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PUBLIC UTILITY COMMISSION

SECRETARY'S OFFICE
Public Utility Commission

Pennsylvania Public Utility Commission, et al. :
versus Philadelphia Electric Company. :
Investigation into a requested \$660 million : Docket No.
annual rate increase. : R-850152
:

Further Hearing :
:

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Pages 3450 through 3520

Hearing Room No. 1
North Office Building
Harrisburg, Pennsylvania

Friday, February 14, 1986

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

BEFORE:

JOSEPH MATUSCHAK, Administrative Law Judge

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C O N T E N T S

<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
1 Randall J. Falkenberg				
2 By Mr. Kleppinger	3452		3507	
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5 By Ms. Chestnut		3486		
6 By Mr. Popowsky		3489		
7 By Mr. Widoff		3498		
8 Peter J. Lanzaotta				
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E X H I B I T S

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22 7, 8, 9, 10 (Responses to PECO interrogatories)	3497	3502

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3	<u>PECo Exhibits</u>		
4	✓ 31 (Interrogatory Response to Set 3, No. 2)	3467	3486
5	✓ 32 (Interrogatory Response to Set 3, No. 35 and No. 39)	3468	3486
7	✓ 33 (Excerpt from article by William R. Huss)	3475	3486
9	✓ 34 (1984 Survey of the Cost of Capital for Economic Evaluations by Edison Electric Institute)	3484	3486
11	✓ 35 (Interrogatory Response to OCA Set 7)	3513	3518
13	✓ 36 (Interrogatory Response to OCA Set 7)	3517	3518

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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: Are the
3 parties ready to proceed?

4 MR. MacGREGOR: Yes, Your Honor.

5 MR. KLEPPINGER: Yes, Your Honor.

6 Your Honor, the Philadelphia Area Industrial Energy
7 Users Group wishes to call Randall J. Falkenberg to the
8 stand. He has not previously been sworn.

9 Whereupon,

10 RANDALL J. FALKENBERG

11 having been duly sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. KLEPPINGER:

14 Q Mr. Falkenberg, could you please state your name
15 and business address for the record, please?

16 A Randall J. Falkenberg, Suite A-1220, 1150 Hammond
17 Drive, Atlanta, Georgia.

18 Q And on whose behalf are you appearing here today?

19 A Philadelphia Area Industrial Energy Users Group.

20 Q Mr. Falkenberg, do you have before you a document
21 which is labeled, "Testimony and Exhibits of Randall J.
22 Falkenberg," consisting of some 57 pages of text and 16
23 exhibits?

24 A Yes, sir, I do.

25 MR. KLEPPINGER: Your Honor, for identification

1 purposes, I would like to have marked as PAIEUG Statement
2 No. 1 the testimony and exhibits of Randall J. Falkenberg.

3 JUDGE MATUSCHAK: They may be so marked.

4 (Whereupon, the documents were
5 marked PAIEUG Statement No. 1
for identification.)

6 BY MR. KLEPPINGER:

7 Q. Mr. Falkenberg, was PAIEUG Statement No. 1 pre-
8 pared by you or under your supervision?

9 A. Yes, sir, it was.

10 Q. Are there any additions or corrections you have
11 to that document at this time?

12 A. Not to my knowledge.

13 Q. If I were to ask you the questions contained in
14 this document, would your answers be the same as contained
15 therein?

16 A. Yes, sir, they would.

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

19 A. Yes, sir, they are.

20 MR. KLEPPINGER: Your Honor, I would like to move
21 for the admission of PAIEUG Statement No. 1, subject to any
22 timely or reasonable motions to strike at a later time.

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

25

(Whereupon, the document marked PAIEUG Statement No. 1 was received in evidence.)

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MR. KLEPPINGER: The witness is available for cross-examination.

JUDGE MATUSCHAK: Mr. MacGregor?

MR. MacGREGOR: Your Honor, I have a few questions for Mr. Falkenberg on his phase-in plan, and then Mr. Calvert has some questions about the remainder of Mr. Falkenberg's testimony, if we can divide it that way.

CROSS-EXAMINATION

BY MR. MacGREGOR:

Q. Good morning, Mr. Falkenberg.

A. Good morning.

Q. Mr. Falkenberg, am I correct that at pages 5 and 12 of your testimony, you have discussed what you believe is an error in the company's phase-in proposal in that it does not reflect the decline in Limerick I revenue requirement over the course of the six-year phase-in period?

A. Yes, sir, that is correct.

Q. Would you agree with me, sir, that the company's claimed \$670 million rate increase in this proceeding is based upon the pro forma future test year conditions for the 12 months ended June 30, 1986?

A. Yes, sir, that is correct.

Q. And would you agree with me that the company is

1 not seeking in this proceeding to establish an appropriate
2 level of rates to be recovered from customers for the next
3 six years?

4 A. I don't believe I agree to that, because the
5 rates that you establish in this proceeding will be in
6 effect for some period of time after the test year.

7 They will be in effect until such time as you would
8 file to change those rates.

9 Q. Has the company made any effort in this case in
10 the presentation of its future test year accounting exhibit
11 to reflect conditions six years into the future for sales,
12 revenues, operating and maintenance expense, rate base or
13 fair rate of return?

14 A. No, sir, and I believe that is the defect in the
15 PECO phase-in plan.

16 Q. Is it your testimony that the company is seeking
17 to establish rates based upon six-year conditions in this
18 proceeding?

19 A. No, sir, and that is in fact one of the problems
20 with the PECO phase-in is that the revenues that are going
21 to be collected reflect the test year, but the rates are
22 going to be collected over a period of six years.

23 Q. As you state, the rate increase in this proceed-
24 ing will be phased in over a six-year period, but apart
25 from this phase-in, to the best of your knowledge, is there

1 any reason or problem with increasing or decreasing the
2 company's rates during that period by the Commission?

3 A. I am not certain I understand that.

4 Q. Let me restate it. The rates in this proceeding
5 will be set at the end of this case in June, 1986. For the
6 ensuing six-year period, is there any restriction on the
7 Commission, under the Public Utility Code regulations or
8 anything in the company's filing, that would prevent the
9 company's rates from increasing or decreasing over the
10 six-year period of the phase-in, to the best of your
11 knowledge?

12 A. Well, the company's rates could decrease if the
13 Commission were to bring the company in for a rate
14 reduction case.

15 Q. And they could increase if the company filed for
16 a rate increase in the normal course under the provisions
17 of the Public Utility Code?

18 A. Yes. And they could also decrease, in the
19 unlikely event that the company filed for a rate reduction.

20 Q. Am I correct, Mr. Falkenberg, that you propose
21 to establish rates in this proceeding based upon a six-year
22 average Limerick 1 revenue requirement? Is that correct?

23 A. Yes, sir, that is correct.

24 Q. But you do not propose a six-year basis for
25 establishing any other element of the ratemaking formula?

1 A. Yes, that's correct. And the reason for it is
2 that Limerick is such a phenomenal addition to the
3 company's rate base that it is necessary to reflect the
4 cost characteristics of that particular plant in isolation
5 from the rest of the system.

6 Q. Would you agree with me as a general proposition
7 that other elements of the ratemaking formula could change,
8 either up or down, over the next six-year period, including
9 revenues, sales, operating and maintenance expenses, rate
10 base or fair rate of return requirements?

11 A. Yes, that is correct. And there is nothing
12 inherent in the company proposal which I have made that
13 would prevent the company from earning a fair rate of
14 return in the future on any of those changes.

15 Q. Now, at page 8 of your testimony at the bottom,
16 you state, one reason that you have not reflected these
17 other possible cost changes over the next six years is that
18 they are not known and measurable at this time as compared
19 to the Limerick 1 revenue requirement, is that correct?

20 A. That is correct.

21 Q. Now, as I understand what you have done, you
22 have taken the Limerick 1 revenue requirement for the future
23 test year and then have reduced it to reflect the reduced
24 return required on a smaller Limerick 1 rate base after
25 depreciation on average over the six-year phase-in period.

1 A. That is correct, essentially. However, I have
2 also built in for increases in O&M expenses and that sort
3 of thing.

4 Q. Let me follow up on that. Does your analysis
5 or your proposed Limerick 1 revenue requirement over the
6 six-year period reflect the anticipated capital additions
7 to Limerick 1?

8 A. It reflects a substantial level of increase in
9 O&M expenses.

10 Q. Does it reflect capital additions?

11 A. Capital additions would be part of O&M expenses,
12 yes.

13 Q. So, your proposal over the next six years to
14 establish an average Limerick revenue requirement reflects
15 what I term to be capital additions as well as increases in
16 normal operating and maintenance expenses?

17 A. Yes, that is the intention of the analysis.

18 Q. Would you agree with me, Mr. Falkenberg, that
19 the extent of the capital additions for Limerick and the
20 extent of the increases in operating and maintenance
21 expenses over the next six years is not known and measurable
22 at this time?

23 A. That is correct. However, that is a relatively
24 small aspect of the overall revenue requirement of
25 Limerick at the present time.

1 Q Mr. Falkenberg, have you examined any other PECO
2 generating units to determine the extent of capital addi-
3 tions for those units as compared to annual depreciation?

4 A I have done an analysis that would suggest that
5 the annual depreciation expense and the declining rate base
6 attributable to that will substantially reduce PECO's
7 revenue requirements in the future, and would in fact
8 allow for a certain amount of attrition.

