



APPEARANCES (Continued):

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E X H I B I T S (Continued.)

NUMBER

FOR IDENTIFICATION IN EVIDENCE

Office of Consumer Advocate-Statement

3A (Rothschild)

3965

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P R O C E E D I N G S

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

6 Before we proceed, I would like to place on the  
7 record the fact that we had a conference call yesterday  
8 between Mr. Wersan of the Consumer Advocate, Mr. Hall for  
9 the company and ourselves.

10 We discussed the request of the Consumer Advocate for  
11 further time to file its testimony that was due tomorrow.  
12 The company agreed to an extension of time until March 4,  
13 but would not consent to an extension of time until March 7  
14 as requested by the Consumer Advocate.

15 In that conference call, we agreed tentatively that  
16 the Consumer Advocate's time submitting testimony would be  
17 extended to March 4, at least until March 4, and that the  
18 company would have time to file its rebuttal testimony  
19 until March 11, and that we would further address the matter  
20 this morning, to determine whether any modification of that  
21 provision would be appropriate.

22 Mr. Wersan, have you and Mr. Hall consulted further  
23 on the matter?

24 MR. WERSAN: No, we have not, Your Honor, not since  
25 our conference call yesterday.

1 I guess at this point I would just like to put on the  
2 record our concern and renew our request for an extension,  
3 solely for Mr. O'Brien and Dr. Hanauer's testimony until  
4 March 7.

5 The company filed, as you can see, Your Honor, quite  
6 a tall stack of rebuttal on those witnesses directly, and in  
7 addition they filed additional rebuttal to other witnesses  
8 in the case, which we also have to deal with and respond to.

9 I believe that the 14 or 15 pieces of testimony, the  
10 multiple exhibits totaling over many hundreds of pages  
11 requires that time extension in order for the OCA to properly  
12 analyze it and provide some credible response other than  
13 what can be done in a short, cursory amount of time.

14 MR. HALL: Your Honor, the company continues to  
15 oppose the Consumer Advocate's request beyond an extension  
16 to March 4. We think an extension to March 4 is about the  
17 maximum that can be granted within the schedule that has  
18 been established in the proceeding.

19 I think Mr. Wersan overstates the magnitude of the  
20 data that we have provided, and the magnitude of those  
21 analyses.

22 What the company has sought to do is simply employ  
23 the data and the methods of analysis which the Consumer  
24 Advocate's own witnesses employ or purportedly employ in  
25 their analyses, to show that the Consumer Advocate's

1 witnesses erred.

2 We have not employed any new analytical techniques.  
3 We have not employed any data which those witnesses, based  
4 on their own testimony, should not be familiar with and  
5 should not have reviewed.

6 We have simply presented that to Your Honor to  
7 attempt to show that those witnesses are in error. In  
8 addition, I would note, to Your Honor that there has been  
9 extensive discovery and the witnesses here of the Consumer  
10 Advocate should have the data that they need in order to  
11 respond to this material.

12 Finally, with regard to the Consumer Advocate's  
13 discovery requests that have been filed with us at this  
14 time, we will be responding to those either today or  
15 tomorrow, so that all that material will be in their hands.

16 If Your Honor were to grant any extension beyond  
17 March 4, in that instance it would require, I believe, a  
18 rescheduling of this phase of the proceeding with later  
19 hearings, and indeed I think would extend the proceeding  
20 into what has been established as briefing time for the  
21 case, and would render it more difficult for the parties to  
22 present to Your Honor cogent and reasonable briefs, as well  
23 as reducing Your Honor's time period quite possibly for  
24 consideration of those briefs.

25 MR. WERSAN: Your Honor, if I may quickly, I think it

1 should be noted for the record that the OCA provided the  
2 company with Dr. Hanauer's testimony before Thanksgiving,  
3 before any cross-examination, and provided them with  
4 Mr. O'Brien's testimony the first week of December.

5 They have had two and a half months to look at our  
6 testimony. They are giving us approximately nine, now maybe  
7 I guess 13 days to look at the testimony of numerous  
8 witnesses with numerous schedules. It is not as simple as  
9 Mr. Hall makes it out to be.

10 Further, we would be agreeable to, if Your Honor's  
11 schedule permits, an additional day or two of cross-  
12 examination the week after what was to be the close of the  
13 record without changing the briefing schedule.

14 We simply believe that we need more time to prepare  
15 our testimony, and then the cross-examination can flow from  
16 there. We are not asking for an extension of our briefing  
17 time. We just believe we need this time to put together our  
18 case.

19 JUDGE MATUSCHAK: One thing we are not going to do,  
20 and that is extend the briefing time, because we are  
21 operating on a very strict shift as it is.

22 If the parties would agree to maintain the same  
23 briefing time, we would consider whether or not we should  
24 have one more day of hearing on the 17th.

25 MR. HALL: The company would be able to meet that

1 schedule, Your Honor.

2 JUDGE MATUSCHAK: Do all parties agree that in view  
3 of the extensive rebuttal testimony submitted by the  
4 company, that we extend the hearing and close the record on  
5 the 17th rather than the 14th, and that all the other  
6 schedules, the briefing schedule and reply briefs, remain  
7 the same?

8 MR. HALL: The company would agree to that, Your  
9 Honor.

10 JUDGE MATUSCHAK: If we did that, how much more time  
11 would you agree to extend to the Office of Consumer Advocate  
12 to file its testimony, Mr. Hall?

13 MR. HALL: Your Honor, the company's --

14 JUDGE MATUSCHAK: Could we extend it at least another  
15 day?

16 MR. HALL: Yes, Your Honor.

17 JUDGE MATUSCHAK: Would that be satisfactory, another  
18 day, and have the -- what I am concerned about too is, I  
19 will have to give the company an opportunity to file their  
20 surrebuttal testimony and give you an opportunity to respond  
21 to that.

22 And if I gave you another day, then that would extend  
23 the time for the company to file its testimony on March 12.

24 MR. WERSAN: I understand your concern, Your Honor,  
25 about giving the company time, and we certainly still agree

1 to give them one week to respond as the schedule originally  
2 maintained.

3 I don't like to quibble over days, but if we got  
4 until Thursday and they got until Thursday and we had  
5 Monday, -- I am more concerned about getting my testimony in  
6 than reviewing their surrebuttal testimony and then cross-  
7 examining on those documents.

8 JUDGE MATUSCHAK: Would you agree to March 6th, and  
9 have them have until March 13th to file their testimony?

10 MR. WERSAN: Yes, Your Honor.

11 JUDGE MATUSCHAK: Would that be agreeable with you,  
12 Mr. Hall?

13 MR. HALL: Yes, Your Honor, with one exception. I  
14 would like to make one point, and that is, I believe it is  
15 Mr. Wersan here who is seeking to put in a new case, a case  
16 that is more extensive than in fact normal surrebuttal would  
17 be.

18 And I think that if that is permitted, which I think  
19 is fine, the company should be given some additional time as  
20 well.

21 If Mr. Wersan is given until March 7, I would ask that  
22 the company have until March 14, and perhaps we could do it  
23 in hearing.

24 JUDGE MATUSCHAK: I didn't say March 7. I said  
25 March 6.

1 MR. HALL: If Mr. Wersan was given until March 6,  
2 the company be given to March 14 to do its analysis of  
3 that material, and we have the hearing on March 18, if that  
4 is agreeable to Mr. Wersan.

5 JUDGE MATUSCHAK: How about March 13?

6 MR. HALL: The reason I request an additional day,  
7 Your Honor, is the additional time period that is being  
8 given to the Consumer Advocate.

9 Obviously, as the volume of their material expands,  
10 the time needed for the company to review and respond to  
11 that also expands.

12 That is the reason for the request for one additional  
13 day. The company would be agreeable to a filing date of  
14 March 6 for Mr. Wersan, March 14 for the company, and a  
15 hearing on March 18, if that is agreeable to Mr. Wersan.

16 MR. WERSAN: I don't want to be the stickler here. I  
17 don't think we are putting on a whole new case in our  
18 surrebuttal proceeding, Mr. Hall. We are simply asking for  
19 time to review what it is you did.

20 But I will go along with his proposal and have it on  
21 the 18th. I would note that we are going to still have to  
22 cross many of the witnesses the week of the 12th to the 14th  
23 so that we don't have 15 witnesses on one day.

24 MR. HALL: Conceivably, we could have two days if the  
25 Judge is willing to grant two days the following week.

1 JUDGE MATUSCHAK: Well, we are going to conclude this  
2 matter. If we have to have some night sessions, that would  
3 depend on counsel.

4 You understand, Mr. Hall, that if we went to the 18th,  
5 or Mr. Wersan, that that would cut your time for filing  
6 briefs?

7 MR. HALL: I recognize that, Your Honor.

8 MR. WERSAN: I would not like to go beyond the 18th,  
9 Your Honor, that's for sure. We could have the 17th and  
10 18th and just guarantee we'd get everybody done somehow.

11 MR. HALL: The company would be agreeable to that,  
12 Your Honor.

13 JUDGE MATUSCHAK: I have some hesitancy about going  
14 beyond March 17.

15 MR. WERSAN: Your Honor, we would agree to the 6th,  
16 the 13th and the 17th. It is the company that is now asking  
17 for the additional day.

18 MR. HALL: I think the company's request is a fair  
19 one in light of doubling the time that the Consumer Advocate  
20 has to respond. The 6th, the 14th, and the 17th and 18th I  
21 think provides a doable cross-examination schedule.

22 JUDGE MATUSCHAK: We will agree to an extended time  
23 for filing the testimony by the Consumer Advocate until  
24 March 6th, following with further testimony by the company  
25 until March 13th, and we will conclude this matter on

1 March 17th.

2 MR. WERSAN: Thank you, Your Honor.

3 MS. CHESTNUT: Your Honor, I have something I would  
4 like to bring up at this time, since we are talking about  
5 scheduling and filing of testimony.

6 JUDGE MATUSCHAK: Before you get to that, do any  
7 other parties have any problem with that schedule?

8 (No response.)

9 JUDGE MATUSCHAK: Very well.

10 MS. CHESTNUT: Your Honor, I did not have a chance  
11 yet to talk about this with Mr. Hall, but Staff would like  
12 to have a much shorter extension for filing its Limerick  
13 surrebuttal testimony.

14 One of the reasons for that is, although Your Honor's  
15 prehearing order set a requirement that the company is to  
16 provide us with six copies of the testimony, the fact is they  
17 provided us with one copy after the close of business on the  
18 day that the testimony was due.

19 They did not supply additional copies, and we could  
20 not have copies made until sometime Thursday, and so we  
21 lost a day because of the company's failure to adhere to  
22 Your Honor's order.

23 I would therefore request an extension for us to  
24 file our surrebuttal testimony until Tuesday, March 4. It  
25 is currently due on Friday.

