

1 BEFORE

2 THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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4
5 In re: R-822169 - Pennsylvania Power & Light Company.
6 Investigation into a requested \$315 million dollar
7 annual rate increase. Hearing.

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11 Harrisburg, Pennsylvania

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23 SECRETARY'S OFFICE
Public Utility Commission

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4 In re: R-822169 - Pennsylvania Power & Light Company.
5 Investigation into a requested \$315 million dollar
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6 --oOo--

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

9 Thursday,
10 February 17, 1983,
at 10:14 o'clock a.m.

11 --oOo--

12 Before

13 JOSEPH J. KLOVEKORN, ADMINISTRATIVE LAW JUDGE

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Company, Respondent

24

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1 APPEARANCES (CONTINUED):

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2 PP&L

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10 ✓ MJB 9A Document entitled "Electric Operations - Comparison of Actual to Budget for the two months ended September 30, 1982"	756	798
11		
12 ✓ MJB 9B Document entitled "Electric Operations - Comparison of Actual to Budget for the quarter ended December 31, 1982 and five months ended December 31, 1982"	756	798
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14 <u>PP&L EXHIBITS SUBMITTED BY PUC:</u>		
15 ✓ 200.182108 Two-page document entitled "Pennsylvania Power & Light Company, response to interrogatories of the PUC Trial Staff - Set IX, dated January 17, 1983" by M. J. Berish	760	776
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18 ✓ 200.182034 Two-page document entitled "Pennsylvania Power & Light Company, response to interrogatories of the PUC Trial Staff, Set III, dated December 15, 1982" by M. J. Berish	770	776
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21 ✓ 200.182106 One-page document entitled "Pennsylvania Power & Light Company, response to interrogatories of the PUC Trial Staff - Set IX, dated January 17, 1983" by M. J. Berish	773	776
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No. 3 - Three-page document entitled "Response to informal data requests of the Office of Consumer Advocate (Set IV) dated November 12, 1982, re: PUC rate filing;" "Responses to informal data requests of the Office of Consumer Advocate (Set VI) dated December 8, 1982, re: PUC rate filing;" "Response to informal data requests of the Office of Consumer Advocate (Set VIII) dated December 23, 1982, re: PUC rate filing"

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1 JUDGE KLOVEKORN: I call to order this hearing R-822169,
2 Pennsylvania Public Utility Commission versus Pennsylvania Power
3 & Light Company.

4 Do we have any preliminary matters to discuss before we
5 begin with today's witnesses?

6 Mr. Mann?

7 MR. MANN: I was wondering if we could - the next two
8 weeks we have the Susquehanna witnesses - just confirm which days
9 different people will be coming in or at least the order.

10 MR. GADSDEN: It is my understanding that the hearings
11 next week commence on Wednesday and run through Friday. Mr.
12 Curtis will be the company's first witness, and when he is
13 completed, the company will put on Mr. Traylor.

14 MR. McCLELLAND: Your Honor, that is acceptable to us.
15 I might add we may very well be perhaps two days with Mr. Curtis,
16 but I really think in three days we can finish Curtis and Traylor.

17 MR. GADSDEN: The following week my notes indicate that
18 on Monday, the 28th, the company would present Messrs. Stefanko
19 and Weinstein. Mr. Scheffley will go on the first of March,
20 followed immediately by Mr. Hecht. At the completion of Mr.
21 Hecht's cross examination, the company would present Messrs.
22 Koppe and Kenyon.

23 I gather that Monday through Thursday of that week has
24 been set aside.

25 MR. EATON: Your Honor, is it my understanding that in

1 any case we would not have to be prepared for the last four
2 witnesses until at least Tuesday?

3 MR. GADSDEN: You're referring to Messrs. Scheffley,
4 Hecht, Koppe and Kenyon?

5 MR. EATON: Yes.

6 MR. GADSDEN: I suppose the only question is to what
7 extent people will get through with Stefanko and Weinstein on
8 Monday.

9 MR. EATON: Well, that was my question. If it is
10 agreed that there will only be two witnesses, that, of course,
11 will affect how we prepare for those days. I think that is fine.
12 I didn't want a misunderstanding.

13 MR. GADSDEN: We're agreeable with that.

14 MR. POPOWSKY: We will stop on Monday with Weinstein and
15 Stefanko?

16 MR. GADSDEN: That is what was just agreed.

17 JUDGE KLOVEKORN: We also would like to note for the
18 record that I believe there was some discussion when Judge
19 Mindlin was here concerning briefs due April 29th. Of course,
20 that date is out the window. Now we will be looking forward to
21 briefs in the area of May 10th, perhaps reply briefs on the 20th.
22 Let's wait until the end of the hearing until we set definite
23 dates.

24 Is there anything else? If not, Mr. Gadsden, you may
25 call your witness.

1 MR. GADSDEN: The company is prepared to present Mr.
2 Berish this morning, followed up by Mr. Vanderslice at the
3 completion of Mr. Berish's cross examination.

4 Before Mr. Berish is sworn in, I would ask to have two
5 exhibits marked for identification. Pursuant to 52 Pa. Code
6 Sections 3.271, the company prepared and previously distributed
7 quarterly reports detailing the company's operating experience
8 to date through the course of the future test year. The first
9 report has been marked as Exhibit MJB 9A. It's entitled
10 "comparison of actual to budget for the two months ended
11 September 30, 1982".

12 The second has been marked as Exhibit MJB 9B entitled
13 "comparison of actual to budget for the quarter ended December
14 31, 1982 and five months ended December 31, 1982".

15 JUDGE KLOVEKORN: No objection, they will be so
16 identified.

17 (PP&L's Exhibit MJB 9A, being document entitled
18 "Electric Operations - Comparison of Actual to
19 Budget for the two months ended September 30,
20 1982" was produced and marked for identification.)

21 (PP&L's Exhibit MJB 9B, being document entitled
22 "Electric Operations - Comparison of Actual to
23 Budget for the quarter ended December 31, 1982
24 and five months ended December 31, 1982" was
25 produced and marked for identification.)

MR. GADSDEN: Mr. Berish can be sworn.

1 CROSS EXAMINATION

2 BY MR. WILMARTH:

3 Q Good morning, Mr. Berish. My name is Frank Wilmarth
4 with the Commission Staff.

5 During my cross examination of Mr. Hecht on February 10,
6 he deferred certain questions to you concerning the existence of
7 a PP&L test year claim for Edison Electric Institute dues.

8 The question was this: for the test year, has PP&L made
9 any claim for EEI dues?

10 A Yes.

11 Q Do you know, then, what is the amount of the claim and
12 to which account or accounts such expenses were forwarded?

13 A I don't know what account it is in, but we have
14 claimed EEI dues of 300,000 in the future test year.

15 Q If I may, do you know what the basis for that
16 estimate is?

17 A The basis for all budget data is information that we
18 receive from our cost areas. Each of our cost centers prepares
19 a budget for manpower and their operating expenses.

20 I do not know what the reason for this submittal was from
21 our cost areas, but I surely can check if you would like.

22 Q I don't believe that is necessary, Mr. Berish. If it
23 should be, I will direct an interrogatory either formally or
24 informally to you through Counsel.

25 Of the total claim for EEI dues, can you tell us what

1 potential amounts are to be expended by EEI for media
2 advertising? In other words, what portion of the EEI budget is
3 presently allocated to media advertising?

4 A The \$300,000 that I mentioned is solely the dues or
5 EEI contributions.

6 In addition to that, we have in the future test year
7 \$174,181 for advertising or communication.

8 Q Mr. Berish, I am talking specifically of the EEI
9 budget. You are a member of the Edison Electric Institute - are
10 you not - PP&L is a member?

11 A Right.

12 Q Do you know what portion of the EEI 1983 budget is
13 allocated for media advertising?

14 A To the best of my understanding, it would be \$174,181.

15 Q I misunderstood your response. I thought you were
16 telling me that was what PP&L itself was spending for media
17 advertising.

18 A No. That is the EEI portion.

19 Q Okay.

20 A And that is in addition to the 300,000 produced.

21 Q In other words, PP&L forwards to Edison Electric
22 Institute a total of \$474,000?

23 A Yes, sir, to my understanding.

24 Q Okay, Mr. Berish, you are familiar with the company's
25 methodology for estimating the annual provision for uncollectable

1 accounts expense; are you not?

2 A Yes, sir, I am.

3 (PP&L's Exhibit 200.182108, being two-page
4 document entitled "Pennsylvania Power &
5 Light Company, response to interrogatories
6 of the PUC Trial Staff - Set IX, dated
7 January 17, 1983" by M. J. Berish, was
8 produced and marked for identification.)

9 BY MR. WILMARTH:

10 Q At this time I would like to show you a copy of the
11 company's response to Staff Interrogatory No. 33, and that has
12 been identified already as PP&L Exhibit 200.182108. You are
13 noted as the responsible witness.

14 In Exhibit --- maybe I can refer only to the last three
15 digits, 108. The company employs various percentages for
16 accounts receiveable and write-off rate for the years ended
17 December 31, 1982 and December 31, 1983; is that correct?

18 A That is correct, sir.

19 Q It's Staff's understanding these percentages were
20 formulated using historic data for in each case the five
21 preceding calendar years; is that also correct?

22 A Yes, sir, to the best of my understanding.

23 I should point out that the forecast for uncollectables
24 is prepared by our audit department.

25 Q In other words, you feel you might not be able to
answer some of these questions? Is that why you're telling me
that?

1 A Yes, sir.

2 Q Well, let's try and see.

3 Are we using only actual data in those five years' worth
4 of figures in each case?

5 A The estimate for the year 1982 was based on the last
6 five year actual data.

7 Q Excuse me for interrupting. Can you specify what years
8 those would be, then? 1982 actual, 1981 actual, on back?

9 A Yes, sir.

10 Q Just tell us exactly what calendar years we're talking
11 about.

12 A Calendar years 1977, '78, '79, '80 and '81 for the
13 budget year 1982.

14 Q Okay. How about 1983 budget, then?

15 A For the budget year of 1983, the years 1978, '79,
16 1980, 1981 and an estimated 1982.

17 Q That is what I was trying to get at. Fine.

18 Mr. Berish, I note with regard to both percentage
19 figures for accounts receivable and for write-off rate, there is
20 a change between the '82 and '83 budget. For write-off rate, for
21 instance, that changes half a percentage point; correct?

22 A For the write-off rate, yes.

23 Q Approximately?

24 A Approximately.

25 Q It would just seem to me that using a five-year

1 running average, that a change of that magnitude is somewhat
2 significant. Would you agree with that?

3 A I guess it would depend on what your definition of
4 "significant" is.

5 Q Okay. That is a fair response.

6 Can you tell us what happened between 1981 and 1982
7 estimate or between 1977 and 1978 actual that would have resulted
8 in that percentage rate change in the running average? In other
9 words, that is where the change must have occurred, as I see it,
10 in one of those two periods.

11 A With the data I have available here, the year that was
12 dropped off in projecting the 1983 budget, which was 1977, had a
13 write-off rate of 3.5 per cent, and in its place, the estimated
14 1982 year was 4.19 per cent.

15 Another factor is that the accounts receivable balance
16 has been growing appreciably from one year to the next. So as
17 the 1977 year is dropped out and replaced with a 1982 year, not
18 only does the write-off rate change, but the weighting of that
19 rate changes because of the size of the accounts receivable
20 balance.

21 Q Okay. Now, with regard to the percentage of accounts
22 receivable, I notice similar but maybe not as marked a change in
23 that percentage figure between '82 budgeted and '83 budgeted
24 there in Exhibit 108, again, using only the last three digits in
25 the exhibit designation.

1 Can you provide us with a similar explanation as to the
2 reason for that percentage change?

3 A You're talking about the per cent accounts
4 receivable balance?

5 Q That is right.

6 A The year that was dropped out in 1977, the percentage
7 was 7.59 per cent, and that was replaced by a rate of 7.49 per
8 cent for '82. However, again, the weighting of the amounts in
9 regard to the total caused it to increase.

10 Q Does that complete your response, Mr. Berish?

11 A Yes.

12 Q I believe that is satisfactory.

13 Mr. Berish, in calculating the five-year average accounts
14 receivable and write-off rate percentage figures here, did the
15 company annualize the annual write-offs and accounts receivable
16 balances as of July 31 of the respective five years?

17 A I am not sure I understand your question.

18 Q Well, the company accumulated data to put into the
19 five-year average in each case. Was it looking at data as of the
20 end of the calendar year, as of July 31 of each year or 12-month
21 average or just what basis was used?

22 A It was the end of calendar year for each year.

23 Q Okay. I would like you to look for a moment, Mr.
24 Berish, at Company Exhibit Future 1, Schedule D-1, page one.

25 A What was that schedule again?

1 Q Schedule D-1, page one. I am going to compare the
2 operating revenue figure I see on that schedule with the figure
3 I see here in Exhibit 108 which you sponsored.

4 The question is this: does the operating revenue figure
5 per budget appearing in Schedule D-1 of \$1,262,407,000 for the
6 year ended July 31, 1983, correspond with the figure of
7 1,540,131,000 in revenues budgeted for the year ended December
8 31, 1983 - that is on Exhibit 108 - in the sense that both
9 reflect total revenues from all sources, only for different
10 points of time?

11 A I guess if I can refer you to Schedule B-3 of
12 Exhibit Future 1.

13 Q All right. Go on.

14 A The first difference between the two numbers is that
15 the numbers shown on Response 108 excludes the amount for
16 unbilled revenue, the negative amount shown there as 81 million
17 dollars. We do not bill unbilled revenue. Therefore, we do not
18 have uncollectables based on unbilled revenue.

19 The other difference is that the revenue shown on
20 Schedule B-3 is for the year ended July 31, 1983. The estimated
21 revenue shown on Response 108 is for the calendar year.

22 Q All right. So, if I were to add in the 81.1 million
23 dollars of unbilled revenues to that figure on Exhibit 108, that
24 revenue figure on Exhibit 108, I would have figures then for
25 revenues in Exhibit 108 and in Schedule D-1 that were comparable

1 but for the calendar year difference?

2 A That's right.

3 Q Okay. Mr. Berish, are you familiar with the
4 accounting concept of matching revenues and expenses?

5 A Vaguely, yes. I say that because I am not generally
6 an accountant. I am a forecaster and do not get into the policy
7 decisions on accounting.

8 Q Less a general accounting concept that is accepted
9 here in the Commission with regard to rate filings, could you
10 perhaps expand on what your personal understanding is, albeit
11 limited, as to this concept of matching revenues and expenses?
12 What do I mean by that in a rate case context?

13 MR. GADSDEN: Are you asking him to express his opinion
14 on the Commission's policy with regard to matching?

15 MR. WILMARTH: No. I am just trying to get him to
16 explain on the record very generally what we mean by matching
17 of expenses and revenues and why it is a concept that is
18 employed by utilities and regulators alike generally in setting
19 rates.

20 MR. GADSDEN: You say matching principle as we use it.
21 Again, are you talking about specific Commission policy?

22 MR. WILMARTH: Well, let me retract the question and put
23 it a little more plainly.

24 BY MR. WILMARTH:

25 Q Isn't it true, Mr. Berish, that when you're computing

1 revenue requirements, that it is appropriate both from the
2 company's perspective and from that of this Commission that when
3 you give us certain claimed expenses, that they match claimed
4 revenues as far as the period in which we're examining the
5 claimed expenses and revenues?

6 A I don't really know. I am responsible for budgeting.
7 I budget whatever the expenses are. I budget whatever the
8 revenues are. Whether they match or not is somewhat immaterial
9 to me.

10 Q That is not of concern to you? You simply take the
11 various projections provided to you by other persons in the
12 company?

13 A Right.

14 Q All right. Let me ask you this: the company is using
15 a future test year ending July 31, 1983, for purposes of this
16 rate case proceeding; is that not correct?

17 A Yes, sir.

18 Q In developing a claim for uncollectable accounts
19 expense, the company has used in part budgeted revenue data for
20 the year ended December 31, 1983?

21 A Yes, sir, it has.

22 Q Then the company's claim for uncollectable accounts
23 expense is based on a revenue figure which includes five months
24 of activity outside the end of the future test year; does it not?
25 The future test year ends in July and estimates are based on a

1 period ending in December?

2 A Yes, sir, it is.

3 Q Okay. Does the budget revenue figure of 1.5 billion
4 appearing there in Exhibit 108 for the year ended December 31,
5 1983, which was used, by the way, to develop the uncollectable
6 accounts claim, does that figure reflect any increases in
7 revenues that the company feels will be forthcoming as a result
8 of Commission action on the current rate case?

9 A Yes, it does. It would include increases in sales,
10 increases in revenue whether through an ECR increase or decrease
11 or base rate increase.

12 Q Do you know what assumptions were made by the company
13 as far as the increased rates which would be approved by the
14 Commission incident to this rate case?

15 A No, I do not.

16 Q Who would have that information, if you know, Mr.
17 Berish?

18 A Are you asking about the 1,540,131 specifically?

19 Q In developing that 1.5 billion dollar revenue estimate
20 for the period ended December 31, 1983, I understand your
21 testimony to be that the company did include some assumptions as
22 to revenue impact as a result of this case. In other words, if
23 the Commission would approve some additional rate levels,
24 therefore, revenues would increase; correct?

25 A Yes.

1 Q And I am curious as to what assumptions were
2 employed by the company, in other words, when did the company
3 assume that rate relief would go into effect and what levels of
4 rate relief were assumed by the company in developing those
5 December 31, '83 figures.

6 A I don't have the information with me, but I can find
7 out. I would have that information available.

8 MR. WILMARTH: Your Honor, perhaps Counsel would make
9 that available, and I would like to make that a data request on
10 the record.

11 MR. GADSDEN: We can provide a breakdown.

12 BY MR. WILMARTH:

13 Q Mr. Berish, on pages eight and nine of your direct
14 testimony, that is, Statement No. 4, you discuss the development
15 of budgeted costs related to the commercial operation of
16 Susquehanna Unit 1. I just have a very general question with
17 regard to that. I don't know it is necessary for you to refer to
18 your testimony.

