnings erosion from the end of 1982, uncertainties and other detailed refinements involved. Therefore, the Company currently feels that Common Stock dividends should be 100% taxable in 1984.

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J. F. Brennen
175.282009

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Pennsylvania Power & Light Company
Informal Data Request
Of the Office of Consumer Advocate

Docket No. R-822169

Q.9. Please describe the methodology employed by Mr. Brennan to recognize in his calculation of the composite interest rate of long-term debt any gains or losses on reacquired long-term debt experienced by PP&L.

A.9. Subsequent to the preparation of his testimony and exhibit, Mr. Brennan was informed by PP&L that the Company had experienced a gain on the reacquisition of its 6% Series A Pollution Control Bonds in November 1982. When the amount of gain on reacquisition of long-term debt is recognized, Mr. Brennan's calculation of the composite interest rate of long-term debt, as well as his overall rate of return recommendation at July 31, 1983, is unaffected.

At the time his rebuttal testimony is filed, Mr. Brennan will provide updated schedules utilizing the latest available data regarding the calculation of the composite interest rate on long-term debt (including recognition of gain) and preferred stock for PP&L, estimated at July 31, 1983.

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M. J. Berish
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Pennsylvania Power & Light Company
Informal Data Request
Of the Office of Consumer Advocate

Docket No. R-822169

Q.12. Please explain the increase in Operation & Maintenance expenses of the Holtwood Steam Electric Station and the Holtwood Hydro Electric Station from the period 12 months ending July 31, 1982 to the period 12 months ending July 31, 1983 as shown on Exhibit Regs. I, Attachment I-B-2. (Hearing 2/17/83)

A.12. The Operation & Maintenance expenses shown on Exhibit Regs. I, Attachment I-B-2 for the period 12 months ending July 31, 1983 are not comparable to the period 12 months ending July 31, 1982 due to expenses common to all stations being allocated to the various stations for the period 12 months ending July 31, 1983.

After reallocating the Operation & Maintenance expenses on a comparable basis, the increase for the Holtwood Steam Electric Station is $945,787 and the increase for the Holtwood Hydro Electric Station is $664,327. Following are the explanations for the increases:

Holtwood Steam Electric Station	Increase
Wages & Employee Benefits	$403,000
Materials & Supplies	
Rebuild Furnace Side Wall	150,000
Scaffold, Motors, Hoists & Riggings	45,000
Gland Seal Pumps	95,000
Exhauster Parts	45,000
Work By Outsiders	
Vacuum Truck Service	106,000
Low Pressure Superstructure Reps.	50,000
All Other	51,787
	$945,787

Holtwood Hydro Electric Station	
Wages & Employee Benefits	$184,000
Materials & Supplies	
Replace & Repair Crane Hooks	50,000
Spare Parts for Governor & Turbines	50,000
Log Chute Hoist	50,000
Work By Outsiders	
Resurface Face & Crest of Dam	128,000
Underwater Repairs	140,000
Repairs to Hydro Building	34,000
Repair Office & Service Building	42,000
All Other	(13,673)
	$664,327

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G. F. Vanderslice
175.282015

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Pennsylvania Power & Light Company
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Docket No. R-822169

APR 18 1983

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Q. 15. Refer to the Stony Creek project. Please provide a breakdown of total cost between land and engineering studies. Please describe the ultimate disposition of the land, its original price, and its sale price. Please provide the date when GPU received approval for amortization of its losses for this project.

A. 15. As the result of a comprehensive siting study begun in 1962, Pennsylvania Power & Light Company (PP&L) selected the Stony Creek site from among 336 potential sites as the most promising one for a pumped storage hydroelectric generating station. In 1969, PP&L acquired from the Commonwealth of Pennsylvania through the Game Commission title to 1,702.19 acres of land in the Stony Creek Valley for the project. It was acquired in exchange for 5,469.22 acres of land situated mostly in the nearby Clark Creek and Fishing Creek Valleys, which PP&L conveyed or caused to be conveyed to the Game Commission. The deed from the Game Commission to PP&L provided that if PP&L decided not to construct a pumped storage facility on the land so acquired, the land would revert back to the Game Commission. This site is located some ten miles east of Dauphin, PA, and thirteen miles northeast of Harrisburg.

In March 1980, Stony Creek was designated a Wild and Scenic River under the Pennsylvania Scenic Rivers Act of 1972. As a result, the joint owners, PP&L and Metropolitan Edison Company, determined it was not possible to build a pumped storage facility at Stony Creek. On April 27, 1981 both parties agreed to terminate this project and their earlier mutual agreement to share ownership, costs, expenses and carrying charges to the project. In addition, both parties agreed that PP&L would take action to permit the land to revert to the Pennsylvania Game Commission. The PP&L Board of Directors on May 27, 1981 approved the termination of this project and on June 24, 1981 approved securing the necessary Release of Mortgage so the property could be reconveyed to the Game Commission during August 1981.

5 year amortization of Metropolitan Edison's losses on this project was approved by the Pa PUC on April 9, 1981.

A breakdown of the total cost of PP&L's share of the Stony Creek project is as follows:

	Amount
Land	$ 420,000
Preliminary Engineering Studies & Examinations	1,593,000
	$2,013,000

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FILED

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B. D. Kenyon
175.282023

4/13/83
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Pennsylvania Power & Light Company
Informal Data Request
Of the Office of Consumer Advocate

Docket No. R-822169

Q.23. Please provide a list of FERC accounts utilized in the Company's study of other utilities' nuclear O&M costs. (Hearing 3-2-83)

A.23. The data that was analyzed in PP&L's study of Nuclear O&M production costs was extracted from the Federal Energy Regulatory Commission's Form No. 1 (Annual Report) reports of all utilities with commercially operating Nuclear units. More specifically, it was extracted from the report section entitled "Steam Electric Generating Plant Statistics".

The FERC instructions for preparation of Form No. 1 indicate that Accounts 517-532 are included in the costs shown on the Statistical Report identified above. To that extent, the costs associated with those accounts (excluding fuel expense) were the basis of our study.

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APR 19 1983

W. F. Hecht
175.282027

Pennsylvania Power & Light Company
Informal Data Request
of the Office of Consumer Advocate

Docket No. R-822169

4/13/83
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Q.27. Reference Exhibit 200.582027, Attachment 1. Is the winter peak of 4,489 MW shown on this Attachment weather normalized? If not, what would the weather normalized peak demand be? (Hearing 3-2-83)

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A.27. Information provided by J. O. Beamer indicates that PP&L's winter peak of 4,489 MW as shown in Attachment 1 of Exhibit 200.582027 is not weather normalized. PP&L's winter peak, excluding sales to UGI, was 4,404 MW. Final estimates of weather adjusted loads are not yet available, but on a preliminary basis, it is estimated that PP&L's weather adjusted peak load (excluding UGI sales) would be 4,717 MW. Adding 85 MW of UGI sales (no estimate of weather adjusted load is available for UGI sales), produces an overall peak of 4,802 MW.

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W. F. Hecht
175.282028

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4/13/83

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Docket No. R-822169

R-822169
Harrisburg

Q.28. Were the PJM & PP&L winter peaks of 1982-83 coincident and what was the PJM reserve margin at the time of PP&L's peak? (Hearing 3-2-83)

A. 28. PP&L and PJM 1982-83 winter peaks were not coincident, and PJM's installed reserves at the time of PP&L's winter peak were approximately 1 percentile higher than reserves at the time of the PJM winter peak (PJM loads lower at the time of PP&L's winter peak). PJM's available capacity at the time of PP&L's winter peak resulted in available reserves of about 35%, a value substantially below the PJM installed reserve level. PJM's available capacity at the time of the PJM 1982 summer peak resulted in an approximate 3% operating reserve level.

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W. F. Hecht
175.282030

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Docket No. R-822169

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Q.30. Reference Exhibit WFH 3, Figure 10. Please provide the energy growth rate used in your low load growth contingency analysis. (Hearing 3-2-83)

A.30. The compound annual growth rate of PP&L energy sales (thru 2002) for the "low" load growth scenario noted in Exhibit WFH 3 was approximately 1.0%.

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DOCUMENT FOLDER

M. J. Berish
175.282032

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Of the Office of Consumer Advocate

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Q. 32. Please provide the actual Operation & Maintenance expenses for the Holtwood Steam Electric Station and the Holtwood Hydro Electric Station for as far into the Future Test Period as the data is available. (Phone 3/7/83)

A. 32. The following are the actual Operation & Maintenance expenses for the months August 1982 through January 1983.

Holtwood Steam Electric Station	$2,498,577 1/
Holtwood Hydro Electric Station	$2,167,894

1/ Substantial Operation & Maintenance expenses are expected to be incurred during the Unit's annual maintenance outage which is currently in process (Mar. 6-Apr. 2).

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A. J. Baldwin
175.582001

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Pennsylvania Power & Light Company
Informal Data Request
Of the Susquehanna Alliance

Docket No. R-822169

Q.1. Please provide a copy of the Company's 1983/1984 tentative energy cost rate (ECR) filing. (Hearing 2/08/83).

A.1. Attachment 1 is a copy of the requested filing.

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Attachment 1
175.582001

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA POWER & LIGHT COMPANY

1983/1984 Tentative Energy Cost Rate Filing

January 31, 1983

INFORMATION SUBMITTED IN CONJUNCTION WITH PP&L'S 1983/1984 TENTATIVE ECR FILING

Schedule 1	Computation of Projected Energy Cost Rate for the Computation Period April 1983 Through March 1984
Schedule 2	Projection of Net Energy Output and Cost for the Twelve Months Ending March 31, 1984
Schedule 3	Calculation of Estimated Unrecovered Energy Revenues Balance at January 31, 1983
Schedule 4	Energy Cost Rate (ECR) Reconciliation, Report for the Period Ending December 31, 1982
Schedule 5	Projection of Over/(Under) Collection of Levelized Energy Costs for the Fifteen Months Ended March 31, 1984
Schedule 6	Statement of Reasons
Schedule 7	Residential Bill Analysis

PENNSYLVANIA POWER & LIGHT COMPANY

COMPUTATION OF PROJECTED ENERGY COST RATE
COMPUTATION PERIOD: APRIL 1983 THROUGH MARCH 1984

1. Energy Cost Rate = $\left[\frac{F_c}{S_t} - \frac{F_b}{S_b} - \frac{E}{S_r}\right] \times \frac{1}{1 - T}$

2. F_c = Cost of Energy (Schedule 2)..... $387,196,400

3. S_t = Projected Sales For Computation Period (Schedule 2)..... 23,429,844 Mwh

4. $\frac{F_c}{S_t}$ = Projected Cost Per Kwh (Line 2 ÷ Line 3) ..... 16.526 Mills/Kwh

5. $\frac{F_b}{S_b}$ = Base Cost ..... 14.115 Mills/Kwh

6. Difference (Line 4 - Line 5) ..... 2.411 Mills/Kwh

7. Determination of $\frac{E}{S_r}$

   a. E = Estimated Energy Revenues Unrecovered - Balance as of January 31, 1983 (Schedule 3 - column 12)..... $(45,758,358)

   b. S_r = Estimated Retail Sales for Computation Period (Schedule 2)..... 22,322,154 Mwh

   c. $\frac{E}{S_r}$ (Line 7a ÷ Line 7b)..... (2.050) Mills/Kwh

8. Line 6 - Line 7c ..... 4.461 Mills/Kwh

9. $\frac{1}{1 - T}$ (T = 4.5%) ..... x 1.04712

10. Energy Cost Rate - Calculated (Line 8 x Line 9)... 4.671 Mills/Kwh

PENNSYLVANIA POWER & LIGHT COMPANY

PROJECTION OF NET ENERGY OUTPUT AND COST
12 MONTHS ENDING MARCH 31, 1984

	(1)	(2)	(3)	(4)	(5)
			Units of Fuel Consumed		
	Generation GWH	Cost $000	Coal Tons-000	#2 Oil Gal-000	#6 Oil BBL-000
Steam Stations					
Brunner Island	9,576	$181,490.1	3,873	3,535	
Martins Creek Units #1 & #2	1,529	37,058.2	730	2,898	
Sunbury	2,627	49,043.8	1,412	270	
Holtwood	517	8,730.0	327	262	
Keystone	1,222	16,281.8	495	426	
Conemaugh	1,008	19,348.6	425	411	
Montour	9,958	178,209.4	3,808	2,633	
System Fossil Generation-Coal	26,437	490,161.9	11,070	10,435	
Martins Creek Units #3 & #4	4,206	234,599.0	--	6,300	6,967
System Fossil Generation-Oil	4,206	234,599.0	--	6,300	6,967
Combustion Turbines	28	3,288.1		3,192	
Diesel Generators	2	151.4		148	
System Fossil Internal Combustion Generation	30	3,439.5	--	3,340	--
Subtotal Fossil Fuel Generation	30,673	728,200.4	11,070	20,075	6,967
Hydroelectric Stations					
Holtwood	584				
Wallenpaupack	77				
System Hydroelectric Generation	661	--	--	--	--
Total System Generation	31,334	728,200.4	11,070	20,075	6,967
Power Purchases					
PJM Purchases	381	11,488.1			
APS Purchases	578	20,230.0			
Allegh. Elec. Buyback	385	2,713.1			
Other Power Purchases	302	--			
Total Power Purchases	1,646	34,431.2			
Power Sales					
PJM Deliveries	(6,534)	(330,869.0)			
Bi-Lateral Sales	(1,313)	(44,566.2)			
Total Power Sales	(7,847)	(375,435.2)			
Total Projected System Net Output and Energy Cost	25,133	$387,196.4			
SYSTEM SALES - GWH					
Retail	22,322				
Wholesale	913				
Company Use	195				
Total Projected Sales	23,430				

PENNSYLVANIA POWER & LIGHT COMPANY

CALCULATION OF ESTIMATED UNRECOVERED ENERGY REVENUES BALANCE AT JANUARY 31, 1983

		(1) MWH Sales to Regular Customers	(2) Current Energy Cost Mills/Kwh (3)÷(1)=(2)	(3) Total Energy Cost $	(4) Allocation Factor Regular Cust. to Retail Cust. (6)÷(1)=(4)	(5) Energy Cost Retail Cust. $ (3)x(4)=(5)	(6) Mwh Sales to Retail Cust.	(7) Energy Cost Recovered in Base Rates $ (6)x14.115=(7)	(8) Energy Cost Over Base $ (5)-(7)=(8)	(9) ECR[1/] Factor Mills/Kwh	(10) ECR Revenue $ (6)x(9)=(10)	(11) Over/ (Under) Recovery $ (10)-(8)=(11)	(12) Cumulative Balance $
Actual	Dec. 1982												(48,857,692)
	Jan. 1983	2,412,369	18.879	45,543,300	.9389	42,760,604	2,264,912	31,969,233	10,791,371	6.133	13,890,705	3,099,334	(45,758,358)

1/ Average Levelized Energy Cost Factor for the period January 1, 1982 to March 31, 1983 (excluding Gross Receipts Tax).

