COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission, et al. vs. Philadelphia Electric Company. Investigation into a requested $660 million annual rate increase.

Further Hearing

Docket No. R-850152

Pages 454 through 663

Hearing Room No. 3
North Office Building
Harrisburg, Pennsylvania

Friday, December 13, 1985

Met, pursuant to adjournment, at 10:00 a.m.

BEFORE:

JOSEPH MATUSCHAK, Administrative Law Judge

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P R O C E E D I N G S

ADMINISTRATIVE LAW JUDGE JOSEPH MATUSCHAK: This is the time and place set for the hearing in the matter of the Pennsylvania Public Utility Commission versus Philadelphia Electric Company at R-850152.

Are counsel ready to proceed?

MR. MacGREGOR: Yes, Your Honor. We are ready to proceed at this time with the continued cross-examination of Mr. Hill, who has been previously sworn.

JUDGE MATUSCHAK: Very well.

Whereupon,

THOMAS P. HILL, JR.

having previously been duly sworn, testified further as follows:

JUDGE MATUSCHAK: OCA?

MR. RUBIN: Your Honor, it is my understanding that Ms. Chestnut from the Staff has some additional questions for Mr. Hill. I would be happy to let her proceed.

JUDGE MATUSCHAK: Very well.

CROSS-EXAMINATION (Continued)

BY MS. CHESTNUT"

Q. Good morning, Mr. Hill.

A. Good morning, Ms. Chestnut.

Q. Mr. Hill, do you have with you the company's response to IR-OCA-11-7?

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A. Yes.

Q. Was this response prepared by you or under your direction, supervision and control?

A. It was.

Q. Can you explain for us what an extended payment plan is?

A. You said extended payment plan?

Q. Yes.

A. At the time the customer begins a long and rigorous process of delinquency, if a customer has a particular payment problem, he or she is asked to meet with a company representative to discuss the account.

If there is a past arrearage which has accumulated, the company discusses this arrearage with the customer and discusses a repayment plan. The plan is worked out based upon the customer's ability to pay off that arrearage as well as current charges, and the arrearage as opposed to being due in one month or within the next month is extended over a period of time.

Q. I got the impression from your answer that it is generally the company who initiates the use of the extended payment plans. Is that correct?

A. We would like to have it be just the company, but often the extended payment plans are worked out with the Bureau of Consumer Services. They might also be worked out through an actual hearing process in which there is a particular complaint filed against the company and it goes before an Administrative Law Judge and an extended payment plan is worked out as the result of a settlement.

Q. Now, Attachment 7(b) to the interrogatory response we are referring to shows the number of residential and commercial customers on extended payment plans; is that correct?

A. Attachment 7(b)?

Q. Yes.

A. Yes.

Q. Are you aware of how much the average number of customers per month on extended payment plans has increased since 1980? I can give you a number, subject to check, if you would like.

A. Fine.

Q. Would you accept, subject to check, that the average number of customers per month on extended payment plans has increased from 12,388 in 1980 to 59,075 in 1985?

MR. MacGREGOR: Ms. Chestnut, is that number derived directly from the interrogatory response?

MS. CHESTNUT: Yes.

MR. MacGREGOR: Fine.

THE WITNESS: I will accept that.

BY MS. CHESTNUT:

Q. Would you also accept, subject to check, Mr. Hill, that that represents an increase of 377 percent?

A. Yes, I will accept that.

MS. CHESTNUT: Thank you, Mr. Hill.

That's all the questions I have for this witness, Your Honor.

JUDGE MATUSCHAK: Very well.

Consumer Advocate?

MR. RUBIN: Thank you, Your Honor.

Your Honor, I would now like to have marked for identification as OCA Exhibit No.24 a multi-page document which is the company's response to OCA Interrogatory Set 1, No. 2, and OCA Exhibit No. 25, an additional document which is the company's response to OCA Interrogatory Set 1, No. 3.

JUDGE MATUSCHAK: They will be so marked.

MR. RUBIN: Thank you, Your Honor.

(Whereupon, the documents were marked as OCA Exhibits Nos. 24 and 25 for identification.)

CROSS-EXAMINATION

BY MR. RUBIN:

Q. Good morning, Mr. Hill.

A. Good morning, Mr. Rubin.

Q. Could we start by looking at what has just been marked as OCA Exhibit 24. Am I correct that this shows the budgeted and actual plant in service for the company for each quarter beginning with the quarter ending December 31, 1984 and ending with the quarter ending September 30, 1985?

A. Yes, that is correct.

Q. If we turn to I guess it is the second page with handwriting on it -- it says December 31, 1984 up at the top -- and looking down at the last line on the page, "Total Electric Plant in Service," am I reading this correctly that the budgeted plant which the company had expected to have in service at the end of 1984 was $4,737,337,000?

A. Yes, that is the company's unadjusted electric plant in service for the budget period ended December of '84.

Q. And the comparable number which represents the electric plant which the company actually had in service is shown next to it as $4,649,202,000?

A. Yes, that is correct.

Q. So as of December 31, 1984, the company had in service approximately $88 million less electric plant in service than it had originally budgeted; is that right?

A. Yes, that is correct in terms of original cost plant in service. That is the differential.

Q. And if we look over I believe it's two pages after that, the comparable figures as of March 31, 1985, would you agree with me that as of this time, the company's actual plant in service was approximately $29 million less than its budgeted plant in service?

A. Yes. Again, we're speaking of undepreciated original cost plant in service.

Q. Would you also agree with me that the comparable figures as of June 30, 1985 were that the company's actual plant in service exceeded its budgeted amount by approximately $49 million?

A. Yes; again, on the same basis.

Q. And on the same basis, as of September 30, 1985, its actual plant exceeded its budgeted plant by approximately $22.7 million?

A. Yes.

Q. Now, Mr. Hill, if you could look over what has been marked as OCA Exhibit No. 25. Am I correct that this exhibit shows for each quarter the items which make up -- or at least the major items which make up these differences between the company's actual plant in service and its budgeted plant in service?

A. Yes, this is an explanation of the variances between actual and budget data for each of those periods indicated.

Q. If we look on the first handwritten page in that exhibit, I believe up at the top of the page it says, "Comparison of Budgeted Versus Actual Plant at

December 31, 1984."

Looking down, just for example, at the second item on the page, Peach Bottom Unit 2 Purchase and Install 2 Low Pressure Turbine Rotors Budgeted 12/84, Actual 4/85."

Am I reading that correctly?

A. Yes, you are.

Q. Does that mean that this project which was an addition of approximately $14 million was originally projected to be in service in December of 1984 and did not actually go in service until April of 1985?

A. That is correct.

Q. If we look over on the next page, which is again similar information for as of March 31, 1985, we see here the third, fourth and fifth projects listed on the page.

Do I read those correctly to mean that they were all budgeted to be included in plant in service in January, 1985, and they did not actually come into service until May of '85?

A. Yes; the three selected items that you have indicated, that is correct.

Q. If we look over again on the next -- I'm sorry; it looks like the next two pages are out of order. If we look on the page that gives the comparable information for June 30, '85, which I think might be the last page in this exhibit --

A. Yes.

Q Now, I believe we established a moment ago that actual plant in service exceeded budgeted plant by $49 million as of June 30, '85; is that correct?

A. Yes.

Q In looking at this exhibit, am I correct that $40.8 million of that $49 million is associated with the company's failure to retire Richmond Unit 9 during the second quarter of 1985?

A. Yes. The approximately $41 million associated with the retirement of Richmond explains a major portion of $49 million variance.

Q So if we were to just look at the variance in budgeted versus actual plant associated with the company's construction program as opposed to its projected plant retirement, actual plant in service would have exceeded budgeted by approximately $8 million; would that be right?

A. Yes, if you wish to just look at new plant going into service, that is correct.

Q And if we look over on the page right before that, which is the page for September 30, 1985, I believe again we established a few moments ago that budgeted plant was $22.7 million less than actual plant as of this date. Is that right?

A. Yes.

Q And again, Richmond 9 had not yet been retired as of September 30; is that correct? I'm not sure that it appears on this page, but would I be correct that Richmond 9 was not retired as of September 30th?

A. I do not specifically know the date that Richmond was retired. We are awaiting the Commission's final order for the retirement of Richmond Station.

Q. Would you agree with me that the Commission's order approving that retirement was not issued until early October of 1985?

A. I will accept that.

Q. And if that is the case, then would it be correct that the Richmond plant had not been retired as of September 30, 1985?

A. It was not physically retired until after the Commission received its order. I do not know whether that retirement was reflected on the books as of September 30, 1985.

Q. Could you check that for us, Mr. Hill?

A. Yes, I would be happy to.

Q. Thank you.

If we assume for the sake of discussion now that Richmond was still in the company's plant in service accounts as of September 30, '85, would it be correct to state that this $22.7 million plant amount over budget would actually have been approximately $18 million under budget but for the failure to retire Richmond 9 when it was projected to be retired?

A. If your assumption is correct.

MR. RUBIN: Your Honor, at this time I would like to make an on-the-record data request. I would like to ask the company to update the figures which appear in OCA Exhibits 24 and 25 for the latest information available or for fourth quarter information if it is not available monthly.

JUDGE MATUSCHAK: Will the company agree to do so?

THE WITNESS: Yes.

JUDGE MATUSCHAK: Very well.

MR. RUBIN: Thank you.

Your Honor, I would like to have marked for identification as OCA Exhibit 26 the company's response to OCA Interrogatory Set 1, No. 52.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as OCA Exhibit No. 26 for identification.)

BY MR. RUBIN:

Q. Mr. Hill, are you familiar with what has just been marked as OCA Exhibit No. 26?

A. Yes, I am.

Q. Would I be correct that in Docket No. R-822291 the Commission ordered a reduction to the rate base value of Salem Unit 1 because of inadequate management practices at that plant?

A. I don't know whether that was the exact quote, but the Commission did disallow approximately $5.1 million associated with Salem Unit No. 1 in that proceeding.

Q. And am I also correct that the company has included Salem Unit 1 in rate base in this proceeding without making this rate base adjustment?

A. That is correct.

Q. Would you agree that OCA Exhibit 26 shows the amount of the rate base deduction in this case would be $4,379,899?

A. Yes, that is correct.

Q. Mr. Hill, could you now turn to your Exhibit TPH-2, page C-11. Do you have that?

A. Yes.

Q. Here you show the adjustment to the company's rate base claim so that ratepayers will provide a return on the company's investment in the nuclear fuel which is in the Limerick 1 reactor; is that right?

A. That is correct.

Q. And if you could also turn to page 17 of your testimony, and I am looking at lines roughly 10 through 14.

You stated here that the Salem Unit 1 nuclear fuel was originally included in rate base back in R.I.D 438 and R-79060865; is that right?

A. Yes.

Q. Then after it was included in rate base, the company sold that fuel and leased it back; would that be correct?

A. Subsequent to that Commission order at the last docket you referenced, yes.

Q. Mr. Hill, could you describe for us in general terms the accounting entries which would have taken place when the company sold and leased back the nuclear fuel?

A. I do not have the specific accounts associated with it. Salem fuel was included in Account 120. The portion that was in the reactor was included in Account 120.3. There were other Salem fuel items which are included in Account 120.1.

There was a lease arrangement constructed which was later entitled either the Salem Philadelphia or the Philadelphia Salem Nuclear Fuel Lease. Those assets were transferred from the books of Philadelphia Electric Company to the leasing company in exchange for capital dollars. The company was reimbursed for those assets.

The leasing company under a lease arrangement carries that investment for us, finances it for us, and they bill us on a monthly basis for the privilege of carrying that fuel.

Q. Would I be correct that back in the '79 docket when the fuel was effectively included in rate base that there was a portion -- well, could you tell us what would have been charged to ratepayers through base rates?

A. Back in 1979?

Q. Yes.

A. In the '79 case that is referenced here?

Q. Yes. Not in terms of dollars, but just in terms of what source of things would have been in base rates because of that fuel being included.

A. The only item reflected in base rates was an amount of dollars similar in fashion and calculation to that which was claimed in this proceeding. The company requested inclusion in rate base of an average amount of fuel that was included in the reactor over some prospective period, which I do not remember what it was, whether it was a year or two years.

That amount was allowed to be included in rate base and the company earned a return on that during the period of time that rates were in effect.

Q. Now once the lease took place, I assume the company's base rates did not change immediately upon the lease taking place; would that be right?

A. That is correct.

Q. Would you know in the company's next rate case after that, how would the lease payments have been reflected in the company's base rates?

A. The next rate proceeding, which I believe was Docket 1225, the company was already under the lease and included in the company's budget at that point in time were payments associated for the lease itself representing those charges made by the lease company to Philadelphia Electric Company.

They included a charge for burn-up, which is included in Account 518 as fuel. In addition, there was a finance charge associated with that portion of the interest related to the fuel that was included in the reactor.

Those two charges comprised the lease payment, and they were included in our operating statement on a monthly basis for budget purposes.

Q. Does the amount which the company paid to the lessor in finance charges roughly approximate the amount of the carrying charges which ratepayers would have paid on the fuel had the company still owned it?

A. That would depend upon two things: number one, the return which the company was actually earning on its assets at that point in time; and number two, it would depend upon the interest rate that the company was obligated to pay under the lease.

Q. I realize this took place some time ago, but would you recall if those two rates would have been relatively close back when the Salem 1 fuel was leased?

A. Originally, back at 438, I do not recall what the interest rates were at that point in time nor the company's cost of capital.

Q. Mr. Hill, you mentioned that as part of the lease, there would be a burn-up charge which would be booked in Account 518. Am I correct that that charge would be recovered through the company's Energy Cost Rate?

A. Yes, that's correct.

Q. And would a similar charge be recovered through the Energy Cost Rate if the company owned the fuel instead of leased it?

A. Yes. There is no difference in that component.

Q. Mr. Hill, what benefits did the company achieve by selling and leasing back the Salem 1 nuclear fuel?

A. The benefit we achieved at the time was the ability to receive capital from the lease arrangement as opposed to going into the capital markets and seeking external financing.

Q. Mr. Hill, if the company were to enter into a similar transaction for the Limerick 1 nuclear fuel, would the same general accounting entries and the same general benefits take place?

A. Again, dealing in the hypothetical, since the Peach Bottom and the Salem leases are similar, I would suspect that the Limerick, assuming there was a lessor willing to do this type of arrangement, I assume that the arrangements would be similar. But again, that's my conjecture.

Q. If such an arrangement were to take place, say hypothetically, within the next year or so, would you be able to speculate as to whether the interest rate which you would have to pay to the lessor would be roughly comparable to the company's cost of capital claim in this proceeding?

A. I would suspect we would fall under the same risks that we fall under with the Salem and the Peach Bottom leases since the financing arrangement is tied I believe to commercial paper rates which are volatile and depend upon change month by month.

Q. Are you talking about a prime interest rate or is there some rate other than that?

A. I have greater familiarity with the Peach Bottom lease which I believe is tied to commercial paper rates.

Q. Do you know what the rate is currently on the Peach Bottom lease?

A. No, I do not.

Q. Could you provide that for us, please?

A. Yes. Again, that would change on a monthly basis.

Q. Mr. Hill, would you agree that beginning back with the Commission's order in R-811626 in May of 1982 and ending with the entry of the Commission's order in the company's last rate case, R-842590, in January of 1985, that the nuclear fuel for Limerick 1 was included in rate base?

A. A portion of the company's claim in this proceeding for nuclear fuel was included at each of the two dockets preceding Docket R-842590.

Q. And in the company's last case, the Commission refused to allow the nuclear fuel in rate base; is that right?

A. The Commission disallowed that item, that's correct.

Q. So Mr. Hill, would I be correct that ratepayers have already paid for a portion of the Limerick 1 nuclear fuel?

A. And have received the benefit associated with that, because the company did not accrue AFUDC on that investment which was allowed in rate base in those two proceedings.

Q. So that the AFUDC associated with the current claim which we see on C-11 of your Exhibit TPH-2 -- well, first, let me take a step back. The Limerick fuel cost which you calculate on C-11 and C-11a of TPH-2, does that cost include the AFUDC which the company has accrued on that investment?

A. Yes, it does.

Q. So that that cost would be higher if the fuel had not been in rate base for two-and-a-half or three years?

A. Yes, it would have been higher.

Q. And if the accrued AFUDC had been higher, then that means that the company's current claim for in reactor interest would have been higher but for the allowance of nuclear fuel in rate base in the past; is that right?

A. The company is not making a claim for in reactor interest associated with Limerick 1. We are asking for rate base recognition.

The return on that investment would have been higher. The revenue requirement would have been higher.

Q. Fine; thank you.

MR. RUBIN: Your Honor, I would like to have marked for identification as OCA Exhibit 27 the company's response to OCA Interrogatory Set 1, No. 26.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as OCA Exhibit No. 27 for identification.)

BY MR. RUBIN:

Q. Mr. Hill, this interrogatory answer was provided to us. I notice that the responsible witness is Mr. Paquette. This document is the "Financial Analysts Forecast" dated May 31, 1985.

Are you familiar with this document?

A. I am somewhat familiar with it, yes.

Q. Could you turn to I believe it is the second page of the Attachment? The page is headed "Notes" at the top.

Do you have that?

A. Yes.

Q. I am looking down at the paragraph numbered 5, and then there is another paragraph right below that before the paragraph that is numbered 6. It starts "In 1984."

Do you see that?

A. Yes.

Q. Could you read that two-sentence paragraph for us?

A. "In 1984 the company sold and leased back its Allied MgO facility for $56 million. A like arrangement is planned in 1986 concerning the company's Limerick Nuclear Fuel Investment."

Q. Mr. Hill, if the Limerick 1 nuclear fuel is sold, could you tell us how ratepayers would recover the payments which they made for two-and-a-half or three years associated with that fuel?

A. Would you repeat your question again?

MR. RUBIN: Could it be read back?

(Whereupon, the reporter read from the record, as requested.)

BY MR. RUBIN:

Q Mr. Hill, in case that is not clear, I am speaking of the time when that fuel was included in rate base back in 1982 through early 1985.

A. If the company sells Limerick's nuclear fuel, specifically Limerick 1's fuel which is the only item included in rate base, the sale of that asset would be the amount which is currently contained on the company's books, a lesser amount, an amount which has been reduced because AFUDC was not accrued on that portion of the investment included in rate base in those prior two rate proceedings.

Therefore, the finance charges applicable under any lease would be lower because the asset base would be lower and, therefore, the charge to expense would be lower for every month that the company would lease Limerick's fuel.

That methodology is the way in which the benefit would in essence pass back to the customers.

Q Now, Mr. Hill, are you stating that if the company were to sell the fuel, it would be sold for an amount which exactly equals the value of that fuel on the books of the company?

A. Yes, that is correct. It was a similar transaction for the Peach Bottom fuel as well as the Salem fuel. And, again, dealing in a hypothetical, if we assume the same to happen for Limerick Unit No. 1 fuel, I would assume that the same transaction would hold.

Q. Mr. Hill, if we could switch topics for a minute. Do you recall that in the company's last base rate proceeding, the company had claimed expenses related to its conservation program of approximately $8.1 million?

A. Yes.

Q. Do you also recall that of that amount, the Commission only allowed approximately $1.3 million of that claim?

A. I'll accept that those are the numbers that the Commission allowed.

Q. Is it your understanding that as a part of that disallowance, the Commission permitted the company to set up deferred accounting for its conservation expenses?

A. I haven't recently reviewed the Commission's order, but I will accept that they might have had wording in there to that effect.

Q. Do you know if the company has made a claim in this case for any conservation related expenses which were deferred between January of 1985 and the present?

A. I am aware of none.

Q. Could you turn to page -- it is in Volum II of PECo Exhibit 1. It is page II-D-lb, and I'm looking at page 5 of 6.

(Witness perusing documents.)

Q Mr. Hill, in particular, I would be interested in the entry for Account 908. And if you could just let me know when you have reviewed that.

A. All right.

Q Mr. Hill, here the company explains the variation between its budgeted test year expense and its actual historic test year expense for Account 908, which is headed "Customer Assistance Expenses;" is that correct?

A. That is correct.

Q And you explain here that the majority of the variance is due to the implementation of certain conservation programs; is that right?

A. Yes. Again, these are explanations of variations between the historic and future test year.

Q Mr. Hill, I think it is probably easier to make this a data request. Could you provide us with a breakdown of the budgeted expenses by program and also by program the company's actual expenditures to date, and if you could also tell us whether the company still plans to implement all of the programs which they budgeted?

A. I think the answer to your last question is yes.

Q Mr. Hill, do all of the company's conservation programs get booked to Account 908?

A. The company's expenses associated with specific conservation programs are included in Account 908.

Q. Would there be any other accounts which would include conservation related expenses within them?

A. Yes, there would be. There are expenses associated with printing up brochures, mailings to customers, the labor expenses associated with those conservation efforts. They would be contained in other FERC accounts.

Q. Would it be possible for you to break out of those other accounts the conservation related expenditures both those budgeted by the company and those actually spent to date?

A. Yes, that is possible.

Q. If you could make that part of the same data request then.

A. Yes.

Q. Mr. Hill, could you turn now back in your Exhibit TPH-2 to page A-5; and I am looking in particular at the first column on the page which is headed "Megawatt-Hour Sales, Year Ended 6-30-86." Do you see that?

A. Yes, I do.

Q. Am I correct that this column represents what the company has budgeted for sales during the future test year before any adjustment?

A. That is correct.

Q. And over on page D-3a of your Exhibit TPH-2, you show the annualizations for growth in usage per customer and growth in number of customers; is that right?

A. That is correct.

Q. These two annualizations total approximately 490,000 megawatt-hours. Am I correct on that?

A. Yes, you are correct.

Q. And then this additional 490,000 megawatt-hours would be in addition to the approximately 27.6 million megawatt-hours shown on page A-5 under the line "Total Electric;" is that right?

A. Those two numbers added together represent the company's claim for sales in the future test year on a pro forma basis representing test year end conditions.

Q. Mr. Hill, I believe a couple of days ago you were asked when you prepared the sales estimate which formed the basis for the company's claim in this case.

Do I remember correctly that you indicated these projections were prepared in December, 1984 and were finalized at the Board of Directors Meeting in January, 1985?

A. I believe I was speaking of revenues with reference to cross-examination by Ms. Chestnut.

The sales budget is prepared under the direction of Mr. Hoch, which I believe starts much earlier in the budget process than December of 1984. I do not know the completion date of that sales project.

Q. But it would start -- would it be in the fall or the summer?

A. The budgeting process, as Mr. Solecki described, starts in July. Where the sales budget exactly fits in, I don't know.

MR. RUBIN: Your Honor, I would like to have marked for identification as OCA Exhibit 28 the company's response to OCA Interrogatory Set 3, No. 7.

JUDGE MATUSCHAK: It will be so marked.

(Whereupon, the document was marked as OCA Exhibit No. 28 for identification.)

MR. RUBIN: Thank you.

BY MR. RUBIN:

Q. Mr. Hill, for clarification, OCA Exhibit 28 is the cover page and the first page of the attachment of the company's original response to OCA Interrogatory Set 3, No. 7.

First, am I correct that you later revised the second page of this attachment? And we will be dealing with that in a few minutes.

A. This is the problem where the company submitted one interrogatory on a system basis and one on a company basis, and then we submitted a revision to get them on the same basis, yes.