1 MR. HALL: Your Honor, we would agree with Ms.  
2 Chestnut that indeed by error we only filed one copy of the  
3 company's testimony on the Staff.

4 We have no objection to an extension of time for the  
5 Staff until March 3rd. March 4th -- we would agree to that  
6 as well. That is not a problem for us.

7 JUDGE MATUSCHAK: What?

8 MR. HALL: We will agree to an extension of time for  
9 the Staff until March 4, and our rebuttal would then be due  
10 on March -- I take it, Ms. Chestnut, that you are talking  
11 about the Staff Limerick surrebuttal. Does that constitute  
12 construction issues only, construction engineering issues?

13 MS. CHESTNUT: It constitutes both portions of our  
14 Limerick adjustment. It is going to be statements from  
15 Mr. Dougherty and Mr. Rosenthal.

16 MR. HALL: And would we respond to those, in your  
17 concept, on the 13th?

18 MS. CHESTNUT: Yes.

19 MR. HALL: Your Honor, we would agree to that.

20 JUDGE MATUSCHAK: Agree to March 4?

21 MR. HALL: Yes, Your Honor.

22 MS. CHESTNUT: Excuse me, Your Honor. That should be  
23 March 11, which would be a week from the filing of our  
24 testimony. That maintains the current differential that is  
25 in the schedule.

1 JUDGE MATUSCHAK: Then you agree then that the  
2 company can file their testimony March 11?

3 MS. CHESTNUT: 11th, yes, Your Honor.

4 JUDGE MATUSCHAK: Do you agree to that?

5 MR. HALL: Your Honor, that presents a bit of a  
6 mechanical problem in that often we combine -- one witness  
7 will respond to the OCA, the Staff and other parties. I  
8 would just as soon file it all at once, if we could.

9 MS. CHESTNUT: Your Honor, that doesn't leave us  
10 much time to respond to that. I don't think the company  
11 really needs nine days to respond to our surrebuttal.

12 MR. HALL: Your Honor, I would note that we are  
13 granting Staff an extra day in addition to the day related  
14 to the copies, and the problem of getting copies to them.

15 MS. CHESTNUT: I am also concerned, Your Honor, that  
16 when they file their sur-surrebuttal, that it be in a timely  
17 fashion. We have been getting their testimony at 5:30,  
18 which as far as we are concerned is after the close of  
19 business at the Commission. It is not a timely filing.

20 MR. HALL: Your Honor, I don't think that is correct.

21 MS. CHESTNUT: That is correct.

22 MR. HALL: I don't think that is correct, Ms. Chestnut.  
23 Our obligation is to put the testimony in the mail to you on  
24 the day upon which it is due, in His Honor's prehearing order.  
25 In fact, we have been delivering it to you by actual,

1 physical delivery.

2 Now, indeed, we have been getting it there at 5:00,  
3 but it has been there.

4 MS. CHESTNUT: Well, that is not my understanding of  
5 the order, Mr. Hall. Perhaps it could be clarified by Your  
6 Honor right now. We have a very compressed litigation  
7 schedule in this phase of the case, and I think it should  
8 be made clear, Your Honor, that when we are setting filing  
9 dates for this portion of the case, that should be the date  
10 the parties actually receive it.

11 JUDGE MATUSCHAK: We will grant an extension until  
12 March 4, and we will grant the company until March 11 to  
13 file their response to the testimony.

14 MR. HALL: Your Honor, I would simply like to note  
15 for the record one additional extension that has been  
16 discussed by the Consumer Advocate and the company and which  
17 I believe has been agreed to, and that is on rebuttal testi-  
18 mony by Mr. Komanoff, which is due on March 3, is that  
19 correct?

20 MR. WERSAN: I wasn't aware of whether or not an  
21 agreement had been reached, but I know the request had been  
22 made.

23 MR. HALL: The company is agreeable to that. All  
24 other testimony, as I understand it, is to be filed on  
25 February 28, and that remains the schedule.

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JUDGE MATUSCHAK: Very well.

MR. KLEPPINGER: Your Honor, just one point of clarification. Mr. Hall, you mentioned about the mechanics of combining your sur-surrebuttal testimony on various witnesses. What schedule are you going to adhere to for the people who will be filing their Limerick 1 rebuttal on the original time schedule?

I intend to file my testimony on Friday, the 28th, from Mr. Falkenberg.

MR. HALL: We would adhere to the original schedule.

MR. KLEPPINGER: Okay, fine.

JUDGE MATUSCHAK: Very well. If there is nothing further, we will proceed.

MR. CLARK: Your Honor, the Governor's Energy Council at this time would like to call its witness, Dr. John W. Wilson.

JUDGE MATUSCHAK: Mr. Wilson has testified before?

MR. CLARK: Yes, he has testified and been sworn, yes Your Honor.

Whereupon,

JOHN W. WILSON

having previously been duly sworn, testified further as follows:

## 1 DIRECT EXAMINATION

2 BY MR. CLARK:

3 Q. Dr. Wilson, would you please state your full  
4 name and address?5 A. John W. Wilson, 2600 Virginia Avenue Northwest,  
6 Washington, D.C.7 Q. And did you prepare for this case a statement of  
8 41 pages plus one exhibit?

9 A. Forty-five pages?

10 Q. Forty-five pages, yes.

11 MR. CLARK: Your Honor, at this time, I would like to  
12 have this statement marked as GEC Statement No. 1C.

13 JUDGE MATUSCHAK: So marked.

14 (Whereupon, the document was  
15 marked GEC Statement No. 1C  
16 for identification.)

17 BY MR. CLARK:

18 Q. Dr. Wilson, was this testimony, Statement No. 1C,  
19 prepared by you or under your supervision?

20 A. Yes, I prepared it.

21 Q. Do you have any corrections or changes or  
22 modifications to this testimony at this time?

23 A. No.

24 Q. If I were to ask you these questions at this  
25 time, would your answers be the same?

A. Yes, they would.

1 Q. And are those answers true and correct to the  
2 best of your knowledge?

3 A. Yes, they are.

4 MR. CLARK: Your Honor, I would like to have GEC  
5 Statement No. 1C moved into evidence at this time, subject  
6 to any timely motions to strike.

7 JUDGE MATUSCHAK: Under those conditions, the motion  
8 is granted.

9 (Whereupon, the document marked  
10 GEC Statement No. 1C was  
11 received in evidence.)

12 MR. CLARK: Your Honor, Dr. Wilson is available for  
13 cross-examination.

14 JUDGE MATUSCHAK: Mr. MacGregor?

15 MR. MacGREGOR: Thank you, Your Honor.

16 CROSS-EXAMINATION

17 BY MR. MacGREGOR:

18 Q. Good morning, Dr. Wilson.

19 A. Good morning.

20 Q. I just have a few questions on your Statement  
21 No. 1C. First of all, am I correct that you have previously  
22 submitted a Statement No. 1A in this proceeding in which you  
23 proposed a performance standard for the company's nuclear  
24 units?

25 A. Yes, I have.

Q. And you were previously cross-examined on that

1 statement?

2 A. Yes, I was.

3 Q. And as I understand it, am I correct that your  
4 Statement No. 1C explains your view as to how your  
5 nuclear performance standard could be integrated with the  
6 proposed 80/20 ECR?

7 A. Yes, it does, at page 37 through the end. It  
8 explains how that integration would take place.

9 Q. And your Statement No. 1C does not present any  
10 other new proposal at this time to change or modify the  
11 company's energy cost rate or fuel cost recovery, is that  
12 correct?

13 A. Other than adopting the 80/20 split and  
14 incorporating the nuclear incentive, that is correct.

15 Q. And I believe as you indicated, your discussion  
16 of the integration of these two proposals is set forth on  
17 pages 37 to 45 of your testimony?

18 A. That is right.

19 Q. Now, in your Statement No. 1A, am I correct that  
20 you presented an analysis of the potential financial impact  
21 of your proposed nuclear performance standard on the company,  
22 at least the dollar impact of a 55 percent and a 75 percent  
23 experienced capacity factor under your standard?

24 A. The financial impact was really presented in  
25 Statement No. 1B rather than in 1A. 1A developed some values

1 with respect to fuel costs.

2 Q And those were applied in 1B?

3 A And those were applied in 1B, that's right.

4 Q Am I correct that you have not presented in your  
5 Statement No. 1C a financial analysis of the impact of the  
6 combination of the 80/20 ECR and your nuclear performance  
7 standard?

8 A That is right.

9 Q And it is your proposal in this case that the  
10 Commission adopt both the 80/20 ECR and your nuclear  
11 performance standard?

12 A Yes, as indicated with the language for inte-  
13 grating the two at pages 37 through 45.

14 Q Now, am I also correct that the other portion of  
15 your testimony, the first 36 pages, is directed to a general  
16 discussion and description of energy cost rates and fuel  
17 adjustment clauses?

18 A Yes, their purposes, their strengths and their  
19 weaknesses.

20 Q Am I correct that this is a generic sort of  
21 discussion, and as it is entitled, ECR design considerations,  
22 and contains no specific discussion of PECO's ECR?

23 A It is general and policy-oriented, and it does not  
24 discuss PECO's specific ECR, that is true.

25 Q Am I correct, at pages 8 and 9 of your testimony,

1 you generally discuss certain advantages of energy cost  
2 rate mechanisms?

3 A. Potential advantages, yes.

4 Q. And at the bottom of page 8, one of those  
5 potential advantages is that if costs subject to interim  
6 adjustments are moving in the same direction as total cost  
7 of the utility, then the interim adjustment process helps  
8 keep the overall rate level in touch with the total cost  
9 level of the utility, and therefore reduces the needed  
10 frequency of complete rate investigations?

11 A. Yes.

12 Q. And then continuing on to page 9 and 10 and 11 of  
13 your testimony, you discuss corresponding disadvantages to  
14 fuel adjustment clauses, is that correct?

15 A. There are potential disadvantages. I don't know  
16 that I would call them "corresponding," but they are  
17 disadvantages, yes.

18 Q. And on page 10 of your testimony, the first two  
19 reasons that you cite, am I correct that they apply to the  
20 possibility of energy costs moving in one direction while  
21 other costs not subject to automatic reconciliation are  
22 moving in another direction?

23 A. That is the first one, at lines 9 through 12.

24 Q. Correct, and then the second one deals with  
25 offsetting factors such as productivity improvements that

1 that would reduce total cost increases that might not be  
2 reflected until another base rate filing, is that also  
3 correct?

4 A. It really focuses on the tendency for automatic  
5 adjustments to be biased in the direction of registering  
6 cost elements as opposed to cost offsets, such as  
7 productivity.

8 Q. Now, with respect to the first reason, have you  
9 made any analysis of how that disadvantage has in fact  
10 taken place or not taken place with respect to Philadelphia  
11 Electric Company?

