(4)

COMMONWEALTH OF PENNSYLVANIA

ORIGINAL

OFFICE OF SMALL BUSINESS ADVOCATE
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, Pennsylvania 17101

Bernard A. Ryan, Jr.
Small Business Advocate

(717) 783-2525
(717) 783-2831 (FAX)

January 9, 1998

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Mr. James H. McNulty III
Secretary and Prothonotary
Pennsylvania Public Utility Commission
Room B-20, North Office Building
P. O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Mr. McNulty:

Pursuant to the Sixth Interim Order of Administrative Law Judge John H. Corbett, Jr., enclosed please find: (1) two (2) copies of the testimony and exhibits of the Office of Small Business Advocate (OSBA); (2) completion of the OSBA signature page of the First Joint Stipulation at this docket evidencing agreement to the admission into the record of all of the intervenors' testimony and exhibits and waiver of all cross-examination thereon; and (3) indices of foresaid intervenors' testimony and exhibits.

A copy of the second document listed above is being served today on all known parties in this proceeding. A Certificate of Service to that effect is enclosed.

Sincerely,

Angela T. Jones
Assistant Small Business Advocate

Enclosures
cc: Hon. John Corbett (Joint Stipulation only)
Parties of Record (Joint Stipulation only)

DOCUMENT
FOLDER

#58

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)	)	

FIRST JOINT STIPULATION

Pursuant to an agreement of all parties to this case and as required by the Sixth Interim Order issued by the Presiding Judge on December 30, 1997, Duquesne Light Company ("Duquesne") and the intervenor parties hereby agree and stipulate to the following:

1. Each party to this Stipulation agrees that the testimony and exhibits itemized on the Stipulation Exhibits attached hereto shall be admitted into the record of this case.

2. Each party to this Stipulation agrees to waive its right to cross-examine the witnesses sponsoring the testimony and exhibits itemized on the Stipulation Exhibits attached hereto.

3. Each party to this Stipulation agrees to execute a copy of this Stipulation by causing counsel of record for each party (or the party itself if that party is unrepresented by counsel) to place its signature on the appropriate line below. Each party further agrees to file an executed version thereof with the Commission's Secretary and Prothonotary at the time it submits two copies of its testimony and exhibits to the Secretary and Prothonotary, as prescribed by the Sixth Interim Order.

Counsel for Duquesne Light: _____
John S. Moot

Counsel for Intervenor Party: _____
Angela T. Jones

Name of Intervenor Party: Office of Small Business Advocate

Dated: January 7, 1998

FIRST JOINT STIPULATION
INDICES OF TESTIMONY & EXHIBITS

Exhibit No.	Description
1	City of Pittsburgh
2	Duquesne Industrial Intervenors (DII)
3	Enron Power Marketing, Inc. (ENRON)
4	Environmentalists (ENV)
5	Hospital Shared Services & Administrative Resources, Inc. (HSS/ARI)
6	International Brotherhood of Electrical Workers (IBEW)
7	Mid-Atlantic Power Supply Association (MAPSA)
8	New Energy Ventures (NEV)
9	Office of Business Advocate (OSBA)
10	Office of Consumer Advocate (OCA)
11	Office of Trial Staff (OTS)
12	Pennsylvania Retailers Association (PRA)

FIRST JOINT STIPULATION
EXHIBIT NO. 1

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
DUQUESNE LIGHT COMPANY

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

CITY OF PITTSBURGH
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Brief Description
City Statement No. 1	Direct Testimony of Christopher D. Seiple (addressing issues pertaining to the Company's general overview/recovery plan and stranded costs).
City Exhibit No. 1	Resource Data International Background & History.
City Exhibit No. 2	RDI Market & Competitor Intelligence
City Exhibit No. 3 (incl. Tables 1-3)	Capacity Factor Analysis
City Exhibit No. 4	Delivered Output Analysis
City Exhibit No. 5	Early Plant Shutdown Savings Analysis
City of Pittsburgh, *et al.* Statement No. 2	Direct Testimony of Roger D. Colton (addressing issues pertaining to universal service, low income programs, energy conservation, consumer education, and phase-in).
Exhibit RDC-1	Resume of Roger D. Colton
Exhibit RDC-2	Summary of Colton electricity restructuring experience.
Exhibit RDC-3	Summary of Colton experience pertaining to design of low-income affordability programs.
Exhibit RDC-4	Number and Percent of LIHEAP Recipients by Income Range and Annual Electric Burdens.
Exhibit RDC-5	Recommendations pertaining to utility universal service programs which can help increase incomes of low-income consumers.
Exhibit RDC-6	Estimate of Universal Service Costs at 50 Percent CAP Participation.

Exhibit RDC-7	Summary of Universal Service Recommendations.
Exhibit RDC-8	Recommendations for Consumer Research section of an Education Plan
Exhibit RDC-9	Model 4-Phase Consumer Education Program
Exhibit RDC-10	Proposed Evaluation Process for Consumer Education Activities
Exhibit RDC-11	Summary of Consumer Education Recommendations
Exhibit RDC-12	Proposed Budget for Universal Service Programs

FIRST JOINT STIPULATION
EXHIBIT NO. 2

DUQUESNE INDUSTRIAL INTERVENORS
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Description	Date Identified	Date Admitted
DII Statement No. 1	**Direct Testimony of Stephen J. Baron (Summary of Stranded Cost Analysis; Regulatory Policy Issues; Rate Design Issues)**		
Exhibit SJB-1	Expert Testimony Appearances		
Exhibit SJB-2	DII Summary of Recommended Stranded Costs		
Exhibit SJB-3	Example of DII Stranded Generation Sharing Analysis		
Exhibit SJB-4	DII Calculation of Adjusted Rate of Return		
Exhibit SJB-5	DII Summary of Estimated CTC Revenues by Rate Class		
Exhibit SJB-6	DII Load-weighted Market Prices		
Exhibit SJB-7	DII Unbundling Analysis for Rate RS		
Exhibit SJB-8	DII Unbundling Analysis for Rate L		
Exhibit SJB-9	DII Unbundling Analysis for Rate HVPS		

DUQUESNE INDUSTRIAL INTERVENORS
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Description	Date Identified	Date Admitted
DII Statement No. 1R	**Rebuttal Testimony of Stephen J. Baron (Universal Service Cost Recovery Mechanism; Issues Regarding the Calculation of Market Prices and Stranded Cost; Response to OCA Regarding Unbundling Issues)**		
DII Statement No. 1S	**Surrebuttal Testimony of Stephen J. Baron (Responses to Company Witnesses Regarding Divestiture, Stranded Cost Sharing, CTC Calculation, and Rate Design Issues; Response to OSBA Witness Regarding CTC Calculation and Recovery)**		
DII Statement No. 2	**Direct Testimony of Randall J. Falkenberg (Calculation of Company Generation Stranded Cost; Analysis of Duquesne and ECAR Market Prices)**		
Exhibit RJF-1	Qualifications of Randall J. Falkenberg		
Exhibit RJF-2	Production Cost Model Studies and Benchmarks		
Exhibit RJF-3	Comparison of Market Price Model Results of K&A Model v. MAPS, IPM and PMDAM		
Exhibit RJF-4	DII Calculation of Company's Annual Revenue Requirements for Generation		
Exhibit RJF-5a	DII Total Generation Stranded Cost Calculation		
Exhibit RJF-5b	DII Calculation of Net Present Value of Contribution Margins		
Exhibit RJF-5c	DII Summary of Market Prices, Fuel Cost, Operating Margin and Generation by Plant		

DUQUESNE INDUSTRIAL INTERVENORS
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Description	Date Identified	Date Admitted
DII Statement No. 2S	**Surrebuttal Testimony of Randall J. Falkenberg (Updated Calculation of Generation Stranded Costs; Responses to Company Witnesses Regarding Market Price Forecasts)**		
Exhibit RJF-6a	DII Updated Total Generation Stranded Cost Calculation		
Exhibit RJF-6b	DII Updated Calculation of Net Present Value of Contribution Margins		
Exhibit RJF-6c	DII Updated Summary of Market Prices, Fuel Cost, Operating Margin and Generation by Plant		
DII Statement No. 3	**Direct Testimony of Lane Kollen (Regulatory Assets; Transition Costs; Fossil Decommissioning; Nuclear Decommissioning; Securitization)**		
Exhibit LK-1	Resume of Lane Kollen		
Exhibit LK-2	Excerpts from Company Exhibits Illustrating Double Counting of FAS 109 Asset Related to Perry and Beaver Valley 1		
Exhibit LK-3	Excerpt from Company First Quarter 1997 SEC 10-Q Related to Deferred Coal		
Exhibit LK-4	Net Present Value of Deferred Rate Synchronization Costs at 12/31/98		
Exhibit LK-5	Duquesne Nuclear Decommissioning for Stranded Cost and Revenue Requirement (Beaver Valley 1, Beaver Valley 2, and Perry)		

DUQUESNE INDUSTRIAL INTERVENORS
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Description	Date Identified	Date Admitted
DII Statement No. 3S	**Surrebuttal Testimony of Lane Kollen (Responses to Company Witnesses Regarding Stranded Cost Methodology, Unamortized Debt Costs, Beaver Valley 2 Sale/Leaseback Refinancing Premium, Preaccrued Nuclear Outages, Deferred Employee Costs, Deferred Coal SFAS 106, Deferred Rate Synchronization Costs, Fossil Decommissioning, Securitization)**		
DII Cross Exh. 1	Response of Company Witness Hoffmann to Environmentalists' Interrogatories Set I, Number 23	12/18/97	12/18/97
DII Cross Exh. 2	Response of Company Witness Hoffmann to On-the-Record Data Request Concerning Customer Segment Contribution to Non-Coincident Peak Load		
DII Cross Exh. 3	Response of Company Witness Hoffmann to On-the-Record Data Request Concerning Mining, Construction, and Agriculture Customer Segments		

DUQUESNE LIGHT COMPANY

On-the-Record Data Requests

3. Provide a non-coincident peak calculation in form that is analogous to the coincident peak calculation provided in response to Data Request ENV-1-23.

Response:

Attached is a modified version of DLC's response to ENV-1-23 which list the non-coincidental peak load contribution for each customer group/segment associated with the proposed phase-in methodology.