Q. Am I correct that the handwritten page, which is part of OCA Exhibit 28, shows the budgeted sales in megawatt-hours by tariff for calendar year 1984, which was the company's future test year in its last base rate case? Is that right?

A. Yes.

Q. And if we look down on that handwritten page about three lines up from the bottom -- and it is not reproduced that well, unfortunately -- I believe that is "Total PE Company"?

A. Yes.

Q. And that shows that the company's total sales budget for the year -- and I'm getting this from the last column on the page on that line -- would have been 27,022,108 megawatt-hours. Am I reading that correctly?

A. Based upon the small numbers, I will accept that.

Q. And that would have been for calendar year 1984; is that right?

A. Yes.

MR. RUBIN: Your Honor, I would like to have marked for identification as OCA Exhibit 29 the company's response to OCA Interrogatory Set 3, No. 7, Revised.

JUDGE MATUSCHAK: So marked.

(Whereupon, the document was marked as OCA Exhibit No. 29 for identification.)

MR. RUBIN: Thank you.

BY MR. RUBIN:

Q. Mr. Hill, I believe this is what you referred to a moment ago as being a revision provided by the company so that its actual sales figures would be put on the same basis as the budgeted figures we just looked at in OCA Exhibit 28; is that correct?

A. Yes, I believe that is correct.

Q. So that the figures which appear on OCA Exhibit 29 would be comparable to those which were shown in your 1984 budget in OCA Exhibit 28? I just want to make sure we have that established.

A. Yes.

Q. In looking at the handwritten page in Exhibit 29, down at the bottom of the page in the left-hand column there is written "Total" and then underneath that "Actual" and then underneath that the abbreviation "WC."

Am I correct that the WC is weather corrected?

A. That is correct.

Q. So that the actual line at the bottom of the page would represent the total megawatt-hours which the company actually sold to its customers during each of those months; would that be right?

A. That is correct.

Q. And the weather corrected line would be what the company believes it would have sold had the weather been normal during each particular month; is that right?

A. Yes.

Q. Mr. Hill, am I correct if we look over under the weather corrected line under the last column which is headed "Year," that if the weather had been normal during 1984, the company states that it would have sold $28,084,900 megawatt-hours?

A. Yes.

Q. So would I be correct that the company's actual weather corrected sales were some 1 million megawatt-hours higher than the company had budgeted?

A. Yes.

Q. And this would represent an increase of approximately 4 percent over the budget. Would you accept that?

A. A little less, yes.

Q. Mr. Hill, have you had occasion to attempt to determine the value of these additional sales to the company?

A. No, I have not.

Q. Would it be incorrect to assume that, say, the average revenue per kilowatt-hour is approximately 8 cents or so for the company?

A. Currently, I haven't done the division. We can do it from A-5.

Q. Why don't we do that just so we have a number we can work with.

A. You are speaking of base revenue or do you want to deal in terms of total revenue?

Q. I think base revenue would be a good figure to use.

(Witness computing on electronic calculator.)

A. 8.6 cents.

Q. If we just use a ballpark figure, that 8.6 cents in base revenue per kilowatt-hour and we have an additional billion kilowatt-hours of sales, would that mean that the company's revenues would have been approximately $86 million higher than they had budgeted?

A. Not necessarily, no.

Q. Can you tell us why not?

A. It depends upon where the sales occurred in each of the rate classifications.

Q. Would I be right that if the sales occurred, say, in the residential or small commercial classes, the company's revenue might be higher than that and if it occurred in the last block of large industrial sales, then the revenue might be lower than that?

A. I believe that is a correct assumption.

Q. Again, just to make sure, you have not actually attempted to determine where those sales occurred and what the additional revenue was which was actually received by the company?

A. Well, the actual revenue received by the company s30

for the 12-months ended 1984 has been already supplied in response to submitting FERC Form 1 for Philadelphia Electric Company. That data is all readily available.

Q. But you haven't specifically broken out the piece of that associated with these extra million megawatt-hours of sales as opposed to other things which may have happened?

A. One could compare the actual revenues versus the budgeted revenues.

Q. And that is not something which you have had a chance to do?

A. I have not done those calculations; that is correct.

MR. RUBIN: Your Honor, I would like to have marked as OCA Exhibit No. 30 the company's response to OCA Interrogatory Set 3, No. 8, Revised.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as OCA Exhibit No. 30 for identification.)

BY MR. RUBIN:

Q. Mr. Hill, the last page of this exhibit shows the company's budgeted, actual and weather corrected sales for the first nine months of 1985; is that correct?

A. Yes.

Q. And for this period -- again, if we look down at the very bottom of the page, am I right that the last three lines are budget, actual and weather corrected in that order?

A. Yes.

Q. And if we look over at the last column on the page, which is "Nine-Month Total," would I be correct that for this nine-month period, total budgeted sales were 21,423,029 megawatt-hours?

A. I think that number is correct. I will see if my copy is any better than yours. This is OCA 3-8?

Q. It is 3-8 Revised.

THE WITNESS: Excuse me, Your Honor; can I see if I can get a more legible copy?

JUDGE MATUSCHAK: Yes.

(Pause.)

THE WITNESS: I assume your next question is going to be the next number, which I can't read at all.

(Witness perusing documents.)

BY MR. RUBIN:

Q. Is your copy any better than ours, Mr. Hill?

A. I hope so. 21,462,100, the budgeted megawatt-hours.

Q. Is that the budgeted or the actual line that you just read?

A. Excuse me.

(Witness perusing document.)

A. 21,423,029 megawatt-hours.

Q. And that is the budgeted sales for the first nine months of 1985?

A. Yes.

Q. Can you tell us what the actual sales were for those nine months?

A. 21,229,613 megawatt-hours.

Q. And if the weather had been what the company terms normal, could you tell us what these sales would have been for that nine-month period?

A. The weather corrected sales are 21,517,700.

Q. Mr. Hill, would I be correct that if we look at the difference between weather corrected sales and budgeted sales for this nine-month period, that the company sales were approximately 94,671 megawatt-hours higher than you had budgeted?

A. A comparison of budget to weather corrected, that is correct.

Q. Now, Mr. Hill, before we go any further with this, I just want to make sure. Is the company's sales claim in this proceeding predicated on weather corrected sales?

A. The company's claim for sales as shown in the budget are on a normal weather basis.

Q. So if we were comparing budget to actual to get representative figures, we should be comparing budget to weather corrected; is that right?

A. You're making the comparison. I don't understand your representative figures.

Q. Your actual sales are based on the actual weather that occurred; is that right?

A. That is correct.

Q. And that was not assumed in your budget; rather you assumed normal weather in your budget?

A. That is correct.

Q. So your weather corrected figures provide a basis for the company to compare the accuracy of its budget to what actually occurred without regard to weather conditions; is that right?

A. Yes; that puts those two sets of sales with that one criteria on a similar basis. There are other variations which cause changes in sales which are not accommodated by that comparison.

Q. Now, Mr. Hill, if we look back in OCA Exhibit 30, which was 3-8, and on the handwritten page again, and I'm interested in just looking for the moment at July, August and September, which are the first three months of the company's future test year in this case. Would you accept, subject to check, that for these three months, the company had budgeted total sales of 7,554,056 megawatt-hours?

A. Could you repeat that number?

Q. 7,554,056.

A. Okay.

Q. And your actual weather corrected sales for those same three months, July, August and September, were 7,666,600 megawatt-hours. Would you accept those, subject to check?

A. Yes, I will.

Q. So if these figures are correct, your sales were higher than you had budgeted in these three months by approximately 112,544 megawatt-hours or about 1.5 percent; would that be right?

A. I will accept that.

MR. RUBIN: Your Honor, again, I would like to make a data request to the company to please provide us with updated numbers similar to those which appear in OCA Exhibit No. 30; and again, we would like those on a monthly basis showing the budgeted, actual and weather corrected.

JUDGE MATUSCHAK: Will you provide that, Mr. Hill?

THE WITNESS: Yes, we will do it.

BY MR. RUBIN:

Q. Mr. Hill, do you know at the present time if the company would have data like that through the month of November, 1985?

A. November data should be available.

Q. Mr. Hill, could you please turn to page D-5 in your Exhibit TPH-2?

A. (Witness complying.)

Q. Am I correct that this page shows the company's claimed payroll in this case?

A. Yes, on a pro forma basis.

Q. Is it correct that your claim is based on the company's estimate of its regular payroll expense during the month of June, 1986?

A. Yes.

Q. And then certain adjustments are made to that June, '86 estimate in order to arrive at the total company, which is all its divisions, regular payroll for the future test year; is that right?

A. Yes.

Q. Mr. Hill, first, can you tell us what you mean by regular payroll?

A. Regular payroll includes about a half a dozen elements of payroll exclusive of overtime. There is an interrogatory which I can't quickly locate which lists all the elements of payroll that are included in there, but it is basically the hours worked during normal working hours. It includes certain adjustments to payroll for back-shift work; that is shift workers. There are absent time dollars associated with it and other compensation credits.

Q. But this does not include overtime or pensions and benefits?

A. That is correct.

Q. As a generalization, would it be fair to say that regular payroll is essentially paying each company employee their salary or typical wages for a 35 or 40-hour work week, whatever the normal week is?

A. Yes.

Q. Mr. Hill, if you could look over on the next page, page D-5a, this shows your budgeted regular and overtime payroll estimates for each month of the future test year; is that right?

A. Yes, that is correct.

Q. And yesterday, I believe you gave us total company payroll and overtime for the month of November, 1985. Do I remember correctly that the total payroll was $38,478,000?

A. Total payroll for Philadelphia Electric Company, $38,478,000.

Q. And overtime for that month was $6,088,000?

A. Yes.

Q. So if we subtract those two figures, that would give us a regular payroll figure of $32,390,000 for November, 1985?

A. Yes, I believe that is correct.

Q. Here on page D-5a, you had estimated that in November, 1985, your regular payroll would be $33,753,000; is that correct?

A. That is correct.

Q. So your November estimate for regular payroll was off by approximately $1,363,000. Would you accept that?

A. Yes, I will accept that.

Q. Would you also accept, subject to check, that for each of the first five months of the future test year, your estimated regular payroll was greater than your actual regular payroll?

A. Estimated payroll was greater than actual? If that's what the data shows. I believe we've already supplied it, but I will accept your characterization.

Q. I believe it was under cross-examination yesterday or the day before that the reason the regular payroll is under budget -- I don't want to put words into your mouth. I believe you pointed out that the regular payroll is under budget, but at the same time your overtime payroll is over budget; is that correct?

A. Total payroll for the 11 months ended November, 1985 is approximately $2 million over budget.

Q. Is that a total for the five months?

A. No. You want five months?

Q. No. I just want to determine what that $2 million figure is.

A. That represents the 11 months ended November, '85.

Q. Could you give us a similar figure for just the first five months of the test year?

A. July of '85 -- I'll subtract these and give you rough approximations. July, 1985 total payroll was under budget by about $524,000.

Actual August payroll was under budget by $627,000. Actual September payroll was over budget by $1,688,000. Actual October was over budget by $469,000. Actual November was over budget by $521,000.

Q. Mr. Hill, for each of those months, I believe you agreed to accept, subject to check, that your regular payroll was less than you had budgeted in all five of those months.

Would you also accept, subject to check, that your overtime payroll was more than you had budgeted in each of those months?

A. Yes, I would expect that is correct.

Q. And if we just look at November of 1985, I believe we stated a moment ago that your actual overtime payroll was $6,088,000; is that right?

A. $6,088,000; that is correct.

Q. And over on page D-5a, you show an estimated overtime payroll for November of $4,204,000.

A. Yes.

Q. So that is a difference of approximately $1.8 million?

A. Yes.

Q. Mr. Hill, first of all, in those figures you just read to us, you showed total payroll of $1,688,000 higher in September of 1985.

A. Yes.

Q. Could you tell us if that was related in any way to Hurricane Gloria going through the company's service territory?

A. Yes. There was a substantial increase in overtime payroll for our Transmission and Distribution Department during the month of September.

Q. I believe you provided us with an interrogatory answer on that. It is Interrogatory Set 20, No. 7.

Would you accept, subject to check, that approximately $1.8 million of that overtime is associated with storm-related overtime?

A. OCA 20-7?

Q. Yes.

A. $1,830,000 weather-related overtime.

Q. Thank you.

Mr. Hill, if we look again at November of 1985, we agreed a few moments ago that the company's regular payroll estimate was about $1.3 million lower than its actual payroll. Do you remember that?

A. I remember it. I don't remember the number.

Q. What would account for regular payroll expense being lower than the company had budgeted?

A. Why would regular payroll actual for the month of November be lower than that budgeted?

Q. Yes.

A. One of the primary reasons, as we've answered in many interrogatories so far, is that the company's level of actual employment is not at the same level that was indicated by our budget estimates. As such, the regular payroll portion would be less correspondingly since there were not employee staff sufficient to do the job which was intended. There was a requirement for additional overtime for those people that were employed at that particular month.

Q. So essentially, the company is paying its existing employees overtime instead of hiring some new employees; would that be right?

A. Yes. There is generally a lag in the acquisition of new employees to fill the vacancies which currently exist. That is usually handled through overtime of existing employees.

Q. Mr. Hill, if you look at the last column of D-5a for November, it shows that the company had projected that it would have 10,936 employees at that time; is that right?

A. Yes.

Q. Do I recall correctly; I believe yesterday you stated that you actually had 10,595 employees as of the end of November?

A. Yes. Again, we are talking total Philadelphia Electric Company, all operations.

Q. Yes. So as of the end of November, the company had hired 341 fewer employees than it had projected; would that be right?

A. Yes, that is a correct subtraction.

Q. Mr. Hill, would you agree that on average -- well, I should give you a reference before we start. It is your answer to OCA Interrogatory Set 1, No. 39.

I would like to ask you if you would agree that on average, the company hires new employees at an annual salary of approximately $11,000 a year?

A. For entry level employees, yes, that is correct.

Q. So for the sake of simplicity, let's assume --

A. I might point out that we have answered another interrogatory for Staff in which I indicate that the company hires other than entry level employees. Engineers and professional employees are not considered entry level and they come in at a higher salary rate than the $11,700.

Q. Mr. Hill, for the sake of simplicity right now, we can assume that all of these 341 employees were entry level and that the average salary would be $1,000 a month, to make the arithmetic easy.

These 341 employees that you didn't hire as of the end of November then would account for approximately $341,000 of the difference between your budgeted and actual regular payroll. Would that be right?

A. Based upon all of your assumptions, that is correct.

Q. Mr. Hill, if we take the $1.3 million by which the company's actual payroll was less than its budget and divide that by the 341 employees who were supposed to have been hired but were not hired, would you agree with me that we would get a monthly average salary of approximately $4,000?

A. Taking the delta between the actual regular and the budgeted regular payroll and dividing by the number of employees and coming up with $4,000, I will accept your mathematics.

Q. And that would equate to an annual salary of $48,000 a year. Mr. Hill, do you know if the company's average salary for its employees is $48,000 a year?

A. I do not know that average.

Q. Would you expect that the company's failure to hire 341 employees -- excuse me -- that the 341 employees which the company failed to hire would have been hired at an annual salary of $48,000 a year?

MR. MacGREGOR: Your Honor, I object to the questions.

They are all starting from an assumption that everyone has agreed is not true; that all new employees are hired at an entry level salary.

MR. RUBIN: Your Honor, I believe we've moved beyond that point. We started with that assumption. Now we've moved on to what the company actually did in November. They actually had a regular payroll expense $1.3 million less than they projected. They actually had 341 fewer employees.

That equates to an average salary of $4,000 a month or $48,000 a year. I am trying to explore with Mr. Hill whether that is, in fact, accounting for all of the difference in regular payroll.

JUDGE MATUSCHAK: We will overrule the objection. This is cross-examination.

MR. RUBIN: Thank you, Your Honor.

BY MR. RUBIN:

Q. Mr. Hill, do you recall the question?

A. Vaguely.

Q. Would you like me to --

A. I would appreciate it if you would repeat it.

Q. I believe that we have already agreed that the company had on its payroll 341 employees less than it had projected that it would have by the end of November, 1985. Is that right?

A. Yes.

Q. In November, 1985, the company's regular payroll which we said earlier was basically the base salary for employees without benefits and without overtime was approximately $1.3 million less than the company had budgeted; is that correct?

A. Yes.

Q. What I am trying to determine is whether if the company had hired the 341 employees, would they have been hired at an average annual salary of $48,000 a year such that there would no longer be a difference between the budgeted and actual regular payroll?

A. I don't know. I don't know the answer to that question, because you are dealing, number one, in terms of average over the entire spectrum of the company's departments. There are variations. As I look at the number of employees by department, there are variations up and down by department.

The number of actual regular payroll dollars varies by department. I don't know whether your comparison is even valid in terms of looking at the overall average.

Q. Mr. Hill, do you know if there would be some other reason why regular payroll would be less than the company had budgeted other than not having the budgeted number of employees?

A. Off the top of my head, I can't think of anything.

I would have to go back in and see if there were any elements within regular payroll. As I indicated, there are other items in regular payroll other than overtime which might have caused certain variations.

Q. Mr. Hill, have you attempted to determine what has been accounting for the difference in regular payroll?

A. No, I have not.

Q. Now, let's move on to another area. I don't think there is a reference in your testimony or your exhibits, but could you tell us how the litigation expenses associated with the Limerick plant -- and I'm thinking, for example, of NRC licensing proceedings or environmental litigation, that sort of thing -- can you tell us how those are accounted for by the company?

A. I cannot specifically tell you about NRC licensing. Generally, the procedure, if there are substantial costs that are estimated to occur, the responsible department within the company, the responsible area within the company, is required to take out an expense authorization which is designed to provide a projection of the cost to be incurred other than PE labor and material.

That expense authorization acts as the monitoring device. The authorization is approved by the top management of Philadelphia Electric Company, and charges as they are incurred through these processes, including legal fees and outside consulting fees, et cetera, clear to this expense authorization and there are monthly comparisons to see what the estimated amount relative to the actual amount is, and there are controls and procedures if you go over reporting variations.

Q. Mr. Hill, I guess you didn't do a very good job of reading my mind. I didn't make my question very specific.

Looking at the litigation-related expenses for the Limerick plant, do you know if those types of expenses were expensed by the company or whether they are capitalized over the life of the Limerick plant?

A. If you can be specific. I am not personally responsible for NRC licensing procedures. I do not know whether it was a capital authorization or an expense authorization.

Q. Do you know who at the company might be familiar with how those expenses are treated, whether they are capitalized or expensed?

A. I could find out for you. I personally don't know. I would assume that they would come under Mr. Kemper's department, anything to do with licensing of the plant.

Q. If we could make that a data request then. If there are differences depending on the type of proceeding or litigation, if you could just basically tell us what would be capitalized and what would be expensed. We would appreciate that.

Mr. Hill, can you now turn to D-12 in TPH-2.

Do you have that?

A. Yes.

Q. Looking down at Item No. 9 on the page, it says, "Abandon Engineering Heaton-Byberry 230 Kv Line," and there is a claim in this case for $89,000. Is that right?

A. Yes.

Q. Could you tell us what this project was?

A. It was a transmission project which was -- I don't have the specifics before me -- scheduled to be placed in service, planned to be placed in service, and at some point after decisions were made by our engineering department that the line was not required--there were charges accumulated on the project; they were initial engineering charges -- the company made the decision to write off that investment. They are not going forward with the project.

We have requested in this proceeding an amortization of the expense over a five-year period.

Q. Mr. Hill, if you look over on D-12a, the total expense you're asking to amortize is $445,000; is that right?

A. Yes.

Q. And just dividing that by 5, we get the $89,000 which you are claiming in this case?

A. Yes.

Q. Mr. Hill, do you know when these expenditures were made for the Heaton-Byberry Line?

A. The project was dropped from the '85-'93 construction forecast operation -- actually, the project was initially put on suspension in 1976.

Initially the project had several components to it. There were six transmission projects taken out under one capital authorization. Five of the projects went through the completion. This one, the Heaton-Byberry Line, was not completed. It was placed on hold.

I don't have the actual dollars of expenditure. Apparently they were all included in one capital authorization. The request for write-off occurred from Electrical Engineering saying that they no longer had any plans of completing the project, and that correspondence was in or around the first or second quarter of 1985.

Q. I believe you stated that the project was placed on hold -- I think that was your expression -- or it was suspended in 1976; is that right?

A. The whole project itself apparently was suspended in 1976 when they broke it down into separate projects and then completed the other five.

Q. Do you know if after the six projects were broken up in 1976 how much money would have been spent on the Heaton-Byberry Line by the company?

A. In 1976, I don't know.

Q. Or after 1976?

A. If it was suspended, there would be no additional charges. The AFUDC I believe was reversed.

Q. So that this $445,000 claim does not include any AFUDC?

A. I believe that is correct. It has been reversed.

MR. RUBIN: Your Honor, I would like to have marked as OCA Exhibit 31 the company's response to OCA Interrogatory Set 13, No. 13.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as OCA Exhibit No. 31 for identification.)

MR. RUBIN: Thank you, Your Honor.

BY MR. RUBIN:

Q. Mr. Hill, are you familiar with this response?

A. Yes.

Q. Is this your estimate of the costs similar to that which you provide in your Statement 18A associated with the Commission's Keystone Alliance order, except that this interrogatory answer includes amounts which would have been included in the company's last two rate cases?

A. This interrogatory parallels my supplemental testimony and exhibit for the prior two rate cases and provides data paragraph by paragraph from the Commission's order in the Keystone Alliance proceeding.

Q. Mr. Hill, to the best of your knowledge, did the Commission reduced the company's rate on account of these expenditures in R-842590 or in R-822291?

A. To my knowledge and my understanding of the Commission's orders, the Commission-made rates in each of those proceedings allowed inclusion in operating expenses all of the expenses associated with each of the paragraphs indicated in response to OCA 13-13.

Q. Mr. Hill, do you recall when what we have been calling the Keystone Alliance proceeding was initiated by the Commission?

A. Judge Kranzel's order came out on August 31st, 1983. I don't have any date which gives the initial action by the Commission to open the investigation.

Q. Would you accept that that proceeding began during 1979?

A. I wouldn't be surprised.

Q. Do you have the date of the Commission's final order in front of you?

A. Yes. In the public meeting held August 28, 1985, the order was adopted in that meeting and entered I believe -- it is cut off on my copy -- I believe it's September 4, 1985.

Q. Mr. Hill, on the last page of OCA Exhibit 31, there is a line that is called Edison Electric Institute, and there is an amount of $530,000 in one rate case and $512,000 in another. Do you see that?

A. Yes, I do.

Q. Do you know if the amounts on this line would include all of the company's EEI claim in those cases or just the amount of EEI dues which the company actually permitted the company to collect from ratepayers?

A. Those numbers I believe represent the total expenses included in the test years, each of those test years, for EEI expense, of which the Commission, I believe, in each of those proceedings disallowed a certain portion of the company's EEI expense.

Q. So this would be the amount before the Commission's disallowance?

A. Yes, I believe that is correct. If it parallels what I provided in Schedule 4 of my supplemental testimony, it should be total EEI expense including dues, advertising, et cetera.

Q. That was my next question.

Mr. Hill, could we treat that as a subject to check, and if for some reason that information is not correct, could you get back to us?

A. Yes, I will.

Q. Mr. Hill, are you familiar with the investigation into EEI's lobbying activities which is being conducted by the National Association of Regulatory Utility Commissioners?