12 A. I have not made an analysis, but I would surmise  
13 that over recent years, if we go back let's say over the  
14 last decade or so, because of increases that took place in  
15 fuel costs, particularly in the 1970's, that you would tend  
16 to have fuel costs and general costs because of inflation  
17 going up simultaneously, because we had both large cost  
18 escalations in fuel and we had large general inflation.

19 Those circumstances are no longer the case at the  
20 present time, so you would not be able to simply extrapolate  
21 the experience from the last 10 years over the next few  
22 years and expect it to be the same.

23 Historically, I would imagine that they have moved  
24 essentially in the same direction.

25 Q. And any potential problem with fuel cost increases

1 being reflected while they are being offset with cost  
2 decreases has not resulted, at least to your knowledge, in  
3 the company earning an excess return above that allowed by  
4 the Commission in its rate proceedings?

5 A. That is right.

6 MR. MacGREGOR: Thank you, Dr. Wilson.

7 That's all I have, Your Honor.

8 JUDGE MATUSCHAK: Any further cross-examination?

9 MS. CHESTNUT: I have no questions, Your Honor.

10 JUDGE MATUSCHAK: Consumer Advocate?

11 MR. WERSAN: Nothing, Your Honor, thank you.

12 MR. KLEPPINGER: No questions, Your Honor.

13 JUDGE MATUSCHAK: Dr. Wilson, the Commission has  
14 provided for an 80/20 split in the ECR, is that right?

15 THE WITNESS: Yes.

16 JUDGE MATUSCHAK: What you are proposing is a further  
17 modification of the ECR to provide for other incentives in  
18 regard to nuclear power?

19 THE WITNESS: That is correct, Your Honor.

20 JUDGE MATUSCHAK: The Commission Staff has argued in  
21 this proceeding that any modification of the ECR was not  
22 assigned to us. Did you read the portion of the Commission  
23 order in which the assignment was made to us in this  
24 proceeding?

25 THE WITNESS: Yes, sir, I did.

1 JUDGE MATUSCHAK: Would you not agree that your  
2 proposal would have us intrude upon the Commission's  
3 decision of the procedure in which the ECR is to operate?

4 MR. CLARK: Excuse me, Your Honor. It is maybe not  
5 a wise idea to object to the Judge's questions, but in a  
6 way, I think what you are asking Dr. Wilson is his judgment  
7 of the legal question of the scope and of the purpose and  
8 intent of the Commission's order, and I am not sure he is  
9 the legal expert on this issue.

10 I don't mind if you were asking him about the  
11 strategy and purposes.

12 JUDGE MATUSCHAK: All right, we will sustain the  
13 objection. We think your objection is well taken.

14 But doctor, you will agree as you indicated before  
15 that your proposal modifies the ECR provision that is  
16 established by the Commission?

17 THE WITNESS: It makes a modification only with  
18 respect to nuclear operations. And I have construed and  
19 really thought of what I am proposing, and have illustrated  
20 just graphically in the exhibit that is attached to my  
21 testimony, rather than a modification to the ECR, an  
22 incorporation of the nuclear efficiency proposals which I  
23 made in my Statement No. 1A.

24 Now, there would be other mechanisms by which to  
25 integrate the nuclear efficiency proposals rather than through

1 the energy cost recovery or fuel adjustment mechanism. It  
 2 just so happens that the energy cost recovery or fuel  
 3 adjustment mechanism is the easiest and most directly  
 4 observable place in which to incorporate the nuclear  
 5 incentive.

6 It could be done in other places, but by doing it as  
 7 an adjustment in the ECR proceedings, accepting the 80/20  
 8 split as the standard but incorporating the nuclear  
 9 efficiency standards, as illustrated on the exhibit to my  
 10 testimony, in this proceeding rather than in some sort of a  
 11 separate proceeding or a general rate case, there is a more  
 12 straightforward approach to the problem because the issue  
 13 that we are talking about when we talk about nuclear  
 14 efficiency is the fuel cost that is associated with  
 15 replacement energy, or the purchased power cost that is  
 16 associated with replacement energy.

17 Since the ECR case deals specifically with that, it  
 18 is a logical place in which to incorporate the efficiency  
 19 standard.

20 And I think in that light, it can be seen as  
 21 primarily not a rejection of the ECR or a change in the  
 22 ECR but an incorporation of the efficiency standards in an  
 23 efficient way.

24 JUDGE MATUSCHAK: We don't quite agree with your  
 25 statement that you are not modifying the ECR. The Commission

1 has established a method for the application of the ECR,  
2 and if you are going to add further conditions, we don't  
3 see how that is not a modification of the ECR.

4 THE WITNESS: The same end result could be achieved  
5 by having a separate adjustment that is made for nuclear  
6 efficiency and not dealing with it within the context of the  
7 ECR mechanism. It would complicate the regulatory process  
8 a little bit.

9 JUDGE MATUSCHAK: It seems you can't have it both ways.  
10 The Commission Staff apparently, from what we understand, has  
11 argued that we have no authority to modify the ECR, and your  
12 proposal would seem to do exactly that. Thank you.

13 THE WITNESS: Thank you.

14 MR. CLARK: Your Honor, may I have a few moments with  
15 the witness?

16 JUDGE MATUSCHAK: Yes.

17 MR. MacGREGOR: Your Honor, while they are doing that,  
18 I perhaps could take care of the rate of return testimony  
19 which was scheduled for cross-examination yesterday.

20 JUDGE MATUSCHAK: Yes, I meant to bring that up the  
21 first thing, so that we have a stipulation that the various  
22 rates of return rebuttal and surrebuttal testimony is  
23 incorporated in the record. You may offer your evidence and  
24 your statement in the record.

25 MR. MacGREGOR: Your Honor, I have a copy of all the

1 rate of return rebuttal, surrebuttal and sur-surrebuttal  
2 that has been offered in the case, and I believe copies  
3 have been provided to the court reporter.

4 Perhaps I could go through a listing of that just  
5 briefly and we could move it into evidence at that point  
6 in time.

7 The company has presented PECO Statement No. 28B,  
8 Updated and Rebuttal Testimony of Joseph F. Brennan; Exhibit  
9 JFB-3, entitled, "Exhibit of Updated Schedules to Accompany  
10 the Updated and Rebuttal Testimony of Joseph F. Brennan;  
11 Exhibit JFB-4, "Exhibit to Accompany the Updated and  
12 Rebuttal Testimony of Joseph F. Brennan"; and PECO Statement  
13 No. 28C, which is the sur-surrebuttal testimony of Joseph F.  
14 Brennan.

15 In addition, Your Honor, General Services Administra-  
16 tion has submitted GSA Statement No. 1A, Updated and  
17 Surrebuttal Testimony of Philip R. Winter.

18 Staff has presented the updated and surrebuttal  
19 testimony of Andrew R. O'Donnell, marked as Trial Staff  
20 Statement ARO-2; and finally, the Consumer Advocate has  
21 presented OCA Statement No. 3A, the surrebuttal testimony  
22 of James A. Rothschild.

23 The other parties can move theirs in separately as  
24 they wish, Your Honor, but I can state for the record that  
25 the parties involved in this aspect of the proceeding have

1 agreed to stipulate as to the authenticity of these  
 2 statements, and have them moved into evidence in this  
 3 proceeding without further appearances by the witnesses for  
 4 cross-examination.

5 If that is acceptable to Your Honor, then I would move  
 6 each of these statements into the record at this time.

7 JUDGE MATUSCHAK: Is that the consensus of counsel?

8 MR. WERSAN: Yes, Your Honor.

9 MR. DELANEY: Yes, Your Honor.

10 JUDGE MATUSCHAK: Very well. Those offers are  
 11 admitted in evidence without further authentication.

12 (Whereupon, the documents were  
 13 marked PECO Statements Nos.  
 14 28B and 28C, PECO Exhibits  
 15 JFB-3 and JFB-4, GSA Statement  
 16 No. 1A, Trial Staff Statement  
 17 ARO-2, and OCA Statement No. 3A  
 18 for identification and received  
 19 in evidence.)  
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1 MR. CLARK: Your Honor, I just have a few redirect  
2 questions.

3 REDIRECT EXAMINATION

4 BY MR. CLARK:

5 Q Dr. Wilson, Mr. MacGregor asked you about the  
6 financial impacts of the performance standard and energy  
7 cost rate integration that you propose in your Statement 1C,  
8 and you mentioned that you had done a financial impact  
9 analysis in Statement 1B.

10 How applicable is that Statement 1B financial analysis  
11 to what it is you are now proposing to the Commission?

12 A It is completely applicable. The only element  
13 that was not reflected in the financial analysis that was  
14 presented in 1B was any assumption about the 80/20 split.  
15 So everything other than the Commission's direction with  
16 respect to the 80/20 split in the ECR has been fully  
17 accommodated in 1B.

18 Q Do you see that one difference making a substantial  
19 change in the financial impacts?

20 A I would not expect it to, no.

21 Q Mr. MacGregor also asked you about the early  
22 part of your testimony and the general discussion you had  
23 about energy cost rate and the fuel adjustment clauses.

24 In your review of the testimony and information in  
25 this case, do you see anything in the data about the

1 Philadelphia Electric Company that would cause you to think  
2 that that general discussion would not, in fact, apply to  
3 PECO?

4 A. No. All I'm saying is it is a discussion that  
5 would not be exclusive to PECO, but it certainly would apply  
6 to PECO as well as to other utilities.

7 Q The final issue, Dr. Wilson: the Judge asked  
8 about the Commission's order on the 80/20 ECR and whether  
9 or not you are proposing a modification.

10 In your testimony you are suggesting first that the  
11 company establish its projected fuel cost based upon a  
12 certain nuclear power plant performance level.

13 Do you see that at all inconsistent with the 80/20  
14 ECR?

15 A. That would have to be done in any event. That's  
16 an initial step regardless of whether you apply an 80/20  
17 split or a 50/50 split or a 100/0 split. That's really  
18 something that has to be done initially regardless of the  
19 implementation of the cost recovery mechanism.

20 So the answer is no, that would have to be done  
21 independent of the entire incentive question.

22 MR. CLARK: Thank you, Your Honor.

23 JUDGE MATUSCHAK: Anything further?

24 MR. MacGREGOR: Nothing further, Your Honor.

25 JUDGE MATUSCHAK: Thank you.

(Witness excused.)

1 MS. CHESTNUT: Your Honor, Staff would like to call  
2 as its witnesses Mr. Dennis Hosler and Mr. Robert Rosenthal,  
3 please.

