

RECEIVED

JAN 21 1998

Exhibit \_\_\_\_ (JAW-1)

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

**DOCKETED**  
APR 21 1998

PREFILED DIRECT TESTIMONY OF JOHN A. WILSON

ON BEHALF OF

**DOCUMENT  
FOLDER**

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

DOCKET NO. R-00974104

(Duquesne Light Company)

STATEMENT NO. 1

\*\*\*

PREFILED DIRECT TESTIMONY OF JOHN A. WILSON DOCKET NO. R-0097\*\*\*

TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	SUMMARY .....	2
III.	THE NEED .....	2
IV.	THE RESPONSE .....	5
V.	CRITIQUE AND ANALYSIS .....	5
VI.	RECOMMENDATIONS .....	8

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:

10

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

11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

25 **V. CRITIQUE AND ANALYSIS.**

26  
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 activities<sup>1</sup> 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

---

<sup>1</sup> 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

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 <sup>1</sup>	\$550,000	\$260,311	\$550,000	\$354,987
Pilot Customer Assistance Program frozen arrearage and billing deficiency write-offs <sup>2</sup>	-----	\$0 <sup>3</sup>	-----	\$223,390
CARES	\$60,000	\$57,361	\$60,000	\$59,538
Hardship Funds--Administration	\$65,000	\$65,000	\$65,000	\$65,000
Gatekeeper Programs <sup>4</sup>	\$0	\$1,469	\$0	\$1,477
Low Income Collection Costs, including labor <sup>5</sup>	\$0	\$5,000,000	\$0	\$5,000,000
Low Income Write-offs <sup>6</sup>	\$0	N/A	\$0	\$5,804,226

<sup>1</sup> 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.

<sup>2</sup> Write-offs are part of the overall Company write-offs.

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

<sup>4</sup> The Gatekeeper program is not budgeted as a separate program.

<sup>5</sup> 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.

<sup>6</sup> 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
<b>Amount</b>	\$2,425,000	\$2,429,045	\$3,006,715	\$3,035,409	\$4,236,263

Item No: P-9

Witness: Frank Hoffmann

Page 1 of 1

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 criteria<sup>1</sup>, 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.

---

<sup>1</sup> 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.

RECEIVED

JAN 21 1998

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

Exhibit No. To \_\_\_\_ (CRK-1)

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

ON BEHALF OF **DOCKETED**  
APR 21 1998

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

DOCKET NO. R-00974104

(Duquesne Light Company)

DOCUMENT  
FOLDER

STATEMENT NO. 2

\*\*\*

PREFILED DIRECT TESTIMONY OF CRAIG R. KUENNEN, PH.D.(ABD)  
DOCKET NO. R-00974104

TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	SUMMARY .....	3
III.	UNIVERSAL SERVICE AND ENERGY CONSERVATION REQUIREMENTS OF THE CUSTOMER CHOICE ACT AND FINAL ORDER. ....	4
IV.	ANALYSIS OF DQE'S LIURP NEEDS AND PROPOSED PLAN .....	7
V.	ANALYSIS OF DQE'S CAP NEEDS AND PROPOSED PLAN .....	11
VI.	CONCLUSIONS REGARDING DQE'S PROPOSED LIURP AND CAP WITH RESPECT TO NEED .....	14
VII.	STAYING WITHING THE RATE CAP .....	15
VIII.	RECOMMENDATIONS .....	17

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                   (emphasis 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

- Nothing in these guidelines prevents an EDC from voluntarily proposing a funding commitment which enhances the universal service offerings in their territory; and
- Nothing in these guidelines mandate 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.

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

A: DQE proposes to continue existing low income programs at existing funding levels "until such time as [they] 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." (Exhibit \_\_\_\_, CRK-4).

#### IV. ANALYSIS OF DQE'S LIURP NEEDS AND PROPOSED PLAN

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

A: No. DQE is still evaluating the Commission's Final Order and states that it plans on developing a comprehensive Universal Service and Energy Conservation Plan that takes into consideration, among other things, a needs assessment. The plan is scheduled to be completed by November 1, 1997 (Hoffmann, page 8-9), but Witness Hoffmann gives no details as to sources of data or methodologies to be used in developing its needs assessment 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 1. 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.
- 22

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.

⋮

**CRAIG R. KUENNEN, Ph.D.C, M.B.A.**904 Melaleuca Avenue. Apt. N  
Carisbad. CA 92009craig.kuennen@MCI2000.com  
(760) 804-0670

## 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 commentators 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

dition. 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-

annual 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.

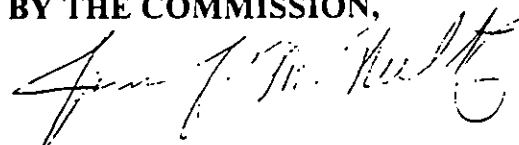
The sole intent of this final order is to establish guidelines for universal service and energy conservation programs. **THEREFORE,**

**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

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 Club, Citizen Action and Conservation Consultants, Inc. Sierra  
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.<sup>1</sup> 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.

---

<sup>1</sup> 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.

*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**

<b><i>Secretarial Letter</i></b>	<b><i>Content of Secretarial Letter</i></b>	<b><i>Guidelines established by Secretarial Letter</i></b>
<b><i>Heat Wave Procedures</i></b> <b><i>3/17/94</i></b>	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 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.
<b><i>Budget Counseling</i></b> <b><i>11/30/93</i></b>	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
<b><i>Winter Termination Procedures</i></b> <b><i>2/12/93</i></b>	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

<b>Secretarial Letter</b>	<b>Content of Secretarial Letter</b>	<b>Guidelines established by Secretarial Letter</b>
<b>LIHEAP Outreach Plans</b> 11/30/92	Urges companies to actively pursue LIHEAP benefits for their customers.	
<b>Budget Counseling</b> 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.	<b>Guidelines:</b> 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.
<b>Hardship Fund</b> 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.
<b>Hardship Fund</b> 11/30/92	Recommends guidelines for utility hardship funds.	<b>Guidelines:</b> 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.
<b>Tracking &amp; Referral</b> 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.	<b>Identification of Services:</b> <ul style="list-style-type: none"> <li>a) private and public agencies</li> <li>b) LIHEAP and CRISIS</li> <li>c) conservation</li> <li>d) credit counseling</li> <li>e) specialized sources such as nutritional and home management services</li> </ul> <b>Company Programs:</b> <ul style="list-style-type: none"> <li>a) home energy audits</li> <li>b) conservation programs</li> <li>c) budget billing</li> </ul>

<b>Secretarial Letter</b>	<b>Content of Secretarial Letter</b>	<b>Guidelines established by Secretarial Letter</b>
<b>Tracking &amp; Referral</b> <i>(Continued)</i>		<p><b>Linking Services:</b> Companies take leading role in creating system coordination services</p> <ul style="list-style-type: none"> <li>a) nature of service</li> <li>b) eligibility requirements</li> <li>c) application process</li> </ul> <p><b>Identification of Customers:</b></p> <ul style="list-style-type: none"> <li>a) application process</li> <li>b) complaints and inquiries</li> <li>c) service trouble reports</li> <li>d) direct appeals to customers</li> <li>e) receipt of LJHEAP, various income sources, medical assistance</li> </ul> <p><b>Effective Referrals:</b></p> <ul style="list-style-type: none"> <li>a) system within company</li> <li>b) updated frequently</li> <li>c) company staff training</li> <li>d) referrals from other organizations to utility</li> </ul> <p><b>Tracking:</b></p> <ul style="list-style-type: none"> <li>a) maintain records to ID potentially payment trouble customers</li> </ul>
<b>Service Limiters</b> 6/20/85	Recognizes the use of service limiters as an acceptable practice.	
<b>Monthly Meter Reading</b> 6/20/85	Encourages companies to study the feasibility of reading meters monthly.	
<b>Monthly Collections</b> 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.	

<b>Secretarial Letter</b>	<b>Content of Secretarial Letter</b>	<b>Guidelines established by Secretarial Letter</b>
<b>Credit Screening</b> 6/20/85	Recognizes adequate residential credit screening for identifying payment-troubled customers and for deterring fraudulent applications for service.	
<b>"Soft Core" Dunning</b> 6/20/85	Recognizes the usefulness of reminder notices and similar nonthreatening reminders as a first step in collections.	
<b>Deposits from exiting residential Customers</b> 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.	
<b>Budget Billing Plus</b> 6/20/85	Advises companies the Commission endorses using plans that set a flat monthly payment for delinquent customers.	
<b>Special Payment Reminders</b> 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.	
<b>Waive Late Payment Charges</b> 5/31/85	Urges companies to consider waiving residential late payment charges for customers with a limited ability to pay for utility service.	
<b>Customer CARES</b> 5/31/85	Suggests the establishment of a customer "CARES" program.	
<b>Customer CARES</b> 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.	<b>Guidelines:</b> 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 0684

---

# 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

Prepared for:

Equitable Gas Company  
Sandra L. Gagorik, Manager  
Assistance Services Division

Prepared by:

Scan America  
H. Gil Peach, Ph.D.  
Anne West, B.S.  
Helen Perrine, M.Ed.  
Howard Reichmuth, P.E.

*Scan America*

Scanada Consultants Ltd. (Canada)/H. Gil Peach & Associates (USA)/Energy Efficiency Management Consultants (Sweden)

---

Suggested Citation: Peach, H. Gil, Anne West, Helen Perrine & Howard Reichmuth, *Impact Assessment of the Equitable Gas Company Energy Assistance Program*. Beaverton, Oregon: H. Gil Peach & Associates, 1996, Monograph 969-1.

---

### H. Gil Peach & Associates

EIN: 93-0980506  
DUNS: 60-279-2954

16232 NW Oak Hills Drive  
Beaverton, Oregon 97006

Phone: (503) 645-0716

Fax: (503) 645-6939

Internet: HGILPEACH@DELPHI.COM

### Scan America

*With extensive experience in North America, Europe, and Asia, together we can provide the full range of management, planning, and evaluation services wherever and whenever there is a need.*

Scanada Consultants Ltd. (Canada)

905-842-3633

H. Gil Peach & Associates (USA)

503-645-0716

Energy Efficiency Management Consultants (Sweden)

+46-8-560-467-80

**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.<sup>64</sup>

◆ 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.

---

<sup>64</sup> This section deals only with comparison of administrative cost. A consideration of full benefits and costs is presented in Section IX.

### 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.<sup>65</sup> 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.<sup>66</sup>

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

---

<sup>65</sup> 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.

<sup>66</sup> 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).<sup>67</sup>

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.

---

<sup>67</sup> 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.

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).

Table VII-2: Bottom-Up Results

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,

those customers who enter EAP and are stable for one full year show a net administrative cost of \$15.10 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 benefits.
  - 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

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 criteria<sup>1</sup>, 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.

---

<sup>1</sup> 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.

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.

	(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--DLC: 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
<b>Amount</b>	\$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

**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-  
FOUO!

**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.<sup>1</sup> 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.

---

<sup>1</sup> 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 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.<sup>2</sup> 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.

---

<sup>2</sup> 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.*<sup>3</sup> 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.

---

<sup>3</sup> 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.

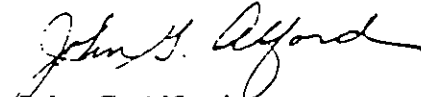
We have issued the preceding guidelines to encourage public comments. We urge that comments be filed as soon as possible. Note that reply comments will not be permitted; **THEREFORE,**

**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 1**  
**Secretarial Letters Relating to Collections**

<b><i>Secretarial Letter</i></b>	<b><i>Content of Secretarial Letter</i></b>	<b><i>Guidelines established by Secretarial Letter</i></b>
<b><i>Heat Wave Procedures</i></b> 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.
<b><i>Budget Counseling</i></b> 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.
<b><i>Winter Termination Procedures</i></b> 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

<b>Secretarial Letter</b>	<b>Content of Secretarial Letter</b>	<b>Guidelines established by Secretarial Letter</b>
<b>LIHEAP Outreach Plans</b> 11/30/92	Urges companies to actively pursue LIHEAP benefits for their customers.	
<b>Budget Counseling</b> 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.
<b>Hardship Fund</b> 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.
<b>Hardship Fund</b> 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.
<b>Tracking &amp; Referral</b> 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.	<b>Identification of Services:</b> <ul style="list-style-type: none"> <li>a) private and public agencies</li> <li>b) LIHEAP and CRISIS</li> <li>c) conservation</li> <li>d) credit counseling</li> <li>e) specialized sources such as nutritional and home management services</li> </ul> <b>Company Programs:</b> <ul style="list-style-type: none"> <li>a) home energy audits</li> <li>b) conservation programs</li> <li>c) budget billing</li> </ul>

<i>Secretarial Letter</i>	<i>Content of Secretarial Letter</i>	<i>Guidelines established by Secretarial Letter</i>
		<p><b>Linking Services:</b>  Companies take leading role in creating system coordinating services</p> <ul style="list-style-type: none"> <li>a) nature of service</li> <li>b) eligibility requirements</li> <li>c) application process</li> </ul> <p><b>Identification of Customers:</b></p> <ul style="list-style-type: none"> <li>a) application process</li> <li>b) complaints and inquiries</li> <li>c) service trouble reports</li> <li>d) direct appeals to customers</li> <li>e) receipt of LIHEAP, various income sources, medical assistance</li> </ul> <p><b>Effective Referrals:</b></p> <ul style="list-style-type: none"> <li>a) system within company</li> <li>b) updated frequently</li> <li>c) company staff training</li> <li>d) referrals from other organizations to utility</li> </ul> <p><b>Tracking:</b></p> <ul style="list-style-type: none"> <li>a) maintain records to ID potentially payment troubled customers</li> </ul>
<i>Service Limiters</i> 6/20/85	Recognizes the use of service limiters as an acceptable practice.	
<i>Monthly Meter Reading</i> 6/20/85	Encourages companies to study the feasibility of reading meters monthly.	
<i>Monthly Collections</i> 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>Credit Screening</i> 6/20/85	Recognizes adequate residential credit screening for identifying payment-troubled customers and for deterring fraudulent applications for service.	