A. I have heard about it. I am not intimately familiar with it.

Q. Have you heard that representatives of NARUC have indicated that as much as 25 to 33 percent of EEI's expenditures appear to be related to lobbying activity?

A. I am not aware of that percentage.

Q. Mr. Hill, could we turn in your Statement 18A to your Schedule 6, which I believe you have also labelled D-22.

(Witness complying.)

Q. Do you have that?

A. Yes, I do.

Q. Is it correct that the company is asking to amortize over three years approximately $2 million for storage damage expense?

A. That is correct.

Q. Do you have with you a copy of OCA Interrogatory Set 13, No. 8?

A. Yes.

Q. Would I be correct that the claim which you show on Schedule 6 of your Statement 18A is based upon estimated expenditures associated with Hurricane Gloria?

A. Yes.

Q. Do you know when you might have available more accurate figures than the estimates which you provided in that interrogatory?

A. Again, as I was describing the procedure for expense authorizations, once we had this expense or envisioned it, an expense authorization is created and charges clear against it. This is the estimate of the expenses that were additional expenses to occur for Hurricane Gloria. Those charges should clear. Whether they have all cleared or not, I don't know.

I can get you a status of what is cleared against that expense authorization as of today.

Q. Yes. Again, if we could make that a transcript request. If you could provide us -- maybe it would be easier to show the amount which appears in the expense authorization and the expenditures to date for each category.

A. Whatever breakdown is available. The expense authorization is set up in categories, and that is how the expense is cleared.

MR. RUBIN: Can we take just a minute, Your Honor, or if you want to take a short break?

JUDGE MATUSCHAK: I think we will take a short recess, ten minutes.

(Recess.)

JUDGE MATUSCHAK: Back on the record.

MR. RUBIN: Thank you, Your Honor.

I would like to have marked for identification OCA Exhibit 32. It is actually a series of three company responses under one exhibit number. It is the company's response to OCA Interrogatory Set 3, Number 19; the company's response to Trial Staff request REO-1; and the company's response to OCA Interrogatory Set 3, Number 20.

JUDGE MATUSCHAK: It will be so marked.

(Whereupon the document was marked as OCA Exhibit No. 32 for identification.)

BY MR. RUBIN:

Q Mr. Hill, are you the witness responsible for the preparation of all three of these interrogatory answers which have been marked as OCA Exhibit Number 32?

A Yes, I am.

Q Am I correct that all of these interrogatories deal with the problem of theft of electric service?

A They all deal with theft of electric service, yes.

Q And if we look to the third interrogatory in that set -- it is OCA, Set 3, Number 20 -- am I correct that Philadelphia Electric Company has not been able to determine how great of a problem theft of electric service might be for the company?

A I think the answer in the interrogatory is quite correct, that there is no formula that the company is aware of, no formula that can actually calculate those numbers.

Q I believe that you state one organization has estimated that it might approximate one-half of one percent of total revenues; is that correct?

A That is the statement of this particular group. Whether or not that number applies to Philadelphia Electric Company we have absolutely no idea.

Q Could you tell us: is the Public Utilities Group that you cite here -- you call it an industry organization. Is that made up of public utilities or electric utilities?

A I believe it is electric utilities, yes.

Q So this isn't an outside organization, a bunch of consumers or other people; this is the utilities themselves estimating it might be one-half of one percent?

A This is a group of utilities, yes.

Q If hypothetically this one-half of one percent were an accurate figure for Philadelphia Electric Company, would you agree with me that the company's total revenues are roughly $2.5 billion a year?

A That's about correct, yes.

Q So one-half of one percent would be roughly $12.5 million a year?

A That's the mathematics. I don't agree with your initial presumption that the one-half of one percent applies to Philadelphia Electric Company, because, as I indicated, we have no idea what percentage that might be.

Q Fine; that was a hypothetical question.

Mr. Hill, would you look at the page before that in this exhibit? It's marked IR-Staff-REO-1.

A Yes.

Q Does this in summary fashion describe the company's current program as it relates to theft of service?

A I think REO-1 represents the activity on theft of service. I think the Consumer Advocate's interrogatory, OCA-3-19, really represents our procedure and our activities to try to prevent theft of service.

Q Thank you.

Mr. Hill, if we could again change issues and look at the question of the company's nuclear fuel procurement program, would you agree with me that in R-811626 and in R-822291 the company was allowed to include in rate base its nuclear fuel investment for certain uranium mining and milling ventures?

A Yes.

Q And would I also be correct that those projects which were included in rate base in those two cases have since been cancelled by the company?

A With the exception of one.

Q Which one would that be?

A That would be the Homestead Mine property, which is one of our commitments for the Salem project, which is monitored by Public Service Electric and Gas.

Q And would I also be correct that these projects were cancelled primarily because of the then current situation of the uranium market?

A Each cancellation decision was made on the basis of an economic determination; that is correct.

Q And just so we are all familiar with the details, would it be correct that the price of uranium did not go up as quickly as the company had assumed when it entered into those ventures?

A I wouldn't say that is solely it. The price of uranium fell dramatically after the company had made commitments; actually at some time subsequent to the company's commitment and involvement in these projects, the price of uranium fell, and it has maintained at a rather low level since. The estimates for at least the very near term are there is not going to be substantial recovery, and that's the basis of the economic evaluations for cancellations.

Q Mr. Hill, am I correct that in a complaint proceeding docketed at C-850128 the Commission is currently dealing with the returns which the company received from the inclusion in rate base of those projects in R-822291?

A I think the complaint speaks for itself. The Commission was investigating what was known by the company at various points in time prior to and after the cancellation decisions.

Q Would I be correct that the Commission is investigating what the company knew during the time period of the case docketed at R-822291?

A The Commission is looking at the company's rates for the period of time preceding reflection of that investment in rate base, all the way through, I believe, sometime at Docket R-842590. It covers a period of about four or four and a half years.

Q Mr. Hill, would I be correct that in this case in your Statement 18A you're netting against this investment the return which the company received in R-811626, but not as a result of the rates which went into effect in November of 1983 in R-822291?

A Yes, and the reason being that the company has currently filed a settlement agreement with the Administrative Law Judge in that proceeding in which the company's recovery under R-822291 will be netted or will be refunded so that in total the company would be passing back, subject to Commission approval, the entire adjustments, and the settlement would be passing back to customers the dollars that it recovered while those investments were allowed in rate base for those two proceedings.

MR. RUBIN: Your Honor, I would like to have marked for identification as OCA Exhibit 33 the company's response to OCA Interrogatory Set 20, Number 10.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as OCA Exhibit No. 33 for identification.)

MR. RUBIN: Thank you, Your Honor.

BY MR. RUBIN:

Q Mr. Hill, again are you familiar with this response?

A Yes, I am.

Q Am I correct that in the calculation which appears in your Statement 18A, and which you just described in a general way, that you are determining the return which the company received as a result of these investments being in rate base based upon the actual earned return of the company?

A Yes, and that is a methodology which is consistent with the Commission's adjustment for the Pioneer Uravan project, which was a subject of investigation in the last rate proceeding.

Q Yes. And just to make it clear, you are not using in this calculation the return allowed to the company by the Commission in those two cases?

A We are not using the allowed returns; we are using the actual returns; again which is consistent with the Commission precedent for Pioneer Uravan.

Q Mr. Hill, can you tell us in a general way how you developed these earned return figures -- well, excuse me; before we get to that: am I correct that the work papers attached to OCA Exhibit 33 show your calculation -- show the percentages which you are using as earned return figures?

A Yes.

Q Could you tell us how you calculated these earned returns?

A For each one of the calendar years in which there was some recovery in rate base of these investments, the company computed, based upon the year-end capitalization and cost rates, an earned return on equity. The after-tax cost of capital in that calendar year, the company then further adjusted that after-tax cost of capital to a revenue cost of capital, which we have referred to as a pre-tax cost. That percentage of revenue -- that percentage is applied to the investments which were allowed in rate base for the number of months in which the investments were included to derive the total revenues received while the investments were in rate base. They were summed up for all the associated properties, the associated properties being the Lee Mine and the Sequoyah Project, and those are the basis of the company's claim in my Schedule B-24.

Q And this would represent returns to the company beginning in May, 1982 and ending in November, 1983?

A That's correct.

Q Mr. Hill, the returns which you referred to and the revenues and capitalization, are those total company figures, or just Electric Division figures?

A The company has no separate capitalization or cost rates for its individual operations. The company has followed the practice, as has this Commission in utilizing the Philadelphia Electric Company capitalization cost rates in determining fair return; I have been consistent with that methodology.

Q Was that calculated based upon rate base or based upon total capitalization?

A It was based upon total capitalization, just as our cost claims proposed by Mr. Brennan are based upon total capitalization.

Q And, Mr. Hill, in looking at OCA Exhibit 33, there is a handwritten page. I guess it is the first page of the attachment. Am I correct that the handwritten page shows what you calculated to be your actual capitalization ratios and cost rates and lead to your actual rate of return?

A Yes, these are the work papers which were requested by the Consumer Advocate.

Q Am I correct that the typewritten page after that, which is headed "Return Allowed at R-811626," shows what the Commission actually allowed in those cases as the cost of capital?

A That represents the capital structure and capital costs which are drawn from the Commission's order at 1626.

Q Fine. Mr. Hill, would I be correct that the capitalization ratios, that is the capital structure, as well as the cost rates for each type of capital that you show on the handwritten page, all differ from what the Commission allowed in that rate proceeding?

A Yes, capitalization and cost rates always differ, and, to my knowledge, always have differed from the actual capitalization and cost rates in Commission orders.

Q If we look for a moment at the cost rate for common equity, am I reading this correctly that the Commission allowed the company a return on common equity of 17.75 percent in that case?

A I believe that Mr. Brennan would say that the Commission allowed the company the opportunity to earn 17.75 on the cost of common equity.

Q And your handwritten page shows that in fact from

May through December of 1982 the company only earned 14.25 percent; is that what it shows?

A That is exactly what that shows.

Q And similarly from January through November of 1983 they earned 15.61 percent on equity?

A Actually those numbers are not just for that period. That is for 1983. The earned return on equity was 15.61. Likewise, 12.25 percent was the earned return on equity for all of 1982.

Q For the full year?

A Yes.

Q Not just for the period that the rates were in effect forR-811626?

A That is correct. Again, the methodology and the mathematics are consistent with the Pioneer Uravan adjustment, which was allowed by the Commission in the prior rate proceeding.

Q Mr. Hill, in the last rate case where the Pioneer Uravan adjustment you just referred to was made -- I know we are going back a year or two, but do you recall being questioned by any of the parties as to how the capitalization ratios and cost rates and cost of capital you show were developed by you?

A Yes. There were several interrogatories posed to the company, actually from the Trial Staff, at that point in time, and the company responded to those interrogatories, and those interrogatories formed the basis of the Staff adjustment which was proposed and accepted by the Commission.

Q And do you recall if the Staff witness adopted the capitalization calculations which you made, or did they propose some different methodology?

MR. MacGREGOR: Objection, Your Honor. The record in that proceeding speaks for itself. I really don't see what purpose it serves to go through that with Mr. Hill at this time.

MR. RUBIN: I will withdraw the question, Your Honor.

BY MR. RUBIN:

Q Mr. Hill, if we could move on, there is one additional issue I would like to discuss with you today.

Am I correct that in this proceeding the company is asking to include in its rate base 100 percent of the common facilities associated with the Limerick plant?

A Yes, that is correct, investment in common facilities through June 30, 1986.

Q And would you recall how the common facilities for the Salem plant were treated -- I guess we'd have to go back to 1977 when Salem Unit 1 went into service.

A How they were treated?

Q Yes. Did the Commission allow the company to put 100 percent of the common facilities of Salem in rates when Salem Unit 1 went in?

A The company's claim for Salem Unit No. 1, my recollection of the company's claim, did not request the Commission to include 100 percent of common facilities associated with Salem 1 with the first unit.

Q And when did Salem Unit 2 begin commercial operations?

A 1981.

Q And could you tell us when Salem Unit 2 with the other 50 percent of common for Salem was included in the company's rate base?

A January 25, 1985.

Q So there was a roughly three-year period when ratepayers were not paying a return on the other 50 percent of common for Salem and the company was not accruing AFUDC on that; would that be correct?

A No, for the period up through December 31, 1984 the company was under contract to sell the equivalent output of Salem Unit No. 1 to Jersey Central Power and Light. Salem Unit No. 2 was not included in the company's rate base.

Q You answered the question no, and maybe we misunderstood each other. Between 1981 when Salem 2 entered commercial operations and January, 1985 when it was included in the company's rate base, first could you tell us what the company did with its share of Salem 2?

A It sold the equivalent energy output of Salem Unit No. 2 to Jersey Central under a contract which expired on December 31, 1984, and at no time prior to January 25, 1985 was the investment in Salem Unit No. 2 included in jurisdictional rates for retail customers in Pennsylvania.

Q Yes, and that would include the other 50 percent of common facilities for the Salem plant?

A Yes, it would.

Q During the period -- let's take the period prior to 1981 when Salem 2 began commercial operation. Did the company accrue AFUDC on the 50 percent of common facilities?

A Prior to -- what was the date?

Q Prior to Salem 2's commercial operation date did the company accrue AFUDC on the 50 percent of common fcilities which were not in the company's rate base with Salem 1?

A Yes, we did the calculation to accrue at the AFUDC rate for that additional 50 percent of common facilities, and those dollars of AFUDC were employed for ratemaking purposes and included in the company's depreciable assets in our prior rate case, 842590.

Q Now, when Salem 2 began commercial operation in 1981, did the company cease accruing AFUDC on the other

50 percent of common facilities?

A Yes.

Q And I believe you stated before that ratepayers did not pay a return on the other 50 percent of common facilities until January, 1985 when Salem 2 was actually included in the jurisdictional rate base?

A That is correct.

Q So there was roughly a three-year period when the company did not receive a return on those facilities from ratepayers and also did not accrue AFUDC; is that correct?

A That's correct. Neither of those events happened, and it was not involved in Pennsylvania ratemaking.

Q Mr. Hill, with the company's claim in this case to include 100 percent of the Limerick common facilities in rates with Limerick Unit 1, I believe you state in your testimony that this will provide a benefit to ratepayers; is that correct?

A Can you give me a specific reference?

Q I'm sorry; I'll withdraw the question.

Mr. Hill, do you know what the Commission's ratemaking treatment has been for common facilities for other nuclear plants in Pennsylvania?

A I am familiar with the practice of the Commission in treating common plant and actually how utilities have filed to include common plant for ratemaking purposes in Pennsylvania. I believe we are the only utility that I am aware of; there may be others in Pennsylvania that have filed for inclusion of 100 percent.

Q So as far as you know, for example, Beaver Valley Unit 1 was included in rates with just 50 percent of the common facility?

A I believe that was the basis of the claim for that utility.

Q I would like to show you a copy of the Commission's order in Pennsylvania Public Utility Commission versus Duquesne Light Company, which was docketed at R-80011069, and in particular at page 30 of the Commission's order in that case.

I have bracketed a few lines at the bottom of that page, and when your counsel has finished reviewing that I wonder if you could read those few lines to us.

MR. MacGREGOR: Your Honor, I am happy to show this document to Mr. Hill, but I would note that the company's witness for inclusion of 100 percent of the common plant in ratemaking is Mr. Boyer, who will be appearing next week. He will be familiar with these questions and be able to answer them. If Mr. Hill is able to answer them, he can.

THE WITNESS: I stand corrected based on

the reading that Duquesne did in fact claim 100 percent.

BY MR. RUBIN:

Q And would I be correct that the Commission only permitted Duquesne to include 50 percent of the common facilities for Beaver Valley in rates with Beaver Valley Unit 1?

A That's what the order says. I don't know the justification or the rationale.

Q I'm sure that's an issue we can explore later in the proceeding.

Mr. Hill, are you aware of the ratemaking treatment which the Commission gave to the common facilities of the Susquehanna Unit when Pennsylvania Power and Light Company placed Susquehanna Unit 1 in its rates?

A My understanding is it was split 50/50; 50 percent of the common facilities went with the first unit and 50 percent with the second unit.

Q Thank you, Mr. Hill.

MR. RUBIN: Thank you, Your Honor. That concludes our cross-examination of this witness.

Your Honor, at this time I would like to move into evidence OCA Exhibit Numbers 24 through 33 inclusive.

JUDGE MATUSCHAK: Any objections?

MR. MacGREGOR: No objection, Your Honor.

JUDGE MATUSCHAK: OCA Exhibits 24 through 33 are admitted in evidence.

(Whereupon, the documents marked as OCA Exhibits Nos. 24 through 33 were received in evidence.)

MR. RUBIN: Thank you, Your Honor.

JUDGE MATUSCHAK: Ms. Ferkin?

CROSS-EXAMINATION

BY MS. FERKIN:

Q Mr. Hill, good morning.

A Good afternoon, Ms. Ferkin.

Q Thank you. I stand corrected.

Mr. Hill, if you will recall, the GEC sent the company a series of interrogatories and in GEC Set 1 requesting forecast information as to company revenues, expenses, assets, capital structure and source and use of funds; do you recall those interrogatories?

A I recall many interrogatories from GEC, yes. Yes, I have at least the ones that we responded to.

Q Is it fair to say that in essence the responses to those interrogatories referred the GEC for the bulk of this forecast information to the response to Interrogatory OCA-1-26; is that correct?

A Which I believe refers to other interrogatories filed or submitted on behalf of the OCA.

Q Why don't we make it clear --

A If there is one specific interrogatory you are admitted in evidence.

(Whereupon, the documents marked as OCA Exhibits Nos. 24 through 33 were received in evidence.)

MR. RUBIN: Thank you, Your Honor.

JUDGE MATUSCHAK: Ms. Ferkin?

CROSS-EXAMINATION

BY MS. FERKIN:

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A Good afternoon, Ms. Ferkin.

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A Which I believe refers to other interrogatories filed or submitted on behalf of the OCA.

Q Why don't we make it clear --

A If there is one specific interrogatory you are referring to?

Q What I am referring to is the interrogatory response that was admitted today as OCA Exhibit 27.

A Yes, that represents the company's financial forecast.

Q Mr. Hill, does that represent the latest available financial forecast for the company?

A Yes, it does. The next financial forecast, I believe, will be put out and dated May of 1986; it is April or May. That is normally the time of year that it is produced.

Q Mr. Hill, does the forecast in OCA Exhibit Number 27 present total company information?

A Yes, it does.

Q Mr. Hill, who prepared OCA Exhibit 27?

A The Financial Analyst Forecast Sheet is prepared under the direction of Mr. Paquette.

Q Were you involved in the preparation of the forecast?

A Of this forecast sheet, no, I was not.

Q Would you be familiar with the information regarding the inputs into the forecast?

A I am somewhat familiar with the company's budget and forecast procedure, which actually falls in Mr. Solecki's area. Mr. Solecki is the one that produces the company's budget and forecast, which the data is extracted from that budget and forecast to summarize in the company's Financial Analyst Forecast information document which you have referred to as OCA Exhibit 27.

Q Mr. Hill, what I would like to do is ask you some questions about the information contained in OCA Exhibit 27 and see how far we can get.

A Fine.

Q First of all, I would like to define certain terms in the attachment, and I am looking at the actual page with forecast information on it, not the notes page.

A Fine.

Q Looking at construction expenditures.

A Yes.

Q Can you tell me what "Other" refers to? It's the last item in the list under construction expenditures.

A If I go down construction expenditures I have all electric operations contained in the first four items. There is gas, there is nuclear fuel. If there are any construction requirement -- expenditure requirements for steam operations which the company has, or non-utility operations, they would be probably contained in the "Other" category designated by Note 6. I see Note 6 refers to "debt used to finance construction or allocated to non-utility operations." I believe that steam and non-utility operations would probably comprise that category.

MS. FERKIN: Mr. MacGregor, I would like to make a data request to confirm what Mr. Hill has just represented with respect to that item.

MR. MacGREGOR: Ms. Ferkin, Mr. Paquette is responsible for this exhibit. I'm sure he can answer the question when he is on the stand. If I can confirm it in the meantime, I will.

BY MR. FERKIN:

Q Mr. Hill, with respect to -- again on the sheet of forecast information, with respect to internal sources of capital, again I am wondering what the item entitled "Other" refers to, if you know.

A Other than depreciation?

Q Yes.

A Other sources of capital would probably be the effects of investment tax credits, and possibly to some degree the effects of accelerated depreciation, or internal sources generated from income other than depreciation.

MS. FERKIN: Mr. MacGregor, I'm also going to need a confirmatory data request response on that point.

BY MS. FERKIN:

Q Mr. Hill, moving on down the same column under Sources of Outside Capital, under Outside Financing, again there is a reference to "Other," just below the reference to common stock. What I'm specifically interested in is the $200 million figure forecasted for 1986. Do you know what that represents?

A I do not. I would address that question to Mr. Paquette.

Q All right. Mr. Hill, can you turn to the page of notes in OCA Exhibit 27?

A Yes, I have that.

Q Now, in Footnote 1 do you see the statement that the forecast information has been "set forth in anticipation of revenues in the forecast years will be sufficient to support the projected construction expenditures, internal sources of capital and financing"?

A Yes.

Q That statement says that the forecast anticipates revenues to be sufficient to support construction exependitures. Can you tell me, if you know, what growth rate in annual revenues does this forecast assume?

A I don't believe it is constructed that way, but I would direct that question to Mr. Paquette.

Q Mr. Hill, you said you didn't know if that was how the forecast was constructed. Do you have an opinion as to how it was constructed?

A I would direct that question to Mr Paquette. It is my understanding that there is no percentage applied to the revenues to derive the expected future revenues, but Mr. Paquette would be much more familiar with the methodology than I am.

Q Mr. Hill, I am also interested in determining what rate of return and what interest coverage the forecast assumes, again in support of that statement in Footnote 1; would you also suggest I direct that to Mr. Paquette?

A Yes, I would.

Q Moving on to Footnote 5, Mr. Hill --

MR. MacGREGOR: Your Honor, I know there is a certain leeway in cross-examination, but the interrogatory response states on its face that it is prepared by Mr. Paquette, and I think Mr. Hill has repeatedly stated that Mr. Paquette is the person responsible for this and can answer questions on it. I don't know how much longer we should go on with this.

JUDGE MATUSCHAK: We will see what he can answer. What he can't we will defer to Mr. Paquette.

MS. FERKIN: Your Honor, that is my reason for directing these questions to Mr. Hill. I'm frankly not sure what Mr. Hill might be able to answer.

JUDGE MATUSCHAK: You may proceed. Just proceed and see what you can get out of him. What you can't we will defer to Mr. Paquette.

MS. FERKIN: Thank you, Your Honor.

BY MS. FERKIN:

Q Moving on to Footnote 5, Mr. Hill, in Footnote 5 it states that the objectives of the financing plan is to "maintain maximum financial flexibility and assure ready access to required capital at reasonable cost"?

A Yes.

Q Do you know how this objective affects anticipated revenues?

A No, I do not.

Q Would you have the same response with respect to interest coverage and rate of return?

A Yes, I would.

Q Should I talk to Mr. Paquette about this?

A Yes, you should. Mr. Paquette is the company's chief financial officer, and he is the one that has the responsibility for this analyst forecast sheet.

Q Can we move on to Footnote 6 please?

A Yes.

Q Footnote 6 indicates the rate used for capitalizing AFUDC ranges in forecast years from 9.5 percent to 9.9 percent?

A Yes.