19 Isn't it true at this time PP&L possesses no actual cost
20 data related to the operation of any nuclear plant?

21 MR. GADSDEN: Could I have that question read back?

22 (Whereupon, the Reporter read back as requested.)

23 THE WITNESS: I wouldn't say any nuclear plant. There is
24 a whole host of data available on FERC Form 1 on the operating
25 and maintenance expenses of other nuclear units.

1 BY MR. WILMARTH:

2 Q You will be forced to extrapolate that data to your
3 own set of operating circumstances, though; correct?

4 A I don't know. Nuclear Department budgets were
5 prepared by the Nuclear Department. What process they went
6 through in determining the amounts, I am not sure.

7 Q But unlike other departments within the company, the
8 Nuclear Department wouldn't have any actual historic basis which
9 to start from?

10 A No actual historic basis on the operation of
11 Susquehanna Unit 1, that is correct.

12 Q On page 12 of Statement No. 4 you discuss wages
13 charged to Unit 1.

14 Were any of the costs associated with training personnel
15 to operate the Berwick plant capitalized?

16 A Yes, sir, I believe all costs of training personnel
17 were capitalized.

18 Q And then it's your testimony beginning on May 15 of
19 '83 the personnel involved with operating and maintaining Unit 1
20 would charge their time worked to expense?

21 A That's right. On May 15th when it is estimated that
22 the plant would be in commercial operation.

23 Q Are salary and wage costs associated with training
24 those personnel treated the same way?

25 A I believe all salaries related to nuclear people are

1 capitalized to the plant up until the time the unit goes into
2 commercial operation.

3 Q Moving to another area, Mr. Berish, I would like to
4 examine the company's 10.8 million dollar test year claim for
5 tree and brush control, and I would like to show you a copy at
6 this time of the company's response to Staff Interrogatory E-12,
7 which has been already identified as PP&L Exhibit 200.182034.
8 You are the witness responsible for that exhibit; are you not?

9 A Yes, sir, I am.

10 (PP&L's Exhibit 200.182034, being two-page
11 document entitled "Pennsylvania Power &
12 Light Company, response to Interrogatories
13 of the PUC Trial Staff, Set III dated
December 15, 1982" by M. J. Berish, was
produced and marked for identification.)

14 BY MR. WILMARTH:

15 Q Now, in addressing the 1.5 million dollar increase
16 between 12 months ended July 31, 1982 and a period ended July 31,
17 1983, among other things, your response describes - quote - a
18 change in policy to remove more trees rather than trimming.

19 Do you see that?

20 A Yes, sir, I do.

21 Q Can you please elaborate on that change in policy by
22 describing in essence the difference between trimming and tree
23 removal?

24 A The response was obtained by me from our distribution
25 people who are responsible for the budgeting and control of tree

1 trimming.

2 From their explanation, it is my understanding that where
3 trees would be a constant problem, instead of trimming a tree and
4 then having it grow back into the line and having it trimmed
5 again, where possible and where it is under our control, we would
6 have the trees removed to eliminate the possibility of having to
7 go back and retrimming it.

8 MR. WILMARTH: Your Honor, we have a few questions
9 concerning this removal policy for the main part because of the
10 significance of the increase between '82 and the calendar year.

11 I have a feeling that although I could ask Mr. Berish
12 the questions and the company operation person well familiar with
13 this particular aspect might be the correct individual to ask
14 questions to, may I ask whether the company would be willing to
15 submit a witness on a very limited issue of tree trimming? I
16 suspect we're talking about ten minutes, ten or 15 minutes of
17 cross examination at the outset.

18 MR. GADSDEN: Is there some reason this can't be reduced
19 to interrogatories? I think at this stage we're reluctant to
20 crowd up another hearing date with another witness.

21 MR. WILMARTH: I wasn't talking about another hearing
22 date, that is for certain. However, discovery at this point also
23 creates some problems.

24 MR. CALIENDO: We would agree to a data request to avoid
25 bringing a witness down here, if that would be satisfactory.

1 MR. WILMARTH: I think that would be satisfactory, Your
2 Honor. Perhaps the company would agree to make available an
3 individual to speak with my analyst on the topic.

4 MR. GADSDEN: On an informal basis, something of that
5 nature?

6 MR. WILMARTH: Informal.

7 MR. GADSDEN: That would be fine.

8 MR. WILMARTH: All right.

9 MR. POPOWSKY: Your Honor, could I state at this point
10 I intended to do some cross examination on that issue as well,
11 and perhaps if there is going to be an informal discussion
12 between the Staff and the company, that our accounting witness,
13 Mr. Cottom, could be informed of that discussion and perhaps be
14 made a part of it.

15 MR. WILMARTH: Yes. I heard that. I have no objection
16 to that.

17 MR. GADSDEN: The company has no objection to it, either.
18 I think it probably most likely will take place in the form of
19 a conference call or something of that nature, and Mr. Cottom
20 can be plugged into that.

21 MR. WILMARTH: Before we move from this area, I have one
22 other exhibit I would like to distribute here. This is the
23 company's response to Staff Interrogatory E-31. It has already
24 been marked for purposes of identification as DP&L Exhibit
25 200.182106.

1 (PP&L Exhibit 200.182106, being one-page
2 document entitled "Pennsylvania Power &
3 Light Company, response to Interrogatories
4 of the PUC Trial Staff - Set IX dated
January 17, 1983" by M. J. Berish, was
produced and marked for identification.)

5 BY MR. WILMARTH:

6 Q And I am not going to go into any particular detail on
7 this, Mr. Berish, other than to ask you to look at the exhibit
8 and note under the line heading, "other, primarily side trim
9 transmission right-of-way" that in 1979 and 1980 there were zero
10 dollars expended but in '81 and '82 it goes up to about half a
11 million. Do you see that?

12 A Yes, sir.

13 Q Can you explain the reason for the complete absence of
14 expense in that category for the two earlier years?

15 A No, sir, I cannot.

16 Q Your estimation for tree trimming expense, however,
17 assumes that the \$500,000 figure essentially will continue on
18 through the prospective period; correct?

19 A Yes, sir, as it had in '81 and '82.

20 Q When you made that assumption in preparing your
21 testimony here, you did not have occasion to question the absence
22 of any expenditure for the earlier periods?

23 A I didn't make the assumption. I prepared this response
24 with data from our distribution people who have the figures and
25 the data available to them to know how much was spent on the

1 different categories.

2 Q They were the individuals that made the judgment that
3 this cost would continue - not you?

4 A Yes, sir.

5 Q Okay. Mr. Berish, under Account 923, the company is
6 claiming as a test year expense \$347,000 for audit of fuel supply
7 function; is that correct?

8 A Yes, sir, it is.

9 Q Now, this audit concerns essentially an in-depth
10 analysis of PP&L's current coal procurement operations; does it
11 not?

12 A To the best of my understanding, yes, it does.

13 Q The audit is designed with particular emphasis on the
14 propriety of PP&L's continuing to own and operate its own coal
15 supply facilities; is that correct?

16 A I think it is more to analyze its coal procurement
17 practices whether it be from its own mines or outside purchases.

18 Q But the question whether the company should continue
19 to own and operate its own supply is part and parcel of the
20 audit, I assume?

21 A Yes.

22 Q Is that \$347,000 figure the estimated total cost of
23 the audit?

24 A The \$347,000 was the total estimated cost for the
25 audit, yes.

1 Q Who is performing that audit, Mr. Berish?

2 A I don't know who the auditor is, but it's an auditor
3 selected by the PUC Bureau of Audits.

4 The PUC Bureau of Audits dictates, as I understand it,
5 what is to be audited. They select the auditor. All PP&L does
6 is pay for it.

7 Q Well, the ratepayers pay for it; isn't that right?

8 A We hope so.

9 Q Is this the first such audit that was performed?
10 We're talking about an audit fuel supply function.

11 A To the best of my understanding, it is in its scope.

12 Q The audit is in process at this time; is that correct?

13 A No, it is not.

14 Q It's scheduled to begin sometime in the future?

15 A We anticipate sometime in March or April. But again,
16 it is up to the Bureau of Audits as to when it will actually
17 start.

18 Q March or April, 1983?

19 A Yes, sir.

20 Q When do you expect the audit to be completed, assuming
21 that starting date?

22 A I don't really know how long it is anticipated to take
23 for the audit.

24 Q The company would be billed for the audit, I assume,
25 after its successful completion?

1 A I think they would be billed on an on-going basis as
2 certain pieces were done. That is my understanding.

3 Q Is there a contract in existence now between the
4 company and the auditor; do you know?

5 A I don't know.

6 MR. WILMARTH: I believe Counsel was nodding his head
7 yes in response to that question. Is it possible to provide ---

8 MR. CALIENDO: I think Mr. Vanderslice might be fairly
9 knowledgeable in some of the audits going on right now and might
10 be able to give you some ---

11 MR. WILMARTH: Well, maybe we will defer this
12 particular question to Mr. Vanderslice. Thank you. I withdraw
13 that last question that was underway. Perhaps I should just
14 defer all questions concerning this to Mr. Vanderslice.

15 MR. CALIENDO: Yes.

16 MR. WILMARTH: I have nothing further of Mr. Berish, Your
17 Honor, and least I forget again, I would like at this time to
18 move for the admission into evidence of exhibits that have been
19 identified during my cross examination here of Mr. Berish. Those
20 are PP&L Exhibits 200.182108, 106 and 034.

21 JUDGE KLOVEKORN: Without objection, they will be
22 received into evidence.

23 MR. WILMARTH: Thank you, Mr. Berish.

24 JUDGE KLOVEKORN: Mr. Popowsky?

25 MR. POPOWSKY: Thank you, Your Honor.

1 BY MR. POPOWSKY:

2 Q Good morning, Mr. Berish. My name is Irwin Popowsky,
3 and I am with the Pennsylvania Office of Consumer Advocate.
4 I will try not to repeat any of the questions. It will require
5 some editing as I go.

6 One area which I discussed with Mr. Bernini and I believe
7 he deferred to you was in the area of unit maintenance expense
8 and specifically with reference to the increases in maintenance
9 expense for the Holtwood steam and hydro projects between the
10 historic test year and the future test year.

11 Would you be able to provide an explanation of that
12 increase?

13 A I'm sorry. You said Holtwood ---

14 Q The Holtwood steam and the Holtwood hydro. If we
15 refer specifically to Attachment I-B-2 and compare historic test
16 year and future test year maintenance expense.

17 A Essentially PP&L budgets by category of cost. Each of
18 our cost areas budget for employees, employee expenses,
19 materials, et cetera.

20 For the purposes of rate filings, because of a
21 requirement to provide data by account, we allocate costs which
22 are budgeted by category of expense to the appropriate, what we
23 feel is an appropriate account.

24 After the costs are allocated to the account, we then
25 tried here to further allocate the costs which show up in the

1 various accounts, power production, hydro accounts between our
2 various stations.

3 The increase in the Holtwood hydro is primarily due to
4 a misallocation, which we feel is a misallocation of costs. We
5 have the total costs for hydro during the year ended July 31,
6 1982, at roughly five million dollars, which is shown on Exhibit
7 I-B-2, page two. The total for hydro shown on Exhibit I-B-2,
8 page three for the future year is a total of 5.5 million.

9 What we have inadvertently done is allocate more costs
10 to the Holtwood hydro and less to Wallenpaupac in the future test
11 year than what we now feel should have been allocated.

12 Q I hadn't noted it, but are you saying that there would
13 be a concomitant decrease in the Wallenpaupac maintenance
14 expense?

15 A The Wallenpaupac maintenance expense for the historic
16 test year was 1,326,393. What we have shown for the future test
17 year for Wallenpaupac is 211,498.

18 And primarily the problem that we have in allocating to
19 the various areas, various stations, we have a budget by each of
20 the stations, but then there is an additional amount of work
21 performed at the station by various cost areas, primarily our
22 construction department.

23 We know how much the station cost area budgets
24 individually itself but have a problem allocating costs that are
25 budgeted by other cost areas that work at those stations.

1 The problem is enhanced with the hydro because
2 Wallenpaupac is an unmanned station and has very low expenses
3 budgeted specifically for that cost area, but largely the cost at
4 that station is a result of work done by our construction
5 department.

6 Q So, do you know offhand which is the correct one, the
7 '82 or the '83, or is that an impossible question to answer?

8 A Well, I know the '82 is correct, the cost by the
9 various stations.

10 Q Because that is actual data?

11 A That's actual.

12 Q So, then, you think for the future test year, the
13 problem here is simply one of misallocation between Holtwood and
14 Wallenpaupac?

15 A Yes, sir.

16 Q What about the Holtwood steam station? It's my
17 understanding it has shown an increase from historic test year to
18 future test year of from 6,202,000 to 9,525,000. That would also
19 be shown on Attachment I-B-2, pages two and three.

20 A Again, because of the allocation of cost, I don't have
21 an answer to that, but we will look it up and try to provide an
22 answer for you.

23 Q If you could provide us with that --- the question
24 was originally deferred to you. Perhaps you could inform us in
25 writing what the reason is, and I don't think any further cross

1 examination would be necessary if we receive some sort of
2 response.

3 A Sure.

4 Q Now, you referred to the difficulties of allocating
5 budget items. If I can get into that a little bit.

6 Am I correct that for PP&L, historic test year data cannot
7 really be compared directly to future test year projections
8 because of historic data is recorded by FERC account and future
9 test year projections are based on cost areas?

10 A Future test year data is based on cost areas and
11 categories of costs. Each of our cost areas will budget by
12 various categories.

13 Actual data is also reported by category of costs and
14 also by account.

15 Basically for internal purposes, our reporting system is
16 by category of cost. As a matter of fact, if you look at our
17 annual report, you will find that we do not show, for example,
18 power production, distribution, transmission expense but, rather,
19 wages and various categories of costs.

20 Q But then for the rate case purpose, in order to comply
21 with Commission filing requirements, am I correct that what you
22 do is you take your budget by cost areas and then allocate the
23 budgeted expenditures by FERC account number?

24 A We allocate the costs that were budgeted by category
25 of costs to FERC account numbers based on the way the historical

1 data for that particular cost area was allocated to accounts, or,
2 I should say, was charged to accounts.

3 Q Am I correct, then, that you're assuming that the
4 relationship between budgeted expenditures and FERC accounts
5 remains the same between the historic and the future test year;
6 is that correct?

7 A It's essentially within a cost area and within a
8 particular budget item, yes, we are.

9 Q Would you agree that that makes it difficult if not
10 meaningless to compare the historic test year and the future test
11 year for purposes of the rate case filing by FERC accounts?
12 Then if you assume the relationship remains the same, then there
13 is no real point in anyone trying to compare the ---

14 A I would agree with you that it is difficult, yes.

15 Q Would you agree that it would not be meaningful in
16 many respects since the assumption is made that the relationship
17 is the same?

18 A Yes, I would agree with you in many respects.

19 Q How would you describe, then, the link between the
20 historic test year and the future test year in the PP&L rate case?

21 A I'm not sure I understand your question.

22 Q Well, how do you get from the historic test year to
23 the future test year or is it that you do not go from the
24 historic test year to the future test year?

25 A Generally our cost areas budget what they expect their

1 expenses to be for a budgeted year. We have taken the budgets
2 for the various calendar years and extracted out the months that
3 relate to the future test year. We don't particularly have any
4 linkage from historical to future.

5 Q When you budget by cost areas, are comparisons made at
6 that time when the budget is done between the historical data by
7 cost area and the projected budget data by cost area?

8 A Each of our cost areas has a listing which shows their
9 actual costs by category of expense, each month compared to
10 budget. So, as our cost areas are budgeted, they have available
11 to them what they actually spent for a prior period by the
12 various categories that they are budgeting.

13 Q Is a comparison then made by your department by you
14 between the historical data for that cost area and the budgeted
15 data that the cost area has projected?

16 A No.

17 Q Would such a comparison be made within the cost area
18 initially?

19 A It might be.

20 If I understand your question, we do provide a comparison
21 for budget for calendar year of actual data to budget data by
22 category of expense.

23 Q That is what I was referring to. Perhaps I could turn
24 to page 13 of your testimony. When you say "we" - pardon me - do
25 you mean we, your department?

1 A My department, yes.

2 Q At page 13 of your testimony, line eight, you state
3 financial --- do you have that?

4 A Yes.

5 Q (Reading.) Financial planning prepares a report
6 comparing budgeted expenditures by budget items with expenditures
7 in the previous year highlighting major reasons for any change in
8 expenditures. (End of reading.) Is that correct?

9 A Yes.

10 Q Now, in that case, would you then be referring, for
11 example, to a comparison of calendar 1982 budget with a calendar
12 1981 actual data?

13 A Yes, sir.

14 Q Would that be the last formal comparison between budget
15 data and actual historical data that is made by the company?

16 A Would you repeat that question again, please?

17 Q Would that be the last formal comparison that is made
18 by the company between historic data from the prior year and the
19 budgeted data for the budget year?

20 A I am not sure of your question, particularly the last
21 time. We will make a comparison once the budget is prepared for
22 the latest actual data that is available at that particular point
23 in time comparing budgeted expenditures by category of expense to
24 the actual expenses for that particular category.

25 Q Just one other question on this area.

1 When would the budgets --- in this case you have used a
2 combination of budget data for the last five months of calendar
3 1982 with the first seven months of calendar 1983; is that
4 correct?

5 A Yes, sir.

6 Q And I am not sure it is in your testimony. Perhaps it
7 is. When were these two budgets prepared?

8 A Generally the budget for the calendar year of 1982
9 was prepared around the fall of 1981, and I believe the budget
10 for the calendar year 1983 was prepared in the early part of 1982.

11 Q One other question on that. What exactly is a cost
12 area?

13 A A cost area is an organizational unit. If you refer
14 to Exhibit MJB-2, there is a list of each of the cost areas that
15 provide a budget. There are two pages.

16 Q There was an interrogatory response concerning
17 amortization of losses on the Stoney Creek project which was
18 answered by you and Mr. Bernini. I don't know how much you know
19 about the Stoney Creek project. Let me start asking you a couple
20 of questions. It may be necessary to defer certain other
21 questions to Mr. Vanderslice.

