

NUCLEAR REGULATORY COMMISSION

Regulatory Docket 5000



IN THE MATTER OF:

**TOLEDO EDISON COMPANY and
CLEVELAND ELECTRIC ILLUMINATING
CO.**

**(Davis-Besse Nuclear Power
Station, Units 1, 2 and 3)**

and

**CLEVELAND ELECTRIC ILLUMINATING
CO., et al.**

(Perry Nuclear Power Plant, Units 1 & 2)

Place - Silver Spring, Maryland

Date - Tuesday, March 2, 1976

Docket Nos.

50-346A

50-500A

50-501A

50-440A

50-501A

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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

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4	TOLEDO EDISON COMPANY and	:	Docket Nos.
5	CLEVELAND ELECTRIC ILLUMINATING CO.	:	50-346A
6	(Davis-Besse Nuclear Power Station,	:	50-500A
7	Units 1, 2 and 3)	:	50-501A
8		:	
9	and	:	
10	CLEVELAND ELECTRIC ILLUMINATING CO.	:	50-440A
11	<u>et al.</u>	:	50-441A
12		:	
13	(Perry Nuclear Power Plant,	:	
14	Units 1 and 2)	:	
15		:	
16		-----X	

First Floor Hearing Room
7915 Eastern Avenue
Silver Spring, Maryland

Tuesday, 2 March 1976

Hearing in the above-entitled matter was reconvened,
pursuant to adjournment, at 9:30 a. m.,

BEFORE:

MR. DOUGLAS RIGLER, Chairman

MR. JOHN PRYSIAK, Member

MR. IVAN SMITH, Member.

APPEARANCES:

As heretofore noted.

C O N T E N T S

<u>WITNESS:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Roland A. Kampmeier	5699	5701		

<u>EXHIBITS</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
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DJ 450, Direct Testimony of Roland A. Kampmeier	5698	5700
DJ 451, "National Electric Rate Book, Ohio," October 1973	"	"
DJ 452, "National Electric Rate Book, Pennsylvania," 1973	"	"

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P R O C E E D I N G S

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MR. CHARNO: Mr. Chairman, we would like to have

3 Mr. Kampmeier's testimony and certain documents associated
4 with that testimony marked for identification.

5 We would offer as DJ 450 for identification a
6 document bearing the caption of this proceeding on the
7 front page, and the title "Direct Testimony of Roland A.
8 Kampmeier."

9 We would offer as DJ 451 a publication of the
10 Federal Power Commission entitled "National Electric Rate
11 Book, Ohio," issued October 1973.

12 (The documents referred to
13 were marked DJ Exhibits
14 450 and 451, for
15 identification.)

16 MR. CHARNO: We would offer as DJ 452 a
17 publication or an excerpt from a publication by the Federal
18 Power Commission entitled "National Electric Rate Book,
19 Pennsylvania," issued October 1973.

20 (The document referred to
21 was marked DJ Exhibit
22 452, for identification.)

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1 MR. CHARNO: At this time the Department would
2 like to call Roland A. Kampmeier as its next witness.

3 Whereupon,

4 ROLAND A. KAMPMEIER

5 was called a witness on behalf of the Department of Justice
6 and, having been first duly sworn, was examined and testified
7 as follows:

8 DIRECT EXAMINATION

9 BY MR. CHARNO:

10 Q Mr. Kampmeier, do you have before you a document
11 entitled "Direct Testimony of Roland A. Kampmeier, which
12 has been identified in this proceeding as DJ-450?

13 A Yes, I do.

14 Q Did you prepare that testimony for use in this
15 proceeding?

16 A I did.

17 Q I would like to show you two National Electric
18 Rate Books for Ohio and Pennsylvania for the year 1973
19 which have been identified as DJ-451 for Ohio and 452 for
20 Pennsylvania.

21 Did you utilize those materials in the preparation
22 of your testimony?

23 A Yes, I did.

24 MR. CHARNO: We will tender Mr. Kampmeier for
25 cross-examination.

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1 And we would move DJ-450 and 450 through 452
2 into evidence.

3 MR. REYNOLDS: No objection.

4 CHAIRMAN RIGLER: Hearing no objection, we will
5 receive into evidence Department Exhibits 450, 451 and 452.

6 (The documents previously
7 marked Exhibits DJ-450, 451
8 and 452 for identification,
9 were received in evidence.)

10 CHAIRMAN RIGLER: I should announce, I think,
11 before cross-examination starts that we were contacted
12 by Mr. Hjelmfelt, who informed us he would be in Cleveland
13 for the next day or two and was aware the hearings would
14 proceed without him.

15 MR. LESSY: The Staff has some limited cross-
16 examination of this witness.

17 MR. REYNOLDS: I will object to any cross-
18 examination by the Staff of this witness.

19 CHAIRMAN RIGLER: Overruled.
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CROSS-EXAMINATION

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BY MR. LESSY:

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Q Mr. Kampmeier, at the top of page 42 of your direct testimony, in answer to Question 31, you refer to a common method of sharing reserves, whereby each system provides a percentage margin of reserve capacity above its peak load equal to the percentage margin required for the group as a whole above the sum of the several peak loads.

For easy reference, may I refer to that as method A?

A All right.

Q In the next paragraph on that page, page 42, you refer to a variation of that method, wherein each system provides a percentage margin above its load at the time of the combined peak load equal to the percentage margin required for the group as a whole, above the diversified combined peak load.

May I refer to that as method B?

A Yes.

Q Do you consider both A and B as forms of equal percentage sharing of reserves?

A Yes, I do.

Q Have you considered which of these two methods you would favor for the CCCT area?

A Yes. I think method B would be the indicated

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1 choice.

2 Q Could you tell us why you would favor method B?

3 A Yes, I believe so.

4 In some cases the two methods would give sub-
5 stantially the same result, and if they did, why, then, of
6 course; there wouldn't be much choice. There might be some
7 arguments for method A being considered a more simple
8 approach. But in this situation and in many others, I
9 think there would be a substnatial difference in the
10 results, and I believe where there is a difference, you
11 should use the method that seems the most fair and logical
12 and I believe that method B is more fair and logical.

13 I guess the point I would emphasize is that
14 the bulk of the capacity in the region is already being
15 pooled, and it has a combined peak load which is determined
16 by the characteristics of that combined grouping. The
17 time of that peak is very unlikely to be changed by adding
18 another few or even a number of small systems loads to it.

19 Therefore, I think the thing to do is to focus on
20 that combined load and what effect on that combined load
21 and the combined capacity requirements there would be
22 from combining other systems with it.

23 In that case, since the key question would be
24 what happens to the combined load, combined capacity
25 requirements, I think method B is directed more nearly to

1 that point.

2 There is another thing to consider in that
3 regard, I think. In these days and times, it is becoming
4 increasingly desirable to consider what is sometimes
5 referred to as load management possibilities, trying to keep
6 peak loads as low as reasonably possible in order to avoid
7 unnecessary generating capacity and that sort of question
8 should be looked at in terms of the regional peak demands.

9 If some small system has a peak demand some other
10 time, that has very little to do with what the total
11 capacity requirements of the region are.

12 So it is more to the point to have any system
13 that is coming into the pool focusing its concern of loading
14 management on the combined regional peak and not its own
15 peak.

16 Q On page 44, in answer to Question 85, you note
17 that the CAPCO approach as to reserve sharing burdens
18 smaller systems disproportionately. What is there about
19 the CAPCO approach that leads to such a result?

20 A Well, the fact that the CAPCO approach looks at
21 the system, not only combined system in total, in terms
22 of what its total reserve requirements would be, which is
23 fine; but also looks at what the requirements of each
24 component's system would look like as an isolated system.

25 This, I think, is really beside the point.

1 The important thing is what is the total requirement, and
2 how does any given system that is in or being added to
3 the pool affect the total requirement, and what its require-
4 ments for reserve would be in isolation, I think, induces
5 a consideration which is illogical and unfair and tends
6 to really discourage rather than encourage the most
7 intelligent coordinated planning and development.

8 Q Does the CAPCO approach to reserve sharing
9 have any other undesirable side effects, in your opinion?

10 A Yes. It really puts a premium on all of the
11 participants dividing up ownership of capacity additions
12 in order that no system through this what I consider
13 irrelevant examination of what the situation would be,
14 would be in isolation, any system, in order to avoid being
15 penalized by that aspect of the CAPCO reserve sharing
16 approach, must avoid owning too large a share of any
17 given addition.

18 This means that when one of the CAPCO companies
19 builds a new large unit, this approach puts a premium
20 on dividing up the ownership of that unit, and all of the
21 other units, and that is not altogether good, I think.

22 There are conditions under which it would make
23 more sense for the companies, and particularly for the
24 ultimate consumers who are in business to serve not to frag-
25 ment the ownership to quite that degree.

1 Suppose that a given company at a given time
2 could finance a new unit at a lower cost than the other
3 companies in the pool could.

4 Then the consumers would save money if that
5 company financed that unit, rather than each of the
6 companies financing portions of the unit. There would be
7 less administrative expense, legal expense, general
8 expense, in all probability, from a more simple approach.

9 A given company normally would prefer to have a
10 larger share in the ownership of units which are close
11 to its load, units which it designs and it builds and it
12 operates, rather than other units.

13 And the CAPCO approach discourages all of
14 that.

15 Now the important points here, I think, is that the
16 total requirement of the group is not affected by who owns
17 the unit. It is affected by what the loads are and by
18 what the loads are and by what the total capacity is, and
19 what the size of the units is.

20 That total reserve requirement isn't changed if
21 you divide up the ownership of units in particular ways.
22 So that introducing a formula which says, A, but it
23 does make a difference how you divide up the units, it
24 is going to cost a given system more in the way of having
25 to provide reserve capacity if they own a large piece of a

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Q Why not?

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A Well, I think it follows from some of the things

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I have been saying, that if you consider what happens

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when you add a small system to bring a small system into the

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pool, the total peak load of the combined systems will, of

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course, be increased, the required capacity will be increased.

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But the required capacity will not be increased

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as much proportionately as the load is increased. There

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would be some, at least, slight reduction in the percentage

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of reserve required.

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Now, let's say, for example that you require

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20 percent reserve for the pool, and then you add a small

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system and the required reserves drop to 19.9, or 19.99,

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whatever lesser figure you assume. This means that every-

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body could have a somewhat smaller percentage of reserves

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than the members of the pool up to that point would have

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had to have.

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Now, if the pool wanted to be really generous

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with the added small system, it could say, well, we will

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simply ask you to provide the additional capacity that is

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required with the additional load. But the pool members

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presumably wouldn't be willing to do that.

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they would say that would be giving you all of

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the breaks, if there is going to be a reduction in the

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required percentage of reserves, we ought to be able to

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1 share in it.

2 If they entitled to share in it, then so is the
3 small system entitled to share in it. What is sauce for
4 the goose is sauce for the gander.

5 And you shouldn't ask the small system to provide
6 disproportionately more capacity. If you do, you do one
7 of two things, this either results in the region as a whole
8 having more capacity than is needed, or it means that
9 the extra the small system provides is a reduction in what the
10 large systems have to provide, and that doesn't seem fair.

11 So the CAPCO approach in assigning disproportionately
12 large reserves to a small system, I think, is unfair.
13 I think the most that ought to be required is for the small
14 system to provide the same proportionate share as the rest
15 of the total capacity that is required to meet the combined
16 systems' peak.

17 Q Then you think that the use of method B would
18 be more appropriate for extension to small systems?

19 A Exactly, right.

20 MR. LESSY: That concludes the Staff's cross-
21 examination.

22 BY MR. REYNOLDS:

23 Q Mr. Kampmeier, have you had an opportunity to read
24 the testimony of Mr. Firestone that has been prepared for
25 this proceeding?

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1 A Yes, I did, some weeks ago.

2 Q Have you read the technical papers that discuss
3 the CAPCO formula for determining reserve margins and
4 requirements?

5 MR. CHARNO: The Department would object, unless
6 we can have a specification of the technical papers.

7 BY MR. REYNOLDS:

8 Q Have you read any technical papers that discuss
9 the CAPCO reserve requirement formula?

10 A Yes, I read a paper which I think Mr. Firestone
11 referred to at some point, which was one he prepared
12 jointly with a couple of other gentlemen, describing the
13 CAPCO approach to reserve sharing.

14 Q When did you read that?

15 A Oh, also several weeks ago. I guess, almost,
16 I could say, several months ago. Quite awhile ago.

17 Q Is your understanding of the CAPCO arrangement
18 based on your readings of several weeks ago of the technical
19 paper you mentioned? And Mr. Firestone's testimony?

20 A Yes, essentially.

21 Q Is it based on anything else?

22 A Yes.

23 Q What else?

24 A Well, one thing I recall at the moment is an
25 explanation in a study by R. W. Beck and Associates, in which

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1 was a good explanation of how the CAPCO approach would affect
2 the amount of reserve required of municipal systems, according
3 to information which was furnished to R. W. Beck by one or
4 more of the companies, I believe.

5 I have seen the references to the CAPCO approach
6 in the National Power Survey to which I referred.

7 I am not sure there haven't been some others, but
8 that is all I think of off-hand.

9 Q Mr. Kampmeier, what was your assignment in
10 connection with this case?

11 A Well, the Department of Justice met with me and
12 reviewed for me their basic approach to the case, based
13 largely on experience in other cases.

14 They asked me whether I would feel comfortable
15 in testifying in connection with such a case. If so, they
16 would like me to review the CAPCO contracts, the contracts
17 between CAPCO companies and small systems in the area, and
18 compare the provisions of those contracts as they affected
19 the provided benefits to CAPCO companies on the one hand,
20 to small systems on the other hand; and then in light of what
21 I say, found and felt, after doing that, to prepare the
22 testimony covering points that in my judgment might be
23 pertinent for these hearings.

24 Q When did you begin the preparation of your
25 testimony?

1 unit than if they owned a small piece of several units.

2 I mistrust a formula that works that way.

3 I think it is taking your eye off the ball, so to speak.

4 Q Do you know of any other pool that has copied
5 the CAPCO method of sharing reserves?

6 A No, I do not. The 1970 National Power Survey
7 of FPC, which came out in '71, referred to the CAPCO
8 method as unique.

9 As far as I know, it is still unique.

10 Q Now aside from the question of whether or not
11 the CAPCO method is satisfactory to all of the present
12 CAPCO members, would you consider the extension of this
13 method of reserves to small systems to be acceptable or
14 appropriate?

15 A No, I would not.

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1 A About last July, I believe. I may be off a month
2 or so.

3 Q About how much time did you spend in preparing
4 your testimony?

5 A Oh, probably, reviewing the materials and then
6 preparing my testimony, it took probably 20 days or so.

7 Q Were there materials other than the contracts
8 that you referred to that you reviewed in connection with
9 preparing your testimony?

10 A Yes, for example, I looked up these National
11 Electric Rate Books that have been introduced. I looked
12 up the Form 12 and Form 1 reports -- maybe, I
13 shouldn't be so cryptic. I looked up the reports that the
14 companies submit annually to the Federal Power
15 Commission, one being called "The Power System Statement,"
16 I believe, the Form 12. The other one being a report more on
17 the financial aspects of operations, called Form 1.

18 I looked up those reports for the year 1973 and
19 went into them in some detail.

20 I looked up the data I could find on the
21 magnitude and time diversity of loads in the area, the
22 information that the Federal Power Commission assembles and
23 presents on generating capacity in its volume on statistics
24 of steam electric generating plants -- that is not the
25 exact title, but I think that will serve to

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1 identify it.

2 The information which it presents on the operations
3 of the utilities as summarized in the statistics of privately-
4 owned electric systems and, likewise, a volume on publicly-
5 owned electric systems.

6 I don't think that exhausts the list, but that
7 gives you a general idea.

8 Q What was your understanding at the time that you
9 began your preparation of the scope of the Department of
10 Justice's position as it explained it to you?

11 A Well, they described to me, and more or less
12 confirmed by previous understanding of the conclusions that
13 had been reached in some other cases with regard to what the
14 Department proposed as conditions for a list for nuclear
15 plants, and that was the heart of the position of the
16 Department of Justice that we discussed.

17 We discussed various ramifications of that,
18 circumstances surrounding that.

19 Q You say that the Department more or less confirmed
20 your previous understanding.

21 What is that previous understanding that you
22 are referring to?

23 A Well, I was familiar, for example, with the
24 conclusions that were reached in the Duke Power case and
25 the Georgia power case and some others, and my recollection

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1 as to what provisions had been agreed to were confirmed and
2 explained in more detail to me in our discussion.

3 Q Were you familiar with the Consumers Power case?

4 A I became familiar with it in the course of these
5 discussions. I had not been prior to that.

6 Q When you say the Duke Power case and the
7 Georgia Power case, what cases are you talking about there?

8 A Well, the Duke Power case, which is a case of certain
9 nuclear plants that Duke Power proposed to build, and there
10 was an objection raised by municipalities in the Carolinas,
11 and a mutually satisfactory agreement, I think, was reached
12 before any hearings on the case were completed.

13 The Georgia case is somewhat similar, although,
14 in the Georgia case the proceeding went further, hearings
15 were held.

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arl 1 Q Did the Department, in discussing the nature
2 of the testimony they wanted you to prepare, advise you they
3 were interested in anything more than imposing the standard
4 license conditions to another situation as had been
5 proposed in prior situations?