Q Do you know; can you tell me what rates were assumed in each of the forecast years?

A I can supply you that information. I do not have it with me.

Q But you can supply that information?

A Yes, I can supply that information.

MS. FERKIN: Mr. MacGregor, I would like to make that a data request.

MS. FERKIN:

Q Similarly, would you be able to supply me the assumptions that were made with respect to capital structure used in developing the AFUDC rates?

A Yes, I could.

Q And the assumed cost of capital each year with respect to the AFUDC rates?

A Yes, I could.

MS. FERKIN: Thank you. I would like to include that in my data request.

BY MS. FERKIN:

Q Also in Footnote 6 it refers to the CWIP base for each of the forecast years. Are you able to tell me the CWIP balance by year for each of the forecast years?

A Yes.

MS. FERKIN: I would put that in the same data request. Thank you.

BY MS. FERKIN:

Q And included also in that would be the level of prior AFUDC assumed for this forecast. Are you able to tell me that now?

A I do not have -- that amount of AFUDC is shown on the statistical data on the last page in each one of the years 1984 to 1989.

Q My understanding is that that is what is assumed in developing the forecast for AFUDC. I'm more interested in the prior AFUDC.

A The prior AFUDC forms the basis, and then you have additional accruals for AFUDC because it is a compounding function. On certain projects when they go into service the AFUDC ceases. The AFUDC continues on such projects as Limerick until it is placed in service.

Q Thank you, Mr. Hill.

Can we move on to Footnote Number 7?

A Yes.

Q Footnote 7 refers to investment tax credits.

A Yes.

Q Again referring to the forecast, can you tell me amounts of investment tax credit are assumed to be carried forward each year?

A For each of the four years?

Q Yes.

A I could supply you that data. I do not have it with me.

Q Could you also supply me in that data, or if you could tell me now how the amount of investment tax credit carried forward is reflected in the forecast?

A No, I cannot. That would be Mr. Sileo's calculation.

Q Mr. Sileo?

A Mr. Sileo.

MS. FERKIN: I believe I am going to make that a data request of Mr. Sileo, if I could.

BY MS. FERKIN:

Q Footnote 7, again on that same page, Mr. Hill, states that the forecast years reflect a ten percent investment tax credit rate "to the extent it may be utilized."

If you know, can you tell me what rate is actually utilized in the forecast by year?

A The ten percent is employed to the extent that it can be utilized. That is the rate that is employed.

Q So what you are saying is --

A If we can generate more ITC than we can utilize; that's what that note is referring to. That would be carried forward, the difference. To the extent that it can be utilized, a ten percent rate is employed.

Q Do you know what assumption is built into the forecast as to utilized and generated investment tax credit rates?

A No, I do not.

Q Would Mr. Paquette know that?

A Mr. Paquette would or Mr. Sileo, one or the other.

Q Let's go back to the sheet with the actual forecast information, if we could, in OCA Exhibit 27. In the section labeled Capital Requirements the reference to long-term debt and preferred stock refundings; do you have that?

A Yes.

Q Other than the Limerick revolver, I am referring to.

A Yes.

Q Can you tell me, if you know, for each year of the forecast which preferred stock issues are assumed to be refunded?

A I believe that shows on the company's -- the sinking fund, shown in the company's B-20 sheet; the refunding would be the 7 percent cumulative, 7.325 cumulative, 9.520 cumulative, 8.75 percent, 10 percent and 15.25.

Q Mr. Hill, can you tell me: when you say B-20 sheet are you referring to one of your exhibits?

A Yes.

Q TPH-2?

A Exhibit TPH-2.

Q Page B-20; thank you very much.

And it is your understanding that that information corresponds to the information contained in this forecast?

A Yes, those will be the issues.

Q Thank you very much.

Now also staying with the forecast sheet, Mr. Hill, under Sources of Capital - Outside Financing, under Long-Term Debt do you see where it lists amounts for "Other" net?

A Yes.

Q Can you tell me, if you know, what the costs are associated with the issuances listed here?

A I do not have that data with me. I could supply it.

MS. FERKIN: I would like to make that a data request.

BY MS. FERKIN:

Q Would you have the same response with respect to preferred stock issuances listed there?

A That is correct.

Q And with respect to the short-term debt?

A That is correct.

MS. FERKIN: I will include those in my data requests.

BY MS. FERKIN:

Q Moving on down the page, Mr. Hill, under the Significant Income items, the line item entitled "Income

Tax Reductions Allocated to Construction"?

A Yes.

Q Do you know -- can you tell me how the values listed there are computed?

A That is the tax benefit associated with the deductibility of interest; in the AFUDC rate where you will employ an after-tax AFUDC rate, that is the tax benefit which carries with that and is -- the tax benefit, in essence, is capitalized when you employ an after-tax AFUDC rate. That is the item which is referred to as Tax Reduction Allocated to Construction.

Q Mr. Hill, I wonder if you could supply us with the work papers in support of the calculations listed here on the forecast sheet.

A Certainly.

Q I have the same question with respect to the next line item under Significant Income items, deferred federal income taxes from liberalized depreciation; can you tell me, if you know, how those amounts were computed?

A That represents the tax benefit which arises from the difference between straight line booked depreciation and the provisions of accelerated tax depreciation for each of the calendar years indicated, and I can supply you with the calculations or work papers supporting that.

MS. FERKIN: I will include that in my data request.

BY MS. FERKIN:

Q Mr. Hill, I'm going to move on.

MR. MacGREGOR: Your Honor, before we move on, I would suggest that on each of these items we will be sure that Mr. Paquette is available to provide the information when he is on the witness stand next Friday. Perhaps we can take care of it that way more quickly than we might otherwise through a formal data request process.

MS. FERKIN: I tend to disagree, Mr. MacGregor. Mr. Hill displayed quite a bit of knowledge; on many of the items that I asked him about he stated that he was able to personally supply many of the items that I asked him about.

MR. MacGREGOR: No, I don't think that's correct. I think he indicated that he could obtain the information from the company. In most instances he is going to obtain it from Mr. Paquette and Mr. Paquette's group anyway. All I am saying is you will receive your information more quickly if Mr. Paquette provides it next Friday when he is on the witness stand.

JUDGE MATUSCHAK: The only thing is counsel may be better prepared to cross-examine if she has that information sometime prior to that time.

MR. MacGREGOR: I don't believe we will be able to put all that information together much before next Friday in any event, Your Honor. It is quite a substantial data request.

JUDGE MATUSCHAK: Whatever you can do without too much inconvenience.

THE WITNESS: We will attempt to expedite it.

MS. FERKIN: Thank you, Your Honor.

BY MS. FERKIN:

Q Mr. Hill, I would like to show you a response to an interrogatory. Before I mark it as an exhibit I would simply like to establish the extent of your knowledge with respect to this particular interrogatory.

(Document handed to witness.)

Mr. Hill, what I am showing you is the response to OCA Interrogatory 2-51.

A Yes.

Q I noticed that the responsible witness listed here is Mr. Hoch, but let me ask you: are you familiar with this interrogatory?

A No, I am not.

Q YOu have never seen it before?

A I might have seen it. I am not familiar with the content of the material or the source. I'd be happy to talk about it, if you like.

I'd be happy to read it, if you like.

Q Let me try this: can you turn to -- well, first of all, do you see listed on the cover page of the interrogatory the statement that "Attachment, IR-OCA-2-51 is the company's most recent projections of the all-customer average unit revenues in nominal dollars"?

A I see that.

Q And turning to the attachment, do you see the column that lists unit revenues in nominal dollars projected for the years 1986 through 2005?

A Yes, I do.

Q Do you know the source of that information?

A No, I do not. Specifically I do not. I would only be guessing if I did.

Mr. Hoch could supply a very specific answer since he prepared the interrogatory. In my speculation, it would be something from the Limerick 2 investigation. I do not know; that is only my speculation.

Q All right. Thank you.

Now I'm glad you mentioned the Limerick 2 investigation, Mr. Hill. You testified for PECo in the Limerick 2 investigation which was docket number I-840381, did you not?

A Yes, I did.

Q Now, Mr. Hill, I'm going to take a moment to show you and your counsel what I will represent to be a computer run of the company's financial model, otherwise known as FINAN. Would you take a moment to look at that?

A Sure.

(Witness perusing document.)

A Yes, I am familiar with this output, and input.

Q Mr. Hill, now that I have shown you that information, I am going to ask you to accept subjet to check that that information represents a FINAN run presented by PECo in the Limerick 2 investigation in its address of what in that investigation was a build Limerick case; it was the base case 1. Would you accept that subject to check?

A Yes, I believe this corresponds to my additional direct testimony and exhibit which I filed very late in the year, or early January in 1985. This is the output and input of that financial model.

Q To the best of your knowledge, when was this particular run performed? I know you mentioned the date of your testimony, but do you know --

A The company had to submit its initial testimony -- or did submit its initial testimony sometime in early December, and about I think it was late January, 1985 the company submitted revisions to each of the four base cases in that proceeding. This computer model input and output represents what I believe to be the input and output from one of the base cases which was completion of Limerick 2 on the company's proposed schedule. The model run was done sometime prior to that submission date.

Q I am going to provide you, Mr. Hill, and the parties with two excerpted pages from the run that you have in front of you, and I would like to mark it as GEC Exhibit 2.

MR. MacGREGOR: Ms. Ferkin, I believe there already is a GEC Exhibit 2.

MS. FERKIN: I had discussed the interrogatory response about five minutes ago with Mr. Hill, and we decided not to mark it. So this will be GEC Exhibit 2, I believe.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as GEC Exhibit No. 2 for identification.)

BY MS. FERKIN:

Q Mr. Hill, if you could also at this time turn to the volume which has been submitted in this proceeding, PECo Exhibit 1, Volume 22?

A I have that document.

Q Could you turn to II-E-2?

A Yes.

Q You were asked at II-E-2 for summaries of the utility's projected operating and capital budgets for the two calendar years following the end of the test year; is that correct?

A That is correct.

Q Does Attachment II-E-2(a) represent a statement of the 1986 budget and 1987 forecasted operating income?

A Yes, as originally constructed when the company prepared its budget and forecast at the end of 1984 and early 1985. That is the actual data which was constructed at that point in time for budget '86 and forecast '87.

MS. FERKIN: Your Honor, could I have just a moment?

(Pause.)

BY MS. FERKIN:

Q Mr. Hill, I am going to ask you to turn to page 1 of GEC Exhibit 2.

A Yes.

Q And keep next to it Attachment II-E-2(a).

A Yes.

Q From your submission in this proceeding.

A Yes.

Q In GEC Exhibit 2 I would like you to focus on the column marked 1987.

A Fine; I have that.

Q Now, would you agree with me that page 1 of GEC Exhibit 2 represents a statement of operating income projected for a number of years, an Electric statement of operating income?

A Yes, this is the output of the company's financial model for each of those years, including 1987.

Q Provided no Limerick 2 investigation?

A Provided no Limerick 2 investigation.

Q Let's focus on the comparison of certain items contained in your submission in this proceeding versus what was submitted in Limerick 2 for the year 1987.

A Fine. If you want to save some time, these documents are not compatible or comparable, but if you wish to proceed, fine; we can compare item by item.

Q We will get to that in a moment, but I would like to go item by item for a moment.

A Fine.

Q Would you agree with me that as to the item, Operating Revenue --

A There is a substantial difference.

Q Would you agree with me that your submission in this proceeding presents a figure of approximately $2,295,000,000?

A Yes, which represents the company's total electric revenues for forecast year 1987 in the company's budget forecast at existing rates.

Q And in the FINAN run the comparable figure is approximately $3,005,000,000?

A Yes, which represents the operating revenue to provide a specific return on equity for 1987, which is the way the financial model is employed and calculates operating revenue. It is not based upon existing rates.

Q I would also like to ask you about production expenses, if I could. Would you agree with me that for 1987 the FINAN run shows total power production expenses of approximately $1,007.000,000?

A I see that number, yes.

Q And that your submission in this proceeding in Attachment II-E-2(a) shows a figure of approximately $1,041,000,000?

A Yes, I see that number. One is based upon a financial model run, which is Exhibit GEC-2, which is based upon a specific production cost model run for I believe 39 years, which was the period of time under investigation in the Limerick 2 proceeding. It was done specifically for that proceeding, along with an additional three other runs to analyze the differences between base cases.

Power production expenses for 1987 in II-E-2(a), accompanying PECo Exhibit 1, was extracted from the company's 1986 budget and forecast, an entirely different document and methodology. They are not exactly the same, nor will they ever be.

Q Mr. Hill, if you know, can you tell me what the specific differences would be that you are referring to that renders this information non-comparable?

A To begin with, the company's budget and forecast is all prepared under the direction of Mr. Solecki. Budget and forecasting procedure is on the basis of the 160 or 170 responsible areas feeding data to Mr. Solecki in terms of operating expenses, revenue, taxes, depreciation and other items. Mr. Solecki, himself, analyzes that data, puts it together and presents that to Mr. Paquette for his review and acceptance.

The financial model run is done by Dr. Thompson in which he utilizes the model for the purposes of long-term projections, such as the special requirement that we had for the Limerick 2 investigation in which we had to look at the life cycle cost/benefits of various alternatives to supply power for Philadelphia Electric Company customers.

A certain set of assumptions were presented in that proceeding, based upon the Commission's directive that they wanted to look at comparable rates in selecting various alternatives. The company took it financial model, took what at that point in time were the best estimates and numbers available for forecasting purposes. We deviated in many cases from what we had had in our budget and forecast. We made specific reviews of fuel costs; we made specific reviews of unit availability, our escalation rates, and put all those necessary inputs into our financial model. At that time we ran it and produced the output and presented it to the other parties and ourselves in the Limerick 2 investigation.

The company has not done a similar analysis since the Limerick 2 proceeding of the type that you have presented in GEC Exhibit 2. The company's normal procedure is a five-year budget and forecast. In this case it started in 1985 and 1986 as budget years and then three years worth of forecasted data.

They are two entirely different operations. They provide two entirely different results, and there are reasons for having both of them.

Normally, to my knowledge, we have not presented, or did not present, any financial model analysis similar to that produced in GEC Exhibit 2 in our direct presentation in this proceeding.

Q Mr. Hill, I understand your statement that you did not produce a financial run comparable to what was presented in Limerick 2, that you did not present such a run in this proceeding.

A That is correct.

Q Has the company performed a run comparable to what was performed in Limerick 2 and not presented it in this proceeding?

A No, it has not.

Q I'd like to move on to my last set of questions. Mr. Hill, do you have in front of you what we admitted yesterday as GEC Exhibit 1?

A What was the interrogatory?

Q It was an interrogatory that I discussed yesterday with Mr. Carroll, interrogatory response GEC-2-2.

(Document handed to witness.)

A I have it.

Q Mr. Hill, there was a suggestion made yesterday -- I can't recall if it was on or off the record-- that you might be able to answer some questions with respect to Attachment B to this particular exhibit. Do you agree with that?

A There was such a discussion. The interrogatory, as all interrogatories, I have some knowledge of, since I reviewed them at least for typographical errors and other things prior to being sent out to other parties. So I am familiar with that, and I understand Part B is FERC Form 1, material which I also have some knowledge of.

Q Mr. Hill, let's turn to Attachment B of GEC Exhibit 1, could we?

A Fine.

Q First of all, Mr. Hill, the interrogatory refers to book additions to Peach Bottom 2 and 3 and Salem 1, 2 and common. Does "book" mean capital additions?

A Yes. We are making the distinction here between book and tax additions. Book additions would include the direct costs and overheads of the plants, as well as associated and accumulated AFUDC, and would represent the original cost of that particular facility or piece of property which was placed into service in that given year.

Q Also on page 1 of that attachment, Mr. Hill, the additions to Peach Bottom 2 and 3 are listed jointly. Doesn't the company have data for additions to each Peach Bottom unit listed separately?

A I heard Mr. Carroll state yesterday -- and I believe he's correct -- that the company had maintained Peach Bottom on a consoldiated basis as a station. I'm not sure what would fall in the area of property records, whether there is any breakdown or what breakdown is available for Peach Bottom Units 2 and 3.

Q Mr. Hill, I believe Mr. Carroll mentioned that was only -- the station accounting for Peach Bottom was only until 1982. I am wondering if you could check to see if we could attain separate data for these FERC accounts for each Peach Bottom unit, post-1982.

A I will check to see if there is anything available, and what is available I will be very happy to supply to the GEC.

Q Thank you.

Finally, Mr. Hill, am I correct that you are going to be submitting testimony as part of the company's presentation in response to the ECR-8 order in this proceeding?

A Yes, I am.

Q Is it possible for you to tell me what the subject matter of your testimony will be?

A If I can ever get together with my counsel and discuss it -- we have to discuss the Commission order and evaluate it, and at that time we will put together the appropriate testimony. It appears that the testimony will cover the operations, fuel and interchange expenses, and projections of expense, so we know Mr. Carroll will be involved.

And the Commission's order also calls for a revision, a refiling of a tariff sheet, so I will be involved in that; but the structure of that and the testimony, at least I know from my standpoint, I haven't started it.

MS. FERKIN: Those are all the questions I have for Mr. Hill.

I'd like to go back to an earlier topic. Mr. MacGregor, I have a number of data requests with respect to OCA-1-26, OCA Exhibit 27 I believe it has been called. Based on Mr. Hill's responses to some of my subsequent questions, I believe in order to cross-examine Mr. Paquette it is going to be necessary to have the work papers and back-up documentation for the May 31st forecast, OCA-1-26, also know as OCA Exhibit 27. I would like to make that request.

MR. MacGREGOR: We will provide it to you as quickly as we possibly can.

JUDGE MATUSCHAK: It is almost 1:00. Is this a good time to take a recess? We will reconvene at 2:00.

(Witness temporarily excused.)

(Whereupon, at 12:58 p.m. the hearing was adjourned to be reconvened at 2:00 p.m. this same day.)

AFTERNOON SESSION

(2:00 p.m.)

JUDGE MATUSCHAK: When you are ready.

Is there any further cross-examination of Mr. Hill?

MS. FERKIN: None for us, Your Honor.

MR. RAINEY: Not today, Your Honor.

MR. KLEPPINGER: I have just a few questions, Your Honor, if I may.

Whereupon,

THOMAS P. HILL, JR.

having previously been duly sworn, testified further as follows:

CROSS-EXAMINATION

BY MR. KLEPPINGER:

Q Good afternoon, Mr. Hill.

A Good afternoon, Mr. Kleppinger.

Q Referring you to page 7 of your testimony, lines 2 through 7 primarily where you discuss the Energy Cost Rate effect and treatment of the projected fuel savings in this case, would I be correct that you will begin measuring the $207 million projected fuel savings on the date that the rates in this case go into effect as opposed to the date that Limerick 1 becomes commercially operable?

A We will begin passing back the savings associated with Limerick Unit No. 1 concurrently with the effectiveness of the change in base rates, which would be sometime at the end of June, 1986, rather than the commercial operation date.

Q. So that at lines 5 through 7 where you discuss the possibility of actual energy savings either being more or less than those projected, when you perform that measurement you will be looking at fuel savings beginning late June of 1986?

A. That is correct.

Q. Does the company intend or have plans to, under the current scheme of Energy Cost Rate regulation, to file any interim adjustments between the date that the rates in this case go into effect and the normal filing cycle for ECR-11 in April of 1987?

A. Based upon the company's filed material that is in the proceeding now, there are no current plans to adjust the ECR until April of 1987, other than April of 1986, which hasn't come to pass yet.

Q. In order for $207 million of fuel savings to materialize between June of 1986 and April of 1987, isn't it true that Limerick 1 would have to operate at a capacity factor and produce energy in quantities greater than what were included in the forecast of $207 million, namely the 64.6 percent capacity factor that Mr. Carroll referenced yesterday?

A. Is your question whether the unit would have to operate in excess of that in order to achieve $207 million?

Q. During that time period, yes.

A. Based upon the company's filed Beta, I don't believe that's correct. If there's other assumptions you want to --

Q. You don't believe, you said?

A. In order to achieve the $207 million of fuel savings, based upon all the input assumptions, the unit would have to operate at approximately 65 percent capacity factor.

Q. But in order to reach the $207 million level, isn't it true that that number is based on 12 months worth of production and sales?

A. The $207 million?

Q. Yes.

A. The $207 million is constructed from page D-21, which looks at two years worth of data averaged over the two year period. The average capacity factor, holding all the company's input assumptions constant, would have to be 65 percent, approximately 65 percent, over that two-year period in order to achieve that $207 million worth of savings annually.

Q. And we won't have a year's worth of actual k4

operation before April 1, 1987 in order to assess whether or not $207 million has been reached in the first year, because we won't have 12 months' experience, isn't that true?

A. There will only be nine months experience by that point in time, but again that is subject to change as a result of the Commission's order.

Q. I understand that whatever comes in at the end of December may change all of this, but I do need somewhat of an understanding.

The calculation then in April 1, 1987 is what I am interested in. Let's assume for the moment that Limerick does not operate particularly well in those first nine months, given start-up problems or whatever, and your fuel savings are lagging behind,even on an annualized basis, the $207 million.

At that point in time, isn't it true that under current circumstances, PECo would have the ability to adjust its ECR for the undercollection experienced in the first nine months of operation?

A. Yes, that's correct, under the existing ECR mechanism. I believe it's seven months, because the reconciliation actually ends in January, 1987.

So, we would be looking at the period let's say July 1, 1986 through January 31, 1987.

Q. Now, if the unit operates better than projected and you have already reached $207 million in fuel savings between June of 1986 and April of 1987, at that point in time would your ECR for the period beginning April of 1987 begin refunding the actual energy savings in excess of the projections for that three-month period beyond April of 1987?

A. Based upon the actual fuel expenses incurred and the costs incurred for the period July 1, 1986 through January 31, 1987, if the unit performs at a better than expected capacity factor and there are greater savings than $207 million expressed on an annualized basis, there would be a pass-back of overcollection in the next subsequent ECR which would take effect April 1, 1987.

Q. Yesterday, when I cross-examined Mr. Carroll briefly, he was unclear as to how the fuel savings guarantee associated with Salem 2 came about in the last rate proceeding, and counsel directed that those questions be addressed to you, Mr. Hill, which is typically done.

Could you enlighten us today as to how the fuel savings guarantee came about in Docket 842590?

A. At the time, I believe it was the date that the record was closing in that investigation, Salem Unit No. 2 generator failed. That was the triggering event.

There was some concern about the used and useful nature of Salem Unit No. 2. The company filed its briefs, other parties filed their briefs and reply briefs.

The Administrative Law Judge issued his opinion in that proceeding. Judge Klovekorn recommended that, based upon the company's claim as it existed, that the company not be entitled to include Salem Unit No. 2 in base rates.

It was his determination because of the uncertain nature -- my understanding would be because of the uncertain nature of when the unit was going to return to service based upon the generator replacement.

In subsequent filed documents, which would be exceptions and replies to exceptions -- I don't know which one -- the company, because of the event taking place after the close of the record, felt that the unit was used and useful, felt quite strongly, felt very confident that the unit would return to service at or about the time we had projected.

And we offered in one of those documents to guarantee the fuel savings, to take the cloud off of the Salem Unit No. 2 unit for at least the period of time that was discussed within the rate case.

It's my understanding that the company's position paralleled the recommendation of the witness of the Office of Consumer Advocate in that proceeding, that the company be obligated to guarantee the savings of that unit, so we took their formulation and in essence accepted their idea or their concept and proposed that the Commission institute a guarantee for Philadelphia Electric Company.