9 And so I believe that it is safe to say that the
10 other expenses in PECO's rate base will at best estimate
11 be held constant over the next six years.

12 Q That is not quite my question, Mr. Falkenberg.
13 I am asking you what specific other PECO generating units
14 have you examined the course of capital additions for those
15 units during their service life, and compared it to deter-
16 mine whether it is more or less than the depreciation
17 accrual which has taken place over the life of those units.

18 A I have not done that for any specific unit.
19 However, as I said, I did do an analysis for the system as
20 a whole.

21 Q Is that analysis provided in your testimony?

22 A No, sir, it is not.

23 Q Could you provide me with a copy of that?

24 A Yes, sir, I will.

25 Q Thank you. Mr. Falkenberg, at page 12 of your

1 testimony, at the bottom half of the page, you cite a
2 decision of the North Carolina Public Service Commission
3 in a Duke Power Company case, is that correct?

4 A. Yes, sir, that is correct.

5 Q. Am I correct that you testified in that
6 proceeding?

7 A. Yes, sir, that is correct.

8 Q. On behalf of the Carolina Industrial Group for
9 Fair Utility Rates?

10 A. Yes, sir.

11 Q. And you proposed an adjustment in that case
12 relating to the cost of Duke Power Company buying back a
13 portion of the Catawba plant that had been sold to various
14 cooperatives and municipalities.

15 A. Yes, sir, that is correct.

16 Q. Would you agree with me that your adjustment was
17 rejected in that case by the North Carolina Commission?

18 A. No, sir, I wouldn't agree to that. The Commis-
19 sion didn't accept my adjustment entirely. I had suggested
20 a 15-year levelization of both contracts.

21 What the Commission accepted was a 10-year leveliza-
22 tion of one contract and a 15-year levelization of another
23 contract.

24 Q. Let me read to you from certain portions of the
25 Commission order, and ask if you are familiar with them.

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Beginning at page 25 of the order, the Commission states, "Attorney General Witness Wilson and CIGFUR Witness Falkenberg testified that the savings or cost to the retail ratepayers resulting from the NCEMC and Saluda River buyback should be compared to Duke's levelized cost if Duke had owned the plant, not with what Duke's customers would have actually paid during the period of the buyback, because the retail ratepayers would receive in the later years of the plant's operations the benefits of depreciation paid in the earlier years.

"Furthermore, Witness Stimart testified that attempting to justify levelization on the basis of diminishing depreciation costs in later years ignores the impact of continuing capital additions after Catawba Unit 1 comes into service.

"Witness Stimart also testified that in the approximate 10-year period that Duke's Oconee Nuclear Station has been in operation, Duke's additional capital costs have been approximately equal to the original capital cost of the Oconee plant.

"None of these ongoing capital costs were factored into Witness Wilson and Falkenberg's calculations. As to the contentions of the Attorney General and CIGFUR, the Commission finds that the appropriate comparison is between the cost the retail ratepayers would have paid under

1 normal regulatory treatment if Duke Power Company had
2 owned the plant and the costs they would actually pay
3 under the cooperative buyback agreements.

4 "A comparison based upon levelized cost is incon-
5 sistent with ratemaking procedures required by statute in
6 North Carolina, and it ignores later capital costs which
7 must be recovered from the ratepayers and the decrease in
8 efficiency of plants as they age.

9 "Therefore, the Commission rejects the adjustment
10 proposed by CIGFUR."

11 MR. KLEPPINGER: Mr. MacGregor, before he responds,
12 may he review that in its context?

13 MR. MacGREGOR: Certainly. I wish to reference only
14 one other portion of the order, on page 64, which I will
15 then show to Mr. Falkenberg.

16 The paragraph states as follows: "The only
17 adjustments to non-fuel Catawba purchased power expense
18 which have not been decided by the Commission are the
19 proposals of the Public Staff and CIGFUR to levelize the
20 payments made by the company regarding purchased power from
21 the Catawba purchasers under the Catawba sales agreements.

22 "The Commission has previously determined that the
23 Catawba sales agreements are reasonable and prudent, and
24 that the company's purchased power costs thereunder should
25 be included in the cost of service.

1 "CIGFUR Witness Falkenberg proposes a levelization
2 based on Catawba's being excess capacity, and reflecting
3 misinterpretations of Catawba sales agreements.

4 "The Commission cannot accept Witness Falkenberg's
5 calculations, since they are based on positions previously
6 rejected in this order."

7 (Document handed to the witness.)

8 THE WITNESS: May I have an opportunity to comment
9 on this?

10 BY MR. MacGREGOR:

11 Q. Yes. I have read the portions of the order
12 which I found to be relevant concerning the Commission's
13 discussion of your adjustments, and if you wish to comment
14 upon it, that's fine.

15 A. First of all, I would point out that in the
16 order here, there was recognition of the fact that due to
17 the decrease in cost of the buyback arrangement, Duke Power
18 was building in a negative attrition allowance into its
19 rate structure, and that was one of the bases on which the
20 Commission accepted the levelization plan, which was one
21 of the points that we made and is similar to the adjustment
22 that we are proposing, or the justification for the
23 adjustment that we are proposing in this particular case.

24 Second of all, while the Commission didn't accept all
25 of our reasoning for pursuing the levelization, the

1 Commission result was not substantially different from
2 that which we recommended.

3 I think, finally, the point you make about the
4 capital additions outweighing the depreciation expense,
5 that is contradictory to the data put in by PECO Witness
6 Hieronymus, and it conflicts with the data that I used in
7 performing my economic analysis of the Limerick plant.

8 It contradicts the assumptions that PECO used in the
9 Limerick 2 investigation. And all I can say is that if
10 that is in fact correct, then the Limerick plant is even
11 much more uneconomic than even I had anticipated when I
12 calculated a \$1.2 billion penalty in rates due to the unit
13 being in service over the next 30 years or so.

14 Q Mr. Falkenberg, I was not suggesting anything
15 about what capital additions may or may not be. I was
16 simply suggesting to you that capital additions are not
17 known and measurable at this time, and therefore the
18 Limerick 1 revenue requirement over the next six years is
19 not known and measurable at this time. Is that correct?

20 A I did build into my analysis an allowance for
21 an increase in O&M expenses. It is correct to say that
22 those are not known and measurable.

23 However, there is nothing inherent in my proposal
24 which would prevent PECO at a later time from coming in and
25 making a claim and collecting those costs.

1 All I am seeking to do is remove the opportunity for
2 PECO to overcollect what would amount to something like
3 \$400 million over the next six years, provided things stay
4 approximately as we expect now.

5 Q Thank you, Mr. Falkenberg.

6 One final point of clarification: on page 16 of
7 your testimony, you begin your discussion of sinking fund
8 depreciation, is that correct?

9 A Yes, sir, that is correct.

10 Q And you have proposed that PECO be required to
11 employ sinking fund depreciation for Limerick 1 in this
12 proceeding, is that correct?

13 A Yes, sir.

14 Q And at lines 11 through 13, you reference two
15 orders of this Commission in rate proceedings involving
16 Pennsylvania Power and Light Company, is that correct?

17 A Yes, sir.

18 Q Would you agree with me that in each of those
19 proceedings, it was the utility, namely PP&L, which proposed
20 the use of sinking fund depreciation?

21 A Yes, and I think it was a very good idea.

22 Q Would you also agree with me that the sinking
23 fund proposal advanced by PP&L in those cases is not the
24 same as the sinking fund depreciation proposal presented by
25 you in this proceeding?

1 A. There is a small difference between the
2 proposals that I have made and the proposal that PP&L made.
3 I don't have any particular problem with using the PP&L
4 type of approach.

5 Q. And the PP&L approach is a modified sinking
6 fund depreciation technique; as I recall, the company will
7 employ sinking fund depreciation for approximately 10 years,
8 and then cross over to straight line depreciation for the
9 remaining life of the units. Is that your understanding?

10 A. No. Based on my understanding, the company would
11 switch over to straight line in the year 2000. I believe
12 that is correct.

13 And what they did is adjust the sinking fund
14 depreciation in order to reflect the fact that they were
15 going to switch over to straight line at some point in the
16 future. I don't have a particular problem with that.

17 The point is, I used a different sinking fund rate
18 to accomplish a similar approach.

19 Q. Regardless of when the crossover point takes
20 place, I take it your testimony is, you have no particular
21 problem with the PP&L method?

22 A. I don't have a particular problem with it, that
23 is correct. I do believe the method I have proposed is
24 sound.

25 Q. And it is somewhat different than the PP&L method?

1 A. Not terribly different, but it is different.

2 Q. Have you compared the portion of the capital
3 costs of the plant that would be recovered during certain
4 stages of the plant's life under your plan and PP&L's plan
5 to determine that difference?

6 A. No, sir, I have not.

7 MR. MacGREGOR: Thank you, Mr. Falkenberg.

8 That's all the questions I have, Your Honor. As I
9 indicated before, Mr. Calvert has a few questions as well.

10 JUDGE MATUSCHAK: Very well.

11 CROSS-EXAMINATION

12 BY MR. CALVERT:

13 Q. Good morning, Mr. Falkenberg.

14 A. Good morning, Mr. Calvert.

15 Q. Mr. Falkenberg, are you a CPA?

16 A. No, sir.

17 MR. CALVERT: Your Honor, I would like to ask at
18 this time that we mark for identification PECO Exhibit No.
19 31, which are some answers to interrogatories.

20 (Whereupon, the document was
21 marked PECO Exhibit No. 31
22 for identification.)

