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PUBLIC UTILITY COMMISSION

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SECRETARY'S OFFICE
Public Utility Commission

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

Pages 3521 through 3716

Hearing Room No. 1
State Office Building
Broad and Spring Garden Streets
Philadelphia, Pennsylvania

Wednesday, February 19, 1986

Met, pursuant to adjournment, at 10:00 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>
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E X H I B I T S

2	<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
3	<u>Pa. Food Merchants Assoc. Statement</u>		
4	✓ No. 1 (Larson)	3527	3527
5	<u>Pa. Food Merchants Assoc. Exhibit</u>		
7	✓ No. CL-1 (Larson)	3527	3527
8	<u>Pa. Business Utility Users Group Statements</u>		
9	✓ No. 1 (King)	3545	3546
10	✓ No. 2 (Figley)	3572	3573
11	<u>PAIEUG Statements</u>		
12	✓ No. 2 (Bloom)	3622	3623
13	✓ No. 3 (Pollock)	3674	3674
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P R O C E E D I N G S

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2 ADMINISTRATIVE LAW JUDGE JOSEPH MATUSCHAK: This is
3 the time and place set for the further hearing in the matter
4 of the Pennsylvania Public Utility Commission, et al. versus
5 Philadelphia Electric Company, at PA. PUC Docket No.
6 R-850152.

7 Do we have any preliminary matters before we proceed
8 with the rate structure witnesses?

9 (No audible response.)

10 JUDGE MATUSCHAK: Very well. What procedure does
11 Counsel wish to follow today?

12 MR. MacGREGOR: Your Honor, I believe we have five
13 witnesses to cross-examine today: Mr. King and Mr. Figley,
14 Mr. Pollock, Dr. Bloom and Mr. Larson. I really have no
15 preference as to the order. I don't see Mr. Figley and
16 Mr. King here. We could start with Mr. Larson, Mr. Pollock
17 or Dr. Bloom, whichever the parties would prefer.

18 JUDGE MATUSCHAK: Why don't we start with Mr. Larson.

19 MR. WIDOFF: Your Honor, if I could just get one
20 matter clarified in terms of the schedule, as I understand
21 it the rebuttal testimony is due next week. Is that correct,
22 Mr. MacGregor?

23 MR. MacGREGOR: February 26th; yes, that's correct.
24 And that encompasses all rebuttal testimony, all responsive
25 testimony to opposing party testimony. So it would not be

1 just the company's rebuttal to the various opposing party
2 testimony that was filed, but if any party wishes to file
3 rebuttal in response to any other opposing party that
4 testimony would be due on the 26th also.

5 MR. WIDOFF: Thank you.

6 Whereupon,

7 CHARLES A. LARSON

8 having been duly sworn, testified as follows:

9 DIRECT EXAMINATION

10 BY MR. RYAN:

11 Q. Mr. Larson, would you please state your name and
12 address for the record?

13 A. My name is Charles A. Larson, L-a-r-s-o-n. My
14 business address is 1776 Massachusetts Avenue, Washington,
15 D. C.

16 Q. And on whose behalf are you appearing in this
17 proceeding today?

18 A. I'm appearing on behalf of the Pennsylvania
19 Food Merchants Association.

20 Q. Do you have in front of you a copy of a document
21 entitled Prepared Testimony and Exhibit of Charles A.
22 Larson on Behalf of the Pennsylvania Food Merchants
23 Association, which is labeled in the top right-hand corner
24 as PFMA Statement No. 1?

25 A. Yes, I do.

1 Q Is that your prepared testimony in this case?

2 A Yes.

3 Q Do you have any additions or corrections that
4 you wish to make at this time to that testimony?

5 A No, I do not.

6 Q If I were to ask you the questions set forth
7 therein would your answers be as they appear in that
8 statement?

9 A Yes, they would.

10 Q At this time I would like to direct your
11 attention for a minute to the question that begins on line
12 25 at the bottom of page 10, with the answer carrying over
13 to page 11. In the text of that answer, actually on page
14 11 beginning around line four, you propose an end block
15 rate for PD not higher than 3 cents per KWH, and two
16 lines below that an end block rate for GS not more than
17 3.3 cents per KWH; is that correct?

18 A Yes.

19 Q You preface that answer by saying you had not
20 yet completed your analysis of the cost support when you
21 had to submit this prepared testimony; is that correct?

22 A Yes.

23 Q Have you completed whatever cost analysis you
24 think is appropriate now on the basis of additional
25 materials you have received and analyzed in this case?

1 A. Yes, I have. I was primarily concerned with the
2 1.8 cent per KWH fuel cost which is shown on page 11,
3 line nine. I'm now satisfied that that is the actual
4 off-peak cost of generating energy off-peak.

5 Q. And are the recommendations that appear on page
6 12 for the end block rates for PD and GS your recommendations
7 following the completion of this additional analysis?

8 A. Yes, they are.

9 MR. RYAN: I have no further questions. I would
10 like to have this statement identified, if I may, as
11 PFMA Statement No. 1 and offer it into evidence subject to
12 any appropriate motions.

13 JUDGE MATUSCHAK: We will grant the motion if we
14 are given a copy of page 11. It seems that our copy does
15 not have page 11 in it.

16 MR. RYAN: That happened with Mr. Kleppinger's too.
17 The others I had checked and I thought I had done that with
18 your copy as well. I would be glad to substitute, Your
19 Honor.

20 (Document handed to Judge Matuschak.)

21 JUDGE MATUSCHAK: With that submission and under those
22 conditions the motion is granted.

23 MR. RYAN: Thank you, Your Honor.
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(Whereupon, the documents were marked as PFMA Statement No. 1 and Exhibit CL-1 for identification, and were received in evidence.)

JUDGE MATUSCHAK: Mr. MacGregor.

MR. MacGREGOR: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. MacGREGOR:

Q. Good morning, Mr. Larson.

A. Good morning.

Q. Mr. Larson, staying for a moment on page 11 of your testimony, which you just discussed with Mr. Ryan, can I ask you to briefly explain what the 1.8 cent per kilowatt hour figure represents? Is that a marginal off-peak rate or is that the average off-peak fuel cost?

A. The 1.8 cent off-peak fuel cost referred to on page 11, lines eight and nine, is exactly that. It's the actual off-peak fuel costs for generating energy off-peak. In other words, it's the fuel costs associated with off-peak generation.

Q. When you say "off-peak generation" is 1.8 cents per kilowatt hour the marginal cost of producing the next kilowatt hour of off-peak energy, or is it the average of producing all off-peak energy?

A. It's probably a combination of the two. It's the average marginal cost of generating an additional

1 kilowatt hour.

2 Q Over what time period?

3 A Over the entire year, during the off-peak hours.

4 Q And can you tell me what is the source of that
5 figure and what documentation you examined to arrive at
6 that number?

7 A I believe it's in the transcript and I can get
8 you a transcript number on that. But in addition, the
9 response of Philadelphia Electric to our data request,
10 which wasn't truly responsive, did indicate that for a six
11 month period in 1985 the actual costs of generating energy
12 off-peak were 2.5 cents. I deducted Limerick 1 average
13 cost improvement from that of 7 mills, resulting in an
14 average cost of 1.8 cents per kilowatt hour assuming
15 Limerick 1 in operation.

16 Q I take it the interrogatory was responsive enough
17 for you to satisfy yourself that the 1.8 cent figure was
18 appropriate for use in this case?

19 A Yes.

20 Q Am I correct, Mr. Larson, that you have not
21 challenged the company's class cost of service study in
22 this proceeding?

23 A That's right.

24 Q And you have accepted it for purposes of your
25 testimony in this case?

1 A. Yes. It has been prepared in a generally
2 accepted manner following the NARUC Electricl Utility
3 Cost Manual, and it has been prepared in this way for over
4 12 years. So it's not only an acceptable method but it
5 has been consistently prepared in that manner.

6 Q. Am I also correct, Mr. Larson, that you have not
7 challenged the company's proposed allocation of the revenue
8 increase to the various customer classes in this case?

9 A. That's correct.

10 Q. And your testimony deals, rather, with the
11 design of rates GS and PD; is that correct?

12 A. Yes.

13 Q. Am I correct that your first proposal is to
14 reduce the Rate GS tail block to reflect perceived lower
15 costs of producing off-peak electricity?

16 A. Yes, to 3.3 cents per kilowatt hour.

17 Q. Mr. Larson, as a result of that reduction what
18 adjustment do you make to the first block of Rate GS or
19 to the Rate GS demand charge?

20 A. I would adjust the demand charge to offset that
21 approximate \$3 per KW.

22 Q. The difference would be reflected solely in the
23 demand charge and there would be no change in the first block
24 of Rate GS?

25 A. That's right. In other words, what I'm doing is

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transferring the recovery of fixed costs from the tail energy rate to the demand charge where it should be recovered.

Q I guess I'm a little confused, Mr. Larson. As I understand it, there is no demand charge for Rate GS but the pricing for the first block is determined based upon the customer's demand. Would you agree with that?

A Yes. I was referring to Rate PD.

Q What adjustment do you propose to make to Rate GS to reflect your lowering of the GS tail block?

A It would be reflected in the demand charge component in the hours use blocks of Rate GS.

Q Mr. Larson, have you presented in your testimony any analysis of the impact of your changes on the relative percentage increases to various load factor customers within the GS and PD classes?

A No, I have not done that.

Q With respect to the GS rate design, am I correct that you challenge the company's use of the Bary Curve, at least in high load factor ranges?

A Yes. In the high load factor range in my opinion the Bary Curve is not applicable. The Bary Curve concept is incompatible with an on-peak rate concept.

Q And on page 12 of your testimony, in the top half, you cite a number of reasons why you believe the Bary

1 Curve should not be used in high load factor ranges and
2 some of those reasons include your conclusion that the Bary
3 Curve is largely flat at about 80 percent coincidence
4 through most of the practical range of usage, and that there
5 is little or no empirical information known about high load
6 factor customers and what information is known is of an
7 off-peak nature; is that correct?

8 A. Yes. The Bary Curve by definition, as Mr.
9 Sundermeir testified, is an off-peak concept. In other
10 words, it's independent of the time of peaking. In other
11 words, it could peak at midnight or during the system peak.
12 It's not material to the Bary Curve concept.

13 Q. Mr. Larson, I would like to show you a graph that
14 sets forth part of the Bary Curve.

15 (Document handed to witness.)

16 MR. MacGREGOR: I don't propose to introduce this
17 at this time but I think it will be useful for discussion
18 purposes.

19 BY MR. MacGREGOR:

20 Q. Mr. Larson, you testify at the top of page 12
21 of your testimony that the Bary Curve is largely flat after
22 about an 80 percent coincidence factor; is that correct?

23 A. Yes.

24 Q. Would you agree with me that this graph shows
25 that the curve is in fact not flat at 80 percent coincidence

1 factor but continues to rise through the rest of the range
2 of usage?

3 A. It is not -- well, it tends to be flat in the
4 useful range, say, from 40 percent load factor to about
5 70 percent load factor. It probably averages about 80 in
6 that area.

7 Q. But it does increase, though, between even 40
8 percent and 70 percent?

9 A. Yes, there is some increase. But most of your
10 customers will fall within that range, in that 80 percent
11 coincidence factor range.

12 Q. Now, with respect to your statement that there
13 is little or no empirical information for the high ranges
14 of use, would you agree with me that there are as many
15 points on the graph at the high end load factor ranges as
16 there are in the low end load factor ranges? In fact,
17 we have more empirical evidence, probably, about the high
18 end load factors than we do about the very low range load
19 factors.

20 A. There are points in the above 80 percent load
21 factor. However, that does not indicate that there are a
22 lot of customers out there. These are test points.

23 Q. What do these test points include, Mr. Larson?
24 Do they not include groups of 30 customers, each point
25 representing an average of 30 customers?

1 A. I don't know if it's 30 customers. I assume
2 that it's properly prepared, though.

3 Q. Would you agree with me that between 90 and
4 100 percent load factor we find six points on the graph?
5 Is that correct?

6 A. Yes.

7 Q. Whereas we only find two points between zero
8 and ten percent load factor?

9 A. That's correct.

10 Q. So we have more empirical information about the
11 90 to 100 percent load factor range than we do about the
12 zero to ten percent load factor range?

13 A. That's correct.

14 Q. And would you also agree with me that for the
15 10 to 20 percent load factor range we have six or seven
16 points and that between the 80 and 90 load factor range
17 we have approximately 12 points; so again we have more
18 empirical information at the 80 to 90 percent range than
19 we do for the 10 to 20 percent range?

20 A. Yes. I was not making that comparison, but I
21 agree with your comparison.

22 Q. Would you also agree with me that at least
23 according to the title of this document it is based upon
24 data for a summer month system peak in 1974, which
25 presumably would be an on-peak period?

1 A. A summer month would be on-peak, yes.

2 Q. Beginning at line 12 and continuing on on page
3 12 of your testimony you mention that the marginal cost of
4 operating the Limerick unit is about one cent per kilowatt
5 hour; is that correct?

6 A. Yes.

7 Q. Can you explain to me what relevance, if any, that
8 has to the development of the Rate PD tail block?

9 A. Yes. We have a situation here where it is
10 very expensive to install capacity but it is very inexpensive
11 to run this unit. Accordingly, the economies in the PECO
12 system greatly require increased load factor in order to
13 achieve the economies available on the system. When they
14 can make energy for one cent a kilowatt hour and their
15 average rate is 11 cents, there needs to be a tremendous
16 incentive for encouraging high load factor usage in order
17 to take advantage of these economies.

18 Q. You're not testifying, are you, Mr. Larson, that
19 the Rate PD class high load factor customers take service
20 solely from Limerick, are you?

21 A. Of course not.

22 Q. Or that the Rate PD demand charge or any other
23 portion of the rate should be designed based upon Limerick
24 costs and energy savings?

25 A. I mentioned Limerick because it is the lowest

1 Cost unit. It's a very large unit and therefore it is
2 a high percentage of the generation.

3 However, on average, as I point out, the off-peak
4 cost is 1.8 cents per kilowatt hour.

5 Q Just one point of clarification on the time of
6 use adjustment, the proposed time of use rider for Rates
7 GS and PD. You've testified that a time of use adjustment
8 rider should be extended to Rates GS and PD; is that correct?

9 A Yes.

10 Q Is it your proposal that it be extended upon
11 similar conditions as that provided in Rate HT?

12 A Basically yes. However, I disagree with the
13 company that very expensive electronic metering need be
14 installed. We have other companies even larger than PECO,
15 such as Public Service Electric and Gas, installing time of
16 day meters for \$600. Those metering costs for these size
17 customers that I'm talking about is negligible.

18 Q I was interested more in the fact that the time
19 of use adjustment as it applies to Rate HT applies only to
20 those HT customers whose billing demands exceed 2,000
21 kilowatts. Would you propose that a similar restriction
22 apply in Rates PD and GS? Or is it your proposal to
23 remove that restriction and apply the time of use adjustment
24 to all customers within that class?

25 A I wasn't addressing my testimony to HT but

1 to PD and GS. I think it could be applied to any customer
2 over 150 KW.

3 Q. But, then, as it stands now HT customers with
4 150 kilowatts of demand or above but less than 2,000
5 kilowatts would not be able to advantage of the time of
6 use adjustment?

7 A. I'm not recommending anything in regard to
8 HT.

9 Q. But you are recommending something very different
10 for GS and PD than currently exists for HT. Customers with
11 similar demands in Rates HT and PD would be treated
12 differently in that a HT customer would not be able to take
13 advantage of the time of use adjustment and a PD customer
14 would; is that correct?

15 A. No. I'm not recommending that the 2,000
16 limitation should be continued.

17 Q. Are you recommending that it not be continued?

18 A. No. I'm not making a recommendation either way.

19 Q. Are you recommending that it be retained?

20 A. No.

21 Q. Are you recommending that it not be retained?

22 A. No.

23 I would say that it would probably be consistent to
24 remove it --

25 Q. But you're not recommending that?

1 A. -- if the time of day adjustment is extended
2 to Rates GS and PD. Whether that requires a redesign of
3 the time of day adjustment, I'm not sure. I just haven't
4 looked into that.

5 Q. Do you know of the approximately 2,200 HT
6 customers how many currently have billing demands in excess
7 of 2,000 kilowatts and are therefore subject to the time of
8 use adjustment?

9 A. I have that information available but I don't
10 have it right here.

11 Q. It's a relatively small percentage, is it not?

12 A. Yes.

13 Q. Am I correct that the current HT time of use
14 adjustment for those customers with billing demands in
15 excess of 2,000 kilowatts is mandatory?

16 A. If you say it is I will accept that.

17 Q. Is your proposal for Rates GS and PD that the
18 time of use adjustment be mandatory for all customers
19 within that class?

20 A. Yes, it would be.

21 Q. Have you made any analysis of the impact that such
22 a mandatory proposal might have on the individual bills of
23 customers within Rates GS and PD?

24 A. No, not exactly. But I would recommend that the
25 impact be zeroed-out and therefore the overall impact would

1 be nothing.

2 Q On a class basis?

3 A Yes.

4 Q But there would be impact on individual customers?

5 A There would be impact on individual customers
6 but on the class there would be no impact.

7 Q And have you examined the range of impact that
8 might apply to customers within that class, the relative
9 on-peak and off-peak usage GS customers?

10 A No.

11 MR. MacGREGOR: Thank you, Mr. Larson.

12 That's all I have, Your Honor.

13 JUDGE MATUSCHAK: Staff?

14 MS. CHESTNUT: Thank you, Your Honor.

15 CROSS-EXAMINATION

16 BY MS. CHESTNUT:

17 Q Mr. Larson, my name is Marcie Chestnut and I
18 represent the Staff in this proceeding.

19 A Good morning.

20 Q I have one question for you. At various places
21 in your testimony, such as on page seven, you use the word
22 "discrimination." Can you define that term for us, please,
23 as you use it?

24 A Yes. I don't know if that is true everywhere
25 but my general definition of discrimination is when rates do

1 not follow costs they are discriminatory. When the rates
2 do not follow costs by a wide margin, such as recommended
3 by some of the witnesses here, then I would say it was
4 unduly discriminatory.

5 Q So in your opinion any rate that is not cost-
6 based is discriminatory?

7 A Yes, but it may or may not be unduly discriminator

8 Q And you made no specific analysis of how that
9 term is used in this jurisdiction?

10 A I'm not using it in a legal sense. I'm just
11 recommending from an economic sense.

12 MS. CHESTNUT: Thank you, Mr. Larson.

13 That's all I have, Your Honor.

14 JUDGE MATUSCHAK: Consumer Advocate?

15 MR. WERSAN: No questions, Your Honor.

16 JUDGE MATUSCHAK: Mr. Kleppinger.

17 MR. KLEPPINGER: Thank you, Your Honor.

18 CROSS-EXAMINATION

19 BY MR. KLEPPINGER:

20 Q Good morning, Mr. Larson.

21 A Good morning.

22 Q You mentioned in response to Mr. MacGregor that
23 you do not challenge the company's class cost of service
24 study. Did you have the occasion to compare the results
25 of the company's cost of service study presented in this

1 proceeding with the results of prior cost of service
2 studies presented by Philadelphia Electric Company to the
3 Commission?

4 A. Yes, to the extent that I show in my exhibit on
5 page one. I have compared the unitized rates of return from
6 1974 to 1986 for the two classes, PD and GS.

7 Q. Did you look at any other classes when you
8 were performing this comparison or did you focus only on
9 PD and GS?

10 A. I looked at other classes. I focused on PD and
11 GS.

12 Q. Did you recognize that the cost of service study
13 results presented by the company in this proceeding
14 differ in terms of class relationship to the system average
15 rate of return from prior cost of service studies?

16 A. Yes, I observed that.

17 Q. Did you examine the reasons as to why that
18 may have occurred in this proceeding?

19 A. Yes. In regard to a methodology but no, not
20 in regard to application.

21 Q. For example, did you examine whether data
22 which was utilized to present the load data in the cost of
23 service study was typical or normal load for the
24 Philadelphia Electric Company system?

25 A. No, I did not.

1 Q. You did not examine that?

2 A. No.

3 Q. You stated that the point of the rate design side
4 of your testimony is that you're attempting to move fixed
5 cost collection out of the tail energy blocks of GS and
6 PD and into the early energy charges or demand charges of
7 those rate schedules; is that correct?

8 A. Yes.

9 Q. As far as that theory is applied, does that
10 theory also apply to the Rate HT class?

11 A. It should. However, I have not analyzed the
12 HT class.

13 Q. Do you recognize, Mr. Larson, that if the tail
14 block energy charges which you proposed for GS and PD would
15 be approved that those charges would be less than the
16 proposed tail energy block for Rate HT?

17 A. Can you give me those numbers?

18 Q. Would you accept subject to check that the
19 company's proposed end block for Rate HT is 3.75 cents
20 per KWH?

21 A. Yes.

22 Q. And you are proposing end blocks for GS and PD
23 at what levels?

24 A. Three and 3.3. So HT would be, perhaps, 2.7,
25 or about one cent less than that proposed by PECO.

1 Q That is if your philosophy of rate design would
2 be applied to Rate HT as well?

3 A Yes.

4 Q And would I be correct that that would keep in
5 line the historical relationship between PD, GS and HT in
6 that the HT tail block has consistently been below the tail
7 end block energy prices for GS and PD?

8 A Yes. It should be because the costs are lower.

9 MR. KLEPPINGER: I have no further questions.

10 Thank you, Mr. Larson.

11 JUDGE MATUSCHAK: Any other questions on cross-
12 examination for this witness?

13 Mr. Widoff.

14 MR. WIDOFF: Thank you, Your Honor.

15 CROSS-EXAMINATION

16 BY MR. WIDOFF:

17 Q Mr. Larson, my name is Mark Widoff. I
18 represent the University of Pennsylvania and the Utility
19 Users Group. Good morning.

20 A Good morning.

21 Q I just have a couple of questions for you.

22 Mr. MacGregor from the company asked you from what
23 source you had derived your 1.8 cent number, and if I
24 understood your response you said that you had taken a
25 2.5 cent number and then subtracted from it .8 cents, which

1 was your calculation of -- of what? Let's start there.

2 A. That's not quite right. I did start with the
3 2.5 cents, which was PECO's response to a data request by
4 the Pennsylvania Food Merchants Association. From that
5 I subtracted not .8 but .7 cents. The .7 cents represents
6 the decrease in average fuel costs for the system because
7 of the addition of Limerick 1.

8 Q. For the sake of the record could you tell us
9 precisely what is the source of your calculations, both
10 with respect to the 2.5 cents and with respect to the .7
11 cents?

12 A. Neither one is a calculation?

13 MR. RYAN: May I approach the witness to show him
14 the interrogatory?

15 A. The 2.5 cent fuel costs for off-peak energy
16 appears in PECO's response to PFMA-1-1 information request.
17 The number is actually 2.452 cents per kilowatt hour.

18 MR. WIDOFF: May I look at that, please, Your Honor?

19 (Document handed to Counsel Widoff.)

20 (Pause.)

21 MR. WIDOFF: That's all the questions I have, Your
22 Honor.

23 JUDGE MATUSCHAK: Is there any other cross-examination
24 for this witness?

25 (No audible response.)

1 JUDGE MATUSCHAK: Any redirect?

2 MR. RYAN: No redirect, Your Honor.

3 JUDGE MATUSCHAK: The witness is excused.

4 (Witness excused.)

5 JUDGE MATUSCHAK: Who wishes to proceed next?

6 MR. SQUIRES: If Your Honor pleases, Mr. King and
7 Mr. Figley are present for the Pennsylvania Business
8 Utility Users Group.

9 MR. MacGREGOR: If it's acceptable I would like to
10 do Mr. King first and then Mr. Figley.

11 MR. SQUIRES: Fine.

12 Whereupon,

13 CHARLES W. KING

14 having been duly sworn, testified as follows:

15 MR. SQUIRES: If Your Honor pleases, I would like to
16 have marked as PBUUG Exhibit No. 1 the direct testimony of
17 the Pennsylvania Business Utility Users Group by Charles
18 W. King.

19 JUDGE MATUSCHAK: Do you want that marked as an
20 exhibit or statement?

21 MR. SQUIRES: Well, Statement No. 1, the testimony
22 and the exhibits attached thereto.

23 JUDGE MATUSCHAK: So identified.
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25

3343
(Whereupon, the document was marked as Pa. Business Utility Users Group Statement No. 1 for identification.)

DIRECT EXAMINATION

BY MR. SQUIRES:

Q Mr. King, you have before you what has been identified as Statement No. 1?

A Yes, I do.

Q And is that your direct testimony in this proceeding?

A Yes, it is.

Q And related exhibits?

A Yes.

Q Were the exhibits attached as well as the testimony prepared by you or under your direct supervision?

A Yes, they were.

Q And if those questions were asked of you today would the answers given by you be substantially the same?

A Yes, they would, subject to four corrections.

Q And what are those corrections?

A Correction number one is at the bottom of page two, line 23. The figure "39.3 percent" should be 39.2 percent. Let me say parenthetically that that reflects the base revenue drawn from the cost of service studies. There is an alternative base revenue presented in Company Exhibit A-5, and that cost of service study suggests the increase --

1 that base revenue suggests the increase should be 37.7.
2 So there are two numbers that would be applicable there.

