

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

ORIGINAL

-----X
Township of Springdale vs. :
Duquesne Light Company and West :
Penn Power Company :
Complainant claims residents : Docket No.
currently serviced by Duquesne : C-00967749
Light Company are requesting :
service from West Penn Power :
Company and are stalemated in the :
transfer of electric service in :
the area over a dispute as to :
how to calculate the purchase :
price of the distribution :
facilities of both electric :
companies certified service area :
of Springdale Township. :
Further Post Hearing Settlement :
Conference :

-----X
Pages 284 through 292

SEARCHED

FEB 16 2001

g.m.
SECRETARY'S BUREAU
COMMUNICATIONS SECTION

State Office Building
Hearing Room 1
300 Liberty Avenue
Pittsburgh, Pennsylvania

Tuesday, January 30, 2001

Met, pursuant to notice, at 11:27 a.m.

BEFORE:

JAMES D. PORTERFIELD, Administrative Law Judge

APPEARANCES:

STEPHEN YAKOPEC, JR., ESQUIRE
1715 Fifth Avenue
Arnold, PA 15068
(For Springdale Township)

RICHARD S. HERSKOVITZ, ESQUIRE
400 Fairway Drive
Suite 400
Coraopolis, PA 15108
(For Duquesne Light Company)

DOCUMENT FOLDED

Commonwealth Reporting Company, Inc.
700 Lisburn Road
Camp Hill, Pennsylvania 17011

31

1 APPEARANCES (CONTINUED):

2 JOHN L. MUNSCH, ESQUIRE
3 West Penn Power Company
4 800 Cabin Hill Drive
5 Greensburg, PA 15601-1689
6 (For West Penn Power)

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FORM 2

WITNESS INDEX

WITNESSES

DIRECT CROSS REDIRECT RECROSS

(None)

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FORM 2

EXHIBIT INDEXNUMBER FOR IDENTIFICATION IN EVIDENCEALJ

1 (October 26 letter) 290 290

West Penn Power

✓ (Statement Number 3, 289 289

Direct testimony of
David L. Schroeder)

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P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE JAMES D. PORTERFIELD: Good
3 morning. I'm Administrative Law Judge James D. Porterfield,
4 the Presiding Officer assigned to the --- by the Office of
5 Administrative Law Judge, to hear the matter captioned,
6 Township of Springdale versus Duquesne Light Company and
7 West Penn Power Company, at Docket C-00967749.

8 It being January the 30th, 2001, it's the date, and
9 it's now about 11:30 a.m., and we're in the 11th floor
10 hearing room, Pittsburgh State Office Building, the time and
11 place set for a post-hearing settlement conference.

12 And this morning, John L. Munsch, Esquire has entered
13 an appearance on behalf of West Penn Power Company, and
14 Richard S. Herskovitz, Esquire, an appearance on behalf of
15 Duquesne Light Company; Steven Yakopec, Jr., Esquire, an
16 Appearance on behalf of the Township of Springdale. You can
17 strike the Borough of Springdale. It's the Township of
18 Springdale.

19 This morning, counsel and I have participated in
20 discussions and thought, thinking out loud and so forth,
21 since approximately, 10 a.m., and it appears that Mr.
22 Yakopec does have some considerations to take back to the
23 Township and perhaps even to the customers currently of
24 Duquesne Light Company. Consequently, the record in this
25 proceeding will stay open for an additional 60 days, in

1 order for Mr. Yakopec to confer with his clients and ---
2 client, and also, if necessary, to confer with West Penn
3 Power Company.

4 Duquesne has pretty much expressed their position, and
5 there isn't a great deal that Duquesne can or will need to
6 do, particularly with respect to the Township.

7 There was, as reflected in my Interim Order 6, that
8 issued on January the 18th, 2001, additional testimony ---
9 update testimony submitted in behalf of West Penn Power
10 Company. And Mr. Munsch, at this time, is it your desire to
11 move to have that testimony made part of the record?

