

NUCLEAR REGULATORY COMMISSION



IN THE MATTER OF:

TOLEDO EDISON COMPANY and
CLEVELAND ELECTRIC ILLUMINATING CO.

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

Docket Nos.

50-346A
50-500A
50-501A

and
CLEVELAND ELECTRIC ILLUMINATING
CO. et al.

(Perry Nuclear Power Plant, Units
1 & 2)

50-440A
50-441A

Place - Silver Spring, Maryland

Date - Wednesday, June 2, 1976

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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

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In the Matter of	:	Dockets Nos.
TOLEDO EDISON COMPANY and	:	50-346A
CLEVELAND ELECTRIC ILLUMINATING CO.	:	50-550A
(Davis-Besse Nuclear Power	:	50-501A
Station, Units 1, 2 and 3)	:	.
and	:	50-440A
CLEVELAND ELECTRIC ILLUMINATING CO.	:	50-441A
CO., <u>et al.</u>	:	
(Perry Nuclear Power Plant, Units	:	
1 & 2)	:	

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First Floor Hearing Room
7915 Eastern Avenue
Silver Spring, Maryland

Wednesday, June 2, 1976

The hearing in the above-entitled matter was reconvened pursuant to adjournment

at 9:30 a. m.,

BEFORE:

- Douglas Rigler, Chairman
- John Frysiak, Member (Absent)
- Ivan Smith, Member

APPEARANCES:

(As heretofore noted.)

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C O N T E N T S

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<u>WITNESS:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>YOUR CASE</u>
James D. Wilson	10,995	11,089	11,152		
Lynn Firestone	11,171				
<u>EXHIBITS</u>	<u>FOR IDENTIFICATION</u>			<u>IN EVIDENCE</u>	
Applicants (OE) 163, (Docket No. 71-233-Y)			11,024		11,039
Applicants (OE) 164, (Case Number 26898)			11,024		11,039
Applicants (OE) 165, (Consolidated Case Nos. 73-509-Y, 73-510-Y, 73-847-Y)			11,024		11,039
Applicants (OE) 166, (Chart drawn by Mr. Wilson)			11,051		11,070
Applicants (OE) 167, (Ohio Edison Company Effect on Cuyahoga Falls and Galion's Wholesale Power Bills From Picking Up An Additional Industrial Customer)			11,051		11,070
Applicants (OE) 168, (Ohio Edison Company, City of Wadsworth, Effect on Wadsworth Revenue and Wholesale Power Bill From Picking Up Ohio Brass)			11,074		11,070
Applicants (OE) 169, (Two-page letter from Mr. Cheeseman to Mr. Wilson)			11,081		11,036

C O N T E N T S (Continued)

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<u>EXHIBITS</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
Applicants (OE) 170, (Three-page letter dated January 7, 1976 from Mr. Wilson to Mr. Chaseman and attached letter from Mr. Duncan to Mr. Kayuha dated October 31, 1975)	11,084	11,086
Applicants (OE) 171 (letter dated Aug. 14, 1974, from Mr. Wilson to Mr. Bixler)	11,162	11,164
Applicants 172 (OE) (Ohio Edison system map)	11,175	

EAK:b-11
S1P R O C E E D I N G S

2 MR. STEVEN BERGER: Ohio Edison calls as
3 its next witness, Mr. James Wilson.

4 Whereupon,

5 JAMES D. WILSON

6 was called as a witness on behalf of Ohio Edison Company and,
7 having been first duly sworn, was examined and testified
8 as follows:

D I R E C T E X A M I N A T I O N

9 BY MR. STEVEN BERGER:

10 Q Would you state your name, residence and the
11 present position you occupy with Ohio Edison Company.

12 A My name is James D. Wilson.

13 I live at 1507 Briarwood Circle, Cuyahoga Falls,
14 Ohio, 44221. And my present position with Ohio Edison is
15 Chief Rate and Valuation Engineer.

16 Q After your graduation from high school, what is
17 your educational background?

18 A I attended the University of South
19 Carolina and received a bachelor of science degree in
20 electrical engineering in 1948.

21 I then moved to Washington and worked for
22 the government and during that time went to law school
23 and graduated from Georgetown with an LL.B. in 1954.

24 Q What was the nature of your employment with
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1 the government during the time you were in school?

2 A I worked for the Rural Electrification
3 Administration for a time, and then with the Navy Department.

4 Q After your graduation from law school, did you go
5 directly to Ohio Edison?

6 A Yes, I did.

7 Q Have you remained with Ohio Edison since that
8 time?

9 A Yes, I have.

10 Q From the time that you first went with Ohio
11 Edison until the present time, can you outline for us the
12 varying positions you have held, and the period of time
13 which you held these positions?

14 A I went directly into the rate department. I
15 went with Ohio Edison in October of 1954. As I say, I
16 went directly to the rate department, and my title was that
17 of rate engineer.

18 Later, I believe it was in the latter part of
19 the 60s that I became senior rate engineer, and then on
20 October 1, 1973, I became chief rate and valuation engineer.

21 Q What are your present responsibilities with the
22 company?

23 A As chief rate and valuation engineer, I am in
24 charge of the rate department. It is our function to design,
25 administer, and do all necessary work related to fixing

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1 rates both retail and wholesale for Ohio Edison Company.

2 Q To whom do you report at the company?

3 A Mr. White, the president of the company.

4 Q Are you a member of the Bar?

5 A Yes, I am.

6 Q Of the State of Ohio?

7 A Of the State of Ohio, and I also passed the
8 bar exam in the District of Columbia. I suppose I'm
9 not in good standing at the moment.

10 Q Are the rates charged by Ohio Edison regulated?

11 A Yes.

12 Q At both the retail and the wholesale level?

13 A Yes, sir.

14 They are regulated at the retail level by the
15 Public Utilities Commission of Ohio and at the wholesale
16 level by the FPC.

17 Q Are all of the rates at the retail level
18 regulated by the Public Utilities Commission of Ohio?

19 A No. We have a home rule statute, and it allows
20 public municipals to fix the rates that electric
21 utilities charge in those municipalities. We have a number
22 of communities who do that.

23 Q Are the standards that are used at the Public
24 Utilities Commission of Ohio for the purpose of establishing
25 retail rates and at the Federal Power Commission for

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1 purposes of establishing wholesale rates similar in any
2 respect?

3 A They are similar in this respect: that when we
4 apply to each of the bodies to fix the rates, there is
5 developed a rate base.

6 There are revenue requirements. There is a rate
7 of return that is applied to the rate base to indicate what
8 the company should be earning on that particular piece of
9 business.

10 However, they are different in that the statutes
11 have a different standard for measuring the fixing of the
12 rates, the point at which the rates should be fixed.

13 Q When you say they are similar as far as both having
14 a rate base, they are both based on cost?

15 A Yes, sir, that's correct. The rates instances
16 are based on your costs to serve the particular customers
17 that are included in the case.

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1 Q The standard for determining that rate base and
2 the cost of Ohio Edison for serving are different at the
3 retail and at the federal level?

4 A Yes, sir, that is true.

5 Q What are the differences in those standards?

6 A At the PUCO level, at the Public Utilities
7 Commission of Ohio our present statute -- at least I think
8 it is still our present statute -- indicates we should
9 use in determining the value of the property a reconstruction
10 cost new of the property less existing depreciation plus
11 working capital. That establishes the rate base.

12 Q And at the Federal Power Commission?

13 A At the Federal Power Commission?

14 At the Federal Power Commission we have a --
15 the rate base is developed on a depreciated original cost
16 basis.

17 Suppose you had a test year of 1974 you would take
18 an average of your property at the beginning of the year,
19 your book accounts as of the beginning of the year and the
20 end of the year, and average those two figures to get an
21 average plant in-service during the test period.

22 That less book depreciation plus working capital
23 would establish the rate base for Federal Power Commission
24 purposes.

25 Q How about for purposes of the rate of return
determined by the PUCO and the Federal Power Commission? Are

1 standards the same?

2 A Well, our evidence usually is along the same
3 lines in both cases. However, for instance, both the Public
4 Utilities Commission of Ohio and the Federal Power Commission
5 tend to use the embedded cost of debt and preferred stock.

6 However, they do generally assign a different
7 return on equity.

8 Q You alluded before to the fact that the present
9 state of the law in Ohio is I believe about to change. Can
10 you tell us in what sense it is going to change and what
11 the status of this new law is?

12 A Yes. The legislature of Ohio has passed a
13 bill under which in developing the rate base we will be
14 required to use the original cost of the property
15 less depreciation, book depreciation, very much similar to
16 the FPC regulations.

17 However, rather than using an averaging process
18 for the beginning and ending of the test period, we will
19 still have a date certain, fixed on which we will value our
20 property as of that date certain.

21 In addition, the law is or the bill as presently
22 constituted permits us to include construction work in
23 progress up to 20 percent of the amount of the rate base
24 other than construction work in progress.

25 That part is discretionary on the part of the

1 Commission as to whether they will permit us to do that or
2 not.

3 Q You say that the legislature has passed this
4 most recent law?

5 A Yes.

6 Q Is it awaiting signature by the Governor at the
7 present time?

8 A As I understand it, at the moment it is awaiting
9 the signature of the Governor.

10 Q Is it expected that the Governor will sign the
11 bill?

12 A It is my understanding he expects to sign it,
13 yes, sir.

14 Q After he signs it, what is the effect of the bill
15 in terms of the rate filings it will be applicable to?

16 A The bill when it becomes law will apply to
17 any rate cases that have been filed subsequent to January 1,
18 1976.

19 Q At both the retail and the wholesale level, could
20 you explain to us what differences, if any, there are in
21 terms of the time that a rate is filed and whether
22 or not it goes into effect subject to refund or does not go
23 into effect subject to refund?

24 A Yes. Under the existing law in the State of
25 Ohio we do not have a suspension statute. We file a case

1 for increased rates. We must await the final decision of
2 the Commission before we can put those rates into effect.
3 Whereas with the Federal Power Commission, there is a
4 suspension statute and when we file a case we ask for an
5 effective date for the rates. And if the Federal Power
6 Commission did not hang else, why, the rates would go in
7 effect on that date.

8 However, they do have the right to suspend
9 the application of those rates for a period of time, after
10 which time they go into effect subject to refund on the
11 final conclusion of the case.

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2 Q Now, focusing on retail, Mr. Wilson, what are the
3 various classes of customers that Ohio Edison serves at the
4 retail level?

5 A We have residential customers, commercial
6 customers, industrial customers, and other which, essentially,
7 is street and traffic lighting.

8 Q Are there various levels of rates within each
9 class?

10 A Yes. Because of the home rule law in Ohio
11 which permits a municipality to fix the rates in that
12 particular community, we have to be able to prove at any
13 time that the level of those rates are proper from the
14 standpoint of cost within a particular community.

15 This has led us to several levels of residential
16 rates and commercial rates.

17 However, for industrial rates, we have one
18 group of industrial rates, two rates that apply throughout
19 the territory and those rates are set, fixed by the PUCO.

20 Q Can you give us some idea as to the levels of
21 rates within classes? That is, numbers of levels and how
22 it is determined that a particular rate applies to a
23 particular group of customers?

24 A Yes. We know that the cost to serve a particular
25 community is generally related to the density of the population
within that community. So that one would expect that a big

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1 city would have a -- there would be a lesser cost to serve
2 the customers located in that city, because of the
3 concentration around load centers.

4 So that in our case, residential rates, we have
5 four.

6 For our lowest residential rate, the City of
7 Akron and other cities of similar size, is the lowest.
8 Using, generally, population as a guide, over 100,000
9 population is our lowest level of residential rates.

10 From 20,000 to 100,000 is our second level, which
11 is a little higher.

12 Then there is a third level from 1,000 to
13 20,000, and then our fourth level is our nonordiance area
14 which includes all of the rural territory, and the smaller
15 incorporated communities of less than 1,000 population.

16 Along with that we have companion secondary
17 light and power, or as most people refer to them,
18 "commercial rates," that follow along with the residential
19 rates, except that we have combined a couple of the levels
20 of commercial rates.

21 Q After a determination is made by Ohio Edison
22 that there is a need for greater revenue, unless an increase
23 in its rates is indicated, at the retail level, can you
24 tell us what steps were taken by the company in order to
25 bring about an increase in retail rates? I would like if you

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1 would break it up by describing what takes place in the
2 ordinance situation, and what takes place in the
3 nonordinance situation.

4 A All right. Taking first the nonordinance,
5 which rates are fixed by the Public Utilities Commission,
6 there, once we have decided that we need additional revenue,
7 using the regulations of the Commission, we know that the test
8 year will be the prior calendar year, unless otherwise
9 ordered by the Commission.

10 Our last cases have been filed on the prior
11 calendar year.

12 Then that fixes the test period for testing the
13 rates. Then the date certain which is the date for the
14 valuation of the property, it is fixed as the mid-point
15 of that test period. Having determined the calendar
16 year that will be used to test the rates and date certain,
17 we set about developing the rate case to present to the
18 Commission.

19 One of my first acts would be to get in touch with
20 our consultants, consulting engineers, to ask them to perform
21 for us a valuation on a reconstruction cost new basis
22 and at the same time determine existing depreciation.

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5 1 Q These are independent consultants?

2 A Yes. And they would get started immediately to
3 determine these values.

4 Those studies take a considerable period of time
5 because they are done by sampling the property and then
6 inspecting that sample of the property and then increasing
7 the size of the sample to fit the whole.

8 Generally, we would expect that that would take
9 or has taken in times past approximately seven months to
10 determine these figures.

11 At the same time, we in the rate department
12 would be collecting billing data for the test period,
13 making bill distributions to use in testing the -- whatever
14 changes in rates that we are proposing.

15 In other words, we would take a bill
16 distribution and apply the present rate. Then using the
17 same bill distribution, apply the proposed rate and
18 develop a percentage change in revenue which would then
19 be applied to the book revenue to show what the increase
20 would amount to.

21 And at the same time we are determining what
22 we feel the total revenue requirement would be, I would be
23 advised by our financial people what rate of return we
24 felt we could justify on the business and in using that rate
25 of return I would develop the revenue requirement and

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1 design proposed rates to produce that revenue.

2 Having gotten all of this data together, we would
3 then file the case with the Commission.

4 Q After the filing of the case with the
5 Commission, what happens next?

6 A The Commission begins its own independent study
7 of the property of the company and its books to determine
8 for themselves what they feel our rate base should be.

9 I should have mentioned as a part of preparation
10 for a particular case, in our company, since when we go to
11 the Commission we would not have all of the company property
12 involved, there is a cost allocation that we file along with
13 the case which indicates the allocation of total company
14 costs to the particular classes that we are studying.

15 The Commission does precisely the same thing
16 we do. They develop a rate base on their own. Their
17 auditors come in and examine our books, to look at our
18 expenses, to see whether or not the expenses we have
19 included in the case are proper, whether some are unusual
20 and should be annualized over some period.

21 Eventually they would develop their own rate
22 of return test also.

23 The first thing that happens after they complete
24 their independent study, there is a secretary's report issued
25 by the Comm-ssion. It includes the various investigations

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made by the Staff, the engineers with reference to rate base and depreciation, the accountants with respect to expenses and the application of the rates.

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CHARIMAN RIGLER: This is a good presentation. I hesitate to interrupt.

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6

Can we develop more how the cost allocation is made to which you just referred?

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THE WITNESS: In making an allocation of cost to a particular class of customers that is included in a rate case, we first have to determine the characteristics, load characteristics of the classes under study.

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S6 1 CHAIRMAN RIGLER: Is this a daily peak or a
bwl 2 seasonal peak? What kind of peak?

3 THE WITNESS: With our PUCO customers we
4 are using a summer and winter peak with a weighted
5 summer peak for seasonal derating of our units.

6 The summer peak gets a little more weighting
7 than the winter peak. It is an averaging process with
8 this weighting factor for the summer and winter peaks.

9 If we were talking about the Federal Power
10 Commission, for instance, we would be using an average
11 of the 12 months, rather than just a summer and winter.

12 We feel that the summer and winter provide a
13 good method for allocating, so that the demand responsibility
14 of those customers is determined on that basis. In
15 allocating costs to a particular class of business, there are
16 actually three types of costs that are used.

17 We use a customer cost which is related to
18 metering that is required for the customers, the accounting
19 functions that are related solely to the number of
20 customers, such as rendering a bill.

21 Then, in addition, we have energy costs which are
22 simply related to the number of kilowatt hours that that
23 customer uses.

24 The basis for that cost would be primarily fuel
25 and water and whatever other costs that are dependent entirely

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1 on the number of kilowatt hours that the customer uses.

2 Then the third set of costs are the capacity
3 related costs which are the fixed charges on our investment
4 that needs to be assigned to those customers.

5 And it is those demand related costs that we
6 assign on this peak responsibility method.

7 BY MR. STEVEN BERGER:

8 Q If the company seeks an increase and, again,
9 we are talking in the nonordinance area, in its retail
10 rates, must there be a hearing at the PUCO?

11 A Yes.

12 Q Why is that?

13 A Well the -- as I started to explain a little
14 earlier, after the staff report comes out, which is
15 essentially the Commission's evidence in the case, we have
16 the opportunity for 30 days following the issuance of the
17 report to file objections to it.

18 We do in all instances that I can remember
19 file objections to the report.

20 Having received those objections, the matter is
21 scheduled for hearing and does, in fact, go to hearing.

22 Q Let's see if we can take the same kind of --

23 CHAIRMAN RIGLER: Wait a minute. If you filed
24 no objections, would a hearing still be mandatory?

25 THE WITNESS: Yes, it would.

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CHAIRMAN RIGLER: There is a hearing whether
2 or not objections are filed by you or anyone else?

3

THE WITNESS: Yes, I suppose it would be fairly
4 perfunctory if all there was was a staff report, and we,
5 in effect, stipulated the staff report, but there would
6 be a hearing to make that stipulation?

7

BY MR. STEVEN BERGER:

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Q Let's see if we can go through the same kind
9 of analysis, if you would, with regard to the ordinance
10 cases, once a determination is made that it is necessary
11 to have an increase in those areas involving an ordinance.

12

What are the steps taken by the company to bring
13 about an increase in the rates in those communities?

14

A Assuming we have a valid ordinance, in effect,
15 all of the ordinances provide for some period of time
16 for notice of cancellation for both the city and the company.
17 In our case it has generally been six months. So the first
18 think we would do if we were to decide we needed additional
19 money from that particular community, we would cancel the
20 existing ordinance, give them a notice of cancellation.

21

Most of our ordinances have a fixed period
22 of time in which the rates are fixed, but then after that
23 time they continue from year to year, until notice is
24 given, usually for a maximum of a ten-year period. We would
25 give notice that we wanted to cancel the rates. At the same

bw4 time in order to protect ourselves in case the
2 community chose not to negotiate rates and which they have
3 a perfect right to do -- as soon as the ordinance is cancelled
4 and those rates go out of existence, so to speak,
5 theoretically the jurisdiction over the rates in that
6 community would go back to the Public Utilities Commission.
7 So what we have been doing within the last five years
8 or so, we have been filing with the Commission a
9 commission case in exactly the same fashion as I described
10 earlier:

11 Q In the nonordinance area?

12 A In the nonordinance area.

13 Q With the same kind of preparation you went
14 through, and as you described before in the nonordinance
15 area?

16 A Precisely the same kind of preparation. We have
17 been filing these cases and, of course, it provides a
18 very good basis for the negotiations, because you have a
19 rate basis. You have expenses. You have the rate of return
20 we are asking for, and what usually happens is the cities,
21 if they choose to continue to negotiate, will hire
22 themselves an expert and using the study that we filed,
23 come up with some recommendations as to what they feel the
24 rate should be.
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A (Continuing) Having gone through negotiations, if we can agree upon a rate which seems fair to the communities, they will pass an ordinance including those rates which will be accepted by the company.

And, of course, once this is done, the public utilities commission is automatically divested of jurisdiction over the rates.

Q I don't want to confuse the record between the existing law and the contemplated new law, but as to what you just described, is the procedure for obtaining increases in the ordinance area, is that going to change in any respect upon the signing of the new law by the Governor?

A It will not. The communities will still have the same right they have now to fix rates.

I should point out I think that if a community were to pass an ordinance that we couldn't agree with, what we would do is appeal that ordinance to the public utilities commission. Then the rate would be fixed in the same fashion that it is fixed for rates that are under the primary jurisdiction of the public utilities commission.

Q The PUCO has appellate jurisdiction from the ordinance decisions of the various communities?

A Yes. If we do not accept the ordinance it would be appealed to the public utilities commission and it would be handled in the same manner as the rate case.

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1 Q One more question on that line. Assuming that
2 you did appeal to the commission or that the commission
3 has jurisdiction over the ordinance cases, however it
4 may have gotten there, would the staff then go through the
5 same kind of procedure as you described in the non-ordinance
6 area?

7 A Under the ordinance appeal statute as it is right
8 now there is no requirement for a secretary's report on an
9 appeal.

10 However, the staff in those ordinance appeals
11 I have been associated with, the staff will put on evidence
12 so it does require an investigation by the staff, whether or
13 not the statute calls for an actual issuance of a secretary's
14 report.

15 Q Under the new statute?

16 A Under the new statute, quite frankly, I don't
17 recall. I believe the procedure is exactly the same.

18 The only difference is the determination of the
19 valuation.

20 My recollection is that under the new statute
21 the staff will operate in precisely the same procedure
22 as they do now.

23 CHAIRMAN RIGLER: Are you going to touch on the
24 amount of variance in ordinance communities in their rate
25 structures?

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1 That is, taking a range of 10,000 population
2 communities. What order of variance is there in the rate
3 schedules under which you serve them?

4 THE WITNESS: There has been anywhere from
5 5 percent to 10 percent difference between the levels of
6 the various rates.

7 CHAIRMAN RIGLER: For comparable sized communities
8 in the sizes you outlined earlier?

9 THE WITNESS: Starting with Akron being the
10 largest we serve and having the least rate, then there
11 would be 5 to 7 percent difference between that level of
12 rates and the next level of rates.

13 CHAIRMAN RIGLER: I am thinking say you
14 serve five communities of 25,000.

15 Would their rates be uniform or would they vary
16 by a few percentage points?

17 THE WITNESS: Those rates would be uniform. All
18 of the communities that fall into the population levels
19 I mentioned, all of the rates would be uniform within those
20 levels.

21 BY MR. STEVEN BERGER:

22 Q Is this what we call a postage stamp kind of
23 rate?

24 A Perhaps.

25 Q It is a term that has been used in this proceeding.

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1 that if you establish rates in a given class wherever those
2 customers may be located to the particular load centers not-
3 withstanding differences in location to generation and what
4 have you, that the rates are uniform. Is that what you are
5 driving at?

