Before

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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In re: R-80051196 - Pennsylvania Public Utility Commission, et al. versus Metropolitan Edison Company. Investigation into a requested $76.5 million dollar rate increase.

C-80072105 - Metropolitan Edison Company versus Pennsylvania Public Utility Commission. Complaint against temporary base rates fixed by the Commission in its Order of May 23, 1980 at I-79040308.

R-80051197 - Pennsylvania Public Utility Commission, et al. versus Pennsylvania Electric Company. Investigation into a requested $67.4 million dollar rate increase.

C-80072106 - Pennsylvania Electric Company versus Pennsylvania Public Utility Commission. Complaint against temporary base rates fixed by the Commission in its Order of May 23, 1980 at I-79040308.

Hearings.

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Harrisburg, Pennsylvania

November 19, 1980

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Pages 573 to 715

MOHRBACH & MARSHAL, INC.
27 North Lockwillow Avenue
Harrisburg, Pennsylvania
17112

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Hearings.

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Stenographic report of hearing held in Hearing Room No. 3, North Office Building, Harrisburg, Pennsylvania,

Wednesday,
November 19, 1980
at 10:00 o'clock a.m.

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JOSEPH P. MATUSCHAK, ADMINISTRATIVE LAW JUDGE

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APPEARANCES:

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THE ADMINISTRATIVE LAW JUDGE: On page 188 there is an error. The sentence reads: We are going to dodge the ruling -- referring to the interlocutory appeal -- we are going to dodge the ruling of it and pass the buck to the Commission.

The right statement by me was: We are not going to dodge the ruling. We are not going to dodge the ruling of it and pass the buck to the Commission. The word, not, makes a little difference.

So we will have the record corrected.

The other preliminary matter is we have three complaints filed by the American Society of Utility Investors. We had inadvertently neglected to note that the petition concerning the extraordinary rate relief matter and the petition concerning the temporary rates were not complaints against the Metropolitan Edison Company but were complaints against the Public Utility Commission.

We had indicated that we were going to dismiss those two petitions at the last meeting we had. We are now informed that those petitions, which are against the Pennsylvania Public Utility Commission and against Metropolitan Edison, are not consolidated with these hearings but are being segregated and are being given separate treatment.

The only complaint of the American Society of Utility Investors is the one involving the general rate increase and the complaint that the rate increase requested is not sufficient, and also the matter of the petition to intervene. Those are open matters with us.

Any ruling that we had made as to the first two complaints we will withdraw those rulings and let the Commission staff proceed on those.

Are there any other preliminary matters?

MR. MORRIS: One other preliminary matter, Judge Matuschak. On September 30, 1980 the Commission entered an order in connection with the issue pertaining to preferred dividends of Metropolitan Edison. In response to that order of the Commission, Metropolitan Edison and the Commission staff responded to Victaulic's motion.

Victaulic, by the terms of the order, was given an additional 15 days to reply to the answers of Metropolitan Edison and the staff. Such a reply would now be untimely.

I am not able today to indicate whether we received a copy of that order. We do not, as to the lawyers participating in this hearing, remember adverting to it and I wanted to notify Metropolitan Edison that we would be requesting permission of the Commission, which I assume is properly addressed to them, to file a reply, which will be several days untimely by the time we do it, and I thought I should advise them of that on the record today.

Our letter will be addressed to the Commission.

THE ADMINISTRATIVE LAW JUDGE: Very well.

MR. RYAN: Are you going to delay acting, Judge, on the remaining petitions of that Society of Utility Investors, the ones that do apply to this case?

THE ADMINISTRATIVE LAW JUDGE: I think at the last hearing we had my thoughts were that the Society was in the wrong forum.

MR. RYAN: Right, I heard part of that comment.

THE ADMINISTRATIVE LAW JUDGE: But I said I will reserve definite ruling on it and give them an opportunity to give me a memorandum of law within a week.

I also indicated that we would not consider the petition to intervene in the form in which it was submitted because it referred to the other two matters also, and if he would re-form that petition to intervene then we would rule on that.

MR. RYAN: That may come up on Friday of this week.

THE ADMINISTRATIVE LAW JUDGE: Any other preliminary matters?

MR. BARASCH: Yes, Your Honor. Your Honor, I have two matters I would like to take up.

First of all, in the last set of proceedings we had a very extensive off-the-record discussion with Mr. Newton, some of which we then put on the record in the form of data requests or other questions.

After thinking the matter over further, we have a few other questions for Mr. Newton, but I don't particularly have the need to recall him. I don't need to get these answers from him on the stand if the company would provide responses in the form of a data request.

To expedite the matter, rather than prepare a formal interrogatory and serve it and all the rest, I would like to do it on the record orally.

I have a rough typed copy of the matter in front of me which I will give to Mr. Ogden so that he won't have to have the court reporter --

THE ADMINISTRATIVE LAW JUDGE: Well, put it on the record so that all parties may have notice of what your requests are.

MR. BARASCH: Regarding both Metropolitan Edison and Pennsylvania Electric Company, regarding the PJM reserve capacity payments reflected in the year ending March 31, 1981, we would like Mr. Newton or some other officer of the company to provide several things.

First of all, the date of forecast for the installed capacity and accounted for obligation for the portion of the test year prior to May 30, 1980 and for the portion after May 30, 1980.

Secondly, the three-year periods for forced outage rate experience that were used in the two forecast periods referred to in the first part of the question.

Then a question. Isn't it true that the first time the TMI outage will be reflected for purposes of PJM reserve capacity expenses, that is to say, actual expense or credit not projected, is for the planning period beginning June 1, 1982?

If not, when will the TMI outage be reflected for reserve capacity expense purposes?

Furthermore, isn't it true that the planning period beginning June 1, 1982 will reflect nine months of the outage averaged with 2.25 years without the average?

Fourthly, isn't it true that it will not be until the planning period beginning June 1, 1984 that the full effect of the outage for PJM purposes will be experienced due to the three-year average forced outage rate?

Finally, isn't it true that the effect of the company's filing is to begin to charge in rates full reserve capacity expense of the outage even though the full reserve capacity expense will not actually be experienced until the planning period beginning June 1, 1984?

Now I have that in written form, and for ease of Mr. Ogden's response I will give him a copy of it.

Those questions apply with equal impact for both Met-Ed and Penelec.

One other matter, Your Honor --

THE ADMINISTRATIVE LAW JUDGE: Do any of the other parties wish a copy?

MR. BARASCH: I would have to have it Xeroxed on the break.

THE ADMINISTRATIVE LAW JUDGE: Depending on the parties who request a copy, you can give them a copy.

(Transcript continues on next page.)

MR. BARASCH: There's another matter, Your Honor. Yesterday we received in our office correspondence from GPU regarding a Met-Ed Exhibit J-3, a letter I think dated November 13th from Floyd Smith to the Commission. And in that letter there's a reference to a request that the Companies have made with the State Department of Revenue for an extension regarding final payment of a 1980 gross receipts tax and regarding payment of a tentative 1981 gross receipts tax that are now presently due in April of 1981. That issue is ver, relevant to these proceedings, obviously, because of the credit line that the Company has testified to in the proceedings.

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What we would like is if the Company's attorney could inform us as to whether or not that formal request has actually been filed. And if so, we'd like a copy so that we understand what the status of the proceeding is with the Department of Revenue. And if it hasn't been filed, we'd like to make an outstanding request to be provided with a copy when and if the request actually is made to the Department of Revenue.

MR. OGDEN: Counsel for the Company presently seated will have to check with the counsel for the Company who handles tax matters to ascertain whether and if the filing will be made.

THE ADMINISTRATIVE LAW JUDGE: You can report back.

MR. BARASCH: Thank you, Your Honor. That's all I had preliminarily.

MR. OGDEN: Your Honor, we had indicated we would have Mr. Huff here for Met-Ed accounting matters and Mr. Carroll here for Penelec accounting matters. It doesn't matter to me which one of them goes first. Do I take it that Mr. Huff may have more questions directed to him than Mr. Carroll and perhaps we ought to go with him first?

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MR. BARASCH: As far as today's concerned, that certainly is true for the Consumer Advocate's office.

MR. OGDEN: Mr. Huff.

THE ADMINISTRATIVE LAW JUDGE: Has he been sworn in both cases?

MR. OGDEN: Yes. He's been sworn in the Met-Ed proceeding, both in the petition for extraordinary rate relief and with respect to the temporary rate matter hearing.

THE ADMINISTRATIVE LAW JUDGE: Let me swear him in, and then we'll cover all stops.

DAVID L. HUFF, recalled as a witness on behalf of Respondents, was sworn and testified as follows:

MR. OGDEN: Mr. Huff's available for cross-examination.

THE ADMINISTRATIVE LAW JUDGE: Staff.

MR. SUFFIAN: Thank you, Your Honor.

FURTHER CROSS

BY MR. SUFFIAN:

Q Mr. Huff, can you tell us when you believe TMI-2 will go back in service?

THE ADMINISTRATIVE LAW JUDGE: I think someone else testified about that.

MR. OGDEN: Your Honor, Mr. Arnold was here last week and gave some fairly extensive testimony. And I don't think Mr. Huff, being the accounting witness, can give you --

MR. SUFFIAN: If he has any idea, I'm asking if he could. I know Mr. Arnold was testifying for the most part on TMI-1, I believe, in the third or fourth quarter of 1981 being authorized to go back in service and actually going back into operation. If he doesn't have any idea or if he can't answer the question, that's all right.

THE ADMINISTRATIVE LAW JUDGE: Well, if he can't answer the question, you can request of the Company that they provide that information for you in one form or another.

MR. SUFFIAN: Okay. Perhaps you could provide that in the form of a data request. I think we focused last week on TMI-1

MR. OGDEN: I'm sorry. Maybe I missed the question. Would the Reporter read the question back, please?

(The Reporter read back the question as follows:

"Mr. Huff, can you tell us when you believe TMI-2 will go back in service?")

MR. OGDEN: I fail to see the relevancy of that, Your Honor. We're not making a claim in this case for TMI-2, either in rate base or in the income statement.

MR. SUFFIAN: Well, I think it's clearly relevant. Insofar as the associated cleanup costs of TMI-2 are concerned, it might be claimed as an allowable rate-making expense recoverable through rates. And also in the area of taxes. If perhaps TMI-2 is abandoned, this is part of the examination I intend to get into this morning, the effect that would have on taxes.

THE ADMINISTRATIVE LAW JUDGE: I think it does have some relevancy. And aside from that, if my recollection's correct, the Company has been making statements in the public press about that, anyway. I think it does have some relevancy, too, on the financial condition of the Company and its financial costs. We'll direct the Company to furnish that information, either by a witness or by a response.

MR. SUFFIAN. Data request would be sufficient for Staff, Your Honor.

BY MR. SUFFIAN:

Q Mr. Huff, I believe Mr. Arnold testified last week that he anticipated cleanup costs for TMI-2 in the neighborhood of $1 million or somewhere thereabouts.

A That's correct.

Q Do you recall that? Okay. Now, assuming that TMI-2 is abandoned, what would you anticipate the abandonment loss to be for tax purposes?

MR. OGDEN: Your Honor, I'm not aware that there's been any testimony in this case that a decision has been made to abandon TMI-2.

MR. SUFFIAN: I didn't say a decision had been made. I said "assuming". This is hypothetical: Assuming that TMI-2 were abandoned, what would you anticipate the abandonment loss to be for tax purposes.

MR. OGDEN: I don't think that question's relevant, Your Honor.

MR. SUFFIAN: I think it's clearly relevant, Your Honor. If it eventually is abandoned, then certainly this would generate a significant loss for tax purposes which could be utilized by the Company in reducing its taxable income in the past and in the future, and this would have an effect on rates.

MR. OGDEN: But there's been no testimony that this is the assumption that the Company's making.

THE ADMINISTRATIVE LAW JUDGE: Well, it's a hypothetical question as to the effect of abandonment. We overrule the objection.

THE WITNESS: I don't know the exact numbers. There's nothing that I have in my power of recall at the moment. Met-Ed's investment in TMI-2 is on the order of 360 million for electric plant in service, I believe. The effect of the abandonment, if we hypothetically did abandon it, it would be probably in the range of 300 million or thereabouts. That number, subject to checking, of course, may be higher or lower.

BY MR. SUFFIAN:

Q And this 300 million, or thereabouts, abandonment loss if TMI-2 were abandoned, when added to the cleanup costs for TMI-2, would result in, oh, about $1.3 billion, assuming that the cleanup costs would amount to approximately 1 billion, as Mr. Arnold testified to last week?

A Given those two numbers added together, it would be 1 billion 3, yes. They're both subjected to wide variations.

Q I understand that, Mr. Huff. Mr. Huff, would this loss -- or could this loss be carried back, I believe, three years to offset taxable income in past years, thereby reducing tax liability to the federal government?

A The tax laws provide for carry-back provisions, yes. Whether or not there is enough taxable income in the prior three years to cover that, I think that probably the amount that would be carried back would be fairly small in comparison to the 1.3 billion.

Q But it could be carried as the tax law provides?

A There is a provision that it could be carried, yes.

Q And given the history of earnings of Met-Ed and GPU, what do you -- and the magnitude of loss, approximately $1.3 billion, how many years would you estimate that the loss could be carried into the future to offset taxable income of Met-Ed and GPU?

MR. OGDEN: Your Honor, this calls for so many assumptions that it amounts to speculation.

THE ADMINISTRATIVE LAW JUDGE: Well, it's his general knowledge as to what -- I get he wants to know what the carry-back and the carry-forward is.

MR. SUFFIAN: Precisely, Your Honor. That's what it is. I understand that these are very rough estimates, and that's why I'm phrasing the questions as I am, given the history of the taxable earnings of the Company and the magnitude of the loss.

THE ADMINISTRATIVE LAW JUDGE: How many years could you carry forward under the IRS rules?

THE WITNESS: At the moment I forgot. I think it's seven years.

BY MR. SUFFIAN:

Q So you believe that it could in effect offset your taxable income, Met-Ed's and GPU's taxable income, for the entire seven-year period?

A There is a provision there to carry forward seven years. It may entirely offset any earnings that may be available, yes.

Q Okay. That's a possibility. Now, has GPU claimed as a loss deduction on its federal income tax the losses, all or any portion of the losses, attributable to the accident at TMI-2?

A I'm troubled with the definition of the word "losses".

Q Well, has it claimed as a deduction the loss due to the investment in TMI-2 due to the accident?

A No. Once it's declared abandoned or declared a loss, the entire loss must be recorded on the financials and taken at this time. That has not been done.

Q Now, what losses has Met-Ed or GPU claimed on its federal income tax return insofar as the TMI-2 accident goes?

A I believe the expenditures of the cleanup have been included. However, I'm not certain.

Q Then there is a possibility that a certain portion of the loss and the investment in TMI-2 may have been claimed on the tax return?

A Not the investment on the books. That has not been claimed as a tax loss.

Q Now, could you tell us why at this point in time none of the investment in TMI-2 has been claimed as a loss because of this accident?

A Why it has or --

Q Has not. You said it has not to date, and I'm asking you to explain --

A It's my understanding that it is not considered as a loss. And until such time that a determination that it is a complete loss, we believe -- are going forward on the assumption that it is coming back in service. So therefore it is not a loss.

Q Mr. Huff, are you familiar with the Internal Revenue Service revenue rulings with regard to the timing of an abandonment loss for tax purposes?

A No, I am not.

Q Well, a specific revenue ruling, Revenue Ruling 54-581, mentions that an abandc ment loss is deductible when the loss is actually sustained rather than when the overt act of abandonment occurs. Now, accepting that this revenue ruling does state this, that it's when the loss is sustained rather than the overt act occurs, wouldn't it be true that the abandonment loss for TMI-2 investment should be taken in the year that the accident occurred?

A If it was considered a loss, I believe you're correct. But it's not considered a loss.

Q It wasn't considered sustained in the year that the accident occurred?

A No.

THE ADMINISTRATIVE LAW JUDGE: In that connection, could part of it be considered as a loss without considering the whole plant as a loss under the tax rulings?

THE WITNESS: I believe that may be possible.

BY MR. SUFFIAN:

Q And no portion of the actual investment was considered as a loss insofar as it was sustained in the year that the accident occurred; is that true?

A To my knowledge, yes.

Q Mr. Huff, do you know what a technical advice memorandum is?

A I know they exist. I have read some on very few occasions.

Q Would you agree that it's advice given by the IRS national office to a field office regarding the current examination of a specific taxpayer in the context of a particular factual setting?

A That's my understanding of what they are, yes.

Q Now, could you tell us whether Met-Ed has ever requested a technical advice memorandum from the IRS during a current examination with regard to capitalized pension costs and taxes?

A It's my understanding that Met-Ed itself has not, no.

Q Now, in Met-Ed's most recent examination by the IRS did the examiners ultimately deny capitalized pension costs and taxes as a current expense in calculating taxable income?

A (No answer).

Q Perhaps I should refer you to your response or the Company's response to Trial Staff's Interrogatory No. 16. Do you have that reference, Mr. Huff?

A Yes, I do.

Q I believe Page 1 of 1 of your response states that the IRS was contemplating the disallowance as a current income tax deduction of the pension costs and taxes but they did acquiesce in the matter and they permitted the deduction for tax purposes.

A For the years '77, '78.

Q Right. Now, the capitalized pension costs and taxes for Met-Ed claimed in this rate case -- correct me if I'm wrong -- are $1.347 million.

A Right.

Q Now, did you take as a deduction in calculating your federal income taxes -- for rate-making purposes, now -- these capitalized pension costs and taxes?

A No, we did not.

(Transcript continues on following page.)

Q You did for tax purposes for the government but you did not for rate-making purposes?

A Yes.

Q Thank you. Have you completed your answer, Mr. Huff?

A We indicated in that response that we thought the national office would reverse that ruling and I have supplied the staff with a copy of the letter that you refer to which indicated that the national office feels that they are not deductible at current tax expense.

Q But they had been permitted as deductions for federal income tax purposes in the past?

A In the past, yes.

Q And they have not been deducted from federal taxable income for rate-making purposes in this case as you testified?

A No, they have not.

Q Now I am going to refer to a question that I directed to Mr. Arnold last week and which he referred to the accounting witnesses, yourself and Mr. Carroll.

When TMI-1 is in the testing phase, how will the test energy costs be treated for accounting purposes?

A Referring to the third quarter of this year when Mr. Arnold indicated they would be going through certain testing procedures?

Q Correct, I think it is the third quarter of 1981 and the fourth quarter --

A I stand corrected, yes, the third quarter of 1981. There are at least a couple scenarios that come to mind in the accounting treatment of it. One would be -- let me rephrase that -- both of these scenarios that I am talking about are covered by the provisions that are in the energy cost rate, both the current and the proposed.

The first scenario is that Three Mile Island No. 1 is a plant that is in an extended outage and therefore when power is produced, whether it is through the test program or whether it is when it is in full operation is immaterial, is that the cost of the fuel would be charged to fuel expense and therefore would be covered in the energy cost rate.

The other scenario that I can think of at the moment would be the situation where, if the Commission agreed to let us capitalize the operation and maintenance expenses and the depreciation in that instance, it still would be covered under the ECR rate, the test energy, and I put that in quotes, that we would probably charge the customer the average cost of the other sources of energy other than nuclear through the ECR rate and offset the amount capitalized.

Q I didn't catch the last.

A Offset the amount of the capitalized portion. In other words, the customer would be given credit for that.

Q You are saying there would be capitalization of the fuel and energy costs associated with nuclear?