23 BY MR. CALVERT:

24 Q. Mr. Falkenberg, I show you what we have marked
25 as PECO Exhibit No. 31, which appear to be the questions and
answers from Set 13 of PECO's interrogatories to you. The

1 second one being the question and answer for Set 3,
2 question and answer 39.

3
4 Are those accurate and true answers that you gave
5 to those interrogatories?

6 A. Yes, sir, they are.

7 Q. I notice that on the answer to 35, at the very
8 bottom there, you make the statement, starting about three
9 lines up from the bottom, that, "It is to be noted that
10 judgment of the forecaster has always been an important
11 variable in determining the appropriateness of any particu-
12 lar forecast." Do you see that?

13 A. Yes, sir.

14 Q. Now, although this interrogatory relates to
15 load forecasts, I take it that that would be a statement
16 that you would believe is true of any forecast?

17 A. Yes, sir, I believe a forecast would reflect
18 judgment.

19 Q. Now, you also go on to say there, you begin
20 the next sentence, "In the period of 1978 and beyond, it
21 was Mr. Falkenberg's judgment..." and so on.

22 That is not to suggest by that answer that you did
23 load forecasts in the period prior to 1978 or from 1978 and
24 beyond, is it?

25 A. I was involved in load forecasting activities
after 1978 for electric utilities.

1 Q Did you do any load forecasts for the PECO service
2 territory subsequent to 1978?

3 A I'm not certain I understand the question. Are
4 you asking if I did load forecasting -- I did produce load
5 forecasts which were retrospective analyses.

6 Q In this case?

7 A In this case.

8 Q No. What I'm asking is: at the time, in 1978
9 or 1979 or '80 did you do any prospective load forecasts?

10 A No, sir; I did not.

11 Q Now, you talk on page 47 about errors that could
12 have been anticipated. Do you see that beginning at about
13 line 7?

14 A Yes, sir.

15 Q Just so I understand what you are saying there,
16 wouldn't anticipated errors normally be folded into a new
17 and better forecast that would not contain those errors?

18 A Well, I don't believe that when you do a forecast
19 you are anticipating making errors. You are doing a fore-
20 cast that you anticipate will be as close to being accurate
21 as possible.

22 Q I assume that that is what PECO was doing during
23 this period of time?

24 A Well, the analysis that I've performed suggests
25 that PECO's forecasts were much higher than would have been

1 suggested by historical trends. For whatever reasons that
2 happened I can't say.

3 Q Are you arguing that a trend forecast was the
4 best available forecast at the time?

5 A No, I am arguing that a trend forecast, although
6 it may not have been a state of the art technique, contained
7 a substantial amount of information that would have been
8 worthwhile for the forecaster to look at.

9 Q If you would turn to your Exhibit 12, specifically
10 12-G, which is the 1978 retrospective forecast that you
11 did?

12 A Yes, sir.

13 Q Am I reading your exhibit correctly that Exhibit
14 12-G through L shows that for 1978 through 1983 PE's method
15 predicted better than the trend method did?

16 A That's correct. PECO did four or five percent
17 better on average than they would have done by simply
18 taking a ruler and graph paper and projecting out the best
19 straight line to fit the data from the period 1978 and
20 beyond. Of course, before that period PECO did much worse.

21 Q From '84 and '85, as I read this, they were
22 about the same?

23 A Yes, sir; that is correct.

24 Q Now you say on page 48 of your testimony,
25 specifically line 8, that after 1977 PE's forecasts are

1 quite close to the simple trend line results that you just
2 indicated; is that correct?

3 A Yes, sir.

4 Q As I turn, just leafing through Exhibit 12 again,
5 I notice that in 12-G, for example, for the 1978 forecast
6 for 1979 the difference between what PECO projected and
7 what the trend line would project was 463 megawatts, if
8 I'm doing my subtraction correctly?

9 A Okay; you are taking 6133 minus --

10 Q 6313.

11 A -- minus 5850?

12 Q That is correct.

13 A And you are saying that that's what?

14 Q It just shows that the difference between what
15 PECO was projecting --

16 A Right.

17 Q -- and what the trend line would project was
18 something like 463 megawatts.

19 A Yes, I'll accept that.

20 Q And I take it it is your testimony that something
21 over 400 megawatts such as that is a difference which is
22 quite close, in your view?

23 A Well, we are looking at percentage differences
24 here. I'd say that it is not surprising that you would
25 be able to come pretty close in the first year of any

1 forecast.

2 Q In fact, as you look through some of these others,
3 in 1985 for example, the difference, as I see it, is some-
4 thing like 242 megawatts. Again, the same question: you
5 would say that is quite close?

6 A Well, if you are asking me if there shouldn't
7 be much difference between the different forecasts in the
8 first year of the forecast, I would hope not.

9 Q I'm not asking on the first year. I think there
10 we are going out; that's about nine years out.

11 A Right.

12 Q Or eight years out.

13 A Right, you are talking about, say, 1993.

14 Q I'm sorry; I'm on 12-G now, Exhibit 12-G.

15 A Okay.

16 Q In other words, I'm looking at the 1978 retro-
17 spective forecast for 1986.

18 A Right. And I have on the trend model 7392,
19 and on the PECO forecast 7150.

20 Q Right, about 242 megawatts.

21 A That is correct.

22 Q And again, now let's turn to 12-K, which is the
23 1982 retrospective forecast for 1991. As I do my subtrac-
24 tion it looks like a difference of around 348 megawatts.

25 A Yes, sir.

1 Q Now, are you saying that because subsequent to
2 1977 that PECO's forecast was as good as or better than
3 trend line forecasts that it had an accurate forecast?

4 A Well, I think I pointed out in my testimony that
5 this was a reasonably low standard to compare PECO's fore-
6 cast to, for it assumes that the forecaster could have done
7 no better than just simply take ten years worth of data
8 and trend it. However, it does show that the forecast was
9 at least consistent with historically observed trends.

10 Q Are you suggesting the forecaster, in fact, should
11 try to do better than simply drawing a line?

12 A I would hope so, yes.

13 Q Now, have you reviewed PE's load forecasts in
14 any detail?

15 A Not in any significant detail. I believe I
16 looked at it in about the same detail that Dr. Hieronymus
17 and Mr. Guth used.

18 Q Do you know what forecasting methodology was
19 used by PE from the middle '70s through the present?

20 A It is my understanding that the company did
21 develop an end use approach to forecasting in the mid 1970s.

22 Q In answer to one of your interrogatories you
23 referenced an article by William R. Huss, which appeared
24 in the December 26, 1985 "Public Utilities Fortnightly."
25 Do you remember that?

1 A Yes, sir.

2 MR. KLEPPINGER: Do you have any reference on the
3 interrogatory?

4 MR. CALVERT: It is Set II, Question and Answer 14.

5 BY MR. CALVERT:

6 Q And, indeed, in that answer to question 14,
7 subpart (f), you suggest that PE should read that article.

8 A Yes, sir; I found it very interesting.

9 MR. CALVERT: I did read that article, and, to
10 enlighten everyone, I will ask that we mark that article,
11 Your Honor, as PECO Exhibit 33.

12 JUDGE MATUSCHAK: Very well.

13 (Whereupon the document was
14 marked as PECO Exhibit No.
33 for identification.)

15 BY MR. CALVERT:

16 Q Mr. Falkenberg, is this the article, which was
17 marked as PECO Exhibit Number 33, that was referenced in
18 your interrogatory answer?

19 A Yes, sir.

20 Q As I look at this article, specifically on page
21 38, which is the second page of the article, in the right-
22 hand column, the first full paragraph, it states, "End-use
23 models seem to be the big winner, outperforming econometric
24 techniques for all horizons at a minimum 90 per cent confi-
25 dence level. End-use techniques also do better than

1 trending approaches ..." Do you see that?

2 A Yes, sir; I do.

3 Q And then there is a Table 1 there, and it com-
4 pares, as I understand it, the various forecasting tech-
5 niques for various periods of time, as indicated at the top
6 of the table. And as I read this table -- tell me if I'm
7 wrong -- the mean is one way to compare generally the
8 various forecasting techniques, and that lower number mean
9 means that it is a better forecast than a higher mean; is
10 that correct?

11 A I believe that's correct.

12 Q Now, going on here to page 42 of that article,
13 the second column on that page, number 2, it states, "In
14 the residential sector, end-use techniques clearly out-
15 perform all other techniques. Utilities possessing end-use
16 analysis capabilities also seem to do better when forecast-
17 ing overall energy as well. Although each utility must
18 decide for itself if an end-use residential model is
19 worth the additional cost of data collection, it is
20 recommended that the decision be evaluated carefully in
21 light of the improved accuracy demonstrated in this study."
22 Is that correct?

23 A Yes, sir; that's correct.

24 If I might comment, I think that this article speaks
25 fairly well for itself, but the point is that the end use

1 model until recently has only been utilized in the residen-
 2 tial sector. The end-use model also requires a substantial
 3 amount of detailed data which may not have been available
 4 in sufficient quantity in the mid-1970s. The end-use
 5 models that have been used by a number of utilities have
 6 in effect had to use trending analysis to project the
 7 appliance usage for what is called the miscellaneous cate-
 8 gory, which oftentimes contained all of the appliances like
 9 electric hair dryers and that sort of thing, and it turned
 10 out in a lot of those models that that provided for a
 11 substantial amount of growth.

