



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

October 29, 1997

In Re: **R-00974104,**
R-00974104C0001-C0002

(See letter dated 10/22/97)

Duquesne Light Company

Application for approval of a Restructuring Plan

KJR

NOTICE

This is to inform you that a Third Prehearing Conference on the above captioned case has been scheduled as follows:

Date: **Tuesday, December 9, 1997**

Time: **11:00 a.m.**

Location: **11th floor hearing room
Pittsburgh State Office Building
300 Liberty Avenue
Pittsburgh, Pennsylvania**

Presiding Officer: **Administrative Law Judge John H. Corbett, Jr.
1103 Pittsburgh State Office Building
300 Liberty Avenue
Pittsburgh, PA 1522
Telephone: (412) 565-3550**

DOCKETED
OCT 31 1997

**DOCUMENT
FOLDER**

All parties have the option of participating by telephone in Harrisburg in Hearing Room 2, Ground Floor, North Office Building, North Street and Commonwealth Avenue, Harrisburg, Pennsylvania, or in-person in Pittsburgh in an available Hearing Room, 1103 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, Pennsylvania.

If you are a person with a disability, and you wish to attend the hearing, we may be able to make arrangements for your special needs. Please call Norma Lewis at the Public Utility Commission:

- Scheduling Office: 717-787-1399
- AT&T Relay Service number for persons who are deaf or hearing impaired: 1-800-654-5988.

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pc: Judge Corbett
Rosemary Chiavetta - BPL 111
John Frazier - BPL 101
Office of Trial Staff (2)
Consumer Advocate
Small Business Advocate
Bill Barrett - FUS
Norma Lewis
Steve L. Springer, Scheduling Officer
Beth Plantz
Docket Section
Calendar File



RECORDED

OFFICE OF CONSUMER ADVOCATE 29 PH 3:26
1425 Strawberry Square

Harrisburg, Pennsylvania 17120
PROTHONOTARY'S OFFICE

IRWIN A. POPOWSKY
Consumer Advocate

(717) 783-5048

BY FACSIMILE AND FIRST CLASS MAIL

October 29, 1997

Hon. John H. Corbett, Jr.
Administrative Law Judge
PA Public Utility Commission
1103 Pittsburgh State Office Building
Pittsburgh, PA 15222

Re: Application of Duquesne Light Company For
Approval of Restructuring Plan Under
Section 2806 of the Public Utility Code
Docket No. R-00974104

Dear Judge Corbett:

I am writing you to indicate the Office of Consumer Advocate's ("OCA") support for the Petition for Amendment of Procedural Schedule filed by the Duquesne Industrial Intervenor ("DII") on October 28, 1997. KJR

As indicated by DII in its Petition, Duquesne has revised numerous exhibits which are important to the analysis of Duquesne's stranded costs in this proceeding and which, therefore, may impact the recommendations which OCA will present in its testimony. As you know, that testimony is currently due in-hand to your Honor and the parties on November 7, 1997. While OCA has been making significant efforts to incorporate Duquesne's revisions in its analysis, the large number of changes and affected exhibits as well as the lack of time to fully assess the revisions through the formal discovery process has impeded OCA's ability to complete its analysis and present its recommendations by the testimony due date.

OCA would note that its consultants have been working diligently with Duquesne's witnesses on an informal basis to resolve questions concerning the revisions to these exhibits, but that many of OCA's questions, as presented in OCA's Set 8 interrogatories, have yet to be resolved. OCA agrees with DII that these exhibits represent an important element of Duquesne's case and that intervenor parties should not be expected to present testimony based on revised exhibits that they have not had the opportunity to fully evaluate.

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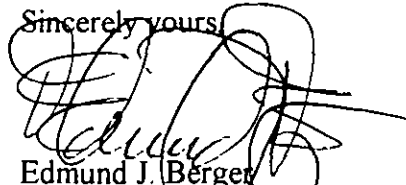
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Hon. John H. Corbett, Jr.
October 29, 1997
Page 2

OCA submits that the DII Petition should be granted and the procedural schedule should be amended to provide for a reasonable extension in the submission of answering testimony by intervenors and complainants.

Sincerely yours,



Edmund J. Berger
Assistant Consumer Advocate

cc: James J. McNulty, Acting Secretary
Kandace Melillo, Esq. (by facsimile & first class mail)
Karen Oill Moury, Esq. (by facsimile & first class mail)
James P. Dougherty, Esq. (by facsimile & first class mail)
John Moot, Esq. (by facsimile & first class mail)
All other parties of record (by first class mail)

1440 NEW YORK AVENUE, N.W.
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DIRECT DIAL
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PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

October 29, 1997

VIA OVERNIGHT MAIL

James J. McNulty
Office of the Prothonotary
Pennsylvania Public Utility Commission
North Office Building
North St. & Commonwealth Ave.
Harrisburg, PA 17105-3265

Re: Duquesne Light Company,
Docket No. P-00971175

ORIGINAL

R-00974104

Dear Mr. McNulty:

Enclosed is an original and three copies of Duquesne Light Company's Answer to Petition to Amend Procedural Schedule. I also have enclosed two additional copies and request that your office time-stamp them and return them in the enclosed self-addressed, stamped envelope.

KJR

Thank you for your assistance in this matter.

Sincerely,



John S. Moot
Special Counsel to
Duquesne Light Company

Enclosure

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10-28-97
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OCT 29 1997

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

ORIGINAL

Pennsylvania Public Utility)
Commission,)
)
v.)
)
Duquesne Light Company)
Application to approve)
restructuring plan pursuant)
to 66 Pa. C.S. § 2806(d))

Docket No. R-00974104

ANSWER TO PETITION TO AMEND PROCEDURAL SCHEDULE

Pursuant to 52 Pa. C.S. § 5.61, Duquesne Light Company ("Duquesne"), hereby answers the Petition for Amendment of Procedural Scheduled filed by the Duquesne Industrial Intervenors ("Industrials").

The Petition should be rejected as a solution in search of a problem. As Duquesne discusses in greater detail below, there is no need to amend the procedural schedule because, if the Industrials do not have sufficient time to evaluate the corrections made by Duquesne on October 15, 1997, the Industrials may respond to those corrections in their surrebuttal testimony, which is due December 11, 1997. Duquesne offered this option to the Industrials, but, for whatever reason, they prefer instead to upset the carefully constructed procedural schedule.

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1. At the outset, it is important to understand what is not at issue in the Petition. The Industrials do not claim that the corrections to exhibits supplied by Duquesne on October 15, 1997¹ are inappropriate. Indeed, the purpose of the corrections was to expedite the resolution of disputes, as Duquesne explained when it circulated them:

Duquesne has received several hundred discovery requests to date. Several of those requests have identified errors in the calculations contained in Duquesne's case-in-chief. Duquesne agrees that these errors should be corrected and is supplying the necessary corrections in the attached documents. Duquesne also is submitting corrections to reflect new information contained in the October 1, 1997 restructuring filing of Pennsylvania Power Company. In that filing, Penn Power presents updated projections regarding the costs and operation of the Perry, Sammis and Mansfield plants. (Duquesne has an ownership interest in these plants, but the plants are operated by Ohio Edison and Cleveland Electric.)

The enclosed supplemental discovery response explains and itemizes the foregoing corrections and discusses the impact of such corrections on Duquesne's restructuring proposal. Duquesne is supplying the corrections at this time (rather than reflecting them in rebuttal testimony or making the corrections on

¹ Duquesne distributed the corrections on October 15, 1997 by (i) overnight mail to the parties that had submitted discovery pertaining to the corrections, and (ii) regular mail to all other parties. The Industrials were in the latter category. The Petition indicates that they did not receive the delivery until October 20, 1997. Pet. at 2.

the witness stand) to provide intervenors the opportunity to review the corrections prior to the date for filing intervenor testimony. Duquesne anticipates that this may minimize or eliminate certain unnecessary disputes. Duquesne emphasizes that the corrections relate only to arithmetic errors or updates and do not modify the fundamental elements of Duquesne's Customer Choice Plan.

Exhibit 1 at 1.

While the Industrials assert that "[t]he revised exhibits represent the crux of Duquesne's restructuring case" (Petition at 3), this is not the point.² The point is that it was obvious that certain calculations should be corrected or updated and Duquesne had the choice of making the corrections immediately or waiting until rebuttal testimony or hearing to make them. Duquesne chose the former and, acting in good faith,

² As a matter of clarification, however, the "crux" of Duquesne's case is not the cost and revenue projections contained in the revised exhibits. The crux of Duquesne's case is a set of mechanisms that track actual costs and revenues during the transition period to ensure that Duquesne does not over-recover its stranded costs. Duquesne has proposed these tracking mechanisms precisely because of the difficulty in accurately projecting costs and revenues over a long period of time. Consequently, whether the projections contained in the revised exhibits predict, with precision, future cost and revenue levels is not material to the "crux" of Duquesne's Customer Choice Plan. Duquesne's plan seeks to avoid the very disputes that have arisen between Enron and PECO regarding which party's prediction of market prices is more reliable.

calculated the cumulative effect of each corrections/update for the intervenors.³

2. Turning to the requested relief, the Industrials ask that the procedural schedule be modified to give them more time to review the corrections. This is not necessary. The normal practice in rate proceedings is to make corrections or updates of this kind in rebuttal testimony or on the witness stand. As indicated, Duquesne could have followed this practice, but instead chose to make the information available as soon as practicable.⁴ It is now apparent, however, that one

³ Apparently, the Industrials may have preferred a piecemeal approach, with Duquesne acknowledging one error (or update) at a time. The result would have been to force the intervenors themselves to calculate the cumulative effects of each individual correction/update, a result hardly consistent with the an expeditious resolution of this case.

⁴ The Industrials suggest that Duquesne was "less than diligent" in preparing the corrections (Industrials at 5), but this is not the case. Duquesne's corrections included, inter alia, Penn Power's revisions to operating plans for the Perry, Sammis and Mansfield plants that were submitted in its restructuring case on October 1, 1997. (Duquesne has an ownership share in these plants, but they are operated by Ohio Edison and Cleveland Electric.) Once these revisions were combined with the other corrections, a new "PROMOD" simulation was performed and the cumulative effects of the corrections/updates were calculated by Mr. Clayton. This process took approximately two weeks, with the corrections then being served October 15. If the Industrials truly
(continued...)

party believes more time is necessary to review the corrections. This contention, even if true, does not require a modification of the procedural schedule. The solution is far simpler (and already has been offered to the Industrials): respond to the corrections in surrebuttal testimony. The intervenors are not required to respond to the corrections in answering testimony; rather, Duquesne circulated the corrections to give them the opportunity to do so.

The Industrials' only reference to this obvious solution is a statement that they "may be precluded from presenting testimony on [the corrections]" after the time for filing answering testimony, citing 52 Pa. C.S. § 5.243(e). Petition at 4. Assuming this is a legitimate concern, it can be addressed directly by the Presiding Judge through adoption of the attached draft order. The draft order states that "any party that does not have sufficient time or resources to evaluate the corrections mailed by Duquesne Light Company on October 15, 1997 in time for the filing of answering testimony on November 7,

⁴(...continued)

believed this process should have taken less time (i.e., only a few days), there is no merit to their suggestion that having "only 18 days to analyze the revised exhibits" is a hardship. Pet. at 5.

1997 may respond to those corrections in Surrebuttal Testimony on December 9, 1997." See attached draft Order on Procedural Issue.⁵ This will fully address the Industrials' stated concern and gives them nearly two months to analyze the corrections.

3. One final point merits attention. The Industrials, in a footnote, suggest that their "analysis of the entire filing has been hampered by the Company's late filed responses to interrogatories in-hand within the required time frame." Petition at 4 n.6. This is a self-inflicted wound. The Industrials did not serve a single discovery request until October 6 -- nearly 70 days after the filing of Duquesne's restructuring plan. By that time, Duquesne was inundated with discovery: between September 12 and October 10, Duquesne received approximately 1,000 interrogatories and requests for the production of nearly 100,000 pages of documents. See Exhibit 2. While Duquesne fails to understand why all but one intervenor waited nearly 45 days⁶ to submit these

⁵ The proposed order also states that it "does not relieve the parties of the requirements of 52 Pa. C.S. § 5.243(e) as to any other matter."


⁶ Prior to September 12, only the Office of Consumer Advocate had submitted discovery requests. All other parties waited until mid-September to begin submitting discovery.

requests (or why the Industrials waited nearly 70 days), having done so none of them can reasonably complain that Duquesne should have responded to each within 10 days.⁷ The Prehearing Order specifically identifies the receipt by Duquesne of "voluminous requests" as an exception to the 10-day rule. Prehearing Order at 7. There is thus no other basis on which to grant the relief requested.

WHEREFORE, the Presiding Judge should reject the petition to modify the procedural schedule and enter an order consistent with the form of order attached hereto.

Respectfully submitted,

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Richard S. Herskovitz
Corporate Attorney
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Special Counsel for
Duquesne Light Company
(202) 371-7310 (phone)
(202) 371-7939 (fax)

Dated: October 29, 1997

⁷ Even so, Duquesne responded to 30 of 34 of the Industrials' October 6 discovery requests within 14 days of receipt. Had the Industrials not waited 70 days to propound them, this four-day lapse hardly would be a concern.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility)
Commission,)
)
 v.) Docket No. R-00974104
)
Duquesne Light Company)
Application to approve)
restructuring plan pursuant)
to 66 Pa. C.S. § 2806(d))

ORDER ON PROCEDURAL ISSUE

Whereupon, having received a Petition of the Duquesne Industrial Intervenors for Amendment of the Procedural Schedule and having reviewed the responses thereto, it is hereby ORDERED:

1. The Petition is denied.

2. Any party that does not have sufficient time or resources to evaluate the corrections mailed by Duquesne Light Company on October 15, 1997 in time for the filing of Answering Testimony on November 7, 1997 may respond to those corrections in Surrebuttal Testimony on December 9, 1997.

3. This Order does not relieve the parties of the requirements of 52 Pa. C.S. § 5.243(e) as to any other matter.

Dated: October __, 1997

JOHN H. CORBETT, JR.
Administrative Law Judge

EXHIBIT 1

Item Nos.: HSS-1-001, 21 (Supp.); HSS-2-22
OCA-1-8, 13, 21-23, 27, 43-45, 50, 53 (Supp.)
OCA-3-3, 5, 21, 22, 27, 29, 31, 50 (Supp.)
Env-3-149
OSBA-1-14 (Supp.)

Witnesses: Clayton, Schnitzer, Karl, Nelson, Duckworth

DUQUESNE LIGHT COMPANY

Supplemental Response:

1. Overview.

Duquesne has received several hundred discovery requests to date. Several of those requests have identified errors in the calculations contained in Duquesne's case-in-chief. Duquesne agrees that these errors should be corrected and is supplying the necessary corrections in the attached documents. Duquesne also is submitting corrections to reflect new information contained in the October 1, 1997 restructuring filing of Pennsylvania Power Company. In that filing, Penn Power presents updated projections regarding the costs and operation of the Perry, Sammis and Mansfield plants. (Duquesne has an ownership interest in these plants, but the plants are operated by Ohio Edison and Cleveland Electric.)

The enclosed supplemental discovery response explains and itemizes the foregoing corrections and discusses the impact of such corrections on Duquesne's restructuring proposal. Duquesne is supplying the corrections at this time (rather than reflecting them in rebuttal testimony or making the corrections on the witness stand) to provide intervenors the opportunity to review the corrections prior to the date for filing intervenor testimony. Duquesne anticipates that this may minimize or eliminate certain unnecessary disputes. Duquesne emphasizes that the corrections relate only to arithmetic errors or updates and do not modify the fundamental elements of Duquesne's Customer Choice Plan.

2. Description of corrections.

The corrections fall into two main categories. The first are corrections for which Duquesne has provided a separate estimate of the impact of the correction on Attachment A.¹ These corrections relate to the following errors: (i) fossil decommissioning costs were overstated because they included the full cost of decommissioning the jointly-owned units, rather than only Duquesne's share of the decommissioning expense for such units, (ii) the output of Duquesne's generating units was understated by assuming that the output was net of transmission and distribution losses, rather than reflecting the output of the units at the generator busbar, and (iii) Brunot Island's output was overstated by modeling the dispatch as a combined cycle unit, rather than as a peaking unit. The cost/revenue impact of these corrections is summarized below:

- The correction related to decommissioning increases the estimated value of the Company's generating plants (and reduces estimated stranded costs) at the end of 2005 by \$73 million in both the high market price case and the low market price case. The \$73 million is net of an offsetting increase in nuclear decommissioning of \$18 million.
- The correction related to plant output increases the estimated value of the Company's generating plants (and reduces estimated stranded costs) at the end of 2005 by \$109 million in the high market price case and by \$62 million in the low market price case.

¹ The impacts shown in Attachment A and the revised exhibits were calculated as follows. In making these corrections, Duquesne has rerun its Promod simulation and the spreadsheet financial models used to produce the Exhibits to Mr. Clayton's testimony. All these corrections have been made simultaneously to produce a single set of updated Exhibits and the effects are cumulative and presented on pages 44 and 56 of the revised Exhibit DJC-3. The identified impacts of the specific changes described herein and presented in Attachment A have been approximated in the financial models; these identified impacts are not based on a separate Promod analysis of differences for each correction. The Other category in Attachment A includes netted corrections that, when added to the specifically identified impacts, result in the cumulative changes to estimated net plant value and stranded cost.

- The correction related to the output of Brunot Island decreases the estimated value of the Company's generating plants (and increases stranded costs) at the end of 2005 by \$32 million in the high market price case and by \$12 million in the low market price case.

The second main category of corrections relates to (i) new information received from Pennsylvania Power Company regarding projections of cost and operating levels of the Sammis, Mansfield and Perry plants, and (ii) new operating and capital estimates for Duquesne's other plants. Both sets of information have become available within the last two weeks. The nature and effect of these corrections is as follows:

- The new information regarding the Sammis, Mansfield and Perry plants is taken from the restructuring filing of Penn Power (dated Oct. 1, 1997). In that filing, Penn Power provides updated projections regarding (i) operation and maintenance expense, (ii) the capital additions, and (iii) plant outages and operating levels. The revised exhibits submitted herewith reflect the Penn Power projections with the exception of the items identified in the attachment workpaper entitled "Adjustments to Ohio Edison Data."
- The new information regarding Duquesne's other plants is taken from operating plans approved this month by Duquesne. These plans contain updated O&M and capital projections.
- The foregoing corrections have the net effect of increasing the estimated book value of the Company's generation plant at December 31, 2005 by \$14 million. These corrections also increase the estimated value of the Company's generating plants at the end of 2005 by \$81 million in the high market price case and by \$33 million in the low market price case. The combined effect of these corrections is to decrease stranded costs by \$67 million in the high market price case and by \$19 million in the low market price case.

In addition to these two main categories, additional updates and changes to the margin analysis have been made and identified in the Other category of Attachment A. These corrections include (i) corrections to Company A&G allocations to eliminate a double-counting of A&G expense and to correct omitted A&G capital expenditures post-2005, (ii) revisions to the allocation of the regulatory asset related to debt premiums between interest and amortization to reflect the

correct amounts to be recovered before 2006 as interest expense and the correct amounts to be recovered after 2005 as amortization, (iii) revisions to the nuclear trust fund balances to reflect actual rather than estimated balances and funding amounts, (iv) revisions to Mr. Clayton's Exhibits to capital expenditures to conform to Mr. Nelson's capital expenditure projections, (v) corrections to gross receipts tax calculations to reflect a 4.4% gross receipts tax rate, and (vi) corrections to CAPCO administrative and billing credits. The net effect of the changes grouped in Other is to decrease the estimated book value of the Company's generation plant at December 31, 2005 by \$16 million. These corrections also increase the estimated value of the Company's generating plants at the end of 2005 by \$8 million in the high market price case and by \$1 million in the low market price case. The combined effect of these corrections on stranded costs is to decrease stranded costs by \$24 million in the high market price case and by \$17 million in the low market price case.

As the result of a combination of all the foregoing corrections, the Company's minimum commitment for generation-related depreciation and amortization will increase by \$35 million from \$1,747 million to \$1,782 million.

3. Potential early termination of CTC.

After factoring in the effect of the foregoing corrections, Mr. Clayton's revised exhibits show a stranded "benefit" at the end of the year 2005 if rates are maintained at current levels throughout the transition period and market prices rise to the "high market price" estimate contained in Mr. Schnitzer's testimony. As stated in the testimony of Messrs. Marshall, Clayton and Schnitzer, however, Duquesne's restructuring plan includes commitments to ensure that the Company does not over-recover its stranded costs. Pertinent here, Duquesne has proposed an "early valuation procedure" under which an independent board of experts will perform a valuation of the Company's generation assets prior to the year 2003 if market prices have risen to specified levels (75% of the "high market price" scenario). If that valuation concludes that the transition period (and associated CTCs) can be terminated early, the Company will terminate the collection of a CTC to ensure that it does not over-recover its stranded costs.

Duquesne's initial projections showed that, even under the "high market price" scenario, Duquesne would need to maintain rates at current levels throughout the transition period, consistent with Customer Choice Act § 2804(4)(v). Duquesne nevertheless included a commitment to refer the valuation issue to an independent board if market prices rose to 75% of the high market price estimate. (This was a conservative approach designed to preclude any over-recovery of

stranded costs.) Given that Mr. Clayton's revised exhibits now show a stranded benefit under the high market price estimate, Duquesne must consider whether to adjust the 75% market price trigger downward to maintain the conservatism reflected in Duquesne's case-in-chief. Duquesne believes that it may be appropriate to do so; however, Duquesne intends to make any such adjustment in rebuttal testimony at the same time that it responds to intervenor comments regarding this and other aspects of the early valuation procedure. While Duquesne continues to believe that the "high market price" scenario is unlikely to occur, Duquesne also remains committed to a conservative approach to ensure that Duquesne does not overcollect its stranded costs. Duquesne looks forward to constructive intervenor comments on the valuation procedure that would further this goal.

4. Enclosed documents. The foregoing corrections are reflected in the following documents, which are being provided to each party to this proceeding (unless otherwise specified):

- Clayton -- Attached are and corrected Exhibits DJC-3; DJC-4; DJC-6; DJC-7 and Item No. L-5, pp. 3 to 35 and a corrected response to OCA-1-13, P. 2, and OCA-3-21, pp 2-12. Mr. Clayton also has enclosed revised workpapers. Computer diskettes have been provided to the parties that submitted the discovery requests identified in the first page of this document.
- Schnitzer -- Attached is a revision to the delayed entry calculation by Mr. Schnitzer that pertains to page 36 of his testimony. The workpapers associated with these corrections are attached.
- Karl -- Attached are revised exhibits MGK-3, MGK-6, MGK-7A, and MGK-7B. Mr. Karl's workpapers consist of Promod input data, which is voluminous and will be made available for review upon request. Computer diskettes have been provided to the parties that submitted discovery identified in the first page of this document.
- Nelson -- Attached are revised exhibits RLN-1, RLN-2, RLN-5, RLN-6. Mr. Nelson's workpapers are attached.
- Duckworth -- Attached are revised exhibits of Mr. Duckworth. Mr. Duckworth's workpapers, if any, will be provided promptly.

Duquesne also recognizes that the narrative contained in the testimony of the foregoing witnesses regarding these matters also will need to be corrected. This will be accomplished through a correction on the witness stand or through rebuttal testimony.

Attachment A

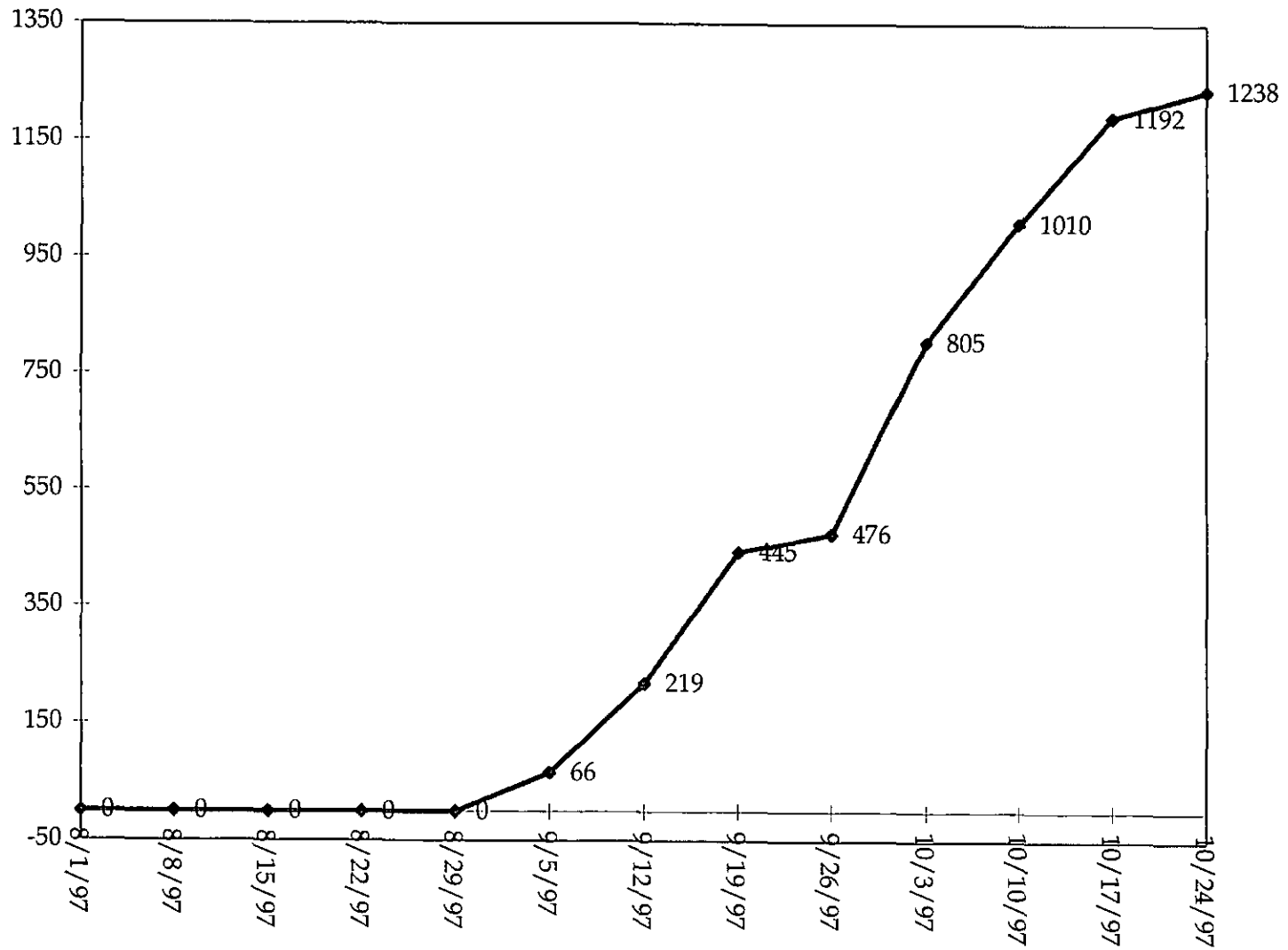
Duquesne Light Company

**Summary of Corrections
(\$ Millions)**

Item	Net Book Value @ 12/31/05	Estimated Market Value @ 12/31/05		Estimated Stranded Costs @ 12/31/05		Minimum Depreciation and Amortization Commitment
		High	Low	High	Low	
As Filed Exhibits DJC-3 & DJC-6	535	527	(47)	8	582	1,747
Decommissioning	0	73	73	(73)	(73)	0
Increase Plant Output	0	109	62	(109)	(62)	0
Brunot Island	0	(32)	(12)	32	12	0
Updated Information for Mansfield, Sammis, Perry and Beaver Valley	14	81	33	(67)	(19)	(2)
Other	<u>(16)</u>	8	1	(24)	(17)	<u>37</u>
Revised Exhibit DJC-3 & DJC-6	533	766	110	(233)	423	1,782

EXHIBIT 2

Cumulative Interrogatories Received
August 1, 1997 through October 24, 1997




BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility)
Commission)
)
v.) Docket No. R-00974104
)
Duquesne Light Company)
Application for Approval of)
a Restructuring Plan Pursuant)
to 66 Pa. C.S. § 2806(d))

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document, via facsimile, upon the participants on the attached service list in accordance with Section 1.54 of the Commission's regulations.

Dated this 29th day of October, 1997.



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1440 New York Ave., N.W.
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(202) 371-7310

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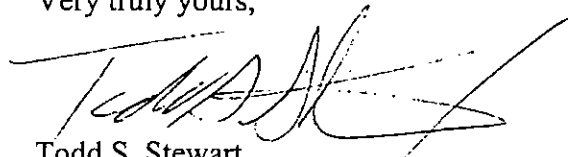
RE: Duquesne Light Company: Application for Approval of Restructuring Plan; Docket No. R-00974104; **INTERROGATORIES OF MID-ATLANTIC POWER SUPPLY ASSOCIATION (SET III) TO DUQUESNE LIGHT COMPANY**

Dear Messrs. Crayne and Moot:

Enclosed please find two (2) copies of Mid-Atlantic Power Supply Association's Interrogatories (Set II) to Duquesne Light Company in the above-referenced proceeding.

Copies of these Interrogatories have been served upon all parties consistent with the attached Certificate of Service. Thank you for your attention to this matter.

Very truly yours,



Todd S. Stewart

Counsel for Mid-Atlantic
Power Supply Association

TSS/bes

Enclosure

cc: James J. McNulty, Acting Secretary (letter only)
All Parties of Record

DOCUMENT
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing Interrogatories upon the persons and in the manner indicated below.

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Todd S. Stewart

DATED: November 11, 1997

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October 30, 1997

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Washington, DC 20005-2111

RE: Duquesne Light Company: Application for Approval of Restructuring
Plan; Docket No. R-00974104; **INTERROGATORIES OF MID-
ATLANTIC POWER SUPPLY ASSOCIATION**

Dear Messrs. Crayne and Moot:

Enclosed please find two (2) copies of Mid-Atlantic Power Supply Association's Interrogatories (Set II) to Duquesne Light Company in the above-referenced proceeding. Responses to these Interrogatories are due in hand within ten (10) days of the date of service.

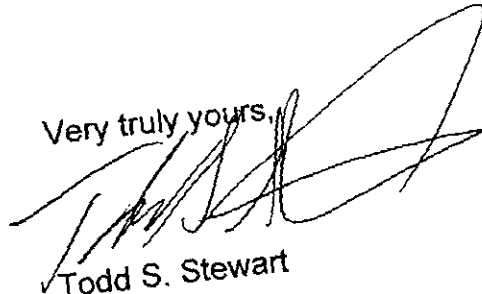
Please endeavor to forward responses in an organized manner as soon as they are completed. It is not necessary to await completion of all responses prior to forwarding those completed more quickly. Please send one copy of your responses to the undersigned and, in addition, please provide one copy of your responses and, all attachments on diskettes, to Whitfield A. Russell & Associates, Suite 850, 1225 Eye Street, N.W., Washington, D.C. 20005. Please communicate any objections or questions that you might have to these Interrogatories as quickly as possible.

Copies of these Interrogatories have been served upon all parties consistent with the attached Certificate of Service. Thank you for your attention to this matter.

KJR

Larry R. Crayne, Esquire
John S. Moot, Esquire
October 30, 1997
Page 2

Very truly yours,



Todd S. Stewart
Counsel for
Mid-Atlantic Power Supply Association

TSS/kmg
Enclosure
cc: James J. McNulty, Acting Secretary (letter only)

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November 3, 1997

Via Fascimilie and First Class Mail

The Honorable John H. Corbett, Jr.
Administrative Law Judge
Pennsylvania Public Utility Commission
1103 Pittsburgh State Office Building
300 Liberty Avenue
Pittsburgh, Pennsylvania 15222

DOCKETED

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KJR

*Re: Application of Duquesne Light Company for Approval
of its Restructuring Plan Pursuant to § 2806 of the Public
Utility Code, Docket No. R-00974104*

Dear Judge Corbett:

The Second Prehearing Order dated October 23, 1997, among other things, assigned GPU Energy to the Alternate Suppliers group. The purpose of this letter is to respectfully request that GPU Energy be reassigned to the "Utilities" group, since GPU Energy's interest in this proceeding, as set forth in its Petition to Intervene, relates to the potential precedential impact of this proceeding on GPU Energy's non-competitive electricity distribution service.

I apologize for not informing you of GPU Energy's preference and not requesting transferral to a different group at an earlier date.

Please do not hesitate to contact me if you have any questions regarding this letter.

Very truly yours,

DOCUMENT
FOLDER

Terrance J. Fitzpatrick

Terrance J. Fitzpatrick
Counsel for GPU Energy

TJF/cc

cc: All Parties of Record

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Application of Duquesne Light Company :
for Approval of its Restructuring Plan :

: **Docket No. R-00974104**
:
:
:

CERTIFICATE OF SERVICE

I hereby certify that I have this day served true and correct copies of the foregoing letter in accordance with the requirements of 52 Pa. Code § 1.54 et seq. (relating to service by a participant), upon the parties listed below.

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The Honorable Robert K. Bloom
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The Honorable John M. Quain
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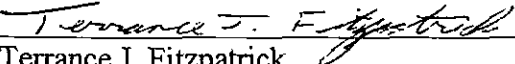
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Acting Secretary
Pennsylvania Public Utility Commission
206 North Office Building
Harrisburg, Pennsylvania 17105-3265

Dated: November 3, 1997



Terrance J. Fitzpatrick
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COMMONWEALTH OF PENNSYLVANIA

DATE: November 4, 1997

SUBJECT: R-00974104

TO: Office of Administrative Law Judge

FROM: *WJ* James J. McNulty, Acting Secretary

KJK

DUQUESNE LIGHT COMPANY
RESTRUCTURING PLAN

Attached is copy of a Petition for Amendment of Procedural Schedule of Duquesne Industrial Intervenors filed in connection with the above docketed proceeding.

This matter is assigned to your Office for appropriate action.

Attachment

cc: OTS - memo only
Law
BFUS

wjz

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NOV 6 1997

City of Pittsburgh

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Department of Law

Tom Murphy
Mayor

Jacqueline R. Morrow
City Solicitor

November 6, 1997

VIA EXPRESS U.S. MAIL DELIVERY

DOCUMENT FOLDER KJR

James J. McNulty
Prothonotary
Pennsylvania Public Utility Commission
P. O. Box 3265
North Office Building
Harrisburg, Pennsylvania 17105-3265

**RE: Application of Duquesne Light Company for Approval of a Restructuring Plan (Under Section 2806 of the Pennsylvania Public Utility Code);
Docket No. R-00974104**

Dear Mr. McNulty:

Please find enclosed for filing, on behalf of the City of Pittsburgh, Pennsylvania, the original and ~~two~~ (2) copies of the City's Direct Testimony (City Statement No. 1) in the above-captioned proceeding.

Copies have been served on active parties of record, as indicated in the enclosed Certificate of Service, in accordance with the directive of the Honorable John H. Corbett, Jr., presiding officer in this matter. Any questions regarding this filing should be directed to the undersigned at (412) 255-2015. Thank you.

Sincerely,



Rodney R. Akers
Assistant City Solicitor

Enclosure

CC: The Honorable John H. Corbett, Jr.
Counsel of Record

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NOV 6 1997

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Application of Duquesne Light Company :
for Approval of a Restructuring Plan Under : Docket No. R-00974104
Section 2806 of the Public Utility Code :

DOCUMENT
FOLDER

DOCKETED
NOV 10 1997

Prepared Direct Testimony of

Christopher D. Seiple

On Behalf Of the

City of Pittsburgh, Pennsylvania

Dated: November 6, 1997

City Statement No. 1

TESTIMONY OF CHRISTOPHER D. SEIPLE

Q. Please state your name.

A. My name is Christopher D. Seiple.

Q. By whom are you employed?

A. I am employed by Resource Data International, Inc., known as "RDI".

Q. What is your business address?

A. 1320 Pearl Street, Suite 300, Boulder, Colorado 80302.

Q. What is your title at RDI?

A. I am a Principal in the business and a Consultant with respect to economic issues pertaining to the electric utility industry.

Q. Please describe the business of RDI.

A. RDI provides and analyzes market and competitive information to the energy industry. RDI has the most advanced and complete data base covering all fuel sources and users of energy, the transportation systems that serve them, and the macro - and micro-economic linkages that tie them together. Some of our clients subscribe to one or more of our various data bases or publications. Many clients ask us to perform consulting projects that requires the analysis of some aspect of the energy industry.

Q. What is Exhibit 1 to your testimony?

A. Exhibit 1 is an RDI publication that explains the background and history of RDI and what RDI does.

Q. Who owns RDI?

A. RDI was privately owned until late in August of this year when it was acquired by Pearson, plc, which owns the *Financial Times* newspaper.

Q. Who are the customers and clients for RDI's products and services?

A. Many of the world's largest electric utilities, financial institutions, coal companies and railroads are among our client base for our informational products as well as our consulting services. For instance, Exhibit 2 to my testimony is a recent listing of our database subscribers. We also provide various consulting services to many of our database subscribers.

Q. What do you do at RDI?

A. My area of expertise is the economic analysis of the electric utility industry. I consult with our clients concerning power market analysis, competitive strategy development, energy economic and policy analysis, energy modeling and forecasting and industry restructuring planning and policy.

Q. What is your educational background?

A. I have a B.A. in Political Science and a B.A. in Russian Studies, both from Muhlenberg College in Pennsylvania and an M.S. in Energy Management and Policy from the University of Pennsylvania and the French Institute of Petroleum.

Q. Please describe your recent professional experience with respect to the restructuring of the electric utility industry.

A. During the past three years I have led a team of experts at RDI that has conducted extensive analysis of the financial, regulatory, and public policy issues surrounding transition costs created by electric industry restructuring. This same team has also performed extensive evaluations of the market value of generation assets, the dynamics that will drive a deregulated generation market, and how public policy may shape the formation of a competitive generation sector. In 1995 we published the first nationwide estimates of potential transition costs in our study, *Retail Power Markets in the U.S.* We subsequently updated the results of this study in December of 1996. Our updated study also includes an in-depth analysis of methods for quantifying transition costs, guidelines for designing transition cost recovery mechanisms, and a review of regulatory actions in other jurisdictions related to transition cost issues. This work was the basis of our testimony that was recently provided to the United States Senate regarding competition in the electric utility industry. Numerous state public utility commissions and state regulatory bodies have relied upon our analysis in making decisions concerning quantification of transition costs and the design of transition cost recovery mechanisms in their own jurisdictions.

Q. Have you published any articles on the electric utility industry?

A. Yes. I am frequently asked to be a contributor of articles on economic issues involving the electric utility industry to industry publications such as Public Utilities Fortnightly and Coal Age Magazine. In addition, one of my duties at RDI is to manage the research and analysis of our syndicated publications concerning the electric utility industry.

Q. Please give me a few examples of published articles or studies you have authored or have been responsible for.

A. As an example, one of the recent studies that I supervised and published focused on electric utility mergers and acquisitions. This syndicated study addressed a number of topics, including: research and analysis of the key factors driving recent mergers; the key

determinants of an attractive merger candidate; impacts of mergers on horizontal market power; and, the strategic benefits of mergers.

Q. Have you given any electric utility industry presentations?

A. Yes, I have given a number of presentations in my areas of expertise, including, for example:

- A presentation on "Overview of the Emerging Competitive Generation Market" to the Independent Petroleum Producers Association of Mountain States
- A presentation on "Understanding the Dynamics of Unbundled Generation Markets" before the National Association of Business Economists
- I was a participant on a panel discussion on "Recovery of Stranded Assets" to the National Association of Energy Economists
- A presentation on "Anticipating Future Electric Price Scenarios in a Deregulated Environment" for the Center of Business Intelligence.

Q. Have you testified as an expert witness before?

A. Yes. I gave expert testimony to the Illinois Retail Wheeling Task Force on designing stranded cost recovery mechanisms.

Q. What have you done in preparation for your testimony?

A. I have reviewed and analyzed, along with others at RDI subject to my supervision, the complete Duquesne Light Company ("Duquesne") restructuring plan, including testimony, filed at this Docket Number, as well as selected discovery responses in this matter.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is fivefold. First, I will address Duquesne's previous mitigation efforts, putting them into perspective in terms of overall rates to show that Duquesne's mitigation efforts have not resulted in significant rate competitiveness for its customers. Second, I will show that Duquesne has not made an adequate prima facie showing that stranded costs will remain beyond 2005. In fact, pursuant to Duquesne's plan there is a very real possibility that Duquesne could over-recover its stranded costs and achieve a benefit. Therefore, Duquesne should not be entitled to a rate cap through 2005. Third, I will critique Duquesne's proposed stranded cost calculation methodology and show that it may impair the formation of a competitive market and that it also provides little incentive for Duquesne to minimize costs and hence mitigate stranded costs. Fourth, I will show how Duquesne's proposed stranded cost recovery plan minimizes some of the traditional risk faced by the utility's investors, contrary to the concept of a competitive market. Finally, I will provide some suggestions for alternative

recovery mechanisms that will provide greater benefits to consumers, help promote the formation of a competitive generation sector, and provide Duquesne with greater incentives to mitigate stranded costs through cost reductions.

I. Duquesne's Mitigation Efforts Have Not Resulted In Significant Rate Competitiveness For Its Customers.

Q. Are Duquesne's current retail rates competitive?

A. No they are not. As is well known, Duquesne's customers historically and currently pay some of the highest rates in the country. Duquesne's rates to residential customers are 25% higher than the comparable average for Pennsylvania. Duquesne's commercial rate is 42% higher than the comparable figure for its neighboring utility, West Penn Power. Similarly, Duquesne's industrial rate is 33% higher than West Penn Power's equivalent rate.

Q. Mr. Clayton has testified on behalf of Duquesne that "Duquesne's commercial rates compare favorably to the ECAR and MAAC average and its industrial rates are below average in the ECAR and MAAC regions." (page 18). Is this testimony accurate?

A. No it is not. My analysis of 1996 FERC Form 1 information, depicted on Table 1 of my testimony, reveals that Duquesne's average commercial rate is 17% higher than the ECAR region's average rate for investor-owned utilities. Also, Duquesne's industrial rate is 37% higher than the average rate for investor-owned utilities. Another way to look at it is that of the 29 investor-owned utilities in ECAR, only three have higher industrial rates than Duquesne. Of the 27 investor-owned utilities in ECAR supplying power to commercial users, only five have higher rates than Duquesne.

Q. Why are Duquesne's current rates important to this Proceeding?

A. Duquesne's current rates are important to consider when analyzing Duquesne's claimed past mitigation efforts in order to ascertain whether, under Section 2808(c)(4) of the *Electricity Generation Customer Choice and Competition Act* ("Customer Choice Act"), its mitigation efforts ". . . has been commensurate with the magnitude of the electric utility's generation-related transition or stranded costs."

Q. Has Duquesne undertaken significant mitigation efforts?

A. No. In his testimony, Mr. Clayton states that between 1989 and 1998, Duquesne will have already mitigated \$340 million in stranded costs through various mitigation strategies. This implies mitigation efforts of \$34 million per year, or only 3% of Duquesne's total revenues. And despite Duquesne's stated past commitment to reducing stranded costs, Duquesne's mitigation efforts have been of only marginal benefit to its customers, as its customers in all classes still continue to pay some of the highest rates in the region. In other words, Duquesne's minimal mitigation measures were absolutely required by the financial condition of the Company and the level of rates they were already charging

customers. Future mitigation efforts will need to be significantly more aggressive if consumers are to benefit at all during the transition to competition.

II. Duquesne Has Not Made An Adequate Prima Facie Showing That Stranded Costs Will Remain Beyond 2005 And Should Not Be Entitled To A Rate Cap Beyond 2005.

Q. Will Duquesne's customers continue to pay these high rates through the transition period?

A. Under Duquesne's restructuring plan, they will. As it currently stands, Duquesne has proposed to freeze rates through the year 2005 at 1996 levels, so that as long as a customer consumes the same amount of electricity as it consumed in 1996, its electricity rate will remain exactly the same.

Q. What is Duquesne's rationale to support the rate cap through 2005?

A. Duquesne claims it is entitled to the rate cap through 2005 because, in accordance with Section 2804(4)(v) of the Customer Choice Act:

- Any excess earning achieved under the cap will be utilized to mitigate transition or stranded costs for the benefit of ratepayers; and,
- The market value of its generation assets beginning in 2006 is below the book value of generation and generation-related regulatory assets.

Q. How does Duquesne estimate the market value of its generation assets beginning in 2006?

A. Duquesne developed a discounted cash flow model.

Q. Please explain Duquesne's model.

A. In this model, Duquesne assumes that the price of electricity will be equal to the levelized cost of a new combined cycle power plant in this time frame. Duquesne analyzes two scenarios that are based on different cost assumptions regarding the construction of a new combined cycle plant. Duquesne also assumes costs and plant operating parameters. In sum, its analysis shows that in the low market price scenario Duquesne would actually have to pay someone to purchase any of its coal fired power plants, resulting in remaining stranded costs of \$582 million in the year 2006. In the high market price scenario, Duquesne calculates that an investor would only be willing to pay an average of 151 \$/kW for its coal fired power plants, resulting in total stranded costs of \$8 million. It concludes that under a wide range of price scenarios, Duquesne will still have stranded costs and therefore is entitled to the rate cap.

Q. Are the administrative techniques used by Duquesne for calculating stranded costs flawed?

A. Yes.

Q. In its filing regarding stranded costs in the year 2006, did Duquesne ignore the best evidence available as to the market value of its power plants?

A. Yes.

Q. Please explain.

A. In his testimony, Mr. Schnitzer wisely asserts that "a market-based determination of stranded costs is inherently superior to an administrative determination." (page 3). I strongly agree with Mr. Schnitzer, but regret that he did not apply his own logic to benchmarking Duquesne's stranded cost. In its filing regarding stranded costs in the year 2006, Duquesne ignored the best evidence available regarding the market value of its power plants that it has - that is its sale of its own Fort Martin Unit 1. This is an actual sale where the value of the asset was determined by the market. Duquesne sold its 50% share of this unit to AYP Energy ("AYP"), an unregulated subsidiary of Allegheny Power System, Inc. ("APS"). AYP plans to operate this plant as a merchant plant - that is, the plant will not be in APS' rate base, but will instead have to make a profit in a deregulated market selling at market determined prices. AYP paid a total of \$170 million dollars for a 50% share of Unit 1, which is approximately \$615/kW or \$130 million (pre-tax) in excess of the remaining book value of the plant. The value of this asset sale is in stark contrast to Duquesne's estimate of the market value of its other coal fired power plants. In its low electricity price scenario, Duquesne actually estimates that it would have to pay someone to own its plants. As Mr. Schnitzer testified, administrative techniques are a poor method for estimating the value of power plants and Duquesne should have used actual evidence of value instead.