<b><i>Secretarial Letter</i></b>	<b><i>Content of Secretarial Letter</i></b>	<b><i>Guidelines established by Secretarial Letter</i></b>
<b><i>"Soft Core" Dunning</i></b> 6/20/85	Recognizes the usefulness of reminder notices and similar nonthreatening reminders as a first step in collections.	
<b><i>Deposits from exiting residential Customers</i></b> 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.	
<b><i>Budget Billing Plus</i></b> 6/20/85	Advises companies the Commission endorses using plans that set a flat monthly payment for delinquent customers.	
<b><i>Special Payment reminders</i></b> 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.	
<b><i>Waive Late Payment Charges</i></b> 5/31/85	Urges companies to consider waiving residential late payment charges for customers with a limited ability to pay for utility service.	
<b><i>Customer CARES</i></b> 5/31/85	Suggests the establishment of a customer "CARES" program.	
<b><i>Customer CARES</i></b> 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.	<b>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.</b>

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 FO010

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 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 FO

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 <sup>1</sup>	\$550,000	\$260,311	\$550,000	\$354,987
Pilot Customer Assistance Program frozen arrearage and billing deficiency write-offs <sup>2</sup>	-----	\$0 <sup>3</sup>	-----	\$223,390
CARES	\$60,000	\$57,361	\$60,000	\$59,538
Hardship Funds--Administration	\$65,000	\$65,000	\$65,000	\$65,000
Gatekeeper Programs <sup>4</sup>	\$0	\$1,469	\$0	\$1,477
Low Income Collection Costs, including labor <sup>5</sup>	\$0	\$5,000,000	\$0	\$5,000,000
Low Income Write-offs <sup>6</sup>	\$0	N/A	\$0	\$5,804,226

<sup>1</sup> 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.

<sup>2</sup> Write-offs are part of the overall Company write-offs.

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

<sup>4</sup> The Gatekeeper program is not budgeted as a separate program.

<sup>5</sup> 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.

<sup>6</sup> 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

Page 1 of 1

## 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.

Larry R. Crayne, Esquire  
Richard S. Herskovitz, Esquire  
DUQUESNE LIGHT COMPANY  
411 Seventh Avenue, 15<sup>th</sup> Floor  
Pittsburg, PA 15219

John S. Moot, Esquire  
Kurt Bilas, Esquire  
DUQUESNE LIGHT COMPANY  
1440 New York Avenue, NW  
Washington, DC 20005

James P. Dougherty, Esquire  
Robert A. Weishaar, Jr., Esquire  
Pamela C. Polacek, Esquire  
DUQUESNE INDUSTRIAL INTERVENORS  
100 Pine Street, P.O. Box 1166  
Harrisburg, PA 17108

Stephen J. Baron  
J. Kennedy and Associates Inc.  
DUQUESNE INDUSTRIAL INTERVENORS  
Suite 475  
35 Glenlake Parkway  
Atlanta, GA 30328

Kandace Melillo, Esquire  
Wayne T. Scott, Esquire  
PA PUC OFFICE OF TRIAL STAFF  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Karen Oill Moury, Esquire  
OFFICE OF SMALL BUSINESS ADVOCATE  
Suite 1102  
300 North 2<sup>nd</sup> Street  
Harrisburg, PA 17101

Jacqueline R. Morrow, Esquire  
Rodney R. Akers, Esquire  
ASSISTANT CITY SOLICITOR  
313 City County Building  
414 Grant Street  
Pittsburg, PA 15219

Howard M. Louik, Esquire  
Terry Lupia, Esquire  
OFFICE OF ATTORNEY GENERAL  
14<sup>th</sup> Floor Strawberry Square  
Harrisburg, PA 17120

Irwin A. Popowsky, Esquire  
Marisa A. Sifontes, Esquire  
Steven K. Steinmetz, Esquire  
OFFICE OF CONSUMER ADVOCATE  
1425 Strawberry Square  
Harrisburg, PA 17120

EXETER ASSOCIATES INC.  
Suite 350  
12510 Prosperity Drive  
Silver Springs, MD 20904

Deneice Covert Zeve, Esquire  
Terry Lupia, Esquire  
OFFICE OF ATTORNEY GENERAL  
14<sup>th</sup> Floor Strawberry Square  
Harrisburg, PA 17120

Michael L. Kurtz, Esquire  
David F. Boehm, Esquire  
ARMCO INC.  
2110 CBLD Center  
36 East Seventh Street  
Cincinnati, OH 45202

Steven Baicker McKee, Esquire  
Wanda Schiller, Esquire  
ALLEGHENY TELEDYNE INC.  
Subsidiaries  
8<sup>th</sup> Floor Two Gateway Center  
Pittsburg, PA 15222

Terrance J. Fitzpatrick, Esquire  
RYAN RUSSELL OGDEN & SELTZER LLP  
GPU ENERGY  
Suite 101  
800 North Third Street  
Harrisburg, PA 17102-2025

Kenneth L. Wiseman, Esquire  
Mark F. Sundback, Esquire  
ANDREWS & KURTH LLP  
1701 Pennsylvania Avenue, NW  
Washington, DC 20006

Robert B. Weisenmiller  
MRW & ASSOCIATES INC.  
HOSPITAL SHARED SERVICES  
Suite 1440  
1999 Harrison Street  
Oakland, CA 94612-3517

Michael Reid, Director  
MATERIALS MANAGEMENT SERVICES  
ADMINISTRATIVE RESOURCES INC.  
500 Commonwealth Drive  
Warrendale, PA 15086-7513

Robert J. Stefanko, Esquire  
PITTSBURG SCHOOL DISTRICT  
341 South Bellefield Avenue  
Pittsburg, PA 15213

Tim Merrill, Esquire  
THE EASTERN GROUP  
Suite 200, 4 Penn Center, West  
Pittsburg, PA 15276

Margaret Peters, Esquire  
THE PEOPLES NATURAL GAS COMPANY  
625 Liberty Avenue  
Pittsburg, PA 15222-3197

William T. Hawk, Esquire  
Kevin J. McKeon, Esquire  
MALATESTA HAWKE & MCKEON  
100 North 10<sup>th</sup> Street  
P.O. Box 1778  
Harrisburg, PA 17105-1778

LOW INCOME ASVOCATE PARTIES  
1705 Allegheny Building  
429 Forbes Avenue  
Pittsburg, PA 15219

Morgan Lewis & Bockius  
PENNSYLVANIA POWER COMPANY  
2000 One Logan Square  
Philadelphia, PA 19103

Stephen L. Feld, Esquire  
PENNSYLVANIA POWER COMPANY  
1 East Washington Street  
P.O. Box 891  
New Castle, PA 16103-0891

Cindy Datig, Esquire  
\$1 ENERGY FUND  
P.O. Box 42329  
Pittsburg, PA 15203

Donald R. Ayersman Jr., Esquire  
IBEW LOCAL 2357  
1125 Denver Avenue  
Morgantown, WV 26505

David Hughes  
4037 Ludwick Street  
Pittsburg, PA 15217

Mark J. McQuire, Esquire  
Ronald N. Carroll, Esquire  
MC2 INC., MIDCON GAS SERVICES CORP.  
Suite 1200, 601 13<sup>th</sup> Street, NW  
Washington, DC 20005

Thomas J. Augspurger, Esquire  
MIDCON CORPORATION  
OFFICE OF GENERAL COUNSEL  
701 East 22<sup>nd</sup> Street  
Lombard, IL 60148

Paul E. Russell, Esquire  
PENNSYLVANIA POWER & LIGHT COMPANY  
2 North Ninth Street  
Allentown, PA 18101

Joseph A. Dworetzky, Esquire  
John P. Lavelle Jr., Esquire  
Hangley Aronchick Segal & Pudlin  
New Energy Ventures  
12<sup>th</sup> Floor One Logan Square  
Philadelphia, PA 19103

David M. Boonin  
New Energy Ventures East LLC  
Suite 800  
200 South Broad Street  
Philadelphia, PA 19102

Alan J. Barak, Esquire  
Environmentalists  
1417 Blue Mountain Parkway  
Harrisburg, PA 17112

Robert Clark, Esquire  
The Environmentalists  
905 Denston Drive  
Andler, PA 19002-3901

Scott J. Rubin, Esquire  
IBEW System Council U-10  
3 Lost Creek Drive  
Selingsgrove, PA 17810-9357

John O'Brein, Esquire  
Wheeled Electric Power Company  
Suite 207  
50 Charles Lindburgh Boulevard  
Uniondale, NY 11553

Patricia Armstrong, Esquire  
Allegheny Electric Cooperative  
212 Locust Street, Suite 500  
P.O. Box 9500  
Harrisburg, PA 17106-9500

Daniel Clearfield, Esquire  
Gerald Gornish, Esquire  
Alan Kohler, Esquire  
Wolf Block Schorr & Solic Cohen LLP  
305 North Front Street, Suite 401  
Harrisburg, PA 17101-1236

James D. Steffes  
Enron Power Marketing Inc.  
1400 Smith Street  
P.O. Box 4428  
Houston, TX 77002

Albert M. Benincasa, Esquire  
Director Regulatory Affairs  
Skipping Stone  
46 9<sup>th</sup> Avenue  
Sea Cliff, NY 11579

Brian Kalcic  
Excel Consulting  
Suite 720-T  
225 S. Mermec Avenue  
ST Louis, MO 63105

Vickiren S. Aeschleman  
Director Regulatory Policy  
QST Energy Inc.  
300 Hamilton Blvd., Suite 300  
Peoria, IL 61602

Duane Morris & Heckscher LLP  
QST Energy Inc.  
1667 K Street, NW Suite 700  
Washington, DC 20006-1608

Mary McFall Hopper  
PECO Energy Company  
2301 Market Street  
P.O. Box 8699  
Philadelphia, PA 19101

Douglas F. John, Esquire  
Duke Ener Trad/Marketing  
Noram Ener Mgmt Inc., Elec  
Clearinghouse Inc.  
1200 17<sup>th</sup> Street, NW Suite 600  
Washington, DC 20036-3006

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

JAN 21 1998

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

PENNSYLVANIA PUBLIC UTILITY :  
COMMISSION, et al. :

v. :

DUQUESNE LIGHT :  
COMPANY :

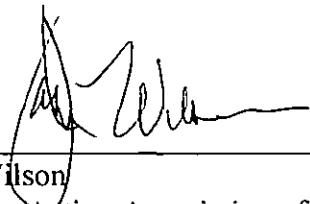
DOCKET NO: R-00974104

CERTIFICATE OF SERVICE

I hereby certify that I am serving the attached Direct Testimony by First Class Mail  
upon the persons listed on the following pages:

DOCUMENT  
FOLDER

KJR



\_\_\_\_\_  
John A. Wilson  
Community Action Association of Pennsylvania

January 21, 1998

James J. McNulty, Secretary  
PA Public Utility Commission  
Room B-20, North Office Bldg.  
P.O. Box 3265  
Harrisburg, PA 17105-3265

DOCUMENT  
FOLDER

*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 Secretary McNulty:

Enclosed, please find two copies of David Hughes exhibits DH-5 and DH-6. These were previously included with the testimony and exhibits that I sent to you on January 16. Please include the enclosed exhibits in the record of the above captioned proceeding.

Thank you for your attention to this matter

Yours truly,

David Hughes  
4037 Ludwick St.  
Pittsburgh, PA 15217  
(412)421-4163

Enclosures

cc: Hon. John H. Corbett, Jr. , w/enclosures, via First Class Mail  
All parties w/o enclosures, via facsimile

129615

98 JAN 23 PM 3:27  
RECEIVED  
PROTHONOTARY'S OFFICE

381 JAC DOCKET NO. R-00974104

PH EXHIBIT NO. 5

cc 1373

BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

RECEIVED  
DEC 4 1995  
DOCKETING DIVISION  
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application :  
of The Toledo Edison Company for :  
Authority to Amend and to Increase : Case No. 95-299-EL-AIR  
Certain of Its Rates and Charges :  
for Electric Service :

In the Matter of the Application :  
of The Cleveland Electric :  
Illuminating Company for Authority :  
to Amend and to Increase Certain : Case No. 95-300-EL-AIR  
of Its Rates and Charges for :  
Electric Services :

PRE-FILED TESTIMONY OF DUQUESNE LIGHT COMPANY

DOCUMENT  
FOLDER

DOCKETED  
FEB 09 1998

Sheldon A. Taft  
VORYS, SATER, SEYMOUR AND PEASE  
52 East Gay Street  
P.O. Box 1008  
Columbus, Ohio 43216-1008  
(614) 464-6308

Victor A. Roque  
Stephen Pelcher  
DUQUESNE LIGHT COMPANY  
One Oxford Centre  
301 Grant Street  
Pittsburgh, PA 15279  
(412) 393-6000

Counsel for Intervenor,  
Duquesne Light Company

December 4, 1995

129646

RECEIVED  
FROTHMONTARY'S OFFICE  
98 JAN 23 PM 3:27

Testimony of Duquesne Light Company

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

1. Q. What are your names and positions?

A. We are providing joint testimony as a panel of witnesses. The panel is comprised of David Marshall, President and Chief Operating Officer of Duquesne Light Company; James Cross, Senior Vice President of Nuclear Operations of Duquesne Light Company; and Ralph Duckworth, Nuclear Controller of Duquesne Light Company. Resumes of these witnesses have been included as Exhibits 17, 18 and 19, respectively. Mr. Marshall will testify as to public policy and electric utility issues; Mr. Cross will testify as to specific nuclear power industry issues including management and operating matters; and Mr. Duckworth will testify as to financial data.

2. Q. What is the purpose of your testimony?

A. The purpose of our testimony is to describe the operational and financial performance of the Perry Nuclear Power Plant and to present a plan to improve Perry's performance. Specifically, we recommend that the Ohio PUC condition its approval of any rate increase for the Centerior Operating Companies upon Centerior's execution of a Relative Performance Incentive Plan (RPIP) between Duquesne and Centerior for 164 MW of Perry 1 capacity and 164 MW of Beaver Valley 2 capacity. This proposal would mandate a seven year commitment whereby Duquesne pays Centerior operating and capital expenditures based on top quartile performance of Boiling Water Reactor (BWR) nuclear plants for its 164 MW share of Perry and Centerior similarly pays Duquesne expenditures based on top quartile performance of Pressurized Water Reactor (PWR) nuclear plants for its 164 MW of their share of Beaver Valley 2. After spending in excess of \$195 million on the Perry Course of Action and other corrective activities for the last several years, Centerior should be prepared to compete with Duquesne on our respective goals towards top quartile performance. Both of our companies can improve our performance and both would benefit from this competition. The testimony will



1 show that such a reciprocal plan is in the best interests of Ohio and Pennsylvania  
2 electric customers and the long-run interests of both companies' shareholders.

3  
4 3. Q. Why do you believe that such a Relative Performance Incentive Plan ("RPIP") is  
5 good public policy?