Non-Coincidental Peak Load Contribution by Customer Class and Segment

Customer Class	Customer Group/Segment	Non-Coincidental Peak Contribution	Percentage Contribution to Non-Coincidental Peak
Residential	Group A - Accumulated Wealth	41	1.14%
	Group B - Mainstream Families	374	10.42%
	Group C - Mainstream Singles	273	7.60%
	Group D - Conservative Classics	49	1.36%
	Group E - Sustaining Families	49	1.36%
	Group F - Sustaining Singles	65	1.82%
	Group G - All Others	21	0.58%
	Subtotal Residential	**871**	**24.28%**
Commercial	Utility Services	155	4.33%
	Wholesale Trade	53	1.47%
	Retail Trade - Food	71	1.99%
	Retail Trade - Restaurants	85	2.36%
	Retail Trade - Merchandise	177	4.94%
	Office Buildings	399	11.13%
	Healthcare	142	3.95%
	Education	214	5.98%
	Services	283	7.89%
	Government	82	2.29%
	Small Business	324	9.04%
	Subtotal Commercial	**1,986**	**55.36%**
Industrial	Industrial - Chemical	68	1.88%
	Industrial - Plastic	14	0.39%
	Industrial - Glass	39	1.08%
	Industrial - Steel	449	12.52%
	Industrial - Other	161	4.48%
	Subtotal Industrial	**730**	**20.36%**
	TOTALS	**3,587**	**100.00%**

NonPeakContrib.xls

DUQUESNE LIGHT COMPANY

On-the-Record Data Requests

4. Provide breakdown of numbers for mining, construction and agriculture segments on FAH-4 in a manner comparable to that provided in response to ENV-1-23.

Response:

The market segments listed on FAH-4 as "Mining" and "Construction" are classified as "Industrial-Other" on the response to ENV-1-23. Similarly, "Agriculture" was classified within the "services" market segment.

FIRST JOINT STIPULATION
EXHIBIT NO. 3

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
DUQUESNE LIGHT COMPANY

Application for Approval of a Restructuring Plan
Pursuant to 66 Pa. C.S. § 2806(d)
Docket No. R-00974104

ENRON POWER MARKETING, INC.
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Description	Date Identified	Date Admitted
Enron Cross Examination Exhibit No. 1	CFR Uniform System of Accounts: Accounts 908 and 909.	12/17/97	12/17/97
Enron Statement No. 1	**Direct Testimony of James D. Steffes** General overview of competitive services; the Portland General Code of Conduct.		
Exhibit 1 JDS-1	Market share of utilities/affiliates in Retail Access Programs.		
Exhibit 1 JDS-2	Portland General Electric Company Tariff Code of Conduct.		
Exhibit 1 JDS-3	Market share of affiliates in Retail Access Programs.		
Enron Statement No. 2	**Direct Testimony of Paul D. Reising** Rates for unbundled services of Transmission, Ancillary, Energy Delivery and Revenue cycles separately computed and stated.		
Exhibit 2 PDR-1	Educational and employment background of P.D. Reising.		
Exhibit 2 PDR-2	Definition and Description of Ancillary Services.		

Exhibit 2 PDR-3	Summary of Functional Costs.		
Exhibit 2 PDR-4	EPMI Proposed Class Rates		
Exhibit 2 PDR-5	EPMI Class Cost Summary		
Exhibit 2 PDR-6	pro forma Distribution Services Tariff		
Exhibit 2 PDR-7	Energy Delivery Rate Design		
Enron Statement No. 3	**Direct Testimony of Jeffrey A. Brown** Non-wire services, metering, meter-reading, billing and information services. "Open architecture" communication systems.		
Exhibit 3 JAB-1	Customer Account Services: Billing System Opportunities (representative example)		
Exhibit 3 JAB-2	Customer Account Services: Third Party Billing Services (representative example)		
Exhibit 3 JAB-3	Non-Wire Products and Services: "Endless Possibilities"		
Exhibit 3 JAB-4	Non-Wire Communications Network: Conceptual Model		
Exhibit 3 JAB-5	Metering and Billing Cycle		
Enron Statement No. 4	**Direct Testimony of Gayle Muench** Unbundling of billing and bill format; billing options ("Supplier Complete Bill Option"); phase-in of competition; customer selection and "slamming"; customer information ("Customer Education Program"); Duquesne's Universal Service Program in a competitive environment.		
Exhibit 4 GM-1	DQE Position on Competition		
Exhibit 4 GM-2	DQE Overview of Competition		
Enron Statement No. 5	**Direct Tetsimony of Lynn R. Coles** "Pro Forma Supplier Tariff." Access to point-to-point transmission service. EDC charges; minimum contract periods; planning reserves.		

Exhibit 5 LRC-1	Summary of educational background and general experience in electric utility industry.		
Exhibit 5 LRC-2	Proposed Electric Generation Supplier Tariff.		
Exhibit 5 LRC-3	GPU Market Line: Energy market prices; viability payments, all-in market line; market clearing prices.		
Enron Statement No. 1.1	**Surrebuttal Testimony of James D. Steffes** Response to Duquesne witnesses Hoffman and Allison.		
Enron Statement No. 2.1	**Surrebuttal Testimony of Paul D. Reising** Responses to rebuttal testimony of Duquesne witness Lahtinen; IBEW witness Moran; and OCA witness Alexander.		
Exhibit 2.1 PDR-8	Revised functional cost of service summary.		
Exhibit 2.1 PDR-9	Revised versions of class-based T & D charges (original Exhibit 2 PDR-4).		
Exhibit 2.1 PDR-10	Revised versions of voltage differentiated rates (original Exhibit 2 PDR-5).		
Enron Statement No. 3.1	**Surrebuttal Testimony of Jeffrey A. Brown** Responses to Duquesne witness Allison; and IBEW witnesses Schmidt and Moran.		
Enron Statement No. 4.1	**Surrebuttal Testimony of Gayle Muench** Responses to Duquesne witnesses Allison, Hoffman and Flynn; OCA witness Alexander; and IBEW witness Moran.		
Enron Statement No. 5.1	**Surrebuttal Testimony of Lynn R. Coles** Responses to rebuttal testimony of IBEW witness Moran; and witnesses Irvin and Karl.		

FIRST JOINT STIPULATION
EXHIBIT NO. 4

Roger E. Clark, Esq.

Attorney for The Environmentalists

905 Deneton Drive
Ambler, PA 19002-3901
phone: 215.643.2384
fax: 215.628.2630
e-mail: rclark@libertynet.org

January 7, 1998

John Moot
Skadden, Arps, Slate, Meagher & Flom LLP
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

Re: Duquesne Light Company Application for Approval of a Restructuring Plan, Docket No. R-0097104.

Dear Mr. Moot:

Thank you for catching our oversight regarding Roger Colton's surrebuttal testimony. In accordance with the Sixth Interim Order issued by Judge Corbett on December 30, 1997, I am sending you the following updated index of the Environmentalists' testimony and exhibits in the above-referenced proceeding:

Exhibit	Description	Date Identified	Date Admitted
Environmentalists' Statement No. 1	Direct Testimony of David Schoengold		
Ex. DS-1	Resume of David Schoengold		
Ex. DS-2	*Environmentalists' Vision for the New Electricity Marketplace*		
Ex. DS-3	Return on the Investment to Date for Stockholders		
Ex. DS-4	Total Return to Date for Stockholders		
Ex. DS-5	Methodology for Determining Total Return Of and On Investment for Stockholders Through End of Transition Period		
Ex. DS-6	Proposed Draft for Net Billing Tariff		

Environmentalists' Index of Testimony and Exhibits
January 7, 1998
Page 2

Environmentalists' Statement No. 1-S	Surrebuttal Testimony of David Schoengold		
Environmentalists' Statement No. 2	Direct Testimony of Bruce Biewald		
Ex. BEB-1	Resume of Bruce Biewald		
Ex. BEB-2	Graph of TLG Decommissioning Estimates: 1977-1995		
Ex. BEB-3	*Full Environmental Disclosure for Electricity: Tracking and Reporting Key Information*, March 1997		
Ex. BEB-4	Better Choice Plan - Three Examples		
Environmentalists' Statement 2-S	Surrebuttal Testimony of Bruce Biewald		
Ex. BEB-5	Economic Analysis of Duquesne Light Company's Perry 1 Investment		
Ex. BEB-6	Economic Analysis of Duquesne Light Company's Beaver Valley 2 Investment		
Ex. BEB-7	Assumptions for Economic Analysis for Perry 1 and Beaver Valley 2		
City of Pittsburgh *et al.* Statement No. 2 (cosponsored with the Environmentalists)	Direct Testimony of Roger Colton		
Ex. RDC-1	Resume of Roger Colton		
Ex. RDC-2	Summary of Roger Colton's Restructuring Work		
Ex. RDC-3	Summary of Roger Colton's Energy Efficiency Work		
Ex. RDC-4	Number and Percentage of LIHEAP Recipients by Income Range		

Ex. RDC-5	Summary of the BOSS and Earned Income Tax Credit Outreach		
Ex. RDC-6	Estimate of Universal Service Program Costs		
Ex. RDC-7	Summary of Universal Service Recommendations		
Ex. RDC-8	Summary of Consumer Research Section of Consumer Education Plan		
Ex. RDC-9	Four Phase Consumer Education Program		
Ex. RDC-10	Consumer Education Evaluation Process		
Ex. RDC-11	Summary of Consumer Education Recommendations		
Ex. RDC-12	Proposed Universal Service Budget		
City of Pittsburgh *et al.* Statement No. 3-S (cosponsored with the Environmentalists)	Surrebuttal Testimony of Roger Colton		
Ex. RDC-1-S	Memorandum of Residential Mobility and the Low Income Consumer		
Ex. RDC-2-S	Prepayment Meters and Low Income Consumers		

I have also sent this document to you by e-mail at "jmoot@skadden.com". Copies of this letter are being served on all parties of record by facsimile.