6 CHAIRMAN RIGLER: You are talking about the PUCO
7 tariff. Now I am looking to the communities where there is
8 an ordinance and the PUCO tariff is not in operation unless
9 there has been an appeal as he described.

10 I am wondering if there is a variation in
11 rates among communities where you have an ordinance where
12 you are serving under the municipal ordinance rather than
13 the PUCO established rate.

14 THE WITNESS: There is a variance, but only by
15 virtue of the fact that, as I mentioned, the population
16 densities establish the level of the rates.

17 All communities over 100,000 would have the
18 same rates. All communities that have a population from
19 20,000 to 100,000 would have the same rates.

20 MR. STEVEN BERGER: I understand the problem you
21 are having.

22 BY MR. STEVEN BERGER:

23 Q If you are dealing with ordinance communities
24 and you are at the point where you haven't reached the PUCO
25 level, are you negotiating with all of the communities at the

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1 same time or are you negotiating with them individually?

2 A For any community that falls into this
3 particular level of population level I mentioned, all of
4 those over 100,000, for instance, we would try to negotiate
5 with all of those communities at once so that whatever rates
6 are fixed would be the same for all of those communities.

7 Q Has there ever been a situation to your
8 knowledge where communities within the same level have had
9 different rates in existence at the particular point in
10 time, ordinance communities?

11 A Yes, that happens because, well, for instance,
12 in our next elvel of rates, after the non-ordinance area,
13 this would be the third highest rates we have, there is
14 approximately 70 communities involved in that classification.

15 During some of our past increases, all of the
16 communities would not pass the particular ordinance that we
17 had hoped that they would. So that what happened was those
18 that passed, we put the rate into effect, those rates into
19 effect; for those that did not pass, we had the option of
20 leaving the rate as is and continuing to try to convince them
21 that this was a proper rate for their community, or file an
22 appeal with the public utilities commission, ad we have done
23 both.

24 So there would be a period of time and, of course,
25 those ordinances, once we get them to the point where they

1 are willing to pass an ordinance, well, there is a
2 continuous negotiating process with each of the communities.

3 This is done by our division managers. They
4 contact the communities personally and tell them this is
5 the rate we think is proper.

6 We present to them cost evidence to show that
7 it is proper and then ask them to pass an ordinance for
8 those rates.

9 Now, it moves in both directions. If they choose
10 not to agree with our presentation, then we find out
11 what -- how they feel it should be revised and eventually
12 try to reach an understanding with them as to the level of
13 the rates.

14 Then we would hope that they would begin to pass
15 ordinances that would include those rates.

16 If they do not and we feel we can justify the
17 level of rates before the public utilities commission, we
18 will appeal to the public utilities commission.

19 MR. SMITH: What size community have you
20 just referred to?

21 THE WITNESS: Those were in the grouping from --
22 we have had them in all levels, frankly, except the lowest
23 level of rates.

24 In our Level 2 area we have had to appeal
25 ordinances there, which is the population

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1 grouping from 20,000 to 100,000.

2 We have also had to appeal ordinances in the
3 grouping from 1000 to 20,000.

4 MR. SMITH: So the result, then, has been
5 uniform rates?

6 THE WITNESS: Within those population groupings
7 that I mentioned, yes, sir.

8 MR. SMITH: So the legislative authority of the
9 community ultimately has had no effect, then, upon the
10 rates?

11 THE WITNESS: Certainly yes, it has. It has had
12 considerable effect because these rates are negotiated.
13 Obviously we would prefer not to have, say, 70 different rates
14 to try to administer. So we try very hard to convince
15 these communities that whatever cost evidence that we have
16 presented represents the cost of serving all of those
17 communities.

18 But, really, they have a considerable effect on
19 the rates.

20 CHAIRMAN RIGLER: Well, you just told Mr. Smith
21 that rates were uniform. You didn't really mean that. You
22 meant they tend toward uniformity because of your appeal
23 ability to go to the PUCO, but in fact I thought you just said
24 a minute ago there were slight variances.

25 THE WITNESS: There are slight variances only

1 because perhaps some of them would choose to not pass the
2 particular ordinance we felt we could justify.

3 CHARIMAN RIGLER: If they came close, you would
4 decide whether or not to appeal it or live with it for a
5 little while while you continued to negotiate?

6 THE WITNESS: That is true.

7 MR. SMITH: In each instance it is a temporary
8 variance or you persuaded the community to accept your
9 recommended rate or you have been successful in imposing the
10 uniform rate upon classes?

11 MR. STEVEN BERGER: I take exception to the use
12 of the word "imposing."

13 MR. SMITH: Having imposed.
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1 THE WITNESS: We try for uniformity within
2 the classes, because we feel that each of the communities
3 that fall within that particular level ought to have the
4 same rate.

5 We try very hard to convince them that the
6 rate should be the same.

7 MR. SMITH: Ultimately you either
8 succeed in convincing them or you prevail in getting a
9 uniform rate established?

10 THE WITNESS: As a matter of fact, in our last ---
11 not our last, our next to the last round of negotiations
12 with the group of communities from 1,000 to 20,000
13 population, there were six communities that refused to pass the
14 ordinance. We didn't appeal any of those. We let them stay
15 on that rate until the next round of negotiations.

16 We always have that choice of whether or not we
17 can go through the Commission and get the rate changed,
18 or whether we can convince them that they should pass the
19 ordinance.

20 BY MR. STEVEN BERGER:

21 Q Which communities are ordinance communities
22 and which communities are nonordinance communities?

23 A When I refer to ordinance community, I am
24 referring to those which establish ordinances, establishing
25 the rates.

lw2 1 Q Does every community have a right to do so?

2 A Every incorporated community does.

3 Q We are talking about what takes place when the
4 company determines there is a need for increased revenues
5 and, therefore, steps should be taken to increase their
6 rates. And these are times, of course, of increasing
7 rates. What would happen, though, if the company determined
8 there should be a decrease in rates?

9 A Well -- Are you talking about the Public
10 Utility Commission fixed rates?

11 Q Yes.

12 A The present statute indicates that if the
13 company chooses to reduce rates, those rates may be filed
14 with the Commission, and they go into effect at whatever
15 time the company indicates they should go into effect.

16 Q Since 1965, have there been decreases?

17 A Yes, we have had some decreases in rates.
18 We have had decreases in the latter part of the 60s,
19 around '65, '67, '69. Thereabouts.

20 I believe if I remember correctly, we have
21 had three general decreases in rates during that pair
22 period of time.

23 Q Let's see if we can focus in on industrial
24 rates, Mr. Wilson. How, if at all, are the increases
25 that are sought by the company for rates to their

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1 industrial customers treated the same or differently
2 from what you just described with regard to the ordinance
3 and nonordinance cases?

4 A The communities have the right to regulate
5 industrial rates the same as residential and commercial
6 rates.

7 However, they have chosen not to do so. And so
8 industrial rates have traditionally at the company been
9 fixed by the Public Utilities Commission.

10 Q Since 1965, Mr. Wilson, what increases has
11 Ohio Edison sought in its retail rates?

12 A We have had two general levels of increases
13 from 1965 to date. We actually have additional cases
14 filed. But the rates have been increased twice since
15 1965, to the best of my recollection.

16 Q And the case you just most recently filed,
17 even if the new law is passed, will be governed by the
18 old statute, present statute, excuse me?

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A We have a case filed which includes residential, commercial, non-ordinance and industrial rates, which was filed prior to January 1, 1976, so the old statute will be used in determining the level of those rates.

We have a case filed for the A level communities, which is the lowest level I have talked about and with which we are presently negotiating as to rates.

It will be determined, if in fact the Commission does determine, fix the rates, it will be determined under the old statute.

However, we do have another case filed that was filed in March of this year with reference to another group of communities that will be fixed under the new law.

MR. STEVEN BERGER: I would like to have marked for identification as Applicants Exhibit 163, 164 and 165, opinions and orders of the Public Utilities Commission of Ohio.

163 would be Docket Number 71-233-Y.

Applicants 164 would be Case Number 36898.

Applicants 165 would be Consolidated Case Numbers 73-509-Y, 73-510-Y and 73-847-Y.

(The documents referred to were marked Applicants Exhibits (OE) 163, 164 and 165 respectively for identification.)

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1 BY MR. STEVEN BERGER:

2 Q Mr. Wilson, do these represent the orders and
3 opinion of the public utility commission since 1965 involving
4 increases in retail rates by Ohio Edison Company?

5 A Yes, sir.

6 Q Could you describe starting with Applicant's
7 Exhibit 163 which is Case Number 71-233-Y?

8 A Yes, sir, Case Number 71-233-Y was a case filed
9 with reference to fixing the residential and commercial
10 rates in our non-ordinance area.

11 As I recall the test period in the case was
12 twelve months ending June 30 of 1970.

13 It would have been filed probably in early
14 or perhaps mid-year 1971.

15 This decision was rendered and the rates became
16 effective in I believe it was May of 1973.

17 Q Hearings were held/

18 A Yes, sir.

19 Q Was the increase sought by the company granted in
20 all respects?

21 A Yes, sir. In this particular case we were able
22 to justify the level of the proposed rates that we filed.

23 Q Turning now to Case No. 36898, could you tell us
24 what rates were involved here?

25 A These were industrial rates.

1 Q And was the increase sought by the company
2 granted by the Commission?

3 A No, it was not.

4 We had, as I recall, in this case for an
5 increase of about 9 percent, and the increase was cut in
6 half. We really only got 4.5 percent.

7 Q Lastly, which is Applicants 165, Consolidated
8 Case Nos. 73-509-Y, 73-510-Y and 73-847-Y, would you tell
9 us about that order and what it reflects in terms of
10 changes in OE rates?

11 A Yes, sir. Case Number 73-509-Y involved our
12 industrial customers. It would be the same customers
13 involved in the prior case that I mentioned.

14 Q Was the increase you sought there granted in
15 all respects?

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S11 1 A As a matter of fact, because of the procedure
bwl 2 used by the Commission in fixing the rate of return, all
3 of these cases were heard at once, and they fixed a rate of
4 return which required us to reduce the level of
5 the proposed industrial rates.

6 With reference to 73-510-Y that particular case
7 involved the residential and commercial customers in the
8 nonordinance area and, because of this levelizing of the
9 rate of return, again, we actually received more revenue
10 than we asked for in that particular case.

11 There was a slight increase in the proposed
12 rates. Case Number 73-847-Y involved communities in the
13 population level from 1,000 to 20,000 which chose not
14 to fix the rates by ordinance.

15 So we simply filed a case with the Commission
16 and the Commission treated the case the same as any other
17 case.

18 This was the order that was issued in that case.
19 The rates to those communities were reduced, because of
20 this levelizing of the rate of return in the three
21 cases.

22 I should point out that subsequent to the filing
23 of these cases, it became necessary for the company to
24 file for an emergency increase.

25 As I mentioned earlier we don't have a suspension
statute in Ohio at the present time.

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2 So that our revenues were such that we had
3 a problem with selling first mortgage bonds to finance
4 our construction program. We had to ask for an emergency
5 increase in the rates that were included in these three
6 cases.

7 We had that hearing in about October of 1974,
8 as I recall it.

9 And the Commission agreed with us that there was
10 an emergency and they permitted us to put in effect
11 approximately 61 percent of the amount of additional
12 revenue that we were asking for in these three cases and
13 those emergency and temporary rates became effective in
14 February of 1975.

15 Then these three cases were finally decided in
16 November of 1975 and the rates that were included in
17 these cases became effective in January of 1976, this
18 year.

19 By the way, I just recall that in talking
20 about the new law, that is apparently going to become
21 effective in Ohio with reference to rate base determination,
22 there is a suspension statute in that new law,
23 and we will be able or any company requesting new rates
24 will be able to put those rates into effect nine months
25 after the filing date, if there has been no action or
decision by the Commission within that period of time.

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Q How does that compare, again, with the
2 suspension statute in the FPC?

3 A In FPC, the suspension period is fixed for
4 the Commission. I believe the maximum period is five
5 months. But, as I understand it, there have been rates
6 put in within a day or so after the proposed
7 effective date through the Federal Power Commission.

8 In Ohio we will have to wait nine months.

9 CHAIRMAN RIGLER: May I ask a question on
10 Exhibit 163?

11 It is case number 71-233-Y.

12 If you turn to page 2 under revenues and
13 expenses, and find the net income available from fixed
14 charges, we start with the operating revenues and make
15 certain deductions which include operation and maintenance.

16 How does the PUCO take into account the management
17 efficiency of the company? Is there a way for them to
18 evaluate whether the company is being horribly managed
19 or the company is not being an aggressive competitor and
20 is not picking up all of the chances to pick up income that it
21 could?

22 THE WITNESS: Under the old or present statute,
23 I don't believe there is any specific language that relates to
24 company efficiency. There are provisions in the new
25 law which relate directly to company efficiency.

1 The Commission is authorized to examine the
2 company from an efficiency standpoint in the new law.

3 Under the old law there is no reason I know of
4 why the Commission could not have made the same determination.
5 It is their prerogative to fix rates.

6 I would certainly feel that within this
7 jurisdiction, they would have had the right to examine
8 the company from an efficiency standpoint even under the
9 old law.

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12 1 CHAIRMAN RIGLER: You don't recall their having
2 done so?

3 THE WITNESS: I don't recall any specific comments
4 in any of our staff reports regarding company efficiency.
5 I would expect, maybe that any examination that was done in
6 that light would probably have related more to the character
7 of the service we were providing.

8 If we were providing poor service, for instance,
9 and we were to go in for a rate increase, I would think that
10 that would definitely be taken into consideration.

11 However, I don't really, in recalling the cases
12 that we have had decided, I don't have any recollection that
13 the Commission specifically mentioned efficiency.

14 CHAIRMAN RIGLER: How about lack of use of
15 competitive opportunities? In other words, suppose the company
16 had a chance to make more income on its present plant by
17 competing for additional customers or offering new services,
18 something of that nature, and it bypassed or neglected those
19 opportunities?

20 THE WITNESS: I don't recall in times past that
21 the Commission has ever commented on that aspect of the
22 company's business.

23 However, I think it is certainly generally known
24 that up until the last two or three years the companies
25 were trying as best they could to make use, make maximum

1 use of the facilities that we have installed.

2 However, as I think everyone knows, in the
3 last few years the tide has turned and we are looking
4 more toward conservation of energy now than we were,
5 trying to sell energy before --

6 MR. SMITH: To what extent has the Commission
7 looked to the performance of other utilities in determining
8 whether your proposed rate is reasonable?

9 THE WITNESS: Well, it is very difficult to
10 compare rates of utilities and so far as I know there is no
11 direct comparison made by the Commission when they are
12 fixing rates for a particular utility.

13 Rates should be based upon cost of service.
14 So that they look to your cost of service.

15 However, I have no doubt that in examining all
16 of the other utilities they certainly have in mind the
17 general level of rates in the State of Ohio.

18 MR. STEVEN BERGER: Just so that it is clear,
19 you started this discussion with Mr. Wilson by inquiring
20 into management efficiency, I think was the phrase that
21 you used, and Mr. Wilson accepted that and I have no problem
22 with Mr. Wilson accepting that, but I would like to have it
23 clear as to what you meant when you said management efficiency
24 and that Mr. Wilson understood what you meant by management
25 efficiency.

1 CHAIRMAN RIGLER: I was talking generally in
2 terms of inept management operating the company at a higher
3 operation and maintenance level than would be reasonable.

4 MR. STEVEN BERGER: Are you speaking in terms of
5 incurring expenses that the Commission might determine --

6 CHAIRMAN RIGLER: That's right. Having two
7 computers instead of one, for example, because they bought
8 an extra computer they didn't need. Having too many people
9 on the payroll who are sitting around idle and that sort
10 of thing.

11 BY MR. STEVEN BERGER:

12 Q The Commission evaluates the kind of
13 expenses the company incurs and the reasonableness of those
14 expenses; is that correct?

15 A That's correct.

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1 CHAIRMAN RIGLER: Mr. Smith pointed up to me
2 that in Applicants Exhibit 165, if we turn to page 5, at
3 the bottom of the first paragraph, I stated that the Commission
4 cannot, consistent with 4909.05, Revised Code, arbitrarily
5 reduce Applicant's rate base merely because Applicant's
6 property is not as useful as it might be.

7 Does that indicate that the Commission is not
8 empowered to look into management efficiencies?

9 THE WITNESS: No, I don't think it does.
10 That particular statement refers to some of our larger
11 units which were not operating as successfully or as often
12 as we would like them to, and the Commission felt that they
13 ought to.

14 They felt in that particular test year there
15 should have been some adjustment in our expenses, because
16 of the relatively poor operation of those units.

17 CHAIRMAN RIGLER: It seems to me they have
18 overriding intervenors' objections that that should have
19 been a factor. They said they did not have the authority
20 to look into that.

21 THE WITNESS: In this particular case they
22 were talking about rate base, which is the value of the
23 units. They have the right to adjust expenses and they
24 did adjust expenses. As far as the value of the property,
25 what he is saying here is simply if we own the property,

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1 and it is there for a purpose, they value it for
2 whatever purpose it is intended.

3 CHAIRMAN RIGLER: Even though it is sitting
4 idle or not being utilized -- even though you are burning
5 oil, let's say, instead of coal or operating your nuclear
6 plant?

7 THE WITNESS: Yes. The property is valued at its
8 going value, regardless of how it is being used.

9 However, in this particular case, whenever the unit
10 was not operating, we had to purchase power, for instance,
11 that would replace the power that could have been generated
12 by that unit.

13 They felt that there should have been some
14 adjustment in those expenses to raise the level of the use
15 of the unit to what other units of similar size had experienced
16 in the City.

17 We did make an adjustment to do that.

18 But there was no adjustment in the value of
19 the property, which is the rate base aspect of the property.

20 Our intervenors in that case indicated there
21 should be adjustment in this value, but the Commission
22 felt they could not do so in this case.

23 MR. REYNOLDS: It might help you to put that
24 sentence in context, if you read page 4 under the heading
25 rate base, specifically with reference to the second paragraph

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2 from the bottom of the page. The second paragraph up from
3 the bottom of the page.

4 If you read that, carrying over to page 5, then
5 maybe in the context, it would be a little easier to under-
6 stand what Mr. Wilson is saying.

7 MR. SMITH: I read that, and I read it that
8 the land or the facilities claimed in the rate base
9 have to be used, but they cannot second-guess the
10 efficiency of the use of it.

11 MR. STEVEN BERGER: Except as to expenses.

12 MR. SMITH: Except as to expenses. Okay.

13 That is his answer, I think.

14 BY MR. STEVEN BERGER:

15 Q Mr. Wilson, the presently pending case at
16 the PUCO asking for increase in the company's retail rates,
17 includes what in the way of a request for increase in
18 industrial rates?

19 When I say, "what," I mean what is the order of
20 the magnitude sought in industrial rates?

21 A The present increase in industrial rates that
22 is presently pending is about 30 percent.

23 MR. STEVEN BERGER: I would like to move the
24 admission of Applicants 163, 164 and 165.

25 MR. HJELMELT: I object to Applicant 165, in that
it is not -- I don't believe it can be fully understood

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1 without the Secretary's Report of Investigation which
2 a frequent places in the opinion, references are made
3 to discussions, matters contained in the Secretary's
4 report and they are not summarized or set forth in the
5 opinion itself.

6 For example, on page 10 they talk about in
7 the first paragraph staff's allocation allocation
8 calculation as being discussed in the Secretary's report.
9 We don't know what those are.

10 I find the same thing, I believe, in the second
11 full paragraph on that page.

12 We have referenced not to the Secretary's
13 Report, but references to other methodologies which are
14 not set forth here, so we don't really know what the
15 Commission is considering.

16 That refers to Secretary's Report, page 60,
17 Secretary's Report, page 42.

18 -----
19 -CHAIRMAN RIGLER: Are we being asked to accept
20 the exhibit for the truth of the matter contained therein?

21 MR. STEVEN BERGER: Yes. It is also a report of
22 the opinion that the Board can take judicial notice of.

23 I'm not of a mind to keep from the Board
24 anything that they are desirous of having for further
25 understanding in this area.

If the Board determines it is necessary to

bw5 1 to produce the Secretary's Report.

2 BY MR. STEVEN BERGER:

3 Q Mr. Wilson, how long is the Secretary's
4 Report?

5 A One of the Secretary's Reports is quite
6 thick, because it also includes ordinance appeals that
7 were pending at the same time these cases were
8 decided.

9 However, they will not be used as part of the
10 decision in those ordinance appeals.

11 It is about, I would guess, almost a half inch
12 thick.

13 The other two reports are probably 75, 80
14 pages long.

15 CHAIRMAN RIGLER: Do you have those reports
16 available?

17 THE WITNESS: They are available at my office.
18 I don't have them with me.

19 CHAIRMAN RIGLER: Make copies available to
20 Mr. Hjelmfalt.

21 In the interval, however, I will overrule
22 the objection.

23 We will receive into evidence Applicants
24 Exhibits 163, 164, 165.

25 And let's take a ten minute break.

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(Recess.)

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(The documents previously
marked Applicants Exhibits
(OE) 163, 164 and 165
for identification, were
received in evidence.)

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14 1 BY MR. STEVEN BERGER:

2 Q Mr. Wilson, if the company determines to seek
3 an increase in its wholesale rates, could you outline for
4 us in a similar fashion as you did with regard to retail
5 rates the steps that the company takes in order to bring
6 such an increase into effect at the wholesale level?

7 A Yes, sir.

8 When we decide that we need an increase in
9 municipal rates, municipal wholesale rates, we again look
10 to the regulations of FPC to determine the periods that will
11 be involved in the test period.

12 As a matter of fact, there are two
13 periods involved in Federal Power Commission cases, a
14 period one, which relates to actual data and a period two
15 which relates to a future test period.

16 The second period is the period used in testing
17 the rates.

18 So, having determined what we will use for
19 period one, the actual data period, and period two, the future
20 test period, and I might add that that future period can begin
21 no later than the proposed effective date of the rates, as I
22 recall the regulations -- having determined these
23 periods, we set about putting together the various exhibits
24 that are called for in the FPC regulations with reference to
25 filing a case.

1 There is a cost of service study required, both
2 as to the class of business under study and also the cost of
3 service -- a comparison with the cost of service for the rest
4 of the company or the total company.

5 There are many and varied exhibits that are
6 prepared, a balance sheet, taxes, depreciation, plant
7 investment.

8 As I mentioned, the cost allocation, a determina-
9 tion of the fuel adjustment base.

10 These matters take many months -- or, not many
11 months -- I would guess it probably takes us six months to
12 put together an FPC case.