4 JUDGE MATUSCHAK: They were both sworn?

5 MS. CHESTNUT: Yes, Your Honor, they have both been  
6 sworn previously.

7 Whereupon,

8 DENNIS P. HOSLER  
9 and  
10 ROBERT A. ROSENTHAL

11 having been previously duly sworn, testified further as  
12 follows:

13 DIRECT EXAMINATION

14 MS. CHESTNUT: Good morning, Mr. Rosenthal and Mr.  
15 Hosler.

16 Mr. Rosenthal, would you state your name for the  
17 record, please?

18 WITNESS ROSENTHAL: My name is Robert A. Rosenthal.

19 MS. CHESTNUT: By whom are you employed and in what  
20 capacity?

21 WITNESS ROSENTHAL: I am employed by the Pennsylvania  
22 Public Utility Commission as Supervisor of Valuation and  
23 Rate Structure in the Electric Division of the Bureau of  
24 Rates.

25 MS. CHESTNUT: Are you the same Mr. Rosenthal who has  
previously presented testimony in this proceeding?

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WITNESS ROSENTHAL: Yes, I am.

MS. CHESTNUT: Mr. Hosler, would you please state your name and business address for the record?

WITNESS HOSLER: My name is Dennis P. Hosler. My business address is Post Office Box 3265, Harrisburg, Pennsylvania, 17120.

MS. CHESTNUT: By whom are you employed and in what capacity?

WITNESS HOSLER: I am employed by the Pennsylvania Public Utility Commission as a Fixed Utility Financial Analyst in the Electric Division of the Bureau of Rates.

MS. CHESTNUT: Are you the same Dennis Hosler who has previously presented testimony in this proceeding?

WITNESS HOSLER: I am.

MS. CHESTNUT: Your Honor, Staff has previously distributed copies of Mr. Rosenthal and Mr. Hosler's joint direct testimony. I request that it be marked for identification in this proceeding as Staff Statement ECR-1.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as Staff Statement No. ECR-1 for identification.)

MS. CHESTNUT: Mr. Rosenthal, was Staff Statement ECR-1 prepared by you or under your direct supervision and control?

WITNESS ROSENTHAL: Yes, it was.

MS. CHESTNUT: Would you please explain to us the

1 extent of your participation in the preparation of this  
2 document?

3 WITNESS ROSENTHAL: I supervised the preparation of  
4 the document and have been principally responsible for the  
5 development of the normalized fuel cost and the policy areas  
6 surrounding the application of the 80/20 ECR as ordered by  
7 the Commission.

8 MS. CHESTNUT: Mr. Hosler, do you also have before  
9 you what has been marked for identification as Staff State-  
10 ment ECR-1?

11 WITNESS HOSLER: I do.

12 MS. CHESTNUT: Did you participate in the preparation  
13 of this document?

14 WITNESS HOSLER: Yes, I did.

15 MS. CHESTNUT: Would you please explain to us for  
16 what portions of this document you are responsible?

17 WITNESS HOSLER: My principal areas of responsibility  
18 were for the areas dealing with the operation of the 80/20  
19 ECR and the method of reconciliation.

20 MS. CHESTNUT: Mr. Rosenthal, do you have any additions,  
21 changes or corrections to make to this document?

22 WITNESS ROSENTHAL: We have one change which is on  
23 page 18, line 20. The percentage there should read "80  
24 percent" rather than "20 percent."

25 That is the only changes to the document.

1 MS. CHESTNUT: Mr. Hosler, do you have any additional  
2 changes or corrections?

3 WITNESS HOSLER: No, I do not.

4 MS. CHESTNUT: With the change you have noted,  
5 Mr. Rosenthal, is the information contained in Staff State-  
6 ment ECR-1 true and correct to the best of your knowledge,  
7 information and belief?

8 WITNESS ROSENTHAL: Yes, it is.

9 MS. CHESTNUT: Mr. Hosler, do you agree that the  
10 information contained in Staff Statement ECR-1 is true and  
11 correct to the best of your knowledge, information and  
12 belief?

13 WITNESS HOSLER: I do.

14 MS. CHESTNUT: Mr. Rosenthal, if I were to ask you  
15 today the questions contained in Staff Statement ECR-1,  
16 would your answers be the same as they are therein?

17 WITNESS ROSENTHAL: Yes, they would.

18 MS. CHESTNUT: If I were to ask you the same question,  
19 Mr. Hosler, would you agree also?

20 WITNESS ROSENTHAL: Yes, I would.

21 MS. CHESTNUT: Your Honor, I request that Staff  
22 Statement ECR-1 be admitted into evidence in this proceeding  
23 subject to any timely motions to strike or other objections.

24 JUDGE MATUSCHAK: Under those conditions, the motion  
25 is granted.

1 (Whereupon, the document marked  
2 as Staff Statement No. ECR-1  
3 was received in evidence.)

4 MS. CHESTNUT: Thank you, Your Honor. The witnesses  
5 are available for cross-examination.

6 JUDGE MATUSCHAK: Mr. MacGregor?

7 MR. MacGREGOR: Thank you, Your Honor.

8 CROSS-EXAMINATION

9 MR. MacGREGOR: Good morning, gentlemen.

10 WITNESS ROSENTHAL: Good morning.

11 WITNESS HOSLER: Good morning.

12 MR. MacGREGOR: Mr. Rosenthal, am I correct that a  
13 significant area of disagreement between the company and the  
14 Staff as to the establishment of the 80/20 ECR is the question  
15 of where the 20 percent costs not subject to reconciliation  
16 would be established and how they will be revised?

17 WITNESS ROSENTHAL: Yes. That is a significant area  
18 of disagreement between the company and the Staff.

19 MR. MacGREGOR: Am I correct that the company proposes  
20 to establish the 20 percent figure annually as part of its  
21 annual ECR filing and that under the company's plan, one  
22 energy cost forecast would be filed each year, 80 percent  
23 being subject to reconciliation and 20 percent not subject  
24 to reconciliation, and that base rates are not affected by  
25 this proposal?

WITNESS ROSENTHAL: That is our understanding of their

1 plan, yes.

2 MR. MacGREGOR: Under the Staff's proposal, the 20  
3 percent would be established in base rate proceedings and  
4 changed only in subsequent base rate proceedings?

5 WITNESS ROSENTHAL: Yes.

6 MR. MacGREGOR: Specifically, am I correct that the  
7 Staff's proposal is to establish the 20 percent in base rates  
8 in this proceeding based on a normalized basis employing the  
9 three-year energy cost projections provided by Mr. Carroll in  
10 Exhibit JJC-1 with certain adjustments discussed in your  
11 testimony?

12 WITNESS ROSENTHAL: That would be a good summary of  
13 the procedure employed and the position.

14 MR. MacGREGOR: As part of your support for this  
15 position, you state that your proposal you believe to be  
16 in compliance with the Commission's ECR-8 order while the  
17 company's proposal is not; is that correct?

18 WITNESS ROSENTHAL: Yes.

19 MR. MacGREGOR: Would you agree with me, Mr.  
20 Rosenthal, that the word "normalized" does not appear in the  
21 Commission's discussions of the 80/20 ECR in its ECR-8 order?

22 WITNESS ROSENTHAL: The word "normalized" does not  
23 appear in the order. As we discuss on page 4 of your  
24 testimony, our basis for selection of a normalized energy  
25 cost is the discussion contained on page 162 of the order

1 which includes Footnote 18, which requests that prospective  
2 data be based upon one-year projections for a period of  
3 three prospective years.

4 In addition, if we examine page 160 of the order  
5 which discusses that 20 percent of the actual experienced  
6 energy costs will not be subject to reconciliation under  
7 Section 1307, we understand that would then place that under  
8 1308. Hence, that development would be similar to other  
9 expenses which are customarily normalized for ratemaking  
10 purposes.

11 MR. MacGREGOR: Would you agree with me that I am  
12 correct that the word "normalized" does not appear in the  
13 Commission's order?

14 WITNESS ROSENTHAL: It is not in the text of the  
15 order.

16 MR. MacGREGOR: And would you agree with me that with  
17 respect to the three-year data that you referred to that  
18 there is no requirement or statement in the Commission's  
19 order that the energy cost levels established for the 20  
20 percent must be based upon a three-year projection; rather,  
21 the company is simply required to file three-year data as  
22 well as five-year historic data in its backup material filed  
23 with the 80/20 ECR?

24 WITNESS ROSENTHAL: That material is to be provided  
25 as part of the supplemental information.

1 MR. MacGREGOR: The Commission's order does not mandate  
2 that the energy costs in this proceeding must be based upon  
3 that three-year projected data as opposed to some other  
4 time period; is that correct in your view?

5 WITNESS ROSENTHAL: Not necessarily. It discusses it  
6 as being based upon the total projected costs, and those  
7 projected costs are to be based upon that analysis of three  
8 prospective years.

9 MR. MacGREGOR: Now, am I correct that the data  
10 the company is to file is to be for a three-year period, but  
11 the Commission's order does not state that the energy costs  
12 established in this proceeding will necessarily be based  
13 upon that three-year data?

14 WITNESS ROSENTHAL: I think you are correct in that  
15 there is no specific statement of actual three years being  
16 the only criteria to use.

17 MR. MacGREGOR: Am I also correct that you have  
18 proposed two adjustments to the energy cost projections  
19 presented by Mr. Carroll, one related to oil prices and one  
20 related to western two-party purchases?

21 WITNESS ROSENTHAL: Yes. The oil prices is actually  
22 restricted to oil steam costs, and it does also affect  
23 receipts from PJM.

24 MR. MacGREGOR: Let me ask a few questions about the  
25 western two-party purchases first. I take it your adjustment

1 increases the company's projection of western two-party  
2 purchases over the three-year normalized period you propose  
3 to employ to establish the 20 percent of energy costs?

4 WITNESS ROSENTHAL: Yes. My normalized level of  
5 3 million megawatt-hours is significantly above what  
6 Mr. Carroll has included in his development, but it is  
7 below what has been experienced in the most recent past.

8 MR. MacGREGOR: Now, at page 11 of your testimony,  
9 you list several reasons supporting your position on this  
10 issue; is that correct?

11 WITNESS ROSENTHAL: Yes.

12 MR. MacGREGOR: And one of these reasons that begins  
13 on line 17 is, "New agreements in place between West Penn  
14 Power System and American Electric Power;" is that correct?

15 WITNESS ROSENTHAL: Yes.

16 MR. MacGREGOR: Can you explain to me what specific  
17 agreements you are referring to?

18 WITNESS ROSENTHAL: The new agreement was an agreement  
19 between American Electric Power and its subsidiaries,  
20 Appalachian Power, Ohio Power and Wheeling Electric Company,  
21 which are part of the AEP integrated utilities system. The  
22 agreement is among them and with the APS party companies,  
23 who are Monongahela Power, West Penn Power and Potomac  
24 Edison.