12 This article suggests, however, that with respect
 13 to forecasting the total system the trending methods have
 14 done as well as econometric methods over the long run of
 15 the past ten years. I think at the time of the analysis
 16 I'm talking about is relevant, the early to mid 1970s, there
 17 simply wasn't a lot of data available for end-use models.

18 The other point is that even a good end-use model
 19 can produce unrealistic results if the input data isn't
 20 sound, and to the extent that an end-use model was pre-
 21 dicting load substantially greater than prior trends,
 22 then it would seem that the analyst would want to look and
 23 try to understand what was causing that phenomenon.

24 Q But you had no information as to whether or not
 25 PECO in fact did that?

1 A I'm not sure I understand that question.

2 Q Well, you said that if an end-use model seemed
3 to project, in this case, more growth than a trend line
4 might suggest, then the forecaster ought to try to
5 determine if there is some rational reason for that in his
6 approach.

7 A That's right.

8 Q And my question to you is simply: you don't know
9 whether or not PECO did that, I take it?

10 A I didn't look and see exactly what was driving
11 the forecast of PECO in the early 1970s. However, I did
12 point out that all I was really interested in doing was
13 comparing what PECO was predicting versus what it actually
14 had experienced, because any time things that you predict
15 are a lot different than experienced there has got to be
16 some risk that you will be wrong, because you must be pre-
17 dicting something different that is happening in the future
18 than had happened in the past.

19 Q That's an interesting statement. Isn't it true
20 that any time you forecast anything in the future there
21 is some risk you are going to be wrong?

22 A I believe that's right.

23 Q You projected O&M expenses for Limerick 1 based
24 on the historical data on O&M expenses at Peach Bottom,
25 if I understand your exhibit; is that correct?

1 A Essentially that's correct. What I did was took
2 PECO's estimate for the base year -- or actually Dr.
3 Hieronymus' estimate for the base year for purposes of my
4 economic analysis, and then I added the increment that would
5 have been implied from the Peach Bottom regression.

6 Q I take it that since you presented an exhibit
7 on that and testimony on that that you do believe that is
8 an appropriate method to project Limerick 1 O&M expenses?

9 A Well, it's a method that is consistent with what
10 PECO has done in the past. In other words, when PECO
11 developed the Limerick O&M expenses it's not my understand-
12 ing that the company looked at what Peach Bottom O&M
13 expenses were.

14 Q I take it you wouldn't have presented an analysis
15 to this Commission as you have in Exhibit 9 unless you
16 felt that that was an appropriate analysis to present and
17 an appropriate basis upon which to do it?

18 A Yes, sir.

19 Q Now, Exhibit 16 to your testimony, there you
20 present, as I understand it, a regression equation which
21 you developed to predict the capital costs of nuclear
22 plants completed from 1968 to 1978; correct?

23 A Yes, sir; that's correct.

24 Q Now, as I understand your testimony, on page
25 54, line 17, you give the result of your equation or

1 analysis.

2 A Yes, sir; that's correct.

3 Q You actually give a number, which is \$2,454 per
4 kW?

5 A Yes, sir; that's correct.

6 Q When you did that analysis, what was the commer-
7 cial operation date that you used in developing your
8 estimate?

9 A I assumed an average in-service date of 1986.

10 Q 1986. Now back in 1978, for example, do you
11 know what the commercial operation date for Limerick was
12 that was being projected at that time?

13 A The average was 1986, according to the informa-
14 tion I have.

15 Q As I also understand your analysis, you assume
16 that 100 percent of common was included with the cost of
17 Limerick 1 for purposes of your life cycle analysis; is
18 that correct?

19 A Yes, that's correct. I include 100 percent of
20 common cost in the life cycle analysis of Limerick 1
21 because I did an analysis of Limerick 2 where I left out
22 all of the common plant. It's our contention that Limerick
23 2 is not an economic capacity addition, whether you
24 associate any common plant with it or not. In fact, it
25 doesn't even pay to complete the unit. So it seemed

1 appropriate to me to include the common plant with Limerick
2 1 for purposes of the life cycle analysis.

3 Q I understand that. Fortunately the Commission
4 disagreed with your position.

5 Have you done a sensitivity analysis in this case
6 with respect to Limerick 1's life cycle analysis to check
7 the sensitivity of only including 50 percent of the common
8 in the cost of Limerick 1?

9 A I probably did that analysis. I don't recall
10 offhand the result.

11 Q Could I ask you to provide it to us? It is not
12 in your testimony.

13 A Yes, I believe I could provide that.

14 MR. KLEPPINGER: Assuming that we performed that
15 analysis, we will provide it.

16 MR. CALVERT: Thank you.

17 BY MR. CALVERT:

18 Q Now, at page 29 of your testimony near the bottom
19 there -- I think it is line 21 -- you conclude that "the
20 view of executives within the electric utility industry
21 would be that Limerick is a not a cost effective addition
22 for PECO;" correct?

23 A Yes, sir; that is correct.

24 Q And you indicate that you haven't talked to those
25 executives?

1 A That's right. What I did was took a study done
2 by the Edison Electric Institute where they surveyed the
3 electric utilities to find out how they performed economic
4 analysis, and the survey reported that the discount rate
5 utilized by the majority of the utilities was the incremental
6 cost of funds. And so I utilized that to determine how
7 other utilities would look at the Limerick cost/benefit
8 as presented by Dr. Hieronymus.

9 Q Was this the discount rate that would be utilized
10 by those utilities for discounting revenue requirements
11 related to capital progress?

12 A Yes, sir.

13 Q And as I understand it, that survey is attached
14 as Exhibit 7 to your testimony?

15 A Yes, sir; that is correct.

16 Q Does the survey refer to discount rates as such?

17 A I believe it does. It talks about the average
18 cost of capital used by the industry on electric utilities.

19 Q Right; does it refer to discount rates?

20 A Well, Mr. Calvert, if you read the article you
21 would see that it doesn't make sense to talk about the cost
22 of capital as being anything but a discount rate, because
23 certainly if you are talking about building a new plant
24 you wouldn't be talking about using the embedded costs of
25 funds. For example, there is the cost on the plant.

1 Q But, in fact, the article doesn't refer to it
2 as a discount rate?

3 A It refers to it as the cost of capital used for
4 economic evaluation purposes.

5 Q Do you know whether or not the survey was
6 written or oral?

7 A This survey was obtained in the Northeast
8 Utilities, Connecticut Light and Power rate case. The
9 company filed it as an exhibit and said that the Commission
10 needed to take note of the fact that the vast majority of
11 electric utilities in the United States use the incremental
12 cost of capital as the discount rate.

13 Now, that's where we obtained it.

14 Q I don't have that testimony, so I can't --

15 A I don't know whether it was oral or written,
16 but this is what we received as the Northeast Utilities
17 exhibit.

18 Q Have you ever seen the questionnaire that was
19 utilized for purposes of developing the survey? I take
20 it you haven't based on your answer.

21 A No, sir.

22 MR. CALVERT: Your Honor, I would like at this time
23 to mark as PECO Exhibit 34 the questionnaire that was used
24 for that survey.

25 JUDGE MATUSCHAK: Very well.

1 (Whereupon, the document was
2 marked as PECO Exhibit No.
3 34 for identification.)

4 BY MR. CALVERT:

5 Q Mr. Falkenberg, I show you what we have marked
6 as PECO Exhibit 34, which is a copy of the "1984 Survey of
7 the Cost of Capital Used for Economic Evaluation by
8 Investor-owned Electric Utilities."

9 Could you take a moment to review that and tell me
10 if the term "discount rate" is utilized anywhere in the
11 questionnaire?

12 A (Witness perusing document.)

13 I don't see the use of the term "discount rate;"
14 however, I do see the incremental cost of capital used for
15 internal economic evaluations of plans for new electric
16 facilities, and in my view that would be a synonymous
17 phrase.

18 Q So it is your testimony that that phrase that
19 you just referred to is synonymous with a discount rate
20 used for discounting revenue requirements related to
21 capital projects?

22 A Yes, sir; that's the way I would interpret this.

23 Q In your life cycle analysis you, therefore,
24 use the 14.3 percent discount rate that you just referred
25 to; correct?

A That's correct.

1 Q Did you do a sensitivity analysis using the 9.7
2 percent discount rate used by the OCA witness, Mr. Komanoff,
3 and by the company in this case?

4 A Yes. As a matter of fact, I did do a sensitivity
5 analysis assuming a 9.7 percent discount rate, and assuming
6 50 percent Limerick common plant, and assuming Dr. Heieronymus'
7 O&M expenses.

8 Q And what result did you reach; do you recall?

9 A When I made those assumptions, which I don't
10 agree with, I got essentially the same answer as Dr.
11 Hieronymus.

12 Q Could we ask for a copy of that run?

13 A Certainly.

14 Q Thank you.

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

16 I would like to move at this time for the admission
17 of Exhibits 31 through 34.

18 JUDGE MATUSCHAK: Any objections?

19 MR. KLEPPINGER: No objection, Your Honor. I would
20 note, however, that PECO Exhibit 33 provides us with an
21 article from Mr. Huss that is not the complete response
22 to Number 14, and I would like the opportunity to review
23 our response to see if it would be more appropriate to
24 include the entire response to that interrogatory.

25 MR. CALVERT: Your Honor, the only thing that I want

1 to put in that we had testimony about is the article.
2 Obviously I don't mind if counsel wants to do something with
3 the answer to the interrogatory in his rebuttal or some-
4 thing, but it seems to me as a PECO exhibit the article
5 stands alone.