Schedule 3

PENNSYLVANIA POWER & LIGHT COMPANY

ENERGY COST RATE (ECR) RECONCILIATION

FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 1982

(1)	(2) Cost of Energy	(3) Total System Sales Kwh	(4) Cost of Energy Mills/Kwh (2)÷(3)	(5) Cost of Energy Over Base (A)	(6) Retail Sales Kwh	(7) Cost of Energy Over Base (5)x(6)	(8) Gross ECR Revenue	(9) ECR Revenue Excl. Gross Receipts Tax (8)x.955	(10) Deferred Energy Cost Recovered (B)	(11) Net ECR Revenue (9)-(10)	(12) Over(Under) Recovery (11)-(7)	(13) Cumulative Balance
ıth												
11												
:.												
,.	$ 33,559,715	1,884,098,682	17.812	10.584	1,802,407,477	$ 19,076,681	$ 11,574,828	$ 11,053,961	$ 2,984,787	$ 8,069,174	$(11,007,507)	$ (95,321,136)
:.	40,828,237	2,116,370,361	19.292	12.064	2,013,591,893	24,291,973	12,936,643	12,354,494	3,334,508	9,019,986	(15,271,987)	(103,343,856)
12												(115,281,335)
1.	57,417,027	2,395,285,944	23.971	16.743	2,266,924,200	37,955,112	31,166,620	29,764,122	8,813,801	20,950,321	(17,004,791)	(1 72,325)
).	35,629,759	2,348,223,289	15.173	7.945	2,235,989,769	17,764,939	30,738,347	29,355,121	8,693,528	20,661,593	2,896,654	(111,882,143)
r.	29,152,365	2,140,553,315	13.619	6.391	2,034,633,209	13,003,341	27,972,611	26,713,844	7,910,654	18,803,190	5,799,849	(98,171,640)
)	Note (C) below										(7,235,103)	
r.	30,538,599	1,948,529,714	15.673	1.558	1,853,346,587	2,887,514	11,902,192	11,366,593	7,205,812	4,160,781	1,273,267	(96,927,664)
)	Note (C) below										(30,409)	
7	29,478,214	1,638,837,975	17.987	3.872	1,571,711,784	6,085,668	10,093,533	9,639,324	6,110,816	3,528,508	(2,557,160)	(93,404,417)
ıe	24,939,357	1,697,967,373	14.688	0.573	1,624,739,331	930,976	10,433,296	9,963,798	6,316,987	3,646,811	2,715,835	(84,371,595)
ly	31,139,159	1,693,835,500	18.384	4.269	1,619,947,218	6,915,555	10,402,651	9,934,532	6,298,354	3,636,178	(3,279,377)	(81,352,618)
ı.	28,857,130	1,703,894,897	16.936	2.821	1,631,756,187	4,603,184	10,478,179	10,006,661	6,344,268	3,662,393	(940,791)	(75,949,141)
)	Note (D) below										3,381	
ɔt.	28,822,342	1,672,451,562	17.234	3.119	1,593,730,808	4,970,846	10,234,559	9,774,004	6,196,426	3,577,578	(1,393,268)	(71,142,602)
:.	31,631,966	1,637,795,990	19.314	5.199	1,541,934,726	8,016,519	9,902,069	9,456,476	5,995,042	3,461,434	(4,555,085)	(69,702,645)
/.	28,276,136	1,754,596,764	16.115	2.000	1,669,772,568	3,339,545	10,723,263	10,240,716	6,492,075	3,748,641	409,096	(62,801,474)
:.	23,903,323	1,909,019,081	12.521	(1.594)	1,804,574,556	(2,876,492)	11,588,785	11,067,290	7,016,186	4,051,104	6,927,596	(48,857,692)

' Column (4) minus 7.228 mills/kwh through March 1982 and 14.115 mills/kwh for subsequent months.

' Column (6) times 1.656 mills/kwh through December 1981 and 3.888 mills/kwh for subsequent months.

' Adjustment applicable to January through March 1982 energy costs rolled into base rates in April and May 1982 in conjunction with the change in ECR from 13.75 to 6.422 mills/kwh in accordance with the PPUC Order entered on March 5, 1982.

Adjustment of credit balances, each less than $1, on disconnected accounts, which resulted from the retroactive change in the ECR (see Note C). In view of the cost to prepare checks and mail refunds of amounts less than $1, the $3,381 was applied to reduce the balance of unrecovered energy costs.

Schedule 4

PENNSYLVANIA POWER & LIGHT COMPANY

PROJECTION OF OVER/(UNDER) COLLECTIONS
LEVELIZED ENERGY COST RATE
15 MONTHS ENDING MARCH 31, 1984

	Month	(1) MWH Sales to Regular Customers	(2) Current Energy Cost Mills/Kwh (3)÷(1)=(2)	(3) Total Energy Cost $	(4) Allocation Factor Regular Cust. to Retail Cust. (6)÷(1)=(4)	(5) Energy Cost Retail Cust. $ (3)x(4)=(5)	(6) Mwh Sales to Retail Cust.	(7) Energy Cost Recovered in Base Rates $ (6)x14.115=(7)	(8) Energy Cost Over Base $ (5)-(7)=(8)	(9) ECR[1/] Factor Mills/Kwh	(10) ECR Revenue $ (6)x(9)=(10)	(11) Over/ (Under) Recovery $ (10)-(8)=(11)	(12) Cumulative Balance $
1982	December												(48,857,692)
1983	January	2,412,369	18.879	45,543,300	.9389	42,760,604	2,264,912	31,969,233	10,791,371	6.133	13,890,705	3,099,334	(45,758,358)
	February	2,233,535	11.373	25,402,200	.9502	24,137,170	2,122,230	29,955,276	(5,818,106)	6.133	13,015,637	18,833,743	(26,924,615)
	March	2,150,093	12.655	27,210,300	.9537	25,950,463	2,050,560	28,943,654	(2,993,191)	6.133	12,576,084	15,569,275	(11,355,340)
	April	1,935,915	14.940	28,921,900	.9609	27,791,054	1,860,158	26,256,130	1,534,924	4.461	8,298,165	6,763,241	(4,592,099)
	May	1,692,152	16.239	27,478,600	.9624	26,445,405	1,628,481	22,986,009	3,459,396	4.461	7,264,654	3,805,258	(786,841)
	June	1,738,201	16.578	28,815,300	.9613	27,700,148	1,670,922	23,585,064	4,115,084	4.461	7,453,983	3,338,899	2,552,058
	July	1,795,418	14.652	26,306,900	.9585	25,215,164	1,720,972	24,291,520	923,644	4.461	7,677,256	6,753,612	9,305,670
	August	1,758,076	16.235	28,542,700	.9528	27,195,485	1,675,096	23,643,980	3,551,505	4.461	7,472,603	3,921,098	13,226,768
	September	1,773,104	15.291	27,112,600	.9598	26,022,673	1,701,739	24,020,046	2,002,627	4.461	7,591,458	5,588,831	18,815,599
	October	1,775,543	15.215	27,015,700	.9513	25,700,035	1,689,148	23,842,324	1,857,711	4.461	7,535,289	5,677,578	24,493,177
	November	1,842,602	14.764	27,204,500	.9457	25,727,296	1,742,550	24,596,093	1,131,203	4.461	7,773,516	6,642,313	31,135,490
	December	2,165,297	15.155	32,814,200	.9460	31,042,233	2,048,338	28,912,291	2,129,942	4.461	9,137,636	7,007,694	38,143,184
1984	January	2,454,564	20.935	51,387,100	.9409	48,350,122	2,309,573	32,599,623	15,750,499	4.461	10,303,005	(5,447,494)	32,695,690
	February	2,294,236	17.589	40,353,900	.9486	38,279,710	2,176,215	30,717,275	7,562,435	4.461	9,708,095	2,145,660	34,841,350
	March	2,204,736	18.707	41,243,000	.9520	39,263,336	2,098,962	29,626,849	9,636,487	4.461	9,363,469	(273,018)	34,568,332

1/ Average Levelized Energy Cost Factor excluding Gross Receipts Tax.

Schedule 5

PENNSYLVANIA POWER & LIGHT COMPANY

STATEMENT OF REASONS

PP&L is proposing that an ECR of 4.671 mills/Kwh be used for billing purposes beginning April 1, 1983. The prior rate was 6.422 mills/Kwh. The decrease in the proposed rate of 1.751 mills/Kwh is due primarily to a reduction in the amortization rate applicable to unrecovered energy costs from prior periods. Following is a breakdown of each rate.

	Prior Rate	Proposed Rate	Change
		Mills/Kwh	
Collection of Energy Costs During Year	2.245	2.411	.166
Collection of Unrecovered Energy Costs from Prior Periods	3.888	2.050	(1.838)
Applicable Gross Receipts Tax	.289	.210	(.079)
Total	6.422	4.671	(1.751)

PENNSYLVANIA POWER & LIGHT COMPANY

RESIDENTIAL BILL ANALYSIS

Based on the projected ECR for 1983/1984, the total monthly bill for electric service to the average residential customer (800 Kwh) would decrease $1.40 or 2.78%. Details of the billing comparison are shown below:

	(1)	(2)	(3)	(4)	(5)	(6)
			Billing Amounts ($)			
	ECR Mills/ Kwh	Avg. Kwh Used	ECR (1) x (2)	Base Rates	Tax Surcharge (4)x6.75%	Total (3)+(4)+(5)
Current ECR - 1982/1983	6.422	800	5.14	42.39	2.86	50.39
Projected ECR - 1983/1984	4.671	800	3.74	42.39	2.86	48.99

	Monthly Bill
Projected ECR - 1983/1984	$48.99
Current ECR - 1982/1983	50.39
Amount of Change	$(1.40)
Percentage Change	(2.78)%

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Q.14. How were overhead costs allocated for ratemaking purposes between Unit 1 and Common facilities of Susquehanna and Unit 2 and Common facilities? (Hearing 2-17-83)

A.14. Overhead costs are charged directly to the Unit 1 and all of Common project and Unit 2 project separately. Bechtel engineering and construction distributable costs as well as construction supervision are charged on the basis of direct labor manhours. The overhead costs reflected in one-half of the Common facilities were determined on the basis of direct labor manhours.

Overhead costs incurred by PP&L are also charged directly to the Unit 1 and all of Common project and Unit 2 project. The portion of PP&L overhead costs associated with one-half of the Common facilities was determined on the basis of Bechtel project costs plus PP&L direct costs.

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Q.18. Refer to OCA Exhibit 17, Cost Trend 10-4-118. Please provide an estimate of the portion of this cost trend related to the low voltage problem. (Hearing 2-24-83)

A.18. Since the low voltage problem affected the electrical discipline, and the increase in electrical engineering manhours included in this trend was approximately 2000 manhours, a maximum estimate of the number of low voltage related manhours included in this trend would be 2000 manhours. However, other related electrical work could be included in this number.

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Docket No. R-822169

Q.19. Refer to OCA Exhibit 17, Cost Trend 8-10-192. Please describe how this unresolved cost trend was ultimately resolved. (Hearing 2-24-83)

A.19. Unresolved Cost Trend 8-10-192 was subsequently resolved for $4 million in Forecast No. 9 (Page A-9, Item 3-E).

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Docket No. R-822169

Q.20. Refer to OCA Exhibit 17, Cost Trend 10-7-41 (Page 5) and (Page 14). Please explain why different numbers appear on these pages. Please determine if these amounts include any amounts for rework. (Hearing 2-24-83)

A.20. The different costs, shown on Pages 5 and 14, reflect the "other" and "scope" category allocations of Cost Trends 10-7-41. To determine the total value of Trend 10-7-41, it would be necessary to add the values on Pages 5 and 14, OCA Exhibit 17.

The amounts included in Trend 10-7-41 do contain some costs resulting from modifications made to existing pipe supports.

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Q.21. Please describe how unresolved Cost Trend 1-061 was ultimately resolved. (Hearing 2-24-83)

A.21. Unresolved Cost Trend 1-061 was ultimately resolved for $10.1 million in Cost Trend Report 6-3 (Page 4). The total value of the "001 Containment Work" at this point in time was estimated to be $12 million. Since $1.9 million of related costs had been included in previous forecasts, the value of Trend 1-061 was resolved at $10.1 million.

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Rate of Return - Set I
Dated January 7, 1983

Docket No. R-822169

Q. 1. On page 24 of PP&L's Statement #14, it is stated that the PP&L indenture requires historical earnings available to pay for capital before income taxes to be two times annual interest expenses on long-term debt. How does PP&L treat AFUDC in the calculation of this indenture requirement?

