

PENNSYLVANIA ELECTRIC COMPANY

INDEX OF WITNESSES

<u>Witness</u>	<u>Exhibit Series</u>
Fred D. Hafer	300
Thomas L. Carroll	100
Stewart Gordon, Jr.	200
L. Sanford Reis	400
John G. Graham	500

*legal arguments  
against removal of  
Tul-2 from rate base.*

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SUPPLEMENTAL TESTIMONY OF FRED D. HAFER ON BEHALF OF  
PENNSYLVANIA ELECTRIC COMPANY

- 1 Q. Are you the same Fred D. Hafer who has previously  
2 submitted testimony in this proceeding?  
3
- 4 A. Yes, I am.  
5
- 6 Q. Mr. Hafer, what is the purpose of your supplemental  
7 testimony?  
8
- 9 A. At the prehearing conference on April 16, 1979, it  
10 was agreed that, in view of the accident at the Three  
11 Mile Island No. 2 nuclear generating unit, it would be  
12 appropriate for Penelec to present a supplemental case  
13 indicating its position with respect to the rate increase  
14 at issue here in light of the events at Three Mile  
15 Island No. 2. It is the purpose of my testimony to  
16 describe briefly the scope and content of Penelec's  
17 supplemental case, to explain the position which we take,  
18 and to sponsor various exhibits and testimony, filed in  
19 other proceedings, but which are pertinent here.  
20
- 21 Q. Would you describe briefly the contents of Penelec's supple-  
22 mental case?  
23
- 24 A. Yes. Our supplemental case will cover the following areas:  
25
- 26 1. A brief description of the accident at TMI-2 and the  
27 current prognosis for the plant;  
28
  - 29 2. A brief description of our insurance coverages, the  
30 potential for recovery, and additional expense items  
31 which Penelec will incur which are not likely to be  
32 recovered by insurance;  
33
  - 34 3. An analysis of the benefits which our customers have  
35 received in the past by virtue of Penelec (and  
36 GPU's) investment in nuclear generating facilities;  
37
  - 38 4. Items directly related to the question of the reten-  
39 tion of TMI-2 investment in rate base, including evi-  
40 dence with respect to our actual investment in TMI-2  
41 (as opposed to our estimate) evidence with respect  
42 to the current limited usefulness of the plant; and  
43 evidence with respect to the appropriate legal con-  
44 siderations which apply.

- 1 5. Updated evidence with respect to the current cost of  
2 common equity capital for Penelec; and  
3  
4 6. A revised cost of service exhibit which illustrates  
5 a method of sharing the cost of the temporary loss of  
6 TMI-2 among shareholders and ratepayers.  
7

8 Q. Mr. Hafer, how will this evidence be presented?  
9

10 A. Mr. Sanford Reis will present updated testimony as to  
11 our current cost of common equity capital. Mr. Thomas  
12 Carroll and Mr. Stewart Gordon will each present portions  
13 of the revised cost of service analysis which I mentioned.  
14 Mr. John Graham will testify with respect to legal and  
15 factual considerations applicable to the question of  
16 retaining the TMI-2 investment in Penelec's rate base.  
17

18 With respect to the other subjects I described, these  
19 subjects have already been addressed in testimony and  
20 exhibits presented before the Pennsylvania Public  
21 Utilities Commission in their investigation entitled  
22 "Met-Ed, Penelec, Docket No. I-79040308."  
23

24 I understand that the testimony and exhibits filed by  
25 the Company and by other witnesses in the Pennsylvania  
26 proceeding have been made available to all parties to  
27 this proceeding. We have not attempted to repeat the  
28 entire record of that proceeding, but rather to present  
29 the portions of that proceeding which we deem relevant  
30 here. Other parties, of course, are free to utilize  
31 additional portions of any testimony or exhibits by  
32 witnesses whose testimony is being introduced here. The  
33 witnesses presenting testimony with respect to the  
34 various subjects I have described, are busily occupied  
35 with other matters to such an extent that we felt that  
36 it was most appropriate to proceed in this fashion. In  
37 this way, the latest available information can be  
38 presented here in our supplemental case and, if desired,  
39 these witnesses can be made available for cross-examination  
40 at the hearing which I now understand to be scheduled  
41 for some time in September.  
42

43 Q. Mr. Hafer, turning to your first subject, who is to  
44 testify with regard to the accident and the current  
45 prognosis for TMI-2?