Sincerely,

Roger E. Clark

Roger E. Clark
Attorney for the Environmentalists

Copies: All parties of record

FIRST JOINT STIPULATION
EXHIBIT NO. 5

HSS AND ARI
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	Description	Date Identified	Date Admitted
	Prepared Direct Testimony of Dr. Robert B. Weisenmiller, Volume I		
RBW-1	Supplemental Response to Item Nos. HSS-1-001, 21 (Supp.), etc. (corrections to Duquesne's case-in-chief)		
RBW-2	Skadden, Arps letter forwarding narrative prepared by Northbridge Group regarding discovery requests HSS-3-008 and HSS-3-009		
RBW-3	"Generating Assets," April 1995 (Duquesne study re: possible sales of its generating assets)		
RBW-4	Chart, "Best Practices Reduce Total Personnel By 45%"		
RBW-5	Duquesne Fossil Generating Business Unit, Development of a GENCO, Dec. 1996		
RBW-6	Presentation to Project Lead Team - Project Update, July 15, 1996		
RBW-7	Presentation to Project Lead Team - Preliminary Valuation and Operating Cost Allocation, August 5, 1996		
RBW-8	Presentation to Project Lead Team - Asset Valuation and Strategic Options, August 16, 1996		
RBW-9	Presentation to Project Lead Team - Regulatory Recommendations and GENCO Structure, Sept. 13, 1996		
RBW-10	CS First Boston, Materials Prepared for Discussion, Nov. 21, 1996		
RBW-11	Charts, "Generating Costs For Duquesne"		
RBW-12	Table, To Go Cost of Generation, etc.		
RBW-13	Chart, Duquesne System Lambda, 1996		
RBW-14	Duquesne Response to Interrogatory No. HSS-1-72/73 (revised) and attachments (re: RFP bids, etc.)		
RBW-15	Duquesne letter regarding RFPs and bid forms		

Exhibit	Description	Date Identified	Date Admitted
RBW-16	Duquesne Response to Interrogatory No. HSS-1-016 (revised) (Testimony of D.W. Marshall, Investigation into Electric Power Competition, I-940032, filed Nov. 6, 1995)		
RBW-17	West Penn Power Docket No. R-00973981 Interrogatories (AYP Energy, Inc.'s RFP bids)		
RBW-18	Duquesne Response to Interrogatory No. OCA-3-016 (current ECR charge is 12.822 mill/kWh)		
RBW-19	Duquesne Response to Interrogatory No. HSS-1-026		
RBW-20	Excerpts from Alexander Galatic, Written Rebuttal Testimony on Behalf of West Penn Power Company		
RBW-21	Duquesne's Response to HSS-1-015 (revised) -- **Protected Materials**		
RBW-22	Duquesne's Response to HSS-1-015 (revised) -- **Protected Materials**		
RBW-23	Duquesne Response to Interrogatory No. OCA-3-001 (credit rating reports)		
RBW-24	Table, Utility Comparison		
RBW-25	Chart, Ranking of DLCo & APS Coal Plants with PJM Coal Plants, Based on Total Expenditures per Net MWh - 1995		
RBW-26	A Report on The Review of Potential Stranded Costs, Duquesne Light Company, August 1997		
RBW-27	Duquesne Response to Interrogatory No. DH-1-28 (settlement agreement between GE and *inter alia*, Duquesne)		
RBW-28	Executive Summary, Duquesne Light Company (1996 rating agency presentation)		
RBW-29	Tables, DQE 12-month Results; Continued Earnings and Dividend Growth; Consistent Financial Performance -- NatWest Securities Mid-Atlantic/New England Utility Seminar, Sept. 23, 1997		
RBW-30	Duquesne Financial, Sales and Operating Information (1996 rating agency presentation)		
RBW-31	Duquesne Rating Agency Presentation, August 1996		

Exhibit	Description	Date Identified	Date Admitted
RBW-32	Duquesne Response to Interrogatory Nos. HSS-3-01 and HSS-3-02 (explanation of ratepayer benefits)		
RBW-33	Duquesne Response to Interrogatory No. OCA-1-007 (regulatory assets and decommissioning expenses)		
RBW-34	Duquesne Response to Interrogatory No. HSS-1-044 (regulatory assets in rate base)		
RBW-35	Duquesne Response to Interrogatory No. HSS-1-043 (Supp.) (authorization for claimed regulatory assets: excerpts from 860378 order)		
RBW-36	Duquesne Response to Interrogatory No. HSS-1-043 (Supp.) (authorization for claimed regulatory assets: excerpts from R-870222 order)		
RBW-37	Duquesne Response to Interrogatory of David Hughes Set I, Item No. DH-1-10 (excerpts from Duquesne's 1995 and 1995 Form 10-Ks)		
RBW-38	Duquesne Response to Interrogatory No. HSS-1-030 (revised) (excerpts from Ft. Martin amended proposal re: deferred costs)		
RBW-39	Excerpts from Duquesne 1996 Form 10-K		
RBW-40	Excerpts from Duquesne Response to Interrogatory No. DH-1-18 (Feb. 17, 1983 letter to Duquesne Shareholders)		
RBW-41	Duquesne Response to Interrogatory No DH-1-10 (excerpts from Duquesne's 1995 and 1995 Form 10-Ks)		
RBW-42	Duquesne Response to Interrogatory No. OCA-1-040 (Brunot Island rate base treatment)		
RBW-43	Duquesne Response to Interrogatory No. OCA-3-042 (Brunot Island and Phillips units—no plans to return cold service units to service)		
RBW-44	Duquesne Response to Interrogatory No. ENV-1-024 (excerpts from Sept. 1997 Integrated Resource Plan)		
RBW-45	Duquesne Response to Interrogatory No. HSS-3-03 (excerpts from Pennsylvania PUC Order in P-900485)		
RBW-46	Duquesne Response to Interrogatory No. OCA-1-018 (future use or sale of Brunot Island and Phillips units)		

Exhibit	Description	Date Identified	Date Admitted
RBW-47	Duquesne Response to Interrogatory No. OCA-1-008 (Chart, Annual Amortization Amounts)		
RBW-48	Table, All-In Costs of Combined Cycle Plants		
RBW-49	Duquesne Response to Interrogatory No. HSS-1-091 (Schnitzer's natural gas market price forecasts)		
RBW-50	Tables, Wellhead (lower 48) Natural Gas Price Projections (1995)		
RBW-51	Duquesne Response to Interrogatory No. HSS-2-38 (gas transportation costs forecast)		
RBW-52	Duquesne Response to Interrogatory No. HSS-2-34 (2.5% inflation factor sources)		
RBW-53	Table, Percent Change from Previous Period--GDP PPD		
RBW-54	Excerpts from Duquesne Resource Planning Report, July 1, 1996		
RBW-55	Presentation to Project Lead Team - Preliminary Recommendations, August 30, 1996		
RBW-56	Presentation to DQE, Inc. Regarding the Sale of Certain Generating Assets, June 16, 1995		
RBW-57	Table, Comparison of Estimates of Market-Clearing Prices		
	Prepared Surrebuttal Testimony of Dr. Robert B. Weisenmiller, Volume IV		
RBW-58	Presentation to Gary Brandenberger - Draft Presentation for Fall Planning Council, Sept. 5, 1996 (Metzler)		
RBW-59	Presentation to Gary Brandenberger - Draft Presentation for Fall Planning Council, Sept. 5, 1996 (Metzler)		
RBW-60	Petition of Duquesne to discontinue normal operation of Phillips Power Station, South Heights, Pennsylvania		
RBW-61	Calpine Acquires 120 MW Gas-Fired Facility, Non-Nuclear Electric Power Generation, etc.		

Exhibit	Description	Date Identified	Date Admitted
RBW-62	Errata to Prepared Testimony of Dr. Robert B. Weisenmiller		

ERRATA

The following corrections should be made to the testimony of Dr. Robert B. Weisenmiller:

(a) Prepared Direct Testimony:

1. At page 41, line 12, after "effect." insert "See Exh. RBW-18."

2. At page 118, line 16, change "West Penn's" to read "Duquesne's".

3. At page 123, line 5, change "EIA, Penelec, PECO, AYP" to read "EIA, Penelec, AYP".

(b) Prepared Surrebuttal Testimony:

1. At page 1, add the following entities to the list of HSS and ARI members sponsoring Dr. Weisenmiller's testimony:

South Hills Health System (all locations)
University of Pittsburgh Medical Center (all locations)

FIRST JOINT STIPULATION
EXHIBIT NO. 6

SYSTEM COUNCIL U-10, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	*Description*	*Date Identified*	*Date Admitted*
IBEW Statement No. 1	**Rebuttal Testimony of Timothy Moran** (Generation suppliers should not be allowed to provide metering, billing, and other customer service functions. Duquesne should not be required to sell or shut down any of its power plants.)		
Schedule TM-1	Rebuttal testimony of William Schmitt from the PP&L Restructuring Case		
Schedule TM-2	Number of Duquesne Light Company employees by year from 1986-1996 (HSS-2-017)		
Schedule TM-3	Duquesne Light Company Distribution of Salaries and Wages for 1996 (FERC Form 1, pages 354-355)		

FIRST JOINT STIPULATION
EXHIBIT NO. 7

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

DUQUESNE LIGHT COMPANY

Application for Approval of a Restructuring Plan
Pursuant to 66 Pa. C.S. §2806(d)
Docket No. R-00974104

INDEX OF MAPSA TESTIMONY AND EXHIBITS

Exhibit	***Description***	***Date Identified***	***Date Admitted***
MAPSA Statement No. 1	Direct Testimony of Whitfield A. Russell (Addressing competitive issues raised by Duquesne's Customer Choice Plan)		
Exhibit WAR-1	Whitfield A. Russell Curriculum Vitae		
Exhibit WAR-2	Chart Showing Monthly Firm Available Transmission Capacity for Allegheny Power		
Exhibit WAR-3	1996 Duquesne System Lambda		
Exhibit WAR-4	Calculation of Duquesne CGC Based Upon 1999 CCGT [1]		
Exhibit WAR-5	ERRATA to Prepared Direct Testimony of Whitfield A. Russell		
MAPSA Statement No.1-SR	Prepared Surrebuttal Testimony of Whitfield A. Russell		

FIRST JOINT STIPULATION
EXHIBIT NO. 8

INDEX OF TESTIMONY AND EXHIBITS
OF INTERVENOR NEV EAST, L.L.C.,
SUBMITTED PURSUANT TO SIXTH INTERIM ORDER

Statement/Exhibit	*Description*
NEV Statement No. 1	Direct Testimony of David Magnus Boonin (regarding the unbundled rate for generation, CTC methodology, unbundling of all tariffs, and billing and metering issues)
Exhibit NEV/DMB #1	Resume of David Magnus Boonin
Exhibit NEV/DMB #2	Chart setting forth methodology for reconciling the CTC
NEV Statement No. 2	Direct Testimony of Nancy I. Day (regarding the importance of unbundling distribution services to the formation of a competitive energy market)
Exhibit NEV/NID #1	Resume of Nancy I. Day

*Pursuant to the December 30, 1997 Order of Administrative Law Judge John H. Corbett, Jr. and agreement of the parties, the foregoing testimony will be admitted into the record by stipulation and without cross-examination.