12 MR. MUNSCH: Yes, Your Honor. I would like that to be
13 identified as the direct testimony of David L. Schroeder, as
14 Statement number 3 of West Penn Power Company, and I would
15 move for that --- the admission of that direct written
16 testimony.

17 JUDGE PORTERFIELD: Any objection, Mr. Yakopec?

18 MR. YAKOPEC: No objection, Your Honor.

19 MR. HERSKOVITZ: No objection.

20 JUDGE PORTERFIELD: On that basis, the so identified
21 direct testimony of David L. Schroeder will be admitted into
22 the record as identified.

23 (Whereupon, the document was
24 marked as West Penn Power
25 Company Statement Number 3

1 for identification and
2 received in evidence.)

3 JUDGE PORTERFIELD: There's no need or desire to cross-
4 examine on his testimony, Mr. Yakopec?

5 MR. YAKOPEC: I don't believe so, Your Honor. In my
6 letter of October 10, 2000, I set forth my position
7 concerning that testimony, and if it is necessary, I'd just
8 ask that if it's appropriate, that we admit it, as well.

9 JUDGE PORTERFIELD: I'll identify --- I don't know what
10 the last exhibit was on behalf --- I'm not sure Springdale
11 had exhibits, but we'll identify that as --- just so we
12 don't overlap, I'll identify that as ALJ Exhibit Number 1,
13 and make copies for the reporter.

14 (Whereupon, the document was
15 marked as ALJ Exhibit 1 for
16 identification and received
17 in evidence.)

18 JUDGE PORTERFIELD: And the parties --- you have a
19 copy, Mr. Munsch, of the ---

20 MR. MUNSCH: Yes.

21 JUDGE PORTERFIELD: --- (Continuing) --- of the October
22 26 letter?

23 MR. MUNSCH: Yes, I do.

24 JUDGE PORTERFIELD: Do you require another copy?

25 MR. MUNSCH: No, I have it in my record.

1 JUDGE PORTERFIELD: Mr. Herskovitz, do you require
2 another copy?

3 MR. HERSKOVITZ: No, Your Honor.

4 JUDGE PORTERFIELD: Is there anything else this morning
5 counsel would like to put on the record? Mr. Yakopec?

6 MR. YAKOPEC: Yes, Your Honor. I would like to thank
7 Your Honor for bringing the parties together to discuss
8 this. I believe it was fruitful, and it --- you were an
9 excellent facilitator concerning this matter.

10 And I also want to put on the record, that Springdale
11 Township has no problems with either Duquesne Light or West
12 Penn Power, in terms of the type of service they provide or
13 how they handle their customers. That's not the issue, at
14 all, in this proceeding. It is simply a question of
15 kilowatt hour rates for residential service to the 260
16 residents involved.

17 JUDGE PORTERFIELD: Thank you, Mr. Yakopec.

18 Anything you wish to put on the record this morning,
19 Mr. Herskovitz?

20 MR. HERSKOVITZ: No, Your Honor.

21 JUDGE PORTERFIELD: Mr. Munsch?

22 MR. MUNSCH: Nothing further, Your Honor.

23 JUDGE PORTERFIELD: Thank you all very much for
24 participating, and it's been some help to me. And
25 hopefully, we'll get this thing finally resolved over the

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next few weeks.

Okay. And with that, we'll conclude this morning's conference.

(Whereupon, at 11:32 a.m., the hearing was adjourned.)

C E R T I F I C A T E

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

COMMONWEALTH REPORTING COMPANY, INC.

By: James R. Obringer
James R. Obringer

FORM 2

TOWNSHIP OF SPRINGDALE

V.