6 A Well, I didn't understand that one could really
7 refer to standard license conditions. My understanding was
8 the Department was trying to determine what would be the
9 most appropriate licensing conditions in this situation,
10 the assumption was that they might not be greatly different
11 from some that had been arrived at before. And we
12 discussed some of the -- discussed those various provisions
13 and some possible variations thereof that might seem
14 appropriate.

15 Q What understanding did you gain of the factual
16 background of that particular situation as it would bear
17 on your testimony?

18 A At what point in time?

19 Q Let's say at the point in time just prior to
20 starting your preparation and right through until you
21 finished the preparation of your testimony?

22 A Would you read back the question, please?

23 (Whereupon, the reporter read the
24 pending question, as requested.)

25 MR. CHARNO: Just for clarification, when you say

1 that particular factual situation --

2 MR. REYNOLDS: I think I have said the
3 particular factual situation. I will rephrase it.

4 BY MR. REYNOLDS:

5 Q What understanding did you gain of the particular
6 factual situation relating to these Applicants at the time
7 that you were preparing your testimony?

8 A That is an awful big question. If I interpret
9 that correctly and literally, I think if I spent two or three
10 hours answering it I still wouldn't have finished.

11 Q Let me ask you this:

12 Did you look at material that had been
13 produced during the course of discovery to the Department
14 of Justice?

15 A Yes, I looked at quite a lot.

16 Q Were you advised that the Applicants had
17 proposed certain license conditions of their own that
18 would attach to the particular nuclear licenses in question?

19 A I learned that in due course. To be precise
20 about it, I was not familiar with those proposed terms
21 at the time I prepared my direct testimony. I became
22 acquainted with the existence of those proposed terms
23 some weeks ago, and I am familiar with them now.

24 Q Did you become familiar with it during your
25 attendance at the testimony of Mr. Mozer at this hearing?

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1 A Exactly, right.

2 Q Did you, in the course of preparing your
3 testimony, have any discussions with Dr. Wein?

4 A One discussion by long distance telephone
5 that I recall. I think that is the only one. I haven't
6 sat down personally with Dr. Wein.

7 Q Have you read Dr. Wein's testimony?

8 A Yes, I have.

9 Q Did you make any notes in connection with the
10 preparation of your testimony?

11 A Did I take any?

12 Q Make any or take any.

13 A Oh, yes, undoubtedly I made many pages of
14 notes, preliminary outlines of my testimony, and so on.

15 Q Do you have the notes that you took or made
16 with you?

17 A No, I didn't even have them at all for the most
18 part. As soon as they served my purpose, I threw them away.
19 I don't believe in accumulating notes. All of the material
20 I had on file from more than 40 years of work is encompassed
21 in one stack of filing cases and one set of book shelves,
22 and if one keeps all of his notes, you soon become snowed
23 under with them.

24 Q Is what you have in front of you today in the
25 notebook your prepared direct testimony?

1 A Yes.

2 Q Does it have marginal notes on it?

3 A Some, yes.

4 Q Could I get a copy of the testimony that you
5 are referring to with the notes on it at some point, by the
6 end of the day?

7 A If it is proper that you should have it, I have
8 no particular objections. I don't know that I would
9 consider -- I don't know, I don't have any judgment about
10 that.

11 MR. REYNOLDS: I will ask counsel.

12 MR. CHARNO: The Department will make it
13 available over the lunch break.

14 BY MR. REYNOLDS:

15 Q Am I correct in understanding that there is no
16 material in that notebook but your direct testimony?

17 A There are a few pages of elaboration of some of
18 these notes. For example, the working papers that I think
19 you have a copy of already through discovery of a comparison
20 of the effect of applying these rates from the National
21 Electric Rate Book to industry with the rates in the
22 contracts with the municipalities, a clipping or two from
23 magazines, this sort of thing.

24 MR. REYNOLDS: Mr. Charno, do you have any
25 problem in making that material available?

1 MR. CHARNO: Not at all.

2 BY MR. REYNOLDS:

3 Q Mr. Kampmeier, you indicate in your direct
4 testimony that you were on the staff of Tennessee Valley
5 Authority full-time for many years.

6 A Yes.

7 Q How many years was that?

8 A Approximately 27, I think.

9 Q From when to when?

10 A From 1933 to 1938, and from 1941 to 1962 or '62.

11 Q What did you do between 1939 and 1941?

12 A I was an associate professor of hydraulic
13 engineering at the University of Tennessee.

14 Q On page 3 of your testimony you list the
15 interconnection and coordination agreements for which
16 you indicate you had some responsibility as assistant manager
17 of power.

18 A Yes.

19 Q For TVA.

20 Let me ask you first, were you, during the period
21 that you have indicated you were on the staff of TVA, the
22 assistant manager of power?

23 A I was the assistant manager of power approximately
24 the last 10 years of that period.

25 Q What were you prior to that?

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1 A Well, a series of different titles. While I was
2 manager of power, most of that time I was also director of
3 power supply. I had been director of power supply --
4 excuse me, assistant manager of power.

5 I had also been director of power supply for a
6 while prior to becoming assistant manager of power.

7 I was also, prior to that, director of power
8 utilization.

9 I was during part of that same period, overlapping
10 period, also chief of the fuels planning branch.

11 I was somewhat earlier chief of the power
12 economics branch.

13 That is most of them, anyway.

14 Q As the assistant manager of power for TVA, did
15 you ever participate in any negotiations for an inter-
16 connection agreement with municipal systems or a coopera-
17 tive with any other electric power system of small size,
18 say less than 300 megawatts?

19 A Yes. I think that the arrangements in which
20 we participated and worked out with East Kentucky Rural
21 Electric Cooperative Corporation was at a time when its
22 load was less than 300 megawatts in all probability.

23 The utility load of the utilities, subsidiaries
24 of the Aluminum Company of America, were considerably
25 smaller than that at the time we worked out the Pontana
Agreement, which is referred to in my direct testimony,

1 which included in effect coordination with the utility
2 operations of the Aluminum Company.

3 The period in which the City of Memphis set up its
4 own power supply system, and I am not sure whether the load
5 at that time was less than 300 megawatts or not, it was of
6 that general order, and we worked out the arrangements
7 between TVA and the City of Memphis.

8 I may be overlooking some, but that is at least
9 some.

10 Q Do you know what the size of the East Kentucky
11 Rural Electric Cooperative load is today?

12 A No, but it has grown considerably. I don't
13 know what it is. I suppose it has been 15 years since I had
14 occasion to look at it, and in those 15 years it would
15 probably at least have tripled, if not more.

16 Q You suspect it would go over 300 megawatts?

17 A I would be very surprised if it weren't
18 considerably more than 300 megawatts today.

19 Q You mentioned the Fontana Agreement.

20 A Yes.

21 Q Is that an interconnection agreement?

22 A It is an interconnection agreement. It goes
23 beyond normal interconnection agreements in that it provides
24 for the unified dispatching of the operation of the
25 hydroelectric plants of TVA and the Aluminum Company,

1 not only for power purposes, but also for purposes of
2 flood control and navigation, which makes it quite unusual.

3 It also involved some exchanges of land and
4 other properties. So it is a good deal more complicated
5 agreement than most interconnection agreements.

6 Q What was the size of the Memphis system at the
7 time that you participated in negotiations with regard
8 to that matter?

9 A I believe I answered that to the best of my
10 ability.

11 Q I didn't catch the size.

12 A I am sorry, I said I wasn't sure whether at
13 that time it was more or less than 300 megawatts, but
14 it was of that general order, as I recall.

15 Q Approximately when were the negotiations that
16 you participated in with the City of Memphis?

17 A It seems to me it was about 1954, but I may be
18 off.

19 Q At that time did the City of Memphis have its
20 own power plants?

21 A It was preparing to build its own power plant.

22 Q Was it at the time a wholesale customer of TVA?

23 A It had been. It was relinquishing that position
24 in order to establish and operate its own power plant.

25 Q Did TVA raise any objections to the City of

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1 Memphis building its own power plant?

2 A No.

3 Q After the City of Memphis built that power plant,
4 did it enter into an arrangement with TVA regarding
5 those facilities?

6 A Before, rather than after.

7 Q What was the nature of that arrangement?

8 A It was the interconnection agreement that I
9 just referred to.

10 Q What was the nature of that interconnection
11 agreement?

12 A Well, I have to rely on memory of events that
13 took place probably more than 20 yeras ago. But it
14 provided that Memphis would proceed on a contemplated
15 schedule to build its power plant.

16 Upon completion of the units in that plant,
17 that its purchases from TVA would be reduced, and in due
18 course eliminated.

19 That its plant and the TVA system would be
20 operated in coordination for maximum benefits overall, and
21 there was a provision for economy energy transactions,
22 maintenance power transactions, emergency power transactions,
23 most, if not all, of the elements of a comprehensive
24 coordination arrangement.

25 I think that about describes it.

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1 Q Did the coordination agreement provide for equal
2 percentage reserves?

3 MR. CHARNO: I think I would like to object to
4 any further pursuing of this line of examination concerning
5 a coordination agreement 20 years ago, unless counsel can
6 demonstrate some relevance.

7 It is certainly beyond the scope of the witness'
8 direct testimony, since he did not testify concerning inter-
9 connection with the City of Memphis system at all.

10 I think unless some demonstration of relevance
11 is made, we are going pretty far afield and may stay pretty
12 far afield.

13 MR. REYNOLDS: Well, Mr. Kampmeier's direct
14 testimony makes it clear that his experience in large part
15 is related to his TVA experience and the kinds of
16 negotiations and agreements that he entered into in that
17 connection, and it is my intention to explore fully with
18 him that experience, in order to demonstrate to the Board
19 the basis upon which he is drawing conclusions with respect
20 to the present situation that he is testifying to.

21 CHAIRMAN RIGLER: I am going to permit the
22 pending question and overrule the objection. I do tend
23 to agree with the general tenor of the objection, that we
24 are getting quite far afield.

25 The Board understand where you are trying to go.

1 I think maybe you can get there a little more quickly.
2 You may answer.

3 THE WITNESS: I think the question was with
4 regard to whether the reserve sharing arrangements were
5 on a percentage basis; is that right?

6 BY MR. REYNOLDS:

7 Q Equal percent, yes.

8 A No, they were not. The parties agreed that
9 it would be desirable overall, considering all potential
10 benefits for Memphis to put in units of quite a large
11 size in relation to its load.

12 It was felt that in order to facilitate that,
13 but also to recognize that this meant that at times Memphis
14 might be relying on TVA for a very large amount of its
15 power during unit outages, that some compromise seemed
16 desirable between a straight percentage formula and the
17 largest units outage formula, say.

18 As I recall the results, it was very much nearer
19 to a straight percentage formula, but not exactly a
20 straight percentage formula.

21 Q Do you know what the present status of the
22 power plant that was built by the City of Memphis is?

23 A Yes. TVA leased it from Memphis some years later.
24 The City of Memphis reached the point of having to
25 consider expansion of that plant for a growing load, and

1 asked TVA to work out with it a reintroduction of
2 Memphis into the TVA system, so to speak, to become a
3 purchaser again of TVA power, and there was a discussion
4 of various alternative ways of doing that. The requirements
5 and arrangements and so on, and the final conclusion was
6 that Memphis leased its steam plants to TVA, and again
7 became a full-requirements customer of TVA.

8 Q Are there any municipalities or cooperatives
9 in the entire TVA service area which generate any of their
10 own electricity?

11 A I think not any more. There were some who did.
12 To the best of my recollection, the last of those generating
13 plants has been retired.

14 Q Does that complete your answer?

15 A Yes.

16 Q When you were the assistant manager of power
17 for TVA, or to your knowledge at the present time, did or
18 does TVA permit any of its wholesale customers to negotiate
19 for the purchase of power for systems other than TVA?

20 MR. CHARNO: Could we have that question back?

21 I don't think counsel said what he thought he
22 said.

23 (Whereupon, the reporter read the
24 pending question, as requested.)

25 MR. REYNOLDS: I am sorry, from systems other

1 than TVA?

2 THE WITNESS: I am not sure I know the answer
3 to that question.

4 It is an academic question which has never come
5 up because as far as I know, no one has ever offered any
6 of those systems power on any more attractive terms
7 than they can get it from TVA.

8 If the question were to come up, I assume it
9 would be dealt with.

10 I don't recall the case coming up and having
11 been rejected. I don't recall a case coming up at all.

12 BY MR. REYNOLDS:

13 Q Did TVA have a policy regarding wheeling,
14 should any of its municipal or cooperative customers
15 wish to purchase other than TVA power?

16 A Well, that would be piling a second hypothetical
17 or academic question on the first. And that question
18 wouldn't have come up unless the other one did.

19 Since I don't recall the first one ever coming
20 up, I am sure the second one didn't.

21 Q Let me see if I understand what you just stated
22 correctly.

23 Are you saying that because had not come up to
24 your knowledge, at least during the time period you were
25 there, that TVA had no occasion to formulate a policy in this

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area?

A Yes. I think that is what I am saying. But I certainly can't speak for the 15 years or so since I left TVA. I don't know whether the question has come up and a policy has been formulated or not.

end 5

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1 Q Did TVA during the time that you were the
2 Assistant Manager of Power, or to your knowledge, does it now
3 wheel power between large power systems with whom it is
4 interconnected?

5 A I don't know. I might be inclined to guess, but
6 I don't think I better guess.

7 Q Mr. Kampmeier, can any wholesale customer of the
8 TVA designate the delivery points at which TVA will deliver
9 power, or does TVA determine the location of delivery
10 points, or substations at which it will deliver power to
11 its customers?

12 A Like a lot of other things in the TVA area, this
13 is the sort of thing that is determined by mutual agreement.

14 I think the general situation is if a distributor
15 requests an additional delivery point, normally, such a
16 delivery point is provided. But this is determined by mutual
17 agreement, and the accepted basis for determination,
18 accepted by all parties, is that the effort will be to provide
19 facilities in the most economical way overall, do what is the
20 most economical, in effect, from the one-system approach.

21 And, therefore, if it appeared to TVA that an
22 additional delivery point would not be economical, TVA
23 probably would ask for some evidence that it is an
24 economical thing to do.

25 I think by and large, however, the way it works is

1 that these needs for delivery points grow out of the
2 developing loads and the continuing consumptions among the
3 parties, and when the question comes up, the answer is already
4 pretty well evident.

5 Q Does TVA establish a limit on the size of
6 customers to which any wholesale customer may supply power
7 and beyond which size limit TVA serves such customers
8 directly?

9 A Well, I have to change your question slightly.
10 There is such a limit, but TVA doesn't -- would you read
11 the first few words of the question, please?

12 (The reporter read the pending question.)

13 THE WITNESS: Right, TVA does not establish the
14 limit, but TVA and the distributors by agreement have
15 established a formula for limiting the size of the customers
16 which the distributors will serve.

17 BY MR. REYNOLDS:

18 Q What is the basis for that?

19 A Let me, if I may, answer you at a little greater
20 length than I try to keep most of my answers to, because this
21 is a rather complicated question.

22 First, the first point I would make ties into
23 what I just said, that these questions are established, or
24 are resolved by mutual agreement.

25 This question of whether there would be some very

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1 large loads which TVA should serve directly, was one that
2 came up quite early.

3 The distribution systems, and there are about
4 150 of them, municipalities and cooperatives for the most
5 part, set up a committee which they call the rate committee,
6 to confer with TVA about a variety of questions, which this
7 was one of the early ones.

8 And the question was looked at in this context, that
9 Congress, in establishing TVA, spelled out certain objectives
10 and requirements.

11 One of the things that Congress said in the
12 TVA Act was that the sale of power to industry should be a
13 secondary purpose. In order to help improve the system
14 load factor, and I am paraphrasing, I don't recall the precise
15 language of the Statute, but if you check it, I think you
16 will find I am not misinterpreting it, even though I may not
17 be quoting it precisely -- that the sale of power to
18 industry should serve to improve system load factors, and
19 through that and other ways, permit the sale of power to
20 domestic and rural customers at the lowest possible prices.

21 Now, in light of that provision, TVA early
22 established the policy that its rates to a distribution
23 system would be lower than its rates to industries, recognizing
24 the fact that there are some advantages to the wholesale
25 area in supplying a diversified load, serving a lot of

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1 small consumers, middle-sized and so on.

2 Now, it is appropriate to apply that rate for
3 wholesale power to a distributor buying power for
4 a diversified load; it is still appropriate to apply
5 it even if some industrial load becomes quite large, but
6 ultimately, it might reach the point where the industrial
7 load would be so large in relation to the other loads
8 served by the distributor that a rate based upon the
9 cost of power supply for a diversified load is not appropriate
10 to a load that is not such a diversified load.

11 Now, in light of this problem, in light of the
12 fact that TVA and the distributors agreed that the
13 distributor should serve practically all consumers, as many
14 as possible, the distributors, as well as TVA, said, "well,
15 how are we going to find a way in which we can be sure that
16 if some huge load comes into an area served by a small
17 distributor, that this Congressional objective of providing
18 power for the domestic and rural consumers at the lowest
19 possible rates, can be achieved for the area, as a whole,
20 and not just to the particular benefit of a small community?"

21 Conceivably, you could have a load so large
22 in a small community that if there were ever two percent
23 margin for the distributor in serving that load, that it
24 could supply all of its other customers at no charge, these
25 being nonprofit distribution operations.

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1 That was not really the intent. So it was agreed
2 that a way needed to be found to provide for TVA to serve
3 directly the very large loads, and that some kind of a
4 sliding scale would be needed, because the size of the load
5 which a city like Memphis or Chattanooga might serve and
6 still have that load be part of the diversified load, would
7 be considerably larger than the load that a small village
8 might reasonably serve.