A. 1. The amount of other income (net), which includes AFUDC, allowable as earnings in the indenture test is limited to 15% of the sum of adjusted operating income plus other income (net). For the indenture test, adjusted operating income is equal to operating revenues less (1) operating expenses (excluding provisions for depreciation, maintenance and income taxes) and (2) an amount equal to 15-1/2% of adjusted gross operating revenues (which is deducted in lieu of maintenance and depreciation). For the 12 months ended December 31, 1981, approximately $134 million of a total of $210 million of other income (net) ($194 million of which was AFUDC) could not be utilized as earnings in the indenture test. Thus, as a practical matter, as CWIP and related AFUDC increases, a larger portion of AFUDC is excluded from the indenture earnings test.

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Response to Interrogatories of the Office of Consumer Advocate
Rate of Return - Set I
Dated January 7, 1983

Docket No. R-822169

Q.2. Schedule 6, page 1 as attached to Statement #14 contains bond yields for various A, Aa, Aaa, and Baa rated public utilities and industrials from 1955 through September of 1982. The source of this information is Moody's Investor Services. Please state the applicable coverage ratios for the periods 1955 and 1979 through 1982 for Aaa, Aa, A, and Baa rated public utility bonds and industrial bonds applicable to each category as applied by the Moody's Investor Services.

A.2. The question as stated is ambiguous. If the question seeks information pertaining to coverage for the companies that comprise each of the groups employed by Moody's Investor Services that comprise their distributed yield average groups, please be advised Mr. Brennan did not rely upon coverage for any year for these groups in arriving at his opinion, nor has Mr. Brennan made reference to any such coverage figures pertaining to such groups in his direct testimony or in his exhibit. Accordingly, if the Consumer Advocate desires to obtain such information, they may do so by consulting any good public library for the names of the companies that comprise the groups, and may also observe whatever Moody's reports is the coverage for each year for each company comprising such groups to discover the answer to their question.

If the purpose of the question is to elicit what standards Moody's employs with respect to coverage to qualify for the rating of Aaa, Aa, A, and Baa for either public utilities or industrial companies, please be advised to the best of Mr. Brennan's knowledge Moody's does not publish any such criteria.

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Rate of Return - Set I
Dated January 7, 1983

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Docket No. R-822169

Q.7. Please summarize all the major deficiencies Mr. Brennan feels exist with the Capital Asset Pricing Model technique.

a. Provide a copy of all testimonies filed by Mr. Brennan since January 1, 1981, in which he discussed a Capital Asset Pricing Model approach used by another witness.

A.7. Summarized below are major deficiencies that exist with the Capital Asset Pricing Model.

A. The model stems from a set of unrealistic assumptions, such as:

1. Investors are risk averse. Portfolios are evaluated with respect to their mean return and variance of return.

2. All investors compose their portfolios using a common, single investment horizon period.

3. The objective in this investment period is to maximize the expected utility of terminal wealth at the end of this single planning period.

4. In measuring returns, investors do not differentiate between dividend income and capital gains; in considering risk they do not make this distinction either.

5. There are no taxes on investment returns; hence, differential tax rates for different investors do not exist.

6. All investors have access to the same information regarding market-wide events and regarding individual securities.

7. All investors from identical subjective expectations of future returns, variances of returns, and covariances of returns for each possible investment alternative. Expectations are symmetrically distributed with a finite mean. A normal distribution is usually assumed.

8. The market for individual stocks is highly liquid. Large sales or purchases can be made without affecting the price of the stock. Also, the quantity and availability of all investment alternatives is known.

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9. There are no restrictions on short sales of any asset, nor are there legal restrictions on portfolio composition.

10. There is a common riskless rate of return investment with no variance and no covariance.

11. Investors can borrow or lend an unlimited amount of capital at the risk-free rate of interest.

12. There are no transaction costs involving buying, selling or managing investments. Investors are free to recompose portfolios without cost or time delay.

13. There are no systematic effects on stock returns other than the single market index, and this relationship is linear. Industry or "Explainable" firm effects add no significant value to this underlying relationship.

B. There is no agreement over the most appropriate yield to use as the risk-free rate.

C. In the utility situation, security returns are skewed due to regulatory constraints and are not random, symmetrically distributed as assumed by the CAPM. With skewed returns, diversification can no longer eliminate unsystematic risk, so market risk as measured by beta is not an accurate measure of risk.

D. The betas of utility stocks, a measurement of systematic risk, have low R^2's and, hence, only explain a small portion of systematic risk.

E. CAPM theory states that investors prefer higher mean returns and do not prefer higher standard deviations (risk). However, the CAPM theory makes no provision for investor preference regarding skewness.

F. Changes in a company's systematic risk can change that company's beta in a direction that can lead to conclusions which are opposite to the actual facts. This situation can occur with either sudden or gradual changes in systematic risk. This problem can cause positively or negatively biased and misleading estimates of the cost of capital.

G. The ability to test the volatility of CAPM relies upon the ability to test the efficiency of the market portfolio. The market portfolio involves all assets (marketable or non-marketable) and can only be approximated by a representative stock market index. To test this index for portfolio efficiency and to test CAPM for validity are two distinct tests which, when performed together, can render inconclusive results.

(a) Copies of rebuttal testimony regarding CAPM filed on behalf of the following companies are attached:

Philadelphia Electric Co. - Steam Division
Duquesne Light Company
Consolidated Gas Supply Co.

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Response to Interrogatories of the Office of Consumer Advocate
Rate of Return - Set I
Dated January 7, 1983

Docket No. R-822169

Q.8. Please provide a copy of the "special studies" referred to on page 7, line 8, of Mr. Brennan's Statement #14.

a. Show each company used in the study, all the input data used to compute the cost of equity for each company, and explain exactly how the DCF cost ratios were computed.

A.8. The input data employed in the computation of the DCF cost rate of common equity for each company are shown on the attached pages.

Three DCF cost rates on common equity for each company were computed employing the following formulas:

DCF_1 = Annual dividend yield x $(1 + G_2) + G_4$

DCF_2 = Annual dividend yield x $(1 + G_2) + G_2$

DCF_3 = Annual dividend yield x $(1 + G_4) + G_4$

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	1	2	3
	Dividend Yield (1)	Growth Rate G4 (2)	GROWTH RATE G-2 (3)
1977			
Carolina P&L Co	7.3	6.5	6.0
Cleveland Elec Illum	7.9	4.4	3.5
Duke Pwr Co	7.5	5.3	4.5
Florida P&L Co	6.6	7.6	8
Niagara Mohawk	8.4	5.9	4.5
Public Service Indiana	6.9	6.6	5.8
Virginia Elec & Power	8.2	4.2	3.3
PP&L	8.1	5.3	4.5
1978			
Carolina Pwr & Lt Co	8.6	5.5	5.3
Cleveland Elec Illum Co	9.4	3.6	3.3
Duke Pwr Co	8.7	5.5	4.3
Florida Pwr & Lt Co	7.6	8.5	8.8
Niagara Mohawk	9.3	4.1	4.3
Public Service-Indiana	8.0	7.6	7.3
Virginia Elec & Pwr Co	8.9	4.3	3.5
PP&L	8.9	5	4.3
1979			
Carolina Pwr & Lt Co	10.1	5.5	5.3
Cleveland Elec Illum Co	10.9	3.9	3.3
Duke Pwr Co	9.9	5.5	4.3
Florida Pwr & Lt Co	8.8	8.5	8.8
Niagara Mohawk	10.5	3.0	4.5
Public Service-Indiana	9.3	7.4	7
Virginia Elec & Pwr Co	11.0	4.3	3.5
PP&L	10.4	5	4.3
1980			
Carolina Pwr & Lt Co	11.7	3.9	5
Cleveland Elec Illum Co	12.5	3	3.8
Duke Pwr Co	11.8	6.4	5.5
Florida Pwr & Lt Co	11.0	9.3	11
Niagara Mohawk	12.4	3.0	3.0
Public Service-Indiana	11.6	6.8	6.8
Virginia Elec & Pwr Co	13.0	2.5	3.8
PP&L	12.0	3.3	3

See Page 2 for Notes

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1981	1 Dividend Yield (1)	2 Growth Rate G-4 (2)	3 Growth Rate G-2 (3)
Carolina Pwr + Lt Co	12.2	4.6	5.3
Clev. Elec. Illum.	13.8	3.5	4.0
Duke Pwr Co	10.8	7	6
Florida Pwr + Lt	10.6	8.9	11.5
Niagara Mohawk	13.1	4.11	5
P.S. Indiana	12.6	7	7.5
VEPCO	12.3	3.0	3.5
PP&L	13.3	2.9	3.5

Notes: (1) Dividends Yield = yearly dividends per share ÷ yearly high - low market price.

(2) Average of Value Line historical + projected dividend and earnings per share growth rates taken from Value Line editions for January of each year

(3) Average of historical + projected dividend per per share growth rates taken from Value Line editions for January of each year

Source of Information: S+P Compustat Services Inc - Utility Compustat II
Value Line Investment Survey

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Rate of Return - Set I
Dated January 7, 1983

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Q.13. Please provide a copy of all studies relied upon by Mr. Brennan to conclude that the cost of equity is higher for a public utility company than for a non-utility (see page 21 of Statement #14).

A.13. The conclusion that the cost rate to attract common equity is higher for a utility compared to a non-utility can be reached by simple analysis. As can be observed on Schedule 6 of Exhibit JFB-1, the cost rate to attract utility long-term debt continues to be higher than the cost rate to attract non-utility long-term debt. Further, as described by Mr. Brennan in Statement #14, on pages 53-57, the cost rate for common equity for both utilities and non-utilities can be arrived at by adding to the cost of long-term debt a risk premium which compensates investors for the additional risk of an equity security.

Given that the cost rate to attract long-term debt is higher for utilities than non-utilities and that the cost rate on common equity can be computed by taking the cost rate of long-term debt plus a common equity risk premium, it can be concluded that the cost rate to attract common equity is higher for a utility compared to a non-utility.

In addition, although the DCF model does not precisely measure the cost rate on common equity, it can be employed to provide an indication of the cost rate on common equity. If the DCF model is employed to calculate the cost rate on common equity for the S&P 400 Industrials viewed as one and Moody's 24 Public Utilities viewed as one, it can be observed from the data shown below that for the years 1979-1981, the DCF indicated cost rate of equity for the utility group is higher than that of the non-utility group.

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Years	Annual Dividend Yield (1)	5 Year DPS Compound Growth Rate (2)	Adjusted Dividend Yield (2)	Avg. EPS&DPS Compd. Growth Rate (4)	DCF Cost Rate (5)
			Moody's 24 Public Utilities		
1981	12.3%	6.0%	13.0%	4.5%	17.5%
1980	12.0	5.6	12.7	4.4	17.1
1979	10.2	3.5	10.6	3.0	13.6
			S&P 400		
1981	4.2%	11.8%	4.7%	12.6%	17.3%
1980	4.3	10.2	4.7	10.6	15.3
1979	4.4	9.2	4.8	8.6	13.4

Notes: (1) Annual dividend yield = yearly dividends per share ÷ average yearly high-low market price and is the arithmetic average of achieved results for all individual companies in the group.

(2) Compound growth rate in dividends per share computed for period beginning six years prior and ending one year prior to the years shown.

(3) The adjusted dividend yields are calculated by increasing the annual dividend yield by the DPS compound growth rate.

(4) Average of compound growth rate in dividends per share and the compound growth rate in earnings per share. Compound growth rate in earnings per share is computed for the period beginning six years prior and ending one year prior to the years shown.

(5) DCF cost rate = adjusted dividend yield + average EPS & DPS compound growth rate.

Source of Information: Standard & Poor's Compustat Services, Inc., Compustat II Data Base
Standard & Poor's Analyst Handbook
Moody's Public Utility Manual

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Pennsylvania Power and Light Company
Response to Interrogatories of the Office of Consumer Advocate
Rate of Return - Set I
Dated January 7, 1983

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R-822169
Harrisburg

Docket No. R-822169

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Q.15. Exactly how much of the 17.0% cost of equity recommended by Mr. Brennan is for a financing cost allowance?

A.15. Mr. Brennan's recommendation as to the indicated cost rate for common equity capital for PP&L using PP&L data only is 16.2% to 16.8% before any impact of market pressure, selling and issuance expenses. Thus, Mr. Brennan's recommendation of a 17% opportunity cost rate for common equity capital suggests that market pressure, selling and issuance expenses account for 2/10ths of 1% to 8/10ths of 1%. If the barometer group of Seven A Rated Electric Companies was used as a proxy for PP&L, Mr. Brennan's calculations indicate that the opportunity cost rate for common equity capital would be 17.2% before recognition of market pressure, selling and issuance expenses and thus Mr. Brennan's recommendation of 17.0% suggests that there is no recognition for market pressure, selling and issuance expenses reflected in Mr. Brennan's recommendation.

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Dated January 7, 1983

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Q.16. Does Mr. Brennan believe that an increase in the quality of earnings for PP&L will lower its cost of equity?

A.16. Yes, generally speaking, a significant increase in the quality of earnings of Pennsylvania Power and Light Company could lower its cost rate to attract common equity capital in the future after investors actually observe and believe such significant increase in the quality of earnings will be experienced on a sustained basis, all other factors influencing the cost rate of common equity capital remaining equal.

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Rate of Return - Set I
Dated January 7, 1983

Docket No. R-822169

Q.17. Does Mr. Brennan believe that all else being equal, adding CWIP to rate base rather than providing a return in the form of AFUDC income will lower the cost of equity for a regulated electric utility?

A.17. Yes, if the magnitude of CWIP is significant and if an adequate authorized return is actually earned.