3 Page 15, line 23, the fourth from last word says
4 "from investors." It should say ratepayers.

5 Page 17, line one, in the parenthetical phrase it
6 refers to pages two through seven. That should be pages
7 two through six.

8 And finally, page 24, line six, the words "other
9 high load factor customers" should read low load factor
10 customers.

11 Q And is that the extent of any changes or
12 additions which you wish to make to your testimony?

13 A Yes, it is.

14 Q Thank you, Mr. King.

15 MR. SQUIRES: If Your Honor please, at this time I
16 move Statement No. 1 into evidence subject to cross-examina-
17 tion of the witness.

18 JUDGE MATUSCHAK: Subject to any timely exceptions
19 the motion is granted.

20 (Whereupon, the document marked
21 as Pa. Business Utility Users
22 Group Statement No. 1 was
received in evidence.)

23 JUDGE MATUSCHAK: Mr. MacGregor.

24 MR. MacGREGOR: Thank you, Your Honor.
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CROSS-EXAMINATION

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BY MR. MacGREGOR:

Q. Good morning, Mr. King.

A. Good morning.

Q. Mr. King, at the beginning of page seven of your testimony and I guess continuing throughout your testimony you describe the timing of Limerick 1 benefits and costs. Am I correct that you generally testify that with respect to Limerick the benefits are expected to increase over time and that in the early years of the plant's operation the costs will exceed the benefits and then that relationship will change as the plant ages?

A. That's correct.

Q. Mr. King, as a general proposition is this same type of relationship generally true of most major base load units?

A. I don't believe so because normally a base load unit in the past comes in in response to a growth in demand. Usually that base load unit has had substantially lower costs than the pre-existing units, with the result that there is no substantial increase in the revenue requirement. There may be some small increase, but nothing like the 30 to 40 percent increase that we observe for Limerick.

Q. Have you examined the proposition, Mr. King, with respect to the base load units on Philadelphia Electric

1 Company's system as to the relative costs and benefits of
2 those units in the initial years of their operation?

3 A. No. It's based on my understanding that
4 Philadelphia Electric has never requested this level of
5 increase.

6 Q. But you have not examined the units specifically
7 to determine their relative cost/benefit in the early
8 years of operation? Have you examined the Peach Bottom
9 units or Salem unit to determine its relative cost/benefits,
10 either in its early years of operation or over its life?

11 A. No, I have not. I really rely more on the
12 result than the underlying costs; the results have not up
13 until now represented the enormous rate shocks that we see
14 with Limerick.

15 Q. Would you agree with me, Mr. King, that the
16 current ratepayers today are receiving the energy benefits
17 of base load units built by the company in the 1960s and
18 1970s?

19 A. Yes.

20 Q. Have you made any analysis of the total cost/
21 benefit relationship of PECO's base load units as a whole in
22 1985?

23 A. I'm sorry. Would you repeat the question?

24 Q. Have you made any analysis of the relative
25 cost/benefit of the PECO base load units as a whole

1 currently, say, for 1985?

2 A. I'm not sure I understand the question.

3 Q. Have you examined the cost/benefit relationships
4 of each PECO base load unit in 1985 to determine the net
5 result?

6 A. I believe I answered that question a minute ago.

7 Q. No, I believe my former question to you was if
8 you had analyzed the initial years of operation of various
9 PECO base load plants to determine the extent to which their
10 costs exceeded the initial years benefits when they were
11 placed in service in the 1960s and 1970s.

12 A. And my answer was no, I have not, but I have
13 observed that there have not in the past been the level of
14 rate shock increase that we are seeing here.

15 Q. And my next question to you was as of 1985 have
16 you analyzed the relative cost/benefit relationships of
17 PECO base load units as a whole to determine the relevant
18 cost/benefit relationship at this time?

19 A. No. It would be a difficult calculation to
20 make.

21 Q. At page ten of your testimony you provide an
22 example in the top half of the page of a home mortgage
23 payment; is that correct?

24 A. Yes.

25 Q. Have you performed any analysis, Mr. King, as to

1 how long the average 30 year mortgage is held by the
2 average homeowner in this country?

3 A. No. Such an analysis could be made but I
4 didn't find it terribly relevant to this.

5 Q. Now, you present, as I read your testimony, three
6 alternative ways in which the Limerick rate increase could
7 be phased in; is that correct?

8 A. Yes.

9 Q. And those are value-based pricing, trended rate
10 base and an annualized payment method?

11 A. Yes.

12 Q. Am I correct that you have not provided in your
13 testimony any analysis of the relative financial impacts
14 these proposals would have on the company's financial
15 condition, either over the next year or two or over the
16 life of the plant?

17 A. I believe I allude to that problem.

18 Q. But have you performed a specific analysis of
19 what impact your plans would have on the company's cashflow
20 indicators and other coverage and earnings requirements?

21 A. No, I have not.

22 Q. Now, the first method you discuss is value-based
23 pricing and you indicate, I believe, at page 15 of your
24 testimony that one disadvantage of the value-based pricing
25 method is that it may have an adverse impact on the

1 company's financial condition; is that correct?

2 A. That's correct.

3 Q. Are you aware, Mr. King, that if such a methodology
4 were adopted in this case that it would result in a
5 substantial net rate decrease to Philadelphia Electric
6 Company?

7 A. I don't believe that would be the case. How
8 would that -- no, that would not happen, the reason being
9 that the revenues allowed for Limerick would be offsetting
10 costs that the company would have incurred had Limerick
11 never been built. Therefore, the company would immediately
12 get as a Limerick-related rate increase the full fuel
13 savings that Limerick generates.

14 Q. So the increase in costs allowed in rates would
15 be offset by the fuel savings so there would be no net
16 change in rates overall associated with Limerick 1; is
17 that correct?

18 A. There might be some increase associated with the
19 fact that had Limerick not been built the company may have
20 to acquire additional power from off-system purchases. In
21 other words, one would have to project forward the costs
22 the company would incur had Limerick not been built.

23 You can hypothesize that as the system expands, as
24 the years go on, there would be added costs from the
25 necessity to purchase additional power and additional

1 capacity, and those are shown in your own figures.

2 Q. Now, on page 15 of your testimony, lines five and
3 six you state, "Under value-based pricing PECO would
4 receive no immediate increase in revenue whatsoever," is
5 that correct?

6 A. That would be in the first year.

7 Q. And is that associated with -- your statement
8 is referenced to Limerick 1; is that correct?

9 A. Yes.

10 Q. Would you agree with me that there are non-
11 Limerick-related costs, rate base and expenses in this
12 proceeding claimed by the company?

13 A. Yes, I was not addressing those.

14 Q. Are you aware that the net result of the non-
15 Limerick-related costs and expenses in this proceeding is
16 a net revenue decrease?

17 A. That has not been my impression.

18 Q. If it were the case then value-based pricing in
19 the first year would produce a net revenue decrease; correct?

20 A. If there were the case.

21 Q. Thank you, Mr. King.

22 Now, the second method you discuss is trended rate
23 base; is that correct?

24 A. Yes.

25 Q. You state at page 19, beginning at line three of

1 of your testimony, that a principal difficulty with this
2 method is that it appears to create an ever-increasing
3 revenue requirement throughout the plant's life; is that
4 correct?

5 A. Yes.

6 Q. And you have provided tables at the back of your
7 testimony which show the total Limerick revenue requirement
8 over its life from 1986 through 2025; is that correct?

9 A. Yes.

10 Q. Would you agree with me that the nominal increase
11 in Limerick revenue requirement is approximately 500
12 percent over the life of the plant under a trended rate base
13 method?

14 A. I haven't made that calculation but I will take
15 your word for it. That's in nominal dollars, as I point
16 out. In constant dollars that is still a decrease.

17 Q. But over the life of the plant in nominal dollars
18 the revenue requirement associated with Limerick will
19 increase 400 to 500 percent?

20 A. In current dollars, yes.

21 Q. Now, the final method you propose is a levelized
22 payment method; is that correct?

23 A. That's correct.

24 Q. And as I understand your proposal, you would
25 establish a levelized recovery of Limerick 1 capital costs

1 and the difference between the level of that payment
2 and traditional depreciation return ratemaking would be
3 deferred or capitalized and recovered over the life of the
4 plant; is that correct?

5 A. That's my recommendation based on the fact that--
6 there is an alternative, which I mention in the footnote,
7 which is sinking fund depreciation, which does not involve
8 deferred revenues. The only reason for not going to sinking
9 fund, as the footnote suggests, relates to income tax
10 obligations. If that problem could be resolved then it
11 would not be necessary to have the deferred revenue. In
12 effect you could still create a revenue stream as you get
13 under my recommendation using sinking fund if you modified
14 the conventional normalization of income tax.

15 Q. Have you provided in your testimony any calculation
16 of the total amount of revenue that would be deferred for
17 later payment under a levelized payment plan?

18 A. I have not.

19 Q. And have you provided any calculation of the
20 carrying charges that would accrue over the life of the
21 plant under this program?

22 A. I come up with a levelized payment on page 19
23 at line 23 of \$410.02 million.

24 Q. Correct. And have you provided any calculation of
25 what the difference between that is and traditional straight-

1 line depreciation occurring over the course of the life of
2 the plant and what resulting deferral would occur?

3 A. I have not run that calculation. It is not
4 terribly material because it is a \$410.02 million charge
5 every year throughout the life of the plant. That recovers
6 the revenue.

7 Q. Have you provided any analysis in your testimony
8 of the effect of this program on the company's cashflow
9 over the next five to ten years?

10 A. No, I have not.

11 MR. MacGREGOR: Thank you, Mr. King.

12 That's all I have, Your Honor.

13 JUDGE MATUSCHAK: Staff.

14 MS. CHESTNUT: Thank you, Your Honor.

15 CROSS-EXAMINATION

16 BY MS. CHESTNUT:

17 Q. Good morning, Mr. King.

18 A. Good morning.

19 Q. Mr. King, with respect to the three alternative
20 phase-in procedures that you discuss, are you recommending
21 any particular one for the Commission to adopt in this
22 proceeding?

23 A. No. My objective here was to do two things.
24 One was to point out the inequity of the application of
25 conventional rate base treatment to an enormous plant like

1 Limerick and the fact that it results in a severe
2 mismatch of benefits and costs. The other was to suggest
3 three possible methods that the Commission might consider
4 as ways of avoiding the rate shock increases that the
5 company seems to want.

6 I have not set down which one I would recommend.

7 Q. Would you be satisfied if the Commission were to
8 adopt any one of these proposals subject to the conditions
9 that you have indicated in your testimony? Are they
10 equally acceptable?

11 A. I think they would be equally acceptable.

12 MS. CHESTNUT: Thank you.

13 No further questions, Your Honor.

14 JUDGE MATUSCHAK: Consumer Advocate.

15 CROSS-EXAMINATION

16 BY MR. WERSAN:

17 Q. Good morning, Mr. King. My name is David Wersan
18 and I'm with the Office of Consumer Advocate.

19 In your testimony you discuss different ways of
20 trending or phasing-in the costs of Limerick 1 over its
21 life and you discuss the costs and benefits of Limerick 1
22 over its life. Are your numbers in your analyses of the
23 costs and benefits of Limerick 1 based upon the numbers
24 developed by the company in this case?

25 A. Yes, they are.

1 Q. Have you independently reviewed those costs and
2 benefits calculations in terms of whether or not you think
3 they are representative of what may actually occur in the
4 future?

5 A. No, I have not.

6 Q. So you use them as examples and not as a
7 recommendation that the company's numbers are accurate?

8 A. That's correct. I use them for illustrative
9 purposes. Obviously were the company -- were the Commission
10 to adopt, for example, value-based pricing, the Commission
11 should go through those numbers and determine the extent
12 to which they reflect a realistic appraisal of the benefits
13 that Limerick would generate.

14 Q. Do you have any opinion on when the benefits of
15 Limerick will exceed the costs, or have you not reviewed that?

16 A. I certainly have not made a detailed calculation.
17 The company's numbers show the crossover at about nine
18 years out. The company's numbers, however, reflect
19 assumptions made about six months ago -- at least I assume
20 it was six months ago. Certainly, with regard to the near-
21 term price of fossil fuel and probably the near-term
22 estimate of inflation that assumptions are not out of date.

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

24 Thank you, Mr. King.

25 JUDGE MATUSCHAK: Any other cross-examination of

1 this witness?

2 MR. KLEPPINGER: Yes, Your Honor.

3 CROSS-EXAMINATION

4 BY MR. KLEPPINGER:

5 Q Good morning, Mr. King.

6 Just for the record, Mr. King, could you identify
7 what rate schedules members of PBUUG are served under?

8 A Rates HT and PD.

9 Q And how would you characterize the load
10 characteristics of the members of PBUUG?

11 A They vary. You're talking about general
12 merchandise department stores. Some have large catalogue
13 facilities that have very high -- relatively high -- load
14 factors. Most stores, however, are summer peaking because
15 the principal load is air conditioning and probably have,
16 at least, certainly, within the HT class, relatively low
17 load factors.

18 Q As I understand the beginning portions of your
19 testimony where you discuss three alternative revenue
20 requirement philosophies for treating Limerick Unit 1, you
21 are focusing primarily on both costs and benefits of
22 Limerick 1; is that true?

23 A That's correct.

24 Q Now, when we get to page 24 of your testimony
25 you begin a discussion of the Limerick cost allocation

1 and you state at lines 20 to 21 that in your opinion the
2 principal issue of cost allocation is the distribution of
3 Limerick 1 capital costs between energy and demand.

4 Am I correct that in this portion of your testimony
5 you are only focusing on the costs of Limerick 1 and not
6 on the benefits of Limerick 1?

7 A. Not at all. The reason for reconsidering the
8 cost allocation of Limerick 1 capital costs is the
9 distribution of the benefits. Since the benefits flow
10 almost entirely to energy, it seems altogether unreasonable
11 and discriminatory that the costs should be assigned almost
12 entirely to demand.

13 Q. Let me ask you if in your cost allocation for
14 Limerick 1 you have modified in any way the fuel costs
15 which are, as you have defined them, the benefits of this
16 plant, if you have modified that allocation in any way.

17 A. First of all, I have not done the cost study.
18 I think questions such as that would be better addressed to
19 Mr. Figley. I have merely observed that the benefits
20 flow to energy. They flow immediately to energy.

21 Q. Well, if you're not going to answer my question
22 then I would rather you not continue with the answer. If
23 you're not going to answer my question --

24 A. I'm trying to answer your question. Could you
25 ask it again, please?

1 Q My simple question is that in your recommendation
2 on Limerick cost allocation you have recommended a change
3 to the way the capital costs of that plant should be
4 allocated; and I understand that. My question is whether or
5 not you have recommended any change to the way the fuel
6 costs of that plant should be allocated, or have you agreed
7 with an average energy allocation as the company has proposed

8 A I have made no recommendation with regard to the
9 energy allocation.

10 Q Fine.

11 Now, you identify the cost of a peaking generating
12 unit as \$396 per KWH. Is that the current cost in your
13 mind of a peaking unit on Potomac Electric Power Company?

14 A It was derived from their marginal cost studies.
15 In the District of Columbia they are obliged to develop
16 marginal cost class cost of service studies and that
17 necessitates development of the marginal cost, marginal
18 capital cost in this instance, of a peaking unit; and \$390
19 was that number.

20 Q So you didn't extract that cost from any PECO
21 data as to what the capital cost of a combustion turbine
22 or peaking unit on PECO's system would be?

23 A The answer is no. We did not find any combustion
24 turbine marginal costs available from PECO.

25 Q Did you examine what the cost of a peaking

1 generating unit which was on the PECO system at the time
2 Limerick was initially being planned was?

3 A. No. I'm not sure it would be very relevant.
4 It certainly is no.

5 Q. Did you perform a comparison of the energy costs
6 associated with the peaking generating unit versus the
7 energy costs associated with Limerick 1?

8 A. I did not perform any formal comparisons but
9 obviously the energy cost of a peaking generator would be
10 enormously higher than the energy costs of Limerick.

11 Q. Did you conduct an analysis as to what the
12 crossover point would be between the total operating costs
13 of a peaking generating station versus the total operating
14 costs of Limerick 1 in terms of at what hours of use those
15 costs would cross over?

16 A. Well, I didn't perform that analysis. Obviously
17 it would be at a relatively low number of hours of use
18 because a peaking generator would be built to respond to
19 growth in peak and growth in peak only.

20 MR. KLEPPINGER: Thank you, Mr. King.

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

22 JUDGE MATUSCHAK: Is there any further cross-examina-
23 tion?

24 MR. FORT: If it please the Court, I have a few
25 questions on behalf of SEPTA.

CROSS-EXAMINATION

1 BY MR. FORT:

2 Q Mr. King, I believe I'm correct in stating that
3 you have testified in at least two previous hearings before
4 this Commission involving PECO rate increases on behalf of
5 SEPTA; is that correct?

6 A That's correct.

7 Q And I judge that you are in no way repudiating
8 any of your previous testimony in connection with your
9 presentation today?

10 A No.

11 Q I would like to ask you in particular, for
12 example, I believe you testified in a statement filed as of
13 June 22, 1983, in the matter of Pennsylvania PUC Docket
14 No. R-822291 as follows -- and I just want to make sure
15 that you have no reason to in any way change your mind
16 today -- and I quote: "This service" -- referring to
17 service to SEPTA -- "is particularly vital to those" --
18 referring to SEPTA's service to the public, I should say --
19 "this service is particularly vital to those who lack privat
20 automobiles, most notably the elderly and the poor. SEPTA
21 simply lacks the same freedom as PECO's industrial and
22 commercial customers enjoy: to pass increases in electric
23 costs through to their customers. Passenger fares cover onl
24 about half of SEPTA's operating costs. The remaining half
25

1 is derived from subsidies by federal, state and local
2 governments. The federal government has recently renewed
3 its threat to phase-out its operating subsidies. So that
4 further electric rate increases will likely increase the
5 pressure on fares and on SEPTA's need for state and local
6 government operating subsidies. If PECO continued to charge
7 SEPTA rates substantially greater than the PECO costs that
8 SEPTA causes then PECO is, in effect, assessing these
9 overcharges to SEPTA's riders and government contributions
10 in order to subsidize PECO's other customers."

11 Do you agree with that testimony today?

12 MR. SQUIRES: If Your Honor please, may the witness
13 be shown a copy of the passage Counsel has quoted from?

14 MR. FORT: Certainly.

15 BY MR. FORT:

16 Q This is your entire testimony and I have under-
17 lined the part I have just quoted.

18 A And what was the question?

19 Q Do you agree with that testimony today?

20 A Of course.

21 Q I will ask you about just one other portion of
22 your testimony to make sure that you agree with it today.
23 The question is: "Why is SEPTA's demand cost different from
24 that of the remainder of the HT Class?

25 "Answer: Mr. Figley deals with this issue in some

1 detail. Briefly, however, there are two reasons. The first
2 is the greater diversity of SEPTA's peak relative to the
3 peak of the HT class and the PECO system as a whole. SEPTA's
4 annual peak load characteristically occurs between 7:00 and
5 8:00 a.m. during the winter. In contrast, the High Tension
6 class peaks during the early afternoon's of the summer. The
7 PECO system as a whole peaks between 2:00 and 4:00 p.m. on
8 summer afternoon's. SEPTA's load at the time of the PECO
9 system peak is only 50 percent of its maximum peak during
10 the year. In contrast, the HT class is within 95 percent of
11 its maximum annual load at the time of PECO's system
12 coincident peak. SEPTA's greater peak load diversity thus
13 accounts for its relatively low cost and consequent high
14 rates of return.

15 "The second characteristic which distinguishes SEPTA
16 from other HT customers relates to the delivery system. Mr.
17 Figley has gone to considerable efforts to identify the
18 specific delivery facilities which serve SEPTA and to
19 compare those facilities with other similar HT customers.
20 His analysis reveals that SEPTA characteristically involves
21 less costly distribution facilities than do other customers."

22 I will place before you this testimony, which has
23 been underlined, and ask you if you agree with that testimony
24 today.

25 A. Of course.

1 Q I believe I am correct in stating, however,
2 that there is one very significant difference between the
3 testimony of you and Mr. Figley today as opposed to your
4 testimony on behalf of SEPTA several years ago. Am I not
5 correct that both you and Mr. Figley accepted the cost
6 allocation methodology of PECO, that is, the four CP system,
7 in 1983; is that correct?

8 A That's correct.

9 Q And this year you're rejecting it?

10 A Well, in 1983 we had no Limerick costs in the
11 cost allocation.

12 Q I'll repeat. This year you are rejecting it?

13 A For very consistent reasons.

14 Q Now, in 1983 were there not a substantial amount
15 of nuclear facilities in the rate base of PECO?

16 A Yes.

17 Q Do you know approximately what percent of the
18 plant in service and rate base involved nuclear facilities
19 in 1983?

20 A I do not have those figures.

21 Q Wasn't it approximately 50 percent?

22 A I could not say.

23 Q Now, as a result of your in 1985 rejecting the
24 four CP method which you accepted in 1983, this works to the
25 serious disadvantage of SEPTA, does it not?

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A. I really haven't performed that analysis.

Q. Don't you know whether or not the result of now rejecting the four CP method works to the serious disadvantage of your former client?

MR. SQUIRES: Your Honor, the witness has already answered the question. He has not made an analysis.

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

A. I think you would have to -- I would prefer to refer that to Mr. Figley, who actually did the cost of service study.

BY MR. FORT:

Q. Are you familiar with the circumstances under which power is delivered to Amtrak at Thorndale and Perryville?

A. No.

MR. FORT: No further questions, Your Honor.

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

MR. WIDOFF: Yes, Your Honor.

JUDGE MATUSCHAK: Mr. Widoff.

MR. WIDOFF: Just a couple very brief questions.

CROSS-EXAMINATION

BY MR. WIDOFF:

Q. Mr. King, my name is Mark Widoff, representing

1 the University of Pennsylvania and the Utility Users
2 Committee.

3 With respect to your testimony am I correct that in
4 the first part of your testimony you provide the Commission
5 with three alternative approaches to the basic question of
6 what is the fair and appropriate way of allocating for all
7 customers the capital costs associated with Limerick 1?

8 A. Yes, that's correct.

9 Q. And with regard to the second part of your
10 testimony am I correct that you are making a recommendation
11 with respect to how the capital costs associated with Limerick
12 should be allocated within the HT class on a fair and
13 equitable basis?

14 A. Well, both among classes and within both the
15 HT and the PD classes.

16 Q. Now, would it be correct to say that historically
17 neither in Pennsylvania nor elsewhere in the country --
18 when I say "historically" let's say excepting the last
19 few years -- that proposals such as you have made in this
20 proceeding were at least uncommon if not unheard of? Would
21 that be correct?

22 A. I don't know about that. There are a number of
23 standard accepted allocation methods that involve assignments
24 of substantial capital costs, capital generating costs, to
25 energy, the most common of which is the average and excess

method, which is used all over the country.

1 Q And how about with regard to the three types
2 of phase-in proposals in the first part of your testimony?

3 A Well, of course, those only arise as we have
4 rate shock cases, and rate shock cases are a relatively
5 recent development. Those three methods are increasingly
6 being considered. As I think I point out in my testimony,
7 the value-based pricing method is in fact prescribed in
8 Massachusetts.

9 Q And am I correct that taking it from the answer
10 you just gave me that a primary that commissions throughout
11 the country are looking at these alternatives is precisely
12 because of the rate shock impact?

13 A Yes, indeed.

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

15 JUDGE MATUSCHAK: Any further cross-examination?

16 MR. RYAN: Yes, Your Honor.

17 CROSS-EXAMINATION

18 BY MR. RYAN:

19 Q Mr. King, I'm Bernard Ryan, Counsel for the
20 Pennsylvania Food Merchants Association.

21 Am I correct that in the portion of your testimony
22 where you discuss your proposals concerning the Limerick
23 cost allocation you agree, at least to a limited extent,
24 I think you put it, that the margin of capacity over peak
25

1 load would be unacceptably low for PECO absent the Limerick
2 capacity being added here?

3 A. Well, I think what I say is that's the company's
4 contention and I have observed some exhibits that purport
5 to demonstrate it. I have certainly not examined that in
6 any detail. I have, for example, not examined the
7 possibility that the company could have substantial further
8 capacity from off-system purchases.

9 Q. But your testimony is, and I quote, "The company's
10 figures suggest that absent the Limerick plant the margin of
11 capacity over peak load would become unacceptably low."

12 A. That's right.

13 Q. That is on page 25?

14 A. Yes. That is referring to the company's figures.
15 I have not made an independent judgement.

16 Q. And you have no reason to challenge that at this
17 point?

18 A. Again, I have made no independent judgement.

19 Q. Then you refer to certain costs per KW that are
20 developed from cost studies of the Potomac Electric Power
21 Company, to which you refer in your testimony and I believe
22 you alluded to in your cross-examination response of a
23 few minutes ago; is that correct?

24 A. That's correct.

25 Q. Tell me, are you familiar with that company enough

1 to tell us if in the last five years Potomac Electric has
2 built any construction turbines -- I'm sorry -- combustion
3 turbines, CTs?