6 JUDGE MATUSCHAK: Will you provide the additional
7 information he wants, the whole article?

8 MR. CALVERT: I don't want to provide it as an
9 exhibit. I'm happy to let counsel look at it.

10 JUDGE MATUSCHAK: That's what I mean.

11 MR. CALVERT: Sure, yes.

12 JUDGE MATUSCHAK: PECO Exhibits 31 through 34 are
13 admitted into evidence.

14 (Whereupon, the documents
15 marked as PECO Exhibits Nos.
16 31 through 34 were received
17 in evidence.)

18 JUDGE MATUSCHAK: Is there any other cross?

19 MS. CHESTNUT: Yes, Your Honor.

20 CROSS-EXAMINATION

21 BY MS. CHESTNUT:

22 Q Mr. Falkenberg, good morning.

23 A Good morning.

24 Q My name is Marcie Chestnut. I represent the
25 Commission Trial Staff.

A Yes, ma'am.

Q I have a few questions with respect to your

1 phase-in proposal.

2 Mr. Falkenberg, would you agree with me that under
3 the company's proposal there is a certain amount of deferred
4 revenues; is that correct?

5 A Yes, I would agree to that.

6 Q And the amount of those revenues depends upon
7 the sales level during the first three years?

8 A I'm sorry; I didn't hear that.

9 Q The amount of the deferred revenues will vary
10 with the sales levels in the first three years?

11 A I would agree to that, yes.

12 Q And whatever that deferred revenue amount is,
13 the company is essentially guaranteed recovery of it in
14 a future period; is that correct?

15 A That would be my understanding, yes.

16 Q So that when you responded to questions put to
17 you by Mr. MacGregor asking whether it is your opinion that
18 in the future Philadelphia Electric Company's rates can
19 change up or down over the next six-year period, you were
20 not referring to that particular component, were you?

21 A No, ma'am; I was not.

22 Q So your answer is except for that component
23 rates can change?

24 A Yes.

25 Q Under your proposal, Mr. Falkenberg, your

1 modified, phase-in, is it correct that there is also
2 deferred revenues?

3 A Yes, that is correct.

4 Q And will recovery of these revenues operate the
5 same way as under the company's proposal?

6 A Yes. My intention would be that the proposal
7 for revenue recovery would be similar to the company's
8 approach, notwithstanding our group's objection to the
9 distribution of those revenues.

10 Q And the company will be assured recovery of those
11 deferred revenues?

12 A Yes. There is nothing inherent in my proposal
13 which would prevent the company from earning all the
14 revenues it is entitled over the next six years.

15 Q Thank you, Mr. Falkenberg.

16 MS. CHESTNUT: Your Honor, I have no further
17 questions.

18 JUDGE MATUSCHAK: The Consumer Advocate?

19 MR. POPOWSKY: We have a few questions, Your Honor.

20 Your Honor, I would like to have identified at this
21 time as OCA Exhibit 87 certain interrogatory answers pre-
22 pared by Mr. Falkenberg -- I believe prepared by Mr.
23 Falkenberg -- in response to interrogatories submitted by
24 the company.

25 JUDGE MATUSCHAK: Very well.

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1 (Whereupon, the document was
2 marked as OCA Exhibit No. 87 for
3 identification.)

4 CROSS-EXAMINATION

5 BY MR. POPOWSKY:

6 Q Could you take a moment, Mr. Falkenberg, to
7 quickly review those interrogatory answers?

8 (Document handed to witness.)

9 (Witness perusing document.)

10 MR. POPOWSKY: By the way, Your Honor, the hand-
11 written set numbers on the top right-hand corner of those
12 are my notations, because the answers did not -- some of the
13 answers did not designate the set number. I believe they
14 are correct.

15 BY MR. POPOWSKY:

16 Q Have you reviewed these?

17 A Yes, sir. I am familiar with these.

18 Q Are these your answers to interrogatories sub-
19 mitted by the company?

20 A Yes, sir, they are.

21 Q Are the answers that you gave in those interroga-
22 tories true and correct to the best of your information and
23 belief?

24 A Yes, sir, they are.

25 Q Am I correct that, as you set forth, I believe,
at page 5 of your testimony and in certain of the

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1 interrogatory answers I just gave you, that in your view
2 Limerick 1 represents excess capacity?

3 A. Yes, sir; that's correct. The Limerick plant is
4 not needed for reliability purposes, and it is not needed
5 because it is uneconomic. Uneconomical capacity is never
6 needed.

7 Q. So then, as I read these interrogatory answers,
8 particularly Set II, No. 8 and Set III, No. 21, it is your
9 position that the plant is not needed to provide reliable
10 service that is not used and useful capacity?

11 A. Yes. The plant is not needed for reliable
12 service. The plant is not needed for economical service.
13 And the plant is not used and useful under an economic
14 definition of the used and useful standard.

15 Q. If I look at Set II, No. 9, which is the second
16 answer, when you were asked by the company in the context
17 of your testimony to define what you meant by "installed
18 capacity," you refer there to the fact that any apparent
19 need for Limerick in the near term, in terms of reliability
20 or capacity purposes, is only a result of the company's
21 retirement of certain existing units; is that correct?

22 A. That's correct. The company has taken out of
23 service a number of generating plants which it has pre-
24 viously indicated could continue to serve to meet the load,
25 and which we believe can serve to meet the load more

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1 economically than the Limerick plant.

2 Q. If I look at one other interrogatory, Set II,
3 No. 12, am I correct that you explain there why the replace-
4 ment of several small units by a single large nuclear unit
5 such as Limerick actually can result in a reduction in
6 reliability levels; is that correct?

7 A. That's correct. The company has taken out of
8 service a number of smaller plants that each one individ-
9 ually will generally be as reliable or more reliable than
10 Limerick.

11 A lot of the combustion turbine plants being taken
12 out of service can be brought up to full load quickly and
13 provide operational reliability that the Limerick plant
14 simply cannot provide.

15 Q. Am I correct that your recommendation in this
16 case is to phase in the costs of Limerick 1 and 50 percent
17 of common facilities essentially over a six-year period,
18 similar to the period used by the company, and also to use
19 a sinking fund depreciation?

20 A. Yes, sir; that's correct. My proposal is to
21 phase in over the same period of time as the company the
22 Limerick 1 and half of common using sinking fund deprecia-
23 tion.

24 Q. So under your proposal, as I understand it, the
25 rates -- now, your proposal vis-a-vis the company's proposal;

1 under your proposal, the rates allowed for Limerick 1 and
2 50 percent of common would be lower than the rates that
3 the company is seeking in the initial years; is that
4 correct?

5 A. And in every subsequent year until the phase-in
6 is over. At that time, -- well, at some point in time
7 Limerick 1 and the Limerick common plant, the other 50 per-
8 cent, may be included in rate base; it also may not be.

9 And at some point in time the sinking fund deprecia-
10 tion may be greater than the straight-line; but over the
11 six-year period, the rates would be substantially lower
12 than the company's proposal. And over the life of the
13 Limerick plant, the present value of the revenue require-
14 ments under my plan would be lower.

15 Q. Am I correct, though, also at some point the
16 sinking fund depreciation will exceed the straight-line
17 depreciation of Limerick, so, in nominal terms, at some
18 point the revenue requirement, under your proposal, would
19 exceed the comparable revenue requirement for the company?

20 A. Yes. In nominal terms, the sinking fund will at
21 some point in the future be greater than that which the
22 company would ordinarily collect. However, at that point
23 in time, also, Limerick revenue requirements from other
24 aspects of the plant will be reduced, and what the sinking
25 fund does is it effects a more uniform distribution of the

1 costs of Limerick in total through time. It is more
2 equitable.

3 And since I am using a sinking fund rate that is
4 close to the expectation of the rate of inflation, in real
5 dollars the depreciation expense will remain relatively
6 constant through time.

7 Q Am I correct that you have also testified before
8 this Commission in a case involving West Penn Power Company?

9 A Yes, sir; that is correct.

10 Q And you filed testimony in a case about a year
11 ago, and you have also submitted testimony in the present
12 case in West Penn Power?

13 A Yes, sir; that's correct.

14 Q Am I correct that your testimony in both of
15 those cases dealt with the ratemaking treatment of West
16 Penn's share of the Bath County pump storage project?

17 A Yes, sir; that's correct.

18 Q In your view, did Bath County, or does Bath
19 County capacity for West Penn represent excess capacity?

20 A Yes, sir; it does.

21 Q Could you state if you made a ratemaking
22 recommendation in either of those cases and what your
23 recommendations in those cases were?

24 A The West Penn case is a little bit different,
25 because we have drawn the conclusion that the West Penn

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1 involvement in the Bath County project was not a prudent
2 investment.

3 We have also drawn the conclusion through analysis
4 that the project is not used and useful and represents
5 economic damages to customers over time.

6 The proposal that we are currently putting forth is
7 that West Penn be required to keep that particular plant,
8 and it may keep whatever profits it can obtain relative to
9 more economical alternatives.

10 Q So, in effect, your proposal is that West Penn's
11 investment in Bath County be effectively treated below the
12 line for ratemaking purposes? That is, West Penn in effect
13 would own the unit and can sell the output of the capacity
14 for whatever it could make on the market?

15 A That's generally the idea; yes.

16 Q Do you know if that is effectively the same
17 treatment Philadelphia Electric Company used in the early
18 years of its Salem 2 involvement?