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Pennsylvania Power and Light Company
Response to Interrogatories of the Office of Consumer Advocate
Rate of Return - Set I
Dated January 7, 1983

Docket No. R-822169

Q.19. With regard to the study on lines 6-12 of page 52, please provide all computed t- statistics and Durbin-Watson statistics.

A.19. As indicated in Mr. Brennan's direct testimony at lines 6-12 of page 52, Mr. Brennan caused certain statistical calculations to be performed. The person who performed the statistical calculations is Mr. Jeff Makholm, the Econometrician for Associated Utility Services, Inc. The statistics shown below, provided in response to this interrogatory, have been supplied by Mr. Makholm for the purpose of answering the interrogatory. Below is the requested data.

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	Dependent Variables (1)		
	DCF1	DCF2	DCF3
Durbin-Watson Statistic	2.4040	2.6628	2.3690
	T-Statistics		
Right-Hand Variable			
Constant term	0.656909	0.896626	0.588001
Common equity ratio	1.95824	0.979640	2.07213
Average total capital	0.277456	(0.553967)	0.400439
Moody's bond rating	(0.021517)	(0.829972)	0.095886
% of common dividend tax free	(1.99634)	(1.62761)	(2.00091)
Time	7.49776	7.25012	7.35482

Note: (1) The dependent variables for each company in the study were calculated by applying the formulas shown in response to Interrogatory 8.

(2) The Durbin-Watson is a time-series statistic, and the data here consists of a cross-section of eight firms observed over a five year period. The Durbin-Watson has no meaning for cross-sectional regressions, and is not normally defined for a time series of five observations. The Durbin-Watson statistic is always calculated by the regression program, regardless of whether it is applicable to the input data. In this case, we are working with panel data, entered into the computer by year, hence the statistic has no meaning.

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J. F. Brennen
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Pennsylvania Power and Light Company
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Rate of Return - Set I
Dated January 7, 1983

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Docket No. R-822169

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Q.21. On page 28, line 10 of Statement #14, it is forecast that the 1982 Consumer Price Index and GNP Implicit Price Deflator is forecast to increase 6.3%. What was the actual increase for the Consumer Price Index and GNP Implicit Price Deflator for 1982?

a. If the 1982 Consumer Price Index or GNP Implicit Price Deflator differs from that forecast in Statement #14, does this difference change any of the other interest rate forecasts set forth in Statement #14?

i. If the answer to question 21a above is in the affirmative, please describe in greater detail how such a difference between the forecast and actual would affect the interest rate forecast contained in Statement #14?

ii. If the answer to question 21a above is in the negative, please explain.

A.21. The actual increases for the Consumer Price Index and the GNP Implicit Price Deflator for 1982 have not yet been publicly announced. The CPI on average for the first eleven months of 1982 has increased by 6.4% versus the CPI average for the first eleven months of 1981 and the GNP Deflator on average for the first three quarters of 1982 has increased by 6.5% versus the average Deflator for the first three quarters of 1982.

a. Even if the 1982 Consumer Price Index and GNP Implicit Price Deflator were known, this would not affect the forecasts set forth in Statement #14.

i. Not applicable.

ii. Please refer to page 30, Statement #14. The response to the question beginning on line 15 provides a clear explanation.

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Rate of Return - Set I
Dated January 7, 1983

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R-822169
Harrisburg

Docket No. R-822169

Q. 23. On page 45 at line 24 of Statement #14 it is stated: "If the price/earnings multiple is expected to increase and is reflected in the price of stock, the usual DCF Model understates the investor required rate of return." Does Mr. Brennen believe that the current PP&L price/earnings multiple is expected to increase and that this factor is reflected in the price of PP&L's stock?

a. If the answer to question 23 is in the affirmative, please explain why it is believed that the price/earnings multiple is expected to increase and that this increase is reflected in the price of PP&L's stock.

A. 23. Assuming no change in market fundamentals, the price of PP&L common stock will decline as the income tax on common dividends moves from exempt to the recipient to fully taxable to the recipient.

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Pennsylvania Power & Light Company
Informal Data Request
of the Susquehanna Alliance

Docket No. R-822169

Q.3. Please provide copies of any additional studies (other than those dated 2/26/81 and 12/14/81) that were made comparing the effect on customers of not having Susquehanna compared to having Susquehanna. (Hearing 3-2-83)

A.3. Construction of Susquehanna was begun and continues because of the need for the unit to meet projected loads. In the early analyses, such as provided in response to the Office of Consumer Advocate Interrogatory Set I - Capacity Requirements/Energy Savings, Question 26 (interrogatory response 200.282084) and in response to the Office of Consumer Advocate Informal Data Request Set IV, Question 69 the focus of the study effort was to determine when to construct a unit and which type of unit was to be built. At that time, Susquehanna was shown to be the most attractive alternative. The comparisons made in the early studies, as a result, were based on building Susquehanna or the alternative of adding another type of unit rather than the comparison of building Susquehanna versus building nothing as was the case in the economic benefit analyses dated 2/26/81 and 12/14/81 (attached to the response to the Susquehanna Alliance Interrogatory Set III Question 29 (interrogatory response 200.582029)).

The company, as a part of a 1975 analysis of the benefits of the sale of an ownership share to Allegheny Electric Cooperative has studied the impact of selling (not having) a portion of Susquehanna, and as a result of that work it was not necessary to explicitly examine the alternative of not having Susquehanna. A copy of the analysis of the participation of Allegheny Electric Cooperative in Susquehanna was attached to the response to the Office of Consumer Advocate Interrogatory Set I - Capacity Requirements/Energy Savings Question 1 (interrogatory response 200.282059). The results of this analysis are similar to those shown in the 2/26/81 and 12/14/81 economic benefits analyses.

The analysis of the Allegheny Electric Cooperative sale compared the sale of ownership of 3% and 10% weighing the near term benefits of reduced financing requirements against the loss of long term benefits of the portion sold. After the first few years of commercial operation the annual revenue requirements resulting from the sale of a portion of Susquehanna were estimated to exceed the annual ownership costs.

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PP&L analyses (choice of plant type and sales of a portion of the plant) have shown that Susquehanna was the most attractive alternative and that over the long term revenue requirements would increase if a portion of Susquehanna were sold. Furthermore, because cancellation would have been more expensive than a sale (due to capital related costs) proceeding with the construction of Susquehanna was projected to result in minimum revenue requirements.

Thus, because data available throughout the term of the Susquehanna project showed cost penalties associated with not having Susquehanna (as compared to having the plant), specific detailed studies such as those of 2/26/81 and 12/14/81 were not needed to demonstrate the overall advantages expected to result with the plant's operation.

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BEFORE

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

- - - - -

In re: R-822169 - Pennsylvania Public Utility Commission, et al. vs. Pennsylvania Power & Light Company
Investigation into a requested $315 million dollar annual rate increase. Public Input Hearing.

- - - - -

Stroudsburg, Pennsylvania
April 18, 1983

DOCKETED
APR 22 1983

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Pages 1 to 59, inclusive

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HOLBERT ASSOCIATES
EARL L. BARTELL
1001 North Second Street
Harrisburg, Pennsylvania 17102

BEFORE
THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

- - - - -

In re: R-822169 - Pennsylvania Public Utility Commission, et al. vs. Pennsylvania Power & Light Company
Investigation into a requested $315 million dollar annual rate increase. Public Input Hearing.

- - - - -

Verbatim report of hearing held in Best Western Pocono Inn, 700 Main Street, Stroudsburg, Pennsylvania

Monday,
April 18, 1983
at 7:00 p.m.

BEFORE

JOSEPH J. KLOVEKORN, ADMINISTRATIVE LAW JUDGE

- - - - -

APPEARANCES:

G. D. CALIENDO, ESQUIRE
Two North Ninth Street
Allentown, Pennsylvania 18101
Appearing on behalf of Pennsylvania Power & Light Co.

DAVID WERSAN, ESQUIRE
1425 Strawberry Square
Harrisburg, Pennsylvania 17120
Appearing on behalf of Office of Consumer Advocate

WENDELL HOLLAND, ESQUIRE
P.O. Box 3265
Harrisburg, Pennsylvania 17120
Appearing on behalf of PUC Prosecutory Staff

INDEX TO WITNESSES

	PAGE
David Mann	6
William P. Wells	8
Dennis Mooney	9
Jack Shelp	11
John Zwick	18
John McIntyre	18
Floyd Steinmetz	20
Howard Hartshorn	24
Susan Robbins	26
Richard Normyle	26
Patricia McCoy	31
Debra Poalillo	33
Donald Robbins, Sr.	34

JUDGE KLOVEKORN: Good evening. I call to order this hearing in the case of R-822169, Pennsylvania Public Utility Commission versus Pennsylvania Power and Light Company. On November 22nd, 1982 PP&L filed for a $315 million dollar rate increase. On December 3, 1982, the Commission suspended this proposed increase until August 22nd, 1982 and ordered an investigation to determine PP&L's need, if any, for additional revenues.

My name is Joseph Klovekorn, I am an Administrative Law Judge for the Commission and have been assigned by the Commission to preside at this investigation.

This hearing tonight is being held as part of our investigation in order to provide an opportunity for you, PP&L rate payers, to express their opinions and to testify on the company's proposed rate increase.

Formal evidenciary hearings on the rate request have begun. We have already had some 20 hearings. Approximately four more have been scheduled. This is the 12th and final public input hearing.

Hearings in this case will conclude on Friday, April 22nd, and then sometime in June I will file my recommendations with the Commission as to the amount of revenue relief, if any, the company should be granted. The Commission itself will make a final decision sometime in August.

We have been hearing in these hearings the company's

experts testifying as to its need for additional revenues, and we have been hearing from witnesses sponsored by the Commission's trial staff, the consumer advocate as to the request. Our purpose here tonight is to hear from you, the rate payers. Anybody may speak tonight by signing the speaker's list in the back of the room, and if you wish to you can give sworn testimony in this proceeding, testimony which will become an official part of the record,by indicating to me when you step up to the microphone, that you wish to be sworn in.

Before starting with tonight's first witness, I would like to call on Mr. Gerry Caliendo, vice-president of PP&L.

MR. CALIENDO: Judge Klovekorn, ladies and gentlemen, good evening.

My name is Gerry Caliendo, and I am vice-president and chief counsel, regulatory staff for the Pennsylvania Power and Light Company, one of the attorneys who is working on this rate case. With me this evening is Jack Ross, who is vice-president of the northern division. Stroudsburg is located in the northern division.

As Judge Klovekorn has indicated, this is the 12th and last public input hearing. The company has been represented at each of those hearings and we were there as we are tonight here for one purpose, that is to hear the views and opinions of our customers concerning this rate increase. We won't be making any presentation, we are just here to hear your views.

Thank you.

JUDGE KLOVEKORN: I will now call on Mr. David Wersan from the Office of Consumer Advocate.

MR. WERSAN: Good evening. Thank you for coming tonight. As the Judge said my name is David Wersan and I am with the Office of the Consumer Advocate.

For those of you who are unfamiliar with our office, it was created in 1976 by the legislature to represent rate payers before the Public Utility Commission. The feeling basically was that the utilities were represented and industry was represented but the rate payers did not have a voice before the Commission. We feel that this individual case is very important as rate cases go, because of the issues involved, and we have devoted approximately 15% of our budget to working on the case. We have three attorneys working full-time pretty much and a number of expert witnesses that we have brought in to give testimony.

Basically there are two important points that we are emphasizing in this case. We have brought in witnesses who audited the construction program and they've made recommendations about the reasonableness of the construction program and recommended that approximately $150 million dollars of construction costs were unreasonable in their opinion and that that should be reduced out of the case.

Secondly, we've brought in a witness to analyze the

capacity needs, the needs for generation plant by PP&L, and this witness recommended that PP&L has approximately 950 to 1,000 megawatts more generation capacity than they need and we have made recommendations adjusting their rate claims in this case.

In addition, of course, to working on this particular rate case, we are working on a number of other rate cases and other issues before the Commission and, therefore, if you have any questions about our participation in this case or any other case or individual problems, we would be happy to hear from you and speak to you. Otherwise, we are here to listen to what you have to say in order to better represent your interests.

Thank you very much.

JUDGE KLOVEKORN: I now call Mr. Wendell Holland, who represents the Commission's prosecutory trial staff.

MR. HOLLAND: My name is Wendell Holland and I represent the Commission's prosecutory staff. Mr. Caliendo and Mr. Wersan here have given you an idea of what is going on. I don't need to belabor the point anymore. This is your hearing. I encourage each and every one of you to say something.

With that, Judge, I say let's get on with it.

JUDGE KLOVEKORN: Thank you, Mr. Holland.

I will call David Mann of the Susquehanna Alliance.

DAVID MANN, called as a witness, having been duly sworn, was examined and testified as follows:

MR. MANN: My name is David Mann and I am with the Susquehanna Alliance. We are a group of citizens and organizations

from throughout the PP&L service area who have, since 1977, been working in opposition to the Berwick plant. Two years ago we began to increasingly become concerned about the economic impact the plants would have, and at that time, we released a study which took a look at the economic impact and the kinds of rate increases that we are now seeking.

I am participating in this rate case on behalf of Susquehanna Alliance. I am not an attorney, I am a volunteer doing the best I can to analyze the information that is being brought out in the rate case and to try to, as much as possible, get the information out to you the rate payers. There are some things that we learned in this rate case that have not been generally made public. We have characterized this rate case as a $501 million dollar rate case. We recognize that the company cannot be granted more than $315 million dollars effective next August, however, the other $186 million dollars could be charged to the rate payers later on if the plant does not run as well as expected or some other assumptions of the company are not as optimistic as the company has projected.

In addition, we now know that the effect of the rate increase on your bills next August will be 23%,not 19.4% because of the recent drop in the energy charge. We also know that in a year from now the company will be filing, will get an additional increase of somewhere between $15 million and $25 million dollars per year for five years to pay for some

additional operating costs that were not included in the original filing. This is some of the information that we have been finding out and have tried to funnel out to show that as we believe the impact of the rate case will be much greater than certainly the 20% and greater than the $315 million dollars.