Q. Do you agree with Duquesne's assumptions in its analysis of stranded costs?

A. No. Duquesne's assumptions are either too conservative or are erroneous.

Q. Please explain.

A. Duquesne's estimates vary widely from actual market evidence because it has made either too conservative or erroneous assumptions. The Cheswick power plant provides a good example of the flaws in Duquesne's analysis of the market value of the power plants after the year 2005. In the low market price scenario, Duquesne assumes that the plant has a negative market value, and that it could not even give away this plant for free.

There are several faulty assumptions made in this analysis. First, in the analysis shown in Exhibit DJC-3 (Page 45), Duquesne assumes that the average annual capacity factor of the Cheswick power plant between 2006 and 2014 will be 80%. Mr. Karl in his testimony states, "Annual unit capacity factor is assumed to equal that unit's equivalent availability." This statement implies that the annual average availability of the unit should therefore be 80%. However, Mr. Nelson's testimony (Exhibit RLN-7) projects that the average equivalent availability factor of the Cheswick power plant during 2006-2014 will be 86%.

Adjusting the net margin calculations to reflect the equivalent availability factors provided by Mr. Nelson, who states that the information included in his direct testimony is true and correct, results in an increase of \$14 million dollars to the market value of the power plants in the low price scenario. In the high market price scenario, this results in an increase of almost \$28 million in the market value of the Cheswick power plant. The results of this analysis are presented in Exhibit 3.

Q. Are there other flawed assumptions in Duquesne's analysis?

A. Yes. A second flawed assumption in Duquesne's market value calculation relates to the difference between the actual output of the plant and the "Delivered Output" Duquesne calculates to estimate the revenue the plant will receive. For the Cheswick power plant, Duquesne assumes that 6% of the unit's output will not be available to sell into the market. Duquesne does not state why it makes this assumption, but may have been done to reflect losses in the transmission and distribution system. The flaw in this assumption is that it is not consistent with the assumptions made by Mr. Schnitzer in his calculation of the electricity prices beyond the year 2005. Mr. Schnitzer calculates a "ceiling price" for electricity by estimating the long-run marginal cost of electricity supplies, or in other words by estimating the cost of adding a new combined cycle power plant to the grid. In his analysis, Mr. Schnitzer calculates this cost by dividing all of the costs of the power plant by the annual output of the plant based on an 84% capacity factor. He does not, however, adjust this calculation for any losses in the transmission or distribution system. Instead, he is calculating the revenue that the plant would need to receive at the entry to the transmission system before any losses occur. Therefore, Duquesne should calculate each plant's projected revenue in a similar manner in its margin analysis. If Duquesne corrects this flawed assumption, the value for the Cheswick power plant would increase by another \$10.2 million in the low electricity price scenario. In the high electricity price scenario, the change results in an increase of \$20 million dollars in the market value of the Cheswick power plant. This analysis is presented in Exhibit 4.

Q. Are there other errors in Duquesne's analysis?

A. Yes. Another assumption that Duquesne makes that may vastly understate the value of its generation assets is that the units will be retired at the end of their financial life. This assumption understates the future contributions to profits that the units will make. While I recognize there is some cost associated with extending the life of the plant, life extensions at coal fired power plants, in most cases, will bring additional profits to the plants, thus reducing overall stranded costs.

Q. What other mistakes have you found in Duquesne's analysis?

A. One of the major weaknesses of administrative valuation techniques that Mr. Schnitzer points out in his testimony is that it is very difficult to forecast future market prices. I agree with this assertion and also agree with his claim that one of the most widely ignored aspects of forecasting is that "Costs and hence prices are usually projected assuming that technology never improves, costs never decline, and efficiency gains are never realized. This type of 'fixed technology' estimate has historically proven to be very inaccurate."

(Page 8). Unfortunately, Duquesne makes this very mistake in its own administrative determination of stranded costs, assuming that the competitive pressures of a deregulated market will not result in any technological innovation that will help it to reduce its operation and maintenance and overhead costs at its plants. Duquesne also assumes that the pressures of a competitive market will not result in any efficiency gains. By not accounting for potential substantial reductions in operating costs and overhead, Duquesne has overstated its stranded costs.

Q. Is it possible that actual market price in 2006 will be higher than Mr. Schnitzer's low electricity price scenario?

A. Yes. Mr. Schnitzer testifies that "the actual market price is likely to be lower" (Page 30) than the price in the low electricity price scenario. He cites a number of factors that could drive prices lower, concluding that "it is not a certainty that any of these factors will play a role between now and 2006, but there are many of them, they are not mutually exclusive, and they all operate to drive prices down." (Page 31). Mr. Schnitzer's analysis of whether or not the actual market price will be lower than the low electricity price scenario fails to consider what is probably the single most important factor affecting the price of electricity in the long-term.

Q. What is that?

A. The impact of future gas prices.

Q. Please explain.

A. Mr. Schnitzer's forecast of electricity prices is based upon the cost of supplying new electricity with a combined cycle power plant. In his low price scenario, more than 50% of the cost of the power plant, and hence the price of electricity, is comprised of gas supply costs. If gas prices are higher than the projections provided by Mr. Schnitzer, then the cost of electricity will rise.

Q. May gas prices be higher than those projected by Mr. Schnitzer?

A. Yes.

Q. Why?

A. There are several factors that will put upward pressure on gas prices. First, deregulation of the electric industry is likely to create a strong demand for new combined cycle gas fired power plants. Already independent power producers have announced that they plan to build more than 5,000 MW of combined cycle gas fired power plants over the next five years in the New England market. There is also at least another 2,500 MW of new gas fired generation planned in Western markets. This trend towards increased gas fired generation will likely be accelerated by premature shutdown of nuclear power plants that cannot survive in a deregulated market. There is also a risk that increased environmental regulations could further accelerate the amount of gas-fired capacity added to the grid.

These significant increases in the demand for gas are likely to put upward price pressure on gas markets.

Q. Do you agree with Mr. Schnitzer's use of the results of a recent solicitation of power to show that electricity prices are likely to be lower than the prices in his low electricity price scenario?

A. No.

Q. Why not?

A. The results of this solicitation show, according to Mr. Schnitzer, that the "market" currently anticipates that spot market prices for electricity will range from 17.8 to 25.6 \$/MWh between 1998 and 2005. If Mr. Schnitzer's analysis were correct and the market were currently anticipating such spot market prices, then Duquesne would best minimize its stranded costs by shutting down all of its coal fired power plants. Table 2 to my testimony shows the total future cost of production at Duquesne's power plants. This forecast is based on the generation output levels supported by Mr. Karl and cost information supported by various Duquesne witnesses. The costs included in this analysis are only the ongoing costs. These costs include future fuel expenses, generation operation and maintenance expenses, and the replacement capital costs required to keep the plant operating or to extend the plant's life. I also have included in this analysis the corporate overhead expenses that can be attributed to generation. Economic theory holds that in an open market, a generator would shut down its plant if its potential revenue is less than its ongoing costs. To do otherwise would result in additional losses, regardless of the initial investment in the plant.

According to the testimony submitted by the various Duquesne witnesses, Duquesne is proposing to run all of its power plants during the transition period, even though its average expenditures will be nearly 50% more than the cost of purchasing power. If Duquesne believes in its own expert testimony, it needs to justify why it is not shutting down some of its power plants. According to the price projections submitted by Mr. Schnitzer, Duquesne could avoid nearly \$1.158 billion dollars in expenditures over the 1998-2005 time frame by shutting down its coal fired power plants and two of its nuclear plants (See Exhibit 5). Of course, if Duquesne were to shut down all of its plants, the market price of power would rise, reducing these savings. Still, this discrepancy calls into question the assumption that power will trade at these projected prices and suggests that prices in a truly deregulated market are likely to be higher. It also calls into serious question the level of commitment Duquesne has made to accelerating its amortization and depreciation.

Q. What are your conclusions regarding Duquesne's prima facie showing of stranded costs?

A. In my opinion, under Section 2804(4)(v) of the Customer Choice Act, the PUC should refuse to grant Duquesne's request to cap customer rate through 2006.

Q. Why is that?

A. First, Duquesne's own analysis, when corrected for flawed assumptions, shows that by 2006, it is unlikely that Duquesne will have any remaining stranded costs. Second, if Duquesne's estimates of the market price during the transition period are correct based on its solicitation to sell power, it can reduce its costs substantially simply by shutting down some of its least efficient plants. If this additional cost savings were used to accelerate amortization and depreciation of generation assets, Duquesne will even further reduce any stranded costs it claims would remain in 2006. Third, Duquesne's valuation of its plants does not seem at all consistent with the evidence provided by the recent sale of the Fort Martin plant to AYP, where AYP was willing to pay more than \$600/kW for a plant that must compete in the competitive wholesale power market.

Q. On or about October 20, 1997, Duquesne provided the parties in this matter with eleven (11) revised exhibits as well as modified workpapers and revised responses to interrogatories. Included was a six-page explanation of the changes. Have you reviewed all of these revisions?

A. I have only had the opportunity to review the six-page explanation.

Q. What does this explanation claim?

A. Duquesne claims that the revisions simply correct mathematical errors it made.

Q. Is this so?

A. I have not had an opportunity to review the exhibits, workpapers and other materials in order to verify Duquesne's contentions.

Q. What is the net effect of Duquesne's corrections of its own data?

A. Its estimated stranded costs at the end of 2005 change dramatically.

Q. How?

A. Based on the low market scenario, they are reduced from \$582 million to \$423 million.

Q. How about the high market price scenario?

A. Duquesne's stranded costs at the end of 2005 go from \$8 million to a stranded cost *benefit* of \$233 million.

Q. What conclusions do you draw from these new Duquesne numbers?

- A. These numbers support my contentions that Duquesne has not made an adequate prima facie showing that it will have stranded costs after 2005 and that it is entitled to a rate cap through 2005.

These numbers also support the need for an early asset sale that I explain later in my testimony, rather than a 2003 arbitration to value assets and fix the competitive transition charge (“CTC”).

- Q. Does Duquesne's plan protect its customers from over-recovery?

A. No.

- Q. Why not?

A. Duquesne has not changed its proposal concerning its 2003 arbitration. I disagree with the arbitration procedure in the first instance, and this procedure does not ensure that Duquesne will be given adequate incentives to mitigate its stranded costs to benefit its customers.

- Q. How can the Pennsylvania Public Utility Commission protect ratepayers against over-recovery?

A. By refusing a rate cap through 2005 and by adopting the other suggestions I make in my testimony, assuming that Duquesne will not forego its arbitration procedure and will not conduct an asset sale in the manner that I suggest later in my testimony.

III. Duquesne's Proposed Stranded Cost Calculation Methodology Impairs The Formation Of A Competitive Market And Provides Little Incentives To Minimize Stranded Costs.

- Q. Can a stranded cost recovery mechanism impair the formation of a competitive market?

A. Yes.

- Q. How?

A. For example, a stranded cost recovery mechanism could impair the formation of a competitive market if for some reason the recovery mechanism makes a high cost power plant run in place of a lower cost plant, or when it makes it profitable for a utility to beat out a new entrant that has lower total costs.

- Q. How do you analyze whether the recovery mechanism impairs the formation of a competitive market?

A. To begin to analyze the impacts of a recovery mechanism, one must first distinguish between sunk costs and avoidable costs, and ascertain whether competitive decisions will be made based on avoidable costs.

Q. Please explain the difference between the two and how decisions are made in a competitive market.

A. Sunk costs include past investment costs or contractual obligations that have already been incurred, or for which the utility retains an obligation. Avoidable costs are future expenditures which have not yet been incurred but which must be expended on a going forward basis to keep the plants available and running, including the costs of actually generating power. Avoidable costs can be broken down into two categories – fixed incremental costs and variable incremental costs. Fixed incremental costs are those costs which are incurred regardless of the level of generation at a plant, such as fixed operation and maintenance (O&M) expenses, fuel inventory costs, incremental capital, incremental administrative and general and taxes. Variable incremental costs are those day-to-day costs of actually generating power, which include variable O&M, fuel costs, consumed emission credits, and other costs that vary with the level of generation. In a properly functioning competitive market, all decisions regarding whether or not to supply power and who should supply power will be based on the avoidable costs only.

Q. Does Duquesne's methodology impair the formation of a competitive generation market?

A. Yes.

Q. How?

A. We can analyze this by making a few simplifying assumptions and examining the costs of the Elrama power plant in relation to Duquesne's projection of market prices based on its recent solicitation to sell power.

Table 3 shows Duquesne's forecast of avoided costs and its forecast of market prices and plant output at the Elrama power plant for the years 1998-2004. The avoided costs included in this analysis are fuel, variable O&M, fixed O&M, overhauls costs, taxes that are not related to income taxes, administration and general O&M costs allocated to production, and capital expenditures. If Duquesne shut down this power plant, all of these costs could be avoided. In the year 1998, Duquesne forecasts that the market price of power will be \$17.80 per MWh. Therefore, if Duquesne can produce power for a cost lower than \$17.80 per MWh (including only its avoidable costs), it should produce the power. If Duquesne could produce the power for \$16.80 per MWh, it would generate operating profits of \$2.3 million dollars. In its forecast, however, Duquesne estimates that its avoidable costs will be \$36.0 per MWh. Incurring these avoidable costs and selling power at a significant loss will result in an operating loss of \$43 million in 1998. If Duquesne simply shut down the plant, it would be better off, because it would not incur any losses. In a properly functioning competitive market, Duquesne would base its

decision to spend these avoidable costs based on the expected return it would obtain on those expenditures. Any sunk costs will be irrelevant to its decision regarding future sales.

Q. What simplifying assumptions have you made in this analysis?

A. This analysis is a simplification only because the future market price is not known with certainty and shutting down a plant from year to year may involve some costs that must be factored into the analysis. Also, the analysis should not always consider just one year because it may be profitable to incur certain capital expenditures in one year because the return may be profitable over a longer period of time. The point is still true, however, that avoidable costs are the basis for efficient competition. Also, in the case of the Elrama power plant, it is clear that the plant should be shut down based on the information supplied by Duquesne because the projected operating losses total \$239 million dollars over the remaining life of the plant.

Q. How do avoided costs relate to the design of a stranded cost recovery mechanism?

A. In order to provide a utility with an incentive to minimize stranded costs and to ensure that an efficient, competitive generation market develops, the utility must be responsible for all of its avoided costs. As an example, consider again the case of the Elrama power plant. Duquesne is suggesting in its restructuring filing that it will spend \$585 million over the next seven (7) years to supply its customers with 17,729 GWh. Based on Duquesne's estimates of future market prices, Duquesne could buy this power from the market and resell it to its customers for only \$370 million dollars. This would save its customers \$215 million over a seven year period, and hence reduce overall stranded costs. The design of Duquesne's rates and its stranded cost recovery mechanism should ensure that it has incentives to buy this power and shut down the power plant instead. The mechanism should also ensure that Duquesne bears the risk of earning a return on future capital expenditures, rather than its traditional captive rate base. Also, in this case, if Duquesne kept the power plant running and sold power at the market price, it would prevent other more efficient generators that have a lower cost than the Elrama power plant from entering the market.

Q. Does Duquesne's current proposal provide it with incentives to minimize cost?

A. Only to a very limited degree.

Q. How?

A. Duquesne has committed to \$1.7 billion in total amortization and depreciation of generation related assets during the transition period. If Duquesne's capped rates will not generate enough revenue to cover its costs and this proposed level of depreciation and amortization, then shareholders will not receive their 11.5% return on equity. Therefore, Duquesne has an incentive to maximize its revenues and minimize its cost to the extent it

can achieve this level of amortization and depreciation along with a 11.5% return on equity ("ROE").

Q. Does Duquesne's ROE spillover mechanism provide it with increased incentives to minimize costs?

A. Unfortunately this mechanism does not provide Duquesne with increased incentives to reduce its costs or to mitigate stranded costs.

Q. Please explain.

A. Duquesne's proposed mechanism would work as follows: Duquesne has proposed to establish a collar on its earnings of + or - ½% around its claimed ROE of 11.5%. If the Company's earnings exceed 12%, it would establish a deferred revenue credit account which would ultimately be used to fund accelerated amortization. If earnings fall below 11%, an adjustment to the deferred revenue account will be made to increase the Company's earning to the 11% ROE level or to eliminate the credit and balance in the account which ever is smaller. If at any time during the transition period, the balance in the deferred revenue credit account when added to the cumulative amount of depreciation and amortization of generating and regulatory assets was equal to the total minimum amount of committed depreciation and amortization, the final market-based valuation would be triggered.

This mechanism stipulates that any revenues that exist in the deferred revenue credit account must be credited to accelerate depreciation and amortization of generation related assets. Consider the example where Duquesne reduces its expenditures below forecasted levels and has a credit of \$200 million as of 2003. For the sake of illustration, also assume that Duquesne will have \$200 million dollars in stranded costs at the end of 2005. It is important to recognize in this example that Duquesne has proposed to extend the rate cap beyond 2005 to recover any stranded costs which remain after 2005, based on the final market-based determination of stranded costs in mid-2003. If Duquesne used the extra \$200 million dollars to further accelerate amortization and depreciation, all of the benefit would go to customers, it would have written off all of its stranded costs that would have remained in 2005, and therefore it will no longer be entitled to its proposed rate cap to recover remaining stranded costs. Duquesne could use the money for other purposes, however. For instance, it could increase capital expenditures so that it reduces capital expenditures that would have to be made after 2005 when its plants are competing in a competitive market. It could also sell its power at below market prices to capture market share, knowing that it has \$200 million it could use to offset any other losses. Either of these actions would not impact overall return to shareholders. Therefore, Duquesne does not have any significant incentive to ensure that excess earnings are provided to current ratepayers. It also has only very limited incentive to compete in the power market on the basis of avoided costs. As this analysis illustrates, \$200 million dollars of the revenue credit could be used to defray avoidable costs, and Duquesne does not need to justify its expenditures of avoidable costs against the revenues it would receive in a competitive

power market.

Q. Does the ability not to have to justify avoidable expenditures against market revenue impair the formation of a competitive market?

A. Yes.

Q. How?

A. For instance, the Elrama power plant has an average forecast avoided cost of \$35 per MWh over the period 1998-2004. Duquesne has shown in its testimony that it can achieve its committed level of amortization and depreciation even spending this amount of money to produce power at the Elrama power plant. However, according to Duquesne's own testimony (Mr. Schnitzer), a new plant could be built and operated at a lower cost. The fact that Duquesne could keep this plant running, sell at market prices around \$20 per MWh, and still recover more than \$30 per MWh from its ratepayers through stranded cost charges, will impede the ability of any new generator to enter the market and compete with the Elrama power plant.

Q. Does Duquesne's plan prevent the formation of a competitive market?

A. Yes. Duquesne's plan continues to rely upon continued cost of service regulation.

Q. Pursuant to its plan, will Duquesne have to compete for sales?

A. No. Duquesne will not be subjected to competitive forces for another nine (9) years.

***IV. Duquesne's Proposed Stranded Cost Recovery Plan
Minimizes The Traditional Risk Faced By Utility Investors.***

Q. In his testimony regarding the utility's risk profile and an appropriate cost of capital, Mr. Makhholm concludes that "On balance, it is my opinion that the fixed customer charge will have little or no effect on Duquesne's risk, particularly when other aspects of Duquesne's stranded cost recovery proposal are considered." The other factor he cites is the commitment of Duquesne to a minimum schedule of accelerated amortization and depreciation. Do you agree with Mr. Makhholm?

A. No, I do not agree.

Q. Why not.

A. First, Duquesne has redesigned its rates so that its fixed charges are significantly higher. For instance, in the past a residential customer who purchased 200 kWh in a month would pay a charge of \$29.70 to Duquesne. If the weather was mild and the customer's

consumption dropped 20% from historic levels, the customer's overall bill would fall by 16%. Due to the redesigned rates that have higher fixed charges, the customer's bill will fall by only 8%. Because a small drop in revenues can cause a large drop in profits, this change in rate structure significantly reduces the risk faced by Duquesne related to consumption and hence revenue levels.

Second, Mr. Makholm is correct that Duquesne has taken on some slight risk in that it has committed to a level of depreciation and amortization. However, the risk that it will not be able to achieve this level of depreciation and amortization is minimal. As I have already shown, Duquesne could minimize its costs from the cost levels shown in its analysis just by shutting down the Elrama power plant and purchasing power instead. Also, it can keep any excess earnings in one year to offset losses in another year. Therefore, I do not believe Mr. Makholm is correct to assume that this results in any great increase in risk for Duquesne. On the other hand, Duquesne is requesting that at the end of the transition period, based on its final market valuation, Duquesne will be able to extend the rate cap beyond 2005 to recover any remaining stranded costs. In other words, Duquesne is asking for a guarantee that outside of its minimum commitment levels, its investors will be assured of earning a full return on their investment – even if this means punishing rate payers by extending the rate cap beyond the period allowed by the Customer Choice Act. Due to this proposed assurance of recovery of stranded costs and the risk mitigated by the new rate design, Duquesne should be willing to accept some lower level of return to provide some benefit to customers.

V. There Are Other Recovery Mechanisms That Will Provide Greater Benefits To Consumers, Promote Competition And Provide Greater Incentives To Mitigate Stranded Costs.

- Q. Are there methods by which Duquesne's proposed stranded cost recovery mechanism can be redesigned to provide its customers with greater benefits?
- A. Yes.
- Q. Do these methods give Duquesne incentives to minimize its costs?
- A. Yes.
- Q. Pursuant to these other methods, would efficient competitive generation markets develop?
- A. Yes.
- Q. Please describe the method you prefer to accomplish these goals.
- A. The most preferable method would have Duquesne commit to selling off a substantial portion of its generating assets to determine market value.

Q. What would be the benefit of such a sale?

A. The sale would offer the benefits of: (1) a more immediate transition to a competitive power market where all assets must compete on the basis of avoided cost; (2) better methodology for valuing assets than an arbitration; and (3) a more credible estimate of stranded costs than the estimates offered by Duquesne which vary widely from its actual sale of the Fort Martin unit to AYP.

Q. When should this sale occur?

A. This sale of assets would preferably occur at the same time retail choice is phased-in in Pennsylvania.

Q. Please explain the benefits you identified earlier?

A. Duquesne goes to great lengths to explain the superiority of a market based approach to valuing generating assets. I agree with its analysis. Duquesne, however, urges the Pennsylvania Public Utility Commission (“Commission”) to allow an arbitration panel to set the value of its assets in 2003, based on “actual market prices contained in consummated market transactions in the relevant market, such as futures contracts, forward contracts, or asset sales.” (Page 47 of Mr. Schnitzer’s Testimony)

There are three major parameters that must be considered in estimating the market value of an asset. The first parameter is the expected revenue stream. The second parameter is the expected cost and performance of the asset. The third parameter is the risk associated with achieving the first two factors. Duquesne argues that an arbitration panel should set the value based on market determined forecasts of prices. Duquesne, however, ignores all of the uncertainty and error associated with the forecasts of future costs and operating parameters. The panel, therefore, will still have to evaluate the costs and operating parameters of the assets. It also will have to provide its own estimates of the risks involved with purchasing the assets. Because of the uncertainty associated with these second two factors, I believe the interaction of multiple buyers and sellers in the market place will provide a more accurate valuation of the assets.

I also would urge Duquesne to adopt a sale of its assets that will occur prior to the implementation of retail wheeling in the Commonwealth – much earlier than the 2003 valuation date. If the sale occurs earlier, then the assets can be taken out of rate base and forced to compete in competitive power markets. Only the known and measurable stranded costs (the difference between the sales price and the remaining net book value) that result from the sale will need to be recovered from ratepayers. Then every plant will be forced to compete in power markets on the basis of avoided costs. Another benefit of an immediate sale is that Duquesne’s consumers will have a better estimate of whether or not stranded costs will remain after 2005. Duquesne’s estimates of the value of its assets differ very widely from the price seen in its actual sale of an asset to AYP. An actual sale

of a substantial portion of its assets would provide a much more credible estimate of stranded costs.

Q. Do you believe that electricity markets are too immature to perform a market valuation before the introduction of retail wheeling in Pennsylvania?

A. Absolutely not. The market is fully capable of valuing assets now. Duquesne's asset sale of the Fort Martin power plant already proves that an asset can successfully be valued in the ECAR market. A second plant in Pennsylvania was recently sold when Williams Energy Group purchased a Hazelton Power Plant from Continental Energy Associates. Numerous assets sales are expected to occur around the country over the next several years. The New England Electric System ("NEES") already has sold, successfully, more than 4,000 MW of capacity in an auction. It is also important to note that the sale price of NEES' assets exceeded the expectation of most analysts. Other utilities that have announced major asset sales are as follows:

Boston Edison Company (2,000 MW)
Commonwealth Energy Systems (1000 MW)
Central Maine Power (1000 MW)
General Public Utilities (5,300 MW)
Pacific Gas & Electric (7,340 MW)
Southern California Edison (10,000 MW)

Q. Can the PUC require an asset sale?

A. According to Section 2804(5) of the Customer Choice Act the Commission "may permit, but shall not require, an electric utility to divest itself of facilities or to reorganize its corporate structure." I urge Duquesne to commit to selling a substantial portion of its assets for the reasons noted above. However, if Duquesne does not make such a commitment, I urge the PUC to consider making other changes in Duquesne's stranded cost recovery plan so that customers in its service territory receive some benefit from competition.

Q. What are the changes you would recommend?

A. If Duquesne is not willing to sell some or all of its assets, there are two other ways to ensure that the utility has incentives to mitigate stranded costs and that efficient competition will occur in generation markets. One method is to not guarantee full recovery of stranded costs, but instead only give Duquesne a fair opportunity to recover stranded costs. Such a proposal seems to be in the spirit of the Customer Choice Act. Given Duquesne's current proposals, two steps would be needed to achieve this goal. First, Duquesne cannot be allowed to continue its rate cap beyond 2005. If Duquesne is allowed to continue its rate cap, it will only have a limited incentive to reduce its costs during the transition period because it will know that it can recover any remaining stranded costs after 2005. This would not be fair to ratepayers. Further, there is no good

reason for Duquesne to continue to recover a CTC from customers, and a continued CTC would put the Pittsburgh region at a distinct competitive disadvantage in its ongoing attempts to retain and attract new industries, businesses, and residents.

Q. What is the other method to assure incentives to mitigate and to assure efficient competition?

A. The second way to ensure that Duquesne will have incentives to mitigate stranded costs is to require an increased level of minimum amortization and depreciation over the transition period. First, Duquesne should accept a lower base level return on equity in return for being able to increase its fixed charges and for being given a fair opportunity to recover its stranded costs. In some other jurisdictions, such as California and Rhode Island, this level of return has been set at the utility's cost of debt. Next, Duquesne's analysis of the minimum level of amortization and depreciation should be adjusted to determine how much can be depreciated and amortized and still achieve the new return on equity. Third, this analysis needs to be further adjusted so that the utility does not spend \$35 per MWh at a plant like Elrama when it can purchase power instead at a much lower cost. Finally, a slight adjustment needs to be made to the ROE spillover mechanism. Instead of using all profits above the return on debt level to accelerate depreciation of stranded costs, there should be a sharing of the increased profits where 50% of the excess profits are used to reward shareholders and 50% is used to accelerate depreciation of generation related assets, up to an 11.5% return on equity. Above an 11.5% return on equity, 90% of the excess profits should be provided to customers and 10% to shareholders.

Q. What benefits do these adjustments present?

A. These adjustments have several benefits. First, the reduced return on equity will provide a greater level of accelerated amortization and depreciation than currently proposed by Duquesne, providing much greater benefits to customers. Second, the increased level of accelerated amortization and depreciation will likely lead to a much quicker transition to competition and an earlier end to the rate caps. Finally, the sharing of profits above the reduced return on equity provides Duquesne with strong incentive to continue reducing its costs, thus further benefiting customers.

Q. If these changes in the plan that you propose are not made, what benefits will the current Duquesne ratepayers see from the restructuring plan Duquesne has filed?

A. Little, if any, measurable impact. Certainly, there will be no significant benefit in favor of Duquesne ratepayers.

VI. Conclusions

Q. Please summarize your conclusions.

A. In summary, I strongly urge the Commission to reject Duquesne's assertion of a prima facie showing that stranded costs will remain beyond the year 2005. I also urge the Commission to either encourage Duquesne to divest itself of a portion of its generation assets through an auction, or, at a minimum, require Duquesne to adopt the stranded cost recovery mechanism outlined above and commit to a much greater level of accelerated amortization and depreciation over the transition period. Otherwise, current Duquesne ratepayers will see no real benefit from the legislative creation of competition, Duquesne will have minimal incentive to reduce its costs, and Duquesne may actually have incentive to increase some of its costs, knowing that it will be able to recover, or even over-recover, these costs later through its proposed true-up mechanism and rate caps.

Background and History

Resource Data International, Inc., (RDI), provides reliable market and competitor information to the energy industry. Many of the world's largest coal companies, railroads, financial institutions and electric utilities are among its client base. RDI focuses on all fuels in the energy industry – covering all United States sources and users of energy, the transportation systems that serve them, and the macro- and micro- economic linkages that tie them together.

INCORPORATED IN 1981 and headquartered in Boulder, Colorado, RDI's initial product, COALDAT®, a mine and market analysis system for the coal industry, has become the industry standard for fuel supply, transportation and demand analysis. RDI is continuously engaged in the design, research, development and maintenance of natural resources supply-demand-transaction databases. COALDAT and FUELDAT® (all-fuels data encompassing all of RDI's coal information) are applications of RDI's innovative methodology for collecting and disseminating supply-demand data. POWERDAT®, RDI's newest database, links the wealth of the fuels databases with detailed, interrelated utility financial and wholesale/bulk power supply and demand to provide the most advanced electric industry examination tool available.

THE CORE OF RDI'S BUSINESS is the collection, validation, maintenance and dissemination of reliable and consistent data on a continuous basis. Expert validation, correction and refinement of data give them a significant product advantage over other services. This requires a staff of highly talented professionals with expertise in the substantive areas of the database (energy economics, geology, geography, mining engineering, electric utilities, contracts, marketing, etc.). This experience gives customers a high level of confidence in the accuracy of the information they use in the course of daily operation, eliminating the need for large in-house research staffing.

RDI'S BASIC PRODUCT LINES consist of detailed computerized information on coal properties, fuels, products, customers and transactions. Special computer software enables clients to easily manipulate and utilize data to enhance their effectiveness in the marketplace. The software systems are designed to facilitate interactive use by middle- and upper-management personnel regardless of previous computer training. *(continued)*



Background and History Continued...

CLIENTS ENCOMPASS all links in the commodity chain: Producers, consumers, transporters, sales companies, lenders, investment bankers, equipment suppliers and government agencies. Licensed customers can use the database on their own mainframes, through PC usage or by delivered printed reports. RDI also provides custom reporting and expert consulting services, and distributes regularly published data reports to subscribers.

Finally, RDI provides intensive customer support and is dedicated to building long-term relationships with clients. This enables users to become more efficient and effectively utilize the wealth of information in the databases and staff supported applications and services.

RDI Consulting Services

Since 1981, Resource Data International, Inc. (RDI) has been recognized as the "industry standard" in energy data management, consulting, and market information. Its client base consists of many of the world's largest energy resource companies, electric and gas utilities, financial institutions, and railroads.

QUALIFICATIONS

RDI's staff consists of professionals with extensive experience in the fields of energy economics, econometrics and forecasting, market research and analysis, mining and mineral engineering, contract analysis, strategic planning, and computer systems design and applications. RDI's personnel have provided a broad range of consulting services to its clients, including strategic planning, acquisition support, fuel supply and market analysis, contract assessment, transportation analysis, price forecasting, litigation support, and public policy analysis.

EXPERIENCE

RDI's consulting experience focuses on all fuels in the energy industry. The scope of its expertise includes United States and off-shore suppliers and consumers of energy, the markets that drive them, the macro- and micro-economic linkages that influence them, and the transportation systems that serve them.

EXPERTISE

The core of RDI's expertise is the collection, validation, maintenance, and dissemination of reliable and consistent data on a continuous basis. This expertise gives the Company a significant advantage over other consulting firms who do not have RDI's extensive data resources. RDI also provides custom reporting and distributes regularly published data reports to subscribers.

RDI Consulting Services Areas of Expertise

COAL & TRANSPORTATION

- marketing and pricing practices analyses
- utility burn/capacity/dispatch analyses
- utility and industrial market analysis
- contract analysis and formulation
- coal quality and combustion analyses
- competitor intelligence and analysis
- export/import market review
- market share assessments

STRATEGIC ANALYSIS

- mine acquisition/divestiture strategies
- wholesale power market analysis
- acid rain compliance analysis
- energy supply & demand forecasts
- strategic planning & analysis
- legislative impact analysis
- fuel supply procurement
- strategic policy planning
- basin studies

FINANCIAL & PRICING ANALYSES

- FOB mine, transportation and delivered price analyses
- fuel supply procurement analyses and audits
- financial analysis of mine and coal projects
- rail, barge, truck, vessel and terminal rates
- valuation and analysis of contracts/buy-outs
- valuation of reserves/mines/companies
- mine and transportation cost modeling
- fuel supply bid evaluations
- coal pricing forecasts

LITIGATION AND ARBITRATION SUPPORT

- litigation/arbitration strategies development
- expert witness testimony and litigation support

Electric Utility Strategic & Competitive Studies

- For a midwestern investor owned utility, a study of the current and projected wholesale power market with a "two-wheel" market reach.
- For a large New York investor owned utility, a wholesale power market assessment for all entities (private, public and co-op) in the northeastern United States.
- For a Rocky Mountain area investor owned utility, a wholesale power market assessment for all WSCC and selected MAPP electric utilities.
- For a major midwestern electric utility holding company, a wholesale power market assessment and review of potential acquisition targets.
- For a western investor owned utility, research concerning electricity contracts and rates for all U.S. steel mills as well as a profile of potential competitors in the utility's own industrial market.
- In-depth competitor profiles have been completed for various electric utility companies including a midwestern IOU, the non-regulated subsidiary of a north central IOU, and a southeastern IOU.
- For a mid-Atlantic investor owned utility, developed a database of unit-level production costs for all other utilities in the northeast.
- For several utilities, power marketers, and independent power producers, detailed surveys of power contracts with muni's and co-op's for the purpose of assessing market expansion and/or market protection.
- Bi-annual, multi-client studies in the areas of bulk power markets in the U.S., mergers and acquisitions in the U.S. electric utility industry and an acid rain handbook.
- Litigation support for two complex cases involving an analysis of market power in the wholesale power market.
- For a large Western municipal utility, a detailed review of their 5 year strategic plan in the light of the new competitive dynamics in the WSCC.
- For a major coal producer, an analysis of the potential benefits of nighttime pricing of coal

- For one of the biggest coal generators in the country, a scenario analysis of future market prices, market dynamics, and competitive positioning in wholesale markets over the next 10 years.
- For an independent power producer, an analysis of transmission flows, available transmission capacity, and transmission pricing in a defined market area.
- For a Canadian utility, an analysis of the competitive impacts of opening up the Canadian retail market to U.S. utilities.
- For a Southeast U.S. utility, a review of wholesale market dynamics for the next 10 years and identification of market opportunities.
- For an independent power producer, a review of the economics the power markets within SERC. This review was utilized to help justify the internal decision to obtain financings for a merchant plant in the Southeast.
- For a major Northeast utility, a review of the economics of a fuel switching project in which the fuel price could possibly be tied to the price of purchased power in the wholesale market.

Coal Market Studies & Acquisition Support

For a major eastern coal producer, studied the impact of PRB and Western bituminous coals on Central Appalachia coal markets.

Analyzed the impact on coal markets related to the potential merger of the Union Pacific and Southern railroads for various parties.

For a major western land holding company, studied the markets for Northern Powder River Basin coal. Analysis was conducted to assist the company's Board of Directors assess the "value" of their property in the current market.

For a major eastern utility, analyzed the company's current position relative to competing utilities on the basis of coal supply contracts and rail rates, both in the current and projected deregulated market environments.

Conducted studies of the demand for upgraded Powder River Basin coal products for multiple companies.

For two major barge companies analyzed the market for barge-delivered coal.

For two midwestern coal producers, analyzed the benefits of maintaining a position in the coal industry.

For a major U.S. oil company contemplating investment in a clean coal technology demonstration plant, conducted a market evaluation study of an upgraded coal product produced in Northern Appalachia.

For a major eastern land holding company, studied the ramifications of the company maintaining its coal land ownership position in Kentucky and Tennessee and determined benchmarks for lease terms.

Conducted a strategic analysis of coal and petcoke markets available to a major barge company.

For a midwestern coal producer assessing the feasibility of constructing a coal transloading facility, analyzed the markets for coal transloading and blending services in the region.

For a midwestern coal producers, analyzed the current and future markets in support of the company's strategic planning related to the future of specific mining operations.

continued,

Coal Market Studies & Acquisition Support Cont.

from previous page

For a major U.S. coal producer, performed a market evaluation study of an upgraded western coal product from a coal gasification demonstration plant.

For an eastern coal mining and marketing firm, performed a market analysis in support of a potential acquisition in eastern Kentucky which involved new transportation options for the producer.

For a legal firm (in support of a major transportation carrier), performed an analysis of the proposed merger of the Union Pacific and Chicago Northwestern Railroads.

For a minerals and mining firm entering the coal industry, performed a series of market analyses in support of an acquisition program.

In support of a major U.S. coal investment for a large European coal producer, conducted a two part study concerning the outlook for U.S. coal as well as an evaluation of a U.S. coal producer.

For a coal subsidiary of a major eastern utility, performed market studies in support of an acquisition program.

For a major western producer, in support of an integrated acquisition program, conducted an analysis of all western coal producing regions, including an assessment of the market potential, transportation options and costs, mining costs, and current federal coal royalties.

Evaluated the mining costs and markets at a group of Rocky Mountain coal mines which are potential suppliers to a major Western utility's power plant.

For an independent midwestern coal producer, analyzed the market opportunities for a potential western acquisition.

For a major western railroad, performed a detailed supply and demand study of Colorado and Utah coal properties.

For a major midwestern producer, assessed the market potential for a proposed property acquisition in the Illinois Basin.

continued

Coal Market Studies & Acquisition Support Cont.

from previous page

For a major U.S. steel and coal company, examined the impacts of a potential contract loss and investigate options ranging from new acquisitions to divestiture.

For a major eastern coal producer, performed several market assessments for proposed acquisitions in Central Appalachia.

For a top-five national coal company, assessed a variety of acquisition strategies and made appropriate recommendations.

Conducted a market study and forecasted the demand and competitive environment dynamics facing a proposed beneficiated steam coal product for one of the largest Great Plains lignite producers.

A market study of the feasibility of constructing and operating a coal transfer and blending facility for a Midwestern state economic development agency. The study included forecasting coal prices for both mine-run and blended coal products.

Litigation Support

For a group of western utilities, provided expert support related to production cost, transportation, and market issues in a dispute with a coal supplier.

For the Navajo Nation, provided expert support related to royalty issues in a dispute with the United States.

For an international steel producer, provided expert support in a metallurgical price issue related to tax impositions.

For a midwestern coal producer, provided expert support in a contract price dispute with a major local utility.

For a western utility, provided expert witness testimony in an arbitration regarding the fair market value of northern Powder River Basin coal.

For a major eastern utility, provided expert support in an arbitration related to the utility's purchase of power from a non-utility generator.

For a major U.S. coal producer, provided expert analysis in a contract price dispute with a western utility.

For the Navajo Nation, provided expert testimony in Federal court related to coal taxation issues in a dispute with the Hopi Tribe.

For a western coal producer, provided analysis of the potential market value of a Colorado coal property related to a partnership dissolution.

In a Federal court case involving possible reserve contamination, provided expert witness testimony related to the fair market value of coal.

For a Central Appalachia coal producer/broker, performed an analysis of current "Market Price" for use in contract negotiations with a major Asian utility.

For two separate midwestern utility contracts, determined the fair market value of Illinois Basin coal.

In a utility bankruptcy case, provided expert support in determining fair market price of western coal.

For several electric utilities and coal producers, established "market price indexing mechanisms" for new and re-opened contracts.

continued

Litigation Support, cont.

from previous page

For a western coal producer, gave testimony concerning the fair market value of a major acquisition and property trade.

For a major national coal company, analyzed force majeure implications relative to the Clean Air Act.

For a western Indian tribe, provided litigation support relative to the demand and markets for Powder River Basin coal.

For a major investment firm, provided testimony concerning a fairness opinion relating to the valuation of several Western coal properties.

For a cogeneration subsidiary of a coal company, testified concerning fuel prices and demand for electric power.

For an eastern coal company, provided expert support in determining market price for contract negotiations.

Policy Analysis

For a national policy analysis group, conducted a study of the electricity production costs attainable from, and the capability issues associated with, the latest coal, natural gas, and non-hydroelectric renewable energy technologies.

For a western-based "think tank," assessed the costs and implications of controlling CO2 emissions in the U.S.

For an eastern railroad, assessed the impacts of potential global warming legislation on its markets.

For several coal producers and electric utilities, assessed the impact of proposed acid rain legislation.

For the Western Governors Association, performed a study of the export potential for Western coal.

For the Western Coal Traffic League, produced an analysis of the economic and fiscal impacts of federal royalty guidelines at the federal, state and local levels.

For a large coal producer, performed an assessment of federal coal royalty rates including trade off analysis for switching production away from affected federal leases to adjacent private leases.

For a western coal supplier, analyzed the federal energy policy goals that encouraged development of the western coal industry.

Ronald L. McMahan, President

Dr. McMahan is the President of Resource Data International, Inc. (RDI), which he founded in 1982. He is an experienced energy economist whose practical understanding of industry issues has made him one of the nation's leading experts in the areas of litigation support, energy markets, mergers and acquisitions, and strategic analysis. Additionally, he is a recognized leader in the area of energy policy, regularly advising corporate executives, industry associations, governors and federal policy-makers. He publishes and speaks widely, and is a regular author of RDI's monthly "Market Watch" column published in *Coal Magazine*, and is executive editor of RDI's bi-weekly "Trends" column in *Public Utilities Fortnightly*.

Prior to founding RDI, Dr. McMahan served as Director of the western regional office of Abt Associates, Inc., a Cambridge, MA-based economic consulting firm. Dr. McMahan also served as Special Consultant to the President's Commission on Coal.

Dr. McMahan served as a member of the faculty at the University of Colorado where he was Director of the University's Coal Research Project for four years. He received the University's Award for Teaching Excellence in 1978 and in the same year was recognized for Excellence in Research for his work on the economic history of the U.S. coal industry. As part of his research, Dr. McMahan produced a five-part television series for the Corporation for Public Broadcasting funded by the National Endowment for the Humanities.

Dr. McMahan received his B.A. in Physics from the University of Colorado in 1968 and subsequently served as a Lieutenant in the U.S. Navy. He later returned to the University of Colorado and received his Ph.D. in 1977, specializing in Economic History.

In addition to his professional pursuits, Dr. McMahan has held several part-time and honorary academic appointments including Lecturer in Telecommunications and Society at the University of California at San Diego (1980), member of the faculty of the Colorado School of Mines Executive Training Institute (1981) and Adjunct Professor at Regis College (1979).