4 A. The answer is no. What we had, what the \$390
5 stands for, is their estimate of the projected cost of
6 constructing a new combustion turbine. They have not built
7 any.

8 Q. Are you familiar with a magazine called Electrical
9 World and its annual generation construction survey?

10 A. Yes.

11 Q. Would you agree with me that the current survey,
12 which was published in the January, 1986 edition of that
13 magazine, shows that there is not a single utility in the
14 United States planning to add a combustion turbine in its
15 construction program for 1986?

16 A. I don't recall that particular conclusion but
17 it's quite possible.

18 MR. RYAN: I have no further questions.

19 JUDGE MATUSCHAK: If there is nothing further of
20 this witness --

21 MR. MacGREGOR: Your Honor, I have one more question.

22 JUDGE MATUSCHAK: You have another question?

23 MR. MacGREGOR: Just a follow-up question.

24 JUDGE MATUSCHAK: Very well.
25

FURTHER CROSS-EXAMINATION

1
2 BY MR. MacGREGOR:

3 Q I believe, Mr. King, you indicated in response to
4 a question by opposing Counsel that you had referenced a
5 Massachusetts procedure in your discussion of valued-based
6 pricing in your testimony. Perhaps I'm overlooking it, but
7 I see no reference in your testimony to a Massachusetts
8 based pricing -- maybe I'm looking in the wrong place.
9 If it's not there, could you please provide me with a
10 basis for your conclusion?

11 A I will do that. It refers to the Millstone 3
12 nuclear plant and its costs and the Western Massachusetts
13 Electric Company. I will give you the citation of the
14 decision.

15 Q But it applies principally to the Millstone
16 3 case and is not a general policy that has been adopted
17 by that commission at this time to the best of your
18 knowledge?

19 A To the best of my knowledge they have not --
20 well, no, I'm wrong. That has been adopted as the general
21 position going forward.

22 Q Can you provide me with a copy of the basis for
23 that conclusion?

24 A Yes, I will.

25 MR. MacGREGOR: Thank you. That's all I have.

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MR. SQUIRES: No redirect, Your Honor.

JUDGE MATUSCHAK: Very well. The witness is excused.

(Witness excused.)

MR. SQUIRES: Your Honor, I would ask that the direct testimony of Robert L. Figley on behalf of the Pennsylvania Business Utility Users Group be identified as Statement No. 2.

JUDGE MATUSCHAK: Very well.

(Whereupon, the document was marked as Pa. Business Utility Users Group Statement No. 2 for identification.)

Whereupon,

ROBERT L. FIGLEY

testified as follows:

DIRECT EXAMINATION

BY MR. SQUIRES:

Q Mr. Figley, do you have before you what has been identified as Pennsylvania Business Utility Users Group Statement No. 2?

A Yes.

Q Is that your direct testimony and related exhibits?

A Yes, it is.

Q And was that testimony and exhibits prepared by you or under your direct supervision?

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A. Yes, it was.

Q. And if those questions were asked of you today would your answers be substantially the same?

A. Yes, they would, with the exception of two corrections.

Q. What are those corrections?

A. Page 11, line 17, the last word on that line is "consumption." It should read conversation.

And in Exhibit RLF-7, page one, it's a typographical error. Under "Pricing, Present Rates" the charge for additional use is listed as 0.8376. It should be 0.0376.

Q. And, Mr. Figley, other than as modified today do you adopt Statement No. 2 as your testimony in this proceeding?

A. Yes, I do.

MR. SQUIRES: Your Honor, I have no further questions. I tender the witness for cross-examination. I would move Statement No. 2 into evidence, Your Honor, subject to cross-examination.

JUDGE MATUSCHAK: Subject to any timely exceptions or objections, it will be received in evidence.

(Whereupon, the document marked as Pa. Business Utility Users Group Statement No. 2 was received in evidence.)

1 Whereupon,

2 ROBERT L. FIGLEY

3 having been duly sworn, testified further as follows:

4 JUDGE MATUSCHAK: Mr. MacGregor.

5 MR. MacGREGOR: Thank you, Your Honor.

6 CROSS-EXAMINATION

7 BY MR. MacGREGOR:

8 Q. Good morning, Mr. Figley.

9 A. Good morning.

10 Q. Mr. Figley, Mr. Kleppinger and Mr. Fort have
11 asked most of the questions I had on the cost allocation.
12 I would like to ask you a couple of questions on the class
13 revenue allocation and your discussion of the demand
14 ratchet.

15 Am I correct that with respect to your proposed
16 revenue allocation that you essentially have proposed an
17 equal percentage increase in rates to the major customer
18 classes, including fuel costs?

19 A. I think my testimony identifies the exceptions
20 to that rule --

21 Q. But as a general matter?

22 A. As a general matter, that is correct.

23 Q. And would you also agree with me as a general
24 matter that if we would compare the increases proposed by
25 the company to those proposed by you that those classes

1 whose usage is somewhat more off-peak receive a larger
2 increase under your proposed rates than those proposed by
3 the company? I guess I'm referring specifically to Rates
4 RH and OP in particular.

5 A. Well, the rate increase that I developed for those
6 particular classes is a function of the cost of allocation.

7 Q. Could you answer my question first, please?

8 A. To the extent that it differs, my recommendations
9 differ.

10 Q. Would you please answer my question, Mr. Figley?
11 I asked you as a general matter whether you would agree with
12 me that for those classes whose usage is generally more off-
13 peak than on-peak, in particular Rates RH, OP and SLP, the
14 results of your methodology are to propose larger increases
15 for those classes than those proposed by the company?

16 A. Yes. That's correct because the cost allocation
17 methodology that Mr. King proposed and which I implemented
18 for the first time allocates to those classes costs which
19 have been heretofore not allocated because of the four CP
20 methodology. Under the methodology proposed by Mr. King
21 these classes do for the first time have assignments of
22 demand costs and it changes the whole order of things.

23 Q. Thank you, Mr. Figley.

24 Now, another difference in the results of your
25 methodology is that you impose somewhat greater increases

1 on SEPTA and Amtrak than those proposed by the company;
2 is that correct?

3 A. Yes. Again, it's a function of the different
4 results of the cost allocation.

5 Q. And specifically if we look on Exhibit RLF-4,
6 you propose an increase of about 15.2 percent for Amtrak
7 and about 20.5 percent for SEPTA; is that correct?

8 A. Yes, but those rate increases, the rate of return
9 for the two classes would be 12.7 percent, which is the
10 system average proposal.

11 Q. Am I correct that you presented testimony in this
12 proceeding on behalf of SEPTA in two of the company's rate
13 cases, the 1981 and 1983 rate proceedings, at docket numbers
14 R-811626 and R-822291?

15 A. Yes, that's correct.

16 Q. Am I correct that at least in the R-822291 rate
17 case you proposed rate decreases for SEPTA?

18 A. Again, whatever --

19 Q. Answer my question yes or no, Mr. Figley.

20 A. Well, if you provide me with a copy of that
21 testimony I would be able to verify whether in fact I did
22 that.

23 Q. You don't recall?

24 A. No, I don't recall. As I recall my testimony in
25 both of those cases, the recommendation was that the class

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1 rate of return for those particular rates should be set
2 equal to the system average and if that required a rate
3 decrease then in fact that is what the recommendation was.

4 Q And your recommendation was rejected, was it not?

5 A Was what?

6 Q Rejected, by the Commission.

7 A The recommendations for a separate cost of
8 service classification for SEPTA was rejected in both of the
9 proceedings that I was in. It was subsequently accepted
10 after the last case.

11 Q What was accepted, Mr. Figley?

12 A That the company produce a class cost of service
13 with the two services, SEPTA and Amtrak, identified as
14 separate cost categories and that rates be proposed for
15 those services.

16 Q And you did not testify on behalf of SEPTA or
17 Amtrak in that proceeding, did you?

18 A No.

19 Q Now, with respect to Exhibit RLF-4, another
20 difference in your proposal is that while the company
21 proposes no net increase in rates for either the Philadelphia
22 or suburban street lighting classes, you have proposed a
23 28.7 percent increase for Philadelphia street lighting but
24 no increase whatsoever for the suburban street lighting
25 class; is that correct?

1 A. That's correct.

2 Q. Would you agree with me that as a result of this
3 proposal the suburban street lighting class will be paying
4 rates, even under your cost of service study, that are below
5 the system average return?

6 A. You're talking about Rate SLP?

7 Q. SLS.

8 A. SLS? Yes. They would be slightly below.

9 Q. Ninty percent of the system average; is that
10 correct?

11 A. Yes.

12 Q. Would you agree with me that as a result of the
13 rate increase you have proposed on the SLP class that
14 class would be approximately 11 percent above the system
15 average?

16 A. Yes.

17 Q. Would you agree with me that the return for the
18 rate OP class under your proposal also would be above the
19 system average even under your cost of service study?

20 A. If you're reading from line 39 of Exhibit RLF-1
21 the answer is yes.

22 Q. Thank you.

23 Mr. Figley, am I correct that you also propose the
24 elimination of the HT demand ratchet?

25 A. I believe my recommendation is that if the compan

1 doesn't come forward with some justification for continuing
2 implementation of these minimum billing provisions that
3 indeed it should be rejected or eliminated from the rate
4 structure.

5 Q And one point you make in your discussion on
6 page ten of your testimony is that one of the assumptions
7 underlying the demand ratchet does not account for the
8 diversity between individual customers' peak demand and that
9 of the utility itself; is that correct?

10 A Yes.

11 Q And you state the generation and transmission
12 costs are allocated to HT and PD customer classifications
13 based upon class demands at the time of PECO's system peak
14 demand during each of the four summer months but that it is
15 unlikely that a customer's individual peak demand will
16 correspond with those peak demands; is that correct?

17 A That's what I said, yes.

18 Q Would you agree that is true, also, of each
19 of the other HT charges, customer charge, demand charge
20 and energy charge, in that they are also not calculated on
21 an individual customer basis?

22 A None of the charges are calculated on an
23 individual customer basis.

24 Q Now, at page 11 of your testimony you state at
25 the top of the page that the ratchet was first introduced

1 by the company seven or eight years ago. Did you bother
2 to check the accuracy of that figure, Mr. Figley, or was
3 that just a guess?

4 A. That was a guess based on another guess that I
5 heard from a PECO witness in cross-examination. The same
6 question was asked him and he gave an answer of eight or
7 nine years or nine or ten years, something like that. And
8 beyond that I didn't check. Obviously it was some time ago.

9 Q. Would you accept subject to check that the ratchet
10 was first introduced in 1969?

11 A. Yes.

12 Q. Would you also accept that the reasonableness and
13 the appropriateness of the demand ratchet is an issue that
14 has been litigated in practically every PECO rate proceeding
15 since that time?

16 A. Subject to check. I know it was the subject of
17 some discussion in last year's rate case by Dr. Wirtshafter.
18 I think he had some testimony about it. But I don't recall
19 reading the decision in that case, any discussion of ratchets.

20 Q. Would you agree with me, Mr. Figley, that the
21 Commission has approved the demand ratchet in every PECO rate
22 proceeding since it was introduced?

23 A. If it's a part of the proposed tariff sheet and
24 they accept that tariff sheet then they have approved it
25 implicitly. I'm challenging the acceptance of that in this

1 case.

2 Q I can't fault you for trying, Mr. Figley.

3 At page 11 at the bottom you state, as I understand
4 it, that the implementation of the ratchet could encourage
5 a customer to squander energy; is that correct?

6 A Yes, it could, providing he doesn't increase his
7 billing demand.

8 Q And you give an example. If the demand ratchet
9 places a customer at 280 hours of use he can squander only a
10 small amount of additional power to qualify for the very
11 low tail block rate that begins at 300 hours use; is that
12 correct?

13 A Yes, that's what it says.

14 Q Now, the increased energy that the customer uses
15 to increase his hours use from 280 to 300 hours use would
16 not be provided free of charge, would it, Mr. Figley?

17 A No.

18 Q That customer would pay almost seven cents per
19 kilowatt hour for that energy, would he not?

20 A It wouldn't be free of charge, no.

21 Q Would he pay approximately seven cents per
22 kilowatt hour for that energy?

23 A Under the current rates, yes.

24 Q And then his usage in the tail block also would
25 not be provided free of charge, would it, Mr. Figley?

1 A. No, but as soon as he got into the tail block
2 charge then the profitability to PECO of providing that
3 service would certainly evaporate, and that was the point that
4 I was trying to make in that particular sentence.

5 Q. Is it your testimony that a customer would
6 intentionally waste energy in order to pay a higher electric
7 bill?

8 A. Not deliberately, certainly. The unfortunate
9 part about ratchets, though, is that most customers don't
10 even know they are being billed on a ratchet basis.

11 Q. Have you performed any analysis to demonstrate
12 that? Have you done any survey of PECO's customers to
13 determine whether they know whether or not there's a demand
14 ratchet in place?

15 A. I haven't done any survey of PECO's HT customers.
16 However, I have talked with most of the members of the
17 Pennsylvania Business Utility Users Group about ratchets
18 and they were in some instances surprised that there was
19 even a ratchet. They were definitely surprised to find out
20 that the ratchet applied to kilowatt hour usage, which I
21 was surprised to see too. My general impression was that
22 they were pretty much unaware of the impact of the billing
23 demand ratchet, probably because it's not very noticeable on
24 the monthly electric statement that they get.

25 Q. Have you performed any survey of major Pennsylvania

1 electric utilities to determine whether they have demand
2 ratchets or similar minimum bill provisions in their tariffs?

3 A. I have not been in any other Pennsylvania utility
4 cases.

5 Q. Would it surprise you to find that every major
6 electric utility in this state has a similar provision with
7 one exception?

8 A. I would not be surprised that they had those
9 kind of rates. However, I would be surprised if they also
10 had an hours use rate with it.

11 Q. But you haven't examined the tariffs to determine
12 that?

13 A. No.

14 MR. MacGREGOR: Thank you, Mr. Figley.

15 That's all I have, Your Honor.

16 JUDGE MATUSCHAK: Staff.

17 MS. CHESTNUT: No questions, Your Honor.

18 JUDGE MATUSCHAK: Consumer Advocate.

19 MR. WERSAN: No questions, Your Honor.

20 JUDGE MATUSCHAK: Mr. Kleppinger?

21 MR. KLEPPINGER: I have a few, Your Honor.

22 CROSS-EXAMINATION

23 BY MR. KLEPPINGER:

24 Q. Good morning, Mr. Figley.

25 A. Good morning.

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Q Just briefly looking at your testimony, if you look at Exhibit RLF-1, page two, would I be correct that on line 39 for Rates HT and SLS the decimal there is misplaced on the index rate of return?

A Yes. There is one that is misplaced.

Q For HT that would be .9244?

A Yes.

Q Is that what it should be?

A Yes.

Q Now, in your cost study am I correct that in terms of changing the Limerick 1 allocator you did not also change the allocator for Salem Units 1 and 2 or Peach Bottom Units 2 and 3?

A That's correct.

Q Now, Mr. King had testified earlier that at least some members of PBUUG of HT customers. Do you recall that?

A Yes, I recall him saying that. I believe each of the members of PBUUG has facilities -- has a facility billed under probably both rates and some even with the General Service rate.

Q As a result of your cost study are you aware that you have assigned more rate base costs to the HT class than what the company's study allocates to the HT class?

A Yes.

1 Q At page eight of your testimony you mention
2 that the rates charged in your rate design were developed
3 in the same manner as those developed by PECO. That's at
4 lines 11 and 12.

5 A Yes.

6 Q Now, from the workpaper that has been provided
7 to us am I correct that you have essentially used the
8 cost/revenue curve method of developing the charges for
9 your proposed Rate HT?

10 A Yes, that's correct.

11 Q And in fact, you have implicitly used the Bary
12 Curve in arriving at the slopes of those cost curves?

13 A Yes, I did.

14 Q Now, for the inputs in the cost data which went
15 into your Bary Curve analysis, you extracted those, I take
16 it, from your cost of service study?

17 A Correct.

18 Q And as I understand your cost study, it is
19 basically a four coincident peak cost study for all other
20 production plant and then a 90 percent energy allocator
21 and 10 percent demand allocator for the Limerick 1 plant?

22 A Yes, that's correct; for capital costs, yes.

23 Q Now, are you familiar with the General Unified
24 Theory as set forth by Mr. Bary in his text which developed
25 the Bary Curve?

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1 A. I have not read the text but I have heard some
2 discussion about the curve itself and the theory underlying
3 the curve.

4 Q. Is it your belief that the use of a cost of
5 service study which has a four coincident peak allocator
6 for most production plant and a 90/10, if you will,
7 allocator for one particular generating station is
8 consistent with the General Unified Theory of Mr. Bary,
9 if you know?

10 A. Well, as interpreted by Mr. Sundermeir, yes.
11 I have no independent analysis or opinion on the subject.

12 Q. Well, did Mr. Sundermeir make his statement in
13 the context of a cost study which used only the four CP
14 method for all production plant, or did he make his state-
15 ment in the context of a cost study which uses both the
16 four CP and the 90/10 allocator for Limerick 1?

17 A. The four CP study and then using the maximum
18 monthly billing to arrive at the unit charge. This is a
19 question that if this in fact was done then any objections
20 to the fact that the Bary Curve was predicated on non-
21 coincident theory is removed.

22 Q. Do you understand that that explanation of Mr.
23 Sundermeir has been called into question to some degree by
24 other parties to this case?

25 A. Yes, I understand that. It was also called into

1 question in the last rate case.

2 Q. Now, if you would turn for the moment to Exhibit
3 RLF-7, your proof of revenue for Rate HT --

4 A. Yes.

5 Q. -- am I correct in reading this correctly that
6 at your proposed rates you would be collecting approximately
7 \$240 million in revenue from the HT tail block?

8 A. Yes.

9 Q. And that at current rates the company is
10 collecting approximately \$166.6 million?

11 A. Yes.

12 Q. Would you agree subject to check that that increase
13 is in the range of 44 percent for the revenues developed in
14 the HT tail block?

15 A. Yes.

16 Q. In your proposed rate design for HT you have a
17 tail block of 5.41 cents per kilowatt hour; is that correct?

18 A. That's correct.

19 Q. Can you tell me what the fuel component of that
20 charge is? Strictly fuel.

21 A. Well, the rolled-in fuel or embedded fuel cost, is
22 20.8 mills, I believe.

23 Q. So you have not modified the fuel component of
24 PECO's proposal in this case? You haven't rolled-in or
25 rolled-out any more fuel than PECO has?

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A. No.

Q. And do you know what the fuel component in the current tail block of Rate HT is?

A. Twenty-eight mills.

Q. Have you had the occasion to calculate under your rate design what the percentage increase is to the non-fuel component of the HT tail block?

A. I believe I did; 255 percent, I think.

Q. Two hundred fifty-five percent?

A. Yes. Which, of course, is all a function of continuing the Bary Curve and the fact that under my cost allocation there were substantial cost responsibilities on the basis of energy. The HT class is a great energy user. Therefore they had assigned to them significant amounts of revenue which heretofore they have not been assigned. And more importantly, it was assigned to energy and this is why the energy rates that I propose were substantially different than the company's and also the reason why the demand charge that I propose is substantially lower than the company's, the fact that there was a reallocation of costs as between demand and energy.

Q. I understand that.

A. That just flowed all the way through using the Bary Curve.

Q. Well, not only as a result of the Bary Curve, but

1 it's also as a result, is it not, of allocating 90 percent
2 of Limerick on an energy basis?

3 A. Obviously that's the first step in the process.

4 Q. Now, have you compared your proposed 5.41 cent
5 tail block energy charge on the high tension rates in the
6 Philadelphia Electric territory to the comparable tail
7 block charge of other Pennsylvania utilities' industrial
8 rate schedules?

9 A. No. I'm not involved in any other Pennsylvania
10 utility case. I don't have access to that information and,
11 more importantly, it's irrelevant to this particular case
12 what another utility is charging HT customers, similar
13 type customers, under their jurisdiction.

14 Q. You don't think that there is some degree of
15 competition for industrial load among Pennsylvania utilities?

16 A. I suspect that there is competition, yes. However,
17 for a big user of energy such as a steel mill to pick up
18 its marbles and move to another jurisdiction because of
19 marginally lower rates sort of boggles the mind. I'm not
20 altogether familiar with companies that have done that. So
21 competition is a nice word. Theoretically it has a great
22 deal of validity. But in practice I don't know whether it
23 has influenced anybody to change.

24 Q. You're not familiar with a major litigation
25 attempt by one of Philadelphia Electric Company's customers,

1 a steel mill in particular, to attempt to switch to the
2 PP&L system, which is currently on appeal to the Common-
3 wealth Court and the Supreme Court of this state?

4 A. That is the Lukens Steel case?

5 Q. That's correct.

6 A. Yes, I'm familiar with that.

7 Q. Now, Mr. King mentioned that at least some of the
8 members of PBUUG are high load factor Rate HT customers.
9 Have you performed a billing impact analysis of your
10 rate proposal on their particular high load factor bills?

11 A. I've done a rate analysis on all of the customers
12 for which I had bills, including the several that were high
13 load factor customers, yes.

14 Q. And what is the percentage increase to those
15 high load factor customers under your proposal?

16 A. You would have to bear with me while I go through
17 some computer sheets.

18 Q. Let's talk in general terms if we can. Is it
19 greater than 28.69 percent, which is your average increase
20 to each of the customer classes?

21 A. No.

22 Q. It is not?

23 A. It is not.

24 Q. And what would the load factor of those customers
25 be?

1 A. Well, we are talking about facilities now, you
2 understand, not customers, not Sears, for example. We are
3 talking about individual establishments within the Sears
4 company.

5 Q. I understand that, but I would hope the Sears
6 facilities, for example, the high load factor catalogue
7 warehouse is not conjunctively billed, is it, with the
8 retail outlet stores?

9 A. No. None of the general merchandise retailers
10 is conjunctively billed.

11 Q. So what would be the percentage increase in a
12 particular location that is a high load factor HT customer
13 among your client group?

14 A. I'm looking at an analysis that I did of the
15 rate impact. I just made some corrections to it and I
16 wouldn't want to swear to the accuracy of the numbers, but
17 the biggest Sears facility is this one that is the warehouse,
18 the distribution warehouse. The rate increase under my
19 proposal to that facility is 27.5 percent.

20 Q. And what is the load factor of that facility?

21 A. I don't have that information with me.

22 Q. Do you have any other load characteristics?

23 A. I don't have any load characteristic information
24 with me. All I have is the rate impact in computer runs that
25 I have made. I would be pleased to furnish a copy of it to

1 you. It amounts to 100 or more pages of computer printout.

2 Q I will take that offer under advisement.

3 As a general proposition, Mr. Figley, would you
4 agree with me that as a result of your allocation methodology
5 for Limerick 1 you are assigning higher than average capital
6 costs to high load factor customers and customer classes?

7 A. Yes. That is, again, a function of the fact that
8 high load factor customers by definition are big energy
9 users. They receive most of the benefit from Limerick
10 being available to the system now and they should as a
11 consequence of being the major recipient of the advantages
12 and lower costs they should also pay for those costs.

13 Q When you talk about the benefits, however, my
14 understanding of Mr. King's testimony is that you have not
15 reallocated the fuel savings benefits out of Limerick 1
16 other than the way the company has done it, is that correct,
17 in your cost study?

18 A. The cost study tracks energy allocations to
19 classes the same way that the company's WFS-1, allocation
20 factor C-1, the demand related costs, were allocated on the
21 basis of factor A-1.

22 Q So while you made a specialized allocator for the
23 capital costs of Limerick 1 you have not changed the allocator
24 for the fuel costs for Limerick 1?

25 A. Yes, and the reason for that is --

1 Q I didn't ask for a reason. I just wanted to
2 clarify what is in your testimony.

3 A The testimony does indicate that there were
4 several expense categories that were specifically allocated;
5 and, yes, the answer to your question before, and the reason
6 I did not is very important, that being the fact that I did
7 have information regarding the comparable costs of capacity
8 of PECO versus Limerick but I didn't have comparable costs
9 for the operation and maintenance of a peaking facility.
10 Absent that ratio I didn't think it was appropriate to use
11 the 11 percent, I think, is the split for demand of the
12 Limerick to demand. I just didn't think it was reasonable
13 to do that and I didn't.

14 Q Now, in response to an interrogatory concerning
15 the ratchet in this case you provided copies of a few FERC
16 decisions; is that correct?

17 A Yes.

18 Q Do you have those with you today?

19 A I believe so.

20 (Witness perusing documents.)

21 A Yes, I do have them.

22 Q Could you look at Docket ER 78-517, which is an
23 administrative law judge's decision in a Connecticut Light
24 & Power case?

25 A ER 78-517?

1 Q. Yes.

2 A. That's dated September 9, 1980?

3 Q. That's correct.

4 A. And it's --

5 Q. Twenty-some pages long.

6 A. Twenty-some pages, yes.

7 Q. Now, in addition to discussing the ratchet, am I

8 correct that this decision also discusses the concept of

9 stratified rate design forms?

10 A. Mr. Kleppinger, I really can't say because my

11 principal interest in this docket and the order was its

12 addressing the ratchet and I wasn't really concerned about

13 the other aspects of the rate design that it talked about.