19 A I believe that is probably correct. As I under-
20 stand it, the company sold the Salem plant to another
21 utility for a number of years, and then, when the contract
22 was over, it took it and put it into rate base, or attempted
23 to at least.

24 I think the difference might be that we would
25 recommend that West Penn be required to do that forever.

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1 Q. And in Philadelphia Electric's case, it was
2 only in the early years of the project?

3 A. That is my understanding of the Salem case.

4 Q. Do you know what action Pennsylvania Power and
5 Light Company took with regard to certain excess capacity
6 that was found to exist after its Susquehanna Unit 1 rate
7 case?

8 A. PP&L sold 945 megawatts of excess capacity at
9 average system cost to Jersey Central Power and Light, as
10 I recall.

11 I think this illustrates one of the problems with
12 the notion that prudence only is the basis for making a
13 rate base determination.

14 When a utility company has a plant it doesn't need
15 but it can sell it profitably to someone else, regardless
16 of whether it needs it or not, it can collect the money
17 from somebody.

18 On the other hand, when it turns out to be a mistake
19 and it is not needed and nobody else would want to buy it,
20 then the argument that "Well, we were prudent" suggests
21 that they get all the money from the customers. I think
22 that this situation we're discussing illustrates some of
23 the drawbacks of this prudence principle.

24 Q. Am I correct, -- one last question. If you
25 turn to the last interrogatory answer, Set III, No. 24, am

1 I correct, under your proposed phase-in, any disallowances
2 in the cost of Limerick would essentially come off of each
3 year of the phase-in and the rates would be allowed to be
4 phased in under your proposal proportionately over the
5 phase-in period? Is that correct?

6 A. Yes; that's correct. I would suggest that it
7 has to reflect the total level of the award.

8 If, for example, the PP&L precedent were applied
9 here, the company would only get \$61 million in rate
10 increase at most. And I don't believe in that case I
11 would recommend a six-year phase-in of the \$61 million.

12 But I would say considering reasonable alternative
13 disallowances, that I would recommend that they be taken
14 off proportionately and not off the tail end as proposed
15 by the company.

16 MR. POPOWSKY: Your Honor, I would like to move into
17 evidence at this time OCA Exhibit No. 87.

18 JUDGE MATUSCHAK: Any objection?

19 MR. KLEPPINGER: No objection, Your Honor.

20 JUDGE MATUSCHAK: OCA Exhibit 87 is admitted in
21 evidence.

22 (Whereupon, the document marked as
23 OCA Exhibit No. 87 was received in
24 evidence.)

24 MR. POPOWSKY: That's all the questions I have,
25 Your Honor.

1 JUDGE MATUSCHAK: Mr. Falkenberg, did the Commission
2 accept your recommendation in the West Penn case?

3 THE WITNESS: No, sir; the Commission did not accept
4 all of our arguments in the West Penn case. However, the
5 Commission did find that the Bath County project in 1985
6 was not used and useful.

7 That case is under appeal, and we are putting in new
8 evidence and hope that the Commission will reconsider our
9 position.

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

12 MR. WIDOFF: Yes, Your Honor.

13 Your Honor, I have several answers to interrogatories
14 that I would like to have marked, ad seriatim, as UCC/UP
15 exhibits. They would be marked Exhibits 7, 8, 9 and 10.

16 JUDGE MATUSCHAK: Very well.

17 (Whereupon, the documents were
18 marked as UCC/UP Exhibits Nos. 7,
19 8, 9 and 10 for identification.)

20 MR. CALVERT: Your Honor, I understand that at some
21 earlier session that I personally did not attend, but I
22 believe Mr. MacGregor objected to the procedure by which
23 counsel and the parties basically on the same side utilized
24 answers to interrogatories from another party as part of
25 their "cross-examination" and then entered them into the
record, as Mr. Popowsky has done.

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1 I further understand that when Mr. MacGregor objec-
2 ted on that basis, that Your Honor overruled his objection
3 and allowed the information to come in.

4 So we don't burden the record with continuing objec-
5 tions, I wonder if we could have a continuing objection to
6 that procedure?

7 JUDGE MATUSCHAK: You may have a continuing objection.

8 MR. CALVERT: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. WIDOFF:

11 Q Mr. Falkenberg, referring you to UCC/UP Exhibits
12 Nos. 7, 8, 9 and 10, have you had an opportunity to review
13 those documents I have just handed you?

14 A Yes, sir; I am familiar with these.

15 Q Are these responses that you provided to
16 Philadelphia Electric Company in response to interrogatories
17 that were served upon you by the company?

18 A Yes, sir; they were prepared by me.

19 Q Are they true and correct to the best of your
20 information, knowledge and belief?

21 A Yes, sir.

22 Q With regard to UCC/UP Exhibit No. 7, am I
23 correct that in response to the question you indicated your
24 views as to the comparability of the retirements in this
25 case with retirements that have occurred recently in other

j11

1 rate cases around the country?

2 A. Yes, sir. I think that this data response
3 summarizes a number of cases where utilities have brought
4 large new units into service and, at the same time, placed
5 into a shutdown mode or put into an early, so-called
6 economic retirement several older plants.

7 This data response I think clearly shows that while
8 there may be some economic justification for removing some
9 plants from service, that there has never been substantial
10 enough savings from that course of action to offset the
11 massive rate increases which have accompanied some of these
12 generating plants which are excess capacity.

13 Q. Referring you to UCC/UP Exhibit No. 9.

14 A. Yes, sir.

15 Q. In that question you were asked to provide your
16 view as to the relationship between the used and useful
17 standard and the life cycle studies such as you have per-
18 formed in this case and such as other experts have been
19 performing around the country.

20 Would it be your view that one of the reasons that
21 the life cycle study is valuable in determining used and
22 useful is precisely in order to get a handle on situations
23 such as have occurred with regard to retirements of older
24 capacity?

25 A. Well, I believe that's correct. I believe that

j12

1 there was an attachment to this response that had a summary
2 of a number of decisions regarding excess capacity, and
3 economic considerations have been important factors in many
4 Commission decisions regarding excess capacity.

5 In certain cases it was found that units weren't
6 excess capacity because they were economically beneficial
7 or had other economic advantages; and in other cases
8 economic disadvantages of the plants led to conclusions
9 regarding excess capacity.

10 But, generally speaking, the answer to your question
11 is that I think that the life cycle studies do give a lot
12 of information as to the used and useful nature of a par-
13 ticular asset over its life.

14 Q With regard to UCC/UP Exhibit No. 10, and with
15 regard to UCC/UP Exhibit No. 8, am I correct that in your
16 responses to both of those interrogatories you discuss the
17 application of the used and useful standard and its relation-
18 ship to the prudence standard in the recent Pennsylvania
19 Power and Light case involving Susquehanna 2?

20 A Yes, sir.

21 Q Would I be correct that in your responses you
22 provided your analysis of what the result would be if the
23 approach in PP&L were taken by the Commission in this case?

24 A Yes, sir. Falkenberg Exhibit 4 shows that the
25 PP&L precedent would seem to imply approximately a \$61 million

j13

1 rate increase for PECO in this particular case; and, more
2 significantly, it would imply no additional revenue increase
3 from the Limerick plant until something like 1994.

4 JUDGE MATUSCHAK: For which plant?

5 THE WITNESS: Limerick.

6 BY MR. WIDOFF:

7 Q. And I believe you do state in your testimony that
8 your particular recommendation in fact is not consistent or
9 does not follow the logic of the Commission's decision in
10 PP&L; is that correct?

11 A. Well, we believed that a more moderate approach
12 was warranted in the PP&L case because the Susquehanna
13 plants, though they are currently excess capacity, at least
14 in our estimate, are going to be beneficial to customers
15 over the life of those plants because they are much less
16 costly than Limerick; and we proposed something of a differ-
17 ent sort of phase-in where there was interest earned on the
18 deferred revenues.

19 In this particular case, since we don't see Limerick
20 as being a cost-effective capacity addition over its life,
21 we are suggesting that there should be no interest earned
22 on the deferred revenues.

23 MR. WIDOFF: No further questions, Your Honor.

24 JUDGE MATUSCHAK: Any further cross-examination?

25 MR. WIDOFF: I would like to move in at this time

j14

1 UCC/UP Exhibits Nos. 7, 8, 9 and 10.

2 JUDGE MATUSCHAK: Any objections?

3 MR. CALVERT: Your Honor, of course, we have our con-
4 tinuing objection. And I would only mention in that regard
5 that this is really nothing different than the company
6 answering interrogatories and moving to put them into the
7 record, in essence.

8 MR. POPOWSKY: Your Honor, could I respond to that?
9 I just want to state that I disagree with that point as far
10 as the OCA interrogatories go; and I understand you over-
11 ruled the objection, but I do disagree with Mr. Calvert.

12 JUDGE MATUSCHAK: Very well.

13 (Whereupon, the documents marked as
14 UCC/UP Exhibits Nos. 7, 8, 9 and
15 10 were received in evidence.)

16 MR. KLEPPINGER: May I have a moment with the witness,
17 Your Honor?

18 JUDGE MATUSCHAK: Any further cross-examination?

19 MR. MacGREGOR: Your Honor, I have a couple of follow-
20 up questions.

21 JUDGE MATUSCHAK: Very well.

22 FURTHER CROSS-EXAMINATION

23 BY MR. MacGREGOR:

24 Q Mr. Falkenberg, during cross-examination by
25 certain other parties you were discussing the recent West
Penn Power Company case, and you stated that the Commission

j15

1 concluded in its last order for West Penn that the Bath
2 County project was not used and useful; is that correct?