Market & Competitor Intelligence

RDI Database Subscribers (July, 1997)

ELECTRIC UTILITIES

Allegheny Power Service Corp.
American Electric Power
Arizona Electric Power Coop.
Arizona Public Service
Associated Electric Coop.
Austin Electric Dept.
Basin Electric Power
BC Hydro
Big Rivers Electric
Bonneville Power Admin.
Carolina Power & Light
Centerior Energy
Central & South West Services
Central Louisiana Electric
Chugach Electric Assoc.
CINergy
Citizens Utilities Co.
City Utilities of Springfield
Commonwealth Edison
Commonwealth Energy System
Consolidated Edison
Consumers Energy
Cooperative Power
Dairyland Power
Dayton Power & Light Co.
Delmarva Power
Detroit Edison
Duke Power
Duquesne Light
East Kentucky Power Coop.
Edison International
Electricities of N.C.
Entergy Services
Florida Power
Florida Power & Light Co.
Gainesville Regional Utilities
Green Mountain Power

Hoosier Energy
Houston Lighting & Power
Hydro-Quebec
Idaho Power
IES Utilities
Indianapolis Power & Light
Jacksonville Electric Authority
Kansas City Power & Light
Kentucky Utilities
Lansing Board of Water & Light
Louisville Gas & Electric
Manitoba Hydro
MidAmerican Energy
Minnesota Power
Montana Power
Montana-Dakota Utilities
N.C. Electric Membership Corp.
Nebraska Public Power District
Nevada Power
New York Power Authority
New York State Electric & Gas
Niagara Mohawk
Northeast Utilities
Northern Indiana PSC
Northern States Power
Oglethorpe Power
Ohio Edison
Oklahoma Gas & Electric Co.
Old Dominion Electric Coop.
Omaha Public Power District
Ontario Hydro
Otter Tail Power Company
PacifiCorp
PECO Energy
Pennsylvania Power & Light
Platte River Power Authority
Potomac Electric Power Co.
PSC of Colorado

PSC of New Mexico
Public Service Electric & Gas
Salt River Project
Santee Cooper
Sask Power
Seattle City Light
Seminole Electric Coop.
South Carolina Electric & Gas
Southern Company Services
TECO Energy
Tennessee Valley Authority
Texas Utilities
TransAlta Energy
Tri-State G & T Association
Tucson Electric
United Power Association
UtiliCorp United
Virginia Power
Western Area Power Admin.
Western Resources
Wisconsin Electric Power
Wisconsin Power & Light
Wisconsin Public Service

NON-UTILITIES

ABB Power T&D Co.
Air Products & Chemicals
Cal Energy
C.C. Pace Resources
Cogentrix
NRG Energy
Tenaska Power Services Co.
TransCanada Energy Ltd.
U.S. Generating Company
Westinghouse Electric

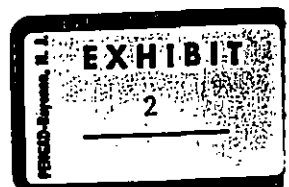


TABLE 1: 1996 RETAIL RATES IN ECAR (\$/MWH)

COMPANY NAME	RATE (\$/MWH)		
	RESIDENTIAL	COMMERICAL	INDUSTRIAL
Ohio Valley Electric Corp.	-	-	18.36
Alcoa Generating Corp.	-	-	19.35
Kentucky Utilities Co.	45.88	44.17	34.17
PSI Energy, Inc.	60.84	47.65	34.76
Kingsport Power Co.	48.91	49.71	34.69
Appalachian Power Co.	55.81	50.75	36.35
Kentucky Power Co.	48.59	50.78	30.01
Louisville Gas & Electric Co.	59.82	54.69	36.26
Southern Indiana Gas	67.73	55.01	35.37
Wheeling Power Co.	66.13	55.30	34.96
Ohio Power Co.	66.43	55.36	31.84
Union Light, Heat & Power Co.	61.00	57.61	43.16
West Penn Power Co.	67.99	58.57	44.53
Indiana Michigan Power Co.	66.88	58.63	42.88
Monongahela Power Co.	73.18	60.60	40.00
Indianapolis Power & Light Co.	59.95	62.08	44.11
Potomac Edison Co.	70.46	63.99	35.35
Columbus Southern Power Co.	78.33	64.60	48.09
Edison Sault Electric Co.	61.06	64.91	39.02
Cincinnati Gas & Electric Co.	76.91	67.91	45.96
Dayton Power & Light Co.	85.89	69.44	49.10
Consumers Energy Co.	79.93	73.62	54.24
Pennsylvania Power Co.	94.39	77.17	48.20
Duquesne Light Co.	121.71	82.85	57.69
Detroit Edison Co.	92.54	85.03	51.44
Northern Indiana Public Service	99.96	85.84	45.96
Ohio Edison Co.	103.53	93.73	59.70
Cleveland Electric Illuminating	113.42	96.69	65.73
Toledo Edison Co.	114.69	108.18	58.73
Weighted Average:	77.11	71.01	42.23



TABLE 2: FORECAST POWER PRODUCTION COSTS
 ONGOING PRODUCTION COSTS (¢/kWh)

PLANT NAME	1998	1999	2000	2001	2002	2003	2004	2005
CHESWICK	3.15	2.52	2.77	2.77	2.77	3.32	4.91	3.18
SAMMIS	2.22	2.79	2.35	3.21	3.29	3.08	2.76	3.31
EASTLAKE	2.43	3.18	2.63	3.54	3.68	3.12	3.52	3.98
ELRAMA	3.50	3.56	3.65	3.49	3.33	3.63	3.44	0.00
MANSFIELD 1	2.91	3.35	3.47	2.58	2.72	2.70	3.14	3.07
MANSFIELD 2	2.89	3.34	3.086	2.99	2.70	2.65	3.09	2.93
MANSFIELD 3	2.86	3.27	2.59	2.78	3.24	2.73	3.06	3.03
MARKET PRICE	1.78	1.87	1.97	2.08	2.19	2.31	2.43	2.56

Note: Market price projections are provided by Mr. Schnitzer in Exhibit MMS-4



TABLE 3: DUQUESNE'S PROJECTIONS OF AVOIDED COSTS AT ELRAMA

	1998	1999	2000	2001	2002	2003	2004
CAPACITY (MW)	487	487	487	487	487	487	487
CAPACITY FACTOR	59%	59%	58%	60%	63%	56%	60%
OUTPUT (GWH)	2,521	2,521	2,490	2,558	2,690	2,388	2,561
MARKET PRICE (\$/MWH)	17.80	18.70	19.70	20.80	21.90	23.10	24.30
TOTAL REVENUES (1000 \$)	42,182	44,317	46,115	50,019	55,379	51,843	58,489
AVOIDABLE COSTS							
FUEL COST (1000 \$)	41,139	44,969	44,085	45,740	49,449	45,133	49,901
VARIABLE O&M (1000 \$)	2,420	2,420	2,451	2,583	2,786	2,541	2,798
FIXED O&M (1000 \$)	16,715	13,774	14,037	15,131	14,857	15,146	15,415
OVERHAUL (1000 \$)	-	3,800	1,700	-	-	3,000	-
FICA (1000 \$)	588	530	595	598	595	616	623
PROPERTY TAX (1000 \$)	623	623	623	623	623	623	623
CAP STOCK TAX (1000 \$)	651	651	651	651	651	651	651
NON-PRODUCTION O&M (1000 \$)	12,288	11,994	13,144	13,231	12,950	12,614	12,205
CAPITAL EXPENDITURE (1000 \$)	10,826	5,551	8,201	5,312	2,366	1,139	667
TOTAL AVOIDED COST (\$/MWH)	36.0	35.6	36.5	34.9	33.3	36.3	34.4
OPERATING LOSS (1000 \$)	43,067	39,995	39,372	33,849	28,898	29,620	24,394
OPERATING LOSS (\$/MWH)	18.2	16.9	16.8	14.1	11.4	13.2	10.1

Duquesne Light -- Margin Analysis with Incorrect Capacity Factors

PV of Fossil Plants
(\$ in Millions)

@ \$33.8/mwh in 2006 with escalations @ 2.5%

<u>CHESWICK</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>AVERAGE</u>
kwh Market Price (cents)	33.8	34.7	35.5	36.4	37.3	38.3	39.2	40.2	41.2	
Unit Output (gwh)	4,197	4,032	3,876	4,195	3,528	3,865	4,211	4,032	3,828	
Corrected Capacity Factor	91%	86%	90%	85%	89%	84%	76%	91%	86%	86%
Original Capacity Factor	84%	81%	78%	84%	71%	77%	84%	81%	77%	80%
Delivered Output (gwh)	3,946	3,790	3,644	3,943	3,316	3,633	3,959	3,790	3,599	
Revenues	133.46	131.39	129.49	143.63	123.82	139.05	155.29	152.38	148.31	
<u>Fuel-Related Expenses</u>										
Fuel Costs	80.67	79.96	79.61	93.04	80.65	92.73	105.72	104.98	103.48	
Total Fuel	80.67	79.96	79.61	93.04	80.65	92.73	105.72	104.98	103.48	
<u>Non-fuel O&M Expenses</u>										
Variable O&M	3.93	3.88	3.83	4.25	3.67	4.13	4.61	4.54	4.42	
Fixed O&M	9.56	11.72	11.87	10.13	11.03	12.40	10.53	12.83	12.98	
Overhaul	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>12.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
Subtotal	13.49	15.60	15.70	14.38	27.20	16.53	15.14	17.37	17.40	
Carbon Injection Costs	3.01	2.80	2.81	3.09	2.52	2.93	3.33	3.13	3.07	
FICA	0.48	0.51	0.51	0.46	0.48	0.54	0.56	0.59	0.57	
Property Tax	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	
Cap Stock Tax	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	
Total Non-fuel	18.70	20.63	20.74	19.65	31.92	21.72	20.75	22.81	22.76	
Capital Expenditures	5.19	5.34	5.50	5.67	15.05	4.53	3.14	1.66	1.06	
Direct Expenses	104.56	105.93	105.85	118.36	127.62	118.98	129.61	129.45	127.30	
Direct Margin	28.90	25.46	23.64	25.28	(3.80)	20.07	25.68	22.94	21.01	
Overhead Allocation	17.70	19.98	19.63	21.63	23.77	22.35	25.16	26.54	25.43	
Expenses Incl. Corp O/H	122.26	125.91	125.48	139.99	151.39	141.33	154.77	155.99	152.73	
Margin After Corp O/H	11.20	5.48	4.01	3.65	(27.57)	(2.28)	0.52	(3.60)	(4.42)	
	6.55	3.21	2.35	2.13	(16.13)	(1.33)	0.30	(2.11)	(2.59)	
<u>Costs per kwh (cents)</u>										
Fuel	2.04	2.11	2.18	2.36	2.43	2.55	2.67	2.77	2.88	
Variable O&M	0.10	0.10	0.11	0.11	0.11	0.11	0.12	0.12	0.12	
Fixed O&M	0.24	0.31	0.33	0.26	0.33	0.34	0.27	0.34	0.36	
Overhaul	0.00	0.00	0.00	0.00	0.38	0.00	0.00	0.00	0.00	
Carbon Injection Costs	0.08	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.09	
Other Fixed Costs	0.06	0.06	0.06	0.06	0.07	0.06	0.06	0.06	0.06	
Capital Expenditures	<u>0.13</u>	<u>0.14</u>	<u>0.15</u>	<u>0.14</u>	<u>0.45</u>	<u>0.12</u>	<u>0.08</u>	<u>0.04</u>	<u>0.03</u>	
Direct Expense	0.61	0.69	0.72	0.64	1.42	0.72	0.60	0.65	0.66	
Direct Margin	0.73	0.67	0.65	0.64	(0.11)	0.55	0.65	0.61	0.58	
Overhead Allocation	0.45	0.53	0.54	0.55	0.72	0.62	0.64	0.70	0.71	
Expenses Incl. Corp O/H	3.10	3.32	3.44	3.55	4.57	3.88	3.91	4.12	4.25	
Margin After Corp O/H	0.28	0.14	0.11	0.09	(0.83)	(0.06)	0.01	(0.10)	(0.12)	
NPV of Margin after O/H	(1.99)									
NPV of Decommissioning	23.60									
NPV OF NET MARGIN	(25.59)									

EXHIBIT

3

Duquesne Light -- Margin Analysis with Corrected Capacity Factors

PV of Fossil Plants
(\$ in Millions)

@ \$33.8/mwh in 2006 with escalations @ 2.5%

<u>CHESWICK</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>AVERAGE</u>
kwh Market Price (cents)	33.8	34.7	35.5	36.4	37.3	38.3	39.2	40.2	41.2	
Unit Output (gwh)	4,529	4,309	4,474	4,254	4,419	4,199	3,790	4,529	4,309	
Corrected Capacity Factor	91%	86%	90%	85%	89%	84%	76%	91%	86%	86%
Original Capacity Factor	84%	81%	78%	84%	71%	77%	84%	81%	77%	80%
Delivered Output (gwh)	4,257	4,051	4,205	3,999	4,154	3,947	3,562	4,257	4,051	
Revenues	144.00	140.44	149.45	145.67	155.09	151.06	139.74	171.17	166.93	
<u>Fuel-Related Expenses</u>										
Fuel Costs	87.04	85.47	91.88	94.35	101.02	100.74	95.14	117.92	116.47	
Total Fuel	87.04	85.47	91.88	94.35	101.02	100.74	95.14	117.92	116.47	
<u>Non-fuel O&M Expenses</u>										
Variable O&M	4.24	4.15	4.42	4.31	4.60	4.49	4.15	5.10	4.97	
Fixed O&M	9.56	11.72	11.87	10.13	11.03	12.40	10.53	12.83	12.98	
Overhaul	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>12.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
Subtotal	13.80	15.87	16.29	14.44	28.13	16.89	14.68	17.93	17.95	
Carbon Injection Costs	3.25	2.99	3.24	3.13	3.16	3.18	3.00	3.52	3.46	
FICA	0.48	0.51	0.51	0.46	0.48	0.54	0.56	0.59	0.57	
Property Tax	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	
Cap Stock Tax	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	
Total Non-fuel	19.25	21.09	21.76	19.75	33.48	22.33	19.96	23.76	23.70	
Capital Expenditures	5.19	5.34	5.50	5.67	15.05	4.53	3.14	1.66	1.06	
Direct Expenses	111.48	111.90	119.14	119.78	149.55	127.60	118.23	143.33	141.24	
Direct Margin	32.52	28.54	30.31	25.89	5.54	23.46	21.51	27.84	25.70	
Overhead Allocation	17.70	19.98	19.63	21.63	23.77	22.35	25.16	26.54	25.43	
Expenses Incl. Corp O/H	129.18	131.88	138.77	141.41	173.32	149.95	143.39	169.87	166.67	
Margin After Corp O/H	14.82	8.56	10.68	4.26	(18.23)	1.11	(3.65)	1.30	0.27	
	8.67	5.01	6.25	2.49	(10.67)	0.65	(2.14)	0.76	0.16	
<u>Costs per kwh (cents)</u>										
Fuel	2.04	2.11	2.18	2.36	2.43	2.55	2.67	2.77	2.88	
Variable O&M	0.10	0.10	0.11	0.11	0.11	0.11	0.12	0.12	0.12	
Fixed O&M	0.22	0.29	0.28	0.25	0.27	0.31	0.30	0.30	0.32	
Overhaul	0.00	0.00	0.00	0.00	0.30	0.00	0.00	0.00	0.00	
Carbon Injection Costs	0.08	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.09	
Other Fixed Costs	0.05	0.06	0.05	0.05	0.05	0.06	0.06	0.05	0.06	
Capital Expenditures	<u>0.12</u>	<u>0.13</u>	<u>0.13</u>	<u>0.14</u>	<u>0.36</u>	<u>0.11</u>	<u>0.09</u>	<u>0.04</u>	<u>0.03</u>	
Direct Expense	0.57	0.65	0.65	0.64	1.17	0.68	0.65	0.60	0.61	
Direct Margin	0.76	0.70	0.72	0.65	0.13	0.59	0.60	0.65	0.63	
Overhead Allocation	0.42	0.49	0.47	0.54	0.57	0.57	0.71	0.62	0.63	
Expenses Incl. Corp O/H	3.10	3.32	3.44	3.55	4.57	3.88	3.91	4.12	4.25	
Margin After Corp O/H	0.35	0.21	0.25	0.11	(0.44)	0.03	(0.10)	0.03	0.01	
NPV of Margin after O/H	11.96									
NPV of Decommissioning	23.60									
NPV OF NET MARGIN	(11.64)									

Duquesne Light -- Margin Analysis with Incorrect Delivered Output

PV of Fossil Plants

(\$ in Millions)

@ \$33.8/mwh in 2006 with escalations @ 2.5%

<u>CHESWICK</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
kwh Market Price (cents)	33.8	34.7	35.5	36.4	37.3	38.3	39.2	40.2	41.2
Unit Output (gwh)	4,197	4,032	3,876	4,195	3,528	3,865	4,211	4,032	3,828
Corrected Capacity Factor	91%	86%	90%	85%	89%	84%	76%	91%	86%
Original Capacity Factor	84%	81%	78%	84%	71%	77%	84%	81%	77%
Delivered Output (gwh)	3,946	3,790	3,644	3,943	3,316	3,633	3,959	3,790	3,599
Revenues	133.46	131.39	129.49	143.63	123.82	139.05	155.29	152.38	148.31

Fuel-Related Expenses

Fuel Costs	80.67	79.96	79.61	93.04	80.65	92.73	105.72	104.98	103.48
Total Fuel	80.67	79.96	79.61	93.04	80.65	92.73	105.72	104.98	103.48

Non-fuel O&M Expenses

Variable O&M	3.93	3.88	3.83	4.25	3.67	4.13	4.61	4.54	4.42
Fixed O&M	9.56	11.72	11.87	10.13	11.03	12.40	10.53	12.83	12.98
Overhaul	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>12.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Subtotal	13.49	15.60	15.70	14.38	27.20	16.53	15.14	17.37	17.40
Carbon Injection Costs	3.01	2.80	2.81	3.09	2.52	2.93	3.33	3.13	3.07
FICA	0.48	0.51	0.51	0.46	0.48	0.54	0.56	0.59	0.57
Property Tax	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Cap Stock Tax	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>
Total Non-fuel	18.70	20.63	20.74	19.65	31.92	21.72	20.75	22.81	22.76

Capital Expenditures	5.19	5.34	5.50	5.67	15.05	4.53	3.14	1.66	1.06
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Direct Expenses	104.56	105.93	105.85	118.36	127.62	118.98	129.61	129.45	127.30
Direct Margin	28.90	25.46	23.64	25.28	(3.80)	20.07	25.68	22.94	21.01

Overhead Allocation	17.70	19.98	19.63	21.63	23.77	22.35	25.16	26.54	25.43
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Expenses Incl. Corp O/H	122.26	125.91	125.48	139.99	151.39	141.33	154.77	155.99	152.73
Margin After Corp O/H	11.20	5.48	4.01	3.65	(27.57)	(2.28)	0.52	(3.60)	(4.42)
	6.55	3.21	2.35	2.13	(16.13)	(1.33)	0.30	(2.11)	(2.59)

Costs per kwh (cents)

Fuel	2.04	2.11	2.18	2.36	2.43	2.55	2.67	2.77	2.88
Variable O&M	0.10	0.10	0.11	0.11	0.11	0.11	0.12	0.12	0.12
Fixed O&M	0.24	0.31	0.33	0.26	0.33	0.34	0.27	0.34	0.36
Overhaul	0.00	0.00	0.00	0.00	0.38	0.00	0.00	0.00	0.00
Carbon Injection Costs	0.08	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.09
Other Fixed Costs	0.06	0.06	0.06	0.06	0.07	0.06	0.06	0.06	0.06
Capital Expenditures	<u>0.13</u>	<u>0.14</u>	<u>0.15</u>	<u>0.14</u>	<u>0.45</u>	<u>0.12</u>	<u>0.08</u>	<u>0.04</u>	<u>0.03</u>
Direct Expense	0.61	0.69	0.72	0.64	1.42	0.72	0.60	0.65	0.66
Direct Margin	0.73	0.67	0.65	0.64	(0.11)	0.55	0.65	0.61	0.58

Overhead Allocation	0.45	0.53	0.54	0.55	0.72	0.62	0.64	0.70	0.71
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Expenses Incl. Corp O/H	3.10	3.32	3.44	3.55	4.57	3.88	3.91	4.12	4.25
Margin After Corp O/H	0.28	0.14	0.11	0.09	(0.83)	(0.06)	0.01	(0.10)	(0.12)

NPV of Margin after O/H (1.99)

NPV of Decommissioning 23.60

NPV OF NET MARGIN (25.59)



Duquesne Light -- Margin Analysis with Incorrect Delivered Output

PV of Fossil Plants
(\$ in Millions)

@ \$44.1/mwh in 2006 with escalations @ 2.5%

<u>CHESWICK</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
kwh Market Price (cents)	44.1	45.2	46.3	47.5	48.7	49.9	51.1	52.4	53.7
Unit Output (gwh)	4,197	4,032	3,876	4,195	3,528	3,865	4,211	4,032	3,828
Corrected Capacity Factor	91%	86%	90%	85%	89%	84%	76%	91%	86%
Original Capacity Factor	84%	81%	78%	84%	71%	77%	84%	81%	77%
Delivered Output (gwh)	3,946	3,790	3,644	3,943	3,316	3,633	3,959	3,790	3,599
Revenues	173.90	171.21	168.74	187.16	161.34	181.19	202.34	198.56	193.25

Fuel-Related Expenses

Fuel Costs	80.67	79.96	79.61	93.04	80.65	92.73	105.72	104.98	103.48
Total Fuel	80.67	79.96	79.61	93.04	80.65	92.73	105.72	104.98	103.48

Non-fuel O&M Expenses

Variable O&M	3.93	3.88	3.83	4.25	3.67	4.13	4.61	4.54	4.42
Fixed O&M	9.56	11.72	11.87	10.13	11.03	12.40	10.53	12.83	12.98
Overhaul	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>12.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Subtotal	13.49	15.60	15.70	14.38	27.20	16.53	15.14	17.37	17.40

Carbon Injection Costs	3.01	2.80	2.81	3.09	2.52	2.93	3.33	3.13	3.07
FICA	0.48	0.51	0.51	0.46	0.48	0.54	0.56	0.59	0.57
Property Tax	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Cap Stock Tax	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>	<u>0.88</u>
Total Non-fuel	18.70	20.63	20.74	19.65	31.92	21.72	20.75	22.81	22.76

Capital Expenditures	5.19	5.34	5.50	5.67	15.05	4.53	3.14	1.66	1.06
----------------------	------	------	------	------	-------	------	------	------	------

Direct Expenses	104.56	105.93	105.85	118.36	127.62	118.98	129.61	129.45	127.30
Direct Margin	69.34	65.27	62.89	68.80	33.72	62.21	72.73	69.11	65.95

Overhead Allocation	17.70	19.98	19.63	21.63	23.77	22.35	25.16	26.54	25.43
---------------------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Expenses Incl. Corp O/H	122.26	125.91	125.48	139.99	151.39	141.33	154.77	155.99	152.73
Margin After Corp O/H	51.64	45.29	43.26	47.17	9.95	39.86	47.57	42.57	40.52
	30.21	26.50	25.31	27.60	5.82	23.32	27.83	24.91	23.71

Costs per kwh (cents)

Fuel	2.04	2.11	2.18	2.36	2.43	2.55	2.67	2.77	2.88
Variable O&M	0.10	0.10	0.11	0.11	0.11	0.11	0.12	0.12	0.12
Fixed O&M	0.24	0.31	0.33	0.26	0.33	0.34	0.27	0.34	0.36
Overhaul	0.00	0.00	0.00	0.00	0.38	0.00	0.00	0.00	0.00
Carbon Injection Costs	0.08	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.09
Other Fixed Costs	0.06	0.06	0.06	0.06	0.07	0.06	0.06	0.06	0.06
Capital Expenditures	<u>0.13</u>	<u>0.14</u>	<u>0.15</u>	<u>0.14</u>	<u>0.45</u>	<u>0.12</u>	<u>0.08</u>	<u>0.04</u>	<u>0.03</u>
Direct Expense	0.61	0.69	0.72	0.64	1.42	0.72	0.60	0.65	0.66
Direct Margin	1.76	1.72	1.73	1.74	1.02	1.71	1.84	1.82	1.83

Overhead Allocation	0.45	0.53	0.54	0.55	0.72	0.62	0.64	0.70	0.71
---------------------	------	------	------	------	------	------	------	------	------

Expenses Incl. Corp O/H	3.10	3.32	3.44	3.55	4.57	3.88	3.91	4.12	4.25
Margin After Corp O/H	1.31	1.20	1.19	1.20	0.30	1.10	1.20	1.12	1.13

NPV of Margin after O/H 158.28

NPV of Decommissioning 23.60

NPV OF NET MARGIN 134.68

Potential Savings from Early Plant Shutdown

	PRODUCTION COSTS (c/kWh)							
	1998	1999	2000	2001	2002	2003	2004	2005
CHESWICK	3.15	2.52	2.77	2.77	2.77	3.32	4.91	3.18
SAMMIS	2.22	2.79	2.35	3.21	3.29	3.08	2.76	3.31
EASTLAKE	2.43	3.18	2.63	3.54	3.68	3.12	3.52	3.98
ELRAMA	3.50	3.56	3.65	3.49	3.33	3.63	3.44	0.00
MANSFIELD 1	2.91	3.35	3.47	2.58	2.72	2.70	3.14	3.07
MANSFIELD 2	2.89	3.34	3.06	2.99	2.70	2.65	3.09	2.93
MANSFIELD 3	2.86	3.27	2.59	2.78	3.24	2.73	3.06	3.03
BEAVER VALLEY 1	1.94	3.01	2.80	2.06	2.95	3.03	2.21	3.26
PERRY	3.47	4.70	3.69	4.73	4.20	4.86	4.31	5.06
WEIGHTED AVERAGE:	2.81	3.17	3.01	2.97	3.14	3.28	3.46	3.41
MARKET PRICE	1.78	1.87	1.97	2.08	2.19	2.31	2.43	2.56

	FORECAST OUTPUT LEVELS (GWh)							
	1998	1999	2000	2001	2002	2003	2004	2005
CHESWICK	3,076	3,384	3,428	3,317	3,600	3,499	3,098	3,433
SAMMIS	1,288	1,142	1,247	1,139	1,158	1,176	1,284	1,194
EASTLAKE	1,044	778	1,095	977	989	1,102	994	940
ELRAMA	2,370	2,370	2,341	2,405	2,529	2,244	2,407	0
MANSFIELD 1	1,486	1,544	1,263	1,596	1,473	1,610	1,499	1,634
MANSFIELD 2	422	437	372	427	410	449	422	460
MANSFIELD 3	817	744	795	713	687	734	802	740
BEAVER VALLEY 1	2,982	2,614	2,622	2,982	2,614	2,614	2,990	2,614
PERRY	1,262	1,120	1,266	1,123	1,262	1,123	1,266	1,123

	SAVINGS FROM SHUTTING DOWN PLANTS (1000 \$)								
	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
CHESWICK	42,014	21,834	27,483	22,914	20,830	35,310	76,675	21,136	268,195
SAMMIS	5,687	10,547	4,685	12,895	12,745	9,050	4,193	8,959	68,760
EASTLAKE	6,751	10,195	7,198	14,318	14,748	8,935	10,803	13,353	86,300
ELRAMA	40,683	39,995	39,372	33,849	28,898	29,620	24,394	0	236,811
MANSFIELD 1	16,804	22,783	18,896	7,917	7,772	6,231	10,660	8,264	99,327
MANSFIELD 2	4,696	6,421	4,031	3,862	2,109	1,533	2,803	1,711	27,167
MANSFIELD 3	8,797	10,436	4,909	4,994	7,234	3,098	5,010	3,491	47,968
BEAVER VALLEY 1	4,656	29,758	21,696	0	19,832	18,754	0	18,396	113,092
PERRY	21,395	31,718	21,824	29,746	25,327	28,601	23,759	28,081	210,451
TOTAL:	151,482	183,686	150,094	130,495	139,496	141,132	158,296	103,392	1,158,071



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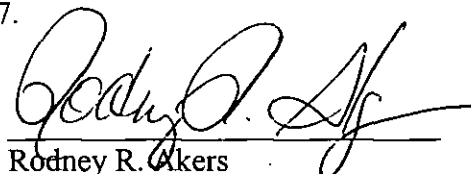
COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Application of Duquesne Light Company :
for Approval of a Restructuring Plan Under : Docket No. R-00974104
Section 2806 of the Public Utility Code :

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants via first class U.S. Mail, postage prepaid, except as indicated on the attached service listing, in accordance with the requirements of § 1.54 (relating to service by a participant).

Dated this 6th day of November, 1997.



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PA Public Utility Commission v. Duquesne Light Company

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November 6, 1997

VIA FEDERAL EXPRESS

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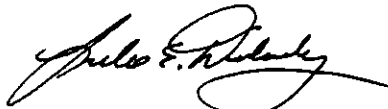
**Re: Duquesne Light Company
Docket No. R-00974104**

Dear Mr. McNulty:

Kindly accept for filing the original plus three copies of the Direct Testimony of David Magnus Boonin and Nancy I. Day submitted on behalf of New Energy Ventures in the above-referenced proceeding.

A copy of this document has been served on all known parties in this proceeding. A Certificate of Service to that effect is enclosed.

Respectfully,



Luke E. Dembosky

/mhc

encl.

cc: Certificate of Service (w/encl.)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Application of Duquesne Light :
Company for Approval of Its :
Restructuring Plan under Section : Docket No. R-00974104
2806 Of the Public Utility Code :

DIRECT TESTIMONY
OF
DAVID MAGNUS BOONIN

DOCUMENT
FOLDER

DOCKETED

NOV 10 1997

Regarding Generation Rate, CTC's,
Unbundling of Tariffs and Billing Issues

1 Q. Please state your name, title and business address.

2

3 A. My name is David Magnus Boonin. I am Executive Vice President of NEV East,
4 L.L.C., doing business as New Energy Ventures - Mid-Atlantic ("NEV"). My
5 business address is 1845 Walnut Street, Suite 2525, Philadelphia, PA 19103.

6

7 Q. Please describe NEV East.

8

9 A. New Energy Ventures - Mid-Atlantic is the name under which NEV East, L.L.C. does
10 business in Pennsylvania. NEV is an Arizona limited liability corporation. NEV
11 organizes and manages a buyers' alliance for retail energy. Our business is saving
12 our members money on their energy bills. In this proceeding and elsewhere, we
13 work for our members and potential members. We have offices in California,
14 Boston, New York and Philadelphia. We are a certified FERC Power Marketer and
15 are a registered provider of retail electricity in California. NEV is licensed in Rhode
16 Island and is a member of the New England Power Pool. We are a licensed
17 alternative supplier in Pennsylvania.

18

19 Q. Please describe your education and experience.

20

21 A. Since graduation from The Wharton School in 1973, I have spent almost my entire
22 career in the fields of utility planning, management and policy. A copy of my
23 resume is attached as NEV/DMB Exhibit #1. Some of my positions prior to joining
24 NEV including serving as Chief Economist for the Pennsylvania Public Utility
25 Commission, Commissioner and Executive Director of the Philadelphia Gas
26 Commission and Supervisor of Economic and Energy Forecasting for a major
27 electric utility. I also headed my own consulting practice. Among the issues I
28 addressed on behalf of my clients was the issue of the restructuring of the utility
29 industry. I have had extensive experience in designing adjustment clauses under

1 industry. I have had extensive experience in designing adjustment clauses under
2 section 1307 of the 66 Pa.C.S.A. I have also presented or had published numerous
3 papers and have testified before regulatory and legislative bodies on utility and
4 regulatory issues.

5
6 Q: What is the purpose of your testimony?

7
8 A. The main purpose of my testimony is to present an approach for the unbundling of
9 the cost of generation which is consistent with Act and allows for the development
10 of a competitive market for electricity. In addition, I will address the need to make
11 tariffed benefits available to all customers regardless of their chosen generation
12 supplier, as well as the billing issue of the definition of the term customer in the
13 deregulated market.

14
15 **UNBUNDLED RATE FOR GENERATION**

16
17 Q. Please summarize your approach to establish an unbundled price for generation.

18
19 A. I propose that the unbundled price for generation is to be determined by the market.
20 This is necessary in order to make choice a reality for retail customers while treating
21 all affected parties equitably. In this newly competitive world, generators will be
22 afforded the opportunity to sell their power on a power exchange. The price for
23 generation should be determined by the market-clearing price of the power
24 exchange, adjusted for the costs of retail delivery. To make this comply with rate
25 cap, I also recommend that the unbundled charge for electricity and the CTC always
26 be kept in balance so that the total of the two never varies.

27
28 Q. You mentioned that the unbundling methodology should comply with the law. What
29 does the statute state?

1 A. Section 2802 (14) of the statute states in part:

2

3 "The generation of electricity will no longer be regulated as a
4 public utility function."

5

6 Section 2804(3) of the statute states in part:

7

8 "The Commission shall require the unbundling of electric utility
9 services, tariffs and customer bills to separate the charges for
10 generation, transmission and distribution."

11

12 Section 2807(E)(3) of the statute states:

13

14 "If a customer contracts for electricity and it is not delivered or
15 if a customer does not choose an alternative electric
16 generation supplier, the electric distribution company or the
17 Commission-approved alternative supplier shall acquire
18 electric energy at prevailing market prices to serve that
19 customer and shall fully recover all reasonable costs."
20 (emphasis added)

21

22 Q. Why is Section 2807(E)(3) important?

23

24 A. Section 2807(E)(3) determines the price the electric distribution utility (EDU) may
25 charge for generation to any user other than those who have chosen an alternative
26 generation supplier. This section sets forth that the EDU (or someone else
27 designated by the Commission) shall provide this service at "prevailing market
28 prices" and be fully compensated. As the price of generation is otherwise
29 deregulated by the Act and is to be unbundled, it is precisely this language which

1 sets the unbundled price of generation which may be charged by the EDU.

2
3 Q. You also mentioned that the unbundled price of generation should be based on
4 certain market principles. Please explain.

5
6 A. ~~In practice, the price of generation varies from hour to hour across the year.~~ Fixed
7 prices established through regulation, even those with demand charges and/or time-
8 of-use pricing will only reflect the actual price of generation by happenstance. This
9 is the fundamental practice under the existing regulatory paradigm. In the new
10 competitive environment, electricity is being turned into a commodity whose price
11 shall vary depending on market conditions. Therefore, the appropriate unbundled
12 price of generation should also vary with the market and not be fixed.

13
14 Q. Why is a variable versus a fixed price of generation more appropriate?

15
16 A. For the Commission to estimate and establish a fixed price for generation in an
17 unbundled, full service tariff it must make and lock in numerous assumptions.
18 Generally, when estimating a price, "normal" assumptions are made about weather,
19 fuel, prices, economic conditions, supply availability, etc. These assumptions are
20 for extended periods. There is almost no possibility that these normal estimated
21 costs will produce a price at prevailing market rates at every time let alone at most
22 times.

23
24 In contrast, a variable price can change with market conditions and frees the
25 Commission from the impossible task of accurately predicting the prevailing market
26 price of generation. This approach is also consistent with the intent of the
27 legislation which is to deregulate the price of generation, not to reestablish a
28 regulated price of generation on a different concept than historical rate base
29 regulation.

1 Duquesne Light agrees that a market-based CTC is superior to a fixed CTC, but,
2 as I discuss below in detail, Duquesne Light has proposed a less accurate and
3 efficient method of determining the market price.

4
5 Q. What is your proposal for the unbundling of generation in the EDU's tariff?

6
7 A. I propose inserting the following language in each tariff for individual classes of
8 customer:

9
10 "The unbundled rate for generation shall be established by the power
11 exchange market clearing bid price for generation, fully adjusted for ancillary
12 services necessary to convert wholesale generation into reliable, deliverable
13 retail power at market determined or FERC approved prices which may be
14 required by the independent system operator (ISO), including but not limited
15 to, capacity, spinning reserves, load balancing and as further adjusted for
16 losses associated with the voltage level of delivery and location."

17
18 This language would be further enhanced after the final establishment of a power
19 exchange (PX) and/or independent system operator (ISO) and their establishment
20 of final governing rules. As the establishment of an ISO and PX is necessary for
21 retail competition to function, waiting to enhance this language should not in and of
22 itself cause significant delays.

23
24 This language establishes the basis for determining the prevailing market price for
25 retail generation at any point in time.

26
27 To understand this approach it is necessary to understand several concepts. First
28 that power exchange establishes the wholesale price for energy by establishing a
29 market price for electricity based on wholesale bids. Second, there are services,

1 such as load balancing, spinning reserves, etc. which have costs, which are
2 necessary to convert this wholesale energy into retail electricity. Third, losses
3 associated with the transmission and distribution of electricity may cause the retail
4 price for power to vary depending on the level of voltage delivery. Fourth, at certain
5 times of the year, even within an EDU's service territory, locational price differences
6 may occur, depending on physical limitations and/or FERC pricing decisions.

7
8 Q. Please explain why the power exchange price establishes the wholesale price for
9 electricity.

10
11 A. The PX will continually solicit bids from wholesalers to meet current demands. The
12 highest price bid used during a period (probably hourly) will set the prevailing
13 wholesale market price for energy at that time. The process of matching supply and
14 demand will be repeated continually during the day with a new wholesale market
15 prevailing rate established (probably hourly). This bid process will replace the
16 current economic dispatch system currently used by many utilities and power pools.
17 It allows all willing suppliers to bid for the right to supply the demand that exists,
18 excluding what has been met by bilateral contracts. There may be exceptions for
19 plants that are dispatched for reasons other than price (e.g. system balancing).
20 These exceptions will be known and can be treated like other ancillary services
21 needed to convert wholesale service into retail service.

22
23 Q. Please explain why and how these services need to be adjusted to reflect reliable,
24 deliverable retail electricity.

25
26 A. The supply and demand of electricity are subject to many stochastic events. Power
27 plants are forced off-line. Customers turn electricity consuming equipment on and
28 off unexpectantly and randomly. Because of this, it is not enough to use the
29 wholesale PX price as the total power exchange price. It is also necessary to

1 include costs associated with converting that energy into reliable retail electricity.
2 The ISO shall determine rules of what ancillary services a supplier must provide.
3 These services may include but are not limited to: capacity, spinning reserve and
4 load balancing. These services are the types that are generally necessary to
5 convert wholesale power into reliable electricity. These services will either be priced
6 ~~at a set price by the ISO and FERC or through the market~~ (my preferred approach).

7
8 Q. Please discuss the adjustments that are necessary due to voltage differences.

9
10 A. Power delivered at declining voltages experience greater losses. An adjustment
11 factor should be applied to each voltage delivery level to reflect these differences.

12
13 Q. Please discuss the adjustments that are necessary due to the location of the
14 customer.

15
16 A. Sometimes, due to transmission limitations, power prices within a power exchange
17 may differ at different locations. If the ISO identifies such limitations and establishes
18 the need to have different pricing in different regions, then individual prevailing
19 market clearing prices may need to be established for certain sub-regions at certain
20 times.

21
22 Q. Why is this adjusted power exchange price an accurate proxy for prevailing market
23 prices?

24
25 A. This is the way goods and services in the market are usually priced. The power
26 exchange adjusted for retail delivery starts with a prevailing wholesale market price
27 and adds the costs necessary to convert it to the retail service.

28
29 Q. Please describe how prevailing wholesale market prices would be converted to

1 prevailing retail market prices.

2
3 A. Starting with wholesale energy and capacity costs, a system load factor could be
4 applied to transform the capacity into a kWh based price. Energy needs to be
5 adjusted for line losses. Similarly, ancillary charges at market prices must be
6 added. An A&G component would also be appropriate. Finally a tax true-up should
7 be applied. After a system number is developed, a number for each rate class,
8 following the same methodology should be calculated.

9
10 Q. Under your proposal, how often will the prevailing market price change?

11
12 A. It will change as often as the components discussed above cause a change.
13 Practically, I see the prevailing market price changing hourly, much as today's
14 power pool price (or system lambda) changes today.

15
16 Q. Given that the prevailing market price may be changing hourly, what type of
17 metering will be necessary?

18
19 A. That will be up to the individual supplier and the ISO rules of load balancing. In
20 general, I anticipate that hourly meters will be necessary for larger loads, regardless
21 of whether the generation supplier is the EDU or another supplier. Small loads,
22 such as residential and small commercial customers may be able to be metered as
23 currently done, if the ISO permits the use of a standard load curve(s) for load
24 balancing purposes.

25
26 Q. How do you anticipate customers being billed?

27
28 A. Each individual customer with hourly meters would be billed based upon the full
29 prevailing retail market price for each kilowatt consumed in that hour. Demand

1 billing and ratchets should become unnecessary following this approach for
2 generation.

3
4 Capacity charges would be charged during the hour that the customer imposed the
5 need. Small customers without hourly meters who have an acknowledged and
6 approved load shape would be billed based upon their kWh usage spread over
7 the load shape, using the prevailing market prices at the time. Customers who do
8 not have approved load shapes and do not have hourly meters would be charged
9 for unallocated imbalances, as reflected for their reliance on the ISO rather than
10 their own supplies. This creates de facto hourly pricing.

11
12 Q. Do these load shapes need to be determined at this time?

13
14 A. No. I believe this would be premature. The Commission should recommend them
15 after the ISO indicates a willingness to address load imbalance responsibilities
16 based upon load shapes for some subset of customers.

17
18 Q. Given the variable nature of your proposed approach to unbundling generation, how
19 will you have your approach comply with the rate cap?

20
21 A. I propose keeping the total of the unbundled price of generation and the generation
22 related portion of the CTC constant. If the prevailing market price increases so
23 does the unbundled charge for generation with an equal decrease to the generation
24 portion of the CTC.

25
26 Q. Why is this appropriate?

27
28 A. Under most approaches to determining stranded costs; there is a relationship
29 between the prevailing market price for generation and the competitive transition

1 charge. All else being equal, if one were to assume an increase in the value of
2 generation because the market price of generation increased, then the stranded
3 costs would decrease by the same amount. Likewise, if the market price of
4 generation were to decrease, the value of the generation would decrease and
5 stranded costs would increase.

6
7 Stranded costs are the core of the calculation of the Competitive Transition Charge
8 (CTC). At a particular point in time (eliminating discounting and levelization) there
9 is a one to one relationship between a change in the value of generation and an
10 opposite but equal change in stranded costs.

11
12 Q. In general, how would this work?

13
14 A. Because of this one to one relationship, it is recommended that in establishing the
15 unbundled rates for generation and CTC that the Commission follow the following
16 protocol.

- 17
18 ♦ Determine stranded cost, the CTC and ITC for each rate class as appropriate.
19
20 ♦ Stranded costs, the CTC and ITC should be split between generation-related
21 and non-generation related costs.
22
23 ♦ Explicitly determine the related underlying assumed market price for generation
24 associated with the generation portion of the CTC for each rate class. The price
25 of generation could be levelized, but it is recommended that it be disaggregated
26 at least by year.
27
28 ♦ The EDU would compare the average weighted prevailing market price for
29 generation for each customer class for the billing period with the underlying

1 assumed market price for generation.

- 2
- 3 ♦ The generation related portion of the CTC would then be adjusted so that the
4 total of the adjusted CTC and the prevailing market price for the period would
5 always be equal to the base CTC and underlying assumed price of generation.

6

7 This approach is consistent with section 2804(4)(II), which joins the CTC, ITC
8 and the unbundled price of generation.

9

10 Q. Please explain why and how you are splitting the CTC.

11

12 A. I recommend that the Commission split the CTC into two categories, which I will
13 loosely term "generation related" and "non-generation related" depending on
14 whether the costs vary with the market price of energy. ("Generation-related" costs
15 are those that vary with the value of generation while "non-generation related costs"
16 do not directly vary with the value of generation.) This allows for the generation-
17 related portion of the CTC to be used as offsets to variation in the prevailing market
18 price as discussed above. This charge should be set only on a kWh basis. Hourly
19 allocations of generation related costs should negate the need for demand charges
20 and ratchets. I do not have an opinion at this time on the rate design for the non-
21 generation related portion of the CTC.

22

23 Q. Would you please provide a simple example of how your proposal would work?

24

25 A. Yes. Assume for purpose of illustration that the base generation related CTC
26 established by the Commission is 1.5 cents/kWh and the associated estimated
27 market price/value of generation is 2.9 cents per kilowatt-hour for a total of 4.4
28 cents. Assume also that in a given month the actual prevailing market price is 2.7
29 cents. This is 0.2/kWh cents less than the estimated market price that is the basis

1 for determining the CTC. The CTC would therefore be increased by the same
2 amount for bills rendered for that period or to 1.7 cents per kilowatt-hour. Under
3 either case the combined total will still be 4.4 cents/kWh.

4
5 If the opposite were true and the prevailing market price were to exceed the
6 ~~estimated market value of generation~~, then the CTC would be decreased.

7
8 This self balancing process assures that the generation related charges are always
9 in compliance with the rate cap provisions of the Act.

10
11 Q. Have you considered how the Commission would go about reconciling the ITC and
12 CTC consistent with sections 2808(F) and 2812(B)(5) of the Act, given your variable
13 CTC methodology?

14
15 A. Yes.

16
17 Q. Why is it necessary and appropriate for the Commission to establish a reconciliation
18 methodology at this time?

19
20 A. The Commission in its April 10, 1997 order on periodic adjustment of the CTC and
21 the ITC stated that "only during the course of the evidentiary hearings can such
22 matters as the appropriate CTC/ITC calculation and reconciliation methodology be
23 determined as well as the appropriate format, content and necessary supporting
24 information associated with the annual CTC reconciliation's and periodic ITC
25 adjustments."

26
27 Q. Please summarize your reconciliation methodology.

28
29 A. I propose a reconciliation method which individually reconciles the Competitive

1 Transition Costs associated with generation and non-generation related costs. Non-
2 generation costs would only be reconciled based on changes in absolute levels of
3 recovery caused by variations between forecasted and actual sales. Generation
4 related costs would also be reconciled for variations in sales but only after an
5 adjustment is made to the required level of amortization to reflect changes in the
6 ~~prevailing market price.~~ I have also proposed, as a general rule, deferring
7 adjustments for over or undercollections to the end of the transition period.

8
9 Q. Have you provided a more detailed description of your proposed reconciliation
10 methodology?

11
12 A. Yes. It is attached as NEV/DMB Exhibit #2.

13
14 Q. In your proposal, does it matter whether the sales are billed directly by the EDU or
15 whether the EDU provided the generation service?

16
17 A. No. All customers in a given rate class should pay the same CTC rate(s).

18
19 Q. How does this work with a utility like Duquesne Light who is trying to recover its
20 CTC partially on an energy and partially on demand basis?

21
22 A. Non-generation related costs could still be recovered in a fashion similar to
23 Duquesne Light's proposal. As I stated earlier, I have not yet developed an opinion
24 in the appropriate rate design for this item, nor is it germane to my proposal. All -
25 generation related charges would be recovered on a kWh basis. Actual or imputed
26 load shapes would assign actual prevailing rates to each customer. Demand
27 ratchets would be eliminated for these portions of these services as would cross
28 subsidization for generation. Customers would pay only for the load the actually
29 placed on the system.

1 Q. Would the CTC change for all customers or only those receiving full services from
2 the EDU?

3

4 A. The CTC would change for all customers.

5

6 Q. ~~Why should the CTC change for all customers based upon prevailing market prices~~
7 ~~for generation?~~

8

9 A. The CTC is a charged being imposed on customers regardless of whether they stay
10 with the EDU or seek energy services form an alternative supplier. The CTC should
11 *be the same for similar customers who are served by the utility at the prevailing*
12 *market rate or by an alternative provider at a market-determined rate.*

13

14 Q. How does your proposal for establishing a prevailing market price for generation
15 compare with those of Duquesne Light?

16

17 A. Although Duquesne Light recognizes that the market should determine the CTC,
18 Duquesne Light's plan does not permit the market to do so. Under Duquesne
19 Light's plan, the "market price" would be determined by an artificial bidding process
20 controlled by Duquesne Light's terms, including parameters imposed by Duquesne
21 Light relating to the amount and duration of energy supply purchased, the minimum
22 bidding price, and the criteria for selecting the winning bidder. The plan purports to
23 be market-driven, but it is in fact driven by artificial parameters chosen by Duquesne
24 Light.

25

26 As I described earlier, the accurate market price will be readily determined by the
27 power exchange market clearing price for generation, consistent with final governing
28 rules established by the ISO. There already will be a genuine market mechanism
29 to determine the market price. Duquesne Light has offered no reason why this

1 mechanism should be replaced with an artificial bidding process governed by
2 Duquesne Light.

3
4 Moreover, under Duquesne Light's plan, a final determination of the market price
5 would be deferred until 2003. Duquesne Light has offered no sound basis for
6 ~~waiting until 2003 to make this determination when an on-going, self-correcting~~
7 gauge of the market price can easily be implemented. There are, however,
8 important reasons for not waiting until 2003 to make a final market price
9 determination. First, consumers should not bear the risk of paying a higher CTC
10 than is appropriate during the intervening five years. Second, the final
11 determination Duquesne Light proposes would be in a private, presumably closed,
12 arbitration proceeding, and will therefore prevent the many interested parties to this
13 proceeding from being heard, including alternative generation suppliers. The
14 approach I have described above, in contrast, would be self-implementing based
15 on the market, and would not require an adjudication in either a private arbitration
16 proceeding or any other forum, of what the artificial, so called "market" price should
17 be.

18
19 Q. Is your approach consistent with the statute and Commission orders and
20 regulations?

21
22 A. As discussed in more detail above, yes.

23
24 Q. Can this approach be used for any utility?

25
26 A. Yes.

27
28 Q. Will people know the price of electricity before they consume it?
29

1 A. Yes. Customers electing to stay with the EDU for full service would know the price
2 of generation before it is consumed although there may be shifting between the
3 subparts of the CTC and generation.

4

5 Q. Does the proposed approach guarantee the recovery of allowed stranded costs?

6

7 A. Yes, as annually reconciled to reflect actual market conditions. It is, therefore, a
8 FAR more accurate approach than one which is based upon a one time estimate
9 of market prices.

10

11 Q. Do other sections of the statute support the idea of a variable price of generation?

12

13 A. Yes. Section 2808(c)(4) provides:

14

15 "In determining the level of transition or stranded costs that an
16 electric utility may recover through the competitive transition
17 charge, the Commission shall apply the following principles:

18

19 (4) . . . **During the transition period, electric utilities shall**
20 **have the duty to mitigate generation related transition or**
21 **stranded costs to the extent practicable." (emphasis added)**

22

23 It is apparent that under Section 2808(c)(4), mitigation of stranded costs must
24 **continue** throughout the transition period. My proposal makes the mitigation
25 **automatic**. That is, if the market price of generation in any period is higher than the
26 amount used to calculate the stranded cost, the excess revenues will be used
27 directly to mitigate stranded costs by being applied to reduce the CTC for the
28 period. The statute says that utilities "shall have the duty to mitigate stranded costs"
29 during the transition period "to the extent practicable." My proposal shows how such

1 mitigation is practicable.