14 Q. Well, let's turn for a moment to page 13 of

15 that recommended decision.

16 A. Yes.

17 Q. Section 4 there it talked about CL&P's use of

18 a stratified form of rate design which is supported by

19 the staff and contested by municipals; is that correct?

20 A. That's what it says.

21 Q. Now, beginning at the second to last line on

22 page 13 there is a discussion of what the effects of

23 stratified rate design form would be, and I would like to

24 ask you if you agree with this statement, and I'm quoting

25 from page 13 of an ALJ's recommended decision at Docket

1 ER 78-517 before the Federal Energy Regulatory Commission.

2 "If the customer demands and receives peaking service,
3 so the theory goes, he ought to pay a relatively low demand
4 charge and a relatively high energy charge for that service
5 to reflect the relatively low capacity costs and high energy
6 costs the utility incurs to provide the service" -- that may be
7 a typo, to provide the service -- "Just the reverse should
8 happen when a customer's load falls into the base/intermediate
9 range."

10 Do you see that quotation, Mr. Figley?

11 A. Yes.

12 Q. And do you agree with that explanation of stratified
13 rate design theory?

14 (Witness perusing document.)

15 A. Yes.

16 Q. Now, for the reverse of that to be true, would I
17 be correct that if a customer demands and receives base
18 service as opposed to peaking service he would pay a
19 relatively high demand charge and a relatively low energy
20 charge to reflect the relatively high capital costs and low
21 energy costs that the utility incurs to provide base service?
22 That would be the converse of the quote that I just read.

23 A. Yes, that would be the converse of the quote you
24 just read and, in fact, it still is what's happening in the
25 rate structure which I propose for HT. There is still a

1 declining block rate structure which recognizes the
2 efficiencies for consistent high load factor customers.
3 It's still there. The fact that the ratchet is not is
4 meaningless to the recognition of load factor to system
5 costs.

6 Q. Have you conducted a comparison of the capital
7 costs of PECO's base load generating stations versus the
8 capital cost of their peaking units and compared that to
9 the operating costs and fuel costs of those same units?

10 A. No, I haven't.

11 Q. Would it sound reasonable to you that the cost
12 per KW of installed capacity at the Peach Bottom unit, for
13 example, would be approximately \$441 per KW?

14 A. Subject to check, yes.

15 Q. And an average fuel cost of .74 cents per KWH?

16 A. Yes.

17 Q. And that on a typical gas turbine the capital
18 cost per KW may be approximately \$121 per KW?

19 A. Subject to check.

20 Q. And a fuel cost of 7.44 cents per KWH?

21 A. Is that the same fuel cost as in the Peach Bottom
22 unit?

23 Q. No. It's 7.44 cents per KWH for the gas turbine
24 and .74 cents per KWH on Peach Bottom.

25 A. Yes.

1 MR. KLEPPINGER: Thank you, Mr. Figley.

2 I have no further questions, Your Honor.

3 JUDGE MATUSCHAK: Is there any other cross-examination
4 for this witness?

5 MR. FORT: Yes, Your Honor.

6 CROSS-EXAMINATION

7 BY MR. FORT:

8 Q Mr. Figley, I would ask you, if you would, again,
9 to turn to RLF-1, page two of two.

10 A Yes, sir.

11 Q I direct your attention to line 33, under the
12 heading "Amtrak." Should that figure not be 1.19 as opposed
13 to 1.9?

14 A I'm sorry. I didn't get the line that you're
15 referring to.

16 Q Line 33. Under "Amtrak" it presently reads 1.9 --
17 either 0 or 81. Should it not read 1.19?

18 A Yes, that's correct. The rate of return for Amtrak
19 is not 190 percent of the system average, yes.

20 Q Mr. Figley, are you familiar with the delivery of
21 power to Amtrak at the Thorndale and Perryville delivery
22 points?

23 A No, I am not, sir.

24 Q Have you read Mr. Richard Rudden's testimony in
25 this case?

1 A No, I haven't. I don't have a copy of Mr.
2 Rudden's testimony.

3 Q Are you familiar with any contractual arrangements
4 between Amtrak and PECO in connection with the delivery of
5 power at Thorndale and Perryville?

6 A No, I'm not.

7 Q I'm going to refer you, and refresh your
8 recollection if I may, to the testimony which you presented
9 in a previous case involving Philadelphia Electric in which
10 you represented SEPTA, that being Pa. PUC Docket No.
11 R-822291. It was filed on June 22, 1983, page four.

12 "Question: Obviously, you have no serious objection
13 with the methodology employed by PECO to determine class
14 revenue responsibility as set forth in PECO Exhibit WFS-1.
15 Otherwise, you would not use it; is this correct?

16 "Answer: That is correct. PECO has used the same
17 methodology since 1974 and I have found no objection to it
18 other than a request in the decision in the last PECO rate
19 case that the company consider more energy related cost
20 allocation methods in future rate proceedings. I do not
21 interpret this as dissatisfaction with the PECO cost of
22 service allocation procedure."

23 I will show that testimony to you. I have underlined
24 it.

25 (Document handed to witness.)

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A. Yes, I see what I say here.

Q. My question is do you recall offering that testimony?

A. Yes, I do. I recall very vividly offering this testimony and having it rejected.

Q. You mean that the Pennsylvania PUC rejected the proposed PECO cost allocation methodology, the four CP system, in 1983?

A. They rejected my interpretation of WFS-1 to reflect SEPTA as a separate cost category.

Q. But they did not reject the PECO four CP cost methodology, did they?

A. No, they haven't rejected that methodology, but commissions are noted for changing their minds over the course of the years and I foresee that the Commission will in this case -- maybe not this case but some case down the line -- recognize the importance of allocating costs as they are incurred for the reasons they are incurred and --

Q. I would appreciate if you would answer my question. Your Counsel can ask you additional questions if he wants to.

I asked you a very simple question: in 1983 -- and I believe this will lend itself to a yes or no answer -- in 1983 did the Pennsylvania PUC reject the cost methodology, that is the four CP system, proposed by PECO?

A. They did not reject that methodology.

1 Q And in 1983 you supported that methodology, did
2 you not?

3 A Can I have more than just a yes?

4 Q Provided you answer my question.

5 JUDGE MATUSCHAK: Answer the question first and then
6 you may offer an explanation.

7 A Yes. I found acceptable in both the cases
8 which you identified the company's use of the four CP
9 methodology. But you have to recall that our charge in those
10 two cases on behalf of SEPTA was to get SEPTA recognized as
11 a separate cost category, something which they had not
12 been before.

13 It was our conclusion that we would be heaping too
14 much on the plate of the Commission to not only propose
15 spinning SEPTA out of WFS-1's four CP methodology and also
16 at the same time to make that proposal in the context of a
17 totally different cost allocation methodology. With the
18 principal objective being one of establishing SEPTA as a
19 separate cost category we thought it would be more reasonable,
20 more acceptable, more understandable, to do it in the context
21 of a cost methodology which had been accepted by the
22 Commission. That was the only reason why it was used.

23 You also note from the paragraph that you read to
24 me that I did object, I did take exception, to the fact that
25 there was no recognition of energy in the cost allocation.

1 Q In 1983 what percentage of the plant in service
2 base involved nuclear facilities of Philadelphia Electric
3 Company?

4 A It's my understanding from testimony I have
5 heard here that at that time it was approximately 50
6 percent. It is now approximately 75 percent.

7 Q And your testimony is that in 1983 you really
8 believed that it was a poor methodology but for tactical
9 purposes you supported it?

10 A Yes, sir, that's correct. I have proposed in
11 many jurisdictions cost allocations based on average and
12 excess methodologies because I do believe that there should
13 be some recognition of the causation of big nuclear plants
14 and it should be reflected in the cost allocation methodology.

15 My reasons for not doing it in these cases and in
16 these two cases and in this case also -- or in the two
17 cases prior -- was the fact that our principal objective,
18 which I indicated before, was to get SEPTA recognized as a
19 separate cost category and we just didn't think it was possible
20 to get two major departures from previous orders.

21 Q Have you computed how much the rates will increase
22 for SEPTA over the PECO proposal if your proposed modification
23 is accepted by the Commission?

24 A Which rates are you talking about, the fares or
25 electric rates?

1 A. Well, it's in here in one of the exhibits what the
2 rate increase is. The rate increase for SEPTA is 20.47
3 percent, which is approximately eight percentage points
4 lower than the system average rate increase.

5 Q. However, how much larger an increase is it over
6 the proposed PECO rates?

7 A. PECO's proposed rate increase was 15 percent.
8 So the rate increase that I propose for SEPTA is approximately
9 five percentage points higher than what the company
10 recommended.

11 Q. And have you computed what that means in dollar
12 terms?

13 A. Well, it's approximately \$1.1 million more.

14 Q. For SEPTA?

15 A. For SEPTA?

16 Q. How much is it for Amtrak?

17 A. Approximately \$3.4 million.

18 Q. Now, this time you are testifying on behalf of the
19 Pennsylvania Business Utility Users Group; is that correct?

20 A. Yes, sir.

21 Q. And are you proposing rates which would have the
22 effect of reducing your present clients, the rate increase
23 as opposed to that proposed by PECO?

24 A. The overall rate increase for the Rate HT class
25 as proposed by me is somewhat smaller than what is being

1 proposed by PECO for the HT class.

2 Q. What is that difference?

3 A. What does it do, sir?

4 Q. What is that difference, please?

5 A. About \$8 million.

6 Q. Now, your clients are only a portion of the
7 HT class; is that correct?

8 A. Yes, a very small portion of that class.

9 Q. And are they largely clients with a relatively
10 low load factor?

11 A. Relative to who? Relative to Lukens Steel,
12 for sure. Relative to SEPTA, maybe.

13 Q. So would I judge that of that total decrease
14 proposed by you for the HT class your clients would
15 particularly benefit by reason of being relatively low to
16 moderate load factor customers?

17 A. They would benefit to the extent that the overall
18 rate of return -- or the overall rate increase -- is some
19 \$8 million less than the company is proposing. So to that
20 extent they would benefit, yes.

21 Q. My point is your clients' particular group within
22 the HT class tend to benefit more than substantial other
23 segments of the HT class.

24 A. Well, you have 2,000 and some customers in the
25 HT class and I imagine -- because I have heard this before

1 in this jurisdiction -- that these 2,200 and some
 2 customers don't have the same rate of return. That rate
 3 of return varies all over the lot. And I would suspect
 4 that some of our customers, some of the PBUUG customers,
 5 may have a rate increase that is higher than the system
 6 average. By the same token there could be some that will
 7 have a rate increase lower than the system average.

8 Q That's not the answer to the question. May I
 9 repeat it, and I hope you will answer it this time.

10 Haven't you said a few moments ago that most of your
 11 clients have a lower than average load factor?

12 A You asked the question relative load factor and
 13 I answered by saying that relative to U. S. Steel or Lukens
 14 Steel, yes; relative to SEPTA, no.

15 Q I'm asking relative to the average.

16 A Relative to the average I would say they are
 17 probably at the average line or perhaps a little lower.

18 Q And to the extent that they are lower than average
 19 they will benefit disproportionately to people who are
 20 above the average; is that not correct?

21 A I disagree with the word "benefit" sir and this
 22 is my problem. The rate structure proposed -- my rate
 23 structure proposed is exactly the same as the company's
 24 in terms of the way in which it was developed. It follows
 25 the Bary Curve principle. Mr. Sundermeir was asked in the

1 cross-examination if all of the rate increase was put in
2 the energy category would high load factor customers benefit
3 more than low load factor customers and his answer was yes.
4 My answer is I have a problem with -- perhaps.

5 Q I didn't understand -- or forgive me if I didn't
6 hear -- why you are applying your peaker philosophy to the
7 Limerick plant only and not to the other nuclear facilities
8 such as Salem and Peach Bottom.

9 A It's not my philosophy. Mr. King made the proposal
10 and I implemented his proposal.

11 Q Fine. Then Mr. King's peaker philosophy.

12 A What about it?

13 Q Why are you not applying that to Salem and Peach
14 Bottom but, rather, only to Limerick?

15 A Well, Salem and Peach Bottom have already had
16 their rate impact and to what extent that was a rate shock
17 I don't know. But in this particular case we are talking
18 about a substantial rate shock. We weren't involved in the
19 previous cases in which Salem and Peach Bottom were issues.
20 We are involved in this case where it is an issue. I can't
21 say what we would have done five years ago -- probably the
22 same as we are doing now.

23 Q Returning to Limerick, as I understand it you're
24 going to allow \$393 per kilowatt on the basis of that is
25 base and the rest is for peak -- I beg your pardon --

1 A. No, it's the other way around.

2 Q. It's the other way around. I'm sorry. It's
3 \$393 for peak and the rest for base.

4 I believe that the proposal by PECO is that approxi-
5 mately \$3,800 per kilowatt of capacity be allowed in the
6 rate base; is that correct?

7 A. That is approximately correct, yes.

8 Q. So it would be approximately \$393 out of \$3,800;
9 is that correct?

10 A. That would be allocated on the basis of demand
11 allocation coefficients.

12 Q. Let us hypothesize that the Pennsylvania Public
13 Utility Commission for some reason decided that instead of
14 permitting \$3,800 per kilowatt as the appropriate addition
15 to rate case, it would permit \$3,500. Now, that would
16 increase the \$393 as a percentage of the total.

17 A. Yes, it would.

18 Q. What would you propose to do in that instance?

19 A. I would maintain the same proposal, scaled down
20 to \$3,500.

21 Q. It drops to \$3,000. Would you maintain the same
22 proposal?

23 A. Yes, sir. If you accept the principle at \$3,800
24 you would accept it at \$2,000.

25 MR. FORT: May I have just a moment, Your Honor?

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(Pause.)

BY MR. FORT:

Q. Have you had occasion to read the testimony of Mr. George J. Sterzinger on behalf of the Consumers Education and Protective Association, et al.?

A. No, sir, I have not. The only testimonies I have read were filed by Bruce Oliver, OCA, the Philadelphia Industrial Users Group and Mr. Larson.

Q. Allow me to read a sentence from that testimony if I may, and I would be happy to show it to you.

"According to figures developed in an earlier part of this proceeding a reasonable estimate of the cost of bringing a peaker unit on line in 1985 was approximately \$267 per kilowatt (Office of Consumer Advocate testimony by Witness Komanoff, page 43)."

Are you familiar with that estimate?

A. No, sir, I'm not.

Q. If that estimate was correct, of course, it would change your result; right?

A. Yes. More of the Limerick capital investment would be allocated on the basis of energy, yes, sir.

MR. FORT: I have no further questions.

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

MR. RYAN: Yes, Your Honor.

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JUDGE MATUSCHAK: Mr. Ryan.

CROSS-EXAMINATION

BY MR. RYAN:

Q. Mr. Figley, we have talked quite a bit about load factor today. Can you define that for me?

A. Load factor is the ratio of peak to average usage.

Q. It's the other way around, isn't it?

A. Yes. Sorry.

Q. Is it generally accepted as the measure of the efficiency of the use of electrical service by the customer or the class whose load factor is being considered?

A. Efficiency as defined by that. It doesn't mean that a customer with a low load factor is less efficient in his use of electricity.

Q. From the point of view of designing an electrical system wouldn't a customer with a relatively high load factor be, say, from the utility's perspective at least, a more efficient user of its electricity than is a low load factor customer?

A. Typically that would be the case, yes.

Q. Would you agree that in designing rates for a particular customer class one important objective should be to design rates which would encourage improvement of load factors by members of that class?

A. I don't know that that's altogether true.

1 Obviously you wouldn't want to discourage improvements in
2 load factor, but to encourage load factor beyond the point
3 which is reasonable frequently happens. That would be a
4 case where a utility was at a reasonably high level of
5 efficiency, load factor, already. If you stimulate further
6 usage during this relatively off-peak period -- for example,
7 the winter -- and all of a sudden what was a comfortable
8 cushion between reserve and load requirement could
9 evaporate because the customers were so encouraged to use
10 more energy that that reserve disappeared and all of a
11 sudden the utility is faced with the prospect of importing
12 more energy to cover that additional load or build another
13 plant.

14 Q With Limerick Unit 1 not on line is that
15 scenario you just posited a reasonable prospect on the
16 PECO system?

17 A Well, I don't know what the maintenance routine
18 is going to be. I don't know how it's going to change with
19 the addition of that particular unit. But with a Limerick
20 type of facility, that size facility, typically it would
21 probably come off in the spring or early fall. You're
22 looking at a system that all of a sudden will lose 1,000
23 megawatts of its capability -- and I don't know what the
24 capability of the system is, 8,000 or 9,000 megawatts now --
25 plus whatever else is to be maintained at that time.

1 Q Let me approach the question a little differently.
 2 Should rates be designed in your view so that they tend to
 3 favor lower load factor -- lower than system average load
 4 factor operations?

5 A The rate designs that I have proposed coincide
 6 with your first example. They encourage high load factor
 7 customers or at least give them the benefit of lower average
 8 costs, and in recognition of their contribution to the system
 9 efficiency. My rates do it because they are declining
 10 block hourly use rates, just as the company has aimed its
 11 entire rate structure at doing the same thing.

12 Q Well, let's look at your rates and the company's
 13 rates. Am I correct that looking at RLF-6, where you set
 14 forth your proposals, that your tail block charges that you
 15 are proposing are for PD 6.2 cents per KWH and for HT of
 16 5.41 cents per KWH?

17 A That's correct.

18 Q And that compares to PECO's proposals for a full
 19 revenue increase in this case of 3.83 cents per KWH and
 20 3.75 cents per KWH?

21 A That's correct, and it's all a function of the
 22 Bary Curve. As I said, if you accept the premise of the
 23 Bary Curve, which this Commission has done in previous
 24 decisions, then there is absolutely nothing wrong with the
 25 proposal that I have made.

1 Q You want to accept the Bary Curve because it
2 has been approved by the PUC in past decisions but you
3 are not prepared to accept the four CP method which has
4 been approved by the PUC in past decisions?

5 A Well, I don't know to the extent that the reasons
6 for the Bary Curve have been obviated by the movement into
7 the present time, I do know that the situation was not the
8 same with respect to cost allocation.

9 This whole principle of the Bary Curve was challenged
10 at least three or four times, including the last case, and
11 the Commission was very emphatic that the principle, indeed,
12 was acceptable and did recognize the differences in rates of
13 return from customers within the classification.

14 Q Has the four CP methodology of cost of service
15 been challenged in prior cases and approved by the Commission?

16 A Yes, it has. I think it was challenged by Mr.
17 Rosenthal of the Commission Staff at least last year and
18 maybe before that.

19 Q I would like to ask you to follow with me, if you
20 will, through a hypothetical case of two customers in, let's
21 say, HT. They have the same peak demands -- let's make it
22 PD because of the rates that I'm using.

23 They are in PD and they have the same peak demands.

24 The first customer, and we will call him Customer A,
25 uses 100 hours of use in a month, which I take it you will

1 agree with me is a pretty low load factor, while Customer B
2 uses 600 hours, which would be a pretty high load factor.

3 Are you with me so far on my hypothetical?

4 A. Yes.

5 Q. Now, we have had some testimony in this case from
6 my witness and I think from others that the fuel cost off-
7 peak in the tail block would be about 1.8 cents per KWH.
8 Would you accept that, at least for purposes of this
9 hypothetical?

10 A. Can you give me the first part of that sentence
11 again?

12 Q. I'm assuming that the off-peak fuel costs for
13 the utility, for PECO, are about 1.8 cents per KWH.

14 A. You're talking about the embedded fuel costs
15 in the rates?

16 Q. No, the actual fuel costs.

17 A. Charged? The cost per kilowatt hour?

18 Q. Yes. The cost that is recovered in the rates.

19 A. The costs recovered in the rates for HT in the
20 tail block is .0383 cents per kilowatt hour; isn't that
21 right?

22 Q. I'm talking about the fuel costs.

23 MR. RYAN: May we go off the record just a minute?

24 JUDGE MATUSCHAK: Very well.

25 (Discussion off the record.)

3013
1 JUDGE MATUSCHAK: Back on the record.

2 BY MR. RYAN:

3 Q I would like you to accept this figure subject to
4 check but I would like to say how I derived it and that's
5 what I was trying to find out.

6 In an answer to a Food Merchants interrogatory that
7 was referred to in the cross-examination of Mr. Larson we
8 were given a figure of the off-peak average fuel costs for
9 the first six months of 1985 of 2.452 cents per kilowatt
10 hour. This is the interrogatory that was looked at during
11 the course of Mr. Larson's cross-examination.

12 From that we subtracted the 7/10ths of a cent reduction
13 that is expected to occur when Limerick is fully in the cost
14 equation for energy.

15 Given that basis I want you to assume, then, an off-
16 peak average fuel cost of 1.8 cents per KWH.

17 A. Yes.

18 Q. All right?

19 We have a 1.8 cents fuel cost and an end rate of 6.2
20 per KWH in Rate PD, as you have recommended here, would
21 you agree then that there is 4.4 cents of fixed cost
22 recovery in the end rate in PD as you have designed it?

23 A. Yes. Don't forget, I'm just the arm. Mr. Bary
24 designed it.

25 Q. Well, Mr. Bary is not here to defend himself. Why

1 don't you just defend your own position on this one.

2 If you're recovering 4.4 cents of fixed costs in that
3 tail block charge for every KWH and you're a 100 hours use
4 customer would you agree that you're recovering \$4.40
5 per KW from that customer who uses 100 hours of use, while
6 you're recovering \$26.40 per KW of fixed costs from the
7 high load factor customer at 600 hours use? And yet they
8 have the same peak demands.

9 A. I'm sorry. I didn't follow all of your question.

10 Q. Let's back up.

11 A. I have two customers, one A and one B. One uses
12 power at 100 hours a month and the other uses power at
13 600 hours a month. You never told me what the amount of
14 power was that they used.

15 Q. I don't have to for this point. What I'm simply
16 asking is will you agree that 100 hours is a pretty low
17 load factor and 600 hours is a pretty high load factor
18 customer?

19 A. The 100 hour use customer wouldn't even get into
20 the tail block and be affected by the 4.4 cents per kilowatt
21 hour that you're talking about as being capacity costs. He
22 wouldn't get any of that.

23 Q. Your point is a good one. Let's change A to
24 400 hours. I want to get him into the tail block charge.
25 All right?

1 A. He is now in the tail block.

2 Q. All right. He's in the tail block charge.

3 Are we agreed on that?

4 A. Yes.

5 Q. How much would he -- he would still be recovering,
6 as I recall from what you said before, 4.4 cents of fixed
7 costs for every KWH that's billed in his tail block rate;
8 is that correct?

9 A. For every KWH that's billed in his tail block
10 rate, yes.

11 Of course, what you would have if these customers
12 were both billing at 1,000 KW, for example, you would have
13 fewer KWH in the tail block of the A customer.

14 Q. But wouldn't the result of that, even though
15 they are at the same peak demand, the lower load factor
16 customer will be contributing more to the fixed costs on a
17 per KW basis than the high load factor customers, wouldn't
18 he?

19 A. That's correct.

20 Q. I'm sorry. I think I said it wrong and you answered
21 it wrong. He would be contributing less. He would be
22 contributing a smaller amount per KW, a smaller amount to
23 fixed costs per KW, than would be the high load factor
24 customer who is paying for a lot more KWH where he's paying
25 4.4 cents of fixed costs for each KWH. So when you take it

1 in terms of his KW billing demand, the high load factor
2 customer has to pay more of the fixed costs than the lower
3 load factor customer?

4 A. That's correct.

5 Q. Is there any justification for that result?

6 A. The justification is the Commission's acceptance
7 of the Bary Curve principle and, moreover, and more important,
8 PECO doesn't seem to be overly concerned by that prospect as
9 evidenced by a question to Mr. Sundermeir, who was asked
10 essentially the same thing, and I will quote the question:

11 "If we shift more costs into that tail block price
12 than can be cost justified, then I would have a concern."

13 Then he goes on to say that he, in fact, doesn't
14 have a concern because, "we feel confident that as long as
15 those rates are properly designed," and he's referring to
16 the Bary Curve, "we don't have a problem."

17 That's at page 1855 of the transcript.

18 Q. But under your rate proposal, your rate
19 design proposal, the fixed costs recovery in the tail block
20 is higher than PECO's whole tail block charge; is it not?
21 We are talking about a 4.4 cent recovery of fixed costs
22 under yours and the tail block charge proposed by PECO is
23 only 3.83 cents.

24 A. That's correct. There is a difference in the
25 cost allocation methodologies between the two. I have

1 assigned to energy a lot more capacity costs than has
2 PECO.

3 Q I think nobody will argue with you on that
4 observation.

5 You said at one point in answering a cross-
6 examination question of another Counsel that you did not
7 know, you had no way to compare, the operating and maintenance
8 cost for peaker units, if I recall your testimony. Would
9 you agree that at least you can testify that the operating
10 and maintenance cost of a combustion turbine is likely to
11 be higher, in fact substantially higher, than that of a
12 base load nuclear plant?