22 If you could refer to the response to OCA Interrogatory
23 Set I, No. 49, which was identified as 200.282049, ---

24 A Okay.

25 Q --- you indicate in that response that the company has

1 included in its pro forma test year an amortization of \$403,000
2 for the Stoney Creek -- for losses on the Stoney Creek project?

3 A Yes, sir.

4 Q Am I correct that that is a five-year amortization
5 that the company is proposing? I think if you refer to --- I
6 think that is referred to in filing requirement III-A-8, page
7 five, which I believe was sponsored by Mr. Vanderslice, and if
8 it's necessary then ---

9 A On III-A-8, page five, over in the right-hand column
10 shows the amortization method. For budget purposes, we have used
11 whatever the amortization was in the historic period.

12 Q That is for budget purposes, but for --- I think I may
13 have already left your area. But do you know for ratemaking
14 purposes, the company has included in the future test year claim
15 a \$403,000 amortization?

16 A Yes, we have.

17 Q Do you know whether such an amortization was previously
18 approved by this Commission for PP&L?

19 A No, I do not.

20 Q Would Mr. Vanderslice have that information?

21 A I believe he would, yes.

22 Q I think any further detailed questions on the Stoney
23 Creek project would probably be best answered by Mr. Vanderslice.

24 Would you turn to page 16 of your testimony? At the very
25 top of that page - perhaps you should start with the last line on

1 page 15 - you state in response to a petition for declaratory
2 order submitted by the company, the PUC issued an order permitting
3 the company to make certain accounting and rate adjustments in
4 the event that the commercial operation date of Susquehanna Unit
5 No. 1 does not coincide with the effective date of increased
6 rates; is that correct?

7 A Yes.

8 Q Could you state specifically what rate adjustments
9 were permitted by that order as opposed to book accounting
10 adjustments?

11 MR. GADSDEN: Defer that question to Mr. Vanderslice.

12 MR. POPOWSKY: I'm sorry, Mr. Gadsden? I didn't hear
13 you, Mr. Gadsden.

14 MR. GADSDEN: I suggest that if you have any questions
15 with respect to that, you defer it to Mr. Vanderslice, and he
16 would more likely be familiar with the terms of the order and
17 exactly what it did or did not provide at least in the company's
18 view.

19 MR. POPOWSKY: As long as Mr. Vanderslice can respond to
20 that particular point, obviously what I am concerned about there
21 is the use of the word "rate adjustment," and I just wanted that
22 clarified. If Mr. Vanderslice can clarify that, I would
23 appreciate it.

24 BY MR. POPOWSKY:

25 Q Turning to Exhibit MJB-8, am I correct that this

1 exhibit was the operating budget data used for the 12 months
2 ending July 31, 1983, which is the future test year in this case?

3 A That's right.

4 Q Now, included in that in column one in PP&L's budget
5 is deferred Susquehanna operating expense of \$20,417,000; is that
6 correct?

7 A That's right.

8 Q Now, in going from your budget to the pro forma future
9 test year, am I correct, then, that that \$20,417,000 is
10 eliminated for pro forma purposes? And I refer you to Future 1,
11 Schedule D-1.

12 A On Schedule Future 1, B-2 ---

13 Q B-2?

14 A B-2, you will see deferred Susquehanna operating
15 costs, the same amount, twenty four one seven. Essentially that
16 deferral eliminates the effect of any operating costs or energy
17 savings from the amounts that are budgeted or shown in the budget.
18 So that the operating income would be the operating income as if
19 Susquehanna never existed for this period of time.

20 I'm sorry. You were referring to ---

21 Q That would also be verified, I believe, or effectively
22 carried out in Schedule D-1, page one, column two where SSES
23 Unit No. 1 costs are eliminated.

24 A The costs and the deferral is eliminated both.

25 Q Am I correct that the financing costs related to

1 Susquehanna during the deferral period of approximately 30
2 million dollars, they have been deferred below the line and
3 wouldn't show up in your operating budget on MJB-8?

4 A That is right.

5 Q They also would not appear in the claimed measures of
6 value; is that correct?

7 A That is right.

8 Q Am I correct that the financing costs associated with
9 units such as Susquehanna would ordinarily be capitalized as part
10 of the cost of the unit?

11 A Up until the time that the unit went into commercial
12 operation, yes.

13 Q So, in this case, would you agree that the magnitude
14 of any deferred charges, including financing charges, are
15 dependent upon when the unit goes into commercial operation?

16 A Would you repeat that question again?

17 Q Would you agree that the magnitude of any deferred
18 charges on Susquehanna, including financing charges, would be
19 dependent upon when the unit goes into commercial operation?

20 A Yes, it would be dependent upon the time difference
21 between when the unit went into commercial operation and the date
22 that rates were received.

23 So, for example, if rates were received on the day that
24 the unit went into commercial operation, there would be no
25 deferral.

1 Q But on either side, there would be, that is, if it
2 didn't coincide perfectly, there would be some deferral?
3

4 A If the unit went into commercial operation prior to
5 receiving rates, then there would be a deferral.

6 MR. POPOWSKY: I think I should defer any questions to
7 Mr. Vanderslice regarding the ratemaking treatment of that
8 deferral?

9 MR. GADSDEN: Yes.

10 BY MR. POPOWSKY:

11 Q Do you know, Mr. Berish - perhaps it is covered - but
12 how the company is treating test power revenues from Susquehanna?

13 A The value of the test power is being credited against
14 the cost of the plant.

15 Q That would be a reduction in the cost of Susquehanna?

16 A Yes, sir.

17 Q Would you turn to PP&L Interrogatory Response
18 200.282058? Am I correct that that shows budgeted employees for
19 several pay periods subsequent to the end of the future test year
20 in this case?

21 A Yes, sir, it does.

22 Q And I am just trying to clarify, the company's
23 budgeted electric department employees at July 31, 1983, is
24 listed as 8,779; is that correct?

25 A Yes.

Q And the number of employees budgeted for the four pay

1 periods following those are 8768 for the first two periods and
2 8711 for the next two periods, and I just wanted to know what the
3 reason for that reduction would be, if you know.

4 A I guess basically it's the summer employees that are
5 leaving the company and returning to whether it's school or
6 college or whatever.

7 Q So, then, the budgeted employees at 7/31/83 would not
8 then be reflective of an on-going level but would be reflective
9 of a peak summer level of employees?

10 A I guess it's difficult to answer using terminology
11 that you used that the peak there --- the general trend of
12 employees is increasing, but if you think of that as an increase
13 in line, the actual employees will vary above and below that line
14 primarily increasing in the summer when company hires summer
15 employees.

16 Q And you project, though, that that number would drop
17 in the month following the end of the future test year from
18 8779 to 8711 by September 25, 1983?

19 A Yes, sir.

20 Q Would that drop continue or would that be the lowest
21 level that you have budgeted for?

22 A We show additional drops after that point in time.

23 Q Up to what level and what date?

24 A I have to calculate a minute. I have the number here
25 which includes our steam heat employees.

1 On a budgeted basis, we estimate that we would have 8646
2 by the end of the last pay period in December of 1983. ---

3 Q Okay.

4 A --- which is related to the 8611 which is claimed on
5 Schedule D-5.

6 Q That is the number after the adjustment that you show
7 at the bottom of that interrogatory?

8 A That's right.

9 Q Could you state how --- I'm sorry. When you say it is
10 related to that, what do you mean it is related to that number?

11 A It is on a comparable basis.

12 Q How was overtime estimated for budget purposes?

13 A Our overtime is estimated by each of our cost areas.

14 If you will refer to Exhibit MJB-4, page seven of seven,
15 our cost areas -- each cost area prepares an estimate of what
16 their overtime hours will be by the various pay periods.

17 Q Am I correct that your estimated overtime for the
18 future test year is 7.7 per cent? And I am referring there again
19 to an OCA Interrogatory Response 200.282024.

20 A Could you repeat your question?

21 Q Am I correct that the overtime percentage used for the
22 future test year is 7.7 per cent?

23 A I wouldn't use the word "used". The overtime was
24 budgeted by our cost areas budgeting hours after which dollars
25 were applied to those hours. After the total was accumulated, it

1 came out to 7.7 per cent of total salaries and wages.

2 The 7.7 per cent wasn't used to determine overtime. It
3 was a result of the overtime.

4 Q Would you agree, then, that, or, would you agree that
5 that 7.7 per cent is higher than the percentage of overtime in
6 any of the four previous years which were 7.6 per cent in 1982,
7 6.7 per cent in 1981, 6.6 per cent in 1980 and 6.0 per cent in
8 1979?

9 A Yes, sir, I would agree with your listing.

10 Q Do you know if there are any specific reasons why the
11 overtime is higher in the future test year than in the four
12 preceding years, the overtime percentage?

13 A I don't know, but I could find out for you, too.

14 Q Then perhaps I should make that a data request, some
15 explanation be provided.

16 Is this 7.7 per cent then applicable to both wages
17 charged to expense and to capital?

18 A The 7.7 per cent is total overtime as a per cent of
19 total salaries and wages.

20 Q And that would include capitalized salaries as well
21 as those salaries which are expended?

22 A Yes, sir.

23 MR. POPOWSKY: Can I go off the record for a moment?

24 JUDGE KLOVEKORN: Off the record.

25 (Off record discussion.)

1 BY MR. POPOWSKY:

2 Q If the overtime factor were reduced from 7.7 per cent
3 to 6.7 per cent, could you state what would be the expense
4 adjustment for your future test year wage claim?

5 A Would you care to amend your question to 6.725 per
6 cent?

7 Q That is probably correct. That is right.

8 A We have provided a response to that particular
9 question in response to Set IV of the Consumer Advocate
10 interrogatories, and the reference is PP&L Response 200.282233.

11 Q Has that been sent out yet? I don't believe I have
12 the answers to Set IV yet.

13 MR. RUSSELL: No, it hasn't.

14 BY MR. POPOWSKY:

15 Q Perhaps if you have the answer, you could give it to
16 us now.

17 A Should I read it the way it is? The question was:
18 "provide the savings in total dollars, dollars capitalized and
19 dollars to O and M, if overtime was 6.725 per cent rather than
20 the 7.7 per cent budgeted for the test year. Please provide all
21 basis supporting the company's 7.7 per cent number."

22 And the response was: "overtime was not budgeted by
23 applying a specific percentage to total wages. Overtime was
24 budgeted by each cost area projecting its anticipated overtime
25 hours by pay period (please see Exhibit MJB-4, page seven).

1 Applied to the budgeted overtime hours was a specific overtime
2 rate per hour for each cost area. Total overtime was an
3 accumulation of the overtime pay budgeted for each cost area.
4 The 7.7 per cent was derived by dividing total budgeted
5 overtime pay by the total budgeted wages. Please see Exhibit
6 Regulations III, Attachment III A-21a for both the budgeted
7 overtime pay and the total budgeted wages.

8 "If budgeted overtime pay had been 6.725 per cent of
9 total wages, the overtime pay would have been \$16,703,286 instead
10 of \$19,130,000 or \$2,426,714 less than budgeted.

11 "Assuming the same distribution to expense or capital as
12 the total wages, 62.5 of the decrease would have been applied to
13 expense (\$1,516,696) and 37.5 per cent to capital and other
14 accounts (\$910,018).

15 "For the first five months of the future test year
16 period (August through December 1982) actual overtime pay was
17 \$1,068,506 more than that which was budgeted."

18 Q Now, you answered our question. I'm sorry. We had
19 not received that response.

20 A I thought maybe you didn't.

21 Q With regard to the tree trimming claim, I recognize
22 we're going to have an informal conference, but I just wanted to
23 state what we're trying to find out is what portion of the
24 increase is due to the change in policy which Mr. Wilmarth
25 referred to, when that policy went into effect, and given the fact

1 that the answer to your interrogatory states that while this
2 policy produces initially higher expense, it eliminates
3 recurring trimming costs, the question would be when we could
4 expect to see the reduction in trimming costs that you refer to
5 in that response. I take it you wouldn't be able to respond to
6 that at this time?

7 A No, but generally as you go out in time with higher
8 rates and higher costs for equipment rentals and higher chemical
9 costs, I'm not sure you would see per se a decrease from the
10 prior year. It would be more of a decrease from the amount that
11 would have normally been spent had we trimmed the trees rather
12 than removed them.

13 Q One other thing. Do you know whether any of the
14 future test year tree trimming reflects any makeup work for prior
15 years?

16 A I don't know that, sir.

17 Q For example, in the area of side trimming where there
18 was no side trimming expense shown in 1979 and 1980?

19 A I don't know.

20 MR. POPOWSKY: Can I have just a moment, Your Honor?

21 JUDGE KLOVEKORN: Yes.

22 MR. POPOWSKY: I believe any further questions can be
23 deferred to Mr. Vanderslice. I have nothing further of Mr.
24 Berish. Thank you, Mr. Berish.

25 JUDGE KLOVEKORN: Let's go off the record.

1 (Off record discussion.)

2 MR. EATON: Just very quickly, Mr. Berish, your
3 testimony on page 16 and with regard to a number of other
4 witnesses, they mention the effect of the order entered July 29,
5 1982 at Docket No. P-820367. Frequently those statements are
6 made with regard to their response to that order or what action
7 they have taken. I take it it goes without necessity of a
8 continuing objection that the order speaks for itself and that
9 their statements of the effect of that order is illustrative of
10 what they have done but we're not bound by failing to object to
11 that as we move along.

12 JUDGE KLOVEKORN: That is a correct assumption.

13 MR. EATON: Thank you.

14 JUDGE KLOVEKORN: Any other party have any other
15 questions?

16 We will take a brief recess.

17 (Short recess.)

18 (Michael J. Berish resumes.)

19 MR. GADSDEN: Your Honor, I think we only have one brief
20 question.

21 REDIRECT EXAMINATION

22 BY MR. GADSDEN:

23 Q Mr. Berish, during Mr. Wilmarth's cross examination,
24 he directed your attention to PP&L Exhibit 200.182108, and in
25 response to a question posed by Mr. Wilmarth, you indicated that

1 you had employed certain post test year data in developing the
2 company's provision for uncollectable expense.

3 Would you like to clarify your answer on that point?

4 A Yes; sir. The post test year data in question being
5 the revenue was for the calendar year 1983. We base our annual
6 provision for the calendar year of 1983 or the annual provision
7 was based on factors using that revenue.

8 However, for the test year claim, the provision that --
9 the test year claim that we have included in the filing is based
10 on five months of a provision for 1982 of \$391,000 per month and
11 seven months of the provision for 1983 of \$504,000 per month.

12 So that the test year, the claim that we have included,
13 encompasses five months of a calendar year 1982 and seven months
14 of a calendar year 1983.

15 Q Are actual expense levels running above or below the
16 budgeted levels?

17 A Our actual expense levels for the first five months of
18 the future test year filing as shown on Response 200.182108 is
19 running -- our actual provision is running in excess of what we
20 had provided as a claim in this filing by approximately \$900,000.

21 MR. GADSDEN: I have nothing further, Your Honor.

22 JUDGE KLOVEKORN: Any further questions of the Witness?
23 If not, the Witness is excused. Thank you very much, sir.

24 MR. GADSDEN: I would move into evidence Mr. Berish's
25 Exhibits MJB 9A and 9B.

1 JUDGE KLOVEKORN: Without objection, they will be
2 received into evidence.

3 Let's break until one o'clock.

4 (Lunch recess - 12:00 o'clock noon to 1:10 o'clock p.m.)

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

6 MR. GADSDEN: Your Honor, the company is prepared to
7 proceed with Mr. Vanderslice whose testimony and exhibits to which
8 I referred were identified previously and moved into evidence at
9 the prehearing conference.

10 GEORGE F. VANDERSLICE, called as a witness on the part of
11 PP&L, being duly sworn according to law, was examined and
12 testified as follows:

13 DIRECT EXAMINATION

14 BY MR. GADSDEN:

15 Q Mr. Vanderslice, do you have any corrections to your
16 testimony at this time?

17 A No, I do not.

18 MR. GADSDEN: Mr. Vanderslice is available for cross
19 examination.

20 CROSS EXAMINATION

21 BY MR. ZWALLY:

22 Q Mr. Vanderslice, you are the witness - are you not -
23 that has sponsored the statements of operating expenses in this
24 case?

25 A No, I'm not.

1 Q You do have operating expenses set forth in Historic
2 1 and Future 1; do you not?

3 A No, I don't.

4 Q Under your name?

5 A No, sir.

6 Q Would you look at Part B-5, page one?

7 A What is your name, sir?

8 Q Mr. Zwally.

9 A Mr. Zwally, to me, operating expenses are in the D
10 section. You're talking about things that are on the books
11 which are in B section.

12 Q Yes.

13 A Okay.

14 Q Well, if you look at Part B-5, page one, ---

15 A Yes.

16 Q --- I have Historic 1 in the front.

17 A Okay.

18 Q Isn't that the detailed statement of taxes on that
19 page?

20 A For the year ended July 31, 1982, yes.

21 Q And isn't that your name at the top of the page?

22 A Yes, sir.

23 Q Then you are sponsoring that exhibit?

24 A That is correct.

25 Q Mr. Vanderslice, do you know what the effective

1 income tax rates are that are applicable to PP&L?

2 A 46 per cent for federal and ten and a half per cent
3 for Pennsylvania.

4 Q 46.5, did you say, federal?

5 A No. I said 46 even.

6 Q I'm sorry.

7 And State?

8 A Ten and a half.

9 Q So, if you add the two, you would have an effective
10 tax rate combined of 56.5?

11 A I think the percentage is 51.67.

12 Q And would you explain why that is?

13 A Well, the Pennsylvania tax is deductible from the
14 federal.

15 Q Thank you.

16 Mr. Vanderslice, are you familiar with the testimony of
17 Mr. Beamer in this case?

18 A No, I'm not.

19 Q Do you have a copy of his Exhibit JOB-3 in front of
20 you?

21 A No, I don't.

22 Q Could your Counsel supply that to you, please?

23 Mr. Vanderslice, you have in front of you Exhibit JOB-3;
24 is that correct?

25 A Yes.

1 Q And I believe on pages four and six are shown
2 calculations of the impact of various depreciation methods for
3 the Susquehanna steam generating plant; is that correct?