2

3 Q. How would securitization work under your proposal?

4

5 A. It should be possible to securitize bonds through the ITC plus offsetting revenue
6 ~~associated with the increased value of generation.~~ These dual revenue sources
7 could both be pledged.

8

9 Q. You have developed a detailed approach for unbundling. How should the final
10 tariffs be developed?

11

12 A. I recommend that the Commission direct Duquesne Light to submit tariffs consistent
13 with this approach and with the Commission's findings. A CTC (which could be split
14 between generation and non-generation) will need to be provided by Duquesne
15 Light as compliance filing with the Commission's final order. The Commission
16 should explicitly state for each class of customer the assumed prevailing market
17 price(s) for generation used in developing its stranded cost findings so that the
18 adjustment mechanism I propose can be followed. A good first step would be to
19 have Duquesne Light complete the table I have laid out in my Exhibit #2.

20

21 PORTABILITY OF TARIFFED BENEFITS

22

23 Q. Must tariffed benefits be portable regardless of generation supplier?

24

25 A. Yes. Any utility which offers any rate discount must make that same discount
26 available to any customer regardless of their chosen generation supplier.

27

28 Q. Why is this important?

29

1 A. First this provides a level playing field. Utilities who offer economic development
2 discounts, time-of-use discounts, low-income bill discounts, interruptible service
3 discounts, etc. must make these services and discounts available to all customers,
4 regardless of generation supplier. Second, failure to do so would be in violation of
5 the Act which calls for rate unbundling for all customers.

6
7 **BILLING AND THE DEFINITION OF A CUSTOMER**
8

9 Q. Please summarize your testimony in this area.

10

11 A. Many customers have service on multiple meters throughout an EDU's service
12 territory. These customers are currently discriminated against when compared to
13 customers with similar loads served through a single meter. I propose that
14 alternative generation providers be permitted to treat these customers as a single
15 service for purposes of billing for transmission and CTC related charges.

16

17 Q. Why did you exclude generation from your earlier response?

18

19 A. The price of generation is deregulated and the EDU already has the right to issue
20 a customer a bill for its generation services on a consolidated basis. No
21 Commission action is required.

22

23 Q. Why did you exclude distribution charges?

24

25 A. This is a conservative proposal. Customers with multiple meters may impose a cost
26 on the system that is different than a similar load from a single location associated
27 with the distribution of the service. It is therefore recommended that these specific
28 charges be billed as they are currently.

29

1 Q. How are transmission and CTC different from the distribution charges?

2

3 A. Transmission and CTC related charges should not change with the number of
4 installations or meters but with the load placed on the system.

5

6 Q. ~~Why does defining a customer by a meter discriminate~~ against someone who
7 receives service at multiple meters?

8

9 A. I will answer that question with an example. Assume that there is a customer with
10 a single meter and a load of 2 MW. Assume also that there is someone else with
11 three meters, all on the same tariff as the first customer, whose coincidental load
12 totals to 2 MW but whose non-coincidental load is 2.5 MW. This second customer
13 places the same type of non-distribution related load on the system but is being
14 charged more than the first customer. All of these customers are on the same rate
15 schedule and all have the same coincidental peak, but the multi-site customer is
16 being irrationally discriminated against.

17

18 Q. In your example, you stated that all of the customers were on the same rate
19 schedule. Would you make that a pre-condition of your bill consolidation proposal?

20

21 A. Yes. For administrative ease, if for no other reason, this consolidation should only
22 be for customers of record who have multiple meters on the same rate tariff.

23

24 Q. How does this issue fit into this debate on competition?

25

26 A. Without competition this would not be as germane. Competition brings with it
27 innovation. More and more customers will be metered such that hourly loads can
28 be determined, a necessary request for consolidated billing. Competition also
29 challenges the necessity of demand based billing, particularly if customers are

1 paying for the burden they place upon the system virtually on an hourly basis.
2 Competition also highlights the importance of electric prices in economic
3 competitiveness. It is no longer acceptable to shrug when the type of blatant
4 discrimination is pointed out and say that's they best we can do. Yesterday's good
5 enough is no longer adequate.

6
7 Q. Specifically, what is your proposal?

8
9 A. My proposal is:

- 10
- 11 1. as testified by others, alternative generation providers should be allowed to
12 issue bills for all parts of the electric service, including those charged by the
13 EDU;
 - 14 2. that an alternative generation provider be allowed to consolidate bills for
15 customers with multiple meters within a single rate tariff;
 - 16
 - 17 3. that the consolidated bill will not have any impact on the distribution charge,
18 with the exception of unbundled services for metering, billing, collections and
19 information which shall be competitive; and
 - 20
 - 21 4. that only through this modification can the Commission prevent undue
22 competition from occurring between customers with identical loads on the
23 same rate tariff.
 - 24

25 Q. Does this conclude your testimony at this time?

26
27 A. Yes.

EDUCATION

Brown University, M.A. in Economics, 1976

Wharton School, University of Pennsylvania, B.S. in Economics, 1973

EXPERIENCE

New Energy Ventures, Inc., Philadelphia Pennsylvania

PRESIDENT, MID-ATLANTIC DIVISION, 1997 - Present

Manage NEV's Mid-Atlantic operations.

Consulting

PRESIDENT, THE BOONIN GROUP/SENIOR ADVISOR, HAGLER-BAILLY CONSULTING, 1992 - 1997

Provide strategic, policy and technical advice to utilities and others dealing with utility matters. Clients and assignments are diverse ranging from industries including: electric, gas, water and transportation and issues including competition, rates, restructuring, regulatory policy, etc.

City of Philadelphia, Philadelphia, Pennsylvania

EXECUTIVE DIRECTOR, PHILADELPHIA GAS COMMISSION, 1991 - 1994

Managed the Commission's technical and administrative staffs. Provided policy and strategic advice to the Commissioners. Interfaced with the public including: government officials, the press, interest groups, etc.

COMMISSIONER, PHILADELPHIA GAS COMMISSION, 1988 - 1991

Regulated largest gas utility in the State and largest municipal gas utility in the nation. Performed detailed budgetary and management review and oversight.

DIRECTOR OF UTILITY AND REGULATORY AFFAIRS, 1988 - 1991

Directed City's activities addressing utility and regulatory issues including the City as a large user, the City as a provider of utility services and the quality of the City's economic and physical environment. Scope of issues spanned fixed and transportation utilities as well as the insurance industry. Worked with regulators, utilities, interest groups and legislators.

DIRECTOR OF INTERGOVERNMENTAL AFFAIRS, Office of the Mayor, 1985 - 1988

Directed the City's legislative and administrative efforts with federal, state and local government, including the activities of lobbyists and Philadelphia's Washington Office. Addressed financial, economic and utility problems facing the City.

United Illuminating Company, New Haven, Connecticut

SUPERVISOR, ENERGY DEMAND AND ECONOMIC FORECASTS, 1983 - 1985

Corporate economist for a major electric utility. Managed department responsible for forecasting the utility's energy sales and peak demand. Developed energy resource strategies.

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

CHIEF ECONOMIST, 1979 - 1983

Managed the Economics Division. Developed policy recommendations, performed research and/or testified on regulatory, energy, economic, financial, rate and environmental issues

CHIEF OF THE ENERGY IMPACT ANALYSIS SECTION, 1978-1979

Managed interdisciplinary staff and projects concerning fixed utilities and energy. Developed and assessed regulations, rate structures and economic incentives

ECONOMIST, CHAIRMAN'S STAFF, 1976 - 1978

Economic advisor to the Chairman of the Commission. Reviewed each rate case as well as other cases and offered specific recommendations on all facets of the case

United Engineers and Constructors, Inc., Philadelphia, Pennsylvania

ECONOMIST, NUCLEAR TECHNICAL STAFF, 1973 - 1975

Analyzed issues relating to the costs/benefits, safety and licensing of power plants

SELECTED PROFESSIONAL ACTIVITIES

- * Commissioner, Philadelphia Planning Commission (1990-1991)
- * Member, Private Sector Advisory Panel on Infrastructure Financing, Senate Budget Committee (1986)
- * Board Member, Energy Coordinating Agency (1988-Present)
- * Energy, Environment and Natural Resources Policy Committee; National League of Cities (1990-1991)
- * Community and Economic Development Committee; Pennsylvania League of Cities (1989-1991)
- * Served on numerous committees and task forces, including: Electric Utility Efficiency Task Force, Pennsylvania Utility Advisory Committee, Statistical Research Committee - ECNE, Tax Advisory Committee, Utility Consumers Council, EPRI and NEPLAN Committees

PERSONAL

- * American Jewish Congress - Board Member
- * B'nai Brith Anti-Defamation League - National Leadership Award 1991
- * Central High School Board Alumni Association - Board of Directors
- * Boy Scouts of America - Assistant Scout Master, Eagle Scout
- * Born May 18, 1952, Philadelphia, Pennsylvania; Married

RECONCILIATION OF THE CTC

The Commission finds that the base stranded cost recoverable through the Competitive Transition Charge (CTC) is \$ _____. Of this amount \$ _____ is not generation related and \$ _____ is generation related.

The generation related portion is based upon, in part, estimated levelized value of generation of \$0.0xxx cents per kWh.

The base Competitive Transition Charge is as set forth in each individual rate schedule. The CTC has been divided into non-generation and generation related components.

The CTC is designed to produce the listed amortization schedule for stranded costs, divided into non-generation and generation related costs.

COMPETITIVE TRANSITION COSTS BASE ANNUAL AMORTIZATION SCHEDULE				
Year	Total to be Amortized	Non-generation Related Costs	Generation Related Costs	Projected Sales
1999				
2000				
2001				
2002				
2003				
2004				
2005				

The CTC shall be reconciled annually consistent with section 1307(e) of 66 Pa. C.S.A. Reconciliation of over or under collections shall be collected by extending or shortening the CTC period, except as otherwise ordered by the Commission.

Non-generation related CTC shall be adjusted based upon the following formula.

$$\text{Nongen}_{.act} - \text{Nongen}_{.amort} = E_{nongen}$$

where:

$\text{Nongen}_{.act}$ is the actual amount collected from all classes of customers during a year for non-generation related competitive transition charges;

$\text{Nongen}_{.amort}$ is the amortization schedule for the same year for non-generation related competitive transition charges as shown in the schedule; and

E_{nongen} is the over or under collections associated with non-generation related stranded costs based upon the difference between the amortization schedule and actual collections.

This process shall be repeated annually throughout the amortization period until the total amount for non-generation related stranded costs, as shown in the table above, is collected.

Note: this methodology only produces over or undercollections of non-generation related CTC when projected sales vary from actual sales.

There shall be two types of adjustments made for generation related CTC:

an adjustment to the amortization schedule based upon differences between the base generation related CTC and the CTC based on the actual market value generation, and

an adjustment for the anticipated versus actual level of collection (similar to the adjustment for non-generation related CTC).

The first step is to adjust the amortization schedule for the year being reconciled. This shall be done according to the following formula.

$$(\text{CTC}_{\text{market}} \times \text{SALES}_{\text{projected}}) - (\text{CTC}_{\text{base}} \times \text{SALES}_{\text{projected}}) = E_{\text{amort}}$$

where:

$\text{CTC}_{\text{market}}$ is the adjusted CTC charged to each class of customer to reflect the change in the value of generation from that used in the calculation of the base CTC. It is determined for each class of customer by the formula:

$$\text{CTC}_{\text{market}} = \text{CTC}_{\text{base}} - (\text{GENVALUE}_{\text{actual}} - \text{GENVALUE}_{\text{base}})$$

where: -

GENVALUE_{actual} is weighted average of the actual prevailing market price for generation as established in each tariff; and

GENVALUE_{base} is the estimated weighted average market price of generation used to in establishing stranded costs and the related base CTC, embedded in the tariff for each class of service.

CTC_{base} is the weighted average CTC based upon projected market prices and value of generation and included in the tariff for each class of service.

SALES_{projected} is the number of kWh used to determine the amortization schedule as listed in the table above.

E_{amort} is the adjustment that is made to the amortization schedule for generation related CTC to reflect the change in market conditions. This changes the total dollars which need to be collected through this portion of the CTC over the transition period.

Weighting is based upon projected kWh sales for each class of service.

After the amortization schedule has been adjusted for the prevailing market price for the period, the second step is to adjust the generation related CTC for actual level of collection according to the following formula.

$$\text{Gen}_{\text{act}} - \text{Gen}_{\text{amort.adj}} = E_{\text{gen}}$$

where:

Gen_{act} is the actual amount collected from all classes of customers during a year for generation related competitive transition charges;

Gen_{amort.adj} is the amortization schedule adjusted for the change in the market value of generation for the same year for generation related competitive transition charges as shown in the schedule and as adjusted; and

E_{gen} is the over or under collections associated with generation related stranded costs based upon the difference between the amortization schedule and actual collections.

This process shall be repeated annually throughout the amortization period until the total amount for non-generation related stranded costs, as shown in the table above, is collected.

NEV STATEMENT NO. 2

RECEIVED

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

NOV 6 1997

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Application of Duquesne Light :
Company for Approval Of its : Docket No. R-00974104
Restructuring Plan Under Section :
2806 Of The Public Utility Code :

DIRECT TESTIMONY
OF
NANCY I. DAY

Regarding Billing

1 Q1 Please state your name and business address.

2
3 A1 My name is Nancy I. Day and my business address is as follows:

4
5 New Energy Ventures, Inc.

6 1000 Wilshire Boulevard, Suite 500

7 Los Angeles, CA 90017.

8
9 Q2 By whom are you employed and in what capacity?

10
11 A2 I am employed by New Energy Ventures, Inc. My job title is Vice President,
12 Customer Services. I am responsible for defining the critical elements necessary
13 to deliver competitive services to energy customers. In addition, I am
14 responsible for the legislative and regulatory advocacy of policies and programs
15 essential to build viable competitive energy markets. My resume is attached as
16 Exhibit NEV/NID #1.

17
18 Q3 Please describe your background and experience in the energy services
19 industry.

20
21 A3 From 1968 to 1995 I was employed by Southern California Gas Company, the
22 nation's largest natural gas distribution utility. From 1990-94 I served as Vice
23 President of Regulatory Affairs. In that capacity I was the senior officer
24 responsible for developing and executing regulatory strategies. I directed a staff
25 of 30 professionals responsible for obtaining the required regulatory
26 authorizations needed to run the business. I led the company's regulatory
27 initiatives related to the transition to competitive choice for the provision of
28 natural gas.

1 Q4 What is the nature of your testimony in this proceeding?

2

3 A4 My testimony focuses on the role unbundling of distribution services plays in the
4 formation of competitive energy markets. I will address the essential
5 components of distribution service unbundling. Finally, I will discuss my
6 ~~experience in the deregulation of California's natural gas and electric services~~
7 industries to the extent they pertain to the issue of service unbundling.

8

9 Q5 Why is distribution service unbundling an essential element of the restructured
10 energy services market?

11

12 A5 The simple answer is profitability. Without the unbundling and competitive
13 provision of distribution services new market entrants will eventually be starved
14 out of the market. This will be the inevitable result when the margins on the sale
15 of electricity are too small to support the new market entrant's service delivery
16 overheads. In contrast, the utility service providers' costs for provision of these
17 overheads are imbedded in the utility's distribution revenue requirement and the
18 utility does not have to compete for the delivery of those services. This creates
19 an improper and unfair advantage for the utility and if corrective action is not
20 taken will result in the demise of customers' competitive alternatives.

21

22 Over time, the primary benefits from electric industry restructuring will come, not
23 from commodity cost savings, but from changes at the customer's premises.
24 The provision of these value added services is key to establishing sustainable
25 business relationships with customers. Moreover, the types of services
26 customers want and are willing to pay for are highly competitive, not monopoly
27 services.

28

1 For example, from a wide array of competitive options customers want to select
2 those options whose value equals or exceeds their cost. If the utilities package
3 of services do not meet the customers needs yet the costs remain bundled the
4 customer must pay twice, once to the utility for valueless services and once to
5 the energy service provider for the customized package of customer-selected
6 services.

7
8 A simple example illustrates this point. Customer "Big" has many facilities
9 located throughout the State. Historically this customer was served by 3 different
10 utilities all of whom billed for each meter served. Each utilities' billing format and
11 rate characteristics were different. Customer "Big" employed a small staff to
12 aggregate the utility charges by business unit and review them for accuracy. As
13 part of his new bundle of energy services Customer "Big" wants an aggregated
14 electricity bill, including both utility and energy service charges, subtotaed by
15 business unit and provided on-line through the internet. Why should this
16 customer have to pay for the utilities to continue to send him useless
17 information?

18
19 **Q6** What services and costs should be unbundled?

20
21 **A6** My recommendations are based on the cost and service format applied to
22 California utilities and I recommend the Pennsylvania Commission evaluate
23 these recommendations in the context of Pennsylvania's facts.

24
25 The cost elements that represent a minimum level of unbundling are:

- 26
27 1. Meters and meter reading
28 2. Billing and collections (including data processing costs)
29 3. Customer Service

- 1 4. Commodity Procurement, scheduling, balancing, risk management
- 2 and sales.
- 3 5. Uncollectible Expense
- 4 6. Working Cash Allowance

5
6 **Q7** What did the California Public Utilities Commission decide with respect to
7 unbundling distribution services?

8
9 **A7** In D. 97-05-037 the California Public Utilities Commission ordered the following:

10
11 Billing

- 12
13 1. Customers may choose from three billing options as follows: utility and the
14 new Energy Service Provider (ESP) provide separate bills, the utility
15 consolidates bills for itself and the ESP, or the ESP consolidates bills for
16 itself and the utility.
- 17
18 2. ESPs who provide consolidated billing for the utility are responsible for
19 payment of the billed amounts to the utility regardless of their ability to
20 collect from their customers.
- 21
22 3. Utilities may impose reasonable creditworthiness requirements on ESPs
23 who provide consolidated billing. These requirements are to be the same
24 as those required of a similarly sized and situated customer.
- 25
26 4. ESPs who provide consolidated billing must describe the utilities' charges
27 on their bills in a manner consistent with the bill reporting standards the
28 CPUC sets for the utilities.
- 29

1 **Meters and Meter Reading**

2

3 1. **Utilities who wish to employ Automated Meter Reading (AMR) (or any**

4 **other type of advanced metering system) technology throughout their**

5 **service territories may do so subject to the following conditions:**

- 6
- 7 • **utility customers will have the choice of deciding whether they want**
- 8 **to use the real-time metering capability offered by the technology**
- 9
- 10 • **only customers electing to use the real-time pricing capability of**
- 11 **AMR will be required to pay for the costs of that technology**
- 12
- 13 • **utility shareholders will be at risk for the full recovery of the**
- 14 **technology's costs**
- 15
- 16 • **at the same time, the utility installing AMR would not be required to**
- 17 **lower its revenue requirement associated with metering as a results**
- 18 **of cost savings achieved from adopting the technology**
- 19
- 20 • **balances risk and reward between ratepayers and shareholders**
- 21
- 22 • **a utility deciding to adopt AMR would provide the Commission with**
- 23 **a deployment plan showing how the technology would be**
- 24 **geographically deployed and on what timetable.**

25

26 2. **ESPs may install their own meters and must agree to share the metered**

27 **information with the utility. The ESP and the utility will enter into a service**

28 **agreement specifying the nature of the information to be collected, the**

29 **means for sharing data, and a reasonable approach for ensuring that the**

1 metering equipment is installed, calibrated and maintained properly, The
2 Commission will establish minimum standards governing open
3 architecture for meters and communication.

- 4
- 5 • large customers may use ESP meters beginning 1-1-98
- 6 • ~~small customers (less than 20-kilowatts) may use ESP meters~~
7 beginning 1-1-99.
- 8

9 The Commission delayed installation of ESP meters for small customers
10 by one year to "encourage a more studied movement through the various
11 steps that must precede such a new commercial offering." (D. 97-05-039,
12 pg. 17.)

13

14

15 Cost Separation

16

17 The Commission concluded that customers should not pay for costs that are not
18 incurred and directed that utilities separately identify the net cost savings
19 resulting from a customer's election to receive certain revenue cycle services
20 from another service provider and to reduce distribution charges where
21 appropriate.

22

23

24 Other Services

25

26 In addition to billing, metering and meter reading, the Commission found there
27 are other costs related to customer service inquiries and uncollectibles that are
28 "logically related to revenue cycle services." (D. 9705-039, pg. 18.) The
29 Commission directed the utilities to identify the net customer service inquiry

1 savings to be used to reduce customer charges in those situations where an
2 energy supplier chooses to handle customer service inquiries. In response to
3 the concerns expressed by one party, the Commission directed all parties to
4 evaluate whether a universal uncollectibles pool should be established to
5 motivate ESPs to serve customers who pose a higher credit risk.

6
7 Q8 The issue of distribution service unbundling was hotly contested in California.
8 Why do you think the California Public Utilities Commission ordered unbundling?

9
10 A8 In the California Commission's decision on unbundling (D. 97-05-039)
11 Commissioner Jesse J. Knight, Jr. wrote as follows:

12
13 "Unbundling bottleneck facilities has played a key component in regulation of the
14 telecommunications industry and was an important part of the Commission's
15 efforts to ensure that full and fair markets properly develop. Access to bottleneck
16 facilities and the unbundling of potentially competitive services allows greater
17 innovation in services, a more customer focused marketplace and an important
18 check on the ability of the dominant provider to leverage market power into
19 adjacent markets. This decision takes this important lesson and applies it to the
20 revenue cycle services of the electric industry."

21
22 Based on my active involvement in this proceeding and knowledge of the natural
23 gas market in California I believe the Commission recognized that without
24 revenue cycle service unbundling the competitive market in California would not
25 flourish.

26
27 In 1991 when the California Commission opened the natural gas market to
28 competitive choice they failed to unbundle services for residential and
29 commercial customers (so-called Core Customers). As a result, the core natural

1 gas aggregation program never achieved significant market penetration and over
2 the years participation of marketers has declined from a high of 12 to 3 or 4
3 remaining today. Once the margins on natural gas purchases from marketers
4 fell to +/-5%, the marketers' profit margins fell to unacceptably low levels.

5
6 ~~Although natural gas marketers and aggregators were allowed to furnish the~~
7 customer a consolidated bill, the customer received no credit for this cost from
8 the utility. Moreover, the utility maintained control of the meter and the natural
9 gas ESP had to delay his billing until he received the data from the utility.
10 Utilities refused to provide the data to the customer in computer readable form
11 and the ESP had to re-data enter the information to produce customers' bills. All
12 of these hurdles resulted in additional costs for providing the services with no
13 offsetting credits.

14
15 Q9 Does this conclude your testimony?

16
17 A9 Yes.

NANCY I. DAY

CAREER SUMMARY

Senior executive with extensive experience managing large line and staff organizations through profound business, regulatory and market changes. Managed regional utility operations and facilities with a focus on improving cost effectiveness and customer service. Led regulatory initiatives during a period of deregulation. Built coalitions and successfully developed consensus solutions to business and regulatory issues. Results-oriented, team-based leader with expertise in the following:

- | | | |
|-----------------------|----------------------|----------------------------|
| Regulatory Affairs | Governmental Affairs | Administrative Law |
| Facilities Management | Customer Service | Materials Management |
| Purchasing | Risk Management | Labor/Management Relations |

ACCOMPLISHMENTS

New Energy Ventures, Inc., Pasadena, CA 1995-Present

The nation's first Energy Agent, representing buyers in competitive electricity and natural gas markets.

Vice President -Customer Services (1995-Present)

Develop competitively bid portfolios of electricity and natural gas for NEV clients, direct the provision of an array of customer services including portfolio management, billing, management reports, regulatory analysis and advocacy.

Southern California Gas Company, Los Angeles, CA 1968-1995

The nation's largest natural gas distribution company serving almost 5 million customers. Annual revenues of \$3 billion.

Vice President, Regulatory Affairs (1990-1995)

Senior officer responsible for developing and executing regulatory strategies, directing regulatory proceedings and maintaining effective agency contacts and relationships. Managed the staff of 30 professionals responsible for obtaining required regulatory authorizations from the California Public Utilities Commission (CPUC), the California Energy Commission (CEC) and the Federal Energy Regulatory Commission. Testified before the California Legislature and presented oral arguments before the CPUC and the CEC.

- Led the regulatory initiatives that resulted in the landmark CPUC cost allocation decision to eliminate decades of cross-subsidies between customer classes.
- Directed the company's response to a CPUC-ordered management audit. This comprehensive audit examined every aspect of company operations over a 5-year period and resulted in no adverse findings.
- Implemented aggressive settlement strategies that successfully reduced litigation costs, regulatory delays and obtained the desired business results.
- Reduced the department's operating budget by 35% over 4 years.

Nancy I. Day

Page Two**Division Manager (1988-1990)**

Senior operations manager responsible for the provision of natural gas and related services to 570,000 customers in the South Coastal Division. Managed over 700 employees and \$60+ million budget related to the following: installation and maintenance of distribution pipelines and associated metering facilities, meter reading, telephone call center, bill reconciliation, collection, in-home appliance maintenance and repair, and public/government affairs.

- Refocused employee attention away from internal company processes to delivery of customer satisfaction. Customer complaints reduced by 38%.
- Dramatically improved labor/management relations and employee morale. Reduced grievances by 60% and improved employee safety by 22%.
- Instituted the first 12-hour telephone call center operation to improve customer service.
- Merged two divisions into one and consolidated the operation in a new headquarters.
- Revamped market research to obtain better information from our customers regarding customer satisfaction.

Manager of Material Services (1986-1988)

Managed the provision of centralized contracting (\$150 million), purchasing (\$120 million), warehousing, material distribution and inventory control services. Established functional policy for decentralized purchasing, contracting, and material management. Also managed the specialized fabrication and repair shops and the investment recovery operation.

- Lowered material delivery costs by 12%.
- Transformed a salvage sales operation into a profitable investment recovery operation and recycling program. Generated \$1.5 million additional revenue per year.
- Redesigned the material distribution system to eliminate 60 local storerooms.

Manager of Risk Management and Claims (1985-1986)

Managed the placement of insurance, covering all aspects of the company's operations and assets, and the negotiation, settlement and litigation of claims against the company for property damage and personal injury.

- Completed the first comprehensive review of company loss control programs and recommended the strategy for increasing employee and public safety while reducing costs by as much as 30%.
- Instituted an aggressive contact program to achieve timely and low cost resolution of claims against the company.

Manager of Headquarters Services (1983-1985)

Managed the operation and maintenance of over 1 million square feet of office space in 5 different locations. Responsibilities included the following building occupant services: communications, reprographics, janitorial, mail and messenger, automotive maintenance, craft shops, archives, cafeterias, and travel.

- Created an in-house travel agency to earn commissions on all travel services. Offset costs by \$100,000.
- Instituted a second shift in the reprographics operations to improve cost efficiency. Productivity increased by 26%.
- Instituted a cost planning and control system.

Nancy I. Day
Page Three

EDUCATION & PROFESSIONAL ACTIVITIES

Harvard University, Graduate School of Business Administration -
Advanced Management Program

University of Redlands - B.S. Business Administration

University of Southern California - Certificate of Management Effectiveness

Chairperson, Southern California Regional Purchasing Council

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NOV 6 1997

CERTIFICATE OF SERVICE

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

I hereby certify that on November 6, 1997, I caused a true and correct copy of the Direct Testimony of David Magnus Boonin and Nancy I. Day to be served by first class mail upon the parties listed below:

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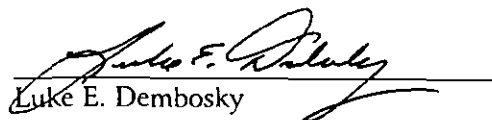
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Luke E. Dembosky

ORIGINAL

November 6, 1997



Secretary
Pennsylvania Public Utility Commission
Post Office 3265
Harrisburg, PA 17105-3265

KJR

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Beverly G. Woods

EXECUTIVE DIRECTOR

John A. Wilson

RE: Duquesne Light Company
Restructuring Plan Filing
Docket No. R-00974104

Dear Secretary:

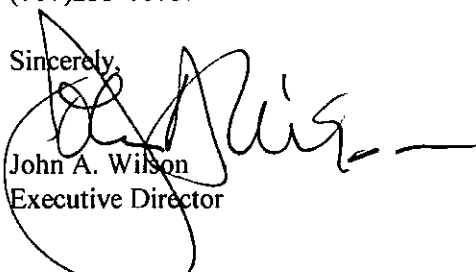
Enclosed please find an original and fifteen (15) copies of the pre-filed direct testimony, John Wilson, Statement No. 1 and Craig R. Kuennen, Statement No. 2 on behalf of the Community Action Association of Pennsylvania for filing in the above docketed matter.

We have requested a waiver of the requirements to be represented by an attorney in order to intervene in the restructuring cases and we are waiting a decision. The Community Action Association of Pennsylvania is a non-profit organization serving the low income. The majority of our financial support is from government contracts, and these funds are generally restricted to specific, well-defined services. In addition, retaining an attorney would be cost prohibitive. At this point, we have explored all available resources to secure representation, these include pro bono services, grants and legal services representation. In our judgement it is the expert testimony regarding low income issues and related demographics of need that are important to the record in these cases, not the legal representation.

Our mission as an organization, advocating on behalf of low income Pennsylvanians, compels us to be an active party in the Restructuring cases, however, our resources cannot accommodate the financial burden that legal representation would present.

Thank you for your consideration. If you have any questions, please contact me at (717)233-1075.

Sincerely,


John A. Wilson
Executive Director

DOCUMENT
FOLDER

cc: Chairman John Quain
Vice-Chairman Bloom
Commissioner Brownell
Commissioner John Hanger
Commissioner David Rolka
Otto Hoffman

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

222 Pine Street ♦ Harrisburg, PA 17101
(717) 233-1075 ♦ Fax: (717) 232-1014



dl

Exhibit ____ (JAW-1)

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PREFILED DIRECT TESTIMONY OF JOHN A. WILSON

ON BEHALF OF

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

DOCKET NO. R-00974104

(Duquesne Light Company)

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STATEMENT NO. 1

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NOV 10 1997

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EXHIBITS

Exhibit _____ (JAW-1):	DQE Response to Filing Requirement RP-P-5
Exhibit _____ (JAW-2):	DQE Response to Filing Requirement RP-P-7
Exhibit _____ (JAW-3):	DQE Response to Filing Requirement RP-P-2
Exhibit _____ (JAW-4):	DQE Response to Filing Requirement RP-P-1
Exhibit _____ (JAW-5):	DQE Response to Filing Requirement RP-P-3
Exhibit _____ (JAW-6):	DQE Response to Filing Requirement RP-P-9

1 I. INTRODUCTION

2 Q: Please state your name, title, and business address.

3 A: My name is John A. Wilson, Executive Director, Community Action Association of
4 Pennsylvania, 222 Pine Street, Harrisburg, PA 17101.

5
6 Q: On whose behalf are you testifying?

7 A: The Community Action Association of Pennsylvania (CAAP), a statewide association of
8 local Community Action Agencies in Pennsylvania.

9
10 Q: What is your relevant experience in this case before the Commission?

11 A: CAAP's membership covers each of the counties in DQE's service territory. CAAP has been
12 incorporated 20 years and, as an integral part of its mission, has advocated for the low-
13 income population of Pennsylvania. I have been the Executive Director of this agency for
14 4 years. Prior to this, I was Executive Director of the Community Action Program
15 Southwest for 14 years, serving Washington and Greene Counties. On a statewide level, I
16 serve on the Department of Public Welfare Homeless Advisory Council, LIHEAP Advisory
17 Council, and the Community Service Block Grant Task Force. I also serve on several other
18 local and National Boards in similar capacities.

19
20 Q: How have you organized your testimony addressing issues that affect low income households
21 in DQE's proposed restructuring filing?

1 A: In Section II, I provide a summary of my testimony. In Section III, I outline the low income
2 need vis a vis electric industry restructuring in general and DQE's service territory in
3 particular. In Section IV, I offer criticism and analysis of DQE's proposed Universal
4 Service and Energy Conservation Program. Finally, in Section V, I offer recommendations
5 for improving DQE's proposed Universal Service and Energy Conservation Program in light
6 of my criticisms and analysis
7

8 **II. SUMMARY**

9 Q: Please summarize your testimony?

10 A: My testimony will establish:

- 11 1) That the level of low income need for universal service and energy conservation
12 programs will be higher, at least during the transition years, than those historically
13 provided for under the regulated monopoly system;
- 14 2) That DQE's universal service and energy conservation program is inadequately
15 funded with respect to the level of low income need in its service territory; and
- 16 3) That the proposed recommendations offered at the end should be adopted.
17

18 **III. THE NEED**

19 Q: What are your concerns about electric industry restructuring vis a vis low income
20 households?

21 A: Low income customers are not likely to share in the benefits of a restructured industry. In
22 fact, they may be substantially harmed by it unless strong and meaningful programs and

1 policies are put into place to protect them. Low income customers are perhaps the most
2 captive of customers. As such, their ability to exercise choice in generation as the industry
3 restructures will be less than other residential customers.

4 Additionally, low income households have virtually no discretionary income for
5 investments in efficiency measures and carry higher risk with respect to arrearages, which
6 makes them even less attractive to potential aggregators. This leaves them especially
7 vulnerable as costs begin to shift from larger customers to smaller ones. In essence, the low
8 income, seniors, minorities, rural and other at risk customer groups may suffer from neglect
9 and redlining by providers because they pose more difficulties in being served.

10 Finally, we must remember that low-income households are generally less educated
11 and informed about energy use than typical customers. This situation reduces their ability
12 to take advantage of what benefits may fall their way. Since the pursuit of adequate food and
13 clothing, employment, and mere housing itself are of paramount importance to these people,
14 it is unlikely they will become informed or take advantage of a market-based decision
15 making.

16
17 Q: What are some relevant demographics about DQE's household population?

18 A: According to DQE Witness Hoffmann, DQE defines a low income household as ones that
19 is at or below 150% of the Federal poverty guidelines (Exhibit ____, JAW-1), and estimates
20 52,538 of its 552,574 households are in this category. (Exhibit ____, JAW-2). Further,
21 Witness Hoffmann states that 55,538 of its identified low income households are payment
22 troubled, and that 33,802 are "delinquent" payment troubled. (Exhibit ____, JAW-2). As

1 CAAP Witness Kuennen points out, an analysis of U.S. Census data for DQE's service
2 territory suggests that DQE has nearly 104,057 households at or below 150% Federal poverty
3 guidelines in its service territory (Kuennen. page ***).
4

5 Q: What are the special circumstances these low income households face?

6 A: Low income households pay the highest percentage of their income for energy costs
7 compared to other income groups and are the most vulnerable and at risk to change in a
8 competitive market. They live in society's worst case housing stock. are most at risk to
9 hypothermia and indoor air quality problems. Coupled with an array of other financial
10 burdens (cost of child care, lack of affordable housing, lack of living wage jobs, cutbacks
11 in federal assistance of most kinds, etc.) they are increasingly moving closer to homelessness.

12 Often, the affordability of a utility bill can mean the difference of eating, a medical
13 prescription, having a roof over their heads or living in a car, or worse. Federal energy
14 assistance and weatherization have been cut over 50% since peak funding in 1984 and over
15 40% in the past few years alone. When calculating the average take home pay of a low
16 income head of household and deducting basic living expenses such as housing (often 70%
17 of their income), childcare, and food, low income households are in financial crisis before
18 even looking at the cost of utilities, clothing, transportation, and other basic needs.
19

1 **IV. THE RESPONSE**

2 Q: Can you summarize the basic elements of DQE's Universal Service and Energy Conservation
3 plan as proposed in this filing?

4 A: Yes. The essential elements of DQE's Universal Service and Energy Conservation plan are
5 presented in DQE Statement No.6. DQE plans on maintaining funding at existing levels
6 (Exhibit ___, JAW-3). DQE Witness Hoffman's response to Filing Requirement RP-P-1
7 provides 1995 and 1996 funding, while Filing Requirement RP-P-3 provides proposed
8 funding levels (Exhibit ___, JAW-4, Exhibit ___, JAW-5). These elements include the
9 following programs, participation, and funding levels:

Universal Service and Energy Conservation Program		
Policy, Activity, and Service	1996 Participation	1996 Spending
Smart Comfort	700	\$700,000
Pilot Customer Assistance Program. (excluding write-offs)	1,600	\$500,000
CARES	4,500	\$130,000
Hardship Funds--Administration	N/A	\$65,000
Gatekeeper Programs	N/A	\$1,477
Low Income Collection Costs, Write-offs, and Late Payment Forgiveness	N/A	\$12,700,000
Consumer Credit Counseling	N/A	\$12,670
LIHEAP Promotion	N/A	\$67,890
Program Total		\$14,275,408

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26 **V. CRITIQUE AND ANALYSIS.**

27 Q: In your opinion, is DQE's Universal Service and Energy Conservation Program as outlined
28 in its restructuring plan filing "appropriately funded and available" as required by §2804(9)
29 of the Customer Choice Act, and defined in the Commission's Final Order?

1 A: No. Though DQE's proposed Universal Service and Energy Conservation Program includes
2 the recommend elements outlined in the Customer Choice Act and the Commission's Final
3 Order, it is deficient in terms of participation and funding levels for LIURP and CAP. As
4 such, it does not meet the requirements of the act.

5 In 1996, DQE spent \$788,460 on LIURP. (Exhibit ____, JAW-4). In its proposed
6 LIURP, DQE plans to spend an amount approximately equal to its 1996 budget of \$700,000.
7 (Exhibit ____, JAW-6). DQE does not provide an estimate of remaining LIURP need in terms
8 of total participation and funding needs, but suggests that these figures will be provided after
9 completion of its proposed universal service and energy conservation program study due on
10 November 1, 1997. (Exhibit ____, JAW-6). As CAAP Witness Kuennen has testified, these
11 figures could be as high as 98,729 participants with total funding needs of \$112,520,948
12 based on prior completions and assuming that 40% the estimated 150% of Federal poverty
13 guideline households in DQE's service territory are eligible for services.

14 With respect to CAP, though DQE "conservatively" estimates that as many as 7,000
15 of its low income households may be eligible (Exhibit ____, JAW-6), DQE plans keeping
16 CAP participation and funding at the 1996 levels of 1,600 participants, but does not provide
17 a clear estimate of annual program costs. Witness Hoffmann states that programs costs,
18 excluding write-off will be \$500,000. CAAP Witness Kuennen estimates total costs,
19 including write-offs at \$1,237,744 (=1,600*\$773.59).

20 Based on DQE's identified low income "delinquent" payment troubled customers,
21 these figures are far below what will be needed to ensure low income households affordable
22 rates in the coming years. As CAAP Witness Kuennen has testified, assuming a conservative

1 40% of DQE's 33,803 identified low income "delinquent" payment troubled customers apply
2 and are eligible. DQE should be proposing CAP participation of approximately 13,521
3 (=33,803*40%) households annually, and annually funding of around \$10,459,556
4 (=13,521*\$773.59).

5 Based on my experience working with low income households, CAAP Witness
6 Kuennen's LIURP and CAP figures appear to be more appropriate given the Commission's
7 Final Order requirement that universal service and energy conservation program funding and
8 participation be established according to a needs assessment while taking into consideration
9 other requirements of the Customer Choice Act.

10
11 Q: Are there any other areas of specific concern which you would like to address?

12 A: Yes. I would like to say a couple of things about consumer education and program provider
13 training. Effective consumer education will be vital to the success of restructuring, and it
14 will be particularly low income household participation. Low income consumers will need
15 programs designed to meet their specific need. DQE should fund these programs and
16 provide them through the same agencies that provide existing low income energy services.
17 Distribution through the network of independent low income assistance agencies is necessary
18 to ensure that low income, handicapped and elderly customers have the knowledge and tools
19 needed to objectively evaluate information presented and make informed choices, as well as
20 their rights.

21

1 VI. RECOMMENDATIONS

2 Q: Do you have any recommendations to make to the Commission regarding this proceeding?

3 A: Yes. They are as follows:

- 4
- 5 • **Universal Service and Energy Conservation Program Eligibility**—In general, all
6 DQE Universal Service and Energy Conservation programs should be available to
7 all of its electric customers with household incomes at or below 150% of the federal
8 poverty guidelines. Though the Public Utility Commission may deem it necessary
9 to include other non-income eligibility criteria in making eligibility determinations,
10 I would caution the Commission to keep non-income criteria to a minimum;

 - 11
 - 12 • **CAP Expenditure Levels**—minimally, CAP funding should be ramped up to \$10.5
13 million by 1999. This would place CAP funding at an amount approximately equal
14 to 0.88% of 1996 total gross operating revenues of \$1,182,879,406 and would ensure
15 that this program is “appropriately funded” as required by §2804 (9) of the Act;

 - 16
 - 17 • **LIURP Expenditure Levels**—minimally, LIURP funding should be ramped up to
18 \$4.5 million annually by 1999. This would place LIURP funding at an amount equal
19 to 0.38% of 1996 gross operating revenues of \$1,182,879,406 and would ensure that
20 this program is “appropriately funded” as required by §2804 (9) of the Act. Funding
21 should continue at this level through at least 2008. Additionally, DQE should be

1 required to spend its entire budget within the budget year. Any funds not spent
2 during any budget year should be added to the next years budget;

- 3 • **Electric Competition Consumer Information and Customer Assistance**--DQE
4 should be required to create a low income education program that would be delivered
5 through its existing network of low income assistance organizations within its service
6 territory. Initially, this program should be funded at \$150,000 per year for renewal
7 upon positive evaluation;

- 8
9 • **Training & technical assistance (T&TA)**--DQE should establish a \$50,000 annual
10 budget for T&TA to be used to provide up to date training and technical assistance
11 for its network of service providers; and

- 12
13 • **Research and Development (R&D)**--DQE should establish a \$100,000 annual
14 budget to fund a central research and development program to seek out new
15 techniques, evaluate national trends, etc., and to support semi-annual meetings of its
16 Universal Services and Conservation Providers to facilitate the exchange of ideas.

17
18 Q: Does this conclude your testimony?

19 A: Yes.

DUQUESNE LIGHT COMPANY

P. General Description of Utility Operations

5. Identify all criteria used by the company to categorize customers as low income customers. State the collection costs for the base year 1996 associated with handling low income customer accounts, including administrative expenses associated with termination activity (10-day termination notice, personal contact, 48-hour notice, actual termination of service, post termination and restoration costs, negotiating payment arrangement requests, budget counseling, handling formal and informal complaints, securing and maintaining deposits, tracking delinquent accounts, collection agency expenses, litigation expenses, dunning expenses and winter survey expenses.

Response:

The criteria used by the Company to categorize customers as low income customers is based on household income level and family size. Duquesne Light uses the same income guidelines which the Pennsylvania Department of Welfare uses to administer the Low Income Home Energy Assistance Program. Duquesne Light considers a customer's household low income when the household income is at or less than 150% of the poverty level.

Duquesne has approximately 80% of the collection operation working with active delinquent residential customers. The other 20% is attributable to commercial and final accounts. Of the active delinquent residential customers approximately 60% of the credit and collection activities are associated with low income customers. Based on this, it is estimated that Duquesne expends \$5 million handling low income customer accounts, including administrative expenses associated with termination activity. This is in addition to the waiving of late payment charges and write-offs.

DUQUESNE LIGHT COMPANY

P. General Description of Utility Operations

7. State how many residential service customers were served in 1996, the number of residential customers known to be low income customers, and total estimated low income customers below the company's definition of low income customers. State how many residential customers are payment troubled customers, how many payment troubled customers are low income customers and how does the company define "payment troubled"? How many low income customers are known to be payment troubled customers, and what is the estimate of the total number of low income, payment troubled customers?

Response:

- Duquesne Light served 522,574 residential customers in 1996.
- Duquesne Light believes that 52,538 customers are low income based on Duquesne Light's definition of low income.
- The number of potential low income customers in Duquesne Light's service territory is based on Allegheny and Beaver County information. Their information lists 141,113 households at or below 150% of the federal poverty level. Not all of these households are customers of Duquesne Light. Many are provided electricity through mastered meters.
- Duquesne Light had 114,724 payment troubled customers in December 1996 of which 73,878 were more than 30 days delinquent.
- Duquesne Light defines "payment troubled" as a customer who owes the Company an amount > \$25.00 and has not paid beyond 45 days past the due date of the bill. This definition is different than "residential account in arrears".
-
- Duquesne Light had 33,802 delinquent low income payment troubled customers in December 1996.
-
- In December of 1996, Duquesne Light had 52,538 low income customers who were identified as being payment troubled through the collection process. Not all of them were delinquent in December 1996.

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

2. Regarding the provisions of 66 Pa.C.S. §2804 (9) and (15), state how the company intends to continue its universal service and energy conservation activities, which programs it intends to continue, how it will fund such programs, whether it commits itself to fully expend such funds, whether it intends to establish new programs or enlarge, reduce or eliminate existing programs, how it will determine the effectiveness of programs, how it intends to determine funding levels for each program and for its overall universal service and energy conservation efforts.

Response:

Duquesne Light Company will continue its current universal service and energy conservation activities¹ including its pilot Customer Assistance Program, Smart Comfort (its low-income usage reduction program), CARES, funding for the Dollar Energy Fund, and Gatekeeper. We intend, however, to view these and other initiatives as an array of resources, not as separate programs, which will be made available to low-income payment-troubled customers to enable them to maintain electric service while maximizing revenue to the Company.

We will continue to fund these activities at current levels until such time as we conduct an analysis to identify the universe of need and determine which activities are cost-effective and of benefit to all stakeholders including all customers, participants, and shareholders. When programs demonstrate their effectiveness to meet the needs of all stakeholders, we will review our funding decisions.

We are committed to prudently and effectively expending those funds committed to these activities. When programs work we will continue them. When they don't, we will seek to modify or eliminate them. Alternately, we will develop initiatives to assist low-income payment-troubled customers to assume responsibility for and control over their usage while cost-effectively benefiting all stakeholders.

As we did in designing our Smart Comfort and pilot CAP initiatives, our approach will be to first determine our business objectives and the results we wish to achieve. We will then determine the methods we will use to measure success. Then we will design program initiatives to "succeed." This design will be followed by "pilots" then by full-scale implementation. We believe this approach served our stakeholders well when we improved

¹ These activities are in addition to low-income account write-offs and late payment charge waivers as well as applicable Chapter 56 protections.

our already award-winning Heart Comfort and made it a national model. We will do the same for any program expansions or new initiatives we undertake.

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

1. Provide a listing of each universal service and energy conservation policy, activity and service during the two years ending December 31, 1996. For each such policy, activity and service, state budgeted and actual funding during the two years by the company, along with any funding or contribution by any third party source.