13 A Yes, I accept that.

14 MR. RYAN: I have no further questions, Your Honor.

15 JUDGE MATUSCHAK: Anything further?

16 MR. MacGREGOR: I have just two follow up questions,
17 Your Honor.

18 FURTHER CROSS-EXAMINATION

19 BY MR. MacGREGOR:

20 Q Mr. Figley, I believe you stated in cross-
21 examination by Mr. Fort the reason you supported the four
22 coincident peak method in 1983 was not because you believed
23 in it but because of the tactical reason of not putting too
24 much on the Commission's plate at one time; is that correct?
25

A Yes, that's what I said.

1 Q. Is it your testimony today, Mr. Figley, that
2 your decision not to use a peak and average method, as you
3 propose in this case, in the 1983 PECO rate proceeding
4 had nothing to do with the fact that if you had used that
5 method in that case, in PECO's 1983 case, more costs would
6 have been allocated to SEPTA thereby reducing its class
7 rate of return and weakening your argument that SEPTA was
8 entitled to a separate rate?

9 A. Absolutely correct. I did not even consider
10 another cost allocation methodology in the previous cases
11 because of reasons I stated before. I didn't make any
12 comparative analysis between what the cost of service
13 to SEPTA would have been under one or the other methodologies.
14

15 Q. Would you agree with me, Mr. Figley, that the
16 use of the peak and average method allocates more costs to
17 SEPTA than the four CP method?

18 A. I'm not using peak and average.

19 Q. Would you agree with me that method you propose
20 in this case, if it had been applied to the 1983 case, would
21 have applied more costs to SEPTA?

22 A. It could very well but there wasn't a Limerick in
23 those days so I don't know how much more costs would have
24 been allocated.

25 Q. Isn't it true, Mr. Figley, that where the four
CP method supported your clients' position in the 1983 case

1 you supported it and in this case when it is to the
2 disadvantage of your client you have rejected it?

3 A. No, that's not true at all.

4 MR. MacGREGOR: No further questions, Your Honor.

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

7 (No audible response.)

8 JUDGE MATUSCHAK: Any redirect?

9 MR. SQUIRES: Just one question, Your Honor.

10 REDIRECT EXAMINATION

11 BY MR. SQUIRES:

12 Q. Mr. Figley, on cross-examination I believe it was
13 represented to you that the capital cost of Peach Bottom was
14 about \$400 per KW. Do you recall that?

15 A. Yes, I do.

16 Q. If this figure is correct how much of Peach
17 Bottom's cost would be allocated to energy under Mr. King's
18 methodology?

19 A. \$370 -- excuse me -- \$7 goes to energy; \$393
20 to demand.

21 MR. SQUIRES: I have no further questions, Your Honor.

22 JUDGE MATUSCHAK: If there is nothing further, this
23 witness is excused.

24 (Witness excused.)

25 JUDGE MATUSCHAK: We haven't taken a recess this

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morning. Is it the concensus of Counsel that we recess
now for lunch?

(No audible response.)

JUDGE MATUSCHAK: Let's recess now until 1:30.

(Whereupon, at 12:25 p.m., the hearing was adjourned,
to be reconvened at 1:30 p.m., this same day.)

AFTERNOON SESSION

(1:40 p.m.)

JUDGE MATUSCHAK: You may proceed.

MR. KLEPPINGER: Dr. Bloom.

Whereupon,

MELVIN P. BLOOM

having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KLEPPINGER:

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

A My name is Melvin Bloom. My business address is 1801 North Front Street, Harrisburg, Pennsylvania.

Q On whose behalf are you appearing here today?

A I am appearing on behalf of a group of Philadelphia Area Industrial Energy Users and the U.S. Steel Corporation.

Q Do you have before you a document labelled, "Testimony and Exhibits of Melvin P. Bloom," which has about 20 pages of testimony, Appendices A and B, and numerous exhibits?

A Yes, I do.

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

A Yes, it was.

1 MR. KLEPPINGER: Your Honor, I would like to have
2 marked for identification purposes as PAIEUG Statement No. 2
3 the testimony and exhibits of Melvin P. Bloom.

4 JUDGE MATUSCHAK: It may be so marked.

5 (Whereupon, the document was
6 marked as PAIEUG Statement
7 No. 2 for identification.)

8 BY MR. KLEPPINGER:

9 Q Are there any additions or corrections that you
10 would like to make to your testimony at this time?

11 A One minor correction to the testimony. On page 3,
12 line 17, it was brought to my attention that I misspelled
13 Mr. Sundermeir's name.

14 JUDGE MATUSCHAK: Mr. Bloom, would you either speak
15 louder or turn your chair around, because it is hard to hear
16 you.

17 THE WITNESS: On page 3, line 17, it has been brought
18 to my attention that I misspelled Mr. Sundermeir's name. It
19 is "S-u-n-d-e-r-m-e-i-r." There are other places throughout
20 the testimony that I've referred to Mr. Sundermeir, and they
21 are also all incorrectly spelled; and that change should be
22 made everyplace.

23 BY MR. KLEPPINGER:

24 Q With that change, Dr. Bloom, are the answers set
25 forth in this document true and correct to the best of your
knowledge, information and belief?

1 A Yes, they are.

2 Q If I were to ask you those questions today, would
3 your answers be the same as contained therein?

4 A Yes, sir.

5 MR. KLEPPINGER: Your Honor, with that I would like
6 to move for the admission of PAIEUG Statement No. 2 pending
7 timely motions to strike at a later time.

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

10 (Whereupon, the document marked
11 as PAIEUG Statement No. 2 was
12 received in evidence.)

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

15 JUDGE MATUSCHAK: Mr. MacGregor?

16 MR. MacGREGOR: Thank you, Your Honor.

17 CROSS-EXAMINATION

18 BY MR. MacGREGOR:

19 Q Good afternoon, Dr. Bloom.

20 A Good afternoon.

21 Q Dr. Bloom, would I be correct that a significant
22 portion of your testimony is devoted to a criticism of the
23 company's determination of the class contribution to the four
24 coincident peaks that are employed in its class cost of
25 service study?

A Not all the class contributions, but the weather

1 sensitive ones, yes.

2 Q Specifically, am I correct that you criticized
3 the company's decision not to weather-correct the 1984
4 four coincident peak demand data before employing it in the
5 1986 class cost of service study?

6 A Yes.

7 Q Would you explain for me briefly the methodology
8 that the company does use as you understand it to translate
9 the '84 four coincident peaks to a 1986 basis?

10 A The ratio of the 1986 projected sales to 1984
11 sales.

12 Q So as I understand it, the company takes the
13 1984 four coincident peak data as it falls not weather-
14 corrected and adjusts this data based upon the ratio of 1984
15 sales and 1986 budget sales?

16 A No, not really. The company does make a weather
17 adjustment for the -- I shouldn't say a weather adjustment.
18 It takes weather into account on the three weather-sensitive
19 rate schedules.

20 It does not have actual load data in 1984 at the EDH
21 levels that occurred on the four peak days in 1984. It has
22 load research data for 1980 through 1983, and it basically
23 takes that data and adjusts that data to the 1984 EDH values.
24 It did that and then it made the adjustment.

25 Q Then the second half of my question accurately

1 describes what the company does with the '84 data once that
2 data is developed?

3 A. Would you repeat that question?

4 Q. Are you disagreeing with my description of what
5 the company does with the 1984 data once it has that data
6 in hand?

7 A. Would you repeat that, what they do?

8 Q. They take the '84 data and adjust it to reflect
9 the ratio of 1984 sales to 1986 sales.

10 A. The ratio of 1986 to 1984?

11 Q. Correct.

12 A. Yes.

13 Q. And I take it that it is your position that the
14 company should have weather-corrected the 1984 loads before
15 employing them in the cost of service study; is that correct?

16 A. Weather adjusted, yes.

17 Q. And you propose to do that in this proceeding;
18 that is, make a weather correction or weather adjustment to
19 the 1984 four coincident peak data?

20 A. Yes.

21 Q. Am I correct that you have not proposed a similar
22 adjustment to the 1984 sales level that is also used in the
23 formula?

24 A. No, I have not.

25 Q. Did you examine whether or not the sales during

1 the summer of 1984 were above or below normal due to the
2 cooler than normal weather conditions that existed during
3 that summer period?

4 A. No, I did not.

5 Q. Did you examine 1984 sales data as a whole,
6 weather adjusted and non-weather adjusted, to determine
7 whether the 1984 sales as they fell were above or below
8 normal weather conditions?

9 A. No, I didn't need to do that because of the
10 methodology that PECO utilizes. As Mr. Sundermeir explained,
11 the 1986 projected data assumed normal weather.

12 Q. But the 1984 sales data is not weather-corrected;
13 is that correct?

14 A. That's correct, but you use the ratio. That
15 would tend to eliminate that problem or that piece of the
16 energy sales.

17 Q. As I understand it, we have three pieces of data;
18 1984 peak data, 1984 sales and 1986 sales. Now, the 1986
19 sales are weather-corrected under the company's proposal
20 or presented on a normal weather basis.

21 A. Yes.

22 Q. Now, you propose to weather adjust the 1984
23 peak data, but you do not weather-correct the 1984 sales
24 data?

25 A. If I were to do that -- if I had new 1984

1 weather adjusted sales data, the factors that I would use
2 to scale off the 1986 would change. I would still use the
3 1986 projected sales data that the company has.

4 Q But the ratio of the 1984 sales to the 1986 sales
5 would change if you weather-corrected the 1984 sales data?

6 A Yes, they would.

7 Q And you did not weather-correct the 1984 sales
8 data?

9 A No. It was not necessary.

10 Q But you did weather-correct the 1984 peak data?

11 A Yes.

12 Q Now, you state at several places in your
13 testimony the 1984 EDH averages for the four coincident
14 peak days were abnormally low; is that correct?

15 A Yes.

16 Q And you set forth data for certain years--namely
17 1980 to 1985--on Exhibit MPB-2, Schedule 1 attached to your
18 testimony; is that correct?

19 A Yes.

20 Q Did you examine any figures prior to 1980 in
21 preparing your testimony, Dr. Bloom?

22 A No, and the reason that I didn't was that the
23 load research data that was utilized in developing the 1984
24 weather-sensitive loads which were then translated into 1986
25 were all based on 1980 through 1983 data.

1 Q So I take it you are not aware, Dr. Bloom, as
2 to whether the 1986 average EDH value was also 133 or
3 identical to the levels seen in 1984?

4 A You're asking me if I was able to check that?

5 Q Did you check that? Are you aware of the fact
6 that the 1976 average EDH values are the same as those for
7 1984 which you characterize as being abnormally low?

8 A 1976?

9 Q That's correct; I'm sorry.

10 A No, I didn't look at those.

11 Q You show on 1980 on your table an average of
12 238 EDH for the four summer coincident peak days; is that
13 correct?

14 A Yes.

15 Q And that's a number that is higher than average;
16 is that correct?

17 A According to Philadelphia Electric, yes.

18 Q Are you aware, Mr. Bloom, as to whether that data
19 was employed by the company in developing its class cost of
20 service study in its 1981 rate proceeding at Docket No.
21 R-811626?

22 A I don't remember. Based upon recent history, I
23 believe the company uses data which is two years old to
24 develop load data like we have '84 and '86, but there was a
25

1 time when data for the same year was used in two rate cases.

2 Q The test year in that proceeding ended March 31,
3 1981; is that correct?

4 A I'll accept that subject to check.

5 Q I'm sorry; March 31, 1982.

6 A Again, I'll accept that subject to check.

7 Q And you don't know whether the 1980 load data as
8 shown on line 1 of your testimony with those EDH values was
9 used in that cost of service analysis?

10 A Not at this minute, no, I don't.

11 MR. MacGREGOR: That's all I have. Thank you,
12 Your Honor.

13 JUDGE MATUSCHAK: Staff?

14 MS. CHESTNUT: No questions for this witness, Your
15 Honor.

16 JUDGE MATUSCHAK: Consumer Advocate?

17 MR. WERSAN: Thank you, Your Honor.

18 CROSS-EXAMINATION

19 BY MR. WERSAN:

20 Q Good afternoon, Dr. Bloom.

21 A Good afternoon.

22 Q I'd first like to discuss the portion of your
23 testimony concerning the four coincident peak allocation
24 method as you are utilizing it in your testimony.

25 Am I correct that you state on page 20 your rationale

1 for supporting the use of the coincident peak method for
2 allocating PECO's production and transmission costs?

3 A. Yes.

4 Q. And on page 20, I take it you are, in fact,
5 summarizing a discussion over the previous few pages about
6 the peaking characteristics of PECO and the PJM?

7 A. Yes.

8 Q. Am I correct that you've discussed PECO's summer
9 peaking and PJM's summer peaking characteristics because it
10 is your understanding that system load characteristics
11 translate some way into power supply investment planning
12 by PECO?

13 A. Certainly PECO's annual peaks occur in the summer-
14 time and PECO must indeed build plant to meet the summer
15 peak loads. Otherwise it could fall short.

16 Q. And you consider that the primary consideration,
17 which is why you relied upon the four coincident peak method?

18 A. Yes.

19 Q. Do I then take it that you don't believe that
20 other considerations are important enough or relevant
21 enough to include in a cost of service of study for
22 allocating production plant?

23 A. What other considerations?

24 Q. Well, other witnesses have discussed energy issues,
25 things such as that.

1 A. I believe that if we went back and did a proper
2 analysis using a system planning approach, it might be
3 possible to consider some portion of a plant energy related
4 if an analysis was also made as to the allocation of the
5 fuel and expenses associated with that particular plant.

6 Q. What would be that proper analysis in your
7 opinion that would show some portion of the capital costs
8 are related to energy considerations?

9 A. What would be a proper analysis?

10 Q. You just said "if you did a proper analysis."

11 A. Looking at the least cost alternative--in this
12 case, let's say Limerick versus a combustion turbine--on
13 a total cost basis, not just looking at what the capacity
14 costs are for a combustion turbine and saying, "Well, that
15 much is the demand part of Limerick; therefore, the rest
16 is energy." You have to look at both sides of the equation,
17 both the demand side as well as the energy side.

18 Q. So as I understand it, you don't really disagree
19 that some of the investment in Limerick 1 was made to obtain
20 or in an attempt to obtain lower energy costs, but you don't
21 feel the energy cost side is shown in how fuel costs are
22 allocated. So you're not showing that in how power plant
23 investment costs are allocated?

24 A. It is pretty clear that all the parties in this
25 case that have proposed to allocate Limerick on a

1 demand-energy basis have totally chosen to ignore the fuel
2 costs associated with Limerick and a combustion turbine.

3 Q. I understand that, Dr. Bloom, is your opinion.
4 My question, though, is: you haven't presented an analysis
5 in this case in which you allocate some portion of Limerick
6 or other plant capacity on an energy basis and then also
7 adjust the fuel components?

8 A. Not yet.

9 Q. Going back to it, if the second step, as you
10 maybe in rebuttal will propose, if you do take care of the
11 fuel piece, which you think you have to do, then do you
12 believe it is correct and proper to allocate some portion
13 of plant investment on an energy basis?

14 A. If you subscribe to a system planning approach,
15 you could come up with an allocation like that?

16 Q. Was that could or couldn't?

17 A. You could come up with an allocation like that.

18 Q. And how would you do that?

19 A. How would you do it?

20 Q. Yes.

21 A. By looking at the capital costs and the running
22 costs of a combustion turbine and of, let's say, Limerick
23 or a nuclear plant determining the break-even point where
24 the total cost of the nuclear plant and the combustion
25 turbine were equal, and that being a break-even point in

1 number of hours of operation, that would be the absolute
2 limit as to the -- looking at those hours versus the total
3 hours of the year would be the absolute upper limit as to
4 the amount of capacity you could classify as energy related.

5 Q When you say "based upon system planning consider-
6 ations," what do you mean by system planning considerations?

7 A Well, we hear a lot in a lot of rate cases that
8 costs of capacity should be allocated based upon the
9 methodology utilized by system planners to determine what
10 type of plant needs to be built, what the trade-offs are.

11 Q Do you ascribe to that theory of system planning?
12 Do you agree with it?

13 A I think if it is done properly, it is a reasonable
14 approach.

15 Q Have you ever presented testimony in a rate case
16 in which you used a cost of service study method other than
17 the coincident peak approach?

18 MR. KLEPPINGER: Are you referring only to electric
19 cases, Mr. Wersan?

20 MR. WERSAN: I'm sorry; yes.

21 THE WITNESS: Did I present it or presented it or
22 endorsed or supported?

23 BY MR. WERSAN:

24 Q Supported.

25 A I have supported other cost allocations in other

1 rate cases being given the characteristics of the utility.

2 Q So you believe that for some utilities coincident
3 peak may not be the primary cost consideration to be used
4 for allocating production plant investment?

5 A I believe for some of the utility rate cases that
6 I have been in that other allocation methodologies were just
7 as appropriate. There is very little difference between the
8 two methodologies because of the characteristics of the
9 company.

10 Q Well, that's not my question. It's not a question
11 of whether or not the methodologies give you the same result.
12 My question is whether you think there are companies for
13 which a coincident peak approach is not proper.

14 A Certainly if you had a utility with 100 percent
15 load factor, in all the rate classes 100 percent load
16 factor, an energy allocation would be proper because there
17 would be no change, any factor; coincident peak, average and
18 excess, non-coincident. They are all the same under that
19 kind of condition.

20 Q And that's the only condition where you would use
21 something other than coincident peak?

22 A As I indicated, Mr. Wersan, I have supported other
23 cost allocation techniques for production plants in other
24 utilities, those being utilities with extremely high load
25 factors, much higher than Philadelphia Electric's.

1 Q So in your opinion, it is the load factor of a
2 utility that determines whether or not you use coincident
3 peak or non-coincident peak -- let me change that --
4 coincident peak or not coincident peak?

5 A I believe that has to be considered.

6 Q You have supported them in other cases, and
7 you've told me certainly at 100 percent load factor, it
8 would not matter; but I am trying to find out in what
9 circumstance you would not use a coincident peak approach.

10 A I could support using a non-coincident peak in
11 a utility with an extremely high load factor, and I have
12 done that.

13 Q What load factor are you referring to?

14 A Seventy percent and higher.

15 Q But you believe when you get down to Philadelphia
16 Electric, a coincident peak is the only proper approach?

17 A Based upon Philadelphia Electric's operational
18 characteristics as well as the PJM, yes.

19 Q So for PECO, certainly you would not support the
20 use of, for example, a non-coincident peak approach?

21 A As I indicate in my testimony, if the Commission
22 desires to have Philadelphia Electric continue to utilize
23 the Bary curve to design the rates, then the non-coincident
24 peak should be used so you have a matching.

25 Q I understand that, and we'll get to that later.

1 Putting aside your concerns about the Bary curve, if we're
2 just talking about allocation of power supply investments,
3 is it your opinion that non-coincident peak could be used
4 or should be used for PECO?

5 A. No. The 4CP method that I have proposed should
6 be used.

7 Q. Now, you talked about system planning processes
8 for reviewing allocation of power supply costs a few moments
9 earlier.

10 Have you ever reviewed the planning process used
11 by Philadelphia Electric Company in its decisions on how
12 to design and build its power supply system?

13 A. Not in any detail, no. I reviewed several
14 documents with respect to costs and forecasts that
15 Philadelphia Electric has supplied in response to interroga-
16 tories in this rate case.

17 Q. Have you ever been involved in a Philadelphia
18 Electric case, either a rate case or an investigation, in
19 which the economics or need for a power plant were in issue?

20 A. I've never been involved in that phase of the
21 case.

22 Q. I take it you were not involved in the Limerick I
23 investigation at Docket I-80100341?

24 A. No.

25 Q. Have you ever reviewed the Commission's order

1 in that case?

2 A. No, I haven't.

3 Q. So I take it you would not be familiar with the
4 economic rationale proffered by the company for completing
5 the Limerick plant at that time?

6 A. That's correct.

7 Q. And you would not know whether or not energy
8 considerations were taken into account by the Commission
9 in its opinion in that case?

10 A. I have not read the opinion. I do not know what
11 is in it.

12 Q. Were you in any way involved in the Limerick 2
13 investigation at Docket I-840381?

14 A. No, I was not.

15 Q. Are familiar with the opinion in that case?

16 A. No.

17 Q. Do you have any knowledge about the kinds of
18 analyses that were presented by Philadelphia Electric in
19 deciding whether or not to go ahead with the Limerick 2
20 station?

21 A. No, I was not involved in the case at all. I
22 have never seen any of the materials in the case.

23 Q. Could you state for me the basis upon which PECO
24 might decide to build a new combustion turbine or other
25 peak load plant?

1 A. No, I can't. I haven't made any analysis of
2 Philadelphia Electric's need for capacity, the type capacity,
3 or anything else.

4 Q I'm not talking about need. I'm talking about
5 under what circumstances the need might arise.

6 A. I haven't made any investigation as to
7 Philadelphia Electric.

8 Q. Would the same be true, you have not made any
9 investigation for what circumstances Philadelphia Electric
10 might decide to build a base load coal or nuclear station?

11 A. That's correct.

12 Q. I take it you're also not familiar with the
13 processes of modeling or analysis that Philadelphia Electric
14 uses to determine whether to build a peak or a base load
15 plant?

16 A. That is correct.

17 Q. Do you know what factors Philadelphia Electric
18 takes into account in deciding whether to retire power plant
19 capacity?

20 A. No.

21 Q. And I take it you would not be familiar with any
22 studies that Philadelphia Electric has done in deciding when
23 and whether to retire power plant capacity?

24 A. That's correct.

25 Q. Do you have any idea how PECO balances or takes

1 into account energy costs as compared to capital costs in
2 its decision on whether to build or retire power plant?

3 A. I haven't reviewed any studies Philadelphia
4 Electric has made in that area, no.

5 Q. Included in the company's request in this rate
6 case is, of course, the Limerick 1 plant. I take it it is
7 your opinion that use of the four coincident peak method
8 applies equally to the Limerick 1 station as it does to
9 the other stations on Philadelphia Electric's station?

10 A. Yes.

11 Q. Is it your position that PECO's decision to
12 build Limerick was not in part guided by its desire to
13 obtain lower production costs?

14 A. Lowest total cost capacity and running cost.

15 Q. And how do you lower total cost when you made
16 a major investment of \$3 billion or more?

17 A. You also have to have lower running costs.

18 Q. Lower energy costs?

19 A. Lower energy costs.

20 Q. If Philadelphia Electric expected greater demand
21 only on its summer peak days rather than demand across the
22 rest of the year increasing, could it satisfy those
23 incremental demands by building a combustion turbine?

24 A. If it was just going to meet load just on those
25 peak days, yes. Of course, that would not -- my answer will

1 stand.

2 Q Going back to your discussion in your testimony
3 of the non-coincident peak method, I take it that the only
4 reason you discuss the non-coincident peak method is in
5 relation to your discussion of the Bary curve in this case?

6 A Yes.

7 Q And if there was no issue over the Bary curve,
8 you would not be proposing a non-coincident peak cost alloca-
9 tion methodology?

10 A I'm not proposing a non-coincident peak cost
11 allocation methodology. I'm proposing that the 4CP weather
12 adjusted cost of service study be used. I'm just stating
13 that if we're going to use the Bary curve, Mr. Bary states
14 in his book that the coincident peak methodology is one that
15 should not be used with his analysis. If we're going to stick
16 with the Bary curve in designing the commercial and industrial
17 rates, then we should use the non-coincident peak. That's
18 the only reason I put it in.

19 Q So in your opinion, if in the rate design portion
20 of rate structure in this case the Bary curve was used, then
21 that tail should wag the dog of cost allocation for the rest
22 of the case and use non-coincident peak.

23 A If the Commission desires to uphold the use of
24 the Bary curve, to be consistent, rather than have water try
25 to flow uphill, I believe you have to do that.

1 Q Now I would like to switch my discussion to your
2 proposed weather-correction adjustment in this case.

3 You are relying upon an effective degree hour measure
4 for correcting historic load, is that correct, or historic
5 load data points?

6 A Yes, the same and identical methodology utilized
7 by Philadelphia Electric.

8 Q Let me ask you this: do you know how Philadelphia
9 Electric developed its weather normalized sales projection?

10 A No, I don't, but I don't believe they used the
11 EDH.

12 Q When Philadelphia Electric developed its weather
13 normalized projections, those are the sales projections
14 that are used to develop the budget portion of sales for
15 this rate case; is that correct?

16 A Yes.

17 Q As Mr. MacGregor pointed out, you only went back
18 to 1980 in developing your EDH data; is that correct?

19 A Yes.

20 Q Do you know what time period PECO used to develop
21 its weather normalization analyses?

22 A No, but I imagine it would be over a very
23 long period of time.

24 Q Would you accept -- how about if I show you a
25 copy of Philadelphia Electric's load forecast of 1984 to

1 1994 which we received in response to Interrogatory
2 IR-OCA-6-24 and show you page 11 where they discuss their
3 normal weather and how they developed it.

4 (Document handed to witness.)

5 Q I am referring to page 11, Section 10, and how
6 heating and cooling loads are projected on the assumption
7 of normal weather conditions.

8 A Yes.

9 Q Would you agree with me that in the company's
10 forecast they state that for the heating season the average
11 developed for weather data is over a 50-year period and
12 for the summer cooling season historic data covers a
13 35-year period?

14 A I will agree with that.
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Q. I notice in your Exhibit MPB-2, you make a number of comparisons of different years compared to 1984, starting with 1980 through 1985, is that correct?