13 Having put together the various exhibits that are
14 referred to in the regulations, we then file the case.

15 Q Is there a requirement for a hearing at the
16 Federal Power Commission when an increase is sought by the
17 company?

18 A Well, I think there would be a hearing. I
19 think there is a requirement for a hearing if the case were
20 to proceed entirely through the Federal Power Commission.

21 However, as with our last municipal case, there
22 are times when the parties enter into negotiations and if
23 they can agree upon settlement rates which are finally
24 approved by the Commission, then there would be no hearing.

25 Testimony would be submitted. In FPC cases all

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1 of the testimony is submitted in advance so that the
2 company's direct case would be put in regardless.

3 Q That is part of what you prepare in-house before
4 you actually make your filing with the Federal Power
5 Commission?

6 A Yes.

7 Q Since 1965, what changes have there been either
8 in increases or decreases in your wholesale rates?

9 A As I recall, we had a decrease in municipal whole-
10 sale rates in 1965. I believe it became effective in about
11 October of '65. That was a negotiated increase or decrease.

12 As a matter of fact, I believe it was just
13 prior to that that the Federal Power Commission took
14 jurisdiction over municipal resale rates. Then we had an
15 increase in municipal rates in 1972. It became effective
16 in September of '72.

17 Then we have a case currently pending that the
18 rates become effective in September of '75. They are now
19 being collected subject to refund upon final
20 conclusion of that case.

15 21 Q By the way, Mr. Wilson, in connection with the
22 most recent filing that you made with the Federal Power
23 Commission for an increase in your wholesale rates, did you
24 include in that filing a rate for the providing of service
25 at 138 kv?

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A Yes, we did. When we file those rates, as I mentioned earlier, the test period for testing the level of the rates filed with the Federal Power Commission is an advanced test period. So that we had selected a period that ran from July of 1975 through June of 1976.

At the time we were developing this data we felt that the City of Niles would be taking service at 138 kv during that period. And, in fact, we have included them in the case as 138 kv for the first six months of 1976.

So we did file -- we needed to file as a part of those rates an adjustment, a rider, whatever you want to call it, with reference to 138 kv service.

As a matter of fact, what it is is a discount from the rate.

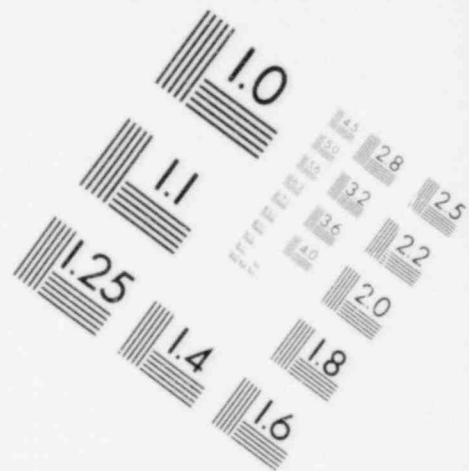
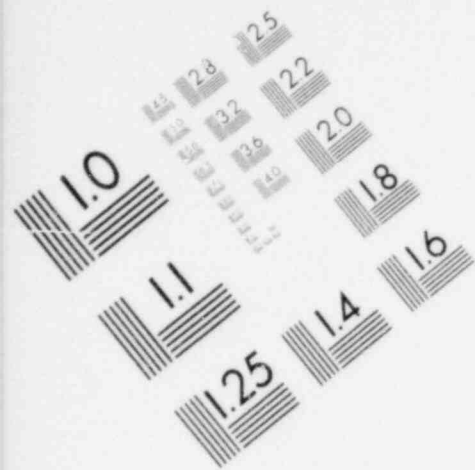
Q What is the magnitude of that discount?

A Five percent.

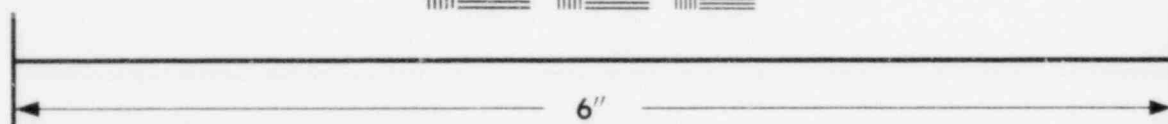
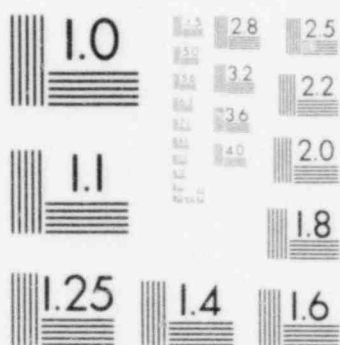
Q What is there now in the way of municipal customers presently receiving service at 138 kv?

A There are no customers presently receiving service. I believe we have signed or are in the process of signing a letter of intent with Niles to take service at 138 kv.

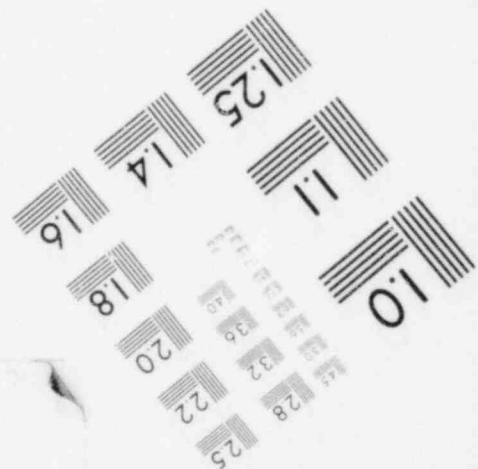
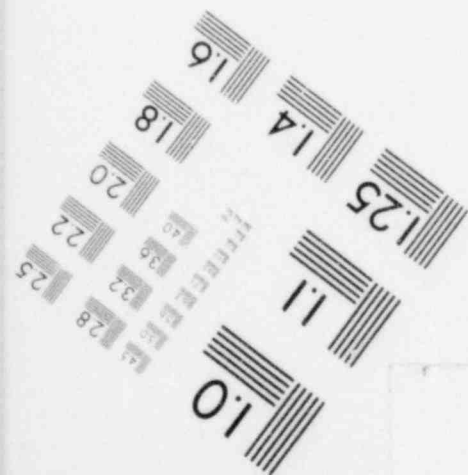
CHAIRMAN RIGLER: When you say a 5 percent

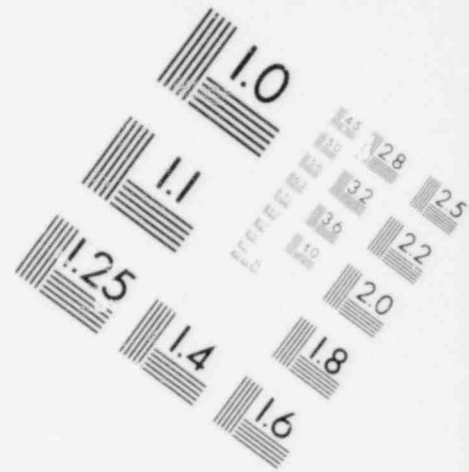
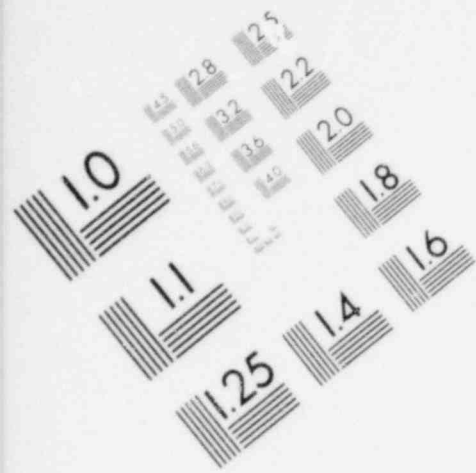


**IMAGE EVALUATION
TEST TARGET (MT-3)**

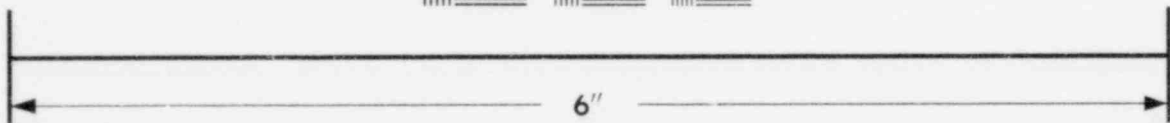
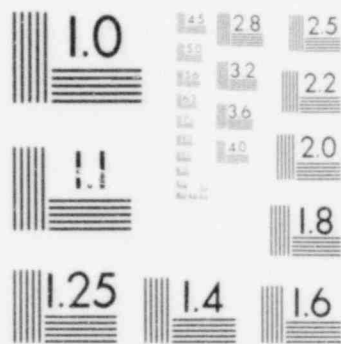


MICROCOPY RESOLUTION TEST CHART

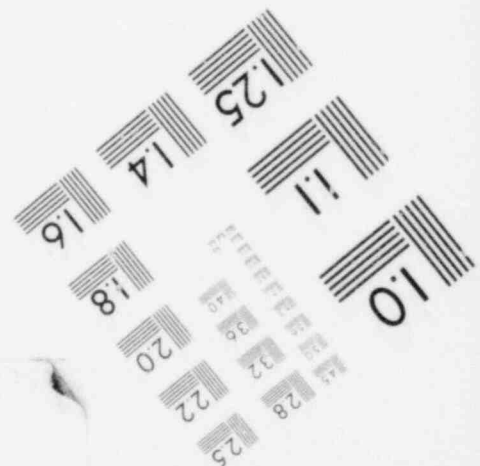
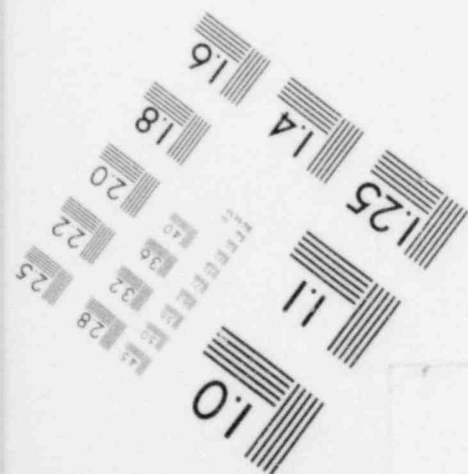




**IMAGE EVALUATION
TEST TARGET (MT-3)**



MICROCOPY RESOLUTION TEST CHART



jons5

1 discount, a 5 percent discount from what?

2 THE WITNESS: From the amount calculated under
3 the rate. We would calculate the amount under the rate
4 excluding the fuel adjustment and give them a 5 percent
5 discount from that amount for taking service at 130 kv.

6 BY MR. STEVEN BERGER:

7 Q Are the rates that are charged to wholesale
8 customers identical in the sense that the charges reflected
9 in the rate schedules are the same for all municipalities?

10 A Depending upon the service level. We have two
11 municipal resale rates. One at the primary level and another
12 at the transmission level.

13 Q Is there a demand charge and an energy
14 charge associated with the charging of rates?

15 A Yes, sir.

16 Q Both at the retail and wholesale level?

17 A Yes, sir.

18 Well, with respect to retail rates, in our
19 particular case we do have a demand relationship even in our
20 residential rates.

21 However, in many cases the demand component of
22 cost is prorated over the energy blocks so that if a person
23 goes through the energy blocks he is not only paying his
24 energy and customer charges, he is also paying his demand
25 related charges. Not as a separate coverage.

1 However, in many of our rates we do have a
2 separate charge for demand and a separate charge for energy.

3 Q When the company is in the process of
4 developing the in-house material necessary in order to
5 bring about an increase in the rates at either the retail
6 level or the wholesale level, does the company in any way
7 compare or look to the -- if we are talking about retail, the
8 level of the wholesale rate in determining the appropriate
9 level of the retail rate?

10 A No, sir.

11 Q If you are at that point where you are
12 determining what material should be prepared and you are in
13 the process of preparing a case for filing with the Federal
14 Power Commission, does the company in any way look to the
15 level of retail rates, more particularly industrial, in
16 determining the appropriate level of the wholesale rate?

17 A No, sir. Our rates, insofar as we can make them,
18 are based on cost of service.

19 Obviously there would be no point in making
20 such a comparison.

21 Q Mr. Wilson, if either the Federal Power Commission
22 or Public Utilities Commission of Ohio had the regulatory
23 responsibility over both wholesale rates and industrial rates
24 would you expect the wholesale rate to be higher or lower
25 than the industrial rate?

jon7

1 A I would expect it to be higher for the same level
2 of service.

3 Q Why is that?

4 A Because using a peak responsibility cost of
5 service allocation, the wholesale customers had a higher
6 peak responsibility than our industrial customers.

7 There is about a 99 percent contribution to the
8 company's system peak by municipal customers.

9 Q And by industrial customers?

10 A About 75 percent.

11 Q Could you explain that for us, please, in terms
12 of --

13 A I am talking about the relationship of the non-
14 coincident demand and by noncoincident I mean the
15 customers' maximum demand which is used in billing for the
16 month -- the relationship of the sum of those noncoincident
17 demands to the contribution to the system peak.

18 I am saying that for the municipal customers
19 there would be approximately a 99 percent contribution
20 to the company's system peak.

21 The municipals tend to follow almost exactly
22 our load pattern so that they contribute almost directly
23 to the company's peak.

24 Whereas the industrials, if we were to sum the
25 noncoincident demand of the industrials, the relationship

1 Between those demands which would be used in billing to
2 the demand contribution of those customers at the system
3 peak would only be about 75 percent.

4 That means when you are allocating demand-
5 related costs which may represent -- it used to represent
6 about 60 percent of your total cost to serve a class, but
7 because of the fact that coal has been going up so much,
8 the energy component has taken on a more significant part
9 of the cost of service, so that I would expect that the
10 demand component of cost now would represent approximately
11 50 percent of the total cost to serve a customer.

12 So that what I am saying is because of this
13 demand relationship, necessarily, the municipal rate would
14 be higher.

15 MR. SMITH: Mr. Wilson, to the extent that a
16 wholesale customer were to resell to an industrial customer,
17 won't that wholesale customer's use of power approach or
18 be the same as the industrial use?

19 THE WITNESS: Well, the impact of any industrial
20 customer that a municipal may serve would depend upon the
21 impacting of that customer's load upon the municipal's load
22 as billed to it by the utility.

23 Now, there may be varying degrees of
24 contribution to that peak load that they are built on by
25 the industrial customer depending upon his operation. But
it would impact upon that bill.

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by 1

2 However, it would impact at a point in the bill
3 that where the charges would probably be less than it would
4 be necessary for the municipal to charge the industrial
5 customer.

6 It depends upon what rate they might
7 choose to charge the industrial customer.

8 MR. SMITH: I mean as far as use of energy.
9 The extent that a municipal resells to an industrial
10 account, doesn't that use fall into the same pattern that
11 direct purchasers of industrial power have?

12 THE WITNESS: It would have an effect on the
13 municipal's load, but it depends on the size of the
14 industrial customer as compared to the municipal load.

15 CHAIRMAN RIGLER: Assuming this were the
16 average customer, wouldn't it take it from the 99 percent
17 contribution to peak you mentioned for municipals, down
18 closer to the 75 percent for industrials?

19 THE WITNESS: It would tend in that direction.
20 Practically all of our municipals have a certain number of
21 industrial customers already.

22 So there are a good many industrial
23 customers reflected in the loads of the municipals already.
24 If there were not, their load pattern wouldn't be almost
25 exactly the same as ours.

You see, what I'm trying to say is they are

bw2

1 really small systems that are composed almost as our
2 system is composed. They have industrial customers, residential
3 customers and commercial customers. Their load pattern follows
4 very closely to our load pattern.

5 MR. SMITH: To the extent a rate schedule prevents
6 a municipal from serving industrial loads, then, those
7 industrial loads cannot be reflected in the
8 municipals' use?

9 THE WITNESS: I don't agree that there is
10 any restrictions in our municipal rate that would
11 prohibit a municipal from selling to an industrial customer.

12 MR. STEVEN BERGER: Mr. Smith, I think you have
13 an exhibit in front of you that we will be going into
14 in terms of the ability of a municipal customer to compete
15 with Ohio Edison at existing rate levels.

16 CHAIRMAN RIGLER: Which class of your
17 customers operates at greater than 100 percent of your
18 peak load on this coincident basis?

19 THE WITNESS: The maximum contribution they
20 could have would be 100 percent, if they were directly
21 on peak.

22 CHAIRMAN RIGLER: There is something I'm not
23 understanding, because you told us the municipals
24 operate at 99 percent. You have industrials operating at
25 75 percent. Something has to bring it back up, so you

bw31 get 100 percent.

2 THE WITNESS: What I'm talking about is -- what
3 I'm saying is that the industrial maximum demands
4 that are used in billing, if we take that industrial --
5 those industrial customers and determine what their contribu-
6 tion is to the system peak at the time of the system peak,
7 what I'm saying is the impact isn't 100 percent of
8 that measured load. It is only 75 percent of it.

9 CHAIRMAN RIGLER: Can you sketch that out on the
10 blackboard behind you? Do we have no chalk, our usual
11 problem?

12 THE WITNESS: I could, if we had some chalk.

13 CHAIRMAN RIGLER: We will give you five minutes
14 to perhaps make a chart, so that we can all follow you.

15 We will run it off and pass it around as an
16 exhibit.

17 (Recess.)

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1 MR. STEVEN BERGER: We will mark this as
2 Applicants Exhibit Number 166 (OS).

3 (The document referred to was marked
4 Applicants Exhibit (OS) 166
5 for identification.)

6 BY MR. STEVEN BERGER:

7 Q Mr. Wilson, will you describe what is reflected
8 on Applicants 166?

9 A What I have tried to represent on this drawing
10 is the concept of contribution to the company's system peak
11 by the various classes of service and the corresponding
12 allocation of cost to that class because of that
13 contribution to the system peak.

14 In this particular chart I have indicated that
15 the company peak is about 7:00 p.m. in the evening. This is
16 an evening peaking period.

17 What I am saying is at that time, at the time of
18 that company peak, the contribution of all of our industrial
19 customers as represented by the industrial line is only
20 75 percent of the total combined peaks of all of the
21 industrial customers.

22 For the municipals, I indicated that since they
23 peak approximately at the same time as the company does,
24 that the relationship between their contribution to the
25 system peak and the sum of their maximum demands during the

1 billing period would be very much the same. It would be 99
2 percent of the sum of those individual demands contributing to
3 the company peak.

4 So the contribution of the municipal customers
5 as related to their billing demands or their maximum demands
6 during the month, 99 percent of those maximum demands would
7 be represented at the time of the system peak.

8 Whereas for our industrial customers, and on
9 this little chart I am indicating the sum of all of our
10 industrial customers by this one line -- if we were to
11 sum all of the individual demands of the industrial
12 customers, only 75 percent of that demand would appear at
13 the time of the company's system peak.

14 So that the allocation to these classes, if it
15 is based upon peak responsibility, which is what we use with
16 the Federal Power Commission, then the contribution to the
17 system peak would be greater for the municipal customer as
18 compared with an industrial customer.

19 CHAIRMAN RIGLER: With respect to the OE system,
20 I understand this is a rough handdrawn graph, but would the
21 industrial load be substantially greater at any period of the
22 day as compared to the municipal load as indicated on this
23 chart or graph?

24 THE WITNESS: Well, industrial customers tend to
25 peak during the day, around --

1 CHAIRMAN RIGLER: My question is on the OE system
2 is the industrial load line in fact substantially higher
3 than the municipal load line at any point on the graph?

4 THE WITNESS: Yes, it is. We have many more
5 industrial customers than we do municipal customers and in
6 fact the municipals so far as kilowatt hour sales are
7 concerned only represent about 5 percent of our total sales
8 whereas industrial represent about 40 percent.

9 I don't precisely know the -- I could tell you
10 if I had all my records here -- precisely the demand contribu-
11 tion.

12 But, yes, the industrials do contribute much
13 more to the system peak on a total basis.

14 Of course, that would be reflected in their
15 cost of service.

16 You see, our system, if I can explain a little
17 bit about how the peak responsibility method works, our system
18 the total dollars we have invested in our system would be
19 related to the company system peak.

20 So that the relationship of the municipal
21 contribution at the time of the system peak to the
22 Ohio Edison system peak times our investment, total company
23 investment, would then be the portion that would be allocated
24 to those municipals.

25 Similarly, the same thing with the industrials.

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Whatever the contribution of the industrial class to the system peak, that would be the allocation of those facilities to the industrial class.

bwl 1 However, whenever you take those dollars and
2 spread them to the customers on a rate basis, then
3 we are not talking about the time of the system peak.
4 We are then talking about their maximum billing demand
5 during the month.

6 So that we would then divide those investment
7 dollars related to demand by the sum of their maximum billing
8 demands during the month, in order to figure out how much
9 we should charge them per Kva of billing demand.

10 MR. STEVEN BERGER: Mr. Rigler, if there is one
11 thing I want, it is certainly for the Board to understand
12 his concept, because if the Board is not understanding this
13 concept, then the next exhibits which we will be putting in,
14 which we believe to be critical to the understanding of the
15 price squeeze allegation will not have the impact, of course,
16 the company believes is necessary and which we feel it
17 should have.

18 If the Board has any more questions of Mr. Wilson
19 with regard to this, in order to understand
20 really where we are going, certainly, I invite that.

21 I'm sure the Board understands from what
22 Mr. Wilson has said earlier that rates at the retail
23 level and rates at the wholesale level are established on
24 a basis of cost to serve. The cost to serve is established
25 on the basis of customers' demand upon the system at the

bw2 1 time of peak, however, peak is determined at the Federal
2 level and at the retail level.

3 Now, I started this line and started this
4 discussion with asking Mr. Wilson whether, in his view,
5 if the Federal Power Commission or the PUCO had the regulatory
6 responsibility over both wholesale and industrial, whether,
7 in his view, the rates charged to municipalities would
8 be higher or lower than industrial customers.

9 Your answer, Mr. Wilson, was?

10 THE WITNESS: Yes. The municipal rates
11 would be higher.

12 BY MR. STEVEN BERGER:

13 Q Once again, could you explain to us why it is
14 that the rates, in your view, would be higher?

15 A Because of the relationship of the sum of the
16 customers' billing demands during the month which is
17 their maximum demand during the month to their contributions
18 at the time of the system peak.

19 I'm saying that for municipal customers,
20 practically all of the sum of these demands would contribute
21 directly to the system peak. And they would correspondingly
22 receive an allocation to that extent.

23 Whereas, for industrial customers, the sum of these
24 individual demands would not contribute as directly to
25 the system peak.

bw3 1

Q So that there are more facilities being used at the time of the municipals' peak than there are facilities being used at the time of the industrial peak?