I also encourage to speak tonight. I especially encourage you to be sworn so that it will become part of the record and thank you for coming.

JUDGE KLOVEKORN: Thank you, Mr. Mann.

The first speaker on our list is William Wells.

MR. WELLS: I am speaking for the Pocono Mountain Vacation Bureau in absence of all the executives and people connected. They are in a prescheduled meeting in Harrisburg.

To the Honorable Judge Joseph Klovekorn.

WILLIAM WELLS, called as a witness, having been duly sworn, was examined and testified as follows:

This testimony is on behalf of the Pocono Mountains Vacation Bureau, Inc.

The Pocono Mountains Vacation Bureau, Inc., the official state tourist promotion agency for the four county Pocono Mountains area, represents 400 Tourist Promotion facilities and is very concerned about the request for an additional rate increase by the Pennsylvania Power & Light Co. The P.M.V.B., Inc. represents the largest single industry in the 2,400 square mile

Pocono Mountains area. Our industry has absorbed a significant amount of energy costs through the years and we have found that trying to pass on the increased cost of energy to our visitors is a very difficult problem. The cost of travel increases - just as every other cost in our society today and if we continue to increase the price of travel to the Pocono Mountains, we will find ourselves in a non-competitive position with competing resort areas. This could have a substantial effect on the economy of the Poconos, which is the most travel dependent area in the state, and in turn, the entire economy of the state of Pennsylvania - in a negative fashion. We feel the amount of the increase requested by the Pennsylvania Power & Light Co. is not justified and would provide hardship among our tourist facilities and their suppliers. This increase would be detrimental to any future increase in tourist business to the Poconos.

I was also going to speak for my employer, which is the Penn Estates, but I am going to have our business manager, Mr. Dennis Mooney, with your permission, take care of that.

JUDGE KLOVEKORN: Mr. Dennis Mooney.

DENNIS MOONEY, called as a witness, having been duly sworn, was examined and testified as follows:

MR. MOONEY: I am here to represent Penn Estates, a private community in the Stroud Township and also Cranberry Hill Corporation which is the company that manages or maintains the private community, and thirdly as a resident and homeowner and PP&L customer.

I would like to speak first on behalf of the people involved in Penn Estates. We have approximately 225 homeowners and an additional,in excess of 500 potential homeowners in that they are now property owners in our private community of 1,500 acres.

I believe that the biggest problem as far as representing our homeowners is that they cannot at this point afford this increase. It has been everybody's goal, I believe, to help stabilize the cost of living and inflation and the economic situation in the last year or so has been a problem and they don't feel that these increases are necessary or warranted.

On behalf of our corporation,the problem that we have is that because of the present economic situation we have had less activity in the area,less traffic,and therefore,being that it is harder to get people into the area, it is also harder for the people to get the same amount of business and in turn our costs of operating have greatly increased. I can say that wages,I believe, in the area, has stabilized. I know in our company that wages have definitely stabilized. The costs of services has considerably been stabilized and in some cases have also decreased materials.

We are in a conservation effort daily. It is our policy that all of our management and employees are daily conscious of energy conservation. And lastly, I would like to say that it has been the goal of our country to increase the building business because it is one of the things

that will push the economy and I believe that this would definitely hamper that business.

That's all I have.

(Applause)

JUDGE KLOVEKORN: Thank you, Mr. Mooney.

Jack Shelp.

JACK SHELP, called as a witness, having been duly sworn, was examined and testified as follows:

MR. SHELP: My name is John Shelp and I am manager of the Pocono Ice-A-Rama, public ice skating rink at Analomink, Pennsylvania, which is owned by Penn Hills, Inc.

And I would like to go on the record as being opposed to the PP&L proposed rate increase of 20%, $315 million dollars due to the fact of the economy and less people in the area which is keeping our revenues way down, and I also think that this is an unjustifiable request due to the 7.3% increase that they already were granted in January of this year.

And I think they should look for cheaper, although safer ways of supporting their Unit 1 Nuclear Plant at Susquehanna.

Thank you very much.

JUDGE KLOVEKORN: At this point in the proceeding, I would like to introduce Commissioner Michael Johnson who is here tonight.

COMMISSIONER JOHNSON: Good evening. I am sorry that

the weather persuaded some of the more tender souls not to venture out. It really isn't that bad because you don't have to come here in shorts and so on. If you just dress for late spring, early spring weather, you know, early late winter, you can make it all right without getting pneumonia.

I am disappointed with the turnout tonight. I was rather expecting a larger group. This turnout tonight, incidentally, is as a result of a special plea that was made to me and all of the meetings had been set. In any event, when we have a situation of this kind those who do come ought to be able to hear everything that is said, certainly should not be made to feel lonely. Now, the feeling of loneliness is a very bad thing and it is very bad particularly when you are considering high electric rates. We need a little more togetherness. I am going to ask you now if you will accommodate the Administrative Law Judge, Mr. Klovekorn, and myself and the court reporter here, if you would all rise and come up and take some of these $10 seats, which right now we have decided to sell for the same price as the seats in the rear. Let's get everybody together in one group and please don't be shy. Come on, fellows in the back, just get up and start coming up front. Help us out.

Don't be asking questions about who is he giving us orders. I am the guy who is giving out the orders and they are orders.

That's very much better. I remember I was invited to preach a Sunday sermon in a church in the town that I was visiting and I walked in and this was a large church, it could have accommodated 350 people, and there were all of about 75 people there and they were all in the back. So, I spoke low. I wouldn't have gotten away -- I wouldn't have dared to do what I did tonight, actually command you to get up and move forward. It is not a bad technique if you really get away with it. It will help you have a good meeting.

But I didn't do that. I spoke low. When someone said to me, you know, we hardly heard a word that you said, I said well, did you hear any of it, and this fellow said no, not really. I said well, that's all right because I really wasn't reading the sermon that I had written, I was rehearsing my speech for tomorrow night at the Chamber of Commerce.

So, that's not the story here. I came out to Stroudsburg first of all because I love the lower Poconos, I spent a lot of my younger days with my wife between two summer places about 14 miles from here in Bushkill, one was a tenement, which everyone knows is a swinging place now, you know, and the poorer people can still go to Umley House and it is still as beautiful as last year and because of the rates they will have to pay and because they are interested in not having to increase the rates to the customers, they appealed to me also. I told them that I would come to this meeting.

I think that the people here in this community have a real concern when it comes to economics. Of course, when things are good they are very good here. You can't always determine how many people are going to be getting married. I think that many innkeepers would like to rely upon a good season for all people, not just newlyweds.

The main thing is that the jobs created by these inns spin off and have a direct effect upon the economy of the community. Whether or not people are going to build here for either a semi-permanent residence or not depends not alone upon the weather, but upon the economic climate in the community. Whether industry will settle here, small industries, of course, or maybe larger ones depends upon the very same thing. The things that affect the economic climate of a community such as this which is so sensitive to things of this kind, I think that should concern all of you, not just those who have to pay perhaps higher rates but those who have to live here and want to see this community thrive.

I am sure among those that want to see the community thrive is the people with whom Gerry Caliendo is associated with at PP&L and has always bragged about their relationships with the community and how they are helping the community to grow. Well, Gerry has a big tall order right here with Stroudsburg. Stroudsburg is the crossmark, crossways, the intersection of a journey either to help the prosperity and

real growth or more and more corrosion, disintegration, so on.

This is such a beautiful area. I hate to think that we mortals would take what God has brought, the beauty these mountains, the beauty of the entire area and not make these places available to everybody else in Pennsylvania. We have the highways leading in -- you have more highways than you know what to do with. People can come here.

Well, there has to be in the entire area a very healthy, vigorous kind of attitude. I don't expect to find the answers here. We will be talking to the utility about such problems in the remaining days of the hearing. But, our concern is a deep one. We have the citizens, the rate payers, the retirees, the unemployed, the young, the kids, everybody, and our concerns go as well to industry, larger and smaller, all kinds of enterprises. I don't think you can build the prosperity or a good economic foundation upon good vigorous discount stores that sell secondhand merchandise, and every restaurant that I stop at to get directions for this place, I saw brochures telling us about their outlet stores. That depressed me very much and that's why I feel this way.

However, I didn't want to carry it too far, otherwise I would have given you hell for not filling in these separate seats. But, I am concerned, and that's why I am here.

So, about the other commissioners, they will have a record presided over by one of our most brilliant judges, and

I am very pleased, Joe Klovekorn for whom I have been rooting a long time, that's presiding here. He is not only fair, he is not only compassionate, he not only will want to do the right, generous things with those whose economic resources are small, but he will want to do the right thing with the utility as well. And sometimes that isn't easy. He has proven in the past that he can be inventive and innovative and he is imaginative and he is not afraid to take the plunge and we need people like that who are willing to talk up and in straight terms so that you know what they are talking about.

Now, I almost scolded for the others that are not here. I had a minister once who used to do that, he would come in and there would be a handful of parishioners and we would all get hell because the others were not there. And you know what, we stopped going. So, I want to congratulate you for coming. I want you to continue in your interests, whatever your interests may be. I think that you should continue it and speak your peace here -- how many of you had spoken already?

JUDGE KLOVEKORN: Three.

COMMISSIONER JOHNSON: There are only nine and there are so many more of you here, we have a least room for nine more and the weather outdoors is not so terribly good -- Gerry, there is an excellent restaurant down the road, almost at Marshall's Creek, continental food, everybody knows about La Bella Nopoli. So, relax now and then you can go there.

I made a mistake and went there first. We got here in plenty of time. I must apologize. I should have left three times as much time for finding the place as I did, but enough of this dribble from me, I want to assure you that I will be watching this case, I will be attending the final evidenciary hearings and my staff is already working on the record, what is already before us. We will do everything that we are able to do to produce a result that everybody can live with. I cannot discuss the issues with you because that becomes what they call ex parte. I am not a lawyer but I know if I engage in ex parte conversations with you about this case, I am subject to a severe challenge and perhaps the loss of my vote at the time that it comes to casting the final vote, and no one is going to take that final vote away from me. I want to cast it. I have spent too many hours on this case. I have a great many feelings about it. I want to see how it works out and I want to cast my vote and I think that you want me to cast my vote.

(Applause)

So be it. Thank you very much and again congratulations for having come.

(Applause)

JUDGE KLOVEKORN: The next speaker is Deborah Batzel.

(No audible response.)

JUDGE KLOVEKORN: John Zwick.

JOHN ZWICK, called as a witness, having been duly sworn, was examined and testified as follows:

MR. ZWICK: My name is John G. Zwick, Jr. and I reside in Analomink and I am the manager of the Evergreen Golf Course.

I oppose the rate increase by PP&L for a few reasons. Number one, our play is down, our amount of business-worthy people that play golf. Number two, our chemicals and all the material that we use have risen tremendously and our wages have risen tremendously we employ.

So, this is the reason that I oppose the rate increase right now. We are a seasonable business and we just can't afford it.

Thank you.

JUDGE KLOVEKORN: John McIntyre.

JOHN MC INTYRE, called as a witness, having been duly sworn, was examined and testified as follows:

MR. MC INTYRE: My name is John McIntyre. I am a resident of Stoudsburg and a consumer of electricity. I represent no one but myself, but I would just like to tell you, I guess you people who might know this and this might be redundant -- my electric bills have continually gone up even though we use less and less kilowatt hours every winter. And, it becomes a little difficult to keep your thermostat at 60° and, you know, cut your costs on every possible way you can and still continue to pay almost $200 a month in electric bills.

I would like to enter as testimony information from PP&L's annual report of 1982 in which it clearly shows on page 28 several interesting kinds of patterns here.

First of all, the earnings on shares has consistently increased from $2.83 to $3.35. This is rather an interesting comment because I think PP&L's claiming that they are going to be in financial difficulty if they don't get this rate increase. I have never gotten a 20% raise increase in any year that I have worked in 47 years.

The dividends also continually go up and when we take a look at the '82 column on fuel cost data we find it is a 9/10ths of a percent increase in coal-fired steam stations, which is one of their major electrical generating systems. There is a decrease in combustible turbines and diesels. There is only one area where there seems to be an increase and that is in the area of oil to generate and their use of oil is very limited.

There is another interesting area, just in generating data which I think we should enter here. The generating capacity that PP&L now how is 6,546,000 kilowatts. The winter peak demand is 4,4,089,000 kilowatt hours. They have roughly 33% in 1982 generating capacity in excess. This is a company that is coming to us,who is a monopoly by the way, who has no competition, and asking for a 20% rate increase. You know, I really feel this is a ridiculous kind of thing to ask the users of this kind of service.

I really think it is a little bit too heavy and one of the things that they will argue is that their costs of things go up. But, so do our costs of things go up, and by their rate increase they make it much more difficult for us to handle food cost rises, insurance cost rises, et cetera, et cetera.

I would just think that I would oppose this rate increase as simply because I think it puts an extremely large burden on the individual rate payer, the individual electric consumer in this particular region, particularly because we have a little colder climate, we have to supplement our heat with a lot of different kinds of devices such as kerosene and other kinds of things.

So, I am definitely opposed to this rate increase.

JUDGE KLOVEKORN: Thank you, Mr. McIntyre.

Floyd Steinmetz.

FLOYD STEINMETZ, called as a witness, having been duly sworn, was examined and testified as follows:

MR. STEINMETZ: I am Floyd Steinmetz from Moscow, and the founder of Shame on PP&L.

Since this is the final public hearing on the proposed PP&L rate increase, I feel it is appropriate to review the history of the situation.

The primary reason for the increase is to pay for Unit 1 of the Susquehanna Nuclear Plant. This plant was first considered in the mid 1960's. Equipment was ordered by early 1972.