A When I talk of capitalization I believe the proposal that was in the modification of the petition was that we would charge, I believe it was, Account 184 or 186. In that terms I mean capitalized.

Q I am just trying to understand what is capitalized. It would just be the nuclear fuel and energy costs in the testing phrase and you would expense what, now?

A The proposal was to also capitalize the restart expenses and the depreciation, in other words, collect it for recovery over some future period. Under this scenario it is possible that we would, through the ECR rate, charge the customer for the value, if you will, of the test energy and credit those expenses so that the total dollar amount recovered in this capitalized piece would be much smaller.

Q What would be recovered through expenses under the second scenario? Did you mention that a portion would be recovered through expenses? Or were you talking about the credit to expenses to offset the charge for capitalization --

A I meant that the offset credi[illegible] be added to the expenses that we had capitalized for future recovery.

Q Or reduce the expense.

A They would reduce it, yes. But in either case the energy cost rate would cover it. In other words, have provisions in the energy cost rate formulas to cover the test energy.

Q But in the second scenario I think you mentioned the amounts would be capitalized rather than go through the energy cost rate, so that is a bit different, is it not?

A No, the energy cost rate would, and for illustrative purposes perhaps the average cost of energy is 30 mills from other sources as opposed to nuclear of three mills, the 30 mills would be recovered through the energy cost rate because that is the average of other power sources. It may produce two or three hundred thousand dollars or whatever that number may be multiplied by the megawatts of test. That two or three hundred thousand dollars would be charged through the energy cost rate and the offset of the two or three hundred thousand dollars would be credited against the expenses that were capitalized for recovery over some future period.

Q A second matter that was discussed last week, could you tell us whether the original and revised forecasts, the load and capacity forecasts prepared by Messrs. Cherry and Raber, were used by you in the preparation of your original and revised budgets?

A Now you are saying original and revised?

Q Well, there was an original budget and that was revised.

A Yes.

Q Are you familiar with that?

A Yes.

Q Mr. Raber, I believe, last week testified that he submitted a revised load and capacity forecast dated May 23, I think, 1980, and that this revised his original load and capacity forecast.

I am asking you now whether these load and capacity forecasts prepared by Messrs. Cherry and Raber were used by you in your development of your original and revised budgets.

A First of all, a revision as you are referring to a revised budget, in our nomenclature is not a revised budget per se, it is a later forecast. That differentiates between an original budget which we track against constantly, and are doing now, as opposed to a later estimate.

It is a complicated procedure whereby the load and capacity forecast is utilized in the generation component and in the fuel forecast component in which many people are involved.

Specifically to the May 23rd, whether that in fact was used, I cannot answer at this time. I would have to check that.

Q Will you check that for us and get back to us on that, please?

A Yes.

Q In the form of a data request. I imagine that would be the best procedure. Could you tell us also whether the original load and capacity forecast was utilized by you in developing your original budget?

A Yes, that one, yes.

Q Thank you. Could you tell us whether any expenses associated with the conservation and load management master plan are claimed in this rate case?

A It is my understanding they are not.

Q They are not?

A They are not. Now maybe I can qualify it a little bit. Within the GPU charge that Met-Ed has in its budget there may be some of Mr. Hood's time in working on it but it is not identified as a load management program.

So to that degree there is a possibility one could conceive that there is a very small piece of his time within that charge.

Q Would that be limited to Mr. Hood or would there also be included the time of other personnel working on the load management and conservation master plan?

A It is possible within that charge there may be other people involved.

Q Do you know what the magnitude of that would be?

A No, I do not.

MR. SUFFIAN: That is all the cross-examination we have today, Your Honor, of Mr. Huff.

THE ADMINISTRATIVE LAW JUDGE: Consumer Advocate?

MR. BARASCH: Thank you, Your Honor.

BY MR. BARASCH:

Q Good morning, Mr. Huff.

A Good morning.

Q Turn your attention to your Exhibit B-1, Part 8, page 1. Most of the questions I will be asking you concern Part 8 of B-1. We may as well start there. Do you have that, sir?

A Yes.

Q Take a look at column 6, line 5. I see there that you have not included an adjustment for late payment charge revenues along with your other adjustments to achieve the required return, is that correct?

A That is correct.

Q You may have been present when Mr. Carroll testified a week or two ago. Were you, sir?

A No, I was not.

Q If not, would you accept, subject to check, that Mr. Carroll in the Penelec proceeding included a late payment charge increase associated with the requested revenue increase?

A Subject to check I will accept that.

Q Would you also accept that his late payment charge adjustment was .225 percent of revenues which, if we were to apply that same percentage to your filing, would amount to about $108,000 of increased revenues?

A It is possible.

Q If we were to perform a similar calculation for Met-Ed, in order to normalize the value shown in column 3 -- do you see column 3 there?

A Yes.

Q You would basically divide the late payment charge value of $573,000 by the $242,441,000 figure to come up with the ratio, would that be the correct approach? At least if we wanted to get a comparable percentage figure for Met-Ed.

A I am not sure if that is a correct approach but if you are coming up with a comparable number, that may be one way of doing it, yes.

Q And that number would be approximately .236 percent, does that sound right, sir, just looking at the numbers?

A Yes, sir.

Q Mr. Huff, isn't it true the late payment charge is assessed as a percentage of the aggregate dollar amount of outstanding bills beyond the due date as a general proposition?

A That is correct, yes.

Q So if the company would receive higher revenues on each bill due to higher base rates in a rate case, then the aggregate outstanding bills would be larger, all factors remaining the same, wouldn't they, sir?

A All factors remaining the same, but I think that is important, that assumption.

Q Now do you have any reason to believe that if this company was awarded a rate increase that we would not see concomitant growth in the late payment charges the company would be receiving from its ratepayers?

A It is entirely possible it may go up, it is entirely possible it may go down.

Q Could you enlighten me as to why in your preparation of the Met-Ed case you have not made an adjustment while Mr. Carroll has in the Penelec case? Is there some theoretical difference between these two companies?

A No, I think it may be a matter of -- as you understand, many people are involved in preparing a rate case. In the accounting preparation of it we calculate the revenue requirements on line 7, and in conjunction with Mr. Carter, utilize his services to allocate whatever line numbers are above that.

It may have been an oversight.

Q Let me just ask you one other question. Would you anticipate that as the rates of this company go up, not only would the value of an individual person's late payment charge increase but that you also might have new delinquent accounts that you never had before?

A That is a very difficult thing to agree to because of many circumstances, one of which I am not sure whether there is a direct correlation between the size of the bill. It certainly may be the mood of the customer or maybe the economic conditions.

I can't respond to what causes it to go up or what causes it to go down.

Q Have you noticed any pattern over the time that you have been with the company that as your base rates go up what happens to your delinquent accounts? Have you noticed any correlation?

A There is an increase in the uncollectible accounts. However, I think that a great portion of that is due in part to bankruptcies. We have found that --

Q What did you say?

A I am sorry, I am thinking of the write-off of the delinquent accounts.

I have not done a study to show the relative pattern of delinquent accounts. It is my recollection that we had thought that they would go up more than they have, that the customer accounts receivable have been well within our expectation.

Q Thank you. Just so I understand this, Mr. Huff, the late payment charge, is that a percentage fee tacked onto a bill? How was that charge determined?

A I believe it is a percentage, yes.

Q So at least in theory if the amount of the bill outstanding beyond the due date grows, then the late payment charge associated with that higher amount will likewise grow?

A That is right.

Q Now I think earlier when I first started into this you indicated that -- we were discussing some ratios that I gleaned from the Penelec exhibits -- that what I was proposing was one way but I think you might have said may not be the best way. Do you have another approach that you think would be a better way of reflecting that ratio or relationship?

A Not specifically, but I am troubled a little bit by the direct correlation that as the bill goes up so does the late payment charge. Theoretically that is entirely possible. Theoretically, it is possible, also, and I am talking in general terms, and I repeat, that it probably would depend on some economic conditions.

Q So when you were saying you not sure, you were not questioning the numeric calculations I was making?

A No.

Q You were questioning perhaps the theory behind my question?

A That is right.

Q Would you turn to page 12 of Part 8, please? Do you have that, sir?

A Yes.

Q Now, at line 8 on B-1, Part 8, page 12, you have an increase in expense to amortize the investment in Berne and Stony Creek. Do you see that, sir?

A Yes, sir.

Q In addition to these amortizations, isn't it true that Met-Ed has also included a total of about \$3.1 million in rate base for the unamortized balances in these investments?

A That is correct.

Q And that we would find in, I think it is, B-1, Part 2, page 14.

A That is correct.

Q Isn't it true that you are requesting the amortization because the investment in these facilities now in the company's opinion will not be utilized, is that correct?

A That is correct.

Q The amount to be amortized for Berne and reflected in rate base for Berne is only the amount of the costs incurred for engineering, licensing and environmental studies, is that correct?

A That is correct. The land cost is not included. We anticipate selling that.

Q The book cost of that land invesment for Berne, excluding these licensing and related costs, is about $4.4 million?

A That number does sound familiar.

Q I think it is $4,380,000.

A Yes.

Q Now I think you just testified that the Berne property is presently for sale, that the company intends to sell it?

A That is correct. Mr. Barasch?

Q Yes.

A I think I stand corrected on the Berne site. It is my recollection that there was a reversal of allowance for funds used during construction during the late springtime which reduced the actual balance to $3,834,000.

Q So the $4.38 million would include AFDC?

A Yes.

Q When you back out the AFDC you end up with what?

A $3,834,000. That was as a result of a prior FERC audit. I am sorry if I interrupted your train of thought.

Q No, that is okay. As I understand from your testimony, I think it is page 8, you are testifying that if you sell this land at a profit you intend to flow that back to the ratepayers, is that correct?

A Yes.

Q How do you propose to amortize that gain? Are you going to do it over a five-year period or what? Assuming that there was a sale for profit. The reason why I propose this five-year period in my question is here you are proposing to recognize the expenses and amortize them over a five-year period in this case.

I am just wondering, would you also propose that the benefits derived from the sale above book would also flow to the ratepayer over the same period of time?

A I think that would be one approach that we would heavily consider, yes.

Q Now another matter which is really important is, if it is the company's position that upon profit from the sale it is going to be credited to ratepayers, would you immediately begin to amortize that profit on the books or would you wait until a rate case comes along? Do you understand what I am getting at in my question?

(Transcript continues on next page.)

4-1

A Assuming that the sale occurred prior to the conclusion of the rate case and acceptance or denial of revenues. But if it was accepted that it should be in the rate base, it would be my thought process that we would start amortizing it when the ratemaking started or when the rates were started.

Q So if we had a sale above book between now and the end of this case, you would propose to make some sort of adjustment in this proceeding to reflect that profit over perhaps a five-year period or some other period?

A Yes.

Q Now let's say the sale is not concluded until after this case is over. Would the Company begin to show that on its books immediately, or would they wait until the next rate case so that in fact we actually see the benefit flowing through to the ratepayers over a five-year rated period?

A This is assuming that the Commission allowed it in rate base?

Q Well, the assumption I'm making is the sale takes place after the conclusion of these proceedings. Obviously, implicit in that is it would have been permitted in rate base.

A I would think that we would start amortizing immediately in accordance with ratemaking if it's included in base rates.

4-2

Q I don't understand the phrase "in accordance with ratemaking".

THE ADMINISTRATIVE LAW JUDGE: Well, it wouldn't be included if it came after the case. It wouldn't be included until the next rate case, would it?

MR. BARASCH: That's what my question is aimed at.

THE ADMINISTRATIVE LAW JUDGE: The question refers to any sale made after this case is concluded and after the Commission makes its order. That's the assumption, as I understand it.

MR. BARASCH: That's correct, Your Honor.

THE ADMINISTRATIVE LAW JUDGE: What would be your treatment then? Would you wait until the next rate case?

THE WITNESS: But the point I'm trying to make is if it is in the rate base, this unamortized gain -- it would seem to me that we would probably treat --

THE ADMINISTRATIVE LAW JUDGE: It couldn't be in the rate base because you wouldn't have it yet. At the conclusion of this case and at the conclusion of this hearing, the conclusion of the Commission's order, it could not be in rate base because you haven't sold it. So if you haven't sold it until after this case is concluded and the Commission makes its order, how are you going to amortize it? Are you going to amortize it thereafter immediately, or are you going to wait until the next rate case? It couldn't be in the rate base because it hasn't taken place.

THE WITNESS: I understand that, but my thought process is we have an amortization of engineering costs.

MR. BARASCH: I think we're getting a little bit confused here.

THE ADMINISTRATIVE LAW JUDGE: I think I understand what he means now. He means if you have the amortization of engineering costs, then you would adjust that amortization to reflect a gain. Is that what you mean?

6-3

THE WITNESS: It's obvious that we have not fully explored that piece of input. It does seem to me that in our latest or in the last two or three years in delving with rate cases and with amortization, that if an order includes an element of cost or if it includes an item such as this in rate base, then the package we treat in there. And I would presume that our decision would be that if there was a gain subsequent to the inclusion of the engineering costs in rate base, that in all probability we probably would start amortizing the gain.

BY MR. BARASCH:

Q Immediately?

A I may be incorrect.

Q Immediately before the next rate case?

A I would think so, yes. That does not mean that in the next rate case it would not be adjusted similar to what we have in income tax refunds.

THE ADMINISTRATIVE LAW JUDGE: You mean you would be amortizing the costs, engineering costs, and so forth, in this rate case. And then if there was a gain there after the case was over, you would modify that amortization to reflect the gain. Is that --

THE WITNESS: No. What I think I'm saying is that we would probably amortize the gain and would amortize the --

4-4

THE ADMINISTRATIVE LAW JUDGE: I mean the general effect would be -- if you amortize the gain, then the general effect would be that the amortization of engineering costs would be reduced.

THE WITNESS: But I recognize -- no. I think it's two separate items, Your Honor. I recognize that what Mr. Barasch is asking me is that if I start amortizing it immediately, then the customer does not get a benefit. It does not preclude in ratemaking similar to I believe an instance we have in income tax refunds, that in the next rate case it will be taken in its entirety in the adjusted rates.

MR. BARASCH: That is exactly what I was driving at, Your Honor. The question is if it begins to be amortized on the books of the Company in an intervening space between rate cases, the ratepayer will only pick up some future piece of that cost unless some sort of backward looking adjustment

4-5

is present in the next case to recapture that amortization of gain.

THE ADMINISTRATIVE LAW JUDGE: I say in effect what it would be would be reducing the amortization of the costs by the benefits that you get.

MR. BARASCH: For the Company's purposes, but not the ratepayer. That's exactly what the concern is.

MR. OGDEN: Your Honor, I think it's important to clarify the record here. We're talking about the assumption that there is in fact a net gain. That is not the only assumption one could make.

THE ADMINISTRATIVE LAW JUDGE: The assumption that there would be a sale and the assumption there would be a gain.

MR. OGDEN: A net gain.

MR. BARASCH: I was certainly aware of the assumptions.

BY MR. BARASCH:

Q I believe in your pre-filed testimony you state that the Stoney Creek property must revert back to the Commonwealth because of the Pennsylvania Scenic River Act of '72. Do you recall that?

A Yes, I do.

Q I wonder, do you know what provision of the Act or under what provision of the Act the property must revert back, what the basis for your statement is?

A The basis of the statement is in the agreement between the Commonwealth of Pennsylvania and Pennsylvania Power and Light Company -- and PP&L is the titleholder of the land -- there was an agreement which Met-Ed -- I don't know if they countersigned it or whether they agreed in principle to that -- that in exchange for this property that was going to be used for this generating site, PP&L exchanged some other lands. And in that agreement if the project does not become a going project, then the Commonwealth keeps the property that PP&L gave them plus they regain title to the property that was transferred to PP&L.

4-6

MR. OGDEN: Mr. Barasch, I think, if I recall correctly, there was an outstanding interrogatory from your office in this area. I think I also recall that there's a response in preparation in writing for the question.

MR. BARASCH: I'm aware of that. I was partially trying to see whether we could get some of that here now. I won't belabor this much longer.

BY MR. BARASCH:

Q So when you said the property would revert back to the Commonwealth, we start with the proposition that the Commonwealth owned the property originally?

A Yes.

Q And does that property revert back, to the best of your knowledge, without any recourse for the Company or without any provision for compensation to the Company?

A In answer to that question, that's the one question which I'm trying to resolve. It's a legal question. I am not a lawyer. And that's what's holding up the response as you originally asked for. I do not know whether there's recourse or not.

Q Well, is there a provision for the compensation in the event --

4-7

MR. OGDEN: I think, in fairness to Mr. Huff, this does get into a question of mixed fact and law. While Mr. Huff does have the facts, his lawyers are still working on putting together the legal aspects of it for a complete response.

MR. BARASCH: We were aware of that when we asked the interrogatory. Excuse me one second.

(Off the record from 11:11 a.m. to 11:12 a.m.)

BY MR. BARASCH:

Q There's one other matter I wanted to ask you about this. Has Stoney Creek ever been included in the rate base of Metropolitan Edison Company in the past? For that matter, has the Burne facility ever been included in rate base in the past?

A Burne has, yes.

Q I wonder if you could give me -- take the time that you need -- tell me when Burne was first put into rate base and to what extent it has been put into rate base. And with Stoney Creek the same thing. If it hasn't been in rate base, I guess what I'm asking is, Is this the first time the Company is requesting it in rate base, when in fact we know it's not going to be used and useful.

A It's my recollection that Stoney Creek has never been in rate base. Burne has been in rate base for a short period of time. My recollection is it was in for perhaps a year in the mid-1970s.

4-8

Q Okay. Well, as far as I'm concerned, for Burne if you'd like to consult with your other people and report back on that, I'll give you an opportunity to get the information completely. But on Stoney Creek, as I understand the situation, we have had a plant that is basically being held for future use but has never been in rate base.

A That's right.

Q And now the Company here is proposing to place it into rate base now that it's been decided that the plant is in fact going to be used.

A That's correct. May I ask a clarifying question, sir?

Q Sure.

A What is it that you wish to have in respect to Burne?

Q I just wanted you -- if you're willing to stand by your statement completely that it was in for one year, or something, in the mid-'70s, that's fine with me.

A It was in rate base.

Q In other words, there was a previous period in the early '70s and back in the '60s when it was never in rate base; it was in for one year, and then it was removed and is not in now?

A I don't know if it was for one year or -- it was for one rate case.

Q Well, if you could perhaps just identify what the period is for us, between what two cases or whatever.

A It seems to me that R.I.D. 170 and 171 it was taken out of rate base. R.I.D. 68, which was the prior one to that, it was put into rate base. I think those are the two dockets.

Q Thanks a lot.

MR. OGDEN: R.I.D. 64 it may have been.

BY MR. BARASCH:

Q So it was between R.I.D. 64 and 171?

A That's my recollection.

Q And in 171 it was taken out, and then 434 it remained out and then 626 it remained out, and now --

A 308, Phase 1 and 2.

Q I think we've covered everything. Now, then, if you could turn to Page 18 of Part 8. There you are computing an adjustment in the amount of 216,000 for implementation of the RCS, or Residential Conservation Services Program, is that correct, sir?

A Yes, sir.

Q Now, originally that program had been planned for implementation in September of 1980, is that correct, sir?

A At the time of the preparation of the rate case
4-10 that was the anticipated time frame that we would start the program, yes.

Q What actually has been the experience of the Company with this program? Has the program started?

A No, it has not.

Q When is it now expected to be started?

