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C O N T E N T S

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E X H I B I T S

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	<u>Staff Statement</u>		
	✓ No. CTW-1 (Weakley)	2369	2370
	✓ No. LJ-1 (Jones)	2380	2381
	✓ No. TVP-1 (Prowell)	2386	2387
	✓ No. MGM-1 (Mayer)	2404	2405
	✓ No. JMH-1 (Heverling)	2415	2416
	✓ No. DPH-1 (Hosler)	2426	2427
	✓ No. JPP-1 (Prego)	2443	2444
	✓ No. KIL-1 (Laudenslager)	2462	2463
	<u>Staff Exhibit</u>		
	✓ No. CTW-1 (Weakley)	2369	2370
	✓ No. LJ-1 (Jones)	2380	2381
	No. TVP-1A & 1B (Prowell)	2386	2387
	No. MGM-1-A & MJM-1-B (Mayer)	2404	2405
	✓ No. JMH-1 (Heverling)	2415	2416
	✓ No. DPH-1 (Hosler)	2426	2427
	✓ No. JPP-1 (Prego)	2443	2444
	No. KIL-1A & KIL-1B (Laudenslager)	2462	2463

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NUMBER

FOR IDENTIFICATION IN EVIDENCE

GSA Statement

No. 2 - With Attached	2486	2487
Schedules 1 through 6		
(Kelley)		

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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
3 is the time and place set for further hearing in the
4 matter of the Pennsylvania Public Utility Commission versus
5 Philadelphia Electric Company at R-850152.

6 Are we ready to proceed?

7 MR. MacGREGOR: Yes, Your Honor.

8 MR. RAINEY: Your Honor, I have a couple of pre-
9 liminary matters which I would like to discuss before the
10 hearing starts.

11 JUDGE MATUSCHAK: Very well.

12 MR. RAINEY: The City has submitted to all parties
13 present, Your Honor, and to the court reporter, a document
14 entitled "Supplementation of Witness and Issues List of
15 City of Philadelphia."

16 This document adds to the City's witness list the
17 name of Dr. Michael Ileo on issues relating to Philadelphia
18 streetlighting.

19 The City, in its prehearing conference memorandum,
20 reserved the right to present additional witnesses and
21 issues and testimonies pursuant to the Public Utility
22 Code, Section 333, as warranted by relevancy to the
23 proceedings.

24 The City submits that certain developments in these
25 proceedings necessitate such a supplementation.

1 As you are aware, Philadelphia Electric Company has
 2 proposed no increase in the rates of Philadelphia street-
 3 lighting; however, certain intervenors, in their testimony
 4 submitted on January 22, 1986, have either explicitly pro-
 5 posed an increase in the rates of Philadelphia street-
 6 lighting or have recommended allocation methodologies
 7 which would increase the rates of Philadelphia street-
 8 lighting.

9 In order to adequately protect its interest, the
 10 City, therefore, proposes to submit the rebuttal and sur-
 11 rebuttal testimonies, if necessary, of Dr. Michael Ileo on
 12 issues relating to Philadelphia streetlighting.

13 JUDGE MATUSCHAK: You had made a request to have
 14 your experts testify on February 5, or between February 5
 15 and 7. I understand the company has some problems with
 16 that.

17 Have you and the company been able to resolve that
 18 matter?

19 MR. RAINEY: Your Honor, that is with regard to the
 20 Limerick issues. It is my understanding that Mr. Calvert
 21 will be coming in today in order to argue before Your Honor
 22 with respect to the scheduling of cross-examination of
 23 Dr. Schinnar.

24 It is my understanding that there is no problem with
 25 the scheduling of Mr. Palast.

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1 JUDGE MATUSCHAK: We will suggest that counsel try
2 to get together and reach some satisfactory scheduling of
3 your matters.

4 MR. MacGREGOR: We will try to do that, Your Honor.
5 Mr. Calvert has been handling the details of this, and he
6 is on his way up from Philadelphia. It is a matter of
7 some importance.

8 MR. RAINEY: Your Honor, I would just like to add
9 that we have been talking quite a bit, and the schedule
10 that has been proposed by the company in terms of pushing
11 back the cross-examination of Dr. Schinnar into the rate
12 structure portion of this case and, ultimately, only
13 allowing the City four days of surrebuttal, has been
14 unsatisfactory.

15 The City has tried to meet the request of the com-
16 pany in terms of getting it information which it would need
17 for cross-examination and said it would make Dr. Schinnar
18 available at a later date to the extent that the company has
19 not finished its cross-examination, which has been Your
20 Honor's general policy in this particular matter.

21 We have also made Dr. Schinnar's office and himself
22 available for the company's review of any additional
23 materials that it might need; so that we have been trying
24 to be as accommodating as possible, and it appears that
25 the company has chosen not to be so.

1 JUDGE MATUSCHAK: We will expect the parties to try
2 to arrange a satisfactory schedule so that no party is
3 prejudiced in the matter, and we will expect you to come
4 to us only as the last resort.

5 MR. RAINEY: Very well, Your Honor.

6 JUDGE MATUSCHAK: Is the Commission Staff present
7 to present testimony?

8 MS. SMITH: Yes, Your Honor. The first witness
9 will be Mr. Weakley.

10 MR. MacGREGOR: Your Honor, while Mr. Weakley is
11 taking the stand; with respect to Mr. Rainey's other re-
12 quest on the presentation of an additional rate structure
13 witness, the company has no problem with that.

14 It is my understanding that the City does not pro-
15 pose to challenge the company's allocation of the increase
16 or no increase to the streetlighting class.

17 And the second caveat would be that the testimony
18 filed would fall within the normal range of rebuttal and
19 surrebuttal testimony.

20 MR. RAINEY: The testimony would fall within the
21 range of normal rebuttal and surrebuttal testimony. While
22 the City would not be opposing the zero percent increase,
23 the City may take exception to the way the company derived
24 that zero percent.

25 JUDGE MATUSCHAK: Very well.

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1 Whereupon,

2 CHARLES T. WEAKLEY, III

3 having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MS. SMITH:

6 Q Would you please state your name and address
7 for the record?

8 A Charles T. Weakley, III, P.O. Box 3265, Harris-
9 burg, Pennsylvania, 17120.

10 Q By whom are you employed and in what capacity,
11 Mr. Weakley?

12 A I am employed by the Pennsylvania Public
13 Utility Commission as a Fixed Utility Financial Analyst in
14 the Bureau of Rates.

15 Q Mr. Weakley, do you have before you a document
16 entitled "Staff Statement No. CTW-1"?

17 A I do.

18 Q Does this document consist of your direct testi-
19 mony in this proceeding?

20 A Yes, it does.

21 Q Do you also have before you a document which is
22 attached to your Staff statement which is entitled "Staff
23 Exhibit CTW-1"?

24 A Yes.

25 Q Does this document consist of your exhibits in

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1 this proceeding?

2 A. Yes.

3 MS. SMITH: Your Honor, at this time I would like
4 to have marked Staff Statement No. CTW-1 and Staff Exhibit
5 No. CTW-1 as the direct testimony and exhibits of
6 Mr. Weakley.

7 JUDGE MATUSCHAK: So identified.

8 (Whereupon, the documents were
9 marked as Staff Statement No. CTW-1
10 and Staff Exhibit No. CTW-1 for
11 identification.)

12 BY MS. SMITH:

13 Q Mr. Weakley, were these documents prepared by
14 you or under your direct supervision?

15 A. Yes.

16 Q Is the information contained in these documents
17 true and correct to the best of your information, knowledge
18 or belief?

19 A. Yes.

20 Q If I were to ask you these same questions today,
21 would your answers be the same?

22 A. They would.

23 MS. SMITH: Your Honor, at this time I would request
24 that these documents be moved into evidence, subject to any
25 timely motions.

JUDGE MATUSCHAK: With that condition, your motion

1 is granted.

2 (Whereupon, the documents marked as
3 Staff Statement No. CTW-1 and
4 Staff Exhibit No. CTW-1 were re-
5 ceived in evidence.)

6 BY MS. SMITH:

7 Q Mr. Weakley, do you have any additions or
8 corrections?

9 A Just one to my exhibit, Schedule 8. At the
10 bottom of the page it says "Source: PECO's Attachment" --

11 JUDGE MATUSCHAK: You're going to have to speak
12 louder. I have difficulty hearing you; of course, I may be
13 hard of hearing, but all these people here want to hear
14 what you have to say.

15 THE WITNESS: On Schedule 8 of my exhibit, at the
16 bottom of the page under "Source," Item B, "PECO's Attach-
17 ment II-D-16" should read "II-D-1B."

18 MS. SMITH: So the "6" is changed to "B," Your
19 Honor.

20 BY MS. SMITH:

21 Q Is that the only change you have?

22 A Yes.

23 MS. SMITH: With that change, Your Honor, I would
24 move that they be admitted into evidence.

25 JUDGE MATUSCHAK: Motion granted.

MS. SMITH: Mr. Weakley is available for cross.

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1 JUDGE MATUSCHAK: PECO.

2 MR. MacGREGOR: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 BY MR. MacGREGOR:

5 Q. Good morning, Mr. Weakley.

6 A. Good morning.

7 Q. Mr. Weakley, am I correct that the first adjust-
8 ment you discuss in your testimony is a proposed adjustment
9 to the company's claim for wages and benefits?

10 A. Yes.

11 Q. Am I correct that your adjustment is based upon
12 a perceived variance between the company's budgeted and
13 actual number of employees?

14 A. Yes. What I did, I compared the budgeted to
15 actual number of employees for a three-year period.

16 Q. And that three-year period was July 1, 1982 to
17 June 30, 1985?

18 A. Yes, sir.

19 Q. And over that period you observed approximately
20 a three percent average variance between the budget and
21 actual number of employees, and that was the basis of your
22 adjustment; is that correct?

23 A. Yes.

24 Q. Mr. Weakley, would you agree with me as a general
25 matter that other factors in addition to the number of

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1 employees could impact the company's total level of wage
2 and benefits expense?

3 A. Yes.

4 Q. For example, the level of wages could affect
5 the total wage expense?

6 A. Yes.

7 Q. And, also, the amount of overtime could affect
8 the total level of wage expense?

9 A. That's correct.

10 Q. And the amount of outside contractor work em-
11 ployed by a company could affect its total wage expense as
12 well?

13 A. Yes.

14 Q. In preparing your adjustment, did you examine
15 budget versus actual figures for any of these other factors,
16 other than number of employees?

17 A. For total payroll costs?

18 Q. Yes.

19 A. I did a limited review of the company's total
20 dollars for payroll expense, and I found that the overtime
21 dollars had been increasing, making up the deficit in
22 regular payroll.

23 Q. In fact, if we looked at the total payroll, the
24 total wages and benefits expenditures over the three-year
25 period you examined, would you agree that the company's

1 actual expenditures have either been very close to or have
2 exceeded total budget levels?

3 A. Yes. However, in looking at the overtime ex-
4 penses for the first five months of the future test year,
5 I noticed that for the month of September, the explained
6 variance by the company was due to the fact of storm damage,
7 which isn't budgeted in their wage expense.

8 Q. Did you make any analysis of budget versus
9 actual overtime after removing the storm damage item?

10 A. No, I did not.

11 Q. Thank you, Mr. Weakley.

12 Now, the second adjustment you address in your
13 testimony is a proposed \$6.8 million inflation adjustment;
14 is that correct?

15 A. Yes.

16 Q. Am I correct that this adjustment reflects your
17 use of a 3.28 percent inflation rate, as opposed to a 5.8
18 percent inflation rate?

19 A. That's correct.

20 Q. Am I also correct that this inflation rate num-
21 ber was not developed by you personally?

22 A. That's correct. It was developed by Dr. Nellis.

23 Q. Now, if we could refer for a moment to Schedule
24 8 of your testimony.

25 A. I have it.

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1 Q Am I correct that this schedule shows the develop-
2 ment and calculation of your inflation adjustment?

3 A In part. The calculation of the adjustment is
4 on the preceding schedule.

5 Q If we look at Schedule 8, I take it that you
6 took the total amounts budgeted to these accounts and sub-
7 tracted out the amount identified as inflation in PECO
8 Exhibit 1, Attachment II-D-1B, --

9 A That's correct.

10 Q -- and achieved column 3, which is "Uninflated
11 Base Amount," --

12 A Yes, sir.

13 Q -- and applied a 3.28 percentage inflation fac-
14 tor to that to develop your total number; is that correct?

15 A Yes.

16 Q Would you agree with me, Mr. Weakley, that the
17 information provided in II-D-1B is not an explanation of
18 how the company's budget was prepared, but rather is an
19 after-the-fact explanation of variances between budget
20 expenditures and expenditures for a prior period?

21 A Yes.

22 Q If we look again at Schedule 8 and the amounts
23 in the company's budget that are listed in column 1, would
24 you agree with me that for most, if not all, of the 500
25 series accounts, that the amounts listed here in the

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1 budget are not the company's ratemaking claim for these
2 accounts in this proceeding?

3 A. That's correct. There have been adjustments
4 to the budget amounts.

5 Q. The company has made various adjustments through
6 Mr. Carroll's testimony on D-10 and D-11 of Exhibit TPH-2
7 to present its claim for ratemaking purposes in this pro-
8 ceeding, and that is different from the amounts listed on
9 these 500 series accounts?

10 A. That's correct.

11 Q. Mr. Weakley, for any of these accounts listed in
12 Schedule 8, did you make any examination of what portion
13 of these expenses recorded in these accounts are attributable
14 to labor expense as opposed to materials expense?

15 A. No, I didn't.

16 Q. Would you agree with me that the company granted
17 a general wage increase on August 1, 1985 of 5.4 percent?

18 A. That's correct.

19 Q. And that number is greater than the 3.28 percent
20 inflation rate employed in your adjustment?

21 A. Yes.

22 Q. Thank you, Mr. Weakley.

23 Your final adjustment is to amortize over ten years
24 costs incurred by the company in replacing transition tubes
25 on Eddystone Unit 1; is that correct?

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1 A. That's correct.

2 Q. I take it from your testimony that you are not
3 challenging the reasonableness of the company's decision to
4 replace these items or the reasonableness of the expense
5 incurred by the company in replacing those items?

6 A. No.

7 Q. Now, your proposal is to allow recovery of the
8 cost over a ten-year period; is that correct?

9 A. That's correct.

10 Q. Mr. Weakley, can you cite for me any instance
11 in which the Commission has amortized over ten years an
12 expense item, as opposed to a capital item?

13 A. I don't have a cite available; however, improve-
14 ments -- it is my opinion that the improvements should be
15 amortized over a reasonable period of time since the life
16 expectancy exceeds one year.

17 Q. How did you derive your ten-year number?

18 A. The ten years represents a midpoint in the
19 estimated life of the tubes, and I felt that that was a
20 reasonable estimate to use.

21 Q. Do you think it would be appropriate to capital-
22 ize this item and put it in rate base since you are going
23 out so far as ten years in the recovery period?

24 A. That would be one alternative for the company
25 to have made, to capitalize it; yes.

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MR. MacGREGOR: Thank you.

That's all I have, Your Honor.

JUDGE MATUSCHAK: Consumer Advocate?

MR. WERSAN: Nothing, Your Honor.

JUDGE MATUSCHAK: Do any other parties have any cross-examination?

MR. ETTNER: Briefly, Your Honor.

CROSS-EXAMINATION

BY MR. ETTNER:

Q Good morning, Mr. Weakley.

A Good morning.

Q I am Mike Ettner representing the GSA.

Just briefly, did you testify in the prior Philadelphia Electric general rate case?

A Yes, sir.

Q Did you testify in that case on the issue of an adjustment to the company's inflation rate?

A Yes.

Q Was the recommendation that you made in that case similar to what you are recommending here in this case?

A Yes, sir.

Q What was the Commission's disposition of that issue in that case?

A The Commission adopted the adjustment.

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1 Q As you proposed it?

2 A Yes.

3 MR. ETTNER: Thank you, Your Honor.

4 MS. SMITH: Your Honor, may I have just one minute?

5 (Pause.)

6 MR. MacGREGOR: Your Honor, I have a couple of
7 questions following up on Mr. Ettner's cross.

8 JUDGE MATUSCHAK: Very well.

9 MS. SMITH: I'm sorry; I missed that.

10 MR. MacGREGOR: I have some recross in light of
11 Mr. Ettner's cross.

12 JUDGE MATUSCHAK: You may proceed.

13 FURTHER CROSS-EXAMINATION

14 BY MR. MacGREGOR:

15 Q Mr. Weakley, am I correct that your adjustment
16 in this case for inflation makes an adjustment to the
17 total amount attributed to inflation by the company in
18 II-D-1B?

19 A Yes.

20 Q Am I correct that in your testimony in the last
21 rate proceeding your adjustment was different in that you
22 modified it after you presented it in your initial testi-
23 mony to apply to only a portion of that amount attributed
24 to inflation in the similar response filed by the company
25 in the last rate case? If you recall.

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(Witness perusing documents.)

A. Yes, that's correct.

MR. MacGREGOR: That's all I have, Your Honor.

MS. SMITH: We have no redirect, Your Honor.

(Witness excused.)

MS. SMITH: Your Honor, the next witness for Staff will be Mr. Jones.

Whereupon,

LLEWELLYN B. JONES

having been duly sworn, testified as follows:

MS. SMITH: Your Honor, before we begin, one minor change. On the cover sheet to his exhibit it says "Staff Statement LJ-1," that should be "Staff Exhibit LJ-1."

I will have it properly marked, but just for purposes of presenting him today.

JUDGE MATUSCHAK: Very well.

DIRECT EXAMINATION

BY MS. SMITH:

Q Would you please state your name and address for the record?

A Llewellyn B. Jones, Post Office Box 3265, Harrisburg, Pennsylvania, 17120.

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

A I am employed by the Pennsylvania Public

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1 Utility Commission as a Fixed Utility Financial Analyst,
2 Electric Division, Bureau of Rates.

3 Q Mr. Jones, do you have before you a document
4 entitled "Staff Statement LJ-1"?

5 A Yes.

6 Q Does that document consist of your direct testi-
7 mony in this proceeding?

8 A Yes, it does.

9 Q Do you also have before you a document
10 entitled "Staff Exhibit LJ-1"?

11 A Yes.

12 Q Does that document consist of the exhibits to
13 accompany your direct testimony in this proceeding?

14 A Yes.

15 MS. SMITH: Your Honor, at this time I would request
16 that the documents that I have just discussed be marked as
17 Staff Statement No. LJ-1 and Staff Exhibit No. LJ-1.

18 JUDGE MATUSCHAK: The motion is granted.

19 (Whereupon, the documents were
20 marked as Staff Statement No. LJ-1
21 and Staff Exhibit No. LJ-1 for
identification.)