6 A. As the Commission well knows, increased competition is coming to the electricity  
7 industry and the challenge for regulators and utilities alike is to make a successful  
8 transition while preserving the financial health and integrity of these essential  
9 institutions. The Relative Performance Incentive Plan is good public policy because  
10 it furthers this essential regulatory goal, specifically;

- 11 • The RPIP is consistent with PUCO actions in other rate proceedings and  
12 with the Staff Report recommendations to provide nuclear utilities an  
13 opportunity to become competitive through price cap regulation and  
14 accelerated recovery of above-market investment;
- 15 • The RPIP focuses attention where it is most needed — the most critical  
16 success factor for this regulatory transition strategy will be continuously  
17 achieving top quartile performance at Perry;
- 18 • The RPIP is necessary — current regulatory incentives for Centerior clearly  
19 have not worked;
- 20 • The RPIP provides both a heightened incentive and a visible score card for  
21 continuous improvement at Perry relative to comparable plants;
- 22 • The RPIP provides benefits at Beaver Valley as well — Duquesne's  
23 willingness to include Beaver Valley 2 in a symmetrical plan improves the  
24 benefits for Ohio customers and increases the chances that the PUCO  
25 regulatory strategy will be successful.

26  
27  
28  
29  
30  
31  
32 We will describe each of these issues in greater detail.

33  
34 Consistency With Transition Strategy

35  
36 4. Q. Please describe your understanding of the transition strategy recommended by the  
37 Staff Report.

1 A. Certainly. After reviewing the staff report recommendation for rate relief in this  
2 proceeding, it appears that the staff is suggesting a very sound transition strategy  
3 for Centerior, one that Duquesne believes is good public policy. In exchange for  
4 recommended rate relief, the staff is requesting that Centerior develop a long-term  
5 commitment to write-down the book value of nuclear assets to reduce its stranded  
6 investment exposure in future competitive markets. The staff seems to imply that  
7 such a transition plan should include no more rate increases.  
8

9 The PUCO recently approved a long-term rate plan for Ohio Edison that essentially  
10 accomplishes the same result. That plan calls for a ten-year transition period over  
11 which Ohio Edison would accelerate depreciation and write-down nuclear assets by  
12 an additional \$2 billion while freezing rates over the same time frame.

10 yrs  
write off  
no incr  
rates

13  
14 A Relative Performance Incentive Plan for both Perry and Beaver Valley 2 is  
15 completely consistent with such a transition strategy.  
16

17 Perry Performance Is Critical Success Factor  
18

19 5. Q. Why do you believe that cost containment at Perry is so important?

20 A. Cost reductions will decrease Centerior's revenue requirements thereby providing a  
21 direct benefit to ratepayers. Further, lower costs will improve Centerior's  
22 profitability to the benefit of the stockholders. This increased financial flexibility  
23 will provide Centerior with an opportunity to accelerate the amortization of its  
24 above-market generation, and reduce its exposure from "stranded investment".  
25

26 A strategy of accelerated amortization without financial impairment will only be  
27 successful if it can be "funded" through real performance improvement. That is,  
28 unless actual costs can be significantly reduced under "price cap" regulation, any  
29 accelerated amortization would result in financial impairment.  
30

1           Therefore, the key to the success of this strategy lies in areas which have substantial  
2           costs in absolute terms, and also the prospect for significant improvement. Perry  
3           expenditures meet both of these two criteria. Nuclear operating expenditures  
4           accounted for \$188 million at Centerior in 1994. This represents 57% of total non-  
5           fuel generation expenditures for the Company, a significant component of  
6           Centerior's operating costs.

7  
8   6.   Q.   Have you concluded that there is an opportunity for improved performance,  
9           particularly at Perry?

10   A.   Yes. In 1994, Perry represented 23 percent of Centerior's non-fuel generation costs  
11           and provided 7.7 percent of Centerior's electrical output. While Perry's lifetime  
12           capacity factor is respectable, its operations, nevertheless, represent both a  
13           substantial magnitude of operating costs and a significant opportunity for  
14           performance improvement.

15  
16   7.   Q.   Have you made any estimate of the magnitude of potential savings that could be  
17           realized from improved performance at Perry?

18   A.   Yes. We have quantified the annual cost difference between historic performance  
19           and top quartile BWR operating performance. The difference in costs for Perry's  
20           generation is about \$100 million a year, or \$1.0 billion over the next ten years,  
21           \$521 million of which would be available for Centerior's accelerated amortization if  
22           performance improvements are realized. In addition to the Centerior share, another  
23           \$306 million is at stake for Ohio Edison which is also seeking accelerated  
24           amortization of its above market obligations. Thus, the total stake in Ohio is  
25           \$827 million.

26  
27

1	Perry Composite Cost per MWH	\$35.91
2	BWR Top Quartile Composite Cost per MWH	<u>\$16.28</u>
3	Difference	\$19.63
4	Times Perry Annual Average Generation (MWH)	<u>5,199,752</u>
5	Annual Savings	<u>\$102,071,132</u>
6	Centerior Share of Annual Savings (51.02%)	\$52,076,691
7	Ohio Edison Share of Annual Savings (30%)	<u>\$30,621,340</u>
8	Annual Savings to Ohio Ratepayers	<u>\$82,698,031</u>
9	Total 10-year Savings to Ohio Ratepayers	<u>\$826,980,310</u>

10

11 8. Q. If nuclear cost containment at Perry is unsuccessful, what position will the Ohio  
12 Commission be in?

13 A. If these performance improvements are not realized, the PUCO will find itself in a  
14 position very much like it finds itself today. That is, it will face the difficult choice  
15 of raising rates to customers to ensure the financial viability of a large utility or  
16 incurring the costs to all concerned of financial distress if it does not increase the  
17 rates. Thus, it seems to us that the PUCO and Ohio consumers have a vital interest  
18 in seeing that these critical performance improvements are in fact realized.

19

20 Current Regulatory Incentives Have Not Worked

21

22 9. Q. What is the second reason you believe that the RPIP is a good public policy?

23 A. We have just provided an overview of Perry's performance over the past few years.  
24 Clearly, the current regulatory incentives for cost containment and acceptable  
25 operating performance have not worked. We will now detail the financial and  
26 operating statistics that document this performance. We will also suggest that a  
27 new set of incentives is needed to improve performance.

28

29 10. Q. To begin with, please describe the two plants.

1 A. Perry Nuclear Power Plant is a 1,194 megawatt, General Electric boiling water  
2 reactor, nuclear power plant located in North Perry Township, Ohio. It was placed  
3 in commercial operation on November 18, 1987.

4  
5 Beaver Valley Unit 2 is an 820 megawatt, 3-loop Westinghouse pressurized water  
6 reactor, nuclear power plant located in Shippingport, PA. It was placed in  
7 commercial operation on November 17, 1987.

8  
9 11. Q. Please describe the plants' recent operating histories:

10 A. Perry in recent years has experienced a trend of declining performance. If you will  
11 refer to the table below, you can see that Perry has typically performed below the  
12 industry median capacity factor. In fact, Perry has achieved median performance in  
13 only one three-year period, and in the most recent period Perry's capacity factor is  
14 below the industry median. Meanwhile, Beaver Valley 2 has consistently performed  
15 above the industry median

16  
17 Perry and Beaver Valley 2 capacity factors, a measure of how often a plant  
18 operates, for recent years (three year averages) as compared to the industry median  
19 are as follows:

<u>Period</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
23 1988-1990	58.4%	69.9%	63.1%
24 1989-1991	63.7%	71.3%	65.6%
25 1990-1992	69.2%	76.7%	68.4%
26 1991-1993	60.9%	81.2%	68.6%
27 1992-1994	47.4%	82.9%	71.2%

28  
29 12. Q. What are some of the reasons why Perry's capacity factors have been below the  
30 industry median?

1 A. There are two major reasons for Perry's below median capacity factors. The first is  
 2 non-refueling outages. If you will refer to the table below, you see that Perry has  
 3 experienced several non-refueling outages over the past few years. Further, some  
 4 of Perry's outages have been for extended periods of time.

5  
 6 The numbers and durations of non-refueling outages experienced by Perry and  
 7 Beaver Valley 2 during recent years are as follows:

<u>Perry</u>			<u>Beaver Valley</u>		
<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>	<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>
1991	4	35 days	1991	1	2 days
1992	2	11 days	1992	0	0 days
* 1993	5	205 days	1993	1	2 days
1994	1	2 days	1994	1	21 days
1995*	6	23 days	1995*	1	2 days
Average	4	55 days	Average	1	5 days

18  
 19  
 20 \* Through November 20, 1995.

21  
 22 The second reason for Perry's low capacity factor is extended refueling outages. If  
 23 you will refer to the following table, you can see that Perry refueling outages have  
 24 extended for long periods of time, whereas Beaver Valley 2 refueling outages have  
 25 been significantly shorter. In fact, Perry's last refueling outage lasted more than a  
 26 half year, in spite of the fact that it came on the heels of a 45-day mid-cycle  
 27 maintenance outage.

28  
 29 The duration of Perry and Beaver Valley 2 refueling outages are as follows:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

<u>Perry</u>		<u>Beaver Valley 2</u>	
<u>Refueling Outage</u>	<u>Days</u>	<u>Refueling Outage</u>	<u>Days</u>
RF01	159 days	2R01	77 days
RF02	119 days	2R02	80 days
RF03	84 days	2R03	60 days
1994 * RF04	190 days	2R04	81 days
Average	138 days	2R05	45 days
		Average	69 days

Both of these factors have contributed to Perry's below median capacity factors.

- 13 Q. What else can you tell us about Perry's operating history?
- A. During 1993 the Perry Plant experienced a decline in operational performance. This was evidenced by five non-refueling outages, a capacity factor of 38.8% for the year, and the Nuclear Regulatory Commission's formal recognition of Perry as a plant with declining performance. This level of operational performance was accompanied by financial performance as noted by a total production cost per MWH of \$42.42 and actual O&M and Capital costs which exceeded original projections by \$45 million. During the last quarter of 1993, Perry management adopted a plan, called the Perry Course of Action ("PCA"), in an attempt to correct the problems associated with the plant. The PCA included a limited number of management changes, a mid-cycle maintenance outage, various studies and reviews, and an increase in planned O&M and Capital expenditures of more than \$85 million. The PCA was to conclude at the end of Perry's fifth refueling outage, originally scheduled for the Spring of 1995.

Perry's difficulties continued throughout 1994, when the plant experienced a 44.3% capacity factor, one non-refueling outage as well as an extended 190 day refueling outage, a total production cost per MWH of \$57.10, and actual O&M and Capital

1 costs which exceeded original projections by \$97 million. Perry's fourth refueling  
2 outage was originally scheduled for 90 days and \$28.7 million. In November 1993,  
3 the outage cost was increased to \$44.3 million. In March 1994 it was increased  
4 again to \$72.3 million. The outage eventually cost \$94 million and lasted 190 days.  
5

6 The large number of outages in 1993 and the extended refueling outage in 1994  
7 resulted in the postponement of Perry's fifth refueling outage to January 1996.  
8 Perry's management has stated that the PCA will be concluded when that outage is  
9 finished.  
10

- 11 14. Q. Please describe the recent financial performance of Perry and Beaver Valley 2.  
12 A. Whereas Perry's cost per MWH has been above the industry median, Beaver Valley  
13 2 has been a better than average performer in terms of cost per MWH. If you will  
14 refer to the table below, you can see that the three-year average non-fuel operation  
15 and maintenance costs per MWH for Perry have consistently been higher than the  
16 median. Meanwhile, the average costs per MWH for Beaver Valley 2 have been  
17 lower than the industry median.  
18

19 Perry and Beaver Valley 2 non-fuel O&M costs per MWH (three-year averages) as  
20 compared to the industry median for recent years are as follows:  
21

<u>Year</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
25 1989-1991	\$20.79	\$13.93	\$14.87
26 1990-1992	\$17.23	\$14.07	\$16.12
27 1991-1993	\$19.18	\$13.88	\$15.47
28 1992-1994	\$29.21	\$13.35	\$15.74

29  
30 Another measure of Perry's performance is the cost of Perry's refueling outage  
31 costs. The table below shows the incremental refueling outage costs for Beaver

1 Valley 2 and Perry. As you can see, Perry's refueling outage costs have been nearly  
 2 double those of Beaver Valley 2. In fact, Perry's last outage cost nearly the same as  
 3 the cost of the last three outages for Beaver Valley 2 combined!

4  
 5 The incremental cost of refueling outages at Perry and Beaver Valley 2 are as  
 6 follows:

<u>Perry</u>		<u>Beaver Valley 2</u>	
<u>Refueling Outage</u>	<u>Amount</u>	<u>Refueling Outage</u>	<u>Amount</u>
RF01	\$54.5 Million	2R01	\$22.9 Million
RF02	\$41.7 Million	2R02	\$29.2 Million
RF03	\$26.7 Million	2R03	\$39.1 Million
RF04	\$94.0 Million	2R04	\$30.5 Million
Average	54.2 Million	2R05	\$26.2 Million
		Average	\$29.6 Million

16  
 17 Another way to compare the plants is to include incremental capital costs as well as  
 18 non-fuel O&M costs. The following table shows three-year average composite  
 19 costs per MWH for Perry and Beaver Valley 2, as well as the industry median. It  
 20 shows that the cost per MWH for Perry is consistently above the median, while the  
 21 cost for Beaver Valley 2 is lower than the median.

22  
 23 The composite (O&M and incremental capital) cost per MWH for Perry and Beaver  
 24 Valley 2 are as follows:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

<u>Three-Year Period</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
1989-1991	\$24.59	\$15.94	\$18.24
1990-1992	\$23.63	\$16.96	\$21.05
1991-1993	\$26.26	\$16.57	\$19.74
1992-1994	\$35.91	\$14.96	\$19.56

15. Q. What has been the impact of Perry's recent performance in terms of dollars?
- A. Perry has consistently exceeded its budget, and its financial performance continues to put upward pressure on Centerior's rates and to be a drain on the resources of all the plant owners. As indicated in Exhibit 7, Perry will exceed its original cost projections for 1993 to 1997 by more than \$250 million, including billing markups. Duquesne's 13.74% share of this exceedence amounts to \$35 million. These amounts reflect a further overbudget condition projected for 1995.
16. Q. Please describe this 1995 overbudget condition.
- A. In May 1995, we became aware of a projected \$3.6 million overbudget condition for Perry's current year non-outage O&M costs. In July 1995 Perry's management revised the overbudget condition down to \$2.5 million. In October 1995 the estimate was increased to \$6.3 million, exclusive of billing markups. The explanation received from Perry officials for the overrun is that \$3.6 million of the variance is attributable to "unfunctionalized reductions", which Centerior informs us means that Perry's management never developed a specific plan to achieve a budget reduction target that corporate management told the plant to make. Another \$2.2 million of the variance is due to inventory adjustments resulting from the inability to find certain inventory that was stored in the plant or due to inventory shortages identified when performing cycle counts in the warehouse. The remaining \$0.5 million of the variance is attributed to unanticipated EPRI fees allocated from Centerior to Perry. Such fees generally are recovered from the non-operating

1 owners through the application of the Administrative and General billing markup,  
2 and should not be allocated to Perry's O&M accounts. To do so would represent a  
3 double recovery of the fees. Centerior officials have agreed to reverse this  
4 allocation.