A. Yes.

Q. And in Schedules 1, 2 and 3 of MPB-2, you look at data for 1980 through 1983 and take an average of 1980 to 1983, but on Schedule 4 you only use an average of 1980 to 1982, is that correct?

A. Yes.

Q. Can you tell me why you did not include 1983 in your load factor analysis on Schedule 4?

A. Yes. There was no rate case. The data from Schedule 4 comes from either Mr. Williams, who sponsored the earlier cost of service studies in the early 1980's, or Mr. Sundermeir.

And there was no equivalent data for the year 1983.

Q. From rate cases?

A. Yes. Specifically, we refer to Exhibit WFS-1, I believe it's page 63 in this case. There is data shown here for the calendar year 1984.

Checking back the last three rate cases, getting us back to 1980, there were only three cases.

Q. But you did request data from PECO on, for example, the effective degree-hours for 1983, but you did not request similar load factor information for 1983?

1 A. EDH data is data which is calculated daily for
2 Philadelphia Electric. In order to generate the load
3 factor and coincidence factor data as shown in Schedule 4,
4 the company almost would have to do a rate case. They
5 certainly would have to gather the load data which it did
6 not have, or at least it did not file a case that year.

7 Q. You discuss an EDH of 213 as a typical hot period
8 EDH, is that correct?

9 A. That is Mr. Sundermeir's definition, yes.

10 Q. And you present one cost of service study in your
11 testimony based upon an EDH of 213, is that correct?

12 A. For each of the peak days in June, July, August
13 and September, yes.

14 Q. Would you agree with me, if we looked at
15 Schedule 1 of MPB-2, what you are assuming for example would
16 be for each month the EDH was 213?

17 A. Yes.

18 Q. Would you also agree that in no single year was
19 the EDH 213 in each month, or above 213?

20 A. That is true.

21 Q. And typically what you see is, some of those
22 months are hotter and some are cooler, is that correct?

23 A. No. The data that I represented here and the
24 data the company uses are daily data. This is not a monthly
25 figure. This is a daily peak day figure.

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Q Right. And typically, the EDH on the peak day in some months is higher, and in other months it's lower, showing the range of weather across the four months of June, July, August and September?

A Showing a variation, yes.

Q But in your cost of service study, where you incorporate an EDH of 213, you are assuming that each month had a peak day in which an EDH of 213 occurred?

A That is the cost of service study which I ran. It is not a cost of service study which we utilized in developing the distribution of a rate increase.

Q I take it you are then not recommending that that one be used?

A Mr. Pollock handles that area of the testimony, and he recommends utilizing the 1985 EDH, which again does not show 213 in any given month. It shows the numbers that are slightly below and slightly above.

Q I am just trying to find out from you what weight if any you are applying to the cost of service study with the 213, and what you are saying is, Mr. Pollock is not relying upon it for his analysis?

A He is utilizing the 1985 EDH weather data in the cost of service study. However, as I indicate in my testimony and as my schedules do show, we ran three different cost of service studies.

1 We ran a cost of service study utilizing the average
2 EDH from 1980 to 1983 for each peak day of June, July,
3 August and September.

4 We ran the 1985 peak day EDH in June, July, August
5 and September. And we ran the cost of service study with
6 the EDH for the peak day in June, July, August and
7 September to equal the 213 EDH.

8 The results of all three of those studies, looking
9 at a historic period, a future period relative to the
10 weather conditions in 1984, and looking at what would be
11 considered typical average hot spells over the summer type
12 EDH guides, they all produced results that were quite
13 similar.

14 The 213 EDH cost of service study didn't produce
15 results that would make me say, gee, I'd better throw those
16 out because they are abnormally high or abnormally low or
17 something else of that sort.

18 All three studies that I ran all supported the same
19 bottom line answer, that the EDH from other periods, be
20 they historic on average, be they a year further in advance
21 or a typical hot spell period, you get basically the same
22 results, which are very different from the 1984 EDH data.

23 Q. Let me just interject once again. You say when
24 you look at results from the historic period or the future
25 period; you're still only looking at the period from 1980

1 through 1985. You are not looking at a longer time period
2 such as PECO does when it does its weather normalization?

3 A. That is correct.

4 MR. WERSAN: That is all I have, Your Honor. Thank
5 you, Dr. Bloom.

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

8 MR. RAINEY: I have a few questions, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. RAINEY:

11 Q. Good afternoon, Dr. Bloom.

12 A. Good afternoon.

13 Q. My name is Charles Rainey. I am appearing on
14 behalf of --

15 JUDGE MATUSCHAK: Keep your voices up.

16 BY MR. RAINEY:

17 Q. My name is Charles Rainey, and I am appearing on
18 behalf of the City of Philadelphia. Dr. Bloom, I would like
19 to refer your attention to Exhibit MPB-3, Schedule 4, page 1.
20 Do you have that, Dr. Bloom?

21 A. Yes, sir.

22 Q. There you show the rate of return results for
23 your recalculated cost of service study, is that correct?

24 A. Yes, sir.

25 Q. In that exhibit, what are the rates of return

1 shown for Rate SLP under present rates?

2 A. 11.19 to 11.20.

3 Q. And would you also tell us what is the total
4 company rate of return under present rates?

5 A. 6.39.

6 MR. RAINEY: I have no further questions, Your Honor.

7 JUDGE MATUSCHAK: Mr. Widoff?

8 CROSS-EXAMINATION

9 BY MR. WIDOFF:

10 Q. Dr. Bloom, I don't know if I should direct this
11 line of questioning to you or to your colleague, so let me
12 ask you the question and you can tell me if I am asking the
13 right witness.

14 Did you or your colleague do a rate impact study on
15 your industrial clients that you are testifying on behalf of?

16 A. I did not.

17 MR. WIDOFF: Thank you.

18 JUDGE MATUSCHAK: Mr. Ryan?

19 CROSS-EXAMINATION

20 BY MR. RYAN:

21 Q. Dr. Bloom, on cross by the Consumer Advocate, you
22 testified that it might be possible to consider fuel costs
23 as well as demand costs in a cost of service study in
24 classifying, say, part of the investment in a base rate
25 nuclear plant, is that correct?

1 A Yes, if, again, proper treatment is given,
2 Mr. Ryan, to the other side of the equation, the energy
3 side.

4 Q And did Messrs. King and Figley, in their
5 proposals relating to essentially the energy allocation of
6 that investment, give proper consideration to the factors
7 that should have been considered in using an energy
8 allocations factor as part of the approach for handling the
9 investment in the Limerick 1 plant?

10 A No. My reading of the testimony, basically what
11 they have done is they have indicated the cost of the
12 combustion turbine was \$370, the cost of Limerick was
13 \$3,800 a kilowatt, and just took the ratio, and that was it.

14 They basically utilized one side of an equation and
15 ignored the other side.

16 Q If it is proper to classify fixed costs of a
17 nuclear plant to energy, would it be proper to classify the
18 variable costs of a combustion turbine to demand?

19 A That is the other side of the equation.

20 MR. RYAN: I have no further questions.

21 JUDGE MATUSCHAK: Anything further?

22 CROSS-EXAMINATION

23 BY MR. FORT:

24 Q Dr. Bloom, could I direct your attention again to
25 Exhibit MPB-2, Schedule 1?

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A. Yes, sir.

Q. Would it be fair to say in layman's terms that the hotter and more humid the day, the higher the EDH?

A. Yes.

Q. So that 1984, which has an average of only 133, once again speaking in layman's terms, would be cooler and drier than the other years, is that correct?

A. The four peak days, yes.

Q. The four peak days?

A. Yes.

Q. Have you made any study to determine the relationship between EDH factors on the four peak days and the actual peak in terms of energy demand which Philadelphia Electric Company has put upon the system?

A. Yes, I have.

Q. Where is that?

A. I don't know whether I have it here. We didn't put it in, but I do have a study where I did a regression analysis on EDH versus daily peak demand.

Q. Could I direct your attention, in connection with this, to Appendix B, Schedule 1?

MR. KLEPPINGER: Chart 1, are you referring to?

MR. FORT: Appendix B, Schedule 1.

THE WITNESS: Yes.

1 BY MR. FORT:

2 Q Monthly Peak Demands as a Percent of the Annual
3 System Peak.

4 A Yes.

5 Q Am I correct in reading this that on line 16, it
6 shows the peak load?

7 A For the year, yes.

8 Q For the year. Now, in 1984, the peak load for
9 the year was 5,925?

10 A Yes.

11 Q Although it was substantially a cooler year than
12 1983, when the peak load was 5,864?

13 A Yes, sir.

14 Q Now, does that suggest that even though the EDH
15 may go down, that doesn't necessarily mean that the peak
16 load demand on the system goes down correlatively?

17 A The analysis that I made did not look at the
18 annual load of the company and the EDH on that one day. It
19 looked at many days, many EDH values in various months.

20 Q But as I understand it, one of the basic philo-
21 sophies here is, the system has to be big enough to handle
22 the peak?

23 A Yes, sir.

24 Q Okay. Do these figures suggest that there is no
25 relationship between the average EDH and the actual single

1 peak the company experienced?

2 (No response.)

3 Q. For example, it could be cold -- cooler during
4 the months of June, July and August, but if there were a
5 two or three day severe hot spell, the peak could be just
6 as high or higher than it was in other years, is that
7 correct?

8 A. Yes.

9 Q. Aren't we allocating costs here on the basis of
10 the peak demand? What relationship does that have to aver-
11 age EDH, is my question?

12 A. We are allocating costs in the Philadelphia
13 Electric cost of service study and my revised study on the
14 average of the four monthly peaks.

15 Q. Do you have any information in this schedule as
16 to what the average demand was on the four peaks? In other
17 words, as I understand it, Schedule 1, line 16 is the single
18 peak during the year. What were the four peaks' actual
19 demand?

20 A. That data can be found for the years 1980 through
21 1983 in Charts 1 through 4. There are bar charts there
22 showing the monthly peak demands, and we could pick off the
23 numbers for June, July, August and September and average them,
24 if you like.

25 I also have a copy of the company's Form 1. I could

1 find the numbers for 1984 and also develop an average like
2 that, if you would like.

3 Q I will take a look at this in a minute, but are
4 you saying that there is a correlation between the EDH
5 level and the 4CP demand?

6 A I am saying, the analysis that I did -- I believe
7 the analysis I did -- I have a sheet in front of me here
8 now -- I believe the analysis was to look at the June,
9 July, August and September EDH peak day and the peak day
10 demand. I found a correlation in 1980, 1981, 1982, 1983 and
11 1984, those four sets of data points.

12 Q How do you reconcile that with the fact, though,
13 that the other figures seem to suggest that in 1984, the
14 peak demand was not below average, if anything it was a
15 little higher?

16 A You are looking at 1983 and 1984, two data points,
17 and only two data points.

18 Q Just a second. I lost that chart. It is
19 Appendix B, Schedule 1. I repeat, the peak during 1984 was
20 5,925, which makes it, out of a sequence of years from 1979
21 through 1984, the second highest?

22 A Yes.

23 Q So that, there is no correlation, you would agree,
24 between the EDH level and the system peak for the year?

25 A I think you have to look at the system peak, too.

1 The system peak is made up of two parts, as well as
2 are any of the other peaks. There is a weather sensitive
3 portion and a nonweather sensitive portion.

4 Q. I'm sorry, I don't understand that answer. Am I
5 reading your chart correctly, Appendix B, Schedule 1, that
6 line 16 shows the high point of the demand during the year?
7 Is that correct?

8 A. Yes.

9 Q. Am I right that there is no correlation between
10 the high point during the year and the EDH level, because
11 1984 was the second highest of that sequence of years but
12 the lowest in the EDH level?

13 A. Where are you getting the lowest EDH level from?

14 Q. It is from your chart, which shows the average
15 EDH, Exhibit MPB-2, Schedule 1. If you take a look at 1980
16 through 1985, I believe 1984 has 133. It is the lowest
17 average EDH, is that correct?

18 A. However, you are looking at an average of the
19 number in June, July, August and September, and asking me if
20 there is a correlation between that average of four days'
21 EDH in each of those years versus the one hourly peak load
22 in the same years.

23 Q. That is exactly what I am asking, yes. Is there?

24 A. I have no idea, and I can't see any value to
25 making an analysis like that, comparing an average of four

1 numbers to one.

2 Q. The system has to be designed to reach the peak,
3 whether it is reached once or four times, doesn't it?

4 A. Yes.

5 Q. My point is that that peak may be very high during
6 the year?

7 A. Yes.

8 Q. Even though the EDH on average is low?

9 A. Again, that would come from the numbers that we
10 are looking at here. However, as I indicated earlier, there
11 are two pieces to Philadelphia Electric's load, a weather
12 sensitive load which varies as a function of EDH, the air
13 conditioning load, and the base load, which is rather EDH
14 insensitive.

15 And if there is growth in that, that is going to give
16 you some of this, too.

17 Q. But the air conditioning load would be sensitive
18 if there was a single, very hot day, right? During that
19 particular day, the demand would go up to meet that
20 particular demand rate?

21 A. Yes, that is the analysis I performed.

22 Q. My point is, if you are looking at this on a peak
23 basis, the average temperature is meaningless. It's what
24 happens on the peak day that counts, right?

25 A. Yes.

1 Q And apparently, the peak day in 1984 had
 2 weather conditions which called upon Philadelphia Electric
 3 to produce a supply of electricity just as high as in the
 4 previous years when the average EDH was higher, isn't that
 5 correct?

6 A Your statement is correct.

7 Q What is the significance of evaluating the aver-
 8 age EDH when you are allocating costs on a peak system?
 9 It's the peak that counts, not the average weather, isn't
 10 that weather, isn't that right?

11 A That is correct, and I never used the average.

12 Q I believe you did, did you not, in adjusting for
 13 the 1984? I understood the philosophy of the adjustment was
 14 to correct for the fact that on average, 1984 was cooler,
 15 although apparently there was a time during that period
 16 when the peak was just as high as ever.

17 A When you are referring to the average, are you
 18 referring to the numbers in Column 5 on my MPB-2, Schedule 1,
 19 which you wanted me to look at earlier, correct?

20 Q Would you please the schedule?

21 A Exhibit MPB-2, Schedule 1, Column 5. I remember
 22 the number 133 was used.

23 Q Yes.

24 A The numbers in Column 5 were not used in any
 25 adjustment of mine. All I did, when I tabulated the data in

1 Column 5, was look at that data on an historic basis, and
2 on line number 5, I say on average the historic EDH in the
3 period I considered was 199 versus 133 on average of the
4 four days, then compared that also with line number 7 which
5 was the 1985 EDH.

6 The actual cost of service study reruns that I made,
7 which I believe we have supplied to you, utilized the data
8 in line number 5, Columns 1, 2, 3 and 4, 158 for June, 243
9 for July, 209 for August and the 1984 for September.

10 That is the historic EDH cost of service study we
11 reran. The 1985 EDH cost of service study, or the cost of
12 service study using 1985 EDH values, used a number of 121
13 EDH in June, 212 EDH in July, 234 EDH in August, and 182 EDH
14 in September.

15 Q My question is addressed to your assumption that
16 the data in 1984 is somehow atypical. You rejected the 143,
17 170, 131, 86 because you found it to be an abnormal year,
18 is that correct?

19 A Yes.

20 Q And my question to you is: why is it so abnormal,
21 when you take a look at the actual peak load on the system,
22 and 1984 was as high as ever?

23 A Again, the peak in any year is made up of two
24 components, a weather sensitive and a non-weather sensitive
25 load. If the non-weather sensitive load is growing, you are

1 going to have -- for example, if we would have normal
2 conditions in 1984, the peak would have not been 5,925. We
3 would have had a higher peak because of the weather
4 sensitive --

5 Q. Have you made a study to demonstrate that?

6 A. I have data from my cost of service study that
7 would indicate what my weather adjustments produced in terms
8 of peak loads. I guess the answer to the question is yes, I
9 have made a study.

10 Q. Take a look at 1983 on your Schedule 1, or MPB-2,
11 Schedule 1, okay?

12 A. Yes.

13 Q. It shows in June, 118; July, 206; August, 199;
14 September, 216, for an average of 185.

15 A. Yes.

16 Q. That would seem to indicate that the weather on
17 three out of the four months of June, July, August and
18 September was significantly hotter and more humid in 1983
19 than 1984. Would you agree with that?

20 A. I certainly would agree in the month of
21 September --

22 Q. Take the month of June.

23 A. -- and also the month of August.

24 Q. The month of August, and even the month of July,
25 somewhat hotter?

1 A. Somewhat, and June the opposite situation.

2 Q. And in June, the opposite. So, if you look at
3 the average, in 1983, its average is 185 compared with 133.

4 A. Which is much less, yes.

5 Q. Much less?

6 A. Yes.

7 Q. Now, this is just one year apart, 1983 and 1984.
8 If your analysis is correct, wouldn't that suggest that the
9 peak on the system in 1983, the peak demands, would be less
10 than in 1984, when in fact --

11 MR. KLEPPINGER: Would you let him answer the first
12 question?

13 MR. FORT: I'm sorry.

14 THE WITNESS: Not necessarily. Again, it would
15 depend on the non-weather sensitive load that makes up the
16 peak.

17 BY MR. FORT:

18 Q. And have you made any study of that question?

19 A. No, I haven't.

20 Q. Have you attempted to familiarize yourself at all,
21 Dr. Bloom, with the delivery of power to Amtrak at Thorndale
22 and Perryville?

23 A. No, sir.

24 Q. Have you read Mr. Rudden's testimony?

25 A. No, sir.

1 MR. FORT: Thank you, I have no further questions.

2 JUDGE MATUSCHAK: Any further cross-examination?

3 CROSS-EXAMINATION

4 BY MR. SQUIRES:

5 Q Dr. Bloom, I just have a few questions for you,
6 if I may. In response to cross-examination by the OCA,
7 you indicated that you had supported some methodology that
8 allocated part of the fixed costs on the basis of energy
9 allocation factors, do you recall that?

10 A I felt that for that particular utility at hand,
11 that was a reasonable methodology of cost, yes.

12 Q When you say "support," did you ever advocate it
13 yourself?

14 A I don't believe so.

15 Q Just what did you mean by "supported"?

16 A The fact that the utility filed a cost of service
17 study; the characteristics of the utility were such that the
18 allocation methodology proposed appeared to be reasonable.

19 Again, the differences between the various cost
20 allocation techniques were so minimal that it really didn't
21 make much difference which study you used.

22 Q Did you ever present any testimony on behalf of
23 the Commission advocating that position?

24 MR. KLEPPINGER: During his employ as a Commission
25 employee?

1 MR. SQUIRES: Yes, as a Commission employee.

2 THE WITNESS: I don't believe so.

3 BY MR. SQUIRES:

4 Q Dr. Bloom, did you have an opportunity to review
5 the company's average and excess cost of service study in
6 WFS-1?

7 A Yes.

8 Q Was this study done according to the commonly
9 accepted standards for the preparation of this type of
10 study?

11 A I believe it was.

12 Q To the best of your knowledge, did the average
13 and excess study which was produced by the company allocate
14 a portion of the plant based on energy considerations?

15 A Yes.

16 Q And would it be your opinion that the study
17 properly considered the allocation of energy costs to
18 customer classes?

19 A It would be my opinion that the study properly
20 utilized the average and excess cost of service study
21 methodology.

22 Q How was that accomplished?

23 A By application of that methodology.

24 Q Can you be a little more specific, Dr. Bloom,
25 as to how that was accomplished? Was it with regard to the

1 allocation of the energy considerations?

2 A. The only difference in the company's average and
3 excess cost of service study versus the four coincident
4 peak cost of service study is to use a set of average
5 and excess A-1 allocation factors based on average demand
6 through the year and non-coincident demand.

7 Q. I believe that my question to you was: did the
8 study properly consider the allocation of energy costs?

9 A. It allocated energy costs in the identical
10 fashion that the company allocated energy costs under its
11 4CP method.

12 Q. Would it be your opinion that the company's
13 average and excess cost of service study was similar to the
14 PA.BUUG and the OCA cost of service studies to the extent
15 that those studies allocate a portion of capital costs
16 based on energy factors?

17 A. If that is the only criteria we are going to use,
18 yes. If you want to pick other criteria, no.

19 MR. SQUIRES: No further questions.

20 JUDGE MATUSCHAK: Any further cross-examination?

21 MR. WERSAN: Your Honor, I just have a data request.

22 FURTHER CROSS-EXAMINATION

23 BY MR. WERSAN:

24 Q. Dr. Bloom, you mentioned that you had worked up
25 what peak loads on the four summer peak days would be

1 derived as a result of your EDH factors, is that correct,
2 in your different cost of service studies?

3 A. Yes.

4 Q. Are those in your testimony here?

5 A. No.

6 Q. Could I make that a data request, that you
7 supply what those peak loads would be?

8 A. Let me tell you what I have done. I believe it
9 is what you want, and I can give it to you right now.

10 Q. Sure.

11 A. What I have developed is the annual peak load
12 for the Philadelphia Electric Company, utilizing the three
13 different weather adjustments that I have made. In other
14 words, using the 1980 through 1983 average EDH for June,
15 July, August and September, I have developed and found that
16 the single one-hour peak --

17 Q. For each month?

18 A. No, for the year, in 1986, adjusted to 1986, for
19 the year; likewise, using the 1985 EDH; and finally, using
20 the 213 EDH. I could do it by month, if you so desire.

21 Q. Yes, I would rather, if you gave me what it came
22 to by month and then your annual average, and just supplied
23 that, that would be fine.

24 A. You want the monthly peak demand under each of
25 the three EDH adjustments?

1 Q Yes.

2 A Four months, three studies, 12 data points?

3 Q Yes. I assume you had to develop that to get
4 your average?

5 A I don't use an average for anything.

6 Q You average the four annual peaks to get the
7 single peak that you then use for your study, don't you?

8 A Yes.

9 Q Okay, fine. Is that a problem to supply that?

10 A No.

11 MR. WERSAN: Thank you, Your Honor.

12 MR. RYAN: I would like to ask a followup question
13 on something Mr. Squires asked, because I am not sure I
14 understood it.

15 FURTHER CROSS-EXAMINATION

16 BY MR. RYAN:

17 Q You were discussing what I think was called,
18 maybe in the form of shorthand, as the company's average
19 and excess method. Are you referring to one of the alter-
20 native methodologies that are supplied pursuant to the
21 Commission's filing regulations where the utility has to
22 show at least the results of other methodologies when they
23 file their preferred methodology?

24 A Yes, Mr. Ryan, but I believe the regulations
25 have been changed. They only file their preferred method

1 and the average and excess method.

2 Q Okay. So, it was done that way, but it is
3 clearly not the company's method in the sense that they have
4 endorsed the 4CP method?

5 A It was the result of replacing the 4CP A-1
6 factors with the average and excess allocation factors and
7 rerunning the cost of service study.

8 Q And if you did that kind of a study, which gives
9 some impact to energy considerations in allocating invest-
10 ment in plant, does that kind of study meet your criteria
11 that you described earlier for a cost of service study that
12 would properly consider all of the factors, all of the
13 relevant factors and giving some weight to energy in those
14 allocations?

15 A I don't support the use of an average and excess
16 cost of service study in Philadelphia Electric, again because
17 of its low load factors.

18 MR. RYAN: That's all.

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

21 (No response.)

22 JUDGE MATUSCHAK: There being none, any redirect?

23 MR. KLEPPINGER: May I have a couple minutes, Your
24 Honor?

25 JUDGE MATUSCHAK: Let's take a 10-minute recess.
(Recess.)

T2:jl

1 JUDGE MATUSCHAK: When you're ready.

2 REDIRECT EXAMINATION

8 BY MR. KLEPPINGER:

4 Q Dr. Bloom, reference was made to your Exhibit
5 MPB-2, Schedule 1, focusing on the 1980 EDH values. Am I
6 correct that you did not perform a separate cost study
7 utilizing the 1980 EDH values and that you only used them
8 as an average in your cost study for the EDHs for the years
9 1980 through '83?

10 A Yes.

11 JUDGE MATUSCHAK: Maybe we better wait. Mr. Wersan
12 is not here.

13 (Pause.)

14 JUDGE MATUSCHAK: Would you please repeat the
15 question?

16 BY MR. KLEPPINGER:

17 Q Dr. Bloom, focusing on Exhibit MPB-2, Schedule
18 1, mention was made of the 1980 EDH values being higher
19 than those of the other years shown on that schedule.

20 Am I correct that you did not do a separate cost
21 study utilizing the 1980 EDH values?

22 A That is correct.

23 Q Am I correct that that was just one year of
24 values which were utilized in your average cost of service
25 study using the years for 1980 through '83.

j2

1 A. Yes.

2 Q. Dr. Bloom, there was cross-examination regarding
3 the average and excess cost of service study methodology.

4 Am I correct that the average and excess cost of
5 service methodology was never developed or intended to be
6 a system planning tool?

7 A. I believe that is true, Mr. Kleppinger. I be-
8 lieve the average and excess methodology was originally
9 developed as a methodology which would attempt to spread
10 the benefits of diversity among the various rate schedules,
11 sort of an approximation to the Bary curve.