Response:

Universal Service and Energy Conservation Policy, Activity, and Service				
Policy, Activity, and Service	1995 Budget	1995 Actual	1996 Budget	1996 Actual
Smart Comfort	\$700,000	\$711,275	\$700,000	\$788,460
Pilot Customer Assistance Program¹	\$550,000	\$260,311	\$550,000	\$354,987
Pilot Customer Assistance Program frozen arrearage and billing deficiency write-offs²	-----	\$0 ³	-----	\$223,390
CARES	\$60,000	\$57,361	\$60,000	\$59,538
Hardship Funds--Administration	\$65,000	\$65,000	\$65,000	\$65,000
Gatekeeper Programs⁴	\$0	\$1,469	\$0	\$1,477
Low Income Collection Costs, including labor⁵	\$0	\$5,000,000	\$0	\$5,000,000
Low Income Write-offs⁶	\$0	N/A	\$0	\$5,804,226

¹ Projected budget expenses include, but are not limited to program start-up, labor, equipment, programming and evaluation costs. Write-offs of both arrearage forgiveness and billing deficiencies are not included in these estimates.

² Write-offs are part of the overall Company write-offs.

³ No participants were in the pilot long enough to earn a write-off.

⁴ The Gatekeeper program is not budgeted as a separate program.

⁵ The amount expended for low income collections is part of the overall collection budget. Duquesne Light does not divide the budget into low income vs. non low income. Based on this, the listed budgeted amount is estimated in a similar manner as the Equitable Gas top down approach which is recommended in the Final Order of the Universal Service and Energy Conservation Programs. The \$5,000,000 includes allocated expenses such as mainframe computer operation time, building rents, utilities, etc. These amounts may not be available to fund other programs. All Duquesne Light labor costs associated with supporting all of the listed low income programs, except Smart Comfort and CAP, are included in this number.

⁶ Actual write offs for 1995 are not identified as low income and non low income. Duquesne Light is unable to supply this data. Budgeted write offs are based on actual write offs in prior years. Write offs associated with low income customers is not a criteria for budgeting future expected write offs. Based on this, Duquesne Light is unable to provide this data.

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

3. Describe the company's existing consumer protection policies and services, including, but not limited to customer assistance plans, CARES, hardship funds, LIURP programs, Gatekeeper programs and other energy assistance programs. For each program, state the funding and participant level. For LIHEAP funding, include annual figures for the past 5 years. Identify the current organizational structure which provides these services, including in-house and outside individuals, department, and organizations with current staffing and funding levels.

Response:**Pilot Customer Assistance Program**

Duquesne Light is in the second year of the three year pilot Customer Assistance Program (CAP). The program targets customers who: have been a resident at their current address for one year; have incomes less than 150% of the poverty level; have housing expenses more than 45% of their gross income; and have a \$500 arrearage on their electric bill. Under this pilot program, the customer's arrearage at the time of enrollment will be written off over three years if the customer makes full and timely monthly payments. The program also helps the customer to lower electric consumption so that at the end of the program, the customer can afford to pay his electric bill.

Funding--\$500,000/year (excluding write-offs) Participant level--1,600

Organizational Structure--DLCo: Director, Customer Programs, CAP Coordinator (FTE);
Five Community Based Organizations with 6 Full-Time Equivalent (FTE).

CARES

The purpose of Duquesne Light's HELP Program (C.A.R.E.S.) is to assist payment troubled customers, and customers with special needs obtain necessary social services support and assistance. The program targets customers whose income is less than 150% of the poverty level and senior citizens, although no needy customer will be turned away. The goal is to have an outreach worker or community agency act as an intermediary between the customer and the Company in an effort to link the customer to the necessary social service programs that will enhance the customer's ability to pay for their electric service. An outreach worker contacts referred customers and, if necessary, makes a home visit to the customer. Referrals are made by Duquesne Light, other utilities, community bases agencies, the PUC, and word of mouth.

Funding--\$130,000/year

Participants--approximately 4500

Organizational Structure--DLCo: Director of Credit, Supervisor of Customer Assistance, and 5 Customer Services Representatives; 5 Community Based Organizations

Hardship Fund

Duquesne Light's hardship fund is a partnership with the Dollar Energy Fund.

Funding--The company's stockholders match customer contributions up to \$325,000 annually. In addition, the Company contributed 10% of the total contributions, or \$65,000, in 1996 to provide administrative support.

Participants--approximately 2500/year

Organizational Structure--DLCo: Director of Credit, Supervisor of Customer Assistance; Dollar Energy Fund Staff and their community based organizations

Smart Comfort

Smart Comfort is Duquesne Light's LIURP program. It targets customers whose incomes are less than 150% of the poverty level and whose electrical usage is 125% over the average customer usage. This program evolved from strictly weatherization to an "end use" strategy. As such, reduction measures include cost effective appliance and lighting replacements.

Funding--\$700,000 annually, rate-based

Participants--approximately 700/year

Organizational Structure--DLCo: Director, Customer Programs, Weatherization Coordinator (FTE); Three Community Based Organizations with 5 FTE

Gatekeeper

Duquesne Light Company field personnel look for situations (e.g. mail piling up, exterior of house not maintained) in our service territory where elderly people may need social service support. The field personnel advise a supervisor of the situation and the supervisor contacts the appropriate social service agency to visit the customer to determine if and/or what kind of assistance the customer requires.

Funding: Part of CARES

Participants are dependent on the number of situations found.

Organizational Structure--DLCo: Director of Credit, Supervisor of Customer Assistance, Field Staff

LIHEAP Funding

These numbers reflect the federally funded grants received by DLC low income customers. They also demonstrate the steady decline of these federal funds.

	1996-1997	1995-1996	1994-1995	1993-1994	1992-1993
Amount	\$2,425,000	\$2,429,045	\$3,006,715	\$3,035,409	\$4,236,263

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

9. What would CAP enrollment be if the program was large enough to accommodate all low income negative ability to pay customers? State number of customers still in need of LIURP services. State how much it would cost to serve all customers which need LIURP services.

Response:

Using existing eligibility criteria¹, we conservatively estimate that at least 7,000 customers could be eligible for an expanded Customer Assistance Program. A change in the eligibility criteria would obviously impact this number.

Based on 1996 estimated census data, it appears that as many as 141,000 households are at or below 150% of the federal poverty guideline. Not all these households, however, are eligible for either our CAP or Smart Comfort programs.

We will determine the remaining need for Smart Comfort as part of our "needs assessment" to be conducted pursuant to the requirements contained in the final guidelines for universal service and energy conservation programs. Until such time as we conclude this analysis, we have no basis for estimating either the number of customers needing Smart Comfort or the projected cost associated with such a program.

¹ Household income at or below 150% of the federal poverty guideline; arrearage greater than \$500; a Duquesne Light customer for at least 12 months; housing expenses greater than 45% of gross household income.

Exhibit No. To ____ (CRK-1)

DOCUMENT
FOLDER

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PREFILED DIRECT TESTIMONY OF CRAIG R. KUENNEN, PH.D (ABD)

DOCKETED

NOV 10 1997

ON BEHALF OF

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

DOCKET NO. R-00974104

(Duquesne Light Company)

STATEMENT NO. 2

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VII.	STAYING WITHING THE RATE CAP	15
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EXHIBITS

Exhibit _____	(CRK-2):	Curriculum Vitae of Craig R. Kuennen. Ph.D (abd)
Exhibit _____	(CRK-3):	Final Order on Universal Service and Energy Conservation Programs
Exhibit _____	(CRK-4):	DQE response to Filing Requirement No. RP-P-2
Exhibit _____	(CRK-5):	DQE response to Filing Requirement No. RP-P-9
Exhibit _____	(CRK-6):	DQE 150% of Poverty Household Estimate
Exhibit _____	(CRK-7):	DQE response to Filing Requirement No. RP-P-5
Exhibit _____	(CRK-8):	DQE response to Filing Requirement No. RP-P-7
Exhibit _____	(CRK-9):	DQE response to Filing Requirement No. RP-P-3
Exhibit _____	(CRK-10):	DQE LIURP Completions and Funding, 1988-1996
Exhibit _____	(CRK-11):	Tentative Order on University Service and Energy Conservation
Exhibit _____	(CRK-12):	Met-Ed/Penelec Household CAP Cost
Exhibit _____	(CRK-13):	DQE response to Filing Requirement No. RP-P-10
Exhibit _____	(CRK-14):	DQE response to Filing Requirement No. RP-P-1
Exhibit _____	(CRK-15):	DQE response to Filing Requirement No. RP-P-8
Exhibit _____	(CRK-16):	Met-Ed response to Filing Requirement No. P.9

1 **I. INTRODUCTION**

2 Q: Please state your name, title, and business address.

3 A: My name is Craig R. Kuennen. I am Project Manager of Pennsylvania's U.S. Department
4 of Energy funded Leveraging Project located at 165 Amber Way, Wilkes-Barre, PA 18702.

5
6 Q: On whose behalf are you testifying?

7 A: The Community Action Association of Pennsylvania, and the low income customers in West
8 Penn's service territory.

9
10 Q: What is your relevant experience to this case before the Commission?

11 A: My involvement in low income energy issues began shortly after joining the Center for
12 Energy and Environmental Policy (CEEP) at the University of Delaware as a Ph.D. student
13 in 1992. For my work on low income energy issues at CEEP, I was awarded the College
14 of Urban Affairs and Public Policy Milton and Mary Edelstein Prize for Public and
15 Community Service. Since completing my course requirements and advancing to candidacy
16 in 1994, I have been working as Project Manager of Pennsylvania's statewide U.S.
17 Department of Energy funded Leveraging Project. As Leveraging Project Manager, it has
18 been my duty to support local advocacy efforts on behalf of low income energy consumers
19 throughout the Commonwealth. In this role, I have been actively involved in Pennsylvania's
20 electric industry restructuring debate since its beginnings. I have provided expert testimony
21 in the restructuring filings of Pennsylvania Power & Light Company, Pennsylvania Electric
22 Company, and Metropolitan Electric Company. In addition to my Ph.D. (abd) in Urban

1 Affairs and Public Policy, with an emphasis in Technology and Society. I am a 1987 summa
2 cum laude B.B.A. (Business Administration) graduate, and 1988 MBA (Financial
3 Management) graduate from National University, and earned an M.A. (Philosophy) from San
4 Diego State University in 1992.

5
6 Q: How have you organized your testimony addressing issues that affect low income households
7 in DQE's proposed restructuring filing?

8 A: In Section II, I summarized my testimony. In Section III, I highlight the basic requirements
9 of Pennsylvania's Electric Restructuring and Customer Choice Act ("Customer Choice
10 Act") and the Pennsylvania Public Utility Commission's Final Order on Universal Service
11 and Energy Conservation ("Final Order") with respect to electric distribution utility
12 restructuring filings. In Section IV, I analyze Duquesne Electric Company's (DQE's)
13 Universal Service and Energy Conservation Low Income Usage Reduction Program
14 ("LIURP") plan with respect to the low income need using DQE data and service territory
15 specific U.S. Census data.

16 Similarly, in Section V, I analyze DQE's Universal Service and Energy Conservation
17 Customer Assistance Program ("CAP") plan with respect to the low income need using DQE
18 data and service territory specific U.S. Census data. In Section VI, I draw conclusions from
19 my analysis of DQE's LIURP and CAP plans and show that, as proposed, DQE's Universal
20 Service and Energy Conservation Program does not meet the public purpose requirements
21 established in Pennsylvania's Customer Choice Act as interpreted in the Commission's Final

1 Order. In Section VII, I speak to issue of the rate cap when proposing increases to universal
2 service program penetration and funding levels.

3 Finally, in Section VIII, I make recommendations regarding DQE's LIURP and CAP,
4 the adoption of which will bring DQE's Restructuring Plan into compliance with the
5 Customer Choice Act.

6
7 **II. SUMMARY**

8 Q: What is the purpose of your testimony?

9 A: As a witness testifying on behalf of Community Action Association of Pennsylvania, I would
10 like to express our appreciation to the Duquesne Electric Company ("DQE") and the
11 Pennsylvania Public Utility Commission ("Commission") for the fine work they have done
12 on behalf of the low income community with regard to meeting low energy needs. Low
13 income energy programs are vitally important to the many needy families and individuals
14 throughout DQE's service territory. We view DQE and the Commission as colleagues in
15 the delivery of these vital energy services. That said, my testimony will establish that:

- 16
17 1) DQE's LIURP plan neither meets the Customer Choice Act's requirement that
18 universal service and energy conservation programs be "appropriately funded and
19 available," nor the Final Order's requirement that funding and participation levels for
20 universal service and energy conservation programs be determined through a needs
21 assessment. As such, DQE's Restructuring Plan does not meet the standard
22 necessary for Commission approval; and

1 2) Similarly, DQE's CAP plan neither meets the Customer Choice Act's requirement
2 that universal service and energy conservation programs be "appropriately funded
3 and available." nor the Final Order's requirement that funding and participation
4 levels for universal service and energy conservation programs be determined through
5 a needs assessment. As such, DQE's Restructuring Plan does not meet the standard
6 necessary for Commission approval.

7
8 **III. UNIVERSAL SERVICE AND ENERGY CONSERVATION REQUIREMENTS OF**
9 **THE CUSTOMER CHOICE ACT AND FINAL ORDER.**

10
11 Q: Does the Customer Choice Act lay out certain public policy responsibilities that must be met
12 as Pennsylvania restructures its electric industry?

13 A: Yes. It is clear that the *raison d'etre* of the Customer Choice Act is not to promote *laissez*
14 *faire* competition in the area of generation. Rather, Section 2802 defines no less than three
15 public policy requirements directly relevant to ensuring that the special needs of low income
16 ratepayers are adequately addressed as Pennsylvania restructures its electric industry. These
17 requirements are:

- 18 • Electric service is essential to the health and well-being of residents, to public safety
19 and to orderly economic development, and *electric service should be available to all*
20 *customers on reasonable terms and conditions* (emphasis added, § 2802(9));
21
22 • The Commonwealth *must, at a minimum, continue the protections, policies and*
23 *services that now assist customers who are low-income to afford electric service*
24 (iemphasis added, § 2802(10); and
25
26 • There are certain public purpose costs, including programs for low-income
27 assistance, energy conservation and others, which have been implemented and
28 supported by public utilities' bundled rates. *The public purpose is to be promoted*
29 *by the continuing universal service and energy conservation policies, protections and*

1 *services*, and full recovery of such costs is to be permitted through a nonbypassable
2 rate mechanism (emphasis added, § 2802(17)).
3

4 Q: In support of these public policy requirements, does the Customer Choice Act specify
5 specific programs that must be developed and implemented?
6

7 A: Yes. The Customer Choice Act defines the programs under the general heading of Universal
8 Service and Energy Conservation. Specifically, the Customer Choice Act states that:

- 9 • Universal service and energy conservation is defined as policies, protections and
10 services that help low-income customers to maintain electric service. *The term*
11 *includes customer assistance programs: termination of service protection and*
12 *policies and services that help low-income customers to reduce or manage energy*
13 *consumption in a cost-effective manner, such as the low income usage reduction*
14 *programs, and applicable renewable resources and consumer education* (emphasis
15 added, § 2803).
16

17 Q: Does the Customer Choice Act specify low income participation levels with respect to
18 Universal Service and Energy Conservation?

19 A: No. The Customer Choice Act leaves such determinations up to the Commission.
20 Specifically, the Customer Choice Act states that:

- 21 • *The Commission shall ensure that universal service and energy conservation*
22 *policies, activities and services are appropriately funded and available in each*
23 *electric distribution territory.* These policies, activities and services shall be funded
24 in each electric distribution territory by non-bypassable competitively neutral cost
25 recovery mechanisms that fully recover the costs of universal service and energy
26 conservation services. (emphasis added, § 2804 (9));
27

28 Q: Has the Commission established guidelines for ensuring that an electric distribution
29 company's proposed universal service and energy conservation programs are *appropriately*
30 *funded and available* in restructuring proceedings?

1 A: Yes. On July 10, 1997, the Commission issued its Final Order regarding universal service
2 and energy conservation programs (Exhibit ____, CRK-3). Specifically, the Final Order
3 states that "appropriately funded and available" will be defined through:

- 4 1. Identification of existing and proposed efforts;
- 5
- 6 2. Needs assessment of the market for acceptance of universal service
7 programming in the territory;
- 8
- 9 3. Identification of the greater of the current level of spending or the amounts
10 included in existing rates to support existing efforts; and
- 11
- 12 4. Other statutory mandates and these guidelines.
- 13

14 Further, in its discussion of expenditures in the Final Order, the Commission states that:

- 15 • Within the rate caps, universal service program funding must be appropriate
16 to ensure the availability of meaningful and strong programs in each service
17 territory;
- 18
- 19 • Funding for universal service and energy conservation programs should not
20 be determined after all other funding requirements are met;
- 21
- 22 • The present programming and level of expenditures must be fully examined
23 in the restructuring filings in order to evaluate the effective use and amount
24 of EDC resources available for their programs;
- 25
- 26 • To meet our challenge under the statute it is necessary that the needs of the
27 EDC's territory be assessed;
- 28
- 29 • The needs assessment should examine the market for acceptance of universal
30 service programming in the territory;
- 31
- 32 • The LIURP program is a cost-effective program for affordable energy, and,
33 though we have declined to set a fixed expenditure goal at this time . . . it is
34 valuable to explore in the context of each company's restructuring proceeding
35 the manner in which funding levels will be used to meet the needs of the
36 EDC's territory;
- 37

- 1 • Nothing in these guidelines prevents an EDC from voluntarily proposing a
2 funding commitment which enhances the universal service offerings in their
3 territory; and
- 4
- 5 • Nothing in these guidelines mandate an increase in total expenditures directed
6 to meet universal service and energy conservation goals. . . . To the contrary,
7 these guidelines emphasize improving the cost effectiveness of existing
8 efforts by shifting expenditures from less productive efforts to more effective
9 programs.
- 10

11 Q: How does DQE's restructuring plan respond to the Customer Choice Act and the
12 Commission's Final Order with respect to universal service and energy conservation
13 requirements?

14 A: DQE proposes to continue existing low income programs at existing funding levels "until
15 such time as [they] conduct an analysis to identify the universe of need and determine which
16 activities are cost effective and of benefit to all stakeholders including all customers,
17 participants, and shareholders." (Exhibit _____, CRK-4).

18
19 **IV. ANALYSIS OF DQE'S LIURP NEEDS AND PROPOSED PLAN**

20
21 Q: Has DQE established its LIURP plan participation and spending levels using a needs
22 assessment as required by the Commission Final Order?

23 A: No. DQE is still evaluating the Commission's Final Order and states that it plans on
24 developing a comprehensive Universal Service and Energy Conservation Plan that takes into
25 consideration, among other things, a needs assessment. The plan is scheduled to be
26 completed by November 1, 1997 (Hoffmann, page 8-9), but Witness Hoffmann gives no
27 details as to sources of data or methodologies to be used in developing its needs assessment
28 and plan. As such, it should be noted that the Commission's Final Order suggests that a

1 needs assessment would require an analysis of DQE's service territory population using
2 objective eligibility and market penetration criteria and U.S. Census data.

3
4 Q: Does DQE provide any indication of the level of remaining need for LIURP services in its
5 Restructuring Plan?

6 A: No. In response to Filing Requirement No. P.9., Witness Hoffmann states that, until they
7 complete their needs assessment, DQE "has no basis for estimating the number of customers
8 needing [LIURP] or the projected cost associated with such a program" (Exhibit ____, CRK-
9 5).

10
11 Q: Have you conducted an analysis of DQE's service territory with respect to 150% of Federal
12 poverty guideline households?

13 A: Yes. My analysis of 1990 U.S. Census Data for Cities, Boroughs, and Townships in DQE's
14 service territory shows that as many as 104,057 150% of Federal poverty guidelines
15 households are DQE customer households (Exhibit ____, CRK-6). The 150% of Federal
16 poverty guideline income eligibility standard is the one used by the Commission in its Final
17 Order to identify low income households, and is the same as DQE's definition of low
18 income (Exhibit ____, CRK-7). To put this figure in context, in response to Filing
19 Requirement No.P.7, Witness Hoffmann states that as many as 141,000 150% of Federal
20 poverty guideline households reside in Allegheny and Beaver counties but that not all of
21 these households are DQE customers. (Exhibit ____, CRK-8). He further points out that
22 Duquesne believes that 52,538 customers are low income based on Duquesne Light's

1 definition of low income." and that 52,538 of these low income customers were payment
2 troubled in 1996, and that 33,802 of them were "delinquent payment troubled" in 1996
3 (Exhibit ____, CRK-8).

4
5 Q: What does DQE propose in terms of LIURP participation and spending levels in its
6 restructuring plan?

7 A: The only concrete figures in this filing regarding LIURP participation and funding are DQE's
8 commitment to continue LIURP participation and funding at 1996 levels which were 700
9 hundred participants at a cost of \$700,000 (Exhibit ____, CRK-9).

10
11 Q: How does DQE's 1996 LIURP participation and spending levels compare to estimated
12 participation and funding level using DQE's estimated 52,538 low income payment troubled
13 households as the indicator of need?

14 A: Since the start of LIURP in 1988, DQE has provided LIURP services to approximately 5,328
15 low income households at an nine-year average job cost of \$1,140 (____, CRK-10).
16 Coupling these figures with DQE's estimated 52,538 low income, payment troubled
17 households, DQE has close to 47,210 (=52,538-5,328) low income customers in still in need
18 of LIURP services. Given DQE's nine-year average job cost of \$1,140, DQE should be
19 projecting total LIURP costs to complete remaining homes at just over \$53,805,001
20 (=47,210*\$1,140). Assuming a ten-year window for completion, this equates to annual
21 completions of 4,721 (=44,210/10) and annual spending of \$5,380,500 million
22 (=\$53,805,001/10).

1 Applying the same methodology to DQE's 33,802 identified delinquent payment
2 troubled households, and at a minimum, DQE has close to 28,474 ($=33,802-5,328$) low
3 income customers still in need of LIURP services. Given DQE's nine-year average job cost
4 of \$1,140, this equates to projected LIURP costs to complete remaining homes at
5 \$32,451,676 ($=28,474*\$1,140$). Assuming a ten-year window for completion, this equates
6 to annual completions of 2,847 ($=28,474/10$) and annual spending of \$3,245,168 million
7 ($=\$32,451,676/10$).

8
9 Q: How does DQE's proposed LIURP participation and spending levels compare to the
10 estimated need using 1990 U.S. Census data?

11 A: Using the standard LIURP definition of low income of households at or below 150% of
12 Federal poverty guidelines as required by the Commission Final Order, 1990 U.S. Census
13 data for DQE cities, boroughs, and townships suggests an estimated 104,057 of DQE's
14 522,574 residential household's are income eligible for LIURP. Considering the 5,328 low
15 income households previously served, this further suggests that 98,729 ($=104,057-5,328$) low
16 income DQE households are still in need of LIURP services. Given DQE's nine-year
17 average cost of \$1,140, total LIURP completion costs are estimated at \$112,520,948
18 ($=98,729*\$1,140$). Assuming a ten-year window for completing all jobs, this equates to
19 annual completions of 9,873 ($=98,729/10$) households at an annual cost of \$11,252,095
20 ($=\$112,520,948/10$).

21 That said, given that DQE has established non-income eligibility criteria for LIURP
22 and the fact that a certain number of low income household will not apply even if eligible,

1 it is unreasonable to assume that 100% of DQE's income eligible households would receive
2 LIURP even if income eligible.

3
4 Q: Given what you just said about penetration levels, what assumptions can be made to more
5 accurately define the level of need and funding for LIURP in DQE's service territory?

6 A: In its Tentative Order on Universal Service and Energy Conservation, the Commission
7 suggested a methodology for estimating participation levels. The Commission pointed out
8 that penetration levels for similar programs in California was nearly 56%, but, given that
9 Pennsylvania utilities have non-income eligibility requirements to consider as well, it would
10 be reasonable to assume a 40% penetration rate of the total 150% of Federal poverty
11 guideline households with a given utility service territory (Exhibit ____. CRK-11).

12 Using the Tentative Order methodology, DQE has an estimated 39,492 $(=(104,057-$
13 $5,328)*40\%)$ low income households still in need of LIURP services. At an estimated per
14 household cost of \$1,140, this equates to total budget needs of \$45,008,452 $(=(104,057-$
15 $5,328)*40%*\$1,140)$. Assuming a ten-year window for completion, this equates to annual
16 completions of 3,949 $(=39,492/10)$ homes and annual spending of \$4,500,845
17 $(\$45,008,452/10)$.

18
19 **V. ANALYSIS OF DQE'S CAP NEEDS AND PROPOSED PLAN**

20 Q: Has DQE established its CAP participation and spending levels using a needs assessment as
21 required by the Commission Final Order?

1 A: No. As with LIURP. DQE plans on continuing CAP participation and spending levels at
2 1996 levels. while leaving open the question of increase once its needs assessment is
3 completed.

4
5 Q: What does DQE propose in terms of CAP participation and spending levels in its
6 restructuring plan?

7 A: In 1996. DQE provided CAP services to 1,600 households. DQE does not provide a total
8 cost estimate for its 1996 program. Rather, DQE states that the program will cost an
9 estimated \$500,000 excluding write-offs. Assuming total program costs including write-offs
10 comparable to the average proposed in the restructuring plans of two similarly sized
11 Pennsylvania utilities--Met-Ed estimated CAP costs at \$740.50/per household, and Penelec's
12 estimated CAP costs at \$806.67/per household--then DQE's total proposed spending level
13 can be estimated at \$1,237,744 ($=\$773.59 \times 1,600$), including write-offs, etc. (Exhibit ____,
14 CRK-12).

15
16 Q: Using DQE's identified low income payment troubled customer, and identified low income
17 delinquent payment troubled figures, how does its CAP participation and spending levels
18 compare to the level of need?

19 A: As shown above, DQE estimates that it has 52,538 low income payment troubled customers,
20 and 33,802 low income delinquent payment troubled customers. The Commission's Final
21 Order eligibility criteria which states:

22 A CAP applicant must meet the following eligibility criteria:

- 1
- 2 i. Status as a ratepayer or new applicant is verified.
- 3 2. Household income is verified at or below 150% of the Federal poverty
- 4 guidelines.
- 5 3. The CAP applicant is payment troubled. Payment troubled is defined as a
- 6 household who has failed to maintain one or more payment arrangements.
- 7

8 Given my estimate of DQE's projected CAP total cost of \$773.59/per household and
9 assuming all of DQE's 52,538 CAP eligible households apply. DQE would be looking at an
10 annual CAP budget of around \$40,642,871 ($=52,538 * \773.59). Assuming enrollment is
11 limited to DQE's 33,802 low income delinquent payment troubled households. DQE would
12 be looking at an annual CAP budget of around \$26,148,889 ($=33,802 * 773.59$).

13
14 Q: Using the Commission's Tentative Order methodology, what would DQE be looking at in
15 terms of annual participation and spending levels?

16 A: In its Tentative Order on Universal Service and Energy Conservation, the Commission
17 pointed out that penetration levels for CAP type programs in California were nearly 58%,
18 but, as mentioned in the LIURP analysis above, the Commission underscored that fact that
19 California's program eligibility is determined by income alone, and suggested that market
20 penetration estimates should equal 40% of the income eligible households within any given
21 EDU service territory (Exhibit ____, CRK-11).

22 Based on this methodology, and using DQE's estimated 104,057 150% of Federal
23 Poverty households within DQE's service territory derived from the 1990 U.S. Census. DQE
24 is looking at a CAP designed to serve 41,623 households annually at an annual cost of
25 \$32,198,982 ($=104,057 * 40% * \773.59).

1 When the Tentative Order methodology is used with DQE's identified low income
2 payment troubled population of 52,538, then DQE should be proposing a CAP designed to
3 service 21,015 ($=52,538 \times 40\%$) annually at an annual cost of \$16,257,149
4 ($=21,015 \times \$773.59$).

5 Finally, when the Tentative Order methodology is used with DQE's identified low
6 income delinquent payment troubled population of 33,802, then DQE should be proposing
7 a CAP designed to service 13,521 ($=33,802 \times 40\%$) annually at an annual cost of \$10,459,556
8 ($=13,521 \times \$773.59$).

9
10 **VI. CONCLUSIONS REGARDING DQE'S PROPOSED LIURP AND CAP PROGRAMS**
11 **WITH RESPECT TO NEED**

12 Q: In light of your analysis, does DQE's proposed universal service and energy conservation
13 meet the Customer Choice Act's requirements regarding utility public purpose
14 responsibilities and the Commission's requirements as presented in its Final Order?

15 A: No. DQE proposes continuing participation and funding at 1996 levels. Further, by its own
16 admission, these levels have not been set according to any needs assessment.

17 As shown above, based on the number of 150% of Federal poverty guideline
18 households in DQE's service territory and the Tentative Order methodology, DQE has an
19 estimated 98,789 low income households in need of LIURP services. Given DQE's annual
20 participation and funding projections, and assuming a ten-year window for completion, this
21 equates to annual completion and funding deficits of 3,335 and \$3,800,845. These deficits
22 would have to be eliminated to bring DQE's Restructuring Plan and its Universal Service and

1 Energy Conservation program into compliance with the Customer Choice Act and the
2 Commission's Final Order.

3 With respect to CAP, assuming, along the line of the Commission's Tentative order
4 methodology, that a conservative 40% of DQE's identified delinquent payment troubled
5 customers are eligible and apply, DQE's proposed CAP underestimates annual households
6 in need by 11,921 ($=33,802 * 40\% - 1,600$) and annual funding requirements by \$9,221,812
7 ($=11,921 * \$773.59$). Using this methodology as originally proposed in the Commission's
8 Tentative Order, these deficit estimates are significantly larger. Based on an estimated
9 104,057 150% of Federal poverty guideline households and a 40% penetration factor, DQE's
10 proposed CAP underestimates households in need by 40,023 ($=104,057 * 40\% - 1,600$) and
11 annual funding by \$30,961,238 ($=40,063 * \773.59).

12 Given the immediate need to balance low income public purpose requirements with
13 other requirements of the Customer Choice Act, closing the gap between DQE's proposed
14 CAP plan and the lower figures based on DQE's identified payment troubled low income
15 households is the more prudent option for bringing DQE's Restructuring Plan and Universal
16 Service and Energy Conservation Program into Compliance with Customer Choice Act and
17 the Commission's Final Order. As long as the rate cap remains in effect, annual CAP
18 funding should be set at \$10,459,556 with a participation goal set at 13,521. As rate cap
19 limitations are reduced, these funding and participation levels could be revised accordingly.

20
21 **VII. STAYING WITHIN THE RATE CAP**

22 Q: Given what you just said about the rate cap, how can DQE expand its LIURP and CAP

1 programs into compliance with the Customer Choice Act and the Commission's Final Order?

2 A: First, I would point out that the Commission has made itself clear that universal service and
3 energy conservation programs "must be appropriate to ensure the availability of meaningful
4 and strong programs in each service territory," and "funding . . . should not be determined
5 after all other funding requirements are met." Further, funding must be established through
6 a needs assessment. It is not enough to point to the rate cap and say that despite the need,
7 funding cannot be increased. Finally, the funding necessary to bring these programs in line with
8 need is small when compared to other costs being considered in this filing.

9 Second, increases in LIURP and CAP penetration and funding can be provided for
10 by shifting costs from accounts already providing for in the rates. DQE has not committed
11 to the transfer of funds from write-offs, etc., as a means for funding increases in CAP and
12 LIURP (Exhibit _____, CRK-13), but this type of remedy is encouraged by the Commission
13 and supported by DQE. DQE states that it spent \$5,000,000 on low income customer
14 collections, \$1,888,618 on late payment forgiveness, and wrote-off \$5,804,858 dollars in bad
15 debts attributable to low income accounts in 1996 (Exhibit _____, CRK-14). Further, of
16 DQE's 73,878 residential accounts in arrears more than 30 days, 33,802 were identified as
17 low income customers with past due balances of \$27,107,000. (Exhibit _____, CRK-15).
18 These figures represent \$39,799,844 in low income accounts, a portion of which can be used
19 to expand LIURP and CAP funding as proposed herein.

20 I should point out, though, that it would make no sense to allow DQE to shift LIURP
21 dollars to partially fund increases in CAP as Metropolitan Edison Company proposes to do
22 in its restructuring filing (Exhibit _____, CRK-16). As the Commission's Final Order points

1 out. “[t]he LIURP program is a cost-effective program for affordable energy.” Its purpose
2 is provide long term solutions to low income energy problems. Each dollar spent on LIURP
3 reduces the need for CAP over the long term. Therefore, it does not make sense to
4 cannibalize LIURP to provide for CAP. Increased funding and participation for both
5 programs is needed.

6 Third, I would remind the Commission that, as a matter of public policy, the
7 Customer Choice Act states that “electric service is essential to the health and well-being of
8 residents, to public safety and to orderly economic development; and *electric service should*
9 *be available to all customers on reasonable terms and conditions* (emphasis added, §2802
10 (9)),” and that LIURP and CAP are the Customer Choice Act’s and the Commission’s chosen
11 means for accomplishing these purposes.

12 13 **VIII. RECOMMENDATIONS**

14 Q: Do you have any recommendations to make to the Commission regarding this proceeding?

15 A: Yes. As shown, DQE’s plan as proposed does not meet the basic requirements of the
16 Customer Choice Act and the Commission’s Final Order. To correct this situation and bring
17 DQE’s Restructuring Plan into compliance, the following recommendations are provided:

- 18
19 • **LIURP Expenditure Levels**—minimally, LIURP funding should be ramped up to
20 \$4,500,845 annually by 1999, and continue at this level through at least 2008. This
21 would place LIURP funding at an amount equal to 0.38% of 1996 gross operating
22 revenues of \$1,182,879,406 and would ensure that the program is “appropriately

1 funded” as required by §2804 (9) of the Customer Choice Act and the Commission’s
2 Final Order. The Commission must make provisions to ensure that funds budgeted
3 during the year are spent during that year. Funds not expended should be added to,
4 not take the place of, planned program funding for the following year.

- 5
6 • **LIURP Program Penetration**—minimally, LIURP program penetration should be
7 ramped up from 1996 levels to 3,949 completions. These penetration levels should
8 continue through at least 2008.

- 9
10 • **CAP Expenditure Levels**—initially, annual CAP funding should be ramped up to
11 \$10,459,556 million annually by 1999 and continue at this level until it is
12 determined by the Commission that a different level is needed. This would place
13 CAP funding at an amount equal to 0.88% of gross operating revenues of
14 \$1,182,879,406 and would ensure that this program is “appropriately funded” as
15 required by §2804 (9) of the Customer Choice Act and the Commission’s Final
16 Order. As with LIURP, the Commission must make provisions to ensure that funds
17 budgeted during the year are spent during that year. Funds not expended should be
18 added to, not take the place of, planned program funding for the following year.

- 19
20 • **CAP Participation Levels**—Initially, CAP participation levels should be ramped-up
21 from 1996 levels to 13,251 households annually.

1 • **Staying Within the Rate Cap**—To ensure that the recommended funding increases
2 for LIURP and CAP meet the rate cap requirements of the law. DQE should be
3 required to transfer funds from gross write-offs and collection costs, and, if necessary
4 to ensure meaningful and strong programs, they should be required to reduce
5 stranded cost recovery, as well.

6

7 Q: Does this conclude your testimony?

8 A: Yes.

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CURRICULUM VITAE

EDUCATION

- Ph.D.(abd)** Urban Affairs & Public Policy, Energy and Environmental Policy (3.91 GPA on 4.0 scale) Awarded Milton and Mars Edelstein prize for public and community service (May 1994).
- M.B.A.** Financial Management, National University, San Diego, CA (1988) (3.86 GPA on 4.0 scale).
- B.B.A.** Business Administration, National University, San Diego, CA (1987). Graduated Summa Cum Laude (4.0 GPA on a 4.0 scale).

EXPERIENCE

- **Pennsylvania Statewide Leveraging Project Manager.** Responsible for design, implementation, and daily management of Pennsylvania's U.S. Department of Energy funded leveraging project. The primary goal of the project is to increase funding for low income energy programs throughout the Commonwealth.
- **Consultant on Low Income Rate Assistance Programs.** Pennsylvania Gas & Water Company; Pennsylvania Power & Light Company.
- **Consultant to Low Income Representatives on Governor's Electric Industry Restructuring Legislation Stakeholders' Group.** Secured legislative language calling for the creation of low income universal service and energy conservation programs throughout the Commonwealth, and gained commitment for the use of community-based organizations in the delivery of low income energy programs.
- **Designed and Implemented Energy Efficiency Survey.** Survey served as the basis for development of Pennsylvania Gas & Water Company's integrated resource plan.
- **Conducted Regional Assessment of Low Income Energy Efficiency Trends, Issues, and Technologies for the State of Delaware.** Developed and produced report that provided scientific basis for changing State energy auditing procedures.
- **Manager of Low Income Active Intervention in \$261 Million Rate Case.** Developed and implemented legal strategy. Analyzed laws, regulations, low income energy efficiency and rate programs. Intervention gained utility commitment to provide \$4.2 million in new low income energy conservation and community development programs.
- **Surveyed and Analyzed States' Activities in Implementing Federal DOE Weatherization Leveraging Programs.** Developed and produced report that was instrumental in developing Delaware's DOE Weatherization Leveraging Program.

PROFESSIONAL REPORTS, PAPERS, CURRICULA

"Complying With Basic Cal OSHA Standards: An Introduction and Step by Step Approach," with Stacey Rice-Kenyon, National University, San Diego, Ca., 1997

"Global Climate Change: European Policy Makers' Views of How Science Enters the Political Process," with Willett Kempton and P. P. Craig, *Energy & Environment*, vol. 6, no. 2, 1995.

"The Limits of Efficiency: Policy Impacts and Implications for Sustainable Development," ACEEE 1994 Summer Study on Energy Efficiency in Buildings, Proceedings, Panel 4, Global and Environmental Issues, American Council for an Energy Efficient Economy, Berkeley, CA. 1994.

"Weatherization: Trends, Issues, & New Technologies," with Ashley Miller, and Chongfang Wang, Center for Energy and Environmental Policy, University of Delaware, Newark, DE, prepared for the Delaware General Assembly, June 1994.

"Status of Compliance for the November 15, 1993 Deadlines of the Clear Air Act Amendments of 1990: Survey Results of Area States," with Ashley Miller, Joseph Bryan, and Brian Gallagher, Center for Energy and Environmental Policy, University of Delaware, Newark, DE, prepared for the Delaware General Assembly, October 1993.

"Weatherization Leveraging Project Final Report," with John Byrne and Willett Kempton, Center for Energy and Environmental Policy, University of Delaware, Newark, DE 19716, June 1993.

EXPERT TESTIMONY

Low Income Universal Service and Energy Conservation Programs, for the Community Action Association of Pennsylvania, in PA PUC vs. Pennsylvania Electric Company, Docket No. R-00974009, September 18, 1997.

Low Income Universal Service and Energy Conservation Programs, for the Community Action Association of Pennsylvania, in PA PUC vs. Metropolitan Edison Company, Docket No. R-00974008, September 18, 1997.

Low Income Universal Service and Energy Conservation Programs, for the Commission on Economic Opportunity, in PA PUC vs. Pennsylvania Power & Light Company, Docket No. R-00943271, July 2, 1997.

Electric Industry Restructuring, the Commission on Economic Opportunity, Pennsylvania House Committee on Consumer Affairs, hearing on electric industry restructuring and hostile takeovers, May 22, 1996.

Electric Competition, for the Commission on Economic Opportunity, in PA PUC Investigation into Electric Power Competition, Docket No. I-940032, November 6, 1995.

Demand Side Management and Generating Capacity Issues, for the Commission on Economic Opportunity, in PA PUC vs. Pennsylvania Power & Light Company, Docket No. R-00943271, April 14, 1995.

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held July 10, 1997

Commissioners Present:

John M. Quain, Chairman

Robert K. Bloom, Vice-Chairman

John Hanger, Dissenting - Statement attached

David W. Rolka, Dissenting - Statement attached

Nora Mead Brownell, Statement attached

**Final Order Re: Guidelines for
Universal Service And Energy Conservation
Programs Made Pursuant to 66 Pa. C.S. §2803
§2802(17), 2804(8) and 2804(9).**

Docket No. M-00960890F0010

ORDER

BY THE COMMISSION:

On April 25, 1997, the Commission issued a Tentative Order which proposed guidelines for universal service and energy conservation programs. The Tentative Order established a comment period ending May 14, 1997 during which public comment could be submitted. Comments were received from 52 parties. A list of these commentors is attached to this order as Appendix A.

We have considered all of the comments that were submitted. We appreciate and thank all the commentors who provided worthwhile suggestions to improve the guidelines for universal service and energy conservation programs. We have identified issues that were common to a majority of the comments, and will address them in this order. For convenience, we have attached the guidelines for universal service and energy conservation as Appendix B to this order. We have changed the format from the Tentative Order to summarize the comments. We have changed the order and renamed several sections to improve the organization and clarity of the guidelines. Appendix E provides a comparison of the tentative order format and the format used in this final order. Unless otherwise noted, all section numbering refers to the final order format.

The *Electricity Generation Customer Choice and Competition Act* (Act) is clear in its intent that EDCs are to continue, at a minimum, the protections, policies and services that now assist customers who are low-income to afford electric service. Section 2802(9) states that electric service is essential to the health and well-being of residents, to public safety and to orderly economic development; and electric service should be available to all customers on reasonable terms and conditions. Section 2803 defines universal service and energy conservation policies, as including customer assistance programs; termination of service protection and policies and services that help low-income customers to reduce or manage energy consumption in a cost-effective manner, such as low-income usage reduction programs, application of renewable resources and consumer education.

The Act states that certain public purpose costs, including programs for low-income assistance, energy conservation and others, have been implemented and supported by public utilities' bundled rates. Section 2802(17) requires that the public purpose is to be promoted by continuing universal service and energy conservation policies, protections and services; and full recovery of such costs is to be permitted through a non-bypassable rate mechanism. Section 2804(8) requires that the Commission establish for each electric distribution company (EDC) an appropriate cost recovery mechanism which is designed to fully recover the electric's universal service and energy conservation costs over the life of these programs. Section 2804(9) requires the Commission to ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory. These policies, activities and services shall be funded in each electric distribution territory by non-bypassable competitively neutral cost recovery mechanisms that fully recover the costs of universal service and energy conservation services.

It is our view that the subject matter of these guidelines requires consistent policy determinations to be applied across the local distribution service territories. The guidelines reflect a determination by the Commission upon evaluating presently known information provided by numerous interested parties in a rapidly evolving industry. The guidelines are intended to assist the parties in the preparation, litigation and resolution of the Restructuring Filings of each EDC by setting forth the Commission's current views regarding how those issues should be addressed in the restructuring proceedings. It is our intention that the guidelines will enable the parties to more efficiently focus on the relevant factual determinations necessary to comply with the Act.

The guidelines do not suggest any precise requirements that must be a part of the universal service and energy conservation plans of any utility. Such final

decisions will be made only in the restructuring orders, after the EDCs and all interested parties have had an opportunity to address the issues based upon these guidelines.

The universal service and energy conservation components of a restructuring plan should be addressed consistent with these guidelines and ultimately implemented in a manner that is consistent with the foregoing statutory mandates and the other requirements of the Act. Nothing in the Act or the rest of the Public Utility Code suggests that it is possible or desirable to address universal service and energy conservation separately from all the other relevant considerations of the law and public policy.

The primary mandate before the EDCs, the parties and the Commission as restructuring plans are adopted is to lay the groundwork for a fully competitive market for generation within a total level of rates that are capped as of January 1, 1997. Spending levels for universal service and energy conservation must be appropriate considering other spending priorities and the fundamental necessity of complying with all other aspects of the Code as it now has been amended by the Act. The challenge before the EDCs, the parties and the Commission is to do so with an appropriate balance that maintains funding for other aspects of safe and reliable local distribution services at least at current levels.

EDCs, other parties and the Commission must acknowledge that the Code, as now amended by the Act, for the first time imposes a mandate for universal service and energy conservation policies, programs and protections that are "appropriately funded and available in each electric distribution territory." The Commission can and will meet this mandate while meeting the other requirements of the Code.

In particular, we note that neither the Act nor these guidelines define "appropriately funded and available" nor specify any particular spending level for universal service and energy conservation as a whole. No inherent increase or decrease in spending is mandated, provided that the total level of resources directed to universal service and energy conservation is "appropriate" and the benefits are made "available". This mandate neither can supersede nor take a back seat to the other requirements of the Code as amended by the Act.

A. Universal Service and Energy Conservation Programs as Components of Restructuring.

Most commentors support this section. The **Pennsylvania Gas Association (PGA)** comments that the Act says the Commonwealth, not utilities, must

maintain current protections, policies and services that now assist customers who are low-income to afford electric services. PGA suggests that to change the intent as the Tentative Order proposes presupposes legislative intent beyond the statutory language. **Enron Capital and Trade Resources (Enron)** cannot support universal service programs if the programs are not competitively neutral. Enron states the Act at Section 2804(9) states universal service programs must be competitively neutral.

We disagree that utilities are not involved in maintaining existing services. The provisions that are currently in place are implemented by utilities and the Commission. We read the Act to state that the recovery mechanism for universal service and energy conservation programs must be competitively neutral. However, as a general policy matter, the Commission supports program participants acquiring supply in the competitive market and allowing competitive suppliers to be involved in providing electric supply to program participants. Therefore, we are making no changes to this section.

B. Universal Service and Energy Conservation Policies, Protections and Services.

1. Existing universal service and energy conservation policies, protections and services.

Pennsylvania Weatherization Providers Task Force (Weatherization Task Force) requests that energy conservation be added to the appropriate titles, sub-titles and references in these guidelines. **Office of Consumer Advocate (OCA)** requests that we clarify that hardship funds involve administration only, not the contribution of utility funds. **Energy Coordinating Agency (ECA)** requests that we clarify that the hardship fund section also applies to the electric distribution companies (EDC). We accept all of these changes.

Pennsylvania Electric Association (PEA), each EDC, PGA, and UGI - gas all oppose the inclusion of Secretarial letters as universal service and energy conservation components. They cite the following reasons: the letters were developed outside the regulatory process; utilities had no input; inclusion would extend more impact and authority than intended, the letters are more than 10 years old; the letters were not discussed in the Work Group; and including the letters would give them the weight of regulations.

Community Legal Services (CLS) opposes the use of service limiters, while **Community Action Committee of Lehigh Valley, Inc. (CACLV)** supports service limiters and pre-payment meters in limited circumstances.

At this time, we are issuing guidelines, not regulations, for universal service and energy conservation programs in this Final Order. The Act at Section 2802(10) specifically states that "The Commonwealth must, at a minimum, continue the protections, policies, (emphasis added) and services that now assist customers who are low-income to afford electric service." The Secretarial letters have been issued by the Commission periodically for more than ten years. Except for the tracking and referral letter, utilities have generally followed these letters. We believe the directions set forth in the Secretarial letters continue to have merit and will include them in the Final Order as guidance for universal service and energy conservation programs, but not as controlling regulations.