FIRST JOINT STIPULATION
EXHIBIT NO. 9

OFFICE OF SMALL BUSINESS ADVOCATE
INDEX OF TESTIMONY AND EXHIBITS

Statement/Exhibit	Description
OSBA Statement No. 1*	Direct testimony and Exhibit of Brian Kalcic (recommending adjustments in Duquesne's distribution-related revenue requirements and its rate redesign plan, and offering comments on Duquesne's proposed Phase-In plan.)
OSBA Exhibit No. 1* (with Schedules BK-1, BK-2 and BK-3)	Schedules summarizing Duquesne's functionalized revenue requirements including OSBA's proposed adjustments
OSBA Statement No. 1R**	Rebuttal Testimony and Exhibit of Brian Kalcic (addressing issues raised by other witnesses regarding the pace of stranded cost recovery, the determination of CTC, allocation of universal service costs and proposals for phase-in)
OSBA Exhibit No. 1R** (Schedule BK-1R)	Amortization of DII recommended stranded costs over 4 versus 7 years
OSBA Statement No. 1S***	Surrebuttal Testimony of Brian Kalcic (responding to Co. witness Lahtimen regarding use of realized rather than claimed rate of return for unbundling rates and DII witness Baron regarding allocation of CTC revenue responsibility to all classes)

* Served November 7, 1997
** Served December 2, 1997
*** Served December 11, 1997

FIRST JOINT STIPULATION
EXHIBIT NO. 10

OFFICE OF CONSUMER ADVOCATE
INDEX OF TESTIMONY AND EXHIBITS

Exhibit	*Description*	*Date Identified*	*Date Admitted*
OCA Statement No. 1	**Direct Testimony of Matthew I. Kahal (Evaluation of Duquesne's proposed stranded cost plan)**		
Schedule MIK-1	OCA Overall Stranded Cost Summary		
Schedule MIK-2	Excess Pre-Tax Earnings During Transition Period		
Schedule MIK-3	Retail Rate Comparisons for 1996		
Schedule MIK-4	DRI vs. Duquesne Inflation Rate Forecasts		
Schedule MIK-5	Derivation of the Discount Rate		
Schedule MIK-6	Productivity Enhancement Savings		
Schedule MIK-7	PECO and West Penn Power Life-Extension Costs for Coal Plants		
Schedule MIK-8	Cheswick Life Extension Costs and Net Benefits		
Schedule MIK-9	Generation Net Merger		
OCA Statement No. 1S	**Surrebuttal Testimony of Matthew I. Kahal (Response to Rebuttal Testimony on stranded cost issues)**		
Schedule MIK-1 UPDATE	OCA Overall Stranded Cost Summary		
Schedule MIK-6 UPDATE	Productivity Enhancement Savings		
Schedule MIK-10	Projected Pre-Tax Operating Losses During Transition		
OCA Statement No. 2	**Direct Testimony of Douglas C. Smith (Market Price Analysis)**		
Exhibit DCS-1	Resume of Douglas C. Smith		
Exhibit DCS-2A	New Combined Cycle Non-Fuel Cost Assumptions		

Exhibit DCS-2B	New Combustion Turbine Non-Fuel Cost Assumptions		
Exhibit DCS-3	Spring 1997 DRI Fuel Price Escalation Rates		
Exhibit DCS-4	APS-DQL Market Price Estimate		
Exhibit DCS-5	DQL Weighted Generation Price		
OCA Statement No. 2S	**Surrebuttal Testimony of Douglas C. Smith (Response to rebuttal testimony on market price issues)**		
OCA Statement No. 3	**Direct Testimony of Thomas S. Catlin (Regulatory asset issues, nuclear and fossil decommissioning, taxes and other transition costs)**		
Schedule TSC-1	Summary of Regulatory Assets and Other Transition Expenses		
Schedule TSC-2	Summary of Decommissioning Funding Requirements as of 12/31/98		
OCA			

Exhibit DCS-2B	New Combustion Turbine Non-Fuel Cost Assumptions		
Exhibit DCS-3	Spring 1997 DRI Fuel Price Escalation Rates		
Exhibit DCS-4	APS-DQL Market Price Estimate		
Exhibit DCS-5	DQL Weighted Generation Price		
OCA Statement No. 2S	**Surrebuttal Testimony of Douglas C. Smith (Response to rebuttal testimony on market price issues)**		
OCA Statement No. 3	**Direct Testimony of Thomas S. Catlin (Regulatory asset issues, nuclear and fossil decommissioning, taxes and other transition costs)**		
Schedule TSC-1	Summary of Regulatory Assets and Other Transition Expenses		
Schedule TSC-2	Summary of Decommissioning Funding Requirements as of 12/31/98		
OCA Statement No. 3S	**Surrebuttal Testimony of Thomas S. Catlin (Response to rebuttal testimony on prescribed nuclear outage costs and unamortized debt costs)**		
OCA Statement No. 4	**Direct Testimony of Lee Smith (Rate design, unbundling, cost allocation, and CTC design)**		
Exhibit LS-1	Summary of Qualifications and Experience		
Exhibit LS-2	Calculation of Market Price		
Exhibit LS-3	1996 Administrative & General Expenses		
Exhibit LS-4	Retail Cost of Service CTC Proposal		
Exhibit LS-5	Retail CTC/Calculation of Levelized CTC		
Exhibit LS-6	Unbundled Rate Design Residential - Rate RS		
OCA Statement No. 4S	**Surrebuttal Testimony of Lee Smith (Response to testimony on treatment of ancillary service costs, line losses, A&G adder, and rates of return)**		
Exhibit LS-7	Revised LS-4 (Retail Cost of Service)		

Exhibit LS-8	Revised LS-2 (Calculation of Market Price)		
Exhibit LS-9	Revised LS-5 (Retail CTC)		
Exhibit LS-10	Revised LS-6 (Unbundled Rate Design)		
OCA Statement No. 5	**Direct Testimony of Barbara Alexander (Consumer education and consumer protection issues)**		
Exhibit BA-1	Resume of Barbara Alexander		
Exhibit BA-2	Vermont Consumer Information and Education Plan		
Exhibit BA-3	California Statewide Consumer Education Plan		
Exhibit BA-4	Massachusetts Department of Public Utilities Code of Conduct		
OCA Statement No. 5R	**Rebuttal Testimony of Barbara Alexander (Response to testimony on provision of generation services to default customers and supplier-only bill option)**		
OCA Statement No. 5S	**Surrebuttal Testimony of Barbara Alexander**		
Exhibit BA-S-1	Executive Summary of New Hampshire Pilot Program Survey Report		
Exhibit BA-S-2	CAPUC Fact Sheets on Consumer Education Plan		
Exhibit BA-S-3	Recommendations of the Maine Consumer Education Advisory Board		
OCA Statement No. 6	**Direct Testimony of Nancy Brockway (Universal Service Issues)**		
Exhibit NB-Duq-1	Resume and Curriculum Vitae of Nancy Brockway		
Exhibit NB-Duq-2	Duquesne Estimation of Potential CAP Eligible Customers		
Exhibit NB-Duq-3	Universal Service Costs - Per kWh Allocator		
Exhibit NB-Duq-4	Development of Non-Production Revenue Allocator		

OCA Statement No. 6S	**Surrebuttal Testimony of Nancy Brockway (Universal Service Issues)**		

FIRST JOINT STIPULATION
EXHIBIT NO. 11

Pennsylvania Public Utility Commission
v.
Duquesne Light Company

Docket No. R-00974104

Index* of OTS Testimony And Exhibits Not Yet Admitted

Exhibit	Description	Date Identified	Date Admitted
OTS Statement No. 3	Direct Testimony of Paul M. Yarolin (concerning Universal Service and rate unbundling)		
OTS Cross Examination Exhibit No. 3	On-the-Record Data Request Response (O'Brien Number 1) concerning the difference in balances associated with cold reserve units		
OTS Cross Examination Exhibit No. 4	On-the-Record Data Request Response (O'Brien Number 4) concerning recovery of decommissioning costs		
OTS Cross Examination Exhibit No. 5	On-the-Record Data Request Response (O'Brien Number 5)** concerning recovery of decommissioning costs		

* OTS reserves the right to request admission of additional exhibits upon receipt of all responses to On-the-Record Data Requests.

** OTS has requested that this On-the-Record Data Request Response be supplemented to properly respond to the request.

FIRST JOINT STIPULATION
EXHIBIT NO. 12

PENNSYLVANIA RETAILERS ASSOCIATION
INDEX OF TESTIMONY

EXHIBIT	DESCRIPTION	DATE IDENTIFIED	DATE ADMITTED
PRA Statement No. 1	Direct Testimony of Chris K. Albrecht (Phase-in Procedure for retail competition)		

OSBA STATEMENT NO. 1

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Direct Testimony and Exhibit of

BRIAN KALCIC

ON BEHALF OF THE

OFFICE OF SMALL BUSINESS ADVOCATE

Date Served: November 7, 1997

Date Submitted for the Record: _____

OSBA STATEMENT NO. 1S

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Surrebuttal Testimony of

BRIAN KALCIC

ON BEHALF OF THE

OFFICE OF SMALL BUSINESS ADVOCATE

Date Served: December 11, 1997

Date Submitted for the Record: _____

Surrebuttal Testimony of Brian Kalcic

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. Have you previously submitted testimony in this proceeding?

A. Yes.

Q. What is the subject of your surrebuttal testimony?

A. My surrebuttal testimony responds to certain points raised in the rebuttal presentations of Company witness James A. Lahtinen and DII witness Stephen J. Baron.

Company Witness Lahtinen

Q. Mr. Kalcic, how does Mr. Lahtinen respond to your recommendation that unbundled distribution charges be based upon Duquesne's realized rather than claimed rate of return?

A. Mr. Lahtinen rejects this approach arguing that the Company's proposed unbundling methodology is: 1) consistent with the approach used to develop unbundled rates in its pilot program, and 2) consistent with the results of the Company's previous base rate proceeding which included an equity

disallowance for certain generating units (and thus an implicitly higher overall return for Duquesne's transmission and distribution investment).

Q. With respect to Mr. Lahtinen's first point, should the unbundling methodology approved for Duquesne's pilot program be considered precedent setting with respect to this issue?

A. No. As evidenced by the fact that the Commission has provided for a reconciliation process to correct for any material mismatch between pilot rates and those rates established in a utility's restructuring proceeding, the methodology used to unbundle Duquesne's pilot rates should be given no special weight.