4 A I think it shows two or three methods, it seems.

5 Q Page four I believe is a straight line method; is that
6 correct?

7 A That is what the heading says, yes.

8 Q And page six is the sinking fund method?

9 A That is what the heading says.

10 Q Now, Mr. Vanderslice, if you were to calculate the
11 income tax effect of these various methods, would you agree that
12 you would apply the company's capital structure ratio to the
13 amount shown in the return column?

14 A Not if we're going to compute taxes. I wouldn't be
15 familiar with that.

16 MR. EATON: I'm sorry. I can't hear you.

17 THE WITNESS: I said that is not the way I would do it.
18 I am not familiar with that method.

19 BY MR. ZWALLY:

20 Q How would you do it if you were going to compare the
21 income tax effect of the straight line method on page four and
22 the income tax effect of the method on page six?

23 A Well, I have really never done that, and in order to
24 do it, it is a rather complex matter. I would sit down and study
25 how to do it and work out a way. I am not prepared to tell you

1 right now.

2 Q Would you agree with me, Mr. Vanderslice, that if the
3 total return on plant over the life of the plant as shown on page
4 six compared to page four is higher, that the income tax expense
5 applicable to that return will be higher?

6 A Not necessarily.

7 Q And why is that?

8 A Well, the tax depreciation that is involved in such a
9 computation isn't shown on these schedules. So that what impact
10 that would have on this whole matter I couldn't tell you without
11 sitting down and doing it.

12 Q I'm sorry, Mr. Vanderslice. Would you assume for
13 purposes of my questions that the income taxes we're talking
14 about are the taxes claimed for rate case purposes?

15 Now, in that case, isn't it true that the depreciation
16 method utilized for rate case purposes is also used for
17 calculating the tax expense applicable to rate case purposes?

18 A Are you talking the income tax we're going to pay or
19 something else?

20 Q No. I mean the income tax you're going to claim for
21 rate case purposes.

22 A Yes. I believe as to the federal tax, we normalize
23 the federal tax. That has probably been brought into the record
24 somewhere here.

25 We have not claimed the normalization of the State income

1 tax. So, that's --- you can't say that we're claiming the tax on
2 the method of depreciation, certainly not as to the Pennsylvania
3 tax.

4 Q Well, then, speaking with respect to federal taxes
5 alone, if the return applicable to this particular item of plant,
6 the annual return is higher in a particular year under one
7 method, will not the taxes on that return also be higher?

8 A I suppose if you look at that one column alone and
9 took in none of the other impacts, perhaps your answer might be
10 correct.

11 Q And to determine that, wouldn't you apply your capital
12 ratio to the return component to determine the portion of return
13 applicable to equity capital and that would be the equity capital
14 and preference stock, that would be the portion taxable; is that
15 correct?

16 A Repeat the question.

17 MR. ZWALLY: Read it back, please.

18 (Whereupon, the following was read by the Reporter as
19 requested:

20 "Q And to determine that, wouldn't you apply your capital
21 ratio to the return component to determine the portion of return
22 applicable to equity capital and that would be the equity capital
23 and preference stock, that would be the portion taxable; is that
24 correct?"

25 THE WITNESS: Well, I think it said that I would in some

1 way apply a capital structure to a return and I would get an
2 answer. I don't think that is right.

3 BY MR. ZWALLY:

4 Q Well, the point is, Mr. Vanderslice, don't you agree
5 that the portion of your capital applicable to debt is not
6 taxable because your debt expense is deductible for tax purposes?

7 A Correct. But I am not sure what you describe is the
8 way to do that.

9 Q Then you can't state for me by looking at this exhibit
10 whether or not the tax impact of utilizing the modified sinking
11 fund method versus the straight line method would result in
12 higher taxes claimed for rate case purposes, comparing the
13 modified sinking fund method to the straight line method?

14 A Well, the last question you were pressing for a
15 methodology of doing the thing. Now you're asking sort of a
16 broad conceptual question; is that correct?

17 Q Yes, that is correct.

18 A Well, again - and I think I answered that a while
19 ago - without considering all of the other impacts that are
20 involved here because of tax depreciation, the early collection
21 of funds and that sort of thing, because of the shorter tax
22 depreciation life than the book life, excluding all of those
23 things, it would seem that if you isolated that little case that
24 you're trying to present there, that, yes, if the return is
25 higher, that might imply that the equity is higher and taxes

1 would be higher. But I'm not sure that is the final answer.

2 Q You would also have to consider the annual accrual -
3 would you not - which varies between the two methods?

4 A I don't understand your question.

5 Q The annual depreciation expense would have to be
6 considered as well; would it not?

7 A I thought that is what we were trying to arrive at.

8 Q I thought we were talking about the taxes on the
9 return.

10 A The annual --- what was your question?

11 Q If you refer to the exhibit, you will note that in
12 the second column there is an annual depreciation amount, ---

13 A Right.

14 Q --- which is the same for the straight line method.

15 A Not the same figures, but the column is the same.

16 You're comparing this page four with page six?

17 Q The annual depreciation expense in each year under the
18 straight line method is the same?

19 A Right.

20 Q And that is an amount of 42,622,000, I believe?

21 A That is what it says.

22 Q And the amount of annual expense under the modified
23 sinking fund method is different in each year?

24 A It is different for the first ten years and then it's
25 the same after that.

1 Q You would have to consider that expense which is
2 deductible for tax purposes in calculating the tax effect; would
3 you not?

4 A That is not the amount that is deductible for tax
5 purposes.

6 Q But it is the amount which is deductible for tax
7 purposes in terms of the taxes you claim for rate case purposes;
8 is it not?

9 A If we normalized on the federal alone, that would be
10 true, yes.

11 Q And you do do that; don't you?

12 A Yes.

13 MR. ZWALLY: Okay. Your Honor, we have a series of
14 questions of Mr. Beamer on the tax effect of various methods of
15 depreciation for Susquehanna, and he deferred to accounting
16 witnesses for the answer. And I don't believe that this Witness
17 at this point at least is able to supply those responses.

18 We have made them a subject of interrogatories, and we
19 are content to leave it at that at this moment. But we would
20 like responses to that on this record before the case is closed.

21 Thank you.

22 JUDGE KLOVEKORN: Mr. Ryan?

23 BY MR. RYAN:

24 Q Good afternoon, Mr. Vanderslice. I am Bernard Ryan
25 for Bethlehem Steel.

1 A Yes, sir.

2 Q I just have two major questions suggested by comments
3 in your prepared statement.

4 So, I direct your attention first to page eight of your
5 prepared statement.

6 A What is a prepared statement, Mr. Ryan?

7 Q Statement No. 2, your testimony.

8 A Oh, my testimony.

9 Q Your testimony, yes.

10 A Okay. Go ahead. Page eight.

11 Q If you will look on line 20 and below on that page
12 you note that in this filing, return on common equity is 16.2
13 per cent, and you point out certain higher rates that had been
14 allowed in the past or allowed at FERC.

15 Now, that 16.2 per cent is the return on common equity
16 overall for the company you're claiming in this case?

17 A I believe that's right.

18 Q Can you tell me what the return on the common equity
19 portion would be for service to rate LP6?

20 A No, I cannot.

21 Q You are familiar with the cost of service study that
22 Mr. Baldwin sponsored that will give you a rate of return for
23 service for various rate schedules?

24 A Yes, I am familiar with it, but that is his schedule.

25 Q Do you know if it is possible to take a percentage that

1 appears on a cost of service study such as the ones Mr. Baldwin
2 put in for a particular rate class? My recollection, for example,
3 in this case is that on a future basis, it's 13.43 per cent for
4 LP6.

5 Is it possible to take that figure and determine its
6 components and determine what that rate of return would be for the
7 common equity allocable to LP6?

8 A Mr. Ryan, I have nothing to do with cost of service
9 studies, and I am not familiar with how that is done and how Mr.
10 Baldwin does it.

11 Q You don't know how to do it, though; is that right?
12 Or you don't know if it is possible to do it?

13 A If I looked at it I could probably find out, but I
14 have not looked at it.

15 Q Do, I interpret that to mean you believe it could be
16 done, you just haven't done it?

17 A Again, I told you at the beginning that I am not
18 familiar with Mr. Baldwin's cost of service study. So, I can't
19 draw a conclusion on something I don't know anything about.

20 Q Would you look at lines 19 and 20 on page nine of your
21 prepared testimony? Actually, it's below 19, I guess, 19 to the
22 rest of the page.

23 That sets forth a schedule, as I understand it, of the
24 planned operation of the Unit 1 at Susquehanna steam electric
25 station and the period of outage, first period of outage; is that

1 correct?

2 A That's right.

3 Q If I understand that correctly, that means that the
4 unit will go out of service for refueling beginning the first of
5 September for 15 weeks, September 1st, 1984, that is, for 15
6 weeks?

7 A That is what this shows, yes.

8 Q The outage period would extend into December of 1984
9 under that; would it not? 15 weeks is almost four months, as I
10 recall.

11 A Yes. It would be well into the end of the year.

12 Q You are aware that Pennsylvania Power & Light Company
13 has been experiencing a winter peak for a number of years?

14 A Yes, sir.

15 Q Can you tell us why the first scheduled outage of that
16 nuclear unit has been timed at that time which would overlap or
17 extend into the winter peak period?

18 A Well, again you're out of my area of expertise. I am
19 not running that nuclear plant.

20 But as I understand it, when the fuel has been expended
21 to a certain point, you have to refuel the unit. And I presume
22 that that is when it is expected to reach that level.

23 Q Well, can you tell us where you got the schedule?
24 This is the first time I have seen this schedule. I recognize
25 it is not accounting testimony, but it's in your statement.

1 Where did you get the information of the planned
2 operation ---

3 A From our Nuclear Department.

4 Q Can you give us a specific name so we will know who
5 to ask next week?

6 MR. GADSDEN: I think Mr. Kenyon probably is the
7 appropriate witness to address any questions with regard to
8 scheduled maintenance.

9 MR. RYAN: Your Honor, I have no further questions. I
10 will hold them for Mr. Kenyon.

11 JUDGE KLOVEKORN: Thank you.

12 Mr. Wilmarth?

13 MR. WILMARTH: Thank you, Your Honor.

14 BY MR. WILMARTH:

15 Q Good afternoon, Mr. Vanderslice.

16 A How do you do?

17 Q Am I correct you were not here during the cross
18 examination this morning of Mr. Berish?

19 A No, I was not.

20 Q Okay. In Allentown Mr. McNair deferred to Mr. Baldwin
21 a question concerning PP&L's budget billing program and its
22 impact on the company's claimed cash working capital requirement,
23 and Mr. Baldwin further deferred that matter to you. I am sure
24 you heard about all of this.

25 A Yes, I have.

1 Q The question essentially is this: conceptually,
2 wouldn't a budget billing program, to the extent that it increases
3 revenue lag, tend also to increase a utility's cash working
4 capital requirement computed using lead/lag analysis?

5 A I think that is correct.

6 Q Doesn't PP&L's expanded budget billing program extend
7 the lag in receipt of revenues?

8 A It certainly will.

9 Q Does PP&L's test year cash working capital claim
10 reflect any increase in the company's cash working capital
11 requirement as a result of the significantly expanded residential
12 budget billing program?

13 A No, it doesn't.

14 Q PP&L claims no additional cash working capital rate
15 base requirement as a result of the expanded budget billing
16 program?

17 A Perhaps I ought to ask a question. When you're talking
18 expanded budget billing program, are you talking about the
19 trended budget billing feature of that or are you just talking
20 about trying to get more customers on what is the present budget
21 billing plan?

22 Q The latter, and Mr. McNair indicated to us through his
23 testimony or through cross examination that the number of
24 customers participating in the normal regular budget billing
25 program had increased dramatically.

1 A Yes.

2 Now, what was the question?

3 Q Okay, the question is: PP&L claims no additional
4 cash working capital requirement as a result of that expanded
5 program?

6 A No, we have not.

7 Q Is it the company's intention to reflect any cash
8 working capital increases in subsequent rate cases that might
9 result from increased participation in the budget billing?

10 MR. GADSDEN: Objection, Your Honor. I don't think we
11 need to delve into what claims the company may or may not make in
12 future rate cases at this point. That is totally irrelevant to
13 this case.

14 MR. WILMARTH: I will withdraw the question, Your Honor.

15 BY MR. WILMARTH:

16 Q Now, Mr. Vanderslice, this morning I had asked Mr.
17 Berish some questions concerning the fuel supply function audit
18 and the test year claim being asserted by the company in this
19 case. And those questions I guess essentially were deferred to
20 you, although Mr. Berish was able to answer some of my questions
21 concerning that claim.

22 I believe he told us that the \$347,000 test year claim
23 for the audit was the projected cost of the Commission-directed
24 audit. Do you agree with that?

25 A I am not familiar with --- he would be in a better

1 position to answer that.

2 Q Do you know whether that figure represents the total
3 cost of the audit?

4 A No, I do not.

5 Which audit are you talking about?

6 Q I am talking about the fuel supply function audit for
7 which a rate case expense claim of \$347,000 is made in this case.

8 A Well, there are two phases to that audit, one which is
9 underway and almost completed and one which has not started yet.
10 Which phase are you talking about?

11 Q Well, perhaps you could fill us in through a
12 narrative of some of the background around this.

13 A Again, these management audits are audits that are
14 dictated by the Pennsylvania Public Utility Commission. I
15 understand that the procedure is that they actually solicit the
16 audit, they ask for various proposals and review those proposals,
17 make a determination who the auditor should be. Those proposals,
18 of course, have price in them, -and the Pennsylvania Public
19 Utility Commission passes on the price or at least accepts the
20 price.

21 Our participation in the audit, of course, is to supply
22 data and proper answers to anything that the auditors may want
23 to get into, and the bills for the services rendered actually
24 come to the PUC for their review, and they pass on those bills
25 and send them to the company to be paid.

1 That is about the procedure that is followed. So, it is
2 really a Pennsylvania Public Utility Commission mandate to have
3 the audit, their acceptance of the price of it, and we are the
4 recipients of the bills.

5 Q You indicate this was a two-phase proposition;
6 correct?

7 A Well, again, I am not directly involved with these
8 audits, and I just indicated to you that the Public Utility
9 Commission is involved in them.

10 As I understand it, at least as to the fuel audits,
11 there was a two-phase audit. One, the auditor is hired and is
12 almost finished, and that happens to be the Gates Engineering
13 Company, and they were to review the operation of our various
14 mines and report on that phase of it.

15 The second phase I believe is a review of the total fuel
16 procurement function at PP&L. And that has not, to my
17 knowledge, been undertaken nor been out on bids, even.

18 Q The Gates Engineering Company, phase one, proposition
19 or audit, was that conducted pursuant to a written contract?

20 A I presume so, but the PUC would have issued the
21 contract. I have never seen it.

22 Q Do you know if there was a contract?

23 A I do not.

24 Q You don't know even if there was a contract?

25 A No, sir.

1 Q Do you know whether any payments have been made to
2 Gates Engineering Company by PP&L?

3 A I am sure there have, yes.

4 Q Can you provide us with a schedule of those payments?

5 A I could. Not here I don't have that.

6 Q I realize that.

7 We would be interested, Mr. Vanderslice - and I am
8 stating this for benefit of your Counsel as well - in a
9 statement of actual and anticipated payments to Gates Engineering
10 Company for phase one of this audit.

11 A I think the anticipated would be merely a subtraction
12 of the contracted price less the amounts paid.

13 Q All right. What is the contracted price?

14 A Well, I really don't know. I understand it's
15 somewhere in the order of \$350,000.

16 Q It could very well be the \$347,000 figure claimed in
17 the case?

18 A It might be, but I am not sure about that.

19 Q Do you know when Gates is scheduled to have completed
20 the audit?

21 A No, sir.

22 Q Can you provide us with that information?

23 A Well, I don't think that we can provide you with that
24 since the completion date is under the jurisdiction of the
25 Pennsylvania Public Utility Commission and we really don't get

1 involved in that detail of the audit.

2 Q Well, I would ask that when you go back to the office
3 you make an effort to give us an estimate as to when the
4 completion date would be and when the last payment by the
5 company would be made.

6 A Well, I think that that answer will result from a
7 phone call back to the PUC to get the information, and I will
8 feed it back to you and ---

9 Q All right. I would appreciate that, Mr. Vanderslice.

10 As far as you are aware, no auditor has even submitted
11 a bid with regard to the phase two aspect of this fuel audit?

12 A I have no knowledge of that. That is again a PUC
13 matter.

14 MR. CALIENDO: Can we go off the record a moment?

15 JUDGE KLOVEKORN: Off the record.

16 (Off record discussion.)

17 BY MR. WILMARTH:

18 Q I believe Mr. Berish told us this morning that this
19 was the first such fuel supply function audit that has been
20 conducted for PP&L; is that correct?

21 A Probably by the mandate of the PUC I would say yes.

22 Q Obviously then this isn't the type of audit that is
23 performed or expected to be performed annually? We're talking
24 about phase one now.

25 Q Oh, no. We wouldn't do that annually.

1 Q Assuming the audit is performed properly, I wouldn't
2 expect that it would even be repeated every five years?

3 A Well, again, I would defer to your own people as to
4 the frequency of those audits.

5 MR. WILMARTH: I have nothing further, Your Honor.
6 Thank you, Mr. Vanderslice.

7 JUDGE KLOVEKORN: Thank you.

8 Mr. Popowsky?

9 MR. POPOWSKY: Your Honor, if there is no objection, as
10 with Mr. Bernini, we would like to divide our cross, and Mr.
11 McClelland will conduct cross examination concerning certain
12 Susquehanna-related accounting issues, and then I have additional
13 cross of Mr. Vanderslice in several other areas.