5  
6 17. Q. Would you please summarize the financial situation at Perry?


7 A. Upon completion of Perry's fifth refueling outage in early 1996, Centerior will have  
8 spent \$195 million more than its original projections for Perry's operations,  
9 including corporate administrative and general overhead costs.

10  
11 18. Q. Has Perry's performance improved over time as a result of these expenditures?

12 A. As we saw in Exhibit 1, Perry's three-year average capacity factor has actually  
13 declined in recent years while its cost per MWH has increased, as shown in Exhibits  
14 4, 5, and 6. This trend concerns us.

15  
16 We believe that the substantial sums already invested in Perry warrant superior  
17 performance. After spending more than \$195 million of additional funds on Perry,  
18 Centerior's management should demand superior performance from the plant.

19  
20 19. Q. Do you believe there may be a management problem with Perry?

21  A. Yes. Because the plant is relatively new and because Centerior has already invested  
22 significant amounts of additional sums in the plant, superior performance is  
23 warranted. Yet, there has been a continuing trend of increased budgets that are  
24 exceeded, outage schedules that cannot be met, and declining operational  
25 performance. Perry's management stated in 1993 that, "There is no reason Perry  
26 cannot become the best plant in the United States. It was well-designed and well-  
27 built; it has a dedicated, well-trained and knowledgeable staff from top to bottom."  
28 We are concerned about Perry's recent performance and management's ability to  
29 achieve a needed improvement.

30

1 20. Q. What is needed to improve Perry's performance in the future?

2 A. We suggest that management and accountability, not equipment, are the source of  
3 the problem at Perry. Thus a new, stronger set of incentives are needed to place  
4 Perry among the top performing plants in the industry. We have, therefore,  
5 developed a plan which will focus management's attention on improving Perry's  
6 performance and which is consistent with the strategy of providing utilities an  
7 opportunity to minimize their exposure to stranded investment.

8  
9 Description of the Relative Performance Incentive Plan

10  
11 21. Q. How does the RPIP provide heightened incentives and a score card for continuous  
12 improvement at Perry?

13 A. As we will describe below, the RPIP will provide Centerior's management with a  
14 direct financial incentive to achieve top quartile performance among its peers. In  
15 addition, creation of a benchmark will provide Centerior's customers, shareholders  
16 and regulators with visible evidence of the progress management is making toward  
17 improved performance.

18  
19 22. Q. Please describe Duquesne's proposal to help improve Perry's performance.

20 A. Duquesne proposes to establish a Relative Performance Incentive Plan that would  
21 apply to 164 MW of Centerior's share of Beaver Valley 2's capacity and to  
22 Duquesne's 164 MW share of Perry's capacity. The purpose of the Plan is to  
23 provide heightened incentives for Centerior shareholders and management to focus  
24 on continuous improvement at Perry, and for DLC shareholders and management to  
25 focus on continuing improvement at Beaver Valley 2.

26  
27 23. Q. In summary, how would the Plan work?

28 A. Simply put, Duquesne and Centerior would pay a competitive price per MWH for  
29 power produced by the plant operated by the other utility. The Plan is described in  
30 detail in Exhibit 8; however, I will provide a brief overview here. Duquesne would

1 pay for its share of Perry's production, and Centerior would pay for 164 MW of its  
2 share of Beaver Valley 2's production, at a price equal to the cost per MWH of the  
3 most expensive plant in the top quartile of a comparative panel of BWR or PWR  
4 plants. In this case, top quartile means lowest cost per MWH. If Perry or Beaver  
5 Valley 2 performs better than the top quartile threshold, the operator will keep the  
6 difference between its actual costs and the benchmark as a performance bonus. If  
7 either plant performs worse than the top quartile threshold, the operator will absorb  
8 the difference between its actual costs and the benchmark as a performance penalty.  
9 Thus, the Plan has the potential to save Ohio ratepayers substantial amounts of  
10 money through superior performance at Perry and Beaver Valley 2.

11  
12 24. Q. What costs would be reflected in the benchmark cost per MWH?

13 A. We propose including those costs over which the operating company has complete  
14 control, including all non-fuel operating and maintenance costs (including refueling  
15 outage costs) and capital expenditures. Fuel costs, insurance and property taxes  
16 would be excluded because each owning company has some control over its share  
17 of those costs.

18  
19 25. Q. How would top quartile performance be established?

20 A. The three year average composite cost per MWH would be calculated for all U.S.  
21 nuclear plants using the most recently published FERC Form 1 data as compiled by  
22 the Utility Data Institute (UDI) or the Resource Data International (RDI). Three-  
23 year averages will be used to normalize the effects of refueling outages. Data for a  
24 particular year is generally available by the summer of the following year.

25  
26 The plants would then be segregated into a BWR panel and a PWR panel with each  
27 panel being divided into quartiles. The top quartile of each panel will represent the  
28 lowest cost plants and any uneven number of plants in the panel will be placed in  
29 the lowest quartiles. Any plants reporting a zero or negative level of capital  
30 spending would be excluded from the panels so as not to distort the benchmark data

1 with one-year aberrations. Also, the Millstone Plant will be excluded because it  
2 includes one BWR unit and one PWR unit and separate data for each unit is not  
3 readily available.

4  
5 26. Q. Why do you propose to use separate panels for Perry and Beaver Valley 2?

6 A. We recognize that historically BWR plants have been more expensive to operate  
7 than PWR plants. This is evident by looking at Exhibit 9, which shows the top  
8 quartile threshold for the BWR and PWR panels over the last several years. Our  
9 intent is not to hold Perry to unrealistic goals. Rather, we want Perry to achieve  
10 top quartile status when compared to other BWR plants. If Perry were to achieve  
11 top PWR performance, the benefits to the Ohio ratepayers would be even more  
12 significant.

13  
14 27. Q. Doesn't Beaver Valley 2, being part of a two reactor site, have an unfair advantage  
15 over Perry, which is a single unit site?

16 A. No. Perry is a large unit at 1200 MW. Beaver Valley is a small 2 unit PWR station  
17 with a total capacity of about 1600 MW. Further, it is not impossible for a single  
18 unit BWR to achieve top quartile status. As shown in Exhibits 10 to 13, in each  
19 three-year period at least 20% of the top quartile BWR plants are single unit plants.  
20 In addition, as discussed further below, we do not propose to hold Perry to top  
21 quartile status until late 1997, giving Perry's management an additional two years to  
22 achieve that level of performance. Finally, Perry has the benefit of nearly \$200  
23 million of incremental expenditures to improve its performance, and we are  
24 certainly justified in expecting superior performance from the plant. Beaver Valley  
25 2 has not had the benefit of those kinds of expenditures.

26  
27 28. Q. When would the Plan be implemented for Perry?

28 A. Starting January 1, 1996, Duquesne's payments to Centerior for Duquesne's share  
29 of Perry's non-fuel costs (before adding billing markups) will be capped at the  
30 amounts specified in the Perry Strategic Business Planning Report dated July 1995

\*  
/

1 (the Perry Plan). Please refer to Exhibit 14. This arrangement will continue until  
2 Perry enters its sixth refueling outage, presently scheduled to start in September  
3 1997.

4  
5 At that time, Perry's refueling outage costs will be billed as incurred. At the  
6 completion of the refueling outage, Perry's generation for the ensuing operating  
7 cycle will be billed using the BWR benchmark cost per MWH, adjusted for the cost  
8 of the just completed refueling outage.

9  
10 29. Q. When would the Plan be implemented for Beaver Valley 2?

11 A. We propose to hold Beaver Valley 2 to top quartile performance starting a year  
12 earlier than for Perry. We propose that starting January 1, 1996, Beaver Valley 2's  
13 non-fuel O&M and Capital costs be limited to the amounts specified in the Beaver  
14 Valley 2 Top Quartile Forecast (the BV2 Forecast). Please refer to Exhibit 13.  
15 This arrangement will continue until Beaver Valley 2 enters its sixth refueling  
16 outage, presently scheduled to start in September 1996.

17  
18 At that time, Beaver Valley 2's refueling outage costs will be billed as incurred. At  
19 the completion of the refueling outage, 164 MW of Centerior's share of Beaver  
20 Valley 2's generation for the ensuing operating cycle will be billed using the PWR  
21 benchmark cost per MWH, adjusted for the cost of the just completed refueling  
22 outage.

23  
24 30. Q. Will any reconciliation of costs be required?

25 A. Yes. As described in detail in Exhibit 8, at the end of each operating cycle, a  
26 comparison will be made between the actual amounts billed for each plant and the  
27 amounts that would have been billed using actual generation and the applicable  
28 benchmark cost per MWH. Any difference between the actual billings and the  
29 calculated amount must be paid by or refunded to the non-operating owner. This

1 reconciliation is necessary to ensure that actual billings do not exceed top quartile  
2 levels.


3  
4 31. Q. Would any other charges be permitted?

5 A. No other charges for capital or non-fuel O&M costs would be permitted. Fuel  
6 costs, insurance and property taxes would be billed as currently calculated under the  
7 plants' operating agreements.

8  
9 32. Q. When would the Plan terminate?

10 A. The Plan would be effective for four cycles for each plant. It would run until the  
11 end of Perry's ninth operating cycle and until the end of Beaver Valley 2's tenth  
12 operating cycle.

13  
14 33. Q. Why have you brought this proposal before the PUCO in this forum?

15 A. Duquesne has encouraged Centerior's management over the past several years to  
16 improve Perry's performance. By the time the Perry Course of Action is complete  
17 at the end of this upcoming refueling outage in March of 1996, Centerior will have  
18 spent more than \$195 million in excess of the multi-year Perry plan Centerior  
19  provided Duquesne back in 1993. During 1993 and 1994 Perry's capacity factors  
20 were 39% and 44% respectively, and Duquesne was penalized in both years by the  
21 Pennsylvania PUC for replacement power costs, in addition to having to fund our  
22 share of these increased amounts. And again this year, Perry will still exceed its  
23 operating expense budget by \$6.3 million, plus overheads.

24  
25 After reflecting on the PUCO staff testimony, we began to see a confluence of  
26 Duquesne interests with public policy interests in Ohio. We have developed this  
27 proposal to complement the PUCO staff proposal.

1  
2 Duquesne's Willingness To Include Beaver Valley 2  
3

4 34. Q. Are there other ways in which the RPIP benefits the PUCO and Ohio customers?

5 A. Yes, there are. Thus far we have focused on the benefits related to Perry  
6 performance improvement, which are certainly significant. But the proposed RPIP  
7 also brings Beaver Valley 2 benefits to the PUCO and Ohio customers as well.  
8

9 35. Q. How do Beaver Valley 2 benefits result from the proposal?

10 A. Because the performance improvement proposal is reciprocal, Duquesne will also  
11 face additional focus and accountability on its performance at Beaver Valley 2. To  
12 the extent that this focus and accountability translate into better performance at  
13 Beaver Valley 2, these benefits flow directly to both Centerior and Ohio Edison as  
14 the owners of more than 85% of Beaver Valley 2. The fact that the RPIP applies  
15 only to 164 MW does not in any way limit its benefits. If Beaver Valley 2 achieves  
16 top quartile performance, the cost of all of Beaver Valley 2 generation will decrease  
17 and 86.26% of these benefits will flow back to the Ohio owners and assist the  
18 PUCO in protecting the interests of the ratepayers and shareholders of Centerior  
19 and Ohio Edison.  
20

21 36. Q. Can you identify the magnitude of this Beaver Valley 2 benefit to Ohio ratepayers?

22 A. Because Duquesne's performance at Beaver Valley 2 is already quite good, the  
23 benefit here is less dramatic than for Perry. Put another way, Ohio customers are  
24 already reaping the benefits of Duquesne's performance at Beaver Valley 2.  
25 However, there is always room for further improvement -- indeed achieving and  
26 maintaining top quartile performance will require continuous improvement -- and  
27 the RPIP provides additional focus and accountability for Duquesne as well. As  
28 shown below, to the extent that Duquesne improves Beaver Valley 2's historical  
29 performance to top quartile status, the annual benefits to Ohio are approximately  
30 \$11.2 million, or \$112 million over a 10-year period.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30

Beaver Valley 2 Composite Cost per MWH	\$14.96
PWR Top Quartile Composite Cost per MWH	<u>\$12.83</u>
Difference	\$2.13
Times Beaver Valley 2 Annual Average Generation (MWH)	<u>6,077,928</u>
Annual Savings	<u>\$12,945,987</u>
Centerior Share of Annual Savings (44.38%)	\$5,745,429
Ohio Edison Share of Annual Savings (41.88%)	<u>\$5,421,779</u>
Annual Savings to Ohio Ratepayers	<u>\$11,167,208</u>
Total 10-year Savings to Ohio Ratepayers	<u>\$111,672,080</u>

Conclusion

37. Q. Do you have any concluding remarks?

A. Yes. We believe that Perry's recent financial and operational performance has been declining. We are concerned about this trend and management's ability to bring about improved performance at Perry. The additional amounts of money spent at Perry should have been adequate to correct any physical or mechanical problems with the plant, yet its performance has shown a declining trend. A new approach that emphasizes financial incentives and management accountability is needed. We believe we have suggested a simple but powerful incentive plan that will focus management and shareholder attention on improving Perry's and Beaver Valley 2's performance. This plan has the potential to provide more than \$1 billion of benefits to Ohio ratepayers from improved performance at both plants. We believe the plan is consistent with the PUCO's actions in other rate proceedings, and is in the best interests of Ohio ratepayers and, in the long-run, Centerior's shareholders.