Q. Within the context of other restructuring proceedings, has any Pennsylvania electric utility other than Duquesne proposed to unbundle its distribution charges utilizing a claimed rather than realized rate of return on distribution investment?

A. To my knowledge, no.

Q. Mr. Kalcic, do you agree with Mr. Lahtinen's second point that Duquesne's unbundling methodology is consistent with the (implicit) differential returns on investment awarded by the Commission in the Company's previous base rate proceeding?

A. No. While the total generation rate cap is determined as a residual in Duquesne's unbundling methodology, the Company's approach is not the equivalent of a generation-related equity disallowance.

Duquesne is proposing to recover stranded costs equal to the full difference between the book value of its generation investment and the market value of that generation on a net present value basis. Since the Company proposes to utilize its claimed after-tax cost of capital in its present value calculation, the actual return imputed to the Company's generation investment would not be reduced.

DII_Witness_Baron

Q. Mr. Kalcic, on page 17 of his rebuttal testimony, Mr. Baron argues that it is not feasible to allocate CTC revenue responsibility to Duquesne's rate classes since certain classes might receive a total cost allocation in excess of their respective current revenues. Is this a valid criticism?

A. No. If a cost-based allocation of CTC revenue responsibility (combined with a market-based generation charge) would result in a violation of the generation rate cap for certain classes, the total CTC collected from those classes should be limited to that allowed by the cap. However, over a seven-year CTC recovery period, this could result in select classes

with very low existing generation charges (low premium classes) receiving little or no discount from current rates compared to classes with high generation rates (high premium classes). For the reasons discussed in my rebuttal testimony, such a result would be both intuitive and equitable.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

Direct Testimony of Brian Kalcic

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and founder and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Office of Small Business Advocate ("OSBA") which is representing small business customers served by Duquesne Light Company ("Duquesne" or "Company").

Q. What is the subject of your testimony?

A. My testimony will examine select topics in three areas. In the first section of my testimony, I will address certain issues related to the functionalized revenue requirements utilized by Duquesne to unbundle rates. In the second part of my testimony, I will discuss the Company's rate redesign plan which would incorporate a customer-specific Fixed CTC. Finally, I will comment upon Duquesne's proposed methods for determining which of its commercial

and industrial customers will be eligible to participate in the first two steps of the Phase-In to Retail Access.

To the extent that portions of my testimony and/or exhibit reflect one or more of Duquesne's claims in this proceeding, such correspondence is for comparison purposes only and should not be construed as acquiescence by the OSBA to the Company's position, in whole or in part.

Q. Please summarize your major findings and recommendations.

A. With respect to the functionalized revenue requirement targets used by the Company to unbundled rates, I find that:

- Duquesne has improperly utilized its claimed overall cost of capital of 9.61% to determine its distribution-related revenue requirement, with the result that the Company's unbundled distribution rates are too high; and

- the Company's proposal to recover the cost of distribution losses at embedded generation cost levels within its unbundled distribution rates would artificially and unnecessarily inflate Duquesne's distribution rates at the expense of competition and stranded cost mitigation.

Accordingly, I recommend that:

the Company's distribution-related revenue requirement be adjusted downward to reflect Duquesne's current rate of return; and

Duquesne's customers be allowed to purchase energy in the generation market to supply their distribution losses.

With respect to Duquesne's rate redesign plan, I find that:

- the Company's proposed Fixed CTC would negatively impact ratepayers with inflated baseline consumption levels, and improperly shift CTC revenue responsibility from customers with growing loads to customers with constant and/or declining loads.

Accordingly, I recommend that:

- the Company be required to offer a second version (type) of unbundled tariffs where stranded costs are recovered through an all-variable CTC charge; and

  ratepayers have the option to choose the type of unbundled tariff under which they will take service (i.e., Fixed CTC or all-variable CTC).

Functionalized Class Revenue Requirements

Q. Mr. Kalcic, please provide a general overview of the steps employed by Duquesne to determine functionalized class revenue requirements.

A. In order to unbundle current rates and develop separate charges for distribution, transmission and generation services, Duquesne must first

develop functionalized revenue targets by rate class. These revenue targets are developed in the Company's cost-of-service study provided in Exhibits JAL-1A through JAL-1E of Mr. Lahtinen's testimony.

As explained by Mr. Lahtinen, the Company cost-of-service analysis begins with the functionalized pro forma revenue requirement for the 1996 test year developed in Exhibits MKO-1A through MKO-1E. These functionalized revenue requirements are then allocated to rate classes using allocation factors generally consistent with those employed in the Company's previous cost study. Next, specific adjustments are made to class transmission- and distribution-related revenue requirements as discussed below. Finally, class generation-related revenue requirements are developed to correspond to the maximum generation costs that can be recovered from customers given: 1) the previously developed transmission and distribution revenue requirements and 2) the existing rate cap (adjusted for the ECR roll-in).

Q. What specific adjustments does the Company make to its transmission and distribution revenue requirement targets?

A. Schedule BK-1 of OSBA Exhibit No. 1 provides a summary of the functionalized revenue requirement adjustments Duquesne employs to unbundle rates. Column 1 of Schedule BK-1 reports Duquesne's functionalized jurisdictional revenue requirement (excluding Off-System Sales and Other Revenue) at the Company's claimed overall cost of capital

of 9.61%. From within the generation function, Duquesne's moves the (claimed) costs associated with ancillary services ($18.6 million) to the transmission function, and the embedded production costs associated with distribution losses ($29.7 million) to the distribution function. These reassignments are shown in Column 2 of Schedule BK-1.

Q. What is shown in Column 3 of Schedule BK-1?

A. Column 3 depicts the Company's determination of its maximum generation-related revenue requirement. Since the rate cap (adjusted for the ECR roll-in of $18.6 million) produces total rate revenues of only $1.104 billion, Duquesne adjusts its generation-related revenue requirement downward by approximately $30.4 million -- the amount necessary to meet the rate cap given its previously determined transmission- and distribution-related revenue requirements.

Q. Do you have any general comment regarding the overall transmission revenue requirement utilized by the Company's to unbundle rates?

A. Yes. It is my understanding that Duquesne expects a decision from the FERC soon regarding its overall transmission revenue requirement and transmission rate structure. I also understand that the Company intends to update its filed transmission rates in this proceeding to conform to FERC's decision. Consequently, I will take as given the Company's claimed transmission revenue requirement in the analysis that follows, and I will

defer any specific comments regarding Duquesne's unbundled transmission rates to later rounds of testimony, as necessary.

Q. Mr. Kalcic, do you believe the functionalized revenue requirements shown in Schedule BK-1 are the appropriate starting point from which to unbundle Duquesne's rates?

A. No. As discussed below, I believe that Duquesne's approach is deficient on two counts. First, it is inappropriate to impute a (claimed) system average rate of return (9.61%) to the transmission and distribution components of the Company's rate base but only a residual return to the generation function. Second, the Company's attempt to recover the cost of distribution losses within its unbundled distribution rates is improper as it would artificially and unnecessarily inflate Duquesne's distribution revenue requirement at the expense of competition.

Q. Please discuss your first point with respect to the 9.61% return imputed to Duquesne's distribution-related rate base.

A. The Competition Act [Section 2804 (4)] specifies that electric utilities shall operate under two types of rate caps during the transition period -- the first of which is relevant here. The first rate cap applies to a utility's total charges for a period of up to 54 months (June 30, 2001) following the passage of the Competition Act. For customers who choose to purchase generation from the electric distribution utility, the total charges for service

from that utility may not "exceed the total charges that have been approved by the Commission for such service as of the effective date of this chapter".

For those customers who choose to purchase generation from an alternative supplier, the Competition Act states that the charges for the non-generation services supplied by the electric distribution utility (excluding the CTC or ITC) "shall not exceed the non-generation charges that have been approved by the Commission for such service as of the effective date of this chapter".

Clearly, Duquesne's unbundled distribution rates reflect the Company's claimed overall cost of capital of 9.61% rather than the lower overall return on rate base provided at current (approved) rates. In a very real sense, Duquesne's proposal is the equivalent of a petition to increase current distribution rates -- an action which is prohibited by the Competition Act until mid-2001 (in the case where the utility continues to recover stranded costs).

Stated differently, under the Company's unbunded rates, any customer who purchases generation from an alternative supplier would be charged an unbundled distribution rate that would exceed the charge previously approved by the Commission -- in violation of the above rate cap.

Q. Mr. Kalcic, how should Duquesne's functionalized revenue targets be developed?

A. I recommend that the Company's functionalized revenue requirements reflect

the class and system average rates of return provided by current revenues at the rate cap.

Q. Did the OSBA request that the Company develop its functionalized revenue requirements in the above manner?

A. Yes, via interrogatories OSBA-2-22 and OSBA-2-24. Unfortunately, Duquesne could not provide the requested calculations due to the manner in which income taxes are reflected in its cost-of-service model.

Q. Have you approximated Duquesne's functionalized revenue requirements at the system average rate of return provided by current revenues?

A. Yes, on a total Company basis. Column 1 of Schedule BK-2 provides an estimate of Duquesne's functionalized revenue requirements where each component reflects the current overall rate of return of 8.86%.

Q. What is shown in column 2 of Schedule BK-2?

A. Consistent with my earlier comment with respect to transmission revenues, I have simply re-established the Company's claimed transmission revenue requirement and reduced generation-related revenues accordingly. The resulting net generation revenue requirement of $810.5 million will be used below to estimate the additional stranded cost recovery produced when rates are unbundled properly.

Q. What would be the effect of utilizing a rate of return of 8.86% rather than 9.61% to develop the Company's unbundled distribution rates?

A. The total distribution revenue requirement is estimated to decline by $10.3 million ($253.7 million minus $243.4 million), excluding the cost of distribution losses. Everything else the same, this $10.3 million in annual revenue would be paid to the Company in the form of CTC charges rather than (inflated) distribution charges, thus mitigating the Company's stranded costs.

Q. Mr. Kalcic, please turn now to a discussion of Duquesne's proposal to recover the cost of distribution losses within its unbundled distribution rates.

A. In essence, Duquesne proposes to deny customers the opportunity to purchase energy to cover their distribution losses in the competitive generation market. Instead, Duquesne would include the cost of distribution line losses in its distribution rates at full embedded generation cost (i.e., inflated prices).