DUQUESNE LIGHT COMPANY AND
WEST PENN POWER COMPANY

DOCKET NO. C-00967749

RECEIVED
OCT 15 PM 1:51
SECURITY BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

WEST PENN POWER COMPANY

STATEMENT NO. 3

DIRECT TESTIMONY OF

DAVID L. SCHROEDER

DOCUMENT
FOLDER

RECEIVED
MAY 14 2001

ON BEHALF OF

WEST PENN POWER COMPANY

Dated: September 29, 2000

MS
Bl
1/30/01
C-00967749
West Penn Power
Company
Statement No. 3

1 Q: Please state your name and business address.

2

3 A: David L. Schroeder, 800 Cabin Hill Drive, Greensburg, PA, 15601.

4

5 Q: By whom are you employed and in what capacity?

6

7 A: I am employed by Allegheny Energy Service Corporation, which provides corporate
8 services to affiliates of Allegheny Energy, Inc., including West Penn Power Company.

9 I am an Engineer in the Financial and Risk Analysis section of the Asset Management

10 Department at Allegheny Power, the delivery business of Allegheny Energy. My

11 responsibilities include evaluation of Transmission and Distribution (T&D) acquisitions

12 and mergers by Allegheny Power, economic evaluation of projects, budget review, and

13 participation on project teams with financial evaluation responsibilities.

14

15 Q: Outline your educational and professional background.

16

17 A: I have obtained a Masters Degree in Business Administration and a Bachelor of Science
18 in Electrical Engineering. I am a registered Professional Engineer in the

19 Commonwealth of Pennsylvania and have worked for Allegheny Power for 23 years.

20 Prior to my position in Financial and Risk Analysis, I worked as a Division Planning

21 Engineer in field offices followed by the positions of Planning Engineer and Supervisor

22 in the corporate office with responsibility for distribution and subtransmission facilities.

1 I then held the position of Engineer in the Budget and Accounting section with
2 responsibilities similar to a business controller.

3

4 Summary of Position

5 Q: What is the purpose of your testimony?

6

7 A: The purpose of this testimony is to update the proceeding. In particular, I will present
8 West Penn's position in the light of significant changes in the Pennsylvania utility
9 industry that have occurred since the last hearing in this case, almost four years ago in
10 December of 1996.

11

12 Q: Please summarize West Penn's position with respect to the Springdale customers'
13 request to take Electric Distribution Company (EDC) service from West Penn.

14

15 A: West Penn's position on the Springdale customers' request reflects the current state of
16 the electric industry restructuring in Pennsylvania and, in particular, reflects the
17 provider of last resort (PLR) obligation of the EDC and the rate caps to which the EDC
18 is subject. Fundamentally, as a result of the current state of electric utility industry
19 restructuring, West Penn is unwilling to serve the additional Springdale customers at
20 this time. West Penn opposes Springdale's request to transfer 260 customers from
21 EDC service currently provided by Duquesne Light to EDC service provided by West
22 Penn.

1 Procedural Background

2 Q: Please provide a procedural history of this proceeding.

3

4 A: I have prepared a history of the proceeding with the assistance of counsel. On
5 February 28, 1996, Springdale Township commenced this proceeding by filing a
6 Complaint with the Commission against Duquesne Light and West Penn. The
7 Township stated that about 260 residents of the Township, while located in the
8 certificated service territory of West Penn, were being served by Duquesne. The
9 residents of the Township requested that West Penn, instead of Duquesne, provide
10 electric service.

11

12 Duquesne filed its Answer with the Commission on or about March 20, 1996. In its
13 Answer, Duquesne contended that it was entitled to "stranded costs" compensation to
14 reflect the generation, transmission, and other regulatory asset costs which would
15 become stranded as a result of the transfer. Duquesne also contended that it was
16 entitled to compensation for the actual distribution facilities to be transferred to West
17 Penn.

18

19 In its Answer filed with the Commission on or about March 25, 1996, West Penn
20 stated recovery of stranded costs was not applicable to the customer transfer issue. As
21 for the transfer of the distribution facilities, West Penn stated that it was willing to pay
22 depreciated book value of the actual distribution facilities to be transferred.

1 On or about April 1, 1996, West Penn filed its Reply to Duquesne's March 20, 1996
2 filing. West Penn reiterated that depreciated book value was adequate compensation
3 for Duquesne's facilities and that recovery of stranded costs was inapplicable and
4 inappropriate.