The Commission reviewed those documents, the briefs, the rate case itself, and came to the determination that they would allow Salem Unit No. 2 in rate base with the provision that the company guarantee the performance of that unit as specified by the Advocate's testimony for I believe approximately a 14-month period, running from February 1, 1985 through March 31, 1986.

Q. So that, from that discussion, it's apparent, is it not, that it was a voluntary commitment by the company to that fuel savings at the conclusion of that case, and that it was not a fuel savings imposed upon them by the Commission?

A. Yes. It would be my position that it was voluntary, that there were unusual circumstances surrounding the Salem Unit No. 2.

Obviously, it was a major undertaking, a major problem which occurred right at the close of the record. And we felt confident in our estimates and the ability of Salem to perform, and were willing to take the risk, if you will, for the performance of that unit for at least the first 14-month period. It was a unique situation.

Q. Does the company have the same degree of confidence in the level of operation forecasted for Limerick

1 in this case?

A. I think we are fairly confident about the long-term capacity performance of Limerick Unit No. 1. However, we are not at this time making an offer to guarantee fuel savings.

We don't think the situation is the same. We don't think there is the necessity to do it. The benefits will flow as the unit performs. We expect it to perform at 65 percent over the lifetime.

Q. When you reference unusual circumstances surrounding Unit 2, I take it what you mean there is the generator failure and then the parties raising the point, the other parties to the case raising the point of the used and useful nature of that plant given the generator failure, is that correct?

A. Yes. The unit itself was not operating at the time that the case or the record closed in that proceeding. There is full expectation in this Limerick proceeding -- Limerick is operating right now. It's operating quite well. It's progressing along its testing.

It's expected to achieve 100 percent capacity well before the end of this year. We expect it to be operating and show its performance by the time this proceeding concludes.

Q. But it was a question of the used and useful nature of the plant which led the company to its conclusion in the Salem case that fuel savings should be guaranteed, is that --

A. I don't think it was the company's concern of used and useful plant. I believe that we felt that it was a used and useful plant.

There was concern, and there was papers filed by other parties that questioned the usdd and useful nature of it.

MR. KLEPPINGER: Thank you, Mr. Hill.

That's all I have, Your Honor.

JUDGE MATUSCHAK: Is there any further cross-examination of this witness?

MS. CHESTNUT: Your Honor, I have some questions based on Mr. Carroll's cross-examination that I had planned to ask Mr. Williams when he was presented, but given Mr. Hill's responses to Mr. Kleppinger's cross, I think he might be the appropriate witness, and I would like an opportunity to ask him those questions now.

JUDGE MATUSCHAK: You may proceed.

MS. CHESTNUT: Thank you.

CROSS-EXAMINATION

BY MS. CHESTNUT:

Q. Mr. Hill, Mr. Carroll yesterday agreed on cross-examination that the $207 million energy savings that you have been discussing is a two-year average, that actually the ProdCost simulation shows that the first year, energy savings will be approximately $155 million and the second year energy savings will be approximately $[illegible]2 million?

A. I recall those numbers from yesterday, yes.

Q. Mr. Carroll also agreed that the approximately $53 million which is likely to be overcollected in the first year is subject to ECR treatment. Do you agree with that opinion of Mr. Carroll's?

A. Yes, I do.

Q. And at this point, if that overrecovery takes place, does the company have any plans to --

A. Underrecovery, you mean, in the first year?

Q. Yes. Does the company have plans to seek recovery of that amount through its ECR?

A. Yes. As I discussed with Mr. Kleppinger, we will have a stub period of performance which will be approximately seven months, and over the reconciliation there, it would be wrapped into the ECR to take effect in April of 1987.

Q. Now, when you were discussing this issue with Mr. Kleppinger just now, you used the term "confident in our estimates." Does that mean that you are confident in the ProdCost and the results shown by the ProdCost runs? Is that the estimates to which you are referring?

A. I believe my discussion with Mr. Kleppinger concerned the confidence of the performance of the unit over its lifetime, and the capacity factor, and the ability to achieve that on an average basis. We think it is very doable.

Q. You have stressed several times that that expected 65 percent capacity factor will be achieved over the lifetime of Limerick 1.

Are you equally as confident that that 65 percent capacity factor will be achieved in the short-term period covered by these rates?

A. There will be variability. What that variability is, I do not specifically know.

Q. And in fact, it is even more unlikely that it will be achieved in the short-term period given the fact that these first two years will be the first two years of commercial operation?

A. A lot of things are going to depend upon the capacity factor of the unit in its first two years. I think the major one is the schedule for refueling which will take place in that period of time.

Mr. Carroll I think discussed that the 65 percent he feels is a reasonable capacity factor for performance based upon the status of the unit, that is its immature status at that point.

So, I share his confidence that it should be able to reach that 65 percent in that two-year period.

Obviously, confidence extends as one goes forward in time when you are seeking average, and we say a lifetime average capacity factor of 65 percent, which allows for pluses and minuses as we have seen in other nuclear facilities.

MR. CHESTNUT: Thank you. That's all the questions I have, Your Honor.

JUDGE MATUSCHAK: Any further cross-examination of this witness?

(No response.)

JUDGE MATUSCHAK: If not, any redirect?

MR. MacGREGOR: Yes, Your Honor, just two or three brief questions.

REDIRECT EXAMINATION

BY MR. MacGREGOR:

Q. Mr. Hill, you were asked certain questions by Mr. Rubin earlier today concerning the budgeted versus actual sales for 1984. I simply want to ask a couple of clarifying questions about that subject.

Were the rates charged to the company's customers in 1984 based upon the 1984 budget figures to which you were referenced by Mr. Rubin?

A. No. The comparison that Mr. Rubin was making was a reasonable comparison of actual versus budget sales in that year. However, in terms of rates charged to customers, they are based upon future test years that are employed in rate cases.

Obviously, in 1984, the rates that were applied in 1984 were determined on a rate case which took place prior to 1984, some other period of time.

Q. Were the rates charged to customers during 1985 based upon the 1984 budget figures to which Mr. Rubin referred you?

A. The rates charged to customers in 1985 -- the answer to your question is yes. Beginning January 25, 1985 is when the rates took effect at Docket R-842590.

They were developed on a future test year pro forma condition, which covered the period January through December, 1984.

So, that was the lag that I was speaking of, that there is always a differential between the calculation period in which rates are determined and the application period in which they actually apply -- rate effective period.

Q. And were those 1984 sales adjusted to reflect certain pro forma adjustments during the course of the company's last rate proceeding?

A. Yes. The company, as in this current case, filed on a 12-month period and also did an adjustment like we do on page D-3 to annualize for year-end customers and year-end billing conditions. We file on the basis of a pro forma test year end condition.

Q Mr. Hill, you were also asked certain questions by Mr. Rubin concerning budget versus actual differences in regular payroll.

And I believe in response to a question, you indicated that you had not specifically studied the reason for that difference.

Could you provide a brief explanation as to why you have not conducted such an investigation?

A Yes. The company's payroll, which is shown on page D-5 or its adjustment on page D-5 looks at total payroll including overtime.

I am supplied monthly and receive monthly the company's monthly payroll report which summarizes what the prior months's activity was and the position to date.

Review of those documents indicates that total payroll, which includes regular pay and overtime, are approximately equal to the budget estimates that we have utilized in the rate proceeding, so that while I have not looked at individual elements, either overtime or regular payroll, on composite, the total payroll which we have claimed for ratemaking purposes is very close to the budgeted -- or the actual payroll is very close to the budgeted payroll that we have utilized in this rate filing.

Q Finally, Mr. Hill, by way of clarification, you were asked certain questions immediately before lunch by Ms. Ferkin from the Governor's Energy Council concerning a comparison of 1980 power production expense figures.

Could you simply state for the record what those two figures were so we are clear on what we are comparing?

A. Yes. Ms. Ferkin was referring to power production expenses for the year 1987. And just for clarity, there was some question about the number which appeared in GEC Exhibit No. 2.

Power production expenses for 1987 were $1,007,000,000. And in the 1987 forecast, in the company's PECo Exhibit No. 1, Attachment II-E-2a, power production expenses are $1,041,000,000, or what we are talking about is a 30-some million difference, total power production expenses.

MR. MacGREGOR: Thank you.

That's all I have, Your Honor.

JUDGE MATUSCHAK: Anything further of this witness?

(No response.)

JUDGE MATUSCHAK: If not, the witness is excused.

(Witness excused.)

JUDGE MATUSCHAK: Mr. MacGregor?

MR. MacGREGOR: Yes, Your Honor, we would be ready to proceed with Mr. Farling at this time.

Whereupon,

DAVID J. FARLING

having been duly sworn, testified as follows:

MR. MacGREGOR: Your Honor, I have previously distributed to the parties, to the court reporter and to Your Honor copies of a document entitled, "Direct Testimony of David J. Farling, Coopers & Lybrand, Accounting Issues Related to Phase-In Proposal," and I would ask that it be marked for identification as PECo Statement No. 16.

JUDGE MATUSCHAK: So marked.

(Whereupon, the document was marked PECo Statement No. 16 for identification.)

DIRECT EXAMINATION

BY MR. MacGREGOR:

Q. Mr. Farling, do you have before you a copy of the document that has been marked for identification as PECo Statement No. 16?

A. I do.

Q. Is this document in fact a copy of your direct testimony in this proceeding?

A. It is.

Q. Was this document prepared either by you or under your direct supervision?

A. It was.

Q. Mr. Farling, if you were asked the same questions contained in PECo Statement No. 16 again today, would your answers be the same as those contained therein, and would they be true and correct to the best of your knowledge?

A. They would.

MR. MacGREGOR: Your Honor, I would ask that the document that has been marked for identification as PECo Statement No. 16 be admitted as evidence in this proceeding subject to any timely motion to strike or other objection.

MR. MATUSCHAK: Under those conditions, the motion is granted.

(Whereupon, the document marked PECo Statement No. 16 was received in evidence.)

MR. MacGREGOR: Thank you, Your Honor. Mr. Farling is available for cross-examination.

JUDGE MATUSCHAK: Staff?

MS. CHESTNUT: Thank you, Your Honor.

CROSS-EXAMINATION

BY MS. CHESTNUT:

Q. Good afternoon, Mr. Farling.

A. Good afternoon.

Q. Mr. Farling, my name is Marcie Chestnut. I am representing the Commission Trial Staff in this proceeding.

Mr. Farling, you have been associated with PECo in a professional capacity since 1971, is that correct?

A. That is right.

Q. Can you tell me what an engagement partner is?

A. An engagement partner is a partner responsible for the audit of the financial statements of Philadelphia Electric Company.

Q. When you say "responsible for," does that mean you travel to the company to oversee the audit, or were you at a higher level than that?

A. It means that you have persons that you delegate work to to determine that the statements of Philadelphia Electric represented in accordance with generally accepted accounting principles by implementing auditing standards for that purpose.

The partner, that is the engagement partner, is the person responsible for that work and responsible for the professional satisfaction of the standards related thereto.

Q. Can you tell us what a concurring partner is, please?

A. A concurring partner is the partner that reviews as he or she deems appropriate the work done by the engagement partner and his or her team.

Q. Have you ever presented testimony before this Commission?

A. I have submitted testimony. I have not been cross-examined before this Commission.

Q. Can you tell us what case that is in, please?

A. I can't tell you the specific date. The date I submitted the testimony?

Q. Yes.

A. I cannot give you the specific date.

Q. How about a year?

A. The year approximates 1979 to 1980.

Q. Was that on behalf of PECo?

A. That was on behalf of another one of our clients, UGI.

Q. And you did not testify in the case?

A. I did not.

Q. Do you remember why that is?

A. I was not asked. The direct testimony was submitted, and there was no further need for my being here to be cross-examined.

Q. Have you testified before any other regulatory body?

A. I have.

Q. Could you tell us what they are?

A. Delaware Commission.

Q. On whose behalf did you appear there?

A. Delaware Power and Light, now DelMarVa Power and Light.

Q. Does that complete your answer?

A. I have also submitted testimony, but again was not asked to appear, before the Federal Energy Regulatory Commission.

Q. When was that, Mr. Farling?

A. I cannot give you the specific date. The client was Boston Edison.

Q. Will your firm be compensated for your participation in this proceeding?

A. They will.

Q. How about you personally?

A. The firm will be compensated for my services.

Q. Now, the thrust of your testimony, Mr. Farling, is to discuss the accounting aspects related to the company's proposal to phase in the requested rate increase, is that correct?

A. It is.

Q. What kind of review did you perform before you prepared your testimony?

A. I reviewed the case, that is the phase-in plan that the company has herein submitted, and as a professional I am quite familiar with the developments of phase-in procedures in other jurisdictions from general professional reading. That type of preparation is what I did before writing this testimony.

Q. Did you discuss your testimony with anybody here at the Commission?

A. I did not.

Q. Did you review any prior Commission orders or appellate decisions in this jurisdiction?

A. I reviewed the order of Pennsylvania Power and Light.

Q. Mr. Farling, are you aware that for a number of years, this Commission has normalized current rate case expense?

MR. MacGREGOR: Objection, Your Honor. Mr. Farling is not testifying on rate case expense. Unless there is some statement as to relevance, I would object to the question.

MS. CHESTNUT: Your Honor, at page 11, Your Honor, he is referring to deferring and amortizing certain costs. He gives examples of those costs, including core damage expense, rate case expense and computer leasing expense.

MR. MacGREGOR: I withdraw the objection.

THE WITNESS: The reference in my testimony are examples where the economics of ratemaking which take place allow a utility to defer expenses which, for nonregulated companies, would be expensed. That is the reference in which that is stated.

BY MS. CHESTNUT:

Q. I am sorry, Mr. Farling, I am not quite sure your answer is responsive to my question. My question is, are you aware that this Commission normalizes that type of expense?

A. I am.

Q. And that those expenses are not deferred and recovered over a period of years?

A. When you use the word "normalization," are you referring to normalization as I am, which is the deferral and the subsequent amortization over a period of years, which is analogous to the statement I am making in the testimony?

Q. Maybe we had better clarify our terms, Mr. Farling. When I refer to normalization, I am referring to the practice of setting rates for a prospective period based on a prior level of expense.

A. The term "rate case expense" as it is used in my testimony, is merely a matter of indicating that the cost of a proceeding such as this is not absorbed by the company in the immediate year.

It's normalized or amortized over a period of years. That's the reference in which that is given.

Q. Mr. Farling, are you using the term "normalization" to be synonymous with amortization?

A. I am. They are not necessarily synonymous terms, but in the context in which you used them, I am using them the same way.

Q. Well, I'd like to clarify that. I am not using them as synonymous terms. The way that I am using them, amortization refers to deferred recovery of a prior incurred expense. Do you agree with that definition for amortization?

A. Amortization is the allocation of a deferred expense over future periods. Sometimes, normalization might be used, although it might not be as appropriate, the same way.

Q. I'd like to not use that definition for normlization. For normalization, I'd like you to use the definition I gave you.

A. Find.

Q. So, given that foundation, Mr. Farling, given that the Commission normalizes current rate case expense, is your discussion on page 11 still accurate?

A. It is. It is.

Q. Mr. Farling, does your same opinion hold with the computer leasing expense you reference on page 11, if I were to tell you that current computer leasing expense is normalized on an annual basis?

A. Reference to these three terms was used not solely for the state of Pennsylvania. It was used generically to describe what is done in the utility field for expenses of this type, not necessarily for this state.

Q. At page 9 of your prepared direct testimony, Mr. Farling, you state that Financial Accounting Standard No. 71 is based on the premise that, "The regulated rates were designed to recover the specific enterprise's cost of providing the regulated services or products," is that correct?

A. It is.

Q. And elsewhere, further on that page, you refer to cost recovery. Do these statements rest on the assumption that these costs are reasonably incurred by the company?

A. From an accounting point of view, the reasonable incurrence of the costs is only our judgment to the extent that it is an arm's length transaction. As such, we accept that transaction as appropriate for Philadelphia Electric.

Q. Well, you are not here to discuss reasonableness of cost recovery in the context of ratemaking principles, is that correct?

A. That is correct. I am here to discuss the accounting for this type of proceeding.

Q. Would you agree, Mr. Farling, that it is common for regulatory agencies to disallow expenses claimed by utilities on the grounds that they are unreasonably incurred?

A. I am aware that regulatory agencies may and in fact do in some instances disallow expenses, yes.

Q. Do you agree as a general principle that utilities should recover only those expenses reasonably incurred in providing service to its ratepayers?

A. From an accounting point of view, I can't comment on my feelings as to what a utility should recover. I can really only comment on the proper accounting for what this regulatory body would allow Philadelphia Electric in this case.

Q. Is there any generally accepted accounting principle that is addressed to this idea that utilities should only recover reasonably incurred expenses?

A. There is not.

Q. Your opinion that the company's phase-in proposal does not violate generally accepted accounting principles is based on a requirement that there be a reasonable assurance of cost recovery, is that correct?

A. It is.

Q. Is reasonable assurance the same thing as guarantee?

A. It can be construed to be, but from a generic and layman's point of view, a guarantee is somewhat of a strict term. Reasonable assurance in the sense that we use it here would assure the company and assure us as the independent auditors that the costs so deferred will in fact be recovered in future periods.

Q. What is necessary to provide such assurance, what types of conditions?

A. As stated in my testimony, among other things, perhaps the most important, is a rate order that without a doubt makes it clear that the company will be able to collect these amounts so deferred from customers in future periods.

Q. Isn't it correct, Mr. Farling, that any rate order issued by this Commission is subject to appeal?

A. Yes.

Q. And would that tend to lessen the degree of assurance?

A. The degree of assurance would certainly be subject to our concern until those appeal processes are exhausted.

Q. Does this level of assurance change over time?

A. The extent of the words that I have used in my testimony would indicate that the assurance that we as an accounting firm obtain upon the issuance of this order would allow us to make the judgment as to the collectibility or the realizability of these assets that are deferred in future periods.

Obviously, future events might take place, but the purpose of my testimony is to indicate that these future events should not affect the recoverability of this deferred cost.

Q. Is "reasonable assurance" a word of art in the accounting profession?

A. Is it what?

Q. Is it a word of art or is it something that is open to subjective interpretation?

A. Well, it has to be the judgment of the accountants that are performing the audit as to what reasonable assurance is. And one of the criteria is what I mentioned, a rate order that would assure recovery.

Q. Finally, Mr. Farling, you discuss Financial Accounting Standard No. 17, which you note is in the process of being revised. On page 7 of your prepared direct testimony, you state that, "It is too early to predict whether a final amendment date will be adopted in time to affect financial statements for the year ending December 31, 1985." Is that correct?

A. It is.

Q. I have some documents I would like to refer you to.

MS. CHESTNUT: Your Honor, I am not planning to make these exhibits, since I simply want Mr. Farling to read into the record one sentence from each.

(Documents handed to Mr. MacGregor and the witness.)

THE WITNESS: Should I read the highlighted material on any particular page?

BY MS. CHESTNUT:

Q. First I'd like to give you a chance to review these documents.

(Witness perusing documents.)

Q. Mr. Farling, what I have handed you and your counsel are excepts from the "Public Utility Executive Briefs," distributed by Lloyd, Haskins and Sells, is that correct?

A. It is.

Q. And what they represent are summaries of September and October meetings of the Financial Accounting Standards Board and its staff, is that correct?

A. It is.

Q. I would like to refer you to the document which I have marked on the bottom as number one, which discusses the October 23, 1985 meeting, and I would like you to read the bracketed material which appears on page 2.

A. The bracketed material that you referred to is entitled, "The Board was undecided whether a January 18, 1987 effective date for calendar year companies allowed sufficient time for regulators to react. Four of the Board's members appeared to favor delaying the statement's effective date to provide more time."

Q. Thank you.

A. I might add that my testimony was prepared before these meetings.

Q. Certainly, Mr. Farling, I understand that.

So it's pretty unlikely, then, that amendments to Statement No. 71 relating to utility phase-ins will be in place so as to affect financial statements for the year ending December 31, 1985, is that correct?

A. That's correct.

Q. Now, I would like to refer you to the second Public Utility Executive Brief which I have handed you. Would you agree that this is a summary of the September 11, 1985 meeting of the staff of the Financial Accounting Standards Board?

A. Yes.

Q. Mr. Farling, I would like to have you read into the record the bracketed material on page 1 of that document.

A. The first bracketed material indicates, "At its September 11, 1985 meeting, the staff of the Financial Accounting Standards Board proposed a modification of its 'Economic Effects of Regulation' approach it had originally submitted for consideration at the Board's May 15, 1985 meeting.

"The staff proposed the following:" -- and of the following brackets or three dots, you have only one bracketed.

Q. That's right, Mr. Farling.

A. "Recovery of all deferred amounts be completed within nine to ten years."

Q. Thank you. So, if the Commission was to order or the company itself was to agree to a phase-in period of longer than three years, there would not be a problem from an accounting point of view if the FASB staff proposal is adopted; is that correct?

A. From an accounting point of view, it is correct that this being a proposal only, which will be in draft form and circularized late this month or in 1986, is a draft only, but the maximum period of time they are proposing for this type of phase-in plan is nine to ten years.

Q. Thank you, Mr. Farling.

MS. CHESTNUT: Your Honor, I have no further questions of this witness.

JUDGE MATUSCHAK: Consumer Advocate?

MR. RUBIN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. RUBIN:

Q. Good afternoon, Mr. Farling.

A. Good afternoon, Mr. Rubin.

Q. First, at the very end of your testimony over on page 14, I believe you stated that you would keep us all apprised of any changes or updates in the matters which you discuss in your testimony. You haven't mentioned any thus far. Do I assume then that as far as you are concerned, there have been no changes in what financial standard the Financial Accounting Standards Board is proposing?

A. That is correct. At this point, everything is conjecture that's published, because the Financial Accounting Standards Board has yet to issue an exposure draft. I understand that is being worked on currently.

The content of that draft, when it is public, would enable me to make the appropriate changes to the testimony.

Q. Could you turn back to page 4 in your testimony, and looking here roughly at lines 17 through 26, you state that your testimony is dealing with the accounting treatment of the company's phase-in plan, is that right?

A. It is.

Q. And would you agree that the reason that this is an issue in this case is that there have been concerns redently in the accounting profession over the deferrals of revenues and expenses?

A. That is true. The concerns relate to the current situation in the utility industry as a whole where Financial Accounting Statement No. 71 did not specifically address some of the considerations that are now taking place, for which it is felt some economic considerations require some further expansion in the accounting literature.

Q. Do I also understand your testimony correctly that you have not attempted to take into account the potential effects of the company's phase-in proposal on ratepayers?

A. I have not.

Q. Could you turn over to page 7 and looking at roughly lines 11 through 21, you refer to, and I'll quote, "certain major events in the electric utility industry." And I believe you state that rate moderation is one of those events. Are there other major events which you are referring to here in the electric utility industry?

A. Yes, there are. I would say there are possibly two. One would be abandonment of plans partially constructed. Secondly would be the partial disallowance of costs incurred for plants that are in service or will be in service.

Q. Do you know why the Accounting Standards Board requested its staff to reexamine these issues?

A. I would suggest that first my comment of their awareness of the literature needing to be more clarified for these situations; secondly, the concern of the accounting profession for these clarifications that would promote consistency within the profession.