Thus, we have modified the language of the Tentative Order to include the foregoing considerations. In addition, parties should take note that the statutory language anticipates that the first stage of developing a universal service and energy conservation plan to be included in each restructuring plan must be to compile a detailed itemization of all existing policies, protections and services.

2. Proposed universal service and energy conservation policies, protections and services.

The Commission believes that, in most cases, the existing universal service and energy conservation policies, services and programs, with some modifications, can meet the new mandates of the Act. The proposed plan should indicate how existing policies, protections, and services may be modified, consistent with these guidelines. The Act clearly requires three additional efforts:

a) *Provider of Last Resort.* Section 2807(e)(3) requires each EDC, or an alternative supplier approved by the Commission, to acquire electric energy at prevailing market prices to serve any customers that do not obtain generation from another electric supplier. The plan must propose an initial supplier of last resort and how it will be utilized.

b) *Renewable technologies.* **Weatherization Task Force, ECA & the Environmentalists** want the language strengthened to require the inclusion of renewables. The Weatherization Task Force requests that research and development funds be available to test and promote technologies. OCA and the Weatherization Task Force suggest that pilots may be necessary to test the cost-effectiveness of these technologies. OCA comments that renewable technologies should not be a separate item, but a part of universal service and energy conservation programs. **Pennsylvania**

Solar Energy Industries Association (PennSEIA) comments that net metering is an appropriate method of encouraging investment in renewables.

We agree that the Act includes renewable technologies as part of universal service and energy conservation services and will include language to allow for pilots. Because we are issuing guidelines, we will not require the inclusion of any particular renewables program. Although we believe that research and development are important, we will not direct that universal service and energy conservation funds be spent for research and development. Unlike the California legislature that specifically provided funds for research and development, the Commonwealth's Act gives no direction for such expenditures.

c) *Consumer education.* **CLS, Weatherization Task Force and Northern Tier Community Action Corp. (NTCAC)** comment that education about choice should be unbiased and separate from marketing. **Weatherization Task Force, CCI, Representative McCall and Weatherization Office of Huntington County (WHO)** comment that for educational programs to be competitively neutral, community-based organizations (CBOs) should deliver consumer education. **Duquesne** comments that consumer education for low-income customers should be the same as consumer education for non low-income customers and the EDC should provide the education. **CLS** recommends that information on choice must be provided prior to and separate to the time when a customer chooses a generation supplier. **CLS** also recommends that a universal service "Bill of Rights" should be developed and issued twice a year. **Peoples Consumer Advisory Board (PCAB)** comments that an independent agency, such as the Commission, should provide education. **PCAB** also recommends that the EDCs create partnerships with senior citizen centers, child day care centers, and child welfare offices to provide education. **PCCC** recommends that education should be funded by stockholders and that special education about choice also be directed to older adults. **Weatherization Task Force and Duquesne** recommend that education be funded from the universal service and energy conservation funding mechanism. **PULP** does not support funding education with universal service and energy conservation funds because those funds will be limited.

We will also address consumer education issues in a separate working group product. We believe that consumer education targeted specifically to low-income customers is necessary. This information, written in plain language, must explain the customer's responsibilities in choosing a supplier. This information must also be competitively neutral.

The Commission, the EDCs and CBOs will be responsible for providing consumer education about electric choice. The Commission's Bureau of Public Liaison, in cooperation with the Bureau of Consumer Services, will monitor and evaluate each EDC's education about choice program. Education about choice under B.2.(c) in the guidelines at Appendix B can be funded with universal service and energy conservation funds. We will include PCAB's comments about forming partnerships.

C. Eligibility Guidelines.

1. General.

Several commentors request the income guidelines be raised, the special needs allowance be increased and that non-income criteria be eliminated. Several others comment that 150% of the federal poverty guidelines is too broad. **Energy Coordinating Agency (ECA) and the Environmentalists - The Delaware Valley Citizens' Council for Clean Air, the Sierra Club, Citizen Action and Conservation Consultants, Inc. (Environmentalists)** request that "special needs" be defined because it appears to have two meanings in the Order. **Representative Keith R. McCall, 122nd district,** requests that programs must be available to all eligible customers, not just those who have electric heat. **Community Action Committee of the Lehigh Valley, Inc. (CACLV)** recommends that the Commission use either 50% of the median family income for the region or factor HUD's fair market rents into the eligibility criteria. **CACLV** also recommends a small percentage of funds be set aside to mitigate special needs.

We accept ECA and the Environmentalist's request to define special needs. Special needs for general eligibility criterion is defined as a customer having an arrearage with the covered EDC and whose household income is at or below 200% of the federal poverty guidelines. Special needs may include those who have experienced a family crisis, such as loss of income, divorce, disability or major illness. We will clarify that all electric customers who are eligible may participate in universal service and energy conservation programs. Using 50% of the median family income for eligibility could increase services for those households whose incomes are at or below 250% of poverty. We believe the special needs category can accommodate any exceptional circumstances.

2. Additional eligibility criteria.

- a) *Chapter 56 regulations* establish standards for all residential electric customers, therefore all low-income customers who participate in universal service programs are covered.
- b) *Low-Income Usage Reduction Program (LIURP)*

The present eligibility for LIURP is contained at 52 Pa. Code §58 and was recently proposed to be modified for special needs at L-00960118. These guidelines retain the present eligibility criteria for the LIURP program as modified therein.

CLS comments that 3.(b)(3) should include customers who have a negative ability to pay. The **Weatherization Task Force** requests that eligibility requirements be simple and consistent.

In our response to CLS, we would like to clarify the distinction between LIURP eligibility criteria and the prioritization criteria for the receipt of program services. LIURP eligibility criteria has evolved into a two-part requirement. First, income must be at or below 150% of the federal poverty guidelines. There is an exception to this rule. Up to 20% of the LIURP budget may be spent on customers with an income level in the range 150% to 200% of the federal poverty level. Second, the LIURP experience over the past nine years has shown that high usage is the strongest predictor of high energy savings. Consequently, each of the major electric companies has established company specific minimum usage requirements for each of the three major job types for electric jobs: heating, water heating and baseload. The bottom line is that all income eligible customers do not have a usage profile that warrants the provision of LIURP services.

Prioritization for the receipt of program services is as follows. Most importantly, usage is the driver. Once again, we emphasize that in the actual delivery of LIURP services, each electric company has established minimum usage guidelines for each of the three electric job types. It is only after the usage requirement is met that the prioritization scheme is applied. The prioritization process follows two steps. First, among customers meeting the threshold for usage, participation is further prioritized from highest arrearage to no arrearage. Second, a further prioritization is done to further delineate equal usage and equal arrearage candidates. This is done by prioritizing from lowest to highest income.

We have provided this explanation to illustrate that we do not need to specify negative ability-to-pay customers because ability to pay is neither an appropriate eligibility requirement nor a prioritization issue for LIURP. Instead, high usage is the most

important eligibility requirement for customers who meet the income guidelines.

Duquesne objects to the prioritization in 2.(b) because it is *administratively unwieldy and serves no practical purpose*. We offer our prioritization explanation to clarify the prioritization process. We believe that Duquesne's unwieldy claim refers to the fact that the prioritization process is more complicated for electric companies than for gas companies because it may involve as many as three different job types for electric companies compared to one job type (gas heating) for gas companies.

As far as Duquesne's statement that the prioritization process serves no real purpose, we need to review the prioritization process experience over the past decade. As it has turned out, the electric companies have had little to no need to use the prioritization structure, while the gas companies have used it extensively. This disparity has resulted from differences in the ability to solicit enough eligible customers to spend the required funding levels between the two industries. The electric companies have actually served eligible customers that have been successfully solicited on a first-come-first-serve basis since LIURP's inception. The need, or lack thereof, for electric companies to use the prioritization scheme to date does nothing to invalidate the prioritization scheme and the Commission believes that future funding levels may make the prioritization guidelines meaningful.

ECA supports the eligibility prioritization scheme. However, ECA proposes an addition to the prioritization order. ECA states that all customers are not equally motivated and adds that the customer who is motivated and "self-selects" for conservation services will save far more than the reluctant, disinterested customer. *Our experience concurs with ECA that more motivated customers may be better conservation candidates.* However, most program measures that are installed will provide energy savings benefits and are not significantly influenced by customer motivation or behavior. Thus, we do not believe that "self-selection," which may be a very subjective evaluation, should be incorporated into the eligibility requirements.

OCA comments that the priorities at 2.(b)(2) and (3) should be reversed so that priority is given to those customers with lower incomes.

The primary goal of LIURP is to achieve bill reduction through usage reduction. We have elaborated above that high usage is the best indicator for achieving this primary goal of LIURP. Another LIURP goal states that the reduction in energy bills should decrease the incidence and risk of customer payment delinquencies and the attendant utility costs associated with uncollectible accounts expense, collection costs and arrearage carrying costs. In view of this program goal, arrearage prioritization has been appropriately listed as the first prioritization among the highest users. Thus, placing income level ahead of arrearage level would be inconsistent with the goals of LIURP.

Allegheny Power recommends that the language in 2.(b)(1) and (2) be changed from "shall" to "may." The referenced language is presently part of our regulations at §58.10, these guidelines are not to amend our regulations but to clarify their incorporation into the universal service and energy conservation program. Therefore, we will decline to so modify the language of 2.(b).

c) *Customer Assistance Program (CAP) eligibility.*

Several commentors want the Commission to define expenses under 2.(c)3(b). **Pennsylvania Utility Law Project (PULP)** recommends that EDCs use all definitions of payment troubled and that a mechanism should exist for customers to challenge eligibility denial. Several commentors request the Commission to decide one payment troubled definition. **OCA** comments that 2.(c)3(a) should be 30% because the Department of Housing and Urban Development (HUD) standard of 30% for housing includes utilities. **OCA** also comments that the Commission should not encourage use of 2.(c)3(b) because it is expensive to administer, and the Commission should include a standard for the minimum size of an arrearage criterion. **PECO** states the definitions are too narrow. EDCs should be able to submit a definition of payment troubled for Commission approval. **PGA** comments that housing and utility costs should be defined as rent or mortgage/taxes and gas, electric, water, oil, telephone, and sewage. **ECA & the Environmentalists** recommend that 2.(c)3(b) should be \$100 *per month* and 2.(c)3(d) should be one or more payment agreements.

We accept PGA, ECA and the Environmentalists comments and will include the changes in the Final Order. HUD uses two standards when establishing what percentage of income a household should spend on housing. HUD recommends that a household spend no more than 30% of total income on housing. For households who live in subsidized housing, HUD includes utilities in the 30% total. For households who do not live in subsidized housing, HUD excludes utilities from the 30% total. We selected the standard for households who do not live in subsidized housing to target CAP eligibility first to those households who do not receive housing assistance. We will define payment troubled. However, we believe the EDCs should have flexibility to target payment troubled. Therefore, we will clarify in the Order that an EDC should select one of the four eligibility priorities for payment troubled. If an EDC chooses 2.(c)3(b), they must include all expenses. There is too much subjectivity involved when a list of allowable expenses is used. Our experience shows that unless the interviewer asks the appropriate questions, all expenses may not be considered, and an applicant may be inappropriately denied a referral to CAP. The CAP Policy Statement at §69.265(5)(i)&(ii) provides for a customer to appeal eligibility denial.

d) *Customer Assistance and Referral Evaluation Services (CARES) eligibility.*

Each EDC may define eligibility for a CARES program. Generally, CARES eligibility may be targeted to special needs customers. Special needs customers include those who have experienced a family crisis such as loss of income, divorce, disability, or major illness.

ECA & the Environmentalists want two new categories added: downsized employees and the working poor. We believe the special needs definition provides for these categories.

e) *Hardship fund eligibility.*

GPU comments that the provision of hardship funds should be at the discretion of the utility or the agency who administers the fund and that grants should be available for crisis situations to households above 150% of poverty. **Duquense** notes that hardship fund administrators, not utilities, establish eligibility criteria.

We will clarify in the Final Order that administrators of hardship funds determine the eligibility criteria.

f) *Plain language policy statement.*

The plain language policy statement establishes guidelines for communications with all residential customers. therefore all low-income customers who participate in universal service programs should receive plain language communication.

g) *Secretarial letters related to collection activity.*

The Secretarial letters express direction for all residential customers. therefore all low-income customers who participate in universal service programs are covered by the issues addressed in the Commission's Secretarial Letters

D. Expenditures for Universal Service and Energy Conservation Programs.

Many facts and concerns must be balanced in order to ensure that universal service and energy conservation are appropriately funded and available in each service territory. The rate cap is one of the statutory mandates that must be considered along with maintaining the existing quality of safe and reliable local distribution service. The unbundled rates to be established must balance the recovery of stranded costs, universal service and continuing operations. The Act requires that the Commission meet all of these mandates and does not indicate that any one mandate is more important than another.

PEA, PGA, individual electric and gas utilities all oppose establishing a level of expenditures for LIURP and CAP. These commentors cite the rate cap limits in Act 138 as reasons that the EDCs should not be expected to expand existing programs and should not be expected to incur increased expenses. These commentors also recommend that each utility should determine its own funding based on individual circumstances such as the Act's rate cap, existing programs, and customer needs. **Allegheny Power** states that they are not opposed to establishing spending levels if these costs can be recovered. **PEA** believes that any increase in LIURP expenditures would be improper since it occurred outside the formal rulemaking process.

Fifteen commentors, including several members of the General Assembly, support establishing the level of expenditures set forth in the Tentative Order. Several commentors suggested that the levels in the Tentative Order are not high enough and the levels in the Tentative Order should be increased. The **EOC of Schuylkill County, the Weatherization Task Force, OCA, Representatives**

McCall and Civera comment that as the generation, distribution and transmission of the electric industry occurs, revenues will decrease for the EDCs, and therefore, the Commission must establish mechanisms to ensure that adequate funding is available for universal service and energy conservation programs. OCA adds that the expenditure standard can be expressed as a percentage of distribution revenues. However, the percentage must be adjusted to maintain sufficient universal service and energy conservation funds consistent with a reasonable burden on the non-participating ratepayer. EDCs can trade collection costs for universal service and energy conservation program costs, but this should not be the limit for finding funds to support these programs. OCA recommends that when EDCs determine collection costs that they use the top-down approach (outlined in Equitable's EAP evaluation) to identify costs. Senators Mellow and Madigan comment that the intent of the Act is to ensure strong and meaningful universal service and energy conservation programs. Several commentors, including Senators Mellow and Madigan, recommend that the Commission limit stranded cost recovery if necessary to ensure appropriately funded and available universal service and energy conservation programs.

We accept OCA's recommendation that EDCs provide information on current collection operational expenses in their restructuring plans using a top-down approach, rather than a bottom-up approach to determine the dollars presently expended in support of universal service and energy conservation programming. It is our expectation that the present level of total expenditures by each company will be maintained in support of universal service and energy conservation programming. Under the top-down approach the EDC can manage its use of available resources to best meet the need of its territory for affordable energy. We recognize that EDCs have not had an opportunity to reply to the OCA recommendation, and hence, they may provide additional information in support of an alternate approach as part of the plan review.

We believe the Act is clear that universal service and energy conservation programs are to be appropriately funded and available. We believe the present programming and level of expenditures must be fully examined in the restructuring filings in order to evaluate the effective use and amount of EDC resources available for their programs.

In order to meet our charge under the statute it is necessary that the needs of the EDC's territory be assessed. Such a study of the community is necessary to ensure that programs are well directed to meet the greatest need in the community for affordable energy. The needs assessment should examine the market for and acceptance of universal service programming in the territory.

Currently CAP pilots serve a limited number of customers. Given the results of impact evaluations already reviewed, we expect that EDCs will choose to enhance their CAPs as a cost effective strategy for serving low-income customers.

Similarly, we have found that the LIURP program is a cost effective program for affordable energy. Since 1988, the electric utilities have managed their LIURP programs within a fixed dollar allowance. Within this process, they have expanded the range of services to include baseload customers who are neither heating nor water heating customers. This is an example of the type of flexible process which is expected over time to make a program cost effective in its availability and delivery.

We recognize that the electric utilities have never had a goal of 0.2% of revenues contained within their LIURP regulations at 52 Pa. Code §58.4(b). To adopt such a standard would require us to modify our regulations which would not be timely for the restructuring filings. We, therefore, decline to fix an expenditure goal at this time. Nevertheless, we believe it valuable to explore in the context of each company's restructuring proceeding, the manner in which existing funding levels will be used to meet the needs of the EDC's territory. Nothing in these guidelines prevents an EDC from voluntarily proposing a funding commitment which enhances the universal service offerings in their territory.

Additionally, the development of renewable technologies, the development of energy efficiency technologies, and the introduction of enhanced (smart) meters or net metering into the market place may add new cost-effective program measures for use in LIURP. These new technologies and advancements may add to the total costs for individual LIURP jobs in a cost effective manner.

Finally, we must emphasize that nothing in these guidelines mandates an increase in total expenditures directed to meet universal service and energy conservation goals. To the contrary, these guidelines emphasize improving the cost effectiveness of existing efforts by shifting expenditures from less productive efforts to more effective programs.

E. LIURP.

The Weatherization Task Force discussed a number of energy conservation activities that should either be expanded in LIURP or included as "other" conservation components among universal service programs. We believe that they can be expanded into LIURP as long as they meet the appropriate payback requirements.

Specifically, the **Weatherization Task Force** asked us to consider other low-income conservation program components in universal service including an expansion of consumer and energy education and outreach activities, the development and use of renewable technologies, and the development and promotion of emerging energy efficiency technologies. We emphasize that we have always considered any new potential program measure for LIURP that is proven to meet a seven year average simple payback criterion for introduction into LIURP, even longer (12 years) if the program measure has a longer life expectancy. We encourage all innovative ideas that are cost effective.

The **Weatherization Task Force** recommended that we provide language that specifically encourages the use of community-based organizations in the delivery of LIURP services and that this is consistent with the Act. We concur and add that 52 Pa. Code §58.7(c) already provides for such a preference and this provision is consistent with the Act.

Several commentors, including **Duquesne, NEV, ECA, the Weatherization task Force and the Environmentalists**, point out that the LIURP regulations and the CAP policy statement should conform to the universal service guidelines. We agree and the provisions in the revisions of both LIURP and the CAP Policy Statement will follow the guidelines that are set forth in this order.

ECA stated that much closer linkage with other low income energy and related housing programs is needed in order to maximize the effectiveness of LIURP. We agree with **ECA** and we have such a requirement in LIURP at 52 Pa. Code §58.7(a). Our effort at establishing such linkage has been limited more so because of a lack of such energy and housing programs than to effort on our part. Nevertheless, we accept **ECA's** guidance and will direct another effort in this area by the end of 1997 through our monitoring of LIURP. However, we are willing to entertain alternative approaches to such linkages as long as they meet the appropriate LIURP payback criteria.

F. Customer Assistance Programs (CAPs).

1. Control features.

Several commentors suggest that evaluations must be complete before any revisions occur to the Policy Statement. The Commission has received three completed impact evaluations and has been carefully monitoring the pilots. We expect to receive five electric and one gas final impact evaluations in 1997. However, several utilities only recently began CAPs, so their evaluations will not be completed for several years. In

addition, evaluations have not always been completed in a timely manner. To wait until all evaluations are completed may add years to the process. The role of evaluations is discussed in more detail under Section F.4 - CAP Enrollment.

PULP, Columbia, OCA, PP&L, and PECO support the elimination of the conservation credit. **ECA, Environmentalists, Duquesne, Catholic Charities, Conservation Consultants, Inc. (CCI), GPU and the Weatherization Task Force** oppose elimination of the credit based on the belief that removing the credit relieves CAP participants of conserving energy and sends a message that participants are not responsible for consumption. ECA and the Environmentalists are concerned that CAPs are a simple subsidy of consumption. They recommend that conservation incentives such as usage limits can be successful.

We will clarify in the Order that consumption limits are not being eliminated. The CAP Policy Statement at §69.265(3)(iii) provides for consumption limits. The conservation credits, when applied properly to a participant's bill, have been small. If eligible, participants received conservation credits yearly. However, participants had difficulty understanding the purpose and timing of the credits. We clarify that by eliminating the credit, we are not de-emphasizing the need to provide LIURP services when appropriate or the need for participants to conserve energy. While evaluations to date indicate that CAP participants do not abuse usage, usage limits will be retained to ensure that such results are maintained. Also, many payment plans have a built-in incentive to conserve energy as customer payments decrease with decreased usage.

Several parties commented on the addition of a control feature that disallows a CAP participant from subscribing to nonbasic services. These parties commented it is too early to disallow services that have not been identified. Others support the ban, in part. OCA suggests that CAP credits should not be used to pay for nonbasic services that do not contribute to bill reduction.

We will adopt OCA's suggestion. We will also acknowledge that some nonbasic services that help to reduce bills may be allowable.

2. **Default provisions.**

PGA, UGI, gas & electric oppose eliminating the LIHEAP default provision. We reject these comments because changes to the LIHEAP eligibility criteria make this provision increasingly difficult to administer.

We believe it is counterproductive to default a CAP participant who is making their payments, but who has not received a LIHEAP benefit. Because of changes to the LIHEAP program, it may be impossible to designate a LIHEAP grant to the utility. We will clarify in the Final Order that EDCs should continue to strongly encourage CAP participants to designate a LIHEAP benefit to the sponsoring utility.

Considering PULP's comments, we will also add the steps an EDC should follow before defaulting a CAP participant.

3. Coordination of LIHEAP benefits.

OCA, PULP, CLS and Duquesne all oppose a LIHEAP penalty. We will clarify in the Final Order that EDCs may use this option with care. One utility who has successfully used this option did not use it this past LIHEAP season because the program was only open four weeks. We will also add language that if a customer applies for a LIHEAP benefit but directs it to another utility or heating supplier, the CAP provider should not assess a penalty.

4. CAP enrollment.

The Weatherization Task Force points out that the census data's actual average number (2.57) of persons in a household should be used, not the rounded-up number (3) used by the Commission.

Several commentors state that CAPs should not expand until evaluations are complete. Several parties also comment that no evidence exists that CAPs are cost-effective, and therefore, no expansion should occur until proof exists that CAPs are cost-effective.

PEA, PGA and the individual utilities who filed comments oppose expansion of CAPs within a three year period. EDCs recommend that EDCs should determine the level of need and the size of any CAP programs. Several EDCs who have programs doubt that it is administratively possible to expand to meet the low-income need in a three year period.

Dollar Energy Fund (DEF), OCA, PULP, CLS, Tri-Valley Energy Center (TVEC), Utility Emergency Services Fund (UESF), ECA, New Energy Ventures (NEV), the Weatherization Task Force and the Environmentalists specifically state they support expansion of CAPs. DEF also recommends that once pilots have expanded, utilities should maintain the floor. OCA also recommends changing the language in Section D.(1) from "may need" to "will need." OCA submits the General Assembly did

not intend to let many customers go without assistance needed to achieve universal service, merely because their utility chooses to leave its programming at the pilot stage.

We accept the Weatherization Task Force's comments about the eligible population using Census data.

We recognize commentors concerns that impact evaluations for most EDCs who have CAPs are not complete. Under present timelines, CAP evaluations by EDCs should be completed by May 1998. We would not expect EDCs to make major design changes to their programs without the benefit of their impact evaluation. However, the Commission has received two impact evaluations that show CAPs are cost-effective. Findings from an evaluation may show that an EDC may need to make changes to program design or administration to increase cost-effectiveness. However, we do not expect that any utility who has a CAP will need to start over as a result of their evaluation. Through the needs assessments and the evaluation of the present programming, the EDC should make every effort to determine the best use of available dollars to serve the territory population. We expect the present programming to be maintained and improved in efficiency and delivery. If need is present and funds are available, a company may choose to enhance their CAP program as a cost effective strategy.

We recognize commentors concerns that it may be administratively impossible for an EDC to enhance their CAPs within a three year period. In this Final Order we will not set a goal for enhancing CAPs, but the restructuring plan must set out the plan of the EDC for at least the next three years for meeting the CAP needs of its territory. The EDC's plan should provide for the EDC to complete any programming changes, design changes and secure appropriate support staff to accommodate any changes in the EDC CAP program over a three year period. We would expect design changes to be minimal due to the time EDCs spent in establishing their pilots. Our review and approval of the CAP program plan will reflect the needs assessment, consideration of the estimated number of low-income households in the utility's service territory, the number of participants currently enrolled in the pilot CAP, participation rates for assistance programs, and the EDC resources available for universal service and energy conservation programming to meet the needs of the targeted population.

5. CAP payment amounts.

OCA and PULP recommend that no payment amount be higher than 15% of a household's income. They point out that 15% is the ceiling

for any payment assistance program in the United States. OCA also recommends lowering the ranges for payment amounts. Both OCA and PULP recommend that any payment plans be tied to affordability. PULP does not support methods F.(5)(b-f) because they are not related to affordability and method F.(5)(f) gives too much discretion to BCS. OCA objects to method F.(5)2(e) because it does not address affordability and appears to be a simple budget mechanism. The **DEF**, who administers three CAPs, supports the payment ranges and recommends that CAP payments should not be less than payments currently being made by the household. **ECA and the Environmentalists** are concerned that payment amounts do not contain consumption limits.

We will clarify in this order that payment amounts for the various payment plans should generally not exceed the payment levels in F.(5)(a). Because evaluations should provide direction about what are affordable payments, we are recommending ranges for payment plans. As evaluations are completed, each utility should have a better idea about what is an affordable payment for their CAP customers and can make adjustments to their payment plans to reflect the evaluation findings. However, for the reasons that follow, we reject the arguments to lower the payment ranges and disallow the payment methods in F.(5)(b)-(f). As utilities and the Commission have gained experience from the CAP pilots, it seems that some CAP participants' payments have been set too low and could be raised without negatively influencing affordability. The Commission does not believe it is appropriate for customers, as participants of CAP, to make payments that are significantly less than what they have historically been paying. The independent evaluation of Equitable Gas Company's Energy Assistance Program found that EAP participants could afford to pay 8% of their income for gas energy. The evaluation also recommended that EAP participants whose incomes were between 51%-150% of the federal poverty guidelines could afford to pay 10% of their income for gas energy. These amounts are considerably higher than the current CAP Policy Statement guidelines. Our goal in establishing payment ranges is to maximize customer payments, maintain affordable payments and limit the CAP credits as much as possible.

The Commission has allowed utilities a great deal of flexibility in exploring different payment options. The payment plans outlined in the Order are currently being used in the pilots. This flexibility has allowed utilities to try payment plans that the Commission initially viewed with skepticism. For example, National Fuel Gas (NFG's) rate discount and the level of Equitable's payment plans proved to be acceptable variations to the

Policy Statement, even though the Commission doubted those plans could be affordable. NFG's evaluation found that their program is cost-effective and that customer payment behavior improved. The evaluator recommended that NFG implement a tiered-rate discount. The Commission recently approved a request from NFG to expand its program from 1,000 participants to 5,000 participants. Because NFG's evaluation found the rate discount acceptable, the Commission approved NFG's request to use a tiered-rate discount. If an evaluation finds that a rate discount does not provide affordable payments, the Commission would expect an EDC to revise its payment plan. Another example of a successful variance from the Policy Statement is PP&L's payment plan. Under this plan that considers F.(5)(e), three payment options are calculated. This approach allows the agencies who administer PP&L's program to decide the payment amount that best suits the needs of the household and the utility. PP&L has results from two interim evaluations that show PP&L's method of determining payments is an acceptable approach. By using this approach, customers generally have affordable payments; and under most circumstances CAP payments are similar to what customers have historically paid.

6. CAP participants and competitive supply.

We are adding a section that provides guidance for parties to deal with CAP participants and competitive supply as part of their restructuring plans. As a general policy matter, the Commission supports CAP participants acquiring supply in the competitive market and allowing competitive suppliers to be involved in providing electric supply to CAP participants. The guidelines provide four goals that program designs should meet when CAP participants acquire supply in the competitive market.

G. Cost Recovery Of Universal Service And Energy Conservation Programs.

Several commentors support a kwh assessment on all customer classes. We cannot accept this recommendation because it places a disproportionate responsibility for funding universal service and energy conservation programs on high kwh (high volume) users in violation of Section 1301. Further, the Act at §2804(7) prohibits interclass and intraclass cost shifting. Assessing a funding mechanism on kwh use is inconsistent with rate treatments for these programs in recent base rate cases.

H. Administration.

1. Program administration.

An overwhelming majority of commentors (32 of 37 parties who commented on this section) strongly oppose statewide administration. Community agencies as well as utilities oppose statewide administration. **PEA** requests the language be removed from the final order, and **PGA** opposes statewide administration now and in the future. **PP&L** opposes statewide administration but supports allowing the EDC to choose the delivery mechanism. Commentors cite increased administrative costs, customer confusion, disruption to an effective relationship between EDCs and community agencies, decreased funds for program benefits, and loss of regional oversight. **ECA** and **NEV** are the only two commentors to support statewide administration. **OCA**, **PULP** and the **Environmentalists** support language that allows for providing for the option of statewide administration in the future.

At this time, we are not convinced that statewide administration is in the best interests of low-income customers. Therefore, we will remove the language that provides for statewide administration as an option in the future.

2. Administration of program benefits.

PEA, individual EDCs, UGI - gas, and **PULP** oppose pro-rata application of CAP benefits to all major components of the unbundled bill. The industry opposes pro-rata of benefits for these reasons: 1. Most of the customer's overdue balance accrued prior to the selection of a generation supplier; 2. Responsibility for termination for non-payment stays with the EDC; 3. All collection and regulatory requirements are associated with EDC; and 4. The EDC is currently the supplier of last resort. The industry believes they will assume greater risks and responsibilities for low-income customers than suppliers.

The **Department of Public Welfare (DPW)** opposes pro-rata application of LIHEAP benefits. The DPW comments they would incur substantial administrative difficulties to split LIHEAP benefits. The DPW comments that "Vendors are better equipped than the Department...to address the issue of distribution of LIHEAP payments among vendors. Vendors should be able to apply existing methodologies that prorate payments for the general public to LIHEAP customers." The DPW

comments they are interested in working with the Commission to resolve issues that involve LIHEAP.

PULP comments that the first goal of application of benefits should be to ensure continuation of electric service for low-income customers. To achieve this, grants must be applied to the account of one provider. Currently, the EDC will be the provider of last resort and the CAP provider. **PULP** also adds that customer payments as well as benefits should not be divided, prorated or applied in any manner that would reduce the amount dedicated to ensuring that service continue. **OCA** supports applying any payment assistance benefits to the EDC portion of the bill. **OCA** cites ease of administration and application of a benefit to the distribution portion of the bill reduces the most competitive and manageable part of the bill as reasons for support. **OCA** suggests it may be appropriate to test pro-rata of benefits in a pilot.

DEF, Catholic Charities, ECA, Environmentalists, Green Mountain Resources, Inc. (Green), Montgomery County Community Action Development Commission (MCCADC), NEV and Enron support pro-rata application of benefits. These parties comment that pro-rata application of benefits is necessary to stimulate competitive entry into low-income markets. The **Weatherization Task Force** recommends that LIHEAP benefits should be pro-rated. They also recommend that LIHEAP funds should be considered to leverage competitive bids for generation supply for LIHEAP recipients. Enron also comments that low-income customers create a higher risk of uncollectibles and pro-rata application of benefits will minimize that risk. Without pro-rata application of benefits, Enron suggests low-income customers may be required to post higher deposits or may be denied service. Enron proposes that if a generation supplier cancels a customer's contract, the supplier will default the customer to the EDC and any payment assistance benefits will return to the utility.

We agree with **PULP** that the first goal of universal service benefits is to ensure that electric service continues for low-income customers. We believe this goal can best be met by applying any payment assistance benefits to the EDC and will reflect this in the guidelines. The Commission in its licensing requirements order at M-00960890f004 established guidelines that do not allow a supplier to physically disconnect a customer. The supplier can cancel the contract and return the customer to the provider of last resort. We believe this minimizes any significant risk of uncollectibles for suppliers. We also do not understand Enron's suggestion that higher deposits or denial of service may be consequences of assigning

payment assistance benefits to the EDC. Although a supplier is not required to comply with termination procedures under Chapter 56, they are required to comply with the credit and deposit standards at §56.32.

Given the range of comment on this issue, some further discussion is necessary. Several of the commentators incorrectly assume that the EDC will always be the supplier of last resort. This is a matter to be determined in each restructuring proceeding. When a CAP customer is being served by the supplier of last resort, it is important to maintain affordable generation service as well as distribution service. For these reasons, CAP benefits should be pro rated to include the supplier of last resort when applicable. This approach may facilitate the interest of alternate suppliers seeking to become the supplier of last resort in a territory.

We recognize we have made a choice to restrict the portability of the CAP credit based upon the information before us. We encourage additional discussion addressing this issue in the restructuring plan reviews.

3. Approval of universal service and energy conservation plan.

PULP requests that if the Commission rejects a plan, the EDC must resubmit the plan within 30 days. ECA and the Environmentalists request that EDCs be required to submit their plans every two years.

We accept both recommendations and will add language that requires bi-annual reports that include proposals for necessary and appropriate plan improvements. An entirely new plan is not required. The EDC should resubmit any revisions to its plan to the Commission for approval within 30 days if a timeline is not stated in the order that rejects or modifies the plan.

I. Reporting Requirements.

PEA and the individual EDCs comment that they cannot currently provide all the data requested in this section and caution us about creating excessively burdensome reporting requirements. They suggest that evaluations cover universal service and energy conservation programs, not just LIURP and CAP. The commentators point out that no goals have been established. Finally, they request that the EDCs and the BCS be required to report to the Commission at the same intervals. Several commentators want the BCS report to be publicly released.

We accept the suggestions that evaluations include all universal service and energy conservation components. We will reduce the reporting requirements to bi-

annually for EDCs. However, if EDCs cannot provide data on their low-income customers, we cannot determine if universal service and energy conservation programs comply with the Act to provide programs that are appropriately funded and available to low-income customers. The revised guidelines identify goals and provide for program evaluations. These reporting requirements are temporary until formal regulations are developed and approved through our normal rulemaking process.

J. Advisory Panels.

PEA, individual EDCs and UGI - gas oppose establishing formal advisory panels. They comment they have established informal processes to elicit advice from the community and would prefer to continue the informal process.

OCA, PULP, CLS, Pennsylvania Citizens Consumer Council (PCCC), Northwest Regional Council of Pennsylvania on Aging (NRCPA), and PCAB support establishing new advisory panels for universal service and energy conservation programs. **ECA and Environmentalists** support a statewide advisory panel. **CACLV** recommends that the Commission hold public input hearings every two years to obtain feedback on the effectiveness of universal service and energy conservation programs.

We do not believe that advisory panels will create an undue hardship on EDCs and will retain the language in the Tentative Order. The Commission has a mechanism in place to deal with statewide issues relating to universal service and energy conservation programs. Any concerns dealing with universal service and energy conservation can be brought before the Commission's Consumer Advisory Council.

K. Other.

Except for responses to Commissioner Blooms' statement that raised questions regarding the need for regulations, responses to statements by Chairman Quain and Commissioner Hanger have been included in the relevant sections of the guidelines. Several commentors, **PCCC, NRCPA, the Weatherization Task Force, Duquesne, RACE, UGI - gas, Penn Power, ECA and the Environmentalists**, support regulations for universal service and energy conservation programs either now or in the future. **PULP** comments that because of the time restraints involved, guidelines will be sufficient to ensure consistency. **PULP** also recommends that the Commission specifically charge BCS with the responsibility to monitor programs for consistency and the establishment of a Statewide Steering Committee that could ensure consistency.

We support PULP's comments that because of the need to establish guidelines that can be used in restructuring plans, guidelines are appropriate. However, we will need to establish universal service and energy conservation regulations in the future.

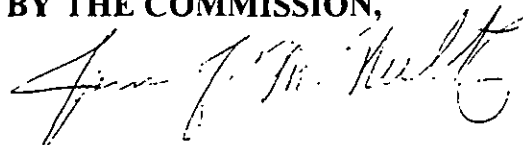
The sole intent of this final order is to establish guidelines for universal service and energy conservation programs, **THEREFORE,**

IT IS ORDERED:

1. That the guidelines for a universal service and energy conservation programs are set forth in this Final Order at Appendix B.

2. That a copy of this final Opinion and Order and any accompanying statements of the Commissioners be served upon all jurisdictional electric companies, the Office of Consumer Advocate, the Office of Small Business Advocate, other parties who participated in the Commission's electric competition investigation at Docket No. I-00940032, the Electric Competition Legislative Stakeholders, the parties who filed comments to this order, and the Universal Service and Energy Conservation Work Group.

BY THE COMMISSION,



James J. McNulty
Acting Secretary

(SEAL)

ORDER ADOPTED: July 10, 1997

ORDER ENTERED: JUL 11 1997

Appendix A

Commentors to Universal Service Tentative Order

Allegheny Power (Allegheny)
Catholic Charities - Beaver County
Catholic Charities Diocese of Pittsburgh (PGH, Monaca, Step, Inc.)
Representative Mario J. Civera - 164th Legislative District
Columbia Gas of Pennsylvania, Inc. (Columbia)
Community Action Association of Pennsylvania
Community Action Committee of Lehigh Valley, Inc. (CAC Lehigh)
Community Action Program of Lancaster County
Community Legal Services (CLS)
Conservation Consultants, Inc. (CCI)
Department of Public Welfare
Dollar Energy Fund
Duquesne Light
Economic Opportunity Cabinet of Schuylkill County (EOC of Schuylkill County)
Energy Coordinating Agency (ECA)
Enron Capital and Trade Resources (Enron)
Environmentalists - The Delaware Valley Citizens' Council for Clean Air, the Sierra
Club, Citizen Action and Conservation Consultants, Inc.
Green Mountain Resources, Inc. (Green)
Industrial Energy Consumers of Pennsylvania (IECPA)
Kinetechs, Inc.
Lycoming-Clinton Counties/Community Action (Step) Inc.
Senator Roger A. Madigan
Representative Keith R. McCall - 122nd Legislative District
Senator Robert J. Mellow
Mercer County Community Action Agency (MCCAA)
Montgomery County Community Action Development Commission
New Energy Ventures - Mid-Atlantic (NEV)
North Hills Community Outreach, Inc. (NHCO)
Northern Tier Community Action Corp. (NTCAC)
Northwestern Regional Council/Pennsylvania Council on Aging (NRCPA)
Office of Consumer Advocate (OCA)
PECO Energy Company (PECO)
Penelec & Met-Ed d/b/a GPU Energy (GPU)
Penn Power
Pennsylvania Citizens Consumer Council (PCCC)
Pennsylvania Electric Association (PEA)
Pennsylvania Gas Association (PGA)

Pennsylvania Power & Light (PP&L)
Pennsylvania Solar Energy Industries Association (PENNSEIA)
Pennsylvania Utility Law Project (PULP)
Pennsylvania Weatherization Providers Task Force (Weatherization Task Force)
Peoples Consumer Advisory Board (CAB)
Peoples Natural Gas Company
Pure Energy
Redevelopment Authority of the County of Erie (RACE)
Redevelopment Authority of the County of Monroe (RACM)
The Trehab Center
Tri-Valley Energy Center (TVEC)
UGI Utilities, Inc. - Electric Division
UGI Utilities, Inc. - Gas Division (UGI-Gas)
Utility Emergency Services Fund (UESF)
Weatherization Office of Huntingdon (WOH)

Appendix B

GUIDELINES FOR UNIVERSAL SERVICE AND ENERGY CONSERVATION PROGRAMS

In order to establish guidelines for universal service and energy conservation programs, the Commission establishes the following guidelines to be followed when developing, enhancing or maintaining universal service and energy conservation programs. The guidelines do not suggest any precise requirements that must be a part of the universal service and energy conservation plans of any utility. Such final decisions will be made only in the Restructuring Orders after the electric distribution companies (EDCs) and all interested parties have had an opportunity to litigate the issues based upon these guidelines.

The universal service and energy conservation plans that are part of the restructuring filings should be litigated and ultimately implemented in a manner that is consistent with the foregoing statutory mandates and the other requirements of the Act. Nothing in the Act or the rest of the Public Utility Code suggests that it is possible or desirable to address universal service and energy conservation separately from all the other relevant considerations of the law and public policy.

The primary mandate before the EDCs, the parties and the Commission as restructuring plans are adopted is to lay the groundwork for a fully competitive market for generation within a total level of rates that are capped as of January 1, 1997. Spending levels for universal service and energy conservation must be appropriate considering other spending priorities and the fundamental necessity of complying with all other aspects of the Code as it now has been amended by the Act. The challenge before the EDCs, the parties and the Commission is to do so with an appropriate balance that maintains funding for other aspects of safe and reliable local distribution services at least at current levels.

EDCs, other parties and the Commission must acknowledge that the Code, as now amended by the Act, for the first time imposes a mandate for universal service and energy conservation policies, programs and protections that are "appropriately funded and available in each electric distribution territory." *The Commission can and will meet this mandate while meeting the other requirements of the Code.*

In particular, we note that neither the Act nor these guidelines specify any particular spending level for universal service and energy conservation as a whole. *No inherent increase or decrease in spending is mandated, provided that the total level of resources directed to universal service and energy conservation is*

“appropriate” and the benefits are made “available”. This mandate neither can supersede nor take a back seat to the other requirements of the Code as amended by the Act.

A. Universal Service and Energy Conservation Programs as Components of Restructuring.

The Commission shall require each affected EDC to submit a comprehensive and multi-year universal service and energy conservation plan as part of its Restructuring Filing as required by Section 2804(15).

B. Universal Service and Energy Conservation Policies, Protections and Services.

1. Existing universal service and energy conservation policies, protections and services.

Current universal service and energy conservation policies, services and program include those addressing:

- a) The requirements of 52 Pa. Code Chapter 56 (Standards and Billing Practices for Residential Utility Service);
- b) The requirements of 52 Pa. Code Chapter 58 (Low-Income Usage Reduction Programs) or other comparable program;
- c) The Commission’s Policy Statement at 52 Pa. Code §69.261 et seq. (Customer Assistance Programs) or other comparable program;
- d) The Commission’s Secretarial letter dated November 30, 1992 (CARES programs) or other comparable program;
- e) The administration of hardship funds. Administration does not include utility contributions to a hardship fund. In addition to the EDCs continuing to support hardship funds, the Commission strongly encourages generation suppliers to implement or join an existing hardship fund;
- f) The Commission’s Policy Statement at 52 Pa. Code §69.251 (Plain Language);
- g) The Secretarial letters identified in Appendix C (collection activities). These letters continue to represent the Commission’s interpretation of that which is provided by the Public Utility Code and our regulations. These letters were issued as guidance and were not intended as controlling. By incorporating these letters into this order, we do not intend to bestow upon them any greater weight than they now enjoy.
- h) Any other existing policies, services or programs concerning universal service and energy conservation as defined in the Act.

Given the parameters identified in the foregoing legislative mandate, the first stage of developing a universal service and energy conservation plan to be included in each utility restructuring plan must be to compile a detailed itemization of all existing policies, protections and services.

2. Proposed universal service and energy conservation policies, protections and services.

The Commission believes that, in most cases, the existing universal service and energy conservation policies, services and programs, with some modifications, can meet the new mandates of the Act. The proposed plan should indicate how existing policies, protections, and services may be modified, consistent with these guidelines. The Act clearly requires three additional efforts:

a) Provider of Last Resort. Section 2807(e)(3) requires each EDC, or an alternative supplier approved by the Commission, to acquire electric energy at prevailing market prices to serve any customers that do not obtain generation from another electric supplier. The plan must propose an initial supplier of last resort and how it will be utilized.

b) Renewable resources. Universal service and energy conservation is defined in Section 2803 of the Act to include the application of renewable resources. Since most utilities do not currently address renewable resources, the plan must propose how the application of renewable resources will be accommodated. EDCs may use pilots to test the cost-effectiveness of these technologies before including renewables as a component.

c) Consumer Education. Section 2803 includes consumer education as a component of the definition of universal service and energy conservation, so it must be addressed in the restructuring plan. Consumer education is generally to be governed by the guidelines that are being adopted in a separate Commission order. However, the consumer education plans should address the needs of low-income customers as follows:

i) **Subject matter.** The consumer education plan should educate low-income customers about the following:

1. The options that are available for low-income customers to effectively consider choosing a generation supplier.

2. How can choice work in conjunction with universal service and energy conservation programs. The plan must communicate that exercising choice does not preclude participation in universal service and energy conservation programs or the protections pursuant to the provisions of Chapter 56 protections.
- ii) Outreach strategies. Consumer education efforts for low-income and universal service customers should strongly consider the following education and outreach activities:
1. Use multi-language approaches, when appropriate;
 2. Use appropriate delivery systems to reach disabled individuals;
 3. Use educational methods and messages (such as local radio, free local newspapers, and local community outreach) that are targeted specially to low-income customers;
 4. Use existing customer contact opportunities to educate low-income customers about choice, for example, when a customer receives budget counseling as part of CAP or energy education as part of LIURP;
 5. Target choice education efforts to secondary education students who may assist their households to understand and pay utility bills;
 6. Hold workshops in communities to explain in detail what options are available to low-income consumers;
 7. Create partnerships to educate consumers especially with senior citizens' centers, child day care centers, and child welfare offices.

C. Eligibility Guidelines.

1. General.

In general, these universal service and energy conservation programs shall be available to electric customers whose household income is at or below 150% of federal poverty guidelines and who meet other non-income criteria. The term electric customer includes all residential electric customers not just those customers who heat with electric. Up to twenty percent of the universal service and energy conservation budget may be applied to customers with special needs who are between 150 percent and 200 percent of the federal poverty guidelines. Special needs for purposes of

general eligibility is defined as a customer having an arrearage with the covered utility and whose household income is at or below 200% of the federal poverty guidelines. Special needs includes, but is not limited to, those customers who have experienced a family crisis such as loss of income, divorce, disability or major illness.

2. **Additional eligibility criteria.** Individual universal service and energy conservation components should include the following additional eligibility criteria:
 - a) *Chapter 56 regulations* establish standards for all residential electric customers, therefore all low-income customers who participate in universal service programs are covered.
 - b) *Low-Income Usage Reduction Program (LIURP)* regulations at 52 PA Code, §58.2 define a low income customer as a residential customer with household income at or below 150% of the Federal poverty guidelines. LIURP eligibility criteria is a two-part requirement. First, income must be at or below 150% of the federal poverty guidelines. There is an exception to this rule. Up to 20% of the LIURP budget may be spent on eligible special needs customers with an income level in the range 150% to 200% of the federal poverty level. Second, the household must have high energy usage. Each of the major electric companies should establish company specific minimum usage requirements for each of the three major job types for electric jobs: heating, water heating and baseload. Section §58.10 defines priority of program services. This section outlines the following order of priority for receipt of LIURP services:
 1. Eligible customers with the largest usage and greatest opportunities for bill reductions relative to the cost of providing program services shall receive services first. Additional criteria for usage level and bill reduction are also defined.
 2. Among customers with the same standing under number 1, those customers with the greatest arrearages shall receive services first.
 3. Among customers with the same standing under number 2, those households with the lowest incomes shall receive services first.