If the Commission doubts that Centerior's management can achieve top quartile performance at Perry, and rejects the Relative Performance Incentive Plan, we suggest that the PUCO condition any further rate increases upon Centerior's

1 agreement to transfer the Perry Operating Agreement to a nuclear operator with a  
2 proven track record within a six month period. Duquesne would support such a  
3 transfer under the CAPCO Ownership Agreement and would work with Ohio  
4 Edison and Centerior to find a mutually acceptable nuclear operator.

**CAPACITY FACTORS**

Perry and Beaver Valley 2 capacity factors, a measure of how often a plant operates, for recent years (three year averages) as compared to the industry median are as follows:

<u>Period</u>	<u>Perry(a)</u>	<u>Beaver Valley 2 (b)</u>	<u>Industry Median(b)</u>
1988-1990	58.4%	69.9%	63.1%
1989-1991	63.7%	71.3%	65.6%
1990-1992	69.2%	76.7%	68.4%
1991-1993	60.9%	81.2%	68.6%
1992-1994	47.9%	82.9%	71.2%

Source: (a) FERC Form 1 data as published by UDI.

(b) Duquesne internal operations records.

**NON-REFUELING OUTAGES**

The numbers and durations of non-refueling outages experienced by Perry and Beaver Valley 2 during recent years are as follows:

<u>Perry (a)</u>			<u>Beaver Valley (b)</u>		
<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>	<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>
1991	4	35 days	1991	1	2 days
1992	2	11 days	1992	0	0 days
1993	5	205 days	1993	1	2 days
1994	1	2 days	1994	1	21 days
1995*	6	23 days	1995*	1	2 days
Average	4	55 days	Average	1	5 days

\* Through November 20, 1995.

Source: (a) Perry Monthly Performance Reports and Perry site personnel.  
 (b) Duquesne internal operations records.

**REFUELING OUTAGE DURATION**

The duration of Perry and Beaver Valley 2 refueling outages are as follows:

<u>Perry (a)</u>		<u>Beaver Valley 2 (b)</u>	
<u>Refueling Outage</u>	<u>Days</u>	<u>Refueling Outage</u>	<u>Days</u>
RF01	159 Days	2R01	77 days
RF02	119 days	2R02	80 days
RF03	84 days	2R03	60 days
RF04	190 days	2R04	81 days
Average	138 days	2R05	45 days
		Average	69 days

Source: (a) Perry monthly billings and Perry site personnel.

(b) Duquesne internal operations records.

**NON-FUEL OPERATION AND  
MAINTENANCE COSTS PER MWH**

Perry and Beaver Valley 2 non-fuel O&M costs per MWH (three-year averages) as compared to the industry median for recent years are as follows:

<u>Year</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
1989-1991	\$20.79	\$13.93	\$14.87
1990-1992	\$17.23	\$14.07	\$16.12
1991-1993	\$19.18	\$13.88	\$15.47
1992-1994	\$29.21	\$13.35	\$15.74

Source: FERC Form 1 data as published by UDI.

**REFUELING OUTAGE COSTS**

The incremental cost of refueling outages at Perry and Beaver Valley 2 are as follows:

<u>Perry (a)</u>		<u>Beaver Valley (b)</u>	
<u>Refueling Outage</u>	<u>Amount</u>	<u>Refueling Outage</u>	<u>Amount</u>
RF01	\$54.5 Million	2R01	\$22.9 Million
RF02	\$41.7 Million	2R02	\$29.2 Million
RF03	\$26.7 Million	2R03	\$39.1 Million
RF04	\$94.0 Million	2R04	\$30.5 Million
Average	\$54.2 Million	2R05	\$26.2 Million
		Average	\$29.6 Million

Source: (a) Perry monthly billings and Perry site personnel.  
 (b) Duquesne internal financial records.

**COMPOSITE COST PER MWH**

<b><u>Three-Year Period</u></b>	<b><u>Perry</u></b>	<b><u>Beaver Valley 2</u></b>	<b><u>Industry Median</u></b>
1989-1991	\$24.59	\$15.94	\$18.24
1990-1992	\$23.63	\$16.96	\$21.05
1991-1993	\$26.26	\$16.57	\$19.74
1992-1994	\$35.91	\$14.96	\$19.56

Note: Composite Cost Per MWH includes non-fuel O&M costs and incremental capital expenditures.

Source: FERC Form 1 Data.

**PERRY NUCLEAR POWER PLANT**  
**Original Goal vs. Actual or Projected Costs**  
**(Millions of CAPCO Dollars)**

	<u>ACTUAL</u>		<u>PROJECTED</u>			<u>5 YEAR TOTAL</u>
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	
<i>Original Goal (a):</i>						
O&M (b)	114.7	\$148.1	\$109.7	\$144.3	\$155.3	\$672.1
Capital	25.2	37.1	30.0	41.8	33.2	167.3
Total	139.9	185.2	139.7	186.1	188.5	839.4
<i>1993 PCA Costs:</i>	13.0	50.2	20.8	1.7	0.0	85.7
<i>Additional Increases</i>	32.0	46.7	14.7	46.5	24.3	164.2
Total Costs	<u>\$189.6</u>	<u>\$276.9</u>	<u>\$175.2</u>	<u>\$234.3</u>	<u>\$212.8</u>	<u>\$1,088.8</u>
Increase From Original Goal	<u>\$49.7</u>	<u>\$91.7</u>	<u>\$35.5</u>	<u>\$48.2</u>	<u>\$24.3</u>	<u>\$249.4</u>
Percentage Increase From Original Goal	<u>35.5%</u>	<u>49.5%</u>	<u>25.4%</u>	<u>25.9%</u>	<u>12.8%</u>	<u>29.7%</u>

(a) Based on 3-9-93 projections including Centerior allocations to Perry and billing markups.

(b) Amounts exclude insurance costs.

Sources: various Centerior budgeting and billing data.

**THE RELATIVE PERFORMANCE INCENTIVE PLAN**

- A) **INCREMENTAL REFUELING OUTAGE COSTS** will be billed to the non-operating owners as incurred, except that such costs will be capped at the amounts included in the **PERRY PLAN** and in **Beaver Valley 2's Five Year Top Quartile Forecast** (see Exhibit 14).
- B) At the end of each refueling outage for Perry and Beaver Valley 2, **TOTAL EXPECTED GENERATION** for the ensuing **OPERATING CYCLE** will be multiplied by the **TOP QUARTILE BWR COMPOSITE COST PER MWH** or **TOP QUARTILE PWR COMPOSITE COST PER MWH**, whichever is applicable, to arrive at **TOTAL QUALIFIED COSTS**.
- C) Each unit's **INCREMENTAL REFUELING OUTAGE COSTS** from the most recently completed refueling outage will be subtracted from **TOTAL QUALIFIED COSTS** to arrive at **TOTAL QUALIFIED NON-OUTAGE COSTS**.
- D) Each unit's **TOTAL QUALIFIED NON-OUTAGE COSTS** will be divided by its **EXPECTED GENERATION** to arrive at the unit's **BILLING COST PER MWH**.
- E) Perry's **BILLING COST PER MWH** will be multiplied by Duquesne's share of Perry's **NET GENERATION** for each month during the **OPERATING CYCLE** to arrive at the amount of non-outage O&M and Capital costs billable to Duquesne. That amount will be multiplied by the **OVERHEAD FACTOR** to arrive at the total amount billable to Duquesne for the month. Similarly, Beaver Valley 2's **BILLING COST PER MWH** will be multiplied by 164 MW of Centerior's share of Beaver Valley 2's **NET GENERATION** for each month during an **OPERATING CYCLE** to arrive at the

amount of non-outage O&M and Capital costs billable to Centerior for the month. That amount will be multiplied by the OVERHEAD FACTOR to arrive at the total amount billable to Centerior for the month for 164 MW of Centerior's interest in Beaver Valley 2.

F) At the end of each OPERATING CYCLE, Duquesne's share of Perry's actual NET GENERATION for the OPERATING CYCLE will be multiplied by the applicable TOP QUARTILE BWR COMPOSITE COST PER MWH. This total will be compared to the total amount paid by Duquesne to Centerior during the most recently completed OPERATING CYCLE under paragraphs A and E above. If the total amount paid by Duquesne is greater than the product of the TOP QUARTILE BWR COMPOSITE COST PER MWH and Perry's NET GENERATION, the difference will be refunded to Duquesne. If the total amount paid by Duquesne is less than the product of the TOP QUARTILE BWR COMPOSITE COST PER MWH and Perry's NET GENERATION, the difference will be paid to Centerior by Duquesne.

G) Similarly, at the end of each OPERATING CYCLE, Centerior's 165 MW share of Beaver Valley 2's actual NET GENERATION for the OPERATING CYCLE will be multiplied by the applicable TOP QUARTILE PWR COMPOSITE COST PER MWH. This total will be compared to the total amount paid by Centerior to Duquesne during the most recently completed OPERATING CYCLE under paragraphs A and E above. If the total amount paid by Centerior is greater than the product of the TOP QUARTILE PWR COMPOSITE COST PER MWH and Beaver Valley 2's NET GENERATION, the difference will be refunded to Centerior. If the total amount paid by Centerior is less than the product of the TOP QUARTILE PWR COMPOSITE COST PER MWH and Beaver Valley 2's NET GENERATION, the difference will be paid to Duquesne by Centerior.

- H) For the period from January 1, 1996 to September 30, 1997, Duquesne will pay Centerior for Duquesne's share of Perry's actual NON-FUEL O&M COSTS and Capital costs as incurred, except that Duquesne's payments, before adding billing markups, to Centerior will be limited to Duquesne's share of Perry's INCREMENTAL REFUELING OUTAGE COSTS, STEADY STATE COSTS, and Capital costs as set forth in the PERRY PLAN (see Exhibit 14).
- I) For the period from January 1, 1996 to September 30, 1996, Centerior will pay Duquesne for Centerior's share of Beaver Valley 2's actual NON-FUEL O&M COSTS and Capital costs as incurred, except that Centerior's payments, before adding billing markups, to Duquesne will be limited to Centerior's share of Beaver Valley 2's INCREMENTAL REFUELING OUTAGE COSTS, STEADY STATE COSTS, and Capital costs as set forth in Beaver Valley 2's Five Year Top Quartile Forecast (see Exhibit 14).
- J) If the start of Perry's sixth (6th) refueling outage is accelerated to before September 1, 1997 or delayed beyond September 30, 1997, the provisions of paragraph H above will apply through the end of the month in which the sixth (6th) refueling outage begins and Perry's 1997 STEADY STATE COSTS, and Capital costs as set forth in the PERRY PLAN will be prorated for the number of months in 1997 for which paragraph H is applicable (see Exhibit 14).
- K) If the start of Beaver Valley 2's sixth (6th) refueling outage is accelerated to before September 1, 1996 or delayed beyond September 30, 1996, the provisions of paragraph I above will apply through the end of the month in which the sixth (6th) refueling outage begins and Beaver Valley 2's 1996 STEADY STATE COSTS, and Capital costs as set forth in Beaver Valley 2's operating budget will be prorated for the number of months in 1996 for which paragraph I is applicable (see Exhibit 14).

**L) This Plan will apply to Duquesne's 13.74% interest in Perry and to 164 MW of Centerior's interest in Beaver Valley 2.**

**M) This Plan will apply to Perry's fifth (5th), sixth (6th), seventh (7th), and eighth (8th) refueling outages and its sixth (6th), seventh (7th), eighth (8th), and ninth (9th) OPERATING CYCLES, and to Beaver Valley 2's sixth (6th), seventh (7th), eighth (8th) and ninth (9th) refueling outages and its seventh (7th), eighth (8th), ninth (9th), and tenth (10th) OPERATING CYCLES.**

**N. For Perry's costs, this Plan will terminate at the end of Perry's ninth (9th) OPERATING CYCLE and for Beaver Valley 2's costs the Plan will terminate at the end of Beaver Valley 2's tenth (10th) OPERATING CYCLE.**

**HISTORICAL TRENDING OF  
TOP QUARTILE COMPOSITE COST PER MWH**

	<u>Three-Year Average Cost Per MWH</u>			
	<u>1989-1991</u>	<u>1990-1992</u>	<u>1991-1993</u>	<u>1992-1994</u>
BWR's	\$17.02	\$17.25	\$17.01	\$16.28
PWR's	\$13.32	\$13.48	\$13.10	\$12.83

Source: FERC Form 1 data as published by UDI.

Note: Any plants reporting a negative or zero level of capital spending for the three year period were excluded from the calculation of the top quartile composite cost per MWH to eliminate any single year aberrations. In addition, the Millstone Station was excluded because it includes one BWR unit and one PWR unit and separate data for each unit was not available.