9 So a formula was developed many years ago
10 which, as far as I am aware, has not been changed to this
11 day, which said, essentially, this, as I recall it: that if
12 a distributor is buying power at a given delivery point
13 for serving its diversified loads, and an industry appears
14 whose monthly requirements would exceed by more than
15 10 million kilowatt hours the energy that is purchased at
16 that delivery point for delivery to residential customers,
17 then this would constitute a load of a size that TVA should
18 serve directly.

19 This becomes quite a large load. The consequence
20 has been that as compared to the 150 distribution systems
21 who buy power from TVA over the 40 years or so of operation
22 in that area, the total number of loads of industry
23 served directly by TVA is now probably on the order of
24 50. So that this has served to limit , very sharply
25

1 the number of such loads TVA serves, but also to effectuate
2 the policies which were set out by Congress and which all
3 of the parties involved were anxious to see implemented.

4 The effect has been that an industry pays
5 the same rate, whether it is served by TVA or a distributor.
6 The distribution systems buy power at the same rate for all
7 distribution systems. And that rate is a rate lower than
8 the rate to industry.

9 Now, I apologize for the length of that
10 answer, but that is the only way I could see to really give
11 you the whole picture.

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arl 1 CHAIRMAN RIGLER: Mr. Kampmeier, are the
2 TVA rates to the municipal distribution system customers
3 regulated by the FPC?

4 THE WITNESS: No, they are not. They are
5 established by agreement between KVA and the distribution
6 systems. And this rate committee I referred to of
7 the distributors has continued in existence. It meets with
8 TVA every time any question of rates comes up, and there
9 continues to be changes from time to time, but most of the
10 changes in recent years have been fairly minor, sort of
11 polishing the arrangements rather than drastically
12 changing them.

13 BY MR. REYNOLDS:

14 Q Mr. Kampmeier, when you were referring in your
15 previous answer to large industrial loads, would I be correct
16 to state that the large industrial loads for non-federal
17 installations was on the magnitude of 25,000 kilowatts and
18 above and for federal installations was 5000 kilowatts and
19 above, roughly?

20 A Well, the second, I think the 5000 above
21 for federal agencies, I think is accurate, if I recall
22 correctly. The 25,000 and above would be only a very
23 rough approximation, but that general order of magnitude,
24 right. Bigger than that in the case of most of the larger
25 loads, because most of the larger loads are

1 served in the larger communities and the larger communities
2 with a higher ceiling. TVA sets a somewhat higher ceiling.

3 Q Does TVA establish the rate schedules which
4 its wholesale customers must employ in retail sales?

5 A Again with your permission I would change the
6 question to say are these established by mutual agreement,
7 because otherwise the answer is no, TVA does not establish
8 it. But they are established by TVA and the distributors
9 rate committee in consultation.

10 Q Is it not true that the wholesale distributor
11 contracts contain standard provisions specifying the
12 wholesale rates, the resale rates, and the conditions under
13 which the power is to be distributed?

14 A Yes, they do. That is correct. Those
15 provisions are developed through the mutual agreement
16 process that I referred to, and then in effect
17 its majority rules, you might say, after the rate
18 committee and TVA agree on something. Then this is the
19 standard which is applicable to everybody.

20 Q You say its majority rules. What does that majority
21 consist of?

22 A The majority of the distributors as
23 represented on the rate committee and TVA. If they reach
24 agreement on a modification of the rate provisions, then
25 those become applicable to everybody.

1 Q Is it your view that the rate committee has
2 equal bargaining power with TVA in connection with the
3 setting of rates?

4 A Oh, I guess as nearly equal and practical.
5 It sometimes seemed to me when I was working with them
6 that their bargaining power was a little greater than
7 ours, but I guess that is not fair, it probably wasn't.

8 They were a little more willing than we, for
9 example, to go to members of Congress and say, "Look,
10 can't you put a little heat on TVA and get them to be
11 more reasonable," and so on.

12 Q Mr. Kampmeier, is the purpose of the joint
13 establishment of retail rates for the wholesale customers of
14 TVA to prevent competition among the wholesale customers?
15 Prevent rate competition?

16 A No. Actually while there are standard sets of
17 rate schedules, not all the distributors sell power at the
18 same rates. There are a series of rate schedules.
19 Those who are able to sell power at lower rates do, they
20 operate on one of the sets of rate schedules which is lower
21 than the set their neighbor may be operating on.

22 There is no -- there is not a postage stamp retail
23 rate in effect. There are a series of standardized retail
24 rates.

25 MR. REYNOLDS: Could we take a five-minute

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1 break here?

2 CHAIRMAN RIGLER: All right.

3 (Recess.)

4 BY MR. REYNOLDS:

5 Q Mr. Kampmeier, I believe in response to the
6 question I asked you just before the break, you indicated
7 that there were a series of standardized rates which
8 the wholesale customers could make a selection from; is
9 that correct?

10 A Well, again "make a selection" would be not
11 quite accurate, because again it is done by agreement
12 between the distributor and TVA.

13 But there are a series of rates, any one of
14 which might be more suitable than the other for a
15 particular distributor in light of its financial situation,
16 the nature of the service area and so on.

17 Q And these standardized rates are specified
18 in the wholesale contract, the one that is agreed to; is
19 that correct?

20 A That is correct.

21 Q Do the rates differ among the neighboring
22 wholesale customers, because TVA does not think that there
23 is any competition at the retail level? Rate competition?

24 A Well, the rates differ because the costs differ.
25 These are essentially nonprofit operations, and if it is

1 possible to operate at a lower cost than your neighbor,
2 then the rates at which you sell to the consumers are
3 lower than those of your neighbor.

4 Q Is that the basis for the different standardized
5 rates?

6 A That is right.

7 Q Would TVA allow a wholesale customer to change
8 his rate in order to compete for a wholesale customer?

9 MR. CHARNO: Objection. I find that question
10 unclear.

11 MR. REYNOLDS: Strike it. I will ask it again.

12 BY MR. REYNOLDS:

13 Q Would TVA allow a wholesale customer to
14 deviate from its contract retail rate in order to compete
15 for a retail customer?

16 A TVA would not allow a distributor unilaterally
17 to depart from the agreed rates for any purpose.

18 Q On page 4 of your direct testimony, you indicate
19 at the top that some of the studies that you participated
20 in have yet to be implemented.

21 A Right.

22 Q Which studies are those that have yet to be
23 implemented?

24 A Well, the one that comes to mind particularly
25 is the one referred to on the bottom of that page,

1 "Comprehensive Coordination of Electrical Systems in
2 Central American and Panama."

3 This was looked at as a pretty long-range
4 proposition, and the steps toward implementing it will
5 come along as loads grow, as the systems find the circum-
6 stances become attractive to proceed with interconnection
7 arrangements and so on.

8 centers
9 The load /of these Central American countries
10 are typically, say, perhaps 200 miles apart.
11 And you don't build a 200-mile connection for a very
12 small level of load. As the load grows, it becomes
13 increasingly attractive. Most of these situations, I
14 think, would be attractive today, I assume. But you also
15 run into questions of --

16 CHAIRMAN RIGLER: I don't mean to cut you off,
17 but we are getting pretty far afield. Mr. Reynolds asked
18 the question which have been implemented; if you can
19 answer directly, just pause there, and maybe as much
20 background information that takes us down the right.

21 THE WITNESS: Right. Okay.

22 MR. REYNOLDS: Thank you.

23 BY MR. REYNOLDS:

24 Q Mr. Kampmeier, will you describe the
25 arrangements between the Basin Electric Power Cooperative
and the U. S. Bureau of Reclamation to which you refer on

1 page 4 of your testimony?

2 A I will try.

3 Again this involves going back quite a ways in
4 my memory. But essentially it is this:

5 U. S. Bureau of Reclamation has an extensive
6 system of hydroelectric plants, many of them in an area
7 in which the Basin Electric Power Cooperative has members.
8 And the Basin Electric Power Cooperative has steam electric
9 generating facilities.

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1 The members of Basin Electric Cooperative buy
2 power from both, from the Bureau of Reclamation and from
3 Basin Electric, partial requirements contracts with each.

4 The arrangements between Basin Electric and the
5 Bureau are for the purposes of achieving the most effective
6 operation and planning and development of the Bureau's
7 hydro projects and transmission lines on the one hand,
8 and the Basin steam electric generating capacity and trans-
9 mission lines on the other hand.

10 Q Does the agreement provide for equal percentage
11 reserves?

12 A Frankly, I don't recall. I am not even sure that
13 it provides for sharing of reserves in the normal sense
14 of the word.

15 No, I simply don't recall, I am sorry.

16 Q Would you describe for me the interconnection
17 arrangement between the Central Power Electric Cooperative
18 and the Basin Electric Power Cooperative that you mentioned
19 on page 4 of your testimony?

20 A Yes. Again having in mind the Chairman's
21 admonition, I will try to be brief and then if I don't answer
22 sufficiently to suit you, you can ask me to pursue it further.

23 This is a case of Central Power Electric
24 Cooperative having a steam power plant, Basin Electric Power,
25 as I mentioned, had some steam electric plants, and this

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1 provides for the coordinated operation of those plants.

2 Q Is that an agreement that provides for equal
3 percentage reserves?

4 A I think it does, but, again, I am not sure that
5 I recall specifically.

6 Q Does it provide for joint plant construction?

7 A I don't believe so, because I don't think that
8 Central Power Co-op intended to install any more generating
9 facilities.

10 Q Why is that?

11 A They preferred to buy their additional requirements
12 from Basin Electric.

13 Q Do you know why that is?

14 A Yes, because Basin Electric has not only
15 a considerably larger plant, but a cheaper fuel supply and
16 could sell power to Central cheaper than Central could
17 expand its own supply.

18 The Basin plant is practically right on top of a
19 coal supply, and the Central plant is not.

20 Q Are they going to participate in the ownership
21 of the Basin plant, or are they going to buy it wholesale?

22 A Buy it wholesale, but since Basin Electric is
23 a transmission and generating cooperative, which Central Power
24 Electric Cooperative being one of the members, I
25 guess it is a matter of semantics. The co-op members,

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1 including Central, you might say, own Basin Electric.

2 Q You also, on page 4, refer to work you did with
3 the South Carolina Public Service Authority in negotiating
4 participation and coordination arrangements with the
5 CARVA pool.

6 A Yes.

7 Q Could you tell us what your role was in that
8 negotiation?

9 A Yes. I was advising the South Carolina Public
10 Service Authority, participating with it in efforts to obtain
11 membership in the CARVA pool for the Authority.

12 Those efforts did not success, in fact, the
13 CARVA pool was disbanded before the negotiations were brought
14 to any culmination.

15 Q Why was the CARVA pool disbanded?

16 A I have my own suspicions, but I don't think
17 I better testify with regard to suspicions.

18 Q Were there not at least three basic problems
19 which had to be resolved before the South Carolina Public
20 Service Authority could become a member of the CARVA pool?

21 A I suppose at least three, yes.

22 Q Would it be accurate to characterize at least
23 three of the problems as disparity in size, the formula
24 for fixed capital charges included provisions for taxes,
25 and territorial integrity of the companies must be maintained?

1 MR. CHARNO: Could I have that question back,
2 please?

3 (The reporter read the pending question.)

4 THE WITNESS: It would be correct to say that those
5 are matters which the company raised as being problems in
6 their eyes. I didn't consider they were necessarily problems.

7 BY MR. REYNOLDS:

8 Q What was your understanding of the nature of
9 the problem that related to the formula for fixed capital
10 charges, including provisions for taxes?

11 MR. CHARNO: I think I will object to that
12 question as a mischaracterization of the Witness' prior
13 testimony. I have no problem with it being appropriately
14 phrases.

15 CHAIRMAN RIGLER: Do you wish to rephrase it?

16 MR. REYNOLDS: Not unless I am ordered to.

17 CHAIRMAN RIGLER: Let's hear it again.

18 (The Reporter read the pending question.)

19 CHAIRMAN RIGLER: How does that differ from his
20 previous testimony?

21 MR. CHARNO: His answer to the last question
22 was, he didn't regard those as problems, but these
23 were statements made by the companies.

24 CHAIRMAN RIGLER: Restate it.
25

1 BY MR. REYNOLDS:

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2 Q What is your understanding of the nature of the
3 problem which I have referred to as a problem regarding the
4 formula for fixed capital charges, including provisions for
5 taxes?

6 A Well, I am not sure how well I recall. The companies,
7 I think, raised a number of sub-items here. For example,
8 there was some provision in South Carolina for the payment of
9 a half million tax on certain kinds of sales and there was
10 a question of whether this tax might be payable by the utilities
11 on deliveries to the Authority, and not by the Authority,
12 on deliveries to the utilities, and whether that would create
13 questions of unfairness.

14 It seemed to me a simple enough matter to simply
15 provide that whatever the savings of the transaction were,
16 they were going to be shared and this question would fall
17 by the wayside.

18 There was another sub-item having to do with the
19 nature of the formulas in the CARVA contract having been
20 developed with the companies' fixed charges in mind, and a
21 fear on their part that they might not have that, if the
22 system were brought into the pool, these fixed charges were
23 determined determined delivery.

24 I don't know, there were several, I don't recall
25 all of them, but there were several sub-items in this general

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1 category, most of which struck me, frankly, as being
2 raised for delaying tactics, rather than as matters of
3 substance.

4 Q When did the CARVA pool terminate?

5 A I don't recall.

6 Q Might it have been in July of 1970?

7 A I guess it might have been. I certainly don't
8 think it was any later than that. At least, my recollection of
9 it is it is not any later than that. Whether it is
10 any earlier, I don't know.

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arl 1 Q Prior to the time of termination, is it not true
2 that the South Carolina Public Service Authority ceased
3 its interest in seeking membership in the CARVA pool?

4 A No, I don't think that that is a correct state-
5 ment. I think it ceased pursuing the matter very actively
6 because every time it asked for a meeting, there was
7 considerable exchange of correspondence, and delays, and
8 one thing and another. Then a meeting would be set up,
9 and then it would be postponed again, and so on, and
10 they sort of got discouraged.

11 Q Did the South Carolina Public Service Authority
12 not enter into an interconnection agreement with
13 the South Carolina Electric & Gas Co-op in November of '69?

14 A It entered into a new one with them some time
15 along about then. It had already had one some time
16 before that.

17 Q Would you describe for me what the interconnec-
18 tion agreement with South Carolina Electric & Gas
19 provided?

20 A Which one? The earlier one or the 1969 one?

21 Q November 1969.

22 MR. CHARNO: The Department would object again
23 as beyond the scope and of questionable relevance.

24 This interconnection agreement is not referred to
25 in the witness' direct testimony. I have no idea whether

1 he has any familiarity with it, or whether he participated
2 in the negotiation of it.

3 MR. REYNOLDS: The witness has already, in his
4 direct testimony, indicated that he was involved with arrange-
5 ments which he has characterized as coordination arrange-
6 ments in varying degrees concerning South Carolina Public
7 Service Authority, and the systems then in the CARVA pool,
8 including Carolina Power & Light Co-op, Duke Power Co-op,
9 South Carolina Electric & Gas Co-op, and Virginia Electric
10 Power Co-op.

11 I think I am entitled to explore the extent to
12 which he has been involved in that kind of a situation, and
13 the extent to which it may or may not relate to whatever
14 his testimony is in this case.

15 MR. CHARNO: That is not the focus of the
16 question, however. The focus of the question was, did he
17 know about the terms of an interconnection agreement, without
18 any specificity prior thereto as to whether he had anything
19 to do with that interconnection agreement.

20 MR. REYNOLDS: His testimony indicates that he
21 did. He says he was involved with arrangements, coordina-
22 tion, concerning South Carolina Public Service Authority
23 with the systems then in the CARVA pool.

24 MR. CHARNO: I have no objection to your
25 asking him whether he had anything to do with the

1 interconnection agreement, or I would be happy to do it
2 on voir dire.

3 MR. REYNOLDS: I will ask him that question.

4 THE WITNESS: The question is did I help to
5 negotiate the 1969 interconnection agreement?

6 BY MR. REYNOLDS:

7 Q Yes.

8 A No, I did not.

9 Q Did you have any knowledge of that interconnec-
10 tion agreement?

11 A Yes, some. The situation was that not only was
12 the Authority losing patience, but I was, too, and I had
13 other consulting assignments that seemed to be more fruitful
14 to pursue than that one.

15 Q Was it your view in connection the negotiations
16 on behalf of the South Carolina Public Service Authority
17 and the CARVA pool that the Authority should adapt itself
18 to the pool arrangements?

19 A Not necessarily, although I would have felt, I
20 think, if that is what it took to work out the coordina-
21 tion arrangements, it probably could do so.

22 But basically our objective was to find the most
23 effective means of coordinating the operation and the
24 development of the system of the Authority with those of
25 these other companies.

1 Q Did you feel that the matter of maintaining
2 the territorial integrity of the companies was something
3 that was entitled to serious consideration?

4 A No, not really. I thought first that it was a red
5 herring, and second that this would have introduced questions
6 of public policies, state policies, which should be dealt
7 with independently of the question of public policies of
8 achieving effective coordinated operation and development.

9 Q Do you recall attending a meeting between the
10 CARVA pool executive committee and the South Carolina
11 Public Service Authority in June, on June 20, 1967?

12 A I recall --

13 Q At which the matter of territorial integrity
14 was discussed?

15 A I recall attending one or more meetings. I don't
16 recall the dates at all. It could very well have been that
17 date.