Construction began in late 1973. It was to cost 1.6 billion dollars. The latest cost is in the area of 3.8 billion dollars.

In August 1974 PP&L President, Mr. Jack Busby, said, "We have had zero growth rate in 1974 compared to the same period last year, and part of that is attributable to energy conservation and consumer resistance to higher energy prices." At this time they put the scheduled completion date back one year.

In February 1975 Mr. Busby said, "We may have to face a decision to cancel Susquehanna or defer it further, or risk the financial health of the whole operation".

In September 1975 PP&L requested a rate increase and Mr. Busby said that work on the nuclear power would be halted unless the rate increase was granted. He said the plant would be needed to meet the energy crunch anticipated in the mid 1980's.

In January 1979 Mr. Busby, now board chairman of PP&L, said "If company executives knew a few years ago that 2 billion dollars would have been spent on the plant by the present date, the decision would have been against construction".

In November 1982 PP&L filed the papers for the present rate increase request which includes Exhibit JOB 4 titled Sales Forecast. This uses three separate methods of predicting sale of electricity. These are called Times Series Analysis, Econometrics, and Judgmental. These names are very impressive, but don't be fooled. I think the one called Judgmental means the forecaster is just giving it his best guess. They like to use

words like Methodology.

My point, Judge Klovekorn, is that for all the high falootin names given to PP&L forecasting, they are wrong. They were wrong in the 1960's, they were wrong in the 1970's and they are wrong in the 1980's.

If the present rate request is granted and a similar rate increase is granted in 1984, then the consumption of electricity will drop according to the chart I presented in Scranton on March 9.

The problem with PP&L is one of inertia. The engineering definition of inertia is that when a body is in motion it will resist any attempt to change its direction or speed. It is obvious from Mr. Busby's comments that if they didn't have so much inertia they would have canceled the nuclear plant years ago.

Take the subject conservation of energy. In the 1970's, PP&L joined the national bandwagon of conserving our energy resources. They pursued this aggressively, even to the point of suggesting that laws be passed whereby they would not hook up their electric lines to a new home if it did not have recommended insulation or that homeowners having less than recommended insulation would pay a special state tax.

In April 1978 PP&L President, Robert Campbell, said that their energy conservation programs were "designed to reduce the rate of growth of both total electric use and peak demand".

Exhibit GEM 1 of the present rate case is titled Energy Conservation 1982. In it Mr. Campbell says the PP&L energy conservation program, in addition to solving the nation's energy supply problems, is "to help customers control their energy costs and to help PP&L control its costs, particularly capital costs."

Now, Judge Klovekorn, I would like to make three points.

First, in a meeting three weeks ago President Campbell told me he didn't care how much coal or nuclear fuel they used. So much for conserving natural resources.

Second, PP&L has a great excess of generating capacity. This is what we are presently being asked to pay for. Therefore, as far as capital costs are concerned, the fat is already in the fire.

Third, the proposed 1983 and 1984 rate increases indicate PP&L has little concern for consumer costs.

Why then, does PP&L continue spending money promoting energy conservation. Inertia is the answer. Just as they were too proud or stubborn to cancel the Susquehanna Plant construction in 1975, they are too stubborn to stop the energy conservation programs.

I personally believe in conservation from a national resources standpoint. During my talk with President Campbell on last March 29 I suggested PP&L undertake a marketing campaign called C and C which stands for Conservation and

Conversion. The object being to sell more electric power by converting from oil and gas while continuing to avoid extravagant waste. He was not receptive to the suggestion. Again inertia is the problem. They see nothing but rate increase.

PP&L needs increased revenue. However, the proposed rate increase will bring about a decrease in consumption so they will realize very little gain in revenue. As I pointed out in Scranton on March 9, they can obtain a greater gain in revenue by granting a 2% rate decrease and putting on a marketing campaign to sell more electricity.

Thank you.

JUDGE KLOVEKORN: Thank you, Mr. Steinmetz.

Howard Hartshorn.

HOWARD HARTSHORN, called as a witness, having been duly sworn, was examined and testified as follows:

MR. HARTSHORN: My name is Howard Hartshorn. My wife and I own and operate a small resort called Robinwood Resort. We have owned and operated that resort for the past 17 years, and we find now that we can no longer see any worthwhile running it during the wintertime. For instance, I checked about a month ago, back in the records, back in 1973 we had a lot less increase of our rates, I would say at least 50% less, less gross, but we netted more in '73 than we did this past winter in '83.

Now, I don't think we are doing anything wrong. Another

thing, in '73 the highest bill for our establishment were the taxes. Then the insurances. I know what it is in '83. The light bill is the highest. It has bypassed the taxes.

So, we closed one building in '83, this past winter, in '83 we refused to open it. I drained the water out of the building, didn't open it. And apparently this winter we are thinking about closing the place completely because it doesn't pay us to operate in the wintertime, because strictly we are mainly weekend business as any small resort operator realizes that, but we have to heat the buildings 7 days a week and anybody that is a member of the Vacation Bureau will tell you that the business isn't here. Our total capacity is around 125 people. We haven't filled up except the peak holidays, New Year's weekend, and George Washington's birthday weekend. The other weekends we are 75% capacity. That's only because the rates are high.

The average person we get at our place is the average working man that is working for a living. The higher our rates go the less time he can spend at our place.

Typical in the summertime, 10, 15 years ago our average stay was two weeks. Now we are lucky if we get anyone to stay two weeks. It is a turnover every week. So, the writing is on the wall. Business people can just not afford this rate any longer.

Thank you very much.

JUDGE KLOVEKORN: Susan Robbins.

SUSAN ROBBINS, called as a witness, having been duly sworn, was examined and testified as follows:

MRS. ROBBINS: I have no credentials and no data, the financial report or the stockholder's report for PP&L, but as a resident who has lived in the Poconos for only 14 years now -- my husband has lived here for 40-plus years -- we came here and enjoy living here because of the natural way to live, wanting to stay away from nuclear energy, wanting to conserve and wanting to protect our own health.

The thing that bothers me the most as a consumer is the fact that we, as Americans, need to learn to conserve, and I think most of us have learned that lesson very dearly and we continue to strive to conserve. And yet the people who supply us with energy, with the electricity which we pay faithfully every month whether we can afford it or not, when they say they don't care how much coal and oil they use this is a most discouraging situation and you wonder why we try to conserve in every way we can and yet the utility doesn't care how America is wasted. It is something for everyone to think about.

(Applause)

JUDGE KLOVEKORN: Thank you, Mrs. Robbins.

Richard Normyle.

RICHARD NORMYLE, called as a witness, having been duly sworn, was examined and testified as follows:

MR. NORMYLE: I am Richard Normyle, I am a resident of Jackson Township. I have been to so many of these hearings, Mr. Johnson will attest to that, I have seen him on many occasions and so forth. One of the things that people don't know about in this country, one of them is that they don't know anything about PP&L, but there are many things that used to happen a few years ago, it was called capital construction. That was in your bill, but you never knew about that. Subsequently I believe the legislature outlawed that. Then they said, now how will they get that back. Did you see on your bill last month, you know, it's been on there before, gross receipts tax.

What in hell do we have to do with gross receipts? I don't get the gross receipts. I am a consumer. I am just an insignificant captive customer, but you are known to these people by other names which are too profane to mention here. However, when I was a supervisor in Jackson Township in 1974 and '75, PP&L invited me to Kings College, and when I politely asked the question, it was one of my better days, what they would do with the fuel adjustment charge when they got Berwick on the line, needless to say I was never invited back. You all remember that part.

It seems to me somewhere along the line they bought Oneida Mines, coal mines, and then they raised the price of coal that they sell themselves.

I could speak here for about two or three hours on what

they have done and what they will continue to do, especially in this county, they are going to meet with disaster, because this county is infamous for its coolie wages, and if you think they are going to get a 20% increase out of these people, they can't pay it now. I don't know how many people in the state of Michigan is without heat and light now, and then PP&L has the audacity to hand me my bill and ask me to contribute a dollar. Well, that dollar is not going to go for the poor, no way, because their electricity is shut off already. That is just going to help the stockholders.

When this courthouse was taking effect in the expansion program and we revised the courthouse square, I went to PP&L and I asked them would they contribute something to put the lines underground so this would look like a real beautiful rural area, which I believe all of you wish to see preserved. They wanted $177,000 for it. And, I said, you know, you people have to do something for America, you are part of America, you are not just living on the outside. But it seems to be a one way street with them. All they want to do is take. We get the propaganda throughout our nation, everybody hollers about the mafia. Well, where is the mafia of this country? That particular 20% increase, and I quote, "is not an increase, it is rank extortion" and it is done by that pen, the statute pen.

But, the one question I forgot to ask, is there any legislators in this room, would they please stand up?

(No audible response.)

MR. NORMYLE: Well, that's how much they think of you, and with all due respect to the people who signed those petitions, they go where the Russians go after they sign a treaty, they go in the bathroom and they go down the hopper.

The only particular petition that you should be interested in is the one for the right to recall, but you will never get that one. However, there is a couple more issues here I would like to point out to you.

You wonder why most of the people didn't come tonight? Well, I will tell you that reason, that's easy to figure out. I happen to live 20 miles from here. I can afford to come. They can't afford to come. I am retired and I have enough funds to keep me going any place I like. But like everything I have done in my life, I am always thinking of the other guy. When it comes to poverty I am the expert, I come from its very, very depths. And, they are going to relegate us to that position yet. I won't be around for the explosion, but the moral of the story is if you don't do something about these gluttons now, it is going to be too late and that's precisely what they are, their gluttonous path will take us to ruin. Everyone knows when we go to the grocery store,I didn't know, really, because my wife did the shopping most of the time and so forth, but subsequently I guess I got into it and now I see, and I often wonder, they have most -- there is a lot of people in this county on

minimum wage. They can't pay a 20% increase.

Are the employees of PP&L going to get a 20% increase or a 10% increase? No, it is going to the stockholders. We never hear of a rate reduction. All we hear of is a rate increase. I never heard of a rate reduction being filed, did you?

MR. CALIENDO: Yes.

MR. NORMYLE: Who filed it?

MR. CALIENDO: PP&L. The 1965 rate hearing, this company filed rate decreases, that is correct.

MR. NORMYLE: Did they approve them?

MR. CALIENDO: Sure did.

MR. NORMYLE: And you still own the Oneida Mines?

MR. CALIENDO: Not anymore. The Oneida Mines were sold. The shareholders took a 30¢ per share bath on the closing of the Oneida Mines. It was charged to the shareholders.

MR. NORMYLE: Well, is it true that some days it takes longer to boil water than others? You don't know whether they lowered the voltage or not?

MR. ROSS: I would say voltage is held constant.

MR. NORMYLE: You are telling me there is no voltage reduction whatsoever?

MR. ROSS: If we have a capacity problem and in order to reserve capacity to meet load, but there is no intentional voltage reduction. If there is a voltage reduction, really, it will reduce your load and as far as we are concerned, it

reduces the consumption of the meter.

MR. NORMYLE: Yeah, to say nothing of what it does to your appliances.

Well, you might as well be resigned to your fate because they are going to get this increase, but they are going to go on and on until they get you to the wall, then you are going to have to fight, really fight. Everything that happens to you tonight here or by PP&L is because your legislators let it happen. They haven't the nerve to stand up to these people. They know our people can't pay these bills, but they will go on and whatever the traffic will bear they will keep driving you to the wall.

Well, that is about the extent of my report, because everything I spoke here about is the solemn truth, and I would debate the issue with the gentlemen that are here or any amount of them that they bring.

(Applause)

JUDGE KLOVEKORN: Thank you, sir. I have no more names on the speakers' list.

Gene, are there any back there?

(Pause)

JUDGE KLOVEKORN: Patricia McCoy.

PATRICIA MC COY, called as a witness, having been duly sworn, was examined and testified as follows:

MS. MC COY: My name is Patricia McCoy and I am the

former state representative from Monroe County for the Head Start Program, and I live at the Creekview Apartments. It is supposed to be for low income families. I am a former welfare recipient and I am now working.

Last month my electric bill went up $16 and I was invited to join the budget plan. I joined the budget plan and the following month my bill went down $20. I am still using the same amount of electricity, my appliances are all the same, take showers every day, wash clothes in the house, everything. My bill went down. I even used the same amount of electric heat.

Now, if my bill is going to keep going up the whole year before I was invited to join the budget plan -- when I moved to Creekview it was to try to save a little money so we could get ahead, and in the meantime find a job for me in Stroudsburg, which is as depressed as the upper Poconos, which they call this the lower, and I finally found a job in December after going to a lot of places looking for work, and I will also attest to the fact that the salaries in this area are very, very low. I used to live in New York. Nurses up here and dental assistants, which I am both in that field, insofar as sales go, I am making now up here what I made ten years ago in New York, and people really can't live on them, and I would like to keep working and be able to stay on my own and support my children myself, and if the PP&L keeps going up I am not

going to be able to do that.

I am very disappointed not to see more people from Head Start or from the lower income families here. If you have a friend they can watch your children, one of you can show up. I am not making any excuses for them. The same for voting for the politicians. They don't get out to register. Head Start has pushed trying to get people to register to vote. They have sent fliers out to all of the families to come to this meeting. We've put fliers out to Creekview. They don't show up. You can't drag them here.

But, I can because I wanted to have my say and I am talking to myself, but I am also talking to them and hopefully you will listen and not let PP&L have this increase.

(Applause)

JUDGE KLOVEKORN: Thank you, Ms. McCoy.

Is there anybody else that wishes to speak here tonight?

MS. POALILLO: My name is Debra Poalillo and I'm here to represent Penn Hills Enterprises and the Penn Hills Lodge.