I assume what happened is it was delayed due to the layoffs that have taken place at Met-Ed?

A No, no. I think it's a delay in the full implementation by this Commission and the government as on what it's going to cover.

Q Oh, I see. So it's delay -- you would not attribute the delay to any of the financial difficulties the Company has been in recently?

A No. But if it was implemented today, it would give us considerable problems because we do not have the employees.

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Q Do you have any idea when implementation is now expected to take place?

A In general terms, I think, in talking with people yesterday, it probably will start in the first quarter of 1981, subject, of course, to the same kinds of things that are going on now with final approval of the program.

Q But as you just testified, the Company would be facing some difficulties due to not having employees or adequate employees for the program. Should I assume, then, that there is an expected increase in the number of employees to occur in the first part of 1981 that are earmarked to handle this program?

A Yes, sir.

Q Do you have a claim for that in this case?

A Yes, we do. In conjunction with the $216,000 found on Page 18, we also have 284,000 on Page 9 for the payroll portion of it.

I might add that these two dollar amounts were what were forecasted at that time to be incurred from September 1980 through to the end of the test year. They were not annualized amounts. The annualized amounts would be in the vicinity of $1 million.

Q Now could you stay with B-1, Part 8, Page 9, where you just referred us to. There you're reflecting a computation of the adjustment to payroll expense for rate case purposes, correct?

A Yes, sir.

Q Now, Adjustments 1 through 4 on that page are designed to adjust from the budget amounts of payroll increase to the actual increase, is that correct?

A I didn't hear the last part of your question.

Q You're basically making an adjustment from your budget figures to your actual experience, is that correct, what your anticipated actual experience will be?

4-12

A No. I make an adjustment to the year-end condition, budgeted condition.

Q And that year-end adjustment is based upon assumption of what your actual employee levels will be at that point, correct?

A As budgeted, yes.

Q Now, Adjustment 6 on that page, Mr. Huff, is designed to adjust the resulting payrolls for the additions to employees made during the test year ending March 31, 1981, is that correct?

A Yes.

Q And Adjustment 6 is supported by Part 8, Pages 10 and 11?

A That's right.

Q It appears there are adjustments in specific months; correct?

A Yes.

Q Now, is that because the actual payroll additions made due to new employees was different than the amounts budgeted in those specific months?

A When you speak of actual, in an accounting sense that means something that has occurred. I'm not sure if I completely understand what your question is.

Q Let's try it again. On Adjustment No. 6 you're attempting to adjust the payroll for the additions made during the test year ending March 31, '81, right?

4-13

A That's correct.

Q Now -- and that's supported by what follows on Pages 10 and 11. And there I see that there are adjustments being made in specific months and the normalizing adjustments.

A Certainly.

Q Now, is that because that reflects a variance between what had originally been budgeted and the actual payroll additions that are being made during the test year and the timing of them?

A No. The whole intent of that adjustment is that you have the full year effect of any proposed additions. In other words, we're adjusting payroll to a level that we anticipate on an annual basis at 3-31-81. Therefore, when one projects an addition to be made in a particular month, we must then normalize for the portion of that salary that is

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not in the budget.

Q Fine. Now, at the bottom of Part 8, Page 10, you indicate that you have an adjustment for a 9 percent increase and a 7.71 percent increase. I'm gleaning that from Line 14. Do you see that, sir?

A Yes, sir.

Q Now, isn't it true that the 9 percent increase went into effect on January 1, 1980?

A Yes.

Q And the 7.71 percent increase is scheduled for January 1, '81, right?

A That's correct.

Q Now, why would you be increasing the normalized or normalizing adjustments for the months after January 1, 1980, for the 9 percent adjustment that took place at January 1, 1980?

A I just explained to you the concept of what we're doing, Mr. Barasch, is that in Column 1 the net annual salaries are at the then base rate. It did not include any wage rate increase.

Q So the April -- let me just make sure I follow you. The April '80 figure for 59,000, for example, on the first line did not include the 9 percent increase that occurred on January 1?

A No.

Q Okay. Thank you. I think I understand it unless there was more of an explanation you needed to give.

A In the budgeting process through the computerization runs the concept of budgeting is at a -- whatever base salary the employee has or whatever the anticipated salaries that you would expect to come on. Subsequent to that is then the wage rate increases are applied to the computer runs. These numbers were taken prior to the application of any wage rate increase to accommodate.

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Q See, my confusion is this, Mr. Huff: I assume that the Company put together this base rate filing for both Met-Ed and Penelec in the spring of 1980. I assume.

A Yes.

Q And the difficulty I'm having is understanding why the Company would be backing out a wage increase that was already in place when they put together the filing.

A The answer to that is, Mr. Barasch, that the budget that was utilized --

Q Was a 1979 budget?

A -- was -- only had through September actual of 1979.

Q I see. So the budget that was the underlying basis for the future test year was September or October of '79 --

A That is correct.

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Q Okay. I understand it now.

THE ADMINISTRATIVE LAW JUDGE: Is this a good time to take a recess?

MR. BARASCH: If I could just ask about two more questions, I could close out this line, Your Honor.

BY MR. BARASCH:

Q And the same explanation you just gave me, Mr. Huff, would apply on Adjustments 1 through 4 on Page 9, correct? That is, we backed out the wage rate increase before we put together the filing?

A That's right.

(Transcript continues on following page.)

MR. BARASCH: Your Honor, looking at it further there is really about another five or ten minutes on that point so I think this would be a good time to break.

THE ADMINISTRATIVE LAW JUDGE: All right, we will take a ten-minute recess.

(Short recess.)

DAVID L. HUFF, resumed.

THE ADMINISTRATIVE LAW JUDGE: You may proceed.

BY MR. BARASCH:

Q Just to kind of continue a little bit along the line we were before the break, as we understand it, Met-Ed is asking the Commission to establish rates in this case based upon your estimate of expenses to be incurred during the test year ending March 31, 1981 as normalized, correct?

A Yes.

Q Now it is our understanding from one of Mr. Graham's exhibits a number of cuts in the transmission and distribution area and O&M area and other areas have been made. As I understand it, they were first expected and estimated to be made then deferred then finally they were in fact instituted, is that correct?

A We are referring to the September 12th letter and those proposed --

Q Well, certainly that is a piece of it. First, the company was talking about a series of budget cuts, for example, there were some 79 employees were laid off I think November 1.

A Yes.

Q Then there was a hiatus where nothing occurred and then in fact those cuts were put into place, right?

A A portion of them.

Q At least 79 employees have been removed?

A Yes.

Q Now those November 1 cuts were not reflected in this filing, were they?

A No, sir.

Q So far the company has provided no update, for example, along the lines of B-1, Part 8, page 1 and the other schedules to reflect the impact of those November 1 cuts upon the company's operations?

A No, we have not.

Q Could you provide an update that would reflect the impact of the actual payroll employee cuts that have occurred so far during the test year in this case? And perhaps do it along the line of B-1, Part 8, page 1? Would you be able to do that?

A If it was only restricted to that one item --

Q Do you mean the 79 employees?

A The 79 employees, certainly that is not too difficult to do.

Q Are there other matters that if we really wanted to show the difference between budget and actual experience to date, are there other employee cuts other than those 79, other variances from the original budget?

A Certainly we are aware that Met-Ed is in a rather precarious position with cash flow in this type of activity and Met-Ed has had to make many adjustments, one of which is a payroll freeze on hiring of new additions.

To normalize all of those conditions in effect is the preparation of a new rate case. That takes a considerable amount of time.

The reason it takes a considerable amount of time is because part of the attrition is the people that do the rate cases. We are in a problem area, Mr. Barasch.

Q Let me just make sure I understand it. As far as the 79 employees that were actually cut on November 1, you could give us an update of B-1 to show us what it would have looked like if you had budgeted that initially, right?

A That certainly is on the assumption that one would expect that those 79 employees are going to stay off the rolls. Certainly we were in a position where --

Q I make no assumptions about the information. I am just making a data request.

A I am introducing an assumption because there is a very basic philosophy here that because of the fact we do not have the earnings, because of the fact we do not have the cash, we have had to take drastic measures.

Q I well understand what the company's position would be, but at this point in time for the 79 I am just making a data request.

I think as I understand it you are saying you think you could give us a depiction of what that would look like.

A As an alternative to this, if I may suggest, is what the dollar impact of the 79 employees is on the O&M expenses.

MR. OGDEN: Your Honor, I should note for the record that any such data would be without prejudice to Respondent's position as to what a normalized test year should be in this case.

MR. BARASCH: I certainly have no intention of prejudicing the company's case in that regard.

BY MR. BARASCH:

Q It would be preferred if we could have something that would look like page 1 of Part 8, if that is possible.

A Including revenue requirements?

Q There would not be any adjustment to that. What we are just trying to reflect would be the impact of pulling the 79 out.

A And only restrict it to that piece?

MR. BARASCH: Your Honor, perhaps we could go off the record for a second.

THE ADMINISTRATIVE LAW JUDGE: Very well.

(Discussion off the record.)

BY MR. BARASCH:

Q Mr. Huff, will you be able to provide a calculation similar to what is shown on B-1, Part 8, page 1 to explain the development of the impact of the cut of the 79 jobs that occurred on November 1, 1980?

A Yes.

Q In addition to that, would you be able to report back to us, in the form of a data request, as to the original projection of the number of employees in the test year, which I assume included anticipated new hirings, and segregate out for us the impact of whatever job freeze there may be at Metropolitan Edison to show us what hirings that were originally budgeted for in fact have not been filled?

A Yes.

Q Thank you. Now on page 9 and 10 of Part 8 you reflected in your filing some adjustment to payroll expense for a wage increase that was to come into effect on January 1, 1981. Now is that wage increase due to an already negotiated contract with labor or is it just in anticipation of what you hope to be a settled number after the result of collective bargaining?

A It is my recollection that was a negotiated wage. The contract is May 1, I believe, so at the time we would know what that contract would be.

Q The contract --

A The contract with the union personnel starts May 1 of each year.

Q But you are talking about a wage increase that was due to come into effect on January 1, 1981. Now was that known and agreed to as of May 1, 1980?

A No, I believe that is only a one-year contract in this go-around. I would have to verify that, whether it is a one-year contract or whether it is a two-year contract.

Q So you don't know whether or not that 7.71 percent, whatever it was, increase scheduled to take effect on January 1, 1981 in fact is something that has already been negotiated and agreed to or whether or not it merely represents an estimate of what the company believes will be the negotiated settlement?

A Let me go back one moment. There are two wage rate increases that we are dealing with. Number one is the weekly and bargaining employees. We have not included in here any of the 1981 wage rate increase.

On the monthlies, which is the 7.7 percent, I believe, that is an anticipated amount that would be granted in 1981. There is no contract --

Q There is no contract, it is not a collective bargaining agreement. Are you dealing with the union there?

A No, sir.

Q Will that wage increase actually happen in view of the fact, to the best of your opinion, in view of the present company's financial situation? Do you think it is a valid assumption to assume the company is going to give a 7.7 percent increase to its non-union employees in view of all the cutbacks and other developments in the company?

A I think it probably may be higher, and for a very good reason.

As I indicated earlier Met Ed is in a position where it has substantially less number of employees than it would like to have under normal circumstances. It is true that several of our managers, several of our top-flight people have gone to other companies.

At least in my opinion it would be advantageous to treat your existing employees that you have now to an extent that they also do not leave you. I think it is a very key issue.

Q If you would turn to page 28 of B-1, there you are computing the normalized state and federal income tax expense for the March 31 year, correct?

A That is correct.

Q 1981. I left that out of my question. March 31, 1981 year, is that correct?

A I thought you had said 1981 but that is correct.

Q Isn't it true that this computation excludes a deduction for pension costs and taxes capitalized?

A Yes, it does.

Q I believe earlier in discussions with Mr. Suffian you agreed that the impact of that would be $1.347 million?

A Yes.

Q The theory behind the company's failure to make that deduction for rate case purposes is because the company knows that the IRS is considering a ruling to disallow those expenses as a deduction for tax purposes?

A It was not a failure. It was a judgment that these would not be allowed as a deduction.

Q Yes, I understand, with that adjustment. The reason why you are doing it is because you are anticipating that the IRS is going to rule on the matter so as to disallow such a deduction for tax purposes?

A That is correct.

Q But at this date there has been no definite ruling on that, is that correct?

A Other than what we have read in these tax advices in which the company -- I believe it was stated as Company A, I am not sure who the company was -- but the tax advices did indicate that the national office had agreed that there would not be a tax deduction.

Q But there has been no final ruling on this matter by the Internal Revenue Service?

A To my knowledge, no.

Q Could you provide for us the amounts within that $1,347,000 figure that relate separately to TMI-1 and TMI-2, either on the stand, or could you provide us with that information?

A I could not do it on the stand, and my recollection of the process of identification would mean that we would have to search and research a considerable amount of work orders, so it may take me time to get that information, substantial time.

Q We can agree, though, that there is a piece of pension costs and taxes capitalized that do in fact relate to TMI-1 and TMI-2?

A I think that is a fair assumption, yes.

Q Perhaps you could take that matter and report back to us.

A It may take some time to do it.

Q I understand.

A With that understanding. Once I review it back at the office, we may take a reasonable shortcut approach as opposed to looking through every work order.

Q You just tell us what your best opinion or estimate is of those divisions.

Now I gather, Mr. Huff, that as a citizen you are aware of the considerable discussion that has gone on during the presidential campaigns regarding a business tax cut in 1981, you are familiar with this development in the public domain?

A Not really.

Q Excuse me.

A Not really. I understand there are proposed tax cuts.

Q Well, each of the presidential candidates were fighting among themselves how big the tax cuts should be and when it should be implemented, you are aware of that, aren't you, sir?

A I am aware there is politicking, yes.

Q Now I assume you have not reflected or made any provision for any such anticipated business tax cut in your filing, have you?

A No, and I think to recognize anything like that might be highly speculative at this time.

Q At line 23 of page 28 you compute a federal income tax amount of negative $17,382,000. Do you see that, sir?

A Yes.

Q And yet at the end result of your tax computation on that page, due to tax credits, you show a positive federal income tax expense, is that correct?

A Yes.

Q In the Penelec proceeding the company on a normalized basis in a similar exhibit showed a positive federal income tax corresponding to your line 23 but a negative total federal income tax corresponding to your line 29. Would you accept that subject to check?

A It is possible.

Q Specifically, I am referring to B-1, Part 8, page 20 of 22 in the Penelec proceeding. We have exactly the inverse relationship that you just described in the Metropolitan Edison.

Now why is it that Met-Ed can have a negative taxcomputation but a positive total federal tax?

A Why is it what, Mr. Barasch?

Q Why is it that Met-Ed can show a negative tax computation on line 23 but a positive total federal tax? I wonder if you could explain that to us.

A I think it has primarily the effect of in this computation of reducing that negative amount by the amount of the job development tax credit.

It probably would be far better, Mr. Barasch, if one would look at the total income taxes because in the past rate proceedings we have probably confused the issue a little bit by taking the tax computation piece of it as one line and the job development tax as another line.

We have reduced the negative credit of $17 million by $22 million job development tax credit and show a positive amount, and at the same time, over on page 1 we have taken the credit back again.

It is an allocation or it is a line total of a differentiation between job development tax credit and currect taxes.

Q You say you put it back again on page 1?

A Yes, the credit is on page 1, line 29. In other words, we show a positive current tax and then a negative job development tax credit.

Q In actuality, Mr. Huff, Met-Ed is not paying any income tax at this time to the federal government, is it? I understand the company files consolidated returns. What we are really talking about is Met-Ed is not contributing anything to the tax liability of GPU at the present time, is it?

A Unfortunately, no.

Q On the other hand, is GPU paying any federal income tax at all at this time via the earnings of perhaps Pennsylvania Electric Company or Jersey Central?

A I don't recall whether we are in a tax position or a tax loss position at this point.

Q Do you know whether or not Met-Ed's tax loss is being written off against the taxable income of Penelec and possibly Jersey Central for federal income tax purposes?

A No, I think that Met-Ed's tax loss is taken as Met-Ed's credit, on a consolidated basis all three are together, but I don't think -- at least my understanding is that the other operating companies are not taking Met-Ed's loss.

Q But GPU is taking Met-Ed's loss on a consolidated basis?

A It is part of the consolidated return basis.

Q So when I say taken against I mean you have net earnings perhaps over in Penelec and perhaps Jersey Central versus some losses in Met-Ed and the consolidated impact of all that is that GPU is getting a tax reduction perhaps to zero from Met-Ed's operating loss?

A The net effect of the three operating companies, which are the producers of revenues, may make it down to zero or negative or positive, or whatever the case may be.

A point of clarification, Mr. Barasch, while I am thinking. In prior rate cases there was a formula, I believe, where the loss company did not receive its credits predicated upon its loss. The new GPU taxation formula or agreement in effect says that each company stands on its own as far as its contribution to the overall consolidation.

So if Met-Ed was in a tax loss position, it would get its credits. If Penelec was in a taxable position, it would have to pay its tax.

Q Now how is it that the losses being incurred by Met-Ed today for federal income tax purposes would be reflected in the rates of Met-Ed in the future, especially in view of what we have just talked about on page 28 where a negative federal income tax computation of negative $17 million ends up becoming a positive total federal tax of $3.5 million?

A That $3.5 million is offset by a $22 million carry-back and that is reflected on page 1.

Q You mean the job development --

A The job development.

Q So what you are saying is but for the job development impact it has already been reflected?

A Yes, the job development tax credit is reflected in this filing.

(Transcript continues on next page.)

Q It is your testimony that it is the impact of the job development tax credit that is increasing Met Ed's tax liability so that we end up with a total federal tax being positive? If we were to pull that piece out, we would show a negative?

A Again, I think we're in a confusing situation here. Take the situation on Page 28. We have reduced the current tax -- and that's basically what Page 28 represents, is current tax -- by $22 million. We had a tax loss of $17 million. Carry back all the tax loss reflects, I believe, return of job development tax credit. There's no money that takes place. There's no cash. It's an exchange for tax loss versus job development tax credit.

We then bring that to Page 1. This has produced, as you say, a positive current tax. But at the same time I reduce Page 1 by 22 million. It's a wash.

Q Okay. Thank you.

MR. BARASCH: Your Honor, I'm about half way through my questioning. Mr. Morris had indicated that he had a few questions that he wants to ask. And rather than put him in an awkward position, I'd be more than happy to interrupt my cross and defer to Mr. Morris at this juncture.

THE ADMINISTRATIVE LAW JUDGE: Very well.

MR. MORRIS: Thank you, Mr. Barasch.

BY MR. MORRIS:

Q Mr. Huff, would you turn to Met Ed Exhibit B-132, Page 3?

A Page what, Mr. Morris?

Q Page 3. Do you have that before you?

A Yes, I do.

Q Thank you. This exhibit, I believe, was prepared by you or your staff in response to some earlier questions of ours and, eventually, a request of Judge Matuschak that you allocate some expenses to various portions of Met Ed. Is that correct?

A That's correct.

Q What I want now to do is to make sure that I understand the theory on which some of the allocations were made. Let me take first Line 17 relating to interest charges and preferred dividends. Do you have that line?

A Yes.

Q Would I be correct in assuming that the interest charges there referred to include your long-term debt, the RCA and all other credit arrangements which you have?

A All interest arrangements.

Q On what basis did you make your allocation or how did you arrive at the allocation of interest charges?

A I took the average rate base times the long-term debt component of .0404. And for the preferred I took the same average rate base times .0097, which are the effective rates, I believe, in Part 2.