18 Q If I were to advise you that the minutes of the
19 June 20, 1967 meeting I just referred to stated that you
20 had said during that meeting the question of territorial
21 integrity needs to be given a lot of thought, and
22 that the Authority should explore all possibilities, and
23 do as much work as possible in justifying this, would you
24 have any reason to quarrel with that representation?

25 A I think whethr I would quarrel with it would

1 depend on the context in which that was put.

2 As I recall it, my feeling was that if the
3 companies wanted to pursue that question as a separate
4 or parallel question, the Authority ought to be quite
5 willing to spend whatever time was necessary to pursue it.

6 But I didn't feel that it was a prerequisite
7 or should be a prerequisite to pursuing what needed to
8 be worked out to achieve coordination.

9 In all probability, any exploration of the
10 service area question probably could be dealt with more
11 expeditiously than the other, and I didn't feel that
12 the Authority ought to be giving the companies any more
13 excuses than necessary for dragging its heels on the
14 coordination question.

15 Q Do you recall stating at that meeting that
16 when people enter into an agreement, they should do so
17 with the idea of working together, not creating problems
18 for each other, and in looking ahead, not backward toward a
19 more desirable way of getting things done to the benefit of
20 all parties?

21 A I don't recall at all saying that, but I would
22 certainly subscribe to that as being a desirable objective.

23 Q And would you subscribe to that as being a
24 desirable objective with respect to any power pool that
25 you might be talking about?

1 A Unless there are some words in there that escape
2 my attention at the moment of hearing them, I would say I
3 should have no problem with it.

4 It seems to me that it is very important to tackle
5 these questions with the mutual objective of doing the best
6 possible job for the ultimate consumers, and that this
7 means trying to work together to solve problems, and not
8 trying to make problems for one another.

9 To expedite finding solutions rather than to
10 drag one's heels and so on.

11 Q Would you subscribe to the view that the objective
12 of all the parties who are contemplating membership or who
13 are members of a pool should be to look ahead, not back-
14 ward, toward a more desirable way of getting things done
15 to the benefit all parties?

16 MR. CHARNO: Could I have that question back,
17 please?

18 CHAIRMAN RIGLER: It is the same one you just
19 asked, Mr. Reynolds.

20 MR. REYNOLDS: I didn't get an answer. That
21 is correct, Mr. Chairman.

22 CHAIRMAN RIGLER: I think you did.
23 Let's move on.

24 MR. REYNOLDS: Are you instructing the witness
25 not to answer the question?

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1 CHAIRMAN RIGLER: Yes, I am.

2 Let's move on.

3 BY MR. REYNOLDS:

4 Q What is the arrangement, Mr. Kampmeier, that
5 you are referring to between the South Carolina Public
6 Service Authority and the Southeast Power Administration,
7 Central Power Association, and others?

8 A Well, again, trying to cover it very briefly,
9 at least for a first answer, Southeast Power Administration
10 had certain amounts of power available which, some of which
11 were sold to South Carolina Public Service Authority,
12 which in turn included them in its resources for its sales
13 to Central Power Association and others, and Central
14 Power Association and others asked whether it wouldn't be
15 possible for them to obtain that power directly from
16 Southeast Power Administration, rather than for it to be sold
17 to the Authority and included in the power sold to them.

18 And so we worked out -- I helped work out an
19 arrangement where that was accomplished, the effect of which
20 was that Central Power Association and others became
21 partial-requirements customers of both South Carolina Public
22 Service Authority and Southeast Power Administration, and
23 South Carolina Public Service Authority wheeled power for
24 the other parties from Southeast Power Administration to
25 Central Power Association and others.

1 Q Were there any privately-owned systems involved?

2 A Not that I recall.

3 Well, yes, I suppose you might say there were.

4 By privately-owned systems, we tend to perhaps imply an
5 investor-owned system.

6 Central Power Association is a privately-owned
7 system and so are most of the others involved. There
8 were certain municipal systems, but most of them were
9 mutual associations for consumers. They are privately-
10 owned, but they are consumer-owned rather than investor-
11 owned.

12 Q Were there any investor-owned systems?

13 A Not that I recall.

14 Q Do the South Carolina Public Service Authority
15 and the Southeast Power Administration and Central Electric
16 Power Co-op all compete with each other for retail
17 customers?

18 MR. CHARNO: By Central Power Co-op, do you mean
19 the Central Power Association?

20 BY MR. REYNOLDS:

21 Q Let me ask you by way of clarification,
22 Mr. Kampmeier, is the Central Power Association the --
23 strike that.

24 What is the Central Power Association?

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1 A It is an association in the nature of a generating
2 transmission cooperative, whose members are distribution
3 electric cooperatives in South Carolina. It buys power
4 from South Carolina Public Service Authority and Southeast
5 Power Administration, sells power to member cooperatives.

6 Q Let me go back to the other question and ask you
7 whether the South Carolina Public Service Authority, Southeast
8 Power Administration and the Central Electric Power Cooperatives
9 of the Central Electric Association, compete with each other
10 for retail customers?

11 A South Carolina Public Service Authority and
12 Central Power Association and members of Central Power
13 Association do compete with one another for service to some
14 retail customers.

15 As far as I recall, Southeastern Power Administration
16 does not, it has limited itself exclusively to sales at whole-
17 sale.

18 Q You indicate there is some competition for
19 certain retail customers. What is the nature of the competition?

20 A The competition is most lively with respect to
21 industrial loads which might request service from a South
22 Carolina Public Service Authority or from one of the
23 cooperatives or from both, and each would offer a service
24 contract to the industry and the industry would decide
25 which one he wanted to buy it from.

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1 Q I see. Is that without regard to location?

2 A More or less. The reason I said some, is that it
3 is obviously that one of the distribution cooperatives
4 wouldn't be likely to compete for a load 100 miles away
5 from anything he was already serving.

6 Q Is that competition without regard to the size of
7 the industrial load?

8 A Yes. I think so. I don't recall all of the details,
9 but I think so.

10 Q Do those same utilities compete among themselves
11 at the wholesale level?

12 MR. CHARNO: I think we have talked about different
13 groups. For clarification of the record, would you
14 reiterate the parties you are referring to now, specifically?

15 MR. REYNOLDS: South Carolina Public Service
16 Authority, Southeast Power Administration, Central Electric
17 Power Cooperatives of the Central Electric
18 Association.

19 MR. CHARNO: Central Electric Power Cooperatives?

20 MR. REYNOLDS: That is right.

21 THE WITNESS: It is Central Power Association.
22 Yes, I think the answer is, they do compete with one another
23 at wholesale.

24 BY MR. REYNOLDS:

25 Q What is the nature of that competition, as you

1 understand it?

2 A Well, I illustrated one facet of it by referring
3 to the fact that Central Power Association and its members,
4 specifically its members, I cited that they would prefer
5 to buy power from Southeast Power Administration directly,
6 and so that, as the result of that competition, that service
7 was transferred from the Public Service Authority to the
8 Southeast Power Administration, with the Public Service
9 Authority doing the wheeling.

10 Another instance, one at least, and I think
11 there are others, but I recall one, specifically at the
12 moment, of the customer of Central Power Association,
13 is also a customer of the South Carolina Public Service
14 Authority, both supplied under a partial requirements contract,
15 and the distribution system treats the two suppliers as
16 competitive suppliers in deciding what to buy from each.

17 I don't recall how many of the latter sorts
18 of situations there are, because this is not a subject
19 in which I found myself involved.

20 My activities here were involved in the
21 situation that I described, and not in the transactions between
22 Central Power Association and its members and those of its
23 members who were also buying from South Carolina Public
24 Service Authority.

25 All I know about those is really hearsay,
and I probably have no business referring to it at all.

1 Q What studies do you do of the New York power
2 pool to which you refer on page 5 of your direct testimony?

3 A This was largely by way of reviewing, at the
4 request of the Public Service Commission, staff studies,
5 studies by its staff, which were being developed in
6 consultation with the members of the New York power pool,
7 and I was asked for comments, ideas, and so on.

8 Q Can you describe the competition which takes
9 place among the members of the New York Power Pool?

10 A I don't think I could do that question justice,
11 I am not that familiar with it.

12 Q Do you think there is any competition which takes
13 place among the members of the New York Power Pool?

14 A Yes, I remember at least one situation in which
15 there was very lively competition between Niagara-Mohawk
16 Company and Consolidated Edison Company for a block of
17 power that the Power Authority of the State of New York had
18 available for a temporary period.

19 Q Do you mean that each of them was trying to buy
20 power from the Power Authority of the State of New York?

21 A Yes.

22 Q Is that what you call competition?

23 A In that case it was competition for the purpose
24 of a block of power, right. That is not perhaps the more
25 usual situation in which you are competing for customers, rather

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1 than power supply.

2 Q What was the nature of your activities in
3 connection with the Jamestown, New York system and its
4 arrangements with the Power Authority of the State of
5 New York, and with Niagara-Mohawk Power Corporation?

6 A Jamestown, for many years, had been generating
7 all of its own power requirements, and it had had discussions
8 from time to time with the Power Authority of the State of
9 New York about buying some power from the Power Authority.

10 Those explorations had never come to any
11 conclusions, and I was asked to see if I could help bring them
12 to a conclusion, which we did, and we arranged both to obtain
13 for Jamestown some partial requirements power from the Power
14 Authority of the State of New York and to have that power
15 wheeled to Jamestown by Niagara-Mohawk Power Corporation.

16 We did not succeed in working out as comprehensive
17 a wheeling arrangement as I think would have been to the
18 benefit of the consumers, nor as comprehensive, nor opportunities
19 that I think could have been developed for such matters as
20 economy exchange

21 So this is a case where I would say the
22 negotiations achieved their primary purpose, but did not
23 achieve all of the benefits that might have been obtainable
24 with greater proper spirit by all concerned, and a
25 willingness to look forward, not back.

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1 Q What was the cause for the delays in the negotiations
2 between Jamestown and PASNY?

3 A The earlier delays, prior to the one I referred
4 to? Is that what you are asking about?

5 Q Yes, if you know.

6 A My answer would have to be hearsay.

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CHAIRMAN RIGLER: He has invited it. Go ahead.

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BY MR. REYNOLDS:

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Q Will you describe for me your role with the Lincoln, Nebraska system and its negotiation with the Nebraska Public Power District?

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A Yes. I was a consultant or adviser to them in those negotiations. I also in due course testified as a witness for Lincoln in a litigation between the two parties.

19

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23

The basic proposition was that an agreement had been made quite a few years ago for a coordinated operation of the two systems if as and when Lincoln went into the generating business, chose to generate some of its own power.

24

25

This point was being reached, and there was disagreement as to how the contracts were to be implemented,

1 applied, what new provisions might be needed, and so on.

2 And it was in that regard that I was consulting
3 with them.

4 Q What was the nature of the dispute that was
5 involved?

6 A Oh, there were quite a number. One of the
7 more difficult ones seemed to be this, that Lincoln had
8 arranged to buy part of the output of a nuclear plant,
9 Cooper Nuclear Station, that was built by Nebraska Public
10 Power District.

11 Lincoln was also buying a block of power from
12 the Power District which had initially been sufficient
13 to cover its full requirements, but was not going to continue
14 to be sufficient.

15 The intent clearly was, I think both parties
16 agreed on this, that the purchased power, the power
17 purchased -- well, in order to be able to make easy
18 reference, the purchased power block was a maximum, provided
19 for a maximum of 175 megawatts.

20 So let me refer to that as the 175-megawatt
21 block.

22 The intention was that Lincoln was to use the 175
23 megawatt block and its share of the power from Cooper
24 Nuclear Station together and along with any other genera-
25 tion that Lincoln saw fit to install, to supply its

1 total requirements.

2 And it did see fit to install a gas turbine
3 plant, a combustion turbine plant. It was further
4 complicated by the fact that Lincoln bought from the
5 Power District a small, old steam plant in the heart of
6 Lincoln. These various sources were to be used to supply
7 Lincoln's total requirements.

8 The Power District interpreted the contracts as
9 permitting it to require Lincoln to buy the 175 megawatts
10 at Lincoln's system load factor. And to buy the power from
11 the Cooper Nuclear Station at the capacity factor of the
12 plant.

13 This created a surplus of energy for Lincoln
14 in the off-peak hours which the Power District argued
15 it was entitled to buy back at incremental cost.

16 Lincoln didn't feel this was fair, and the
17 contract could not have meant this, and this was therefore
18 a point in dispute.

19 There were others, but the others would
20 take even longer to describe than that one, and I doubt if
21 you want to get into all of them.

22 There were questions of wheeling of power from the
23 Bureau of Reclamation, a number of things.

24 Q What was the nature of the question of wheeling
25 with respect to the power from the Bureau of Reclamation?

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1 A Well, the Bureau of Reclamation had allocated
2 various amounts of power from its hydro resources to
3 various areas and communities and so on. And in the case
4 of Nebraska, there had been a sort of a lump sum alloca-
5 tion with the understanding that if individual communities
6 wanted to pick up pieces of this, they could, and if not,
7 the Power District buy the power.

8 There was also a provision as to the terms
9 under which power would be wheeled by the Power District
10 for the Bureau, how much of that charge would be paid by the
11 Bureau and how much by the purchaser of the power.

12 Again there was disagreement as to just
13 what these provisions meant and how they were to be inter-
14 preted when it came to a specific case in point.

15 If Lincoln chose to exercise its options to
16 take some of this power, what impact, if any, this had
17 on the 175-megawatt block to which I referred. Lincoln
18 felt it should not affect that, the Power District
19 felt it should, and so on, and so on.

20 Q These entities are both public agencies, aren't
21 they?

22 A Yes. Yes, I think you could properly call
23 them public agencies, right.

24 Q You say they might be called that; what is the
25 ownership of the Nebraska Public Power District?

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1 A Well, this is why I hesitated a little bit.
2 I am not sure I recall exactly whether there is any
3 ownership interest by the systems which it serves, or
4 whether it is entirely owned by the State of Nebraska.

5 Frankly, I just don't recall the specifics of
6 that.

7 Q It is true, is it not, that there are no
8 private investor-owned companies that are located or
9 operating in the State of Nebraska? Isn't that correct?

10 A That is true, as far as I know.

11 Again, interpreting your word "private" as
12 meaning investor-owned.

13 Q And Lincoln is a municipal system, is that
14 correct?

15 A Yes.

16 Q Do the Lincoln System and the NPPD compete
17 with each other for electric service or bulk power supply?

18 A Well, a little while ago you sort of challenged
19 my use of the word "compete" when I talked about
20 competing for a resource. They certainly do compete
21 with one another for purchase of power from the Bureau of
22 Reclamation and others.

23 They compete with one another also in terms
24 of selling power available from the generating stations
25 and not needed for their regular customers, the market

1 for sales of such power to interconnecting systems.

2 I don't recall what other ways they compete,
3 but I would guess there are other ways in which they
4 compete.

5 Q Isn't it true that the wholesale -- strike that.

6 Isn't it true that the wholesale suppliers
7 of electricity in Nebraska can enter into written agreements
8 limiting both the area and the customers that they will
9 serve at retail?

10 A I don't know. It was not my responsibility to
11 get into that question, and I didn't.

12 Q Would you be surprised if I told you that that
13 was the result of litigation between the City of Lincoln,
14 Nebraska and the Nebraska Public Power District?

15 A Yes, I would be surprised.

16 Q You don't know anything about that?

17 A No, I wasn't aware of any litigation other than
18 the one I referred to, and I don't think that was one of
19 the results of that litigation.

20 Q On page 5 of your direct testimony, you make
21 reference to coordination of systems in the western states
22 to use large coal-fired plants (studied for Peabody Coal
23 Company).

24 What was the nature of your activity in that
25 regard?

1 A I was the consultant to Peabody Coal Company,
2 and I helped them to arrange for the employment of a
3 consulting firm who could provide more diverse talents
4 than I could provide on this question, and I worked with the
5 other parties, Peabody and the consulting firm, to explore
6 as a paper study the feasibility and probable desirability
7 of getting the developments of some of the very
8 large western coal reserves, and I should have perhaps
9 mentioned sooner that this was a study made well over 10
10 years ago, to explore the desirability and feasibility of
11 developing some of these huge western coal reserves to use
12 them in large generating stations to produce power
13 which could be wholesaled to the various electric utilities
14 within transmission distance which we were defining for
15 purposes of the study pretty generously, it was reaching
16 quite a long ways.

17 It looked rather promising. I think the
18 trouble was it was about five or 10 years ahead of its
19 time. Peabody dropped the study when they were blocked
20 about and merged with the Kennicott Company and I think
21 probably made a mistake in dropping it, because they
22 would have in effect been in on the ground floor of a
23 lot of developments that have taken place since, if they had
24 pursued the study further.

25 MR. REYNOLDS: Mr. Chairman, this might be an

1 appropriate place to break for lunch. I am at the end of a
2 line.

3 CHAIRMAN RIGLER: Why don't you take up a new
4 line? We still have about 15 minutes.

5 BY MR. REYNOLDS:

6 Q On page 5 of your direct testimony, you refer
7 to the growth and development of coordination arrange-
8 ments in the electric utility industry.

9 A Yes.

10 Q To your knowledge, have there been any significant
11 changes in the extent and degree of coordination and
12 interconnection among power systems in the past decade?

13 A Yes. I would say there has been a continuing
14 evolution and development, quite a considerable amount
15 of change in various regions of the country in the nature
16 and scope of the arrangements.

17 Q Would it be fair to characterize the status
18 of interconnection and coordination among power systems
19 prior to the publication of the 1964 National Power Survey
20 as relatively undeveloped, compared to the present time?