Q. I would like to discuss with you for a few minutes the proposed, or what we understand to be the current proposed draft of Statement No. 71. Could you give us some idea of how that would deal with deferrals in terms of when the deferrals would have to be discounted back to present value and when they would not have to be discounted back?

A. Specifically if you're relating to deferrals and discounting, we really don't know what the current draft is currently stating, because it has not been made public.

We do know from the hearings that the FASB conducted that discounting has been only applied officially to abandonment considerations.

The concern is that phase-ins have not been specifically addressed but may be addressed if discounting truly holds as a concept when the draft is finally issued and when the draft is approved as a final statement.

Q. So, at the present time, discounting is not an issue as it regards phase-in proposals?

A. It's not an issue that the Board has in its meetings and the minutes of those meetings addressed specifically. It has been alluded to.

And as I stated, we really don't know where it will relate in the issuance of the exposure draft.

Q. Could you turn over to page 8 of your testimony, and here looking at roughly lines 1 through 10, you state here your opinion that the company's phase-in plan as filed meets the present requirements of Statement No. 71, is that correct?

A. It is.

Q. In your professional opinion, are there also other potential phase-in plans which could have met the requirements of Statement No. 71?

A. I am sure there are. The specifics would have to be known before we could really identify whether those conditions would meet the existing 71.

Q. But your testimony here is not meant to say that the company's plan is the only type of plan which would meet the requirements of Statement No. 71?

A. That is correct.

Q. Could you turn over to page 9? And in reviewing your testimony in this area, and particularly starting with the main heading on line 16, would you agree that the major concern of the accounting profession is that there be some reasonable assurance that the deferred revenues will be collected in the future?

A. Yes, that is a major concern. And I might amplify my comment. The concern is that to defer to a cost which otherwise would be expensed in a nonregulated situation means it must meet the definition of an asset, that is a past transaction which has future value.

The concern of the accounting profession is that there is future collectibility to these deferred amounts.

Q. And as the rule stands at the present time, is the time period over which those amounts would be collected in the future as important as the fact that there is reasonable assurance they will be collected?

A. In the minds of some, they may say it is equally as important, because the longer the time period, the more the collectibility of that deferral might be in doubt.

Q. And at the present time, I believe you were just discussing with Ms. Chestnut that the time period of nine to ten years is being discussed, is that right?

A. It is.

Q. And is it your understanding that under Statement No. 71 as it currently stands, that if there were reasonable assurances over that nine to ten year period that that would meet the concerns of the accounting profession?

A. It would.

Q. Could we turn over to page 10? I am looking here at roughly lines 36 through 44. You refer here to recovery of the unrecovered revenue being assured, and that deferred billing is over a, and I will quote, "reasonably short time period," is that right?

A. Correct.

Q. Is this nine or ten year period that we have just been talking about what you mean by a reasonably short time period here?

A. I really would not want to ascribe "reasonably short" to any given number of years. As you noted in the testimony, the purpose of the cause and effect relationship of utility accounting, the cost being the cause, the related revenue being the effect, is not to have any deferrals at all.

It was contemplated that all revenue be based on current expenses. I cannot really truthfully tell you that nine to ten years versus three to four or six is a reasonably short period of time.

It would depend on the circumstances of the particular situation and the related accounting before we could draw that conclusion.

Q. And again, it would depend on the degree and type of assurances given, is that right?

A. It would be a considerably important factor.

Q. Mr. Farling, I have some questions for you that relate to the likelihood of certain terms or conditions being included in any revisions to Statement No. 71. Would you feel qualified to speculate as to what might be included in a revision of Statement No. 71 and what might not be included?

A. I will to the best of my ability. I think I am qualified.

Q. Do you believe that it is likely that there will be some provision in a revision to Statement No. 71 for the discounting of revenues back in time under certain types of phase-in plans?

A. The discounting concept is conceptually important to those in the profession. The difficulty of the discounting concept applied to the utility industry is that at this point in time it has been singled out as the only industry to which this concept is being applied.

Therefore, the exposure period of the draft will add further challenge to the discounting concept, and in my opinion it will be more difficult to sustain discounting except in a very narrow sense, and that narrow sense may be the abandonment situation I described earlier. That in itself is still up for consideration.

Q. Would you be able to give us your professional opinion as to what the Board might decide on as the maximum time period over which deferred revenues would have to be recovered?

A. I cannot give you any more than what we discussed on the nine to ten years. There is no accounting rationale for any period of time, other than a reasonably short period as we discussed.

Q. And finally, when a standard is decided upon, could you tell us who actually makes the final decision to set the standard?

A. In the accounting profession, as mentioned in my testimony, the Council of American Institute of CPAs has designated the Financial Accounting Standards Board as the rule-setting body for accounting standards.

Their practice will be for full hearings of this exposure draft so the profession, the investment community, this industry can be represented.

After that has taken place, a decision will be made by the seven persons who comprise the Financial Accounting Standards Board.

MR. RUBIN: Thank you, Mr. Farling.

Thank you, Your Honor. That concludes our examination.

JUDGE MATUSCHAK: City of Philadelphia?

MR. RAINEY: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. RAINEY:

Q. Good afternoon, Mr. Farling.

A. Good afternoon.

Q. Mr. Farling, it is my understanding that you have agreed to the company's proposal for a three-year phase-in is followed by a three-year subsequent period of recovery, is that correct?

A. I have agreed that the accounting that they have indicated they would apply to the six-year period is appropriate and in accordance with the present generally accepted accounting standards, yes.

Q. Mr. Farling, at this time I would like to refer your attention to the company's response to the City's Interrogatory No. 17. Do you have that, Mr. Farling?

A. I do.

Q. Are you familiar with that response?

A. I am.

Q. And you are in fact a cosponsor of the response, is that correct?

A. My familiarity is reading it now, even though I am a cosigner.

Q. Your name is on the bottom as a cosponsor of this response.

A. So I noted.

MR. MacGREGOR: Your Honor, in designating here, we were in part attempting to identify the witnesses who would be able to answer questions generally on this subject matter. Mr. Farling can answer, at least to the extent his name is referred to in this question. The primary responsibility for the response is Mr. Williams'.

BY MR. RAINEY:

Q. Mr. Farling, would you quickly review the response and tell me whether or not you agree with it or whether your name should be stricken from it?

(Witness complying.)

A. I can only agree to the accounting for the transaction that they propose. I obviously as you recognize could not indicate the appropriate number of years for their plan, which is part of this response.

Q. So that, you would agree then that this question basically asks for all alternative phase-in periods and methods considered by the company, and all financial model runs, work papers, calculations, what have you associated therewith, is that correct?

A. That may be correct, except I am not supplying that information.

Q. Were you involved in the discussions that were referred to in the response to the interrogatory?

A. Was I involved in a discussion relative to an answer to this interrogatory?

Q. Would you read into the record the first sentence of the response to the interrogatory?

A. The first sentence of the response: "In discussion, the company considered various lengths of time for the phase-in."

Q. Yes. Were you involved in those discussions?

A. I was not.

Q. You were not?

A. Except to the extent that the proposed phase-in plan, we were asked for concurrence that that would meet generally accepted accounting principles, which we answer thereto. We did not participate in the alternatives.

The company, however, was aware of the limitations of what they could do under generally accepted accounting principles from discussions they had with us. The particular phase-in alternative plans, we were not aware of.

MR. RAINEY: Your Honor, I would like to have this document marked for identification purposes as City Exhibit No. 1.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked City Exhibit No. 1 for identification.)

BY MR. RAINEY:

Q. Mr. Farling, is it also correct -- and I think this is also based on previous testimony that you have given today -- that you have not in fact documented with respect to PECo any alternative phase-in plans or methods and measured the relative financial risks of them?

A. That is correct.

Q. And are you wholly unfamiliar with any other lengths of time that the company considered as far as phase-ins are concerned?

A. That the company has considered?

Q. Yes. Are you familiar with the numbers of lengths that the company has in fact considered with respect to phase-in periods in terms of three, four, five, six, seven, eight?

A. I am not so familiar.

Q. So, you just looked at the company's proposal of a three-year phase-in and you then stated that you felt that it complied with FASB 71 and it complied with assurances of recovery and what have you and all other types of language within those accounting principles, and you said that it was okay?

A. The length of time was okay. The assurance of recovery is yet to come.

Q. But you agree that it was a short enough time period that you felt it would be something that you could support?

A. That's correct.

Q. You have also stated that phase-in periods over three-year periods in fact might be in compliance with FASB 71 or generally accepted accounting principles, is that correct?

A. Is it correct that -- in excess of three years, did you say?

A. In excess of three years may in fact be in compliance with generally accepted accounting principles or FASB 71, is that correct? You have not really done an analysis?

A. We have not quantified the number of years beyond the plan until we would have the specifics, but it obviously could be a variation, that is correct.

Q. And so that in effect, FASB 71 does not limit any company to three-year phase-in periods, is that correct?

A. It does not, but I must clarify the circumstances that we are discussing a time period, for you to realize that the basis of 71, as I mentioned earlier, is to collect costs currently.

Any deferral of costs beyond the current year must consider the assurance of recovery and the reasonableness of those rates that -- let me phrase it this way.

It must consider the fact that the 71 is based on costs determining revenue. It is not based on the forces of market that influence the price of electricity.

If in fact the deferral is for too long a period of time, you are departing from the basis upon which 71 has been written, which is to recover the costs of a utility.

Q. But you previously stated that you are not prepared to say what a reasonable length of time is, is that correct?

A. Not unless there is a specific plan which we could review to make that decision.

Q. You previously stated that you are an auditor and an accountant for Philadelphia Electric Company, is that correct?

A. I am part of the team that services the Philadelphia Electric account.

Q. And is there a difference between the way that AFUDC is capitalized for financial reporting purposes as opposed to regulatory ratemaking purposes?

A. I am not sure of the specifics of your question. The answer is, there should not be a difference between what the calculations are for regulatory and for accounting reporting purposes.

Q. Would you agree -- and now I am referring to the company's response to City Interrogatory No. 4. Would you refer to that, please?

A. I have it.

Q. Would you read into the record the questions A and B?

A. Question A is as follows: "Has the company been granted the right to continue to book AFUDC on Limerick 1 for the period between commercial operation and the effective date of new rates? If so, provide a copy of the PECo's request to do so and the Commission order granting the request.

B, "Do you believe this accounting method is in accordance with generally accepted accounting practice? If not, has or will your firm qualify PECo's report to shareholders if such accounting method is used?"

Q. Would you read your response in B?

A. My response in B: "The method which the company currently employs which is in accordance with generally accepted accounting practices" -- that's in reference to the answer in A.

Q. Right, in reference to the way that the company books AFUDC, is that correct?

A. The question deals with the period between commercial operation and the effective date, and that hasn't taken place yet.

Q. Does the company or do you, in recognition of AFUDC, capitalize those costs in compliance with FASB 34?

A. We do not. The costs are capitalized in accordance with FECR directives.

Q. So that, in effect, the company itself does not adhere to all of the principles as set forth in the FASB document, is that correct?

A. That is not correct. The company adheres to FAS 71, which allows an exception for the utility industry in lieu of adhering to FAS 34.

The FERC that I referred to prescribes a methodology to calculate the AFUDC under FAS 71.

Q. Would you agree that FAS 34 is in fact a different method of accounting, and it is considered generally accepted accounting principle, is that correct?

A. FAS 34 is generally accepted accounting principles for capitalization of interest on nonregulated utility companies.

Q. Would you agree that there is a difference between financial reporting and reporting over regulatory prescribed accounting?

A. Your question is too general. I'll give you the answer, there should not be a difference between regulatory accounting and the financial reporting for the entity for such regulatory accounting.

Q. For example, in referring again to AFUDC, will you book 100 percent recovery of that AFUDC on the Limerick units?

A. You must repeat the question. Would I book 100 percent recovery?

Q. Do you in fact recognize 100 percent recovery?

A. At the present time?

Q. Yes.

A. Yes.

Q. And in response to a question that was set forth by Ms. Chestnut, you previously stated that for ratemaking purposes, 100 percent may not be recovered, is that correct, based on imprudence or other problems?

A. Generically, I answered that all costs of a utility may not be recovered, from the practice that is currently prevailing. That was not addressed to PECo. That was a generic answer.

Q. That could in fact be in reference to PECo as a part of any other utility, is that correct? The same regulatory practices apply, is that correct?

A. The same regulatory practices apply, but I can't address the applicability of that to PECo without a particular situation.

Q. And would you also agree that the regulator has a wide range of discetion with respect to the accounting principles which it in fact allows?

A. I would like to say that the regulator does not have a wide range of discretion. I am not sure how wide "wide" is, because generally generally accepted accounting principles must be adhered to or be a factor that the regulator would consider in reaching such a decision.

Q. But the regulator does have discretion in terms of the accounting which it prescribes, is that correct?

A. Within the limit of generally accepted accouting principles, that discretion may exist.

Q. You would agree then that FASB accounting standards are not binding on the Commission, is that correct?

A. I cannot agree that they are not binding. Admittedly, the Commission would hopefully take them into account since the company has to issue financial statements which consider generally accepted accounting principles.

MR. RAINEY: I have no further questions, Your Honor.

JUDGE MATUSCHAK: Any further cross-examination?

MR. KLEPPINGER: Yes, Your Honor.

CROSS-EXAMINATION

BY MR. KLEPPINGER:

Q. Good afternoon, Mr. Farling.

A. Good afternoon.

Q. You mentioned that someone within Cooper's and Librand would have to make --

JUDGE MATUSCHAK: Excuse me one minute. Did you want to offer your exhibit into evidence?

MR. RAINEY: Yes, thank you, Your Honor.

At this particular time, I would like to move for the admission into evidence of City Exhibit No. 1.

MR. MacGREGOR: No objection, Your Honor.

JUDGE MATUSCHAK: City Exhibit No. 1 is admitted into evidence.

(Whereupon, the document marked City Exhibit No. 1 was received in evidence.)

BY MR. KLEPPINGER:

Q. You mentioned that someone has to make a judgment as to the reasonable assurance of the collection of deferred revenues. Is that something that has to be done by the engagement partner on this account?

A. That person would be one person that would consider -- it would possibly be the engagement partner, the comparing partner, of which I am currently in that position in Philadelphia Electric; it could involve other persons, depending on the need for a consensus.

Q. In your discussion on page 14 regarding the problem of discounting and charging of that to the company's income statement, is my understanding correct that from the standpoint of a stockholder, they don't look too kindly upon charges to income associated with this type of an accounting treatment, if they had their way?

A. Well, if you are referring to the fact that it decreases earnings for the year in question, I am sure that is a correct statement.

Q. If the stockholder had his choice between a phase-in proposal which would require this charge to income versus one with a longer period of the phase-in, but has the guaranteed assurance from the Commission for recovery and permits a return on recovered revenue balance, would a stockholder favor that type of a phase-in plan over one which charges to the income statement?

A. I can't answer that yes or no. There's too many variables that you have introduced into the question. As you understand, the charge to the income statement is only for one year in discounting, and the accretion that takes place after the first year effectively does not add any detriment to the income statement after the first year.

It's difficult for me to answer yes or no. There's really too many variables to know exactly how a stockholder would think for the use for which a stockholder might be using that income statement.

Q. Let's maybe take it from your perspective then as the engagement partner on the PECo account. If a phase-in plan were presented to you which extended beyond the ten years that has been referenced earlier today, but did include a provision for guaranteed recovery and a provision for a return on the deferred balance, would you as the engagement partner be willing to issue an opinion on that phase-in plan regarding FASB 71 and its qualification thereunder?

A. It's mere conjecture, since the draft has not yet been issued, but the present draft that has been discussed would not allow me to issue a clean opinion, unqualified if you will, on the financial statement since it cannot extend beyond ten years, regardless of the characteristics of the plan that you describe.

Q. Does the present draft, however, make any differentiation between plans which are shorter than ten years without a return on the deferred balance versus plans that are longer than ten years with a return on the deferred balance?

A. From what I have seen to date, it does not.

Q. Under the current FASB 71 without the proposed draft, could you render a qualified opinion on the phase-in plan that I have outlined, going beyond ten years and with a return?

A. Generally, there would be not a prohibition against rendering a favorable consideration to one beyond ten years, as long as there is reasonable assurance of recovery.

MR. KLEPPINGER: Thank you, Mr. Farling. That's all I have. Thank you, Your Honor.

JUDGE MATUSCHAK: Mr. Widoff?

CROSS-EXAMINATION

BY MR. WIDOFF:

Q. Mr. Farling, my name is Mark Widoff, representing the Utility Users Committee and the University of Pennsylvania. I would like to follow up on a couple of questions that were asked by the City of Philadelphia with regard to the potential for a conflict between the way the Commission might treat a particular expense and the way the accounting profession might treat a particular expense.

To do that, I would like to state what I would perceive to be the responsibility of the Commission, and see if you agree with me.

The Commission has a responsibility in this case to set just and reasonable rates, is that your understanding of its legal responsibility?

A. It is.

Q. And determining how to set just and reasonable rates in this proceeding, and apparently in recent proceedings in other jurisdictions, the Commissions have come to grips with what is historically somewhat unprecedented, namely that the amount of the increases are so large, the benefits are so far in the future that there is serious concerns about the ability of the customers and the economy of the area to sustain the increases in one step.

I am asking you to assume that that is the case, except I would like to ask you whether you agree that this problem is to some extent unprecedented.

A. I agree.

Q. Now, in response to this somewhat unprecedented problem, the Commissions around the country have determined to introduce this concept of a phase-in.

Therefore, I would ask you whether you would agree with me that the issue is not so much whether there's a conflict between the Commission's treatment of a particular cost; the issue is really how is the accounting profession going to respond to the regulatory treatment of this unprecedented difficulty. Would you agree with that?

A. I do.

Q. Therefore, in one sense, it is irrelevant whether the ultimate determination of this Commission adheres or doesn't adhere with what the accounting profession presently believes would be generally accepted accounting principles, isn't that correct?

(No response.)

Q. In one sense, it's irrelevant, because the Commission has to do what the Commission has to do, and the accounting profession has to do what the accounting profession has to do, isn't that in the end the result?

A. I really can't agree, but without specifics of the situation, it's difficult to determine what disagreement might exist between the Commission's action and the accounting profession's or firm's response to that action.

We really can't determine that. But the standards that exist for accounting, as I mentioned earlier, must be adhered to in reporting to the Securities and Exchange Commission by the company.

And if there is a difference between or if the standards have not been adhered to in the reporording of that order, without the specifics we probably can't really draw a conclusion, but it's something that should be avoided if at all possible, to have the accountants being in a position to record in accordance with generally accepted accounting principles a Commission order.

I must agree with you that the purpose of FAS 71 is to give effect to the economics of regulation. That's the whole purpose.

And you and I are in agreement on that point. But the accounting profession is attempting to record the economics of regulation.

There would be a limit, and that limit would be in the present 71 or in the revisions to 71 as to how far the accounting profession could go in adopting the provisions of an order if not in conformity with 71.

Q I think you said earlier in response to some cross-examination that at this particular moment in time, everything is conjecture, meaning that you don't know and nobody here knows precisely what the ultimate determination may be, isn't that correct?

A That is correct.

Q Now, not only is that correct, but isn't it also correct that because the situation is in flux and because it is to some extent unprecedented, this Commission or some Commission around the country may come up with a phase-in plan that is going to send everybody scurrying back to the drawing board in terms of how to deal with it based on our understanding of generally accepted accounting principles, isn't that quite possible?

A. It's quite possible, but I must call your attention to paragraph 5 of FAS 71. It's quite important you realize that the rates that are implicit in 71 charged by a utility are based on costs.

And secondly, it's quite implicit in 71 that there must be a reasonable assurance that these rates, when billed and deferred as in a phase-in case, can be collected from customers in the future.

Therefore, the extended period of time that the deferral remains on the books leaves greater doubt as to whether all these amounts are realizable by the company.

Q. In that respect, I would like to refer you to page 12 of your testimony. In the first full answer on that page, you say, "The comments of the FASB and its staff at the aforementioned meetings concerning realization of unrecovered revenue in phase-in situations indicate that a revised Standard 71 will require that a future recovery of currently unrecovered revenue and cost must be contingent solely on the passage of time."

Do you still adhere to that position, Mr. Farling?

A. I do.

Q. Are you aware that the proposal that the company is submitting to the Commission in this case would not be contingent solely on the passage of time?

A. Well, if you are indicating that it is contingent on the usage of electricity by the persons during that period of time, I am aware of that.

Q. As I understand the proposal of the company, each customer class will in effect be billed for the unrecovered amount, and then during the recovery period, although the customers may not be the same, the customer classes will in effect be required to pay the amount that has been billed up until that point that the money for each customer class is recovered. Is that your understanding?

A. My understanding generally conforms with what you said, and I am obviously not the one to know all the details, except you used the term billed. They are not billed. The amount is deferred. The billing takes place in years four, five and six, to the customers at that point in time.

Q. When I say "billed," I am using it somewhat figuratively; billed in the sense that it is being recorded, and it is in effect going to be a liability for all the customers in that particular class, isn't that correct? In other words, if I am a customer in the commercial class and I want to look at the situation realistically, every year that goes by, if I wanted to be absolutely accurate, I would have to put down a deferred liability on my balance sheet, shouldn't I?

A. If you are speaking from the customer and you want to record a deferred liability, you also should record a deferred asset, because you have a right to future electricity, so they wash.

Q. But in the same sense that the company has a deferred asset, all of the customers are in effect going to have a deferred liability, aren't they?

A. If you choose to use that term. They have the future right for electricity, for which they pay a price if they choose to use it, if they live here.

Q. Mr. Farling, I still go back to the question as to whether the proposal that the company has submitted is contingent solely on the passage of time.

It seems to me that there are a number of possibilities that could occur during the six year period that could affect collection.

Let me give you an example. Supposing that the -- as you know, there are only three Commissioners presently serving on the Pennsylvania Commission.

Supposing a vote on this case were 2 to 1, and supposing next year the two empty seats were filled, and supposing that the new majority of the Commission determined that it was unalterably opposed to the way that this billing was going to occur, for any reason.

Wouldn't it be within the prerogative of the Commission next year or the year after to take a look at this and make a change?

MR. MacGREGOR: Objection, Your Honor. The question asks the witness to render a conclusion of law as to the impact of a Commission order.

MR. WIDOFF: I'm asking the --

JUDGE MATUSCHAK: It is not a conclusion of law. He is requesting a factual situation that may occur.

BY MR. WIDOFF:

Q. Had you considered that as a possibility?

A. Certainly.

Q. And doesn't that make this proposal of the company subject to more than the passage of time?

A. The passage of time only can be referred to based upon the current environment, what we know today. And today, the order written should be dealing solely with the passage of time.

I recognize that this Commission cannot bind the future Commission, obviously. If that change takes place that you refer to, we have to review the realizability of that asset with the company at that point in time.

Q. In addition, there is always the possibility of some unexpected occurrence at Limerick. There could be an accident, for example, isn't that correct?

A. Certainly there is always that possibility. We hope it does not occur.

Q. I would certainly hope so also, but supposing it did. Wouldn't it be likely that the Commission would feel obliged to take a look at the rates being charged just as it did after the accident at Three Mile Island?

MR. MacGREGOR: Objection, Your Honor. The question is asking the witness to speculate on what the Commission might do. The witness is not representing the Commission nor is he entitled to speculate on the Commission's reaction to any specific event.

JUDGE MATUSCHAK: Do you want to rephrase your question, Mr. Widoff?