14 JUDGE KLOVEKORN: Mr. McClelland?

15 MR. McCLELLAND: Thank you, Your Honor.

16 (Testimony continued on page 818)

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1 BY MR. McCLELLAND:

2 Q Hello, Mr. Vanderslice.

3 A Good afternoon, sir.

4 Q Mr. Vanderslice, you are the comptroller of PP&L?

5 A That is correct.

6 Q Are you in charge of the PP&L auditing functions?

7 A No, I'm not.

8 Q Who would be?

9 A Well, Mr. Lichtenwalner is directly in charge, and he
10 reports to Mr. Campbell.

11 Q And what department is that?

12 A The audit department?

13 Q Yes. Is it called the audit department?

14 A Something like that, audit something, division,
15 department, section. I'm not sure.

16 Q As comptroller, are you in charge of establishing the
17 accounting system for PP&L?

18 A Yes.

19 Q Do you organize those systems so that you can include
20 them in the Uniform System of Accounts as you're doing in this
21 rate case?

22 A Yes.

23 Q Do you establish any side accounts for PP&L's own cost
24 tracking needs?

25 A We have several methods of getting additional data on

1 cost, yes.

2 Q Are you familiar with the nuclear financial steering
3 committee?

4 A Yes.

5 Q Are you a member of that committee?

6 A Yes.

7 Q As well as Mr. Curtis, I believe?

8 A Yes, and others.

9 Q And is that committee established to develop financial
10 reporting and cost control systems for the Susquehanna project?

11 A We dealt with that matter, yes.

12 Q Did you have experience with the Susquehanna cost
13 accounting systems prior to the preparation of this rate case,
14 or was your first contact with those systems when you were asked
15 to develop the schedules which you have included in this case?

16 A I'm not sure there is any connection between the two
17 things you're asking. Rate case and the system really are not

18 ----
19 Q Well, ---

20 A --- one and the same.

21 Q --- you have sponsored C-1 in Future 1 which shows the
22 unit one and half of common rate base cost; is that correct?

23 A Yes.

24 Q Now, to get that cost, I have assumed that you booked
25 certain data which you received from the construction function to

1 arrive at your rate base number?

2 A Well, I think you will find that the rate base claim
3 for the Susquehanna plant is based on book cost up to a certain
4 point and to that was added expected or budgeted costs for later
5 periods. And certainly since we aren't at the end of the test
6 year, we are still in that future period of estimating.

7 Q And you compiled that cost by going to the Uniform System
8 of Accounts for plant costs; is that accurate?

9 A Well, I just told you that up to a point that data was
10 based on actual expenditures, and then it was a matter of
11 estimates after that point.

12 The work was actually done by our nuclear department,
13 and they gave us the data that you see here.

14 Q Does the nuclear department have its own accounting
15 division?

16 A Well, they have people capable of doing those kinds of
17 things. They don't call it accounting division as such.

18 Q They have accountants, then?

19 A I didn't say that either. They have people capable of
20 manipulating figures and making cost estimates.

21 Q And in concern with actual costs, have you used the
22 nuclear department's actual cost in this case?

23 A No, we have used our own. We gave them the actual
24 cost.

25 Q When you say "we," you mean ---

1 A I am talking the financial people.

2 Q Financial people gave the nuclear department the actual
3 costs of building the plant?

4 A Up to a point in time.

5 Q I understand. I don't mean to confuse actual cost with
6 prospective estimates at this point. Let me just address myself
7 to actual cost.

8 Now, where did you derive those actual cost numbers from?

9 A From the corporate records of Pennsylvania Power &
10 Light Company.

11 Q And I assume --- well, am I correct that for account-
12 ing purposes for the construction of the plant, there are
13 Bechtel costs and there are PP&L costs and there are perhaps
14 others, and you have compiled all costs to come up with the
15 actual cost of the plant historically?

16 A Yes. Any capital project that we undertake has an
17 ER number, a project number under which number are accumulated
18 all of the costs of that project. Susquehanna is done the same
19 way.

20 Q And has your department been accumulating those ER
21 costs ---

22 A Yes, sir.

23 Q --- on the Susquehanna account?

24 And where do you get the information from to book those
25 ER costs?

1 A Well, primarily from money spent.

2 Q From your own financial department which, for example,
3 would be spending money and sending it to Bechtel as they make
4 demands under their contract?

5 A They would be a prime recipient of our funds, yes.

6 Q Well.---

7 A There are other entries that would be in that project
8 cost, however, other than cash expenditures.

9 Q I understand. Let me just focus on Bechtel actual
10 costs.

11 When Bechtel bills you for an actual cost, do they also
12 provide you with the accounting detail so you can book those
13 costs?

14 A Well, under this project account for the Susquehanna
15 plant, there are many breakdowns. It's not just one bundle of
16 costs. It's probably a hundred or more breakdowns.

17 One of those breakdowns or one of those categories would
18 be cost from Bechtel, and we would record it as a Bechtel cost.

19 Q And who establishes the accounting system that Bechtel
20 works on?

21 A Well, Bechtel has their own accounting system to con-
22 trol a project of that size.

23 Q Have you consulted with them concerning the operation
24 of that system?

25 A Yes. Not me personally but our plant accounting people

1 are in constant contact with them relative to that.

2 Q And that would be in your department?

3 A Yes, sir.

4 Q And they would have been in contact with them through-
5 out the duration of the project?

6 A Right.

7 Q Not simply in anticipation of this rate case?

8 A Oh, no. This was right back to the beginning.

9 Q Are you familiar with the system that Bechtel uses to
10 compile the capital cost of the project, then?

11 A Just in a very general way.

12 Q Are you familiar with -- I believe it is called the
13 CERES system, C-E-R-E-S?

14 A No.

15 Q Have you looked over their cost accounts as they are
16 submitted for payment to PP&L?

17 A Well, we have a system for review of those and approval
18 of those. I personally do not see them.

19 Q But someone in your department would be doing that?

20 A Yes. The approval would take place in the nuclear
21 department or in the construction department by people who know
22 what is going on and know that the work is done and the expenditures
23 are properly made.

24 Q And has anyone in your department actually ever made
25 any suggestions to Bechtel for reforming the accounting system.

1 that they have, for example, setting up an additional account
2 number for a particular aspect of the project?

3 A I am sure we have.

4 Q Are you familiar with the way that Bechtel actually
5 compiles the labor costs on a daily basis at the project?

6 A No, I am not.

7 Q Do you understand that there are timekeepers on the
8 project who log in labor hours to various accounts?

9 A I understand there are timekeepers.

10 Q Do you know if different jobs at the project have
11 different accounting codes?

12 A There is more than one project code, yes.

13 Q Do you know if there is any code that is applied to
14 what I will term generally re-work? Are you familiar with the
15 term "re-work"?

16 A Yes.

17 Q Do you know if there is any code that is applied to
18 that?

19 A I'm not sure about that. That is not the type of
20 code that I just referred to, however.

21 Q Well, when Bechtel gives you a set of accounts and
22 asks for payments and they say, for example, here are ten accounts
23 with the expenditures contained within them, we would like you to
24 pay them, pay us for those accounts, are you saying that re-work
25 is not among that account detail?

1 A Well, I'm not that familiar with Bechtel's system to
2 give you an answer to that now.

3 Q Are you familiar with any accounting definitions used
4 at the site to keep track of identified deficiencies?

5 A No.

6 Q Do you know if Mr. Curtis would be familiar with that
7 area?

8 A I would not know that.

9 Q Mr. Vanderslice, for example, PP&L has its own cost,
10 which I will term owner's cost, and throughout the duration of
11 the project has capitalized expenses to the project. For example,
12 in 1981 you had a nuclear department which was staffed and were
13 capitalizing expenses of that department to the project. Am I
14 correct so far?

15 A I don't like your term "expenses". "Cost of that de-
16 partment" would be a better term.

17 Q All right. Call it nuclear department payroll. Can I
18 use that term?

19 I am interested in the allocation system. For example,
20 the management of the nuclear department, when those managers
21 draw salaries and those costs are capitalized, for the purposes
22 of ratemaking, how have you allocated those costs between Unit
23 1 and Unit 2 and common plant?

24 A Well, that level --- I am not sure what level you're
25 talking about when you say "management". Maybe you ought to

1 clear that up for me.

2 Q All right. Let's take Mr. Curtis' salary. He is a
3 manager in the nuclear department?

4 A Yes.

5 Q I would assume you don't make a detailed allocation of
6 how he spends his time, whether he spends Monday on Unit 1 and
7 Tuesday on Unit 2.

8 Do you allocate his salary evenly between Unit 1 and Unit
9 2?

10 A The way that would be done is that --- again, I am not
11 specifically familiar with Mr. Curtis' payroll and its final
12 accounting, but I would strongly suspect that he is charging
13 what we would call an overhead account, and those overhead
14 accounts are then allocated over all of the moneys on the total
15 project, whether it be Unit 1, Unit 2 or common.

16 Q Well, when you filed your exhibit at C-1 and you set
17 for approximately 1.6 billion dollars for Unit 1 and half of
18 common, how did you allocate the PP&L overhead cost?

19 A Just as I told you.

20 Q Well, I think you told me that all overhead goes into
21 the overall system.

22 A Yes.

23 Q And you obviously haven't charged us for the whole
24 plant in this case.

25 A Well, I just told you the overheads are allocated over

1 the whole cost of the project, Unit 1, Unit 2, common.

2 Q And you haven't charged us for the whole cost of the
3 project; in this case you only charged us for Unit 1 and half of
4 common?

5 A That is right.

6 Q Well, how were overhead costs allocated between Unit 1,
7 half of common and Unit 2 and the other half of common?

8 A I thought I just told you that twice, I didn't.

9 Q Is it fifty/fifty?

10 A It is based on dollars, ratio of dollars in those
11 various categories.

12 Q In other words, we can take the rate base number from
13 this case, we can add whatever the rest of the plant will cost,
14 and then overhead would be allocated equally between the two on
15 that basis?

16 A You say "equally". That throws me off at the end.

17 Q Let me put it to you this way: Let's assume that Unit
18 1 and half of common is 40 per cent of the total cost of
19 constructing the Susquehanna plant. All right. Then I understand
20 overhead would be allocated 40 per cent to Unit 1 and half of
21 common and 60 per cent to Unit 2 and half of common?

22 A In a general way. There may be minor exceptions as to
23 how it's done, but that would be generally correct.

24 Q At this point you don't know what the entire cost of
25 construction will be?

1 A This is true.

2 Q Well, then, how have you been able to allocate overhead
3 if you don't know what the whole cost is going to be?

4 A Well, does it really matter as long as you know the
5 cost up to a particular date and allocate the overheads you
6 have at that time? You will also have more overheads as you go
7 along.

8 Q I understand that, but it matters if we're being
9 allocated more than half the cost in this case for Unit 1.

10 A Well, again, I would have to check how that was done.
11 I was not directly involved in it, but I am giving you the
12 general theory of how we allocate overhead on completed projects.
13 You're now bringing up --- it very likely is done on the basis
14 of an estimate to complete the Unit 2 and then you make an
15 allocation on that basis which would have the total cost of
16 Unit 2 in it and the phenomenon you're worrying about would not
17 take place.

18 Q I would pose a data request, then, to know how the
19 actual overhead costs were allocated for ratemaking purposes
20 between Unit 1 and half of common in this case and Unit 2 and
21 half of common, which is the case yet to come.

22 A Yes.

23 MR. McCLELLAND: Your Honor, going to the question of
24 allocation, I would like to distribute some exhibits which deal
25 with certain costs. I'm not going to the technical basis of why

1 the costs were incurred, but I am simply trying to find out how
2 they were accounted for on a ratemaking basis in this case.

3 Your Honor, I would ask to have this marked as OCA Exhibit
4 3.

5 JUDGE KLOVEKORN: Without objection, it will be so
6 identified.

7 (OCA Exhibit 3, being three-page document
8 entitled "Response to informal data re-
9 quests of the Office of Consumer Advocate
10 (Set IV) dated November 12, 1982, re: PUC
11 rate filing;" "Response to informal data
12 requests of the Office of Consumer Advocate
13 (Set VI) dated December 8, 1982, re: PUC
14 rate filing;" "Response to informal data
15 requests of the Office of Consumer Advocate
16 (Set VIII) dated December 23, 1982, re:
17 PUC rate filing" was produced and marked for
18 identification.)

19 BY MR. McCLELLAND:

20 Q Mr. Vanderslice, would you look at the first page of
21 OCA Exhibit 3 which is in response to OCA question 98, and again
22 I will emphasize this involves a 22 million dollar cost for what
23 is called the GE Mark II owners generic design program. I'm
24 not questioning you this afternoon as to why or how those costs
25 were incurred, but A and B of this response shows that
Susquehanna's portion of these costs is four million dollars and
the capital cost included in the rate filing is 1.5 million
dollars or 37.5 per cent.

Do you know how that allocation was determined?

A No, I do not.

Q Do you know who would have that information?

1 A I don't know who answered this question.

2 MR. GADSDEN: Your Honor, I would note that these are
3 company responses to informal data requests. I am not sure,
4 number one, whether Mr. Vanderslice has ever seen them before.
5 Number two, it is my understanding that Mr. Curtis was the
6 person ultimately responsible for the preparation.

7 MR. McCLELLAND: Your Honor, I can and probably will
8 bring this up with Mr. Curtis, but I was a little reluctant to
9 ask an accounting allocation question of Mr. Curtis who is in
10 an engineering position.

11 BY MR. McCLELLAND:

12 Q Mr. Vanderslice, would you look at page two? That
13 discusses an engineering study cost of 15.4 million dollars.

14 Would you know how that cost was allocated to this case?

15 A No, I wouldn't.

16 Q Would you look at page three, please?

17 Are you familiar with the backcharge system that PP&L
18 and Bechtel have in effect in the construction of this project?

19 A In a general way, yes.

20 Q Now, page three shows that the total amount of
21 resolved backcharges associated with Susquehanna SES is 8.6
22 million dollars.

23 Now, I believe that means that PP&L has collected 8.6
24 million dollars from various parties involved in the construction
25 as a result of certain deficiencies which were identified with

1 those performances. Would you agree with that generally?

2 A Well, that is what the answer to the question seems to
3 deal with. I am not familiar with the 8.6 million. So, I can't
4 answer.

5 Q Do you know how those resolved backcharges have been
6 accounted for in this case?

7 A Since I don't know what they are, I can't tell you how
8 they are accounted for.

9 Q You wouldn't know how the 3.7 million dollars in
10 unresolved backcharges would be allocated either?

11 A Again, I am not familiar with that figure, either.

12 MR. McCLELLAND: Your Honor, I will reserve these
13 questions then for Mr. Curtis who will be up next week.

14 BY MR. McCLELLAND:

15 Q Mr. Vanderslice, have you seen the exhibit marked
16 RCT-2 which has been prepared by Mr. Traylor, which is an audit
17 of the Susquehanna project?

18 A No, I have not.

19 MR. McCLELLAND: Is there a copy for Mr. Vanderslice
20 to look at?

21 MR. RUSSELL: No.

22 MR. McCLELLAND: I will show him my copy.

23 Your Honor, what I am looking at here is RCT-2, a PP&L
24 exhibit, I want to point out a passage here beginning at the
25 bottom of 42. I will quote it for the record.

1 This regards what have been termed as Bechtel deficiencies.

2 "Thus the issues which will require later settlement have
3 been documented. Since the beginning of the project, PP&L has
4 issued 71 notifications to Bechtel concerning deficiencies in
5 services rendered. At least one of those recent issues could
6 involve costs running into the millions of dollars."

7 BY MR. McCLELLAND:

8 Q Mr. Vanderslice, as comptroller with the company, have
9 you set into place any cost accounting systems to capture the
10 costs of these deficiencies of Bechtel?

11 A I have not.

12 Q Mr. Vanderslice, are you aware that PP&L filed a legal
13 action by writ of summons against Bechtel in the Lehigh County
14 Court of Common Pleas in 1977 concerning the construction of
15 the Susquehanna plant?

16 MR. GADSDEN: Your Honor, I object. I think we're really
17 getting far beyond Mr. Vanderslice's testimony.

18 MR. McCLELLAND: Your Honor, I don't believe so. I am
19 asking questions as setting up systems of account. I am not
20 going to inquire as to why they filed the case or what they hope
21 to get out of the case. I merely want to find out how the
22 comptroller responded to the issues raised in the case.

23 JUDGE KLOVEKORN: You may proceed.

24 BY MR. McCLELLAND:

25 Q Mr. Vanderslice, are you aware of that action?

1 A I recall it, yes.

2 Q Did you place any accounting systems into place either
3 before or after the filing of this action to track potential
4 claims against Bechtel which PP&L might allege under such an
5 action?

6 A The accounting system doesn't have any such thing, no.

7 Q Would you have any accounting system in place to track
8 claims which you may have against General Electric on the
9 project?

10 A No, sir.

11 Q Well, was PP&L or Bechtel responsible for the cost
12 accounting system on the project?

13 A Well, I think Bechtel as general contractor was
14 responsible for the accounting system. We're talking their
15 accounting system now, and we were concerned that it was adequate
16 to serve our needs and indeed reflected the actual costs of that
17 plant as with regard to their part of it.

18 Q Well, was one of your needs to identify the cost
19 associated with the 71 deficiencies which PP&L identified with
20 Bechtel's performance?

21 A I'm not --- I don't get the connection between the
22 two.

23 Q PP&L has identified 71 deficiencies with Bechtel's
24 performance. These concern various problems with the construction
25 of the plant.

1 Do you consider that to give rise to a need for a cost
2 accounting for those deficiencies?

3 A We did not.

4 Q Are you saying that you allowed the party that PP&L
5 has brought a legal action against concerning certain construction
6 costs to control the manner in which these costs were accounted
7 for?

8 A I didn't say that. I am sure that PP&L has a method
9 of determining whatever you're driving at in the way of costs.
10 To sue somebody, you certainly know what you're going to sue them
11 for. That would not have been under my jurisdiction.