1 A. I am sponsoring as Exhibit No. \_\_\_\_ (PN-307), a five  
2 page document, consisting of a report on the TMI-2  
3 accident presented at the annual GPU shareholders  
4 meeting on May 9, 1979 by Mr. Herman Dieckamp. Mr.  
5 Dieckamp describes the accident in terms readily under-  
6 stood by a layman.  
7

8 Since the causes of the accident are being thoroughly  
9 examined elsewhere, we do not intend to present any  
10 further detail with respect to this subject in this  
11 proceeding.  
12

13 Q. Mr. Hafer, Mr. Dieckamp states that GPU expects the plant  
14 to be out of service for approximately three years.  
15 Has there been any change in this prognosis?  
16

17 A. No. It is difficult to estimate the time it will  
18 take to bring the unit back on line and we currently  
19 expect it to be out of service for two to four years.  
20

21 Q. Who will testify with respect to insurance recoveries?  
22

23 A. I am sponsoring as Exhibit No. \_\_\_\_ (PN-308) a seven  
24 page document, the cover page of which is entitled  
25 "Testimony and Exhibits Presented by Mr. Harry Gerety  
26 before the Pennsylvania Public Utilities Commission in  
27 Docket No. I-79040308."  
28

29 Q. Mr. Hafer, are there additional expense items which Penelec  
30 will incur as a result of the TMI-2 accident which are  
31 definitely not covered by insurance?  
32

33 A. Yes. As Mr. Gerety notes, the cost of replacement power  
34 is not covered by insurance. In this respect, our FERC  
35 fuel clause will recover for the various GPU Companies,  
36 after the lag period, the actual energy-related cost of  
37 replacement power purchased on an economy dispatch  
38 basis. However, to minimize the cost of purchasing  
39 replacement power through the PJM Power Pool, the GPU  
40 Companies have been able to arrange at least two nego-  
41 tiated arrangements outside the Pool for the purchase of  
42 replacement power.  
43

44 One of these arrangements, a 200 megawatt sale by APS  
45 to the GPU Companies, does entail payment of some demand  
46 related costs which are not recoverable under our FERC  
47 fuel clauses. Even though we will incur additional  
48 demand related costs, the arrangement is still attractive  
49 on an overall basis because it is cheaper than buying  
50 replacement energy through the PJM Power Pool. The

1 demand related costs associated with this arrangement  
2 are \$100 per MW-day, and Penelec's share on an annual  
3 basis would be approximately, \$1.8 million. These demand  
4 related costs, of course, were not included in our cost  
5 of service estimate filed in support of the rate  
6 increase at issue here.

7  
8 Our second arrangement consists of a sale of energy  
9 by Pennsylvania Power and Light Company to the GPU  
10 Companies out of their Martins Creek Units 3 and 4.  
11 No demand related charges are involved. We are  
12 actively seeking to negotiate any other purchases  
13 which would help to alleviate our replacement power  
14 costs.

15  
16 Q. Mr. Hafer, are there other potential items which will  
17 not be covered by insurance?

18  
19 A. Yes, there are. While the insurance companies will pay us  
20 for the costs of decontamination, they have advised us  
21 that they will not pay for any of the costs associated  
22 with bringing the plant to a cold shutdown status. We  
23 have not as yet been able to analyze the costs incurred  
24 during the time from the accident until the plant was  
25 brought into a cold shutdown status in sufficient detail  
26 to isolate those particular costs which may not be  
27 recoverable.

28  
29 In addition, the insurance coverage does not extend  
30 to any costs associated with the payment of premium  
31 wage rates for overtime.

32  
33 Q. Is it possible for you to estimate today the amount of  
34 additional expenses GPU Companies will incur as a result  
35 of the accident which costs are not covered by insurance?

36  
37 A. I do not think it is possible to come up with any reason-  
38 able estimate at this date. It is likely that the  
39 subjects I have discussed, i.e., the cost of bringing  
40 the plant to cold shutdown, premium wage costs, and  
41 other potential items will be the subject of negotiations  
42 and possible litigation with our insurance carriers.

43  
44 Q. Turning to your next subject, Mr. Hafer, who will testify  
45 as to past benefits of nuclear power?