22 BY MS. SMITH:

23 Q Mr. Jones, were these documents prepared by you
24 or under your direct supervision?

25 A Yes, they were.

1 Q Do you have any additions, corrections or
2 changes to your testimony?

3 A Yes, I have a small correction. On page 3 of
4 my direct testimony, line 15, the first number on that line
5 reads "\$1,399,500;" it should read "\$1,399,000."

6 The second number reads "\$839,900;" it should read
7 "\$839,400." And wherever else \$839,900 appears in my
8 direct testimony, it should also read \$839,400.

9 Q With this correction, are the statements con-
10 tained in these documents true and correct to the best of
11 your information, knowledge and belief?

12 A Yes, they are.

13 Q If I were to ask you these same questions today,
14 would your answers be the same?

15 A Yes, they would be.

16 MS. SMITH: Your Honor, at this time I would request
17 that these documents be moved into evidence, subject to any
18 timely motions to strike.

19 JUDGE MATUSCHAK: The motion is granted.

20 (Whereupon, the documents marked as
21 Staff Statement No. LB-1 and
22 Staff Exhibit No. LB-1 were re-
ceived in evidence.)

23 MS. SMITH: Mr. Jones is available for cross-
24 examination.

25 MR. MacGREGOR: Your Honor, Mr. Fraser will be

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1 conducting the cross-examination of Mr. Jones.

2 CROSS-EXAMINATION

3 BY MR. FRASER:

4 Q Good morning, Mr. Jones.

5 A Good morning.

6 Q Mr. Jones, you propose an adjustment to the
7 company's claim for rate case expense of \$839,400; is that
8 correct?

9 A That's correct.

10 Q Would you explain to me how you arrived at that
11 adjustment?

12 A Yes. What I did was, I looked at the original
13 filing that the company had initially filed, its claim;
14 then we were able, through an interrogatory, to derive an
15 update of what the company had actually spent for rate
16 case expenses as of November 1, 1985.

17 From that point I questioned the number, the cate-
18 gory "Legal and Other Consultants," and followed it up with
19 an interrogatory where I derived the amounts that were
20 spent for various outside consultant studies.

21 After I did that, I compared it against the claim
22 of the company and came up with my adjustment, my recommended
23 disallowance.

24 Q So am I correct in stating that your method and
25 how you arrived at your adjustment was that you broke out

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1 the claim for management consultants from the company's
2 aggregate rate case expense claim and then you amortized
3 that amount over a five-year period?

4 A. That's correct. The dollars that I amortized
5 over a five-year period apply only to outside consultant
6 studies.

7 Q. So based on this method that you have just
8 described, you propose to allow full recovery of these
9 costs for the legal and management consultants, but you
10 amortize that over a five-year period; is that correct?

11 A. Of the amounts that I described in my direct
12 testimony on page 2, those amounts would be the amounts I
13 would recommend to be amortized over a five-year period.

14 Q. Are those the amounts shown on your Exhibit
15 LJ-1B?

16 A. The second, third, fourth and fifth items on
17 that exhibit totaling \$2,798,000 are the amounts that I
18 would recommend to be amortized over a five-year period.

19 Now, if those amounts change through an update or
20 more current information that may become available before
21 the record is closed, then I would recommend that the new
22 updated figures for those same categories be amortized
23 over a five-year period.

24 Q. I will repeat my question. You propose to allow
25 full recovery of that amount, but only amortized over a

1 five-year period?

2 A. That's correct.

3 Q. Am I correct that you are not challenging the
4 reasonableness of the company's other amounts in its rate
5 case expense claim and the proposed two-year amortization
6 of these expenses?

7 A. Basically, that's correct, but there may be an
8 item or two that develops later on that an argument could
9 be made.

10 Q. But in your testimony --

11 A. But as part of my testimony, that's correct.

12 Q. -- you are not challenging those expenses?

13 A. Right.

14 Q. So what you're saying in your prepared testimony
15 is that the company should be permitted to recover all of
16 its rate case expenses amortized over two years, with the
17 exception of the expenses for the legal and management
18 consultants; is that correct? And you would amortize
19 those over five years.

20 A. I would only recommend the amortization for the
21 studies which I have outlined in my direct testimony to be
22 amortized over five years.

23 MR. FRASER: Thank you, Mr. Jones.

24 That's all I have, Your Honor.

25 JUDGE MATUSCHAK: Any other cross-examination of

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1 this witness?

2 (No response.)

3 JUDGE MATUSCHAK: Any redirect?

4 MS. SMITH: No redirect, Your Honor.

5 JUDGE MATUSCHAK: Thank you.

6 (Witness excused.)

7 MS. SMITH: Your Honor, at this time Staff calls
8 Mr. Prowell as its next witness.

9 Whereupon,

10 TOLBERT V. PROWELL

11 having been duly sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MS. SMITH:

14 Q Would you please state for the record your
15 name and address?

16 A My name is T.V. Prowell. My business address is
17 Pennsylvania Public Utility Commission, Post Office Box
18 3265, Harrisburg, Pennsylvania, 17120.

19 Q Mr. Prowell, in what capacity are you employed
20 by the Commission?

21 A I am employed by the Commission as a Fixed
22 Utility Valuation Engineer in the Valuation Section of the
23 Electric Division of the Bureau of Rates.

24 Q Mr. Prowell, do you have before you a document
25 entitled "Staff Statement No. TVP-1"?

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1 A. Yes, I do.

2 Q Does that document consist of your direct testimony
3 in this proceeding?

4 A. Yes, it does.

5 Q Do you also have before you documents entitled
6 "Staff Exhibit TVP-1A" and "-1B"?

7 A. Yes.

8 Q Do these documents consist of your exhibits to
9 accompany your direct testimony in this proceeding?

10 A. Yes, they do.

11 MS. SMITH: Your Honor, I request that these docu-
12 ments that I have discussed be marked as Staff Statement
13 No. TVP-1, Staff Exhibit No. TVP-1A and 1B.

14 JUDGE MATUSCHAK: The motion is granted.

15 (Whereupon, the documents were
16 marked as Staff Statement No. TVP-1
17 and Staff Exhibits Nos. TVP-1A and
18 1B for identification.)

18 BY MS. SMITH:

19 Q Mr. Prowell, were these documents prepared by
20 you or under your direct supervision?

21 A. Yes, they were.

22 Q Do you have any corrections, modifications or
23 additions to make to this testimony?

24 A. Not at this time; no.

25 Q Are the answers contained in these documents

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1 true and correct to the best of your information, knowledge
2 and belief?

3 A. Yes, they are.

4 Q. If I were to ask you these same questions today,
5 would your answers be the same?

6 A. Yes, they would.

7 MS. SMITH: Your Honor, at this time I would request
8 that these documents be moved into evidence, subject to
9 any timely motions to strike.

10 JUDGE MATUSCHAK: The motion is granted.

11 (Whereupon, the documents marked as
12 Staff Statement No. TVP-1 and
13 Staff Exhibits Nos. TVP-1A and 1B
were received in evidence.)

14 MS. SMITH: Mr. Prowell is available for cross-
15 examination.

16 CROSS-EXAMINATION

17 BY MR. MacGREGOR:

18 Q. Good morning, Mr. Prowell.

19 A. Good morning, sir.

20 Q. Mr. Prowell, am I correct that you have proposed
21 an adjustment to reduce the company's coal inventory claim
22 in this proceeding to reflect a 50-day inventory rather
23 than the 60-day inventory claimed by the company?

24 A. That is correct.

25 Q. And the effect of this adjustment, am I correct,

1 is to reduce the company's claimed rate base by approxi-
2 mately \$1.6 million?

3 A. I believe that is correct; yes.

4 Q. Now, at pages 3 and 4 of your testimony, the
5 bottom of 3 and carrying on to 4, you cite three reasons
6 supporting your adjustment; is that correct?

7 A. Yes.

8 Q. I would like to ask you a few questions about
9 each of those.

10 A. All right.

11 Q. The first reason you give is that the Philadel-
12 phia area coal-fired generation of Philadelphia Electric
13 Company with Limerick 1 in service will now represent only
14 a minor fraction of respondent's generating capacity, as
15 opposed to a pre-Limerick period; is that correct?

16 A. Yes.

17 Q. Am I correct that the megawatts of installed
18 capacity, however, have remained the same with and without
19 Limerick; it is only as a percentage of total generation
20 that has changed?

21 A. That's correct.

22 Q. So the company has the same installed coal
23 capacity as it did in the last rate case, for example?

24 A. Yes; that is correct.

25 Q. Now, the impact of adding Limerick is that

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1 these coal units will operate somewhat less often and pro-
2 duce somewhat less energy; is that correct?

3 A. Yes; that's what the company is projecting be-
4 cause they reduced their burn rates for these units a
5 little bit because of the fact that Limerick would be on
6 line.

7 Q. And the reduction of these burn rates decreased
8 the company's claim for coal inventory in this proceeding;
9 is that correct?

10 A. Yes.

11 Q. So the company reflected the reduced generation
12 from its coal units with the addition of Limerick by re-
13 ducing the burn rate used to calculate its coal inventory
14 claim; is that correct?

15 A. Yes, it did. What they did was, they reduced
16 the claim from what it had been in prior rate cases.

17 Q. And Mr. Carroll presented testimony in part of
18 the direct case of the company showing what the company's
19 coal inventory claim would have been without Limerick and
20 with Limerick and showed the reduction that was made
21 possible as a result of the addition of Limerick I to
22 service; is that correct?

23 A. I believe that is correct; yes.

24 Q. My question is: given that the company has made
25 this adjustment to its burn rate to reflect the lower

j27

1 generation of the coal units with Limerick, how does that
2 reason support a 50-day inventory versus a 60-day
3 inventory level?

4 A. Well, my feeling there was, just looking at
5 this, the Philadelphia area coal-fired generation repre-
6 sents only ten percent of your capacity now. It is coal-
7 fired generation, granted, but it is a minor fraction of
8 that capacity now.

9 And I felt that 60 days coal inventory under those
10 circumstances was just a little bit too much, and that is
11 why I am recommending 50 days.

12 Q In order to achieve 60 days of inventory, the
13 company now requires less coal because it is going to run
14 the units less often and it will use a lower burn rate in
15 calculating the inventory.

16 A That's right. But I still say that I felt that
17 because of the fact that the Philadelphia area coal-fired
18 generation represents only ten percent of the company's
19 7,000-plus megawatts, that 60 days was just a little bit
20 too much.

21 Q Approximately what megawatts of capacity does
22 the company have coal-fired?

23 A The company has about 1,488 megawatts of coal-
24 fired capacity.

25 Q So about 1500 megawatts?

1 A. Yes; about that.

2 Q. So it is your testimony that before Limerick
3 came on line, the company had 1500 megawatts of coal-fired
4 capacity and may have required a 60-day supply of inventory
5 in order to meet the needs of that capacity, and today,
6 with Limerick, it still has 1500 megawatts of coal capacity,
7 but because those units are going to run less often, the
8 company requires a lower number of days of inventory?

9 A. In the case of the Philadelphia area plants, I
10 say yes.

11 Q. Even though the company has already reflected
12 that reduction by reducing its burn rate and reducing its
13 inventory claim in this proceeding?

14 A. They have reduced their burn rate, but they
15 have not reduced the number of inventory days, and I feel
16 that as Limerick comes on line here, that the Philadelphia
17 area coal-fired generation becomes less important; and,
18 therefore, I think fewer days inventory is properly
19 carried than before Limerick I came on line.

20 Q. Your second reason you cite is that your adjust-
21 ment is in line with what the Commission has allowed in
22 recent rate cases; is that correct?

23 A. Yes.

24 Q. You list those on page 2; is that correct?

25 A. Yes.

j29

1 Q And you list four electric companies and the
2 number of days inventory which you state the Commission
3 has recently allowed other Pennsylvania electric utilities;
4 is that correct?

5 A Yes.

6 Q With respect to West Penn Power Company, you
7 cite a level of 50 days and a case docket number of
8 R-842632; is that correct?

9 A That is correct.

10 Q Mr. Prowell, it is my understanding that West
11 Penn claimed 55 days coal inventory in that proceeding; am
12 I correct?

13 A No. My recollection of the case was that it
14 was about 50 days.

15 Q Would you agree with me that the Commission
16 made no adjustment to the number of days claimed by West
17 Penn in its final order in that proceeding?

18 A That is correct; they did not make any
19 adjustment.

20 Q So whatever the company claimed was what was
21 approved?

22 A Yes.

23 Q With respect to Duquesne Light Company, it is
24 my understanding that Duquesne Light claimed either 55 or
25 60 days of coal inventory in that proceeding.

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1 A. That was an interesting proceeding, inasmuch as
2 the company originally had claimed 60 days. The case was
3 fully litigated on that issue inasmuch as I submitted
4 testimony and was cross-examined, but at the eleventh hour
5 the case was settled.

6 Q. So the Commission entered no final order
7 approving 50 days for Duquesne Light in that proceeding?

8 A. No. With the settlement there were no specific
9 issues, I don't believe, in the settlement.

10 Q. So your statement that the Commission had re-
11 cently allowed 50 days for Duquesne Light Company in that
12 case docket number is not correct?

13 A. On that basis, I guess I would have to agree
14 with you.

15 Q. Now, with respect to Pennsylvania Power and
16 Light Company, you list 45 days; is that correct?

17 A. Yes.

18 Q. Are you aware or can you explain to me how
19 Pennsylvania Power and Light Company calculates its burn
20 rate for calculating its coal inventory?

21 A. Not without checking, no.

22 Q. Can you tell me how Philadelphia Electric Com-
23 pany calculated their burn rate in this proceeding?

24 A. No, not specifically.

25 Q. So you do not know whether it is on the same

1 basis?

2 A. No, I do not.

3 Q. And you don't know, if you applied the PP&L
4 method to Philadelphia Electric Company, what number of
5 days of inventory would be produced?

6 A. No, I do not.

7 Q. Do you know what method Pennsylvania Electric
8 Company uses to calculate its burn rate?

9 A. No, I do not.

10 Q. At page 4 of your testimony, am I correct that
11 you recognize that there is some difference in Philadelphia
12 Electric Company's Philadelphia area coal-fired generating
13 stations and that they are approximately 300 to 400 track
14 miles further away from their source of coal than Penelec
15 and PP&L; is that correct?

16 A. Yes.

17 Q. Is that also true of Duquesne Light and West
18 Penn Power Company?

19 A. No. Duquesne Light and West Penn Power Company,
20 for instance, their coal -- a lot of their coal is delivered
21 by barge on the Monongahela/Allegheny/Ohio River transpor-
22 tation system, and that is very vulnerable to disruptions.

23 A good example of that is the one we had with the
24 flood here this past fall; the Monongahela was closed to
25 all barge traffic for well over a month.

1 Q. Mr. Prowell, are you aware of any recent
 2 audit done by the Bureau of Audits of the Commission as
 3 to the proper level of coal inventory for Duquesne Light
 4 Company?

5 A. Not specifically, no. There was one done some
 6 time ago --

7 Q. This would be a very recent one I'm referring
 8 to.

9 A. Oh; no.

10 Q. Beginning at line 17 on page 4, you discuss the
 11 potential for coal miner strikes, is that correct, or you
 12 discuss the issue of coal miner strikes?

13 A. Yes.

14 Q. And you would agree with me that there have
 15 been coal miner work stoppages and strikes in the past
 16 that have affected Philadelphia area coal supply?

17 A. That is correct.

18 Q. And you state that the possibility of a strike
 19 should not be taken into account in developing a coal
 20 inventory claim; is that correct?

21 A. That is correct; yes.

22 Q. Is it your testimony that it would be imprudent
 23 for the company to recognize the possibility of a strike
 24 and to build up its coal supply in anticipation of a work
 25 stoppage?

1 A. No; I never said anything like that.

2 Q. You think the company should do that?

3 A. Yes.

4 Q. You just don't think ratepayers should pay for
5 it?

6 A. Well, as I said in my testimony, for instance,
7 strikes are abnormal occurrences and that rates should be
8 set on the basis of a normalized test year for a normal
9 period of operation.

10 Q. Isn't the whole purpose of an inventory require-
11 ment, or at least a major purpose of maintaining inventory
12 is to protect against disruptions in supply of various
13 kinds, including coal miner strikes?

14 A. Well, that is one reason for an inventory.
15 Normally, you keep an inventory around just to keep the
16 unit running, just like you keep an inventory of spare
17 parts.

18 Q. But it is also to protect against disruptions in
19 supplies as well?

20 A. Yes.

21 Q. Am I correct that the current UMW contract
22 expires in February 1988?

23 A. I think it is the end of January 1988.

24 Q. And that is during the first two years that rates
25 set in this proceeding will be in effect?

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1 A. Yes; that's just about two years from now.

2 Q. And the company may wish, as part of a prudent
3 planning process, to build up its inventory supply in the
4 fall of 1987 in anticipation of a possible work stoppage at
5 the expiration of that contract?

6 A. That is possible; yes.

7 Q. Mr. Prowell, you also have a second adjustment
8 in this case relating to the Limerick materials and supplies
9 claim; is that correct?

10 A. That is correct.

11 Q. Am I correct that you have reduced the company's
12 total Limerick M&S claim by 28 percent to reflect a sur-
13 charge made by Bechtel Corporation in materials and
14 supplies acquired by Bechtel for Philadelphia Electric
15 Company?

16 A. Yes.

17 Q. First of all, Mr. Prowell, is it your testimony
18 that the 28 percent surcharge was applied to the total cost
19 of the materials and supplies acquired by Bechtel?

20 A. That is my understanding of the thing, yes; that
21 anything that Bechtel bought in materials and supplies for
22 PECO, for Limerick, had a 28 percent surcharge applied to
23 it.

24 Q. If we can look at the contract provision set
25 forth on Exhibit TVP-1B, page 3 of 7, --

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1 A. I have it.

2 Q. If we look at the underscored portion at the
3 top of the page, the sentence beginning on the fifth line
4 down, "According to the terms of the agreement, Bechtel is
5 to pay for the ordered materials and, in turn, PECO will be
6 billed at their cost, plus the associated cost of labor
7 with a 28 percent markup."

8 Do you see that reference?

9 A. Yes.

10 Q. And it is your understanding that that 28 per-
11 cent was applied to both the labor portion and the materials
12 portion?

13 A. Yes.

14 Q. If it were only applied to the labor portion,
15 would you agree that your adjustment should only apply to
16 the labor portion of the materials and supplies purchased
17 by Bechtel?

18 A. I would agree with that, yes.

19 Q. Second in your testimony you state that the
20 surcharge is an abnormal one-time proposition; is that
21 correct?

22 A. That is my understanding of it, yes; that PECO's
23 purchasing department in this instance got overloaded, so
24 they asked Bechtel to build up this inventory of spare
25 parts that they were going to need for Limerick after it

j36

1 came on line. There is no indication in here that this
2 would persist ad infinitum, so I assumed from that that it
3 was just a one-shot type of thing.