5

A As related to the maximum billing demands of these customers.

7

Q Did you, in fact, do a study of what the Federal Power Commission would establish as a rate for industrial customers, if they had jurisdiction over industrial customers?

10

11

A Yes, I did.

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Q By what magnitude?

24

A Approximately five percent in that case.

25

Q Mr. Wilson, if you were just to look at the

1 rates that are charged to wholesale customers -- that is,
2 just looking at the demand charge and the energy charge in the
3 wholesale rate and compared that to the demand charge and
4 the energy charge in your retail industrial rate, could
5 you determine from the face of those rates whether or not
6 it would be possible for a municipality to compete with
7 Ohio Edison on the basis of price for a given industrial
8 customer?

9 A I don't believe you can.

10 Q Even if the face of that rate reflects higher
11 demand and energy charges for the municipality than to an
12 industrial customer?

13 MR. HJELMELT: I object. I believe for
14 about the last three questions now we have gotten into the
15 field of expert testimony on rates and this wasn't
16 filed in advance in writing.

17 CHAIRMAN RIGLER: Overruled.

18 MR. STEVEN BERGER: Will you read the question?

19 (Whereupon, the reporter read
20 the pending question as requested.)

21 THE WITNESS: I think it is very difficult
22 to to, and, in fact, I would not do it looking at just the
23 face of two rates try to decide whether or not it would
24 be possible for the municipal to sell energy to an industrial
25 customer and still have a revenue margin in excess of

BY MR. STEVEN BERGER:

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Q What other factors would you have to look to?

A You would have to see how that particular customer impacted upon the municipals' load to see at what point in the rate schedule that the municipal is being billed on, the additional demand created by the industrial customer, where it would fall into the rate with reference to charges, demand charges and also where the energy charges would fall.

For instance, if the industrial customer had a better load factor than the municipal customer, which is quite possible, many of those kilowatt hours would be billed at the tail block of the municipal's rate.

tail

20 1 Q What do you mean by load factor in this case?

2 A That is the relationship of the customer's
3 maximum demand times the number of hours involved to the
4 actual number of kilowatt hours that the customer uses.

5 It has to do with the extent of use of the
6 customer's maximum demand.

7 If he had 100 percent load factor he would be
8 using his maximum demand 100 percent of the time. If he
9 has a 90 percent load factor, he would be using his maximum
10 demand 90 percent of the time.

11 It is the relationship of kilowatt hours divided
12 by maximum demand times time.

13 Q The higher the load factor, what is the effect
14 upon their rate?

15 A The higher the load factor, the lower the energy
16 charges would be because a predominance of the kilowatt hours
17 would be sold in the tail block of the rate.

18 It would decrease the average cost per kilowatt
19 hour for the customer.

20 Q Have you made studies at my request to determine
21 whether or not the municipalities served by Ohio Edison
22 could compete with Ohio Edison for industrial sales
23 based upon the rates that are presently filed
24 with the Federal Power Commission and with the PUCOH?

25 A Yes, I did. I made a -- the purpose of this study

jcn2

1 was to simply indicate -- first I did a hypothetical study
2 with reference to how much the revenue margin would be
3 for various degrees of contribution by the industrial
4 customers to the municipal customers' billing demand.

5 MR. STEVEN BERGER: Let me at this point mark
6 for identification as Applicants 167 (OE) a document
7 entitled Ohio Edison Company Effect on Cuyahoga Falls and
8 Galion's Wholesale Power Bills From Picking Up An Additional
9 Industrial Customer.

10 (The document referred to was marked
11 Applicants Exhibit (OE) 167
12 for identification.)

13 MR. SMITH: Do we have that one?

14 MR. STEVEN BERGER: Yes, sir, I think you do.

15 BY MR. STEVEN BERGER:

16 Q Mr. Wilson, can you describe for us the
17 columns that are reflected on Applicant's Exhibit 167?

18 A Yes. The purpose of this exhibit was simply
19 to show that there is varying degrees of revenue margin, that
20 is the additional revenue over the cost to the municipal
21 in its power bill by varying degrees of contribution to the
22 municipal's peak load.

23 So I first started out with Customer A, B, and
24 B served at 69 kv versus served at 23 kv.

25 The A customer that I assumed was a 5000 kva

jon3

1 customer with a load factor of 350 hours' use which is
2 simply, as I mentioned earlier, the extent or use of his
3 billing demand and that in effect determines what his
4 kilowatt hour consumption is.

5 His kilowatt consumption divided by his billing
6 demand equals 350 hours use.

7 In any particular month as an average calculation
8 we use a maximum number of hours of 730 in a month.

9 I am saying that he used his maximum demand
10 350 of those hours. So that he has a billing demand of
11 5000 and consumption of 1,750,000 kilowatt hours.

12 Q Is that a pretty typical industrial customer?

13 A Yes, I would say that would be a typical
14 industrial customer.

15 Of course, load factors vary with all of our
16 industrial customers, but I felt it would be typical. And
17 then I have shown the billing of that industrial customer on
18 Ohio Edison's proposed rate 3] which is our currently filed
19 rate as compared with -- and then over on the left-hand
20 side of the page I show the current municipal resale bill.

21 Looking across from the letter A, the bill under
22 Ohio Edison's proposed rate would be \$47,160.50.

23 Similarly, for Customer B --

24 Q That is a monthly bill?

25 A Customer B, I have assumed a billing demand of

1 3000 kva and again used a load factor of 350 hours per
2 and so that produced a kilowatt hour consumption of
3 1,060,000. That billed on Ohio Edison's rate is
4 \$29,275.50.

5 Then the last customer is the same
6 customer but served at a different service voltage. Billed
7 on the Ohio Edison rate the only difference between the
8 billing at the lower voltage would be the difference in
9 the discount for 65 kv. We give a 3.5 percent discount if
10 the customer takes service at 69 kv. This is our transmission
11 rate I am talking about.

12 Then the next figures I show are the City of
13 Cuyahoga Falls and I picked their April bill for no
14 particular reason other than that is the time of the year I
15 was doing this calculation. I believe it was their latest
16 bill at the time.

17 Cuyahoga Falls is served at 23 kv. Their
18 billing demand in April of 1976 was 36,669 kva. Their
19 kilowatt hour consumption was 16,464,000. The billing on
20 the municipal resale rate under which they are presently
21 being billed is \$3,797,321.89.

22 To determine what the impact would be on
23 the Cuyahoga Falls bill by them being able to serve
24 Customer A, I figured varying degrees of peak contribution.

25 At zero peak contribution I have assumed that

jon5

1 none of the 5000 kva would show up in the Cuyahoga
2 Falls demand.

3 It would be the same demand as it was before.
4 The only difference would be that the kilowatt hour need
5 would be increased by the kilowatt hours used by the
6 customer.

7 I figured the total bill under those
8 circumstances and it came out to be \$409,709.14.

9 This is an increase over the prior bill of
10 \$30,077.25.

11 Q Increase in the bill from Ohio Edison?

12 A That is the increase in the bill to Cuyahoga
13 Falls from Ohio Edison.

14 If Customer A were billed by Cuyahoga Falls
15 on Ohio Edison's proposed rate 31, they would have received
16 from that customer \$47,160.50.

17 This means that there would have been a
18 revenue margin. That is revenue in excess of the cost to
19 Cuyahoga Falls in their power bill of \$17,033.25.

20 Then I simply used other peak contributions to
21 see in similar fashion what would happen.

22 I used the next figure which was 25 percent peak
23 contribution. There the new Cuyahoga Falls bill would be
24 \$412,999.14, or an increase in their current bill of
25 \$33,177.25.

1 Of course, the billing to the customer on Ohio
2 Edison's proposed rate would be the same, so there the
3 revenue margin would be \$13,923.25.

4 I did the same thing for 50. I did the same
5 thing for 75. And the same thing for 100.

6 So that when we are figuring the 100 percent
7 contribution line, there would be a direct addition to the
8 Cuyahoga Falls April bill starting with a demand of 30,669,
9 adding the 5000, we get 41,669 would be the new billing
10 demand.

11 The kilowatt hour consumption would be added
12 indirectly.

13 Their new bill would be 42 00 I am sorry. It
14 would be \$422,193.14 which is an increase of \$42,477.25.

15 The bill under Ohio Edison's proposed rate
16 would be \$47,160.50.

17 For a revenue margin even at 100 percent
18 contribution of \$4,633.25.

19 Q How is that possible if they are contributing
20 to the municipality's peak on the basis of 100 percent
21 that they would still have a revenue margin?

22 That is still making it profitable for them to
23 take on that industrial customer if there was 100 percent
24 contribution to the municipal's peak.

25 A Primarily the reason is that the billing for

1 capacity in the municipal rate, the capacity charges are
2 blocked. So that they start so much for the first 200 kw.
3 So much for the next 200. So much for the next 100. And so
4 forth.

5 Since Cuyahoga Falls is already in the tail
6 block of those capacity charges, this addition would be at the
7 tail block. So that this probably contributes most to the
8 revenue margin.

9 Q All of what is reflected upon here in terms of
10 the industrial customers that you have hypothetically
11 plugged into the municipality's load are hypothetical?

12 A Yes, sir, that's right.

13 I will say this: in selecting these two
14 communities to add the customers to, Cuyahoga Falls and
15 Gallion, I perhaps on my own initiative felt that if we
16 were talking about customers that they might be
17 concerned about competing for, that we would probably be
18 talking about the larger type customer because I feel sure
19 that most of the municipals already have a goodly number of
20 smaller industrial customers.

21 I know for a fact in Cuyahoga Falls there are
22 many, many small machine shops that do take service from
23 Cuyahoga Falls. I would presume on some kind of industrial
24 rate.

25 So that I felt that probably we are talking about

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a customer of significant size.

Then, in selecting Guyana, Falls and Golden
receive these particular customers, you need a fairly
substantial system to pick up this type of customer.

I felt they probably were appropriate to serve
this large a customer.

MR. SMITH: Of course, the effect won't work
on a smaller customer, a municipal customer, the effect you
described in 167.

S.2 1 THE WITNESS: It would again depend on how it
lwl 2 would impact on the smaller customer. I would question
3 whether or not a customer who, say, his maximum
4 demand is 5,000, would be interested in serving a
5 customer of 5,000. He might be. I don't know. But I don't
6 think there is that likelihood.

7 All I was trying to do was pick something --
8 quite frankly, I know, for instance, that one of the
9 customers that we serve in Cuyahoga Falls is approximately
10 5,000 kVA.

11 So that that is the reason I picked this.
12 But there would be some impact, even at a smaller, on a
13 smaller wholesale customer, if the load was geared to the
14 industrial -- the industrial customer was geared to the
15 type of industrial customer they might be
16 interested in serving.

17 I am sure there may be unusual cases, but I'm
18 talking about the type of customer that may be interested
19 in locating in that area.

20 MR. STEVEN BERGER: Were you suggesting in that
21 question that on a small municipality there wouldn't be a
22 revenue margin, if a similar study would be done about the
23 taking on of an industrial customer by a smaller
24 municipality.

25 THE WITNESS: I didn't make a study on a smaller
customer, but I'm sure there would be a similar impact.

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1 In picking up this additional load, it would
2 be picked up at whatever point the municipal is now being met
3 in the demand charges.

4 Assuming they are down to a lower level of
5 demand charges, the additional demand would be in those
6 lower blocks.

7 MR. SMITH: Until you come to the point where
8 you have a price squeeze. As your municipality grows smaller,
9 the revenue margin grows smaller, if the size of the
10 industrial count remains constant.

11 Assuming your use patterns remain comparable.

12 THE WITNESS: The main purpose in using this
13 example is to show the varying degrees of impact, based
14 upon the percent contribution to the municipal peak.

15 Now, if the impact was only -- if the impact
16 was 100 percent, it would tend, I'm sure, toward what
17 you are saying, that there would be less of a revenue
18 margin. I'm not sure there wouldn't be a revenue margin,
19 but there would tend -- the effect would be less than perhaps
20 it is here.

21 But if there was only a 75 percent contribution
22 to the municipal peak, there would be an increasing
23 impact or an increasing revenue margin, as I have indicated
24 here.

25 MR. SMITH: Substitute for Cuyahoga Falls,

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1 substitute a municipal wholesale customer that would
2 have half the kVA, but the same relationships. Everything
3 else remains the same.

4 THE WITNESS: Substitute a smaller --

5 MR. SMITH: We can compare Galien. But on
6 Galien you have not added the same size.

7 THE WITNESS: I added 5,000 kVA there versus
8 5,000 in the first case. Again, I was simply trying to
9 gear -- no particular reason for selecting that
10 particular kVA, other than the fact there ought to be some
11 kind of relationship between the size of the community
12 and the size of the load. But you can see that the revenue
13 effect on Galien, there I added customer "D."

14 Again looking at the peak contribution of that
15 particular customer to the City of Galien's municipal
16 bill, we again have revenue margins, oh, well, in fact,
17 the base revenue margin is actually greater or
18 a hundred percent contribution than it was up under
19 Cuyahoga Falls. Again, there is an increasing
20 revenue margin depending on the percent contribution to
21 the municipal peak.

22 MR. REYNOLDS: Mr. Smith, were you suggesting
23 if you took customer "I" and applied that to the Galien
24 example that that would produce smaller revenue margins?
25 Is that what your question was?

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MR. SMITH: Yes.

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MR. REYNOLDS: I didn't know whether you got a response to that. That study wasn't run, but I guess it might be appropriate to ask Mr. Wilson what impact he would expect in that situation, if you were asking that.

THE WITNESS: If that was the question I would --

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MR. SMITH: I am assuming that arithmetically if we take a situation where the industrial account has the same billing as the municipal account, then obviously you are going to have a price squeeze.

You can't do it.

THE WITNESS: I am sorry. I don't understand.

MR. STEVEN BERGER: That was the question we put to Mr. Wilson before and that is what is reflected on the Exhibit 167 where it is shown both on the Falls and Galion there is 100 percent contribution to the municipality's peak and it is still reflective of a narrow margin of the study that was run.

Your question was you said obviously there will be a price squeeze if the industrial customer contributes 100 percent to the municipal peak.

MR. SMITH: That is not what I said.

I said everything remains the same. If the size of the industrial customer remains constant but the size of the municipal customer diminishes, then your revenue margins will also diminish down to the point where you don't have any and he tries to make the industrial account proportionate to the municipal account which may or may not be the reality of the load.

I don't know. That is what I am trying to establish.

1 THE WITNESS: Let me say this, Mr. Wilson: If the
2 industrial load -- I think it would be highly unusual, but
3 assuming arguendo that the industrial load was the same size
4 as the current municipal load, the industrial load they are
5 trying to pick up is exactly the same size as the current
6 municipal load, I would expect first off that the industrial
7 would not contribute 100 percent of their demand to the
8 municipal's demand.

9 Just because of my own experience with
10 Ohio Edison Company I would expect that there would only
11 probably be no more than a 75 percent contribution.

12 So there would be this 25 percent differential
13 to start with.

14 And I would say that there probably would still
15 be a revenue margin.

16 I didn't figure that particular case.

17 BY MR. STEVEN BERGER:

18 Q Mr. Wilson, did I also ask that you prepare a
19 study on an actual situation, that is the City of Wadsworth
20 picking up an industrial customer presently served by Ohio
21 Edison, namely the Ohio Brass Company?

22 A Yes.

23 MR. STEVEN BERGER: I would like to have marked
24 for identification as Applicants Exhibit 168 (C3) a document
25 entitled Ohio Edison Company, City of Wadsworth, Efforts on

Jan 3

1 Wadsworth Revenue and Wholesale Power Bill From Wadsworth to
2 Ohio Brass.

3 (The document referred to was marked
4 Applicants Exhibit (OB) 168
5 for identification.)

6 BY MR. STEVEN BEECHER:

7 Q Mr. Wilson, would you explain the columns
8 reflected on Applicants Exhibit 168, please?

9 A Yes, sir.

10 With this exhibit we wanted to investigate two
11 different sets of circumstances. First with respect to the
12 company's industrial rates in 1973 versus the corresponding
13 time-wise municipal rates.

14 Also for our 1975 rates on a proposed basis for
15 both the municipals and our industrial customers.

16 You had suggested that I use the City of
17 Wadsworth and ask what would happen to their bills if they
18 were able to serve Ohio Brass.

19 So what we did was we took the City of Wadsworth
20 billing from October of 1975 through April of 1976 and
21 again my only reason for using those months is that the
22 municipal rates became effective in -- actually they became
23 effective in September of '75.

24 However, the first full month of billing was in
25 October.

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1 We took the City of Wadsworth and billed them
2 on our 1973 municipal rates and then calculated during the
3 same months what the -- from the actual billing to Ohio
4 Brass, what the contribution would have been to Wadsworth's
5 maximum demand.

6 Going down to the -- starting at the top of the
7 page, let's take City of Wadsworth, month of October, 1973,
8 billing on our municipal rates that became effective
9 9/1/72, the bill would have been \$75,992.79.

10 Going down to the next set of figures
11 marked Ohio Brass and taking the month of October, 1973,
12 we see that Ohio Brasses billing demand was 217 kva and
13 their kilowatt hour use was 74,000.

14 Looking at the time of the City of Wadsworth
15 maximum load, we found that the contribution of Ohio Brass
16 to that maximum load would have been 128 kva or a contribution
17 of 59 percent of their maximum billing demand.

18 We know there, the billing for October of our
19 own company to Ohio Brass was, based upon our 1973 rates,
20 \$1,203.22.

21 Going down to the next set of figures, we add
22 to the City of Wadsworth October bill the contribution of
23 Ohio Brass peak-wise.

24 So that the new demand became 14,159, increasing
25 from 14,031.

1 The kilowatt hours were likewise increased by
2 the additional kilowatt hours used by Ohio Brass and the
3 bill, under those circumstances, for Wadsworth would have been
4 \$76,771.80.

5 This is an addition to Wadsworth's municipal
6 bill and it is the last set of figures on the page, for the
7 month of October. That additional cost would have been
8 \$779.

9 MR. SMITH: Where is that?

10 THE WITNESS: Sixth column over.

11 By adding the Ohio Brass load to the City of
12 Wadsworth, it would have increased the Wadsworth bill by
13 \$779, approximately.

14 However, had Wadsworth been billing their customers
15 on our industrial rate, they would have been receiving
16 \$1,203.22.

17 And I have done this all the way down the page
18 for November, December, January, February, March, April, going
19 back and looking -- we have recording meters on all of these
20 customers, so we know exactly what their demand would be at
21 the time of the Wadsworth peak.

22 Doing this all the way down the page you can see
23 by comparing the middle set of figures on Ohio Brass's
24 bills as compared with the additional costs to Wadsworth
25 that there would be approximately a \$400 revenue surplus credit

1 month.

2 One point to keep in mind is that that is not
3 the total cost Wadsworth would have to serve that customer.

4 Obviously they would have distribution costs
5 involved. However, in our own experience, looking at our
6 Federal Power Commission allocation of costs, those
7 distribution costs would probably represent only 5 percent
8 or so of the total costs to serve the customer.

9 Most of the costs are absorbed in the generation
10 and the power pool transmission costs which would be
11 represented by his power bill.

12 So that we did that all the way down the page
13 and we found a \$400 revenue margin which would be, let's
14 say, about a 30 percent revenue margin over the amount that
15 their increased power bill would be.

16 We likewise made the same study on the 1973
17 proposed rates and there we start out -- let's take the month
18 of October again.

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1 CHAIRMAN RIGLER: I don't think it is necessary.

2 THE WITNESS: It again shows a revenue margin of
3 approximately \$900 per month that would be available to
4 the City of Wadsworth to pay its distribution cost of
5 serving the customer and provide them a return on their
6 investment, if they, in fact, desire to have a return.

7 MR. STEVEN BERGER: I would like to move in
8 Applicants 166, 167 and 169 into evidence.

9 MR. CHAMMO: Department has no objection, but
10 we have requested legible copies of 167 and 168.

11 CHAIRMAN RIGLER: Hearing no objection we will
12 admit exhibits of Applicants 166, 167 and 168.

13 (The documents heretofore named
14 Applicants Exhibits (CS) 166,
15 167 and 168 for identification,
16 were received in evidence.)

17 MR. STEVEN BERGER: Mr. Chairman, I'm about to
18 move on to another line. My last line with
19 Mr. Wilson.

20 If there are any questions that the Board
21 has at this point, in this area, I certainly invite it.

22 CHAIRMAN RIGLER: I think we are tracking you
23 pretty well.

24 MR. STEVEN BERGER: Fine.
25

1 BY MR. STEVEN BERGER:

2 Q Mr. Wilson, did you ever attend a negotiating
3 session between Ohio Edison and the wholesale consumers
4 of Ohio Edison?

5 A Yes, I did.

6 Q Approximately when was that?

7 A Gee, I think it was about August of '70.

8 Q I know you can't give me an entire listing of
9 all of the people who were present. Can you give me generally
10 who was represented at that meeting?

11 A Oh, as I recall, Mr. Chaseman was there.

12 Q Could you identify him?

13 A He is from Beck Associates representing
14 in the engineering firm that represents the WCOE people.
15 He had another young engineer with him. I don't recall the
16 name. Chuck Stout from Cuyahoga Falls was there. At the
17 time Mr. Quirk from Cuyahoga Falls and Senator Matzenbaum
18 was there for a period of time.

19 Representing the company was Mr. White, Mr.
20 Firestone, and I believe Mr. Cacalia. Perhaps Mr. Catspadi.
21 Mr. Katspoty, representing the legal department of the
22 company, Ohio Edison, and Mr. Kayuha and, of course, myself.

23 I think that is all I can remember at the time.

24 Q Do you know Mr. Lyren?

25 A I recognize him on sight and I think he was at
the meeting too?

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1 Q Can you generally tell us what was discussed at
2 the meeting?

3 A Yes, as I understood, the purpose of the meeting
4 was that the WCOE people wanted to talk about the various
5 proposals that their engineers had worked on with reference
6 to participating in a -- the power supply facilities to
7 serve them.

8 Would you care to have me go on and explain?

9 Q Just explain generally what was discussed, yes.

10 A The WCOE people, their engineers had recommended
11 that the option, which I believe was alternate number one,
12 referred to by many of us, as the prepayment plan, had
13 recommended that particular option, and they so indicated
14 at this meeting, and Mr. White, as I recall, indicated
15 that we had no basic objections to that particular
16 option and, if that was, in fact, their recommendation, and
17 they felt that was what they wanted to go with, that we would
18 be better satisfied to have from them some more formal
19 document indicating that selection.