Q I started with just the interest. Let me stick for a moment to the interest and we'll come back to the preferred. For interest charges you took what component, what average component?

A The average rate base for TMI 1 and TMI 2.

Q Right.

A Times the long-term debt component of point -- 4.04 percent.

Q Now would you describe the derivation of 4.04 percent and/or direct me to it?

A It's my recollection that the average through the end of September of long-term debt to -- it's the average cost of long-term debt.

Q As a portion of the rate base? Let me see if I understand it. I want to be sure I understand the concept. If your average long-term debt was showing an interest rate of 8 percent and half of your rate base expressed as capital was supported by long-term debt, say 500 million of a billion dollars, then you would come out with a 4 percent figure?

A Yes. Now when I speak of averaging, this is for the 13 periods.

Q Describe what you mean by "13 periods."

A It's a 13-month average, which says that I take -- for the 12 months ended September 1980 it would be the average at October 1 plus the average at October 31 and the average of every calendar month thereafter. The accumulation of that divided by 13 equals the 13-month average. It's a normal ...

Q So that the assumption underlying the allocation you used -- and understand me; I don't criticize it -- was that the average rate on all long-term debt, no matter when borrowed and no matter for what spent at the time it was borrowed or shortly thereafter, is applicable to every capital unit regardless of when that capital unit was constructed?

A That's right. I believe Mr. Graham so testified when we introduced this exhibit.

Q I'm sorry; I wasn't here that day. And since it was sponsored by you, I wanted to be sure I had that clear. Precisely the same method, I take it, was used with respect to attribution or allocation of the preferred dividend?

A That's correct.

Q And I assume again the same method would have been used for attribution or allocation, whichever word you prefer, of any short-term borrowings?

MR. OGDEN: Could you repeat the question, please?

MR. MORRIS: Could you read it back?

(The reporter read back the last question as follows:

"And I assume again the same method would have been used for attribution or allocation, whichever word you prefer, of any short-term borrowings?")

MR. MORRIS: It should be "of any interest on short-term borrowing."

MR. OGDEN: Allocation or attribution as respects what?

MR. MORRIS: Well, we are discussing Line 17 of Met Ed Exhibit B-132, Page 3, and specifically the attribution or allocation of interest and preferred dividends to Columns 2 and 3.

MR. OGDEN: That's the framework in which you're asking the question?

MR. MORRIS: Absolutely, exactly the same as I was asking the question with respect to long-term debt.

THE WITNESS: I did not make an allocation of short-term debt.

BY MR. MORRIS:

Q On Exhibit B-132, Page 3, where would charges on account of -- interest charges or expenses on account of short-term debt be reflected in terms of the column?

A Column 4 and Column 1.

Q Column 1 and Column 4. Thank you. Did you, in the course of preparing this exhibit, consider and/or develop work papers which would have attributed interest or preferred dividends to TMI 1 and TMI 2 on any other basis?

A No, sir.

Q Would I be correct in assuming that with respect to Lines 10, 11, and 12, the allocation or attribution in Columns 2 and 3 on the same exhibit are actual figures; they're not a spread or a proration of figures?

A With the exception of Footnote A.

Q I understand. Thank you. Would you look next, please at Line 14, which relates to income taxes? First of all, does Line 14 include both state and federal taxes, income taxes?

A There are no state taxes currently.

Q So it refers only, therefore, to federal income taxes?

A At 48 percent, yes.

Q It shows a computation suggesting that were the Company figures reflected, leaving aside other questions, excluding TMI 2 and TMI 1, that there would have been a federal income tax liability of some $14 million?

A That's correct.

Q Then because of -- I'll call it, for lack of a better word, and you may correct me -- income tax losses or credits, whatever you prefer, which you have allocated to TMI 1 and TMI 2, that your federal income tax on a consolidated Metropolitan Edison basis resulted in sheltering of $14 million and producing a credit or loss figure of $7 million, correct?

A I'm slightly confused on the question. You've used the word "sheltering", which has thrown my thought process a little bit awry. Could you restate it for me, please?

Q Yes. Certainly. I think I'll approach it a different way since I confused you with the words. And I was afraid I would.

You show income taxes parenthetically expressed for Column 2, using it as an example, of $10,240,000, resulting in effect in a reduction of total operating expenses?

A Yes.

Q That figure, however, does not represent cash received by the Company in any sense other than a bookkeeping entry, does it?

A That's correct.

Q The net result of consolidation of TMI 1, TMI 2, and the remainder of the Met Ed system demonstrated in income tax parenthetically noted of $7 million-plus?

A Correct.

Q That was not cash actually received in any sense?

A No. That's a calculated amount.

Q And that amount, I presume, was later consolidated into the GPU income tax return, and appropriate taxes for GPU were paid to the federal government?

A Well, please understand that this is as of September. We do not file returns on a partial-year basis. Whatever the affect would be at year end, that scenario would occur.

Q It would follow the pattern I've suggested?

A Yes.

Q What is obviously troubling me about the expression of the exhibit or the manner of expressing the exhibit, Mr. Huff, is the treatment of the credit figure using, for example, Column 2 for the parenthesized note $10,240,000 from a rate making standpoint. And I ask you to explain to me why in terms of assessing the cost of TMI 2 to the Company and deciding whether that cost should be passed on to ratepayers or not the income tax computation resulting in a parenthesized figure $10,240,000 should be credited to the operating expenses.

A Well, the $10 million or the 11 million 1, if you will, includes the tax depreciation on Unit 1 and

Unit 2 and a deduction for the interest component. So that we have associated with those two units what the tax effect would be on interest and tax depreciation.

So when one is looking at the overall including those two units, there is certainly an advantage there. When one is isolating out Unit 1 and Unit 2, we have associated the interest cost and other cost to that unit. So that in a non-TMI atmosphere, as you see in Column 4, we have not reflected in that number the interest and whatever tax flow-through piece of Unit 1 and Unit 2 are in the non-TMI component of the business. This certainly is in conformity with the way that this has been handled in the loss of revenues on TMI 1 and TMI 2 that this Commission has handled.

Q I do not disagree with you that it is the form in accordance with PUC accounting. The question we're at, unfortunately, is different because of the tragic accident at TMI 1 and TMI 2. And it is from our standpoint, as you understand, To what extent should the ratepayers pay for that? And in that context let me ask you the following question. The total tax liability of the Met Ed system absent TMI 1 and TMI 2, were they isolated and removed, is, as I understand it, $14 million.

A Yes.

Q Therefore, the use of any losses, at least in one year, generated as a result of TMI 1 and TMI 2 could not, as I see it -- and correct me if I'm wrong -- result in a greater benefit to any ratepayer on account of federal income taxes greater than $14 million. That's the maximum you can shelter.

(Transcript continued on next page.)

A I am just not sure of the response to that question, I am sorry. I am not familiar what I can shelter and what I cannot shelter.

Q Well, by consolidating, to put it in simpler terms for both of us, maybe, $14 million is the maximum amount on the sheet, as I see it, which in one year you might be required to pay, but as a result of the Internal Revenue Service regulations you can justifiably avoid paying.

A I think that is correct, yes.

Q And so that is the maximum benefit which the ratepayer in terms of real dollars, or the company, can see from the losses of TMI-1 and TMI-2 in any one year?

A Again, you say in any one year. This happens to reflect what has happened for the 12 months ended September, 1980. I am not sure what is going to happen in October or November. That is why I am having trouble with maximum shelter.

Q I have excluded carry-forward and carry-back from the question and your only difficulty with the question is then we are working here on Exhibit 132 in terms of a year which is not a calendar or reporting year?

A Yes, and in terms of all ramifications of what you characterize as shelter. I am not totally familiar with that arena.

Q Let me for interest of clarity in the

record, to establish the rather simple, I think, point I wish to make and reframe the questions in this way.

In your rate filing you included as necessary expenses certain interest charges, certain payroll, certain O&M which are allocable -- assuming we agree with the theory of the allocation -- pursuant to Met-Ed Exhibit B-132 to TMI-1 and to TMI-2 in the amounts there stated, that is correct, is it not?

MR. OGDEN: I object to the question. I think it is misleading the witness. B-132, page 3 is obviously on its face data for the 12 months ended September 1980.

The company's rate base presentation obviously is the 12 months ended March 31, 1981.

I think trying to mix the two of them in terms of comparison may be misleading the witness.

MR. MORRIS: The difficulty with Mr. Ogden's position is that that would lead to a data request for a normalized exhibit, which is something I would certainly prefer not to make and I am sure he would prefer that we do not make.

THE ADMINISTRATIVE LAW JUDGE: I think the inquiry is directed to the method of the application of it rather than to the exact numbers.

MR. MORRIS: That is the way I meant it,

because if the numbers are in this order of magnitude it would change what we believe the ratepayers should support, and that is the context in which I asked the question.

THE ADMINISTRATIVE LAW JUDGE: The objection is overruled.

THE WITNESS: Would it be possible to have that question repeated?

BY MR. MORRIS:

Q Sure. I had difficulty framing it, Mr. Huff, and I am sure you had difficulty in understanding it.

Mr. Huff, the operating expenses which in Met-Ed Exhibit B-132 you have allocated or attributed to TMI-2 and TMI-1 respectively in columns 2 and 3 are operating expenses which in theory and in figures of like order of magnitude are included in the expenses which you ask the Met-Ed ratepayers to bear in part in this rate filing, is that correct?

A With respect to TMI-1, yes.

Q Isn't it true also with respect to TMI-2, at least insofar as interest charges and preferred dividends in the amount of $16,244,000 are noted?

A We have not asked for a return on the rate base of TMI-2, which then a great bulk of the $16 million is not asked for.

It is true that it is in the capitalization formula to arrive at the percentage and to arrive at the effective rate.

I am not sure I could agree with you that we are asking for the $16 million of interest because we have not asked for a return on TMI-2.

Q I understand that you have not asked for a return on it, and you may be able to enlighten me, because there is perhaps an underlying failure to communicate on this question, a failure on my part to understand the implications of removing TMI-2 from the rate base.

As I understand it, and as I read your previous exhibits, you have arranged or requested that sufficient revenues be provided to discharge all of the interest on your long-term debt and pay your preferred dividend, that is correct, isn't it?

MR. OGDEN: I think --

MR. MORRIS: I don't see any reason to pause over it. It has to be correct. You have got to make those interest payments.

MR. OGDEN: What I am about to say is I think we are getting into a financial area as to what the company is going to do with money it gets from any rate relief and that is an area Mr. Graham has addressed in terms of the financial aspect of the overall company and the system.

I think Mr. Graham would be the more appropriate witness to answer that kind of question.

MR. MORRIS: I thought that was so fundamental that almost any financial witness could answer it.

MR. OGDEN: To the extent Mr. Huff may know, fine.

MR. MORRIS: If he does not, he is free to say so, but I am sure he does.

THE WITNESS: May I respond in this manner, that the revenue requirements that we are asking for of $76 million -- aside from the fact there are O&M expenses -- we are asking for a return on rate base exclusive of TMI-2.

BY MR. MORRIS:

Q That does not answer my question. I do not indicate necessarily that you are wrong. Perhaps the question is not yet understood.

Before you achieve a return you must develop sufficient revenues to discharge certain obligations, including interest on long-term debt, that is correct, is it not?

A We utilize cash to pay for dividends, for long-term debt, yes.

Q Now as I understand the company's position in its rate filing -- and correct me if I am wrong -- you have included as expenses which must be paid and deducted from revenues prior to any return at all, $16,244,00 on account of TMI-2?

A There is an obligation to pay that amount, yes.

Q And that has been included in the expenses which you expect to discharge? It is the same question. If you misunderstand it, then we are still not communicating.

A We must pay the long-term debt and we utilize our cash to pay for that long-term debt.

Q You must pay it assuming that your corporate organization is as it is now?

A Yes.

Q That is an important question. Do you understand it?

A I am not going to try to out-guess you.

Q Now dropping then, and assuming that you did, to line 14 where we reflect in parentheses an income tax figure in the amount of $10,240,000 in column 2, that figure, unlike the interest figure, is one which the company will not receive from the government or see in the form of cash, it is completely different than the interest expense, that is correct, isn't it?

A The inclusion of the effect on TMI, when you say we will not see it in cash, certainly the interest component associated with TMI is being taken as a current deduction, so it does lessen the amount of cash that we have to pay out for taxes.

Q Yes, it does, Mr. Huff, except for the fact that the return you request is sufficient to pay your shareholders or to provide a return net of income taxes, correct?

A Yes, but not on TMI-2.

Q Given that understanding between us, then, I ask you whether or not you will not agree with me that in assessing the expense to Metropolitan Edison of TMI-1 and TMI-2 as reflected on Exhibit 132, it is not inappropriate to include an income tax credit or parenthetical expression to the extent of a total of $21 million when looking at a rate filing?

Please understand I am not saying the exhibit is wrong. It says what it says in a bookkeeping entry.

A You have given me many double negatives and I am not sure what your question is.

MR. OGDEN: Given what understanding?

BY MR. MORRIS:

Q Let me put it another way, since apparently we are not communicating, and I did not mean to use double negatives.

Let me ask you to assume that we stripped

TMI-1 and TMI-2 out of the Metropolitan Edison corporate organization in its entirety and all figures associated therewith. We would be left wi' something that looks like column 4 on Met-Ed Exhibit B-132, page 3, right?

A That is the intent of this exhibit, yes.

Q Except to the extent that that organization would have to pay some $14 million in federal income taxes, there would be no income tax benefit or other benefit to Metropolitan Edison by including TMI-1 and TMI-2 in it in terms of real dollars, actual dollars?

A That is right.

Q Now if I might I would like for a moment to make sure I understand a question which was left in my mind by one of Mr. Barasch's questions so I am going to ask you to ch ange context entirely.

You spoke of capitalizing the clean-up and depreciation costs of TMI-1 and TMI-2 as a currently pending issue and that you had developed certain at least preliminary approaches to that issue.

A I would like, if I may, to get away from the word, capitalize, because to different people it means different things. We will put it on the balance sheet as a deferred item.

Q That is fine, if you are going to amortize that item, if that theory is pursued, and it may or may not be, over some period of time.

A Yes.

Q If that is done and a schedule of amortization or a payment, if you will, on a deferred basis, is projected, is it proposed that those deferred payments in the years that they occur, to the best of your understanding, would be charged as operating expenses of Met-Ed?

A Yes.

Q That is the notion then?

A Yes.

Q Clearly the notion is that in some future years in smaller increments than all at once the ratepayers would bear the cost of that?

A It is not unlike storm damage that we have in the case now where the expense was incurred in one time frame and amortized over some other time frame.

Q Well, thank you for your argumentative help with which I am not bound so I will not agree as to what it is like, but I understand the theory the ratepayers will pay for it.

MR. MORRIS: Thank you very much, Mr. Barasch.

THE ADMINISTRATIVE LAW JUDGE: Let's recess until 2:00 o'clock.

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(The hearing recessed at 12:57 o'clock p.m.)

(The lunch recess ended at 2:10 p.m.)

AFTERNOON SESSION

THE ADMINISTRATIVE LAW JUDGE: Are we ready to proceed?

MR. OGDEN: Your Honor, just a preliminary matter before we get back to Mr. Huff's cross-examination. I've distributed to the parties and handed to the reporter three copies of the following exhibits: They are Met Ed Exhibit C-38 and Penelec Exhibits C-26-1, C-26-2, C-36.

In addition to that, I've distributed to the parties but I have not made a part of the record at this point various responses of Mr. Carter in the Met Ed case to Consumer Advocate interrogatories and in the Penelec case several responses to Staff, Industrial and Consumer Advocate interrogatories. These are all in the area of rate structure.

THE ADMINISTRATIVE LAW JUDGE: Very well. Those exhibits will be marked for identification.

(Met Ed Exhibit C-38, a one-page document entitled "Metropolitan Edison Company, R-80051196, Growth Rates 1977-1981," was produced and marked for identification.)

(Penelec Exhibit C-26-1, a seven-page document entitled "Abex, et al., Interrogatory No. 11," was produced and marked for identification.)

(Penelec Exhibit C-27-2, a one-page document entitled "PaPUC Trial Staff Rate Structure Interrogatory No. 11", was produced and marked for identification.)

(Penelec Exhibit C-36, a one-page document entitled "Response to Request at Transcript Pages 61 to 64 Relative to Growth Rate," was produced and marked for identification.)

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THE ADMINISTRATIVE LAW JUDGE: Anything further, Mr. Ogden?

MR. OGDEN: No, Your Honor, not at this time.

THE ADMINISTRATIVE LAW JUDGE: Very well. Mr. Barasch.

MR. BARASCH: One preliminary matter, Your Honor. For the information of various parties to the proceedings, I would just like to note for the record that Consumer Advocate has a series of outstanding interrogatories regarding rate structure issues posed to the Companies, both Met Ed and Penelec. And we have been having some discussion with the Company off the record about perhaps resolving these matters as quickly as possible in informal discussions. And we have scheduled a meeting, part of which would be in Harrisburg with Mr. Carter Friday morning, and then our expert would proceed to Reading and meet with other GPU officials in Reading to get answers to other questions on

Friday.

And it's the understanding of the parties, at least, that none of the attorneys are going to be attending that meeting. It's just going to be between our expert and Mr. Carter and dispose of it in that fashion. And I just note that for the record for other parties' information.

MR. SUFFIAN: I'd like to ask where in Harrisburg Friday this meeting will take place.

MR. BARASCH: I guess we would have Mr. Ruback talk to Mr. Carter in this room, if possible, at 8:30 in the morning, something like that.

THE ADMINISTRATIVE LAW JUDGE: Very well. That is noted on the record.

(The witness resumed the stand.)

BY MR. BARASCH:

Q Mr. Huff, returning to the cross-examination, would you turn to Page 4 of Part 8? Now, on Page 4 you reduce revenues by 24,761,000, which is the amount that you've budgeted for tax surcharge revenues, is that correct, sir?

A Yes.

Q Now, if your actual tax surcharge revenues were equal to the budgeted amount, then would that mean that during the year ending March 31, '81, you would bill

$24,861,000 to your customers pursuant to a surcharge? And I emphasize the word "bill."

A Yes.

Q Now, given that you would bill that amount, you wouldn't actually collect the exact same amount in the test year due to the time difference between billings and collections and the lag between that, correct?

A That's a fair assumption, yes.

Q Now, given that you bill that amount of tax surcharge revenues, when would you actually pay those revenues to the State in the form of taxes? What I am trying to get at is the lag between the time at which you are billing customers for a set of funds pursuant to the tax surcharge revenues and actual payment of those tax surcharge revenues to the State.

Perhaps we could take it in pieces. Maybe you could explain to me the percentage amounts that you owe to the State and the date when those obligations come due, and then we can back into what the lag is.

A The PURTA tax -- to my recollection it's due on June 1st of each year.

Q Maybe you could be more precise. The 1980 PURTA tax payment is due on June 1st of 1980?

A Yes. The growth receipts tax portion of it there is a payment on April the 15th of 1980 for a tentative tax. That tenative tax is based upon 90 percent of the filed return the year preceding the prior year. In other words, it's 90 percent of the filed return for 1978.

During that year there would be a final payment for the preceding filed return of '79 and any settlement. Probably 1980 there would be a settlement of the 1978 tax. The final settlement would be October the 15th. I'm sorry; the final 10 percent, if you will, of the prior year would be October the 15th. That would be '79's return -- 1979's return would be filed on October the 15th, 1980.

(Transcript continued on next page.)

Q The last 10 percent?