12 Q You're not telling us today what they're suing for?

13 A I am not.

14 Q Or what the claim would be?

15 A No, that is not my responsibility.

16 Q And you don't have any information on that; do you?

17 A No, I do not.

18 MR. McCLELLAND: Your Honor, I have nothing further on
19 Susquehanna costs and defer to Mr. Popowsky.

20 JUDGE KLOVEKORN: Mr. Popowsky?

21 MR. POPOWSKY: Thank you, Your Honor.

22 BY MR. POPOWSKY:

23 Q Let me start off by asking one follow-up question on
24 the budget for Susquehanna. This was somewhat related to Mr.
25 Berish.

1 Am I correct that in determining the cost of Susquehanna,
2 you utilized actual data through December 31, 1981 and added to
3 that 19 months of budget data for preparing your measure of
4 value claim for Susquehanna?

5 A I think that is the way it was done.

6 Q Could you state why you used 19 months of budget data
7 rather than bringing actual data up to the date of the
8 preparation of your filing?

9 A I wasn't involved in that decision.

10 Q When was your testimony prepared?

11 A My testimony?

12 Q Yes.

13 A Prior to the filing of the rate case, a couple weeks
14 before that.

15 Q November of 1982?

16 A Late October, perhaps.

17 Q That time did you know what actual data would have
18 been available to you for Susquehanna? For example, would you
19 have had July, 1982 data?

20 A You're talking about the actual expenditures on
21 Susquehanna?

22 Q Yes.

23 A Sure.

24 Q But you did not use that actual data? You used actual
25 data through December 31, 1981, and added the budget data?

1 A Yes.

2 Q You state that was not your decision?

3 A No, it was not. But my guess as to why that was done
4 is that year-end data is always good data. It has some special
5 accounting applied to it for final closing for a year, and they
6 very likely had a budget for the calendar year 1982 that was
7 better put in as one amount for a year rather than trying to split
8 it into months. When you split months you get into an area where
9 bills may be paid before or after you anticipate, and they don't
10 quite come out that way.

11 Q I'm sorry. I didn't mean to interrupt you.

12 A I said they don't always come out as expected.

13 Q I asked Mr. Berish questions about the amortization of
14 losses on the Stoney Creek project, and we agreed to defer certain
15 of those questions to you.

16 I believe Mr. Berish agreed that the company has included
17 \$403,000 in its future test year claim for the amortization of
18 losses related to the Stoney Creek project.

19 Would you accept that subject to check?

20 A Yes.

21 Q And to your knowledge, was this amortization previously
22 approved by this Commission for PP&L?

23 A I don't have any such recollection that it was.

24 Q Could you briefly describe, just very briefly what the
25 Stoney Creek project was or what the present status of that

1 project is?

2 A Well, the Stoney Creek project was to be a pump
3 storage hydro generating station somewhere north of Harrisburg.
4 It was a project that we were involved with General Public
5 Utilities on as a partner, fifty per cent partner.

6 The project ran into environmental difficulties and had
7 to be abandoned at some point in time in the past.

8 Q And am I correct the company then is claiming the
9 capitalized cost of those projects to be amortized over a five-
10 year period?

11 A We're claiming the amortization, yes.

12 Q That is a five-year amortization?

13 A I believe so.

14 Q Do you know offhand what total cost is being amortized,
15 what that would be?

16 A It must be in the order of two million dollars.

17 Q Let's assume that is correct. What would that two
18 million dollars represent?

19 A I really haven't looked at Stoney Creek in a long time,
20 So, this is off the top of my head.

21 It probably is the cost of the land acquired for that
22 project less any money that we might have gotten from the
23 ultimate disposition of it, if any, and it probably had some
24 engineering charges in there for the planning of the project.
25 Those two things.

1 Q Any physical structure at all?

2 A Not to my knowledge, but there may have been some minor
3 things done.

4 Q I don't need that right now, but if you could provide
5 a breakdown of that by land and engineering studies, I would
6 appreciate it.

7 A Okay.

8 Q Am I correct that this property never actually
9 produced electricity, never performed actual utility service?

10 A That is correct.

11 Q And that it will not provide actual utility service
12 during the future test year in this case?

13 A It was planned as a utility power plant, but it never
14 got into service.

15 Q And you don't expect that it would provide actual
16 utility service to PP&L customers any time during the future
17 test year in this case?

18 A I think that is a safe statement.

19 Q Does PP&L to your knowledge still own the site, still
20 own the land?

21 A I am not familiar with that.

22 Q Are you familiar with how the land was acquired and
23 to whom, if at all, to whom it was reverted back to?

24 A My recollection is that that property was acquired
25 from the Pennsylvania Fish Commission, I believe. It was some

1 state organization.

2 Q Do you know if they were given the property back or
3 sold the property back?

4 A I do not.

5 Q Okay. That would be another part of the question. We
6 need the ultimate disposition of the land, the purchase price,
7 ultimate sale price, if any.

8 You mentioned that GPU was one/half owner, and I believe
9 in the filing requirement there was an indication that another
10 utility, I assume GPU Companies, were previously given Commission
11 approval of this amortization.

12 A I think that is correct.

13 Q Could you provide us with the year in which that
14 occurred? Was that in the most recent litigated Met-Ed and
15 Penelec cases to your recollection?

16 A I do not know without looking back to see what we have
17 on file in that regard.

18 Q In the filing requirement you did state that it had been
19 approved. And I just wondered if you did know what time that
20 was approved.

21 MR. GADSDEN: We can look back and find what the basis of
22 that statement was. If there is a Commission order to that
23 effect, we will let you know.

24 THE WITNESS: We can probably find it.

25 BY MR. POPOWSKY:

1 Q Could you turn to PP&L Interrogatory Response 200.282005
2 in response to OCA Interrogatory Set I, No. 5?

3 A Would you give me that number again?

4 Q 200.282005.

5 A Yes, sir.

6 Q With regard to the deferral of taxes at a 48 per cent
7 rate, in the last paragraph of your answer you state that the
8 company has not fully provided for the normalization of deferred
9 income taxes under the ADR system of depreciation. Do you see
10 that statement?

11 A Yes, sir.

12 Q Would you just explain what you mean by that?

13 A I think we mean a couple of things. In a recent rate
14 order from the PUC, we abandoned or we were ordered to stop
15 normalization of all tax depreciation, and we did stop that
16 several years ago.

17 I also recall that when we did normalize, we only
18 normalized from guideline lives up to ADR lives, so that there
19 was an element of flow-through even at the time we were
20 normalizing.

21 Q Just with regard to that normalization which was done,
22 I understand the fact it was cut off in 1980 and then only
23 applied to the difference between ADR lives and whatever the
24 opposite of that is called.

25 Am I correct that prior to January 1, 1979, the company

1 did defer those taxes at a 48 per cent rate?

2 A We have deferred them at whatever the rate was in those
3 years. If it were 48 in --- what year did you say?

4 Q Prior to January 1, 1979.

5 A If it were 48 prior to that time, that is what we would
6 have used.

7 Q Could you turn to PP&L Interrogatory Response
8 200.282055, which was OCA Set I, Question 55?

9 A Yes.

10 Q Now, you state --- or, am I correct that this
11 interrogatory response shows the balance of tax deferrals of
12 July 31, 1982, with the deferrals and amortizations for the
13 future test year ending July 31, 1983, and the projected balance
14 at July 31, 1983?

15 A That is what its headings are, yes.

16 Q Okay. And the projected balance as of July 31, 1983,
17 are the ones that are used for future test year measures of value
18 in this case?

19 A I believe that is right.

20 Q Now, am I correct ---

21 A I guess I should put that another way. There is
22 another way of looking at it. We have done a reduction of rate
23 base prior to this, and this was a request for details on that.

24 Q That is correct.

25 And the number down at the bottom, bottom line, 139,333,000

1 is the number that appears in measures of value?

2 A Correct.

3 Q Now, am I correct that the deferrals shown here for
4 the year ending 1983 have been annualized to test year end?

5 A I don't understand the word "annualized".

6 Q Well, are there any of the actual deferrals you expect
7 to book during the test year, or are they normalized or
8 annualized for ratemaking purposes to bring the deferrals up to
9 what it would be at test year end?

10 A These are the deferrals that we would expect at July
11 31 based on our projection of the data. I don't know where the
12 word "annualized" comes in on that.

13 Q I believe there was some previous cross examination of
14 Mr. Bernini on that matter.

15 Let me ask you: Do you know why there is for Susquehanna
16 a \$107,110,000 deferral for the test year ending July 31, 1983,
17 but zero amortization for the test year ending July 31, 1983?

18 A Well, it's obvious we did not expect to amortize that.

19 Q Do you expect a 107 million dollar deferral of
20 Susquehanna during the test year, or is that a full year's
21 amount of Susquehanna deferral?

22 A Well, that's the deferral that relates to tax
23 depreciation taken up until July the 31st, 1983, relative to
24 Susquehanna.

25 Q On a full year's basis, or is that just the deferral --

1 is the number that appears in measures of value?

2 A Correct.

3 Q Now, am I correct that the deferrals shown here for
4 the year ending 1983 have been annualized to test year end?

5 A I don't understand the word "annualized".

6 Q Well, are there any of the actual deferrals you expect
7 to book during the test year, or are they normalized or
8 annualized for ratemaking purposes to bring the deferrals up to
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20 Susquehanna during the test year, or is that a full year's
21 amount of Susquehanna deferral?

22 A Well, that's the deferral that relates to tax
23 depreciation taken up until July the 31st, 1983, relative to
24 Susquehanna.

25 Q On a full year's basis, or is that just the deferral --

1 well, let me ask: You are saying that the \$107,110,000 deferral
2 represents the deferral through July 31, 1983, ---

3 A Yes.

4 Q --- related to Susquehanna property?

5 A Yes.

6 Q The actual deferral?

7 A No. It is a projected deferral.

8 Q As of July 31, 1983?

9 A Yes.

10 Q And you have included zero amortization because you
11 do not expect to have any amortization as of July 31, 1983?

12 A That is the way it is prepared, yes.

13 Q With reference to federal tax payments for cash:
14 working capital purposes, you state in your testimony I believe
15 at page 23, that estimated payments on federal income taxes
16 must be made on April 15, June 15, September 15 and December 15
17 of the year to which the tax is applicable; is that correct?

18 A That is what the law says, yes.

19 Q Did PP&L actually pay 100 per cent of its federal
20 income taxes on those four dates in 1982?

21 A In 1982 we only had a minimal tax to pay, and I am not
22 sure how that was paid.

23 Q Could you provide us with that information, ---

24 A Sure.

25 Q --- what tax payments were made in 1982 and what per cent

1 the company believes that would be of its total 1982 tax claim?

2 A But you're dealing with very minor amounts of money.
3 There is no indication of how we would pay taxes when we were
4 in full taxable status.

5 Q In that case, let me ask for the same information for
6 1981, that is the dates on which your 1981 taxes were paid and
7 also your projection for when you will pay your taxes that you
8 believe will be due for the tax year 1983.

9 Could you provide us with that?

10 A Yes.

11 Q Am I correct that PP&L will receive approximately 28
12 million dollars in cash as part of a settlement of a lawsuit
13 with the General Atomic Company?

14 A The settlement was for an amount in excess of that.

15 Q Well, could I refer you to your response to OCA
16 Interrogatories and Accounting Set II, No. 89, and it's your
17 response No. 200.282184?

18 A I don't seem to have that one. Okay.

19 Q The 28 million dollar figure that I derived is from
20 the letter that you wrote to the Commission advising the
21 Commission of the terms of the settlement which is an attachment
22 to that response. And I believe that you indicate there in
23 paragraph two that the settlement provides for cash payments of
24 31,500,000 but ten per cent of that would go to Allegheny Electric
25 Co-op, which leaves a balance of 28,350,000; is that correct?

1 A Yes.

2 Q Now, that is, as I understand it, the cash portion of
3 the settlement; is that correct?

4 A Right.

5 Q In addition, the company will receive a reduced price
6 for future purchases of nuclear fuel?

7 A I believe that is correct.

8 Q And just very briefly, what was the settlement? What
9 did this settlement arise from?

10 A Well, in a very general way, we had a contract with
11 General Atomic to supply nuclear fuel and fabrication services
12 for the Susquehanna plant, and they did not fulfill that contract.

13 Q And this was a settlement, a lawsuit that arose over
14 that contract?

15 A Yes.

16 Q Now, referring strictly to the cash proceeds, 28 million
17 dollars, am I correct that that will be used for ratemaking
18 purposes as far as ratepayers are concerned to reduce the cost
19 of nuclear fuel for Susquehanna as it is burned? Is that how
20 ratepayers will see the benefit of that cash payment?

21 A Yes, that is the ultimate.

22 Q Now, in the meantime, while these --- the company has
23 already begun receiving these payments; is that correct? As
24 shown on your Interrogatory response, as of July 1, 1983 ---
25 excuse me. As of July 1982, the company received two million

1 dollars and as of July 1, '83, the company expects to receive
2 three million dollars?

3 A Right.

4 Q Now, when the credits which reflects these costs are
5 flowed through to the ratepayers, will there be an inclusion
6 of interest or some type of AFDC on the amount already received
7 by PP&L but which will not be flowed through to the ratepayers
8 until the plant comes on line?

9 A I don't understand what you're saying.

10 Q Well, let me go at it this way: Referring to the
11 two million dollars the company already has, where is that money
12 now?

13 A It has already been used to buy nuclear fuel.

14 Q This is nuclear fuel PP&L owns?

15 A It may have been leased under the nuclear fuel lease.

16 Q You're saying the cash payments that PP&L has received
17 has already been used toward the purchase of nuclear fuel?

18 A I believe that is correct.

19 Q And I am just trying to establish how the benefits
20 of this settlement will flow through then to ratepayers when that
21 fuel is burned, how will that be accounted for. Is there not
22 a lag between the date on which PP&L receives this money, for
23 example, a million dollars in July, 1981, and the time at which
24 PP&L ratepayers will benefit from that million dollars, that is
25 when the fuel is burned?

1 A Well, we expend it as soon as we get it or as soon
2 after as possible. On the first payment of nuclear fuel, we take
3 that money and spend it for that purpose.

4 Q And the benefits of that will be used ---

5 A So that if we spend two million dollars for a block
6 of nuclear fuel and pay a million of it from this source, the
7 customer would only wind up paying for one million, this piece
8 made up for the rest of it.

9 MR. POPOWSKY: Off the record.

10 (Off record discussion.)

11 BY MR. POPOWSKY:

12 Q Could you briefly describe on the record what happens
13 to these funds when PP&L receives them?

14 A Well, we put them in a special bank account, and the
15 first bills that we get for nuclear fuel, after that money is
16 in the bank, is drawn out of the bank and spent to pay for that
17 nuclear fuel. The money isn't in that account very long.

18 Q Could you turn to page ten of your testimony?

19 A Yes.

20 Q I will confine my cross examination to the company's
21 request for approval of a prospective ratemaking procedure which
22 does not apply to this case. This was with reference to the
23 refueling outage. I make that point simply to make it clear
24 that it is my understanding that there would be no cross
25 examination and no further testimony on the company's alternate

1 claims in this case. But I am referring --- that was based on
2 the ruling by Judge Mindlin.

3 However, at page ten there is a discussion of the company's
4 request - is there not, Mr. Vanderslice - for the Commission
5 to approve a procedure under which the company will accumulate
6 and defer the actual costs of its first refueling outage on the
7 company's books and amortize that amount over some subsequent
8 period in rates; is that correct?

9 A What was the question? Is that what it said?

10 Q I believe so. I am trying to paraphrase what you said
11 on page ten.

12 A That is probably the gist of it, yes.

13 Q You state at line 12 that you are formally asking
14 approval of this procedure as described in the lines previous,
15 and the previous lines you state: It will be necessary to
16 accumulate and defer the actual cost of the first outage of the
17 company's books and amortize such amount over the period such
18 costs are collected in rates.

19 Do you see that?

20 A Yes.

21 Q According to your testimony, you expect that the
22 outage would begin in September of 1984?

23 A That is the current date projected.

24 Q Which is approximately 14 months after the end of the
25 future test year in this case?

1 A Right.

2 Q And assuming that date, I take it you have just
3 accepted the statements by the nuclear department that given the
4 capacity factor at which Susquehanna is expected to run, that
5 it will need to shut down for refueling at that time?

6 A That is correct.

7 Q Not being a nuclear engineer, but would you agree that
8 if the capacity factor or the operation of Susquehanna is
9 substantially less than projected, would you agree that that
10 refueling outage may occur at a later date?

11 MR. GADSDEN: Your Honor, I think we have already established
12 Mr. Kenyon is the expert on that. Mr. Vanderslice is not here
13 to testify on the fuel life of nuclear plants or the scheduled
14 maintenance.

15 MR. POPOWSKY: I am just trying to determine --- well,
16 perhaps he could accept my hypothesis at this point. I don't
17 need you to testify to that fact. I agree I could ask Mr.
18 Kenyon that fact.

19 BY MR. POPOWSKY:

20 Q But if you were to assume with me that Susquehanna
21 operated at a substantially lower capacity factor than projected,
22 it would be possible that that refueling outage would be delayed
23 beyond September, 1984?

24 A One uninformed on the subject may come to that
25 conclusion.

1 Q That makes two.

2 Now, given that assumption, what is it that you are asking
3 the Commission to order in this case? Are you saying that at
4 this point the Commission should state that it will allow the
5 amortization of costs which will be incurred during that outage
6 whenever it occurs regardless of the amount that it is?

7 A We're asking for an accounting ruling on that matter,
8 yes.

9 Q So, you are asking that the Commission at this time
10 allow you to defer those costs on your books for accounting
11 purposes; is that correct?

12 A Yes.

13 Q But you are not asking, then, that the Commission
14 approve at this time any amortization of those costs but that
15 you will make any claim for amortization in the subsequent rate
16 case; is that correct?

17 A No. I am asking that they permit an amortization from
18 the accounting standpoint. I would fully realize that that
19 amortization would be dealt with in a rate case and we would
20 certainly be asking for that amortization as a cost of doing
21 business.

22 Q Well, you're asking the Commission at this time to
23 approve the amortization of a cost which has not yet been
24 deferred, which we don't yet know the amount or the date at
25 which it will be deferred?