20 I believe it was left that Mr. Duncan would
21 prepare a letter of intent indicating their selection of that
22 particular proposal and that that would be done subsequent
23 to the meeting.

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26 1 A (Continuing) Also at this meeting we wanted to
2 assure ourselves that alternate Number 1, if that was in
3 fact what it was, or the prepayment plan, was developed in
4 accordance with standard FPC allocation procedure.

5 So that I was assigned the task at that
6 meeting to take a look at what the WCCB people, engineers,
7 had done and decided whether or not it was in fact in
8 accordance with FPC procedure and get in touch with
9 Mr. Cheeseman as I recall.

10 Q Was it left with an understanding that you
11 would be going to Indianapolis in any event?

12 A No. As I recall, when the meeting was breaking
13 up, Mr. Cheeseman invited me to Indianapolis and I
14 indicated if I felt it was necessary to come to the company
15 to discuss any of these matters that I would be happy to do so.

16 MR. STEVEN BERGER: Off the record for a moment.
17 (Discussion off the record.)

18 MR. STEVEN BERGER: Mr. Rigler, I have marked as
19 Applicants Exhibit 169 (OE) a two-page letter from
20 Mr. Cheeseman to Mr. Wilson.

21 (The document referred to was marked
22 Applicants Exhibit (OE) 169
23 for identification.)

24 BY MR. STEVEN BERGER:

25 Q I will ask you if you can identify this as a

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1 letter received by yourself?

2 A Yes, sir.

3 Q Mr. Wilson, were you surprised when you received
4 Mr. Cheeseman's letter of November 14, 1975?

5 A To the extent I guess in two respects. First of
6 all we had been expecting for some time this letter of intent
7 that it was indicated I believe Mr. Duncan would prepare and
8 send to us.

9 I was waiting until we received that reply before
10 contacting Mr. Cheeseman.

11 I might say that shortly after the meeting
12 I had my people do the work necessary to check this
13 particular alternative and quite frankly we didn't see any
14 particular reason to disagree with it.

15 Q Disagree with the procedures?

16 A Mr. Cheeseman's procedure.

17 There were minor differences, but nothing
18 that were completely out of the order.

19 We checked his expenses, allocation of
20 expenses, and also the allocation of plant.

21 There would have been some difference in the
22 allocation of plant simply because Mr. Cheeseman had been
23 projecting figures from 1970, an old case we had, up to a
24 current date in getting his investment figures.

25 Perhaps the company furnished him some of those

1 figures.

2 But in projecting forward, he came out with a
3 certain amount of dollars which didn't necessarily agree
4 with what we were determining in the time at the WPC case
5 that we had just filed.

6 I didn't consider that to be a significant
7 point because the investment would be whatever it was going
8 to be.

9 It was a matter of procedure more than anything
10 else that I was looking at.

11 I didn't see anything particularly wrong with
12 his procedure.

13 I quite frankly was more or less waiting until
14 we heard from them with this letter of intent before
15 contacting Mr. Cheeseman.

16 MR. STEVEN BERGER: I would mark for identification
17 as Applicants Exhibit 170 (OE) a two-page letter with a
18 letter attached. The letter is dated January 7, 1976 from
19 yourself to Mr. Cheeseman and the letter attachment to that
20 letter is a letter from Mr. Duncan to Mr. Kayuha dated
21 October 31, 1975.

22 MS. URBAN: Mr. Berger, is that a three-page
23 letter?

24 MR. STEVEN BERGER: I am sorry. It is a three-
25 page letter with a one-page letter attachment.

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(The documents referred to were marked Applicants Exhibit (OE) 176 for identification.)

THE WITNESS: This particular copy I have is incorrect in that it has the Beck Associates letter to me attached. It was not part of the original attachment that I sent back to Mr. Cheeseman.

I sent a copy -- as I recall, I sent a copy of Mr. Duncan's letter to Mr. Kayuhia indicating -- or apologizing for not having drafted the letter of intent.

With that correction, this is the letter that I wrote to Mr. Cheeseman.

BY MR. STEVEN BERGER:

Q Why is it that it took you from the receipt of Mr. Cheeseman's letter on November 14, '75 until, under 7, 1976, to respond to Mr. Cheeseman's letter?

A Quite frankly, as I indicated in the letter, we were waiting on this letter of intent.

I had done the work shortly after the meeting. I don't recall exactly how long it was, but I would say in a couple of months after the meeting on August 1. I guess it was.

My people had done the work and I was ready to comment on it, comment to the extent that I had no particular objection to his procedure.

1 I felt it was in accordance with the 1975
2 allocation procedure and that except for some differences in
3 numbers, that it was all right.

4 Q Mr. Wilson, let me take you back to that
5 August 1975 meeting for a moment.

6 Do you recall after the meeting breaking up
7 a conversation taking place between Chuck Stout
8 and Mr. White at the breakup point of the meeting?

9 Can you give us your best recollection of
10 what was said by Mr. White and Mr. Stout?

11 MR. LESSY: Objection on the ground of hearsay
12 and that he wasn't a participant to the conversation.

13 CHAIRMAN RIGLER: What was the question?

14 MR. STEVEN BERGER: Mr. Wilson's best
15 recollection of what was said by Mr. White and Mr. Stout
16 in the conversation to which he has just testified he was
17 privy to.

18 MR. LESSY: If the reporter reads back the
19 question and answer and follow-up, the Chairman will see
20 the basis for my objection.

21 (The record was read by the reporter.)

22 MR. LESSY: He has a vague recollection of a
23 conversation he didn't participate in. I object on the ground
24 that that is hearsay.

25 CHAIRMAN RIGLER: Overruled.

1 THE WITNESS: My only recollection of that
2 exchange between Mr. Stout and Mr. White was that it in some
3 way involved an arrangement that related to wheeling and
4 as mentioned by Mr. Stout and that Mr. White's reply was
5 something to the effect that we will consider whatever
6 proposal you make at the appropriate time.

7 MR. STEVEN BERGER: Your Honor, I have no
8 further questions of Mr. Wilson.

9 I would like to move in Applicants 169 and 170
10 into evidence at this time.

11 CHAIRMAN RIGLER: Hearing no objection, we will
12 admit 169 and 170 into evidence.

13 (Applicants Exhibits 169 and 170,
14 previously marked for identification
15 were received in evidence.)

16 CHAIRMAN RIGLER: Let's go off the record.

17 (Discussion off the record.)
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1 MR. REYNOLDS: In the off-the-record
2 discussion, there was an indication, or there has been
3 an indication that Mr. Hjelmfelt, for the City, intended
4 to cross-examine first.

5 I would object to that procedure, because I
6 don't see anything in this testimony that has any impact
7 whatsoever on the City of Cleveland's case in this
8 proceeding or any allegation that the City of Cleveland
9 has made in this proceeding that still remains a viable
10 allegation vis-a-vis the City of Cleveland and the other
11 Applicants.

12 The Board has already ruled it will give latitude
13 on cross-examination to the City. I appreciate that ruling,
14 but it would seem to me that the appropriate course in the
15 context of that ruling and consistent with it would be
16 for the City to have an opportunity following the cross-
17 examination of the other two parties, if there is some matter
18 to clear up to cross-examine.

19 I object and seriously question the propriety
20 of the City commencing cross examination for what is now
21 an estimate of over one hour of this witness who has
22 given no testimony that would impact on the City's
23 case whatsoever.

24 CHAIRMAN RIGLER: We will reflect on that, but right
25 now that objection would be overruled.

1 Moreover, we are anticipating that during
2 this hour other counsel will confer with Mr. Hjelmfelt
3 in an attempt to get their questions, their areas of interest
4 covered by Mr. Hjelmfelt.

5 There is a certain economy or efficiency to
6 be achieved by having a principal cross-examiner. I can
7 see some basis for rotating that responsibility.

8 MR. REYNOLDS: I can see that.

9 I think the funnel is going in the wrong
10 direction with respect to this particular testimony and this
11 witness.

12 CHAIRMAN RIGLER: Okay.

13 Unless we change our mind during the lunch
14 hour, we will proceed on the assumption that the objection
15 is overruled.

16 (Whereupon at 12:50 p.m., the hearing was
17 recessed, to be reconvened at 1:50 p.m., this same day.)

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AFTERNOON SESSION

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(1:50 p.m.)

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MR. STEVEN BERGER: Mr. Lesay said to go ahead without him.

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CROSS-EXAMINATION

6

BY MR. HJELMPFELT:

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Q I'm David Hjelmfelt, and I'm here for the City of Cleveland. I believe you testified you had an FPC filing presently pending in which you had filed rates for 138 kv.

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A That is true.

12

Q When was that filed?

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A It was filed, as I recall, about May of 1965.

14

Q You testified that you had a negotiated rate decrease in 1965, just after the FPC took jurisdiction, or approximately then.

15

A As I recall, it was about that time.

16

Q Were the new rates, negotiated rates, cost justified?

17

A I'm sure we must have had some kind of cost study that was used in determining the level of the rates. However, I only have a vague recollection of that particular rate change. I don't recall precisely what we used with reference to justifying the level of the rates.

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Q How about the rates before they were reduced?

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1 Were they cost justified?

2 A That was back in the days of negotiated rates.
3 I had no direct experience with those negotiations. I
4 suppose from the standpoint of the preparation of a cost
5 study I couldn't say whether or not there was a cost study
6 prepared at that time.

7 Q Did you have a negotiated rate settlement in the
8 early 70s?

9 A Yes. The case that I mentioned, the rates
10 became effective in September of 1972. That case was settled
11 by negotiation which was approved by the Federal Power
12 Commission.

13 Q And were those settlement rates cost justified?

14 A I would say they were. When we talk about cost
15 justification, we are talking about basically the cost study
16 which shows the level of the rates and indicates a rate of
17 return we feel we are entitled to or should have.

18 Now, certainly, there is some argument as to
19 what should be the justified rate of return. As I recall,
20 that particular case was settled approximately at the
21 level of the staff recommendations.

22 Q And --

23 A So, to answer your question, yes, I was
24 would say the rates were cost justified.

25 Q Had you filed requesting rates higher than that
level?

1 A Yes, we did.

2 Q Were the filed rates you thought case just filed?

3 A They were according to what we felt the rate
4 of return ought to have been.

5 CHAIRMAN RIGLER: Let me state for the record
6 at this point that we have considered Mr. Reynolds'
7 objection on behalf of Applicants other than GE, and we
8 affirm our decision to overrule the objection.

9 MR. HJELMFELT: I was afraid after these
10 questions you were going to change your mind.

11 CHAIRMAN RIGLER: We may yet.

12 (Laughter.)

13 MR. REYNOLDS: I was just waiting for an
14 opportune time.

15 BY MR. HJELMFELT:

16 Q You state that under the new Ohio statute after
17 a nine-month period your rates can go into effect.
18 Will they be subject to refund?

19 A Yes, sir. Perhaps I should add there is also
20 in that particular statute a provision that says that if the
21 Commission does not act on those rates within, I believe
22 it is an 18-month period, the rates become permanent.

23 Q Without hearing?

24 A Presumably -- I don't recall whether or not
25 there is any provision with respect to a hearing or not.

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1 would suppose not, if the rates become permanent.

2 May I add to that answer, please?

3 Q Sure.

4 A There is this aspect of the new procedure.

5 Since we are dealing there with book accounts, of investment
6 and depreciation, the time that is required for this long
7 study on determining the RCM value less existing depreciation
8 will not be there any more.

9 I would suppose that the Commission will be
10 able to act in a much faster fashion than they have in times
11 past under our old rate base law.

12 MR. STEVEN BERGER: Let me state, Mr. Chairman,
13 that certainly upon the signing of the bill by the
14 governor, we will be making a copy of that available to the
15 Board and all of the parties.

16 BY MR. HJELMELDT:

17 Q I understand your testimony to be that in the
18 last round of rate negotiations with certain of the
19 ordinance cities, there were six cities who did not adopt
20 the proposed ordinance or the ordinance that was being
21 negotiated, and they simply kept the old rate, until you had
22 the next negotiation; is that correct?

23 A No, sir, that is not. That was not the last
24 round of negotiations. It was the round prior to the last
25 round.

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1 The particular cities I had reference to,
2 actually what happened after that round of negotiations,
3 rather than continuing to negotiate with which particular
4 group, we filed a case with the Public Utilities Commission
5 and that case is Case Number 73-847-X, which was finally
6 decided, and the rates put into effect early this year.

7 I believe -- no, there was some communities
8 that after we filed a case, and one of the communities I
9 can remember is the City of Rittman, they refused to pass
10 our original ordinance.

11 We didn't appeal, but we kept hoping that
12 through negotiations we would be able to get them to pass
13 it.

14 Then we filed this new case which was another
15 level of rate changes.

16 So that actually with that case they would be
17 getting a two-step increase.

18 But when we went in for our application on
19 an emergency basis for a part of that increase that we
20 were asking for, Rittman passed an ordinance which we had
21 to appeal from.

22 Then in appealing that that took them out of
23 that case, and that appeal is still pending.

24 In the meantime they are on the emergency
25 rates that we asked for.

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CHAIRMAN RIGLER: Mr. Wilson, what do you mean when you say you filed a case?

I thought in an ordinance city situation you dealt directly with the city and your recourse was the appeal procedure to the PUCO.

THE WITNESS: Under normal circumstances that is true, sir.

However, with the last round of increases that we asked for, in this particular level of communities, we, as I mentioned earlier, have been filing a case with the Commission.

CHAIRMAN RIGLER: Simultaneously?

THE WITNESS: Yes, should they choose not to negotiate.

There were forty of those communities that preferred simply to let the Commission go ahead and set the rate rather than adopting an ordinance.

BY MR. HJELMSTEN:

Q Some of these cities negotiated and adopted an ordinance; is that correct?

MR. STEVEN BERGER: At what point in time are we talking about?

MR. HJELMSTEN: This same one.

THE WITNESS: Last round?

JONES

1 BY MR. HOELMANN:

2 Q No, round before last.

3 A The prior round. Let's refer to that as the 1972
4 vintage round of increases.

5 Yes. Most of the communities that were in that
6 particular level of rates did pass ordinances and were
7 billed on those rates.

8 Q Were those rates cost justified?

9 A Yes.

10 I don't recall too much the details of that
11 particular study, but, yes, we did have a cost study that
12 indicated that the rates that we were requesting were
13 cost justified; yes, sir.

14 Q How about the cities that didn't agree to
15 pass the ordinance? What rate was in effect for those
16 cities?

17 A That was a rate that was established in
18 believe about 1969 or thereabouts.

19 Q Do I understand, then, that that 1969 rate
20 would have been in effect in those cities from 1972 to
21 1975?

22 A It would have been -- yes, it was in effect in
23 those cities until we received the emergency relief of the
24 Commission in the case I mentioned earlier.

25 Q Were the rates being charged for those cities

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1 cost justified during this period?

2 A We certainly didn't think so.

3 CHAIRMAN RIGLER: May I back up a minute?
4 Have you finished with the 138 kv rate filing
5 question?

6 MR. HJELMFELT: Yes, I believe I have.

7 CHAIRMAN RIGLER: At the time you filed the 138 kv
8 tariff with the FPC you had no municipal customers who were
9 then taking at 138?

10 THE WITNESS: That's right. And we still do not
11 have.

12 CHAIRMAN RIGLER: At the time you filed it did you
13 anticipate you would have such customers within 60 or 90
14 days of filing?

15 THE WITNESS: No.

16 You see, the rules of the Federal Power
17 Commission indicate insofar as determining a test period
18 for the testing of the rates that we take an advance
19 period so that our advance period -- if we filed -- we filed,
20 as I think I mentioned, about May or so of 1975. We were
21 projecting forward at that time for a full year from July
22 of 1975 through June of 1976. And that was the test period
23 to test rates that we filed.

24 Now, we had to project all of our data forward
25 and we, through conversations with the City of Miles, felt

1 that at some time during that period they would be coming
2 on our lines at 138 kv.

3 So we have actually billed or put them
4 into the case even though it didn't happen.

5 We were projecting at that time.

6 We do have them in the case taking service at
7 138 kv for the first six months of 1976.

8 It was only because we were projecting.

9 CHAIRMAN RIGLER: You put them in in May of 1975
10 as a possibility of coming on line under that 138 kv schedule
11 the first of this year?

12 THE WITNESS: Yes, sir, that's correct.

13 MR. SMITH: Mr. Wilson, were they prepared --
14 did they have the physical facilities to accept service at
15 138 kv?

16 THE WITNESS: No, they did not. But there was
17 an indication -- I don't recall exactly what the
18 indication was to us as to the stage of ordering equipment
19 and so forth to provide the substation to take service at
20 138 kv, but it was our judgment or actually it wasn't my
21 judgment, it was the judgment of our people in the division
22 who contact these folks regularly that that service would
23 be made available sometime about the end of the year we were
24 thinking at that time.

25 MR. SMITH: So they didn't have to construct

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1 their facilities until they know what the rate was?

2 THE WITNESS: Not really. They had -- perhaps
3 they had the equipment on order at that time. I am not sure.
4 But they would have known what the rate was going to be
5 when we made the filing.

6 BY MR. HJELMBERT:

7 Q In Ohio rate cases, how is the depreciation
8 of the plant determined?

9 A Under the present, I assume the present law,
10 or at least it will be the law under which some of our cases
11 that are filed now will be decided, it is a matter of
12 going out and looking at the property and determining what
13 the depreciation is.

14 The law says existing depreciation.

15 As a matter of fact, we have always had a dispute
16 going with the -- at least for a considerable period of time
17 we have had a dispute going with the Public Utilities
18 Commission as to how that is determined.

19 They invariably come up with a higher degree of
20 depreciation than our experts do.

21 We feel and have always felt it required a
22 field inspection on a sample basis to look at the property
23 and decide exactly what the existing depreciation is.

24 Experts in depreciation can by looking at poles
25 and wires come up with a percent condition which would relate

1 to the remaining life of that property.

2 Q You say this requires a field study. Does
3 the PUCO make the field study?

4 A Yes. I won't say how much they rely on it, but
5 they do make a field study.

6 Q Do they make the same field study you do or do
7 they take their own samples?

8 A No. They take their own samples. It is entirely
9 independent of our study.

10 Q What then is the dispute? Is it the
11 dispute simply in the outcome?

12 A Well, through the years the Public Utility
13 Commission staff has relied, we feel, considerably
14 upon office studies which would have to do with determining
15 using Iowa curves the remaining life of the property
16 that is still in existence.

17 We have felt that perhaps this was not the
18 proper procedure or the one that should be given the most
19 weight, and that a truly observed study would be more
20 accurate.

21 But, nonetheless, the Staff has, as I say, I don't
22 know how much reliance they place on their office study and
23 how much reliance they place on their field study, but in fact
24 they do generally come out with a greater amount of
25 depreciation than we do.

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1 Q Are the Iowa curves accepted in other
2 jurisdictions?

3 A Iowa curves I think are accepted in many
4 jurisdictions insofar as determining book depreciation, but
5 we are not talking about book depreciation here, we are
6 talking about existing depreciation.

7 It is the physical depreciation of the property
8 and not the amount that is booked.

9 Q Does staff make any interpolation then between
10 the Iowa curves to observed depreciation or existing
11 depreciation?

12 A I am not sure I am qualified to say what
13 the staff does. I am not sure that I know.

14 Q What sort of depreciation is used in FPC cases?

15 A FPC uses book depreciation.

16 Q Is there more than one method of determining
17 book depreciation?

18 A No, not that I know of.

19 Occasionally there is a review to see whether
20 or not you are properly booking depreciation for a
21 particular account.

22 There may be a change in the percent that is
23 booked each year for depreciation, depending upon a study
24 of the account.

25 But insofar as I know, there is really no dispute

1 as to how you go about determining book depreciation.

2 Q And there various methods of arriving at a
3 composite depreciation rate?

4 MR. REYNOLDS: May I have that question back?

5 (The reporter read from the record as requested.)

6 THE WITNESS: I am sorry. I don't know what you
7 mean by composite.

8 BY MR. HOELMELT:

9 Q Did I understand you to say that recently you
10 have begun using a peak responsibility method of cost
11 allocation?

12 A Yes, sir, that's correct. I am talking about
13 with the Public Utilities Commission as opposed to the Federal
14 Power Commission.

15 Q When did you begin using the peak responsibility
16 method?

17 A With the last round of cases that we
18 filed. We started filing those cases early 1975.

19 Q What method did you use prior to that?

20 A We used a method called an average and excess
21 demand method of capacity allocation.

22 Q How does that differ?

23 A Well, I can give you an explanation of the
24 average excess -- average and excess demand method.

25 As to how much it differs on our system, it

1 differs practically not at all.

2 Would you care for me to give you the
3 explanation of average and excess demand method of allocation?
4

5 Q What was the purpose of making the change?

6 A We felt in today's times, with people talking
7 more and more about the peak responsibility of customers and
8 how they contribute to your peaking and how you have to
9 buy capacity to satisfy your peak requirements, that even
10 though on our system it doesn't make that much difference
11 that we would be more adequately answering those demands
12 by going to a peak responsibility cost allocation procedure.

13 Q Does the Ohio Commission require any particular
14 type of cost allocation method?

15 A No, they do not. In fact, they make their own
16 allocation. They have used -- I believe I am correct
17 that they have used the no coincident demands of the various
18 classes for their cost allocation.

19 On our system the factors end up so close to
20 ours that there is practically no difference.

21 Q Are you aware of other cost allocation methods?

22 A Yes, sir. There are many. I have heard it said
23 there are fifty or so cost allocation methods.

24 Q Would they produce different results?

25 A I expect they would. The only ones I am very

1 familiar with is the noncoincident method used by the
2 Commission, the peak responsibility method which we have
3 adopted, and the average and excess method which we used in
4 prior times.

5 Q What method do you use at the Federal Power
6 Commission?

7 A Peak responsibility.

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1 Q Is the peak responsibility calculated the same
2 before both the FPC and the FUC?

3 A No, I believe I mentioned earlier in my
4 direct examination that in the Ohio Commission we have been
5 using a weighted average of the summer and winter peaks,
6 whereas with the Federal Power Commission we have used an
7 average of the 12 months.

8 Q Would those two methods produce different results?

9 A I don't believe so.

10 Q Is Ohio Edison a summer peaking system or winter
11 peak?

12 A I think we like to think of ourselves as
13 summer peaking system, but, in fact, last year we
14 had a winter peak. The peaks are so close that
15 there really isn't that much difference. We have been
16 a summer peaking system for a number of years.

17 I might say that is one of the reasons that
18 average and excess works out to be almost the same as
19 the peak responsibility, because we do have a fairly
20 stable system with a summer and winter peak that are
21 very close together.