4 Q If the company had not used Bechtel to do this,
5 the company would have had to do it themselves?

6 A That is correct.

7 Q Did you make any comparison of the costs that
8 the company would have incurred to do the job itself
9 versus the total charge made by Bechtel?

10 A No, I did not.

11 Q Could you explain for me your understanding of
12 what the 28 percent surcharge consists of?

13 A Well, as I read it here, Bechtel took the cost
14 of the materials and the labor involved in ordering them,
15 and I guess checking them in and inventorying them and so
16 forth, and added 28 percent to whatever that came to.

17 Q Do you know what the 28 percent was designed to
18 cover?

19 A No, I do not.

20 Q Hypothetically, Mr. Prowell, if the 28 percent
21 was essentially a payroll adder to cover unemployment com-
22 pensation, payroll taxes, health care insurance and other
23 employee benefits, would you agree with me that it is a
24 reasonable cost of Bechtel's operations?

25 A That might be a reasonable cost of Bechtel's

j37

1 operations. I really don't know.

2 Q Have you compared that 28 percent to the figure
3 Philadelphia Electric Company employs as an adder for
4 employee benefits?

5 A No.

6 MR. MacGREGOR: Thank you, Mr. Prowell.

7 That's all I have, Your Honor.

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

10 (No response.)

11 MS. SMITH: Your Honor, may I have a minute?

12 JUDGE MATUSCHAK: Very well.

13 (Pause.)

14 MS. SMITH: Your Honor, we have no redirect.

15 JUDGE MATUSCHAK: Mr. Prowell, let me see if I under-
16 stand your position. The 28 percent surcharge, you
17 assumed that that 28 percent surcharge was on material and
18 labor both?

19 THE WITNESS: Yes.

20 JUDGE MATUSCHAK: If you were in error and the con-
21 tract provided for the surcharge only on labor, should
22 your testimony and your computation be then changed to re-
23 flect the surcharge only on labor?

24 THE WITNESS: Yes; I would be willing to stand
25 corrected under those circumstances, Your Honor.

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1 JUDGE MATUSCHAK: If that 28 percent surcharge on
2 labor is intended or was intended to cover the fringe bene-
3 fits to labor, in your experience and from your general
4 knowledge, would you consider 28 percent fringe benefits
5 to labor to be excessive?

6 THE WITNESS: Your Honor, I don't know, really.
7 The reason I was challenging the 28 percent surcharge in
8 the first place was the fact that it was a one-shot deal.
9 It was not part of the normal operation of the company, so,
10 therefore, I did not think it should be included in a test
11 year claim.

12 JUDGE MATUSCHAK: You assume that any fringe bene-
13 fits would be included in the claim itself, aside from the
14 surcharge; is that your position?

15 THE WITNESS: No. What I am saying is that I was
16 challenging the 28 percent surcharge on the basis that I
17 did not think it was proper for the company to charge the
18 ratepayers for it because it was a one-shot, non-recurring
19 type of expense that PECO had encountered in this case.

20 I didn't go into what it was for or any considera-
21 tion of whether it covered fringe benefits or what. I was
22 just looking at the 28 percent.

23 JUDGE MATUSCHAK: If the company had to pay workmen's
24 compensation and social security, unemployment compensation,
25 wouldn't they be entitled to recover those fringe benefits,

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1 whether it was a one-shot thing or whether it was continuous
2 employment?

3 THE WITNESS: On expenses like that I would have to
4 defer to one of our analysts.

5 JUDGE MATUSCHAK: I beg your pardon?

6 THE WITNESS: On a question like that, Your Honor,
7 I would have to defer to one of our analysts on those sorts
8 of expenses.

9 JUDGE MATUSCHAK: I don't think it requires much
10 analyzing to reach a proper conclusion in that matter.

11 Thank you.

12 (Witness excused.)
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1 MS. SMITH: Our next witness is Mr. Mayer.

2 Whereupon,

3 MARTIN J. MAYER

4 having been duly sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MS. SMITH:

7 Q Will you please state your name and address for
8 the record?

9 A My name is Martin J. Mayer. My address is Box
10 3265, Harrisburg, Pennsylvania.

11 Q By whom are you employed and in what capacity,
12 Mr. Mayer?

13 A By the Pennsylvania Public Utility Commission
14 as a Fixed Utility Valuation Engineer.

15 Q Mr. Mayer, do you have before you a document
16 entitled Staff Statement MJM-1?

17 A Yes, I do.

18 Q Does that document consist of your direct testi-
19 mony in this proceeding?

20 A Yes, it does.

21 Q Do you also have a document which should be
22 entitled Staff Exhibit MJM-1-A and MJM-1-B?

23 A Yes, I do.

24 Q Does that document consist of your exhibits to
25 accompany your direct testimony?

1 A Yes, they do.

2 MS. SMITH: Your Honor, at this point I would request
3 that the documents I have discussed be identified as Staff
4 Statement MJM-1 and Staff Exhibits MJM-1-A and MJM-1-B.
5 They are currently on the cover sheets as staff statements,
6 the two latter documents.

7 JUDGE MATUSCHAK: The motion is granted.

8 (Whereupon, the documents were
9 marked as Trial Staff Statement
10 No. MJM-1 and Trial Staff
11 Exhibits Nos. MJM-1-A and
12 MJM-1-B for identification.)

13 BY MS. SMITH:

14 Q Mr. Mayer, were these documents prepared by you
15 or under your direct supervision?

16 A Yes, they were.

17 Q Do you have any additions, corrections or modifi-
18 cations to these documents?

19 A No, I do not.

20 Q Is the information contained in these documents
21 true and correct to the best of your information, knowledge
22 and belief?

23 A Yes.

24 Q If I were to ask you these same questions today
25 would your answers be the same?

A Yes, they would.

MS. SMITH: Your Honor, at this time I request that
Staff Statement MJM-1 and Staff Exhibits MJM-1-A and MJM-1-B

1 be moved into evidence subject to any motion to strike.

2 JUDGE MATUSCHAK: The motion is granted.

3 (Whereupon, the documents marked
4 as Trial Staff Statement No.
5 MJM-1 and Trial Staff Exhibits
6 Nos. MJM-1-A and MJM-1-B were
7 received in evidence.)

8 MS. SMITH: Mr. Mayer is available for cross-examina-
9 tion.

10 MR. MacGREGOR: Your Honor, Mr. Fraser will cross-
11 examine Mr. Mayer.

12 CROSS-EXAMINATION

13 BY MR. FRASER:

14 Q Mr. Mayer, you propose four adjustments to the
15 company's decommissioning expense claim for Peach Bottom
16 Units 1, 2 and 3 and Salem 1 and 2; is that correct?

17 A Yes.

18 Q Is it correct that the company's decommissioning
19 claim in this proceeding has two parts to it?

20 A Yes, that is correct. There's an annual accrual
21 part and a make-up part to make up what the company refers
22 to as their reserve adjustment, which is amortized over
23 five years.

24 Q It's also correct, isn't it, that similar two-
25 part claims were approved by the Commission in the company's
last four rate cases?

A Yes, that is correct, with the exception that

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in the previous cases the reserve was not amortized over five years.

Q Was it amortized at all?

A No, sir, over one year.

Q Mr. Mayer, do you know what the company does with the revenue it collects for decommissioning?

A It's placed in a fund which is held by two Philadelphia area banks; it is held in trust for the Electric Company.

Q And no part of that fund is used for any current expenses on a day-to-day basis; is that correct?

A Yes, that is correct.

Q Thank you.

Let's turn to your first adjustment on page 4 of your statement. In your first adjustment you propose to adjust the company's claim for its annual accruals to reflect the depreciation allowance for Peach Bottom 2 and 3 and Salem 1 and 2; is that correct?

A Yes, that is correct.

Q So under your adjustment the company would have the decommissioning fund fully paid up for Peach Bottom 2 and 3 by the year 2012?

A Yes, sir.

Q And for Salem 2 by 2016?

A That is correct.

1 Q And you state in your testimony that the company's
2 claim would have the decommissioning fund fully paid up
3 by the year 2008; is that correct?

4 A Yes, sir.

5 Q Would you accept that the company's decommission-
6 ing claims which the Commission approved in the last four
7 rate proceedings were made up so as to have the decommis-
8 sioning claim fully paid up by 2008?

9 A Yes, sir, I would.

10 Q Do you know when the Nuclear Regulatory Commission
11 operating licenses for Peach Bottom 2 and 3 and Salem 1
12 and 2 expire?

13 A Yes, sir. They expire in 2008.

14 Q Can the company operate these units without an
15 NRC license?

16 A No, they cannot. However, they could request
17 the NRC to extend the license, and it is the stated policy
18 of Philadelphia Electric that they will do so. If you
19 will refer to the testimony filed in the previous case,
20 the Limerick investigation, the company stated that it
21 was their intention to extend the life of those units in
22 fact beyond the years I have stated.

23 Q To extend the life of the units the company would
24 have to get an extension of its license, would it not?

25 A Yes.

1 Q At this time we don't know whether these units
2 will be extended, do we?

3 A No, sir. We don't know if the NRC will approve
4 it. However, it is the policy of the company to request
5 that such a license amendment be granted.

6 Q But all we know right now is that in the year
7 2008 when these licenses expire that these plants will
8 have to cease operating; is that correct?

9 A Yes, sir.

10 Q Would you accept that the NRC regulations envision
11 prompt decommissioning of nuclear plants?

12 A That is the preferred method of the NRC.

13 Q So that decommissioning in the normal case would
14 begin soon after the license expires on any given nuclear
15 unit, is that correct?

16 A Yes, sir.

17 Q So that from the information we know today in
18 the year 2008 these four nuclear units will cease operating
19 and decommissioning will begin soon thereafter; is that
20 correct?

21 A I would not make that statement, no. As I stated,
22 it is the policy of the company to extend the licenses
23 of those units, so, therefore, we cannot assume that they
24 will end commercial operations in 2008.

25 Q Thank you.

1 Would you move to your second adjustment please?

2 A Yes, sir.

3 Q In your second adjustment you propose to amortize
4 the company's recovery of the reserve deficiency over the
5 remaining lives of the units rather than in five years
6 as the company proposes; is that correct?

7 A Yes, sir. I believe it is better to amortize
8 that fund over the remaining lives. If you look at how
9 those funds came about -- I'm sorry; if you forget for
10 a moment how they came about and look just at what we have,
11 we have a known amount that must be collected and a certain
12 period of time that it must be collected in; and forgetting
13 about the past for a moment, the simplest way of collecting
14 that is to merely divide it out over the number of years
15 remaining and provide equal expenses for each year.

16 Q You state as the basis for your adjustment on
17 page 5, I believe, the statement that, "To charge only
18 current ratepayers for this expense is simply unfair;"
19 is that correct?

20 A Yes, sir. It is not current ratepayers' fault
21 that there is a deficiency. It is in fact no one's fault
22 that the estimates of the company in previous cases were
23 understated and that the reserve has not earned enough
24 money to make up that difference.

25 Q Would you accept that the reserve deficiency

2410
1 claim represents revenues that should have been recovered
2 but were not over the past five years?

3 A Yes, I would.

4 Q Would you accept that decommissioning expense is
5 an important part of the costs incurred to produce nuclear
6 generation?

7 A Yes, sir, I would.

8 Q Mr. Mayer, who received the benefits of the
9 nuclear generation from the company's nuclear plants from
10 1980 to 1985?

11 A The current ratepayers.

12 Q Pardon me.

13 A Not the current ratepayers, but the ratepayers
14 of those years.

15 Q Would you agree that ratepayers who receive the
16 benefits should pay the costs?

17 A Ideally, yes, sir.

18 Q Would you agree that a shorter amortization period
19 makes it more likely that the ratepayers who receive the
20 benefits of the nuclear generation from those units will
21 be the same ratepayers who pay the costs?

22 A I believe that there would be more of the previous
23 ratepayers in the shorter period than there would in the
24 extended period.

25 Q Thank you.

1 Let's move to your third adjustment, which is on
2 pages 6 and 7 of your statement. You propose reductions
3 to the company's claim for the decommissioning of Salem
4 Unit 2 of \$680,000; is that correct?

5 A Yes, sir.

6 Q And what is this based on?

7 A It's based on the fact that the unit was not
8 in operation for Pennsylvania ratepayers, that the output
9 was sold to Jersey Central Power and Light, and the rate-
10 payers were not expected to and did not in fact pay any
11 of the operation expenses, maintenance expenses or the
12 depreciation during that period, so I feel it is not fair
13 to charge them for the liability for the depreciation
14 during that period.

15 Q So your rationale is that during the time that
16 Salem 2's output was sold to Jersey Central the Pennsyl-
17 vania ratepayers received no benefits?

18 A That is correct.

19 Q And it is also true that during that time the
20 ratepayers paid none of the costs of Salem 2, is it not,
21 for example operating costs, taxes, etcetera?

22 A That is correct.

23 Q Mr. Mayer, you state on page 6 that the output
24 of Salem 2 was sold to Jersey Central for four years; is
25 that correct?

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A Yes.

Q Do you know the date when Salem 2 began commercial operations?

A Not exactly.

Q Would you accept that that date was October of 1981?

A Subject to check, yes, I would.

Q So that means that the output of Salem 2 was sold from October of 1981 through December of 1984, which is a little over three years rather than four years?

A If your dates are correct, yes, sir.

Q So that would mean that rather than receiving 31/35th of the benefits of Salem 2, Pennsylvania ratepayers actually received 32/35ths of the benefits; is that correct?

A Almost 32/35ths, yes.

Q And instead of 88.6 percent it is more like 91.4 percent; is that correct?

A Yes, sir.

Q So the amount ratepayers should be liable for is \$35 million rather than \$33 million, as you state on page 7, line 5 of your testimony; is that correct?

A I haven't performed the calculation.

Q Would you accept that subject to check?

A Yes, sir.

1 Q Thank you.

2 Finally, I would like to move to your fourth adjust-
3 ment. There you eliminate collection from the ratepayers
4 for the decommissioning of Peach Bottom 1; is that correct?

5 A Yes.

6 Q And what is your basis for that adjustment?

7 A The basis is that it is not serving the public
8 at this time. The current ratepayers are receiving no
9 benefits from that unit.

10 Q Are you aware of whether any part of the Peach
11 Bottom 1 facilities are currently being used in the opera-
12 tion of Units 2 and 3?

13 A Certain office space is being used. However,
14 this space will not be contaminated and therefore will
15 not need to be decommissioned.

16 MR. FRASER: That's all I have. Thank you.

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

19 (No response.)

20 JUDGE MATUSCHAK: Any redirect?

21 MS. SMITH: No, Your Honor.

22 JUDGE MATUSCHAK: Thank you.

23 (Witness excused.)

24 MR. DELANEY: Your Honor, the Staff calls its next
25 witness, Jeffrey M. Heverling.

1 Whereupon,

2 JEFFREY M. HEVERLING

3 having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. DELANEY:

6 Q Will you state your name and business address
7 please?

8 A My name is Jeffrey M. Heverling. My business
9 address is Post Office Box 3250, Harrisburg, Pennsylvania.

10 Q Mr. Heverling, by whom are you employed and in
11 what capacity?

12 A I'm employed by the Pennsylvania Public Utility
13 Commission, and I'm a Fixed Utility Financial Analyst in
14 the Rates Division.

15 Q Mr. Heverling, do you have before you two docu-
16 ments marked Staff Statement JMH-1 and Staff Exhibit JMH-1?

17 A Yes, I do.

18 Q Do these documents constitute your prepared
19 direct testimony for this proceeding?

20 A Yes, they do.

21 MR. DELANEY: Your Honor, at this point I would
22 like to have marked for identification Staff Statement
23 JMH-1 and Staff Exhibit JMH-1 as Mr. Heverling's prepared
24 direct testimony.

25 JUDGE MATUSCHAK: The motion is granted.

(Whereupon, the documents were marked as Trial Staff Statement No. JMH-1 and Trial Staff Exhibit No. JMH-1 for identification.)

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4 BY MR. DELANEY:

5 Q Mr. Heverling, was this testimony prepared by
6 you or under your supervision?

7 A It was prepared by me.

8 Q At this point do you have any corrections, modifi-
9 cations or additions which you choose to make to this testi-
10 mony?

11 A Yes, I have two corrections to citations which
12 I used in my testimony.

13 Q Would you identify those for us please?

14 A On page 3, lines 7 and 8, I referred to the
15 PUC versus the Philadelphia Suburban Water Company, and
16 that citation was intended to be to Philadelphia Electric
17 Company, and the docket number would accordingly be
18 R-842590.

19 I have a second change on page 7, line 23, on the
20 citation enclosed in brackets. This was intended to be
21 the previous PECO rate case, so the "R" number on line
22 23 should be 842590.

23 Those are my only changes.

24 Q With those changes, Mr. Heverling, is the
25

1 information contained in your direct testimony true and
2 correct to the best of your knowledge, information and
3 belief?

4 A Yes, it is.

5 Q If I were to ask you all the questions contained
6 in your testimony would your answers be the same as they
7 are presently contained therein?

8 A Yes, they would be.

9 MR. DELANEY: Your Honor, at this point I would
10 request that Mr. Heverling's Statement JMH-1 and the
11 accompanying Exhibit JMH-1 be admitted into evidence
12 subject to any timely motions to strike.

13 JUDGE MATUSCHAK: The motion is granted.

14 (Whereupon, the documents marked
15 as Trial Staff Statement No.
16 JMH-1 and Trial Staff Exhibit
17 No. JMH-1 were received in
18 evidence.)

19 MR. DELANEY: Mr. Heverling is available for cross-
20 examination, Your Honor.

21 CROSS-EXAMINATION

22 BY MR. MacGREGOR:

23 Q Good morning, Mr. Heverling.

24 A Good morning.

25 Q Mr. Heverling, am I correct that you propose
two adjustments to the company's claimed tax expense in
this proceeding?

1 A That is correct.

2 Q And the first adjustment is to flow through rather
3 than normalize deferred taxes associated with capitalized
4 pensions and overheads?

5 A That is correct.

6 Q Would you agree with me that the methodology
7 employed by the company is the same as that approved by
8 the Commission in the company's last three rate proceedings?

9 A That is correct, yes.

10 Q Would you also agree that one of the reasons
11 given by the Commission for approving this adjustment and
12 approving the company's claim was the increased cash flow
13 generated by the adjustment and the company's need for
14 additional cash flow?

15 A I could suppose that was the reason.

16 Q One reason, I stated.

17 A One reason. I didn't look to see why it was
18 approved because of the current reasons that I'm offering
19 as to why it should not be.

20 Q A principal reason you cite in support of your
21 adjustment is the "new guidelines" applicable to this adjust-
22 ment as set forth in the Commission's Orders in the recent
23 Philadelphia Suburban Water Company rate proceedings; is
24 that correct?