A Yes.

Q The last 10 percent of the 1980 return would be filed the following year, October of 1981?

A Yes.

Q Are there any other pieces in the tax surcharge?

A There is a corporate net income tax which is the state tax. I am not sure, there is a phase-in of a payment schedule on that, I believe. I think in 1980 if there were a state income tax, I think it is quarterly this year.

Q You are paying an estimated tax in 1980 --

A Yes, you pay an estimated tax.

Q On a current quarterly basis?

A I am not certain if it is quarterly yet but they are striving to get to that point.

Q Do you know what the timing of your estimated corporate net income tax payments for 1980 have been so far this year? What payments have you made?

A The payment this year for corporate income tax is zero. We are anticipating no taxable income. The federal income tax follows the quarterly payment.

Q But again Met-Ed is not going to be paying an income tax to the federal government, are they?

A That is right.

Q Are they making payments to GPU?

A No, we have a tax loss position.

Q Are there any other tax pieces other than those three?

A I think I have addressed the PURTA tax, gross receipts tax, the capital stock. I addressed the capital stock tax. There is a gross receipts tax.

Q Could you describe that payment schedule to me, please? Excuse me, I think you described gross receipts tax already. You have not described the capital stock tax. Either that or we confused you.

As I understand it, if I could just recap what I thought has transpired, you had PURTA where you paid June 1 for the year 1980 and I thought you said gross receipts tax you pay 90 percent based upon 1978.

Now were you speaking about gross receipts tax or was that supposed to be capital stock tax?

A I would like to correct that, if I did say that. That was capital stock tax.

Q So all that discussion we just had, the 90 percent and 10 percent, was capital stock?

A That is correct.

Q Now perhaps you could explain to us the payment schedule on the gross receipts tax.

A On April 15 on the gross receipts tax we pay 90 percent tentative tax and I believe that is based upon the immediate prior year.

Q So on April 15th of 1980 you would make a payment equal to 90 percent of your obligation for 1979's gross receipts?

A Yes.

Q When does the final 10 percent get in?

A The following April 15.

Q Is there a June date someplace relating to gross receipts tax? The reason why I ask this question is I believe early this morning I was referring to a letter from Floyd Smith requesting delays in payment of gross receipts tax obligation, I thought, and there was some reference to getting a delay from April to at best delay things till June.

A That letter is a special request to the Department of Revenue. Whether or not the Department of Revenue will grant it is high speculative. There are some who doubt that it will be granted.

It is moving it to the June time frame from the April time frame.

Q What I was wondering, the reason why I asked you about June, is there some sort of statutory or regulatory significance to June? Or is that we just are contemplating --

THE ADMINISTRATIVE LAW JUDGE: That would be the end of the rate case.

THE WITNESS: I don't recall any statutory delay. We have just asked for the three-month delay as a request.

BY MR. BARASCH:

Q I see. Now does that complete your answer on the gross receipts tax?

A I believe so, yes.

Q If you could clarify something, in the calculation of the gross receipts tax piece in this case was the company looking out to 1981, to April of 1981, and basing that portion of this case upon the 90 percent estimate for the calender year 1980? Is that how that number is developed in this case?

Or is it based upon an April 15, 1980, 90 percent payment which refers back to 1979?

A In 1981?

Q I am asking you in terms of the future test year in this case, what is the basis for the development of that number? I think I have described the two possibilities. There may be a third.

A On the payment in April 1981, as I understand your question, that would be based upon the estimate that we had for 1980.

Q But in the test year in developing that adjustment in this test year, you set out a total tax surcharge number. There is a gross receipts piece in there, right?

A Yes, sir.

Q That piece of it was based upon what? Ninety percent of the 1979 period, i.e., what you actually paid on April of 1980, or is it 90 percent of 1980, that is, what you will be paying in April of 1981?

A That may be the area of miscommunication. The tax surcharge revenues are developed upon an estimate of the rate to be applied. It does not confine itself to the payment of that tax.

THE ADMINISTRATIVE LAW JUDGE: Can I interrupt for one minute?

BY THE ADMINISTRATIVE LAW JUDGE:

Q I believe you said that the gross receipts tax due on April 15 is for the prior year. I am looking at Mr. Smith's letter in which he seemed to indicate the gross receipts tax, the tentative payment is made for the current year. In other words, he says the tentative payment of the 1981 gross receipts tax of $17 million is due in April 1981, so that would make it for the current year, wouldn't it?

A Yes, we make two payments on April 15, one is for the tentative tax which is the 90 percent, and then we also have to pay the 10 percent of the prior.

Q Ten percent of the prior year so that on April 15th you pay the 10 percent or approximately $6 million on 1980 gross receipts tax?

A Yes, sir.

Q And you pay the gross receipts tax tentative payment in advance for the current year?

A That is right.

THE ADMINISTRATIVE LAW JUDGE: I think the testimony was --

MR. BARASCH: That helps a little, Your Honor.

THE WITNESS: But the tentative payment for the current tax, if you will, is, I believe, based upon the revenues in prior year. We have to have some form --

THE ADMINISTRATIVE LAW JUDGE: That is not what Mr. Smith's letter says. Mr. Smith said -- and I will quote you from his letter -- We are filing a request with the Pennsylvania Department of Revenue for an extension of time in which to make a payment of a final installment of the 1980 gross receipts tax ($6 million) and the tentative payment of the 1981 gross receipts tax ($17 million) both of which are currently due in April 1981.

My recollection is the other situation is that you pay the gross receipts tax in advance on April of the current year.

THE WITNESS: You are perfectly true, Your Honor, but what I am addressing -- and I would like to check it if I may -- is how do you calculate that tentative tax? Is it based upon the current year estimate or is it based upon the immediate prior year? In other words, what do you base the 90 percent on?

THE ADMINISTRATIVE LAW JUDGE: I am not talking about the 90 percent --

THE WITNESS: That is the tenative tax, Your Honor.

THE ADMINISTRATIVE LAW JUDGE: Well, Mr. Smith's letter says the tentative payment of the 1981 gross receipts tax is due in April of 1981.

THE WITNESS: May I have just a moment, please? I would like to talk to --

THE ADMINISTRATIVE LAW JUDGE: Yes, you can check with Mr. Carroll.

BY MR. BARASCH:

Q Mr. Huff, could you briefly summarize where we are on this issue about how you compute your 1980 tax liability for gross receipts tax purposes?

A For payment --

Q For payment purposes the gross receipts tax.

A The tentative tax paid on April 15, we utilized the 1979 tax as a basis and pay 90 percent of it.

Q Of the tax or of --

A Of the gross receipts. The following April 15 we then pay the balance that is due. In April of 1981 we know what the 1980 revenues are and the tax basis. We calculate the tax, deduct from that the tentative payment that we made April 15, 1980, and pay the difference.

Q Now I hope I am not going to complicate matters. The question that led us into this diversion was, for rate case purposes when you come up with your twenty-four some odd million dollar tax surcharge revenue that you are going to back out of the case, what time period are we talking about in terms of the gross receipts tax? Is that based upon what you paid in 1980 or what you expect to pay in 1981?

A My response to that is going to have to be a little bit vague. It is a combination. The tax surcharge revenue computation, as you may or may not know, is an overall rate as applied against applicable revenues.

For April 1980, which is the first month of the test year, there is an anticipated rate for that month times applicable revenues.

That rate would be based upon the prior

year's taxes, revenues, et cetera, as the normal surtax is computed.

As we go down into time, when we get to 1981, we estimate what the rate in 1981 is going to be, so that that would reflect, the 1981 rate we estimate would reflect 1980 conditions.

Q For the test year the rate is based upon April 1, 1980's rate, the tax surcharge?

A What it would be forecasted as?

Q April 1, 1980.

A Yes, April 1, 1980.

Q Not 1981?

A April 1980 rate is estimated what that rate is going to be at that time.

THE ADMINISTRATIVE LAW JUDGE: I still think that in the final analysis you are paying the tax in advance and though you may look at the prior year to make your estimate, when you make your final 10 percent you are going to pay on the 1981. You may pay it in 1982 but you are going to pay a combination of the tentative tax and the balance in 1982 on the 1981.

THE WITNESS: That is right. There is a differentiation because this revenue is predicated on the rate that we are going to collect from the customer and not necessarily on the payment piece.

BY MR. BARASCH:

Q And it is based upon the revenue stream that you expect in the future test year?

A Yes, sir.

Q Would you accept, subject to check, switching subjects now, that on your Exhibit B-1, part 10, page 2, you show a March 31, 1980 balance in taxes accrued account of $13,300,000?

A Yes, I believe that is correct.

Q Now if you will turn to your Exhibit B-1, Part 5, which is your cash working capital piece in this case --

MR. OGDEN: That is the cash working capital piece for the historical test year?

MR. BARASCH: That is correct.

BY MR. BARASCH:

Q Now there your computation of the March 31, 1980 working capital reflects an amount of $3,326,000 for taxes accrued. Do you see that, sir?

A I am sorry, what page are we on?

Q Page 1, Part 5.

A $3,326,000, yes.

Q Can you expl in why the taxes accrued that you reflect as a rate base deduction in the historic test year is so much less than the taxes accrued as reflected on your balance sheet for the same period as shown in Part 10 of B-1? One shows thirteen million three the other one shows three million three.

A We are talking about two different things. Number one, the $13 million 3 that is in the balance sheet is as of the end of a particular moment in time and it only reflects the difference, the accrued taxes and what we have paid during the course of that time frame.

On the working capital, however, we are computing a dollar amount lag between the time that we collect from the customer and our payment needs.

So it seems to me that it is two different areas.

Q If we went back and looked at your balance sheet for every month during the 1980 year, would we find that the average balance, or should I say wouldn't we find the average balance in accrued taxes approximately $6 million every month? Does that sound right to you on average?

A I assume your average is simply dividing by two.

Q No, it is not by two. You would be basically looking -- if you were somehow to look at a 12-month period and looking at what you get when you take those 12 monthly balance sheet figures and divide by 12.

Does that sound right?

A You took the monthly figures from the operating report?

A That's right. Go back and take a look at your balance sheet on a monthly basis, basically.

THE ADMINISTRATIVE LAW JUDGE: Take the total on a monthly basis divided by 12.

BY MR. BARASCH:

Q And you'd end up with a number in the vicinity of $6 million.

A That would produce an average, yes.

Q You have no reason to doubt that that would probably be what the number would reflect, approximately?

A That would be the average of the outstanding balance at the end of the month. It does not necessarily reflect the fact that you may pay those taxes during the middle of the month.

Q Fine. I'm going to ask you a question now that's similar to one that was put to Mr. Carroll when he was on the stand a couple weeks ago. I wonder if you could reconcile the tax accrued of 3.3 million that you have as a rate base deduction to the taxes accrued at the balance sheet for March 31, 1980. What I'm looking for is an explanation, really, of why the balance sheet number isn't the appropriate or a more appropriate number to use and why the balance sheet number is so much larger than the number that you have in the rate case for working capital purposes. If you'd like to consult with Mr. Carroll, I think --

A My first reaction to that is that the balance sheet does not reflect the dollar amounts that are collected from the customer, which the working capital is.

Q I guess what I'd like to see is a reconciliation.

MR. BARASCH: Perhaps, Mr. Ogden, it might be worthwhile for Mr. Huff to consult with Mr. Carroll, who's in the room, since this was basically the same question that was put in the Penelec proceeding a week or two ago. It might help the matter.

MR. OGDEN: Do you desire to consult with Mr. Carroll, Mr. Huff?

THE WITNESS: I will agree to consult with Mr. Carroll, but I'm not certain that I can reconcile it. We shall attempt to.

MR. BARASCH: Can we go off the record, Your Honor?

THE ADMINISTRATIVE LAW JUDGE: We're off the record.

(Off the record from 2:43 p.m. to 2:46 p.m.)

BY MR. BARASCH:

Q After that off-the-record conversation, do you understand the nature of what we are inquiring about? And I gather you've consulted with Mr. Carroll. Could you provide us with a response along the lines of the question consistent with the question that was put to Mr. Carroll last week in the Penelec case to reconcile this difference?

A Yes. We will meet with Mr. Carroll and jointly discuss the problem and take it under advisement and try to respond.

Q Turn to Page 5-A of your Part 5. That's B-1, Part 5. Now, for each of the taxes that are shown there, as I see the circumstance, you basically have three relevant time considerations or time period considerations. The first would be the 12 months during which the revenues and operating expenses are incurred that form the basis for the computing of the tax expense. The second would be the 12 months during which the tax expense is expensed per your books. And the third period would be the 12 months during which the tax expense is actually paid. Would you agree with that conceptual framework, that for any of these taxes we have a maximum of three different considerations in terms of time period?

A I think I could agree to that, yes.

Q Now, I wonder for each of the taxes that are shown on 5 A -- I don't know whether you can do this on the stand. You might be able to. Otherwise we would be perfectly happy to accept this as a response. Could you provide an explanation of the three relevant years regarding the data base for computing the tax, which is the first part, the time period for the expensing of the tax, and the time period for the payment of the tax? I think we put a very similar kind of request to Mr. Carroll a couple weeks ago.

A The tax expense in Column 1 are those taxes developed as a result of all the applicable items within the test year, including revenue requirements.

Q For what 12-month period?

A This would be the test year. Part 5 would be April 1, '79, to March 31, '80.

Q And they would be based upon the revenues and operating expenses incurred during the historic test year? That would be the data basis for the computation of those taxes?

A As normalized.

Q Okay.

A With revenue requirement.

Q Just to make sure I understand it, Mr. Huff, you're saying that, for example, for federal income taxes you took -- you split out the 9-month period from April 1, 1979, to December 31, 1979, and came up with a tax piece there and then split out the 3 months from the first 3 months of the 1980 federal income tax piece based upon your expected level of operations and developed a tax expense?

A It's predicated upon the income statement and the tax computation pieces in the income statement, Page 34.

Q Page what?

A Thirty-four.

Q Page 34 what?

A Oh. I'm sorry. Part 9. The basis of the tax expense is developed through the utilization of the components in Part 9, Page 34, as far as the federal income tax and Pennsylvania income tax. I don't have my work sheets with me to show the development of that, but the computation of the tax expense is an integral part of the normalized measure of value and the normalized income statement.

Q I guess what I'm trying to distinguish between, Mr. Huff, is whether or not the numbers shown in Column 1 represent -- since that's the way you've phrased your answer, I'll stay with your answer -- represent the 12-month period in which those expenses are expensed for books or whether or not they represent the period in which the expenses are incurred that form the basis for computing the tax expense.

A I think my answer would be the latter.

Q Now, then, so basically you've given me an answer, then, perhaps to the second part of the question. Let me take it back to the first part of the question. Could you tell me what the data base is for the revenues and expenses that form the basis for the computation of tax expense shown on that page of your exhibit?

A Well, the expenses are interrelated with the tax computation that is the April 1, '79, through March 31, 1980 normalized expenses.

MR. BARASCH: Your Honor, I think I can help the proceedings by going off the record.

THE ADMINISTRATIVE LAW JUDGE: Very well. We're off the record. Let's take a ten minute recess.

(The recess began at 2:55 p.m.)

(iscript continued on next page.)

DAVID L. HUFF, resumed.

BY MR. BARASCH:

Q Mr. Huff, for each of the taxes shown on Part 5, page 5A, could you provide an explanation of the three relevant years regarding data base for computing the tax, expensing the tax and payment of the tax, and in providing that response could you attempt to do it in a manner consistent with the manner in which Mr. Carroll is providing a similar response in the Penelec proceeding?

A Yes, we will.

Q Thank you. Mr. Huff, turning to another matter, isn't it true that interest expense is a cost recovered in revenues paid into the company by ratepayers?

A Yes.

Q Now could you turn to page 18 of Part 2 of B-1. There under the heading, Long-Term Debt, you show items that consist of bonds, debentures and other items. Can you tell us, isn't it true that each of the series of long-term bonds and indentures is such that interest is paid every six months for each of the series? Is that correct?

A That is correct.

Q And the first payment would be six months after the date of issuance and the second payment on the anniversary of the issuance?

A That is correct.

Q Would you agree that the purpose of including working capital in rate base in a rate proceeding is to reflect the full investment in the used and useful operations of the company and that full investment includes amounts for the day-to-day operations of the company?

A Yes.

Q Now could you turn to Part 4 of B-1. Now in computing the cash working capital for the year ending March 31, 1981, isn't it true that you have not reflected the lag in the payment of interest?

A That is true, yes.

Q Looking at page 2A of that exhibit, that page reflects a March 31, 1981 period also?

A Yes.

Q Now would you agree that if we were to look at the March 31, 1980 computation, which is in Part 5, that there you reflect an allowance for short-term purchases which is line 7 of zero, whereas for the March 31, 1981 computation there is a $44,647,000 figure for short-term purchases.

A Yes.

Q I wonder if you could tell me why the number under short-term purchases for the historic year is zero.

A May I have just a moment, please?

Q Certainly.

MR. OGDEN: Mr. Barasch, Mr. Newton prepared in response to one of your interrogatories a response which answers this question.

MR. BARASCH: One that has already been distributed?

MR. OGDEN: Yes, it was a response to your Interrogatory No. 23.

BY MR. BARASCH:

Q Perhaps Mr. Huff can enlighten us on the record regarding his understanding of why that number is zero.

A The reason it is zero is because a member of my staff had made an erroneous assumption in computing working capital, and we have further been corrected by the response of Mr. Newton that it should not have been zero.

Q What I would like to do, Mr. Huff, is to establish what would happen to this computation shown on Part 4, which is the cash working capital requirement for future test year, if short-term purchases for the test year were zero. If they were zero, would you agree, subject to check -- and barring any other changes to the schedule -- that the total lag days for expense of line 12 instead of being 17 days would become about 21½ days?

A I think that would be a fair assessment of the effect.

Q Is it fair to say that if short-term purchases were not being made or were unavailable for the company, that the power represented by those purchases would be coming from either interchange or increased coal and oil generation by the company?

A In all probability. Probably it would be the interchange.

Q Now if we would accept that short-term purchases were substituted with interchange purchases, as I understand there is a 35-day lag associated with interchange purchases, and that that would result in line 12 lag in expenses of about 23.7 days. Does that sound right to you, sir?

A You are substituting short-term purchases for purchased power and then calculating -- just the computation of the lag days?

Q No, we are substituting interchange purchases for short-term power purchases, and as I understand it--and correct me if I am wrong -- your interchange purchases, according to this exhibit, purchased power and interchange received, shows a lag of 35 days?

A Yes.

Q Now, if we were to take all of the short-term purchases and basically convert those values into interchange and purchased power purchases, the impact of that upon your lag in the cash working capital would be to increase the lag to about 23.7 days. Does that sound right?

A I would expect it to rise, yes.

12-1

Q And isn't it also true that had the Three Mile Island accident not occurred, it is likely that the short-term purchases of Met-Ed at March 31, 1981, would be zero?

MR. OGDEN: If the witness can answer. I think it calls for speculation.

THE ADMINISTRATIVE LAW JUDGE: If he can answer it.

THE WITNESS: Had the accident not occurred, we may not have been in a short-term purchase market.

BY MR. BARASCH:

Q Isn't it true that prior to the accident, to the best of your knowledge and belief, the Company was not making any short-term purchases? And secondly, isn't it true that prior to the accident with the introduction of TMI-1 and 2 in the service of Metropolitan Edison, that Met-Ed was considerably long; it was a net seller on the interchange?

A Yes. Yes to both questions.