**DEFINITIONS OF TERMS**

- 1) **PERRY CAPACITY**: is defined as 1194 megawatts;
- 2) **BEAVER VALLEY 2 CAPACITY**: is defined as 820 megawatts;
- 3) **TOTAL POSSIBLE GENERATION**: is defined as a unit's CAPACITY multiplied by the number of hours in the unit's OPERATING CYCLE;
- 4) **MEDIAN UNPLANNED CAPABILITY LOSS FACTOR**: is defined as the most current median unplanned capacity loss factor for a 12-month period for all U.S. nuclear plants as published by INPO.
- 5) **INPO**: is defined as the Institute of Nuclear Power Operations.
- 6) **BWR PLANTS**: is defined as all boiling water reactor nuclear plants in the United States;
- 7) **PWR PLANTS**: is defined as all pressurized water reactor nuclear plants in the United States;
- 8) **TOTAL EXPECTED GENERATION**: is defined as a unit's TOTAL POSSIBLE GENERATION multiplied by one (1) minus the MEDIAN UNPLANNED CAPACITY LOSS FACTOR;
- 9) **TOP QUARTILE BWR COMPOSITE COST PER MWH**: is defined as the lowest three-year average COMPOSITE COST PER MWH for all BWR plants with top quartile COMPOSITE COST PER MWH for the most recent three-year period, as published by the Utility Data Institute or the Resource Data International. For purposes of establishing TOP QUARTILE BWR COMPOSITE COST PER MWH, all BWR plants will be divided into equal quartiles according to their three-year average COMPOSITE COST PER MWH with plants having the lowest COMPOSITE COST PER MWH comprising the top quartile and with any uneven number of plants being placed in the lowest quartiles;

- 10) TOP QUARTILE PWR COMPOSITE COST PER MWH: is defined as the lowest three-year average COMPOSITE COST PER MWH for all PWR plants with top quartile COMPOSITE COST PER MWH for the most recent three-year period, as published by the Utility Data Institute or the Resource Data International. For purposes of establishing TOP QUARTILE PWR COMPOSITE COST PER MWH, all PWR plants will be divided into equal quartiles according to their three-year average COMPOSITE COST PER MWH with plants having the lowest COMPOSITE COST PER MWH comprising the top quartile and with any uneven number of plants being placed in the lowest quartiles;
- 11) COMPOSITE COST PER MWH: is defined as the quotient obtained by dividing the sum of a plant's total NON-FUEL O&M COSTS for the most recent three-year period plus the plant's INCREMENTAL CAPITAL COSTS for the same period by the plant's NET GENERATION for the same period;
- 12) NON-FUEL O&M COSTS: is defined as a plant's operation and maintenance costs, exclusive of fuel costs, as defined by the F.E.R.C. and as reported in F.E.R.C. FORM ONE;
- 13) INCREMENTAL CAPITAL COSTS: is defined as the difference between the total investment in a plant as of the end of a three-year period and as of the beginning of the period, as reported in F.E.R.C. FORM ONE. For purposes of calculating INCREMENTAL CAPITAL COSTS, the total investment in a plant as of the end of the year prior to the applicable three-year period will be used as the total investment in the plant as of the beginning of the period. Further, for purposes of determining TOP QUARTILE BWR COMPOSITE COST PER MWH or TOP QUARTILE PWR COMPOSITE COST PER MWH, any plant with zero or negative INCREMENTAL CAPITAL COSTS for the three year period will be excluded from the determination of the top quartile;

- 14) **F.E.R.C.**: is the Federal Energy Regulatory Commission;
- 15) **F.E.R.C. FORM ONE**: is the Annual Report of Major Electric Utilities, Licensees And Others, filed by utilities with the F.E.R.C.;
- 16) **NET GENERATION**: is a plant's net power output as reported in F.E.R.C. FORM ONE expressed in MWH;
- 17) **TOTAL QUALIFIED COSTS**: is defined as the product of a unit's TOTAL EXPECTED GENERATION and TOP QUARTILE BWR COMPOSITE COST PER MWH or TOP QUARTILE PWR COMPOSITE COST PER MWH, as applicable;
- 18) **TOTAL QUALIFIED NON-OUTAGE COSTS**: is defined as the difference between a unit's TOTAL QUALIFIED COSTS for an OPERATING CYCLE and the INCREMENTAL REFUELING OUTAGE COSTS of the refueling outage immediately preceding the OPERATING CYCLE;
- 19) **OPERATING CYCLE**: is defined as the period of time between a unit's scheduled refueling outages;
- 20) **INCREMENTAL REFUELING OUTAGE COSTS**: is defined as O&M costs incurred during a refueling outage that are in addition to STEADY STATE COSTS. INCREMENTAL REFUELING OUTAGE COSTS may include utility employee overtime costs but will exclude utility employee straight time costs;

- 21) STEADY STATE COSTS: is defined as a unit's normal day-to-day non-fuel O&M costs;
- 22) BILLING COST PER MWH: is defined as the quotient obtained by dividing TOTAL QUALIFIED NON-OUTAGE COSTS by TOTAL EXPECTED GENERATION;
- 23) BILLABLE DIRECT COSTS: is defined as the product of a unit's net power output and the applicable BILLING COST PER MWH;
- 23) O&M: means a unit's operations and maintenance costs.
- 24) OVERHEAD FACTOR: is defined as the rate applied to BILLABLE DIRECT COSTS to reimburse the operating utility for administrative and general costs, labor fringe benefit costs, and working capital costs. The rate will be determined by multiplying the applicable LABOR COMPONENT PERCENTAGE by one (1) plus the LABOR FRINGE BENEFITS ADDITIVE RATE; that product will be multiplied by one (1) plus the ADMINISTRATIVE AND GENERAL ADDITIVE RATE; that product will be multiplied by one (1) plus the WORKING CAPITAL ADDITIVE RATE;
- 25) LABOR COMPONENT PERCENTAGE: is defined as the ratio of a unit's direct NON-FUEL O&M labor costs (utility employees) to total NON-FUEL O&M COSTS for the most recent annual period;
- 26) LABOR FRINGE BENEFITS ADDITIVE RATE: is defined as the fringe benefit rate used for CAPCO billing purposes;

- 27) **ADMINISTRATIVE AND GENERAL ADDITIVE RATE**: is defined as the administrative and general rate used for CAPCO billing purposes;
- 28) **WORKING CAPITAL ADDITIVE RATE**: is defined as the working capital rate used for CAPCO billing purposes;
- 29) **CAPCO**: is the Central Area Power Coordination group;
- 30) **PERRY**: is the Perry Nuclear Power Plant Unit #1;
- 31) **BEAVER VALLEY 2**: is the Beaver Valley Power Station Unit #2;
- 32) **PERRY PLAN**: is the Perry Strategic Business Planning Report dated July 1995;
- 33) **MWH**: is defined as a unit's megawatt hours of electrical power output.

## PWR's

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1989 - 1991			\$/MWH	Rank
		MWH	Capital	Non Fuel		
PRAIRIE ISLAND	2	8,125,644	9,404,551	62,627,304	8.86	1
POINT BEACH	2	7,243,482	8,630,092	58,566,766	9.28	2
OCONEE	3	19,155,454	16,727,890	162,266,663	9.34	3
MAINE YANKEE	1	6,021,933	7,062,656	50,486,113	9.56	4
WOLF CREEK (KS)	1	7,814,122	11,752,437	74,056,374	10.98	5
CATAWBA	2	13,838,403	6,976,341	148,910,585	11.26	6
ST LUCIE	2	11,782,828	14,503,887	125,129,275	11.85	7
MCGUIRE	2	14,255,914	20,609,420	157,511,343	12.49	8
BRAIDWOOD	2	12,629,902	32,300,041	135,899,430	13.32	9
FARLEY	2	11,982,055	27,408,287	136,813,759	13.71	10
NORTH ANNA	2	12,240,045	62,495,768	115,783,246	14.57	11
SEQUOYAH	2	15,113,045	97,345,907	123,284,847	14.60	12
SUMMER	1	5,627,377	7,190,374	75,987,887	14.78	13
DC COOK	2	12,911,043	44,178,170	147,801,719	14.87	14
WATERFORD 3	1	7,833,605	24,187,583	95,460,190	15.27	15
KEWAUNEE	1	3,772,341	4,697,898	55,140,118	15.86	16
MILLSTONE 3	1	6,110,816	19,936,981	81,735,486	16.64	17
ZION	2	9,680,668	24,273,320	137,145,914	16.67	18
SALEM (NJ)	2	13,232,018	64,636,033	169,363,803	17.68	19
ARKANSAS ONE	2	10,919,363	37,770,018	159,020,642	18.02	20
DIABLO CANYON	2	15,719,751	73,990,195	211,832,884	18.18	21
BEAVER VALLEY	2	9,821,262	24,704,853	154,465,847	18.24	22
THREE MILE ISLAND	1	6,062,495	33,188,638	80,948,345	18.83	23
SURRY	2	8,416,741	61,382,370	104,805,580	19.74	24
INDIAN POINT THREE	1	5,767,073	32,088,412	99,616,333	22.84	25
ROBINSON TWO	1	3,626,417	32,968,147	66,820,384	27.52	26
SAN ONOFRE	3	15,949,718	200,933,574	247,796,993	28.13	27
GINNA	1	3,325,389	31,001,024	64,157,560	28.62	28
CRYSTAL RIVER 3	1	4,176,692	22,095,888	97,856,531	28.72	29
DAVIS BESSE	1	5,785,183	63,872,414	113,892,355	30.73	30
PALISADES (MI)	1	3,813,355	42,670,418	75,053,425	30.87	31
INDIAN POINT TWO	1	4,494,188	25,034,463	128,690,625	34.21	32
TROJAN	1	4,355,749	33,341,730	120,641,793	35.35	33
CONNECTICUT YANKEE	1	2,607,860	19,195,873	80,853,791	38.36	34
FORT CALHOUN	1	2,976,082	32,614,107	85,450,992	39.67	35
CALVERT CLIFFS	2	4,335,571	25,042,258	152,061,540	40.85	36
YANKEE	1	1,047,747	7,260,825	38,891,746	44.05	37
TURKEY POINT 3&4	2	5,143,509	126,200,467	188,798,635	61.24	38

BWR's

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1989 - 1991				Rank
		MWH	Capital	Non Fuel	\$\$/MWH	
LASALLE	2	14,337,290	29,794,475	135,828,968	11.55	1
SUSQUEHANNA	2	14,607,836	26,540,933	167,992,932	13.32	2
GRAND GULF	1	8,129,469	26,324,722	99,816,583	15.52	3
VERMONT YANKEE	1	3,777,119	5,173,180	57,954,473	16.71	4
QUAD CITIES	2	9,515,417	30,529,999	131,411,823	17.02	5
DRESDEN	2	8,205,461	12,723,556	129,445,649	17.33	6
HOPE CREEK	1	7,348,596	38,205,344	90,517,091	17.52	7
BRUNSWICK (NC)	2	8,256,582	16,780,959	132,791,715	18.12	8
HATCH	2	10,281,176	38,259,748	153,878,480	18.69	9
MONTICELLO (MN)	1	3,582,621	14,068,447	53,280,153	18.80	10
FITZPATRICK	1	4,711,340	7,624,175	94,596,476	21.70	11
DUANE ARNOLD	1	3,447,112	26,375,000	48,780,353	21.80	12
RIVER BEND	1	5,688,255	10,022,335	124,776,547	23.70	13
PERRY (OH)	1	6,977,147	26,502,246	145,057,018	24.59	14
FERMI	1	6,146,687	41,212,874	120,711,278	26.34	15
PEACH BOTTOM	2	9,450,669	65,240,027	234,566,633	31.72	16
PILGRIM	1	3,125,180	32,926,789	93,424,616	40.43	17
BIG ROCK POINT	1	443,543	1,035,121	18,541,171	44.14	18
OYSTER CREEK	1	3,216,685	51,645,327	104,411,059	48.51	19
LIMERICK	2	11,114,138	1,135,738,342	187,221,624	119.03	20
BROWNS FERRY	2	519,913	302,963,439	78,166,028	733.06	21

Source: FERC Form 1 data as published by UDI.

## PWRs

PLANT	NUM UNIT S	THREE YEAR AVERAGE		1990 - 1992		Rank
		MWH	Capital	Non Fuel	\$/MWH	
CALLAWAY	1	8,687,128	309,698	82,155,037	9.49	1
POINT BEACH	2	7,303,047	6,644,614	66,161,110	9.97	2
OCONEE	3	18,947,765	22,780,702	171,651,592	10.26	3
CATAWBA	2	14,517,058	11,791,638	159,635,748	11.81	4
NORTH ANNA	2	12,734,792	40,100,329	113,137,117	12.03	5
SEQUOYAH	2	15,306,109	67,966,368	119,298,935	12.23	6
BRAIDWOOD	2	14,004,545	40,351,264	140,369,861	12.90	7
ST LUCIE	2	11,849,407	13,183,247	146,509,313	13.48	8
SUMMER	1	6,319,190	7,226,415	78,819,505	13.62	9
MAINE YANKEE	1	5,494,031	12,515,953	63,094,128	13.76	10
MCGUIRE	2	13,939,945	28,796,893	167,251,657	14.06	11
FARLEY	2	11,789,031	24,651,826	151,881,936	14.97	12
WATERFORD 3	1	7,838,019	24,722,011	95,428,261	15.33	13
SURRY	2	10,945,461	58,457,586	111,312,609	15.51	14
KEWAUNEE	1	3,837,764	6,627,594	58,591,856	16.99	15
BEAVER VALLEY	2	11,007,912	24,635,405	162,851,180	17.03	16
ARKANSAS ONE	2	11,746,502	33,791,767	169,492,840	17.31	17
PRAIRIE ISLAND	2	7,603,382	55,462,533	79,889,656	17.80	18
DC COOK	2	11,019,017	18,215,323	178,149,733	17.82	19
MILLSTONE 3	1	5,927,474	18,937,282	90,129,547	18.40	20
DIABLO CANYON	2	16,014,986	108,114,607	220,890,430	20.54	21
THREE MILE ISLAND	1	5,968,781	41,927,708	83,726,243	21.05	22
DAVIS BESSE	1	5,892,077	29,059,569	105,346,793	22.81	23
SALEM (NJ)	2	11,910,340	73,092,993	202,422,837	23.13	24
ZION	2	8,597,950	35,644,208	163,341,032	23.14	25
INDIAN POINT TWO	1	5,633,994	21,396,941	109,913,098	23.31	26
INDIAN POINT THREE	1	5,697,712	27,942,429	108,322,726	23.92	27
ROBINSON TWO	1	4,053,253	24,759,236	77,214,386	25.16	28
CRYSTAL RIVER 3	1	4,972,393	29,304,083	102,541,378	26.52	29
GINNA	1	3,464,047	29,636,957	64,891,805	27.29	30
CONNECTICUT YANKEE	1	2,921,887	5,740,050	78,454,483	28.82	31
PALISADES (MI)	1	4,218,349	52,655,991	73,977,657	30.02	32
CALVERT CLIFFS	2	6,983,822	44,037,289	166,911,141	30.21	33
FORT CALHOUN	1	2,721,437	26,137,212	74,161,164	36.85	34
TURKEY POINT 3&4	2	5,963,920	99,745,619	189,189,960	48.45	35

## BWRs

PLANT	NUM UNIT S	THREE YEAR AVERAGE - 1990 - 1992				Rank
		MWH	Capital	Non Fuel	\$/MWH	
SUSQUEHANNA	2	14,719,113	15,982,044	170,254,394	12.65	1
LASALLE	2	14,197,672	34,234,469	153,884,267	13.25	2
MONTICELLO (MN)	1	4,184,856	5,893,782	54,353,315	14.40	3
HATCH	2	10,356,782	8,687,005	159,131,413	16.20	4
VERMONT YANKEE	1	3,819,725	1,530,110	64,343,448	17.25	5
HOPE CREEK	1	7,496,875	35,458,912	96,848,963	17.65	6
QUAD CITIES	2	8,853,276	33,195,108	157,249,563	21.51	7
FERMI	1	6,861,644	43,042,392	110,578,334	22.39	8
DRESDEN	2	7,329,770	21,619,003	145,018,580	22.73	9
PERRY (OH)	1	7,586,166	48,534,908	130,734,469	23.63	10
DUANE ARNOLD	1	3,530,176	27,843,762	57,213,221	24.09	11
PEACH BOTTOM	2	12,388,568	72,176,685	229,413,409	24.34	12
BRUNSWICK (NC)	2	6,494,738	23,018,543	160,267,484	28.22	13
PILGRIM	1	4,136,584	28,617,602	90,261,506	28.74	14
RIVER BEND	1	5,014,145	9,315,803	137,711,609	29.32	15
OYSTER CREEK	1	3,927,924	35,479,399	109,030,446	36.79	16
BIG ROCK POINT	1	394,474	817,400	19,821,983	52.32	17
FITZPATRICK	1	2,659,558	18,966,679	132,435,676	56.93	18
LIMERICK	2	14,282,179	1,032,549,260	188,792,990	85.52	19
BROWNS FERRY	2	3,358,994	237,960,709	82,323,352	95.35	20

Source: FERC Form 1 data as published by UDI.