25 The agreement was made most recently, was filed with

1 FERC November 19, 1985, which alters the pricing for short-  
2 term power transactions between the two entities.

3 MR. MacGREGOR: Mr. Rosenthal, did you inquire from  
4 the company or from Mr. Carroll as to whether this change  
5 has already been reflected in Exhibit JJC-1?

6 WITNESS ROSENTHAL: No. This is just a question  
7 of expected change in prices and that this is an increase  
8 in the flexibility of that pricing formula with this agree-  
9 ment.

10 The other items I cite on page 11 are --

11 MR. MacGREGOR: If we could just stay with that  
12 one for a moment and then we can move to the others.

13 So you don't know whether the company has reflected  
14 this in their projection or not?

15 WITNESS ROSENTHAL: No. We received it on January 13th  
16 and I do not know the exact publication date of it for that  
17 purpose.

18 MR. MacGREGOR: Now, you also referenced the expected  
19 operations of CAPCO's Perry 1 unit by the end of 1986; is  
20 that correct?

21 WITNESS ROSENTHAL: Yes.

22 MR. MacGREGOR: Do you believe that that unit will  
23 still achieve commercial operation by the end of '86 given  
24 the recent earthquake problems in that area, if you know?

25 WITNESS ROSENTHAL: The company still believes it

1 will based upon its recent discussions with them. It is  
2 in all probability that it will still be under test and  
3 providing test power at that basis. There may be a slippage  
4 of approximately three months due to the earthquake analysis.

5 MR. MacGREGOR: Mr. Rosenthal, would you agree with  
6 me that the amount of western two-party purchases the company  
7 may make depends not only on the availability and price of  
8 that power from western parties, but also on the alternative  
9 sources available to Philadelphia Electric Company to buy  
10 power or to generate power to provide service to its  
11 customers?

12 WITNESS ROSENTHAL: The selection of that source of  
13 power is governed by the economics of the situation at the  
14 time of the transaction such that alternative sources which  
15 may be lower than the western sources would be implemented  
16 and utilized where they are more economic.

17 MR. MacGREGOR: One justification you have provided  
18 for your projected level of two-party purchases is a compari-  
19 son of that level with three-year and five-year historic  
20 purchase levels of western two-party purchased by the company;  
21 is that correct? I believe that is on the top of page 12  
22 of your testimony.

23 WITNESS ROSENTHAL: Yes. That was part of my  
24 examination.

25 MR. MacGREGOR: Would you agree that in comparing

1 the next three years to either the past three years or past  
2 five years that PECO will have substantial additional base  
3 load capacity such as Limerick 1 on its system?

4 WITNESS ROSENTHAL: It will have substantial additional  
5 capacity. It is also scheduling a major outage for a long  
6 period of time at the Peach Bottom 3 unit such as has been  
7 experienced in the past three years at Peach Bottom 2 and,  
8 of course, the Salem units such that this is a source avail-  
9 able to replace that power also.

10 MR. MacGREGOR: But one difference between the past  
11 three years and the next three years is the availability  
12 of Limerick 1?

13 WITNESS ROSENTHAL: Certainly that will affect the  
14 economics of the overall PJM system and the availability of  
15 power there.

16 MR. MacGREGOR: Did you reflect that in your calcula-  
17 tion of projected two-party purchases? Did you analyze the  
18 extent to which the company purchases by Philadelphia Electric  
19 of western two-party power would not be economic to the same  
20 extent as they had been in the past due to the availability  
21 of Limerick 1?

22 WITNESS ROSENTHAL: I compared what I considered to  
23 be the value of the two-party purchases with an expected  
24 value of receipts through PJM and expected oil production  
25 prices; such that while those two sources are still being

1 utilized, this expected source in the west would offset those  
2 production sources and would supplement whatever additional  
3 available base load capacity would be from the Limerick unit.

4 MR. MacGREGOR: But those projection sources, oil  
5 and the PJM receipts, will be at a lesser level than they  
6 have been in the past with the addition of Limerick 1; is  
7 that correct?

8 WITNESS ROSENTHAL: Yes, I believe I stated that. If  
9 not, Mr. Carroll certainly reflected that.

10 MR. MacGREGOR: You have also proposed an adjustment  
11 to the oil price projected by Mr. Carroll; is that correct?

12 WITNESS ROSENTHAL: Yes.

13 MR. MacGREGOR: Could you explain briefly how you  
14 reflected that in your revised energy cost calculation? I  
15 believe you indicated earlier that it affected both the oil  
16 steam production cost and the value of interchange receipts;  
17 is that correct?

18 WITNESS ROSENTHAL: Yes. Using the output from  
19 Mr. Carroll's model for July of 1986 in mills per kilowatt-  
20 hour for all oil steam units except for the Cromby Unit No. 2,  
21 I calculated an average millage per unit output rate.

22 For Cromby Unit 2, since it is scheduled to be out  
23 until November, I used the first available month, being  
24 November, for the calculation.

25 Those prices were then averaged and applied to the

1 total output for each of the three years.

2 MR. MacGREGOR: For those units?

3 WITNESS ROSENTHAL: Conjunctively. That average price  
4 was applied to the total production of the oil steam units  
5 for each of the three years, that production which had  
6 been projected by Mr. Carroll.

7 Additionally, that price was averaged with the  
8 escalated average coal price for each of the three years,  
9 which is directly from Mr. Carroll's output, to develop a  
10 rate for PJM receipts.

11 Those are the adjustments that were used to effect  
12 the holding of the oil price.

13 MR. MacGREGOR: Do you have calculation sheets to  
14 show how those calculations were performed or other work-  
15 papers that you could provide to us?

16 WITNESS ROSENTHAL: I have summary sheets.

17 MR. MacGREGOR: Could we ask for copies of those?

18 WITNESS ROSENTHAL: Yes.

19 MS. CHESTNUT: We will make them available, Your  
20 Honor.

21 JUDGE MATUSCHAK: Very well.

22 MR. MacGREGOR: Let me just ask a couple of follow-up  
23 questions to see if I understand what you did.

24 You would agree with me that when the company buys  
25 power through PJM that the price it pays is based in part

1 upon the next most economic available source of power to  
2 the company at the point in time at which the purchase is  
3 made? The company in essence buys against the next most  
4 economic unit on its system that is not operating at that  
5 time?

6 WITNESS ROSENTHAL: Yes. Its incremental unit of  
7 capacity available at that time is used in the pricing of  
8 the power.

9 MR. MacGREGOR: And would you agree with me that  
10 that next most economic unit may not be an oil unit in all  
11 circumstances; it might be a coal unit or it might be two-  
12 party purchases might be the next most economic source of  
13 power available which would be employed as the rate at which  
14 the company would buy against on the PJM?

15 WITNESS ROSENTHAL: Under general circumstances, it  
16 changes hourly. It may entail other aspects of also area  
17 reliability which may constrain that transaction.

18 MR. MacGREGOR: But the company is not necessarily  
19 always buying against oil on PJM; they may at certain  
20 times be buying against coal or may be buying against western  
21 two-party purchases?

22 WITNESS ROSENTHAL: At particular hours, that may be  
23 the case.

24 MR. MacGREGOR: With respect to power purchased from  
25 PJM off-peak to pump up the hydro units, am I correct that

1 those transactions are not priced at split savings under  
2 the PJM agreement?

3 WITNESS ROSENTHAL: I would have to take that  
4 subject to check.  
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1 MR. MacGREGOR: Finally, -- and I would direct this  
2 question to Mr. Hosler -- am I correct that you have pro-  
3 posed a modification to the company's energy cost rate, to  
4 the interim adjustment provisions of that rate as they  
5 would apply to the 80 percent of cost in the ECR?

6 WITNESS HOSLER: I would say we propose a change to  
7 what the company had originally proposed in this case, but  
8 basically what we are doing is bringing back the interim  
9 provisions as they stand in the current ECR.

10 MR. MacGREGOR: You are proposing an interim adjust-  
11 ment provision for the ECR; is that correct?

12 WITNESS HOSLER: Yes; as the current ECR now stands  
13 it has an interim provision. The company has taken that  
14 out of their proposal.

15 MR. MacGREGOR: Is your proposal the same as what is  
16 in the company's present ECR?

17 WITNESS HOSLER: It is not identical, no.

18 MR. MacGREGOR: How is it different?

19 WITNESS HOSLER: Well, the company's current ECR --  
20 I'm not sure if I have a copy of the tariff page -- has a  
21 dollar value that triggers the opportunity for an interim  
22 provision.

23 We have removed that, and we have also used wording  
24 to the effect that the interim provision will only revise  
25 the "F" factor, which is the energy projected cost part of

1 the formula. We do not anticipate the Commission revising  
 2 the base portion of the ECR "F" for the error correction  
 3 or the "E" factor of the ECR formula.

4 MR. MacGREGOR: So you have proposed a modification  
 5 to the company's existing ECR.

6 WITNESS HOSLER: That is correct; but our interim  
 7 provisions are much closer to the current ECR than what  
 8 the company has proposed.

9 MR. MacGREGOR: Thank you, Mr. Hosler.  
 10 That's all I have, Your Honor.

11 JUDGE MATUSCHAK: Consumer Advocate.

12 MR. WERSAN: I guess my questions will go to  
 13 Mr. Rosenthal, because it has to do with the fuel price  
 14 adjustment.

15 CROSS-EXAMINATION

16 MR. WERSAN: As you discussed with Mr. MacGregor,  
 17 and as you have indicated in your testimony, you make an  
 18 adjustment to the company's oil price assumptions in their  
 19 forecast; is that correct?

20 WITNESS ROSENTHAL: Yes.

21 MR. WERSAN: I take it you are doing that because  
 22 you disagree with Mr. Carroll's escalation rates for the  
 23 price of oil over the next three years?

24 WITNESS ROSENTHAL: Yes.

25 MR. WERSAN: And as I understand it, the base price

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1 from which the oil prices in July 1986 are derived are  
2 Mr. Carroll's oil price projections filed with his direct  
3 testimony in this case; is that correct?

4 WITNESS ROSENTHAL: The base price that Mr. Carroll  
5 has used that I have utilized are contained in Exhibit  
6 JJC-1, which I am unsure if they are the same as originally  
7 contained in REO-1, but they are what is supporting of the  
8 80/20 ECR numbers in this proceeding by the company.

9 They represent the December integration of prices  
10 and maintenance schedules.

11 MR. WERSAN: You don't recall whether Mr. Carroll  
12 adjusted his coal prices but not his oil prices in JJC-1  
13 from his original filing in this case?

14 WITNESS ROSENTHAL: I don't recall.

15 MR. WERSAN: Do you have any opinion as to the level  
16 of oil prices that were included in JJC-1 on a cost per  
17 barrel or a cost per megawatt-hour basis compared to the  
18 current market for oil?