21 A Yes. But again one has to remember that that
22 is sort of a sweeping generalization, and there are
23 certain places where coordination was much further
24 advanced than in other places.

25 MR. REYNOLDS: May I have that answer read,

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1 please?

2 (Whereupon, the reporter read from
3 the record, as requested.)

4 BY MR. REYNOLDS:

5 Q By that, you mean there are certain places
6 that were much further advanced prior to '64?

7 A Yes.

8 Q What were those areas?

9 A Oh, for example, the Pacific Northwest had
10 gone considerably further prior to '64 than some other
11 areas. TVA and the systems with which it is inter-
12 connected had gone further than many.

13 There are quite a number of areas that could
14 be cited and I would be reluctant to try to name
15 chapter and verse, because trying to remember what
16 happened before '64 vs. after '64 and so on gets to be
17 a little bit taxing on my memory, which isn't as good as
18 it used to be.

19 For example, the --

20 Q That is all right.

21 A Okay.

22 Q I was going to ask you whether you are familiar
23 with the Ohio Valley Electric Project?

24 A Yes, generally. That was an example of some
25 pretty extensive coordination efforts prior to '64 in an

1 area where there wasn't nearly as much coordination --
2 that is not quite fair.

3 In which coordination in other respects had
4 not advanced that far.

5 Q Would it be accurate to say that project was
6 generally recognized as being a major success and a
7 contribution to the development of gaseous diffusion
8 capacity for the AEC?

9 A Well, it was, I think, a success, a major
10 success. Whether it contributed to the development of
11 gaseous diffusion capacity might be argued, because I think
12 the gaseous diffusion capacity was going to be provided
13 one place or another and the job would have been done
14 one place or another, but this made it possible to do
15 it in a new area instead of the Atomic Energy Commission
16 having to group all of its plants in the Tennessee Valley,
17 and it was welcomed, therefore, to both the Atomic
18 Energy Commission and the TVA and the OVEC companies also.

19 Q Would you say that that was a project that was
20 designed to monopolize the bulk power supply in the Ohio
21 Valley?

22 MR. CHARNO: Objection; calling for a legal
23 conclusion from an engineering witness.

24 CHAIRMAN RIGLER: Overruled.

25 THE WITNESS: Would you read me the question,

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please?

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(Whereupon, the reporter read the

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pending question, as requested.)

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THE WITNESS: No, I think that would be

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too strong a statement. I daresay there are certain

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aspects of that involved. I think the project was

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designed first and foremost for the purpose of showing

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that a group of power companies could, if they put their

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mind to it, develop a power supply for a large load

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on essentially the same sort of terms and costs that TVA

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had been able to do it.

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MR. REYNOLDS: May I have that answer read,

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please?

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(The reporter read the record as requested.)

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BY MR. REYNOLDS:

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Q In your view, did they make such a demonstration?

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A Yes, I think so. One might quarrel about degree, but certainly not in the general overall result.

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Q On page 6 of your direct testimony, Mr. Kaupmeier, you state that only one percent of the total generation is now provided by industrial self-generation. What is the source of your information for that statement?

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A I believe it was the National Power Survey, but I am not sure anymore.

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On second thought, I think it may have been from the Electrical World, its 100 anniversary issue. But I am not sure about that. It may have come from somewhere else.

15

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17

Q Let me show you what is a table taken from the 1974 Statistical Yearbook of the Edison Electric Institute, Table 7-S, which is headed "Electricity made available in the United States," and ask you if you could indicate what that table reflects to be the total generating capacity for the United States in 1974?

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MR. CHARNO: Is Counsel going to make this examination exhibit available to other counsel?

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MR. REYNOLDS: I will show you a copy, if you like.

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1 MR. QUAINO: I would like to see a copy r
2 prior to the Witness answering the question.

3 MR. REYNOLDS: All right.

4 MR. CHARNO: I thought it was our understanding
5 that exhibits would be passed out?

6 (Document handed to Mr. Charno by Mr. Reynolds.)

7 MR. REYNOLDS: When you know you are going to
8 use exhibits, they will be.

9 MR. CHARNO: I take it that the Witness, in
10 answering the questions, is to ignore the notations and
11 red-lining and figures that have been added to the
12 document?

13 MR. REYNOLDS: Certainly.

14 BY MR. REYNOLDS:

15 Q Let me restate the question I asked you. Would
16 you look at that table, Mr. Kampmaier, and tell me
17 what it reflects to be the total generation in the United
18 States for 1974?

19 A Before you restated the question, you used the
20 word "capacity." You are not now using the word capacity.
21 I take it you are intending to refer, intending me to tell you
22 what I think this table means when it says generation and not
23 it applies to the figures for the United States.

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1 Q Right. In terms of -- if I said generating
2 capacity, it should be total generation.

3 A All right.

4 What this purports to show is the generation
5 in millions of kilowatt hours in various years up through
6 and including 1974 by various groups of entities with
7 generation. It shows total generation in 1974 for
8 the United States of 1,967,649 million kilowatt hours.

9 Q What is shown there to be the industrial
10 generation for the same year?

11 A It doesn't show it. It shows the total for
12 other sources which is footnoted as including generation
13 of industrial, mine and railway electric power plants.
14 And that figure is 102,688 millions of kilowatt hours,
15 which would be about 5 percent of the total shown for
16 the United States.

17 Q Do you have any reason to doubt the figures
18 from the Edison Electric Institute?

19 A I don't have any reason to doubt their validity
20 as far as they go.

21 What I don't know, for example, without further
22 checking, is whether the figures for electric utilities
23 there is the total for all electric utilities, or whether
24 it is a total for those who report to the Edison Electric
25 Institute, whether it is Class A systems or all systems.

1 There are various questions like this that
2 need to be examined.

3 I would hasten to add that if my figure of
4 industrial self-generation being only 1 percent of the
5 total is in error, I would be very happy to stand
6 corrected.

7 CHAIRMAN RIGLER: I am curious myself, Mr.
8 Reynolds, where we are going on this subject.

9 MR. REYNOLDS: I am not going any further, just
10 to show it is five times greater than what he stated.

11 MR. CHARNO: I take exception to that
12 characterization of the witness' testimony.

13 CHAIRMAN RIGLER: If he thinks that is what it
14 shows --

15 MR. CHARNO: I would like to note for the
16 record there is a difference between generating capacity
17 and kilowatt hours.

18 CHAIRMAN RIGLER: I think the witness pointed out
19 several distinctions.

20 We will break for lunch now. I would like to
21 pick up the pace a little bit. On this last subject we
22 spent approximately 10 minutes.

23 MR. REYNOLDS: We may have to spend a little
24 more, in view of the colloquy between the Chairman and the
25 Department.

1 MR. CHARNO: The Department would like to ask
2 to be furnished with a copy of the exhibits to be used
3 for cross-examination after lunch, in order not to delay
4 the hearing to examine them.

5 MR. REYNOLDS: Certainly. I will be glad to fur-
6 nish them to you.

7 MR. CHARNO: The documents being used for
8 cross-examination.

9 CHAIRMAN RIGLER: That is correct.

10 MR. REYNOLDS: What is correct?

11 CHAIRMAN RIGLER: That is correct, the exhibits
12 will be furnished in advance.

13 If you are going to show them to the witness
14 and ask the witness to comment, show them to the Department
15 in advance.

16 MR. REYNOLDS: To the extent I am able to do it
17 on cross-examination, I certainly will.

18 CHAIRMAN RIGLER: We will come back in 45 minutes.

19 (Whereupon, at 1:05 p.m., the hearing was
20 recessed, to reconvene at 1:50 p.m., this same
21 day.)

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AFTERNOON SESSION

(1:58 P.M.)

Whereupon,

ROLAND A. KAMPMEIER

resumed the stand as a witness on behalf of the Department of Justice and, having been previously duly sworn, was examined and testified further as follows:

CROSS-EXAMINATION (Continued)

BY MR. REYNOLDS:

Q Mr. Kampmeier, would you please explain for me what you mean on page 6 of your testimony when you say with regard to the number of municipal systems, that the number has sometimes risen, more often declined? That is in response to Question 16.

A Yes.

I am not sure I can add anything to what is there.

Q What time period are you talking about?

A Over the period that I had been referring to, from the period around World War I up until now.

Q By what measure did you determine that the decline had been more often than the rise?

A Well, first, because its number is smaller now than it was at the beginning of that period.

Second, because there were rather extended

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periods in which there was a fairly continuous

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decline.

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1 Q Let me show you a page from the 1970 National
2 Power Survey, it is page 1-2-2, which has table 2.1, number
3 of electric utility systems by ownership classification.

4 Would you read off the figures for the
5 total number of municipal systems in each of the years
6 on that table.

7 A You are referring to the line "public nonfederal"?

8 Q I think so. I have handed out all of my
9 copies. Just a minute. That is right.

10 A It is not the number of municipal systems, but
11 it would be a reasonably good index of the number of municipal
12 systems.

13 Most of these would be municipal systems.
14 And the numbers shown are nothing earlier than 1927, when
15 most of the decline had taken place.

16 At that time it shows 2,193. In 1937, 1,878.
17 1947, 2,106, 1957, 1890, 1968, 2,075.

18 Q Is it not true that the number of those systems
19 in existence in '68, which is the latest year shown on the
20 table, is actually greater than the number in existence
21 some 30 years earlier?

22 A No -- well, than in 1937, right. Which, of course,
23 is not the period that I referred to in my testimony.

24 Q the period in your testimony you are referring
25 to is what, I am sorry?

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1 A The last 55 to 60 years, as shown near the top of
2 page 5, 55 or 60 years ago there were 3,000 or more
3 municipally-owned systems.

4 Now there are 2,000 and the number -- I see nothing
5 that I would change about my testimony

6 Q You indicate that the number of municipal systems
7 generating their own power has dropped considerably over the
8 last 50 years?

9 A Right.

10 Q Might not that situation be the result of the
11 economies of scale which have led the smaller municipal
12 systems to purchase wholesale power from larger systems,
13 rather than continue with self-generation?

14 A That is a very, very important factor in the
15 picture, right.

16 Q Is it not also possible that the decline in the
17 number of municipalities that are generating their own power
18 is partially the result of the establishment of large federal
19 projects which are now providing power to municipalities at
20 wholesale from large generating stations benefitting from
21 the economies of scale?

22 A Oh, there are some such cases. I don't think
23 there are any tremendous number of them. I think what
24 has happened is illustrated pretty well in the area we are
25 talking about, where, decade ago there were at least 10

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systems generating their own power, and now I think there is something like 4.

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arl 1 Q Were there any municipalities in the region
2 now served by TVA which were generating their own power prior
3 to the establishment of TVA?

4 A A few. I imagine 10 or thereabouts.

5 Q And I believe you have already indicated that
6 there are no municipalities now generating their own power
7 which are located within the area served by TVA?

8 A I said as far as I can recall and am aware,
9 that is true. I can't guarantee it.

10 Q Is it not true that the municipal systems served
11 by TVA now buy power at a lower price from TVA than the cost
12 they would incur if they generated that power themselves?

13 A Yes, generally speaking, that is certainly true.

14 Excuse me. Perhaps it would be helpful if I
15 added there is at least one system which distributes
16 TVA power which does generate some power of its own. It
17 is not a municipal system, that is why it didn't occur to
18 earlier, but Nantahala Power & Light Company generates
19 some of its own power and purchases some of its power
20 requirements from TVA under the same sort of contract that
21 the public municipalities have.

22 Q Do you know what share of the total number of
23 electric customers were served by municipal systems some 50
24 years ago?

25 A Share of the total number of customers?

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1 Q Right. Electric customers.

2 A I don't have those figures before me or in mind.

3 I have seen some figures on that. My recollection --

4 CHAIRMAN RIGLER: If you don't remember, just say
5 so.

6 THE WITNESS: All right. I would rather leave it
7 there, anyway, right.

8 BY MR. REYNOLDS:

9 Q If you have a recollection, am I --

10 CHAIRMAN RIGLER: If you are asking for his
11 recollection, yes.

12 BY MR. REYNOLDS:

13 Q If you don't know, fine. I thought you were
14 saying you did have a recollection.

15 A I don't have a firm recollection, no.

16 Q Do you know whether it was more than 14 percent?

17 A No, I don't know for a certainty.

18 Q Do you know what proportion of the total power
19 sold by cooperatives is purchased at wholesale from govern-
20 ment power plants, either state or federal?

21 A No, I don't know that.

22 Q On page 7 of your direct testimony you
23 indicate that according to Electrical World of June 1, '74,
24 that in 1932, 72.7 percent of the output of privately-
25 owned systems was generated by eight large holding

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1 companies.

2 A By subsidiaries of eight large holding
3 companies, yes.

4 Q Do you know what percentage of the total output
5 of privately-owned systems at the present time are generated
6 by all of the holding companies in the United States?

7 A No. It is not a tremendously different
8 percentage than this, but I don't have a precise number in
9 mind.

10 Q Let me show you another page from the 1970 National
11 Power Survey, which is page 1-2-4. About a little over half
12 of the way down the first column, there is an indication
13 of the -- or a statement there as to the holding companies
14 in 1970.

15 Could you read for me from the sentence starting
16 "These 80 subsidiaries" down to the end of the paragraph?

17 A All right.

18 "These 80 subsidiaries are grouped into 32
19 holding company systems controlled by 18 companies which
20 are also operating electric utilities and 14 non-
21 operating holding companies. Subsidiaries of the 14 non-
22 operating holding companies provide 22 percent of the
23 generating capacity of the investor-owned segments of the
24 industry. The 18" -- do you want me to go on?

25 Q Yes, please.

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1 A "The 18 operating parent companies, along with
2 their subsidiaries, provide an additional 17 percent."

3 Q That paragraph would indicate that the 32 hold-
4 ing companies provide some 39 percent of the generating
5 capacity of the investor-owned segment of the industry;
6 is that not correct?

7 A Of the generating capacity, yes, right.

8 I see no inconsistency, if you are suggesting
9 there is some, with my testimony. In the first place, I was
10 referring to the proportionate capacity in 1932, and then I
11 proceeded to point out that the Public Utilities Holding
12 Company Act changed that picture, causing some of the
13 holding companies to divest themselves of some of their
14 properties.

15 My guess would be that with 39 percent of the
16 capacity of the investor-owned utilities, there would be
17 somewhat more than that proportion of the output produced
18 by those companies.

19 CHAIRMAN RIGLER: Mr. Kampmeier, I am going
20 to have to caution you not to try to anticipate the question
21 and answer a question when there is no question pending.

22 THE WITNESS: I am sorry. All right.

23

3end 16 24

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1 BY MR. REYNOLDS:

2 Q Do you know what proportion of the total power
3 generated by privately-owned systems in the United States
4 at the present time is generated by the eight largest systems?

5 A No, I don't know that.

6 Q Would you expect that to be more or less than the
7 39 percent figure that we just referred to?

8 A I would expect it might be less.

9 Q In your view, did the consolidation of electric
10 systems which took place between World War I and the
11 great depression involve physical consolidation of facilities?

12 A to a considerable degree, yes. But as I --
13 excuse me.

14 There is a reference to that in my testimony.
15 The answer to question 18.

16 Q Was that an undesirable development, ~~in your~~
17 view?

18 A What? The physical consolidation?

19 Q Right.

20 A No, I think it was a desirable development.

21 Q Were there any -- strike that.

22 On page 8 you refer to the fact that municipalities
23 were unable to capitalize on the benefits of larger units
24 for various reasons. That is in response to question 20?

25 A Yes.

Q Would you explain some of those

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1 reasons to me, please?

2 A Well, some of them are referred to in the last
3 paragraph on that page. They were limited to their local areas,
4 sometimes by choice, but often by restrictions on their legal
5 rights to operate outside those areas or to join with others
6 in financing generating capacity.

7 The consolidation of service areas simply was not
8 the logical course for systems owned by individual
9 municipalities, as compared to it being a logical
10 course for investor-owned systems.

11 Q Why do you say it was a logical course for
12 investor-owned systems and not for municipal systems?

13 A Well, because two investor-owned utilities
14 operating side by side could achieve economies by
15 coordination, and quite often they concluded that the preferable
16 way from their point of view to achieve the coordination was by
17 merging.

18 I don't know of many communities who have
19 chosen to merge.

20 And unless communities merged, it would be rather
21 difficult for their community-owned electric systems to
22 merge.

23 Q Were not the municipalities in the area concerned
24 by TVA ability to capitalize on the benefits of larger
25 units in consolidated service areas?

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1 A Yes. As an illustration, again, of a point I made
2 in my testimony, I believe, on the bottom of page 8,
3 the next to the last sentence.

4 Q Is that by virtue of the fact that they were
5 wholesale customers of TVA?

6 A Right.

7 Q Those municipal systems did not achieve economies
8 of scale by participating in the ownership of TVA power
9 plants, did they?

10 A That is correct.

11 Q Would TVA be receptive to the idea of municipalities
12 the serving municipalities participating in the ownership
13 of its power plants?

14 A I can't speak for what TVA would be receptive
15 to now, but when I was with TVA we were quite receptive to
16 the idea, and we had rather extensive discussions of that
17 possibility.

18 Q Why was it that there was no participation?

19 A Well, because that was one of several alternatives
20 being seriously considered, and it was concluded that the
21 alternative that ought to be explored or ought to be
22 pursued first was, as a first choice, was to seek
23 Congressional authority for TVA to issue revenue bonds, to
24 finance plants with its own revenue bonds, and when that
25 choice was made, that pretty well eliminated, at least

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1 for the time being, the feasibility of doing the other,
2 because when you start selling bonds, you start making
3 covenants with your bondholders and so on, and the whole
4 picture would have become rather more complicated, if both
5 alternatives had been pursued at once.