## PWRs

PLANT	THREE YEAR AVERAGE - 1991 -1993					Rank
	NUM UNITS	MWH	Capital	Non Fuel	\$\$/MWH	
CALLAWAY	1	8,814,893	6,188,766	83,805,589	10.21	1
OCONEE	3	18,947,688	27,348,487	170,606,858	10.45	2
POINT BEACH	2	7,411,070	7,287,994	74,500,035	11.04	3
BYRON	2	15,343,322	26,491,482	143,754,951	11.10	4
CATAWBA	2	15,328,615	1,105,214	168,983,369	11.10	5
BRAIDWOOD	2	14,486,738	25,633,758	140,824,368	11.49	6
WOLF CREEK (KS)	1	7,416,271	2,114,401	88,983,994	12.28	7
MCGUIRE	2	14,315,879	22,259,906	163,877,211	13.00	8
NORTH ANNA	2	12,304,018	47,667,580	113,524,555	13.10	9
MAINE YANKEE	1	5,787,410	10,622,680	65,532,141	13.16	10
ST LUCIE	2	12,000,537	11,591,041	148,853,741	13.37	11
SUMMER	1	6,320,021	7,651,527	81,349,177	14.08	12
WATERFORD 3	1	8,016,218	15,704,373	98,737,839	14.28	13
FARLEY	2	11,772,530	22,100,663	161,026,981	15.56	14
SURRY	2	10,999,106	64,054,858	113,075,579	16.10	15
DC COOK	2	12,751,780	27,131,402	182,601,697	16.45	16
ARKANSAS ONE	2	12,486,264	40,416,916	169,369,163	16.80	17
PRAIRIE ISLAND	2	7,766,606	53,501,357	77,756,092	16.90	18
HARRIS (NC)	1	6,287,797	37,044,980	70,556,971	17.11	19
KEWAUNEE	1	3,809,989	6,120,892	59,299,976	17.17	20
DAVIS BESSE	1	6,530,458	27,524,425	95,440,410	18.83	21
BEAVER VALLEY	2	10,693,340	26,974,187	178,388,840	19.20	22
ZION	2	10,346,155	29,796,837	169,755,727	19.29	23
DIABLO CANYON	2	16,195,721	85,687,494	233,740,541	19.72	24
THREE MILE ISLAND	1	6,188,540	36,071,095	86,134,292	19.75	25
CALVERT CLIFFS	2	10,666,955	63,391,144	169,534,920	21.84	26
SEQUOYAH	2	12,524,313	146,970,966	127,835,129	21.94	27
MILLSTONE 3	1	5,349,615	15,891,423	104,335,839	22.47	28
CRYSTAL RIVER 3	1	5,612,575	22,372,263	104,266,138	22.56	29
ROBINSON TWO	1	4,345,155	26,521,112	78,968,072	24.28	30
CONNECTICUT YANKEE	1	3,788,596	7,325,149	86,087,699	24.66	31
INDIAN POINT TWO	1	5,874,888	26,452,157	120,035,652	24.93	32
SALEM (NJ)	2	11,932,048	88,034,049	226,807,871	26.39	33
GINNA	1	3,481,221	27,701,523	66,338,466	27.01	34
INDIAN POINT THREE	1	4,417,973	19,231,762	106,956,667	28.56	35
FORT CALHOUN	1	2,952,249	17,999,725	72,352,161	30.60	36
PALISADES (MI)	1	4,395,628	64,849,432	77,825,561	32.46	37
TURKEY POINT 3&4	2	6,824,164	92,975,285	169,961,833	38.53	38
COMANCHE PEAK	2	7,884,076	1,672,723,864	132,385,859	228.96	39

BWRs

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1991 -1993			Rank	
		MWH	Capital	Non Fuel \$/MWH		
LIMERICK	2	15,402,122	12,396,364	190,122,499	13.15	1
SUSQUEHANNA	2	14,321,744	18,599,533	182,302,447	14.03	2
LASALLE	2	13,605,158	47,039,525	154,802,361	14.84	3
MONTICELLO (MN)	1	3,970,515	3,210,133	59,620,811	15.82	4
HATCH	2	10,140,301	21,194,892	151,252,536	17.01	5
FERMI	1	7,256,268	13,141,626	111,629,632	17.19	6
HOPE CREEK	1	7,737,084	40,980,514	101,748,967	18.45	7
VERMONT YANKEE	1	3,738,351	7,291,788	67,184,115	19.92	8
DUANE ARNOLD	1	3,604,655	20,618,516	56,540,845	21.41	9
PEACH BOTTOM	2	12,308,447	49,088,181	235,959,349	23.16	10
QUAD CITIES	2	8,339,868	49,298,403	169,345,516	26.22	11
PERRY (OH)	1	6,679,528	47,279,248	128,120,830	26.26	12
CLINTON	1	5,602,427	58,417,096	97,940,446	27.91	13
DRESDEN	2	6,926,175	40,841,876	163,685,613	29.53	14
COOPER	1	4,914,838	78,010,919	68,008,588	29.71	15
RIVER BEND	1	4,902,584	2,412,097	145,677,498	30.21	16
NINE MILE POINT 1	1	3,718,988	36,612,752	79,691,801	31.27	17
PILGRIM	1	4,169,095	43,903,530	96,674,566	33.72	18
OYSTER CREEK	1	4,047,492	64,630,251	114,519,843	44.26	19
BRUNSWICK (NC)	2	5,007,101	33,036,621	190,069,951	44.56	20
FITZPATRICK	1	2,707,737	23,970,346	129,395,000	56.64	21
BIG ROCK POINT	1	394,641	1,952,848	22,063,481	60.86	22
BROWNS FERRY	2	5,120,275	469,124,118	106,420,372	112.41	23

Source: FERC Form 1 data as published by UDI.

## PWRs

PLANT	NUM	THREE YEAR AVERAGE - 1992 -1994			Rank	
	UNITS	MWH	Capital	Non Fuel		\$/MWH
BYRON	2	15,748,707	17,943,020	142,275,489	10.17	1
BRAIDWOOD	2	15,323,962	17,643,906	138,257,201	10.17	2
NORTH ANNA	2	12,629,301	26,399,850	106,501,682	10.52	3
CALLAWAY	1	8,823,933	6,048,301	86,996,400	10.54	4
OCONEE	3	18,572,043	27,959,762	174,709,714	10.91	5
POINT BEACH	2	7,523,901	13,325,167	76,660,493	11.96	6
MCGUIRE	2	14,039,417	6,046,942	167,710,148	12.38	7
HARRIS (NC)	1	6,348,664	3,698,848	77,092,836	12.73	8
WOLF CREEK (KS)	1	8,306,401	13,144,190	93,412,042	12.83	9
MAINE YANKEE	1	5,909,950	10,713,302	65,715,138	12.93	10
FARLEY	2	12,124,876	5,143,925	154,348,200	13.15	11
WATERFORD 3	1	8,229,241	17,462,382	98,105,972	14.04	12
SUMMER	1	6,027,680	2,480,663	83,070,793	14.19	13
SURRY	2	11,188,018	51,153,060	110,962,287	14.49	14
KEWAUNEE	1	3,905,514	3,149,719	53,685,146	14.55	15
ST LUCIE	2	11,579,258	19,550,805	157,092,058	15.26	16
MILLSTONE 3	1	7,521,996	9,730,446	105,662,389	15.34	17
ARKANSAS ONE	2	12,906,900	37,989,041	163,304,228	15.60	18
BEAVER VALLEY	2	11,406,665	22,358,968	155,910,283	15.63	19
TURKEY POINT 3&4	2	9,417,796	4,020,249	152,821,206	16.65	20
THREE MILE ISLAND	1	6,496,251	26,563,360	88,651,035	17.74	21
PRAIRIE ISLAND	2	7,701,392	60,509,677	76,803,157	17.83	22
CALVERT CLIFFS	2	11,394,761	60,334,923	162,503,250	19.56	23
DIABLO CANYON	2	16,259,755	95,360,365	237,342,209	20.46	24
ZION	2	10,648,917	51,054,071	167,644,505	20.54	25
DC COOK	2	10,674,206	26,916,581	198,182,622	21.09	26
CONNECTICUT YANKEE	1	3,820,355	5,073,663	78,980,941	22.00	27
CRYSTAL RIVER 3	1	5,783,074	29,060,523	101,170,466	22.52	28
ROBINSON TWO	1	4,298,139	24,267,165	78,888,689	24.00	29
PALISADES (MI)	1	4,277,655	29,967,461	77,096,459	25.03	30
GINNA	1	3,442,897	22,630,907	65,161,841	25.50	31
FORT CALHOUN	1	3,243,754	17,190,429	71,435,315	27.32	32
SEQUOYAH	2	9,971,433	132,244,127	148,394,581	28.14	33
SALEM (NJ)	2	10,890,289	81,576,857	242,851,945	29.79	34
INDIAN POINT THREE	1	1,984,383	13,179,000	119,428,333	66.83	35
COMANCHE PEAK	2	10,974,965	1,669,394,603	148,084,182	165.60	36

BWRs

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1992 -1994				Rank
		MWH	Capital	Non Fuel	\$\$/MWH	
LIMERICK	2	15,787,638	12,291,087	184,389,745	12.46	1
MONTICELLO (MN)	1	4,090,964	4,630,226	55,624,144	14.73	2
HATCH	2	10,525,394	6,476,261	149,669,672	14.84	3
SUSQUEHANNA	2	14,139,469	28,682,688	181,503,076	14.87	4
LASALLE	2	12,875,752	53,549,266	156,109,056	16.28	5
HOPE CREEK	1	7,647,814	17,238,384	112,631,329	16.98	6
PEACH BOTTOM	2	14,371,356	35,940,317	216,067,232	17.54	7
VERMONT YANKEE	1	3,807,429	7,180,737	67,358,558	19.58	8
DUANE ARNOLD	1	3,591,845	17,832,464	59,619,849	21.56	9
FERMI	1	5,178,415	9,393,281	117,416,764	24.49	10
CLINTON	1	6,053,798	52,450,604	96,134,197	24.54	11
NINE MILE POINT 1	1	4,067,135	38,459,100	76,930,673	28.37	12
QUAD CITIES	2	7,273,768	39,429,107	185,287,174	30.89	13
PILGRIM	1	4,302,276	35,746,402	100,652,330	31.70	14
DRESDEN	2	6,978,924	54,648,573	172,712,315	32.58	15
MILLSTONE 1&2	2	8,312,940	60,823,722	215,391,507	33.23	16
PERRY (OH)	1	5,199,752	34,810,645	151,888,210	35.91	17
COOPER	1	4,055,989	88,886,846	73,952,862	40.15	18
OYSTER CREEK	1	4,273,430	60,645,904	116,272,264	41.40	19
FITZPATRICK	1	3,239,503	21,573,333	126,217,333	45.62	20
BRUNSWICK (NC)	2	5,916,165	92,807,414	201,934,365	49.82	21
BROWNS FERRY	2	7,581,354	306,550,345	106,650,090	54.50	22
BIG ROCK POINT	1	367,202	2,346,760	22,992,519	69.01	23

Source: FERC Form 1 data as published by UDI.

COST CAPS

For purposes of the Performance Incentive Plan, each unit's costs will be capped as follows:

## Perry Costs (a):

1996 Non-Outage O&M Costs-----	\$109.1 million
1996 Capital Costs-----	\$29.1 million
Fifth Refueling Outage Costs (including those incurred in 1995)-----	\$53.9 million
1997 Non-Outage O&M Costs Through 9-30-97 (\$102.8 million times 9/12)-----	\$77.1 million
1997 Capital Costs Through 9-30-97 (\$31.6 million times 9/12)-----	\$23.7 million

## Beaver Valley 2 Costs (b):

1996 Non-Outage O&M Costs Through 9-30-96 (\$54.0 million times 9/12)-----	\$40.5 million
1996 Capital Costs Through 9-30-96 (\$8.0 million times 9/12)-----	\$6.0 million

- (a) All amounts are per the "Perry Strategic Business Planning Report" dated July 1995.
- (b) All amounts per Beaver Valley 2's "Five Year Top Quartile Forecast".

**RELATIVE PERFORMANCE IMPROVEMENT PLAN**  
**BENEFITS TO OHIO RATEPAYERS FROM IMPROVED PERFORMANCE (a)**

Perry Composite Cost per MWH	\$35.91
BWR Top Quartile Composite Cost per MWH	<u>\$16.28</u>
Difference	\$19.63
Times Perry Annual Average Generation (MWH)	<u>5,199,752</u>
Annual Savings	<u>\$102,071,132</u>
Centerior Share of Annual Savings (51.02%)	\$52,076,691
Ohio Edison Share of Annual Savings (30%)	<u>\$30,621,340</u>
Annual Savings to Ohio Ratepayers	<u>\$82,698,031</u>
Total 10-year Savings to Ohio Ratepayers	<u>\$826,980,310</u>

(a) Based on 1992 to 1994 results.

Source: FERC Form 1 data as published by UDI.

**RELATIVE PERFORMANCE IMPROVEMENT PLAN  
BENEFITS TO OHIO RATEPAYERS FROM IMPROVED PERFORMANCE  
AT BEAVER VALLEY (a)**

---

Beaver Valley 2 Composite Cost per MWH	\$14.96
PWR Top Quartile Composite Cost per MWH	<u>\$12.83</u>
Difference	\$2.13
Times Beaver Valley 2 Annual Average Generation (MWH)	<u>6,077,928</u>
Annual Savings	<u>\$12,945,987</u>
Centerior Share of Annual Savings (44.38%)	\$5,745,429
Ohio Edison Share of Annual Savings (41.88%)	<u>\$5,421,779</u>
Annual Savings to Ohio Ratepayers	<u>\$11,167,208</u>
Total 10-years Savings to Ohio Ratepayers	<u>\$111,672,080</u>
Annual Generation Data:	
1992	5,785,051
1993	5,318,697
1994	<u>7,130,036</u>
Total	<u>18,233,785</u>
Three-Year Average	<u>6,077,928</u>

(a) Based on 1992 to 1994 results.