1 A Right.

2 Q Can you state with confidence that that refueling
3 outage will occur in September, 1984?

4 A No, sir.

5 Q Can you state that it will cost 15 million dollars as
6 opposed to 30 million dollars?

7 A No, I cannot.

8 Q Can you state it will last 15 weeks as opposed to 50
9 weeks?

10 A No. 50 weeks?

11 Q Yes.

12 A No, I can't say that either at this point.

13 Q You don't know how long the refueling of Beaver Valley

14 I ---

15 A I'm sorry. I was about to say something. I'm sorry.

16 Q I will withdraw that question.

17 Could you complete your answer? I'm sorry.

18 A If you're going to withdraw the question, I'm not going
19 to complete the answer.

20 Q Do you know whether the work on this outage would be
21 performed by PP&L employees or outside contractors?

22 A Both.

23 Q Both.

24 Are you in this case asking for ratemaking approval or
25 the amortization of the first refueling outage costs?

1 A Is that the end?

2 Q Yes.

3 A No. I don't think the Commission would entertain that
4 request.

5 Q You're asking for Commission approval to defer the
6 costs on your books?

7 A Yes.

8 Q When they occur?

9 A Yes.

10 Q And that is all you're asking?

11 A And to amortize them.

12 Q What do you mean "amortize them"? For book purposes?

13 A Yes, sir.

14 Q But not for ratemaking purposes?

15 A We will ask for ratemaking treatment later.

16 JUDGE KLOVEKORN: Let's take a ten-minute recess.

17 (Short recess.)

18 (George F. Vanderslice resumes.)

19 JUDGE KLOVEKORN: Mr. Popowsky?

20 MR. POPOWSKY: Thank you, Your Honor.

21 BY MR. POPOWSKY:

22 Q Just going back for a moment to the question of the
23 deferral of the refueling outage cost, could you state, is there
24 a prohibition against the company deferring these costs on its
25 books when they occur without Commission approval?

1 A No. But it is a very unusual type of thing to do,
2 and we like the Commission's approval to do that.

3 Q But it has been done, that is, in the past the company
4 may have some type of extraordinary expense, storm expense,
5 for example, and the company may set up a deferral account on
6 its books without first getting Commission approval; is that
7 correct?

8 A Yes.

9 Q I would like to ask you a few questions about your
10 testimony concerning the declaratory order, and if I get into
11 any legal interpretation, I am sure Counsel will object.

12 But just for the purposes of your testimony, am I correct
13 that --- referring specifically to page six of your testimony,
14 also, if you have that, that is where you discuss the declaratory
15 order. And I would agree with Mr. Eaton's statement earlier
16 that the order has to speak for itself. I am simply trying to
17 find out what the company witness' view is in certain respects.

18 Am I correct that it is your understanding that if
19 Susquehanna Unit 1 has not been placed in commercial operation
20 by the end of the test year, that the portion of the rate
21 request that the company has requested related to Susquehanna
22 would have to wait until sometime after the end of this case to
23 become effective?

24 A Yes.

25 MR. GADSDEN: Could I have the question and answer read

1 back, please?

2 (Whereupon, the following was read by the Reporter as
3 requested:

4 "Q I would like to ask you a few questions about your
5 testimony concerning the declaratory order, and if I get into
6 any legal interpretation, I am sure Counsel will object.

7 But just for the purposes of your testimony, am I correct
8 that --- referring specifically to page six of your testimony,
9 also, if you have that, that is where you discuss the declaratory
10 order. And I would agree with Mr. Eaton's statement earlier
11 that the order has to speak for itself. I am simply trying to
12 find out what the company witness' view is in certain respects.

13 Am I correct that it is your understanding that if
14 Susquehanna Unit 1 has not been placed in commercial operation
15 by the end of the test year, that the portion of the rate
16 request that the company has requested related to Susquehanna
17 would have to wait until sometime after the end of this case to
18 become effective?

19 A. Yes.")

20 MR. GADSDEN: Thank you.

21 BY MR. POPOWSKY:

22 Q And you use the term "commercial operation" in line
23 14 of your testimony, and I realize that that term is also
24 used in the declaratory order. But what do you mean there by
25 "commercial operation"?

1 A Well, that is a date that is used in the utility
2 industry and certainly in PP&L to mean the date that the unit is
3 deemed to be out of the test stage and ready to assume an on-
4 going assignment to produce power for its customers.

5 Q And as of now, the company anticipates that Susquehanna
6 Unit 1 will achieve commercial operation on May 15, 1983?

7 A Well, I think what we said is it will be in the second
8 quarter of 1983. For purposes of many examples we have used,
9 we have picked May 15, which is the middle of the second quarter.

10 Q You state in your testimony at page six, starting on
11 line ten, that the order further provides that the Susquehanna-
12 related portion of the new rates will be permitted to become
13 effective within 15 days after the PUC has notified the Unit 1
14 has been placed in commercial operation.

15 That is your testimony; is that correct?

16 A That is what that sentence says.

17 Q Again without getting into interpretation of the order,
18 do you have an opinion as to what would be the company's position
19 if, for example, Susquehanna commercial operation was delayed
20 for a substantial time, such as, for example, March, 1984?
21 Would PP&L still expect that the Susquehanna-related costs found
22 as a result of this proceeding would apply to rates that would
23 become effective at that later date?

24 A Well, I'm sure that we did not imagine that these
25 words were constructed when that order was secured from the

1 Commission, that there would be an abnormally long time between
2 the conclusion of these hearings and the commercial operation
3 of that plant.

4 I suppose there is a time frame where it would not be
5 reasonable to expect that that would happen automatically.

6 Q Do you have an opinion as to what that time frame
7 should be?

8 A No, I don't.

9 Q Am I correct that the company has not included in
10 its original claim in this case any amount to cover the amorti-
11 zation of deferred Susquehanna costs, that is, costs that would
12 be deferred starting, for example, May 15?

13 A You're talking now about the opposite situation where
14 the unit comes into service prior to the conclusion of this
15 rate proceeding; is that correct?

16 Q Correct.

17 A What was the question?

18 Q My question was: The company did not include in its
19 original claim in this case, in this rate case a specific claim
20 for any amortization or any other rate recognition of the costs
21 that the company anticipates would be deferred, the net cost the
22 company anticipates would be deferred assuming, for example, that
23 the plant did achieve commercial operation on May 15, 1983?

24 A I think my testimony does cover that circumstance. We
25 made no specific claim for amounts since the whole purpose of the

1 order was to deal with a situation where it is impractical
2 to tell the exact in-service date of that plant.

3 Q I was just trying to determine --- as you said, the
4 company did not include a specific claim in its original filing
5 in this case.

6 A But we have indicated in my testimony that that matter,
7 in accordance with the order, it is our opinion, if that happens,
8 that the plant goes into service prior to conclusion of these
9 proceedings, that we would deal with that or address that matter
10 in these proceedings.

11 Q At this time, in your opinion, when will the company
12 make this claim in this case for these deferred costs?

13 A Well, the plant is under test now, and it has reached
14 100 per cent capacity on: I think February the 4th. The test
15 program is going well, and in all likelihood, we will be -- the
16 plant will be in service prior to conclusion of these proceedings.

17 The exact cost really can't be determined until all the
18 costs are in for that time frame between the in-service date and
19 the effective date of rates under these proceedings.

20 However, we will submit some supplemental testimony in
21 this matter showing the range of costs that might be experienced
22 if the plant went into service on various dates, for example,
23 if it went in service April 1 or May 1 or June 1 and that sort
24 of thing.

25 Q And is it the company's intent at this time to make

1 a ratemaking claim in this case for the amortization of those
2 costs?

3 A We will propose a procedure whereby the costs that are
4 deferred, plus taxes on them, and that is also covered in the
5 order, and a return on the unamortized portion, the company
6 would file with the Commission, 60 days after the conclusion of
7 these hearings and which would also correspond to the last date
8 we would be recording costs on that deferred amount, data with
9 the Commission relative to the costs and our computation of the
10 taxes and an estimate of the return that would apply.

11 Our proposal will be that we would amortize those costs
12 on a kilowatt hour basis over a five-year period starting on
13 April 1, 1984.

14 Q You say you plan to submit this filing 60 days after
15 the close of the record in this case. Did you mean 60 days
16 after the Commission decision or 60 days ---

17 A 60 days after the effective date of the rates under
18 this. And I guess I left maybe an important part out. After
19 that is filed, we're also proposing the Bureau of Audits,
20 Pennsylvania Public Utility Commission, would be assigned to
21 review that data, come up with an opinion as to its reasonableness
22 or any recommendations they have in that regard, they would have
23 90 days to do that, and then the Commission would act on our
24 documents, filing and the Bureau of Audits review of that and
25 would permit a per kilowatt hour rider to go into effect on

1 April 1, 1984.

2 Q So, this would be then not a part of the determination
3 in this present proceeding but would be supplemental to any rate
4 relief that is granted by the Commission on, say, August 22,
5 1983?

6 MR. CALIENDO: I would think, at least our interpretation
7 of the order, is that this proceeding is to be utilized as a
8 mechanism to determine whether the process we're proposing is
9 acceptable. Okay. I think when we submitted this window petition,
10 we determined that there weren't going to be many processes which
11 you can do this.

12 Our proposal is that this proceeding is the proceeding
13 in which it is determined as to the amortization period, and
14 how we're going to collect the amounts, obviously we will not
15 know. But that will be determined subject to audit by the
16 Bureau of Audits.

17 The precise amounts will be determined. We're not talking
18 about precise amounts. We're using this proceeding just to
19 determine the mechanism which we want to collect and obviously
20 get on the record and give other parties an opportunity to make
21 their own suggestions.

22 MR. POPOWSKY: Has it previously been determined this 60-
23 day procedure, or is this a new procedure?

24 MR. CALIENDO: This is going to be our proposal. This is
25 the proposal we're putting forth in this proceeding.

1 MR. POPOWSKY: When does the company intend to put forth
2 this proposal?

3 MR. CALIENDO: Supplemental testimony will be filed next
4 week.

5 MR. POPOWSKY: Next week.

6 MR. GADSDEN: I believe Mr. Vanderslice's original testi-
7 mony indicated that he would be providing additional details in
8 March or April, and it is our current anticipation that we will
9 be submitting the details of the company's proposal sometime
10 next week and he would be available for any cross examination
11 the parties feel is appropriate during next week or more likely
12 the following week.

13 MR. POPOWSKY: Assuming it is necessary, he would be made
14 available?

15 MR. CALIENDO: Oh, yes. Of course.

16 BY MR. POPOWSKY:

17 Q Mr. Vanderslice, is there anything that would prevent
18 the Commission from capitalizing the deferred costs, these
19 deferred costs for ratemaking purposes and including them in
20 the total cost of Susquehanna?

21 A That wouldn't be in accordance with the Uniform
22 System of Accounts as adopted by the Commission.

23 Q I understand that. But would there be any reason
24 why it could not be utilized for ratemaking purposes?

25 Let me ask that question, that that procedure could not

1 be utilized for ratemaking purposes?

2 A It seems to me that is a legal question. I can't
3 respond to it.

4 Q Would you agree, for example, as a matter of accounting,
5 under the Uniform System of Accounts, generally the company would
6 cease accruing AFDC on 100 per cent of common when the first
7 unit of the two-unit plant comes on line and yet for ratemaking
8 purposes, it is the practice of this Commission and has been
9 applied in this case that only one/half of common would be
10 included in the total cost of the plant for ratemaking purposes?

11 A I am not sure I fully understand the question you're
12 asking.

13 But in the situation that we're talking about here where
14 we only put in 50 per cent of the common, we have asked FERC
15 to permit us to put into plant in service only that amount of
16 the plant, so that the other 50 per cent would remain in con-
17 struction and continue to draw allowance for funds.

18 Q Am I correct that the standard rule under the Uniform
19 System of Accounts is that the company would ordinarily cease
20 accruing AFUDC on 100 per cent of common when the first unit came
21 on line for FERC accounting purposes?

22 A No, I don't think that is exactly correct. The
23 Uniform System of Accounts at least --- first of all, you can't
24 find that requirement in the Uniform System of Accounts, to my
25 knowledge. This is a matter of administrative interpretation of

1 Uniform System of Accounts by FERC.

2 They require that you put into plant in service 100
3 per cent of the common plant, but they have permitted and in
4 the case of Metropolitan Edison Company that company to continue
5 accruing allowance for funds on the other 50 per cent.

6 Q For TMI 1 and 2?

7 A It was Three Mile Island. I'm not sure which unit.

8 MR. POPOWSKY: Can I have just a moment, Your Honor?

9 JUDGE KLOVEKORN: Certainly.

10 MR. POPOWSKY: That's all I have. Thank you.

11 JUDGE KLOVEKORN: Mr. Mann?

12 BY MR. MANN:

13 Q Mr. Vanderslice, I am David Mann with the Susquehanna
14 Alliance.

15 With regard to the tax money you have just given, in
16 regards to the supplemental testimony that is to be filed in
17 the next couple weeks, just to clarify for myself, we have had
18 statements by Counsel prior to this for the company that the
19 current filing would allow the Commission to grant a rate relief
20 on August 22 of a maximum of 315 million dollars.

21 Is it your opinion that that is still true in light of
22 this additional filing that you're talking about?

23 A That we're asking for a rate increase of 315 million

24 ---

25 Q That the Commission could not grant more than 315

1 million dollars to go into effect on August 22nd, 1983?

2 A That is a different question than you asked first.

3 Q It wasn't intended to be. I'm sorry.

4 The question is: In light of what has come to light today
5 in terms of supplemental testimony, is it your opinion that the
6 Commission can now grant more than 315 million dollars in rate
7 relief on August 22nd of 1983?

8 A No, we're not asking that.

9 Q They could still only grant 315 million dollars as of
10 that date?

11 MR. CALIENDO: I would also like to make an observation
12 in regard to his comment that has come to light to me.

13 It was clearly stated in Mr. Vanderslice's testimony which
14 was served with the case on November 22nd. This is not a recent
15 discovery. We have taken this position in his testimony, the
16 latter part of his testimony. The statements made today with
17 regard to deferral were set forth.

18 MR. MANN: I will accept the comment with the stipulation
19 that it was my reading of the testimony and my reading of the
20 order that in fact these issues were not to be considered in
21 this case, the order simply allowed the company to defer the
22 costs and that that would be treated in a future case. And there
23 had been a question in my mind as to whether it would be treated
24 in this case, and it is now clear that it will be. And I am now
25 trying to get a handle on when it will be treated exactly and

1 what the impact will be.

2 BY MR. MANN:

3 Q So, what you have indicated is that in this additional
4 filing you will be asking for approval of the procedure by which
5 you will be allowed to begin charging some indeterminate amount
6 of money to become effective April 1st, 1984?

7 A We're asking approval for a procedure that would
8 provide a mechanism whereby the Commission can review those
9 additional costs and would have an opportunity to pass on them
10 and indeed if they were satisfied, would permit additional rates
11 to become effective on April 1, 1984.

12 Q Would, in your opinion, that process be subject to
13 further public hearings beyond the scope of this rate case?

14 A That is beyond my realm of knowledge.

15 Q Could you tell me if the filing that is to be
16 submitted in the next couple weeks will contain information as
17 to estimates and possibly a range of the size of the increase
18 that you expect to ask to be put in effect on April 1, 1984?

19 A I think I mentioned that earlier, that we would submit
20 data that would show the magnitude of dollars in a situation
21 where the unit might go into service on April 1 or May 1 or June
22 1.

23 MR. MANN: I have no further questions at this time. I
24 would like to have further questions when we see the supplemental
25 filing, however.

1 JUDGE KLOVEKORN: Thank you.

2 Any redirect?

3 MR. GADSDEN: No, Your Honor.

4 JUDGE KLOVEKORN: Thank you. Nothing further of the
5 witness, you are excused. Thank you very much, sir.

6 And nothing further this afternoon ---

7 MR. McCLELLAND: Just a few things, Your Honor.

8 At the close of yesterday's hearing, during the hearing,
9 Mr. Barasch of our office made reference to some PP&L exhibits
10 that he wanted to place in the record. I have distributed three
11 copies to the reporter and also Your Honor of these exhibits.

12 I would just like to read them into the record so it is
13 clear what we have provided today. I believe other parties
14 would have received these directly from the company as they
15 were initially responses to the Consumer Advocate and I think
16 one from Lehigh Valley interrogatories.

17 In any event, the PP&L exhibit numbers are, and I will not
18 use the 200 prefix every time, but after the decimal point,
19 382014, 282103, 282105, 282112, 282110, 282119, 282120 and
20 282213.

21 In addition, Your Honor, I should note there are two
22 large attachments which I believe are workpapers which we have
23 not yet copied but will provide for the record I believe next
24 week.

25 MR. WILMARTH: Your Honor, I would like to ask, is it

1 proposed that these be given OCA exhibit numbers, or PP&L
2 exhibit numbers?

3 MR. McCLELLAND: It is proposed they be given PP&L exhibit
4 numbers which they bear on their face.

5 MR. WILMARTH: I would also ask this, Your Honor: It is
6 our practice to take the one copy of the OCA responses that we
7 get and distribute it to our technical staff. I would ask that
8 if the Consumer Advocate is intending that these be marked
9 especially as exhibits, formal exhibits, that we be provided
10 with a separate copy so that I can keep my records straight
11 without having to go back up and dig them out. I don't need
12 these voluminous workpapers, however.

13 MR. McCLELLAND: We will be glad to provide separate
14 copies for the staff and not moving in but identifying for the
15 record today.

16 JUDGE KLOVEKORN: Without objection, they will be so
17 identified.

18 MR. WILMARTH: You're not intending to move them into
19 evidence?

20 MR. POPOWSKY: May we go off the record a moment?

21 (Off record discussion.)

22 MR. McCLELLAND: Your Honor, I understand the exhibits
23 have been moved into evidence. I am simply providing them for
24 the record.