DEBRA POALILLO, called as a witness, having been duly sworn, was examined and testified as follows:

MS. POALILLO: I would like to state that our electric consumption is less than it was a year ago because our occupancy percentage has been down. The cost of bringing people here to the Poconos is much higher. The occupancy has been down for the past two years and the cost of electricity is higher. The cost

of living rate has gone down in the past year and we have also reduced our rate to attract more business. Since PP&L has raised the rates we were actually forced to install our solar energy and conservation methods since we could not afford the high utility bills at our resort and solar energy costs has totalled about $150,000.

Going back in our bills from 1982 and 1983, taking into consideration of the kilowatts per day, the average kilowatts, our kilowatts are down 1,000 to 2,000 kilowatts and the cost is at least $2,000 higher in our bills, and that's not taking into consideration the 19.1% increase that PP&L has set upon us.

Thank you.

JUDGE KLOVEKORN: Thank you.

(Applause)

JUDGE KLOVEKORN: Is there anyone else that wishes to make a statement here tonight?

MR. ROBBINS: Yes, sir, I would like to.

Donald Robbins, Sr.

DONALD ROBBINS, SR., called as a witness, having been duly sworn, was examined and testified as follows:

MR. ROBBINS: I haven't found it clear as to why PP&L wants this rate increase, what they are going to do with this money? Has it been stated by PP&L why they want the rate or what is it, what is the reason?

FROM THE AUDIENCE: Answer him.

MR. CALIENDO: The Judge is running this proceeding, not me, sir.

FROM THE AUDIENCE: I feel the Judge should have him answer the question. Either the Judge or Mike.

JUDGE KLOVEKORN: Do you want to make a statement, Gerry?

MR. CALIENDO: There are two basic reasons for the increase. 2/3s of the increase is related to the Susquehanna Unit 1 which is now, construction has been completed and it will be going into service sometime within the next 30 or 40 days. About 2/3s of the increase is related to that. That unit of the plant is over a billion dollars.

Up to this point in time shareholders have in effect financed the construction of that plant.

The other third of the increase, about $100 million dollars is the effect, actually our increased cost of doing business since we received the last increase. The last increase went into effect in January, 1982. This increase, whatever the Commission decides, will go into effect sometime in September of this year, which is about 20 months or almost 2 years since the last rate increase went into effect.

Those are the two basic reasons why we have requested this increase.

MR. ROBBINS: In other words, you are asking the

taxpayers to help you build the asset behind this billion dollar nuclear plant?

MR. CALIENDO: 2/3s of the increase is related to the Susquehanna Unit 1, that is correct,for our customers.

MR. ROBBINS: In other words, that is going to show up as assets in the financial statement.

Now, I think there is a lot of people that want to know why -- I am one of them for sure or I wouldn't be here -- that the taxpayer, of all things, there is no other businessman that I know of, and I have done business with a lot of them, who do not ask anyone to give them money to put them in business, so to speak.

If I or you or anyone who goes in business wants to do so we find the money and pay the interest if necessary. Now, in other words, and I am open for correction, PP&L is about to ask you and I to help to pay for building this nuclear plant that I understand from the evidence here is not necessary, that they themselves have given up the idea.

Well, you find me another businessman that first has the guts to do that and ask that or who would come with hat in hand and say, we want to increase our assets which will in turn increase our profit which will in turn increase the dividends to the stockholders.

Now, God bless the stockholders, but I don't quite see why you and I should be made a part of helping the stockholder

get an increased dividend.

I am a bit amused, and I hope that it might emphasize the point -- it hasn't been but a few weeks that hat in hand a representative came to my home and he wanted to know if he could get a paper signed to give them the right to put up a 3-phase line where there is now a 2-phase.

Now, as I understand it, of course, 3-phase it will make a lot of money, a whole lot of money on the same installation that a 2-phase is used for. Primarily, as I understand it, it takes care of households pretty much.

MR. CALIENDO: No.

MR. ROBBINS: Anyway, they feel they have the need for a 3-phase. It has only been a few years that they came to me to put a line across several miles of my property, which was a 3-phase, and unbelievably I found the surveyors going out with no permission and I stopped them and I said, what are you going for there, and they said, we are going to go back and survey your land for them to build this new line.

Well, I said I knew nothing of it, take your surveying equipment, put it back in your truck and good-bye.

Well, I got suspicious. What they did, they went up around, came into my property from another angle. So then I took my rifle and my two dogs and I went down and sure enough they had already surveyed a good hunk of it. I got a hold of the foreman, I had my two dogs by me -- boy, he was a big

fellow -- and I wouldn't have come back pretty soon if he had hit me, and he did look like he wanted to -- I said, you get your crew and put out your fires and march. And, they sure did.

Now, I heard from PP&L. And they wanted to pay me, it is ridiculous, but we won't go into that story, they finally paid and they paid my price.

Now, they are coming along with hat in hand and they want to put in another location, another 3-phase line, and do you know how much they want to pay me to put poles in -- by golly it is a dollar.

Now, they will pay me a dollar to make tens of thousands-- no doubt about it, hundreds of thousands of dollars, and I have refused to allow them to do it. I suspect what they will do is go to the other end and come in and get their 3-phase where they will want to produce or tack on to business.

Now, that's all right. I don't know of any other businessman who would come to me or anyone else and want to build whatever it might be to make money at their profit and not want to pay me for it, but PP&L has and does and that's very open and it is done all the time.

My neighbor came up to me, my goodness, do I have to sign this, and I said no. I wouldn't give you any advice, you just do what you think is best. Well, what are you going to do. Well, I said,my friend,I just don't like to commit myself.

I think this is the situation where each property owner should know what he wanted to do. Now, you have to decide if you want somebody to come on your property, do business and make money and what you are going to do about it for a dollar or whatever.

Well, I am sorry to take the time, but the point I want to get across is that I cannot understand how any business -- there is no other business that will come to you and I and expect us to pay so much a month for the rest of our lives to put them in the business and make money. Now, there is something wrong when that sort of thing happens to a business, either the legislators are wrong, either our commissioners are wrong, somebody is wrong when we are asked to put a business in and finance their business. And, I am very much interested to know what the answer would be.

Thank you.

(Applause)

JUDGE KLOVEKORN: Thank you, Mr. Robbins.

If there are no more speakers tonight --

MS. MC COY: I would like to ask PP&L a question and make a statement, please.

When I first moved up here in September of '75 we moved to Pocono Summit. Now, there is a national publication called "Prevention", it is still on the market, I am sure a lot of people have read it. And now, I remember an article,

either the August issue or September issue, and it stated that there is a 75% increase of cancer among children and young people, both leukemia and bone cancers in Pennsylvania. They specifically named this state, and these cancer cases were within a 50-mile radius of nuclear plants. This was eight years ago almost.

Why do they want to build another nuclear plant? Pennsylvania has a very high cancer rate as it is. Don't they care about the children in this state at all? Why do they want to finish another nuclear plant when eight years ago it was stated by a national magazine on medicine that this state had a 75% increase in cancer among children.

(Applause)

JUDGE KLOVEKORN: Let me just state that this Commission has no jurisdiction over nuclear power plants. We are dealing here -- our only authority in the situation is with the rate-making aspects of it, and to that extent, you know, we have no authority, we have no expertise and it is a matter for the NRC.

MS.MC COY: I understand you have no power, but I am asking this company that cares so much about our state, why do they want to build another nuclear plant when they know it causes cancer in children and young people.

MR. CALIENDO: Obviously we can show you four other magazines that will show you just the opposite. Obviously this

company would not build a plant if that were unquestionably true, and obviously this company does care about the children and younger people and we would not build a nuclear power plant if it would endanger children or young people or any of our customers or anyone in this state. Remember, our own employees live here also, as well as our customers.

I don't think we would intentionally, knowingly do something like that, and there is still no conclusive data that would support what you are stating.

MS. MC COY: I beg your pardon, but in the article it also stated that strontium 90 has an affinity for green, therefore the chlorophyl that is in grass that the cows eat that produces the milk that mostly infants and children drink and this causes cancer in their blood, causes leukemia and bone cancer in children.

MR. CALIENDO: I don't profess to be an expert in this area. Do you?

MS. MC COY: No, I don't.

MR. CALIENDO: Then neither one of us is really knowledgeable enough to sit here and argue about it here.

MS. MC COY: None of us are experts here. We only came to express our opinions and ask questions why.

MR. CALIENDO: And I told you why.

MS. MC COY: Okay.

COMMISSIONER JOHNSON: I would like to get into this,

although nobody has asked me to.

MR. ROBBINS: Commissioner, I am missing a lot, a lot of what you said before, and I am disturbed about it.

COMMISSIONER JOHNSON: I wasn't asked to express an opinion, and if you are not you are that much ahead. You should take your coat and run.

But, I want to stand still and make some comments.

There is before the United States Supreme Court a matter which involves Metropolitan Edison, Three Mile Island -- TMI Units 1 and 2. Unit Number 1 has been apparently repaired to the point where the company believes it is ready to be operated. There is one outstanding issue that remains to be determined and it has to go to the United States Supreme Court, and that is the matter of psychological stress to be considered as a factor in permitting the GPU industries to operate the Three Mile Island Unit Number 1.

If they say no, they will proceed. The company will proceed. Others I know of now will undertake other activities, it will not end there.

But if the United States Supreme Court says that the matter of stress due to fears about the beginning of the Unit Number 1, that if these considerations of stress are very significant and should be taken into consideration. If that happens, that unit will not operate, it will not operate at all. But, I daresay my legal friends have told me, and Gerry I want

to give you some information, free, I am not charging you for it, but this may have a deleterious effect upon your plans and all other nuclear reactors, not only in Pennsylvania but in the country. I am neither for nuclear power nor against it. If I had a position, I would have to state so, and that may very well disqualify me from participating, but I don't have a position, and that is honestly said. But, I can assure you I do have an opinion as to what the court says, particularly the United States Supreme Court, and if the Supreme Court says this I will at once talk to my associates with the view of bringing ourselves into a posture which comports ourselves with the thinking of the United States Supreme Court.

Now, I have all kinds of evidence before me provided by the electric association, scientists, others, the military. I have a variety of opinions put before me by the NRC, the Nuclear Regulatory Commission, which is one at the same time contradictory. I have enough material there without looking for more.

I am willing to push that aside and say what does our Supreme Court say. You have to trust somebody and that somebody for me is going to be the United States Supreme Court, United States of America. And, if the United States of America says that these are bad and they are a factor, I will certainly reflect that kind of a thinking in every one of my decisions for the next two years that I remain on this Commission.

If it doesn't say that, I will not arbitrarily seek to interfere with the forward progress of the utilities. I have some questions about the financing and what is expected of the rate payers, but I have always had these things, Gerry, and you know them and we will fight about them because I know more about them now, but they would have nothing to do with whether or not you can operate.

Now, somebody said, I think it was the gentleman with the red sweater -- is that red?

MR. NORMYLE: The color is livid red.

COMMISSIONER JOHNSON: Anyway, did you say something about the legislature?

MR. NORMYLE: I asked if there were any legislators present.

COMMISSIONER JOHNSON: And there were none.

MR. NORMYLE: Obviously they don't consider this something for them.

COMMISSIONER JOHNSON: I asked it in terms of this meeting not to meet, because at this very moment, yesterday and today -- what is today -- Monday -- it seems like three days have passed since I got started, but Monday I spoke to half a dozen legislators in Harrisburg, they are in session, they will be in session until Wednesday, what their attitude is, otherwise, I don't know, but I don't think you have a right to -- and, you know, we need their help, and I don't want to attack

them unnecessarily and I don't want you to do that because you make it tougher for us. We cannot blame them for not being here tonight because the legislature is in session and that's where they have to be.

MR. NORMYLE: That's what is dangerous about it, from past performance, they are in session. There is nothing so dangerous than a legislature in session. They are deaf freaks.

COMMISSIONER JOHNSON: You have a different argument now.

MR. NORMYLE: Give me the question. Who permits this? Not PP&L. Who permits this? Does the Public Utility Commission permit it or does the legislature permit it?

COMMISSIONER JOHNSON: Permit what?

MR. NORMYLE: All the extortionist rates that are being thrown at us. Who permits it? I know who does it.

COMMISSIONER JOHNSON: Well, I will tell all of you my opinion on this. The Public Utility Commission is the preacher of the legislature, always has been. They have created this commission. They have passed the laws under which we operate. The Governor assigns this as the third leg of the process. There is now pending before the House of Representatives legislation which would set aside and make illegal the electric cost rate and the gas cost rate on the basis that they involve and provide for adjustments without consultation, prior consultation with anyone, be it the PUC, Energy Council, the Governor, or the legislature.

I testified on Thursday before them. I also have to tell you that the majority of the Commission had sent over a statement opposing what the legislature wanted to do. I appeared before this legislature, asked for their permission to be heard and they gave it to me, willingly enough, and I reminded them how we came into being, that we are a creature of the legislature, so on and so forth, and that they make the rules by which we operate. They delegate certain powers, but they delegate certain powers to us too, as if we could legislate, and in a sense we do. I have for seven years fought these automatic adjustment clauses, first with electricity and then with gas, but I have always fought them on the basis that they delegated power to a utility to determine when it wants to increase the rate and by how much. And then, of course, they have to justify this, but that is afterwards, that is after you people have been paying it for months, and in the seven years' time I have never seen an action overturned, really overturned.

I told this to them. I said for that reason that I differed with my associates and for that reason that I wanted to be here so that you knew from Michael Johnson's mouth himself that he opposed the position of his colleagues, that he supported the position of the legislature.

The legislature was much encouraged. As a matter of fact, I understand that "the peoples business" you see that around here, that is a television show put out by the Public

Television and the various stations throughout the -- it was on there last night and it was a very good representation, the way they edited it and so on. So you see a lot of things are taking place. We cannot tell you all of it in the framework of a meeting of this kind. My whole purpose in saying this to you is that you have to have some forebearing, you have to have a real sense of commitment that no matter what happens here you are going to come back because if you don't you can be sure that you are going to lose everything all the way down the line.