25 A Yes.

1 Q Would you agree with me that that Suburban Water
2 Company case was the first time that the water company
3 sought to normalize the tax benefits associated with
4 construction overheads?

5 A I believe that is correct, yes.

6 Q Would you agree with me that if we look at the
7 Commission's Order, particularly on page 44, that the
8 Commission did not generically reject normalization of
9 construction overheads in that order, but simply held that
10 "in light of the company's" -- that's Philadelphia
11 Suburban Water Company -- "financial condition and its
12 failure to establish a need for improved cash flow, we
13 conclude that PSW has not sustained its burden of proof
14 with regard to its claim for normalization of capitalized
15 overhead."

16 MR. DELANEY: Excuse me, Mr. MacGregor, do you have
17 a copy that the witness can look at?

18 MR. MacGREGOR: No, I don't.

19 I'll show you my copy.

20 (Document handed to witness by Counsel MacGregor.)

21 THE WITNESS: So your question was then in light
22 of what is said in this order did the Commission just for
23 this case; is that what you are saying?

24 BY MR. MacGREGOR:

25 Q The Commission did not in the Philadelphia

1 Suburban case generically reject normalization of
 2 capitalized overheads as a policy matter, but instead held
 3 that it was a matter to be determined on a case by case
 4 basis, and in rejecting Philadelphia Suburban's claim
 5 specifically noted its financial condition and its failure
 6 to prove a need for improved cash flow.

7 A Several yeses. They obviously didn't generically
 8 address the situation. They obviously were dealing with
 9 the specific facts of Philadelphia Suburban. Obviously,
 10 based on the order, as I saw it, Philly Suburban didn't
 11 meet its burden of proof. I know from reviewing some of
 12 the facts underlying that decision that that was the case.

13 Another important factor which comes to light after
 14 that decision would be the impact of the Barasch decision,
 15 if the Commission chooses to look to the Barasch decision
 16 for guidance.

17 Q But you would agree with me that there is nothing
 18 in your testimony, that I can find, that addresses Phila-
 19 delphia Electric Company's need for additional cash flow,
 20 whether its current cash flows are adequate or whether
 21 this adjustment would help its cash flow or not?

22 A You are correct.

23 Q It is not an issue that you addressed?

24 A That's correct.

25 Q Would you agree with me as a general matter that

1 the tax deductions we are talking about are deductions
2 associated with the cost of plant under construction,
3 capitalized overheads associated with plant under construc-
4 tion?

5 A Yes.

6 Q Would you agree with me that these costs are
7 not being paid by current ratepayers; rather they are being
8 recorded as construction work in progress and will be paid
9 as part of the cost of the plant when the plant is completed
10 and goes into service?

11 A I'm not specifically familiar with all the
12 nuances of plant accounting. Subject to check, I would
13 say that is how it is essentially handled. When the plant
14 goes into rate base you have a depreciation charge, and
15 the company is later reimbursed for these costs that have
16 been capitalized.

17 Q So the company is currently incurring these
18 construction overheads, but they are not being currently
19 paid by ratepayers under normal Commission practice dealing
20 with the ratemaking treatment of construction work in
21 progress?

22 A That's correct, and at the same time though they
23 are taking them as a current deduction on their tax return.

24 Q Correct. Now, I take it under your proposal
25 then current ratepayers by flowing through the benefits

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of the capitalized overhead tax deductions will receive the benefit of the tax deductions associated with this expense even though they are not paying the expense currently; is that correct?

A By flowing it through, current taxpayers get the benefit of being assessed in rates as closely as possible, as one can calculate this, to the actual taxes that are going to be paid.

Q That's not my question. I'm asking you: rate-payers will receive the benefit of the tax deduction under your adjustment; is that correct?

A Yes, they do.

Q And they are not currently paying the expense; I think you have already agreed with me.

A Yes.

Q Now, the second adjustment you propose is related to the state deferred income taxes; is that correct?

A That's correct.

Q And your adjustment would flow through to rate-payers over a five-year period the state taxes deferred pursuant to prior Commission rate orders for Philadelphia Electric Company; is that correct?

A That is correct.

Q Would you tell me in which rate proceedings the Commission granted Philadelphia Electric Company's

1 request to normalize state income taxes?

2 A No. That would not have been a matter that I
3 would have had to consider.

4 Q You simply looked at the balance of deferred
5 taxes?

6 A I verified that it existed and went forward from
7 there.

8 Q But the reason that balance exists today is
9 because in prior rate orders the Commission approved the
10 company's claim to normalize state income taxes?

11 A That's correct.

12 Q And under those Commission orders when state
13 taxes were normalized the benefits were received by rate-
14 payers over the life of the plant item with which they
15 were associated; is that correct?

16 A That is correct, sure.

17 Q At the top of page 7 of your testimony you cite
18 the Supreme Court decision in Barasch versus Pennsylvania
19 Public Utility Commission; is that correct?

20 A Yes.

21 Q Would you agree with me that the Supreme Court
22 did not address this particular issue of reversing prior
23 normalization in prior Commission rate orders in that case;
24 it was not an issue in that case, isn't that correct?

25 A They did not specifically say how one was to

1 handle this; that's correct.

2 Q Thank you, Mr. Heverling.

3 MR. MacGREGOR: That's all I have, Your Honor.

4 JUDGE MATUSCHAK: Is there any further cross-examina-
5 tion of this witness?

6 (No response.)

7 JUDGE MATUSCHAK: Any redirect?

8 MR. DELANEY: May I have a moment with the witness,
9 Your Honor?

10 JUDGE MATUSCHAK: Yes.

11 (Pause.)

12 MR. DELANEY: Your Honor, I have no redirect.

13 JUDGE MATUSCHAK: Very well.

14 Thank you.

15 (Witness excused.)

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

17 (Recess.)
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JUDGE MATUSCHAK: Back on the record.

Whereupon,

DENNIS P. HOSLER

having been duly sworn, testified as follows:

MS. SMITH: Your Honor, before we proceed, I distributed to the parties a copy of Staff Exhibit No. 21, which Ms. Chestnut had presented. Am I correct that she did have that marked and moved yesterday?

JUDGE MATUSCHAK: It was admitted subject to copies being distributed.

MS. SMITH: I have made that available to the parties that are present.

MR. RAINEY: Your Honor, also before we begin, if I may, I was just made aware that there was a misrepresentation put on the record yesterday with respect to the city's responding to discovery.

I would just like to say that the city has presented to the company a technical report of Dr. Schinnar in response to an interrogatory request which was specifically and especially prepared for the company, that there were no workpapers associated with this testimony. Therefore, the misrepresentation that the city has not provided workpapers was misleading and incorrect.

JUDGE MATUSCHAK: Very well.

MR. MacGREGOR: Your Honor, Mr. Calvert is coming up

k2

1 this afternoon to address the matter, and it will either
2 be resolved informally or with Your Honor this afternoon.

3 JUDGE MATUSCHAK: You can advise me if you have any
4 problems.

5 MR. MacGREGOR: Thank you, Your Honor.

6 DIRECT EXAMINATION

7 BY MS. SMITH:

8 Q Good morning, Mr. Hosler. Would you please
9 state your name and address for the record?

10 A My name is Dennis P. Hosler. My address is
11 Post Office Box 3265, Harrisburg, Pennsylvania, 17120.

12 Q Mr. Hosler, by whom are you employed and in what
13 capacity?

14 A I am employed by the Pennsylvania Public Utility
15 Commission as a fixed utility financial analyst in the
16 electric division of the Bureau of Rates.

17 Q Would you keep your voice up a little bit, please?

18 A Sure.

19 Q Do you have before you a document entitled,
20 "Staff Statement DPH-1"?

21 A Yes, I do.

22 Q Does that document consist of your direct testi-
23 mony in this proceeding?

24 A It does.

25 Q Do you also have before you a document identified

1 as Staff Exhibit DPH-1?

2 A. Yes, I do.

3 Q. Does that document consist of the exhibit to
4 accompany your direct testimony in this proceeding?

5 A. It does.

6 MS. SMITH: Your Honor, at this time, I would request
7 that these documents be marked as Staff Statement DPH-1 and
8 Staff Exhibit DPH-1.

9 JUDGE MATUSCHAK: The motion is granted.

10 (Whereupon, the documents were
11 marked Staff Statement DPH-1
12 and Staff Exhibit DPH-1 for
13 identification.)

14 BY MS. SMITH:

15 Q. Mr. Hosler, were these documents prepared by you
16 or under your direct supervision?

17 A. Yes, they were.

18 Q. Do you have any additions, corrections or modifi-
19 cations to these documents?

20 A. I have a few corrections.

21 In my direct testimony, page 11, line 18, where it
22 reads "the data finance charges," it should be, "the date
23 finance charges are applied."

24 In my exhibit, Schedule 2, just below the middle of
25 the schedule where it says "Staff Recommended Amortization,"
\$157,814, the last three digits should be dropped, and it
should read, \$158,000.

1 On Schedule 4, page 5, in the lower section under the
2 heading "Pro Forma Adjustments," the footnotes C and D
3 listed there should be removed. Those footnotes correspond
4 only in the "Lag Day" column.

5 That is all my corrections.

6 Q With these corrections, would you say that this
7 testimony and exhibit prepared by you are true and correct
8 to the best of your information, knowledge and belief?

9 A They are.

10 Q And if I were to ask you these same questions
11 today, your answers would be the same?

12 A They would.

13 MS. SMITH: Your Honor, at this time, I would request
14 that Staff Statement DPH-1 and Staff Exhibit DPH-1 be moved
15 into evidence, subject to any timely motions to strike.

16 JUDGE MATUSCHAK: The motion is granted.

17 (Whereupon, the documents
18 marked Staff Statement DPH-1
19 and Staff Exhibit DPH-1 were
20 received in evidence.)

21 MS. SMITH: Mr. Hosler is available for cross-
22 examination.

23 JUDGE MATUSCHAK: PECo?

24 MR. MacGREGOR: Thank you, Your Honor.
25

CROSS-EXAMINATION

1
2 BY MR. MacGREGOR:

3 Q Good morning, Mr. Hosler.

4 A Good morning.

5 Q Am I correct, the first adjustment you discuss
6 in your testimony is a reduction to the company's claimed
7 power plant outage expense of approximately \$5.5 million,
8 to establish what you believe is a normalized level of
9 outage expense?

10 A That is correct.

11 Q Do you agree that the company's claim is also
12 presented on a normalized basis, and the principal disagree-
13 ment between yourself and the company is over the proper
14 method to establish a normalized level?

15 A That is correct.

16 Q And essentially the company derived its claim in
17 part by looking at the amount of outage expense allowed for
18 nuclear and fossil units by the Commission in the company's
19 last rate proceeding, and adjusting that allowance to reflect
20 intervening inflation?

21 A That is correct.

22 Q Now, looking first at your adjustment for the
23 nuclear units at Peach Bottom and Salem, am I correct that
24 you examined two periods of time in developing your normal-
25 ized outage expense? The first was a three year period

1 beginning July 1, 1982 through June 30, 1985, and the second
2 was a forecast period going out to December, 1988?

3 A. That is correct.

4 Q. And I take it you have not challenged in any way
5 the budgeted numbers shown by the company for the future
6 as shown on your Schedule 1, page 2?

7 A. That is correct.

8 Q. And in fact, you have employed those in part in
9 your own analysis in developing a normalized outage expense?

10 A. That is correct. I used the numbers as supplied
11 by the company in both the historical period and the
12 projected period.

13 Q. Now, with respect to the historic period, would
14 you agree with me that you state at the top of page 3 of
15 your testimony that "...the period from July 1982 through
16 June 1985 was not a normal period of time at either Peach
17 Bottom or Salem nuclear stations. Each station experienced
18 extended outages for repairs during the period and the
19 switch from 12-month to 18-month refueling cycles was
20 completed during the beginning of this time period." Is
21 that correct?

22 A. That is correct.

23 Q. And yet you employed these three-year average
24 numbers as part of your development of the company's
25 normalized outage expense in this case?

1 A. That is correct.

2 Q. In order to place these numbers on a common
3 basis, you adjusted the historic numbers from 1983, 1984 and
4 1985 by an inflation rate to establish them on a June 30,
5 1986 level, is that correct?

6 A. That is correct.

7 Q. And the inflation factor you used, as I under-
8 stand it, is a GNP implicit price deflator supplied to you
9 by Dr. Nellis?

10 A. That is also correct.

11 Q. So, the only adjustment you made to the historic
12 figures was through this GNP deflator adjustment to place
13 them at June 30, 1986 levels?

14 A. For these two nuclear stations, that is correct.

15 Q. Would you agree with me that there are other
16 reasons than inflation that outage expense might increase
17 over time such as new NRC requirements, for example, with
18 respect to nuclear units?

19 A. That is a possibility, yes.

20 Q. Did you examine, Mr. Hosler, what portion of the
21 company's outage expense during either of these historic
22 years or in general consists of labor expense as opposed to
23 materials expense?

24 A. No, I have not.

25 Q. Did you examine the wage rate increases granted

1 by the company or approved by the Commission during this
2 three-year historic period as part of your analysis?

3 A. No, I have not. I merely used the numbers that
4 the company has projected, which include those labor
5 dollars, plus the historical dollars that they have
6 recorded.

7 Q. And you adjusted those historical dollars solely
8 by use of the GNP implicit price deflator to place them on
9 a June 30, 1986 comparable basis?

10 A. That is true.

11 Q. In addition to your nuclear adjustment, you have
12 also proposed a \$3.9 million adjustment to the fossil unit
13 outage expense as well, is that correct?

14 A. That is correct.

15 Q. And in this case, you examined a five-year
16 historic period beginning July 1, 1980 through June 30, 1985?

17 A. That is correct.

18 Q. And you made certain adjustments to remove
19 Southwark from those numbers; again, you adjusted for
20 inflation using the GNP implicit price deflator, and placed
21 these figures on a comparable June 30, 1986 level, is that
22 correct?

23 A. That is correct.

24 Q. Essentially the same methodology you employed in
25 the adjustment with respect to the nuclear units, except that

1 you removed Southwark, which is retired in this case?

2 A. That is correct, plus I have not looked at any
3 projected costs for the fossil units.

4 Q. That was my next question. With respect to the
5 nuclear units, you did look at budgeted projections, yet you
6 did not do so with respect to the fossil units. Is there
7 any particular reason that you did not either request that
8 information or use it once you had received it?

9 A. Well, I would characterize the five-year
10 historical period for the fossil plants as a more normal
11 time period, whereas, as you quoted out of my testimony, I
12 did not feel that way about the Salem or the Peach Bottom
13 stations.

14 Q. You considered the five year period to be
15 abnormal to some extent, did you not, since you through out
16 two of the years entirely in your analysis, and examined the
17 year ended 1981, 1983 and 1984?

18 A. Well, that is one form of averaging. That is all
19 I have done. I wouldn't characterize them as abnormal. You
20 are going to have high years and low years, and it is just --
21 my form of averaging I chose was to remove the low year and
22 also the high year and average the remaining three years.

23 Q. So, your form of averaging, as you call it, is to
24 simply throw out two of the five years and average the
25 three remaining years, 1982, 1984 and 1985?

1 A. That is correct.

2 Q. The next adjustment you discuss, Mr. Hosler, is
3 the company's claim related to the Salem management
4 evaluation program, is that correct?

5 A. That is correct.

6 Q. As I understand it, your proposal is to allow
7 the company to recover over some period of time the
8 expenses associated with MAC, Management Analysis
9 Corporation, who participated or prepared a study as part of
10 this program, but not to recover any of the other expenses
11 expended by PSE&G as part of this program?

12 A. That is correct. The company has not in detail
13 provided information as to what those expenses were for.

14 Q. And that is the principle basis of your
15 adjustment?

16 A. That is correct.

17 Q. Now, the Staff has two interrogatories and one
18 transcript request regarding this issue, isn't that correct,
19 and those are set forth beginning in Schedule 5 in your
20 testimony, beginning on page 5 and continuing to page 7?

21 A. I recall the two data requests. I don't recall
22 the transcript request.

23 Q. That's Schedule 5, page 7 of your testimony.

24 A. Oh, yes, okay, that's correct.

25 Q. Now, I take it your concern is that the company

1 has not provided you with a breakdown of the non-MAC expenses
2 associated with this program?

3 A. That is correct. I have no way of knowing what
4 nature these expenses are.

5 Q. Can you point to me where in these interrogatories
6 that you requested such information?

7 A. I did not request it, because during the period
8 I was asking interrogatories, I was under the impression
9 that the vast majority of costs were related to the MAC
10 audit. It wasn't until I believe Mr. Carroll testified that
11 we found out only a small part of the cost was related to
12 the MAC audit.

13 Q. So, the problem is not that the company didn't
14 provide the information, but it was not requested?

15 A. Well, the way the company provided the testimony
16 on their requested amortization, I was led to believe and
17 others were led to believe that the majority of that cost
18 dealt with the MAC audit.

19 It wasn't until we were asking Mr. Carroll in detail
20 about that that we found out only that small percentage was
21 related to the MAC expense.

22 Q. Did you request a breakdown after you learned of
23 this new information?

24 A. There was not time between acquiring the know-
25 ledge that there was many other expenses there and the time

1 when the testimony was to be filed.

2 Q Thank you, Mr. Hosler.

3 Now, you have also proposed several adjustments to
4 the company's cash working capital claim, is that correct?

5 A That is correct.

6 Q And the first of these adjustments is to round
7 all the leed/lag days to the nearest one-tenth of a day, is
8 that correct?

9 A That is one adjustment I made, yes.

10 Q Just for clarification purposes, at the bottom
11 of page 8, beginning with line 25, you state, "The effect of
12 the rounding to the nearest day in the current cast is such
13 that if the revenue lag increases by one day, the cash
14 working capital claim would increase by \$7 million," is
15 that correct?

16 A That is correct.

17 Q It is not your testimony that rounding can
18 produce a one-day error in the lag, is that correct? The
19 maximum error would be one-half day?

20 A The maximum error could be .9 days.--

21 Q How can that be?

22 A -- depending if you are rounding from .4 or you
23 are rounding from .5 and you go up.

24 Q Suppose that the actual lag was 10.4 days. Where
25 would you round that to?

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A. Ten.

Q. But if it was 10.5, where would you round to?

A. Excuse me. The starting point we used here was 10.4, correct?

Q. Yes.

A. If you were at 9.5, you would also be at 10 days. That is .9 days difference.

Q. But the company's claim in either event would be 10 days?

A. That is correct.

Q. It is not a one-day error due to rounding.

A. Oh, I follow you. I'm sorry.

Q. It's a half a day as the maximum error in the company's claim versus the actual number?

A. I will agree with that, yes.

Q. Now, you state that all the lag days should be rounded to the nearest tenth of a day, is that correct?

A. That is correct.

Q. But am I correct that if we look on Schedule 4, page 4 of your testimony, you did not round to the nearest tenth of a day for the various expense lag days? You employed the lags used by the company, which were rounded to the nearest day?