19 WITNESS ROSENTHAL: In all probability, they are  
20 higher in the projections than the current market. The  
21 market has declined significantly since the beginning of  
22 the year.

23 Those declines would not be reflected in  
24 Mr. Carroll's numbers. And, in fact, from Mr. Carroll's  
25 original December numbers, an escalation is applied to

1 reach the July '86 numbers, and that has not been removed  
2 either, such that the July '86 numbers are above December  
3 '85 numbers, which are, in all probability, above current  
4 levels.

5 MR. WERSAN: Assuming with me for the moment that  
6 oil prices turned out to be lower over the next year or  
7 two or three than Mr. Carroll projects or, in fact, that  
8 you may use in your projections, how would those lower  
9 oil prices be reflected in the 80/20 ECR proposal you are  
10 making in this case?

11 WITNESS ROSENTHAL: The lower oil prices would be  
12 reflected through the 80 percent factors calculated on the  
13 year-specific periods. They would not necessarily affect  
14 the 20 percent factor unless there were some interim  
15 changes through a general rate proceeding.

16 MR. WERSAN: So to the extent the forecast of  
17 energy prices in the ECR include oil prices higher than  
18 what actually would occur, the company, in the 20 percent  
19 non-reconciled portion, could possibly overcollect and re-  
20 ceive a benefit in that 20 percent piece?

21 WITNESS ROSENTHAL: That is a potential. However,  
22 many factors must be considered in terms of availability  
23 and ultimate changes in maintenance schedules which may  
24 counteract any overcollection, as you term it.

25 MR. WERSAN: You would agree with me that since a

1 portion of the ECR will not be reconcilable after the end  
2 of this case, that the energy price forecast included in  
3 that ECR must be as accurate within our ability as possible?

4 WITNESS ROSENTHAL: Yes.

5 MR. WERSAN: To the extent 20 percent of the ECR is  
6 not reconcilable and, in fact, would be normalized as you  
7 are projecting, you would be normalizing the July 1986 oil  
8 prices over the time period until the company files a new  
9 base rate case?

10 WITNESS ROSENTHAL: If I understand your question,  
11 yes; that is correct.

12 MR. WERSAN: Tell me your understanding of my ques-  
13 tion so we're on the same wavelength.

14 WITNESS ROSENTHAL: That the normalized cost levels  
15 are being based upon a July '86 estimate, and that is what  
16 is being used to develop the revenue requirements in the  
17 20 percent non-reconcilable piece; and that would be fixed  
18 until the company files their next general rate increase.

19 MR. WERSAN: Finally, to the extent that you believe  
20 that the company's oil price escalation rates are over-  
21 stated, and, therefore, their oil prices are overstated in  
22 their production forecast, you might disagree with the  
23 company's analysis of the energy savings to be derived  
24 from Limerick Unit 1 over the next year or two, assuming  
25 everything else in the production cost model is held

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constant?

WITNESS ROSENTHAL: Yes. We state that, I believe, on page 19; that there could be significant -- there could be differences between what the original forecasted savings were from the unit and what will actually occur due to the change in oil prices.

MR. WERSAN: And the change you are anticipating is that there will be lower energy savings?

WITNESS ROSENTHAL: Yes; lower oil prices result in lower savings due to the price of alternative sources to the Limerick unit.

MR. WERSAN: That's all I have, Your Honor. Thank you.

JUDGE MATUSCHAK: Any further cross-examination?

MR. KLEPPINGER: Yes, Your Honor.

CROSS-EXAMINATION

MR. KLEPPINGER: My questions are going to relate to the collection mechanism, so I guess that might be Mr. Hosler's area.

As I understand Staff's proposal, you are modifying the total cent per kilowatt-hour fuel cost for the company from the 2.08 cents down to the 1.68 cents that Mr. Rosenthal has calculated; is that correct?

WITNESS HOSLER: We are modifying the base fuel component.

1 MR. KLEPPINGER: Well, the overall calculation that  
2 is on your schedule yields a total fuel cost of 16.869  
3 mills; is that correct?

4 WITNESS ROSENTHAL: Yes. The company's comparable  
5 number for this period is not the 20.8 mills that they had  
6 used to develop the revenue requirement; it is a lesser  
7 number, closer to 17 mills.

8 MR. KLEPPINGER: The company is including in its  
9 base rates, is it not, the full 20.8 mills?

10 WITNESS ROSENTHAL: As per their initial filing;  
11 yes.

12 MR. KLEPPINGER: Where is the Staff proposing that  
13 the 16.86 mills be collected?

14 WITNESS HOSLER: We are proposing the 16.869 mills  
15 be treated the same as the company's 20.8 mills and that  
16 it be spread in the base rate revenue requirement.

17 We have modified the ECR factor tariff sheet to --  
18 we have attempted to explicitly explain that through the  
19 "R" and the "B" factor that we have added to it.

20 We will be spreading the 16.869 mills into the base  
21 rate revenue requirement like we do any other revenue  
22 allowance.

23 MR. KLEPPINGER: Just so I understand what that  
24 means for my clients in Rate HT; essentially, the company's  
25 proposal in this case has a tail block charge on Rate HT

1 of 3.75 cents a kilowatt-hour; will you accept that subject  
2 to check?

3 WITNESS ROSENTHAL: Yes.

4 MR. KLEPPINGER: Under your proposal, is it true  
5 that within that 3.75 cents would be 16.869 mills of fuel?

6 WITNESS ROSENTHAL: Within that 3.75 cents would be  
7 20.8 mills of fuel under the company's proposal.

8 MR. KLEPPINGER: Under your proposal, would that  
9 number change?

10 WITNESS ROSENTHAL: It would have to be redesigned.  
11 It would, in all probability, be lesser.

12 MR. KLEPPINGER: Lesser than the 20.8?

13 WITNESS ROSENTHAL: Our number is lesser than the  
14 20.8. From my knowledge of Mr. Sundermeir's design tech-  
15 niques, in all probability his number to develop an ultimate  
16 tail block for Rate HT would be less than the originally  
17 filed 3.75 cents.

18 MR. KLEPPINGER: So just to wrap this up then, the  
19 20/80 ECR, the 80/20 ECR, as we know it, is not going to  
20 affect the collection mechanism of those fuel-related  
21 costs. The collection mechanism is still going to be  
22 within base rates as opposed to putting 80 percent of those  
23 fuel costs into an energy cost rate outside of base rates?

24 WITNESS ROSENTHAL: Yes. We have attempted to do  
25 the former of your descriptions, not the latter.

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MR. KLEPPINGER: Thank you.

I have no further questions, Your Honor.

JUDGE MATUSCHAK: Any further cross-examination?

(No response.)

JUDGE MATUSCHAK: Mr. Rosenthal, as we understand it, the Commission's proposal of the 80/20 is still in litigation. There is an appeal that has been taken from that.

In the event that the appellate courts strike that provision down, how will that affect base rates; how will that affect the base rates under your proposal? Do we have to go back and change all the accounting all through and have another --

WITNESS ROSENTHAL: It is our understanding that if the Commonwealth Court were to overturn the Commission or remand it such that 20 percent would not be unreconcilable in the future, that would only change the reconciliation in the future of our proposal. It would not affect how the rates are designed.

Effectively, the 16.87 then becomes what in the current ECR is the base fuel component; that is the dollars which are collected through base rates. And all expenses, fuel-related expenses, are then reconciled under current procedures.

It effectively would then have a different base

1 rate component than the current tariff, which is 28.178  
2 mills.

3 That would only affect the eventual reconciliation.

4 A tariff change would have to be necessary to modi-  
5 fy the ECR tariff, but not base rates themselves.

6 JUDGE MATUSCHAK: Following the Consumer Advocate's  
7 questions, if the ECR provides for a reconciliation of 80  
8 percent of the actual costs that the company expended for  
9 energy, if you in effect freeze the cost in base rates by  
10 normalizing over three years, if there is a reduction in  
11 the cost below the estimated cost and below the Commission  
12 approval of the estimated cost, what will be the effect on  
13 base rates?

14 WITNESS ROSENTHAL: Base rates would not be changed.  
15 The reduction that is experienced, 80 percent of that re-  
16 duction would be reconcilable through the proposed ECR  
17 procedures; 20 percent would be non-reconciled and would  
18 be, if it were an actual cost reduction, would be a gain  
19 to be shared by the stockholders of the company or by the  
20 company, which they may then take those dollars and devote  
21 to other resources.

22 Eighty percent of that benefit of the reduced costs  
23 would flow through to ratepayers through the normal ECR  
24 procedures.

25 What we have done is identified in mills per

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1 kilowatt-hour the unreconcilable piece. We have designed a  
2 revenue requirement component in order to minimize loss  
3 factor problems among classes.

4 If you had rate reduction you would not have to re-  
5 design the rates themselves, but 80 percent of that reduc-  
6 tion would come through the ECR procedures.

7 In order to account for 100 percent, prospectively,  
8 then a general rate filing would have to be initiated  
9 either on Commission order or on the part of the company.

10 JUDGE MATUSCHAK: In other words, what you will do  
11 is take the revenues from base rates and apply them against  
12 the 80 percent in the ECR, is that it, in the reconcilia-  
13 tion?

14 WITNESS ROSENTHAL: Within the formula of the  
15 tariff contained as Schedule 2 is what we term the base  
16 rate revenue component portion, which is used to design  
17 the base rates; and we have separately identified the un-  
18 reconcilable piece of that.

19 By applying the 80 percent factor to that and to  
20 the cost, we are then able to establish the matching of  
21 the 80 percent revenue collection which occurs in base  
22 rates to the 80 percent cost incurrence which is part of  
23 the "F" factor. That will be matched and then an ECR  
24 rate determined beyond that to be applied to bills.

25 JUDGE MATUSCHAK: Will that have any effect on the

1 cost to the ratepayer in the final analysis? It may affect  
2 them month by month, but in the final analysis would it  
3 make any difference whether the 20 percent is or is not  
4 collected in base rates? In the final reconciliation,  
5 would it make any difference; aside from the monthly bills,  
6 the actual cost to the ratepayers, would that be affected  
7 in any way?

8 WITNESS ROSENTHAL: From the company's standpoint,  
9 it would not change whether you collect it through one  
10 bucket or the other. However, there would be different  
11 class impacts which would be different for the clients of  
12 Mr. Kleppinger versus the clients of Mr. Wersan.

13 Those impacts we take care of through having base  
14 rate recovery as opposed to strict ECR recovery.

15 JUDGE MATUSCHAK: That's all I have. Any further  
16 questions?

17 MR. MacGREGOR: Yes, Your Honor; just one follow-up  
18 question.

19 FURTHER CROSS-EXAMINATION

20 MR. MacGREGOR: Mr. Rosenthal, the Judge just asked  
21 if there would be any ultimate difference to the rate-  
22 payers whether the 20 percent were placed in base rates or  
23 in the ECR.