3 A. That's right. The unit had a leak and it
4 couldn't run, and it was found to be not used and useful.

5 Q. So that finding by the Commission was not based
6 upon a determination that the unit constituted excess
7 capacity, but rather related to the fact that the unit was
8 not projected to be in service by the end of the future test
9 year?

10 A. That's correct. I believe that we have evidence
11 that the Commission should reconsider that would perhaps
12 lead them to a different conclusion on that particular case.

13 Q. I am only referring to the Commission's order at
14 this point.

15 A. Yes, sir.

16 Q. With respect to the PP&L decision, you referenced
17 the Commission's decision in the Susquehanna 1 proceeding,
18 which, as I recall, adopted a system average excess capacity
19 adjustment in that case; is that correct?

20 A. Yes, sir; that's correct.

21 Q. And following that case, PP&L was able to sell a
22 slice of its system equal to the excess capacity adjustment
23 made by the Commission; is that correct?

24 A. That is my understanding; yes.

25 Q. And in the Susquehanna 2 case the Commission

j16

1 adopted a different adjustment; specifically, they dis-
2 allowed the common equity return on Susquehanna 2; is that
3 correct?

4 A. Yes, sir.

5 Q. Since the entry of that decision, has PP&L sold
6 any portion of Susquehanna 2, to the best of your knowledge?

7 A. No, sir, I don't believe that PP&L has, to the
8 best of my knowledge.

9 Q. Also, with respect to the PP&L case, would you
10 agree with me that different utilities may require differ-
11 ent reserve margins under different circumstances?

12 A. Yes, sir, I would agree with that.

13 Q. Would you agree with me that the PJM reserve
14 requirement for PP&L is substantially less than that for
15 Philadelphia Electric Company?

16 A. That is probably correct, yes.

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

18 That's all I have, Your Honor.

19 MR. CALVERT: Your Honor, I have a couple of quick,
20 follow-up questions.

21 FURTHER CROSS-EXAMINATION

22 BY MR. CALVERT:

23 Q. Mr. Falkenberg, on OCA Exhibit 87, specifically,
24 Set II, Interrogatory 9, you had given an answer there
25 about installed capacity. Did you evaluate the condition

j17

1 of the units that you referenced in that answer?

2 A. Mr. Calvert, I believe you will recall from the
3 Limerick 2 investigation that there was a substantial amount
4 of information put in regarding a number of these plants,
5 and it was shown that it was possible to extend the lives
6 of these units for reliable service for a number of years
7 for a fairly low cost per kilowatt of capacity.

8 In addition, for the combustion turbines that are
9 being placed out of service, there was an estimate made of
10 some additional O&M expenses that would be required to
11 keep these plants in service. But, once again, that was
12 not substantial as compared to the Limerick plant.

13 Q. So the only investigation that you have done is
14 whatever information was put in in the Limerick 2 case?

15 A. That's correct.

16 Q. On Set II, Question 12, --

17 A. Yes, sir.

18 Q. -- have you studied the effect on the reliability
19 of the PJM as a system by having Limerick 1 placed in it?

20 A. The effect of Limerick on PJM reliability would
21 not be as substantial as its effect on PECO's reliability,
22 because PJM is a bigger system.

23 Q. Have you checked that effect?

24 A. Well, it is not necessary to check something
25 that's obvious, and the obvious fact is that several small

1 units that have quick-start capability will provide more
2 reliable service than one large unit which does not.

3 Q Is that a relevant consideration when you're
4 talking about a large system the size of PJM?

5 A It may not be particularly important with re-
6 spect to this system at the present time. My testimony is
7 not that the PJM system is in any danger of not serving
8 load.

9 Quite to the contrary, the PJM system has got ample
10 capacity for the foreseeable future.

11 MR. CALVERT: Thank you.

12 That's all I have, Your Honor.

13 JUDGE MATUSCHAK: Any redirect?

14 MR. KLEPPINGER: If I could have a moment with the
15 witness, Your Honor, to review some of the interrogatories.

16 JUDGE MATUSCHAK: Let's take a short recess.

17 (Recess.)

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1 JUDGE MATUSCHAK: Back on the record.

2 MR. KLEPPINGER: I have some brief redirect, Your
3 Honor.

4 REDIRECT EXAMINATION

5 BY MR. KLEPPINGER:

6 Q Mr. Falkenberg, you were questioned on a buy-back
7 proposal which you had made in the Duke Power case. Am I
8 correct that you're not making any such buy-back proposal
9 in this case nor is there a buy-back issue presented?

10 A That's correct.

11 Q Am I also correct that in the PP&L Susquehanna
12 Unit 2 case, this Commission accepted a comparable buy-back
13 adjustment which you had proposed based on PP&L's repurchas-
14 ing of a piece of Susquehanna from the Allegheny Electric
15 Cooperative?

16 A Yes, sir. In the PP&L case, the Commission
17 adopted our position, which was that the Susquehanna buy-
18 back should not be collected -- the revenue requirements
19 associated with the Susquehanna buy-back should not be
20 collected from PP&L's customers.

21 Q Mr. Falkenberg, do you recall cross-examination
22 by Mr. Calvert in relationship to PECO Exhibit No. 33?

23 A Yes, sir.

24 Q Now, that included an article, did it not,
25 by Mr. William R. Huss on load forecasting techniques?

1 A. That's correct. The article is quite interesting
2 and points out that utility load forecasts haven't really
3 improved any in the last ten or so years when utilities
4 made the transition from trending over to more sophisticated
5 techniques.

6 Q. And that reference is on page 42 of the article,
7 is it not, where in the "Conclusions and Recommendations"
8 section at No. 1 the author concludes that "The accuracy of
9 utility forecasting has apparently not improved over time"?

10 A. That's correct.

11 MR. KLEPPINGER: Your Honor, PECO Exhibit 3, Sub-
12 section (f) out of Set II, No. 14 interrogatories which
13 we had answered, Subsection (f) reads: "Have these
14 forecasting techniques been proven to be accurate? Please
15 support your answer with evidence."

16 In response to that, Mr. Falkenberg did provide this
17 article. However, what is not in the record are the
18 responses to 14(a) through (e) which leads up to this
19 article; and I believe for the completeness of the record
20 and in the most efficient manner, it would be appropriate
21 for us to make an exhibit of PECO Interrogatory Set II,
22 No. 14 to PAIEUG.

23 MR. CALVERT: Your Honor, if I might respond to that,
24 I think, in conjunction with our other objection about
25 other parties putting in this witness' answers to

1 interrogatories, this would take it to the height of
2 absurdity for them to put in their own answers to interroga-
3 tories.

4 What I asked him about was an article. As it turns
5 out, he provided me that article in response to the
6 interrogatory that Mr. Kleppinger referred to, but that is
7 not relevant to my questioning nor to the article. It is
8 an article I had, and I cross-examined him about it. If
9 he has redirect on the article, fine. It is not referenced
10 to these interrogatories, and it was simply referenced by
11 me to the interrogatories so he would know where I got the
12 article from for purposes of his identification. It was
13 just an article like any other article.

14 JUDGE MATUSCHAK: Was that part of the interrogatory?

15 MR. KLEPPINGER: The article is part of the
16 interrogatory response, one subsection of the interrogatory
17 response.

18 JUDGE MATUSCHAK: Well, if you want to put it in,
19 we see no objection. We will permit you to use it as your
20 submission.

21 MR. KLEPPINGER: Your Honor, I would like to have
22 marked for identification as PAIEUG Exhibit No. 12 the
23 response of PAIEUG to Philadelphia Electric Set II, No. 14,
24 and I will provide copies to the reporter and all parties
25 in due course. I do not have them with me today in

1 anticipation of this cross-examination.

2 JUDGE MATUSCHAK: Very well.

3 (Whereupon, the document was
4 marked as PAIEUG Exhibit
No. 12 for identification.)

5 MR. KLEPPINGER: And I would like to move that into
6 the record when I supply it to the other parties.

7 JUDGE MATUSCHAK: The motion is granted subject to
8 delivery of copies to other counsel and to us in this matter
9 and to the reporter.

10 (Whereupon, the document
11 marked as PAIEUG Exhibit
12 No. 12 was received in
evidence.)

13 MR. KLEPPINGER: Thank you, Your Honor. That
14 completes my redirect examination.

15 JUDGE MATUSCHAK: Anything further?

16 MR. MacGREGOR: No, Your Honor.

17 JUDGE MATUSCHAK: The witness is excused.

18 (Witness excused.)

19 Whereupon,

20 PETER J. LANZALOTTA

21 having been duly sworn, testified as follows:

22 MR. RUBIN: Your Honor, the Office of Consumer
23 Advocate would like to have marked as OCA Statement No. 5
24 the prepared direct testimony of Peter Lanzalotta.

25 JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as OCA Statement No. 5 for identification.)

DIRECT EXAMINATION

BY MR. RUBIN:

Q. Mr. Lanzalotta, could you please state your full name and business address for the record?

A. Peter J. Lanzalotta, 1301 Pennsylvania Avenue, Washington, D. C. 20004.

Q. Do you have before you a copy of what has just been marked as OCA Statement No. 5?

A. Yes, I do.

Q. Does this represent your prepared direct testimony and exhibits in this proceeding?

A. Yes, it does.

Q. Was this testimony and exhibits prepared by you or under your direction and supervision?

A. Yes, it was.

Q. Do you have any corrections to make to OCA Statement No. 5 at this time?

A. I have three minor corrections to make. The first one is on page 12, line 17. I would like to change the number "2" in the middle of line 17 to a number "1", so that it reads, "as shown on Schedule 1."