Q So by deduction we back down to the third point, which is, Had the accident not occurred, it is likely that the short-term purchase values of Met-Ed for March 31, 1981, in fact would be zero?

THE ADMINISTRATIVE LAW JUDGE: Assuming everything else was the same.

THE WITNESS: That's correct.

BY MR. BARASCH:

12-2

Q Now could you turn to Part 2, Page 1, Line 23? Do you have that, sir?

A Yes.

Q Would you accept that the accumulated deferred tax balance for liberalized depreciation of $77,896,000 that you reflect on Line 23 is an average balance for the year ending March 31, '81?

A Yes.

Q Now, the caption to that exhibit indicates that the rate base is as of year-end March 31, '81, correct?

A Normalized to year-end conditions, yes.

Q And the accumulated deferred tax balance shown on this exhibit is not as of year-end, is it? It's an average basis?

A It in effect is an average, yes.

Q Now, similar to a question that was put to Mr. Carroll in the Penelec proceeding, could you provide the actual balance at March 31, 1980, and reflect the changes in that balance using budgeted monthly amounts to reflect a projected March 31, '81 balance?

A I will confer with Mr. Carroll and try to respond, yes.

Q Thank you. Now, if you could turn to -- actually, you don't have to turn. Just refer to Line 13 on B-1, Part 2, Page 1. Now, there you reflect the deferred energy balance net of applicable deferred taxes for a pre-May 31, 1980 energy clause, correct?

12-3

A Yes.

Q Now, the date of pre-May 31, 1980, is used because at that time the Company began to amortize this balance through the fuel clause over an 18-month period, is that correct?

A I think that was a surcharge, if I'm not mistaken.

Q Right. But it started --

A Has the same effect.

Q Thank you. You are familiar with the R.I.D. 626 order of this Commission for Met-Ed?

A I have on occasion referred to it, yes.

Q I'd like to read to you from Page 21 of that order, if I could. I'll give you a copy if you'd like to see it.

Now, there at Page 21 the Commission stated, quote, "Respondents propose to include in its original cost measure of value unamortized expenses associated with deferred energy costs, storm damages, and rate case expense", and I skip a little bit there. "In line with past Commission policy, these items are excluded from the Company's original cost measure of value." Do you see that quote, sir?

A Yes.

Q Thank you. Now, as I understand that order, the Company -- the Commission order excluded about $6 1/2 million of unamortized deferred energy costs but included about $1 million of deferred energy costs in a different line in the rate base. Do you remember that, sir?

2-4

A That, as I recall, was the old energy clause, which was the June 1978.

Q Fine. Can you tell us what the million dollar figure that was allowed in the rate base referred to and the $6.5 million figure that was allowed -- that was disallowed referred to? Could you break out those two pieces for me? This is in the 626 case.

MR. OGDEN: Do you recall?

THE WITNESS: I have difficulty.

BY MR. BARASCH:

Q I believe you started to give me an answer a moment ago. You said one referred to some old clause; something else referred to a different clause.

A It appeared to me -- as I recall, it was the pre-June, pre-July 1, 1978 clause that was excluded from rate base.

Q And?

A And the post-energy-clause was included. That's my recollection.

Q Okay. Now, in the rate base that you have at B-1, Part 2, Page 1, which amounts correspond in type to the $6.5 million figure that was not allowed in the rate base in the last case?

12-5 A Line 14.

Q And which amounts correspond to the $1 million figure that was allowed?

A Line 13.

Q Now, Mr. Huff, isn't it true that Metropolitan Edison is in the process of filing or has just filed an energy cost rate for the 1981 year? Are you aware of that, sir?

A We have filed a proposed energy cost rate for 1981 and are now in the process of discussing it.

Q But in your proposed filing isn't it true that you have assumed that TMI-1 will not return to service during 1981?

A The first assumption is that we're proposing that an outage such as TMI or a major plant not be included in such a cost energy cost rate, that it would be included when that unit comes on.

Q But in terms of developing a millage charge that goes into your ECR proposal, you have put together a number that effectively excludes TMI-1 for the 1981 year?

A Yes. You would have to do that in order to come up with that rate.

Q Now, you're doing that even though the rate case filing that you're testifying to over here has assumed that TMI-1 for rate-making purposes will return in July of 1981, and last week I believe Mr. Arnold testified that we should expect full power operations to be resumed in the fourth quarter of 1981.

12-6

A I heard that testimony, yes.

Q And, nevertheless, the ECR filing presumes no return during 1981?

A What I'm saying is we have excluded TMI-1 from that computation because otherwise you do not get an ECR rate which excludes the plant if you didn't exclude the dollar cost.

Q Now, if we assume that your ECR filing is accepted which assumes that TMI-1 will not return during 1981 and also assume that the unit does actually return in July, let's say, or August of this year, this coming year, in that event, Mr. Huff, assuming that the other elements of the ECR are estimated accurately, isn't it true that the

12-7

deferred energy balance of Metropolitan Edison would be fully amortized before the end of 1981?

A If we did not come in and request a lowered rate because of TMI?

Q That's right. Everything stays the same and the plant really does start to produce power in 1981.

A That would be true, yes, assuming that we did not request a change.

Q Assuming that nothing else was changed, at the end of 1981 you would end up having a negative balance in your deferred energy, correct?

A I believe that may be true, yes.

MR. BARASCH: That concludes the cross-examination, subject to the outstanding data requests.

THE ADMINISTRATIVE LAW JUDGE: Mr. Frater?

MR. FRATER: No, Your Honor.

MR. SUFFIAN: Your Honor, I do have one or two additional questions, if no one else has cross-examination.

THE ADMINISTRATIVE LAW JUDGE: Very well.

BY MR. SUFFIAN:

Q Mr. Huff, have you projected or can you project the federal taxable income or loss for Met-Ed for 1980, assuming full rate relief?

MR. OGDEN: When you say "full rate relief", what do you mean?

MR. SUFFIAN: The requested rate relief in this proceeding for Met-Ed, everything you've requested. Assuming everything you've requested is granted --

MR. OGDEN: When?

MR. SUFFIAN: At the end of the seven-month statutory period.

BY MR. SUFFIAN:

Q Assuming that, what would you anticipate to be the federal taxable income or loss for Met-Ed for 1980?

A It seems to me that the taxable -- the statutory is beyond 1980.

12-8

Q It goes into 1981. Then have you provided that, then? That's included in the rate filing.

A I have some difficulty.

Q What I'm getting to, I'd like the estimates if you have or if you can project them for '80 and '81 for Met-Ed as far as the federal taxable income or loss goes; as I said, assuming full rate relief.

A In April of 1981?

A That's right.

A Oh, okay.

(Transcript continues on following page.)

Q I did not hear your answer.
A I am thinking for a moment. I don't think it is in this particular case but we will endeavor to provide it.
Q Thank you. Also, assuming the TMI-1 is not allowed in rate base in this proceeding, do you believe that that in itself would bring about a taxable loss for Met-Ed in 1980 and 1981?
A Yes.
Q That in itself would bring about the loss. Would it have a taxable loss assuming the inclusion of TMI-1 in rate base?
A Projections that I recall, toward the end of 1981, achieving the full $76 million, we would be in a positive tax position.
Q That is assuming the inclusion of TMI-1?
A Yes. It is my recollection without TMI-1 we would be in a loss position.
Q And in 1980?
A 1981.
Q In 1980 you are in a loss position?
A 1980 we would be in a loss position.
Q Assuming the exclusion of TMI-1, which, of course, is the present case?
A Yes.

MR. SUFFIAN: That is all I have, Your Honor, thank you.

THE ADMINISTRATIVE LAW JUDGE: Anything further of this witness? Do you have any redirect, Mr. Ogden?

MR. OGDEN: Not at this point in time, Your Honor.

THE ADMINISTRATIVE LAW JUDGE: Very well, thank you. What is the desire of counsel?

MR. OGDEN: We have Mr. Carroll here today for Penelec. If the parties have cross-examination for him we would be glad to put him on and subject him to some further cross.

MR. SUFFIAN: I have some cross-examination for Mr. Carroll. We could handle that now or at some other time. It makes no difference to staff.

MR. OGDEN: Why don't we put Mr. Carroll on and do that?

THE ADMINISTRATIVE LAW JUDGE: Very well.

T. L. CARROLL, recalled as a witness on behalf of Respondents, having been previously sworn according to law, was examined and testified further as follows:

CROSS-EXAMINATION

BY MR. SUFFIAN:

Q Mr. Carroll, I would like you to refer to

Penelec Exhibit B-1, Part 2, page 5 with regard to electric plant held for future use. Do you have that reference, Mr. Carroll?

A Yes.

Q I am specifically referring to the last eight lines on that schedule, referring to Warrior Ridge hydroelectric station. Could you tell us what the current life span for Warrior Ridge is?

A Do you mean in terms of license of the Federal Energy Commission or what?

Q In terms of years that it has to run, that it can operate.

A Warrior Ridge is not operating at the present time. It was inundated by Hurricane Agnes. That is why we have the plant held for future use.

Q Before it was inundated by Hurrican Agnes, what was the then life span for Warrior Ridge, if you know? If not, you could provide us with that.

A I can answer in this manner and then I think I can give you a more precise date at a later time.

The current license for the plant, I believe, expires in about seven or eight more years. Subject to check, I believe -- and perhaps my counsel can help me at this point -- but I think the term of a license of the Federal Power Commission is in the area of 50 years.

MR. OGDEN: To tell you the truth, Mr. Carroll, I have to check that myself.

BY MR. SUFFIAN:

Q Let me just see if I understand. You are saying the license itself, you believe, is 50 years?

A Yes.

Q And that you have got seven or eight more years left?

A I believe. Can you just bear with me a moment?

Q Sure.

A I would have to check that to make sure.

THE ADMINISTRATIVE LAW JUDGE: The life span may not be the same as the license.

MR. SUFFIAN: Exactly. That is what I was getting to next.

BY MR. SUFFIAN:

Q What do you estimate the actual life span of the plant to be, the investment, the useful life of the plant?

A Of a hydro plant?

Q Of the Warrior Ridge hydro plant.

MR. OGDEN: To the extent we are in an area that is more depreciation related than accounting related it may be a question for Mr. Garland. But to the extent Mr. Carroll does not know I would say we would be glad to supply the information.

THE WITNESS: I can give you some conjecture and it would strictly be, you know, my best guess, that the life of a hydro plant is much longer than it would be for a steam generating plant.

I would say somewhere in the neighborhood of 50 years and that would be my best guess at this time. It is strictly a guess.

MR. SUFFIAN: Thank you very much. Could you provide us with more precise data in the future?

MR. OGDEN: Yes.

BY MR. SUFFIAN:

Q I guess it would also be better to respond in the form of a data request to my next question or questions.

What would be the termination date for the current life span for Warrior Ridge? And again I am talking about the investment in the plant, the actual depreciable life.

A The reason I am hesitating here, we are in the process of rebuilding that plant. Are you aware of that?

Q Yes, that is what I was going to get to in a minute. I would like the life before rebuilding and then later we will handle the situation as to what the anticipated life would be after it goes back in service.

MR. OGDEN: Let me make sure I understand the request. This was the termination date of the life span of Warrior Ridge before it got hit by the flood?

MR. SUFFIAN: Current life span, not currently after rebuild. I suppose it would be current in the sense of before rebuild after the flood. What is the current termination date?

MR. OGDEN: By current do you mean --

MR. SUFFIAN: Prior to rebuilding.

MR. OGDEN: You mean current as of right now, this very minute?

THE ADMINISTRATIVE LAW JUDGE: It would not be as of right now. It would be the current life span which may extend into the future a number of years. He is trying to base it on the life span less the improvements that are intended to be made.

MR. SUFFIAN: Correct, Your Honor. It is before Hurricane Agnes, before any rebuilding, and then after Hurrican Agnes what would be the modified expected life span?

MR. OGDEN: It was currently that was sort of throwing me.

MR. SUFFIAN: Do you understand what I am looking for? It would be the anticipated two life spans, before the accident, the flood, and the after it is refurbished

MR. OGDEN: Mr. Carroll thought we perhaps had an interrogatory in that area. You go ahead and I will look for it.

BY MR. SUFFIAN:

Q Mr. Carroll, could you tell us whether any of the depreciation expense associated with Warrior Ridge is included as a rate-making claim in this proceeding?

A Warrior Ridge plant is just about fully written off, fully depreciated. If I am not mistaken, subject to check, I think we have about $47,000 left.

Q Is a portion included as a rate-making claim? The investment itself is in plant held for future use?

A That is right and so is the depreciation.

Q Then it would not be a rate-making claim. Would that apply also to the O&M expenses associated with Warrior Ridge, would they be included as a rate-making claim?

A If there are any O&M expenses related to Warrior Ridge they would be very minimal and I would say minimal in this respect, that occasionally we will send a man over there to check the fences, to make sure that vandalism is being held down by the best possible means.

But the plant is not running. We go over and check it for safety purposes from time to time in order to maintain the license. There are certain things under the license we have to assure the federal government that the health and safety of the surrounding area is being taken care of and if there is any in the filing it would be minimal.

Q Are you saying that there is a claim in the filing but it is minimal?

A It would be minimal.

Q Is there a claim in the filing?

A I believe there are some minor expenses in our O&M expenses for Warrior Ridge but they are very minimal.

Q Is it possible for you to provide me with the amount of these expenses?

A Yes.

Q Are they separately charged?

Yes.

Q Would you do so?

A Yes.

Q Thank you. Moving down the page to the coal reserves for Reesedale, GPU drilling, Homer City, coal reserve exploration and tripartite, are these associated with land held for future use? That is on the same page 5, Part 2.

A Yes.

Q They are land held for future use?

A Yes.

Q I see the elimination of some $3 million of the GPU drilling expenses in the next to the last column on that page.

A Yes.

Q My question is: are you saying that the remaining balance of approximately $4.3 million is associated with plant held for future use that will go into service prior to ten years after the test year?

A That is correct.

Q I would like to turn your attention now to Penelec Exhibit B-133, that is page 3. Do you have that?

A Yes.

Q On page 3 under the column Total Company As Booked, does this column contain reserve capacity charges as actually paid to the PJM? I am referring specifically to line 11, Other O&M. I was wondering if that might contain charges for payments to the PJM.

A Yes.

Q Could you tell us what portion of that would be the charge to PJM, what portion of the $77,088,000 would be payments to PJM for reserve capacity?

A Can we go off the record a moment?

THE ADMINISTRATIVE LAW JUDGE: Yes.

(Discussion off the record.)

THE WITNESS: I thought I had that number in my work papers. However, my assistant here thinks we can derive that number perhaps even this afternoon yet from the books.

Right at the moment I don't have that number handy.

BY MR. SUFFIAN:

Q Could you provide us with that number when you do get it?

A Yes.

Q Under columns 2 and 3 headed TMI-2 and 1 on page 3 of B-133, is it true that all the costs associated with TMI-1 and 2 are removed under these columns?

A Yes.

Q Is an adjustment made to reserve capacity charge expense in these columns? I guess also under line 11, Other O&M.

A Subject to check, I would say they are.

Q Could you also provide us with that information, what the adjustment is there?

A Yes.

Q Turning to pages 1 and 2 of B-133 it seems that the overall rate of return of 9.7 percent shown on page 1 is broken down on page 2.

A That is correct.

Q As to the cost of capital. Does page 2, which lists the actual types of capital and capital structure for Penelec include capital attributable to TMI-1 and 2?

A It excludes TMI-1 and 2.

Q TMI-1 and 2 are excluded?

A Yes.

Q Could you tell us how much has been excluded for TMI-1 and 2?

A We eliminated an average of 25 million 768 for TMI and 166,184,000 for TMI-2.

Q Thank you very much. I would like you to refer now to Penelec Exhibit B-111-2, pages 1 and 2. Do you have that reference?

A Yes.

Q Is it true that both of these pages include certain costs for TMI-1 and TMI-2?

A Some of the restart expenses for TMI-1 are in.

Q Pardon?

A Some of the restart expenses for TMI-1 are included.

(Transcript continues on next page.)

Q Does that include other expenses besides the restart expenses for TMI-1 on Page 1 and 2? What I'm trying to get at is an explanation of those costs relating to TMI-1 and 2 which would be included on Pages 1 and 2.

A I believe if you look at the footnotes on Page 2 of 2, the Note B and Note C.

Q So are you saying that these are the only costs associated with TMI-1 and 2 and that these have been normalized out?

A Yes.

14-1

Q Then would it also be true that Page 1 doesn't have anything as far as the costs related to TMI-1 and 2? I see that these notes seem to apply to Page 2 of 2.

A Page 1 would include restart expenses as far as TMI-1.

Q Where would I find that?

A In Other O&M.

Q So that's Line 12, Other O&M?

A That's correct.

Q Could you break that out and provide me with what portion of Other O&M would be the restart expenses?

A Yes.

Q Okay. Thank you.

A We have no payroll.

Q No payroll in the Other O&M?

A I said there's no payroll related to TMI at all.

Q Now, I'd like to ask you a few questions that I directed to Mr. Huff earlier today, and these, of course, will be limited to Penelec. Now, would your answers be the same as Mr. Huff's insofar as the treatment of testing phase test energy and fuel for TMI-1 for accounting purposes?

A Yes, it would.

Q What would that be, just to refresh my own recollection?

14-2

A Well, if I recall Mr. Huff's -- you're referring to the test energy related to starting up of TMI-1?

Q Right, test energy and costs for the start-up.

A One of the scenarios would be taking the test energy through the energy clause because the energy clause now has the ability to handle test energy. And I believe the other scenario that Mr. Huff was referring to possibly -- I have to try to remember exactly how he put it. I think he was talking in terms of capitalizing, that we put the plant into plant held for future use and capitalize it.

Q Capitalizing the O&M and depreciating and then amortizing?

A Yes.

Q And then your answer would be the same as Mr. Huff's?

A My answer would be the same as Mr. Huff's.

Q Another question which I directed to Mr. Cherry and -- Mr. Raber, rather, last week was the original and the revised load and capacity forecast which was prepared by Mr. Cherry and Mr. Raber -- was that used by you insofar as you had your input into the preparation of the original and revised budgets for Penelec?

A You're talking in terms of load capacity and load forecasting?

Q Yes.

A Yes.

.4-3

Q And what would your response be to the expenses of the master plan for conservation and load management as far as inclusion of such expenses in the current rate proceeding?

A In the current rate proceedings in the filing, which amounts, I think, to $1.6 million, there's no provision for the master plan. What that $1.6 million in Penelec's filing is related to our Conservation -- what we call the Conservation Audit Program, which has been an ongoing program. We have approximately 11 people working on it now. Five hundred thousand dollars of the one point six is already included in our budget. For the full expanded program for the audit program we're saying it should take us up approximately another million dollars, one point one million.

Q But you're saying as far as the conservation load management master plan, no expenses have been claimed or will be associated with Penelec?

A The reason I'm hesitating is that there's a possibility that some of maybe the preliminary work may have come through on a billing or it may have been included in a budget. But it would be -- I would say it would be very little, if any.

Q Would they be like minor expenses that I think Mr. Huff mentioned with regard to Mr. Hood in personnel?

A Yes, and I say it would be very minimal if there are any.

14-4

Q Now, this is an area that I also covered -- this next area I'm about to get into, that I also covered with Mr. Huff with regard to Met-Ed. And now with regard to Penelec, if TMI-2 were abandoned, then for tax purposes do you know what the amount of the abandonment loss would be for Penelec, federal income tax?

A No, I do not.

Q Do you have any idea?

A No, I do not.