24 Am I correct that under the company's proposal, the  
25 20 percent would be estimated annually in the ECR filings,

1 whereas under your proposal the 20 percent would be changed  
2 only with base rate proceedings, and to the extent that  
3 there were not annual base rate proceedings or that base  
4 rate proceedings took place at a different time than the  
5 ECR filing, there could be a difference to ratepayers and  
6 the company in the ultimate amount of fuel cost recovered  
7 and paid?

8 WITNESS ROSENTHAL: There is a difference, poten-  
9 tially, between the ultimate recovery under yours versus  
10 our methods.

11 My concept of whether or not it was ECR or base  
12 rate recovery deals with the total package. If you, for  
13 instance, had all dollars fuel-related in the ECR and none  
14 in base rates, then you have substantial problems of inter-  
15 class disparities.

16 One portion that we had within the description in  
17 the order is that the 20 percent is the base rate piece.  
18 That, under certain interpretations, might put 20 percent  
19 in base rates, 80 percent in an ECR factor. That has  
20 similar problems in a strict sense that 100 percent fuel  
21 cost collection in an ECR has. Because of inter-class  
22 problems, you would not want to go to that extreme.

23 MR. MacGREGOR: Thank you, Mr. Rosenthal.

24 That's all I have, Your Honor.

25 JUDGE MATUSCHAK: Mr. Rosenthal, under your proposal

1 what class of customers would be benefited by your proposal  
2 as against the company's proposal?

3 WITNESS ROSENTHAL: Recognizing that the company's  
4 proposal is to design base rates at 20.8 mills rather than  
5 16.8 mills --

6 JUDGE MATUSCHAK: Would that benefit the large  
7 users rather than the residential customers; wouldn't that  
8 hurt the residential customers and benefit the large users?

9 WITNESS ROSENTHAL: Yes.

10 FURTHER CROSS-EXAMINATION

11 MR. WERSAN: Mr. Rosenthal, assuming then a major  
12 disagreement between your forecasted prices and, therefore,  
13 the energy prices that would not be reconciled under the  
14 20 percent, if the Commission were concerned that even  
15 your oil forecasted prices were too high could the Commis-  
16 sion direct the company to include a different oil price  
17 in its production cost model in the development of the  
18 final energy cost rate, including escalation factors or  
19 de-escalation factors in that?

20 WITNESS ROSENTHAL: The Commission can order such.  
21 I would note that --

22 JUDGE MATUSCHAK: Would it be practical; could it  
23 be implemented in any way? Could that kind of order be  
24 implemented or would it be in the clouds?

25 WITNESS ROSENTHAL: There would be some problems.

1 trying to comply within one/two/three day periods when  
2 an order would come out and when tariffs should probably  
3 be filed; i.e., the date the Commission enters the order  
4 and when tariffs should be effective, to design or to  
5 calculate that properly and to have proper compliance with  
6 it -- to ensure proper compliance with it.

7 That is one reason we expressed in terms of dealing  
8 with that issue, to request that updates for production  
9 costs not occur after March 3rd, which is the date of filing  
10 of the company's rebuttal. There will be reconciliation  
11 updates at the time of filing, but that we are able to  
12 examine the costs and their calculations prior to the con-  
13 clusion of the case.

14 MR. WERSAN: But from the company's perspective,  
15 what they would be required to do would be to take their  
16 current schedules for their plants and their other fuel  
17 costs and input a new start price and escalation rate for  
18 oil, and then rerun the production cost model, and that  
19 would give you the final result; that, it is my under-  
20 standing, isn't a difficult process for the company.  
21 Would you agree with that?

22 WITNESS ROSENTHAL: I am not sure how quickly  
23 that can be turned around internally within the company.  
24 Perhaps Mr. Carroll can give you a better idea as to how  
25 fast he can work to prepare that information in response

1 -- in compliance with a Commission order which would  
2 ultimately order such escalation rates or prices to be  
3 utilized.

4 MR. WERSAN: But if oil prices were a concern, one  
5 way to deal with that would be for the Commission to require  
6 the company to use what it considers more accurate fore-  
7 casted oil prices; is that correct?

8 WITNESS ROSENTHAL: Yes.

9 JUDGE MATUSCHAK: Mr. Wersan, how often are you  
10 suggesting that that would be reviewed by the company?

11 MR. WERSAN: Your Honor, I was just considering  
12 it in the context of Mr. Rosenthal's proposal that at  
13 the end of this case -- and the company's proposal, for  
14 that matter, at the end of this case -- there would be  
15 a new ECR put into effect, and as part of the compliance  
16 problem the Commission says to use this kind of rate  
17 structure and cost allocation method and use these revenues  
18 and expenses to indicate oil price levels in working out  
19 your final factor. And as I understand it, that -- what  
20 I'm asking Mr. Rosenthal is: could they do that at the  
21 end of this case, and would that therefore give you an  
22 ECR projection that is closer to what the Commission thinks  
23 oil prices will be over the next year or two?

24 JUDGE MATUSCHAK: But that wouldn't affect the  
25 energy base rates, the energy base rates once the case

1 is closed, would it?

2 WITNESS ROSENTHAL: Once the rates are designed,  
3 using Mr. Wersan's assumptions, they would be placed in  
4 effect and it would require then a general rate proceeding  
5 to change that nonreconciliable portion.

6 JUDGE MATUSCHAK: That's what I mean. Even if oil  
7 prices drop to zero, which is not quite likely, but if  
8 they did there would be no adjustment in the base rates  
9 until the next rate case?

10 WITNESS ROSENTHAL: For that 20 percent nonrecon-  
11 ciliabile piece, yes.

12 JUDGE MATUSCHAK: Is there anything further?

13 FURTHER CROSS-EXAMINATION

14 MR. KLEPPINGER: Just one clarifying question.

15 In response to one of the Judge's questions you  
16 indicated a potential benefit or non-benefit on an inter-  
17 class basis, and I just want to be clear that if you agree  
18 with me that the existence of those benefits or non-benefits  
19 is attributable to the fact that when the company designs  
20 its base rates it takes into account the costs associated  
21 with differential line losses, whereas when fuel costs  
22 are collected in an ECR outside the base rates there is  
23 no recognition of differential line losses.

24 WITNESS ROSENTHAL: That is correct.

25 MR. KLEPPINGER: Thank you.

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JUDGE MATUSCHAK: Is there anything further?

MR. MacGREGOR: Nothing further.

JUDGE MATUSCHAK: Very well.

MS. CHESTNUT: I would like a few minutes.

JUDGE MATUSCHAK: Very well; let's take a ten minute recess.

(Recess.)

JUDGE MATUSCHAK: When you are ready.

MS. CHESTNUT: Yes, Your Honor.

REDIRECT EXAMINATION

MS. CHESTNUT: Mr. Rosenthal, Mr. MacGregor asked you about the major areas of disagreement between the company and the Staff proposals; do you remember that discussion?

WITNESS ROSENTHAL: Yes.

MS. CHESTNUT: And your discussion centered on the normalization of the 20 percent unreconcilable energy costs; is that correct?

WITNESS ROSENTHAL: Yes.

MS. CHESTNUT: Are there any other major areas or major differences in addition to that issue that you think are important?

MR. MacGREGOR: Objection, Your Honor. That is beyond the scope of cross-examination.

MS. CHESTNUT: Your Honor, I have to respond by

1 pointing out that my question was very carefully worded.  
2 He brought up one major area of disagreement, and I think  
3 I am entitled to probe other areas to see how they impact.

4 MR. MacGREGOR: Your Honor, I asked about a  
5 specific portion of his testimony. If I didn't ask him  
6 about other areas on cross I don't see how it can be  
7 brought up on redirect.

8 JUDGE MATUSCHAK: What was the question again?

9 MS. CHESTNUT: I was going to ask Mr. Rosenthal  
10 if there were other major areas of disagreement between  
11 the company's and the Staff's proposals?

12 JUDGE MATUSCHAK: Other than is in the testimony?

13 MS. CHESTNUT: Other than the issue discussed by  
14 Mr. MacGregor.

15 JUDGE MATUSCHAK: We will overrule the objection.

16 MS. CHESTNUT: Thank you, Your Honor.

17 WITNESS ROSENTHAL: The other major proposal of the  
18 company which the Staff has not agreed with is the inclu-  
19 sion of a cap on the unreconcilable portion of energy  
20 costs, as we discuss on page 6 of our testimony, in  
21 calculating the effect of the \$35 million cap, and as  
22 discussed in the Commission order at page 161 where they  
23 discuss the 20 percent -- exclusion of 20 percent from  
24 reconciliation as producing, in their opinion, no undue  
25 risk of substantial financial harm to the company, as the

1 basis for not incorporating the cap, recognizing that  
2 the Commission had already rejected the current ECR as  
3 an option, was presented with an option of no ECR, and  
4 in evaluating the risk to the company of having no ECR  
5 that having only 20 percent as a nonreconcilable portion  
6 that that would have, in their terms, no undue risk of  
7 financial harm to the company.

8 MS. CHESTNUT: Mr. Rosenthal, there were a number  
9 of questions this morning on how the base rate component  
10 of the 80/20 split will operate. Will you please clarify  
11 how that would work?

12 WITNESS ROSENTHAL: The base rate component will  
13 operate as it does in the current ECR in that it will be  
14 a fixed milage per kilowatt-hour of sale, which will  
15 be used in the development of rates, tariffs and rate  
16 schedules. Within the base rate revenue requirement  
17 energy component, as we have identified as "B" in our  
18 Schedule 2, is the nonreconcilable portion of 20 percent,  
19 which is identified as Factor "R" in the same schedule.

20 The interactions in operation of the formulas  
21 contained in Schedule 2 provide that only the 20 percent  
22 is nonreconcilable that is found in this rate case to be  
23 nonreconcilable, that that level does not change in future  
24 rate cases -- pardon me; in future filings, except for  
25 rate cases, be they either general rate case or non-general

1 rate case.

2 This "R" factor, which is the specific nonreconcilable  
3 piece, could be the subject of a general rate increase  
4 or a non-general rate increase depending upon the magnitude  
5 of change. And that would then be used to redesign the  
6 rates based upon the tariff formulas.

7 MS. CHESTNUT: Mr. Rosenthal, you were asked a number  
8 of questions with respect to the effect of declining oil  
9 prices on your proposal. Would you please discuss the  
10 effect on the ratepayers of this decline?

11 WITNESS ROSENTHAL: In the short term the design  
12 of the current ECR rate factor would reflect some of the  
13 reduction. Recognizing that there may be offsets too in  
14 oil price reduction which may encompass increases over  
15 projections in coal prices, changes in availability of  
16 these lower cost oil units or other units on the PJM and  
17 PECO's system, these factors may result in no overall  
18 change in total costs.