The next correction is on page 23, line 34. Towards the end of the line, I would like to strike the word "of,"

1 so that that line will read: "retirement of 458 MW of CT
2 capacity at a cost which..."

3 The last change is on Schedule 1; the line marked
4 five for the year 1989, if we go to column 7, the schedule
5 uses "23.9." I would like to change that to "23.8." And
6 that results in a change in column 8. The "597" changes
7 to "604."

8 Q. Mr. Lanzalotta, with those corrections, if I
9 were to ask you the same questions which appear in OCA
10 Statement No. 5, would your answers be the same as are
11 contained therein?

12 A. Yes, they would.

13 Q. And would those answers be true and correct to
14 the best of your knowledge, information and belief?

15 A. Yes, they would.

16 MR. RUBIN: Your Honor, at this time I would like
17 to move into evidence, subject to any motions made in a
18 timely fashion, OCA Statement No. 5.

19 JUDGE MATUSCHAK: Under those conditions, the
20 motion is granted.

21 (Whereupon, the document
22 marked as OCA Statement
23 No. 5 was received in
evidence.)

24 MR. RUBIN: Mr. Lanzalotta is available for cross-
25 examination.

CROSS-EXAMINATION

1
2 BY MR. STILLMUN:

3 Q Good morning, Mr. Lanzalotta. My name is John
4 Stillmun and I represent the Philadelphia Electric
5 Company.

6 MR. STILLMUN: Your Honor, I would like to begin
7 by having marked as PECO Exhibit No. 35 a number of
8 interrogatories.

9 JUDGE MATUSCHAK: Very well.

10 (Whereupon, the document was
11 marked as PECO Exhibit No. 35
12 for identification.)

13 BY MR. STILLMUN:

14 Q If you would take a look at these, Mr. Lanzalotta.
15 Do these represent the questions and responses to Interroga-
16 tory Set No. 7 to the OCA and specifically Interrogatories
17 Nos. 7, 8, 11, 13a, 14 and 15?

18 A Yes, they do.

19 Q Were these responses prepared by you or under
20 your direction?

21 A Yes, they were.

22 Q And are they true and correct answers?

23 A To the best of my knowledge, yes.

24 Q Now, let's turn to your testimony. On page 5
25 of your testimony in the first answer that you have there
beginning on line 8, you state, "The PJM pool determines the

1 reserve margin level which each member utility is required
2 to supply. These reserve margin targets are designed to
3 maintain a minimum acceptable level of system reliability."

4 Now, Mr. Lanzalotta, is it your position that the
5 PJM reserve margin is also the maximum acceptable level of
6 system reliability?

7 A. It would depend to some extent what you mean by
8 "acceptable." The reason that you try to develop a
9 minimum acceptable level is that generating capacity costs
10 money. The larger the amount of reserves that you supply,
11 all other things being equal, the more expensive your
12 system is going to be to maintain and run and to pay for.

13 A maximum level of system reliability would tend
14 to be influenced more I think by how much that system is
15 going to cost rather than by the amount of reliability that
16 you're going to get out of it.

17 Typically, you set a minimum acceptable level,
18 because that's the most economical way to supply this
19 reliable service.

20 Did I answer your question?

21 Q. To the extent that that is the most economical
22 way to supply the service, are you suggesting that, in
23 fact, that is the only acceptable level of system reliabil-
24 ity?

25 A. Again, given that you want to supply your

1 acceptable level of system reliability at the most economi-
2 cal cost, you would want to tend towards supplying your
3 minimum level of acceptable reliability.

4 The more reliability you supply, the more it's going
5 to cost, all other things being equal.

6 Q Are you suggesting that anything other than that
7 would be unacceptable from a system reliability standpoint
8 or unacceptable for other reasons?

9 A Any level of reliability that is more than the
10 PJM minimum acceptable level would be acceptable from a
11 purely operating point of view if you were willing to forget
12 about what this additional level of reliability was going
13 to cost you.

14 Speaking from an operating point of view, a system
15 operator likes to have more reliability rather than less.
16 However, you design your system or you try to design your
17 system to hit a minimum acceptable level, because, as I've
18 said before, all other things being equal, that is the
19 most economical approach to providing electric service.

20 Q Now, turning to page 12 of your testimony where
21 you discuss PECO's standard weather factor, beginning at
22 line 5 you state, "It is also my understanding that PECO's
23 standard weather factor was questioned by a number of
24 parties and was rejected by the Administrative Law Judge
25 in the recent Limerick 2 investigation."

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1 Could you state what the basis for your understanding
2 is?

3 A. I believe I read somewhere the decision in
4 that proceeding, as well as having been advised by the
5 OCA attorneys.

6 Q. So the basis of your understanding then,
7 Mr. Lanzalotta, at least in part is what was told to you
8 by your attorney?

9 A. At least in part, yes.

10 Q. Turning now to page 7 of your testimony, you
11 state, beginning at line 14, "PECO's position is that the
12 availability of Limerick 1 capacity allows PECO to retire
13 458 megawatts of combustion turbine ('CT') generating
14 capacity which otherwise could be useful and usable at
15 nominal cost at least through 1996."

16 Then you go on and reference a specific interrogatory
17 response that was prepared by the company, and that is the
18 response to IR-GSA-2-10. The specific part of that
19 interrogatory that you referenced there stated, "The
20 addition of Limerick 1 is allowing PECO to retire 458 MW
21 of CT capacity before the end of their nominal lives."

22 Turning then to page 8, you reference that interroga-
23 tory response again. Prior to that reference, you say,
24 "PECO now plans on retiring Southwark 1 and 2 when
25 Limerick 1 is commercially available," and again reference

1 a line from the interrogatory which states that "These
2 units are inefficient, oil-fired, obsolete, and 38 years
3 old. The addition of Limerick does allow PECO to retire
4 these units without enduring a capacity shortage."

5 Would you like to put the entire interrogatory answer
6 into the record?

7 MR. RUBIN: I object, Your Honor. The witness doesn't
8 put anything into the record. That is done by the parties.
9 Obviously, the Office of Consumer Advocate has not moved
10 that into the record. If the company would like to cross-
11 examine this witness on other things in an interrogatory he
12 has referred to, they are certainly welcome to do so.

13 MR. STILLMUN: Would you object if we put the
14 interrogatory into the record?

15 JUDGE MATUSCHAK: If you want to put the whole thing
16 in, you can put it in; sure. It is your exhibit.

17 MR. STILLMUN: Your Honor, we would like to mark
18 as PECO Exhibit No. 36 an interrogatory response.

19 (Whereupon, the document was
20 marked as PECO Exhibit No. 36
21 for identification.)

22 BY MR. STILLMUN:

23 Q Mr. Lanzalotta, is this the interrogatory to
24 which you referred in preparing your testimony and which
25 you quoted in preparing your testimony?

A Yes, it is.

1 Q Could you please read the question in the
2 interrogatory?

3 A "Please provide a list of all plants, including
4 Southwark 1 and 2, whose retirement was precipitated by
5 the completion of Limerick 1."

6 Q Would you please read for the record the first
7 sentence of the response to that interrogatory? This
8 response was prepared it indicates by Mr. Rush of the
9 company.

10 A "We do not agree that the retirements of
11 Southwark 1 and 2 units have been precipitated by the
12 addition of Limerick."

13 MR. STILLMUN: Thank you, Mr. Lanzalotta. That is
14 all the cross-examination I have at this point. I would
15 move for the admission of PECO Exhibits 35 and 36.

16 JUDGE MATUSCHAK: Any objections?

17 MR. RUBIN: No objection.

18 JUDGE MATUSCHAK: There being no objections, PECO
19 Exhibits 35 and 36 are admitted into evidence.

20 (Whereupon, the documents marked
21 as PECO Exhibits Nos. 35 and 36
were received in evidence.)

22 JUDGE MATUSCHAK: Is there further cross-examination?

23 MR. CALVERT: No, Your Honor.

24 JUDGE MATUSCHAK: Staff?

25 MR. DELANEY: Staff has no cross of this witness,

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JUDGE MATUSCHAK: Any of the other parties?

MR. KLEPPINGER: No questions.

MR. CLARK: No questions.

JUDGE MATUSCHAK: Any other parties?

(No response.)

JUDGE MATUSCHAK: Any redirect?

MR. RUBIN: No redirect.

JUDGE MATUSCHAK: Very well. The witness is
excused.

(Witness excused.)

JUDGE MATUSCHAK: Does counsel have any further
testimony today?

MR. CALVERT: Your Honor, I think not. I think we
are done for the day, as I understand it.

JUDGE MATUSCHAK: Is that the consensus?

MR. RUBIN: Yes, it is.

MR. KLEPPINGER: Yes.

JUDGE MATUSCHAK: Very well. We will adjourn at
this time until February 19th at 10:00 in Philadelphia.

(Whereupon, at 11:50 a.m., the hearing was adjourned,
to be reconvened at 10:00 a.m., on Wednesday, February 19,
1986, in Philadelphia, Pennsylvania.)

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C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

COMMONWEALTH REPORTING COMPANY, INC.

By: Sandra Milus Brown
Sandra Milus-Brown