A. That is correct. I am not sure if I have the information to go back and round all those to a tenth of a

1 day. But I would say that in future cases, I would prefer
2 to see the company round it to a tenth of a day.

3 Adjustment C on page 8, line 15, you refer to as a
4 reduction to the company's revenue lag days. Am I correct
5 that this is a reduction which in your view will avoid a
6 perceived double recovery of the cost of late payments?

7 A. That is correct.

8 Q. And it is your view that the company shareholders
9 are compensated twice for these late payments, once in the
10 revenue from the late payment charge and the other in the
11 revenue lag study submitted by Mr. Wright, is that correct?

12 A. If the Commission were to approve it as filed by
13 Mr. Wright, that is correct, it would be a double recovery.

14 Q. So, your concern is not that the company share-
15 holders shouldn't be compensated for this cost, but that
16 they shouldn't be compensated twice?

17 A. I would say that is a fair analogy.

18 Q. Now, Mr. Hosler, do you know in which FERC
19 account account the company records late payment charges?

20 A. Not offhand.

21 Q. Would you accept, subject to check, it is
22 Account 450, Forfeited Discounts? If you have a copy of
23 TPH-2, it's on page B-9.

24 A. I believe that would be the correct account, yes.

25 Q. So, the total electric operating revenue figure

1 of \$2,528,923,000 listed on page B-9 includes the
2 \$9,424,000 of late payment charges booked to Account 450,
3 is that correct?

4 A. That is correct.

5 Q. Would you agree with me that that total electric
6 operating revenue number is then carried forward to page A-1
7 of TPH-2, shown as Operating Revenue, Actual at page B-9?

8 A. Carried forward to page A-1?

9 Q. Yes.

10 A. That is correct.

11 Q. And then that figure is adjusted for items
12 listed on A-3, which are unrelated to the forfeited
13 discounts, to get a pro forma present rate figure of
14 \$2,501,993,000, is that correct?

15 A. I have not spotted the pro forma number at this
16 point.

17 Q. It is on Column 3 on page A-1, the top line, up
18 under Operating Revenue.

19 A. Oh, that is correct.

20 Q. And that figure includes the \$9.4 million of
21 forfeited discounts or late payment charge revenue, is that
22 correct?

23 A. That is correct.

24 Q. So, am I correct that the company has given the
25 ratepayers full credit for these late payment charges by

1 reflecting them in present rates pro forma, and in fact
2 the rate increase in this proceeding is \$9.5 million less
3 than it would have been if the company had not so credited
4 those revenues to ratepayers?

5 A. That is true, but the company has no -- as I
6 stated in my testimony, there is no revenue lag for those
7 revenues which the company is crediting the ratepayers for.

8 Q. I don't understand. What do you mean, there is
9 no revenue lag?

10 A. Well, by crediting it here, you do not need to,
11 on the other hand, receive a revenue lag allowance for that.
12 This is the one credit. The second one would be back at the
13 revenue lag day calculation.

14 Q. So, in your view, shareholders should not be
15 compensated at all? They should be compensated neither for
16 the late payment charge and neither through the revenue lag?

17 A. That is not correct. I am saying, they are
18 properly credited here, and that should stand.

19 Q. It's credited to ratepayers, not to shareholders,
20 is that correct?

21 A. That is correct.

22 Q. Ratepayers receive the full benefit of that
23 \$9.5 million. The company has reduced its rate request in
24 this proceeding by \$9.5 million to give ratepayers full
25 credit for that late payment charge revenue. Not a dime of

1 that revenue goes to shareholders, is that correct?

2 A. That is correct. That is the way it should be.

3 Q. Thank you.

4 Now, you have also made several adjustments to the
5 company's cash working capital claim associated with taxes,
6 is that correct?

7 A. That is correct.

8 Q. And with respect to the Capital Stock Taxes and
9 the PURTA taxes, you essentially, as I understand it,
10 criticized the company for basing its lag calculation on a
11 prior year's tax liability, is that correct, or is that a
12 fair summary of what you did?

13 A. I don't believe I am criticizing them for
14 calculating it on the prior year. I think I am saying, they
15 should have reflected it that way.

16 They are actually calculating the payments on the
17 future test year now.

18 Q. So, the company is doing it on a pro forma,
19 future test year basis, and you believe it should be done on
20 a prior year's liability, is that correct?

21 A. Yes, but let me clarify that. It is more or less
22 a combination of both. The prepayment or the tentative tax
23 payments announced must be made on a percentage of prior
24 year tax liabilities, but the actual total tax amount to be
25 paid is based on the pro forma test year amount.

1 Q And as part of your analysis, you examined
2 growth rate in these taxes over a three year period, is
3 that correct?

4 A That is correct. I needed some method to
5 reflect the increase in taxes over time.

6 Q Did you do any analysis of the reasons for the
7 growth in those taxes over that three-year period?

8 A Well, there could be many reasons why the taxes
9 grow, but what we need to reflect is the fact that they do
10 grow.

11 Q If they grow for reasons that will not recur in
12 the future, then one might not expect to see the same growth
13 rate in the future as one has seen in the past; would you
14 agree with that as a general proposition?

15 A I would agree that the growth rate could be lar-
16 ger or smaller, but there will be a growth unless you are
17 telling me taxes may drop over the next period of years.

18 Q There have been reductions in the Pennsylvania
19 corporate income tax, for example, have there not?

20 A There are temporary reductions, but over time,
21 we will see a growth.

22 Q But we don't know whether it will be the same
23 amount of growth as we saw over the three year period?

24 A That is correct.

25 Q Did you examine whether the three-year period of

1 taxes you examined include any settlement proceeds from
2 prior periods that were unrelated to taxes paid during
3 that period?

4 A. No, I did not.

5 MR. MacGREGOR: Thank you, Mr. Hosler.

6 That's all I have, Your Honor.

7 JUDGE MATUSCHAK: Any further cross-examination?

8 (No response.)

9 JUDGE MATUSCHAK: Any redirect?

10 MS. SMITH: One moment, Your Honor.

11 (Pause.)

12 MS. SMITH: No, Your Honor, I have no redirect.

13 JUDGE MATUSCHAK: Thank you.

14 (Witness excused.)

15 MS. SMITH: Our next witness will be Mr. Prego.

16 Whereupon,

17 JOHN P. PREGO

18 having been duly sworn, testified as follows:

19 DIRECT EXAMINATION

20 BY MS. SMITH:

21 Q. Would you please state your name and address for
22 the record?

23 A. My name is John P. Prego. My business address is
24 Post Office Box 3265, Harrisburg, Pennsylvania, 17120.

25 Q. Mr. Prego, by whom are you employed and in what

1 capacity?

2 A. I am employed by the Pennsylvania Public Utility
3 Commission, the Bureau of Audits, as an audit supervisor.

4 Q. Mr. Prego, do you have before you a document
5 entitled, "Trial Staff Statement JPP-1"?

6 A. Yes, I do.

7 Q. Does that document consist of your direct
8 testimony in this proceeding?

9 A. Yes, it does.

10 Q. Do you also have a document before you entitled,
11 "Staff Exhibit JPP-1"?

12 A. Yes, I do.

13 Q. Does that document consist of your exhibits in
14 this proceeding?

15 A. Yes, it does.

16 MS. SMITH: Your Honor, at this time, I request that
17 these documents be marked as Trial Staff Statement JPP-1 and
18 Staff Exhibit JPP-1.

19 JUDGE MATUSCHAK: The motion is granted.

20 (Whereupon, the documents were
21 marked Staff Statement JPP-1
22 and Staff Exhibit JPP-1 for
identification.)

23 BY MS. SMITH:

24 Q. Were these documents prepared by you, Mr. Prego,
25 or under your direct supervision?

1 A. Yes, they were.

2 Q. Do you have any additions, corrections or
3 modifications?

4 A. Nothing of significance.

5 Q. Is the information contained in these documents
6 true and correct to the best of your information, knowledge
7 and belief?

8 A. Yes, it is.

9 Q. And if I were to ask you these same questions
10 today, would your answers be the same?

11 A. Yes, they would.

12 MS. SMITH: Your Honor, at this time, I would
13 request that Trial Staff Statement JPP-1 and Staff Exhibit
14 JPP-1 be moved into evidence subject to any timely motions
15 to strike.

16 JUDGE MATUSCHAK: The motion is granted.

17 (Whereupon, the documents were
18 marked Staff Statement JPP-1
19 and Staff Exhibit JPP-1 for
20 identification.)

21 MS. SMITH: Mr. Prego is available for cross-
22 examination.

23 JUDGE MATUSCHAK: PECO?

24 MR. MacGREGOR: Thank you, Your Honor.
25

CROSS-EXAMINATION

1
2 BY MR. MacGREGOR:

3 Q. Good afternoon, Mr. Prego.

4 A. Good afternoon.

5 Q. Mr. Prego, am I correct that the Commission's
6 Bureau of Audits recently completed an audit of the company's
7 continuing property records?

8 A. That is true.

9 Q. When was this audit conducted?

10 A. It was for the five year period ended December
11 31, 1983.

12 Q. When was the audit itself conducted by the Bureau
13 of Audits?

14 A. It was conducted probably during the six-month
15 period ended October, 1984.

16 Q. October, 1985, or 1984?

17 A. 1985.

18 Q. Did you participate in the audit, Mr. Prego?

19 A. I supervised the audit, yes, I did.

20 Q. When was the audit completed?

21 A. When was the audit completed?

22 Q. Yes.

23 A. I don't have that specific date in front of me
24 right at this moment.

25 Q. Could you provide that for me, please?

1 A. Yes, I could.

2 Q. Am I correct that the audit report issued by
3 the Bureau of Audits contained three findings with which
4 the company disagreed?

5 A. The audit report contained three proposed
6 adjustments with which the company disagreed.

7 Q. As you state in your testimony, the most
8 significant dispute, at least in terms of dollars, is
9 Finding No. 9, is that correct?

10 A. That is correct.

11 Q. The amount at issue here is something over
12 \$15 million, is that correct?

13 A. That is roughly correct, yes.

14 Q. Would you agree with me that that is a
15 substantial amount of money?

16 A. Yes, it is.

17 Q. Am I also correct, the dispute between the company
18 and the Bureau of Audits arises over whether certain
19 expenditures at the Peach Bottom and Salem plants should
20 have been capitalized or expensed for accounting purposes?

21 A. That is true.

22 Q. And there is nothing in the audit report, as I
23 read it, that disputes the fact that the company actually
24 spent this money?

25 A. No, there is no question.

1 Q And there is no dispute that the projects were
2 necessary and prudent, or at least the audit report makes
3 no finding otherwise?

4 A That is true.

5 Q And there is no report, nothing in the audit
6 report that finds that the amount of the expenditures were
7 unreasonably high for any reason?

8 A That is not a point of contention.

9 Q So, we are talking about an accounting matter,
10 as to whether these items should have been capitalized or
11 expensed?

12 A That is true.

13 Q Would you agree with me as a general matter that
14 the issue of whether a particular expenditure should be
15 capitalized or expensed is sometimes a subject of dispute;
16 it is not always a black and white determination?

17 A In certain instances, yes.

18 Q And reasonable men, in certain circumstances, can
19 disagree as to whether a certain item should be expensed or
20 capitalized?

21 A That is true. However, the Uniform System of
22 Accounts, I think, clearly points out or specifies those
23 items which should be expensed and those which should be
24 capitalized.

25 Q But there are certain areas of disagreement and

1 different interpretation placed upon the Uniform System of
2 Accounts by different persons at different times?

3 A. That could occur.

4 Q. And would you also agree with me, as a general
5 matter, that if an expenditure is capitalized under normal
6 ratemaking processes, it would be placed into rate base and
7 the cost of that item will be recovered through depreciation
8 accruals over the life of the item?

9 A. Theoretically, yes.

10 Q. Whereas, if an item is expensed, it would be
11 included entirely in current rates and at the full level of
12 recovery?

13 A. That is true.

14 Q. So, all other things equal, capitalizing an item
15 and placing it in rate base produces a lower current revenue
16 requirement than expensing it, is that correct?

17 A. That is correct.

18 Q. And with respect to the items for Peach Bottom
19 and Salem that we are dealing with here, it was the
20 company's position that these costs should be capitalized,
21 is that correct?

22 A. That is the way they reported them, yes.

23 Q. And the Bureau of Audits believed that those
24 items should have been expensed?

25 A. That is true.

1 Q Now, with respect to the Salem items, the Bureau
2 of Audits seeks to reclassify as an expense Philadelphia
3 Electric Company's share of money spent by Public Service
4 Electric and Gas Company for review, inspecting, testing
5 and modifying certain items of the Salem plant to satisfy
6 certain NRC requirements, is that correct?

7 A That is true.

8 Q And as I read your testimony, the primary basis
9 of your adjustment is that the FERC has required PSE&G to
10 reclassify these items as an expense, PSE&G has accepted
11 this proposal, and that the company should in general follow
12 the accounting chosen by PSE&G for this item?

13 A Yes. It is generally understood that the
14 operators of the nuclear generating plants are responsible
15 for the accounting and for the proper classification of
16 costs that are incurred with regard to that plant.

17 Q Is there any formal requirement, contractual
18 or otherwise, that requires Philadelphia Electric Company
19 to account for its cost in exactly the same manner as
20 Public Service Electric and Gas?

21 A To my knowledge, no, other than the fact that
22 FERC would probably require Philadelphia Electric Company to
23 comply.

24 Q Would you also agree with me, as stated in your
25 testimony, that as part of its finding with respect to Salem,

1 the FERC proposed the company recover the items that
2 were expensed over a three-year amortization?

3 A. I do not agree with that statement. I do not
4 know that for a fact. FERC has agreed to a three-year
5 amortization period for the costs so reclassified. However,
6 I am not aware of the fact that this amortization has been
7 allowed for ratemaking purposes by the FERC.

8 Q. Now, Public Service Electric and Gas Company has
9 claimed this cost in its current rate proceeding; are you
10 aware of that?

11 A. No, I am not.

12 Q. And you are not aware as to whether the New
13 Jersey Commission has entered any order at this time as to
14 whether or not they should be allowed to recover their
15 share of the expense?

16 A. No, I am not.

17 Q. One of the reasons you give for opposing recovery
18 of these costs now through an expense amortization is that
19 these costs were initially classified as expense, and
20 therefore may have been recovered through rates effective
21 during that time period?

22 A. That is true.

23 Q. Do you know for what period of time these items
24 were expensed?

25 A. Specifically, no.

1 Q. Do you know whether they were all expensed, or
2 only a portion of them were expensed?

3 A. No. The only portion I know of was what has
4 been recorded in the plant in service.

5 Q. Did you do any analysis of Public Service
6 Electric and Gas Company rate filings during that period,
7 or Philadelphia Electric Company rate filings during that
8 period, to determine whether any portion of that amount was
9 ever claimed in any rate case by either utility?

10 A. No, I did not.

11 Q. So, you don't really know for sure whether it
12 was recovered in rates or not?

13 A. No, I don't. However, under the general premise,
14 if an expense, a maintenance expense should be recorded
15 during a time period and there are rates in effect during
16 that time period, it is assumed that those costs are
17 recovered through the rates that are in effect at that time.
18 Otherwise, the company would be in for rate relief.

19 Q. Does a utility just walk in and change its rates
20 any time it chooses?

21 A. I think the utilities have ample opportunity to
22 do so.

23 Q. It has to go forward and file a rate increase; it
24 just doesn't change its rates, is that correct?

25 A. That is true.

1 Q It has to file with the Commission, and then there
2 is a lag period, and the rates have to be approved by the
3 Commission, isn't that correct?

4 A Yes, that is correct.

5 Q And whether or not these particular expenses were
6 in a particular rate filing would be a matter that should be
7 examined to determine whether or not the expenses were
8 actually recovered or not; you really can't tell without
9 doing such an analysis, is that correct?

10 A I don't think you can do that, since the company
11 capitalized the costs.

12 Q They were originally expensed. I thought you
13 said they were originally expensed, is that correct?

14 A Yes. I am sorry, I misspoke myself.

15 I don't believe that the time period between the
16 original classification as an expense and the reclassifica-
17 tion to a capital item was that significant.

18 Q So, you don't know whether or not any of these
19 items were ever recovered as an expense in rates, is that
20 correct?

21 A I would find it --

22 Q Do you know? Do you know one way --

23 A No, I do not.

24 Q Thank you.

25 Now, with respect to the Peach Bottom expenditures,

1 we have a little different story, if we look at page 7 of
2 your testimony, lines 12 through 15, in which you state,
3 with respect to Peach Bottom, unlike Salem, you didn't
4 rely primarily on the position taken by FERC. It was the
5 Bureau of Audit's own analysis, is that correct?

6 A. That is correct.

7 Q. And I take it the reason you didn't rely on FERC
8 is because FERC agreed with the company, and has let the
9 company capitalize the cost associated with Peach Bottom?

10 A. That is incorrect, to my knowledge.

11 Q. FERC has required the company to expense these
12 costs?

13 A. I don't think FERC has examined these costs.

14 Q. FERC has not audited the Peach Bottom continuing
15 property records?

16 A. Not to my knowledge, for the time period we are
17 talking about.

18 Q. Which is?

19 A. Our audit covered through 1983, December 31, 1983.

20 Q. And it is your position that FERC has not
21 conducted an audit for that time period? FERC did not visit
22 the Peach Bottom plant and specifically examine these
23 expenditures and make no reservation in an audit? Is that
24 your position?

25 A. I think they have made reservations in an audit

1 that covered the period through December 31, 1981.

2 Q We can explore that further later.

3 As part of the Bureau of Audits' recent audit, did
4 any member of the Bureau of Audits visit the Peach Bottom
5 site?

6 A No, we do not.

7 Q Did you visit other sites as part of your audit?

8 A Yes, we did.

9 Q But not the Peach Bottom site?

10 A That is true, based on the recommendation of the
11 company and clearance problems that would have to be made.

12 Q Is it your testimony that the company told you
13 you could not visit the Peach Bottom site?

14 A No, that is not true.

15 Q Now, on page 8 and 9 of your testimony, you
16 discuss certain accounting principles that should apply in
17 the situation with respect to Peach Bottom.

18 On page 8, beginning at line 8, you quote from the
19 Operating Expense Instructions of the Uniform System of
20 Accounts, is that correct?

21 A That is correct.

22 Q And under these instructions, you would normally
23 expense the replacement or adding minor items of plant which
24 do not constitute a retirement unit, is that correct?