Q You would agree that it could be -- or could it be carried back three years to offset Penelec's taxable income?

A Yes.

Q Would it be so used in effect? Have there been other offsets to taxable income for Penelec which would make it unnecessary to carry it back?

A If that were the case -- and conjecturing now --

Q This isn't conjecture. I'm saying, Could you take advantage -- If in fact there was an abandonment loss, could you take it back and offset your taxable income for Penelec?

A I really haven't studied the subject at all. To give you an answer, I would say most likely it could be taken advantage of, yes.

14-5

Q Could it also be taken advantage of in the future for Penelec's taxable income for the next seven years as far as carry-forwards go?

A Without looking into the IRS rulings on this subject, I would say yes.

Q But you do anticipate taxable income against which an abandonment loss would be offset in the future, assuming that there is a carry-forward of seven years, which I believe there is?

A Yes. I agree with that. State that again for me.

Q You do believe that assuming that Penelec does have positive taxable income in the next seven years and assuming that a loss, abandonment loss, could be carried forward for such period of time, which I believe the tax law states it, there would be a reduction in taxable income due to the offset?

A Yes.

Q Okay.

Q Mr. Suffian, you raised a question a little while ago relative to the amount of reserve capacity we had in the September numbers. I believe you were talking about B-111-2.

Q Yes. What is this in response to, Mr. Carroll?

A You asked me what amount was included in the Other O&M for reserve capacity. I believe that was your question.

4-6

Q And that's on Exhibit B-111-2, Page?

A The same numbers on both pages, Page 1 and 2, would be what's included in the 77088. And it's a negative 6 million 338.

Q Well, I also wanted the amount that would be included in the other figures on Page 1, namely May through August of Line 12, Other O&M.

A I'm sorry. I thought you were just --

Q No. I was referring to the entire line, all five months.

A I guess where I was mixed up is that -- we're talking about twelve months ended September now, all right?

Q Yes. I want to see if it varies.

A And for the twelve months ending September that would be the amount that's in there for that twelve-month period. So now are you asking me now what was in the twelve-month period for May, June, July, and August?

Q Yes, I am. You have five 12-month periods listed here, and I'd like the amount included in each figure.

A I'm sorry. I misunderstood.

Q Okay. Could you project or do you know what the federal taxable income for Penelec would be for the calendar years 1980 and 1981 assuming full rate relief?

MR. SUFFIAN: I asked a question similar to this for Met-Ed of Mr. Huff, and now I'm directing this to Mr. Carroll for Penelec.

14-7

MR. OGDEN: Again I guess I need to clarify what you mean by "full rate relief", when and at what amount.

MR. SUFFIAN: Full rate relief granted in April in the amount requested in your filing.

THE WITNESS: I'd have to supply that to you.

BY MR. SUFFIAN:

Q Would you do so?

A Sure.

Q Okay. And that's both for '80 and '81.

Now, if TMI is not allowed in rate base in this proceeding, would you say that that in itself would bring about a taxable loss, federal taxable loss, for the years 1980 and '81?

14-8

A Subject to doing some calculations of my own, I'd say no.

Q No?

A (The Witness nodded his head.)

Q I'd like to ask you whether Penelec has requeted or received a technical advice memorandum on the subject of capitalized pension costs and taxes in any examination by the IRS.

A Would you repeat that, sir?

Q This is in the area of capitalized pension costs and taxes, and I'm asking whether in the Penelec proceeding whether Penelec has requested or received such a memorandum with regard to capitalized pension costs and taxes.

A Not to my knowledge. Are you referring to TMI-1 and 2 again?

Q Well, I'm referring to capitalized pension costs and taxes not just for TMI-1 and 2, broadly, generally. And you're saying that you haven't received or requested such a memorandum, is that correct?

A Not to my knowledge at the moment. We may have and I'm just not aware of it.

Q Okay. Is it true that -- would it be correct to state in the IRS examination of Penelec that they ultimately did allow -- its last examination of Penelec they ultimately did allow the capitalized pension costs and taxes claim as

14-9

they did in Met-Ed?

A I believe that's correct.

Q And in the present proceeding is it correct that there were capitalized pension costs and taxes of $1.836 million for Penelec?

A Yes.

Q And was there a deduction made in calculating federal income tax expense for rate-making purposes of such capitalized pension costs and taxes?

A Yes.

Q Then a deduction was made both in calculating federal income taxes for rate-making purposes and in calculating federal income tax liability to the government?

A Yes.

MR. SUFFIAN: That's all the cross-examination I have, Your Honor.

MR. OGDEN: Your Honor, if I might just clarify a point one moment. May I have a moment with the witness?

THE ADMINISTRATIVE LAW JUDGE: Very well.

(Off the record momentarily at 4:13 p.m.)

THE WITNESS: May I clarify something? I think I misspoke on my last question, and I'm referring to my Tax Interrogatory No. 16. And I think your question was, Did we -- Have the pension and taxes capitalized been deducted in arriving at the taxable income for rate-making purposes.

I don't know whether you have access to that --

BY MR. SUFFIAN:

Q I have it for Met-Ed, but I didn't have it for Penelec. That's why I didn't make reference to it.

A I believe we have put in a response to Pa. PUC staff. We called it Tax Interrogatory No. 16. And at the time the current rate case was being prepared, the IRS Service in the course of their audit for the year '77-'78 was contemplating the disallowance of the current income tax
14-10 deduction for pension costs and tax capitalized. And subsequently the IRS acquiesced on this matter.

Q Would the answer be the same, then, for Penelec as it was for Met-Ed?

A Yes.

Q Then for rate-making purposes you didn't take it as a deduction, then, in calculating federal income tax, although for federal income tax liability the actual expense calculation to the government you did take it as a deduction?

A That's correct.

Q Then that amends your answer of a few moments ago?

A Yes.

MR. SUFFIAN: Okay.

THE ADMINISTRATIVE LAW JUDGE: Do you want to start now, or do you want to wait till tomorrow?

MR. BARASCH: Your Honor, a week or two ago the Consumer Advocate's office largely completed its cross-examination of Mr. Carroll except for certain outstanding data requests and whatnot that were put to him. And as of this point in time I don't believe Mr. Carroll's had an opportunity to prepare those responses, so we're not prepared

14-11

to proceed today or tomorrow in terms of our further cross-examination for Mr. Carroll because, simply, we have no other new areas to explore other than matters that are left open on the record from previous appearances. I think I'd indicated that last week, that this was a possibility.

THE ADMINISTRATIVE LAW JUDGE: What other witnesses can you cross-examine now? Does Staff have anybody? Mr. Carter is here. Do you have any further cross-examination of Mr. Carter?

MR. SUFFIAN: Well, we will have cross-examination of Mr. Carter. In fact, I do have a bit of cross-examination that I could direct to Mr. Carter today somewhere. But most of our cross-examination will have to take place at a future date. I mentioned this also last week, that we wouldn't -- we could not be ready at this stage considering the Company's responses or lack of responses to our interrogatories to pursue cross-examination in the area of rate structure.

MR. BARASCH: If I could, Your Honor, we completed all our cross of Mr. Carter other than rate design matters. And as I indicated earlier, we're going to be meeting with him later this week to hopefully dispose of the bulk or perhaps all of the discovery in that area. And sometime after that we would be able to cross-examine in rate structure.

Aside from that, we have rate of return witnesses that have not yet taken the stand. I think we also still have discovery matters outstanding there as well. I don't know what other -- I'm not aware of any other witnesses off the top of my head.

14-12

MR. OGDEN: Your Honor, one point I do want to clarify for the record in respect to Mr. Carter: I would like to come to his defense in terms of responses to interrogatories. I think he's been prompt in responding to any number of interrogatories, including rate structure matters.

In terms of where we go from here, I know Mr. Russell has been trying to set up some dates for the appearance of the rate of return witnesses. I imagine that would be coordinated with the other counsel. And I'd have to check with him to see what dates they would be available. They certainly would not be available tomorrow or Friday.

The other area that we have open is Mr. Carter in rate structure. But I'd say there are a number of witnesses we can have here if there's further examination for them in these two days. If not, fine.

THE ADMINISTRATIVE LAW JUDGE: Let's go off the record for a minute.

(Off the record at 4:18 p.m.)

(The transcript continues on the following page.)

14-13

EUGENE F. CARTER, recalled as a witness on behalf of Respondents, having been previously sworn according to law, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. OGDEN:

Q Mr. Carter, I show you what has been marked and I believe identified as Penelec Exhibit C-26. Do you have any corrections to make to that exhibit at this time?

A Yes, there is one correction that should be noted on Exhibit C-26 and this is Penelec Exhibit C-26.

On page 6 of that exhibit the column headed March, which is the last column on the right, containing billing determinants, for customer number one shows kilowatt hours consumed for this period as 25,477,000. That number should be corrected to read 38,224,000.

Q Mr. Carter, there has been marked for identification Met-Ed Exhibit C-38. Was that exhibit prepared by you or under your supervision?

A Yes, it was.

Q I also show you what have been marked for identification as Met-Ed Exhibits C-34, C-35, C-36 and C-37. Were those several exhibits prepared by you or under your supervision?

A Yes, they were.

Q Now in the Penelec proceeding there have been marked for identification Penelec Exhibits Nos. C-26-1, C-26-2, and C-36. Were those several exhibits prepared by you or under your supervision?

A They were.

MR. OGDEN: That is all we have on direct at this time.

CROSS-EXAMINATION

BY MR. SUFFIAN:

Q Mr. Carter, I would like you to refer to Penelec Exhibit C-1, page 1 and Exhibit C-3, page 5. I will be making reference to both of those. Do you have that reference, Mr. Carter?

A Yes.

Q On page 5 of Exhibit C-3, I am looking under the last column, Rate of Return. Now it is correct, is it not, that the system average rate of return as requested by Penelec and shown here is 10.54 percent for the test year ended 3-31-81?

A That is correct.

Q And it is also correct, is it not, that the return indicated for non-jurisdictional operations is also 10.54 percent?

A Yes, that is correct.

Q In order to arrive at the 10.54 percent return for non-jurisdictional operations it was necessary to impute or assign approximately $1.929 million of the proposed $69 million base rate increase to these non-jurisdictional operations. I am referring now to page 1 of C-1. Do you have that? I am looking under column 8 on page 1, C-1. At line 23, $1,929,344 is assigned to the total other jurisdictions, correct?

A That is part of it. There is another piece down on line 26, $933, that is the late payment charge revenues. So those two pieces in total would be the amount.

Q The $69 million base rate increase?

A Yes.

Q Would it also be corr :t that you impute or allocate a portion of the requested base rate increase to non-jurisdictional operations to bring the rate of return of this group of customers to equivalency with the system average rate of return so as to eliminate any subs'dization effect?

A Yes. This is consistent with what we have done in prior proceedings.

Q Now I would like to refer you to Met-Ed Exhibits C-1, page 1 and C-3, page 5, the comparable exhibits and pages for Met-Ed. Do you have it?

A Yes.

Q Am I correct that the system average rate of return shown on page 5 of Exhibit C-3 for Met-Ed is 10.61 percent?

A That is correct.

Q Also the return indicated on page 5 of C-3 for non-jurisdictional operations appears to be 5.755 percent, is that true?

A That is correct.

Q Would it be correct that in order to arrive at a rate of return of 10.61 percent, the total system for non-jurisdictional operations, it would be necessary to allocate a portion of the requested $76.5 million base rate increase in excess of -- I believe you have $26,973 which was allocated to Met-Ed and appears on page 1 of C-1?

A Yes, the $26,973 does appear in C-1.

Q That was not the entire question.

A I realize that.

Q It would be necessary to allocate a greater portion of the $76.5 million base rate increase, would it not, than the some $27,000 in order to bring the non-jurisdictional up to 10.61 total system, wouldn't it?

A If your desire was to bring the non-jurisdictional to that return, the answer is yes.

Q Well, in essence to avoid subsidization of the non-jurisdictional by the jurisdictional.

A If I could expand my previous answer as to why we did not do that.

The non-jurisdictional business of Metropolitan Edison Company for the cooperatives, that is, the rural electric cooperatives and the municipal resale customers, with the exception of one customer, were imputed a system return equal to the 10.61 percent.

The one exception is the Borough of Middletown. This has come forth in previous cases but I believe it needs stated again.

In Middletown there is a contract that was negotiated back around the turn of the century in which forever and a day at Middletown's option, predecessors to Met-Ed agree to supply energy to Middletown borough at the rate of one cent per kilowatt hour.

We have attempted in FERC proceedings to have that contract overruled. My recollection is that there were two cases that were utilized as a basis for this, and in the case in which I participated, although I was not a witness, there was a case known as the Sierra case and also the Mobile case, we attempted to present evidence before the FPC indicating good reasons why that contract should not be overturned.

We did not successfully persuade the FPC in this matter insofar as they had determined that the effect of any increase in revenue necessary to bring the business to a requested level of return in that case would have had a de minimis effect on a per share basis, earnings per share.

Inasmuch as Met-Ed is now not realizing any earnings per share to speak of, any increase in revenues there could have an infinite effect on their earnings per share.

But having tried the logical courses of action available to us and sitting squarely faced with this contract which is cancelable only at Middletown's request, I asked myself the question that you are now asking: should we impute a full rate of return to those customers or should we do something different?

We have proposed something a little different, namely, what we propose is as follows:

We calculated the revenue deficiency for Middletown from our cost of service and then that deficiency in revenues was spread back to all the remaining customers including the non-jurisdictional customers on a mill per kilowatt hour basis and the resultant is that we split off the dollars that you see on C-1 that we referenced earlier.

Q Have you concluded your answer?

A Yes.

Q The result in substance of this absorption of the revenue deficiency from Middletown by non-jurisdictional and jurisdictional customers would in essence be a subsidization of Middletown by the other ratepayers, wouldn't it?

A In effect, by all ratepayers, both jurisdictional and non-jurisdictional except for Middletown.

Q Perhaps you can reply to this now or in the form of a data request. Could you provide for the record the amount of the additional revenues to be assigned to the non-jurisdictional operations, specifically I suppose Middletown, and the computation which will bring the rate of return of non-jurisdictional operations to the system average of 10.61 percent?

A We have made that calculation. I thought I had it in some of my work papers but I do not have the specifics.

It is in the magnitude of $1.5 million to $1.6 million, if you were to impute a full return to Middletown as an individual customer.

Q You are saying $1.5 million to $1.6 million of the base rate increase would have to be assigned to Middletown rather than the --

A If we were to overturn the contract of Middletown and bring them up to a levelized return it would take about a million and a half plus a few dollars.

Q That would bring it to the 10.61 percent total system?

A Yes.

MR. SUFFIAN: Thank you, Mr. Carter. That is all I have.

THE ADMINISTRATIVE LAW JUDGE: Anything further?

MR. BARASCH: Not at this time, Your Honor.

THE ADMINISTRATIVE LAW JUDGE: Is it the desire of counsel then that the hearings scheduled for tomorrow and the next day be canceled?

MR. SUFFIAN: Yes.

THE ADMINISTRATIVE LAW JUDGE: Very well, we will adjourn now till November the 25th.

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(The hearing was adjourned at 4:40 o'clock p.m.)

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I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me during the hearing of the within cause, and that this is a true and correct transcript of the same.

MOHRBACH & MARSHAL, INC.

By James P O'Hara
JAMES P. O'HARA

By Deborah K. Hickey
DEBORAH K. HICKEY
11-19-80

(The foregoing certification of this transcript does not apply to any reproduction of the same by any means unless under the direct control and/or supervision of the certifying reporter.)

Quarterly Financial Statements
September 30, 1980

ME/PN Exhibit No. E-5-2
Witness: J. G. Graham

AVAILABLE UPON REQUEST

General Public Utilities Corporation

100 Interpace Parkway, Parsippany, N.J. 07054 • (201) 263-6500
Jersey Central Power & Light Company
Metropolitan Edison Company
Pennsylvania Electric Company

generation, amounting to $154 million since May 1979, go solely to customers, but have reduced the borrowings that the System would otherwise have been required to make.

The major, coal-fired, minemouth stations in which the GPU System companies participate with other utilities achieved superior performance during the third quarter and added nearly $5 million more in energy cost savings.

In New Jersey, the burning of natural gas at JCP&L's Sayreville station has saved more than $15 million for the Company's customers over the last 15 months, when the use of gas rather than heavy fuel oil began. At the Company's Gilbert Station, a new natural gas pipeline will achieve further savings.

In July, the System reached an agreement with the other members of the Pennsylvania-New Jersey-Maryland Interconnection (PJM) for an interim amendment of the PJM power pooling agreement. That amendment, which was approved by the Federal Energy Regulatory Commission on October 1, 1980 and became effective that day, reduces the price of energy purchased by the GPU System from other PJM members. Since most of the energy available from them would be produced by oil-fired generation, it is not anticipated that the GPU System will make substantial purchases from them unless coal-fired generation from other utilities is not available.

W. G. Kuhns

W. G. Kuhns
Chairman and Chief Executive Officer
November 24, 1980

General Public Utilities
100 Interpace Parkway
Parsippany, New Jersey 07054

For information Stockholders may contact:
Corporate Secretary's Department, Stockholder Relations
100 Interpace Parkway
Parsippany, New Jersey 07054
(201) 263-6600

General Public Utilities Corporation

Third Quarter Report to Stockholders 1980

GPU

ME/PN Exhibit No. E-6-2
Witness: J. G. Graham

To the Stockholders

Fourth Quarter Dividend Omitted

The Board of Directors of General Public Utilities Corporation, in order to continue to conserve the Company's cash resources in the wake of the March 28, 1979 accident at Three Mile Island ... ully on November 6 to omi... dividend on common stock.

In making the de... ted that, until the severe fina... facing the GPU System sig... it does not expect that the ... le to resume common ...

AVAILABLE UPON REQUEST

Quarterly Earnings

Net income for the t... 0.5 million, down 59 pe... million reported for the thir... Earnings per share for the thi... cents, compared with 42 c... last year. In the second quart... reported a loss of 14... only quarterly loss in the ...

Earnings continue... cted by the removal of the o... l costs of the Three Mile Islan... ase rates of GPU's subsidiarie... recover these costs for TMI ... er ended September 30 result... income of about $8 million, ... er share. These costs for TMI ... ed from base rates in th... f 1979.