- c) *Customer Assistance Program (CAP) eligibility.* A CAP applicant must meet the following eligibility criteria:
1. Status as a ratepayer or new applicant is verified.
 2. Household income is verified at or below 150% of the Federal poverty guidelines.
 3. The CAP applicant is payment troubled.¹ Payment troubled is defined as a household who has failed to maintain one or more payment arrangements.

Because of time and funding constraints, participants should be enrolled on a first come, first served basis. An EDC may choose one of the following four options to prioritize the enrollment of eligible customers. When determining if a CAP applicant is payment troubled, an EDC should select one of the following priorities for payment troubled:

- a) A household whose housing and utility costs exceed 45% of the household's total income. Housing and utility costs are defined as rent or mortgage/taxes and gas, electric, water, oil, telephone, and sewage;
 - b) A household who has \$100 or less disposable income per month after subtracting *all* household expenses from all household income;
 - c) A household who has a reasonable arrearage. The EDC may define the amount of the arrearage; or
 - d) A household who has received a termination notice or who has failed to maintain one or more payment arrangements.
- d) *Customer Assistance and Referral Evaluation Services (CARES) eligibility.* Each EDC may define eligibility for a CARES program. Generally, CARES eligibility may be targeted to special needs customers. Special needs customers may include those who have experienced a family crisis such as loss of income, divorce, disability, or major illness.
- e) *Hardship fund eligibility.* Hardship funds are typically targeted to customers whose household income is verified at or below 150% of the poverty level. Administrators of hardship funds, not the EDC, shall continue to determine the eligibility criteria.

¹ In order for the universal service and conservation guidelines to be consistent with the CAP Policy Statement, revisions to 52 Pa. Code Chapter 69 will be required. Specifically, revision to the CAP eligibility criteria at §69.265(4)(iii) will be required.

- f) *Plain language policy statement.* The plain language policy statement establishes guidelines for communications with all residential customers, therefore all low-income customers who participate in universal service programs should receive plain language communication.
- g) *Secretarial letters related to collection activity.* The Secretarial letters express direction for all residential customers, therefore all low-income customers who participate in universal service programs are covered by the issues addressed in the Commission's Secretarial Letters.

D. Expenditures for Universal Service and Energy Conservation.

1. Many facts and concerns must be balanced in order to ensure that universal service and energy conservation is appropriately funded and available in each service territory. The rate cap is one of the statutory mandates that must be considered along with maintaining the existing quality of safe and reliable local distribution service. The unbundled rates to be established must balance the recovery of stranded costs, universal service and continuing operations. The Act requires that the Commission meet all of these mandates and does not indicate that any one mandate is more important than another. In order to ensure that universal service and energy conservation programs are "appropriately funded and available in each service territory" the plan must address:

- a) Identification of existing and proposed efforts;
- b) Needs assessment of the market for and acceptance of universal service programming in the territory;
- c) Identification of the greater of the current level of spending or the amounts included in existing rates to support existing efforts;
- d) Other statutory mandates and these guidelines.

The EDCs should identify the current level of spending and/or the amounts included in existing rates to support the existing efforts. Current expenditures include, in part: write-off of uncollectible expenses; operational costs associated with collections, termination and reconnection activities; cash working capital associated with arrearages; costs associated with CAP, CARES, and LIURP programs; and administration of hardship funds.

In identifying existing operational costs associated with collection activities, the EDCs should use the top-down approach outlined in Equitable's EAP's impact evaluation. For convenience, we have attached in Appendix D the description of the top-down approach outlined by Equitable's evaluator.

2. The expenditures for universal service and energy conservation programs must be examined in conjunction with the costs of distribution rates, and competitive and intangible transition charges. Funding for universal service and energy conservation programs should not be determined after all other funding requirements are met. The total amount of dollars available under the rate cap should be adjusted to meet all the requirements of the Act including universal service and energy conservation.

3. The plan should identify any proposed shift of expenditures among programs based upon the needs assessment, in order for the total program to be more cost effective.

E. LIURP.

LIURP does not require major revisions as a result of the transition to customer choice. The existing programs may continue to be operated essentially as they are now. The Commission is currently in the process of revising the LIURP regulations. Any revisions to the LIURP regulations will follow the guidelines that are set forth in this order.

F. Customer Assistance Programs (CAPs).

In order for the universal service and energy conservation guidelines to be consistent with the CAP Policy Statement, revisions to 52 Pa. 52. Code Chapter 69 will be required. Any revisions to the CAP Policy Statement will follow the guidelines that are set forth in this order. The Commission's CAP Policy Statement became effective July 2, 1992.

Experience and the new circumstances under the Act indicate that some changes to CAPs are appropriate at this time. The following guidelines should be read in conjunction with the CAP Policy statement and implemented as part of the universal service and energy conservation plans.

1. **Control features.**

The Commission is amending this section to eliminate conservation incentives. Consumption limits are not being eliminated. The need to provide LIURP services when appropriate and the need for participants to conserve energy is still necessary.

The Commission is adding a control feature that disallows a CAP participant from subscribing to nonbasic services that would cause an increase in monthly billing and would not contribute to bill reduction. Nonbasic services that help to reduce bills may be allowable. CAP credits should not be used to pay for nonbasic services.

The Commission is changing the term *billing deficiency limit* to *maximum CAP credits*. The term *billing deficiency* suggests that payments are not made. Participation in CAP requires that a customer make regular, monthly payments for the full CAP amount billed. The term *CAP credits* is more accurate in describing the difference between the amount that would have been billed at the standard residential rate and the amount billed at the CAP rate.

2. **Default provisions.**

The Commission believes that the consequences for nonpayment should be loss of service; therefore, we recommend that participants who do not make payments should be returned to the regular collection cycle. The collection process includes all of the notification and procedural steps required in Chapter 56. At a minimum, the utility should inform the participants of the consequences of defaulting from the CAP. To avoid termination of service, the CAP participant must pay the amount set forth in the termination notice prior to the scheduled termination date. This amount should generally be no more than two CAP bills.

The Commission is deleting the provision that failure to apply for LIHEAP and designate a LIHEAP grant to the CAP-sponsoring utility should result in dismissal. Because of the changes to LIHEAP eligibility and funding, CAP participants have difficulty meeting this provision. EDCs should continue to strongly encourage CAP participants to apply for all available LIHEAP benefits and to designate a LIHEAP grant to the sponsoring utility.

3. **Coordination of LIHEAP benefits.**

The Commission is adding a section to allow the utility flexibility to deal with a participant who fails to apply for a LIHEAP grant. EDCs may use the option of imposing a penalty on a CAP participant who is eligible for LIHEAP benefits but who fails to apply for those benefits. EDCs should use this option carefully and the penalty should not exceed the amount of an average LIHEAP cash benefit. If a customer applies for a LIHEAP benefit but directs it to another utility or energy provider, the CAP provider should not assess a penalty. EDCs should strongly encourage participants to apply for LIHEAP benefits.

4. **CAP Enrollment.**

CAPs have been operated to date as pilots with limited enrollment. Given the positive evaluations of CAPs in meeting their goals of affordable payments and reduced utility costs, the plans should address anticipated changes in CAP enrollment levels that reflect the strategic use of CAPs as a cost effective component of universal service.

The restructuring plan must set out the plan of the EDC for at least the next three years for meeting the CAP needs of its territory. The EDC's plan should provide for the EDC to complete any programming changes, design changes and secure appropriate support staff to accommodate any changes in the EDC CAP program over a three year period. We would expect design changes to be minimal due to the time EDCs spent in establishing their pilots. Our review and approval of the CAP program plan will reflect the needs assessment, consideration of the estimated number of low-income households in the utility's service territory, the number of participants currently enrolled in the pilot CAP, participation rates for assistance programs, and the EDC resources available for universal service and energy conservation programming to meet the needs of the targeted population.

5. **CAP Payment Amounts.**

The level of CAP payment required from the customers should consider the total funding for universal service as in Section F.4. The fundamental lesson learned from CAP is that customer payments can be maximized while minimizing collection and other utility expenses if the required payments are affordable. CAP payments must be consistent with the following:

Generally, CAP payments for total electric and natural gas home energy should not exceed 17% of the CAP participant's annual income.

Generally, a participant's CAP payment should not exceed the percentages shown in the percentage of income payment plan at 5(a). The payment plans that follow the percentage of income payment plan should reflect the percentages shown in the percentage of income payment plan at 5(a). The minimum payment should not be less than the guidelines at §69.265(3)(v)(A) and (B). Payment plans should be based on one or a combination of the following:

(a) *Percentage of income payment plan.*

- (i) Generally, maximum payments for electric nonheating service should be within the following ranges:
 - household income between 0-50% of poverty at 2%-5% of income.
 - household income between 51-100% of poverty at 4%-6% of income.
 - household income between 101-150% of poverty at 6%-7% of income.
- (ii) Generally, maximum payments for electric heating (generally all electric service) should not exceed the following guidelines:
 - household income between 0-50% of poverty at 7%-13% of income.
 - household income between 51-100% of poverty at 11%-16% of income.
 - household income between 101-150% of poverty at 15%-17% of income.

(b) *Percentage of bill payment plan.* The participant's household payment contribution for total electric and natural gas home energy under a percentage of bill plan is determined using the variables of family size and income and the household's annual energy usage. A participant's annual payment is calculated as a percentage of income payment and converted to a percentage of the annual bill. When an EDC determines subsequent CAP payment amounts, a participant will continue to pay the same percentage of the total bill even if annual usage has changed.

(c) *Rate discount.* The participant's energy usage is billed at a reduced rate that is a fraction or percentage of the normal rate.

- (d) *Minimum monthly payment.* The participant's household payment contribution is calculated by taking the participant's estimated monthly budget billing amount and subtracting the maximum monthly CAP credit, previously called billing deficiency (\$46 month for non-electric heat and \$116 month for electric heat).
- (e) *Annualized average payment.* The participant's household payment contribution is calculated by determining the total amount the participant paid over the last 12 months and dividing by 12 to determine a monthly budget.
- (f) *An alternative payment formula.* An alternative payment formula must be reviewed by the Bureau of Consumer Services and approved by the Commission.

6. CAP Participants and Competitive Supply.

As a general policy matter, the Commission supports CAP participants acquiring supply in the competitive market and allowing competitive suppliers to be involved in providing electric supply to CAP participants. However, the details of how viable CAP programs can be maintained and improved while affording CAP participants access to competitive supply have yet to be worked out. As part of their restructuring plan, parties should develop workable designs for how CAP participants can be involved in the competitive market. These designs may include aggregation of low-income or CAP customers or other innovative approaches. Any program designs that involve CAP participants acquiring supply in the competitive market should meet the following goals:

- effective case management;
- avoidance of customer confusion;
- effective use of universal service funding; and
- maintaining customer affordability.

G. Cost Recovery of Universal Service and Energy Conservation Programs.

Section 2804(8) & (9) of the Act require that the Commission adopt a non-bypassable, competitively neutral cost recovery mechanism for each distribution territory designed to fully recover the EDC's universal service and energy conservation costs over the life of the programs. The Act is clear that it is distribution customers, not utilities, who are to fund these efforts.

1. The cost of an EDC's universal service and energy conservation programs should be allocated among the classes of the distribution company's

ratepayers consistent with sound rate design principles and in accordance with the Act's prohibitions against the interclass and intraclass cost transfer and the Act's rate cap. The allocation of universal service program costs will be performed during each utility's restructuring proceeding.

2. The electric distribution company will assess the nonbypassable, competitively neutral cost recovery mechanism that funds universal service and energy conservation policies, activities and services.
3. Funding should be utility service territory-specific rather than statewide.
4. All customer classes should share in providing funding of universal service consistent with sound rate design principles and in accordance with the Act's prohibitions against the interclass and intraclass cost transfer and the Act's rate cap.
5. Within the rate caps, universal service program funding must be appropriate to ensure the availability of meaningful and strong programs in each service territory.

H. Administration.

1. **Program administration.** During the transition period, the Commission urges a moderate approach to administration of universal service and energy conservation programs. Initially, we recognize that each distribution company administers its universal service and energy conservation programs. The Commission encourages EDCs to use the resources of community-based organizations.
2. **Administration of program benefits.** The universal service funding mechanism should be collected by the EDC as a non-bypassable distribution charge, paid by all customers. Universal service and LIHEAP benefits should be assigned to the EDC. Each restructuring proceeding will determine responsibility for a supplier of last resort. If a supplier of last resort is different than the EDC, CAP benefits should be pro-rated to include the supplier of last resort when applicable.
3. **Approval of universal service and energy conservation plan.** If the Commission rejects the initial or subsequent universal service and energy conservation plan, the EDC must submit a revised plan pursuant to the order rejecting or directing modification of the plan as previously filed. If a

timeline is not stated in the order rejecting the plan, the EDC must file its revised plan within 30 days.

I. Reporting Requirements.

1. Each EDC should gather information and analyze it on a bi-annual basis and report to the Commission on its progress in achieving universal service within its service territory. The EDC should include in its report recommendations on how to close any identified gaps in providing electric service to its low-income customers.

Reports should include, but not be limited, the following information:

- a) EDCs should report all criteria used by the EDC to categorize customers as low-income. EDCs should report the annual collection operating costs associated with handling low-income customer accounts, including administrative expenses associated with termination activity: 10-day termination notice, personal contact, 48-hour notice, actual termination of service, post termination and restorations; negotiating payment arrangements requests; budget counseling; handling informal and formal complaints; securing and maintaining deposits; tracking delinquent accounts; collection agencies' expenses; litigation expenses; dunning expenses, and winter survey expenses.
- b) EDCs should report the dollar amount of the EDC's gross residential write-offs for the reporting year, the portion related to low-income customers or an estimate of the portion related to the low-income customers.
- c) EDCs should report how many residential service customers were served in the reporting year, the number of residential customers known to be low-income customers, and total estimated low-income customers, and the EDC's definition of a low-income customer. EDCs should also report how many residential customers are payment troubled customers, and how the EDC defines "payment troubled". The EDC should also report how many low-income customers are known to be payment troubled customers, and what is the estimate of the total number of low-income, payment troubled customers.

- d) EDCs should report a definition of a residential account in arrears, the total number of residential accounts in arrears in the reporting year, the number of those accounts that were low-income customers, dollars in arrears owed by identified low-income customers, and the total number of dollars in arrears (identified and estimated).
- e) EDCs should report annually to the Commission the number of customers who are potentially eligible for CAP. EDCs should report the number of customers enrolled in CAP.
- f) EDCs should report annually the number of customers still in need of LIURP services and the cost to serve all customers who need LIURP services.

EDCs should submit an updated universal service and energy conservation plan on a bi-annual basis. If the Commission rejects the plan, the EDC must submit a revised plan pursuant to the order rejecting or directing modification of the plan as previously filed. If a timeline is not stated in the order rejecting the plan, the EDC must file its revised plan within 30 days.

- 2. The Bureau of Consumer Services will report to the Commission biannually on the status of each EDC's universal service and energy conservation programs.
- 3. The Commission will determine if the EDC meets the goals of universal service and energy conservation program. The EDC should establish an individual goal of how many customers should be served by universal service and energy conservation programs. The general goals of universal service and energy conservation programs include the following: to protect low-income consumers health and safety by ensuring that electric service is available; to provide for affordable service by making available payment assistance to low-income customers; to assist low-income consumers conserve energy and reduce residential utility bills; and to ensure that universal service and energy conservation program components are cost-effective.
- 4. Universal service and energy conservation program evaluations. Five years after an EDC's restructuring filing is approved, the EDC should submit an impact evaluation of its universal service and energy conservation programs. After the initial impact evaluation, the EDC should submit an impact evaluation of its universal service and energy conservation programs every five years. The impact evaluation should

focus on the degree to which programs achieve the continuation of utility service to program participants at reasonable cost levels and otherwise meet program goals. The evaluation should be conducted by an independent third-party.

Three years after the EDC's restructuring filing is approved, the EDC should conduct a one-time process evaluation of its CAP. The process evaluation should focus on whether CAP expansion has met the level of need, whether it conforms to the program design guidelines and should assess the degree to which the program operates efficiently.

J. Advisory Panels.

An EDC should create and maintain a universal service program advisory panel to provide consultation and advice to the utility regarding the scope, design and administration of its universal service programs. An EDC may use an existing customer advisory panel, such as the LIURP advisory panels required at §58.16 to satisfy this guideline when the membership of the panel can reasonably be expected to provide effective consultation and advice regarding universal service programs.

Appendix C
Secretarial Letters Relating to Collections

<i>Secretarial Letter</i>	<i>Content of Secretarial Letter</i>	<i>Guidelines established by Secretarial Letter</i>
<i>Heat Wave Procedures</i> <i>3/17/94</i>	Recommends guidelines for electric utilities to assist in protecting the public's health and safety during periods of extreme heat and humidity.	Guidelines: Use existing resources to educate the public about the dangers of intense hot weather, remind customers of existing protections to pay high bills, refrain from terminating service to "at risk" population during heat waves, be lenient with requirements to reconnect service during heat waves when the household includes an "at risk" member. "At risk" includes those age 60 and over, those seriously ill and those taking certain medications.
<i>Budget Counseling</i> <i>11/30/93</i>	Recommends guidelines for budget counseling	Guidelines: make budget counseling a significant component of customer support programs for customers who are payment troubled, reserve traditional budget counseling for payment troubled customers with an ability to pay; make nontraditional budget counseling available for those who are low income which includes the completion of a budget worksheet and supportive guidance to persuade customer to make selected changes to reduce certain expenses.
<i>Winter Termination Procedures</i> <i>2/12/93</i>	Lists requirements for utilities when requesting permission to terminate residential service between December 1 and March 31.	Requirements: utility report 2 year history of contacts 12 month payment history information validating customer's positive ability to pay support for following criteria: Income above 150% of poverty No children under 12 No occupants over 60 No occupants with physical or mental disabilities No occupant with serious illness No landlord/tenant relationship

<i>Secretarial Letter</i>	<i>Content of Secretarial Letter</i>	<i>Guidelines established by Secretarial Letter</i>
<i>LIHEAP Outreach Plans</i> <i>11/30/92</i>	Urges companies to actively pursue LIHEAP benefits for their customers.	
<i>Budget Counseling</i> <i>5/31/85</i>	Endorses the use of budget counseling for customers with some ability to pay and a willingness to have their financial affairs managed by a credit counseling agency.	Guidelines: services should not be provided by company employees who perform billing, credit or collections responsibilities; companies should pay any fee CBO's charge for the services; companies must insure budget counseling agencies are productive and legitimate and be able to demonstrate this to the Commission.
<i>Hardship Fund</i> <i>No Date</i>	Encourages support of a hardship or fuel fund in the company's service territory.	Use matching credits from stockholders' contributions to multiply the value of customer and employee contributions, provide a dollar check-off feature for customer contributions, actively seek donations from the community and corporate neighbors.
<i>Hardship Fund</i> <i>11/30/92</i>	Recommends guidelines for utility hardship funds.	Guidelines: Continue to support and expand company hardship fund programs; advocate for increase in shareholder contributions through matching provisions or outright grants, offer the "dollar check-off provision" to solicit contributions, join with a highly visible charitable organization, seek donations from community and corporate neighbors, and increase visibility through fund raising and use of mass media.
<i>Tracking & Referral</i> <i>2/20/86</i>	Proposes guidelines to prevent potential payment problems and to ameliorate actual problems by improving the ability to pay of all eligible customers. Purpose is to insure customers receive the benefits of the assistance and support programs for which they qualify.	Identification of Services: <ul style="list-style-type: none"> a) private and public agencies b) LIHEAP and CRISIS c) conservation d) credit counseling e) specialized sources such as nutritional and home management services Company Programs: <ul style="list-style-type: none"> a) home energy audits b) conservation programs c) budget billing

Secretarial Letter	Content of Secretarial Letter	Guidelines established by Secretarial Letter
Tracking & Referral <i>(Continued)</i>		<p>Linking Services: Companies take leading role in creating system coordination services</p> <ul style="list-style-type: none"> a) nature of service b) eligibility requirements c) application process <p>Identification of Customers:</p> <ul style="list-style-type: none"> a) application process b) complaints and inquiries c) service trouble reports d) direct appeals to customers e) receipt of LIHEAP, various income sources, medical assistance <p>Effective Referrals:</p> <ul style="list-style-type: none"> a) system within company b) updated frequently c) company staff training d) referrals from other organizations to utility <p>Tracking:</p> <ul style="list-style-type: none"> a) maintain records to ID potentially payment troubled customers
Service Limiters 6/20/85	Recognizes the use of service limiters as an acceptable practice.	
Monthly Meter Reading 6/20/85	Encourages companies to study the feasibility of reading meters monthly.	
Monthly Collections 6/20/85	Recognizes monthly collections as most effective approach to pursuing nonpayment. Also recognizes some alternate approaches to monthly collections can achieve some ends as monthly collections.	

<i>Secretarial Letter</i>	<i>Content of Secretarial Letter</i>	<i>Guidelines established by Secretarial Letter</i>
<i>Credit Screening</i> 6/20/85	Recognizes adequate residential credit screening for identifying payment-troubled customers and for deterring fraudulent applications for service.	
<i>"Soft Core" Dunning</i> 6/20/85	Recognizes the usefulness of reminder notices and similar nonthreatening reminders as a first step in collections.	
<i>Deposits from exiting residential Customers</i> 6/20/85	Urges companies to carefully scrutinize customers to insure the demand for a deposit will not exacerbate the potential for serious payment problems.	
<i>Budget Billing Plus</i> 6/20/85	Advises companies the Commission endorses using plans that set a flat monthly payment for delinquent customers.	
<i>Special Payment Reminders</i> 6/20/85	Endorses use of nonthreatening telephone contacts to remind customers that payment will soon be due and to pick up on the recent development of any special problems which could prevent timely payment.	
<i>Waive Late Payment Charges</i> 5/31/85	Urges companies to consider waiving residential late payment charges for customers with a limited ability to pay for utility service.	
<i>Customer CARES</i> 5/31/85	Suggests the establishment of a customer "CARES" program.	
<i>Customer CARES</i> 11/30/92	Recommended guidelines to improve the impact of CARES programs. Also urged the 3 utilities that didn't have CARES to set a program up and respond to BCS how it will implement CARES or an alternative program.	Guidelines: Communicate status annually to BCS; expand eligibility to include not only senior citizens but also special needs low income customers; include staff training in communication skills, staff training regarding CARES program design; home visitation (at least one) and preparation of energy audit for most recipients; intensive tracking and referral services for CARES participants, maintenance of confidential case files; expansion and maintenance of customer services network; include social services background in job description of a CARES representative.

H. Gil Peach & Associates
Monograph 9604

Impact Assessment of the Equitable Gas Company Energy Assistance Program

An Independent Analysis of the Energy Assistance Program (EAP), an account management pilot designed to make energy affordable.

September 1996

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VII. Comparative Administrative Cost

Programs, of course, cannot be run without administrative cost. And, even the absence of a program will lead to the incurring of administrative costs. One of the concerns regarding any program is cost of administration versus the cost of administration of realistic alternatives.⁶⁴

◆ The goal of the analysis of administrative costs is to determine the administrative cost of EAP in comparison with the administrative cost of traditional methods of credit and collection.

A. Method of Analysis

The basic problem is to compare the cost of *traditional* approaches to credit and collection for payment-troubled customers and the *alternative* cost of offering an Energy Assistance Program (EAP) for those low-income payment-troubled customers who are initially willing and able to respond to EAP pricing, and then continue to meet the conditions and requirements associated with EAP pricing. Two approaches are used. The first is a "bottom up" approach which has been traditionally used in *evaluation studies of this kind*. The second is a "top down" approach which is consciously designed to resemble the kinds of considerations which are taken into account in the annual departmental budget cycle.

⁶⁴ This section deals only with comparison of administrative cost. A consideration of full benefits and costs is presented in Section IX.

The top-down method is adopted following a discussion of the two approaches.

1. Bottom-Up Approach

In reviewing previous studies of CAP-type programs, the method of cost analysis generally employed begins by developing the costs of the alternative (here EAP). Then, an attempt is made to isolate the individual costs of activities associated with traditional approaches to credit and collection for low-income payment-troubled customers, by means of estimating costs of individual (unit) activities to form an aggregate cost. And then, the two are compared. There are both strengths and weaknesses in this approach.

a) Strengths

The strength of the bottom-up approach is in identifying the costs of the new program alternative (here EAP). These costs are, after all, easy to identify. Ease in identification is due to the fact that a new program is noticed. The costs stand out because they were not in the departmental budget or in the budgets of service departments in the prior year. Also, none of the new costs have as yet been accommodated by inclusion in "off-project" services or budgets.

New costs are especially visible when there is a use of outside service companies, such as community-based organizations (CBOs) and consulting, administrative, or collections agencies in developing, implementing, and operating new projects. These outside agencies necessarily include all overheads and productivity factors in the bottom line bid price. Thus the costs of the new program (here EAP) tend to be accurate. There are no missed administrative, support, or overhead

costs. Even if costs are not correct by category or line item (more often the case than not), the bottom line will be correct.⁶⁵ Thus, new project costs (1) will necessarily be included in the bid prices of outside service providers, and (2) will necessarily be brought forward by internal departments, such as computer services, since to the staff of related service functions new activities will appear as associated with new and discrete cost increments.⁶⁶

b) Weaknesses

As may be obvious, the weakness of the standard approach is in the costing of the traditional service effort. Historically, the "Credit and Collections" function has existed approximately for the same duration as the utility. For the first utilities of the Atlantic states, this means that practices which made perfect sense when the utility was founded, or during a past decade when the cost reporting of such areas as "Customer Service" or "Credit and Collections" was last systematically reviewed, continue over the years. They are integral to the yearly cycle of cost accounting and reporting. This system (as developed for firm level regulatory and financial reporting) works, so it is not changed.

Thus, while costs are properly accounted into overall FERC categories, utility accounting systems were never intended to support individual

⁶⁵ The bottom line of a vendor bid must contain all costs, and is reliable. In practice, the individual line item amounts which total to the bottom line are not, even if a formal requirement.

⁶⁶ Many utilities track costs only at high levels and in broad categories. For these utilities the "activity center" which serves as cost center is at the VP level. A few utilities have new computer assisted accounting systems which track at the project level. In either case, new projects will be noticed and their incremental costs will be easily identified.

project-level testing of costs of traditional operations versus a mix of alternatives. The kind of demand placed upon cost accounting by program evaluation is very unusual in the ongoing routine of business. The level of cost information required, and particularly the routine accounting of cost by low-level activity is usually not present prior to the information requests posed by program-level evaluation. Capturing the level of costs required for evaluation easily becomes an impractical project, because the amount of person-effort required is prohibitive.

The bottom-up approach misses significant costs of traditional operations. While fully adequate for traditional accounting purposes, utility cost tracking is simply not designed to facilitate direct "what if" testing of the rationality of traditional costs at the program or project level. And, over the years, critical support costs for an operation can become institutionalized in other budgets, and so be missed. Finally, the bottom-up approach depends on developing a comprehensive list of cost categories. By the nature of this task, it is quite possible for some of the relevant categories to be missed.

Not only are cost categories missed, but the "productivity factor" is often left out in bottom-up accounting. For example, a study of activities relevant to credit and collections might accurately state the time and cost of issuing a collections letter, but leave out the fact that one-fourth of the day's work time is not accounted for by directly relevant work tasks for which per unit costs are developed. The missing element is the productivity factor.

2. Top-Down Approach

In contrast to the bottom-up approach, the model for the top-down

approach is straightforward and simple. It is the utility annual departmental budget cycle. The difference between the two approaches can be emphasized by imagining what would happen if a departmental manager were to use the "bottom up" approach (the only information available in many program evaluations) to determine the departmental budget for the following year. The "bottom-up" approach begins by identifying work activities, and then breaking them into units – similar to a time and motion study. This might include such items as numbers of letters to the average payment-troubled customer, cost per letter in time, postage, paper, etc. Yet, anyone who has managed a department or work group through the annual budget cycles of a large corporation will be familiar with the fact that working up an annual budget from the per unit costs of productive activities could easily yield a budget that would cause the department to run out of funds by the third quarter, or even by the middle of the year.

For the evaluation, what the top-down approach captures easily, but the bottom-up approach easily leaves out are:

- (1) Overheads.
- (2) The 'productivity factor'.
- (3) Support services (traced and assigned as appropriate to the cost of traditional approaches to credit and collections).⁶⁷

The best way to capture these hidden costs is to avoid the bottom-up approach and use the top-down approach if at all possible.

⁶⁷ For example, some utilities have centralized and partially automated the collections function. Computer assisted call centers, and computer generation of standard collection letters may appear to reduce the staffing costs of traditional approaches to collection, and thus lower the cost per letter. But both re-organization projects and computer projects typically have high costs, not accounted to credit and collections budgets. From an evaluation perspective, all such costs should be assigned to the operations which they impact.

B. Results

For the bottom-up approach, traditional costs include all transactions such as letters, agreements (cost of setting payment arrangements), changes

Table VII-1: Cost Categories included in Top-Down Approach

COST CATEGORIES	
<u>Labor</u>	
Non-Union	
Union	
Benefits	
<u>All Other Collection Budget</u>	
Materials & supplies	
Transportation	
OCM maintenance and telephone charges	
Collection fees/commissions	
Collection contractors	
PC & photocopy rental	
<u>Additional Collection Charges</u>	
Credit reports	
Computer - forms	
Computer -other	
Bankruptcy recovery - legal fees	
Legal	
Customer Service customer negotiations	
Telephone	
Postal Meter Allocation	
Consumer Credit Counseling	
Service Reconnections	
BCS Complaints (Service Terminations)	

in agreements (cost of changing payment arrangements), high bill complaints, complaints to the Pennsylvania Public Utility Commission, bill messages, and costs associated with service termination and reactivation. For the top-down approach, costs associated with the

traditional approach are allocated from departmental and company-wide budget records. Cost categories allocated are shown in Table VII-1.

In the top-down approach, because actual budget categories and accounting records serve as the basis for allocation, overheads and support services from other departments are included. Also, the productivity factor is automatically included, just as it is included in the bottom-line bid price for a service vendor. Through this method, both EAP (as a new project, with very visible costs), and the traditional approaches to collections (for which cost categories and cost amounts are not easily isolated) are treated in the same manner and there is a good chance that all costs are captured for both EAP and the traditional approaches to credit and collections for payment-troubled customers.

Results of the bottom-up and top-down approaches are shown in the contrast of Table VII-2 and Table VII-3. The bottom-up results shown in Table VII-2 are typical of the best results obtainable from utility records using this approach and are typical of administrative costs calculated for CAP-type evaluations. The top-down results shown in Table VII-3 were developed working with the Corporate Comptroller and implementing the practical cost allocations used in the annual budget cycle plus allocations of related costs identified in the budgets of support departments.

Since both the bottom-up and top-down approaches use a net cost calculation, there is some correction for the lack of adequate cost accounting in the bottom-up approach. But the corrective tendency inherent in net figures is not strong enough in this case to make the resultant bottom-up results useful. This is because, as expected, the ability to capture costs of the alternative program (EAP) are about equal in both bottom-up and top-down approaches (column 3 of each table),

ADMINISTRATIVE COST
PER CUSTOMER
(Bottom-Up)

Column 1	Column 2	Column 3	Column 4
	Baseline Year	Participation Year	Difference
All New EAP Customers (Group 1, n = 221)			
Traditional Collections Cost	20.62	12.11	
EAP Monitoring	0.00	43.60	
Enrollment	0.00	28.68	
Total	20.62	84.39	(63.77)
At least Some First Year Participation in EAP (Group 1, n = 68)			
Traditional Collections Cost	31.49	27.19	
EAP Monitoring	0.00	20.18	
Enrollment	0.00	28.68	
Total	31.49	76.05	(44.56)
Stable Full Year Participation in EAP (Group 1, n = 153)			
Traditional Collections Cost	15.71	5.41	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	28.00	
Total	15.71	87.41	(71.70)
Stable Second Full EAP Year (Group 3, n = 137)			
Traditional Collections Cost	15.71	0.82	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	0.00	
Total	15.71	54.82	(39.11)
Qualified but never Entered (Group 2, n = 258)			
Traditional Collections Cost	14.56	16.76	
EAP Monitoring	0.00	0.00	
Enrollment	0.00	0.00	
Total	14.56	16.76	(2.20)
(1) Assumes same baseline cost as previous year would have applied if participation had not continued for the second twelve months.			

while the ability to capture the costs of the traditional approach to credit and collections is poor in the bottom-up approach and accurate in the top-down approach (compare column 2 of each table). Although there is some variation, the bottom-up approach captures only about one-fourth

Table VII-3: Top-Down Results

ADMINISTRATIVE COST PER CUSTOMER (Top-Down)			
Column 1	Column 2	Column 3	Column 4
	Baseline Year	Participation Year	Difference
All New EAP Customers (Group 1, n = 205)			
Traditional Collections Cost	81.47	22.26	
EAP Monitoring Cost	0.00	46.77	
Enrollment	0.00	28.00	
Total	81.47	97.03	(15.56)
At least Some First Year Participation in EAP (Group 1, n = 93)			
Traditional Collections Cost	114.34	72.36	
EAP Monitoring	0.00	25.90	
Enrollment	0.00	28.00	
Total	114.34	126.26	(11.92)
Stable Full Year Participation in EAP (Group 1, n = 183)			
Traditional Collections Cost	66.87	0.00	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	28.00	
Total	66.87	82.00	(15.13)
Stable Second Full EAP Year (Group 3, n = 137)			
Traditional Collections Cost	66.87	0.00	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	0.00	
Total	66.87	54.00	12.87
Qualified but never Entered (Group 2, n = 258)			
Traditional Collections Cost	84.97	80.99	
EAP Monitoring	0.00	0.00	
Enrollment	0.00	0.00	
Total	84.97	80.99	3.98
(1) Assumes same baseline cost as previous year would have applied if participation had not continued for the second twelve months.			

of actual administrative costs of traditional approaches to credit and collections as does the top-down approach.

This difference becomes important in understanding the impact of administrative costs. As shown in the top-down approach of Table VII-3,

the customers who enter EAP and are stable for one full year in EAP show a net administrative cost of \$15.13 above the baseline year. But those who stay two years return \$12.87 in lower administrative costs in the second year, so that the net cost over two years is \$2.26.

Although this study does not extend to the third year, we can project an additional administrative net savings by EAP of \$12.87 in the third year for those who remain in the program. Thus there is a net advantage to EAP of \$10.61 per customer for customers retained three years. We have not measured three year program retention in this study, but we do know that retention is about 70% for one year, and drops only to 68% of the original applicants for two years. The small drop between the first and second full year suggests very strong stability. Assume the third year figure is 65%. Then, for each 100 customers entering EAP, the 65% retained for three years would return \$689.65 in net administrative cost reduction ($65 \times \$10.61$). For those who remain in EAP, these savings would increment over future years.

For customers who drop out of EAP, it must be taken into account that these customers also fail in traditional approaches to credit and collections. The increased cost caused by these customers in traditional approaches to credit and collection begins to be indicated in Table VII-3, for customers with "At least Some First Year Participation in EAP". As shown in column 2, the Baseline Year cost of traditional collections for this group is considerably higher than that of any other group. Thus, even though their total cost in the EAP Participation Year is high, since their cost in the Baseline Year is also high, the difference is not large (column 4). The cost item which causes the net increase in cost for customers who drop out and then cycle back through re-enrollment is the cost of each re-enrollment.

This suggests a need to study the cost of those customers who drop out of EAP, over a several year period in order to increase knowledge of both their EAP and traditional costs.

Appendix E

Tentative Order Format

- A. Universal service and energy conservation programs as components of restructuring.
- B. Eligibility guidelines.
- C. Universal Service components.
 - 1. Universal service components.
 - 2. Renewable technologies.
 - 3. Eligibility criteria.
 - 4. Consumer and energy education and outreach activities.
 - 5. Revisions to LIURP.
 - 6. Revisions to CAP.
- D. CAP enrollment.
 - 1. Enhancement of CAPs.
 - 2. CAP payment amounts.
- E. Expenditures.
- F. Funding of universal service and energy conservation programs.
- G. Administration.
 - 1. Program administration.
 - 2. Administration of program benefits.
 - 3. Approval of universal service and energy conservation plan.

Final Order Revised Format

- A. Universal service and energy conservation programs as components of restructuring.
- C. Eligibility guidelines.
 - 1. General
 - 2. Additional eligibility criteria.
- B. Universal Service And Energy Conservation Policies, Protections And Services.
 - 1. Existing universal service and energy conservation policies, services and programs.
 - 2. Proposed.
 - a) Provider of Last Resort.
 - b) Renewable resources.
 - c) Consumer Education
- E. LIURP.
- F. Customer Assistance Programs (CAPs).
 - 1. Control features.
 - 2. Default provisions.
 - 3. Coordination of LIHEAP benefits.
- F. Customer Assistance Programs (CAPs).
 - 4. CAP enrollment.
 - a) Needs assessment.
 - b) Enrollment plan.
 - 5. CAP payment amounts.
 - 6. CAP participants and competitive supply.
- D. Expenditures for universal service and energy conservation.
 - 1. Balance
 - 2. Expenditures.
- G. Cost Recovery Funding of Universal Service and Energy Conservation Programs.
- H. Administration.
 - 1. Program administration.
 - 2. Administration of program benefit
 - 3. Approval of universal service and energy conservation plan.

H. Reporting Requirements.
I. Advisory Panels.
J. Other.

I. Reporting Requirements.
J. Advisory Panels.
K. Other.

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania

GUIDELINES FOR UNIVERSAL
SERVICE AND ENERGY
CONSERVATION PROGRAMS

PUBLIC MEETING-
JULY 10, 1997
JULY-97-BCS-6*
DOCKET NO. M-00960890
F-0010

STATEMENT OF COMMISSIONER JOHN HANGER

The goal of issuing Guidelines concerning certain issues, including Universal Service and Energy Conservation plans, was to give interested parties sufficient direction to facilitate more effective and efficient litigation of the restructuring cases. I am disappointed that these Guidelines do not provide more direction. In the absence of such clear direction, the ultimate issues must be determined in each individual restructuring case. That will take much more time and effort. The Commission still will have to address the ultimate issues.

In particular, I am disappointed that this document does not provide clearer direction on Customer Assistance Programs. After several years of pilots, there is now substantial evidence that properly operating CAPS can more cost-effectively address some inability to pay cases than conventional collections efforts. That doesn't necessarily mean spending more for Universal Service. It does mean spending what you have more wisely and obtaining greater levels of Universal Service bang for the same bucks.

While the Guidelines do provide useful guidance in some areas, I regretfully must dissent.

July 9, 1997
DATED

John Hanger
JOHN HANGER, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

GUIDELINES FOR UNIVERSAL
SERVICE AND ENERGY
CONSERVATION PROGRAMS

PUBLIC MEETING-
JULY 10, 1997
JUL-97-BCS-6*
M-960890 F-0010

STATEMENT OF COMMISSIONER DAVID W. ROLKA

BCS-6 contains language extolling the virtues of CAP and LIURP programs. It contains a lot of language defining the form and content of these programs. Unfortunately, it also contains a lot of language that allows for insufficient funding of these programs by the EDC industry.

The key is how one defines the phrase "appropriately funded and available" found in Section 2804(9) of Act 138. The Act does not define the phrase and neither does BCS-6. BCS-6 permits the EDC industry and others to contemplate *de facto* definition by providing examples of how CAP and LIURP funding can be limited (pages 13 and 14).

July 10 1997
DATED

David W. Rolka
DAVID W. ROLKA, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania

CHAPTER 28 ELECTRIC GENERATION
CUSTOMER CHOICE AND COMPETITION
ACT - UNIVERSAL SERVICE AND
ENERGY CONSERVATION PROGRAM
GUIDELINES

PUBLIC MEETING
JULY 10, 1997
JULY-97-BCS-6*

STATEMENT OF COMMISSIONER NORA MEAD BROWNELL

By this action, we are establishing universal service and energy conservation program guidelines for electric utilities as they move through the restructuring process. The guidelines suggest that utilities examine the cost effectiveness of existing efforts and consider shifting expenditures from less productive efforts to more effective programs. Many comments on this issue stated that evaluations of Customer Assistance Program pilots indicate that those programs can be cost effective strategies for serving low-income customers.

Accordingly, I encourage the utilities to examine each program within their Universal Service Plan for its efficiency and its return on investment as well as the adequacy of support systems for low income consumers.

DATE: 7/10/97

Nora Mead Brownell
Nora Mead Brownell, Commissioner

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

2. Regarding the provisions of 66 Pa.C.S. §2804 (9) and (15), state how the company intends to continue its universal service and energy conservation activities, which programs it intends to continue, how it will fund such programs, whether it commits itself to fully expend such funds, whether it intends to establish new programs or enlarge, reduce or eliminate existing programs, how it will determine the effectiveness of programs, how it intends to determine funding levels for each program and for its overall universal service and energy conservation efforts.

Response:

Duquesne Light Company will continue its current universal service and energy conservation activities¹ including its pilot Customer Assistance Program, Smart Comfort (its low-income usage reduction program), CARES, funding for the Dollar Energy Fund, and Gatekeeper. We intend, however, to view these and other initiatives as an array of resources, not as separate programs, which will be made available to low-income payment-troubled customers to enable them to maintain electric service while maximizing revenue to the Company.

We will continue to fund these activities at current levels until such time as we conduct an analysis to identify the universe of need and determine which activities are cost-effective and of benefit to all stakeholders including all customers, participants, and shareholders. When programs demonstrate their effectiveness to meet the needs of all stakeholders, we will review our funding decisions.

We are committed to prudently and effectively expending those funds committed to these activities. When programs work we will continue them. When they don't, we will seek to modify or eliminate them. Alternately, we will develop initiatives to assist low-income payment-troubled customers to assume responsibility for and control over their usage while cost-effectively benefiting all stakeholders.

As we did in designing our Smart Comfort and pilot CAP initiatives, our approach will be to first determine our business objectives and the results we wish to achieve. We will then determine the methods we will use to measure success. Then we will design program initiatives to "succeed." This design will be followed by "pilots" then by full-scale implementation. We believe this approach served our stakeholders well when we improved

¹ These activities are in addition to low-income account write-offs and late payment charge waivers as well as applicable Chapter 56 protections.

our already award-winning Smart Comfort and made it a national model. We will do the same for any program expansions or new initiatives we undertake.

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

9. What would CAP enrollment be if the program was large enough to accommodate all low income negative ability to pay customers? State number of customers still in need of LIURP services. State how much it would cost to serve all customers which need LIURP services.

Response:

Using existing eligibility criteria¹, we conservatively estimate that at least 7,000 customers could be eligible for an expanded Customer Assistance Program. A change in the eligibility criteria would obviously impact this number.

Based on 1996 estimated census data, it appears that as many as 141,000 households are at or below 150% of the federal poverty guideline. Not all these households, however, are eligible for either our CAP or Smart Comfort programs.

We will determine the remaining need for Smart Comfort as part of our "needs assessment" to be conducted pursuant to the requirements contained in the final guidelines for universal service and energy conservation programs. Until such time as we conclude this analysis, we have no basis for estimating either the number of customers needing Smart Comfort or the projected cost associated with such a program.

¹ Household income at or below 150% of the federal poverty guideline; arrearage greater than \$500; a Duquesne Light customer for at least 12 months; housing expenses greater than 45% of gross household income.

	(1) Total 0-49% Poverty Households	(2) Total 50-99% Poverty Households	(3) Total 100-149% Poverty Households	(4) Total 0-149% Poverty Households	(5) Total 150-above% Poverty HHDs	(6) Total Households
Allegheny County	27,513	28,220	34,624	90,357	371,722	462,079
Beaver County	3,840	4,553	5,307	13,700	46,795	60,495
1990 Total	31,354	32,773	39,931	104,057	418,517	522,574
1990 Percentage	6.0%	6.3%	7.6%	19.9%	80.1%	100.0%

DUQUESNE LIGHT COMPANY

P. General Description of Utility Operations

5. Identify all criteria used by the company to categorize customers as low income customers. State the collection costs for the base year 1996 associated with handling low income customer accounts, including administrative expenses associated with termination activity (10-day termination notice, personal contact, 48-hour notice, actual termination of service, post termination and restoration costs, negotiating payment arrangement requests, budget counseling, handling formal and informal complaints, securing and maintaining deposits, tracking delinquent accounts, collection agency expenses, litigation expenses, dunning expenses and winter survey expenses.

Response:

The criteria used by the Company to categorize customers as low income customers is based on household income level and family size. Duquesne Light uses the same income guidelines which the Pennsylvania Department of Welfare uses to administer the Low Income Home Energy Assistance Program. Duquesne Light considers a customer's household low income when the household income is at or less than 150% of the poverty level.

Duquesne has approximately 80% of the collection operation working with active delinquent residential customers. The other 20% is attributable to commercial and final accounts. Of the active delinquent residential customers approximately 60% of the credit and collection activities are associated with low income customers. Based on this, it is estimated that Duquesne expends \$5 million handling low income customer accounts, including administrative expenses associated with termination activity. This is in addition to the waiving of late payment charges and write-offs.

DUQUESNE LIGHT COMPANY

P. General Description of Utility Operations

7. State how many residential service customers were served in 1996, the number of residential customers known to be low income customers, and total estimated low income customers below the company's definition of low income customers. State how many residential customers are payment troubled customers, how many payment troubled customers are low income customers and how does the company define "payment troubled"? How many low income customers are known to be payment troubled customers, and what is the estimate of the total number of low income, payment troubled customers?

Response:

- Duquesne Light served 522,574 residential customers in 1996.
- Duquesne Light believes that 52,538 customers are low income based on Duquesne Light's definition of low income.
- The number of potential low income customers in Duquesne Light's service territory is based on Allegheny and Beaver County information. Their information lists 141,113 households at or below 150% of the federal poverty level. Not all of these households are customers of Duquesne Light. Many are provided electricity through mastered meters.
- Duquesne Light had 114,724 payment troubled customers in December 1996 of which 73,878 were more than 30 days delinquent.
- Duquesne Light defines "payment troubled" as a customer who owes the Company an amount > \$25.00 and has not paid beyond 45 days past the due date of the bill. This definition is different than "residential account in arrears".
- Duquesne Light had 33,802 delinquent low income payment troubled customers in December 1996.
- In December of 1996, Duquesne Light had 52,538 low income customers who were identified as being payment troubled through the collection process. Not all of them were delinquent in December 1996.