25 A According to the Uniform System of Accounts, yes.

1 Q And that is what you essentially relied upon in
2 expensing these?

3 A That is one of the criteria that was relied upon,
4 yes.

5 Q Now, you also note on page 9 of your testimony,
6 on the other hand, that there is also language in the
7 Electric Plant Instructions which do, under certain
8 circumstances, allow minor items of property to be
9 capitalized, is that correct?

10 A Yes, that is correct.

11 Q Now, the next adjustment you talked about, Mr.
12 Prego, is expenditures made by the company for the installa-
13 tion of the System Automatic Monitoring and Control
14 computerized power control system, is that correct?

15 A Is this the adjustment for \$801,000?

16 Q That is correct.

17 A Yes.

18 Q Now, I take it here we don't have any dispute
19 over the accounting. It's rather a question over whether a
20 certain portion of the costs were prudently incurred by the
21 company, is that correct?

22 A That is correct.

23 Q And the Bureau of Audits reached a determination
24 that a portion of these expenditures were unreasonable
25 because Philadelphia Electric Company made no formal attempt

1 to recover additional costs incurred by the contractor, it
2 simply paid for those costs, is that correct?

3 A. The additional costs were incurred because the
4 contract had supplied equipment that didn't function
5 properly, or documentation for computer equipment that was
6 unsatisfactory, to enable Philadelphia Electric Company to
7 make repairs to that equipment.

8 Q. And you state that Philadelphia Electric Company
9 made no formal attempts to recover these costs, is that
10 correct?

11 A. According to information provided by the company,
12 that is correct.

13 Q. What do you mean by "formal attempts," Mr. Prego?

14 A. Something of a lawsuit or something.

15 Q. Do you think it is appropriate to file a lawsuit
16 against every contractor who overruns his contract?

17 A. Not necessarily so.

18 Q. Certain judgments have to be made, do they not,
19 as to the probability of recovery, legal expenses and other
20 items that go into a judgment to decide whether it is proper
21 to file a legal action or not? Is that correct?

22 A. That is correct.

23 Q. Did you examine any of those judgments to deter-
24 mine whether they were reasonable?

25 A. We did request information as to whether cost

1 analyses have been made to determine if it would have been
2 feasible to pursue the matter with the contractor. Such
3 cost analyses were not available from the company. There-
4 fore, there is no documentation of such analyses.

5 Q. It's your position the company has to do a
6 formal, written cost/benefit analysis in each case in order
7 to justify its actions?

8 A. I think there should be some kind of justifica-
9 tion, yes.

10 Q. That's not my question, Mr. Prego. A formal,
11 written cost/benefit analysis, should that be required in
12 every instance in determining whether or not a lawsuit
13 should be filed, in your opinion?

14 A. Yes.

15 Q. Thank you.

16 Now, the final item you discuss is a 13 kilovolt
17 distribution line between the Callowhill and Delaware
18 substations, is that correct?

19 A. Yes, that is the final adjustment.

20 Q. And as I understand it, the company had
21 originally hoped to construct an aerial line, and it spent
22 certain monies studying that possibility.

23 During the course of the planning process, community
24 opposition arose, and the company was forced to put the line
25 underground, is that correct?

1 A. Generally, that pretty much sums up what happened.

2 Q. Why would the company have wanted to build the
3 line above ground, at least initially?

4 A. It is probably less expensive.

5 Q. It's a prudent choice by the company, at least
6 in the start; if they could do it above ground, it would
7 have cost less, is that correct?

8 A. That is true.

9 Q. Finally, Mr. Prego, on page 12 of your
10 testimony, you state, beginning on line 4, that, "The
11 Company's effective rates at that time, therefore, included
12 our reclassifications to various income, expense and
13 deferred accounts," is that correct?

14 A. That is what my statement says, yes.

15 Q. Would you please explain for me how reclassifica-
16 tions that were proposed by the Bureau of Audits in October
17 of 1985 when the audit was completed could have been
18 reflected in the company's accounts at the time prior rates
19 were in effect?

20 A. What I am saying is that since the cost of these
21 projects were misclassified originally, they should have
22 been properly classified as a maintenance expense, and --

23 Q. And if they had been --

24 MS. SMITH: Your Honor, I object.

25 MR. MacGREGOR: I'm sorry.

1 MS. SMITH: I believe he has not answered his question

2 BY MR. MacGREGOR:

3 Q I'm sorry, please continue.

4 THE WITNESS: ... Could I have read back where I left off,
5 please?

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

8 THE WITNESS: All I am saying is, if the cost of
9 these projects were properly classified at the time they
10 were incurred and recorded in the books of account of the
11 company, they would have been classified as a maintenance
12 expense.

13 BY MR. MacGREGOR:

14 Q Does that complete your answer?

15 A Therefore, the rates that were in effect at that
16 time should have covered these costs.

17 Q Does that complete --

18 A And a subsequent reclassification to correct the
19 original misclassification is not the time period in which
20 the rates should reflect these costs.

21 In other words, the rates in effect at the time the
22 transactions were originally recorded provided for a certain
23 level of maintenance expense.

24 Therefore, if these costs were properly classified as
25 maintenance, as they should have been, they would have been

1 recovered in those rates, and therefore there is no prospect
2 of a rate recovery required right now, simply by the time
3 frame of reclassifying them to their proper account.

4 Q Does that complete your answer?

5 A Yes.

6 Q So, your testimony is not that these reclassifi-
7 cations were in fact reflected in the accounts during the
8 time period when prior rates were in effect, but if they
9 had been classified properly, they would have been, is that
10 correct?

11 A That is correct.

12 MR. MacGREGOR: Thank you for that clarification.

13 That's all the questions I have, Your Honor.

14 MS. SMITH: Could I have a moment, Your Honor -- I'm
15 sorry, does anybody else have any questions?

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

18 (No response.)

19 MS. SMITH: We have no redirect, Your Honor.

20 JUDGE MATUSCHAK: Thank you.

21 (Witness excused.)

22 MS. SMITH: Your Honor, our next witness is Keith
23 Laudenslager.

1 Whereupon,

2 KEITH I. LAUDENSLAGER

3 having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MS. SMITH:

6 Q. Could you please state your name and address
7 for the record?

8 A. My name is Keith Laudenslager, and my business
9 address is Post Office Box 3265, Harrisburg, Pennsylvania.

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

11 A. I am employed by the Pennsylvania Public Utility
12 Commission in the capacity of a fixed utility financial
13 analyst.

14 Q. Mr. Laudenslager, do you have before you a
15 document entitled, "Staff Statement KIL-1"?

16 A. Yes, I do.

17 Q. Does that document consist of your direct
18 testimony in this proceeding?

19 A. Yes, it does.

20 Q. Do you also have with you two documents entitled
21 Staff Exhibit KIL-1A and KIL-1B?

22 A. Yes.

23 Q. Do those documents represent your exhibits to
24 accompany your direct testimony in this proceeding?

25 A. Yes, they do.

1 MS. SMITH: Your Honor, at this time, I would request
2 that the direct testimony of Mr. Laudenslager be marked as
3 Staff Statement KIL-1, and the exhibits that accompany that
4 document be identified as Staff Exhibits KIL-1A and 1B.

5 JUDGE MATUSCHAK: They will be so identified.

6 (Whereupon, the documents were
7 marked Staff Statement KIL-1
8 and Staff Exhibits KIL-1A and
9 KIL-1B for identification.)

10 BY MS. SMITH:

11 Q Were these documents prepared by you or under
12 your direct supervision?

13 A Yes, they were.

14 Q Do you have any additions, corrections or
15 modifications?

16 A No, I do not.

17 Q Is the information contained in these documents
18 true and correct to the best of your information, knowledge
19 and belief?

20 A Yes, they are.

21 Q If I were to ask you these same questions today,
22 would your answers be the same?

23 A Yes.

24 MS. SMITH: Your Honor, at this time, I would request
25 that Staff Statement KIL-1 and Staff Exhibits KIL-1A and 1B
be moved into evidence subject to any timely motions to

1 strike.

2 JUDGE MATUSCHAK: The motion is granted.

3 (Whereupon, the documents
4 marked Staff Statement KIL-1
5 and Staff Exhibits KIL-1A and
6 1B were received in evidence.)

7 MS. SMITH: Mr. Laudenslager is available for cross.

8 JUDGE MATUSCHAK: PECO?

9 MR. MacGREGOR: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. MacGREGOR:

12 Q Good afternoon, Mr. Laudenslager.

13 A Good afternoon.

14 Q Mr. Laudenslager, am I correct that you propose
15 approximately a \$21.6 million reduction in the company's
16 claimed accounts expense as reflected in FERC Accounts 901,
17 902, 903 and 905?

18 A Yes.

19 Q Am I correct that this adjustment is based upon
20 a comparison of the company's expenses recorded in those
21 accounts with a group of five electric utilities located in
22 metropolitan areas?

23 A Yes, it is.

24 Q These include Commonwealth Edison, Boston Gas and
25 Electric, Detroit Edison, Boston Edison and Consolidated
Edison of New York?

1 A. Yes, it does.

2 Q. Specifically, you looked at the costs included
3 in these four FERC accounts by these companies for a
4 12-month period ended December 31, 1984, and adjusted those
5 figures by use of the GNP implicit price deflator to
6 establish them at a June 30, 1986 level, and then compared
7 that level to the company's budgeted amount for those
8 accounts in this case?

9 A. That's correct.

10 Q. And in the course of adjusting those accounts for
11 inflation of the five other utilities, did you do any
12 analysis or investigation to determine whether increases
13 experienced by those companies over the past had increased
14 at the rate of the GNP implicit price deflator, or had
15 increased at a greater or lesser amount?

16 A. I did an examination of five FERC accounts for
17 the companies. In a way, it was cursory for 1983 and 1984,
18 the prior year, prior to that. I did do some analysis work.

19 Q. It was by looking at 1983 versus 1984?--

20 A. Yes.

21 Q. Because that data is provided, the 1983 data is
22 provided in the 1984 FERC account? The 1984 FERC Form 1
23 provides both the 1984 expenditures for those accounts as
24 well as the 1983 expenditures?

25 A. Yes, yes.

1 Q Would you agree with me that the increases
2 experienced by those companies for these accounts between
3 1983 and 1984 greatly exceeded the GNP implicit price
4 deflator for the 1983-84 period?

5 A I don't know specifically if they greatly
6 exceeded it. I do know that I did a composite from 1983 to
7 1984, and they comparably increased approximately 9.5
8 percent. This is the five companies, excluding PECO.

9 Q Did you examine the GNP implicit price deflator
10 for that time period, for the 12 months, 1983 to 1984, to
11 see if it was 9.5 percent or less or more?

12 A No, I did not. However, I did compare it to
13 PECO's, as far as PECO's increase, and their increase was
14 approximately 12 percent versus the composite of 9.5.

15 Q Did you compare PECO at 12-31-84 with the
16 members of your comparable group at 12-31-84?

17 A Yes.

18 Q Would you agree with me that that analysis shows
19 that Philadelphia Electric Company is not the highest of
20 the five companies?

21 A In total cost?

22 Q In cost per customer.

23 A As of 1984?

24 Q Yes.

25 A I don't know that I can truthfully say that theirs

1 is not the highest as of 1984. I would have to calculate
2 out, possibly, from my Schedule 2, if they would --

3 Q. You don't know right now?

4 A. No. The figures are available, but I did not
5 do that.

6 Q. Mr. Laudenslager, other than your comparison to
7 the five member group and also the other Pennsylvania
8 utilities, did you do any other independent examination of
9 the company's claim to determine whether it was reasonable?

10 A. No.

11 Q. Did you examine any other FERC accounts for
12 Philadelphia Electric Company as compared to these other
13 utilities?

14 A. No. I was primarily concerned with the Accounts
15 901 through 905, exclusively customer accounting --

16 Q. So, you didn't examine any others?

17 A. Other than just going through them; as far as
18 researching these figures, no, I didn't go any further.

19 Q. And you did consider, I take it, Account 904,
20 but you excluded it because of the differences in accounting
21 practices among the companies?

22 A. That is correct.

23 Q. Did you examine whether, for the other accounts,
24 901, 902, 903 and 905, whether there were any significant
25 accounting differences among the utilities for costs

1 recorded to those accounts?

2 A. Well, basically because they were FERC accounts
3 and it is the Uniform System of Accounts, I would assume
4 that all the major utilities would report on a like manner.

5 So, I would not really feel that based upon -- it's
6 my understanding that all figures should be comparable
7 based upon the FERC accounts.

8 Q. You didn't do any further analysis to verify that?

9 A. No.

10 Q. You didn't examine whether certain companies
11 treat portions of their labor expense differently and book
12 that to A&G expense as opposed to the customer accounts?

13 A. Well, my feelings were that if they all conform
14 to FERC accounting, by the representative as well as PECO,
15 that they should all be similar.

16 Q. But again, you didn't perform any independent
17 examination to verify that fact?

18 A. No. I didn't feel it was necessary.

19 Q. Would you agree with me that one major item --
20 or would you list for me some of the major items that are
21 included in these four FERC accounts which you examined?

22 A. And how exactly do you want them broken down?
23 You know, there should be labor, meter reading. How far
24 down do you really want me to go?

25 Q. Well, it would include labor expense, I take it?

1 A. That is correct.

2 Q. It would also include meter reading, telephone
3 expense, substantial computer expense?

4 A. Yes.

5 Q. Would you agree with me that there may be a
6 difference among utilities as to whether they own their
7 computers or lease them?

8 A. Yes, that is possible.

9 Q. And a company who leases its computers, such as
10 Philadelphia Electric Company, would record the cost of the
11 computers used in customer accounts through these expense
12 accounts, is that correct?

13 A. That would be correct.

14 Q. Whereas a company who owned its computer
15 facilities would include those in its rate base and they
16 would be recorded in various electric plant accounts?

17 A. With offsetting depreciation, yes.

18 Q. With respect to meter reading, did you examine
19 whether any of the companies you studied are different from
20 Philadelphia Electric Company in terms of monthly meter
21 reading?

22 A. Well, I did a telephone survey of all the
23 utilities mentioned, and if you will hold on a second --
24 and it was my conclusion, of the five mentioned, they were
25 all on a monthly reading and a monthly billing procedure

1 with the exception of, from my understanding, Con-Edison of
2 New York was on a monthly reading and billing with the
3 exception of the Bronx area. That was bimonthly.

4 And also, Boston Edison has some bimonthly. But
5 Chicago, Detroit and the other companies were on a monthly
6 billing and monthly meter reading.

7 Q The company who reads bimonthly would probably
8 have less meter reading expense than a company who reads
9 monthly, is that correct?

10 A Quite possibly, yes.

11 Q Apart from accounting differences that may
12 exist, did you examine the customer billing and termination
13 requirements imposed by this Commission under Chapter 56 of
14 52 Pa. Code and compare those requirements with the
15 requirements imposed by the Commissions for these other
16 utilities?

17 A Yes, I did.

18 Q Did you compare the winter moratorium on shutoff
19 policy for this Commission and others?

20 A Yes, I did. I have some mention, yes.

21 Q Can you explain for me the results?

22 A Sure. You are referring specifically then to
23 the winter moratorium? Is that specifically --

24 Q My question is, are the winter moratorium
25 requirements the same for all of these companies?

1 A. All but New York, primarily.

2 Q. Exactly the same as Pennsylvania requirements?

3 A. Verbatim, no, but they do all have some type of
4 winter moratorium, with the exception of New York, and
5 New York, it's a statute of law, it is my understanding,
6 that they are not allowed to, and then it becomes more an
7 area where, by statute of law, they are not allowed to
8 disconnect, and somehow it is taken over through a welfare
9 agency or some other type of billing as far as a winter
10 moratorium went.

11 Q. What is Detroit Edison's policy?

12 A. I don't know their entire -- I know it is a
13 matter of law that they do have a winter moratorium.

14 Q. You don't know how stringent it is, for instance--

15 A. No, I do not.

16 Q. -- how many days during the winter they can shut
17 off customers versus how many they cannot?

18 A. No, I do not.

19 Q. Mr. Laudenslager, as a more general matter, is it
20 your view that a high dollar per customer number is less
21 desirable than a low one with respect to customer accounts?

22 A. Yes.

23 Q. Couldn't it be possible that a company with a
24 very low number is simply not doing a very good job in the
25 customer account area of reading its meters and making sure

1 its customers pay their bills and provide adequate
2 information to customers, and a company with a higher
3 number might be doing a better job?

4 A. The reverse could also be true of that.

5 Q. Did you examine the quality of service provided
6 by Philadelphia Electric Company in this area versus the
7 other utilities?

8 A. Not in great detail. More information was
9 available with the Pennsylvania utilities because of the
10 very nature. I don't really feel --

11 Q. First of all, let me ask, with respect to the
12 five in the metropolitan area, you don't know one way or
13 the other?

14 A. Would you repeat the question?

15 Q. Yes. Did you do an examination between
16 Philadelphia Electric Company and these other companies as
17 to the types of services provided, the quality of that
18 service and the extent of the service provided?

19 A. Well, it would really be how you would define
20 quality, you know, who is defining the quality of the
21 service.

22 Q. My question is, did you conduct an examination?

23 A. No.

24 MR. MacGREGOR: I think that's all I have.

25 Thank you, Mr. Laudenslager.

1 JUDGE MATUSCHAK: Any further cross-examination?

2 (No response.)

3 JUDGE MATUSCHAK: Any redirect?

4 MS. SMITH: No, Your Honor, no redirect.

5 JUDGE MATUSCHAK: Thank you.

6 (Witness excused.)

7 MS. SMITH: Your Honor, that concludes Staff's
8 presentation on the non-Limerick issues in this proceeding,
9 the direct portion of our case. I don't know if we are
10 prepared to go forward with another witness at this point.

11 MR. MacGREGOR: Your Honor, I suggest perhaps we
12 break for lunch. I think Mr. Calvert is en route from
13 Philadelphia, and we may have some matter between the city
14 and Mr. Calvert as to scheduling once they arrive.

15 Also, if we could take a relatively long lunch break,
16 I think I could prepare the cross-examination for Mr. Kelley
17 of GSA who is scheduled for tomorrow but is here today. We
18 could go ahead and get him out of the way this afternoon.

19 MR. ETTNER: Mr. Kelley is here today, and whatever
20 your desire is and the parties' desire to prepare today,
21 fine. Tomorrow would be fine, too.

22 MR. MacGREGOR: Could we break until maybe 2:00?

23 JUDGE MATUSCHAK: We will recess until 2:00.

24 MR. RAINY: Your Honor, might I just say one thing?
25 I am here right now just for Mr. Calvert, and if

1 Mr. MacGregor can say when he is going to arrive, maybe we
2 can take up that matter even before he comes back for
3 cross-examination.

4 MR. MacGREGOR: I just received word that he probably
5 will not be here until about 2:00. We can take that up
6 first when he arrives, but if he is not here at 2:00, then
7 I could continue with Mr. Kelley, and then we could do it
8 whenever he arrives. I apologize for any inconvenience.