6 But the alternative of municipal ownership of
7 power facilities was looked at quite hard, discussed with
8 distribution systems' representatives, and had some very
9 real advantages.

10 Q Was one of the advantages a means of circumventing
11 the financial limitations on TVA financing?

12 A No, I don't know what you mean by circumventing.
13 The course that was adopted of asking for authority to
14 issue revenue bonds, included a request for a substantial
15 authorization in amount and that was later increased a
16 couple of times.

17 There was nothing to circumvent that I know of.

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1 Q Do you know why Memphis leased its plants to
2 TVA rather than jointly owning that plant with TVA?

3 A I don't think it saw any occasion to consider
4 joint ownership. I don't think that would have accomplished
5 anything particularly. I think the choice was between
6 Memphis continuing to generate power for itself from that
7 plant, or buying all of its power from TVA.

8 If they were going to buy all of their power
9 from TVA, it had to dispose of the plants, either by sale or
10 by lease, and it was disposed of by lease.

11 Q And that alternative gave it a lower cost of
12 power; is that correct?

13 A I assume so, although I wasn't there at the time.
14 It was probably a pretty close choice. I think the
15 consideration that is controlled may not have been purely
16 a matter of comparative cost, it may also have been a
17 matter of city feeling that it would have less problems
18 to be having to deal with, less administrative problems.
19 They wouldn't have to face the question each time of,
20 as the load grew, as to how much, if any, they would
21 provide of additional generation, how much they ought to
22 buy, and so on. To simplify the process.

23 Q On page 9 you state that there is still much
24 to be done in extending the benefits of coordination to
25 smaller systems.

1 A Yes.

2 Q In your view, has everything been done that
3 needs to be done to extend the benefits of coordination
4 to larger systems, say 500 megawatts and above?

5 A No, but I think a great deal more has been
6 done toward reaching the optimum results there than in
7 the case of the smaller systems. That is why I said "Par-
8 ticularly."

9 Q You refer on page 9 to the benefits of coordinated
10 operation and coordinated planning and development would
11 seem to be made apparent by the experience of pioneering
12 system.

13 At what point in time did coordination of
14 planning and development begin to be a development of
15 some significance?

16 A Oh, I would say generally around 1950, more
17 or less.

18 Of course, this is the sort of thing you can't
19 pin a date on because it is a slowly evolving, gradually
20 developing proposition, and when you do say it has now
21 become significant, I don't know.

22 Q Well, would it be fair to say that this stage of
23 developments of coordinated planning and interconnection
24 is even now in a fairly early stage of evolution?

25 A Well, in lots of areas it is. In some areas

1 it is in a pretty advanced stage.

2 Q In your view, have the customers of large
3 systems received any of the net benefits which may
4 have accrued from the coordinated operation planning
5 and developments of new facilities?

6 A I hope they have achieved substantially all
7 of the benefits. That is the way the regulatory process
8 is supposed to work, and I assume it does.

9 Q To the extent that coordinated development
10 and coordinated operation achieve lower costs, does
11 this tend to flow through to the utility's customers?

12 A Yes, it doesn't necessarily flow through equally
13 to all kinds of customers, unfortunately, but it does
14 tend to flow through to the customers, right.

15 Q On page 9 of your testimony, Question 22
16 sets out a description of coordinated operation taken from
17 the prehearing conference order No. 2 in this proceeding.

18 On the top of page 10, you indicate that you
19 agree with those descriptions.

20 A I indicate that I feel that the kinds of
21 activities that are involved are stated in those descrip-
22 tions, right. I don't think that necessarily means that that
23 comprehensive statement of everything else that is
24 involved in coordinated operations.

25 Q In your view, are all of the large systems in

1 the United States operating with the degree of coordination
2 described in the definitions? That definition that is
3 set forth in Question 22?

4 A No, I think probably not. Although it may
5 reasonably approach it in a great majority of the areas.

6 Q In your view, would the attainments of this high
7 degree of coordination be desirable for systems such as
8 the CAPCO members?

9 A Yes.

10 Q On page 10 of your direct testimony, you
11 indicate that there is no standard pattern for contractual
12 arrangements for coordinated operation and development?

13 A Yes.

14 Q What do you mean by standard pattern?

15 A Well, if you pick up a half dozen agreements
16 at random, contractual arrangements, that provide for
17 coordinated operation and development, and lay them down
18 side by side and compare them, at first blush, it would
19 look as though they are almost written in different languages.

20 There seems to be very little uniformity
21 about them.

22 When you dig more deeply, you find a number of
23 resemblances. You find that many points are dealt with in
24 one way or another with fairly similar end results. But
25 there is no standard pattern.

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1 Q Why is it in your view that there is no standard
2 pattern?

3 A Well, for at least a couple of reasons:

4 One is the fact that this is still an evolving
5 process; and secondly, that human beings have their own
6 preferences about ways of doing things; and on the whole,
7 I think that is good rather than bad.

8 The diversity that introduces I think helps to
9 reveal gradually what things work best and what things
10 work less well.

11 Q Would you agree that the differences in the
12 circumstances and physical characteristics of the
13 participating companies in each pool may require different
14 pooling arrangements among different groups of
15 participants?

16 A Well, they could affect the optimum way to
17 handle various elements of pooling and coordination. I
18 don't think that that is nearly as big a factor in this
19 diversity as simply the creative initiatives of various
20 people who have convinced themselves that they have a
21 better way of saying something or doing something, and
22 sometimes they are right, sometimes they are wrong.

23 Q In your experience, Mr. Kampmeier, would you say
24 that it generally takes a lengthy period of time to
25 work out the coordination arrangements in a multi-party

1 pool?

2 A Well, there are a lot of subjective questions
3 there, what one means by lengthy and so on.

4 I think that if there is --

5 Q Say a couple of years.

6 A Okay. I think a couple of years would perhaps
7 be a typical length of time required where there is good
8 will, a cooperative approach, but several parties and
9 the need for considering the regulatory approvals that
10 would be required, and one thing and another, debating of
11 alternative ways of writing provisions and so on.

12 If that wasn't responsive, perhaps you felt it
13 wasn't, I would be glad to elaborate; but I intended it to
14 be responsive.

15 Q From your experience, Mr. Kampmeier, do the
16 participants in a coordination arrangement generally
17 compete with each other for bulk power supply or for sales
18 to wholesale or retail customers, or for service territory?

19 A I better put those points down.

20 Would you read that back to me, please?

21 (Whereupon, the reporter read the
22 pending question, as requested.)

23 THE WITNESS: Well, it is so much a case of
24 circumstances altering cases, I find it rather hard to
25 answer this.

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1 To take it piece by piece, competing for
2 bulk power supply, for example, I know of numbers of
3 instances where they do; I know a number of instances
4 where they don't.

5 In the case of sales to wholesale customers,
6 it depends a great deal on how the coordination arrangement
7 is set up.

8 The more nearly they approach a single whole-
9 sale operation in themselves, in effect, the less likely it
10 would be to have competition.

11 The further they are from that, the more likely
12 you are to have competition.

13 As far as sales at retail are concerned, I don't
14 know that the fact that the systems are participating
15 together in coordination arrangements has very much effect
16 one way or another on whether they compete at retail.

17 Where service territories are concerned,
18 again there is quite a variety of practice.

19 In some areas, the states have encouraged
20 drawing service area lines; in some cases they have been
21 drawn without encouragement by the state and in other
22 cases they have not been drawn. There are no defined
23 service territories.

24 So I guess all I can say is that circumstances
25 alter cases, and it is pretty hard to generalize about

1 this.

2 Q Do you know whether the REA encouraged the drawing
3 of service territory lines?

4 CHAIRMAN RIGLER: Among whom?

5 MR. REYNOLDS: Among the rural electric
6 cooperatives. Well, and other utilities.

7 THE WITNESS: I haven't been as close to that
8 question as would permit me to give a very authoritative
9 answer. But I think I have seen enough to know that
10 again the service area lines have been encouraged by REA
11 in some places and not in others.

12 BY MR. REYNOLDS:

13 Q If I understood you correctly, Mr. Kampmaier,
14 I thought you indicated that the degree of coordination
15 had no real effect on retail competition.

16 Is that correct? Among the participants to
17 the arrangement?

18 A At the moment any major effect escapes me.
19 I may be overlooking something.

20 Q Why is that?

21 A Well, I guess it is a case of mixing apples
22 and oranges. We are dealing with two questions which are
23 more or less independent of one another, as I see it.
24 Whether two systems that generate power should coordinate
25 with one another is one question; and almost certainly

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1 they find it desirable to do so.

2 Whether they are likely to be competing with one
3 another at retail, I think is a totally separate question.
4 I can't quite see that one has anything to do with the
5 other.

end 18

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6 Q All right. Thank you.

7 Mr. Kampmeier, are there some circumstances
8 in which a small system can participate in the benefits
9 of scale economies and coordinated operations and planning
10 without being members of a pool?

11 A Would you please read that?

12 (Whereupon, the reporter read the
13 pending question, as requested.)

14 THE WITNESS: Yes, presumably every system who
15 buys power at wholesale either for its full requirements
16 or part of its requirements should receive some benefits
17 if its supplier is achieving some benefits from
18 coordinated operation.

19 If not, there is a failure of the regulatory
20 process.

21 BY MR. REYNOLDS:

22 Q On page 11 of your testimony, you refer to a
23 diversity among loads between morning and evening peaks
24 and summer and winter peaks.

25 A Right.

1 Q As a possible benefit of coordinated operation?

2 A Right.

3 Q Do you know what the diversity is among the
4 members of the CAPCO pool?

5 A I do know that the report or reports to the
6 Federal Power Commission in the Form 12s indicates that
7 Ohio Edison and Pennsylvania Power, to an example, differ
8 in their seasonality of peaks.

9 Pennsylvania Power has theirs in the winter,
10 and Ohio Edison has theirs in the summer. So that by
11 entering the pool as a single system rather than a pair
12 of systems, they have taken advantage of the diversity
13 between those loads.

14 I do know likewise that if you were to extend
15 your question to the smaller systems, there would be other
16 examples that could be quoted.

17 But since you didn't ask about that, I shouldn't
18 anticipate it.

19 Q I will in just a minute.

20 MR. REYNOLDS: May I have the answer read first?

21 (Whereupon, the reporter read from the
22 record, as requested.)

23 THE WITNESS: Let me add a little to that, if I
24 may.

25 In terms of hourly diversity, the reports also

1 indicate that in 1973 Ohio Edison had its peak during
2 the hour ending at 1:00 p.m. on a certain date and
3 Duquesne Light during the hour ending at 2:00 p.m. that
4 day.

5 Toledo Edison during the hour ending 2:00
6 p.m. the day before.

7 And Pennsylvania Power during the hour ending
8 at 4:00 p.m. that day, with a matching peak hour ending at
9 3:00 p.m. on a different date, and Cleveland had its peak
10 ending at 3:00 p.m. on a different date.

11 So there was some diversity in terms of hours
12 as well as the seasonal diversity I spoke of between Ohio
13 Edison and Pennsylvania Power.

14 Q Without knowing the magnitude of the peak at the
15 particular time on those days, you couldn't really
16 determine the value of the diversity, could you?

17 A Well, you can only determine part of the value.
18 It is clear, for example, that the CEI load peaked in
19 September, whereas probably the group as a whole is peaking
20 August 28, it had at least 15 megawatts higher load in
21 September than at any time in August, and the date in
22 August they had the highest August load was not the date
23 on which the other systems were having their peak.

24 So the diversity was obviously 15 megawatts.
25 How much more, I don't know.

1 Likewise, if you look at the September peak,
2 when CEI and Pennsylvania Power were having their peak,
3 Toledo Edison's peak was more than 25 megawatts lower that
4 day than it was on the day of the August peak, which was not
5 the day on which the others had their August peak.

6 So there is significant diversity. It is not
7 huge amounts, because they have already achieved most of
8 the benefits of diversity by consolidations that have already
9 taken place within these systems.

10 But they are still achieving some additional
11 diversity through coordination through CAPCO.

12 Q Do you have any idea how much 15 megawatts is
13 of the total CAPCO load?

14 A Yes. It is about 15 hundredths of 1 percent.

15 Q Would you plan future capacity in order to take
16 advantage of that kind of diversity?

17 A I would plan further capacity on the basis of
18 the records and the forecasts of the combined peak
19 demands and not the sum of the individual peak demands.

20 And, therefore, if there was some diversity, I
21 would take advantage of it, yes. And the two examples I
22 cited of Toledo Edison and Ohio Edison, in one case 15
23 megawatts, the other 25, and this is only two of the five
24 systems, so there is 40 megawatts which in this day and
25 time is worth something like -- well, over \$10 million

in capital investment.

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1 Q All right.

2 A I think I also have information here to indicate
3 that between Ohio Edison and Pennsylvania Power, in terms of
4 summer peaks, ignoring the still higher winter peaks, there is
5 at least another 16 megawatts of diversity, and I think more
6 than that.

7 So it is beginning to add up in fairly sizeable
8 pieces.

9 Q Are you indicating that you would rely on that
10 diversity for planning capacity some ten years in advance?

11 A Yes, if you will let me proceed to qualify.

12 It is important to note here that one is dealing with proba-
13 bilities, as I am sure you know, when you are planning your
14 capacity and your reserves.

15 You have to recognize that there is no certainty in
16 any of the numbers. What the load is going to be, what the
17 diversity is going to be, what the capacity in actual fact
18 will be of the units that you plan to install, what
19 their outage experience will be. Quite a number of other
20 things, so you have to combine these various factors into
21 a projection of what appears to be the most probable sets
22 of circumstances in terms of load and so on, what the
23 probability is of your having difficulty in carrying your load
24 with various combinations of departures from estimated loads,
25 outages and so on.

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1 In those projections, one certainly ought to take
2 account of diversity, if there is a pattern of anywhere
3 from half a percent to one percent diversity, just for
4 example, and I say there is at least that much among these
5 systems in total, then that is enough to try to take account
6 of.

7 That may represent from five to ten percent of your
8 total reserve capacity.

9 And that is not to be sneezed at. But counting
10 on it, relying on it, what do you mean? You can't rely
11 on anything in this business.

12 Q What is the margin of error that is typically
13 associated with load forecasting?

14 A For how much ahead?

15 Q Ten years.

16 A Ten years ahead? Oh, probably at least ten
17 percent, probably more.

18 Q All right. Is it not a fact that TVA --

19 A Excuse me. Marginal possible error, I don't
20 mean necessarily marginal probable error.

21 Q It is not a fact that TVA has a summer-winter
22 diversity arrangement with the middle south utilities?

23 A That is correct.

24 Q Is it not also a fact that TVA is having some
25 difficulty taking full advantage of that diversity?

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1 A You might explain what you mean by --

2 Q Taking full advantage of that diversity in the
3 amounts that were originally proposed?

4 A I am still not sure --

5 Q Because of changes in the peak?

6 A I am still not sure what you mean, but let me
7 assume what you mean and maybe it will clear it up.

8 I understand that TVA is exercising an option
9 in its contracts to scale down a few years hence the amount
10 of the seasonal exchange. I assume this means as they look
11 ahead, they don't see that it will be worthwhile to have
12 quite as much seasonal exchange as they have now. Whether
13 that is responsive to your question, I don't know.

14 Q All right. Would that reduction in diversity
15 be the result of a growing summer load?

16 A Well, I assume that the growing summer load
17 is certainly an element in the picture. I am not sure
18 the summer load has been growing any faster than the winter
19 load.

20 I think there are various things that come into
21 the picture. I think one of them is that there is a greater
22 need for allowing for outage of equipment than was assumed
23 would be necessary at the time the arrangements were set up,
24 and TVA would rather, if it has to schedule some of those
25 outages, not just in the spring and fall, but in the summer-

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1 winter territory, would rather schedule it in the summer,
2 when its own loads are somewhat lower than in the winter.

3 This would mean it would not have quite as much
4 capacity available to sell to somebody else in the summer.

5 Q On page 15 of your testimony, you refer to a
6 high debt ratio generating companies like OVEC.

7 A Yes, sir.

8 Q What do you mean by high debt ratio generating
9 capacity.

10 CHAIRMAN RIGLER: We will pause on that question and
11 take a short recess.

12 (Recess.)

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1 BY MR. REYNOLDS:

2 Q Mr. Kampmeier, I believe just before the break
3 I had asked you what you mean by high debt ratio generating
4 companies like OVEC, which you have referred to in your
5 direct testimony on page 15.

6 A You want me to tell you what I had in mind by
7 that reference.

8 Q Yes, please.

9 A I will be glad to. There are no compelling
10 reasons that I am aware of why the reductions in power costs
11 that were achieved by using the high debt ratio approach
12 in the OVEC case for service to the Atomic Energy Commission
13 could not be used to supply power, why the same approach
14 could not be used to supply power at wholesale to electric
15 utilities.

16 To be more specific, I suppose that the persons who
17 are trying their hand at specifying the conditions for the
18 licensing of nuclear plants in its CAPCO group were to seek
19 the kind of arrangements that would bring the power costs
20 down, as far as possible to the consumers, I think they
21 might very well want to explore the possibility of saying,
22 suppose these nuclear plants and other jointly-planned plants
23 in the CAPCO group were set up as a wholesaling operation,
24 generating transmission system, which would sell power at
25 wholesale to CEI, Toledo Edison and so on, and to smaller

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1 systems in the area, this could rather substantially reduce
2 the costs of power, because a generating system of that type
3 has no difficulty in selling bonds to finance a power supply
4 for which it has firm contracts with established distributors.