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

3. Describe the company's existing consumer protection policies and services, including, but not limited to customer assistance plans, CARES, hardship funds, LIURP programs, Gatekeeper programs and other energy assistance programs. For each program, state the funding and participant level. For LIHEAP funding, include annual figures for the past 5 years. Identify the current organizational structure which provides these services, including in-house and outside individuals, department, and organizations with current staffing and funding levels.

Response:**Pilot Customer Assistance Program**

Duquesne Light is in the second year of the three year pilot Customer Assistance Program (CAP). The program targets customers who: have been a resident at their current address for one year; have incomes less than 150% of the poverty level; have housing expenses more than 45% of their gross income; and have a \$500 arrearage on their electric bill. Under this pilot program, the customer's arrearage at the time of enrollment will be written off over three years if the customer makes full and timely monthly payments. The program also helps the customer to lower electric consumption so that at the end of the program, the customer can afford to pay his electric bill.

Funding--\$500,000/year (excluding write-offs) Participant level--1,600

Organizational Structure--DLCo: Director, Customer Programs, CAP Coordinator (FTE); Five Community Based Organizations with 6 Full-Time Equivalent (FTE).

CARES

The purpose of Duquesne Light's HELP Program (C.A.R.E.S.) is to assist payment troubled customers, and customers with special needs obtain necessary social services support and assistance. The program targets customers whose income is less than 150% of the poverty level and senior citizens, although no needy customer will be turned away. The goal is to have an outreach worker or community agency act as an intermediary between the customer and the Company in an effort to link the customer to the necessary social service programs that will enhance the customer's ability to pay for their electric service. An outreach worker contacts referred customers and, if necessary, makes a home visit to the customer. Referrals are made by Duquesne Light, other utilities, community bases agencies, the PUC, and word of mouth.

Funding--\$130,000/year

Participants--approximately 4500

Organizational Structure--DLCo: Director of Credit, Supervisor of Customer Assistance, and 5 Customer Services Representatives: 5 Community Based Organizations

Hardship Fund

Duquesne Light's hardship fund is a partnership with the Dollar Energy Fund.

Funding--The company's stockholders match customer contributions up to \$325,000 annually. In addition, the Company contributed 10% of the total contributions, or \$65,000, in 1996 to provide administrative support.

Participants--approximately 2500/year

Organizational Structure--DLCo: Director of Credit, Supervisor of Customer Assistance; Dollar Energy Fund Staff and their community based organizations

Smart Comfort

Smart Comfort is Duquesne Light's LIURP program. It targets customers whose incomes are less than 150% of the poverty level and whose electrical usage is 125% over the average customer usage. This program evolved from strictly weatherization to an "end use" strategy. As such, reduction measures include cost effective appliance and lighting replacements.

Funding--\$700,000 annually, rate-based

Participants--approximately 700/year

Organizational Structure--DLCo: Director, Customer Programs, Weatherization Coordinator (FTE); Three Community Based Organizations with 5 FTE

Gatekeeper

Duquesne Light Company field personnel look for situations (e.g. mail piling up, exterior of house not maintained) in our service territory where elderly people may need social service support. The field personnel advise a supervisor of the situation and the supervisor contacts the appropriate social service agency to visit the customer to determine if and/or what kind of assistance the customer requires.

Funding: Part of CARES

Participants are dependent on the number of situations found.

Organizational Structure--DLCo: Director of Credit, Supervisor of Customer Assistance, Field Staff

LIHEAP Funding

These numbers reflect the federally funded grants received by DLC low income customers. They also demonstrate the steady decline of these federal funds.

	1996-1997	1995-1996	1994-1995	1993-1994	1992-1993
Amount	\$2,425,000	\$2,429,045	\$3,006,715	\$3,035,409	\$4,236,263

Historical DQE LIURP Completions, Spending, and Average Job Cost

	1988	1989	1990	1991	1992	1993	1994	1995	1996	Total
Completions	39	514	659	703	832	625	656	600	700	5,328
Spending	\$ 669,259	\$ 557,020	\$ 602,554	\$ 671,568	\$ 692,153	\$ 674,257	\$ 717,024	\$ 700,000	\$ 788,460	\$ 6,072,295
Avg Cost Cost	\$ 17,160	\$ 1,084	\$ 914	\$ 955	\$ 832	\$ 1,079	\$ 1,093	\$ 1,167	\$ 1,126	\$ 1,140

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held April 24, 1997

Commissioners Present:

John M. Quain, Chairman, Statement attached
John Hanger, Statement attached
David W. Rolka
Robert K. Bloom, Concurring in result - Statement attached

Tentative Order Re: Guidelines for
Universal Service And Energy Conservation
Programs Made Pursuant to 66 Pa. C.S. §2803
§2802(17), 2804(8) and 2804(9).

Docket No. M-00960890
FOU10

TENTATIVE ORDER

BY THE COMMISSION:

On December 3, 1996, Governor Tom Ridge signed into law the *Electricity Generation Customer Choice and Competition Act* (Act). The Act revised the Public Utility Code. 66 Pa. C.S. §§101, et seq., by inter alia, adding Chapter 28, relating to restructuring of the electric utility industry. The Pennsylvania Public Utility Commission (Commission) is the agency charged with implementing the Act.

The Act is clear in its intent that utilities are to continue, at a minimum, the protections, policies and services that now assist customers who are low-income to afford electric service. Section 2802(9) requires that electric service is essential to the health and well-being of residents, to public safety and to orderly economic development; and electric service should be available to all customers on reasonable terms and conditions. Section 2803 defines universal service and energy conservation policies, as including customer assistance programs; termination of service protection and policies and services that help low-income customers to reduce or manage energy consumption in a cost-effective manner,

such as low-income usage reduction programs, application of renewable resources and consumer education.

The Act states that certain public purpose costs, including programs for low-income assistance, energy conservation and others, have been implemented and supported by public utilities' bundled rates. Section 2802(17) requires that the public purpose is to be promoted by continuing universal service and energy conservation policies, protections and services; and full recovery of such costs is to be permitted through a non-bypassable rate mechanism. Section 2804(8) requires that the Commission establish for each electric utility an appropriate cost recovery mechanism which is designed to fully recover the electric utility's universal service and energy conservation costs over the life of these programs. Section 2804(9) requires the Commission to ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory. These policies, activities and services shall be funded in each electric distribution territory by non-bypassable competitively neutral cost recovery mechanisms that fully recover the costs of universal service and energy conservation services.

In keeping with these provisions, the Commission is proposing guidelines for universal service and energy conservation. It is our view that the subject matter of these Guidelines require consistent policy determinations to be applied across the local distribution service territories. The Guidelines reflect a determination by the Commission upon evaluating presently known information provided by numerous interested parties in a rapidly evolving industry. The Guidelines are intended to assist the parties in the preparation, litigation and resolution of the Restructuring Filings of each utility by setting forth the Commission's current views regarding how those issues should be addressed in the restructuring proceedings. It is our intention that the Guidelines will enable the parties to more efficiently focus on the relevant factual determinations necessary to comply with the Act.

The sole intent of this tentative order is to propose guidelines for universal service and energy conservation programs and to request written comments from the electric utilities and other interested parties on these guidelines. The Commission will use the comments to this tentative order to develop guidelines for universal service and energy conservation programs that will be issued in a final order. Because the Customer Assistance Program (CAP) Policy Statement and the guidelines for universal service and conservation programs have common elements and are related, the Commission finds it appropriate that the CAP Policy Statement should be revised to be consistent with the guidelines for universal service and energy conservation programs. The Commission wants the revisions to the CAP

Policy Statement and the guidelines for universal service and energy conservation programs to be completed at about the same time. Therefore, the Commission requests parties to comment to our proposed revisions to the CAP Policy Statement that are related to the universal service and energy conservation guidelines as part of this tentative order. The Commission intends to use the comments to this tentative order when revising the CAP Policy Statement.

I. BACKGROUND

At docket M-00960890, Folder 0003, the Commission established a universal service and conservation work group (Work Group) to provide the Commission with recommendations on universal service and conservation matters relating to electric restructuring. Over a six week period, seventy different parties participated in five work group meetings. A subcommittee to discuss issues regarding termination of service met once, and a subcommittee to determine who is responsible for providing and administering universal service also met once. On April 1, 1997, the Work Group submitted a report to the Commission. Additionally, two alternative position reports were submitted to the Commission from the Work Group.

The Work Group reached consensus on limited items for seven principles: universal service and conservation program as a component of restructuring; eligibility for universal service; the components of universal service; CAP eligibility; funding; administration; and reporting requirements. The Work Group also identified a list of outstanding issues and positions relating to universal service and energy conservation. This tentative order incorporates the principles and issues agreed upon by the Work Group.

II. PROPOSED GUIDELINES FOR UNIVERSAL SERVICE AND CONSERVATION PROGRAMS.

In order to establish guidelines for universal service and conservation programs, the Commission proposes the following guidelines be followed when developing, expanding or maintaining universal service and conservation programs. We request public comment and response to the following:

A. Universal service and conservation programs as components of restructuring.

The Commission shall require each affected electric distribution company to submit a comprehensive and multi-year Universal Service and Conservation Program as part of its Restructuring Filing.

B. Eligibility guidelines.

In general, these programs shall be available to electric customers whose household income is at or below 150% of federal poverty guidelines and who meet other non-income criteria. Up to ten percent of the universal service budget may be applied to customers with special needs who are between 150 percent and 200 percent of the federal poverty guidelines.

C. Universal Service Components.

1. Universal service components. Universal service programs should include, but not be limited to, the following programs, protections and policies:

- a) Chapter 56 credit, collection and termination protections. These services shall include a Provider of Last Resort for customers who do not choose an alternative generation provider or whose generation provider refuses to grant service or cancels service based on nonpayment or other reasons. These services shall also include procedures for the distribution company and alternative generation supplier to coordinate dispute, termination and payment arrangement procedures to assure that universal service participants receive the required protections in Chapter 56.
- b) A low income usage reduction program (such as LIURP);
- c) A payment assistance program (such as CAP);
- d) A CARES program, or its equivalent, that meets the Commission's minimum guidelines contained in the

Commission's Secretarial Letter of November 30, 1992;

- e) Administration of a hardship fund. The Commission strongly encourages generation suppliers to implement or join an existing hardship fund;
- f) Plain language guidelines covered under 52 PA Code, §69. 251. Any written information from distribution companies and generation suppliers to residential consumers should be written in plain language; and
- g) All Secretarial letters relating to collection activity that were issued since June 1985. (See Attachment 1.)

2. **Renewable technologies.** Universal service programs may include cost effective investments in renewable technologies that will help low-income customers to reduce or manage energy consumption.

3. **Eligibility criteria.** Eligibility criteria for the individual universal service components should include the following:

- a) *Chapter 56 regulations* establish standards for all residential electric customers, therefore all low-income customers who participate in universal service programs are covered.
- b) *Low-Income Usage Reduction Program (LIURP)* regulations at 52 PA Code, §58.2 define a low income customer as a residential customer with household income at or below 150% of the Federal poverty guidelines. Section 58.10 defines priority of program services. This section outlines the following order of priority for receipt of LIURP services:
 - 1. Eligible customers with the largest usage and greatest opportunities for bill reductions relative to the cost of providing program services shall receive services first. Additional criteria for usage level and bill reduction are also defined.
 - 2. Among customers with the same standing under number 1, those customers with the greatest arrearages shall receive services first.

3. Among customers with the same standing under number 2, those households with the lowest incomes shall receive services first.
4. A utility may spend up to 10% of its annual program budget on eligible special needs customers.

- c) *Customer Assistance Program (CAP) eligibility.* A CAP applicant must meet the following eligibility criteria:
1. Status as a ratepayer or new applicant is verified.
 2. Household income is verified at or below 150% of the Federal poverty guidelines.
 3. The CAP applicant is payment troubled.¹ When determining if a CAP applicant is payment troubled, a utility should select one of the following definitions of payment troubled. Payment troubled is defined as a household who meets one of the following criteria:
 - a) A household whose housing and utility costs exceed 45% of the household's total income;
 - b) A household who has \$100 or less disposable income after subtracting all household expenses from all household income;
 - c) A household who has an arrearage. The utility may define the amount of the arrearage; or
 - d) A household who has received a termination notice or who has failed to maintain one payment arrangement.
- d) *Customer Assistance and Referral Evaluation Services (CARES) eligibility.* Each utility may define eligibility for a CARES program. Generally, CARES eligibility may be targeted to special needs customers. Special needs customers include those who have experienced a family crisis such as loss of income, divorce or major illness.

¹ In order for the universal service and conservation guidelines to be consistent with the CAP Policy Statement, revisions to 52 Pa. Code Chapter 69 will be required. Specifically, revision to the CAP eligibility criteria at §69.265(4)(iii) will be required.

- e) *Hardship fund eligibility.* Hardship funds are typically targeted to customers whose household income is verified at or below 150% of the poverty level.
- f) *Plain language policy statement.* The plain language policy statement establishes guidelines for communications with all residential customers, therefore all low-income customers who participate in universal service programs should receive plain language communication.
- g) *Secretarial letters related to collection activity.* The Secretarial letters established policies for all residential customers, therefore all low-income customers who participate in universal service programs are covered by the policies addressed in the Commission's Secretarial Letters.

4. ***Consumer and energy education and outreach activities.*** A distribution company's universal service and conservation plans should include an education plan that targets low-income customers. The education plan should educate low-income customers about the following:

- a) What options are available for low-income customers regarding choosing a generation supplier? How low-income customers can effectively consider these options in choosing a generation supplier.
- b) How choice can work in conjunction with universal service and conservation programs and that exercising choice does not preclude participation in universal service and conservation programs or the provisions of Chapter 56 protections.

Consumer education efforts for low-income and universal service customers should strongly consider the following education and outreach activities:

- a) Use multi-language approaches, when appropriate;
- b) Use educational methods and messages (such as local radio, free local newspapers, and local community

outreach) that are targeted specially to low-income customers.

- c) Use existing opportunities to educate low-income customers about choice, for example, when a customer receives budget counseling as part of CAP or energy education as part of LIURP.
- d) Target choice education efforts to secondary education students who may assist households to understand and pay utility bills.

5. **Revisions to LIURP.** The Commission is currently in the process of revising the LIURP regulations. Any provisions of universal service that deal with LIURP should be consistent with the LIURP final regulations.

6. **Revisions to the CAP Policy Statement.** In order for the universal service and conservation guidelines to be consistent with the CAP Policy Statement, revisions to 52 Pa. 52. Code Chapter 69 will be required. The Commission's CAP Policy Statement became effective July 2, 1992. The experiences learned from CAP pilots and the results of evaluations show that some revisions to the policy statement are appropriate. In addition to the revisions to program design regarding the scope of pilots, program funding, payment plans, and eligibility that are discussed elsewhere in this order, the Commission plans substantive revisions to the following sections: control features, default provisions, and coordination of LIHEAP benefits.

Control features. The Commission is amending this section to eliminate conservation incentives. The Commission included conservation incentives to limit program costs due to increases in consumption. Evaluators consistently found that CAP participants did not increase energy consumption after enrolling in CAP. Evaluators also had difficulty quantifying benefits directly related to conservation incentives. However, they found the incentive did slightly increase the cost of the CAP. The conservation incentive has been complex and burdensome to administer. The incentive is confusing to CAP participants who see a reduction in one month's bill. Because many utilities' payment plans are tied to usage, participants who conserve will see a reduction in their bill.

The Commission has added a control feature that disallows a CAP participant from subscribing to optional services that would cause an increase in monthly billing and do not contribute to bill reduction. This addition is consistent with the provisions for participants of telephone universal service programs. Telephone universal service participants may not subscribe to telephone optional services such as call waiting and call forwarding.

The Commission is changing the term *billing deficiency limit* to *maximum CAP credits*. The term *billing deficiency* suggests that payments are not made. Participation in CAP requires that a customer make regular, monthly payments for the full CAP amount billed. The term *CAP credits* is more accurate in describing the difference between the amount that would have been billed at the standard residential rate and the amount billed at the CAP rate.

Default provisions. The Commission believes that the consequences for nonpayment should be loss of service; therefore, we recommended that participants who do not make payments should be returned to the regular collection cycle.

The Commission is deleting the provision that failure to apply for LIHEAP and designate a LIHEAP grant to the CAP-sponsoring utility should result in dismissal. Because of the changes in to LIHEAP eligibility and funding, CAP participants have difficulty meeting this provision.

Coordination of LIHEAP benefits. The Commission is adding a section to allow the utility flexibility to deal with a participant who fails to apply for a LIHEAP grant. When the Commission approved the CAP Policy Statement, a CAP participant was eligible to receive two LIHEAP benefits in the form of cash and crisis grants. Changes to LIHEAP eligibility restrict CAP participants from receiving LIHEAP crisis benefits. Because of the difficulty a CAP participant has in obtaining LIHEAP benefits, we do not believe that utilities should automatically impose penalties on a CAP participant who does not designate a LIHEAP grant to the

CAP sponsoring-utility. However, we do believe that utilities should strongly encourage participants to apply for LIHEAP benefits. This change allows utilities the option of imposing a penalty on a CAP participant who is eligible for LIHEAP benefits but who fails to apply for those benefits.

D. Cap Enrollment.

1. **Expansion of CAPs.** 66 Pa. C.S. §2802(9) finds that electric service is essential to the health and well-being of residents, to public safety and to orderly economic development; and electric service should be available to all customers on reasonable terms and conditions. 66 Pa. C.S. §2804(9) requires the Commission shall ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory.

Universal service should include a Customer Assistance Program that that is available to and is designed to enroll the eligible population of low income customers who are likely to participate within the distribution company's service territory within three years.² Whether or not an eligible customer is likely to participate is partially a function of adequate public education efforts, which are an integral part of developing effective universal service policies.

For the following reasons, the Commission believes that between 289,660 - 361,830 households statewide may be eligible for universal service programs. The 1990 Census Data shows that 2,170,979 persons in Pennsylvania have incomes below 150% of the poverty level. Assuming a three-person household, we can estimate that 723,660 households are below 150% of the poverty level. The Commission's Investigation of Uncollectible Balances, at Docket No. I-900002, found that 40% of the Commonwealth's low-income households are payment troubled.

² In order for the universal service and conservation guidelines to be consistent with the CAP Policy Statement, revisions to 52 Pa. 52. Code Chapter 69 will be required. Specifically, revision to the scope of pilot CAPs at 52 Pa. §69.264 will be required.

All consumers who are eligible for government benefits or programs do not choose, for a variety of reasons, to apply for these benefits. For example, a 1989 report issued by the U.S. General Accounting Office found that nationwide only about one-half of those eligible for food stamp benefits choose to participate in that program. One of the major reasons mentioned for non-participation by those eligible was a belief that the benefit was not necessary. The state of California currently offers two programs to its low income residents: rate assistance and energy efficiency services. On average, 58% of eligible customers participated in the rate discount program and on average, 56% of eligible customers participated in the weatherization programs. The California model bases eligibility on income only. The Commission's model bases eligibility on income, usage and need. Therefore, fewer households will be eligible for services using the Commonwealth model.

Based on the Census data information and the history that all households who are eligible for benefits will not apply, the Commission projects that between 40%-50% of eligible households (289,660 - 361,830 households) could apply for universal service affordable payment programs. Presently, approximately 44,000 households are enrolled in electric utility CAPs.

In order to meet the obligations of the Act, utilities may need to enhance CAPs beyond the pilot stage. Utilities should devise a universal service plan which identifies the targeted population within its distribution territory; sets forth a time line for implementing a CAP which is available to meet the needs of low-income customers within three years and sets forth the proposed expenditures to meet the needs of the targeted population. One potential approach is to identify a percentage of the low-income population that would be set as the floor level for designing a permanent CAP, and we invite comments on whether such a threshold level should be established, and if so, at what level.

To fund enhanced CAPs, utilities may need to trade collection expenses with CAP costs. If a utility trades CAP costs with

write-offs and operational expenses associated with low-income customers, adequate funding may be available. If low-income customers are served under CAP, the collection costs associated with low-income customers are traded for CAP costs.

2. **CAP Payment Amounts.** *Payment plan proposal.*³ Generally, CAP payments for total electric and natural gas home energy should not exceed 17% of the CAP participant's annual income. The minimum payment should not be less than the guidelines at §69.265(3)(v)(A) and (B). Payment plans should be based on one or a combination of the following:

(i) *Percentage of income payment plan.*

- (A) Generally, maximum payments for electric nonheating service should be within the following ranges:
- household income between 0-50% of poverty at 2%-5% of income.
 - household income between 51-100% of poverty at 4%-6% of income.
 - household income between 101-150% of poverty at 6%-7% of income.
- (B) Generally, maximum payments for electric heating (generally all electric service) should not exceed the following guidelines:
- household income between 0-50% of poverty at 7%-13% of income.
 - household income between 51-100% of poverty at 11%-16% of income.
 - household income between 101-150% of poverty at 15%-17% of income.

³ In order for the universal service and conservation guidelines to be consistent with the CAP Policy Statement, revisions to 52 Pa. 52. Code Chapter 69 will be required. Specifically, revisions to the payment plan proposal at §69.265(2) will be required.

- (ii) *Percentage of bill payment plan.* The participant's household payment contribution for total electric and natural gas home energy under a percentage of bill plan is determined using the variables of family size and income and the household's annual energy usage. A participant's annual payment is calculated as a percentage of income payment and converted to a percentage of the annual bill. When a utility determines subsequent CAP payment amounts, a participant will continue to pay the same percentage of the total bill even if annual usage has changed.
- (iii) *Rate discount.* The participant's energy usage is billed at a reduced rate that is a fraction of percentage of the normal rate.
- (iv) *Minimum monthly payment.* The participant's household payment contribution is calculated by taking the participant's estimated monthly budget billing amount and subtracting the maximum, monthly CAP credit, previously called billing deficiency (\$46 month for non-electric heat and \$116 month for electric heat).
- (v) *Annualized, average payment.* The participant's household payment contribution is calculated by determining the total amount the participant paid over the last 12 months and dividing by 12 months to determine a monthly budget.
- (vi) *An alternative payment formula.* An alternative payment formula must be reviewed by the Bureau of Consumer Services and approved by the Commission.

E. Expenditures.

1. A distribution company's level of expenditures should reflect at least 0.2% of revenues for LIURP and 0.5% of jurisdictional revenues for CAP. The expenditures for universal service and energy conservation programs must be examined in conjunction with the costs of distribution rates, and competitive and intangible transition charges. The total amount of dollars

available under the rate cap should be adjusted to meet all the requirements of the Act.

- a) LIURP expenditures should reflect at least 0.2% unless the utility demonstrates through a needs assessment that a different funding level is necessary.
- b) Because of the level of need, a distribution company who currently spends more than the proposed guidelines for its CAP, shall, at a minimum, maintain the current level of expenditures.

2. In order to appropriately fund and expand CAPs, a distribution company should establish the baseline for funding its universal service programs by identifying the number of low-income households who may be eligible for programs and by identifying all expenditures that are used to address the problems of low income and payment-troubled customers. This revenue may include, in part: write-off of uncollectible expenses; costs associated with collections, termination and reconnection; costs associated with CAP, CARES and LIURP programs; and the administration of hardship funds. A utility may need to shift funds from write-offs and collection operation expenses to CAPs or LIURP.

F. Funding Of Universal Service And Conservation Programs.

1. The cost of a distribution company's Universal Service Program should be allocated among the classes of the distribution company's ratepayers consistent with the sound rate design principles and in accordance with the Act's prohibitions against the interclass and intraclass cost transfer and the Act's rate cap. The allocation of universal service program costs will be performed during each utility's upcoming restructuring proceeding.

2. The electric distribution company will assess the nonbypassable, competitively neutral cost recovery mechanism that funds universal service and energy conservation policies, activities and services.
3. Funding should be utility service territory-specific rather than statewide.
4. All customer classes should share in providing funding of universal service consistent with sound rate design principles and in accordance with the Act's prohibitions against the interclass and intraclass cost transfer and the Act's rate cap.
5. Within the rate caps, universal service program funding must be adequate to ensure meaningful and strong programs.

G. Administration.

1. **Program administration.** During the transition period, the Commission urges a moderate approach to administration of universal service programs. Initially, we recognize each distribution company administers its universal service programs. The Commission encourages utilities to use the resources of community-based organizations. A statewide administration of LIURP and CAP may be desirable in the future and should be retained as an option for further exploration and discussion.

In the future, the Commission could select an alternate administrator or service provider for one or more universal service components in that service territory.

2. **Administration of program benefits.** The universal service funding mechanism should be collected by the distribution company for both the distribution and generation parts of the bill, as a non-bypassable charge, paid by all customers. Universal service and

LIHEAP benefits should be assigned to the distribution company.

Another potential approach establishes that the distribution company will collect the revenue to administer the universal service and energy conservation programs. The distribution company will disburse payment assistance benefits on a pro rata basis to each portion of the generation, distribution and transmission part of the bill. We invite comments on the approach of disbursing payment assistance benefits on a pro rata base.

3. **Approval of universal service and conservation plan.** The Commission shall approve, modify or reject each distribution company's universal service and conservation plan.

H. Reporting Requirements.

1. Each company should gather information and analyze it on an annual basis and report to the Commission on its progress in achieving universal service within its service territory. The company should include in its report recommendations on how to close any identified gaps in providing electric service to its low-income customers.

Annual reports should include, but not be limited, the following information:

- a) Utilities shall report all criteria used by the company to categorize customers as low-income. Utilities shall report the annual collection operating costs associated with handling low-income customer accounts, including administrative expenses associated with termination activity: 10-day termination notice, personal contact, 48-hour notice, actual termination of service, post termination and restorations; negotiating payment arrangements requests; budget counseling; handling informal and formal complaints; securing and maintaining deposits; tracking delinquent accounts;

collection agencies' expenses; litigation expenses; dunning expenses, and winter survey expenses.

- b) Utilities shall report the dollar amount of the company's gross residential write-offs for the reporting year, the portion related to low-income customers or an estimate of the portion related to the low-income customers.
 - c) Utilities shall report how many residential service customers were served in the reporting year, the number of residential customers known to be low-income customers, and total estimated low-income customers, and the company's definition of a low-income customer. Utilities shall also report how many residential customers are payment troubled customers, and how the company defines "payment troubled"? How many low-income customers are known to be payment troubled customers, and what is the estimate of the total number of low-income, payment troubled customers?
 - d) Utilities shall report a definition of a residential account in arrears, the total number of residential accounts in arrears in the reporting year, the number of those accounts that were low-income customers, dollars in arrears owed by identified low-income customers, and the total number of dollars in arrears (identified and estimated).
 - e) Utilities shall report annually to the Commission the number of customers who are potentially eligible for CAP. Utilities shall report the number of customers enrolled in CAP.
 - f) Utilities shall report annually the number of customers still in need of LIURP services and the cost to serve all customers who need LIURP services.
2. The Bureau of Consumer Services will report to the Commission biannually on the status of each

company's universal service and conservation programs.

3. The Commission will determine if the utility meets the goals of universal service.
4. *LIURP and CAP evaluations.* Five 5 years after a distribution company's restructuring filing is approved, the company should submit an impact evaluation of its CAP and LIURP programs. After the initial impact evaluation, the distribution company should submit an impact evaluation of its CAP and LIURP programs every five years. The impact evaluation should focus on the degree to which the program achieves the continuation of utility service to program participants at reasonable cost levels. The evaluation should be conducted by an independent third-party.

Three years after a distribution company's restructuring filing is approved, the company should conduct a *one-time process evaluation* of its CAP. The process evaluation should focus on whether CAP expansion has met the level of need, whether it *conforms to the program design guidelines* and should assess the degree to which the program operates efficiently.

I. Advisory Panels.

A utility shall create and maintain a universal service program advisory panel to provide consultation and advice to the utility regarding the scope, design and administration of its universal service programs.

A utility may use an existing customer advisory panel to satisfy this guideline when the membership of the panel can reasonably be expected to provide effective consultation and advice regarding universal service programs.

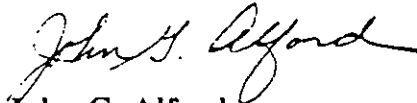
We have issued the preceding guidelines to encourage public comments. We urge that comments be filed as soon as possible. Note that reply comments will not be permitted; **THEREFORE,**

IT IS ORDERED:

1. That the guidelines for a universal service and conservation program as set forth in this Tentative Order are hereby issued to the public for comment.
2. That a comment period ending at the close of business on May 14, 1997 is hereby established.
3. That written comments, an original and 15 copies, shall be submitted to: Office of Prothonotary, Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265. Comments should specifically reference the above-captioned Commission docket number.
4. That a copy of this Tentative Order and any accompanying statements of the Commissioners be served upon all jurisdictional electric companies, the Office of Consumer Advocate, the Office of Small Business Advocate, other parties who participated in the Commission's electric competition investigation at Docket No. I-00940032, the Electric Competition Legislative Stakeholders, and the Universal Service and Conservation Work Group.
5. That the contact persons for this matter are Janice K. Hummel, Bureau of Consumer Services (technical), (717) 783-9088 and Kathryn G. Sophy, Law Bureau (legal), (717) 782-8840.

6. That a final Opinion and Order shall be issued subsequent to the receipt and evaluation of any comments filed in accordance with this tentative order.

BY THE COMMISSION,


John G. Alford,
Secretary

(SEAL)

ORDER ADOPTED: April 24, 1997

ORDER ENTERED: APR 25 1997

Attachment I
Secretarial Letters Relating to Collections

<i>Secretarial Letter</i>	<i>Content of Secretarial Letter</i>	<i>Guidelines established by Secretarial Letter</i>
<i>Heat Wave Procedures</i> 3/17/94	Recommends guidelines for electric utilities to assist in protecting the public's health and safety during periods of extreme heat and humidity.	Guidelines: Use existing resources to educate the public about the dangers of intense hot weather, remind customers of existing protections to pay high bills, refrain from terminating service to "at risk" population during heat wavers, be lenient in requirements to reconnect service during heat waves when the household includes an "at risk" member. "At risk" includes those age 60 and over, those seriously ill and those taking certain medications.
<i>Budget Counseling</i> 11/30/93	Recommends guidelines for budget counseling	Guidelines: make budget counseling a significant component of customer support programs for customers who are payment troubled, reserve traditional budget counseling for payment troubled customers with an ability to pay; make nontraditional budget counseling available for those who are low income which includes the completion of a budget worksheet and supportive guidance to persuade customers to make selected changes to reduce certain expenses.
<i>Winter Termination Procedures</i> 2/12/93	Lists requirements for utilities when requesting permission to terminate residential service between December 1 and March 31.	Requirements: utility report 2 year history of contacts 12 month payment history information validating customer's positive ability to pay support for following criteria: Income above 150% of poverty No children under 12 No occupants over 60 No occupants with physical or mental disabilities No occupant with serious illness No landlord/tenant relationship

Secretarial Letter	Content of Secretarial Letter	Guidelines established by Secretarial Letter
LIHEAP Outreach Plans 11/30/92	Urges companies to actively pursue LIHEAP benefits for their customers.	
Budget Counseling 5/31/85	Endorses the use of budget counseling for customers with some ability to pay and a willingness to have their financial affairs managed by a credit counseling agency.	Guidelines: services should not be provided by company employees who perform billing, credit or collections responsibilities; companies should pay any fee CBO's charge for the services; companies must insure budget counseling agencies are productive and legitimate and be able to demonstrate this to the Commission.
Hardship Fund No Date	Encourages support of a hardship or fuel fund in the company's service territory.	Use matching credits from stockholders' contributions to multiply the value of customer and employee contributions, provide a dollar check-off feature for customer contributions, actively seek donations from the community and corporate neighbors.
Hardship Fund 11/30/92	Recommends guidelines for utility hardship funds.	Guidelines: Continue to support and expand company hardship fund programs; advocate for increase in shareholder contributions through matching provisions or outright grants, offer the "dollar check-off provision" to solicit contributions, join with a highly visible charitable organization, seek donations from community and corporate neighbors, and increase visibility through fund raising and use of mass media.
Tracking & Referral 2/20/86	Proposes guidelines to prevent potential payment problems and to ameliorate actual problems by improving the ability to pay of all eligible customers. Purpose is to insure customers receive the benefits of the assistance and support programs for which they qualify.	Identification of Services: <ul style="list-style-type: none"> a) private and public agencies b) LIHEAP and CRISIS c) conservation d) credit counseling e) specialized sources such as nutritional and home management services Company Programs: <ul style="list-style-type: none"> a) home energy audits b) conservation programs c) budget billing

Secretarial Letter	Content of Secretarial Letter	Guidelines established by Secretarial Letter
		<p>Linking Services: Companies take leading role in creating system coordinating services</p> <ul style="list-style-type: none"> a) nature of service b) eligibility requirements c) application process <p>Identification of Customers:</p> <ul style="list-style-type: none"> a) application process b) complaints and inquiries c) service trouble reports d) direct appeals to customers e) receipt of LIHEAP, various income sources, medical assistance <p>Effective Referrals:</p> <ul style="list-style-type: none"> a) system within company b) updated frequently c) company staff training d) referrals from other organizations to utility <p>Tracking:</p> <ul style="list-style-type: none"> a) maintain records to ID potentially payment troubled customers
Service Limiters 6/20/85	Recognizes the use of service limiters as an acceptable practice.	
Monthly Meter Reading 6/20/85	Encourages companies to study the feasibility of reading meters monthly.	
Monthly Collections 6/20/85	Recognizes monthly collections as most effective approach to pursuing nonpayment. Also recognizes some alternate approaches to monthly collections can achieve some ends as monthly collections.	
Credit Screening 6/20/85	Recognizes adequate residential credit screening for identifying payment-troubled customers and for deterring fraudulent applications for service.	

<i>Secretarial Letter</i>	<i>Content of Secretarial Letter</i>	<i>Guidelines established by Secretarial Letter</i>
<i>"Soft Core" Dunning</i> 6/20/85	Recognizes the usefulness of reminder notices and similar nonthreatening reminders as a first step in collections.	
<i>Deposits from exiting residential Customers</i> 6/20/85	Urges companies to carefully scrutinize customers to insure the demand for a deposit will not exacerbate the potential for serious payment problems.	
<i>Budget Billing Plus</i> 6/20/85	Advises companies the Commission endorses using plans that set a flat monthly payment for delinquent customers.	
<i>Special Payment Reminders</i> 6/20/85	Endorses use of nonthreatening telephone contacts to remind customers that payment will soon be due and to pick up on the recent development of any special problems which could prevent timely payment.	
<i>Waive Late Payment Charges</i> 5/31/85	Urges companies to consider waiving residential late payment charges for customers with a limited ability to pay for utility service.	
<i>Customer CARES</i> 5/31/85	Suggests the establishment of a customer "CARES" program.	
<i>Customer CARES</i> 11/30/92	Recommended guidelines to improve the impact of CARES programs. Also urged the 3 utilities that didn't have CARES to set a program up and respond to BCS how it will implement CARES or an alternative program.	Guidelines: Communicate status annually to BCS; expand eligibility to include not only senior citizens but also special needs low income customers; include staff training in communication skills, staff training regarding CARES program design; home visitation (at least one) and preparation of energy audit for most recipients; intensive tracking and referral services for CARES participants, maintenance of confidential case files; expansion and maintenance of customer services network; include social services background in job description of a CARES representative.

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania

GUIDELINES FOR UNIVERSAL
SERVICE AND ENERGY
CONSERVATION PROGRAMS

PUBLIC MEETING-
APRIL 24, 1997
APR-97-BCS-4*
DOCKET NO. M-00960890 F0010

STATEMENT OF COMMISSIONER JOHN HANGER

Chapter 28 requires the Commission to ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory. I welcome comments on the Tentative Guidelines proposed today so that the Commission may adopt Final Guidelines that assist the parties efficiently to develop proposals for consideration in the restructuring proceedings.

In particular, I encourage comments on how CAP benefits or other grants such as LIHEAP should be applied to customer accounts. Should they be applied to generation to encourage competitive suppliers to serve low income customers? Should they be applied only to the regulated portion of the bill? Is the answer different if the cost of the programs is collected through one or all portions of the bill?

The Tentative Guidelines assume that distribution utilities' plans may include competition education as well as usage reduction or bill payment education. In general, the Commission's consideration of education has attempted to separate education from marketing efforts and the Commission has not thus far indicated the source of payment for education about competitive generation. Should the utility be the provider of education on competition or should it be provided independently? Should it be funded out of universal service funds?

In addition, I encourage comments on including competitive forces in the provision of universal service and energy conservation programs based on the approach used by the California Public Utilities Commission. (Decision 97-02-014, February 5, 1997).

The following outline of how such a system might be used in Pennsylvania is provided to stimulate discussion and for comments in this Docket and is not intended as a specific recommendation. In distributing this proposal, I assume based on existing practice that some utilities may prefer not to administer universal service and conservation programs, and that other providers believe they can provide better services at a lower cost. Note that the central idea in the proposal is to allow competition in the provision of universal service and conservation programs. The administrative changes are an important departure as well, especially if the host utility wants to provide the services directly. Comments should consider variations from the basic

proposal and whether it is desirable to permit or encourage such developments at this time.

The basic approach is to establish a statewide administrative structure to contract for and oversee universal service and energy conservation programs within each utility service territory. Perhaps PUC mandated consumer education programs could be included as well. A Governing Board might be composed of 5 policy/expert representatives and 2 BCS employees appointed by Commission. The BCS members would function as staff, including program administration and evaluation. The Governing Board would have general administrative control over Universal Service/Conservation and Education programs within the parameters of PUC Orders/regulations and supervision.

The Governing Board would request proposals for the provision of services in each service territory and select one or more winning bids based on price, quality, community familiarity, etc. Bidders might include the host or other utilities, community-based organizations, energy service companies, or joint proposals. The collector of universal service funds from ratepayers would be directed to disburse funds directly to the provider or credit the consumer account as appropriate.

In addition, separate Advisory Councils in each service territory would assist the Governing Board, since needs, spending levels and program details will differ somewhat by service territory. The Advisory Councils might include 7 community representatives appointed by the PUC or the Governing Board. The Advisory Councils would assist the Governing Board to implement the programs consistent with the circumstances affecting the programs in each service territory.

April 23, 1997
DATED


JOHN HANGER, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

GUIDELINES FOR UNIVERSAL SERVICE
AND ENERGY CONSERVATION PROGRAMS

PUBLIC MEETING
APRIL 24, 1997
APR-97-BCS-4*
DOCKET NO: M-00960890 FOC

STATEMENT OF COMMISSIONER ROBERT K. BLOOM

Before the Commission for consideration is a proposed Tentative Order prepared by staff which requests public comment on proposed Guidelines for universal service and energy conservation programs. This Order was prepared in response to the work product of the universal service and conservation work group. While the work group was successful in reaching consensus on several items of discussion, many critical issues remain unresolved. The Guidelines are designed in response to requirements within the Electricity Generation Customer Choice and Competition Act ("Act") which address the disposition of existing public purpose and energy conservation programs. Specifically, the Act at §2802.10 states that "The Commonwealth must, at a minimum, continue the protections, policies and services that now assist customers who are low-income to afford electric service." Furthermore, at §2802.17, the Act states that "The public purpose is to be promoted by continuing universal service and energy conservation policies, protections and services; and full recovery of such costs is to be permitted through a nonbypassable rate mechanism."

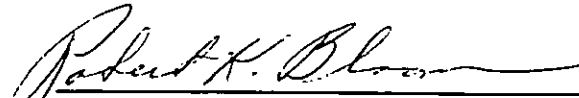
I strongly encourage all interested parties to comment on the proposed Guidelines. Several of the conclusions within this Tentative Order are a significant cause of concern and I would specifically request that parties comment on these concerns. First, will the mere issuance of "guidelines" suffice to enable the Commission to carry out its responsibilities under the Act in regard to universal electric service in a competitive generation market? Guidelines are simply guidelines and do not carry the force of law as regulations do. While the issuance of guidelines is administratively preferable given the time constraints established by the Commission, the resulting guidelines may lack the legal basis needed to enforce standards which the distribution companies must follow. Moreover, guidelines by their nature are subject to a greater degree of interpretation than are regulations, with the potential adverse result being inconsistent application.

Secondly, the proposed guideline concerning expansion of CAP programs which could potentially prescribe that a certain percentage of eligible customers should be enrolled within a designated time frame appears to be incompatible to a competitive electric industry. Should the Commission set such an artificial regulatory requirement as we transition to a competitive market or should the percentage of enrollment be determined by the competitive environment? Additionally, would it not be prudent for

the Commission to review the independent CAP evaluations being developed before prescribing that these programs be expanded? Furthermore, considering the rate cap limitations within the Act, how will the distribution companies be able to fund expansion of these programs without violating the rate cap? I have similar concerns with the proposed Guideline which prescribes the minimum percentage of revenues that a distribution company should expend on the LIURP program.

4-24-97

DATE


ROBERT K. BLOOM, COMMISSIONER

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105

GUIDELINES FOR UNIVERSAL SERVICE
AND ENERGY CONSERVATION PROGRAMS

PUBLIC MEETING-
APRIL 24, 1997
APR-97-BCS-4*
DOCKET NO. M-00960890 F 0010

STATEMENT OF CHAIRMAN JOHN M. QUAIN

Before the Commission is a Tentative Order concerning guidelines for utility universal service and energy conservation programs. The guidelines address the components of universal service and requests comments on related priorities.

I recognize that there is a significant number of customers who may be eligible to take advantage of any program. I also note, however, that there is a limit to the available dollars that can be expended in support of universal service. Moreover, given the imposition of the "rate cap" at 66 Pa. C.S. §2804, an increase in funding can only occur as a result of efficiencies realized from remaining company operations. Consequently, each company's restructuring filing should isolate the expenditures associated with such activities. Further, it should identify the "trade-offs" that must be made if a universal service program expansion is proposed.

4-24-97
DATE


JOHN M. QUAIN, CHAIRMAN

CAP Restructuring Plan Proposal			
	Participants	Funding	Per Household Cost
Met-Ed	2000	\$1,481,000	\$740.50
Penelec	3000	\$2,420,000	\$806.67
Average			\$773.59

DUQUESNE LIGHT COMPANY

P. Customer Service, Education and Conservation Programs

10. Does the company intend to shift traditional collection costs to fund universal service and energy conservation activities? What is the plan for accomplishing this? If there is no such plan, why not?

Response:

Duquesne Light Company intends to continue funding its universal service and energy conservation activities as it is presently doing. Duquesne has only recently received the Commission's Final Order [Docket No. R-000960890F0010, entered July 11, 1997] on Universal Service and Energy Conservation. As such, the most effective approach for funding these activities is predicated on the completion of our Universal Service and Energy Conservation Plan scheduled to be completed on or before November 1, 1997.

DUQUESNE LIGHT COMPANY

P Customer Service, Education and Conservation Programs

1. Provide a listing of each universal service and energy conservation policy, activity and service during the two years ending December 31, 1996. For each such policy, activity and service, state budgeted and actual funding during the two years by the company, along with any funding or contribution by any third party source.

Response:

Universal Service and Energy Conservation Policy, Activity, and Service				
Policy, Activity, and Service	1995 Budget	1995 Actual	1996 Budget	1996 Actual
Smart Comfort	\$700,000	\$711,275	\$700,000	\$788,460
Pilot Customer Assistance Program ¹	\$550,000	\$260,311	\$550,000	\$354,987
Pilot Customer Assistance Program frozen arrearage and billing deficiency write-offs ²	-----	\$0 ³	-----	\$223,390
CARES	\$60,000	\$57,361	\$60,000	\$59,538
Hardship Funds--Administration	\$65,000	\$65,000	\$65,000	\$65,000
Gatekeeper Programs ⁴	\$0	\$1,469	\$0	\$1,477
Low Income Collection Costs, including labor ⁵	\$0	\$5,000,000	\$0	\$5,000,000
Low Income Write-offs ⁶	\$0	N/A	\$0	\$5,804,226

¹ Projected budget expenses include, but are not limited to program start-up, labor, equipment, programming and evaluation costs. Write-offs of both arrearage forgiveness and billing deficiencies are not included in these estimates.

² Write-offs are part of the overall Company write-offs.

³ No participants were in the pilot long enough to earn a write-off.

⁴ The Gatekeeper program is not budgeted as a separate program.

⁵ The amount expended for low income collections is part of the overall collection budget. Duquesne Light does not divide the budget into low income vs. non low income. Based on this, the listed budgeted amount is estimated in a similar manner as the Equitable Gas top down approach which is recommended in the Final Order of the Universal Service and Energy Conservation Programs. The \$5,000,000 includes allocated expenses such as mainframe computer operation time, building rents, utilities, etc. These amounts may not be available to fund other programs. All Duquesne Light labor costs associated with supporting all of the listed low income programs, except Smart Comfort and CAP, are included in this number.

⁶ Actual write offs for 1995 are not identified as low income and non low income. Duquesne Light is unable to supply this data. Budgeted write offs are based on actual write offs in prior years. Write offs associated with low income customers is not a criteria for budgeting future expected write offs. Based on this, Duquesne Light is unable to provide this data.

Item No:

P-8

Witness:

Frank Hoffmann

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DUQUESNE LIGHT COMPANY

P. General Description of Utility Operations

8. State the company's definition of a residential account in arrears, the total number of residential accounts in arrears in 1996, the number of those accounts which were low income customers, dollars in arrears owed by identified low income customers, and total number of dollars in arrears (identified and estimated).

Response:

* Duquesne Light Company considers a residential account in "arrears" when their bill is delinquent 7 days past the due date. In addition, Duquesne Light still considers an account as delinquent when a customer makes a repayment plan. Also, their account balance remains aged as if no payment agreement exists.

* Duquesne Light had 114,724 residential accounts in arrears in December 1996 of which 73,878 were more than 30 days delinquent.

* Of the 73,878 residential accounts in arrears more than 30 days, 33,802 were identified as low income customers.

* The 33,802 low income customers owed Duquesne Light a past due balance of \$27,107,000.

* The total amount in arrears for the 114,724 customers was \$41,748,509.

FILING REQUIREMENT P. 9.:

"What would CAP enrollment be if the program was large enough to accommodate all low-income negative ability to pay customers? State number of customers still in need of LIURP services. State how much it would cost to serve all customers which need LIURP services."

RESPONSE:

(a) CAP

We identify low-income, negative ability to pay customers when our Collection Center completes Customer Financial Summary Forms; as part of the process to establish payment agreements. A recent inquiry against the Customer Master Record identified approximately 6,600 customers as being potentially eligible for CAP enrollment. Since the household incomes for the customers identified were not verified, the Company estimates that approximately 1/4 of these customers may not qualify for CAP; reducing the eligibility number to approximately 5,000 customers. In addition, based on Census data and the history that all households who are eligible for benefits will not apply, the Company projects that full CAP enrollment would be approximately 2,500 customers. This estimation does not take into consideration the fact that many low use customers would not qualify for CAP, because their actual bills are less than the payment that would be required in CAP.

(b) LIURP (WARM)

We estimate that 4,650 customers are still in need of weatherization. We project that it will cost \$4,500,000 to serve all customers in need.