12 Q. You have reviewed the results of the average
13 and excess study that is included in WFS-1, have you not?

14 A. Yes, I have.

15 Q. Isn't it true that the results of that study
16 are actually more favorable to Rate HT customers than the
17 company's or your 4CP studies?

18 A. Yes.

19 Q. And you are still not recommending the utiliza-
20 tion of an average and excess methodology for the Philadel-
21 phia Electric Company?

22 A. I don't believe it is appropriate.

23 Q. Mr. Wersan questioned you on cost comparisons
24 between base load generating stations and combustion
25 turbines. Do you recall those questions?

1 A. Yes, sir.

2 Q. Am I correct that the basis for such a compari-
3 son in your mind would be the basis of costs of Limerick
4 when it was originally planned versus combustion turbine
5 costs in the same time frame?

6 MR. WERSAN: Objection; it is a leading question.

7 MR. KLEPPINGER: This is redirect examination,
8 Your Honor.

9 MR. WERSAN: You still can't lead your own witness.

10 MR. KLEPPINGER: I will restate the question,
11 Your Honor.

12 BY MR. KLEPPINGER:

13 Q. Dr. Bloom, when performing a cost comparison
14 between Limerick and combustion turbines, would you
15 utilize current costs of combustion turbines in that
16 comparison, or historic costs of combustion turbines in
17 the same time frame when Limerick was originally planned?

18 A. I don't believe it is proper to utilize current
19 costs for Limerick and the combustion turbines, given the
20 fact that the decision to build Limerick did not occur
21 today; it certainly occurred back in the early-1970s,
22 late-1960s, and the costs that were relevant in that time
23 period were the costs that Philadelphia Electric certainly
24 utilized to justify the construction of Limerick. Those
25 are the costs that are to be utilized and looked at.

1 Q During questioning by numerous counsel reference
2 was made to energy-type allocations of capital cost com-
3 ponents. When responding to those questions and utilizing
4 the term "energy," did you mean the 8,760 hours in a year
5 as the energy component?

6 A No, I did not. I believe, as I indicated to Mr.
7 Wersan, if you did an analysis between the costs of a com-
8 bustion turbine versus the costs of Limerick, both capital
9 and running costs, there will be a cross-over point, may-
10 be in the neighborhood of 1,000, 1,100 hours use during a
11 year.

12 Any usage beyond that 1,000 or 1,100 hours use
13 during the year would not represent any kind of fuel cost
14 or running cost savings and it would be improper to allo-
15 cate on an energy basis any hours usage or any percentage
16 of the 1,000 to 8,760 hours in a year on an energy basis.

17 Q If the results of a system planning approach
18 were obtained which utilized this cross-over point type
19 of analysis, what would those results dictate in terms of
20 capital costs and fuel costs allocated to a high load
21 factor class?

22 A I believe, as was discussed this morning in the
23 cross-examination of Mr. Figley, the results would certain-
24 ly be higher capital costs to the higher load factor cus-
25 tomers, and also then a corresponding lower energy cost,

1 which is missing from that particular analysis which he
 2 performed. So you have the combination of high capital
 3 costs and low energy costs for the high load factor cus-
 4 tomer class.

5 MR. KLEPPINGER: Thank you, Dr. Bloom.

6 I have no further questions, Your Honor.

7 JUDGE MATUSCHAK: Anything further?

8 MR. MacGREGOR: No, Your Honor.

9 MR. WERSAN: Yes.

10 RE-CROSS-EXAMINATION

11 BY MR. WERSAN:

12 Q Dr. Bloom, Mr. Kleppinger asked you about a
 13 comparison of the cost of a combustion turbine and the
 14 cost of Limerick if you were to develop some analysis or
 15 comparison between them; and you indicated you would pre-
 16 fer using, I take it, an early estimate of the cost of
 17 Limerick versus the cost of a combustion turbine at that
 18 time?

19 A Yes. I believe that if -- again, looking back
 20 in time -- someone in Philadelphia Electric recognized
 21 that we were going to go through a period of double-digit
 22 inflation for so many years and the price of oil would go
 23 to \$30 a barrel, whatever else, there certainly would have
 24 been a lot of question about why one would want to build
 25 Limerick.

1 Q. Would you agree with me that in the Commission's
2 investigation at Docket I-80100341, the need for and
3 economics of the Limerick plant were reviewed?

4 A. Again, I was not a party to that investigation.
5 I would imagine that they probably looked at that, certainly.

6 Q. Assuming that during that investigation the need
7 for Limerick 1 and/or Limerick 2 were reviewed and a
8 Commission opinion came out about the propriety of pro-
9 ceeding with Limerick, wouldn't you agree then that cost
10 estimates, at a minimum, cost estimates as of that date
11 should be looked at between the cost of Limerick and the
12 cost of a combustion turbine?

13 A. Again, I believe there may be other factors
14 there with respect to the amount of dollars already ex-
15 pended on Limerick that probably also may have been taken
16 into account in the Commission's decision.

17 We are not starting with a clean piece of paper,
18 saying we have the alternative of building Limerick or
19 something else. We've already got this plant which is "X"
20 percent finished. Should we finish it now, or should we
21 abandon it because we have another factor?

22 Q. When you say that, then that is based upon the
23 fact that you don't know whether or not Philadelphia Elec-
24 tric offered an incremental economic analysis of the
25 Limerick station?

1 A. I do not know.

2 Q. Assuming they offered an incremental analysis of
3 the cost to go to complete Limerick, would that then be
4 based upon the cost of Limerick at that time versus other
5 alternative costs of capacity?

6 A. If it was incremental, yes.

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

8 JUDGE MATUSCHAK: Anything further?

9 RE-CROSS-EXAMINATION

10 BY MR. SQUIRES:

11 Q. Dr. Bloom, how long does it take to build a
12 combustion turbine plant?

13 A. A very short period of time compared to the
14 time it takes to build a nuclear plant.

15 Q. How long would you say?

16 MR. KLEPPINGER: I will object, Your Honor. I
17 think it is outside the scope of this witness' testimony.

18 BY MR. SQUIRES:

19 Q. Do you know, Dr. Bloom?

20 A. No, I really don't.

21 JUDGE MATUSCHAK: Anything further?

22 MR. SQUIRES: No further questions.

23 JUDGE MATUSCHAK: The witness is excused.

24 (Witness excused.)

25 MR. KLEPPINGER: Your Honor, PAIEUG would like to

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1 call to the stand Mr. Jeffry Pollock.

2 Whereupon,

3 JEFFRY POLLOCK

4 having been duly sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. KLEPPINGER:

7 Q Would you state your name and business address
8 for the record, please?

9 A Jeffry Pollock. My business address is 605 Old
10 Ballas Road, St. Louis, Missouri.

11 Q On whose behalf are you appearing today?

12 A I am appearing on behalf of the Philadelphia
13 Area Industrial Energy Users Group and United States Steel
14 Corporation.

15 Q Do you have before you a document which is
16 labeled "Testimony and Exhibit of Jeffry Pollock" consisting
17 of some 29 pages of direct testimony and numerous appendices
18 and exhibits?

19 A Yes.

20 Q Was this document prepared by you or under your
21 supervision?

22 A Yes, it was.

23 MR. KLEPPINGER: Your Honor, I would like to have
24 marked for identification purposes as PAIEUG Statement No.
25 3 the testimony and exhibit of Jeffry Pollock.

1 JUDGE MATUSCHAK: It will be so identified.

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

5 BY MR. KLEPPINGER:

6 Q. Mr. Pollock, are there any additions or correc-
7 tions you have to PAIEUG Statement 3 at this time?

8 A. Yes, sir. On page 20, line 17, the word "three"
9 should be "two."

10 Q. With that correction, Mr. Pollock, are the
11 answers set forth in PAIEUG Statement No. 3 true and
12 correct to the best of your knowledge, information and
13 belief?

14 A. Yes.

15 Q. If I were to ask you those questions today,
16 would your answers be the same as contained therein?

17 A. Yes.

18 MR. KLEPPINGER: Your Honor, I would like to move
19 for the admission of PAIEUG Statement No. 3, pending
20 appropriate motions to strike at a later time.

21 JUDGE MATUSCHAK: Under those conditions, the motion
22 is granted.

23 (Whereupon, the document marked as
24 PAIEUG Statement No. 3 was
25 received in evidence.)

MR. KLEPPINGER: The witness is available for cross.

JUDGE MATUSCHAK: Mr. MacGregor.

1 MR. MacGREGOR: Thank you, Your Honor.

2 CROSS-EXAMINATION

3 BY MR. MacGREGOR:

4 Q Good afternoon, Mr. Pollock.

5 A Good afternoon.

6 Q Am I correct, Mr. Pollock, that you agree with
7 and incorporate into your testimony Dr. Bloom's criticisms
8 of the company's decision not to weather correct 1984 4CP
9 data in employing them in its 1986 cost of service study?

10 A Yes. I concur both in principle and in the
11 adjustments.

12 Q You have testified in several past Philadelphia
13 Electric Company rate proceedings; is that correct?

14 A Yes.

15 Q In those proceedings, have you ever proposed a
16 weather normalization adjustment to the company's 4CP
17 method?

18 A No.

19 Q In particular, you testified in the company's
20 1982 rate proceeding at Docket No. R-811626; is that
21 correct?

22 A Yes, I will accept that.

23 Q Would you also accept subject to check that the
24 company's cost of service study in that case, which was
25 based upon a test year ended March 31, 1982, was derived

1 from 4CP peak load data from the summer of 1980?

2 A. I believe that is correct; yes.

3 Q. Would you agree with me, as shown in Mr. Bloom's
4 exhibits, that the average EDH for those four summer peak
5 days were 238, or significantly higher than any of the
6 other years which you examined?

7 A. They were higher than the other years, yes.

8 Q. When you testified in that proceeding, did you
9 propose any adjustment to the weather corrected data in
10 that period for use in the class cost of service study in
11 the 1626 case?

12 A. No, we did not.

13 Q. I take it if such an adjustment had been made,
14 it would have worked to the detriment of the industrial
15 customers whom you represented in that proceeding?

16 A. It is possible that the non-weather sensitive
17 customer classes would have had a somewhat lower rate of
18 return, but I think as Dr. Bloom's schedules show, the
19 difference between the various weather adjustments is
20 fairly small as compared to the difference between the
21 1984 actual weather conditions and the representation of
22 the various three other weather adjusted studies which
23 Dr. Bloom conducted.

24 Q. But you did not propose a weather adjustment
25 in that prior proceeding?

1 A. No.

2 Q. Just by way of clarification, at page 4 of your
3 testimony, lines 8 through 10, dealing with what you perceive
4 to be a second problem with the company's cost of service
5 study in that it included curtailable HT load in the 4CP
6 data for the HT class; is that correct?

7 A. Yes.

8 Q. And you state on lines 8 through 10 that "A
9 significant portion of service is provided on a curtailable
10 basis either from the HT Curtailment Rider or the Supple-
11 mental Energy provision of the Night Service HT Rider;" is
12 that correct?

13 A. Yes.

14 Q. You use the word "significant," Mr. Pollock.
15 Would you agree with me that the total HT load at the time
16 of 4CP subject to curtailment was less than two percent of
17 the total HT load at that time, or have you examined that
18 number?

19 A. I have not examined the number. I have re-
20 ferred to Dr. Bloom's schedules and his exhibit. I have
21 not made a comparison of that number.

22 Q. Have you examined what percentage change in-
23 cluding or excluding the curtailable load makes in the A-1
24 allocator for the HT class?

25 A. Again, I have not made that comparison.

1 Q. So on what basis do you determine that "A sig-
2 nificant portion of service is provided on a curtailable
3 basis"?

4 A. By looking at the demands of the Supplemental
5 Energy customers to the extent that those demands were
6 provided to us in the form of a data request.

7 Q. Is two percent a significant total in your
8 view?

9 A. Well, if two percent is the correct number, it
10 is still a measurable difference.

11 Q. Does it produce any measurable difference in
12 the A-1 allocator to the HT class?

13 A. Again, I don't know because I haven't tested
14 it without the adjustment.

15 Q. Now, as to your class revenue allocations, you
16 propose to allocate the increase to the classes generally
17 on an equal percentage basis excluding all fuel costs; is
18 that correct?

19 A. Yes.

20 Q. And you show the proposed increases on
21 Exhibit JP-1, Schedule 5; is that correct?

22 A. Yes.

23 Q. For example, for the residential class you pro-
24 pose an increase of \$310,723,000?

25 A. Yes.

1 Q And that compares to the \$219,200,000 increase
2 proposed by Philadelphia Electric Company?

3 A I think the comparison would be to the
4 \$267,733,000 figure that is shown on Schedule 4, page 1.

5 Q And those would be both on a non-fuel basis?

6 A That's correct.

7 Q Now, you show the percentage increase that you
8 propose for the residential class to be 56.1 percent. I
9 take it that is on a comparison to non-fuel revenue; is
10 that correct?

11 A Yes.

12 Q If I perform the calculation to determine what
13 percentage increase you propose on a total basis, it would
14 be 35.5 percent for the residential class, as compared to
15 the 29.6 percent proposed by the company? I determine that
16 by taking your \$310,723,000 number, subtracting out the
17 fuel savings from page A-5 of Exhibit TPH-2, and then
18 dividing by the base revenue for the residential class at
19 present rates.

20 A What was the figure you came up with?

21 Q 35.5 percent.

22 A Yes; that's correct.

23 Q And I performed a similar calculation for the
24 HT class on a total revenue basis and determined an in-
25 crease of 23.3 percent. Would you agree with that figure?

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1 Again, I took the increase which you proposed for
2 the HT class on Schedule 5 of \$295,796,000, subtracted the
3 fuel savings and compared that to the HT base revenue at
4 present rates.

5 A. That is a correct number.

6 Q. With respect to the HT rate design, you propose
7 an HT demand charge of \$10.40 per kilowatt; is that correct?

8 A. Yes, based upon the proposed rate spread of
9 Philadelphia Electric.

10 Q. On that basis, that is approximately a 94 percent
11 increase over the existing HT demand charge of \$5.37 a
12 kilowatt?

13 A. Yes.

14 Q. On page 23 of your testimony you discuss your
15 proposed change to the tail block of Rate HT; is that
16 correct?

17 A. Yes.

18 Q. I believe your proposal is 3.18 cents per
19 kilowatt-hour?

20 A. Yes.

21 Q. And your desire is to maintain the current
22 .5725 cents demand or fixed cost recovery in the present
23 tail block of Rate HT?

24 A. Yes; that is the basis.

25 Q. At page 22 of your testimony you criticize the

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1 company's proposed HT tail block because it increases the
2 demand cost recovery in the tail block by more than 100
3 percent; is that correct?

4 A. Yes. That was one of the statements that I used
5 to call attention to the problem.

6 Q. And you compare that number unfavorably with
7 the company's proposal to increase the HT demand charge by
8 only approximately 76 percent in lines 14 and 15; is that
9 correct?

10 A. Yes.

11 Q. Now, your calculation of these numbers is shown
12 on Exhibit JP-1, Schedule 7; is that correct?

13 A. Yes, it is.

14 Q. I take it line 1 under "Present Rates," 3.7600
15 cents per kilowatt-hour, is the present tail block charge
16 for Rate HT?

17 A. Yes.

18 Q. And you subtract from that the 2.8753 cents
19 base cost of fuel and the .3122 cents non-fuel energy-
20 related cost, to obtain the demand cost recovery in the HT
21 tail block of .5725 cents; is that correct?

22 A. Yes.

23 Q. Shown on footnote (a), the total of lines 2
24 and lines 4, is the 3.1875 cent unit energy cost in the HT
25 tail block; is that correct?

1 A. Excuse me; would you repeat that?

2 Q. I'm saying that line 2 plus line 4 equals 3.1875
3 cents per kilowatt-hour, which is the figure shown as unit
4 energy cost in footnote (a) to your Schedule 7.

5 A. Yes.

6 Q. Now, I believe you agreed that the 3.7600 cent
7 number is the present HT tail block; is that correct?

8 A. Yes.

9 Q. The figures on lines 2 and 4, as shown in foot-
10 notes (a) and (b), as I understand it, are the numbers as
11 filed by the company in Exhibit WFS-1 in the company's
12 last rate proceeding; is that correct?

13 A. Yes.

14 Q. But the 3.7600 cent per kilowatt-hour number,
15 which is the present HT tail block, is the ultimate level
16 approved by the Commission at the end of that case as
17 filed in the company's compliance filing and reflects the
18 disallowance by the Commission of a large portion of the
19 rate increase requested by the company in that proceeding;
20 is that correct?

21 A. Yes; that's correct. The energy charge as
22 filed in the compliance filing was slightly lower than the
23 tail block charge that the company had requested in that
24 case.

25 Q. So to some extent we are comparing apples and

1 oranges here in that you have a 3.7600 cent number, which
2 was as approved in the compliance filing, whereas the num-
3 bers on lines 2 and 4 were as filed by the company
4 originally when the rate case was filed and are not
5 necessarily the numbers that were employed by the company
6 at the end of the case in the compliance filing?

7 A. I did not know what numbers the company employed
8 at the end; however, to the extent that there is a mismatch,
9 I think that the mismatch is very small. Most of the
10 adjustments that would have been made would have been made
11 to the demand component, not the energy component.

12 Q. I will provide you with the number which was
13 provided in the company's response to Interrogatory labeled
14 IR-Chem-2-78.

15 If you first look at the table at the bottom of the
16 page under "Rates as Filed," you see an energy component
17 of 2.604 cents, is that correct, for the third block of
18 Rate HT?

19 A. Yes.

20 Q. And that is comparable to the 2.6040 cent num-
21 ber which you employed at proposed rates in your Schedule
22 7; is that correct?

23 A. Yes, it is.

24 Q. So if we look over at the current rates we see
25 an energy component of 3.046 cents, which is lower than

1 the 3.1875 cent number which you used, which was what the
2 company originally filed in the prior rate proceeding; is
3 that correct?

4 A. Yes.

5 Q. Now, if we use the corrected number of 3.046
6 cents and substitute it for the 3.1875 cent number you
7 used, I achieve a result of .714 cent demand cost recovery
8 under present rates in the HT tail block. Would you
9 accept that number or calculate it for yourself?

10 A. .714?

11 Q. That's correct.

12 A. Yes.

13 Q. And if you compare that to the proposed rate
14 demand cost recovery of 1.146 cents, would you agree with
15 me that that represents an increase of 60 percent, as
16 opposed to the 100 percent number shown on your Schedule 7?

17 A. That's close enough; yes.

18 Q. Would you agree with me that that 60 percent
19 number is less than the 75 or 76 percent increase the
20 company has proposed to the HT demand charge?

21 A. Yes, it is.

22 MR. MacGREGOR: Thank you.

23 That's all I have, Your Honor.

24 JUDGE MATUSCHAK: Staff.

25 MS. CHESTNUT: No questions, Your Honor.

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JUDGE MATUSCHAK: Consumer Advocate.

MR. WERSAN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. WERSAN:

Q. Good afternoon, Mr. Pollock.

A. Good afternoon.

Q. I would like to discuss just briefly with you your testimony on the question of the HT Curtailment Rider and the Supplemental Energy provision of the Night Service HT Rider and how that load is included in the cost of service study.

I take it that it is your opinion that the cost of service study should reflect how and why PECO plans, designs and builds its power supply system?

A. Yes; to the extent that the how and when and why determines factors of cost causation, then one attempts to employ those factors as closely as they practically can within the limited context of the cost of service study.

Q. Do you know how PECO treats interruptible or curtailable load in its power planning process?

A. No, I don't. It is difficult to say at this point because of the fact that the curtailable and interruptible load is still a relatively small part of the total system load. But it is a growing part.

Q. Do you know how PECO developed its load forecast?

1 A. No, I do not.

2 Q. I take it you don't know how it factors in, if
3 it does at all, interruptible or curtailable load in that
4 load forecast?

5 A. No, I do not.

6 Q. I assume, therefore, you don't know whether or
7 not PECO reduces its load forecast by the amount of inter-
8 ruptible load or curtailable load on its system; is that
9 correct?

10 A. That's correct.

11 Q. So, in effect, you don't know whether PECO does
12 anything different with its power supply planning based on
13 the fact that there is some interruptible and curtailable
14 load on the system?

15 A. Not from a planning standpoint. Obviously,
16 from an operational standpoint, it does enter into the
17 question.

18 Q. That's right. But what you are allocating or
19 not allocating by reducing the portion of the HT class
20 loads based upon coincident peak is power supply investment;
21 is that correct?

22 A. That's correct.

23 Q. And it is that investment that we're talking
24 about when we talk about the planning process for PECO?

25 A. The investment is the result of the planning

1 process; yes.

2 Q Whereas, the ability of the company to curtail
3 or interrupt load goes more to its day-to-day operations
4 and its operational expenses; is that correct?

5 A Well, ultimately it goes to that, and ultimately,
6 if the amount of curtailable supplemental energy becomes
7 a significant part of the total picture, then it could have
8 an impact on future system planning.

9 Q When you say future system planning, how far
10 out are you looking?

11 A I had no particular time in mind. Obviously,
12 decisions about investments have to be made with a fair
13 amount of lead time if the utility is to have sufficient
14 capacity in place to meet its requirements.

15 Q Would you agree with me that Philadelphia Elec-
16 tric has already made a decision about what its next on-
17 line major base load plant will be?

18 A The decision -- if you're referring to the
19 decision regarding Limerick, yes, that decision was made
20 some time ago.

21 Q Do you know, in the decision to build Limerick
22 2 by PECO, whether or not interruptible or curtailable
23 load was considered?

24 A I don't know that it was considered.

25 Q So I take it your opinion that the cost of

1 service study should reflect interruptible or curtailable
2 load is not based upon any understanding of how that cur-
3 tailable or interruptible load is factored by PECO into its
4 power supply process?

5 A. That's correct. It is not based upon what PECO
6 may do with respect to the treatment of those loads for
7 its system planning purposes.

8 MR. WERSAN: That's all I have, Your Honor.
9 Thank you, Mr. Pollock.

10 MS. CHESTNUT: Your Honor, I did have a question
11 for Mr. Pollock, if I may.

12 JUDGE MATUSCHAK: Very well.

13 CROSS-EXAMINATION

14 BY MS. CHESTNUT:

15 Q. Mr. Pollock, am I correct that it is your testi-
16 mony that if a phase-in is adopted by the Commission, it
17 should not be automatic, but rather the company should be
18 required to provide updated cost of service studies?

19 A. That's correct.

20 Q. Can you tell me a little bit more about how
21 this procedure will be implemented?

22 A. Well, basically, the company would -- the
23 Commission, assuming that they would approve a phase-in,
24 would also delineate the parameters of the phase-in; that
25 is: how long a phase-in: what kinds of increases would be

1 approved in each of the years, and so on.

2 Given those parameters and others which don't come
3 to mind right at the moment, the company would have to make
4 some type of annual filing to implement each phase or each
5 component of the phase-in, and along with that annual
6 filing, they would supply a cost of service study which
7 would be based upon the results of the latest test year,
8 incorporating the additional costs being implemented
9 through the phase-in.

10 From that cost of service study, I would recommend
11 that the distribution of the increase be determined.

12 Q Do you understand that there would be hearings
13 involved with this updated cost of service study submittal?

14 A There could be, but it would not necessarily
15 have to happen that way. If the Commission said "We want
16 you to utilize the cost of service study in this fashion,"
17 and it is pretty clear from their compliance filing each
18 subsequent year of the phase-in that they have complied
19 with the terms of the order, then the results could be
20 placed into effect and the allocations made and the rates
21 designed without any hearings at all.

22 Q Would a Commission order be required?

23 A A Commission order could conceivably be required
24 in the same sense as the Commission would approve the com-
25 pliance filing. In other words, if what the company

1 submitted each year of the phase-in complied with the
2 order and there was no dispute as to that compliance,
3 then the rates would go into effect on that basis; and
4 whatever the Commission would normally do in a compliance
5 filing they could do under those circumstances.

6 MS. CHESTNUT: Thank you.

7 No further questions.

8 JUDGE MATUSCHAK: Anything further?

9 Mr. Widoff.

10 CROSS-EXAMINATION

11 BY MR. WIDOFF:

12 Q Mr. Pollock, let me ask you the same question
13 I asked your colleague some time ago, and that is: did
14 you do a rate impact study on the impact of the proposed
15 rates as proposed by the Philadelphia Electric Company on
16 the various industrial intervenors whom you are repre-
17 senting here?

18 A. Yes.

19 Q. Am I correct that the clients you represent
20 generally could be described as high load factor customers?

21 A. Yes.

22 Q. With regard to your impact study based on the
23 Philadelphia Electric proposal, do you have that with you?

24 A. I have the results, yes.

25 Q. May I see it, please?

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MR. KLEPPINGER: I don't believe so. Your Honor, that is confidential data to the individual client members within our group.

MR. WIDOFF: I believe this morning Mr. Kleppinger made a similar request with respect to the exact same information that I am now asking from his witness.

MR. KLEPPINGER: No privilege was claimed to it.

MR. WIDOFF: Namely, in his cross-examination of Witnesses King and Figley, he asked those witnesses whether they had done a rate impact study and they indicated they had. He asked them questions with regard to the result of the impact study, and he also asked them to produce the information.