22 MR. SMITH: You are using the term "average
23 excess" or are you saying "average and excess"?

24 THE WITNESS: Average and excess.
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BY MR. HJELMFELT:

2 Q Are all of the costs allocated by the same
3 method?

4 A No, the -- when I talk about peak responsibility,
5 I'm really only talking about demand related costs.
6 Costs that are related to energy would be allocated on
7 kilowatt hours. Costs that are related to customers would
8 be allocated on the basis of customers.

9 If there are some expenses that vary with reference
10 to -- well, for instance, billing. There are more complicated
11 forms of billing.

12 We would allocate these costs on the basis of a
13 weighted customer procedure.

14 Q Are there various methods also of allocating
15 nondemand costs?

16 A No, I don't believe so. When I am talking about
17 cost allocations, I'm talking entirely about
18 demand related costs. Everybody would allocate energy
19 on the basis of kilowatt hours.

20 Q How about things like administrative costs?

21 A Well, administrative costs generally follow other
22 costs. For instance, the Federal Power Commission
23 allocates administrative costs on the basis of direct labor
24 costs.

25 Q Does the FPC always use the same cost allocation

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1 method?

2 A I'm not sure I can answer that. I know the
3 results of their studies, but I'm not sure they have always
4 used the same allocation procedure. I would have to
5 assume they do, but I'm not sure.

6 Q On the home rule cities that can establish
7 rates by ordinance, are they required to use the same
8 rate as the Commission, the Ohio Commission?

9 A There is no specific method for establishing
10 rates within a community who chooses to fix rates
11 by ordinance that I know of.

12 We generally use the same procedure that we
13 use before the Commission, because that is the one we
14 have available to us.

15 If, for instance, they were to pass an ordinance
16 with which we disagreed and had to appeal, it would be
17 decided on the basis of the PUCO law.

18 MR. SMITH: Mr. Wilson, did you use the
19 term "home rule cities" in your direct testimony?

20 THE WITNESS: Yes, sir I believe I did.

21 MR. SMITH: What is a "home rule city"?

22 THE WITNESS: It is a city that has a right to
23 fix rates for the charges of electricity within that
24 city. They can be the rate-making body for that city.

25

1 BY MR. WELMFELT:

2 Q Actually, this rate-making function of
3 a home rule city is only one facet of being a home rule
4 city; isn't it?

5 A I presume that is true. I'm not that well-
6 versed on other things with regard to home rule cities.

7 MR. SMITH: My interest is just the opposite.
8 Is there a special home rule city terminology used for the
9 right to set rates in the municipality.

10 There are some cities in Ohio that are by
11 special charters home rule cities for other
12 purposes.

13 THE WITNESS: That may very well be, sir.

14 I am only familiar with the Code as it relates
15 to the setting of electric rates and, under that code, they
16 have the right to fix electric rates.

17 I refer to them as home rule cities in
18 that respect.

19 MR. SMITH: What would be an example of cities
20 in your service area that are and are not home rule cities?

21 THE WITNESS: I think any incorporated community
22 is a home rule city.

23 MR. REYNOLDS: Excuse me. Could I ask
24 something to follow that on clarification?

25 Do you mean any city, incorporated city,

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in Ohio is a home rule city?

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THE WITNESS: Yes, I'm speaking with respect to
fixing rates now.

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As far as I'm concerned, any incorporated
city in Ohio has the right to fix electric rates,
and in that sense, I refer to them as a home rule city.

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1 MR. SMITH: There is another use of the term
2 home rule city and I am trying to distinguish it.

3 MR. REYNOLDS: I appreciate that and that is why
4 I wanted to clarify it.

5 BY MR. HJELMFELT:

6 Q Does a municipality that wants to pass a rate
7 ordinance, does it use the same allocation factors
8 necessarily as the state commission would?

9 A No, no. They choose their own expert and he
10 develops an allocation procedure. Presumably he could use
11 whatever he felt was justified or appropriate on the
12 occasion.

13 Q Can the communities that are empowered to set
14 a rate ordinance, are they authorized to join together in a
15 group to hold a rate hearing or must they act individually?

16 MR. REYNOLDS: Let me have the question back.

17 (The reporter read from the record as requested.)

18 MR. REYNOLDS: I don't understand the question.
19 To hold a rate hearing; is that your question?

20 MR. HJELMFELT: Yes.

21 MR. REYNOLDS: I don't understand the question.

22 BY MR. HJELMFELT:

23 Q Do you understand?

24 MR. REYNOLDS: Where are they holding a rate
25 hearing?

1 BY MR. JOURNALIST:

2 Q If a municipality wants to set a rate ordinance,
3 is it authorized to hold hearings with respect to the
4 proposed rates?

5 A I presume they can do whatever they choose to
6 do. They could ask us to come in and make a presentation
7 with reference to our feeling as to the level of the
8 rates. If they chose to do so, I am sure that many of our
9 division managers have appeared before city councils and
10 made presentations with reference to our rate proposals.

11 Q Are you aware of any municipalities that have
12 held rate hearings similar to what you would expect to find
13 before the Public Utilities Commission?

14 A No, not that extensive.

15 Q When you -- did I understand you to say that you
16 filed with each city a rate filing similar to that which
17 you would file with the state commission?

18 A What I said was that in recent times, in
19 addition to cancelling -- you are talking about ordinance
20 cities, I presume?

21 Q Yes.

22 A In addition to cancelling the rate ordinances
23 we have concurrent with that cancelling or shortly thereafter,
24 whenever we could, filed a case with the Commission under
25 the -- to protect ourselves in case the cities decided not to

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1 negotiate. They don't have to fix rates. If they choose not
2 to do so and we found out about it later, we would then
3 be faced with filing a case. So concurrently go to
4 speak with the cancelling we file a case just under the
5 circumstances that they choose not to negotiate. And then
6 that case really forms the basis for the negotiations.

7 Q In making this filing, do you make a separate
8 cost study for each ordinance city?

9 A We would -- our cost study is related to the
10 group of communities that has the particular rates that we
11 want to change. Not a city.

12 However, if a city passed an ordinance with
13 which we couldn't agree and we had to appeal it, then the
14 case would involve only that city.

15 So that is why we have to be prepared at any
16 time to justify the level of rate in that city.

17 Q Now, actually the cost to serve each city in a
18 class would not be the same, would it?

19 A Probably would not be. If we were to take each
20 one individually there would be some variation in cost to
21 serve, yes, sir.

22 Q As a matter of practice, that is not done?

23 A We don't do it because we would be administering
24 different rates for each city. It becomes a hopeless task.

25 We had a number of cities pass rate ordinances we

1 had to appeal from, and we asked for an emergency in regard
2 and it was granted by the Commission.

3 If we were to continue through hearing on each
4 of those theoretically we would end up with twenty-two
5 different rates.

6 We hope that is not the case, but it can happen.

7 Q Do you make a cost study to determine the
8 rate differential you will charge between the different
9 sized communities?

10 A As I indicated earlier in my direct testimony,
11 we have stratified the communities in a group by population
12 and we did that because some years ago we made a study of the
13 facilities that are used in these various areas to serve
14 customers and found that there is a very close correlation
15 between population and let's say our investment in poles
16 per customer as well as all other facilities.

17 We have stratified them as best we can to make
18 up the unit for rate making.

19 For instance, in our first level, which by the
20 way we hope is in the process of being combined with the
21 second level, we are striving toward uniformity of
22 rates if we can.

23 There are two cities in that group, and we are
24 presently into negotiations with those cities.

25 Q When did you make that study?

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1 A I believe the first study was made back in
2 the '40s. It has been reviewed from time to time since then.

3 Q Do you know when the last time was that it was
4 reviewed?

5 A Well, we had a pole count per customer before the
6 filing of our last cases. So that we have some idea at all
7 times. The relationship of the number of customers to our
8 investment.

9 Q Is the pole count the only basis on which this
10 allocation is made?

11 A No. For each of these groups, we actually have
12 our engineers, the consulting engineers, come in and make
13 sample inventories in each of the areas that are under
14 study. And from that inventory they are able to
15 directly assign distribution property to that particular
16 group.

17 The allocation has to do with facilities that
18 are commonly used by other communities, transmission,
19 generating plant and so forth.

20 Q Do you make specific assignment or specific
21 allocation of any facilities other than distribution
22 facilities?

23 A No, we do not.

24 Q Before the FPC do you ever make specific
25 allocations?

1 A No, we do not.

2 You are talking about direct assignment, is that right?

3 Q Yes.

4 A No, we do not.

5 Q My recollection is that you testified that both
6 the FPC and the State Commission intend to use embedded
7 cost of debt and preferred stock. When you said tend to
8 use, if that is what you said, did you mean to imply that
9 sometimes they use costs other than the embedded cost?

10 A No. I only meant generally the time period
11 we are talking about.

12 There is always the question whether or not you
13 use your embedded cost as of the date of the hearing or
14 whether you use embedded costs as of the date of the test
15 period. There can be a considerable variance of time there.

16 I am not sure that in both jurisdictions that
17 we are always given the most recent cost of debt and
18 equity.

19 I am sorry, cost of debt and preferred, not
20 equity.

21 Q Is a computed capital structure ever used?

22 A Under the present Ohio law it is my understanding
23 that in the determination of the rate of return, the
24 Commission is required to use what they feel to be a
25 reasonable capital structure, whether or not it

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1 conforms to the actual capital structure of the utility.

2 That's all part of the reconstruction cost new
3 procedure.

4 FPC would use the capital structure of the
5 utility.

6 Q Under the present statute that
7 maybe was in existence yesterday in Ohio?

8 A Yes, sir.

9 Q How is construction work in progress treated?

10 A It was not included at all as a part of the rate
11 base.

12 Q Were you permitted to capitalize interest?

13 A Yes.

14 Q Is it the same method that is used before the
15 FPC?

16 A Yes. And as far as I know, the FPC has not
17 permitted these of construction work in progress as part
18 of the rate base to date.

19 I believe there is a rule making pending to
20 allow some construction work in progress.

21 However, I don't know the status of that
22 rule making.

23 Q In Exhibit 165, which is Case Number 73-509-Y
24 et al., I noticed that the Commission used a June 30, 1972
25 as a date for valuation of property. That is to establish

1 the rate base.

2 MR. STEVEN BERGER: What page are you on?

3 MR. HJELMFELT: Page 2, bottom last paragraph.

4 THE WITNESS: No, I would say not.

5 Where do you see that?

6 My recollection of that case was we used the
7 year end December 31, 1971 as the date certain for
8 valuation.

9 BY MR. HJELMFELT:

10 Q I am on page 2, the last paragraph.

11 The way I read it it says the December 31 date
12 was the test year for analysis of accounts.

13 A I am sorry. The order has those dates
14 reversed. The test period was twelve months ending June 30,
15 1972 and the date certain was December 31, 1972.

16 Q Was rate base -- is the rate base then
17 set, is that an average or is that just what plant was
18 there on that day?

19 A That is a reconstruction cost new of the company
20 of its surviving assets as of that date. December 31.

21 In fact, it is not 1972. It should be 1971.

22 Q And that -- is it -- does the Commission always
23 select the date that is in the middle of the test year for
24 that?

25 A In recent years they have, yes.

1 Q Does the Federal Power Commission use the same
2 sort of date for establishing rate base?

3 A They use the -- the Federal Power Commission
4 uses an average of the beginning and ending of the test
5 period.

6 Q Does the Federal Power Commission sometimes use
7 the year end rate base?

8 A Not that I know of.

9 Q If a year end rate base were to be used, would it
10 be necessary to annualize revenues and expenses to year end?

11 A It certainly could be a requirement of the --
12 under the use of such a rate base. I don't know that it
13 would be necessary, but the Commission may require it if they
14 were to go to a year end rate base.

15 Q Under the system that is applied in
16 Applicants 165, if Ohio Edison had had a large plant come
17 on line on June 29, 1972 that would not have appeared in
18 rate base, would it?

19 A June 29? No, it would not have appeared in
20 rate base because the rate base would have been fixed as of
21 the middle of the test period.

22 Q Now, using the same --

23 A The facilities have to be in service.

24 Q As of that date?

25 A To be included.

1 Q If the same 12-month period had been used as a
2 test year in the Federal Power Commission would a plant put in
3 service on June 29, 1972 be included in rate base?

4 A It would practically not be reflected. What we
5 do with reference to a plant that comes into service -- let's
6 suppose that the plant came in to service three months before
7 the end of the period. We would only reflect those three
8 months in the rate base.

9 In other words, three-twelfths.

10 Q It would come in on a weighted basis?

11 A That is true.

12 Q What voltage levels do you serve
13 WCOE customers?

14 A We serve most of them at 69 kv.

15 The City of Niles and Cuyahoga Falls are served
16 at 23 kv. And we have three customers that are served at
17 a primary voltage, I think probably 12.5 kv.

18 Q In your state cases does the State Commission
19 make an allocation of property between the wholesale business
20 and the retail business?

21 A No, sir, they do not. What they do is they
22 make an allocation to the class under study from the
23 total company.

24 Q How about the Federal Power Commission; does it
25 function the same way?

1 A The Federal Power Commission makes an allocation
2 again to the class under study which would be the municipal
3 resale class.

4 Q In making its allocation, does the State
5 Commission take into consideration the -- any allocations
6 made by the FPC in rate cases?

7 A No.

8 Q And would the answer also be no with respect to
9 the Federal Power Commission considering state allocations?

10 A Yes, it would be no.

11 Q Applicants 164, page 1, the first paragraph
12 under history of the proceedings --

13 A Which order is that?

14 Q Case Number 36898.

15 A Yes, sir.

16 Q It states that at the time of the opinion
17 and order apparently 960 customers comprising approximately
18 14 percent of Applicant's total customers affected by
19 this proceeding consumed 46 percent of the electric power
20 sold.

21 Am I correct that that means that these 960
22 customers account for 46 percent of all electric power sold
23 by Ohio Edison, including the wholesale customers?

24 A I believe that is true as of that time, yes.

25 You remember, this relates to a test period some

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years ago.

Q Would that same be true today?

A No, the 46 percent would be less.

Q Do you know about what it would be?

A Oh, I expect something under 40 percent.

1 Q In that same case, I believe the --

2 A By the way, I'm talking about the year 1975 now, when
3 I say something under 40 percent.

4 Q Fine.

5 In that same case, the State Commission, I
6 understand, accepted a DCF method of calculating return
7 on equity; is that correct?

8 A I'm really not qualified as a rate of return
9 witness. If they say they used discounted cash flow, I
10 would accept it, but I'm not the company's rate of return
11 expert.

12 Q Do you know whether the FPC uses the DCF method?

13 A NO, I do not.

14 Q Do you know what other methods there are?

15 A No, I do not.

16 Q Do you know whether the application of different
17 methods for calculating the cost of common equity to the
18 company can produce different results?

19 A I'm just not at all in any way an expert on rate
20 of return.

21 Q Have you ever reviewed or ever -- you have
22 participated in rate cases; haven't you?

23 A Yes, I have.

24 Q In those rate cases, did different experts come
25 up with different proposed costs of common equity?

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1 A Yes.

2 Q Did they ever do that when they used the same
3 method of calculation?

4 A I don't recall.

5 Q Would you agree that calculating the cost of
6 common equity is not a precise science?

7 A As I say, I'm really not an expert. I would
8 guess maybe it is not a precise science.

9 Q Is rate-making something that requires some
10 expertise?

11 A I would say so, yes.

12 Q Did you apply your expertise in your testimony
13 today?

14 A Well, I made some fairly simple calculations.
15 I don't know whether it would have taken an expert to make
16 them.

17 I would say not, frankly. They were fairly
18 simple calculations.

19 Q Do all of your wholesale customers experience
20 their peak demand at the same time?

21 A No, I would say not precisely at the same time.

22 Q How about all of your industrial customers?

23 A Definitely not.

24 Q On Applicants 166, which is the draft that you drew
25 is that representative of the annual peaks?

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1 A Well, the peak that occurs somewhere around
2 seven to eight o'clock in the evening is a winter peak from
3 our system, yes.

4 Q And the peaks from the municipal and industrial
5 are winter peaks?

6 A No. The industrial would peak probably -- it
7 depends on the time of the year. As I recall, the industrial
8 peak is from 11 in the morning to perhaps two in the
9 afternoon, depending on the time of the year we
10 are talking about.

11 The municipal peak is essentially the same as
12 Ohio Edison's peak. In the summertime it would be
13 in the afternoon, probably around two o'clock or thereabouts.

14 In the winter, it would be around seven to eight
15 o'clock.

16 Q I understood you to state that you had made a study
17 comparing the FPC wholesale rates with what the industrial
18 rates would be, if they were set by the Federal Power
19 Commission; is that correct?

20 A Yes, what I said was that I had taken the
21 industrial customers who were served at what we call our
22 subtransmission class, which means anything below 138 kV
23 and higher than 15 kV and treated them as though
24 they were on the same basis as a municipal in the
25 allocation of costs through the FPC system.

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2 In using the FPC procedure entirely, I arrived
3 at what I felt the cost would be for those industrials
4 and also what it would be for the municipals.

5 Q Do you have a copy of that study with you?

6 A Yes, I do.

7 MR. HJELMFELT: Might I see that study?

8 MR. STEVEN BERGER: Absolutely.

9 Your Honor, let me just explain with regard to
10 the study what really took place.

11 Mr. Wilson came in with the study late last
12 evening and rather than get into a hassle with the 24-hour
13 rule, all I did today was have Mr. Wilson testify
14 with respect to what the study reflected, so that we didn't get
15 into the kind of problems we get into with those
16 matters.

17 I think Mr. Wilson, correct me if I'm wrong, do
18 you have enough copies to go around now?

19 How many copies do you have?

20 THE WITNESS: I have, I think, five left.

21 MR. STEVEN BERGER: We can make copies of it and
22 make it available to everybody.

23 If we are going to do that, we can mark it or
24 not mark it, depending on what they want to do.

25 CHAIRMAN RIGLER: To start with, let's give a
copy to Mr. Hjelmfelt.

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Actually, give one to the Staff and Justice

at the same time.

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1 BY MR. HJELMFELT:

2 Q Did you make a similar study with the
3 assumption that all of the rates were under the PUC?

4 A Not all of our retail rates, no.

5 I am sorry. You were asking about a reverse
6 study.

7 No, I did not.

8 MR. REYNOLDS: I am sorry. I don't understand
9 the question and the answer.

10 Can somebody explain it to me?

11 What do you mean by reverse study? Study of
12 wholesale rates on the PUC?

13 MR. HJELMFELT: Yes.

14 BY MR. HJELMFELT:

15 Q Referring to Applicants 167, which is the study
16 with respect to Cuyahoga Falls and Galion, is it very likely
17 that an industrial customer would make a zero percent
18 contribution to the municipal's demand?

19 A No, it is not likely.

20 Q How about 25 percent?

21 A May I continue?

22 Q Excuse me.

23 A We only wanted to indicate the limits of the
24 parameters here. Zero percent versus 100 percent.
25 Maximum contribution versus no contribution.

1 It is not likely that either one of those
2 cases would be existent. It merely is shown for illustrative
3 purposes.

4 Q On the other hand the study shown in Applicants
5 167 and 168, did you make any other studies with respect
6 to the price squeeze?

7 A I am not sure I know what you mean by price
8 squeeze, but I didn't make any other studies.

9 Q Do you have some work papers that you used in
10 preparing these?

11 A No. Other than the actual billing demand and
12 kilowatt hours which would be shown on the customer's bill --
13 you are talking about 167 and 168?

14 Q That's correct.

15 A No, there are no work papers. It is simply
16 a matter of taking the billing loads from the billing records
17 and using them in calculating these bills.

18 Q And all of the calculations you made then appear
19 on 167 and 168?

20 A Yes, I would say yes.

21 Q On 167 that is proposed Rate 31. Is that in
22 effect?

23 A No, it is not. That is the rate we filed back
24 early in 1st's say March or so of '75 that is still pending
25 before the Commission today.

1 Q For example, does 167 show a negative fuel
2 adjustment?

3 A Yes, it would show a negative fuel adjustment
4 for Rate 31 and also a negative fuel adjustment for
5 municipal resale case.

6 The level of the fuel used in the base
7 calculation there is higher than the actual fuel so there
8 would be a negative adjustment.

9 Q Now, am I correct that Applicant's 167 is simply
10 a one-month comparison?

11 A Yes, it is. I took the month of April 1975.

12 Q The fuel adjustment charges vary from
13 month to month, do they?

14 A They do, but as a matter of fact, over about
15 the last -- actually our cost of fuel has been decreasing
16 since about the first of the year so it has been going down,
17 yes. Not to any great degree, but it has been decreasing.

18 Q The fuel adjustment, be it positive or negative,
19 for March, would have been different than April?

20 A Yes, it probably was.

21 I might say that since the same level of fuel is
22 included in both of the rates, there would have been no
23 difference in my calculation because of the difference in
24 March versus April because the cost of fuel --

25 Q Are the fuel adjustment clauses the same?

1 A No, they are not the same.

2 Q Is there a constant differential between them?

3 A No, there is not. In the future there will tend
4 to be.

5 I was hesitating a little because the Ohio
6 Commission has just recently issued a new rule with respect
7 to calculation of fuel adjustment which approximate
8 fairly closely the FPC adjustment.

9 In fact, we have been directed to refile our
10 rates in accordance with that new fuel order that
11 was issued.

12 Q That would go into effect whenever you get to
13 the end of the rate case; is that right?

14 A No, it would go into effect immediately, I
15 presume.

16 Q What would be the effect of showing a reduced --
17 a lower load factor for the industrial customer than is
18 shown on 1677?

19 A I don't think there would be a great deal of
20 effect.

21 There would be some because the kilowatt hours
22 would be billed in higher block of the rate. There would
23 be some effect.

24 I wouldn't think it would be too significant.

25 I think primarily that the big difference in

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1 these rates has to do more with capacity charges than energy
2 charges.

3 We were simply trying to take what we felt
4 to be a fairly reasonable example in this case.

5 Q With respect to Exhibits 167 and 168, did you
6 make any study of the cost to the municipality of
7 distributing the power?

8 A No, we did not. I did take a look at the case
9 that we have filed with FPC to see what portion of the --
10 our own distribution costs are at the level of these
11 particular customers, the subtransmission voltage. And
12 that part of the cost as related to the total cost to serve
13 these customers represents about 3 to 5 percent of the total
14 cost to serve these customers or their bills.

15 Q Now, the billings shown as to what the bill would
16 be under Ohio Edison's rates would include distribution
17 costs, would it not?

18 A Yes, it would include all our costs to
19 serve the customer in question, yes.

20 Q What voltage level did you use for -- did you
21 assume that the municipality would be serving the
22 industrial customer?