Earnings improve... nting in May of $60 million annually of interim rate relief to GPU's subsidiary, Jersey Central Power & Light Company (JCP&L) and about 5 cents per share from increased sales of electricity during the third quarter, were more than offset by the cessation, effective April 1, 1980, of credits to income for the carrying costs of funds associated with the Forked River nuclear project, increased expenditures at TMI

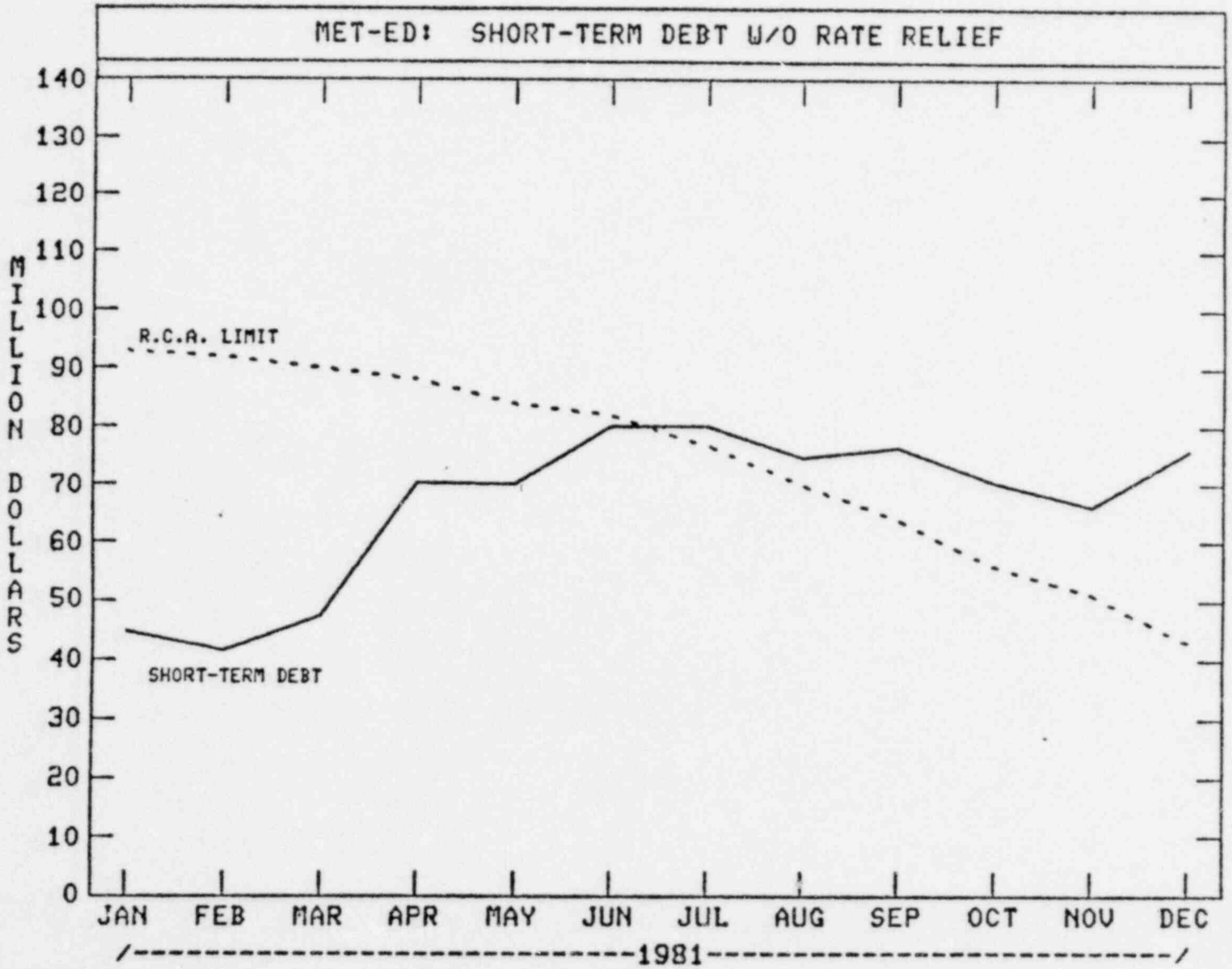
Atomic Safety and Licensing Board conducts a hearing on the re-start of Three Mile Island Unit 1. At left is Chairman Ivan Smith, an ASLB attorney, Dr. Walter Jordan, retired nuclear scientist and professor, and Dr. Linda Little, an environmental consultant. Page 5.

Unit 1 (the undamaged unit), the effects of a three-month strike, settled in September, at GPU's subsidiary, Pennsylvania Electric Company (Penelec), and other increases in operating costs.

Metropolitan Edison Company
Revised Short-Term Debt Forecast for 1981
Comparison of Assumptions with ME/PN Statement E
($ Millions)

	ME/PN Statement E	ME Exhibit No. E-28
Construction, Payroll and Other O&M	$ 171	$ 165
Deferred TMI-2 Clean-up Less Insurance Proceeds	$ 17	$ -
TMI-1 Return to Full Power Production	July 1981	January 1982
Available Short-Term Credit	$ 105	"Liquid Assets"*
Permanent Capital	None	None
Assumed Base Rate Increases	TMI-1 Base Rates Restored 7/81	None
Energy Cost Recovery	Sufficient to amortize deferred energy balance by year-end 1981	Same as Statement E

* Reflects the Setepmber 5, 1980 letter from the Revolving Credit Banks which allows borrowing for Met-Ed at a level that equals its deferred energy balance plus uranium pledge ($20 million) plus pledge of customer accounts receivable (approximately $20 million) but not to exceed $105 million.



Met-Ed Exhibit No. E-28
Witness: J. G. Graham
Page 2 of 2

Met-Ed Exhibit E-29
Witness: J. G. Graham

METROPOLITAN EDISON COMPANY
(Docket No. R-80051196)

Consumer Advocate Interrogatory Number 105:

"105. Provide for both (1) the individual investors and (2) institutional investors categories, the names of the largest 5, 10, and 25 shareholders and the number of shares they own."

Response:

As of September 30, 1980, in the aggregate the five (5) individual shareholders with the largest ownership of GPU's common stock own 181,200 shares, ranging from 52,000 to 24,000 shares; the ten (10) individual shareholders with the largest ownership of GPU's common stock own 287,200 shares, ranging from 52,000 to 20,000; and the twenty-five (25) individual shareholders with the largest ownership of GPU's common stock own 531,104 shares, ranging from 52,000 to 13,500. The holdings of GPU's twenty-five largest individual common stockholders constitute less than 1% of GPU's outstanding common stock. The names of GPU's common stockholders have not been public information in the past. GPU believes it has a responsibility to maintain the confidentiality of its shareholders, particulary in light of the questionable relevance of the inquiry to the subject rate proceedings.

As of September 30, 1980, in the aggregate the five (5) institutional shareholders, defined to be all shareholders excluding registered individual shareholders, with the largest ownership of GPU's common stock own 17,305,615 shares. The single largest institutional holder included above is a depository account primarily for nominee accounts of individuals and groups holding about 14.6 million shares. Also included in the above is GPU's Dividend Reinvestment Plan account for all its stockholders constituting about 1.1 million shares. As of September 30, 1980, in the aggregate the ten (10) and twenty-five (25) institutional shareholders with the largest ownership of GPU's common held 18,757,886 shares and 19,796,283 shares, respectively. The names of GPU common stockholders have not been public information in the past. GPU believes it has a responsibility to maintain the confidentiality of its shareholders, particularly in light of the questionable relevance of the inquiry to the subject rate proceedings.

METROPOLITAN EDISON COMPANY
(Docket No. R-80051196)

Consumer Advocate Interrogatory Number 104:

"104. Provide the percentage breakdown of the stock ownership of GPU with regard to (1) institutional investors and (2) individual shareholders."

Response:

Page 2 attached provides an analysis of GPU's common stock ownership at 9/30/80 segregating individual shareholders and their respective shares owned from a series of other ownership classes.

GENERAL PUBLIC UTITITIES CORPORATION
SELECTED CLASS ANALYSIS OF STOCKHOLDERS

CLASS	STOCKHOLDERS	% OF TOTAL	SHARES	% OF TOTAL
Banks & Nominees	1,149	.72	21,392,193	34.90
Brokers	86	.05	548,176	.90
Charitable Institutions	582	.37	216,914	.35
Companies, Corporations, and Partnerships	1,204	.76	995,346	1.62
Educational Institutions	50	.03	33,715	.06
Individuals	154,999	97.46	37,414,031	61.04
Insurance Companies	32	.02	36,623	.06
Investment Companies	52	.03	22,363	.04
Pension & Profit Sharing	885	.56	632,367	1.03
Total Stockholders	159,039	100.00		
Total Shares			61,291,728	100.00

Met-Ed Exhibit No. J-5
Witness: H. M. Dieckamp

Re: R-80051196

Metropolitan Edison Company

Letter of F. J. Smith, Senior Vice President of Metropolitan Edison Company, dated December 17, 1980 to Pennsylvania Public Utility Commission.

Met-Ed GPU

Metropolitan Edison Company
Post Office Box 542
Reading Pennsylvania 19640
215 929-3601

Writer's Direct Dial Number

December 17, 1980

Chairman Susan M. Shanaman
Commissioner Michael Johnson
Commissioner James H. Cawley
Commissioner Linda C. Taliaferro

Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, Pennsylvania 17120

Dear Chairman and Commissioners:

My letter of September 12, 1980 informed you of the curtailments in expenditures for operating and maintenance expense and construction necessary for Met-Ed to be able to remain within the credit available through April of 1981. Updates of October 13 and November 14 provided a monthly status of the Met-Ed situation through the end of October. It is the purpose of this letter to provide a similar report reflecting the status through the end of November. We will continue to provide a monthly report until the critical cash constraints which have caused these curtailments have been relieved.

The September 12 letter forecast a net short term debt requirement of $89.0 million at November 30, 1980. The actual net bank debt on that date was $65.4 million. A summary of the major variances from the forecast is shown below:

Short-Term Debt Forecast @ 11/30/80	$ 89.0
Delayed FIT Settlement	(1.7)
Delayed USDOE Payment	(1.4)
Decreased Energy Expense	(9.8)
Increased Revenues	(.6)
Accelerated Insurance Recovery	(5.0)
Other Miscellaneous	.2
Short-Term Debt Actual @ 11/30/80 (With Provision for 12/1/80 Bond Maturity)	$ 70.7

December 17, 1980

The $65.4 million compares with the limit of Met-Ed's credit under the revolving credit agreement of $98 million at the end of November. The limit decreased to about $93 million as of December 12, 1980 (which includes approximately $20 million of additional credit available pursuant to a pledge of accounts receivable).

The majority of the variations through the end of November are, as was true in October and November, the result of differences in the timing of various expenditures and receipts. The delayed settlement of the Federal Income Taxes will occur this month. The extension of the payment to USDOE for enrichment services will eventually have to be paid. With respect to the decreased energy expense of $9.8 million, $5.8 million of this is a true lower cost of energy which has resulted in a lower deferred energy balance. This, under the revolving credit agreement level applicable to Met-Ed, reduces credit available; it does not produce net cash available for the electric system. (This lower experienced energy cost, incidentally, is one of the factors which has made possible Met-Ed's filing to reduce slightly the 1981 energy cost rate.) The remaining amount, $4.0 million results from lower cost and levels of inventories. The increased revenues do improve cash to the extent they are not offset by negative variances in the future, such as those caused by weather. It should be noted that the figure for this item was larger in October and November and has come closer to budget at this time.

The forecast O&M and construction expenditures are about on plan. Actual Met-Ed employment and forecast attrition will provide some savings over the next few months, but outstanding storm expenses and the Portland outage may offset these savings.

The Met-Ed level of employment has been reduced by a combination of attrition, lay-off and transfers to a total (exclusive of TMI) of 1,891 at November 30. The forecast level, before reductions, was 1,991 for year end 1980.

The realignment of activities at TMI-2 continues in accordance with the September 12 plan. Expenditures at TMI-2 since the accident total $99.8 million, of which $87.0 million has been deferred for insurance recovery and $12.8 million has been charged to "normal" O&M. These expenditures

December 17, 1980

reflect a reduction in November 1980 of $2.5 million from budget resulting from the overall stepdown in clean-up activity. This savings is slightly ahead of that scheduled in the September 12 letter. As of November 30, property damage insurance recovery aggregates $77.6 million. (All quantitities are Met-Ed's 50% share).

On November 13, GPU reached an agreement with American Nuclear Insurers/Mutual Atomic Energy Reinsurance Pool (property insurance carriers for TMI) which will allow recovery of insurance proceeds on an accelerated basis. This agreement will allow GPU's operating subsidiaries to recover money for covered expenditures on a current basis until the coverage is depleted. This more favorable insurance recovery will be reflected in future forecasts.

On November 13, 1980 we filed with the Pennsylvania Department of Revenue a request for extension of time in which to make the payment of the final installment of the 1980 Gross Receipts tax ($6 million) and the tentative payment of the 1981 Gross Receipts tax ($17 million) both of which are currently due in April 1981. The request for extension was denied on November 24, 1980. A copy of the letter denying this request is attached.

The company is completing the 1981 budgets and indications are that additional operation and maintenance expenditures may be required which may offset the current slightly improved cash position. The deficiency still will grow to about $30 million at year end 1981 absent changes in rates and/or credit.

Copies of this letter have been sent to all parties concerned re Docket No. R-80051196.

Respectfully yours,

F. J. Smith
Sr. Vice President

lda
Attachments

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
STRAWBERRY SQUARE
HARRISBURG, PA. 17127

DEPUTY SECRETARY

November 24, 1980

(717) 78?-3682

Harry Rubin, Esquire
Krekstein, Rubin and Lasday
P.O. Box 800
Harrisburg, Pennsylvania 17108

Dear Mr. Rubin:

This letter is in response to your letter of November 13, 1980 wherein you point out certain financial difficulties of Metropolitan Edison Company. You request an extension of time for the company to file certain reports and to pay the dollar amounts indicated, namely:

1980 Gross Receipts Tax Report
Tentative 1981 Gross Receipts Tax Report

Your letter does not specify for how many days beyond the April 15, 1981 due date the request is made, but you do express an expectation that a granted request would relieve Metropolitan Edison from penalty for late filing or late payment, but would not avoid the payment of statutory interest with the delayed payment. You cite as authority for the Department to grant a request for at least a 60 day extension Fiscal Code 72 P.S. §704 and Tax Reform Code Article IV, Part III §405, 72. P.S. §7405, which Part is incorporated into the Utilities Gross Receipts Tax at Article XI, Part II, §1102, 72 P.S. 8102.

I regret that while I am sympathetic to the financial difficulties, the Department must give the same negative answer as was given to your letter of April 7, 1980 on this subject. Both sections 704 and 405 refer to applications for extension being made on a form prescribed by the Department. It should be noted that since as far back as 1977 the Department's extension request form [RCT-872 1-77, now REV-788 (10-79)] has set out certain requirements for an extension application for filing an annual report stating the extension is valid only if the company complies with the following: (1) the amount of tax extimated due for the year to be reported is paid by the original due date and (2) the current year combined tentative report is filed by the due date and tax payments are made as required. Therefore Metropolitan Edison may apply for an extension of its 1980 Gross Receipts Tax Report if it files and meets the conditions of REV-788, but not under the terms contemplated in your letter.

The reason why the form does not provide for an application for extension of time to file the Tentative 1981 Gross Receipts Tax Report (or any other tentative report) is that the Tax Reform Code does not provide for an extension of time for other than an "annual report".

The Fiscal Code predates the provisions of Title 72 which require tentative reports and payments; those new provisions now appear at Article XII of the Tax Reform Code. TRC Article XII ["General Provisions"] contains §1202.1(a), 72 P.S. §8202.1(a), which is entitled "Prepayment of Tax". Specifically this requires that taxpayers, on or before April 15, "shall report annually and pay on account of the tax due for the current year." Section 1202.1(b) spells out the computation for Gross Receipts Tax. Section 1202.1(e) imposes an additional 10 percent tax on underpayments. While numerous Articles of the Tax Reform Code (including Article XI which imposes the Utilities Gross Receipts Tax) incorporate by reference certain of the procedural parts of Article IV, including Section 405 dealing with extension of time "for filing any annual report", Article XII does not do so.

The Legislature in Section 1202 of the Tax Reform Code has mandated timely prepayment of tax and imposed stiff consequences for noncompliance. Apparently the reason for this provision was to assure early receipt of a substantial portion of a tax which constitutes revenue for the Commonwealth. Significantly, nowhere in the Tax Reform Code is there a provision specifically permitting the Department to extend the time for making a prepayment. That is why the "Gross Receipts Tax - Tentative Report" form [RCT-100 (2-79)] spells out at Instruction 2: "No extension of time is granted for the filing of tentative reports". [Emphasis in the original.]

The Department does not consider that Fiscal Code section 704 is authority to grant a 60 day extension of time to file a tentative tax return imposed under Tax Reform Code section 1202.1. The basis for this conclusion is first that section 1202.1(a) starts out with the language "Notwithstanding the provisions of this act, or any other State tax law to the contrary" the payments of tentative tax are to be paid on April 15. Secondly, whereas the time for filing the annual returns of various taxes may, by incorporating Article IV, Part III, section 405, on proper application, be extended for 60 days and whereas TRC section 405 'tracks' Fiscal Code section 704(a), there is no comparable carry-over of Article IV's extension of time to Article XII which deals with tentative taxes and the dates tentative taxes are due. Thirdly, the Tax Reform Code is designed to be read as a unit and the Legislature is presumed to intend that the entire statute (that is the entire Tax Reform Code) is effective according to its terms. 1 Pa. C.S. §1922. It is illogical to believe that the Legislature would have allowed specific 60 day extension language to exist, through incorporation by reference, in various Articles of the Tax Reform Code and not put the same extension language in Article XII but nevertheless expect Fiscal Code section 704 to allow such an extension.

I regret that we cannot help your client through its financial difficulties, but I am advised we have no choice.

Very truly yours,

R. E. Watson

Robert E. Watson
Deputy Secretary for Taxation

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Met-Ed Exhibit I-30
Witness: B. H. Cherry

METROPOLITAN EDISON COMPANY
Docket No. R-80051196

Response to Interrogatory No. 6 of the Rate Structure Interrogatories of the Office of Consumer Advocate.

Question: Provide two (2) copies of any studies and/or workpapers supporting system energy growth estimates which bear upon Met-Ed's future capacity needs. Reference is to Statement I.

Answer: Referring to Statement I, two forecasts are referenced, the 1980 Corporate Energy and Load Forecast, October, 1979 and the April, 1980 forecast. The latter did not result in the issuance of a formal report. The system energy estimates, or NSR's, on a year-by-year basis from the April, 1980 forecast are given in Exhibit I-23.

The work papers supporting the forecasts are voluminous, constitute part of the day-to-day work files, are in several locations, and are in part stored on computer. The work papers will be made available on reasonable notice where they reside at Metropolitan Edison Company, 2800 Pottsville Pike, Reading, Pennsylvania and GPU Service Corporation, 100 Interpace Parkway, Parsippany, New Jersey.

Met Ed Exhibit: I-31
Witness: B. H. Cherry

METROPOLITAN EDISON COMPANY

Docket No. R-80051196

Response to Interrogatory No. 34 of the Rate Structure Interrogatories of the Office of Consumer Advocate.

Question: With reference to page 9, Statement I, please explain why the peak loads of each rate class were summed to get the Company's peak load without taking into consideration the diversity between classes similar to that between operating companies. What was the source of the load factors used to determine each customer class' peak load based on forecasted energy? What relationship exists between the forecast of energy discussed on this page, and the energy requirement and sales used to develop the energy allocation factors? What is the purpose of the calculation which is discussed on this page relative to determination of GPU peak load forecast? Is the purpose to assign capacity and energy costs to the three operating companies? If the answer is yes, please provide workpapers used in developing the class, company and system loads discussed.

Answer: In the development of the Company's peak load forecasts, consideration was given to the diversity between classes. The peak load methodology utilizes the concept of accounting for contribution to the Company's peak by rate class. It is the class demand at time of the Company's peak which is used, and this demand is not necessarily the peak demand for the class. Using this methodology, which accounts for class demand at time of the Company's peak, it is not necessary to apply diversity in order to get the Company's peak demand.

The class contribution to the Company's demand and load factors were derived from metered demand studies conducted by the Company.

The historical sales along with the class demand at time of the Company's peak were used to calculate the appropriate class load factor. The same historical energy data was used as one input to the energy sales forecast discussed on page 9 of Statement I.

The purpose of the calculation is to derive GPU's system peak load forecasts which are used for capacity planning.