I have seen many changes take place. Mr. Caliendo will tell you that as a result of my intervention and the many motions that I made and the things that I introduced, today being terminated for lack -- for failure to pay your bill due to poverty or inability to pay the bill during the winter months, is forbidden. Is that correct?

MR. CALIENDO: That is right.

COMMISSIONER JOHNSON: We didn't have that when I came. What we had was that the company could, PP&L didn't, the electrics didn't very much but People's Natural Gas in Pittsburgh did,and in one season we found five elderly people, four women and one man, the first was Sophie Easer -- I remember that name because it was the first case, and they were found frozen to death wrapped in newspaper. One lady was found frozen to death on her kitchen table. On the table was found a check to People's Natural Gas, but she couldn't get anybody to mail it

for her because her phone was turned off, she hadn't been able to pay that, and she was too sick to attract anybody's attention.

Things are happening. Other things are happening to modifying this whole thing of regulation. I have many plans and you may be called to meetings to determine whether or not you want to do them or not. One of them I may share with you now, if you have just a moment, provides for the election of utility commissioners instead of their appointment by the Governor.

MR. NORMYLE: If I had it my way I would dissolve it. That jurisdiction should be in the House and Senate.

MR. ROBBINS: Do you and your associates decide whether or not PP&L will get this rate, you people, your Commission alone will decide whether they do or don't get it, is that right?

COMMISSIONER JOHNSON: Within the limits of the law, what the law will allow us to do and allow the utility to do on the basis of that, if that is followed it will be the Commission. This is a forthright answer to you, it will be the Commission that itself will make a decision.

MR. ROBBINS: They will say yes or no?

COMMISSIONER JOHNSON: Or maybe.

MR. ROBBINS: Or maybe.

COMMISSIONER JOHNSON: Right now they are trying to say

yes in a lot of different ways that sounds like no.

MR. ROBBINS: You are avoiding the question. Are you the people that are the sole judge to say yes or no for this rate increase?

COMMISSIONER JOHNSON: Yes. I thought I had answered that.

MR. ROBBINS: Good.

COMMISSIONER JOHNSON: Now, not all of us vote the same way.

MR. ROBBINS: I know. But your Commission will decide --

COMMISSIONER JOHNSON: I don't want you to be like the woman that called me on the phone --

MR. ROBBINS: I am not like that woman.

COMMISSIONER JOHNSON: She called me up and she scolded me for what the Commission had done in a certain case and I said madam, you don't know then that I voted against this, do you. I was the only one that did vote against it and she said never mind, don't change the subject, if you can't take the heat get out of the kitchen.

MR. ROBBINS: I know Commissioner, I didn't ask you what you are going to do. I asked what the commissioners are going to do.

COMMISSIONER JOHNSON: That is going to be our problem and we are going to have to face up to that by what time -- August 22nd. If we don't finish and have a decision by August

22nd, on August 23rd the amount which PP&L has asked to go into effect will go into effect by operation of law.

We are not going to let that kind of thing happen.

MR. ROBBINS: I hope not.

MR. NORMYLE: What happens if one of you gets hit with a bus, there is no quorum?

COMMISSIONER JOHNSON: There is three of us left now. And I have been here and there are three and all of a sudden Lou Carter resigned and then there were two, that was really great because we had to be in absolute agreement with each other because there is no majority of two that is less than two. It has got to be two. And the Governor was so afraid then that one of us would miss something that he then appointed three commissioners, all in a row, and they were promptly sworn in and that's how we got Shanaman.

MR. NORMYLE: There is five on the Board now, Michael?

COMMISSIONER JOHNSON: There should be five, but there are only three of us left.

MS. MC COY: There are two open slots on the Commission?

COMMISSIONER JOHNSON: Yes.

MS. MC COY: And there is no one appointed from the northeastern Pennsylvania, is there?

COMMISSIONER JOHNSON: The law does not require that appointments should be made in that way.

MS. MC COY: But I know there has been quite a bit of

talk about having someone appointed to the Commission from our area because it seems to me from everything I have read, our area has never really been represented on the Commission from anybody from this area.

COMMISSIONER JOHNSON: They complain that I come from the southeast, I live in Montgomery County --

MR. NORMYLE: There isn't that many jobs on the Commission to be represented -- this county doesn't have any voting strength. You won't see it.

MS. MC COY: The County Commissioners aren't here tonight, are they?

MR. NORMYLE: No.

COMMISSIONER JOHNSON: County commissioners are strictly a county affair. But there are all kinds of things taking place. This happens to be one of them. And I am going to as many of these meetings to hear what you people have to say to perhaps offer some comments that might be useful, but they have been very helpful to me. There haven't been too many of my colleagues attending, I regret to say that.

MRS. FRACKE: Have any of the other commissioners attended any of the hearings?

JUDGE KLOVEKORN: I can say in my three years of holding public meetings, that Commissioner Johnson, except on rare occasions, Commissioner Johnson is the only one who attends. But, for the PP&L hearings, Commissioner Johnson has been the

only Commissioner at the hearings.

COMMISSIONER JOHNSON: I don't intend to be abused for that.

MRS. FRACKE: I don't think you should be.

COMMISSIONER JOHNSON: You don't know what happened to me in Scranton. You are the only one. Why the hell aren't they here. Well, I don't know. Why don't you know. And they were so angry, ask Gerry from the company, maybe he knows. But, you know, there is anger and because there is so much anger I am trying to make it a point to come to perhaps mollify the anger and introduce a level of reasonableness, an inclination to hear this thing out and maybe something can happen.

MR. NORMYLE: They got us between a rock and a hard place.

COMMISSIONER JOHNSON: You got me there too because I am a subscriber of PP&L.

MS. MC COY: Is it part of your job at the Commission to come to these meetings?

COMMISSIONER JOHNSON: It is part of my responsibility to do as much as I think I am able to do.

MS. MC COY: You feel this way. Is it part of their job also that they should be here or they should be at the other meeting?

COMMISSIONER JOHNSON: I could not find an appropriate place in the duties of the commissioners which would indicate

that they must be. It says they shall attend such meetings as may be pertinent and which they are able to attend.

MS. MC COY: How can they make an honest vote if they don't know the public's opinion on it if you are the only one that comes? Are they only going by the legislature? It seems like you are doing their job for them.

COMMISSIONER JOHNSON: We have a gentleman who is --

MS. MC COY: But you are doing all of the work for them.

COMMISSIONER JOHNSON: My dear young lady, let me finish my comment. We have this man here who is an official court reporter and he reports, he is reporting everything, everything you said including your interruption of my comment and my sassing you back. That's all in there. The others will read that, I hope that they will read it, somebody on their staff will read it, more than that I cannot tell you.

However, I don't feel that it is hopeless. I am 72. Do you think it is easy for me to come night after night after working a whole day?

But I come.

MR. NORMYLE: You've got a lot of mileage left, Mike.

COMMISSIONER JOHNSON: Yeah, but I come, I come because I have hope, because I have hope that you people have more sense than perhaps my colleagues and that you people will do the right thing, that you will talk to your legislators and that we can get this thing worked out.

Let me tell you if I didn't think that there were a chance -- not a stone wall's chance in Hell of getting something done, I would resign tomorrow. I would resign tomorrow. There is some nice little lady, I have been a widower now for over two years and there is this very charming little lady whose husband left her a lot of money and she said Michael, why don't you come down to Florida, and she says you don't even have to marry me. There is a lot of things I could do, you see, instead I come here because this is more important to me. How do you like that?

(Applause)

COMMISSIONER JOHNSON: God bless you for coming. Don't forget that this is important to you, and I want to tell you that all of the things that have been happening between us, this little conversation right now, has been very useful to Mr. Caliendo. I know him for many years. I know him to be loyal to his employer, yes, but I also know him to be a conscientious God-fearing man with good instincts and I am glad to have him hear all of this. I think it would be wrong if he were not here. Maybe with my fellow commissioners I don't have as much hope, but I do have hope in you, and in myself. We can promise each other we are going to stick together in this thing, aren't we?

Thank you very, very much.

JUDGE KLOVEKORN: One last comment by Mrs. Fracke.

MRS. FRACKE: I hesitate to talk about this out of fear, one of the reasons. A lot has been said that PP&L, we shouldn't be afraid of them, but I feel we have a lot to be afraid of them for. One man spoke in Wilkes-Barre about tyranny and I believe that can be very well applied to PP&L through people I have spoken to, I am going to try and not mention the person's name because he could deny it, I don't know.

I live in Sugar Loaf, and the owner of our local grocery store, when I first spoke to him about it -- there was a meeting held in Hazleton and I did speak there but I didn't bring this matter up and I would like to talk about it although I am hesitant, but I spoke to our local -- the owner of our supermarket and told him about the hearings and asked him how he felt about the rate hike. He told me he was very much opposed to it. He has been in contact with PP&L continuously telling them that he is opposed to it. He mentioned that he was planning on coming to one of the hearings and make a speech, and I told him if he couldn't be there, because he wasn't sure he could be there, and I said, you know, if he would prepare the speech we would read it for him if he couldn't be there. So, every time we went to the store we asked him if his speech was ready and he said he was working on it and he had still been in contact quite a bit with PP&L. And, I said is it all right if we put up some signs in the store mentioning about the rate hike and the hearings. And he was very much in favor of it in

the beginning.

When I made my signs up, and this man is a very God bless America type, they could do no wrong and yet he started talking about a revolution and it was rather shocking to hear this man talking about it. But then when I finally came into the store with my signs and asked him could I put them up and where would be a good place, because the bulletin board was all filled, he got very nervous and he said they have been telling me they don't want the signs up, PP&L had told him continuously please take any signs down, and they had taken -- he was very agitated and he said they don't want me to put the signs up. He said -- I don't know, I never saw the man like this before -- it was very upsetting to see this type of person to be this way. And I said to him, I mentioned his name and I said you are forgetting this is a democracy. And he said all right, you can put the signs up or they might come in and take them down. I put them up. I don't know if they stayed up. I didn't get the chance to go back and see.

This man decided, he had a meeting with PP&L officials and he says call me and I will tell you what I spoke to them about and what came about. And I did call him the following day and he says well, he decided he won't write the speech, that they have convinced him that the nuclear plant is safe and that all will be well and he just -- I told him I thought he was being blackmailed by PP&L. And I think that they have shown

that they are making a shambles of our democracy by putting this kind of pressure on this man who is also a stockholder yet he was willing to speak out.

A woman mentioned to me -- she can't mention names again, a lot of people would have attended a lot of the hearings. I know in Hazleton they would have, but the electrical union, one of the bosses, their electricians were told if you sign any petitions, if you go to these hearings there will be no contracts. This is tyranny. And this is the way PP&L has operated. I know with our own business they have discouraged people to buy our homes. We sell log homes and they have discouraged people to buy them. Whether it is their policy or not, but several of their people have told different people who in turn have told us, even given us a name --

COMMISSIONER JOHNSON: You sell what kind of homes?

MRS. FRACKE: Log homes.

COMMISSIONER JOHNSON: Is your husband with you?

MRS. FRACKE: Yes.

COMMISSIONER JOHNSON: After the meeting.

MRS. FRACKE: And they have discouraged people because they don't know enough about it and they have tried to tell people they are not energy efficient. They even tried to make those laws that they talked about for conservation, I can't say whether it was for us personally or not, but there has been too much to say that it is just hearsay, too much has happened. A

lot of people would speak up at the plant but they would lose their jobs. And I think more in the future will speak out, as they realize, I think there is a project called Government Accountability Project that will help people.

Commissioner Johnson, you said you were neither pro or against nuclear power. Didn't Linda Califero -- didn't she come from the Commission to promote nuclear power? That should certainly disqualify her.

COMMISSIONER JOHNSON: She was in sales of nuclear power.

MRS. FRACKE: Isn't that definitely for nuclear power?

COMMISSIONER JOHNSON: I know what it is and I am not the one that sat in judgment over that situation.

MRS. FRACKE: And I want to commend you for being here.

COMMISSIONER JOHNSON: And there were many people who have opinions on this thing, there are many people who could be raising these questions, and I am not going to, but there are many people not in my position who could reasonably, safely, without embarrassment who could raise this question with the Attorney General in an appropriate court of law.

They could do that. And why they don't, I don't know.

MRS. FRACKE: I want to commend you for being here and you have been the only commissioner I have seen that has been consistently on the side of the consumer, and I think you should be applauded for it.

COMMISSIONER JOHNSON: I am on the side of the utility too, but they don't think so, but I think if they are going to continue the way they are there may be no utilities to protect, you see, so I think that -- I appreciate everything that you have said.

MRS. FRACKE: Thank you.

MR. NORMYLE: Very good.

JUDGE KLOVEKORN: I want to thank you all for coming tonight and we appreciate hearing the views of the people of Stroudsburg and the lower Pocono area.

Thank you very much. This hearing is adjourned.

COMMISSIONER JOHNSON: I want to address a comment to Gerry Caliendo who is an old friend of mine. Gerry, I have known you for a long time. You have heard this lady's comments. I find it very hard to reconcile that you and Mr. Campbell and other people that I know with this kind of comment, but I must tell you it is not the first time I have heard it during the rate case. I would like you very much to check into these kinds of things and please respond to her and the Judge and myself.

If you would do that, Gerry, we would be very grateful to you today.

MR. CALIENDO: We will.

JUDGE KLOVEKORN: Thank you very much.

(Whereupon, at 9:10 p.m., the hearing was adjourned.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me during the hearing of the within cause, and that this is a true and correct transcript of the same.

EARL L. BARTELL,
Official Reporter

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