25 JUDGE KLOVEKORN: Without objection, they will be so
identified and received into evidence.

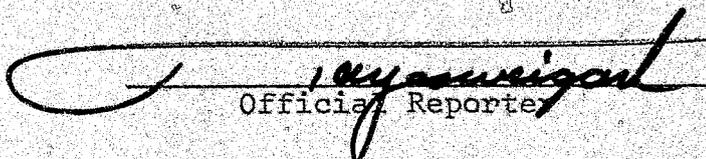
1 MR. GADSDEN: One minor point. I have been advised that
2 I misspoke during the cross examination of Mr. Vanderslice with
3 respect to the most appropriate witness to ask questions regarding
4 maintenance schedules, first outage of Susquehanna Unit No. 1.
5 I am told Mr. Scheffley would be a more likely candidate than
6 Mr. Kenyon in that regard.

7 JUDGE KLOVEKORN: Anything further? If not, this hearing
8 stands adjourned until February 23rd at 10:00 o'clock.

9 (Whereupon, at 3:25 o'clock p.m., the proceeding ended.)

10 --oOo--

11 I hereby certify that the foregoing is a true and correct
12 transcript of my stenotype notes taken by me during the hearing
13 on the above cause, at the herein indicated time and place,
14 before the Pennsylvania Public Utility Commission.

15
16 
Official Reporter

17 HOLBERT ASSOCIATES
18 Ray E. Sweigart
19 1001 North 2nd Street
Harrisburg, Pa. 17102

20 (The foregoing certification does not apply to any
21 reproduction of the same by any means unless under the direct
22 control and/or supervision of the certifying reporter.)
23
24
25

FEB 22

SECRETARY'S OFFICE
Public Utility Commission

PENNSYLVANIA POWER & LIGHT COMPANY

Exhibit MJB 9A

Electric Operations - Comparison of Actual to
Budget for the Two Months Ended September 30, 1982

DOCUMENT
FOLDER

DOCKETED
FEB 23 1983

R-822169
PPS' L & L MJB 9A
Hby 2-17-83
OS

Electric Operations - Comparison of Actual to Budget
for the Two Months Ended September 30, 1982
(Thousands of Dollars)

	<u>Two Months Ended 9/30/82</u>		<u>Variance</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Amount</u>	<u>%</u>
Operating Revenues				
Base rates	\$162,168	\$168,533	\$ (6,365)	(3.8)
Fuel and energy clause	21,442	22,265	(823)	(3.7)
Tax surcharge	10,581	11,079	(498)	(4.5)
Unbilled revenues - net	(10,649)	(12,856)	2,207	17.2
Other	2,369	1,902	467	24.6
Total operating revenues	<u>185,911</u>	<u>190,923</u>	<u>(5,012)</u>	<u>(2.6)</u>
Operating Expenses				
Net cost of energy				
Fuel	84,340	115,711	(31,371)	(27.1)
Power purchases	4,708	678	4,030	594.4
Interchange power sales	(30,627)	(58,797)	28,170	47.9
	58,421	57,592	829	1.4
Wages and employee benefits	29,651	29,837	(186)	(0.6)
Other operating costs	23,390	23,322	68	0.3
Total operation & maintenance expense	<u>111,462</u>	<u>110,751</u>	<u>711</u>	<u>0.6</u>
Depreciation	15,012	15,012	-	-
Deferred Susquehanna operating expenses	-	-	-	-
Taxes				
Taxes other than income	17,489	18,062	(573)	(3.2)
Income taxes	12,674	13,994	(1,320)	(9.4)
Deferred income taxes - net	304	1,157	(853)	(73.7)
Investment tax credits				
Deferral	(2,267)	(2,720)	453	16.7
Amortization of deferments	(455)	(436)	(19)	(4.4)
Total taxes	<u>27,745</u>	<u>30,057</u>	<u>(2,312)</u>	<u>(7.7)</u>
Total operating expenses	<u>154,219</u>	<u>155,820</u>	<u>(1,601)</u>	<u>(1.0)</u>
Operating income	<u>\$ 31,692</u>	<u>\$ 35,103</u>	<u>\$ (3,411)</u>	<u>(9.7)</u>

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PENNSYLVANIA POWER & LIGHT COMPANY

Exhibit MJB 9B

Electric Operations - Comparison of Actual to
Budget for the Quarter Ended December 31, 1982
and 5 Months Ended December 31, 1982

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Operations - Comparison of Actual to Budget
for the Three Months Ended December 31, 1982
(Thousands of Dollars)

	<u>Three Months Ended 12/31/82</u>		<u>Variance</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Amount</u>	<u>%</u>
Operating Revenues				
Base rates	\$252,142	\$268,098	\$ (15,956)	(6.0)
Fuel and energy clause	33,319	35,571	(2,252)	(6.3)
Tax surcharge	16,525	17,568	(1,043)	(5.9)
Unbilled revenues - net	(14,143)	(13,454)	(689)	(5.1)
Other	3,364	3,020	344	11.4
Total operating revenues	<u>291,207</u>	<u>310,803</u>	<u>(19,596)</u>	<u>(6.3)</u>
Operating Expenses				
Net cost of energy				
Fuel	144,626	189,551	(44,925)	(23.7)
Power purchases	30,280	26,395	3,885	14.7
Interchange power sales	(88,551)	(124,830)	36,279	29.1
Wages and employee benefits	86,355	91,116	(4,761)	(5.2)
Other operating costs	43,605	43,907	(302)	(0.7)
Total operation & maintenance expense	<u>37,660</u>	<u>33,856</u>	<u>3,804</u>	<u>11.2</u>
Depreciation	167,620	168,879	(1,259)	(0.7)
Deferred Susquehanna operating expenses	<u>24,377</u>	<u>22,518</u>	<u>1,859</u>	<u>8.3</u>
Taxes	-	-	-	-
Taxes other than income	26,491	27,112	(621)	(2.3)
Income taxes	2,570	9,098	(6,528)	(71.8)
Deferred income taxes - net	53,782	49,433	4,349	8.8
Investment tax credits				
Deferral	(35,007)	(30,666)	(4,341)	(14.2)
Amortization of deferments	(657)	(69)	(588)	(852.2)
Total taxes	<u>47,179</u>	<u>54,908</u>	<u>(7,729)</u>	<u>(14.1)</u>
Total operating expenses	<u>239,176</u>	<u>246,305</u>	<u>(7,129)</u>	<u>(2.9)</u>
Operating income	<u>\$ 52,031</u>	<u>\$ 64,498</u>	<u>\$ (12,467)</u>	<u>(19.3)</u>

Comparison of Actual to Budget
for the Five Months Ended December 31, 1982
(Thousands of Dollars)

	<u>Five Months Ended 12/31/82</u>		<u>Variance</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Amount</u>	<u>%</u>
Operating Revenues				
Base rates	\$414,310	\$436,631	\$ (22,321)	(5.1)
Fuel and energy clause	54,761	57,836	(3,075)	(5.3)
Tax surcharge	27,106	28,647	(1,541)	(5.4)
Unbilled revenues - net	(24,792)	(26,310)	1,518	5.8
Other	5,733	4,922	811	16.5
Total operating revenues	<u>477,118</u>	<u>501,726</u>	<u>(24,608)</u>	<u>(4.9)</u>
Operating Expenses				
Net cost of energy				
Fuel	228,966	305,262	(76,296)	(25.0)
Power purchases	34,988	27,073	7,915	29.2
Interchange power sales	(119,178)	(183,627)	64,449	35.1
	144,776	148,708	(3,932)	(2.6)
Wages and employee benefits	73,256	73,744	(488)	(0.7)
Other operating costs	61,050	57,178	3,872	6.8
Total operation & maintenance expense	<u>279,082</u>	<u>279,630</u>	<u>(548)</u>	<u>(0.2)</u>
Depreciation	39,389	37,530	1,859	5.0
Deferred Susquehanna operating expenses	-	-	-	-
Taxes				
Taxes other than income	43,980	45,174	(1,194)	(2.6)
Income taxes	15,244	23,092	(7,848)	(34.0)
Deferred income taxes - net	54,086	50,590	3,496	6.9
Investment tax credits				
Deferral	(37,274)	(33,386)	(3,888)	(11.6)
Amortization of deferments	(1,112)	(505)	(607)	(120.2)
Total taxes	<u>74,924</u>	<u>84,965</u>	<u>(10,041)</u>	<u>(11.8)</u>
Total operating expenses	<u>393,395</u>	<u>402,125</u>	<u>(8,730)</u>	<u>(2.2)</u>
Operating income	<u>\$ 83,723</u>	<u>\$ 99,601</u>	<u>\$ (15,878)</u>	<u>(15.9)</u>

pps: [initials] M. J. Berish
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Pennsylvania Power & Light Company
 Response to Interrogatories
 of the PUC Trial Staff - Set IX
 Dated January 17, 1983

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Docket No. R-822169

SECRETARY'S OFFICE
 Public Utility Commission

- Q.E-33. Refer to Staff Interrogatory E-15. Provide the following:
- (a) the monthly provisions for uncollectible accounts expense for the future test year ended July 31, 1983, together with the rates and A/R balances used to calculate them.
 - (b) Actual amounts written-off during the fiscal year ended December 31, 1982 (if available).
 - (c) An aging of accounts receivable by customer class (exclude non-jurisdictional) at December 31, 1982, showing amounts not past due, 1-30 days past due, 31-60 days past due and 61 days and over.
- A.E-33. (a) The calculation of the future test year provision for uncollectibles is as follows:

Determine average accounts receivable balance:

	<u>1983</u> <u>Budgeted</u>	<u>1982</u> <u>Budgeted</u>
	(Thousands of \$)	
Revenues	\$1,540,131	\$1,329,227
% as Accts./Rec.	<u>x 7.44%</u>	<u>x 7.38%</u>
Avg. Accts./Rec. Balance	\$ 144,586	\$ 98,097

Determine estimated write-off:

Avg. Acct./Rec. Bal.	\$114,886	\$98,097
Write-off Rate	<u>x 4.65%</u>	<u>x 4.10%</u>
Est. Write-offs	\$ 5,328	\$ 4,022

Determine annual Provision:

Est. Write-offs	\$ 5,328	\$ 4,022
- Bal. in Prov.	<u>(4,609)</u>	<u>(3,349)</u>
Excess	719	673
Desired Year-End Bal.	<u>5,328</u>	<u>4,022</u>
Est. Annual Provision	<u>\$ 6,047</u>	<u>\$ 4,695</u>

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To Determine monthly provision:

Est. Annual Provision	\$6,047	\$4,695
Months in Year	<u>+ 12</u>	<u>+ 12</u>
Monthly Provision	<u>\$ 504</u>	<u>\$ 391</u>

The provision for the future test year is made up of 5 months of the 1982 budgeted Provision and 7 months of the 1983 Provision. Also shown is the actual through December of 1982.

	<u>Estimated for</u> <u>Test Period</u>	<u>Actual to Date</u>
	(Thousands of \$)	
Aug. 1982	\$ 391	\$396
Sep.	391	396
Oct.	391	520
Nov.	391	777
Dec.	391	777
Jan. 1983	504	
Feb.	504	
Mar.	504	
Apr.	504	
May	504	
Jun.	504	
Jul.	<u>504</u>	
Total	\$5,483	
- Steam Heat	(7)	
Electric	<u>\$5,476</u>	

(b) The actual write-off for the period ending December 31, 1982 was \$4,809,426 compared to the \$4,022,000 estimated for the year 1982.

(c) An aging of the accounts receivable balance at December 31, 1982 is:

	<u>Accounts Receivable</u> ^{1/} <u>Balance</u>
Current	\$61,385,465
1-30 Days Overdue	6,094,237
31-60 Days Overdue	2,011,571
Over 60 Days	<u>3,398,689</u>
Total	<u>\$72,889,962</u>

^{1/} Excludes municipal street lighting.

Pennsylvania Power & Light Company
 Response to Interrogatories
 of the PUC Trial Staff
Set III Dated December 15, 1982

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Docket No. R-822169

STATE OF PENNSYLVANIA
 PUBLIC UTILITY COMMISSION

Q.E-12 Refer to Exhibit Regs. III, Attachment III-A-18, p. 9. The Company is claiming an additional \$1,458,448 in tree and brush control costs over the July 31, 1982 level. Provide a detailed explanation of this increase. Include a table of line mileage for the years ending July 31, 1982 and 1983. Provide the quantity and unit costs of herbicides used for brush control for both years.

A.E-12 Following is a schedule of anticipated tree and brush control costs for the future test period ended July 31, 1983 compared to the historic test period ended July 31, 1982.

12 Months Ended July 31

	<u>1983</u> <u>(Projected)</u>	<u>1982</u>	<u>Change</u>
Trim or Remove Trees			
Number	846,129	809,893	
Cost	\$ 9,252,296	\$ 7,794,299	\$ 1,457,997
Spray			
Acres	4,099	3,166	
Cost	\$ 591,849	\$ 385,183	206,666
Hand Cut			
Acres	844	1,172	
Cost	\$ 501,283	\$ 547,903	(46,620)
Other, Primarily Side Trim Transmission Right-of-way			
	\$ 427,572	\$ 587,167	(159,595)
		Total Change	<u><u>\$ 1,458,448</u></u>

The increase for trimming or removing trees of \$1,457,997 is due to an increased number of trees to be worked on, increased labor and equipment costs, and a change in policy to remove more trees rather than trimming. Removing trees is initially more expensive but it eliminates recurring trimming costs.

The increase of \$206,666 for spraying is due to increased acreage and increased spraying costs including the cost of herbicides.

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The miles of line for the years ending July 31, 1982 and July 31, 1983 is not available. Miles of line is determined at calendar year end. Following are the miles of line at the end of each year.

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Distribution	48,268	47,912	47,279
Transmission	<u>1,084</u>	<u>1,012</u>	<u>980</u>
Total	<u>49,352</u>	<u>48,924</u>	<u>48,259</u>

The quantity and unit costs of herbicides for each test period are not available. Costs of herbicides are included along with labor and equipment costs in the actual and anticipated rates billed by contractors.

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Pennsylvania Power & Light Company
 Response to Interrogatories
 of the PUC Trial Staff - Set IX
 Dated January 17, 1983

Docket No. R-822169

Q.E-31. Refer to Staff Interrogatory E-12. Provide the experienced tree and brush control costs, by category, for the years ended July 31, 1980 and 1981.

A.E-31. The categories of tree and brush control shown on Staff Interrogatory E-12 (PP&L response 200.182034) are available only on memo records. Monthly data needed to provide the years ended July 31, 1980 and 1981 is not available. However, the following calendar year data is provided:

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Trim or Remove Trees				
Number	806,892	694,228	780,961	871,355
Cost	\$5,474,441	\$5,978,790	\$7,437,773	\$ 8,289,356
Spray				
Acres	4,287	2,524	3,137	4,832
Cost	\$ 279,517	\$ 278,069	\$ 371,381	\$ 635,897
Handcut				
Acres	882	1,517	1,615	1,004
Cost	\$ 263,893	\$ 676,865	\$ 821,051	\$ 819,193
Other, Primarily Side Trim Transmission Right of Way	\$ --	\$ --	\$ 547,548	\$ 425,041
Sub-Total	\$6,017,851	\$6,933,724	\$9,177,753	\$10,169,465
Storm Damage, etc.	<u>179,877</u>	<u>129,021</u>	<u>37,080</u>	<u>79,243</u>
Total	<u>\$6,197,728</u>	<u>\$7,062,745</u>	<u>\$9,214,833</u>	<u>\$10,248,708</u>

In addition, the following is provided to compare the monthly tree and brush control costs budgeted during the future test period with the actual to date.

	<u>Future Test Period-Budgeted</u>	<u>Actual-to-Date</u>
	(Thousands of Dollars)	
1982 Aug.	\$ 987	\$ 975
Sep.	957	1,127
Oct.	1,005	1,033
Nov.	897	880
Dec.	811	1,330
1983 Jan.	754	
Feb.	770	
Mar.	857	
Apr.	872	
May	875	
Jun.	967	
Jul.	1,021	
	<u>\$10,773</u>	

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Pennsylvania Power & Light Company

Response to Informal Data Requests
of the Office of Consumer Advocate (Set IV)
Dated November 12, 1982
Re: PUC Rate Filing

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Docket No. R-822169

SECRETARY'S OFFICE
Public Utility Commission

- Q.98. On page 127 of the MAC report reference is made to large expenditures by utilities in order to resolve the generic design problems of the General Electric containment vessel. Please provide the best estimate available for the large expenditures of these utilities that are referred to above.
- If PP&L paid for any portion of these large expenditures, what was the cost for PP&L?
 - How were such expenditures treated for ratemaking purposes by PP&L?
- A.98. Expenditures by participating utilities for the GE Mark II owners generic design program were an estimated \$22 million. This program represents a portion of expenditures for one group of utilities; however other expenditures may have been incurred by these and other utilities.
- Susquehanna's portion of the expenditures of the GE Mark II owners group was approximately \$4 million.
 - The capital cost included in PP&L's rate filing is approximately \$1.5 million.

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Pennsylvania Power & Light Company

Response to Informal Data Requests
of the Office of Consumer Advocate (Set VI)
Dated December 8, 1982
Re: PUC Rate Filing

Docket No. R-822169

- Q.174. Exhibit RCT 2 at page 45 states that "the largest cost for special engineering studies continued to be related to the hydrodynamic loads." What was the amount of cost for special engineering studies related to hydrodynamic loads?
- A.174. The cost for special engineering related to hydrodynamic loads was \$15.4M.

P. 3

Pennsylvania Power & Light Company

Response to Informal Data Requests
of the Office of Consumer Advocate (Set VIII)

Dated December 23, 1982

Re: PUC Rate Filing

Docket No. R-822169

- .Q.194. Please provide the current amount of all resolved and unresolved Bechtel backcharges allocated to SSES Unit 1.
- a. Were all resolved backcharges deducted from the capital costs associated with Unit 1 in this rate case?
- A.194. The current total amount of resolved backcharges associated with Susquehanna SES is \$8.6 million. The current total value of unresolved backcharges is \$3.7 million. An accurate allocation of these costs between units is not readily available.
- a. Costs that were collected via the backcharge process as of the rate case capital cost estimate cutoff date (12/31/81) were deducted from the rate case submittal.