19 It should be recognized that the 80/20 procedure  
20 is designed to give the company incentive to seek lower  
21 prices for its resource fuels such that they may obtain  
22 some of the benefits from those lowering prices, be it  
23 either renegotiation of a coal contract, renegotiation  
24 of even the oil contracts in the face of the declining  
25 markets, or in an accelerating market, or through more

1 prudent purchased power arrangements within and outside  
2 of PJM; all of these factors are designed -- or I should  
3 say incorporated into the incentive mechanism where they  
4 will share in the benefits of when they can achieve lower  
5 total fuel costs versus the normalized level.

6 This is consistent with the treatment of many  
7 normalized expenses where you expect fluctuations year  
8 to year, and you expect gains and losses year to year due  
9 to the unique characteristics of a particular year; but  
10 that the gains are such that the company will be benefited  
11 and some of those dollars will be held in reserve for  
12 the periods when they would have a loss from the  
13 year-to-year operations.

14 The incentives are they may under this procedure  
15 actually be able to achieve longer term gains and secure  
16 and maintain those gains, whereas under the company's  
17 procedure that would have to be revalued each year and the  
18 gain would be lost; such if they were to make a minor or  
19 a longer-term contract savings they would retain those  
20 savings on more than a one-year basis under our proposal,  
21 where under the company's proposal they would roll that  
22 back and change it.

23 So there is less of a longer-term incentive under  
24 their proposal for such types of gains.

25 MS. CHESTNUT: Thank you. I have no further

1 questions.

2 MR. MacGREGOR: I have just one follow-up question.

3 RE-CROSS-EXAMINATION

4 MR. MacGREGOR: Mr. Rosenthal, we've discussed the  
5 possibility of a decline in oil prices; I take it that  
6 the same principles you have outlined would apply if there  
7 were an increase in oil prices above that projected, that  
8 there would be undercollections by the company and the  
9 company would not be able to change that undercollection  
10 without a base rate filing, under your proposal?

11 WITNESS ROSENTHAL: They would not be able to  
12 change it without a base rate filing on that 20 percent  
13 nonreconcilable piece. However, it would still have to  
14 interact with all the other factors to determine whether  
15 there is a total change in energy costs resulting from  
16 the escalation.

17 MR. MacGREGOR: Thank you, Mr. Rosenthal.

18 JUDGE MATUSCHAK: Mr. Rosenthal, if the oil prices  
19 dropped, are you saying that the change that would befall  
20 the base rate portion of the energy cost could be  
21 reconciled back into the ECR, and the customer would get  
22 the benefit of that?

23 WITNESS ROSENTHAL: The customer would get the  
24 benefit of 80 percent of that decline in price if it  
25 results in a total decline in energy costs.

1 JUDGE MATUSCHAK: And you would go back to the ECR  
2 and pick that up?

3 WITNESS ROSENTHAL: It would then get integrated  
4 into the calculation of the ECR "F" factor.

5 JUDGE MATUSCHAK: But if the price of oil went up,  
6 what happens?

7 WITNESS ROSENTHAL: The same thing would happen  
8 in that 80 percent would be reflected in the calculation  
9 of the new ECR "F" factor; 80 percent gets rippled either  
10 way in the calculation. 20 percent is still there as the  
11 incentive to either capture more savings or offset or try  
12 to improve -- or lessen the impact of escalation overall  
13 on the company.

14 JUDGE MATUSCHAK: Is it true that ordinarily the  
15 energy costs that are in base rates are part of the rate  
16 case proceedings; isn't it usual that energy costs that  
17 are in base rates are usually part of the rate case  
18 proceedings?

19 WITNESS ROSENTHAL: The energy costs in base rates  
20 for electric utilities are usually a fixed factor which  
21 is used to develop the revenue requirement of the case.

22 JUDGE MATUSCHAK: And is it likewise true that  
23 ordinarily we would not be concerned with ECR in this rate  
24 proceeding?

25 WITNESS ROSENTHAL: Absent any proposal to change

1 the base rate component or to change interactions between  
2 them, that would be the case.

3 JUDGE MATUSCHAK: I'm talking about the ECR as such.  
4 Ordinarily we are not concerned with the ECR in a rate  
5 case proceeding, unless the Commission especially assigns  
6 it as it has done in this case.

7 WITNESS ROSENTHAL: We have had proposals incor-  
8 porated into base rate cases such as the West Penn case  
9 a number of years ago which altered the collection of 447  
10 receipts from base rates to the ECR, and that involved  
11 the base rate proceeding and affected the ECR development.  
12 Also we have had discussions in terms of guarantees of  
13 energy savings which have always dealt with interactions  
14 of base rates and ECRs; that's been a characteristic, I  
15 would say, of the last two PP&L cases and the last Phila-  
16 delphia Electric case with the Salem proposals.

17 JUDGE MATUSCHAK: That's all I have. Does anyone  
18 have any further questions?

19 MS. CHESTNUT: Yes, I have a further question, Your  
20 Honor.

21 FURTHER REDIRECT EXAMINATION

22 MS. CHESTNUT: With respect to the PP&L and PECO  
23 cases you just referenced, Mr. Rosenthal, was there any  
24 change made to the ECR mechanism, itself, the basic ECR  
25 mechanism?

1           WITNESS ROSENTHAL: In the last PECO case the Salem  
 2 guarantee was the result of the proceeding, which was the  
 3 only change. It did not affect the normal calculation  
 4 of ECRs. What we had in the PP&L cases was an attempt on  
 5 their part to have a case result of a zero ECR, and that  
 6 involved the design of rates and interaction with the  
 7 ultimate allowance.

8           JUDGE MATUSCHAK: Mr. Rosenthal, in the event, for  
 9 instance, that oil prices dropped further once the energy  
 10 cost in base rates is fixed, the customer would not get  
 11 the benefit of that drop in price in oil prices until the  
 12 ECR was recalculated; is that correct?

13           WITNESS ROSENTHAL: They would not see it on their  
 14 bills until the ECR was recomputed. It would accrue in  
 15 the reconciliation piece on an immediate basis.

16           JUDGE MATUSCHAK: But they wouldn't receive that  
 17 benefit until there was a recalculation of the ECR, and,  
 18 by the same token, if prices went up the company would  
 19 not get the benefit of the increased prices until the ECR  
 20 was recalculated?

21           WITNESS ROSENTHAL: Absent no interim change, which  
 22 of course is a recalculation, that would be true.

23           JUDGE MATUSCHAK: Thank you.

24           MR. MacGREGOR: I just want to make it clear. You  
 25 are referring to the 80 percent piece in response to that

1 question?

2 JUDGE MATUSCHAK: Yes, he was.

3 MR. MacGREGOR: Thank you.

4 JUDGE MATUSCHAK: If there are no further questions  
5 of this witness the witness is excused.

6 (Witness excused.)

7 MS. CHESTNUT: Your Honor, I would like to make  
8 a brief statement, which I neglected to do earlier this  
9 morning. I would like to note for the record that I do  
10 have a motion to strike PECO's ECR testimony outstanding,  
11 which has not as yet been decided by Your Honor. My  
12 failure to object to the introduction of Dr. Wilson's  
13 testimony is, of course, subject to that; and also my  
14 presentation of the Staff witnesses today is also subject  
15 to Your Honor's ruling on that motion.

16 JUDGE MATUSCHAK: Yes, with that understanding.  
17 Do you have any other testimony to offer?

18 MS. CHESTNUT: Not from the Staff, Your Honor.

19 MR. MacGREGOR: No, Your Honor.

20 JUDGE MATUSCHAK: Is there anything else?

21 MR. MacGREGOR: Not to my knowledge, Your Honor.

22 JUDGE MATUSCHAK: Is it the concensus of the parties  
23 that we conclude with this portion of the hearing schedule?

24 MR. MacGREGOR: Yes, Your Honor.  
25

1 JUDGE MATUSCHAK: We have scheduled our next hearings  
2 for March 5th, 6th and 7th; is that correct?

3 MR. MacGREGOR: Yes, Your Honor.

4 The testimony is not all in yet, and it may be  
5 possible that three days won't be necessary, but we can  
6 talk with the parties involved and get in touch with Your  
7 Honor as soon as possible as to whether one of the days  
8 can be cancelled.

9 JUDGE MATUSCHAK: You can advise me. Do the parties  
10 know who they intend to present on those three days?

11 MR. MacGREGOR: I'm sorry.

12 JUDGE MATUSCHAK: Can the parties inform us as to  
13 which witnesses they intend to present on those three days?

14 MR. MacGREGOR: At this point, Your Honor, it's  
15 the non-Limerick revenue, expense and rate base testimony.  
16 The company has six witnesses, Mr Smith, Mr. Carroll, Mr.  
17 Wright, Mr. Hill, Mr. Sileo -- I think that's it, Your  
18 Honor, those five witnesses. And we have surrebuttal  
19 testimony at this point filed by Mr. Bleiweis for the  
20 Consumer Advocate and five witnesses from Staff. I  
21 believe they are Mr. Prego, Mr. Heverling, Mr. Laudenslager,  
22 Mr. Hosler and Mr. Mayer.

23 The company will be fling some limited surrebuttal  
24 in response to that testimony next Monday or Tuesday,  
25 and then to the extent there is cross-examination required,

1 and parties may wish to pursue further cross, it would  
2 be done on those three days.

3 JUDGE MATUSCHAK: Who was the first one of those  
4 five witnesses for Staff?

5 MR. MacGREGOR: Mr. Prego.

6 JUDGE MATUSCHAK: Prego, Heverling, Mayer,  
7 Hosler and who else?

8 MR. MacGREGOR: Laudenslager.

9 JUDGE MATUSCHAK: Does the Consumer Advocate have  
10 any testimony to offer on those three days?

11 MR. WERSAN: Yes, Your Honor. Mr. MacGregor  
12 mentioned Mr. Bleiweis, who has filed testimony on our  
13 behalf. He is our only witness on the non-Limerick revenue,  
14 expense and rate base issues.

15 JUDGE MATUSCHAK: Are there any other parties who  
16 intend to submit testimony?

17 MR. KLEPPINGER: No, Your Honor.

18 MR. MacGREGOR: Your Honor, it would not be my  
19 anticipation that all of those witnesses would be cross-  
20 examined. We will let you know which ones are going to  
21 appear and how much time we will need.

22 JUDGE MATUSCHAK: Very well. If there is nothing  
23 further we will adjourn at this time until March 5th.

24 (Whereupon, at 12:16 p.m. the hearing was adjourned,  
25 to be reconvened at 10:00 a.m. on Wednesday, March 5, 1986  
in Harrisburg, Pennsylvania.)

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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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