5
6 The Township, on or about June 5, 1996, filed with the Commission separate
7 Responses to Duquesne's and West Penn's filings and stated that the central dispute at
8 issue rested between Duquesne and West Penn.

9
10 Both Duquesne and West Penn filed a Prehearing Memorandum. A Prehearing
11 Conference was held on July 25, 1996 before Administrative Law Judge ("ALJ")
12 Porterfield.

13
14 On September 6, 1996, the ALJ issued Interim Order One, in which he summarized the
15 parties' positions and set a schedule for distribution of prepared testimony and
16 hearings.

17
18 At the hearings on December 10 and 11, 1996, Dr. Richard S. Bower, James M.
19 Coulter and James Lahtinen testified on behalf of Duquesne, Alexander Galatic testified
20 on behalf of West Penn, and Donna Diehm testified on behalf of the Township. All of
21 the witnesses were cross-examined by opposing counsel. Additionally, ALJ Porterfield
22 admitted the prepared testimony of each of those witnesses, as well as Duquesne

1 witness William D. Garland and West Penn witness Richard A. Phillips, neither of
2 whom was cross-examined.

3
4 West Penn and Duquesne both filed Main Briefs in February of 1997 and Reply Briefs
5 in March of 1997. Springdale did not submit briefs but indicated that it joined in and
6 relied upon the briefs of West Penn.

7
8 On or about April 7, 1997, Allegheny Energy, Inc., the parent company of West Penn
9 Power Company, and DQE, Inc., the parent company of Duquesne Light Company,
10 publicly announced plans for a corporate merger, with Duquesne Light Company to
11 become a corporate subsidiary of Allegheny Energy, Inc.

12
13 On April 14, 1997, Springdale Township filed a Motion for Stay of Proceedings citing
14 the pending merger as creating an avenue to solve the proceeding. The Motion was
15 granted in Interim Order Two, dated June 2, 1997. Interim Order Two also directed
16 the parties to file regular status reports.

17
18 With the proceeding on hold, two outside events played out -- the industry restructuring
19 proceedings and the merger proceeding

1 Q: Please describe West Penn's restructuring proceeding.

2

3 A: On August 1, 1997, West Penn filed with the Commission at Docket No. R-00973981
4 its restructuring plan to implement direct access to a competitive market for the
5 generation of electricity as required by the Electricity Generation Customer Choice and
6 Competition Act (Competition Act), which became effective January 1, 1997. After
7 hearings in December and January, 1997-1998, settlement proceedings were directed
8 by the Commission, which resulted in a settlement dated November 3, 1998. On
9 November 19, 1998, the Commission issued a Final Opinion and Order approving the
10 Settlement of West Penn's restructuring plan. Among other things the settlement
11 provided:

- 12 • two thirds of West Penn customers would have the opportunity to choose an
13 alternative generation supplier on January 2, 1999, and all West Penn
14 customers would have choice by January 2, 2000.
- 15 • Under the Electricity Generation Customer Choice and Competition Act,
16 Transmission and Distribution (T&D) rates were capped until June 30,
17 2001. But in the Restructuring Settlement, West Penn's T&D rates were
18 capped for an additional four and one-half years, until December 31, 2005.
- 19 • West Penn agreed to provide Provider of Last Resort (PLR) service to its
20 customers for a period as long as it collected a competitive transition charge
21 (CTC), or an intangible transition charge (ITC). Under the Settlement and

1 the Commission's order approving the Settlement, those charges are to
2 terminate December 31, 2008.

3

4 **Q: Please describe the merger proceeding and the merger termination.**

5

6 **A:** On October 5, 1998, Duquesne notified Allegheny Energy that it was terminating the
7 proposed merger. Allegheny Energy entered suit against Duquesne seeking both
8 monetary damages and injunctive relief to enforce the merger, before the Federal
9 District Court for the Western District of Pennsylvania at Docket No. 98-1639. On
10 October 28, 1998, the District Court denied Allegheny's Request for a Preliminary
11 Injunction. On appeal, the Court of Appeals reversed and remanded the proceeding.
12 Allegheny Energy, Inc. v. DQE, Inc., 171 F.3d 153 (March 11, 1999). On remand,
13 and after a non-jury trial, the District Court ruled that Allegheny Energy was not
14 entitled to specific performance to enforce the merger. On May 17, 2000, the Third
15 Circuit affirmed the District Court ruling concerning specific performance. Allegheny
16 Energy has not pursued an appeal.