46  
47 A. I am sponsoring as Exhibit No. \_\_\_\_ (PN-309), a fourteen  
48 page document, the first page of which is entitled  
49 "Testimony and Exhibits Presented by Mr. B. H. Cherry in  
50 Pennsylvania PUC Docket No. I-79040308." Mr. Cherry  
51 discusses the past benefits which have accrued to our  
52 customers as a result of GPU's investment in nuclear  
53 generating units.

1 Q. Mr. Hafer, it has been suggested that it has been  
2 unfair for the company to collect the rate at issue here  
3 for the first 29 days of December last year, since the  
4 TMI-2 plant was not placed into commercial operation  
5 until December 29th. What is your response to this  
6 suggestion?  
7

8 A. Ideally, the effective date of the rate should coincide with  
9 the date of commercial operation of a major plant such as  
10 TMI-2, where the investment in that plant is included in  
11 the rate-base calculation used to support the rate.  
12 This synchronization did not occur with respect to  
13 Penelec, in that the Commission allowed the rate to  
14 become effective approximately 29 days prior to the  
15 commercial operation date of TMI-2. With respect to the  
16 other GPU subsidiaries, the effective date authorized  
17 by FERC for the resale rates was several months after  
18 commercial operation date of TMI-2.  
19

20 In view of this fact, I believe that it might be appro-  
21 priate to analyze some of the actual facts with respect  
22 to the TMI-2 plant as they may have differed from the  
23 company's estimate. Such an analysis leads me to conclude  
24 that no adjustment to the rate is appropriate here.  
25

26 Q. How do you reach this conclusion?  
27

28 A. I started by determining the total amount of revenues  
29 which Penelec collected during the month of December,  
30 1978, as a result of including its investment in  
31 TMI-2 in our cost of service estimate. For that month,  
32 we collected from Penelec's customers approximately  
33 \$170,000 as a result of including this plant in our cost  
34 of service estimate.  
35

36 Q. Would it not be appropriate for Penelec to refund this  
37 \$170,000 to its wholesale customers?  
38

39 A. I do not believe so. The \$170,000 arises because Penelec's  
40 estimate of the in-service date of TMI-2 did not coincide  
41 with actual events. Our estimate of the total invest-  
42 ment in TMI-2 also did not coincide with actual events.  
43 When the plant went into commercial operation and the  
44 books were closed with respect to our total investment  
45 in TMI-2, it was found that our actual investment was  
46 some \$15 million higher than the total investment which  
47 we had estimated for purposes of our cost of service  
48 used in calculating the rate.

1 Q. What is the approximate impact of this difference?

2

3 A. For Penelec, the approximate impact of this \$15 million  
4 under-estimate of our total investment in TMI-2 is  
5 approximately \$20,000 per month. In other words, the  
6 rate is deficient by \$20,000 per month to recover the  
7 appropriate return, taxes and depreciation expense on  
8 our actual investment in TMI-2. In a space of 9 months,  
9 our undercollection will have more than matched the  
10 overcollection which occurred during the month of  
11 December 1978. Under these circumstances, I believe  
12 that it is fair and equitable that no adjustment be made  
13 because of the fact that the plant did not go into com-  
14 mercial operation until 29 days after the rate became  
15 effective.

16

17 Q. Mr. Hafer, you indicated that the TMI-2 plant ought to  
18 be of some limited usefulness to the current GPU rate-  
19 payer. Could you explain, please?

20

21 A. The TMI-2 plant continues to be recognized as installed  
22 capacity by the PJM power pool although it is suffering  
23 a forced outage. The continued recognition of the plant  
24 as "installed capacity" saves GPU approximately \$12  
25 million per year in capacity payments to the pool. This  
26 represents \$12 million in legitimate cost of service  
27 expense which would otherwise be imposed on current rate-  
28 payers. The current savings will be eliminated in large  
29 measure in the mid-1980's when the capacity recognition  
30 given the TMI-2 plant is reduced due to the forced outage  
31 rate it is currently suffering. Nevertheless, the plant  
32 does constitute a \$12 million annual benefit to the  
33 current ratepayer.

34

35 Q. Mr. Hafer, has the accident at TMI-2 had any impact on  
36 Penelec's cost of common equity capital?

37

38 A. GPU and all of its subsidiaries have suffered a severe  
39 financial crisis as a result of the TMI-2 accident.  
40 The accident has greatly increased the risks of invest-  
41 ment in GPU. Investor perception of this increased risk  
42 has caused a quantum leap in the cost of common equity  
43 capital. Mr. Sanford Reis testifies with respect to  
44 this increase and he finds that the cost of common  
45 equity capital to GPU and to Penelec is at least 16%.