23 A For Cuyahoga Falls we assumed 23 kv, that it would
24 be served at the same voltage Cuyahoga Falls was served.

25 Q For Galien?

1 A 23 kv delivery and at the top of the sheet
2 we showed what the delivery would be if the delivery to the
3 customer was at 69 kv.

4 It would change the cost a bit on the right side.
5 The revenue margin would be changed slightly.

6 Q If the industrial customer were served at a lower
7 voltage, the cost of distribution would be higher?

8 A The cost of distribution would probably be higher
9 but also the rate would be higher because they would be
10 billed on the primary rate as opposed to the transmission
11 rate.

12 MR. HJELMFELT: That completes my examination
13 other than reviewing this.

14 CHAIRMAN RIGLER: We will take a break here.

15 (Recess.)
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1 CHAIRMAN RIGLER: Mr. Hjelmfelt, you have
2 nothing further?

3 MR. HJELMFELT: That is correct.

4 CHAIRMAN RIGLER: Justice?

5 BY MS. URBAN:

6 Q Was the rate case which was the basis of the
7 decision in Applicants 165, which is cases Number 73-500-Y,
8 et al., a typical decision or an atypical decision?

9 A I think it may have been atypical, to this
10 extent, that they were hearing three cases at once.
11 And that had the cases been heard separately, there
12 probably would have been an independent determination
13 of rate of return in each case. Simply because they were
14 heard together, the Commission felt that the rate of
15 return in each of the cases should be levelized, should be
16 the same in all three.

17 In that respect, it is different than other
18 cases, I think. But not others.

19 Q Are there various methods used to determine
20 the figures which go into making up the rate base?

21 A Well you are talking about PUCO
22 jurisdiction?

23 Q Yes, I am. And FPC jurisdiction. Okay, let's
24 start with PUCO jurisdiction?

25 A The PUCO jurisdiction, as I indicated, is

bw2 1 determined by preparing a reconstruction cost new of
2 our property, as of the date certain and generally
3 that takes the form of taking our surviving assets and
4 trimming those surviving assets to a current value.

5 From that is deducted the existing depreciation
6 as determined by our expert engineers, and then to that
7 figure is added working capital.

8 The FPC procedure is similar to this
9 extent. That -- only to this extent, that there is a rate
10 base determined, using a different method and that is using
11 the original cost of the facilities that are on the books
12 as of the
13 beginning and end of the period and averaging those and
14 deducting from that value the depreciation as recorded on the
15 books and, again, plus working capital, comprises the
16 rate base.

17 Q You talked about trending to get your reproduction
18 costs new. This is using a trend index?

19 A Yes, ma'am. It is usually using the Handy's
20 Index formost of the accounts. However, there are certain
21 accounts that special indices are used for buildings and
22 so forth.

23 Q Is there more than one possible trend index
24 to use for any given account?

25 A I think there might be. However, Handy Whitman

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1 has been used in Ohio for so long, and I would presume
2 if there is any trending to be done in other jurisdictions
3 that it is probably used there.

4 I think they pretty well dominate the field
5 with reference to trending electric utility accounts.

6 Q Are there different methods of conducting a cost
7 of capital analysis.

8 A I believe, yes.

9 I think there is. As I say, I'm not an expert
10 in that regard at all. But I believe there are different
11 methods of determining basically the return on equity.

12 Q Are there various methods which are used to allocate
13 costs to different classes of customers?

14 A Yes.

15 Again, as I indicated, there are a number of
16 different kinds of allocation procedures for capacity costs which
17 related primarily to the fixed costs.

18 There would not be different methods, I don't
19 believe, with reference to the kilowatt hours, the
20 energy component of the costs or the customer component
21 of the cost. There may be different methods with respect
22 to the customer component.

23 Q Isn't it true that rate-making is as much an
24 art as a science in that the rates depend as much on the
25 judgment of the people proposing them as they do on any

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1 specific mathematical formula?

2 A I have heard it said many times that rate-making
3 is more of an art than a science. I felt that it had to
4 do in the main with the judgment that goes into making up a
5 rate schedule. NOT so much the level of the rates. I
6 would say, insofar as determining the level of the rates
7 in Ohio at least and also with the Federal Power Commission,
8 it is a reasonably fixed procedure and we must conform with
9 it.

10 Q But isn't it highly unlikely that two separate
11 people could arrive at identical cost of service or rates,
12 even when they begin with identical cost and expense
13 data, unless they were allowed to consult with each other?

14 A No, I think it is possible they might arrive
15 closely at the same costs.

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2 Q Has the Federal Power Commission ever challenged
3 a rate filing by Ohio Edison or Pennsylvania Power Company
4 on its own motion in the absence of intervention?

5 A I don't recall that we have ever had a case that
6 there wasn't intervention in so I don't think that that
7 circumstance would have ever happened.

8 Q Would that also be true before the FUCO?

9 A No, we have had cases before the PUCO that
10 there was no intervention in. I am recalling for instance
11 this case, 71-233-Y. I don't believe that there was any
12 intervenors in that particular case. In that case, when the
13 Staff made their examination of our request, proposed rates,
14 our rate of return even on the proposed rates was so low that
15 there really wasn't any question.

16 So, I believe in that particular case we
17 stipulated the staff report. The reason why that happens
18 is that in this particular area, this is the non-ordinance
19 area that I talked about and it has to do with residential and
20 commercial rates.

21 We have a considerable preponderance of our
22 property that is used in the non-ordinance area because
23 of the separation of customers in that area.

24 So that our investment is quite high with respect
25 to the number of customers we serve and there, the proposed
rates we file, the Commission felt that the rate of return

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1 that we would be receiving on those proposed rates was
2 reasonable. And this order was the result of that.

3 Q Have you ever requested an increase in rates for
4 industrial customers for which no hearing was held?

5 A No.

6 CHAIRMAN RIGLER: Let's back up one minute. Do
7 you have any responsibilities with respect to rate setting
8 for Pennsylvania Power?

9 THE WITNESS: No, I do not.

10 BY MS. URBAN:

11 Q Has there ever been a case without intervention
12 for an industrial rate increase?

13 MR. BERGER: May I have that again, please?

14 MS. URBAN: I will rephrase the question.

15 BY MS. URBAN:

16 Q Have you ever requested an increase in industrial
17 rates in which there was no intervention?

18 A No, we have not. To the best of my recollection
19 there has always been intervenors in our industrial cases.

20 Q Isn't it true that Ohio Edison serves 20 municipal
21 customers at wholesale?

22 A Yes.

23 Q And isn't it also true that the municipals which
24 form the basis of the studies in Applicants Exhibit 167 and
25 168 were three of the four largest municipals served by Ohio
Edison?

eak3 1 A I expect that is true. Certainly Cuyahoga
2 Falls is our biggest one. I think it might very well be
3 true. I am not absolutely sure but I think that is true.

4 Q Referring again to these studies, is the proposed
5 Rate 31 higher than the existing Rate 31?

6 A Yes, it is. Let me tell you the reason why we
7 selected the proposed Rate 31 over the existing rate. That
8 proposed rate 31 was filed, I believe, prior to the present
9 municipal rate that is being billed. So, we felt if you are
10 to use proposed rates for one, you ought to use proposed rates
11 for the other so that they would be companion rates.

12 Q In the study you made comparing the cost of service
13 to a municipal and to an industrial if both were regulated
14 by the Federal Power Commission, did you use as the basis
15 for that study a hypothetical municipal?

16 A No, we did not. We used -- no, we used the actual
17 municipal filing that will be made with respect to municipal
18 customers for the period, 12 months ending June of 1976.

19 Q Are those the costs of service that underlie
20 a rate that is in effect?

21 A Yes. Let me say this: We originally filed
22 data with respect to this estimated period 2 that I have
23 talked about. The study that I used in developing this
24 comparison was an updated study which had six months of
25 actual use and six months of estimated use.

eak4 1 And that study will be filed as of June 8. So, it is
2 the most recent data that we have with respect to municipal
3 accounts.

4 Q But those costs aren't the basis for a rate which
5 has been approved by the FPC?

6 A There has been no rate approved by the FPC in the
7 case. The rate is being collected under suspension until
8 the ultimate decision by the FPC.

9 MS. URBAN: We have no further questions.

10 BY MR. LESSY:

11 Q Mr. Wilson, looking at Applicants Exhibit 170,
12 which is the letter of January 7, 1976, from you to Mr.
13 Cheeseman, in the second paragraph on page 1, you state,
14 "Mr. White replied that the study proposed a number of alterna-
15 tives and since the cities had given the company no indication
16 which, if any, of the alternatives they preferred; the company
17 had not been in a position to focus its attention on any
18 one of the alternatives."

19 Didn't Mr. Duncan, Emerson Duncan, counsel for
20 WCOE and Mr. Stout at the August 1, '75 meeting,
21 say, "Let's assume for now that the Beck recommended alterna-
22 tive, that is alternative no. 1 was the WCOE position"?

23 A I believe this statement I made with reference
24 to Mr. White had to do with the early stages of the meeting
25 where there was -- as I recall the WCOE study, there was a
recommendation in the study itself by the engineers that the

eak5, cities, the WCOE cities take the prepayment plan. However,
2 I believe Mr. White in the preliminary stages of this meeting
3 was simply indicating that we had had no indication from the
4 cities that this was the plan they preferred.

5 Later on in this meeting, yes, they did
6 make that representation and that, of course, was the
7 purpose in asking for a specific letter of intent.

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1 Q How much later on, according to your recollection,
2 did they say that?

3 A I don't know.

4 Q A minute later, five minutes later?

5 A I really don't know.

6 Q I'm going to distribute to you, and we will use
7 it a few times, a document which Ohio Edison has
8 distributed in connection with the 24-hour rule from
9 Mr. Firestone's testimony.

10 There are typed copies of Mr. Firestone's notes
11 of the August 1975 meeting. I think all parties have them.

12 Have you seen this document before?

13 A No, I have not.

14 Q Now, assuming with me for a second that these
15 are typed copies of Mr. Firestone's minutes, would you
16 look at the 7th entry on page 1 after Duncan. The last
17 sentence, "Suggest Beck recommendation is for now to be
18 considered WCOE proposal." Does that refresh your
19 recollection as to whether or not Mr. Duncan said
20 very early on in the meeting, let's assume for purposes of
21 discussion that the Beck recommendation is the WCOE
22 position.

23 A No, it doesn't refresh my recollection. As I
24 say, I just plain don't remember.

25 CHAIRMAN RIGLER: Where was your reference,
Mr. Lessy?

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MR. LESSY: The 7th item down after Duncan

dash are here today to get -- the last sentence of that.

"Suggest Beck recommendations for now to be considered
the WCOE proposal."

MR. REYNOLDS: I might point out that the second
reference down seemr o be the statement Mr. White made
that is referenca in the letter that was writtne by the
Witness on January 7, 1976.

BY MR. LESSY:

Q No, you also testified this morning about
a memorandum that was to be circulated. Who suggested,
according to your recollection, that the memo be
circulated?

MR. STEVEN BERGER: What kind of memo are you
talking about?

MR. LESSY: Memorandum based upon some of the
agreements reached at the August 1, 1975,
meeting.

MR. STEVEN BERGER: Are you referring to the
letter of intent?

MR. LESSY: Yes.

THE WITNESS: I frankly don't recall whether
or not it was one of our people who made the
suggestion that they formalize it or whether Mr. Duncan
volunteered that information.

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I just plain don't recall at this point.

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BY MR. LESSY:

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Q Let me read you -- I'm distributing what will be 11080 of this morning's transcript. Looking at lines 14 through 19, it says, as I recall, indicated we had no basic objections to the particular option, and if that was, in fact, their recommendation, and they felt that was what they wanted to go with, that we would be better satisfied to have from them some more formal document indicating that selection.

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Your testimony this afternoon is that you are not sure if WCOE wanted the document or if Ohio Edison wanted the document; is that correct?

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A No, that is not correct.

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What I was talking about was who initiated the initial talk about the letter of intent.

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It was my understanding that, of course, we did prefer to have a letter of intent. But I really though you were referring to who initiated the very first talk about a letter of intent. I don't know who initiated -- what form this formal proposal might take.

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I don't remember who brought it up, the letter of intent versus something else.

MR. LESSY:

Q Let's look at the August 1 minutes again.

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1 Let's look at the bottom entry on page 2 after
2 Cheseman, where he says the notes say "Essentially,
3 right. Suggest OE and WCOE start to draft a memo of
4 understanding."

5 According to my reading of these minutes, that is
6 the first time that is mentioned.

7 Would you accept that as stating that WCOE was the
8 one who wanted to get a memorandum of understanding,
9 initiated it or does that not refresh your recollection
10 at all?

11 A No, I will --

12 MR. STEVEN BERGER: Can I have some
13 idea as to where Mr. Lessy is going?

14 MR. LESSY: It will be clear shortly.

15 MR. STEVEN BERGER: It will appear shortly?

16 MR. REYNOLDS: I will object to the form of
17 the question. If he wants to use a document that has been
18 distributed for purposes of the next witness' testimony
19 that are minutes prepared by the Witness that is coming on,
20 on a meeting and use those to refresh this Witness'
21 recollection, that may be appropriate.

22 The way the questions are now being worded, I
23 doubt very seriously that is what he is doing. I think
24 ought to confine himself with respect to this
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Witness in using it to refresh his recollection.

I object to the form of the question.

MR. LESSY: Will the reporter read back the question.

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

THE WITNESS: I doesn't really refresh my recollection. I only have a general recollection of what transpired at the meeting.

The specific sequences of events I have no recollection of.

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BY MR. LESSY:

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Q Have you ever seen -- I am showing you a document which has been received in evidence in this proceeding as Applicants Exhibit 15. It is a letter dated October 20, 1975 from Mr. Thomas Kayuha to Mr. Duncan.

Have you ever seen this letter before, Mr. Wilson?

A I can't recall whether I have ever seen it before. I may have seen it at the office. I don't recall.

Q Did you review with counsel before your testimony today certain documents which might have been relevant to your testimony?

A No, I don't believe I did. There may have been some reference to these two statements that I put in. Although I don't recall that there was.

I did ask to see a copy of the -- again of the letter I wrote to Mr. Cheeseman. But there was no general discussion of documents, no.

Q Looking at the bottom of the first paragraph, there is three lines from the bottom there is another thought.

"Following Mr. White's statement" -- and I am suggesting now -- "that Ohio Edison Company has no problem with its concept and therefore assured WCOE that we were agreeable with going forward to work out the legal, technical and economic details required to implement such a concept, various members of the WCOE committee felt a letter of

1 intent' was required to somehow memorialize the understanding
2 reached that date.

3 "It was at that point you so graciously offered
4 to draft such a letter."

5 Does that refresh your recollection as to who
6 requested that a letter of intent be drafted?

7 A No, it does not.

8 Q Do you agree with the statement that
9 Ohio Edison agreed in principal with the prepayment concept
10 at that time?

11 A Yes, I believe Mr. White stated so at the
12 meeting. I think -- my recollection is the phrasing was
13 something like we have no particular objection to that
14 proposal.

15 There were some tax ramifications that I believe
16 the company felt needed to be further explored, but I think
17 that was about all I remember about it.

18 He indicated that we had no particular objections
19 to the proposal.

20 Q Do you have any reason not to believe that the
21 letter of intent was requested by WCOE and not Ohio Edison

22 MR. STEVEN BERGER: I object, your Honor.

23 He has testified as to his recollection as
24 best he can on this now and I think it has gone far enough.

25 MR. LESSY: I have not asked that question, sir.

1 CHAIRMAN RIGLER: Well, the question is whether
2 the question has been asked.

3 I will permit it at this point.

4 THE WITNESS: May I hear the question again?

5 (The reporter read from the record as requested.)

6 THE WITNESS: Only my recollection that we
7 were -- I felt, my recollection of the meeting was we felt
8 that a letter of intent would be appropriate, so I think --
9 I certainly got the impression we were as interested as the
10 WCOE people were to formalize this proposal.

11 MR. LESSY: Would you read that answer back to
12 me, please?

13 (The reporter read from the record as requested.)

14 BY MR. LESSY:

15 Q With respect to your letter, the third paragraph,
16 when you write, "You or one of your associates then indicated
17 that you would need something more assuring than the
18 company's oral indication that it had no conceptual
19 difficulty with your preferred approach," does that
20 refresh your recollection as to who requested the letter
21 of intent based on your letter of January 7, 1976?

22 A I have testified I have no recollection of who
23 requested the letter of intent, who made the initial
24 request.

25 I know the results of the meeting, and that is

1 what I said.

2 I have no recollection of who made the initial
3 statement and where it went to from there.

4 Q If Ohio Edison agreed in principal with
5 prepayment and if a memorandum was at least requested by
6 WCOE and maybe by Ohio Edison towards that agreement, then
7 how can you say on page 2 of the middle paragraph of your
8 January 7, 1976 letter that OHio Edison not receiving the
9 agreement in principal language was your basis for not
10 contacting Beck and going forward with Ohio Edison's end
11 of the study?

12 A Because it was a fact.

13 CHAIRMAN RIGLER: Because it was --

14 THE WITNESS: Because it was a fact.

15 BY MR. LESSY:

16 Q Wasn't checking figures to go forward
17 independently of the letter of intent to be drafted by
18 Mr. Duncan?

19 A No, that wasn't my understanding.

20 Q Couldn't they go forward independently?

21 A They did in fact go forward independently. But,
22 as I indicated, we were waiting on this letter of intent
23 before we communicated the results of my study to
24 Mr. Cheeseman.

25 Q But there was no reason that you didn't discuss

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1 the study with Mr. Cheeseman prior to the receipt of the
2 letter, was there?

3 A The only reason was that again we felt that to
4 formalize this procedure we ought to have something in
5 writing that said the WCOE people wanted to select this
6 particular alternative.

7 I saw no reason to discuss it until they agreed
8 upon what they wanted to ask us for.

9 Q Were you instructed by Mr. White not to go
10 forward with checking the figures with Mr. Cheeseman
11 until you received a letter of intent?

12 A I don't recall that I had any instructions
13 from Mr. White other than the instructions or our
14 understanding at the meeting that I would take a look at the
15 figures.

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Q Did you tell Mr. Cheeseman that you would not check the figures or go forward with Ohio Edison's checking of the study until you received the letter of intent?

A Not at the meeting, no.

Q Any other time?

A In the letter.

Q Except for the letter.

A In the letter I gave him my understanding.

Q Did you tell Mr. Duncan at any time you were not going to go forward with checking the figures and going forward with the study until you received such a letter?

MR. REYNOLDS: You mean other than this letter?

MR. LESSY: Yes.

THE WITNESS: I didn't speak to Mr. Duncan at all.

BY MR. LESSY:

Q Wasn't there a long discussion of figures at the meeting? By that I mean the August 1, '75 meeting between Ohio Edison and WCOE?

A There was some discussion of the figures, I recall. Mr. Cheeseman, I believe, either he or his associate made a presentation. I wouldn't say it was a long discussion but there was some discussion of figures, yes.

Q Isn't it a fact you agreed to promptly come to Indianapolis a couple of weeks after the meeting to do that?

eak2 1 A No, it is not.

2 Q On page 2, paragraph 1 of your letter, you write
3 that "We have examined your alternative No. 1 and we can
4 see nothing basically wrong with your approach from a rate
5 base or operating expense standpoint although you may recall
6 that property taxes, for example, had been inadvertently omitted.

7 Isn't inclusion of property taxes and costs a
8 legal question whose answer is not always clear?

9 A I don't think there would be any need to involve
10 legal people in the inclusion of property taxes. Property
11 taxes follow plant and just as a matter of course, they
12 would be included as a cost of service.

13 Q How about plant in progress?

14 A We have never included construction work in progress
15 in any of our rate base calculations to date.

16 Q Now, going to the last paragraph of page 2 and
17 I don't mean the last full paragraph, I mean the last sentence,
18 "If and when you are prepared to make a more definitive recom-
19 mendation to your clients . . . However I will again review
20 in general the procedures used and it continues." Is it
21 your position that the prepayment concept, alternative
22 No. 1 is not a sufficiently definitive recommendation for
23 you to go to Indianapolis?

24 A I don't have any reason to go to Indianapolis that
25 I know of for any purpose at the moment. It is my understanding

eak3 1 that until we receive this letter of intent that we don't really
2 know just exactly which of those alternatives that the
3 WCOE people prefer, at least not in a formal fashion.

4 I would see no reason to do anything further with
5 it until we do have some definitive indication from them that
6 this is the alternative they prefer.

7 It is the alternative recommended by their engineers.
8 That doesn't mean that the WCOE people prefer that one. As
9 I indicated at the top of the letter that I had already
10 examined the thing from the standpoint of taking a look at
11 it to see whether or not it was in accordance with FPC procedure
12 and as a matter of fact, it was.

13 So that really, there is no occasion that I know
14 of to go to Indianapolis. There might be if WCOE were to
15 select another alternative.

16 Q Do you feel that R.W. Beck has made a "definitive
17 recommendation" to WCOE?

18 A I would leave that to R. W. Beck and WCOE.

19 Q You write, "If and when they are prepared to make
20 a definitive recommendation," you will take certain action.

21 MR. REYNOLDS: I believe it was more definitive, Mr.
22 Lessy.

23 MR. LESSY: More definitive.

24 THE WITNESS: When we find out precisely what they
25 want, we will take a further look at it. If they prefer their

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2 their alternative that their engineer recommended, I
3 am prepared to talk about it; if they prefer something else
4 we will talk about that.

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BY MR. LESSY:

Q Are you forgetting Mr. Duncan's statement that OE is to assume that the prepayment plan is the preferred plan of WCOE that was made at the meeting?

A I don't think Mr. Duncan's representations at the meeting satisfied our desire to have something more formal in writing as to the proposal that the WCOE people prefer.

Q Is the subject of the letter of intent to be one that Ohio Edison has agreed in principal to go forward on prepayment, two, that WCOE has committed itself to prepayment?

A I think -- I don't really know what my conception of the letter of intent may be.

I think it is a drafting problem for Mr. Duncan. But we certainly need something to indicate that it is proper to go forward with further study on that proposal if indeed that is the proposal that the WCOE people prefer.

I don't think the issuance of the letter of intent completely wraps the matter up.

I think it is what shall we go forth with from this point.

Q I don't believe you answered my question. If you don't know -- would you read the question back, please?

(The reporter read from the record as requested.)

THE WITNESS: I guess I can't answer your question

1 any better than that.

2 BY MR. LESSY:

3 Q Would you agree, then, if the subject of the
4 letter of intent is merely to state that Ohio Edison agreed
5 at that meeting in principal to go forward on prepayment,
6 then there is no reason that OHio Edison couldn't go forward
7 in checking out its end of the study?