9 JUDGE MATUSCHAK: We will address your matter first
10 before we proceed, if he is here.

11 MR. RAINEY: Very well, thank you.

12 JUDGE MATUSCHAK: We will recess until 2:00.

13 (Whereupon, at 12:40 p.m., the hearing was adjourned,
14 to be reconvened at 2:00 p.m., this same day.)

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AFTERNOON SESSION

(2:02 p.m.)

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3 JUDGE MATUSCHAK: When you are ready.

4 MR. CLARK: Your Honor, there is one issue I would
5 like to discuss, and that is the timing of the ECR
6 testimony response by the other parties. I brought this
7 up yesterday and we discussed that. I have thought a bit
8 more about Your Honor's suggestion that if there was need
9 to file supplemental testimony after Your Honor's ruling
10 we could do that.

11 I thought about that, and it seems to me that may
12 not be the most efficient use of our resources in terms
13 of time for the parties, both the Governor's Energy
14 Council and the Staff, in preparing testimony and then
15 substituting it with a different testimony, as well as
16 the other parties in reading the testimony that is pre-
17 pared.

18 What I would like to do is essentially think out
19 loud here to see if the parties might come to some agree-
20 ment about the timing of a ruling on that motion with a
21 possible change in the filing date of the ECR testimony
22 from the other parties.

23 I understand, for example, that Mr. MacGregor
24 expects the company's reply to Staff's motion to be filed
25 on Monday. I was wondering then if maybe on Wednesday

1 we might begin the day with an oral argument on that motion
2 followed by a ruling by Your Honor on Wednesday, and then
3 delay the filing of the testimony until the following week.

4 JUDGE MATUSCHAK: Does the company have a response?

5 MR. MacGREGOR: Your Honor, I think it would be
6 somewhat premature to delay the filing date at this point.

7 JUDGE MATUSCHAK: What was that?

8 MR. MacGREGOR: I think it would be somewhat pre-
9 mature to delay the filing date at this point in time,
10 at least from the company's point of view. We have a
11 schedule for litigation on this issue that already carries
12 us out to March 13th, which is the day before the record
13 closes in this case.

14 If it is not necessary, I wouldn't be inclined toward
15 extending the schedule at this point.

16 JUDGE MATUSCHAK: In the other procedure we entered
17 an order immediately following oral argument because we
18 anticipated that time was of the essence, to give the parties
19 a chance to review. I don't anticipate that I'm going
20 to make a bench order right after the oral argument on
21 that issue, and I am not going to at this time definitely
22 make a commitment as to how soon after the oral argument
23 I'm going to issue a decision on this.

24 MR. CLARK: Your Honor, I would like to disagree
25 with Mr. MacGregor that it is maybe necessary and maybe

1 not necessary, and what I would say is that it definitely
2 is necessary. At this point in time we do not know whether
3 or not our testimony should include the 80/20 ECR as it
4 was now ordered by the Commission or whether or not we
5 are free to suggest changes to that 80/20 ECR.

6 Our consultant and the Energy Council -- and I
7 believe the Staff is in the same position -- can essentially
8 go either way on that, depending upon Your Honor's ruling.

9 The inefficiency is do we prepare two pieces of
10 testimony and file the one that turns out to be the right
11 one?

12 JUDGE MATUSCHAK: We don't see any special diffi-
13 culty there. If your expert files testimony asserting
14 one position, by the time he is called for cross-examination
15 we ought to have this thing disposed of and he can file
16 supplemental testimony shortly before his cross-examination.
17 I don't see too much difficulty with that; it's a single
18 issue.

19 It's a single issue of the motion to strike and
20 whether 80/20 applies as an arbitrary figure, or whether
21 we are authorized to intrude upon that.

22 MR. CLARK: The issue would be the time and expense
23 of the duplicate testimony; that is the only problem that
24 I see, and I think that could be significant.

25 MS. CHESTNUT: Your Honor, if I could state for

1 the record what Staff is intending to do, we are intending
2 to file our ECR testimony on February 7th as scheduled,
3 and the basis of our testimony will be our position that
4 the Commission's ECR-8 Order is determinative of the ECR
5 issues.

6 We are convinced of the merit of our position, and
7 that's what our testimony is that's going to be filed.

8 If Your Honor's ruling is different than what our
9 understanding of what the ECR-8 order is, then we are going
10 to request permission to file supplemental testimony.

11 The problem is that if Your Honor's ruling opens
12 the door to consider further modifications of the ECR-8
13 Order that testimony that we would put on would be very
14 complex and it would be very long, because it is a complex
15 issue.

16 So I can't make any representations that we would
17 be able to file that testimony in order for the company
18 to have sufficient time before they cross-examined our
19 witnesses on February 26th. I'm saying at that point there
20 might have to be some kind of slippage of the schedule.
21 But we understand the position of the Governor's Energy
22 Council because this issue is one that does involve a lot
23 of analysis and a lot of work if it is going to be anything
24 other than strictly applying the 80/20 order. There are
25 a lot of ramifications to that issue, and any kind of

1 testimony of necessity is going to be lengthy and complex.

2 JUDGE MATUSCHAK: I don't quite understand why it
3 should be lengthy. For instance, if we assume that the
4 company would prefer to use the ECR as it is, still the
5 company has indicated it might be acceptable for a
6 \$35 million cap on it. If that was the only issue, whether
7 there should be a cap on it, why should it have to be
8 extensive testimony?

9 MS. CHESTNUT: Your Honor, the only issue is not
10 whether there should be a \$35 million cap. That is one
11 modification that the company is proposing to limit the
12 impact of the 80/20 split. There are a lot of other things
13 we can do to modify that 80/20 split that the Commission
14 ordered. We could propose a different cap. We could
15 propose a whole different way of structuring the 80/20.

16 There is a certain amount of question about how
17 the 80/20 is going to be applied as it is, whether it
18 would be 20 percent will be normalized or whether it will
19 be done on an actual basis.

20 Once you start opening the door to modifications
21 of that order, then whether or not it is a \$35 million
22 cap will not be the only issue.

23 JUDGE MATUSCHAK: Mr. MacGregor?

24 MR. MacGREGOR: Your Honor, I don't think the
25 testimony presented by the company is attempting to modify

1 the 80/20. I mean if the Commission is going to accept
2 the 80/20 and that's what we are going to do, the company
3 has filed an 80/20 ECR. We have simply in addition to
4 that proposed that there be some cap set upon both the
5 gain to the company and potential loss to the company
6 and the ratepayers on either side.

7 I mean we are not trying to overturn the 80/20 in
8 that part of our testimony by proposing a cap. We are
9 not proposing 90/10 or 70/30 or anything else as part of
10 the clause.

11 There are a number of items that the Commission
12 did not address in its order that had to be addressed in
13 the filing of this testimony. One of those mentioned by
14 Ms. Chestnut was whether or not the 20 percent was going
15 to go into base rates or whether it was going to be part
16 of the ECR. The company had to make some judgment about
17 that and make a proposal. As part of our presentation
18 we have also proposed a cap, and I guess I don't see why
19 that has to open everything else up as part of that process.

20 The Staff and the GEC can put in whatever testimony
21 they choose. I'm not trying to restrict them or tell them
22 what kind of testimony they can file.

23 MS. CHESTNUT: Your Honor, I think Mr. MacGregor
24 is being a bit disingenuous here. The fact that a cap is
25 being applied means that there is no longer an 80/20 split.

1 The Commission ordered 20 percent of PECO's energy costs
2 will not be reconciled. If you put a cap on it it is no
3 longer 20 percent, and that is our position, and the posi-
4 tion we would take in our testimony.

5 And if Your Honor would entertain a modification
6 of that 80/20 split, then, Your Honor, as I said, we have
7 a considerable latitude in what we would recommend that
8 would provide sufficient incentive for the company to
9 modify its operational practices.

10 MR. MacGREGOR: Your Honor, I think a lot of that
11 is essentially a policy judgment and doesn't really require
12 extensive testimony.

13 JUDGE MATUSCHAK: All I can say is that we haven't
14 taken any position in the matter at this time, and we don't,
15 ourselves, know what position we are going to take until
16 we see all the pleadings.

17 The only thing I can advise is that the parties
18 file their testimony on the basis of their positions in
19 this matter and we will try to get a decision out as
20 promptly as we can. Without definitely committing ourselves
21 on the timing of it, we will try to get it out as soon
22 as we can so that if the decision does not satisfy --
23 and it will not satisfy all of the parties -- you will
24 have some time to file some supplemental testimony.

25 MR. MacGREGOR: Your Honor, I might also suggest

1 that perhaps the parties might get together and discuss
2 whether there is any possible resolution to the matter
3 in that we could define the issues to be litigated on this
4 point. I don't know if that is possible or not, but we
5 could give it a try.

6 MS. CHESTNUT: The Staff is willing, Your Honor,
7 to discuss any possibility like that, and also I would
8 like to indicate that no matter what Your Honor's ruling
9 is Staff will try to be as cooperative and expeditious
10 as possible with whatever testimony we do file.

11 JUDGE MATUSCHAK: Yes, we will squeeze it in some-
12 where, work it in somewhere; we are not going to preclude
13 any party from having a fair opportunity to respond and
14 to present their position. We are not going to be ham-
15 strung here and say we are going to issue an order the
16 day after the answer is filed or the day of oral argument.
17 We had done it in the other case because we had the
18 privilege of having the pleadings sometime before and had a
19 chance to at least review some of the pleadings and know
20 which way we were going.

21 Frankly, at this point I'm not going to hazard a
22 guess on the determination until I see all of the pleadings.

23 I don't know which position the company has; they
24 haven't filed an answer yet. In fairness to everybody,
25 I am withholding my judgment on it, and intend to withhold

1 it until I have all the pleadings in.

2 MR. CLARK: Thank you, Your Honor.

3 MR. MacGREGOR: Fine, Your Honor.

4 MS. CHESTNUT: Fine, Your Honor.

5 JUDGE MATUSCHAK: In the other case we had the benefit
6 of having the pleadings in several days before, and we
7 had done some preliminary research on the matter and were
8 able to render a bench decision, but frankly my policy
9 has been generally, as far as initial decisions go, not
10 to render any bench decisions because I don't feel they
11 are fair to me or fair to either of the parties. But in
12 some special cases as in the imprudency matter we had the
13 pleadings and we had several days to give the matter some
14 thought and perform some research, but we don't have the
15 benefit of that in this case and we can't -- if we argue
16 the case right after the pleadings are filed, we won't
17 have the benefit of the examination of full pleadings and
18 an opportunity to digest them.

19 All I can say is that we will proceed as promptly
20 as we can and render some resolution of the matter. As
21 I said, we will give the parties an opportunity to respond
22 in case they have to, or change their position, in the event
23 they disagree with our decision. That's as far as I can
24 go. I don't know what more I can do.

25 MR. WERSAN: Your Honor, may I inquire? Mr. Clark

1 suggested oral argument on the 5th, and just in terms
2 of scheduling I would like to find out whether or not --

3 JUDGE MATUSCHAK: Do the parties want oral argument
4 on it?

5 MS. CHESTNUT: Your Honor, I haven't seen the com-
6 pany's response yet. I have not filed a legal memorandum.
7 I'm sure the --

8 JUDGE MATUSCHAK: If we decide in your favor I
9 don't think you will care about a legal memorandum.

10 MS. CHESTNUT: I think I might want an opportunity
11 though to respond to what the company raises in its
12 response. Since I haven't seen it, I don't know what it
13 will be.

14 JUDGE MATUSCHAK: If we have oral argument it may
15 be that we would have to extend the hearings some of those
16 days.

17 MR. WERSAN: Actually my question wasn't whether
18 or not there would be oral argument so much as the dates,
19 and the reason is that right now on the 5th we tentatively
20 have the City witnesses, but for those witnesses I think
21 the dates for cross-examination are somewhat up in the
22 air.

23 Mr. Palast, I understand, can be cross-examined.
24 Then it is a question of whether Your Honor wants to have
25 just one witness, Mr. Palast, on the 5th, or put him on

1 the 6th or the 7th, just in terms of ease of hearing dates.
2 That was my only question, on the order of cross-examination.

3 JUDGE MATUSCHAK: We would suggest you have the
4 witness available on the 5th. If we have to go over late,
5 we will go over late.

6 MR. WERSAN: That wasn't my question. I guess I
7 misstated it. As I understand it, there is currently
8 scheduled only one witness on the 5th.

9 MS. CHESTNUT: What happened to Mr. Schinnar?

10 MR. WERSAN: Mr. Schinnar, who would be the second
11 witness, is still up in the air as to when he would be
12 crossed.

13 JUDGE MATUSCHAK: Have you made any resolution of
14 that?

15 MR. MacGREGOR: Not at this time. I'm still waiting
16 for Mr. Calvert to arrive.

17 MR. WERSAN: Maybe I can postpone my question. It
18 is just whether or not we would want to have a hearing
19 on the 5th for just one witness, if there is an opportunity
20 on the 6th and 7th to put that witness on.

21 JUDGE MATUSCHAK: It doesn't make much difference
22 to us. We have public input hearings on the 3rd and 4th,
23 and we are going to be in Philadelphia on the 5th. Even
24 if it is one witness we would like to get as much done
25 as we can.

1 MR. WERSAN: Fine.

2 JUDGE MATUSCHAK: As this thing progresses we are
3 going to start having time limitations. I prefer that
4 we get everything out of the way as promptly as possible,
5 so we can take care of any undue matters or any supplemental
6 matters that may arise in the final days of hearings.

7 Let's proceed.

8 MR. ETTNER: Thank you, Your Honor.

9 As our second and final witness GSA calls Mr. Kelley
10 to the stand.

11 Whereupon,

12 DAVID E. KELLEY

13 having been duly sworn, testified as follows:

14 DIRECT EXAMINATION

15 BY MR. ETTNER:

16 Q Would you please state your name and address
17 for the record?

18 A David E. Kelley, General Services Administration,
19 18th and F Streets, Northwest, Washington, D.C. 20406.

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

21 A General Services Administration, an Operations
22 Research Analyst.

23 Q Mr. Kelley, have you previously testified before
24 this Commission in a Philadelphia Electric case?

25 A Yes, I have.

1 Q Mr. Kelley, do you have before you a document
2 which has been labeled GSA Statement Number 2?

3 A Yes, I do.

4 Q Mr. Kelley, does that document consist of the
5 direct testimony of yourself?

6 A Yes.

7 Q And immediately thereafter is there Appendix
8 A setting forth your educational and professional summary?

9 A Yes.

10 Q And does that document also include your exhibits
11 which have been labeled Schedules 1 through 6?

12 A Yes.

13 MR. ETTNER: Your Honor, at this time I request
14 that the document that we have described be identified
15 as GSA Statement Number 2.

16 JUDGE MATUSCHAK: The motion is granted.

17 (Whereupon, the document was
18 marked as GSA Statement No. 2
19 with attached Schedules 1
through 6 for identification.)

20 BY MR. ETTNER:

21 Q Mr. Kelley, you prepared GSA Statement Number
22 2, did you not?

23 A Yes.

24 Q Other than minor typographical errors, do you
25 have any corrections to make to that document at this time?

1 A No.

2 Q Is the information contained in it true and correct
3 to the best of your information, knowledge and belief?

4 A Yes.

5 Q And if I were to ask you the questions contained
6 in the direct testimony portion would your answers be the
7 same here today?

8 A For the most part. The reason I hesitate is
9 because we got some data responses in subsequent to my
10 filing the testimony, and there possibly would be some
11 minor changes taking into account those responses from
12 Philadelphia Electric Company that were provided to us
13 after I wrote the testimony. I don't think the changes
14 would be substantial, but I haven't been able to incorporate
15 them into my testimony.

16 MR. ETTNER: Perhaps, Your Honor, those areas will
17 be explored during cross-examination.

18 JUDGE MATUSCHAK: Very well.

19 MR. ETTNER: At this time, Your Honor, I would move
20 the admission of GSA Statement Number 2 subject to any
21 timely motions to strike.

22 JUDGE MATUSCHAK: The motion is granted.

23 (Whereupon, the document marked
24 as GSA Statement No. 2 with
25 attached Schedules 1 through
6 was received in evidence.)

1 MR. ETTNER: The witness is available for cross-
2 examination.

3 JUDGE MATUSCHAK: Mr. MacGregor?

4 MR. MacGREGOR: Thank you, Your Honor.

5 CROSS-EXAMINATION

6 BY MR. MacGREGOR:

7 Q Good afternoon, Mr. Kelley.

8 A Good afternoon, Mr. MacGregor.

9 Q Mr. Kelley, you indicated during your examination
10 by Mr. Ettner that you had previously testified in a
11 Philadelphia Electric Company rate proceeding; is that
12 correct?

13 A That's correct.

14 Q Am I correct that your testimony in that proceed-
15 ing was limited to the issues of market pressure and
16 floation cost effects on the cost of common equity?

17 A Yes.

18 Q If you review your various participations in
19 regulatory proceedings as set forth on pages 2 and 3 of
20 Appendix A to your testimony, would you agree with me
21 that as a general matter your testimony experience has
22 been in the areas of the cost of capital and rate structure?

23 A Yes.

24 Q And you have not previously presented testimony
25 on the issues of operating and maintenance expense?

1 A No.

2 Q As I understand your adjustment in this proceed-
3 ing, it is to reduce the company's claimed operating
4 expenses to reflect a lower inflation rate than that
5 employed by the company in its filing; is that correct?

6 A Just to clarify one thing, the inflation rate
7 of 5.8 percent which was the corporate inflation factor
8 which was in effect through budget instructions and what-
9 ever and was applied to --

10 JUDGE MATUSCHAK: Keep your voice up please.

11 THE WITNESS: Excuse me.

12 JUDGE MATUSCHAK: Keep your voice up.

13 THE WITNESS: Just to clarify it, it was an adjust-
14 ment downward from the 5.8 percent that the company
15 applied to O&M expenses which were not known increases.
16 The answer is yes.

17 BY MR. MacGREGOR:

18 Q Would you agree with me the company did not
19 specifically forecast a 5.8 percent inflation rate for
20 the 12 months ended June 1986; it was rather a composite
21 of the company's 1985 and 1986 forecast for calendar years
22 employed in its '85 and '86 budgets?

23 A Yes.

24 Q Now, am I also correct that your recommended
25 3.3 percent inflation factor is a concensus of forecasts

1 of the GNP Implicit Price Deflator by a variety of firms?

2 A Yes.

3 Q And would you agree with me that the GNP Implicit
4 Price Deflator is a national measure of inflation?

5 A Yes.

6 Q Can you tell me in a general way what the GNP
7 IPI measures?

8 A It measures inflation in the Gross National
9 Product, which means, given the same product, 3.3 percent
10 represents an increase in the level of prices.