MR. KLEPPINGER: They had the opportunity to claim privilege to that information, Your Honor.

I am not authorized to release that information on behalf of my clients. We could do it perhaps on a group-wide basis, but not on an individual company basis. It includes consumption data which is of a proprietary nature.

JUDGE MATUSCHAK: Let's take a five-minute recess and confer with Mr. Widoff and see if you can reach some understanding.

(Recess.)

1 JUDGE MATUSCHAK: Are the parties ready to proceed?

2 MR. KLEPPINGER: I believe so, Your Honor.

3 MR. WIDOFF: Your Honor, if I may, I believe Mr.

4 Kleppinger and I have reached an agreement that his witness
5 will present to us certain information with regard to the
6 rate impact on the industrial intervenors for whom the
7 witness was testifying today that will provide us a range
8 and an average of the overall rate increase, and it will
9 be done in such a manner as not to identify the individual
10 industrial customers; and he will also provide us with a
11 range of load factors in the same manner. And it is my
12 understanding that this information will be calculated
13 and provided to us in the early part of next week.

14 JUDGE MATUSCHAK: Is that your understanding, Mr.
15 Kleppinger?

16 MR. KLEPPINGER: That is what we will attempt to
17 do, Your Honor.

18 JUDGE MATUSCHAK: Very well.

19 MR. WIDOFF: Thank you, Your Honor.

20 BY MR. WIDOFF:

21 Q Mr. Pollock, I would like to refer you to page
22 21 of your testimony.

23 A Yes.

24 Q At the bottom of the page you discuss the question
25 of what the appropriate charge should be for the tail block

1 of the Ht class; is that correct?

2 A Yes.

3 Q And as I understand your position, as stated
4 in the last full answer on that page, you indicate that
5 the demand charges should basically recover demand-related
6 costs, while energy charges should basically recover energy-
7 related costs; is that correct?

8 A Yes.

9 Q And we are all aware that the bulk of the rate
10 increase that is at issue in this case relates to the
11 construction of Limerick 1; is that correct?

12 A Yes, the construction costs as well as the operat-
13 ing expenses.

14 Q When you were defining demand-related costs is
15 my understanding correct that you are looking at those costs
16 that we have just defined, namely the costs related to
17 construction and operation of Limerick, as demand-related
18 costs?

19 A In terms of the capital costs associated with
20 Limerick and the fixed operating expenses; I have considered
21 those costs and believe that they are demand-related.

22 Q Do you believe they are all demand-related?

23 A Yes, I do.

24 Q With regard to your Schedule 7, Mr. MacGregor
25 has already provided you with certain figures which would

1 change, as I understand it, some of the numbers on line
2 5. What I would like to ask you is whether you have done
3 similar calculations for the first two blocks of the HT
4 rates?

5 A No.

6 Q Let me ask you if you will accept, subject to
7 check -- and I would state here employing the same numbers
8 as contained in Schedule 7 and without the correction that
9 Mr. MacGregor has indicated -- that the first energy block
10 for Rate HT under the company's proposal, if you go through
11 the same methodology, when you come down to line 5 that
12 the increase would be 28.335 mills.

13 MR. KLEPPINGER: Could you provide him with the
14 numbers that led you to that?

15 MR. WIDOFF: Yes, we would be happy to do that. Would
16 you like him to review that at this time?

17 MR. KLEPPINGER: I think it would be helpful to speed
18 it up.

19 (Document handed to witness by Counsel Widoff.)

20 (Witness computing on electronic calculator.)

21 THE WITNESS: The increase is 28.335 mills.

22 BY MR. WIDOFF:

23 Q Similarly for the second block, would you accept,
24 subject to your check, that the increase would be slightly
25 over 17 mills?

1 A (Witness computing on electronic calculator.)

2 Yes, that is correct.

3 Q Am I also correct that in Schedule 7 and in your
4 testimony you calculate the increase in the tail block as
5 5.7 mills?

6 A Yes.

7 Q Just asking you mathematically speaking, if you
8 compare the increase using your methodology in the tail
9 block as compared to the first energy block, the increase
10 in the first energy block is approximately five times greater;
11 is that not correct?

12 A In absolute terms, that is correct. Of course,
13 that would not be the case in percentage terms.

14 Q Now, if I understand you correctly, going to
15 your Schedule 8, you are proposing that the tail block not
16 be increased at all?

17 A No.

18 Q What are you proposing?

19 A I am proposing a 3.18 cent per kilowatt-hour
20 tail block.

21 JUDGE MATUSCHAK: Please keep your voice up. I'm
22 having difficulty hearing you. Or turn around.

23 BY MR. WIDOFF:

24 Q If I could interrupt you for just a second, I
25 would like you to answer the question consistently with

1 your presentation at Schedule 7, so we are not comparing
2 apples and oranges. In other words, what do you propose
3 to do with the 5.7 mill increase that you have calculated
4 that the company is suggesting in that tail block?

5 A Essentially I am proposing to move that increase
6 to the capacity charge where I feel it is more appropriate
7 to be recovered.

8 Q So you would eliminate that 5.7 mill increase
9 entirely from the tail block; am I correct?

10 A Yes.

11 Q At the bottom of page 22, as I read your testimony,
12 on the bottom of the page and going over to page 23 you
13 provide a justification for your approach which we have
14 just gone over by indicating that you are concerned about
15 revenue stability, specifically relating to increases in
16 the tail block rates; is that correct?

17 A You characterize it as a justification; I think
18 my characterization would be it is a result of the proposal,
19 and the proposal is justified on the basis of attempting
20 to better track the cost of service within the rate class.

21 Q Have you done an actual study on revenue stability
22 for Philadelphia Electric Company?

23 A Not in this proceeding, no. In past proceedings
24 I have looked at the effect of increasing the tail block's
25 energy charge to include greater recovery of demand-related

1 costs and the effect that that has on changes in the income
2 earned from a particular class in response to changes in
3 kilowatt-hour consumption of that class.

4 Q But you haven't done such a study in this case?

5 A I have not done one in this case.

6 Q I would assume then you have also not done a
7 study to determine what the effect on revenue stability
8 would be by further increasing the demand charges over and
9 above what the company has already proposed; is that
10 correct?

11 A I have done -- excuse me; for this case I have
12 not done that specific study.

13 Q So that you don't know which increase will have
14 a greater impact on revenue stability in this case?

15 A I have not done a study in this case, but it
16 doesn't take a lot to conclude that increasing the capacity
17 charge provides a more stable revenue stream over time;
18 and that's because changes occur more often in kilowatt-hour
19 sales than they do in kilowatts of billing demand. Given
20 that as a fact, it is just an observed trend from various
21 utilities and you can deduce from that that the capacity
22 charge provides greater revenue stability to the utility.

23 And I draw that not from my own experience, although
24 that is partly a contribution, but also based upon the
25 experience of other utilities who for the very reason of

1 revenue stability have favored increases in capacity charges
2 as opposed to attempts to recover more fixed costs in the
3 energy charge.

4 Q But you have not done a study of what the impact
5 would be of leaving the tail block constant as you propose
6 and dramatically increase the demand charges.

7 A I have done --

8 Q Is it correct that you have not done such a study?

9 A In this case, that is correct.

10 Q I would like to finally refer you to your discus-
11 sion of a high voltage discount on page 26.

12 A Yes.

13 Q In this particular area you make a comparison
14 with PP&L, and, as I understand your testimony, you are
15 indicating that PP&L's discount is larger than the discount
16 that PECO is presently providing -- proposes to provide
17 in this proceeding; is that correct?

18 A Yes.

19 Q Are you aware of whether PP&L has a demand ratchet?

20 A I'm aware that they do not have a demand ratchet.

21 Q I take it that in light of the fact that you
22 are recommending that a study be done that you, yourself,
23 have not done a study with respect to -- a specific study
24 with respect to the question of the size of the discount.

25 Let me rephrase the question.

1 A All right.

2 Q In your discussion regarding PP&L am I correct,
3 Mr. Pollock, that while you are recommending an additional
4 1 percent discount that you are also recommending that the
5 Commission perform a study?

6 A Excuse me; the Commission or the company?

7 Q The company.

8 A I am recommending that the company provide certain
9 basic information from which could be then determined with
10 some greater specificity what the differential in cost is
11 by voltage level.

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

13 CROSS-EXAMINATION

14 BY MR. FORT:

15 Q Mr. Pollock, may I refer you to page 20 of your
16 testimony please? I believe in answer to the question which
17 begins in the middle of the page you summarize your
18 recommendation, is that correct, with relation to rate
19 design, "Specifically, the increase should be spread on
20 an equal percent basis relative to nonfuel revenues subject
21 to the three constraints as follows:

22 "(1) The interclass subsidies should be maintained
23 (or possibly reduced), and

24 "(2) The index of return should not exceed 140%
25 for any major class."

1 Is that correct?

2 A Yes.

3 Q Now, when you speak of interclass subsidies should
4 be maintained or reduced, you are speaking in dollar terms
5 as opposed to a percent of revenues of some kind?

6 A The interclass subsidies are dollar amounts.

7 Q Are dollar amounts?

8 A That is correct.

9 Q Have you ever had occasion to testify in any
10 other proceeding before a public utility commission in
11 which you recommended that increases be subject to a limita-
12 tion as described, the interclass subsidy shall be maintained
13 or possible reduced?

14 A You are suggesting an additional constraint as
15 to the percentage increase?

16 Q No, I'm not. I'm asking you if you have ever
17 had an occasion to testify in a public utility commission
18 proceeding in which you recommended a proposal similar to
19 that recommended on page 20?

20 A I have testified in a number of proceedings in
21 which I have based a recommendation on the interclass
22 subsidy results of the cost of service study. Typically,
23 I have also added some constraints to that.

24 Q Could you tell us what those cases are, please,
25 and perhaps make a reference to the case so we could obtain

1 a copy of your testimony?

2 A I believe in the last Philadelphia Electric rate
3 case, for example, the recommendation was to move the rates
4 closer to cost with the constraint that no class receive
5 a percentage increase greater than one and one-half times
6 the system average percent increase on a non-fuel basis.

7 I have typically applied that constraint in other
8 cases where the cost of service study demonstrated a
9 demonstrable difference between class rates of return.

10 Q I believe that recommendation is not the same
11 as the recommendation you are making today; is that not
12 correct?

13 A That is correct; it is not the same recommenda-
14 tion that I am sponsoring today.

15 Q My particular question was: have you previously
16 made the recommendation you are making today; in other words,
17 that everyone be increased equally subject to the limitation
18 that the interclass subsidies as expressed in dollar terms
19 shall be maintained?

20 A I have made the recommendation in several cases
21 of that type, and when you maintain the dollar subsidies
22 it is often not necessary to add the constraints that I
23 testified to before; that is the 150 percent constraint
24 on the high side, because, by maintaining the subsidies that
25 in effect lowers the increase assigned to all classes, as

1 compared to trying to reduce the subsidies, which has been
2 my recommendation in past cases.

3 Q And would you please identify those cases where
4 you made that recommendation for the maintenance of the
5 interclass subsidies?

6 A I just got through testifying in a case involving
7 the City of Austin, Texas where I made the recommendation
8 to maintain the class subsidies.

9 Q Would that involve electric energy?

10 A Yes. It was an electric rate case before the
11 Public Utility Commission of Texas.

12 Q Involving what electric utility?

13 A The City of Austin has a municipally-owned
14 utility system.

15 Q And their rates in Texas are governed by the
16 Texas Public Utility Commission?

17 A On appeal, yes.

18 Q Any others?

19 A Yes, if I had time to go back through all the
20 appearances I've made and list those where I made that
21 recommendation.

22 Q Could you give us at least one or two other
23 examples off the top of your head?

24 A I believe a Georgia Power case that was held
25 either two or three years ago; there I made that

1 recommendation, again because of the fact that the rates
2 of return were quite far apart, about the farthest you could
3 do without harming any particular class would be to maintain
4 the subsidies. I'm certain there are others.

5 Q And that would have been before the Georgia
6 Public utility Commission?

7 A Yes.

8 Q Approximately what year?

9 A That was in July of 1983.

10 Q Did the Georgia Public Utility Commission accept
11 your recommendation?

12 A It is difficult to tell what the Commission
13 accepted. They adopted the company's proposed spread of
14 the increase, which was for the industrial class the same
15 spread that I had recommended.

16 Q Did the Texas Public Utility Commission accept
17 your recommendation?

18 A The Texas Commission -- the City of Austin case
19 that I referred to is still pending before the Texas PUC,
20 so no determination has yet been made.

21 Q If you will turn to page 15 of your testimony,
22 please, in the schedule at the bottom under "Index of Return"
23 under "Present Rates," am I correct that that is using the
24 present rates but in computing the return you are making
25 adjustments which you suggest in your testimony?

1 A The weather and other adjustments which Dr. Bloom
2 has testified to?

3 Q Yes.

4 A Yes, that's correct. Those adjustments are
5 reflected in that table.

6 Q So the "Index of Return" at present rates is
7 not the PECO computation of return; it is rather your
8 computation of return, is that correct?

9 A Yes, as supplied by Dr. Bloom.

10 Q As supplied by Dr. Bloom. Now, under that
11 computation at the present time SEPTA and Amtrak do not
12 have separate rates; is that not correct?

13 A Yes, that's correct.

14 Q They are part of the HT class?

15 A That's correct.

16 Q How did you break out SEPTA's and Amtrak's
17 separate rates under those circumstances?

18 A I simply followed -- or I should say Dr. Bloom
19 and our staff simply followed the structure of the
20 company's cost of service study which showed SEPTA and
21 Amtrak as separate customer classes.

22 Q You followed that structure, but then you
23 applied the current HT rates to them; is that correct?

24 A No. I simply used the revenues that the company
25 had assigned to those classes.

1 Q That PECO had assigned to those classes?

2 A Yes, the revenues provided by those customers
3 at present rates.

4 Q And that's in PECO's special cost of service
5 study for SEPTA and Amtrak?

6 A No, it was in the Exhibit WFS-1, which is the
7 company's cost of service study.

8 Q Under your computation SEPTA pays 119 percent
9 of average and Amtrak 144 percent; is that correct?

10 A Yes, those are the relative rates of return.

11 Q And aren't the relative rates of return as
12 computed by PECO very similar?

13 Do you have Exhibit WFS-1 handy?

14 I am referring to pages 6-A and 6-B.

15 A Yes. If you look at Exhibit JP-1, Schedule 1,
16 relative rates of return in column 3 for SEPTA of 123 and
17 for Amtrak of 144 -- so your question is right; the relative
18 rates of return are comparable.

19 Q Therefore, under your computation and under the
20 PECO computation at the present time Amtrak is paying 144
21 percent above the norm and SEPTA is paying, according to
22 your computation, 119 percent, and according to PECO's
23 computation 123 percent; is that correct?

24 A Excuse me; I missed the first part of your
25 question. Would you repeat it please?

1 Q Under both the computation which you made and
2 which PECO made, Amtrak is paying 144 percent of the average
3 rate of return at the present time?

4 A Yes.

5 Q Under the PECO computation at the present time
6 SEPTA is paying 123 percent, while under your computation
7 SEPTA is paying 119 percent; is that correct?

8 A Yes.

9 Q In computing the so-called subsidies for Amtrak,
10 which you presently computed 3.8 million, did you take into
11 consideration contractual agreements between Amtrak and
12 PECO relating to rates which Amtrak is to pay PECO?

13 A I've made no attempt to identify the extent to
14 which the revenues actually provided from Amtrak because
15 of their contractual provisions differ from the revenues
16 -- or could differ from the revenues in the cost of service
17 study.

18 Q I would like you to assume that there is in fact
19 a contract between PECO and Amtrak which provides in
20 substance for a reduction in the amount paid for electricity.
21 If that is the case then the present interclass subsidy
22 of Amtrak would be lower than 3.8 million; is that correct?

23 A Yes.

24 Q And logically your computation, if that proves
25 to be correct, should be adjusted to reflect if in fact

1 the present interclass subsidy is less than 3.8 million?

2 A You could make the adjustment if you substitute
3 the revenue differential.

4 Q Under your theory such an adjustment should be
5 made, should it not?

6 A I don't think I've espoused a theory one way
7 or the other. If you choose to make the adjustment, then
8 fine. I have no objection to that adjustment.

9 Q I understood one element of your theory to be
10 that the interclass subsidy should not be increased; is
11 that correct?

12 A Yes.

13 Q Therefore, if the interclass subsidy is not
14 3.8 million but is, shall we say, 2.5 million, then the
15 interclass subsidy should not be increased beyond that
16 2.5 million, under your theory.

17 A Under the recommendation to the extent that an
18 equal percentage non-fuel increase would cause an increase
19 in the subsidy, then I would make a modification to lower
20 that increase so that the subsidy could not increase.

21 Q PECO proposes a separate rate for SEPTA and Amtrak
22 which would place SEPTA and Amtrak at the average system
23 rate of return, does it not; or otherwise stated, the index
24 of return would be 100?

25 A Yes, it would be very close to 100.

1 Q And you are proposing, are you not, a rate which
2 would place the High Tension class at 100; I refer to your
3 chart on page 19.

4 A Yes.

5 Q The practical result is, is it not, that the
6 HT class -- I mean Amtrak and SEPTA, having left the HT
7 class, you propose, are going to have to pay substantially
8 in excess of the average rate of return, but the entities
9 left in the HT class would be at 100 percent of the rate
10 of return; is that correct?

11 A The SEPTA and Amtrak rates of return would be
12 higher than the system average, while the HT rate of return
13 would be at the system average.

14 Q Even though the Pennsylvania Public Utility
15 Commission recommended a special study to determine what
16 the cost of serving SEPTA and Amtrak was, PECO is proposing
17 -- and there appears to be no significant objection -- that
18 SEPTA and Amtrak be put in a special rate. Nevertheless,
19 under your system SEPTA and Amtrak would be penalized,
20 would they not, as opposed to the HT class?

21 A No, I think you have got it turned around. I
22 think if you look at the percentage increases the HT class
23 is getting the higher percent increase on a non-fuel basis
24 under my recommendation, while both SEPTA and Amtrak are
25 getting below average percent increases, again on a non-fuel

1 basis.

2 So my recommendation was an attempt to treat all
3 classes as equally as could possibly be done under the
4 circumstances.

5 Q Shouldn't the rates be adjusted as closely as
6 possible to the cost of service?

7 A I absolutely agree with that proposition. How-
8 ever, within any rate design there are limits to how far
9 you can go in a single proceeding, and I think in this
10 instance that we have gone about as far as we can for all
11 classes without violating what I understand to be the
12 Commission's constraints on gradualism.

13 Q You don't think it is significant that this is
14 a new class, in fact two new classes; in that context
15 wouldn't gradualism suggest that they be placed at the
16 average rate of return?

17 A Not at all. It really has nothing to do with
18 whether it is a new class or an old class; it is just a
19 function of where you happen to be at the time in the rate
20 case.

21 Q Have you had occasion, unlike several earlier
22 witnesses, to consider the circumstances under which power
23 is delivered at Thorndale and Perryville to Amtrak?

24 A I'm aware that there are some special circum-
25 stances; I do not have any detailed engineering or other

1 studies in front of me, nor was I ever supplied any of those
2 studies to be able to sit here and testify as to exactly
3 the method of service at those two delivery points.

4 Q Have you read the testimony of Mr. Rudden?

5 A I have briefly scanned that testimony. It has
6 been at least three weeks since I've done that.

7 MR. FORT: Thank you very much.

8 MR. SQUIRES: Your Honor, may I inquire of Mr.
9 Kleppinger as to whether he is going to provide to all of
10 the parties the information which Mr. Widoff said was going
11 to be supplied to him?

12 MR. KLEPPINGER: As a data request, we would do
13 that, yes. In due course, yes.

14 CROSS-EXAMINATION

15 BY MR. SQUIRES:

16 Q Mr. Pollock, I have a few questions for you.
17 Do you have a copy of the company's Exhibit IV-C-1 available
18 to you?

19 A Yes, I have Section IV-C-1.

20 Q Would you please turn to page 10, Part 1, showing
21 the Rate HT for the seven largest customers of the company?

22 A Yes, I have that page.

23 Q Mr. Pollock, are any of your industrial customers
24 represented within that schedule?

25 A I am certain that there are some.

1 Q Can you tell me what is the increase of the
2 company's rate proposal as applied to those seven largest
3 customers?

4 A In comparing column 7 to column 3, it represents
5 about a 22.1 percent increase.

6 Q If you would please turn to page 11, the next
7 page, would you tell me what the percent increase of the
8 company's rate proposal is for that same period of time
9 as to the rest of the Rate HT customers?

10 A Excluding the seven largest?

11 Q Yes. I presume you are going to be doing the
12 same calculation on line 11; is that right?

13 A Yes.

14 (Witness computing on electronic calculator.)

15 31.2 percent.

16 Q Am I correct that under your rate proposal the
17 increase to the HT class is lower than that proposed by
18 the company?

19 A Yes.

20 Q What is the percentage increase to the HT class
21 as a whole?

22 A Under my recommendation?

23 Q Yes.

24 A I believe that came out on earlier cross-examina-
25 tion.

(Witness computing on electronic calculator.)

23.3 percent.

1
2
3 Q May we assume that the seven largest customers
4 would under your rate proposal see a rate increase lower
5 than for the class as a whole?

6 A Again, until I make those calculations, I don't
7 know. It's quite possible they could under some basis;
8 it's quite possible that they might not.

9 Q The rate increase to the seven largest customers
10 under PECO's rate proposal is approximately 66 percent of
11 the increase to the remaining group; would that be approxi-
12 mately the same difference in the impact to the various
13 groups to the HT customers under your proposal?

14 A I'm sorry; I wasn't following your train of
15 thought.

16 Q The figures that we just reviewed indicate that
17 the rate increase to the seven largest customers under
18 PECO's rate proposal is about 66 percent of the increase
19 to the remaining class. Can we assume that that would be
20 approximately the same difference as far as the impact was
21 concerned to the various groups of HT customers under your
22 proposal?

23 A No, I don't think I could make that assumption.
24 It would depend upon how -- it would depend upon the effect
25 of scaling back the rate design, and that would not have

1 a uniform impact on all customers.

2 Q Did you prepare a proof of revenue sheet exactly
3 as that which was prepared by PECO under your proposal?

4 A Yes, I have a worksheet similar to the PECO
5 proof of revenue worksheet.

6 Q Do you have that with you, Mr. Pollock?

7 A Yes, I do.

8 Q What does that show as far as the rate increase
9 is concerned?

10 A I assume you are referring to the rate design
11 based upon my recommended spread of the increase; is that
12 correct?

13 Q I am asking whether or not you prepared a proof
14 of revenue sheet exactly -- prepared in the same way as
15 shown on page 11 in Part 1 of IV-C-1, and also on page
16 10 of IV-C-1?

17 A Okay; I thought I said I did. I have it in front
18 of me, and now what I'm asking you is which proposal do
19 you want me to make a comparison on?

20 Q Your rate proposal.

21 A My recommended rate spread and rate design; okay.

22 Q Can you tell me what your proposed rate increase
23 would be for the seven largest HT customers?

24 A 19.1 percent.

25 Q What would be the rate increase for the balance

1 of the class?

2 A 29.6 percent.

3 Q Thank you very much.

4 MR. SQUIRES: I have no further questions.

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

7 (No response.)

8 JUDGE MATUSCHAK: Any redirect?

9 MR. KLEPPINGER: Just one moment, Your Honor. I
10 won't need a break.

11 (Pause.)

12 MR. KLEPPINGER: One question, Your Honor.

13 REDIRECT EXAMINATION

14 BY MR. KLEPPINGER:

15 Q Mr. Pollock, you were asked on the treatment
16 of interruptible load in terms of load forecasting on the
17 PECO system. In your experience with other utility systems,
18 are you aware of other systems where interruptible load
19 is a consideration in their load forecasting and system
20 planning?

21 A Yes. There are a number of utilities that have
22 -- I would have to characterize it as a somewhat more
23 significant component of interruptible service, but in those
24 instances they do, under circumstances where they can
25 utilize interruptible capacity on fairly short notice, take

1 that into account in their load forecast. That is to say
2 they do not project increases in load attributable to
3 curtailable or interruptible service, and, consequently,
4 do not plan generation capacity and investment to serve
5 that load.

6 Q Thank you.

7 MR. KLEPPINGER: I have nothing further, Your Honor.

8 JUDGE MATUSCHAK: Very well; the witness is excused.

9 (Witness excused.)

10 JUDGE MATUSCHAK: That concludes the testimony we
11 had planned for today. We will adjourn at this time until
12 tomorrow morning at 10:00.

13 (Whereupon, at 4:30 p.m. the hearing was adjourned,
14 to be reconvened at 10:00 a.m. on Thursday, February 20,
15 1986 in Philadelphia, Pennsylvania.)
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C E R T I F I C A T E

We hereby certify, as the stenographic reporters, that the foregoing proceedings were reported stenographically by us, and thereafter reduced to typewriting by us or under our direction; and that this transcript is a true and accurate record to the best of our ability.

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By: Robert J. Stonaker
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By: Sandra J. Milus-Brown
Sandra J. Milus-Brown

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