17

18 **Q: Please continue with the procedural history of this proceeding, up to the present.**

19

20 **A:** After the termination of the merger proceeding, Springdale moved to reopen this
21 proceeding. On the Motion of Springdale Township to Reopen the record, Interim
22 Order Three, dated December 10, 1999, directed that the record be reopened in this

1 proceeding, effective March 31, 2000, and that the record should close, April 28,
2 2000.

3
4 In Interim Order Four, the ALJ granted the motion of West Penn to keep the record
5 open until July 30, 2000; and in Interim Order No. Five, the ALJ directed that the
6 record remain open until October 31, 2000 also at the request of West Penn

7

8 **Q: When did you become involved in this proceeding?**

9

10 **A:** My involvement with this proceeding began in February 1999 while the proceeding was
11 stayed, with a brief overview of the project history. In February 2000, I became
12 involved with the economic evaluation of this project.

13

14 **Explanation of Position Concerning Springdale Request**

15 **Q: Were the Springdale customers part of the West Penn restructuring settlement?**

16

17 **A:** No. The Springdale customers were not part of the West Penn restructuring
18 settlement. Although Springdale instituted this proceeding in 1996 prior to
19 restructuring, the proceeding was stayed during both the Allegheny Power and
20 Duquesne Light restructuring proceedings. Consequently, West Penn's stranded
21 costs, and its PLR obligation, were determined without consideration of the
22 Springdale customers. Presumably the customers were included in Duquesne

1 Light's stranded cost evaluation and PLR obligation as those customers were
2 supplied by Duquesne Light generation.

3

4 Q: What is PLR service?

5

6 A: PLR service is default service provided by EDCs for customers to ensure universal
7 service. At present, any customer who desires to return to an EDC's capped generation
8 rate may do so at any time. The EDC must be able to obtain the required generation
9 from a supplier through an existing agreement or directly from the market. This
10 presents a service problem for the EDC, or for its generation supplier, because the
11 capped rates do not fully compensate the EDC, or its supplier, for the cost of obtaining
12 the product on the market.

13

14 Q: Does West Penn have an obligation to provide PLR service to the Springdale
15 customers?

16

17 A: No. The Springdale customers were not included in West Penn's restructuring
18 settlement that determined West Penn's CTC and corresponding PLR obligation.
19 Therefore, West Penn does not have an obligation to provide PLR service to those
20 customers.

1 Q: What would be the electric supply exposure of West Penn to the additional
2 Springdale PLR customers?

3

4 A: West Penn would be exposed to electric supply costs that can vary significantly due to
5 the volatility of the wholesale market. At the same time, the price-to-compare amount
6 received from customers is fixed according to the schedule set in the transition period.
7 The transition period continues through December 31, 2008 for West Penn.

8

9 Q: Can you estimate the size of the Springdale energy requirements, and its PLR
10 requirement?

11

12 A: The Springdale Township customer energy requirements are estimated to be about
13 1,899,000 kWh. The PLR requirements would be about 1,341,000 kWh or about 70%
14 of the total energy requirements assuming the average number of Duquesne residential
15 customers are shopping for their electricity supplier. The exposure to PLR
16 requirements is the entire 1,899,000 kWh.

17

18 Q: Please describe the status of Duquesne Light's PLR obligation.

19

20 A: The obligation to provide PLR service under the Competition Act continues while a
21 distribution company collects either a CTC or ITC under Section 2807(e) of the
22 Competition Act. Duquesne Light's CTC payments from its customers are expected to
23 end much earlier than other Pennsylvania utilities.