Q. Is this proposal reasonable?

A. No. I know of no valid reason for the Company to deny customers an opportunity to benefit from competition in the generation market. Distribution losses can and should be supplied competitively. Alternatively,

if distribution losses must be included in distribution rates, the costs of such losses should be based on market prices.

Q. Is the $29.7 million cost for distribution losses shown in Schedule BK-1 consistent with the Company's estimate of market prices?

A. No. Schedule BK-3 calculates the additional CGC revenue necessary to cover distribution losses using the Company's estimate of market prices. As shown on line 13 of Schedule BK-3, the market-based cost of distribution losses is approximately $14.0 million ($243.21 million minus $229.24 million). Therefore, the market-based cost of distribution losses is $15.7 million less than Duquesne's proposed embedded cost rate ($29.7 million minus $14.0 million).

Q. What is the total additional stranded cost recovery that would be produced yearly from a proper unbundling of distribution rates combined with the practice of allowing customers to purchase supply for distribution losses in the generation market?

A. As shown on line 16 of Schedule BK-3, the additional annual stranded cost recovery provided under current rates would be approximately $26.0 million, given the Company's estimate of market prices.

Fixed CTC

Q. What is the Fixed CTC as proposed by Duquesne?

A. The Fixed CTC is the centerpiece of the Company's plan to redesign the manner in which it recovers costs from ratepayers. In brief, Duquesne proposes to reduce current rate levels over 25% on average for all customer usage above 1996 (baseline) levels. To do so, Duquesne proposes to split its proposed CTC charges into two components: 1) a variable charge and 2) a fixed customer-specific charge.

The variable CTC charge would be set at a level which would significantly lower the current total charge associated with energy usage. However, the resulting discount that would otherwise be associated with a customer's baseline consumption would be recouped in the form of a Fixed CTC. Customers would therefore see the same total bill before and after unbundling if their usage level was unchanged from baseline levels. In light of the fact that customers have "unique" baseline usage levels, the proposed Fixed CTC must be customer-specific.

Q. Why is Duquesne proposing to redesign rates in this manner?

A. Duquesne notes that its current rates are significantly above estimated market prices. Economic theory indicates that such a result is inefficient. By lowering its energy charges toward marginal cost levels, Duquesne hopes to improve resource allocation, stimulate economic development and job formation, encourage load growth and mitigate its stranded costs.

Q. Do you agree that Duquesne's proposed rate redesign is supported by economic theory?

A. Economic theory is concerned with questions of economic efficiency. To the extent that Duquesne's current rates exceed its combined marginal cost of production, transmission and distribution, I agree that economic theory would generally support the conclusion that a Fixed/Variable CTC is preferable to a purely variable CTC since the former would convey more accurate price signals.

Of course, it is important to recognize that economic theory would also indicate that the "best" CTC is no CTC, and that the above conclusion therefore rests on the assumption that a CTC is required in the first place.

Q. Are there any other considerations besides economic efficiency that should be considered in evaluating the Company's rate redesign proposal?

A. Yes. Since certain customers would be adversely affected by Duquesne's Fixed CTC proposal, I believe equity considerations are also relevant.

Moreover, since the CTC charge itself is not grounded on economic efficiency considerations, it is all the more appropriate to weigh equity concerns in the design of the stranded cost recovery charge.

Q. Please explain how certain customers would be adversely affected by a Fixed CTC.

A. Duquesne proposes to make its rate redesign mandatory for all customers. Accordingly, the Company's proposed Fixed CTC charge will result in larger bills for all customers with baseline consumption levels that are for any reason higher than normal (compared to the all-variable CTC case). Relative to existing rates, this is equivalent to a shift in CTC revenue responsibility from customers with growing loads to customers with declining loads. In my opinion, this result is inequitable and particularly inappropriate given Section 2808 (a) of the Competition Act which states that stranded costs should be recovered from customer classes in a manner that does not shift inter-class or intra-class costs.

Q. Is it necessary that a customer's load be trending downward in order to be adversely impacted by the Company's Fixed CTC proposal?

A. No. Any customer with a baseline load that is higher than normal would be adversely affected simply from consumption returning to normal levels. For example, if a residential customer used his/her air conditioning more than "normal" in 1996, a return to typical usage would leave the customer relatively worse off in the Fixed CTC case. Likewise the case for a customer who upgraded to more energy efficient appliances sometime during 1996.

For the business customer, an exceptional sales year in 1996 might saddle the customer with an "inflated" baseline usage level. In that instance, a return to average or "normal" business activity would then result in a

higher total energy bill (again, compared to the all variable CTC case).

Q. What do you recommend with respect to Duquesne's Fixed CTC proposal?

A. In order to recognize equity considerations, I recommend that Duquesne offer two versions of unbundled tariffs. The first tariff would reflect the Company's preferred Fixed/Variable CTC. The second tariff would contain an all-variable CTC similar to that filed in the Company's Pilot program. Customers would then have the option of choosing the unbundled tariff that best suits their needs.

Importantly, since the Fixed CTC option would continue to be offered, the basic element of the Company's rate redesign plan would remain in place. This, in turn, would insure that Duquesne's rate redesign plan was afforded an opportunity to produce the elasticity-related benefits ascribed to it by the Company.

Phase-In Procedures

Q. Mr. Kalcic, how does Duquesne propose to implement the Phase-In of all customers to Retail Access?

A. In compliance with the Competition Act, Duquesne proposes to phase-in Retail Access in three steps. As of January 1, 1999, one-third of the peak load of residential and non-residential customers would be eligible for Retail

Access. Each succeeding January, the Company would offer customers comprising an additional one-third of the load of the above groups the opportunity for Retail Access, so that by January 1, 2001 all customers would be eligible.

Q. Please summarize the Company's proposed methods for determining which customers within its commercial and industrial (C&I) customer classes will be eligible to participate in steps one and two of the Phase-In.

A. Unlike many other Pennsylvania electric utilities, Duquesne does not propose to phase-in its C&I customers by rate class. Instead, the Company intends to group such customers by SIC code. Smaller customers (generally less than 20 kW) for which Duquesne does not have SIC code information would be phased-in by zip-code-based geographic areas of choice (GAC) (as would all residential customers). All other C&I customers would be grouped into one of eleven commercial or five industrial market segments based on SIC code. Duquesne would then prioritize the phase-in of these market segments based on the response of the different segments to the Company's pilot program open enrollment process. (Those market segments exhibiting the largest percentage of accounts being nominated for pilot participation would be included in the first step of the Phase-In until the relevant peak load limit is reached.)

Duquesne believes its C&I Phase-In procedures will go a long way

toward eliminating competitive advantage disputes.

Q. Does the OSBA agree with the Company's proposed Phase-In methodology for commercial and industrial customers?

A. With certain clarifications, yes.

Q. Please explain.

A. When evaluating a proposed Phase-In plan, the OSBA focuses on two primary concerns: 1) that the plan attempts to insure that similarly situated business customers are not competitively disadvantaged, while at the same time providing a clear mechanism for resolving any competitive advantage disputes that do arise, and 2) that small business customers be fairly represented among those C&I customers chosen for Retail Access in the first two steps of the Phase-In.

With respect to the first consideration, I agree with the Company that its SIC code approach should theoretically prevent many competitive advantage conflicts from arising during the first two steps of the Phase-In. However, the dispute resolution process itself must not be overlooked. Duquesne has indicated that customers will prevail in a related complaint to the Company if they can show a) their business has been misclassified or b) other businesses with the same product or service have received a competitive advantage. For this dispute resolution process to work efficiently, C&I customers must know their rights and responsibilities.

Therefore, I recommend that an explanation of the C&I dispute resolution process be included as an integral part of the Company's consumer education plan.

Q. Will Duquesne's Phase-In plan permit small business customers to be fairly represented in the first two steps of the Phase-In?

A. Yes, as long as smaller (non-SIC code) customers are phased-in up to the limits of their own peak load levels and all customers within a given SIC code are made eligible at the same time. These clarifications were confirmed by the Company in response to interrogatories OSBA-2-18 through OSBA-2-20.

Q. Do you have any other comments on this subject?

A. Yes. It is apparent that SIC- and GAC-based C&I loads may only be "available" for phase-in in relatively large increments. In order to phase-in C&I customers along the non-discriminatory lines described above, Duquesne may be faced with the need to exceed the C&I peak load limit by a measurable amount in either of the first two steps of the Phase-In. Should this occur, the exceeded Phase-In limit must not reflect negatively upon Duquesne's willingness to resolve individual competitive advantage disputes in the customer's favor when the requisite information described above has been supplied to the Company.

Q. Mr. Kalcic, do you have any further comment on Duquesne's restructuring filing at this time?

A. Yes. Mr. Hoffmann indicated that the Company's Universal Service and Energy Conservation Plan was expected to be completed on or about November 1, 1997. As the OSBA had not had the opportunity to examine the Company's plan prior to submitting direct testimony, the OSBA may choose to comment on the Company's Universal Service plan in a later round of testimony.

Q. Does this conclude your direct testimony?

A. Yes.

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic was graduated from Illinois Benedictine College with the degree of Bachelor of Arts in Economics in December, 1974. In May, 1977 he was awarded a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University. The courses that he taught included Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc.. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice which provides business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.

OSBA EXHIBIT NO. 1

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXHIBIT OF

BRIAN KALCIC

ON BEHALF OF THE

OFFICE OF SMALL BUSINESS ADVOCATE

Schedule BK-1

Duquesne Light Company

Summary of Functionalized Revenue Requirements
Used to Unbundle Rates

Line	Description	Total Juris. Revenue Requir. at 9.61% ROR (1)	Total Juris. Revenue Requir. with Reallocation (2)	Total Juris. Revenue Requir. at Rate Cap (a) (3)
1	Distribution	$253,687,253	$283,353,739	$283,353,739
2	Transmission	$31,729,402	$50,315,742	$50,315,742
	Generation:			
3	Ancillary Services	$18,586,340	$0	$0
4	Distrib Losses	$29,666,486	$0	$0
5	All Other	$800,912,092	$800,912,092	$770,545,644
6	Subtotal	$849,164,918	$800,912,092	$770,545,644
7	Total	$1,134,581,573	$1,134,581,573	$1,104,215,125

Notes:
(a) Includes ECR roll-in at cap of $18.6 million.