11 Q So I take it that the GNP Price Deflator
12 examines the goods and services which make up the Gross
13 National Product, including both public and private sector
14 goods and services, and determines a general rate of
15 inflation on the national level?

16 A That is my understanding.

17 JUDGE MATUSCHAK: What are the major items considered?
18 Is housing one of them, housing costs?

19 THE WITNESS: Your Honor, there have been modifica-
20 tions to the CPI's reflection of housing. It is my under-
21 standing that the GNP had a more appropriate measure of
22 increases in housing costs, but exactly how it measures
23 housing costs escapes me at the moment. But it would
24 incorporate all things that the company produces basically,
25 goods and services, to include housing, to include all

1 products, and measuring the price change in that.

2 JUDGE MATUSCHAK: Do all products inflate at the same
3 rate?

4 THE WITNESS: No, sir.

5 JUDGE MATUSCHAK: Is it necessarily true that the
6 cost of generating equipment and services and materials
7 would coincide with the inflation criteria that you submit?

8 THE WITNESS: It would be coincidental if it so
9 happened. There is no reason for that to occur.

10 JUDGE MATUSCHAK: All right. That's all I have.

11 BY MR. MacGREGOR:

12 Q Would you agree with me that the 5.8 percent
13 figure employed by Philadelphia Electric Company was an
14 attempt to measure inflation expected to be experienced
15 by Philadelphia Electric Company?

16 A I don't understand the question, Mr. MacGregor.
17 I thought I understood that you were asking me what I thought
18 PECO, Philadelphia Electric Company, intended it to be.

19 Q To forecast the 5.8 percent; what was the 5.8
20 percent figure intended to be, a forecast of national
21 inflation or a forecast of inflation as expected to be
22 experienced by Philadelphia Electric Company, if you know?

23 A I don't know what Philadelphia Electric intended
24 that number to mean.

25 Q Thank you.

1 Would you agree with me that the level of expense
2 increases experienced by the company would be affected
3 by changes in its wage rates?

4 A Sure.

5 Q Would you agree with me that the company granted
6 a 5.4 percent wage increase on August 1, 1985?

7 A Yes.

8 Q Would you agree with me that that's higher than
9 your 3.3 percent --

10 A Yes.

11 Q -- inflation figure?

12 A Yes.

13 Q Now, on page 4 of your testimony at the bottom,
14 beginning I guess on lines 18 and 19, you provide a calcu-
15 lation that states that if this 5.8 percent inflation factor
16 had been applied across the board to all operating and
17 maintenance expenses the impact would have been roughly
18 \$48 million, the difference between your adjustment and
19 the company's figure; is that correct?

20 A Yes.

21 Q But it is not your testimony that is what the
22 company did, is that correct?

23 A Not at all.

24 Q Am I correct that the adjustment you did propose
25 was to apply the difference in inflation factors to the

1 major variances attributed to inflation by the company
2 in its response to PECO Exhibit 1, Attachment II-D-1-B?

3 A Yes.

4 Q And your adjustment is shown on Schedule 4 of
5 your testimony?

6 A Yes -- no.

7 Q I'm sorry; the amount attributed to inflation
8 is set forth on Schedule 4 --

9 A Yes.

10 Q -- by the company. And the numbers on Schedule
11 4 were taken directly from II-D-1-B, Sheets 1 through 6;
12 is that correct?

13 A Yes.

14 Q Is it your understanding, Mr. Kelley, that the
15 company developed its budget by applying these inflation
16 numbers to the historic balances set forth in II-D-1-B,
17 or is this simply an after-the-fact explanation of the
18 variances after the budget was cast?

19 A It's my understanding it is an after-the-fact
20 computation just to provide amounts for what the company
21 characterizes as variances attributed to inflation.

22 Q As Mr. Ettner indicated earlier in his direct
23 examination, you received certain interrogatory responses
24 from the company after the time you filed your testimony;
25 is that correct?

1 A Yes, I did.

2 Q And do those interrogatory responses state
3 Philadelphia Electric Company's view of what portion of
4 these accounts listed on Schedule 4 have applied to them
5 the 5.8 percent inflation factor?

6 I am referring specifically to GSA Interrogatories
7 III-1 and III-2.

8 A The reason I hesitate to answer is because it
9 is my recollection that the response III-1 only referred
10 to the 5.8 being applied to trended expenses, and response
11 III-2 had the the word "these are apparently the costs."

12 So when you say "was it Philadelphia Electric
13 Company's view that these were the correct numbers," I
14 don't know. I'm still having trouble trying to discern
15 what Philadelphia Electric Company's view is.

16 I would like to --

17 Q Putting aside III-2 for the moment, just look
18 at III-1. Do you have any further concerns at this point
19 with regard to III-1, the 500 series accounts?

20 A Yes, I do.

21 Q Would you explain that concern?

22 A I would like the simple question answered: what
23 are all the expenses to which -- the total amount of all
24 expenses in the 500 to 556 accounts to which the 5.8 percent
25 factor is applied?

1 I had earlier asked a similar question, and I was
2 given the answer: we don't know; we can't determine it.

3 But after I filed the testimony we get III-1 which
4 says the trended expenses are these amounts.

5 Q I don't want to debate with you right now what
6 was asked or wasn't asked in the first interrogatory
7 question. If it turns out, Mr. Kelley, that the informa-
8 tion provided in Interrogatory III-1 does in fact represent
9 those portions of the 500 series accounts to which the
10 5.8 percent inflation factor was applied, would you amend
11 your adjustment to reflect that fact?

12 A Yes, I would.

13 Q And I take it the same would be true with
14 respect to question III-2 then if that same demonstration
15 were made to you?

16 A Yes.

17 Q Thank you, Mr. Kelley.

18 MR. MacGREGOR: That's all I have, Your Honor.

19 JUDGE MATUSCHAK: Staff?

20 MS. SMITH: Yes, Your Honor, I have a few questions.

21 CROSS-EXAMINATION

22 BY MS. SMITH:

23 Q With respect to the PECO-specific inflation rate,
24 would you agree that a PECO-specific inflation rate would
25 be influenced by the company's imposition of a labor rate,

1 if they designate what the labor rate is; when they announce
2 a wage increase, would that have any influence?

3 A I believe, by definition, that it would have an
4 influence. By definition, I believe that the PECO-specific
5 inflation rate would include all costs which were increased
6 in price, which would by definition include increased labor
7 costs.

8 Q So if the company makes an announcement that
9 there is going to be a 4 or 5 or 6 percent wage increase,
10 that's basically -- that would impact on a PECO-specific
11 inflation rate, and that would generally be within the
12 control of the company?

13 A Yes.

14 Q Okay, and would you agree that where the company
15 is in a non-union situation there is a greater control
16 by management of the labor costs?

17 A Yes.

18 Q And that thusly PECO's specific rates could be
19 specifically controlled by those labor wages which are
20 announced?

21 A Sure.

22 Q Do you know whether or not the Commission has
23 accepted or rejected PECO's specific inflation rates in
24 the past?

25 A It is my understanding of the previous Commission

1 order that they adopted a recommendation similar to that
2 that I'm making, where a GNP Implicit Price Deflator was
3 used to estimate the inflation for O&M expenses.

4 Q As opposed to a company-specific?

5 A The reason I answered the way I did was because
6 when you say "company-specific" that implies there is a
7 actual number representing the company-specific inflation.
8 I haven't seen that number.

9 Q I'm sorry; I should have clarified that.

10 A The company's characterization of a PECO-specific
11 inflation rate, yes, it is my understanding that the
12 Commission rejected that.

13 Q I stand corrected.

14 MS. SMITH: That's all I have, Your Honor.

15 MR. WERSAN: Nothing, Your Honor.

16 JUDGE MATUSCHAK: Any redirect?

17 MR. ETTNER: May I have a moment with the witness?

18 JUDGE MATUSCHAK: Yes.

19 (Pause.)

20 MR. ETTNER: We have no redirect, Your Honor.

21 JUDGE MATUSCHAK: Thank you.

22 (Witness excused.)

23 MR. MacGREGOR: Your Honor, could we recess briefly?

24 JUDGE MATUSCHAK: Yes, we will take five minutes.

25 (Recess.)

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JUDGE MATUSCHAK: When you're ready.

MR. RAINEY: Your Honor, I believe that the City and Philadelphia Electric have arrived at an agreement with regard to the schedule of the City's Limerick issue witnesses.

That agreement is that Mr. Gregory Palast will be made available for cross-examination on February 6th, and Dr. Schinnar will be made available for cross-examination on February 13th.

MR. CALVERT: Your Honor, that is correct. There were a couple of stipulations which we discussed. I'm not sure I can say we agreed to them. It may be something of a sticking point.

The timing of the cross-examination the company agrees with. There are presently outstanding two sets of interrogatories which were due this week that haven't been answered yet. There is a third set that comes due on either Thursday or Friday.

If we can get answers to those interrogatories and if we -- Mr. Rainey kindly agreed that he would make Dr. Schinnar available for our experts to talk to him early next week and to go through the materials he has. It is a very complex model. There is an awful lot of detail that has to be understood. If we can get our answers by the end of this week, meet with Dr. Schinnar early on next week, and have another set of interrogatories answered within

1 seven days -- I'm hoping to get them out this week -- relating
2 to a technical report that he did -- there is a new piece of
3 paper that came out, then I think we will definitely be in
4 a position to cross-examine him on the 13th of February.

5 MR. RAINEY: Your Honor, I would just like to say
6 that the company has again made some misrepresentations.

7 With respect to the outstanding interrogatory responses,
8 there was a set that was due earlier in the week that the
9 City has not turned over to the company as of yet. In the
10 preparation of the technical report, Dr. Schinnar was not
11 able to complete that set. However, that set has been
12 completed and probably would have been in the company's
13 hands today if Mr. Calvert had been here earlier so that I
14 could have gotten back to Philadelphia in order to release
15 those, which as we agreed upon that he would have been here
16 earlier this morning.

17 The other thing is that there is another set that
18 is due today again that Dr. Schinnar has responded to, but
19 because of Mr. Calvert's rudeness in not having been here
20 earlier, I am not there to release those to the company. And
21 then there is another set that is due at the end of the
22 week.

23 The City has taken all types of reasonabilities to
24 provide the company with what it wants in this particular
25 case and it will continue to do so.

1 Now, to the extent there are 50 million interrogatories
2 that are propounded as a result of the technical report and
3 the City is not reasonably able to respond to those, well,
4 then that has to be taken into account. And I don't think
5 that all of the stipulations which have been opposed by
6 Mr. Calvert is necessary in this case to the extent that they
7 had not been opposed with regard to the company when it was
8 putting on its direct case. Everyone has been very reasonable
9 and have taken the time to provide the types of responses
10 within the type of time which it can.

11 I think the City should be held to the same types
12 of policies that have been provided for all of the parties
13 in this case, which is that its witnesses would be cross-
14 examined within the time frame that has been scheduled; and
15 to the extent that there is additional cross-examination
16 that needs to be done, then the witness would be subject to
17 recall.

18 We would just like to point that out and state that
19 it is compromising. Dr. Schinnar is scheduled to be out of
20 the country during that entire week in connection with work
21 that he is doing for the World Bank. I think that we should
22 not be held out to be unreasonable as we are, in fact, making
23 every effort to respond to the interrogatories.

24 JUDGE MATUSCHAK: We understand those things, and
25 that is the reason we indicated that in extenuating

1 circumstances, we ask the parties to cooperate with each other
2 and come to us only as a last resort. We think the parties
3 can better evaluate the situation and make the necessary
4 arrangements than we can here not knowing all of the facts.
5 So we are not criticizing you, Mr. Rainey.

6 MR. WERSAN: Your Honor, if I may, because of the
7 scheduling, I would note two other schedule changes that look
8 like they are developing.

9 With Mr. Palast on the 6th, there are now no witnesses
10 scheduled for the 5th. Secondly, we had scheduled Mr. Randall
11 Falkenberg of PAIEUG on the 6th. It is my understanding that
12 an agreement between the company and PAIEUG has been reached
13 and Mr. Falkenberg will appear on the 14th here in Harrisburg
14 the week after.

15 Also, with the addition of Dr. Schinnar on the 13th,
16 the company and the OCA are discussing the possibility of
17 putting Mr. Lanzalotta, who was scheduled for the 13th, onto
18 the 14th just so that day doesn't become too burdened.

19 I will be sending out a letter confirming all of
20 these witness schedules and will call any necessary parties,
21 and hopefully, we will get that out today.

22 JUDGE MATUSCHAK: Very well.

23 MR. CALVERT: Your Honor, I just think that I should
24 respond to Mr. Rainey because he made some comments which I
25 think are inappropriate about discourtesies about not being

1 here earlier and so on.

2 It was not until later this morning that we even
3 understood we were going to come up today at all. We were
4 going to file a written motion; but in the hopes of expediting
5 things and only bringing to Your Honor things that we couldn't
6 resolve, we decided we'd come up and try to talk here before
7 Your Honor.

8 The second point is that as of now, we do not have
9 sufficient information to do any kind of a detailed cross-
10 examination of Dr. Schinnar. The only reason I mentioned
11 the various conditions of my being able to do it on the
12 13th of February is that without that information we simply
13 can't do it; and I don't want to have to come back to Your
14 Honor again and say, "By the way, we don't have the informa-
15 tion; we need to move it back," because I think that does
16 mess up the schedule.

17 All I was trying to do was show the steps that will
18 have to be accomplished.

19 JUDGE MATUSCHAK: We appreciate the efforts of counsel
20 to amicably make the necessary arrangements.

21 MR. RAINEY: I would like to state, Your Honor, if
22 I might, that all parties have received a letter in which it
23 stated that -- it was sent out to Your Honor and the other
24 parties -- it stated that there would be oral argument today
25 on the matter of the scheduling of Dr. Schinnar based on my

1 conversations with Mr. Walter Hall.

2 The other matter is that I believe -- I dare say that
3 there is no party here that has received all of the
4 interrogatories from the company which it would have liked
5 to have had for cross-examination purposes. As a matter of
6 fact, some of the parties didn't even have the interrogatories
7 which it needed for their testimonies but put them in anyway,
8 and you will see that throughout the testimonies, and you saw
9 it in the testimony that took place on the stand here today.

10 So to the extent that the company wants everything its
11 way so it is able to present the perfect case, I think it
12 should be held to the same standards as everybody else.

13 JUDGE MATUSCHAK: We're not going to deny any party
14 the opportunity to present their position. We will make
15 whatever accommodations we have to make.

16 Thank you both.

17 MR. CALVERT: Thank you, Your Honor.

18 JUDGE MATUSCHAK: You indicate there will not be any
19 witnesses available for the 5th?

20 MR. WERSAN: There are no witnesses scheduled at this
21 time.

22 JUDGE MATUSCHAK: What is the desire of counsel as far
23 as the 5th is concerned?

24 MR. MacGREGOR: Your Honor, there may be a couple
25 matters for oral argument on that date. The Staff's motion

s7

1 to strike on the 80/20 testimony might be ready for argument
2 then; maybe not, depending on Your Honor's desires.

3 The company has also filed a motion to strike certain
4 of the OCA testimony. They may be filing -- I'm sure they
5 are going to be filing a written response to that. We might
6 perhaps have oral argument on that on Wednesday.

7 MR. WERSAN: I don't anticipate that our response
8 will be in on Wednesday, since, as I count the number of
9 days, it is not due.

10 MR. MacGREGOR: I thought it was due on Monday, 10
11 days.

12 MR. WERSAN: Ten days?

13 MR. MacGREGOR: That's the rule on answering hearing
14 motions, is it not?

15 MR. WERSAN: I will check it.

16 MR. MacGREGOR: Your Honor, perhaps we shouldn't
17 cancel the hearing at this point. There may be something
18 we can do.

19 JUDGE MATUSCHAK: Well, I'll be in Philadelphia. I
20 have to be there on the 3rd and 4th anyway. So it doesn't
21 make any difference to us. If we didn't have the 3rd and
22 4th commitments, I would say we just cancel the 5th and start
23 the 6th, but --

24 MR. MacGREGOR: We can do that if you want to, Your
25 Honor.

1 JUDGE MATUSCHAK: Well, we can't do that, because I
2 am -- I mean, as far as I am concerned, I have to be there
3 at the public input hearing in Doylestown on the 3rd and
4 the public input hearings in Philadelphia on the 4th.

5 So if there isn't anything of any significance to
6 take up on the 5th, we will just have to lay over on that
7 day, that's all, and give the parties an opportunity to do
8 some homework to solve this case. We will give you the 5th
9 to prepare for a settlement. We always hold out the
10 opportunity to settle any of these rate cases.

11 Who do we have on the schedule for tomorrow?

12 MR. MacGREGOR: Your Honor, I believe the only witness
13 that we have left, which will be taken up tomorrow, is
14 Mr. Bleiweis for the Consumer Advocate's Office. If we
15 begin at 10:00, I suspect I have no more than about an hour
16 for Mr. Bleiweis and we will be done by 11:00 or 11:30.

17 JUDGE MATUSCHAK: Then what do we have after that?

18 MR. MacGREGOR: I think that concludes the hearings
19 for this week.

20 JUDGE MATUSCHAK: Can we adjourn this session then
21 tomorrow?

22 MR. MacGREGOR: Yes, Your Honor.

23 JUDGE MATUSCHAK: I have some housekeeping things I
24 have to arrange. I would like to know.

25 MR. MacGREGOR: I think that would be appropriate at

1 this time.

2 JUDGE MATUSCHAK: Is the concensus of counsel then
3 that we conclude these set of hearings tomorrow?

4 MR. WERSAN: Yes.

5 MR. ETTNER: Yes.

6 MS. SMITH: Your Honor, would you want the presence
7 of Mr. Shields tomorrow for any questions or responses?

8 JUDGE MATUSCHAK: Well, I don't want any questions.
9 I have the application. If the Staff wants to respond to
10 that subpoena, they should respond so I know whether or not
11 to issue the subpoena.

12 It occurred to me that there is something in the Act
13 that prohibits the subpoenaing of certain Commission employees
14 without permission of the Commission. I would like to know
15 what position the Commission Staff would have in that regard.

16 MS. SMITH: I will have Mr. Shields here tomorrow.

17 JUDGE MATUSCHAK: At least Mr. Farrell should be
18 apprised -- well, he knows.

19 MS. SMITH: We have provided him with a copy also,
20 as well as a copy to Mr. Shields.

21 JUDGE MATUSCHAK: I would like some expression so
22 I can rule on that matter.

23 MS. SMITH: Very well.

24 JUDGE MATUSCHAK: We will adjourn until tomorrow
morning at 10:00.

25 (Whereupon, at 3:20 p.m., the hearing was adjourned,
to be reconvened at 10:00 a.m., Thursday, January 30, 1986,
in Harrisburg, Pennsylvania.)

C E R T I F I C A T E

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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.

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Sandra Milus-Brown