BY MR. WIDOFF:

Q. Isn't it correct that the Commission, under all kinds of circumstances that we could come up with, might be compelled to reconsider any order that it might enter in this case?

A. It could. But I must remind you that we as accountants with the company look at the financial condition of this company at a point in time. The examples that you are citing me are events that are taking place in the future, which we cannot predict. We make our accounting decision based upon the current day facts.

You are speculating on a future event. We'll deal with it at that time.

Q. But that's precisely the point, Mr. Farling. You have made the statement on page 12 of your testimony that in order to meet the criteria of Statement No. 71, that future recovery of currently unrecovered revenue or cost must be contingent solely on the passage of time.

Wouldn't you agree with me that you've got to qualify that statement in some way?

A. No, I do not.

MR. WIDOFF: I have no further questions, Your Honor.

JUDGE MATUSCHAK: Any further cross?

MS. FERKIN: Yes, thank you, Your Honor.

CROSS-EXAMINATION

BY MS. FERKIN:

Q. Good afternoon, Mr. Farling.

A. Good afternoon.

Q. My name is Zori Ferkin, and I represent the Governor's Energy Council. Mr. Farling, as I understand it, the purpose of your testimony was to address the accounting issues arising out of the PECo proposal in this proceeding, the phase-in proposal?

A. It is.

Q. In reviewing that proposal, Mr. Farling, did you review the financial condition of Philadelphia Electric?

A. As a concurring partner on our services to

Philadelphia Electric, I am aware of their current financial condition.

Q. And did the knowledge that you have of their current financial condition enter into your assessment of the phase-in proposal for purposes of this proceeding?

A. Certainly it's a consideration, but it was not a primary consideration in making that determination.

Q. Can you tell me what financial information you took into consideration in your review of the phase-in proposal in this proceeding? Can you identify it for me?

A. The financial information that we would have looked at or I would have looked at in conjunction with this testimony must deal with the viability of this company to be able to pass on the increase in rates through a rate order to the customers and have their customer base sustained, perspectively.

The financial considerations were not a primary consideration, because this is an ongoing concern.

Q. I understand that, Mr. Farling. For example, did you review the May 31, 1985 financial analyst forecast information?

A. I did not.

Q. Did you review financial analyses presented in any other rate or PUC investigation within the last two years?

A. I did not.

Q. Can you recollect any financial document that you reviewed in your assessment of PECo's phase-in proposal?

A. Well, as I mentioned to you earlier, I am reviewing quarterly reports of the company, also certain registration statements of the company, so I am basically aware of their financial condition and the results of their operations currently.

I can't distinguish what I would know from what I might have considered in writing this testimony, but I am aware of their condition and their results of operation.

MS. FERKIN: Mr. MacGregor, if I could, I would like to make a data request for any financial documents that Mr. Farling consulted or considered in his review of PECo's phase-in proposal.

MR. MacGREGOR: Fine.

MS. FERKIN: Thank you, that's all the questions I have.

JUDGE MATUSCHAK: Any further cross-examination of this witness?

(No response.)

JUDGE MATUSCHAK: Any redirect?

REDIRECT EXAMINATION

BY MR. MacGREGOR:

Q. Mr. Farling, just one question by way of clarification. During questioning by several of the parties, you referred to a nine to ten year period for phase-in. Am I correct that that period covers both the phase-in period and the so-called phase-out period when the revenue, the deferred revenue would be recovered from customers?

A. You are correct.

Q. Am I also correct that under that definition, Philadelphia Electric's proposal is a six-year proposal?

A. It is.

MR. MacGREGOR: Thank you, Mr. Farling.

That's all I have, Your Honor.

JUDGE MATUSCHAK: Thank you.

(Witness excused.)

JUDGE MATUSCHAK: Do you have another witness?

MR. MacGREGOR: Yes, Your Honor.

Whereupon,

RAYMOND C. WILLIAMS

having been duly sworn, testified as follows:

MR. MacGREGOR: Your Honor, I have previously distributed to the parties, to the court reporter and to Your Honor copies of a document entitled "Direct Testimony of Raymond C. Williams, Rate Phase-In Proposal, Class Revenue Allocation, Rate Design," and I would ask that it be marked for identification as PECo Statement No. 17.

JUDGE MATUSCHAK: So marked.

(Whereupon, the document was marked as PECo Statement No. 17 for identification.)

DIRECT EXAMINATION

BY MR. MacGREGOR:

Q. Mr. Williams, do you have before you a copy of the document that has been marked for identification as PECo Statement No. 17?

A. Yes, I do.

Q. Is this document in fact a copy of your direct testimony in this proceeding?

A. Yes.

Q. Was this document prepared either by you or under your direct supervision?

A. Yes.

Q. Do you have any additions or corrections to make

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to Statement No. 17 at this time?

A. No, I do not.

Q. Mr. Williams, if you were asked the same questions contained in Statement No. 17 again today, would your answers be the same as those contained therein, and would they be true and correct to the best of your knowledge?

A. Yes.

MR. MacGREGOR: Your Honor, I would ask that the document that has been marked for identification as PECo Statement No. 17 be admitted as evidence in this proceeding, subject to any timely motion to strike or other objection.

JUDGE MATUSCHAK: Under those conditions, the motion is granted.

(Whereupon, the document marked as PECo Statement No. 17 was received in evidence.)

MR. MacGREGOR: Your Honor, Mr. Williams is appear- today for cross-examination of the phase-in portion of his testimony.

The cross-examination on class revenue allocation and rate design testimony would be during the week of January 6.

JUDGE MATUSCHAK: Very well. Staff.

MS. CHESTNUT: Thank you, Your Honor.

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CROSS-EXAMINATION

BY MS. CHESTNUT:

Q. Good afternoon, Mr. Williams.

A. Good afternoon.

Q. Mr. Williams, on page 4 of your Statement No. 17, at lines 23 to 26, you state that, "The company recognizes that this is a significant rate increase and presents this phase-in proposal in an effort to reduce the impact of this increase on ratepayers and the economy of the company's service territory."

Am I correct that it is because of the magnitude of this increase that PECo feels it necessary to cushion the immediate impact of this increase by spreading out the recovery of the rate increase granted over a number of years?

A. I think the words speak for themselves. It is a significant increase, and we are voluntarily proposing this phase-in plan to reduce the impact of this increase.

Q. When you say "significant," are you referring to significant in terms of magnitude?

A. Yes.

Q. Regardless of how the increase is recovered over time, it is the company's intention to collect all of the additional base revenues allowed by the Commission in its order; is that correct?

A. Yes, it is.

Q. The table on page 5 of your prepared direct testimony shows the impact of the phase-in proposal at the present Rate R base rates; is that correct?

A. That's correct.

Q. Now, this is not the total bill that a 500 kwh Rate R customer will pay during this time; is that correct? It reflects only base rate charges.

A. Well, it is the total bill, with the exception of the state tax adjustment, which is approximately five percent, and the Energy Cost Rate.

Q. It does not include the Energy Cost Rate?

A. That's correct. But presently the Energy Cost Rate is negative, -- or slightly positive; excuse me; slightly positive.

Q. Would you accept subject to check, Mr. Williams, that under this proposal Rate R customers would experience annual increases in their base rates of 9.8 percent, 9.0 percent, 8.2 percent and 7.6 percent from the present base rates through year four?

A. Yes. You are relating the percentage to the bill in the year in which the subsequent increase occurs.

Q. Yes.

A. Yes; that's approximate.

Q. And the total increase from present rates to year four will be 39.3 percent; would you accept that subject to check?

A. The present rates to year four?

Q. Yes.

A. Well, year four is the year of recovery. The full increase is in effect in year three, and then the rates go up in year four, plateau during years four, five and six, and go down in year six; so that the customer experiences a decrease in year six.

The net increase is not 39.4.

Q. How about from present rates through year three, what is the total percentage increase?

A. 29.5 percent.

Q. What would the total increase on a percentage basis be from year one to year five, through year five?

A. Again, that is during the recovery period, so I agree there will be an additional increase between years three and four, but then you must consider the decrease to year six is my point.

Q. Mr. Williams, I am trying to quantify the percentage increase from present rates through year five or six. Could you tell us what that is?

A. I certainly can. The increase from the present rates to year five is 39.3 percent, ~~but then there is a subsequent decrease of 7 percent between years six and~~

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seven.

MS. CHESTNUT: Your Honor, I move to strike the last part of Mr. Williams' answer. I simply asked for the computation through year five.

JUDGE MATUSCHAK: It will be stricken.

BY MS. CHESTNUT:

Q. Mr. Williams, do you have information with you today or can you provide information with which we can construct a table similar to the one on page 5 for the other rate classes?

A. Such a table could be constructed. I don't have it with me today.

MS. CHESTNUT: Your Honor, I would like to make an on-the-record data request of the company that they provide a similar table for certain customers at usage and demand levels that I can give to the company.

THE WITNESS: If you could specify the criteria.

MS. CHESTNUT: I was waiting for Mr. MacGregor to object.

Is that okay, Mr. MacGregor?

MR. MacGREGOR: I have no objection. I would appreciate your keeping it to the minimum possible; there are a number of rates and a number of load factors, obviously, and --

MS. CHESTNUT: I picked out four rate classes, and

I have six different usage characteristics.

MR. MacGREGOR: We'll do our best.

MS. CHESTNUT: What I would like the information for will be for Rate RH, with winter usage of 2,000 kwh; for Rate GS, I would like the information for an 8 kilowatt customer who consumes 2,400 kilowatt-hours a month; for Rate PD it would be for a 300 kilowatt customer with 250 hours use; and for Rate HT, I would like a 1,000 kilowatt customer with 250 hours use, a 5,000 kilowatt customer with 250 hours use, and a 50,000 kilowatt customer with 400 hours use.

THE WITNESS: We will do it; yes.

BY MS. CHESTNUT:

Q Mr. Williams, I have prepared an exhibit which I hope accurately depicts the company's phase-in proposal.

MS. CHESTNUT: Your Honor, I request that this document be marked for identification as Staff Exhibit No. 7.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as Trial Staff Exhibit No. 7 for identification.)

BY MS. CHESTNUT:

Q Have you had a chance to peruse that document, Mr. Williams?

A. Yes.

Q First off, I would like to go through the

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assumptions that are implicit in this computation.

The first is noted as Note (a), which is that the company's entire rate increase would be approved.

Does that accurately -- do you assume that is implicit in this --

A. Yes; these figures represent the total increase. Right.

Q. And these figures do not include any ECR revenue.

A. That's correct.

Q. And the two other assumptions which are not listed are: one, that there will be no other base rate increase allowed during this multi-year period; is that correct?

A. This is a presentation of this increase only.

Q. And the fourth assumption is that the $670.7 million is a net number and incorporates the projected energy cost savings for a two-year period.

A. Yes.

Q. Now, Mr. Williams, what this exhibit shows with reference to the company's proposal is that we assume that the Commission will allow the entire rate increase in year one; the ratepayers will be billed at a rate designed to collect approximately $223.6 million of that increase, with the balance being deferred and collected at a later period;

is that correct?

A. Yes.

Q. And the next year an additional increment is added to the customers' bills to produce a revenue level of approximately $447.2 million, with the difference between that amount and the total $670.7 million being deferred and collected at a later date?

A. Yes.

Q. And then finally in year three the entire amount allowed will be billed and collected on a current basis?

A. Yes.

Q. And thereafter the sums which have been accumulated in the deferred account will be added onto the customers' bills for approximately the next three years?

A. That's correct.

Q. Now, Mr. Williams, the amounts collected on a current basis are subject to certain factors, such as the amount of sales during each annual period; is that correct? -- maybe I can restate that.

Assuming the Commission allows this increase and the company files tariffs designed to collect $223.6 million on a current basis, it is not assured that that amount will actually be recovered in that time period.

A. You're saying that it is dependent on the sales level that occurs.

Q. Yes.

A. As compared to what is included within the rate proceeding.

Q. Yes.

A. Yes; I agree.

Q. Are there any other factors that would affect the level of recovery?

A. No; that's the primary one.

Q. And the amount which is accrued and deferred is dependent on that sales level; is that correct? There is a direct --

A. Yes.

Q. There is a direct relationship between the amount deferred and the amount currently collected?

A. Yes.

Q. Now, there is no assurance that through the current revenue collections, which I am using to refer to the first three years without the surcharge -- there is no assurance that the total $670.7 million will be totally recovered in that period.

A. It may not be exactly that number.

Q. Right.

A. I agree with you.

Q. But, on the other hand, whatever amount is accumulated and deferred will be totally recovered by the company. It may not be $670.7 million, but whatever that amount is will be recovered over some time period.

A. That's correct; approximately, three years.

Q. It may not be three years; it may be less, it may be more, depending on --

A. Depending again on the sales level.

Q. So basically what will be applied to the -- if I can really simplify here, what we're talking about is a rate of recovery rather than absolute revenue level which will be collected.

A. The phase-in proposal deals with the application of one-third of the increase the first year, two-thirds the second, and the total increase the third.

To the extent that actual revenues differ from those which are allowed -- and it is the same in any rate proceeding, whether it be phase-in or not -- the real world follow-through from a rate proceeding can't exactly match what was theoretically hypothesized at that time.

Q. And to clarify, Mr. Williams, what would be phased in is the total revenue increase allowed by the Commission; it is not separated into Limerick 1 cost and not Limerick 1 cost.

A. No; total increase.

Q. Now, Mr. Williams, are you prepared to testify that PECo will not come in for another base rate increase

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during the six-year phase-in period?

A. I think you're aware that we have stated we do not intend to file again before September 27, 1987 unless there are dire financial circumstances that force it.

That is our commitment.

Q. And that is related to your guarantee that the present rates would remain in effect until June of 1988, September of '87 being nine months before June of 1988; is that right?

A. Yes. That would be the filing date, so hence the rate effective date would be nine months later.

Q. Is it your testimony that regardless of what circumstances may occur between now and September 1987, the company will not come in for a rate increase?

A. No. I said that it is contingent upon an extreme financial problem. Of course, we have to leave that avenue open.

Q. So if the company feels it financially necessary, they may come in for a rate increase --

A. No; I didn't say that. I said that if in the extreme we find that is the only alternative, we have to leave that alternative open to ourselves.

Q. So if the company feels that it is necessary because of its extreme financial condition to apply for another rate increase during that period, they will do so.

A. We have said that if that is the only way that we can see to remain solvent and continue reliably providing service, we certainly would be obligated to apply for an increase.

Q. Do you know when Limerick 2 is anticipated to become operational, Mr. Williams?

A. In 1990, July, I believe it is.

Q. And that is within the six-year phase-in period contemplated in the company's proposal, is it not?

A. Yes, but the rate application period would certainly be after the commercial operation date, just as it is in this present proceeding.

Q. I'm sorry, Mr. Williams; I couldn't hear the last part of your answer.

A. The rate application for such a rate change would occur after the service date of the unit, just as this rate effective date is occurring after the service date of Limerick No. 1.

Q. If it becomes operational in 1990, the effective date of rates associated with that unit will be no later than 1991; is that correct?

A. Early '91, yes, I would expect.

Q. And do you expect that the Limerick 2 rate filing will be in the same order of magnitude as this rate filing?

A. Obviously, no one can predict exactly until we get a little closer to that, but we are dealing with about $3.2 billion worth of investment, so I think we can all make an estimate of what that would be.

Q. Finally, Mr. Williams, the company is not offering any kind of a guarantee with respect to the anticipated fuel savings associated with Limerick 1; is that correct?

A. We're not making any guarantee, no.

MS. CHESTNUT: Thank you.

I have no further questions, Your Honor.

Your Honor, I would like to move in Staff Exhibit No. 7 at this time.

MR. MacGREGOR: Could I have just a moment?

MS. CHESTNUT: Sure.

(Pause.)

MR. MacGREGOR: No objection, Your Honor.

JUDGE MATUSCHAK: Staff Exhibit 7 is admitted into evidence.

(Whereupon, the document marked as Trial Staff Exhibit No. 7 was received in evidence.)

JUDGE MATUSCHAK: Consumer Advocate.

MR. WERSAN: Your Honor, I would like to let other counsel go ahead of me on cross of Mr. Williams.

JUDGE MATUSCHAK: Very well. Who wants to go next?

MR. ETTNER: I will, Your Honor.

CROSS-EXAMINATION

BY MR. ETTNER:

Q. Good afternoon, Mr. Williams.

A. Good afternoon.

Q. I am Mike Ettner, representing GSA.

Mr. Williams, I would like to get a clear idea of the objectives you had in mind when you selected a phase-in period of three years rather than selecting some other phrase-in period.

To begin, Mr. Williams, would you agree that one of the objectives that you had in mind was trying to achieve a reasonable assurance of the recovery of rates?

A. That was one of our objectives.

Q. Would a second objective be an attempt to honor the principle of rate continuity?

A. In selecting a three-year phase-in, you're asking?

Q. Yes; as opposed to a flash-cut phase-in or a two-year phase-in or some other alternative, did you have as one of the objectives --

A. The idea is more gradual increases and something that would not be as severe a step; yes.

Q. So you might term that principle "gradualism"?

A. It approaches that, yes.

Q. Mr. Williams, if the rate increase were

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implemented in one step, that would require what kind of an increase?

A. 28.4.

Q. 28.4.

Mr. Williams, what is your understanding of the Consumer Price Index and the rate of inflation that that reflects as being experienced by your ratepayers in the Philadelphia service territory?

A. That varies from year to year. Currently, it is in the order of four or five percent.

Q. Four to five percent. So when it comes to other goods and services, other than electricity, the ratepayers are seeing and experiencing about four percent increases in costs?

A. Of that order.

Q. So was another objective that was in your mind an avoidance of -- I would call it an avoidance of rate shock on the part of your consumers in contrast to the rate increases that they are experiencing in other aspects of their consuming lives?

A. Certainly, the consideration was to spread the effect of the increase over several years and reduce the level of it; yes.

I think one must look at the effect over the entire six years, if you will, which is the length of this phase-in

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we're proposing. It requires three to escalate to the full rate level and three more to recover. So that if you look at the average change over that period, that's really what, in my view, should be considered.

Q And in rejecting an increase of 28.4 percent, did you have in mind the stark contrast that that might raise in the minds of consumers, your customers, between 28.4 percent and the four percent increases that they are experiencing when they purchase other goods and services?

A We attempted to reduce it to a level that, as I say, would be on average, over the period of the phase-in, somewhere in -- an average level that would be more acceptable, certainly, than a one-step 28 percent increase.

In making the judgment for the six-year phase-in, there were many considerations, and you are reviewing a few of them.

Q Let me turn to perhaps another consideration and ask if you also considered this as an objective, an important objective, to your phase-in?

Did you have in mind the potential decreases in electricity demand a very large increase in rates might cause?

A I believe Mr. Hoch will be addressing the effect of changes in rate level as far as long-term budgeting; and certainly our concern was that the rate increase be moderated to the extent that was possible, taking all points of view into consideration.

We discussed FASB, which was one concern. We discussed the effect on customers. We certainly considered the effect on the company of offering voluntarily a rate phase-in plan that would not request any carrying charges on the amounts not collected, such as our plan is proposing.

We felt that was an important offer, to not ask the customer to pay the carrying charges on the plan, so that dictates to keep it as short as you can to keep those carrying charges as small as you can, because at the present six-year plan level, the carrying charges, even if one assumes a ten percent carrying charge, in our present plan that carrying charge amounts to about $250 million on the deferred balance.

Q Let me return to the specific question I asked you, Mr. Williams, and that is: did you have in mind the avoidance of demand increases that may be caused if you had implemented a 28.4 percent increase in one fell swoop?

A. If I understand your question --

Q We have mentioned three or four objectives. Was that one of the objectives in the back of your mind when you sat down and considered which phase-in period, if any at all, should I be recommending? Was that in your mind?

A. I think that there were many things in our mind, and certainly the effect of a 28 percent increase as compared to a 9.4 percent increase, as I am perceiving your question, was something that was in our mind, absolutely, and we felt that we wanted to reduce it to as small a level as we possibly could based on all of these considerations in making the judgment to try to satisfy all the requirements.

Q. Mr. Williams, you have identified, or we have identified, maybe three or four objectives that you considered. Could you rank order those objectives?

A. I don't think I can rank order them, because they all were a part of the judgment, we took them all into consideration, and I don't think that one was considered more important than another. They were all considered important.

Q. All considered important; basically of equal importance?

A. (No response.)

Q. If not, if you were stressing one or the other, I would like to know which one you were stressing and which one you were downplaying.

A. No; I think we weighted them all as best we could.

MR. ETTNER: Thank you, Mr. Williams. That's all I have.

MR. KLEPPINGER: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. KLEPPINGER:

Q. Good afternoon, Mr. Williams.

A. Good afternoon.

Q. On page 4 of your testimony, line 12, you refer to a legal obligation of ratepayers to pay the full amount of the requested increase.

I guess my question is: how do your customers quantify what that legal obligation will be as it applies specifically to that customer?

A. What I meant by that statement was that the rate order, as allowed by the Commission, as we are proposing under this voluntary plan, was that the rate order would permit rates to fully make effective a 28.4 percent rate increase, but defer the billing of that increase in accordance with the plan specified. But certainly not give us the right to bill the 28.4 percent increase immediately -- I don't mean that -- but to collect the revenues associated with that increase, which is what my phase-in deferral plan does.

Q. If you characterize what the ratepayers are burdened with as a legal obligation, would you expect that those ratepayers would have to carry the deferred amount of this rate increase as an account payable on their books?

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A. No, I wouldn't.

Q. As you know, Mr. Williams, in the industrial class of customers economic cycles and business cycles have an impact on their consumption in a given period of time; isn't that true?

A. Certainly.

Q. Now, for a customer who, let's say, in 1986, the first year in which these rates will be in effect, is on a business down cycle, having a bad year, but by the time 1989 rolls around and we start collecting the deferred balance we're back in a booming economy again, for that type of customer under this type of a phase-in proposal, doesn't he pay back more of the deferral than what his legal obligation was as created in June of '86?

A. No. We're looking at the customers as a class of customers, the same way we make rates, and we're looking at the deferral on a class of customer basis. We're not setting up any legal obligation or deferred revenue by individual customer; it is by classes of customers.

Q. But the effects felt by your actual ratepayers are on an individual customer basis, Mr. Williams, aren't they?

A. Certainly.

Q. Historically, Mr. Williams, it has been true, hasn't it, for nearly the last ten years that Philadelphia

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Electric has made annual base rate filings, roughly speaking? There were a few that were stretched out 15 months or so, but roughly speaking we have had base rate cases every year since '79 or '78?

A. There have been quite a few. I don't think it is quite fair to say they are every year.

Q. In any event, we have never gone more than, say, 18 months without reviewing the inputs into PECo's rates in a full base rate case since '78, '77, in that time frame; is that fair to say?

A. You're starting in '78? There were some long periods of time, long cases, before '78. I think since '78 that's probably correct.

Q. Now, if we are to go with the type of phase-in you have proposed, we are locking ourselves in, aren't we, to the data which is set forth in this case, in terms of the cost of service study, the allocation and the distribution of the increase among customer classes, for roughly a seven-year period? Is that true?

A. No; I don't think that's true.

Q. Well, at the end of this case we're going to have a total allowance by the Commission of "X" dollars; correct?

A. Yes.

Q. And you will decide how that increase is allocated among customer classes.

A. The Commission will decide.

Q. Agreed. The Commission will decide how that is allocated among customer classes based on the evidence that is put into the case.