Source: (1) & (2) Exhibit JAL-1C, pages 2 & 3
(3) Exhibit JAL-3, page 1

Duquesne Light Company

Summary of OSBA Recommended Functionalized Revenue Requirements

Line	Description	Total Juris. Revenue Requir. at 8.86% ROR (a) (1)	Total Juris. Revenue Requir. with Reallocation (2)
1	Distribution	$243,404,815	$243,404,815
2	Transmission	$29,526,031	$50,315,742
	Generation:		
3	Ancillary Services		
4	Distrib Losses		
5	All Other	$831,284,278	$810,494,567
6	Subtotal	$831,284,278	$810,494,567
7	Total	$1,104,215,124	$1,104,215,124

Notes:
(a) Revenue Deficiency of $30.4 million allocated to functions on rate base.

Adjusted ROR:

	$1,134,581,573	Rev. Req. @ 9.61%
-	$1,104,215,124	Rev. Req. @ Cap
	$30,366,449	Rev. Shortfall
x	0.58507	(1-Effective Tax Rate of 41.4935%)
	$17,766,346	Reduced Return
	$227,483,533	Return @ 9.61%
	$209,717,187	Adjusted Return
	$2,367,154,351	Rate Base
	8.86%	Adjusted ROR

Source: Exhibit JAL-1A, page 4 for Rate Base

Duquesne Light Company

Calculation of Additional Annual Stranded Cost Recovery
Using OSBA Functionalized Revenue Requirements

Line	Unbundled Classes	MWh	Per Company No Distribution Losses CGC $/MWh	Per Company No Distribution Losses CGC Revenue	Per OSBA With Distribution Losses CGC $/MWh	Per OSBA With Distribution Losses CGC Revenue
		(1)	(2)	(3)	(4)	(5)
1	RS	2977269	$18.56	$55,258,113	$20.33	$60,527,879
2	RH	309201	$18.44	$5,701,666	$20.19	$6,242,768
3	RA	33848	$18.48	$625,511	$20.24	$685,084
4	GS/GM	2621146	$18.64	$48,858,161	$20.25	$53,078,207
5	GMH	328256	$18.55	$6,089,149	$20.03	$6,574,968
6	GLH	455219	$18.58	$8,457,969	$19.37	$8,817,592
7	GL	2884888	$18.52	$53,428,126	$19.29	$55,649,490
8	L	1509474	$18.47	$27,879,985	$18.96	$28,619,627
9	HVPS	1201824	$18.48	$22,209,708	$18.48	$22,209,708
10	SE	28618	$18.14	$519,131	$19.87	$568,640
11	MTS	11639	$18.42	$214,390	$20.17	$234,759
12	AL	13	$18.14	$236	$19.35	$252
13	Total			$229,242,144		$243,208,971
14	Generation Rate Cap (a)			$770,545,644		$810,494,567
15	CTC Revenue (14)-(13)			$541,303,500		$567,285,596
16	Additional Stranded Cost Recovery					$25,982,097

Notes:
(a) Per Schedules BK-1 and BK-2

Source: (1) Exhibit JAL-9, page 2
(2) Exhibit JAL-11
(4) Company Response to OSBA-2-17

OSBA STATEMENT NO. 1R

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Rebuttal Testimony and Exhibit of

BRIAN KALCIC

ON BEHALF OF THE

OFFICE OF SMALL BUSINESS ADVOCATE

Date Served: December 2, 1997

Date Submitted for the Record: _____

Rebuttal Testimony of Brian Kalcic

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. Have you previously submitted testimony in this proceeding?

A. Yes.

Q. What is the subject of your rebuttal testimony?

A. My rebuttal testimony addresses issues raised by various witnesses in the following three areas: 1) the pace of stranded cost recovery and the determination of the CTC component of rates, 2) the allocation of Universal Service costs among rate classes and 3) the methodology for selecting customers for participation in the first two steps of the Phase-In of Retail Access.

Stranded Cost Recovery / CTC

Q. Mr. Kalcic, how does DII propose to develop class-specific CTC charges?

A. Mr. Baron recommends that the CTC component of each of the Company's unbundled rates be determined as a residual, after subtracting the unbundled transmission, distribution and estimated market generation components from the current bundled rate.

Q. Is the CTC-residual approach generally supported by the various parties to this proceeding?

A. To my knowledge, yes.

Q. What is the primary reason offered in support of deriving the CTC as a residual in the unbundling process?

A. In order to provide ratepayers with meaningful choice during the transition period, the unbundled generation rate component must reflect (class-specific) expected market prices. If the CTC is established first with the generation component as a residual, there is no guarantee that the resulting class-specific generation charges will reflect the market.

Q. Do you have any concerns with how the CTC-residual approach is implemented in this proceeding?

A. Yes. Mr. Baron testifies that as a result of the CTC being calculated as a residual, there is no need to levelize and/or allocate the stranded cost revenue requirement to rate classes over the full transistion period. Instead,

under DII's proposal, maximum CTC revenues would be collected, as available, from all rate classes to effectively amortize Duquesne's stranded cost balance as quickly as possible.

As discussed below, in those cases where a utility's stranded costs can be recovered in less than the full seven year period allowed by the Competition Act, I believe it is important that stranded cost responsibility be allocated in rate classes rather than simply collected from classes in proportion to the size of the residual provided by their respective generation rate caps.

Q. What does DII recommend with respect to the level of stranded costs that Duquesne be allowed to recover from ratepayers?

A. DII recommends a stranded cost level of $1.390 billion on a present value revenue requirement basis.

Q. Over what time period does DII recommend that the above stranded costs be recovered?

A. Given DII's estimated market prices, Mr. Baron indicates that Duquesne would recover DII's recommended stranded cost level of $1.390 billion (on a present value basis) by the end of 2002 (in the case where all stranded costs were securitized with transition bonds yielding 7.0%).

Q. Mr. Kalcic, do you believe that there exist valid reasons for the Commission to consider extending the time period for stranded cost recovery beyond the minimum time period needed to amortize Duquesne's stranded costs (i.e., in those cases where an early termination of the CTC would otherwise be feasible)?

A. Yes, for two principle reasons. First, an extension of the CTC recovery period in cases like the above would allow (necessitate) stranded costs to be allocated to rate classes -- resulting in a more equitable assignment of stranded cost responsibility to rate classes than in DII's stranded cost recovery scenario. Second, an extension of the time period for stranded cost recovery would provide all ratepayers with an immediate (1999) rate reduction (independent of their eligibility with respect to Direct Access) which would not be available under an "accelerated" amortization proposal such as DII's.

Q. Do any of the other witnesses to this proceeding who advocate a CTC-residual approach to unbundling rates combine an allocation of the CTC revenue requirement with a market-based generation component?

A. Yes. OCA Witness Lee Smith utilizes such an approach.

Q. How are rate classes "assigned" stranded cost responsibility under DII's amortization proposal?

A. In Mr. Baron's analysis, all classes would pay CTC charges equal to the full difference between their existing generation rate cap and the market generation component of rates. In essence, classes with more "space" under their existing generation rate cap would pay CTC charges for those classes that had less space, until Duquesne recovered its total stranded costs.

Q. Is it appropriate for rate classes to provide a level of stranded cost recovery equal to the full difference between their existing generation rate cap and the market generation component of their rates?

A. In my opinion, no. The available margin that a class exhibits under the generation rate cap (i.e., after transmission and distribution services are unbundled) is a function of its current rates. Within a given generation rate cap, one would expect those classes which implicitly pay larger "premiums" for generation under existing bundled rates (i.e., pay a larger amount over their respective market rates) to receive greater benefits from Direct Access. This follows from the premise that competition will eliminate all generation premiums paid by ratepayers.

During the period of transition to competition, Mr. Baron proposes to utilize all available generation premiums to amortize Duquesne's stranded costs as quickly as possible. In doing so, DII would effectuate an interclass shift of CTC cost responsibility from low premium to high premium classes,

effectively denying the latter classes their proportionate share of benefits during the period of stranded cost recovery.

Q. How can this type of inequity be mitigated?

A. In DII's case, this type of inequity could be mitigated by extending the collection of CTC charges over a longer portion of the statutory seven year recovery period. This would allow Duquesne's stranded costs to be equitably allocated to rate classes in proportion to each classes current share of Duquesne's production-related capacity costs, while at the same time providing each class with a generation credit that allows meaningful customer choice.

Q. Mr. Kalcic, you previously indicated that an extension of the CTC recovery period would also provide ratepayers with an immediate rate reduction that would not be available under an accelerated amortization proposal such as DII's. How would such a rate reduction come about?

A. The rate reduction is attributable to the fact that an extension of the recovery period would not require the full residual under the generation rate cap to be used for CTC charges. This "unused" residual becomes the above referenced rate reduction.

Q. Have you quantified the average system rate reduction that would be available from extending the recovery scenario shown in Mr. Baron's Exhibit ____ (SJB-5)?

A. Yes. Schedule BK-1R contrasts DII's preferred recovery period (page 1) with a seven year recovery period (page 2), assuming no change in T&D rates. Under DII's approach, there is no overall rate reduction through 2001 as CTC revenues are maximized. (Of course, customers may experience savings on an individual basis over this period depending on their eligibility for Direct Access and success in obtaining cheaper alternative generation.) In 2002, an October expiration of the CTC would provide an average rate reduction of 8.96%. Over the period 2003-2005, the average rate reduction would be 32.02%.

As shown on page 2 of Schedule BK-1R, the seven-year recovery scenario could provide ratepayers with an average rate reduction of 13.11% beginning in 1999.

Q. Mr. Kalcic, is it valid to conclude that a seven-year CTC recovery period would simply trade larger later-year rate reductions for a smaller average discount over the whole transition period?

A. No. Once the CTC expires, the generation rate cap will also expire. Therefore, the larger rate reductions shown for the years 2003-2005 under DII's preferred recovery scenario are not guaranteed.

On the other hand, since the generation rate cap would not expire before 2005 in the case of a seven-year CTC recovery period, ratepayers would be guaranteed the smaller annual rate reductions provided by that recovery scenario.

Q. As you previously indicated, DII recommends that the CTC revenue requirement be amortized as quickly as possible over the transition period. Would it still be feasible to allocate CTC revenue responsibility to rate classes in such a scenario?

A. Yes. In that case, each class would be allocated its share of the beginning stranded cost balance with CTC revenue collections tracked by class. Each class would then pay (maximum) residual CTC charges up to the level of its respective generation rate cap, as in Mr. Baron's recommended rate design, but since the CTC charges paid by class would be credited against a class-specific stranded cost allocation, the CTC charges for a given class would end when its allocated share was amortized.

Combining DII's recommended CTC methodology with an allocation of stranded cost responsibility would therefore result in the CTC ending at different times for each rate class.