8 A I don't --

9 MR. REYNOLDS: Objection. I think counsel is
10 arguing with the witness now.

11 I feel we have been over this sixt different
12 ways and he has given his best answers to the questions as
13 framed.

14 I don't think what we heard was anything more
15 than a rephrase of the last series of questions.

16 MR. LESSY: I think by letter of intent
17 there may be a couple of things in mind.

18 CHAIRMAN RIGLER: Overruled.

19 THE WITNESS: My concept of the letter of intent
20 would be to indicate which of the alternatives set forth in
21 the various plans the WCOE people prefer.

22 It is not my concept that the letter of intent
23 would simply indicate what Ohio Edison has said.

24 It would probably do both.

25

1 BY MR. LESSY:

2 Q I am going to refer you back to Mr. Firestone's
3 typed notes. The last page, John R. White, fourth from
4 the bottom, "Okay to prepare memo committing each of
5 us to pursue study of the LA concept."

6 Does that refresh your recollection in any way
7 of what was to be included in the letter of intent?

8 A I thought that was precisely what I said just a
9 minute ago, that I would expect that the letter of intent
10 would indicate that the WCOE people prefer the prepayment
11 plan and that Ohio Edison has indicated that they approve
12 of the concept in principal and let's go forward and take a
13 further look at it.

14 Q Now, the data in the study, the Beck study,
15 are all of the data in the Beck Study, are they all 1970 data?

16 A No, I don't think so.

17 My only reference to 1970 earlier was that that
18 was the starting point that Beck used in developing their
19 investment figures. So that they would have
20 added to those original figures by project or otherwise.

21 Q How about the current data or the data on the
22 municipal wholesale customers, their systems, loads, sizes?
23 Do you know what the year of that data is?

24 A No, I don't.

25 Q Now, I have a couple questions about the graph

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1 known as Applicants Exhibit 166.

2 To what times of the year is this sketch
3 applicable?

4 A I drew this as being a winter peak month.

5 Q Where on the chart would the municipals' peak
6 occur in the summer?

7 A Well, again, both the Ohio Edison peak and
8 the municipal peak would be moved over to, oh, probably
9 around 2:00 o'clock in the afternoon if we were talking
10 about the summer.

11 MR. LESSY: Could you read that back, please?

12 (The reporter read from the record as requested.)

13 BY MR. LESSY:

14 Q Would the industrial peak remain at 2:00 o'clock
15 in the summer?

16 A The industrial peak depending upon which month we
17 are talking about would move around from 11:00 in the
18 morning until sometime in the afternoon.

19 I am not sure that it would be 2:00 o'clock or
20 just exactly when it would be.

21 It would be a daytime peak and it would probably
22 occur sometime within 11:00 to 4:00.

23 Q Perhaps 2:00?

24 A Could be 2:00.

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1 Q Isn't it a fact that in the summer the municipal
2 industrial peaks peak at about the same time?

3 A I'm not really sure that is absolutely true.
4 They could peak close together, yes.

5 Then this graph is only relevant to the winter
6 months.

7 A That is not true. As a matter of fact, since I
8 have shown Ohio Edison system peaking at seven o'clock, the
9 condition I have shown is for the winter month,

10 However, what I'm trying to do on this graph
11 represents a multitude -- not a multitude, but 300-some-
12 odd or perhaps a thousand industrial customers with one
13 line.

14 It would be many lines. So that -- and the same with
15 the municipal. I'm showing one line for municipal, whereas
16 there are 20.

17 So that in a simple sketch like this, it is
18 difficult to indicate precisely the condition I was speaking
19 of.

20 What I was doing in my study was to compare the
21 some of the individual industrial loads with their
22 contributions to the system peak.

23 I tried graphically here to show a representation
24 of that.

25 CHAIRMAN RIGLER: But that is Mr. Lessy's

b2 1 question, which is, does the industrial load contribute
2 substantially more to that peak in the summer or in the
3 winter?

4 THE WITNESS: I believe in the study I made that
5 there would still only be approximately a 35 percent
6 contribution to the peak in the summertime, as well as the
7 wintertime.

8 That the relationship of the total industrial
9 loads which would be simply the maximum peaks or the billing
10 loads of the industrial customers, that contribution
11 in the summertime, as well as other times of the year,
12 would be approximately 75 percent.

13 It may go up some in the summertime.

14 But let us say on the average for the year, there
15 would only be a 75 percent contribution to the system
16 peak.

17 In fact, in this study, in this study that I did
18 that has been referred to a couple of times, where I
19 used the FPC procedure, we did, in fact, examine the
20 full 12-month period. That study was based on a full 12-month
21 period.

22 MR. SMITH: Would the municipal peak follow
23 the system peak throughout the entire study?

24 THE WITNESS: Yes, sir, it does.

25 MR. LESSY: No further questions.

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1 CHAIRMAN RIGLER: Is there any redirect?

2 MR. STEVEN BERGER: Yes, there is.

3 REDIRECT EXAMINATION

4 BY MR. STEVEN BERGER:

5 Q Mr. Wilson, as to the filing that the company
6 made of the 138 kV rate to municipals for the Federal
7 Power Commission, were it not for the fact that you were
8 filing a rate case, would Ohio Edison have filed a rate for
9 138 kV with the Federal Power Commission?

10 A No, we would not --

11 Q In May of 1975, no, we would not at that
12 time. because as I indicated, we were looking
13 forward to a full test year ending in June of '76.

14 And that would have encompassed delivery,
15 we felt, at the time encompassed delivery to Miles at
16 138 kV.

17 However, since we didn't expect that to
18 begin until the end of the year, we would not have filed the
19 138kV rate, because of the FPC rule which indicates
20 that the service to be offered should be, in effect, I
21 believe it is after 30, but not more than 90 days from
22 the date the rate is filed.

23 MR. BERGER: I would like to have marked as
24 Applicants Exhibit 171 (OE) a letter dated August 14, 1974,
25 from Mr. Wilson to Mr. Bixler.

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1 (Whereupon, the document
2 referred to was marked
3 Applicants Exhibit No.

4 171 (OE) for identification.)

5 BY MR. STEVEN BERGER:

6 Q Mr. Wilson, do you recognize this letter?

7 A Yes, I do.

8 Q Is it a letter you sent to Mr. Bixler?

9 A Yes, it is.

10 Q Who is Mr. Bixler?

11 A Mr. Bixler is our Warren Division manager.

12 MR. BERGER: I would like to move the admission
13 of Applicants 171, your Honor.

14 MR. CHARNO: Could we inquire whether this
15 document was produced on discovery?

16 The Department hasn't seen it before, is the
17 reason we asked. Since it falls within the time frame
18 of the contemporaneous materials that were produced, we
19 were just wondering.

20 MR. STEVEN BERGER: I'm not sure whether it
21 was or was not produced, your Honor.

22 At this point I'm not certain.

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1 MR. REYNOLDS: I will try to determine it if was.
2 The problem is it could have been produced and not
3 picked up in a rough screen. If it wasn't picked up in a rough
4 screen, even though it was produced, i would have no way of
5 knowing.

6 I can see if it was something furnished to them,
7 pursuant to their designation after doing a rough screen of
8 documents. It could have been produced and not been one of the
9 documents pulled when they went through the documents initially
10 for a rough screen.

11 MR. CHARNO: The only problem we have with that is
12 that we rough screen by files and not individual documents.
13 As I say, we have the contemporaneous documents.

14 MR. REYNOLDS: I will undertake to determine it.
15 I am not so sure I can answer the question. I have no reason
16 to believe it was not produced.

17 MR. CHARNO: I have no reason to believe it was
18 produced.

19 CHAIRMAN RIGLER: Well, is there an objection?

20 MR. CHARNO: I would like to request that the Board
21 postpone ruling upon it until we can determine whether or not
22 it was produced during discovery.

23 MR. REYNOLDS: Why does that make any difference?

24 MR. STEVEN BERGER: Why is that relevant?

25 MR. CHARNO: I would use that as a basis for

eak2 1 objection it it wasn't.

2 MR. REYNOLDS: On what grounds?

3 MR. CHARNO: If it has relevance at this point,
4 we have been denied the opportunity to investigate the
5 underlying facts concerning it. Mr. White has already
6 testified and left. He is one of the recipients of this.
7 I believe he testified concerning this area.

8 MR. REYNOLDS: Mr. Wilson is here.

9 MR. STEVEN BERGER: He is the author of the letter.
10 I you want to cross-examine his, cross-examine his.

11 CHAIRMAN RIGLER: All right. I am not sure whether
12 you have objected or not.

13 MR. CHARNO: Well, I will lodge an objection. If
14 we have inadvertently missed this document, my objection is
15 ill-founded and I would admit it.

16 CHAIRMAN RIGLER: You have asked me to defer ruling?

17 MR. CHARNO: That is correct.

18 MR. LESSY: I join in that on the same grounds.

19 CHAIRMAN RIGLER: We are going to deny
20 that request. We will direct Applicants to furnish what
21 information they have with respect to discovery. The
22 objections will be overruled and we will receive it.

23 (The document referred to,
24 marked Applicants Exhibit
25 171(OE), for identification,
was received in evidence.)

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BY MR. STEVEN BERGER:

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Q Mr. Wilson, we have had some discussion about a study that you have prepared on the question of what the rates would reflect to wholesale and industrial, if they were regulated by -- if they were both regulated by the Federal Power Commission.

You did not run a study of the -- of what the rates would be to wholesale and industrial, if they were both regulated by the PUCO, is that correct?

A That is correct; I did not make such a study.

Q Why didn't you run such a study, Mr. Wilson?

A Because of time constraints. Frankly, I just a day or so ago finished this study and this seemed to be the most appropriate data available. We are using a peak responsibility method with the Public Utilities Commission of Ohio as well as the Federal Power Commission now.

So quite frankly, I wouldn't expect the results of the study to be that much different, whether I did it under PUCO or FPC.

Q What do you expect to be the average, if you would, contribution to peak of a municipal customer of a given industrial customer on the OE system. I am really referring now specifically to the Exhibits 167 and 168 and the study that was done on zero contribution to peak, 25 percent contribution, 50 percent, 75 percent and 100 percent.

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What would you expect to be the typical industrial customer's contribution to peak of a given municipality?

1 MR. LESSY: Will you define what you mean by the
2 size load of a typical industrial customer, Mr. Berger?

3 Ohio Edison has a whole range of industrial
4 customers in terms of size of load.

5 THE WITNESS: May I answer that, Mr. Berger, by
6 referring you to the --

7 CHAIRMAN RIGLER: Wait a minute.

8 BY MR. STEVEN BERGER:

9 Q 5000.

10 MR. LESSY: Typical industrial customers of Ohio
11 Edison having --

12 BY MR. STEVEN BERGER:

13 Q What is the typical load of industrial
14 customers on the OE system, Mr. Wilson?

15 A I would suspect maybe it would be something
16 less than 1000 because when we talk about industrial
17 customers, while my study here is related to transmission
18 industrial customers, we have also primary industrial
19 customers.

20 Q Limit my question to transmission industrial
21 customers.

22 A With transmission industrials just out of the
23 air I would say somewhere around 1000.

24 Q What would you expect to be the average
25 contribution to peak of the municipal customer of such an

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1 industrial customer?

2 A Since the municipal systems are for all
3 practical purposes replicas of Ohio Edison's load curve,
4 I expect the average to be around 75 percent.

5 I have actual contributions on the statement
6 I prepared for the City of Wadsworth and Ohio Brass.
7 Those contributions ran 59 percent starting in October 1975,
8 59 percent, 54 percent, 75 percent, 73 percent, 65 percent,
9 65 percent, and I believe 86 percent in April.

10 Q If Ohio Edison were to take on -- if Ohio Edison
11 were requested by an existing industrial customer of a
12 municipality or by a new industrial customer coming into the
13 area to be served by Ohio Edison and that new industrial
14 customer contributed for hypothetical purposes 100 percent to
15 Ohio Edison's system peak, would Ohio Edison have a right to
16 refuse to serve such a customer?

17 A No, we would not. We would serve that customer
18 at the filed rate or at that particular type of service he
19 is requesting regardless of what his contribution might be
20 to our system peak.

21 Q Does a municipality have a right to pick and
22 choose the industrial customers that would be most
23 advantageous to its load configuration?

24 A I don't think they are under the same constraints
25 we are.

1 We hold ourselves out to serve any industrial
2 customer that comes into our service territory.

3 I am not sure the municipals
4 have that same constraint.

5 I would suppose they could pick and choose.
6 I am not sure they would.

7 I am sure they would have the opportunity to pick
8 those customers that would be most desirable to them from a
9 load standpoint.

10 Q To the extent that competition exists for
11 industrial customers, the municipality has the opportunity to
12 choose which customers it will compete for?

13 MR. LESSY: Objection. That is a leading
14 question.

15 MR. STEVEN BERGER: I think that is redirect. I
16 think I have a right to lead him as to this.

17 MR. LESSY: I don't agree with that.

18 CHAIRMAN RIGLER: I am not sure you have a right
19 to lead on redirect, but I will overrule you.

20 THE WITNESS: May I have the question, please?

21 (The reporter read from the record as requested.)

22 MR. LESSY: I object on the second ground that
23 it is beyond the scope of cross, competition of this nature.

24 CHAIRMAN RIGLER: Overruled.

25 THE WITNESS: The answer is yes.

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MR. STEVEN BERGER: We have nothing further.

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MR. REYNOLDS: Mr. Chairman, for the record I

would like to state that the document that has been marked as Applicant Exhibit 171 was produced on discovery and picked up by the Department in a rough screen, not once but twice.

Two copies of it are in the Department's files according to our records.

MR. HJELMFELT: I have no recross.

MS. URBAN: The Department has no recross.

MR. LESSY: No further questions.

CHAIRMAN RIGLER: Thank you, Mr. Wilson.

(Witness excused.)

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Whereupon,

LYNN FIRESTONE

was called as a witness on behalf of Ohio Edison Company and,
having been previously duly sworn, was examined and testified
as follows:

DIRECT EXAMINATION

BY MR. STEVEN BERGER:

Q Mr. Firestone, you are the same Mr. Firestone
who has testified here before with regard to your expert
testimony that was filed herein, is that not correct.

A Yes, that is correct.

Q Without going through all of your qualifications
again, Mr. Firestone, would you state what your present
position is with Ohio Edison?

A I am Vice President of Ohio Edison, having
responsibilities in connection with engineering for our
company, being responsible for electrical, mechanical,
nuclear engineering, power supply planning and engineering in
connection with our office buildings.

Q Mr. Firestone, at counsel's suggestion, did you
read the testimony of Mr. Bingham as to the operation of an
electric power system?

A Yes, I did.

Q Are there portions of that testimony that you
could adopt in describing the operations of Ohio Edison?

1 A Yes, there are.

2 Q More specifically, could you give us the portions
3 of Mr. Bingham's testimony that you are prepared to adopt on
4 behalf of Ohio Edison?

5 A I will try. I reviewed that testimony and have
6 noted certain portions of it which are applicable
7 to Ohio Edison and then several of the areas where I
8 should supplement it or take exception to it.

9 First, page 8151, line 12 to page 8157, line 12,
10 that is applicable to the Ohio Edison system, although I
11 would like to supplement what Mr. Bingham had said there
12 with respect to the reason why utilities strive to go to higher
13 transmission voltages. He placed a great deal of emphasis
14 on the reduction of electrical losses. We at Ohio Edison
15 have placed emphasis on the achievement of the so-called economy
16 of scale and also environmental considerations.

17 If you are to compare a 345 kV circuit, for
18 instance, with a 138 kV circuit, it might cost roughly twice
19 as much to build per mile, twice as much per mile to build a
20 345 kV circuit as a 138, yet it would have six to eight
21 times the electrical capability.

22 Therefore, in terms of kilowatts of power
23 transmission capability, per dollar, the 345 line would be
24 much more economic type of transmission or transmission
25 voltage than 138 .

eak3 1 Along the same line, the right-of-way
2 required for one, 345 kV line might be on the order of 150
3 feet in width whereas the right-of-way requirement for six
4 to eight, 138 kV lines constructed side-by-side could be on the
5 order of 600 to 800 feet.

6 Moving on then, Mr. Bingham's testimony on page
7 8171, line 6, to page 8174, line 12, that would
8 be applicable to Ohio Edison. The portion starting on 8175,
9 line 25, going through page 8182, line 24 is applicable.

10 The portion starting on page 8203, line 8 to 8205, line
11 18 is applicable. The portion starting on page 8210, line 23,
12 going through page 8214, line 3 is applicable. The portion
13 starting on page 8250, on line 9 and going through 8265, line
14 6 is applicable.
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BY MR. STEVEN BERGER:

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Q Does that complete the specific portions of Mr. Bingham's testimony that you have adopted for Ohio Edison?

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A Yes, it does.

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Q Are there any other limitations that you would place upon your adoption of those portions of Mr. Bingham's testimony?

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A Yes, there are. A couple.

10

Mr. Bingham referred to a "optional customer."

11

Ohio Edison has no such customer designation. However, I believe that the substantiation of Mr. Bingham's testimony in connection with his optional customer would be applicable to the class of customers that we supply at 138,000 volts.

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Also Mr. Bingham referred to the nominal voltage classes utilized by Cleveland Electric Illuminating.

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Ohio Edison has a great variety of nominal voltage classes.

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For the record, I will recite the ranges of those.

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Our generator voltages would range from a low of 2400 volts to a high of approximately 21,000.

22

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Ohio Edison's transmission voltages are 345 kv, 138 kv and 69 kv.

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Our subtransmission voltages are 69 kv, 345.5 kv,

1 and 23 kv.

2 Our distribution voltages are 23 kv, 12,47, 12,
3 8.32, 7.2, 4.8, 4.16 and 2.4 kv.

4 Again, I believe Mr. Bingham's testimony is
5 applicable to the Ohio Edison situation if we were to
6 just substitute the nominal voltage numbers that are
7 applicable to Ohio Edison for the numbers he has recited
8 for Cleveland Electric Illuminating.

9 MR. STEVEN BERGER: I would like to mark as
10 Applicants Exhibit Number 172 (OE) an Ohio Edison system map.

11 I think everybody has a copy of it.

12 (The document referred to was marked
13 Applicants Exhibit (OE) 172
14 for identification.)

15 BY MR. STEVEN BERGER:

16 Q Mr. Firestone, do you have a copy of it?

17 A Yes, I do.

18 Q Mr. Firestone, looking at Applicants Exhibit
19 Number 172, would you describe the size of each of the
20 generating plants that are presently on Ohio Edison's
21 system and also the size of the generating plants expected
22 to be placed in service and the dates when those plants are
23 expected to be in service?

24 A Yes, I will.

25 Starting with the plant that is located pretty

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1 much in the lower right corner of the map and which is
2 shown symbolically as being on the Ohio River, we have the
3 R. E. Berger Plant in which we now have installed five
4 generating units, five steam, coal-fired steam type
5 generating units plus a small installation of diesel
6 generating units, the total plant capability is 564 megawatts.

7 Moving to the right, upriver from that, the
8 next plant would be the Toronto Station in which there are
9 three coal-fired steam units having a total capability
10 of 172 megawatts.

11 Next we would come to the W. H. Sanmis Plant
12 in which there are seven coal-fired steam units. Plus a
13 small diesel installation. Having a total plant capability
14 of 2405 megawatts.

15 Q I see that that is on the river as well.

16 A Yes. These three plants are all situated along
17 the Ohio River.

18 Q I take it that the placing of generation on the
19 Ohio River is by design?

20 A Yes, it is.

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1 Q Could you tell me the reason for that,
2 Mr. Firststone?

3 A Well, access to cooling water, of course, is
4 an important parameter in siting a power plant and
5 equally or more important is access to low cost fuel.

6 This portion of the Ohio River lies relatively
7 close to the coal fields in the area, the Southern Ohio
8 and Western Pennsylvania, West Virginia and Kentucky
9 fields, where up until recently the cost of coal has
10 been fairly low, and there is certainly an abundant
11 supply.

12 In addition to that the transportation of coal
13 by river barge is favorable economically as compared
14 to transporting coal by rail.

15 Primarily, the decision was influenced by the
16 availability and the low cost and low transportation
17 cost of the coal.

18 We, of course, compared the cost of coal
19 along the Ohio River to the cost of coal delivered by rail
20 up to our places in our load area.

21 We evaluated the economic trade off of
22 building transmission lines and transporting energy
23 by wire versus transporting coal up to the load area.

24 And, in our case, it was economic to develop the
25 system, as we have, locating our major stations along

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1 the Ohio River, and then developing transmission lines to
2 deliver the power from the stations along the Ohio River
3 up to Akron, Youngstown, Warren load areas.

4 Q Would you continue with your description of the
5 generation . reflected on Applicants 172?

6 A Yes. Again, just describing or
7 describing first the plants that are now in
8 service or that were in service and predated CAPCO, and
9 moving northeasterly, we would come to the plant identified
10 on the picture as East Palestine.

11 This is a very small plant having four
12 coal-fired steam units in it, and having a
13 total capability of 12 megawatts.

14 Above and to the right of that, we find
15 the Newcastle Station having installed in it five coal-fired
16 steam units, plus small diesel installations totaling
17 430 megawatts of plant capability.

18 Moving up and to the left from that, we find
19 the Niles Power Station where we have two coal-fired steam
20 units installed, plus a combustion turbine peaking
21 type unit.

22 The plant capability there is 265 megawatts.
23 Moving across into the left we come to the
24 George generating station where there are two coal-fired
25 steam units installed, having a total capability of 96

bw3

1 megawatts. Moving on across and to the north, we come
2 to the Edgewater Power Plant where there are three coal-
3 fired steam units installed, plus an installation of
4 combustion turbines having a total plant capability of
5 231 megawatts.
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1 Moving to the left of that we have a West
2 Lorain Power Station in which there are combustion turbines
3 together with a steam turbine installed.

4 This is known as a combined cycle plant and is
5 oil-fueled and has a total capability of 235 megawatts.

6 Moving on to the left of that we have the
7 Norwalk Station which again is a small station having five
8 coal-fired steam units in it plus a small diesel, having a
9 total plant capability of 26 megawatts.

10 And I believe that leaves only in the lower
11 left-hand part of the picture the Mad River Plant where
12 there are three coal-fired steam units installed plus a
13 combustion turbine installation and total plant capability
14 there is 141 megawatts.

15 CHAIRMAN RIGLER: That is a good break point
16 for the day.

17 We will see you at 9:30.

18 (Whereupon, at 4:40 p.m., hearing in the above-
19 entitled matter was recessed, to reconvene at 9:30 a.m.,
20 Thursday, 3 June 1976.)

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