A. Yes.

Q. And that decision has a continuing effect, doesn't it, throughout the phase-in period?

A. To the extent of the rates being phased in, but that certainly does not prohibit any future rate cases from changing allocations or changing responsibilities of various rate classifications during the phase-in period.

Q. The company has volunteered that it will not file another base rate case until September of '87, unless dire circumstances prevail; is that correct?

A. That's correct.

Q. So these rates could realistically be in effect for a full 24-month period before there is a re-analysis, if you will, in a full-blown base rate case.

A. Yes; I agree with that. But your initial question was during the phase-in period, which is six years.

MR. KLEPPINGER: I have no further questions. Thank you.

JUDGE MATUSCHAK: Let's take a five-minute recess.

(Recess.)

JUDGE MATUSCHAK: When you're ready.

Is there any further cross-examination of this witness?

MS. FERKIN: Yes, Your Honor. Thank you.

CROSS-EXAMINATION

BY MS. FERKIN:

Q. Mr. Williams, do you have ready access to what was submitted today as City Exhibit 1, which is an answer to a City of Philadelphia interrogatory that was discussed with Mr. Farling?

A. 1-17?

Q. Right.

A. Yes, I do.

Q. Do you see in the answer there where it says, "In discussion, the company considered various lengths of time for the phase-in"?

A. Yes.

Q. Can you tell me who from the company participated in those discussions? -- well, first of all, were you a participant?

A. Yes.

Q. Can you tell me who from the company participated other than yourself?

A. Mr. Paquette, Mr. Hill, Mr. Austin and Mr. Everett.

Q. Is that the complete list that you recall of people participating in those discussions?

A. They are the principals that I remember.

Q. Was Mr. Farling present in any of those discussions?

A. No.

Q. You say that in discussions there were various lengths of time for the phase-in considered. Can you tell me which various lengths of time for the phase-in were considered, or what various lengths of time?

A. As I discussed previously, the judgment was a result of all sorts of considerations for phase-in. We were very much aware of the PP&L plan, which was basically a four-year phase-in with a revenue recovery very similar to the one we are proposing, and we were aware that that had been looked upon with apparent acceptance at the end of that case, although was not required in the final analysis.

But we wanted to reduce our phase-in to a level lower than the four-year phase-in that that plan would result in, so that we have gone one step further, if you will, with a six-year plan, a three-step plan, recognizing that the carrying charges, which are completely absorbed by the company, increase significantly as one increases the length of the plan.

For example, the carrying charges that we're

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foregoing are $250 million on this plan; the company is absorbing them. If we were to extend it from six years to eight years, a four-step plan, the carrying charges, instead of being $250 million, would be about $500 million. It escalates very quickly.

These sort of considerations were discussed.

Q. Did you ever consider a nine or ten-year plan, including a recovery period?

A. We believe that that, based on what I have just described, would certainly require that the company could not volunteer to absorb the carrying charges on such a long period of time.

It would require the application of carrying charges to customers and would be undesirable from that standpoint.

It would make the recovery more risky because of the extended period of time, as discussed in the answer to City 1-17. Those are some of the factors that were considered.

Q. But my question, Mr. Williams, was whether you gave consideration to a longer -- and I used nine or ten years as an example -- a longer phase-in period, including recovery.

You have given me some reasons why you have concerns about it, but did you give consideration to such a length

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of time?

A. These sort of considerations were explored; yes.

Q. The length of time.

A. Yes.

Q. But you considered a phase-in that would extend for a nine or ten-year period, including recovery?

A. We considered all sorts of ideas, and we believe that this is indeed the best plan for customers.

Q. When you say you believe it is the best plan, Mr. Williams, do you believe it is the optimal plan for customers?

A. From our standpoint, it was the optimal to meet all the required criteria that we have been discussing.

Q. I'm sorry; I didn't catch --

A. It was the optimal plan to meet all the required criteria that we have been discussing.

Q. That is, reasonable assurance of recovery, -- I'm trying to name some of the criteria.

A. Reasonable assurance of recovery; meeting the FASB expected requirements; a limitation on risk to keep the recovery plan, the length of the plan, as short as possible with a Commission determination up front without need for subsequent action by the Commission. All these things were discussed, and that is the reason we came to this judgment and volunteered this plan.

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Q. So do I understand you to say that based on all of these considerations, the phase-in proposal you have presented in this proceeding is the optimal plan for ratepayers, or for the company?

A. It is the optimal plan to meet all the requirements that we discussed, and the concern of ratepayers was indeed an important criteria. It was not the only criteria, obviously.

Q. Mr. Williams, do you think that phase-in is an important issue in this rate case?

A. Yes, one of many important issues.

Q. But it is an important issue?

A. Sure.

Q. Now, you have proposed this program voluntarily; is that correct?

A. That is correct.

Q. If this rate increase went through without a phase-in, do you think the company would be better off?

A. No. I think the company feels very strongly that we have made the right judgment in volunteering this plan, and that both the company and customers are better off with this phase-in plan.

Q. The company and the customers.

A. Yes.

Q. Can we go back to City Exhibit 1 for a moment?

A. Yes.
Q. In the response to that interrogatory it states, does it not, "This phase-in was determined to be less risky financially than longer phase-ins" --
A. Yes.
Q. -- "and also allowed for annual rate increases consistent with the average over the past ten years"?
A. Yes.
Q. Was that your determination?
A. Was what my determination?
Q. Does that reflect -- does that sentence reflect your determination?
A. It's a statement of fact.
Q. Do you agree with that sentence?
A. "The average over the past ten years," is that what you're asking?
Q. No. Let's refer only to the first clause of that sentence, "This phase-in was determined to be less risky financially than longer phase-ins."
A. Yes.
Q. Do you agree with that?
A. Yes.
Q. Can you tell me what financial information regarding the company you reviewed in reaching that determination or your agreement with that determination?

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A. That conclusion was reached based on the liability which exists the longer a phase-in plan continues, due to market and political forces, as I have described further down the paragraph. There is more liability for things to go wrong the longer the phase-in is going on.

Q. That is a conceptual point about phase-in, is it not, the theory that there may be greater liability in later years? What I am focusing on, Mr. Williams, is documentation, financial information that you reviewed in coming to the conclusion that "This phase-in was determined to be less risky financially than longer phase-ins."

A. Well, I think it is certainly the view of the accounting community, as Mr. Farling expressed, that the longer the plan goes on, the more risky it is. And we are aware of the drafts of the FASB statements that have been coming out, and certainly they reflect this view.

So that it is more than our concept.

Q. Let me try this one more way. Did you consider, for example, in coming to a determination about the financial risks associated with phase-in proposals, the May 31, 1985 Financial Analyst Forecast of the company?

A. We didn't use that as the basis for our judgment, no.

Q. Can you identify any other financial analysis that you used as a basis for your judgment?

A. I can't identify any specific financial analysis, no. As I said, Mr. Paquette was involved in the discussions, and certainly he had an input to the discussions, and he concurred in this type of plan.

MS. FERKIN: May I have just a minute, Your Honor?

(Pause.)

BY MS. FERKIN:

Q. Mr. Williams, you referred earlier to carrying charges associated with both the six-year phase-in that is being proposed here, and an eight-year alternative phase-in plan; is that correct?

A. Yes.

MS. FERKIN: Mr. MacGregor, I would like to make a data request for any work papers or source documents to support the computation of those carrying charges.

MR. MacGREGOR: Those are readily available. We will provide them.

MS. FERKIN: Thank you.

Also in the nature of a data request to Mr. MacGregor, I am wondering if there are any minutes or any other documentation available of the company's discussions of the various lengths of time for the phase-in that are discussed in City Exhibit 1.

If that is available, I would like to make that a request as well.

MR. MacGREGOR: We will review the files and provide any information that is available.

MS. FERKIN: Thank you.

Those are all the questions I have.

Thank you, Mr. Williams.

MR. RAINEY: Your Honor, if I may, just one follow-up.

CROSS-EXAMINATION

BY MR. RAINEY:

Q It appears that City Exhibit No. 1 was not fully responded to in terms of the request for any alternative methods and plans for phase-in.

I understand that you did consider a number of years; is that correct?

A. That is exactly what we say in the first sentence, that the company did consider various lengths of time for the phase-in.

Q We asked for a specific list in the question. The question requires a list. Would you please update this to provide -- and I think Zori just asked for that information.

MR. MacGREGOR: I don't think we're saying there is a list. We are saying that we will review the files, and if there is any, we will provide it. We don't know that there is.

BY MR. RAINEY:

Q. A list based on discussion; I mean it doesn't necessarily have to be a list based on any documented -- at the time you did talk about a number of periods of time; is that correct? Did you also discuss different percentage increases in each year as opposed to the equal percentages that you proposed in this case?

A. I think generally we were speaking about dividing it equally among the years, from my recollection.

Q. So you didn't consider any other percentages.

A. No.

Q. Also with respect to City Exhibit No. 1, can you update, and, again, with respect to the cross-examination just given by GEC, any calculation, any documentation, financial model runs or whatever, that you have with respect to the discussions that took place? Or can you say now that there were no such documentations as a result of your discussions?

A. We will review the files. I don't recollect -- I can't pinpoint any at the moment, but I will check.

MR. RAINEY: No further questions.

JUDGE MATUSCHAK: Mr. Widoff.

CROSS-EXAMINATION

BY MR. WIDOFF:

Q. Good evening, Mr. Williams. The City, in an

Interrogatory No. 37 -- if I may refer you to City 37 -- referred to your testimony at page 4, line 24, and asked you to provide any studies or evidence considered by the company in reaching the conclusion that higher rates will have an "impact on the economy of the company's service territory;" provide any studies or evidence that the rate plan proposed will "reduce the impact."

You response was: The company has performed no specific studies to support these statements; is that correct?

A. That's correct.

Q. Has the company performed any studies within the last five years with regard to the impact of particular levels of rates on the economy of the service territory?

A. Not to my knowledge, under my area of responsibility. I don't know -- I cannot answer for Mr. Hoch.

Q. Mr. Hoch would be in what area?

A. He is involved in forecasting sales.

MR. WIDOFF: At this time, Your Honor, I would like to have marked as UCC/UP Exhibit No. 1 a document --

JUDGE MATUSCHAK: It will be so marked.

(Whereupon, the document was marked as UCC/UP Exhibit No. 1 for identification.)

BY MR. WIDOFF:

Q. Mr. Williams, have you ever seen this document before?

A. I don't believe I have.

Q. Are you aware of the fact that the House of Representatives of the Commonwealth of Pennsylvania conducted a legislative inquiry into whether legislation might be desirable with regard to the PUC's authority with regard to cancellation of plants?

A. Yes.

Q. And are you aware that that inquiry took place roughly in the fall of 1984?

A. Yes.

Q. Now, this document is a document that was provided in response to a question by the Chairman of that Committee.

What I would like to ask you is if you would review it, and particularly the footnote on page 3.

A. (Witness perusing document.)

Q. I read that footnote as indicating that the company, during the course of the Lukens Steel proceeding, prepared some sort of study indicating that a .376 percent increase in rates would result from the loss of 1,127 jobs in Pennsylvania.

Would you have any idea under whose jurisdiction that study might have been done?

A. I'm not sure. I could speculate. Apparently, it was a part of this proceeding involving Lukens Steel Company, and it may well have been done by a consultant. I don't know.

MR. WIDOFF: Your Honor, at this time I would like to ask the company to produce the study or testimony or back-up papers that were involved in this conclusion that is stated on this document.

MR. MacGREGOR: We will provide the information, Your Honor.

JUDGE MATUSCHAK: Very well.

BY MR. WIDOFF:

Q. Mr. Williams, I would simply like to ask you, subject to that data request, and subject to check, and subject to what I'm sure will be qualifications that the company may wish to present, the following mathematical calculations: that if a .376 percent increase results in 1,127 lost jobs, a 28.2 percent increase results in the loss of 84,525 jobs.

MR. MacGREGOR: Are you asking Mr. Williams to accept the mathematics of the calculation?

MR. WIDOFF: Yes; solely the mathematics.

THE WITNESS: What was your final number? I'm sorry.

BY MR. WIDOFF:

Q. 84,525.

A. Your mathematical proportion seems to be correct,

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but I certainly can't accept the reason as being continuous.

Q. Similarly, and purely on the mathematics, if one uses the 39.5 percent figure that was elicited earlier in cross-examination for year four, the number of lost jobs would be 118,394.

A. The final number again? I'm sorry.

Q. 118,394.

A. Again, your mathematics appear to be correct, but I certainly don't accept the reasoning.

MR. WIDOFF: I would like to have marked at this time, Your Honor, UCC/UP Exhibit No. 2.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as UCC/UP Exhibit No. 2 for identification.)

BY MR. WIDOFF:

Q. Mr. Williams, are you familiar at all with this document?

A. I am familiar with the context in which this testimony was given.

Q. Would you give us that context, please?

A. The proposed legislation for purchasing co-generated energy from Scott Paper I think is the occasion that is being discussed here, and that legislation dealt specifically with that method of payment.

Q. Directing your attention to page 4 of that document, there is a reference in the first full paragraph to a calculation done by Philadelphia Electric Company of the impact of the proposed legislation in terms of what it felt would be a subsidy from one customer class to another and the impact of the subsidy on the customers that would have to pick up the additional costs.

In addition, there is a statement that "Subsidies such as this would surely erode Pennsylvania's ability to retain and attract industry and jobs."

Are you aware if any studies or calculations were done by the company in support of that statement?

A. Obviously, some calculation was made to support that statement. I didn't take part in that calculation.

MR. WIDOFF: Again, Your Honor, I would like to ask if the company would provide us with any back-up materials or studies or calculations that may have been prepared in support of that statement.

MR. MacGREGOR: We will do so.

MR. WIDOFF: I have no further questions, Your Honor, but I would like to move in UCC/UP Exhibits Nos. 1 and 2, subject to the understanding that the company may be providing back-up materials and so forth, and that either of the parties may wish to introduce further information with regard to these exhibits.

MR. MacGREGOR: Your Honor, I do not want to formally object at this time, but I would like the opportunity within the next few days to review the documents and discuss with the company whether the company wishes to object for any reason.

I don't believe I will, but I would like an opportunity to review the documents; there are a number of pages.

JUDGE MATUSCHAK: Very well; we will defer ruling.

MR. MacGREGOR: Thank you, Your Honor.

JUDGE MATUSCHAK: Remind me, Mr. Widoff.

MR. WIDOFF: Thank you.

JUDGE MATUSCHAK: Consumer Advocate.

MR. WERSAN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. WERSAN:

Q. Hello, Mr. Williams. My first question for you, Mr. Williams, deals with the relationship of the reduction in the energy portion charge of base rates projected to go into effect in June of 1986 with this case and the expected filing of Philadelphia Electric's ECR No. 10, which would be effective April 1, 1986.

How is the company anticipating it will incorporate or integrate its energy rate projection for this case with those that will go into effect in April of '86?

A. You're speaking of the ECR that would be filed preliminarily in February and made effective in April of

'86, before this case is completed.

A. Yes.

Q. That would not be affected in any way by the proposed base rate change of energy that is a part of this case. That is a continuation of the existing ECR process, and would not reflect in any way the changes that are proposed in this case.

What we envision is that that would be a very short step period from April '86 to approximately June 27, '86, when the changes of this case would then be incorporated in the ECR.

Q. So even though this current rate case anticipates incorporating projected energy savings through a reduction to the energy portion of base rates, the company is anticipating that it will concurrently file with the end of this rate case a new ECR tariff, or a new ECR cost?

A. Yes. It would have to be properly recognized.

Q. Now, the company has indicated that it --

A. And I might say that there is another complicating matter of the 80/20 proposal, which will be the subject of further testimony and I think further clarifying things.

Q. Am I correct, Mr. Williams, then, that in the last base rate case for Philadelphia Electric at 842590, which incorporated the addition of Salem Unit 2 into rates,

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that the company filed both a base rate tariff and a new ECR tariff to be effective at the end of that case?

A. Yes, although we did not make any change in the amount of energy included in base rates in that case. All of the change was taken care of in the energy charge itself, which is different than the proposal that is being made in this case.

Q. I understand that; but you are still anticipating that you will have to reconcile energy costs in June of '86, and I am curious why you didn't file that anticipated reconciliation with the filing of the base rate case.

A. If I understand your question, we can't reconcile actual collections until we get closer to June of '86.

Q. You mentioned that there would be circumstances in which the company would file a new base rate case before September of 1987.

Could you state what kind of financial indicators the company would review in making that determination?

MR. MacGREGOR: Mr. Wersan, I think that might be more appropriately asked of Mr. Paquette. Mr. Williams can answer if he can, but --

BY MR. WERSAN:

Q. If you can; otherwise I will postpone it.

A. I was going to say exactly the same thing. That is Mr. Paquette's decision, and I would suggest that

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that question be addressed to him.

Q Okay; let's see how far we go with the next one.

In looking at the phase-in proposal, and assuming rates went into effect as requested, the company would get a base rate increase of approximately $223 million in June of 1986.

A. Yes.

Q Does this mean that the company considers that a base rate increase of that amount would meet their financing requirements for construction and operating costs for the one-year period from June of '86 to June of '87?

A. Again, I think that is exactly the subject of Mr. Paquette's testimony.

Q Finally, am I correct that for normal base rate cases the company files its test year, the Commission makes a final order, and what the company is provided with is an opportunity to collect revenues to meet the ordered amount in the case based on pro forma revenues, expenses, et cetera?

A. The company is provided an opportunity to earn the rate of return set forth in the case based on all of the conditions of the case; and just that, an opportunity, not a guarantee.

Q And there is not normally a reconciliation of base rates in a future base rate case.

A. No.

Q. However, in this case, for the deferred amount, the company will in effect be attempting to reconcile the amount collected in the first three-year period and collected over the following three-year period, and will be tracking that amount of money not collected by rate class.

A. Well, as we went through the previous line of questioning by the Staff, the company is certainly not guaranteed the $670 million total increase, which would be totally deferred if everything worked perfectly, over a three-year period, the deferral of $670 million of unrecovered revenue.

There is no guarantee that it will amount to that amount of dollars at all. It depends entirely on sales.

Q. Correct. But whatever amount is ultimately deferred through the first three years will be tracked by rate class, and you state in your testimony that it will be recovered until such time as the complete amount deferred is collected.

A. The amount deferred, which may or may not be what we're speculating here, $670 million, will be set forth by rate class, and that amount, whatever it is, will be collected over the following three-year period by rate classification. I agree.

MR. WERSAN: That's all the questions I have, Your Honor.

Thank you, Mr. Williams.

MS. CHESTNUT: Your Honor, may I ask Mr. Williams an additional question?

JUDGE MATUSCHAK: Very well.

FURTHER CROSS-EXAMINATION

BY MR. CHESTNUT:

Q. Mr. Williams, in the last rate case the projected energy savings resulting from the inclusion of Salem 2 in rate base were flowed to the ratepayers through the ECR; is that correct?

A. Yes.

Q. At the conclusion of the case the company filed a new base rate tariff as well as a revised ECR filing.

A. That's correct.

Q. In this case the way that the company proposes to recognize the energy savings resulting from Limerick 1 is through a reduction in the base energy component of base rates; is that correct?

A. That's right.

Q. Why would a revised ECR have to be filed in June of 1986? What would the purpose of that revision be?

A. I stand corrected. The revised ECR -- and the reason I'm thinking that way is that the 80/20 is a part of this case. As a result of that 80/20, we're going to have to revise everything.

Q. Leaving aside the question of the 80/20, would a revised ECR be filed in this case?

A. No. You're right.

MS. CHESTNUT: Thank you. That's all the questions, Your Honor.

MR. ETTNER: Your Honor, may I ask one question as a follow-up to the questioning of Ms. Ferkin?

JUDGE MATUSCHAK: Very well.

FURTHER CROSS-EXAMINATION

BY MR. ETTNER:

Q. Mr. Williams, during cross-examination from Ms. Ferkin your attention was directed to City Exhibit No. 1. She asked you a question with respect to a sentence in your response there which indicates that your phase-in proposal allows for annual rate increases consistent with the average over the past ten years.

Now, the increases contemplated in your phase-in proposal amount to 9.4 percent for the first few years; is that correct?

A. True.

Q. I wanted to ask you: what have been PECo's annual rate increases over that ten-year period that you were referring to in that response?

A. I will be glad to provide you those exact numbers. I don't have them readily available here.

Q. The implication is that it is something comparable to the 9.4 percent that you are proposing here?

A. Yes.

MR. ETTNER: Mr. MacGregor, as an in-hearing data request, let me request that.

MR. MacGREGOR: We will provide it.

JUDGE MATUSCHAK: Any redirect?

MR. MacGREGOR: No, Your Honor, I have no redirect.

JUDGE MATUSCHAK: Very well. We will adjourn at this time and meet again on Monday.

(Witness excused.)

MR. MacGREGOR: Your Honor, I have just two brief matters about next week, just by way of an announcement really.

JUDGE MATUSCHAK: Very well.

MR. MacGREGOR: We are turning next week, as I understand it, to the Limerick-related issues, and more directly, to Limerick-related issues in this case, the economic issues and construction issues.

The economic issues will be taken up Monday and Tuesday. Mr. Calvert from my office will be the attorney who will be handling those matters.

Then the construction and financial issues, which will be taken up I guess beginning in the afternoon on Tuesday, and then Wednesday, Thursday and Friday, will be handled by Mr. Hall of my office.

Secondly, there were a number of questions deferred to certain witnesses during the course of the week, --

JUDGE MATUSCHAK: Do you know what witnesses you are going to present on Monday?

MR. MacGREGOR: Yes, Your Honor.

JUDGE MATUSCHAK: Can you give us a list so the parties can prepare?

MR. MacGREGOR: I will do my best to remember them.

On Monday are Dr. Hieronymus, Mr. Rush, Dr. Perl and Mr. Wile.

Tuesday, Mr. Hoch, Mr. Guth, Mr. Boyer and Mr. Mattson.

On Wednesday are the principal construction witnesses, who I believe include Mr. Kemper, Mr. Soppet, Mr. Sproat, Mr. Helwig and Mr. Clary.

Thursday are the Theodore Barry and Associates witnesses.

Friday are Mr. Paquette and Mr. Abrams.

I would also note that Mr. Hill will be here next Monday and Tuesday at the hearings; Mr. Williams will be here next Wednesday, Thursday and Friday. So to the extent that there were questions deferred to Mr. Hill, they potentially can be taken up at that time, and the same for Mr. Williams.

JUDGE MATUSCHAK: Who do you have Friday?

MR. MacGREGOR: Mr. Paquette and Mr. Abrams.

If the parties would keep me informed about the questions that they did not get to ask this week of the witnesses, perhaps those could be cleared up by telephone call; otherwise, next week. Otherwise, keep the attorneys here and myself informed of the extent to which we will require hearings on the 30th and the 31st of December to cover those witnesses.

Thank you very much.

JUDGE MATUSCHAK: Very well. We will adjourn until Monday morning at 10:00.

(Whereupon, at 5:00 p.m., the hearing was adjourned, to be reconvened at 10:00 a.m. on Monday, December 16, 1985, in Harrisburg, Pennsylvania.)

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C E R T I F I C A T E

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

COMMONWEALTH REPORTING COMPANY, INC.

By: Judith A. Toberman

Judith A. Toberman

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