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1 Therefore, that power could be made available
2 at a very significant reduction in cost by using the
3 OVEC high debt ratio approach to the financing of a
4 generating company.

5 Q Do you know that OVEC needed special permission
6 from the SEC in order to engage in the high debt ratio
7 financing?

8 A I think it at least conferred with SEC; whether
9 it needed special permission, I don't recall very well
10 now. That has been a long time ago.

11 Q Do you know whether the SEC imposed a limitation
12 on the debt ratio?

13 A SEC tends to favor a limit on debt ratio
14 for the typical vertically-integrated utility.

15 However, there are numerous examples of generating
16 companies being established, and granted this has been done
17 more generally by other than investor-owned utilities, in
18 which the generating company has been financed with very
19 high debt ratio.

20 The same sort of precedent exists in the
21 gas transmission business, for example.

22 Q Do you know of any example of high debt
23 ratio financing with respect to generating companies in
24 the electrical power industry?

25 A Yes. The Washington Public Power System, the

1 Nebraska Public Power District, and there are others. I
2 would have to search my recollection to be able to
3 identify them. There are some others.

4 Q Are those private investor-owned entities?

5 A No, not those cases I cited. As I said
6 just before, granted that most of these are not cases where
7 investor-owned utilities, they tended to fight shy of
8 this approach.

9 But I don't think that means that they couldn't
10 do it if they chose to, and in this day of some
11 difficulty in selling utility securities and some concern
12 for the possible dilutive effects on common stock
13 holdings, I think there would be more than normal reason to
14 give this sort of an approach a good, hard look.

15 Q My point was basically -- I don't mean to cut
16 you off.

17 Let me ask you a question, and then if you want
18 to expound on it in response, you can do it.

19 Wasn't one of the purposes of the Holding Company
20 Act to reduce excessive leverage through high debt
21 ratio financing?

22 A I don't recall that it was. It may have been.
23 I can't say.

24 Q At the present time with the difficulty of
25 providing adequate interest coverage, can the private

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utilities get high debt ratios?
A This is one of the reasons for considering this sort of approach, because one way of easing that problem is to transfer some of the burden of financing to a generating transmission company, in which case the interest coverage of the company buying from that generating and transmission company and reselling the power would be improved.

end 22

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1 In other words, if there were a CAPCO generating
2 transmission association that sold power at wholesale to the
3 five CAPCO companies and other systems in the area, at
4 a uniform wholesale rate, this not only would resolve
5 questions of how the small systems could be assured of equal
6 treatment in a simple way, but it would mean that the
7 five CAPCO companies would find their problem of showing
8 good interest coverage not only now but for some years to
9 come, greatly relieved.

10 They would face a prospect of a very simple,
11 relatively very simple financing problems compared to most
12 electric systems.

13 Q Are you suggesting that CAPCO be restructured
14 into a holding company?

15 A No, if you want to explore further what possible
16 advantages or disadvantages of that might be, I would
17 be glad to. I was simply responding to your question of
18 what you mean when you say coordinated developments can
19 achieve further savings by facilitating the best use of
20 certain things.

21 I think that the generating company, for example,
22 contemplated in New York State, could very well have
23 some of the earmarks of what I am talking about.

24 But I am not familiar enough with the details of
25 it to be sure how it will work.

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1 I think other illustrations involving investor-
2 owned utilities to at least some degree probably could be
3 found.

4 Q Let me ask you this, Mr. Kampmeier.

5 Is it not true that the high debt ratio for financ-
6 ing of the OVEC system was made possible only because OVEC
7 was designed to serve a single customer, that is the
8 Atomic Energy Commission, so that the financing was backed
9 up by a government contract, plus an agreement by the OVEC
10 participants to purchase any surplus power which the government
11 would not take?

12 A Now, the latter, I think, is the key.

13 I think if the companies having a high debt
14 ratio for financing generating transmission companies agree
15 to buy the output, and thereby cover the costs, then this would
16 make it quite possible to do the financing.

17 I see no more reason why this is desirable for
18 service to the Atomic Energy Commission than for service to
19 anybody else.

20 A The reason it was done in the case of the Atomic
21 Energy Commission was that OVEC was seeking to show that it
22 could bring the cost of power down more or less to the level
23 that TVA was using in its pricing to the Atomic Energy
24 Commission. If the CAPCO companies, for example, were to take
25 this approach, they might find themselves being able to

1 supply power to the CAPCO companies and others at terms
2 that would look pretty good compared to the terms in which
3 TVA sells power wholesale to distribution systems in the
4 Tennessee Valley.

5 The same sort of comparison might be developed,
6 might be pursued. I am not proposing that these
7 sort of financing techniques are necessarily appropriate
8 in any and all circumstances. I am just saying there is
9 room for some creative thinking and some pioneering
10 effort, just as were applied in the OVEC CASE.

11 Q What is your experience with respect to utility
12 financing?

13 A You mean how much have I been involved in it?

14 Q Yes, sir.

15 A Well, at the time that TVA first began thinking
16 about issuing revenue bonds, one of my jobs was to explore
17 alternatives and associated problems and so on.

18 And I spent a fair amount of time over a period
19 of several years conferring with various agencies that
20 were selling revenue bonds, with the various underwriters
21 of capital, with the bond-rating agencies and so on.

22 I helped to develop the bond covenants, bond
23 resolutions that TVA adopted. In fact, I think I had more to
24 do with them than any other one individual, and they worked
25 out pretty successfully.

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I provided modest consulting advice on financing to several other systems since, but I have not made that a major phase of my consulting work.

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arl

1 Q Have you ever been involved in any kind of
2 private financing? Or has it all been government agency?

3 A I would say substantially all government agency.
4 By government, meaning government at various levels, of
5 course. Public utility districts, municipalities, and
6 so on, and rural cooperatives, also.

7 Q In your view, at the present time, can any
8 electric utility expect to finance its system with 95
9 percent debt, as was done in the case of OVEC?

10 A A generating transmission system with contracts
11 guaranteeing the coverage of all costs, I have no doubt
12 could be financed on a 95 percent debt ratio basis.

13 Maybe I shouldn't say I have no doubt, but I
14 would be willing to place a good bet on the odds.

15 Q Would you expect that the wholesale customers
16 in that situation would commit to purchase their power
17 only from the generation and transmission of the new
18 generating facility you are proposing?

19 A No, I think they would probably not. But I think
20 they would guarantee to take and/or pay for power from
21 that company on such a basis that the company would be
22 assured of the revenues required to cover all of its costs,
23 just as was done in the OVEC case.

24 In the OVEC case, the participating
25 utilities agreed to take surplus power from it, but

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1 they made no commitments to get all of their power from
2 it, and there is no reason why they should.

3 Q Do you know of any company at the present time
4 other than OVEC that is being financed with 95 percent
5 debt?

6 A Electric Energy, Inc., I think substantially is
7 the same percentage, although my recollection may be wrong,
8 but I think that is correct. That was another company
9 involving investor-owned rather than a publicly-owned
10 system.

11 Q Was the Electric Energy, Inc., the reference that
12 you just made, was that relative to the supply of the
13 Paducah Gaseous Diffusion Plants of the Atomic Energy
14 Commission?

15 A Right.

16 Q It was therefore similar to OVEC; is that correct

17 A Rather similar. If my memory is not playing
18 any tricks on me, it antedated OVEC, and OVEC built on
19 the Electric Energy, Inc. experience, and perhaps refined
20 the process somewhat.

21 Q It had a single customer?

22 A Yes.

23 Well, a single major customer. Again the
24 participating utilities agreeing also to be customers
25 for power that the Atomic Energy Commission didn't buy.

1 Q And a government contract?

2 A A government contract for the Atomic Energy
3 Commission portion, right.

4 Q And the participants agreed to buy anything
5 that was not taken by the Atomic Energy Commission; is
6 that correct?

7 A I believe so. And I think that obligation,
8 that commitment to pay for the costs is an essential part
9 to make something like this work.

10 Q By that, do you mean that that factor was
11 necessary to assure the financial feasibility of the
12 project?

13 A Right.

14 Q Did any small municipalities or cooperatives
15 participate in the Electric Energy, Inc. project?

16 A No, I don't think any of them were offered
17 that opportunity.

18 Q Could they have participated?

19 A Could they have?

20 Q Right.

21 A Well, whether they could have or not, would
22 depend upon the legal restrictions on them involving
23 themselves in projects for serving other than their own
24 municipal needs, and this is a restriction for many
25 municipal systems that has been a real millstone around their

1 neck in trying to get the benefits of economy of scale.

2 I would think that today there are municipalities
3 who could participate in such a project.

4 Q But as I understand it, you testified there were
5 not at that time any?

6 A There were not any that did. Whether they
7 could, I don't know.

8 Q I see.

9 Was any of the power that was sold by
10 Electric Energy, Inc. sold to cooperatives or municipalities
11 or other small systems?

12 A Not directly. I suppose indirectly.

13 Q What do you mean indirectly?

14 A Well, insofar as the Union Electric Company,
15 Kentucky Utilities and others, selling the power to such
16 systems, some of the power they sold probably came from
17 the power they got from Electric Energy, Inc.

18 Q Would the same be true with respect to the partici-
19 pants in OVEC?

20 A I should think so.

21 CHAIRMAN RIGLER: Can you tell me where we are
22 going with this particular line? We have been on OVEC
23 now for about 40 minutes, and other than the fact that
24 the witness referred to high debt ratio generating
25 companies in his answer, I am having a great deal of

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1 difficulty relating this back to any issue in controversy.

2 MR. REYNOLDS: Well, I am exploring it with this
3 witness, one, because he does deal with it in his direct;
4 and two, because the Department of Justice has, through the
5 expert testimony of its other witness, Dr. Wein, accused
6 the participants of OVEC of attempting to monopolize,
7 and it seems to me that in view of that we can ask of this
8 witness the questions that we have been addressing to him
9 regarding the participation in OVEC, the financing, and the
10 nature of the arrangement.

11 It does bear directly on testimony that is set
12 forth in the direct testimony of Dr. Wein, who is coming on
13 in the next week or so.

14 CHAIRMAN RIGLER: All right.

15 MR. REYNOLDS: I don't think there is too much
16 more of this line, but it seems to me it is relevant
17 for those two reasons.

18 BY MR. REYNOLDS:

19 Q Did TVA participate along with Electric
20 Energy, Inc. in the supply of power to the Paducah Plant?

21 A TVA supplied a certain part of the power and
22 Electric Energy supplied a certain part of the power,
23 yes, if that is what you mean by along with.

24 Q Would you characterize the Electric Energy,
25 Inc. and TVA arrangement to serve the Atomic Energy

1 Commission Plant at Paducah as an effort to monopolize
2 the bulk power supply in that region?

3 A An effort by whom?

4 Q By either TVA or Electric Energy, Inc., or
5 the AEC?

6 A Well, let me take it piece by piece.

7 As far as TVA was concerned, perhaps somewhat
8 the contrary. TVA was encouraging the Atomic Energy
9 Commission to find some other suppliers of power for its
10 gaseous diffusion plants, because TVA had some question of
11 how many eggs it wanted in that basket. It somewhat
12 reluctantly agreed to supply half of the requirements
13 of Paducah, but it would have been quite willing to have
14 someone else supply all of the requirements of Paducah.

15 As far as Electric Energy is concerned, I
16 think that -- well, one has to speculate to some degree,
17 and please recognize I am doing some speculating -- that
18 the companies involved in that enterprise felt that any
19 comparison indicating that TVA was supplying power to
20 Paducah on terms substantially more favorable to the
21 government than they were able to do might weaken their
22 position to the extent it was a monopoly position in that
23 area.

24 I think they were trying to
25 strengthen that position. I think the fact that they did

ar7

1 not either suggest participating by any of the small
2 systems, or follow that project up with any arrangements
3 for using the same approach to providing low cost sources
4 of power for other loads, tends to bear out that specula-
5 tion.

6 Q So as I understand it, you just testified that
7 you are speculating that they were attempting to monopolize,
8 is that correct?

9 A I think that was a factor in their thinking, yes.

10 Q In what region or area?

11 A In the areas that were served by the companies
12 participating in the Electric Energy, Inc. project.

13 Q Do you know which companies were participating
14 in Electric Energy, Inc.?

15 A I know that Union Electric Company was one of
16 the largest participants.

17 Kentucky Utilities was a participant.

18 I think Central Illinois Public Service
19 Company, I believe was a participant, although I would want
20 to double-check that.

21 At the moment I don't know that I recall who the
22 others were.

23 There were some who considered participating
24 who then chose not to, and vice versa.

25 I don't remember, for example, whether any of the

ar8

1 Middle South Utilities group finally ended up in the
2 picture or out of it.

3 I think they ended up in, but I would prefer
4 to not speak positively on that point.

5 Q Do you recall whether Illinois Power Company was
6 in?

7 A I believe they were. Considering this is the first
8 time I have had occasion to think about that in some-
9 where around 25 years, I suppose, or close to it, I
10 guess I don't have too bad a batting average.

end 25 11

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bwl 1 Q On page 16 you refer to the benefit of coordination
2 and include the consideration that economies can be achieved
3 without sacrificing the various elements of competition.

4 Do you see that?

5 A This is in answer to which question?

6 Oh, down at the bottom of the page; right.

7 Q Right.

8 A Yes, right, okay.

9 I am not sure I put it quite that way, but
10 maybe I can accept that paraphrasing.

11 Q What I was going to ask you is if you would describe
12 for me the elements of competition to which you have
13 reference? 7

14 A Well, all elements of competition between diverse
15 types of electric systems, however limited, or however
16 extensive that competition is.

17 It varies all over the lot from case to case
18 and region to region. That is the kind of competition
19 I am talking about.

20 There is competition, competition by example,
21 direct competition, and serving some types of customers,
22 in other cases, serving other types of customers, between
23 investor-owned utilities, consumer-owned utilities, municipi-
24 pally-owned utilities and so on, and this is a situation which
25 is not found in, I can almost say without exception, is not

bw2

1 found anywhere else in the world. And I think it is
2 very valuable and has been very important in the United
3 States. And I believe that is worth preserving.

4 That is what I am trying to say.

5 Q What do you mean by diverse types of ownership?

6 A Different types.

7 Q Such as?

8 A Investor-owned utilities, consumer-owned utilities,
9 municipally owned utilities, state-owned utilities, public
10 utility district-owned utilities.

11 Q And the competition is between the utilities of
12 the the different types, rather than between the utilities
13 of the same types?

14 A the competition is presumably among all of them,
15 but what we are talking about in answer to this question,
16 is that coordination can help to preserve diversity of
17 ownership, as well as some other things, as well as achieving
18 efficiencies and so on, and that this diversity of ownership
19 in itself helps to provide an element of competition which
20 otherwise is not present to the same degree.

ES26

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arl 1 Q Competition, are you talking about in that
2 context specifically?

3 A I thought I answered that once. Could you
4 read back the answer, about four questions back, about the
5 kind of competition I was talking about?

6 MR. CHARNO: I would object to the question
7 as asked and answered. We have tracked through one
8 complete cycle now. Rather than start over, I will put in
9 an objection.

10 CHAIRMAN RIGLER: Sustained.

11 MR. REYNOLDS: Could I have the answer about
12 four answers back, please?

13 (Whereupon, the reporter read from the record,
14 as requested.)

15 MR. REYNOLDS: Mr. Chairman, that was my
16 recollection of the response, too, and I had asked the
17 witness about specifically what he had in mind when he
18 was talking about elements of competition.

19 I don't believe we have gotten a response as
20 to that. All we have gotten so far is that competition
21 means competition.

22 I would like to, if I could, pursue a little
23 further with him exactly what he means with respect to the
24 elements of competition that he refers to in his direct
25 testimony.

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1 MR. CHARNO: If I could not, he refers to an
2 otherwise missing or lacking element, singular, of
3 competition, and that is the element he just described in
4 the answer to that question.

5 I think it is responsive, and I think it was an
6 answer to the question asked.

7 CHAIRMAN RIGLER: Was that your answer to the
8 question of what you meant by an element of competition?

9 THE WITNESS: I think it comes as close as I
10 can come to answering that, yes.

11 BY MR. REYNOLDS:

12 Q Let me ask you this question, Mr. Kampmaier:

13 Is it your view that participants in a coordina-
14 tion arrangement will continue to compete with each other?

15 A Well, I would hope so. I see no reason why
16 they shouldn't.

17 Q All right.

18 Would they continue to compete for specific
19 customers?

20 A Again I see no reason why they would compete
21 any more or any less than before. Most of them don't compete
22 very much now, so I don't know whether they are going to
23 compete much more, but I would hope they wouldn't compete
24 any less.

25 Q Do you believe it would be desirable and in the

ar3

1 public interest for two power suppliers to plan to meet
2 the same load?

3 A No, I didn't quite say that. I think it would
4 be desirable --

5 CHAIRMAN RIGLER: All right, if that is your
6 answer, let's try to keep them confined to the question.

7 THE WITNESS: All right.

8 BY MR. REYNOLDS:

9 Q What do you mean by competition for customers
10 if it doesn't mean two power suppliers planning to get the
11 same load?

12 A Well, it depends on what you mean by planning.
13 Normally I understand planning to mean spending money to
14 take the initial steps toward investment, and so on.