Q. Are you recommending that Duquesne's total stranded costs be amortized in fewer than seven years, if possible?

A. No. My point is simply that whichever recovery scenario is adopted by the Commission, it would be appropriate to allocate CTC revenue responsibility to rate classes in the unbundling process.

Universal Service Funding

Q. Mr. Kalcic, have you reviewed the Company's Universal Service and Energy Conservation Plan that was supplied in a supplemental response to Interrogatory OCA-5-003?

A. Yes.

Q. How does Duquesne propose to recover Universal Service costs from ratepayers?

A. Duquesne proposes that Universal Service costs be recovered from all rate classes via a Universal Service Charge (USC) that reflects each class' share of total allocated distribution costs.

Q. Does Duquesne provide any specific argument(s) in support of this type of USC?

A. No.

Q. What does the Commission's Order at Docket No. M-00960890F0010 issued July 11, 1997, indicate with respect to the recovery of Universal Service and Energy Conservation costs?

A. Section G of the referenced Order states:

> 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. (emphasis added)

Q. Mr. Kalcic, has Duquesne shown that its proposed USC is consistent with the rate treatment that Universal Service programs received in the Company's last base rate case?

A. No, it has not. Consequently, there is no evidence that Duquesne's proposed USC would be in compliance with the Commission's Order or the Competition Act.

Q. How should the Company's USC be defined?

A. In order to comply with the Commission's Order at Docket No. M-00960890F0010, issued July 11, 1997, Duquesne's USC should be developed so as to be consistent with the rate treatment(s) that applied to

such programs in the Company's most recent base rate case. To do otherwise would shift costs among Duquesne's rate classes, in violation of the Competition Act prohibition against interclass and intraclass cost shifting.

Q. Mr. Kalcic, OCA witness Nancy Brockway recommends that Duquesne's Universal Service costs be assigned to rate classes using a non-production revenue allocation factor (assuming a kWh allocator is once-again rejected by the Commission). Does Ms. Brockway provide any evidence that such an allocator would be consistent with the rate treatment that Universal Service programs received in the Company's last base rate case?

A. No. While Ms. Brockway shows that a non-production revenue allocator would provide a lower Universal Service cost allocation for certain non-residential classes (but not Rate GS/GM) than a straight kWh-allocator, she has not addressed the extent to which the OCA's recommended allocator would be consistent with past ratemaking treatment. Consequently, the OCA's recommended non-production revenue allocator should be rejected.

Phase-In Procedures

Q. Mr. Kalcic, many witnesses in this proceeding, including Mr. Baron for DII, Ms. Alexander for the OCA, Mr. Russell for MAPSA, Mr. Albrecht for the PRA and Mr. Muench for Enron, have recommended that the Company's proposed GAC/SIC-code based Phase-In methodology be rejected in favor of a first-come-first-served (FCFS) selection process. Would the OSBA have any specific concerns if the Commission were to adopt a FCFS approach to select Duquesne's C&I customers for Direct Access?

A. Yes. As discussed below, I believe the composition of the Company's Rate GS/GM class is such that a straight FCFS selection procedure would likely result in smaller Rate GS/GM customers being under-represented in the first two steps of the Phase-In. Consequently, I recommend that a FCFS selection approach be modified if it is to apply to Rate GS/GM.

Q. Please describe the general composition of customers on Rate GS/GM.

A. Rate GS/GM is available to all customers outside the scope of the Company's residential service schedules whose billing demand does not exceed 300 kW. Unlike many of Duquesne's rate schedules, Rate GS/GM does not represent a relatively homogenious customer group. Instead, such

customer accounts exhibit a wide range of billing demands and usage patterns.

Q. What implication does the wide range of customer sizes within Rate GS/GM have regarding the ultimate distribution of such customers chosen for Direct Access via a FCFS methodology?

A. In my opinion, the wide range of customer sizes included among Rate GS/GM accounts would likely result in an under-representation of smaller Rate GS/GM customers in the first two steps of the Phase-In.

Q. Please explain.

A. The larger a customer's electric bill, the greater the potential for savings associated with Direct Access. As a result, I would expect larger customers to have a naturally greater incentive to process and evaluate Direct Access information, and to do so in a more timely fashion than smaller customers. All else being equal, therefore, larger customers may be expected to respond more promptly to a FCFS Phase-In program.

In the end, I would therefore anticipate that far less than one-third of all Rate GS/GM customers would be accepted in the first two steps of the Phase-In via a FCFS selection methodology (due to the one-third peak load limit), and that larger accounts would be greatly over-represented among those customers accepted.

Q. If adopted, should a FCFS Phase-In procedure for Rate GS/GM customers be modified to counter-balance the potential selection "bias" discussed above?

A. Yes.

Q. What is your recommendation in this area?

A. I recommend that a FCFS Direct Access selection process within Rate GS/GM be modified to allow for a proportionate representation of smaller Rate GS/GM customers in the first two steps of the Phase-In. To that end, the total Rate GS/GM peak load available in the first two steps of the Phase-In should be reapportioned into separate "Small Rate GS/GM" and "Large Rate GS/GM" segments. The eligibility of Rate GS/GM customers would then be determined on a FCFS basis within the appropriate Rate GS/GM load segment.

Q. At what load level should Rate GS/GM be segmented for Phase-In purposes?

A. I recommend that the Small Rate GS/GM segment be limited to customers with no more than 40 kW loads. However, the natural breakpoint may be more precisely determined by the Company from a detailed bill frequency analysis of all Rate GS/GM accounts.

Q. How much Rate GS/GM load would Duquesne need to designate as Small Rate GS in each of the first two steps of the Phase-In?

A. Based on load research, Duquesne would designate one-third of the peak load of the defined Small Rate GS/GM segment in the first step of the Phase-In, and two-thirds of the respective load for step two. The same would apply for the Large Rate GS/GM segment, with the total of the segmented load levels eligible for a given year of the Phase-In equal to that allowed for Rate GS/GM as a whole.

Q. Mr. Kalcic, is the overall intent of your proposal any different than what might be expected in the case where Duquesne's tariffs included a more narrowly defined small general-service class?

A. No. The intent of the OSBA's segmentation proposal is simply to provide small business customers with the same opportunity for Direct Access in the first two steps of the Phase-In that would otherwise be forthcoming from within a more homogenious rate schedule.

Q. Does this conclude your rebuttal testimony?

A. Yes.

OSBA EXHIBIT NO. 1R

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXHIBIT OF

BRIAN KALCIC

ON BEHALF OF THE

OFFICE OF SMALL BUSINESS ADVOCATE

Duquesne Light Company

Amortization of DII Recommended Stranded Costs
Over Four Years
($1,000)

Recover Stranded Costs Over Four Years	1999	2000	2001	2002	2003	2004	2005
[1] DII Maximum Gen Price (Cap)	0.06661	0.06661	0.06661	0.06661	0.06661	0.06661	0.06661
[2] DII Avg Market Price	0.02929	0.03041	0.03187	0.03353	0.03568	0.03804	0.04044
[3] DII Beginning Stranded Cost [7] t-1	1390089	1033966	665729	288761	0	0	0
[4] Return @ 7.00%	86025	60712	34659	8584	0	0	0
[5] CTC Revenue [10]*[8], Up to [3]+[4]+[6]	462498	448691	430572	311030	0	0	0
[6] GRT @4.40%	20350	19742	18945	13685	0	0	0
[7] Ending Stranded Cost [3]+[4]-[5]+[6]	1033966	665729	288761	0	0	0	0
[8] MWH available to recover CTC	12393517	12393517	12393517	12393517	12393517	12393517	12393517
[9] CTC / kWh = [5] / [8]	0.03732	0.03620	0.03474	0.02510	0.00000	0.00000	0.00000
[10] Cap Minus Market	0.03732	0.03620	0.03474	0.03308	0.03093	0.02857	0.02616
SYSTEM-AVERAGE DISCOUNT:							
[11] Max. Generation Rate Cap	0.06661	0.06661	0.06661	0.06661	0.06661	0.06661	0.06661
[12] CTC plus Market	0.06661	0.06661	0.06661	0.05862	0.03568	0.03804	0.04044
[13] Decrease	0.00000	0.00000	0.00000	0.00799	0.03093	0.02857	0.02616
[14] Average Revenue per kWh	0.08917	0.08917	0.08917	0.08917	0.08917	0.08917	0.08917
[15] Discount [13]/[14]	0.00%	0.00%	0.00%	8.96%	34.68%	32.04%	29.34%

Duquesne Light Company

Amortization of DII Recommended Stranded Costs
Over Seven Years
($1,000)

Recover Stranded Costs Over Seven Years	1999	2000	2001	2002	2003	2004	2005
[1] Adj Maximum Gen Price (Cap)	0.05492	0.05492	0.05492	0.05492	0.05492	0.05492	0.05492
[2] DII Avg Market Price	0.02929	0.03041	0.03187	0.03353	0.03568	0.03804	0.04044
[3] DII Beginning Stranded Cost [7] t-1	1390089	1177005	962147	749647	542072	345892	164350
[4] Return @ 7.00%	90556	75584	60619	45900	31730	18461	6270
[5] CTC Revenue [10]*[8], Up to [3]+[4]+[6]	317615	303808	285689	265140	238399	209209	178473
[6] GRT @4.40%	13975	13368	12570	11666	10490	9205	7853
[7] Ending Stranded Cost [3]+[4]-[5]+[6]	1177005	962147	749647	542072	345892	164350	0
[8] MWH available to recover CTC	12393517	12393517	12393517	12393517	12393517	12393517	12393517
[9] CTC / kWh = [5] / [8]	0.02563	0.02451	0.02305	0.02139	0.01924	0.01688	0.01440
[10] Cap Minus Market	0.02563	0.02451	0.02305	0.02139	0.01924	0.01688	0.01447
SYSTEM-AVERAGE DISCOUNT:							
[11] Max. Generation Rate Cap	0.06661	0.06661	0.06661	0.06661	0.06661	0.06661	0.06661
[12] CTC plus Market	0.05492	0.05492	0.05492	0.05492	0.05492	0.05492	0.05484
[13] Decrease	0.01169	0.01169	0.01169	0.01169	0.01169	0.01169	0.01176
[14] Average Revenue per kWh	0.08917	0.08917	0.08917	0.08917	0.08917	0.08917	0.08917
[15] Discount [13]/[14]	13.11%	13.11%	13.11%	13.11%	13.11%	13.11%	13.19%