46

47 Q. Is Penelec claiming a 16% return on common equity in  
48 this proceeding?

1 A. No. Our request remains at the level of 14.5% as  
2 originally submitted. I would note, however, that a  
3 return of 16% is justified, and if granted, such a  
4 return would have a considerable impact on our cost  
5 of service. Mr. Gordon sponsors a summary cost of  
6 service exhibit showing the revenue requirement needed  
7 to produce a 16% return on common equity.  
8

9 Q. Mr. Hafer, would you describe briefly the revised  
10 cost of service exhibit which is part of Penelec's  
11 Supplemental Case?  
12

13 A. Yes. This revised cost of service exhibit makes a  
14 number of relatively minor changes and one major change.  
15 The relatively minor changes are as follows:  
16

17 (1) We have utilized a revised and up-dated capital  
18 structure;  
19

20 (2) We have changed to the use of the 46% tax rate  
21 in view of the recent legislation which reduced  
22 the corporate income tax rate;  
23

24 (3) We have made a number of minor changes which were  
25 agreed to as a result of settlement discussions  
26 among Penelec, staff, and the customers.  
27

28 The major change in this cost of service exhibit deals  
29 with the question of our investment in TMI-2. The cost  
30 of service exhibit is designed to show our overall and  
31 our allocated cost of service if the Commission were to  
32 determine that GPU's shareholders should receive a  
33 zero-return on the common equity portion of our  
34 investment in TMI-2. Mechanically, this is accomplished  
35 by removing 32.17% of our investment in TMI-2 from  
36 rate-base, since 32.17% represents the common equity  
37 proportion of Penelec's total capital. The details of  
38 this adjustment are described by Mr. Carroll.  
39

40 Q. Mr. Hafer, is Penelec recommending the adoption of this  
41 revised cost of service exhibit?  
42

43 A. No, we are not. We do believe, however, that it constitutes  
44 an approach which merits consideration by the Commission.  
45 Regardless of the status of the plant, Penelec must  
46 continue to pay the fixed charges (debt interest and  
47 preferred dividends) on the debt and preferred capital  
48 invested in the plant, as well as meeting the ongoing  
49 O&M expenses associated with the plant.



1 There are obviously conflicting considerations at play  
2 here. On the one hand, it seems fair that investors  
3 should suffer some portion of the loss associated with  
4 the TMI-2 accident. On the other hand, the long-term  
5 best interests of consumers rests in a financially  
6 viable company capable of attracting capital on reasonable  
7 terms to continue to meet its public utility responsibility.  
8 This case merits a careful consideration of the long-term  
9 best interests of both rate payers and investors. GPU  
10 must be restored to a semblance of financial viability if  
11 it is to meet the needs of its consuming ratepayers in  
12 the near future and the Commission might well conclude  
13 that the long-term public interest is best served by  
14 including the entire TMI-2 investment in Penelec's rate  
15 base. Mr. Reis and Mr. Graham address this subject in  
16 more detail.

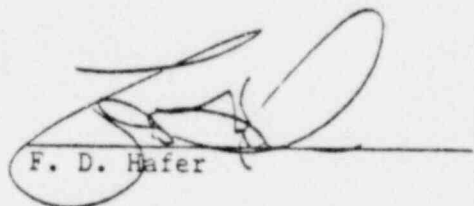
17  
18 Q. Does this conclude your supplemental testimony?

19  
20 A. Yes, it does.

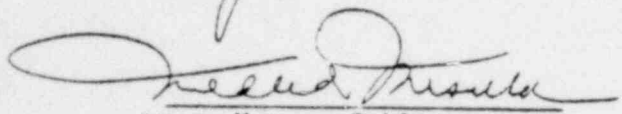
AFFIDAVIT

STATE OF NEW JERSEY    )  
                                  ) ss.  
COUNTY OF MORRIS        )

Affiant, being first duly sworn, deposes and says that he has read the foregoing testimony, that if asked the questions therein his answers would be as shown, and that the facts contained in those answers are true and correct to the best of his knowledge, information, and belief.

  
F. D. Hafer

Sworn to and subscribed  
before me this 20<sup>th</sup> day  
of June, 1979.

  
MILDR Notary Public  
NOTARY PUBLIC OF NEW JERSEY  
My Commission Expires June 15, 1982

My Commission Expires: June 16, 1982