1 Q: Please describe West Penn's PLR obligation.

2

3 A: Under Section 2807(e) of the Competition Act, West Penn must continue to provide
4 PLR service as long as it collects its CTC. West Penn's CTC and ITC collection
5 extends through the end of 2008 under its Restructuring Settlement.

6

7 Q: Why does West Penn take the position that it will not assume the PLR load for the
8 Springdale customer?

9

10 A: There are many reasons, some of which are based on economics and others are based
11 on the Competition Act.

12

13 Q: Please describe the economic reasons.

14

15 A: As a matter of economics, West Penn is unwilling to assume the Springdale PLR load
16 without compensation. PLR load has become a controversial proposition for
17 Pennsylvania EDCs. The EDCs are exposed to the wholesale market, where electric
18 supply is purchased, and are then required to serve the load at prices constrained by the
19 PLR price caps. The economic risk is obvious as the summer market prices in the East
20 Central Area Reliability Council (ECAR) control area, which includes West Penn, have
21 gone as high as \$9,000 per megawatt-hour compared to a capped PLR rate of
22 approximately \$30 per megawatt-hour. West Penn is unwilling to accept additional
23 PLR exposure.

1 Q: Please describe the Competition Act considerations.

2

3 A: It is not appropriate for West Penn to assume the PLR load for the Springdale
4 customers, because the Springdale customers were not among West Penn's customer
5 load when West Penn's stranded costs were determined in West Penn's restructuring
6 proceeding. Therefore, they have not, and now should not, pay any West Penn
7 stranded costs. The customers were in the mix of Duquesne Light customers for the
8 purpose of paying Duquesne Light stranded costs. They are completing their payment
9 of Duquesne's CTC. Duquesne has recovered virtually its entire stranded cost amount
10 which included stranded costs applicable to the Springdale customers. Those customers
11 have paid a CTC since 1998, which will conclude about 2002. West Penn should not
12 bear the market uncertainties associated with serving the Springdale PLR load since
13 Duquesne obtained the economic benefit of those customers' CTC payments.

14

15 Finally, under the Competition Act, the obligation to provide PLR service is part and
16 parcel of the right to obtain stranded cost benefits and collect a CTC charge from
17 customers. Section 2807(e) of the Competition Act binds together the right to recover
18 stranded costs through a CTC with the obligation to provide PLR service. That is, as
19 long as a company collects a CTC from customers, it shall also provide PLR service to
20 those customers. Inasmuch as Duquesne has collected and continues to collect a CTC
21 from the Springdale customers, it or its transferee should provide the PLR service.
22 And inasmuch as West Penn has not collected a CTC from Springdale, it should not
23 provide PLR to those customers.

1 Q: Do all the Springdale customers have choice of generation suppliers?

2

3 A: Yes. As of January 2, 2000, all Springdale customers have the choice of their
4 generation suppliers under the Competition Act.

5

6 Q: Please summarize West Penn's post-restructuring position about this proceeding.

7

8 A: West Penn's position on the Springdale customers' request reflects the PLR obligation
9 of the electric distribution company and the rate caps to which that company is subject.
10 West Penn is unwilling to accept the additional PLR load and risk imposed by the
11 Springdale customers without compensation and therefore is unwilling to serve the
12 additional Springdale customers as their EDC at this time.

13

14 Q: Does that conclude your testimony?

15

16 A: Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Township of Springdale

v.

Duquesne Light Company and
West Penn Power Company

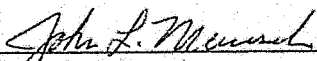
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CERTIFICATE OF SERVICE

I hereby certify that on the 5th day of October 2000, a true and correct copy of
West Penn Power Company Statement No. 3, Direct Written Testimony of David L.
Schroeder was served by first-class mail, postage prepaid upon the following:

Larry R. Crayne, Esquire
Duquesne Light Company
411 Seventh Avenue, 16-006
Pittsburgh, PA 15218-1805

Stephen Yakopec, Jr., Esquire
1715 Fifth Avenue
Arnold, PA 15068



John L. Munsch