15 That is not likely to materialize because
16 presumably before you reach that point, you find out which
17 one is going to serve the customer.

18 But a customer is entitled to ask more than one
19 supplier the terms on which he can buy power, what the
20 available rates are, and whether there is any restrictions
21 on availability and so on, and he is entitled to get a
22 straight answer from both and make his own choice.

23 If that leads to one being selected over the
24 other, and that one doing the planning, that is the way it
25 ought to be, I think.

ar4

1 Q Once you get the customer, in your view, how long
2 should a power supplier be able to hold on to that customer?

3 A He ought to have some protection for the fact
4 that he has made in many cases a sizeable capital invest-
5 ment which ought not to simply go down the drain, and
6 therefore I think if -- it depends, of course, on the
7 investment size -- but for a good-sized investment for a
8 good-sized customer, I think a minimum contract term of
9 say five years or so would be not only reasonable, but
10 pretty standard practice.

11 Q How long does it take to build a nuclear
12 power plant generally, typically?

13 A I am not sure what is typical any more. It
14 appears as though these days it is taking in most cases
15 eight to 10 years from the concept to completion. I don't
16 know that that is necessarily indicative of what will be
17 true tomorrow, because there is a good deal work being done
18 towards standardizing designs, recognizing the problem
19 of delays in approvals and trying to streamline things
20 and so on.

21 Q In terms of coordinated planning for a nuclear
22 power plant, would you be of the view that the power
23 supplier should be able to plan for its existing
24 customers for at least the period of time that it takes to
25 construct the power plant?

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1 A No, not necessarily.

2 Q Do you have any familiarity with the requirement
3 to demonstrate the need for power in an environmental
4 proceeding before the NRC?

5 A Some. But perhaps we can save time if I go
6 back to the preceding question.

7 Most of the customers the utility serves are
8 residential customers. There is no assurance that any one
9 of those customers is going to be here next week, and I
10 don't think there needs to be. That was part of what I had
11 in mind in my answer.

12 Q Would you perceive a difference between
13 residential customers which you just described, that tend
14 to move in and out, and a single customer of a large load,
15 say 10,000 kilowatts?

16 A Certainly. That is why I said that typically
17 you might ask for a minimum term of at least five years.
18 And most utilities have a sliding scale on that, the bigger
19 the load the longer the term for which they ask for a
20 contract.

21 Sometimes this is specified in the rate
22 schedules. I am not sure if that is true in the ones shown
23 here. I will be glad to look for examples if you want to
24 take the time.

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Q Mr. Kampmeier, let me just in order to make it clear that I understand what you are saying, ask you whether in your view coordination among a large number of systems would or would not be likely to eliminate whatever small degree of wholesale competition might other wise have existed among those systems?

A Would you repeat the question, please?

(The reporter read the pending question.)

THE WITNESS: I would think it should not be likely to eliminate it.

A I say should. I am not saying it would, I am saying should.

BY MR. REYNOLDS:

Q Mr. Kampmeier, if a small municipal system owns a very small portion, let's say five percent, of a large power plant, let's assume 1000 megawatts, which plant was constructed by a private owner, could you tell me what contribution that small system will have made to achieving the economies in the power plant construction?

A Yes, I will try. It depends a little bit on how narrowly you interpret the words "power construction."

If the same plant would be built at the same time in any case, in either case, then in terms of construction cost, I wouldn't expect any saving. But in terms of capital cost overall, generally, I think there would be savings,

1 first, because it doesn't necessarily follow that the same
2 plant would be built. A five percent difference in plan:
3 size has been known to make a difference in the actual
4 size of the plant built.

5 This is tending to be less true as sizes tend
6 to become standardized.

7 But it is quite possible that it would have the
8 effect of moving a decision from one size plant to a larger-
9 sized plant, which might be larger by more than five percent.

10 The time of construction might very well be
11 affected. And certainly the rapidity with which the plant
12 would be loaded would be accelerated, if you had additional
13 load to be served.

14 So I hope that gives you a reasonably clear
15 answer.

16 Q If it is a base load plant, how would the loading
17 of the plant be accelerated?

18 A Well, the base load of a system can accommodate
19 only a certain amount of capacity, and that is the off-peak
20 load of the system is only some percentage, 30 percent or what-
21 ever, of the peak load.

22 And without another piece of load five percent
23 greater, that is a lesser amount than it would be if you had
24 another five percent of load. When you had a new base load
25 plant, you almost invariably are increasing, at least
temporarily, your base load capacity beyond the amount of your

bw3

1 minimum off-peak load.

2 And to the extent that you got five percent more
3 of that capacity.

4 Now, in due course that base load plant is going to be
5 loaded up and then you begin thinking about bringing another
6 one on.

7 But this comes necessarily in steps, because
8 you have capacity in steps, the load grows in steps,
9 and, therefore, you get a differential there which means
10 that the added load has a beneficial impact on the ability
11 to load plant additions all of the way along from month
12 to month and year to year.

13 Q If the five percent participant were a wholesale
14 customer of the private enterprise, how would that affect the
15 load capacity?

16 A It might not affect it, but I don't think this
17 would entitle anyone to say that a municipality who was
18 buying at wholesale shouldn't have the same rates and
19 privileges with respect to deciding to go into the generating
20 business and buying a piece of capacity than someone who
21 is already in the generating business.

22 MR. REYNOLDS: May I have that answer back, please?

23 (The reporter read the record as requested.)

24 MR. REYNOLDS: I will move to strike the last
25 part of that answer as nonresponsive.

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CHAIRMAN RIGLER: Granted.

BY MR. REYNOLDS:

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3 Q In your view, if a municipality served by TVA were
4 to own a portion of the TVA generating capacity, would
5 that contribute to the benefits of the competition, and
6 prevent concentration of economic power?

7 A I suppose it might.

8 Q How would that be the case?

9 A It is a little hard to try to answer that
10 questions without perhaps being unfair to people involved in
11 the electric business of the Tennessee Valley.

12 I suppose one way of trying to answer it is
13 that I think when I was in the position of helping to
14 plan the expansion of our system, that I recognized that I
15 had a certain amount of economic power, and economic
16 power can be abused, and I might have abused it on occasion.

17 And I would be faced with the fact that I couldn't
18 control what my customers might choose to do, they were
19 free to make their own choices and follow their own
20 judgments, that would have a sobering effect on me.

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erl 1 If that is not responsive, I am sorry.
2 I think it is the best I can do.

3 BY MR. REYNOLDS:

4 Q What exactly is the contribution to the
5 benefits of competition that would result by a
6 municipality owning a portion of TVA's generating capacity?

7 A Well, there are all sorts of facets of competition.
8 The partial ownership of a generating plant by others
9 would have introduced greater consideration of alternatives
10 to force construction, greater consideration of perhaps
11 alternative suppliers of equipment, greater consideration
12 of alternative ways of financing, possibilities of
13 introducing some financing that would have been exempt
14 from income taxes, which ours was not.

15 All of these things have some impact of a sort
16 of competitive nature, and I haven't tried to think through
17 what all of the answers would be to that sort of a
18 question.

19 It is a very hypothetical question and I
20 haven't had any occasion to think about what hypothetical
21 answers would have been 15 years ago, let alone today.

22 Q It is hypothetical because TVA never did offer
23 them a participation in any of the units, isn't that right?

24 A As I said earlier, we discussed that alternative
25 at one stage with the distributors, and if they had shown

1 more interest than they did, I think it would have been
2 pursued further than it was.

3 Yes, I think in effect we offered them the
4 possibility.

5 Q Would the cost of power from a particular power
6 plant in which a customer owned a portion or had an
7 ownership interest that was built by TVA have been any
8 different than it would without the participation by the
9 municipal?

10 A I think the interest costs would have been
11 reduced. I am not sure but what that would have been offset
12 by increased administrative costs and so on, or not.

13 Q Why would the interest cost be reduced?

14 A Because the municipality could sell bonds
15 whose interest would not be subject to federal income tax.

16 Q So that the lower interest cost would be due to
17 the tax subsidy; is that correct?

18 A Tax exemption, right.

19 Q What is the nature of the competition that
20 you visualize would be created by that situation?

21 CHAIRMAN RIGLER: What situation?

22 MR. REYNOLDS: The situation of participation
23 in ownership by the municipality in a TVA unit.

24 THE WITNESS: I tried once before to answer what
25 I thought was that question.

1 CHAIRMAN RIGLER: I thought so, too, Mr.
2 Kampmeier. I am a little lost right now on this whole
3 line. Try to pull it together, please.

4 BY MR. REYNOLDS:

5 Q As I understand your testimony, Mr. Kampmeier,
6 you have indicated that if there had been participation
7 by the municipality, that that would have contributed to
8 the benefits of competition in the TVA situation?

9 A I didn't say it would. You asked -- I don't
10 remember how you asked the question, but I am quite sure
11 my answer was in terms it might have. I didn't say it
12 would have.

13 Q And I believe you said that the cost
14 of power from the plant in the event of participation
15 would probably be less because of the reduction in
16 interest costs due to the tax exemption of the municipality;
17 is that correct?

18 A I said that the effect of tax exemption would
19 reduce the interest costs, and I didn't know whether
20 that would be offset by other costs or not.

21 I also did not necessarily mean to imply that
22 any added competitive benefits necessarily were limited
23 to any that might arise from a reduction in the cost of
24 power.

25 I think there might be other ways in which

1 you could get competitive benefits.

2 Q What I am trying to find out is what those
3 other ways of getting competitive benefits are that you
4 have in mind.

5 A I don't have them in mind, but I am glad to
6 try to think of some for you, since that is what you want
7 me to do, apparently.

8 Q If you don't have them in mind, that is fine.
9 I thought by your prior testimony you did.

10 Tell me this:

11 What are the administrative costs that you
12 have in mind that offset the reduction in the interest
13 costs?

14 A Well, I don't know if they would offset the reduc-
15 tion in the interest costs. I said they might.

16 Well, there are some somewhat less simple
17 administrative arrangements, where you have joint owner-
18 ship, the contracts between TVA and the distributors
19 involved would have had to have been renegotiated, and
20 that inevitably involves some administrative costs.

21 These are the sorts of things I am talking
22 about.

23 Q Let me see if we can nail it down this much:

24 Is the area where these other benefits of
25 competition exist between the wholesale customer of TVA

1 and TVA?

2 A Would you read that, please?

3 (Whereupon, the reporter read the
4 pending question, as requested.)

5 MR. CHARNO: I will object to that question
6 unless Mr. Reynolds is indeed asking the witness to
7 speculate upon some areas of benefits.

8 He instructed him not to before when the
9 witness offered to. If he is opening it back up, that is
10 fine.

11 If he is not opening it up, then I object to
12 the question.

13 I am just trying to get an understanding as to
14 what it is the witness has testified to when he says
15 that there are other benefits of competition.

16 As I understand it, he has some difficulty
17 defining what those other benefits are.

18 I am trying now to at least see if we can
19 determine where those other benefits would arise, at
20 what level of competition he is talking about.

21 I mean he obviously had something in mind which
22 at the moment he is unable to articulate.

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23 CHAIRMAN RIGLER: I am not sure the problem of
24 inarticulation lies with the witness here, Mr. Reynolds.
25 It may lie with the interrogator in this case, because I

1 am having trouble with the line, too.

2 You opened the door by asking him a hypothetical
3 to which he responded it might. You translated that into it
4 would.

5 You explored that with him. He suggested some
6 benefits. Apparently you either didn't grasp those
7 benefits or you disagreed with them, and we went back to it.

8 Then you closed the door, as Mr. Chazno pointed
9 out, and now you are reopening it.

10 I am going to let you proceed, but we have just
11 about come to the end of this line. We are going around
12 in a big circle at this point, and I don't think the
13 difficulty is with the witness.

14 MR. REYNOLDS: All right. I will accept that.
15 I am doing the best I can, Mr. Chairman, and I am sorry if
16 I am having trouble articulating it.

17 I am trying to communicate. If I am having
18 trouble, and that is the cause, I apologize.

19 It may well be that over the evening I can
20 restructure the area and come in with some other questions.

21 CHAIRMAN RIGLER: I want it understood the Board
22 is not trying to foreclose you from any legitimate area
23 of inquiry. But when we are going around in a muddled
24 circle, I want to break the circle and move ahead.

25 If you would like to rephrase the pending

1 question, go ahead.

2 BY MR. REYNOLDS:

3 Q In connection with the other benefits of
4 competition that might result from a municipality
5 participating in the ownership of a portion of a plant
6 of TVA, did you have in mind benefits of competition at the
7 wholesale level between the wholesale customers of TVA
8 and TVA itself?

9 A Well, I will first try to answer that question
10 as directly as possible and then to try to throw a little
11 more light on this whole thing.

12 Any time that you put somebody into the whole-
13 sale business to any degree who is not in the wholesale
14 business, which you do when he obtains partial ownership of
15 the generating stations, then you, I would think, open up
16 possibilities of competition that didn't exist before.

17 Now the more general comment I would make is
18 I guess part of my difficulty in trying to respond to your
19 questions is that I am assuming that your questions are
20 all directed to the basic statement that I have made in
21 my direct testimony and there I was talking about the
22 value of not sacrificing diversity of types of ownership,
23 and this was geared to the proposition that if small
24 systems can't obtain the benefit of coordination, they
25 are likely to have power costs that make it impossible

1 for them to remain competitive and they disappear,
2 and then you lost diversity.

3 I don't think, in all of your questions about
4 TVA, the TVA area, we are talking about losing diversity
5 of ownership.

6 I don't think we have to be concerned that the
7 municipal system is going to disappear, if they can't
8 buy a piece of the generating stations.

9 Therefore, I have great difficulty in trying to
10 be responsive to questions that seem to me to have
11 nothing to do with what I was talking about.

12 Q In fact, diversity of ownership is non-
13 existent in the TVA situation, isn't that correct?

14 A No, there is diversity of ownership, in that
15 there are municipal systems, there are cooperative
16 systems, there are county-owned systems. I believe there
17 is one privately-owned system, all distributing TVA power,
18 and there is a federal system that is in the wholesale
19 business, and none of these are in danger of disappearing
20 because their power costs are being forced out of line with
21 others in the area which is what I was talking about.

31 22 Q If a system is too small to fully utilize
23 the economies of sale in generation and transmission,
24 and if it cannot make a contribution to the efficiency of
25 the design, construction and operation of a generation

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1 and transmission facility, what is the advantage of
2 its participation in a small percentage share of the
3 ownership which it cannot also obtain by purchasing its
4 wholesale supply entirely under regulation by a regulatory
5 authority?

6 MR. CHARNO: Could I have that back, slowly?

7 (Whereupon, the reporter read the
8 pending question, as requested.)

9 THE WITNESS: Well, I have trouble with some
10 of your "ifs," but accepting them for the sake of a
11 hypothetical question, I think the important part of the
12 answer -- I am not sure it is the total answer without
13 being able to give this question more thought -- but
14 certainly part of the answer at least lies in the fact
15 that the regulatory process is a fairly rough justice sort
16 of a process.

17 And when one sees situations, for example, in
18 which a municipal system is obliged to pay more for power than
19 an industry would pay for the same amounts of power,
20 then to my way of thinking, the regulatory system is not
21 working as effectively as it should. And that municipality
22 might therefore find that it can better assure itself of
23 getting power on a basis closely related to cost if it has
24 some role in the process which reveals what the costs
25 are, specifies the costs, specifies the way those costs

1 are going to be reflected.

2 This, I think, is a pretty important point.
3 I am not sure it exhausts the possibilities of answers
4 to your question which I would want to think about some
5 more before I would answer it completely.

6 Q Is it your view that the small system in the
7 hypothetical that I gave you can get the power that it
8 needs cheaper through participation in a small percentage
9 share of a unit than it could get it by purchasing that
10 same amount of power at wholesale from the supplier who
11 owned the unit?

12 A There is evidence in some of the rate comparisons
13 that one can make that this might be true. There are
14 other considerations.

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1 The small system might by buying its baseload
2 requirements or part of them from a large generating unit
3 in which it has joint interest, might then be able to
4 combine that with peaking power from a combustion turbine
5 plant, might be able to combine that with intermediate
6 load power from still another source, and produce a combina-
7 tion which would have lower costs than the power which is
8 available to him under the existing rate schedule.

9 MR. REYNOLDS: This would probably be a
10 convenient place to break.

11 CHAIRMAN RIGLER: Are you reasonably on schedule
12 for your three-day time period with the witness?

13 MR. REYNOLDS: Yes, sir. I would anticipate
14 finishing by 4:30 Thursday at the latest.

15 I would anticipate we would be finished with
16 this witness, including redirect and recross by the
17 end of the day on Thursday, without having to go late on
18 Thursday.

19 CHAIRMAN RIGLER: How about going late tomorrow?

20 MR. REYNOLDS: I would not anticipate we would
21 need to do that. But I guess it is hard to really give
22 you an answer on that at this particular.

23 At the present time I would not anticipate
24 having to go late on Wednesday, in order to meet the
25 Thursday 4:30 time period, but if it does look like we are

1 going to run into that kind of a problem, I can alert the
2 Board as soon as I have that feeling tomorrow.

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3 CHAIRMAN RIGLER: And the reporters. I don't
4 know if they would have any difficulty staying late.

5 MR. REYNOLDS: Oh, yes.

6 CHAIRMAN RIGLER: All right.

7 We will resume tomorrow at 9:30.

8 (Whereupon, at 4:40 p.m., the hearing was
9 adjourned, to reconvene at 9:30 a.m., on Wednesday,
10 March 3, 1976.)

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