Source: FERC Form 1 data as published by UDI.

**BIOGRAPHY****David D. Marshall**

David D. Marshall is President and Chief Operating Officer of Duquesne Light Company and Executive Vice President of DQE, the parent holding company. Mr. Marshall's responsibilities for Duquesne Light Company cover all administrative and operating functions with the exception of the Company's Nuclear Group.

Mr. Marshall joined Duquesne Light in February 1985 as General Manager, Planning, Budgeting and Rates. In August 1987 he was elected Vice President, Corporate Development; in October 1990 he was made Assistant to the President; in February 1992 he was elected Executive Vice President; and in February 1995 he was elected to his current position.

Prior to joining Duquesne Light he was employed by Central Vermont Public Service Corporation where he served in various financial capacities, including Assistant Vice President of Finance. Before that he worked as a Research Associate for Resource Planning Associates in Washington DC and as a Research Assistant for Charles River Associates in Boston, Massachusetts.

He received a Bachelor of Arts Degree from Colby College in 1975 with a combined major in economics and mathematics. He received a Masters Degree in business administration from the Amos Tuck School of Business Administration, Dartmouth College in 1980.

He has submitted extensive testimony before the Pennsylvania Public Utility Commission, and has submitted written testimony before the Federal Energy Regulatory Commission. He has also presented written and oral testimony on numerous occasions before the Vermont Public Service Board.

**BIOGRAPHY**

**JAMES E. CROSS**  
**Senior Vice President**  
**and**  
**Chief Nuclear Officer**  
**Duquesne Light Company**

Mr. James E. Cross is Senior Vice President and Chief Nuclear Officer for Duquesne Light Company, and is corporate officer responsible for the engineering, construction, operation and maintenance of the company's nuclear power units. Mr. Cross assumed his current position in September 1994.

Prior to joining Duquesne Light Company, Mr. Cross was Vice President Thermal Resources and Chief Nuclear Officer for Portland General Electric Company. In this position he had the responsibility for six combined-cycle gas turbine plants, a coal plant, and construction of a new General Electric 7F combined-cycle gas plant as well as overall responsibility for licensing, shut down activities, and decommissioning of the Trojan Nuclear Plant.

Mr. Cross' 23-year career in the nuclear power industry includes management positions with Florida Power and Light, Mississippi Power and Light and Tennessee Valley Authority.

Mr. Cross holds a Bachelor of Science Degree in Electrical Engineering from the University of South Florida.

Mr. Cross presently resides with his wife, Lyn, and sons, Jonathan and Stephen, in Franklin Park, Pennsylvania.

**BIOGRAPHY**

**Ralph E. Duckworth, Jr.**

Ralph E. Duckworth, Jr. is Controller - Nuclear of Duquesne Light Company. Mr. Duckworth's responsibilities for Duquesne Light cover all financial matters related to the Company's Nuclear Power Division.

Mr. Duckworth joined Duquesne Light in October 1985 as Manager, Regulatory Reporting. In May 1987 he was promoted to the position of Manager, General Accounting and in December 1990 he was promoted to his current position.

Prior to joining Duquesne Light he was employed by Deloitte & Touche where he served in various auditing capacities, including Senior Audit Manager.

He received a Bachelor of Arts Degree from Carnegie-Mellon University in 1973 with a major in economics. He received a Masters Degree in business administration from the Katz Graduate School of Business, University of Pittsburgh in 1974.

He also served as an adjunct faculty member at the H. John Heinz III School of Public Policy at Carnegie-Mellon University from 1980 to 1989 where he taught a variety of accounting and management courses.

He is a certified public accountant and a member of the Pennsylvania and American Institutes of Certified Public Accountants.

PH EXHIBIT NO. 5

cc 1373

(367) JC DOCKET NO. R-00974184

BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

RECEIVED  
DEC 4 1995  
DOCKET DIVISION  
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application :  
of The Toledo Edison Company for :  
Authority to Amend and to Increase : Case No. 95-299-EL-AIR  
Certain of Its Rates and Charges :  
for Electric Service :

In the Matter of the Application :  
of The Cleveland Electric :  
Illuminating Company for Authority :  
to Amend and to Increase Certain : Case No. 95-300-EL-AIR  
of Its Rates and Charges for :  
Electric Services :

PRE-FILED TESTIMONY OF DUQUESNE LIGHT COMPANY

Sheldon A. Taft  
VORYS, SATER, SEYMOUR AND PEASE  
52 East Gay Street  
P.O. Box 1008  
Columbus, Ohio 43216-1008  
(614) 464-6308

Victor A. Roque  
Stephen Pelcher  
DUQUESNE LIGHT COMPANY  
One Oxford Centre  
301 Grant Street  
Pittsburgh, PA 15279  
(412) 393-6000

Counsel for Intervenor,  
Duquesne Light Company

12  
6647

RECEIVED  
PROTHONOTARY'S OFFICE  
99 JAN 23 PM 3:27

December 4, 1995

Testimony of Duquesne Light Company

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

1. Q. What are your names and positions?

A. We are providing joint testimony as a panel of witnesses. The panel is comprised of David Marshall, President and Chief Operating Officer of Duquesne Light Company; James Cross, Senior Vice President of Nuclear Operations of Duquesne Light Company; and Ralph Duckworth, Nuclear Controller of Duquesne Light Company. Resumes of these witnesses have been included as Exhibits 17, 18 and 19, respectively. Mr. Marshall will testify as to public policy and electric utility issues; Mr. Cross will testify as to specific nuclear power industry issues including management and operating matters; and Mr. Duckworth will testify as to financial data.

2. Q. What is the purpose of your testimony?

A. The purpose of our testimony is to describe the operational and financial performance of the Perry Nuclear Power Plant and to present a plan to improve Perry's performance. Specifically, we recommend that the Ohio PUC condition its approval of any rate increase for the Centerior Operating Companies upon Centerior's execution of a Relative Performance Incentive Plan (RPIP) between Duquesne and Centerior for 164 MW of Perry 1 capacity and 164 MW of Beaver Valley 2 capacity. This proposal would mandate a seven year commitment whereby Duquesne pays Centerior operating and capital expenditures based on top quartile performance of Boiling Water Reactor (BWR) nuclear plants for its 164 MW share of Perry and Centerior similarly pays Duquesne expenditures based on top quartile performance of Pressurized Water Reactor (PWR) nuclear plants for its 164 MW of their share of Beaver Valley 2. After spending in excess of \$195 million on the Perry Course of Action and other corrective activities for the last several years, Centerior should be prepared to compete with Duquesne on our respective goals towards top quartile performance. Both of our companies can improve our performance and both would benefit from this competition. The testimony will



1 show that such a reciprocal plan is in the best interests of Ohio and Pennsylvania  
2 electric customers and the long-run interests of both companies' shareholders.

3  
4 3. Q. Why do you believe that such a Relative Performance Incentive Plan ("RPIP") is  
5 good public policy?

6 A. As the Commission well knows, increased competition is coming to the electricity  
7 industry and the challenge for regulators and utilities alike is to make a successful  
8 transition while preserving the financial health and integrity of these essential  
9 institutions. The Relative Performance Incentive Plan is good public policy because  
10 it furthers this essential regulatory goal, specifically;

- 11
- 12 • The RPIP is consistent with PUCO actions in other rate proceedings and  
13 with the Staff Report recommendations to provide nuclear utilities an  
14 opportunity to become competitive through price cap regulation and  
15 accelerated recovery of above-market investment;  
16
  - 17 • The RPIP focuses attention where it is most needed — the most critical  
18 success factor for this regulatory transition strategy will be continuously  
19 achieving top quartile performance at Perry;  
20
  - 21 • The RPIP is necessary — current regulatory incentives for Centerior clearly  
22 have not worked;  
23
  - 24 • The RPIP provides both a heightened incentive and a visible score card for  
25 continuous improvement at Perry relative to comparable plants;  
26
  - 27 • The RPIP provides benefits at Beaver Valley as well — Duquesne's  
28 willingness to include Beaver Valley 2 in a symmetrical plan improves the  
29 benefits for Ohio customers and increases the chances that the PUCO  
30 regulatory strategy will be successful.  
31

32 We will describe each of these issues in greater detail.

33  
34 Consistency With Transition Strategy

35  
36 4. Q. Please describe your understanding of the transition strategy recommended by the  
37 Staff Report.

1 A. Certainly. After reviewing the staff report recommendation for rate relief in this  
2 proceeding, it appears that the staff is suggesting a very sound transition strategy  
3 for Centerior, one that Duquesne believes is good public policy. In exchange for  
4 recommended rate relief, the staff is requesting that Centerior develop a long-term  
5 commitment to write-down the book value of nuclear assets to reduce its stranded  
6 investment exposure in future competitive markets. The staff seems to imply that  
7 such a transition plan should include no more rate increases.  
8

9 The PUCO recently approved a long-term rate plan for Ohio Edison that essentially  
10 accomplishes the same result. That plan calls for a ten-year transition period over  
11 which Ohio Edison would accelerate depreciation and write-down nuclear assets by  
12 an additional \$2 billion while freezing rates over the same time frame.

10 10yrs  
11 writeoff  
12 no incr  
rates

13  
14 A Relative Performance Incentive Plan for both Perry and Beaver Valley 2 is  
15 completely consistent with such a transition strategy.  
16

17 Perry Performance Is Critical Success Factor  
18

19 5. Q. Why do you believe that cost containment at Perry is so important?

20 A. Cost reductions will decrease Centerior's revenue requirements thereby providing a  
21 direct benefit to ratepayers. Further, lower costs will improve Centerior's  
22 profitability to the benefit of the stockholders. This increased financial flexibility  
23 will provide Centerior with an opportunity to accelerate the amortization of its  
24 above-market generation, and reduce its exposure from "stranded investment".  
25

26 A strategy of accelerated amortization without financial impairment will only be  
27 successful if it can be "funded" through real performance improvement. That is,  
28 unless actual costs can be significantly reduced under "price cap" regulation, any  
29 accelerated amortization would result in financial impairment.  
30

1 Therefore, the key to the success of this strategy lies in areas which have substantial  
2 costs in absolute terms, and also the prospect for significant improvement. Perry  
3 expenditures meet both of these two criteria. Nuclear operating expenditures  
4 accounted for \$188 million at Centerior in 1994. This represents 57% of total non-  
5 fuel generation expenditures for the Company, a significant component of  
6 Centerior's operating costs.



7  
8 6. Q. Have you concluded that there is an opportunity for improved performance,  
9 particularly at Perry?

10 A. Yes. In 1994, Perry represented 23 percent of Centerior's non-fuel generation costs  
11 and provided 7.7 percent of Centerior's electrical output. While Perry's lifetime  
12 capacity factor is respectable, its operations, nevertheless, represent both a  
13 substantial magnitude of operating costs and a significant opportunity for  
14 performance improvement.



15  
16 7. Q. Have you made any estimate of the magnitude of potential savings that could be  
17 realized from improved performance at Perry?

18 A. Yes. We have quantified the annual cost difference between historic performance  
19 and top quartile BWR operating performance. The difference in costs for Perry's  
20 generation is about \$100 million a year, or \$1.0 billion over the next ten years,  
21 \$521 million of which would be available for Centerior's accelerated amortization if  
22 performance improvements are realized. In addition to the Centerior share, another  
23 \$306 million is at stake for Ohio Edison which is also seeking accelerated  
24 amortization of its above market obligations. Thus, the total stake in Ohio is  
25 \$827 million.

26  
27

1	Perry Composite Cost per MWH	\$35.91
2	BWR Top Quartile Composite Cost per MWH	<u>\$16.28</u>
3	Difference	\$19.63
4	Times Perry Annual Average Generation (MWH)	<u>5,199,752</u>
5	Annual Savings	<u>\$102,071,132</u>
6	Centerior Share of Annual Savings (51.02%)	\$52,076,691
7	Ohio Edison Share of Annual Savings (30%)	<u>\$30,621,340</u>
8	Annual Savings to Ohio Ratepayers	<u>\$82,698,031</u>
9	Total 10-year Savings to Ohio Ratepayers	<u>\$826,980,310</u>

10

11 8. Q. If nuclear cost containment at Perry is unsuccessful, what position will the Ohio  
12 Commission be in?

13 A. If these performance improvements are *not realized*, the PUCO will find itself in a  
14 position very much like it finds itself today. That is, it will face the difficult choice  
15 of raising rates to customers to ensure the financial viability of a large utility or  
16 incurring the costs to all concerned of financial distress if it does not increase the  
17 rates. Thus, it seems to us that the PUCO and Ohio consumers have a vital interest  
18 in seeing that these critical performance improvements are in fact realized.

19

20 Current Regulatory Incentives Have Not Worked

21

22 9. Q. What is the second reason you believe that the RPIP is a good public policy?

23 A. We have just provided an overview of Perry's performance over the past few years.  
24 Clearly, the current regulatory incentives for cost containment and acceptable  
25 operating performance have not worked. We will now detail the financial and  
26 operating statistics that document this performance. We will also suggest that a  
27 new set of incentives is needed to improve performance.

28

29 10. Q. To begin with, please describe the two plants.

1 A. Perry Nuclear Power Plant is a 1,194 megawatt, General Electric boiling water  
2 reactor, nuclear power plant located in North Perry Township, Ohio. It was placed  
3 in commercial operation on November 18, 1987.

4  
5 Beaver Valley Unit 2 is an 820 megawatt, 3-loop Westinghouse pressurized water  
6 reactor, nuclear power plant located in Shippingport, PA. It was placed in  
7 commercial operation on November 17, 1987.

8  
9 11. Q. Please describe the plants' recent operating histories:

10 A. Perry in recent years has experienced a trend of declining performance. If you will  
11 refer to the table below, you can see that Perry has typically performed below the  
12 industry median capacity factor. In fact, Perry has achieved median performance in  
13 only one three-year period, and in the most recent period Perry's capacity factor is  
14 below the industry median. Meanwhile, Beaver Valley 2 has consistently performed  
15 above the industry median

16  
17 Perry and Beaver Valley 2 capacity factors, a measure of how often a plant  
18 operates, for recent years (three year averages) as compared to the industry median  
19 are as follows:

<u>Period</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
23 1988-1990	58.4%	69.9%	63.1%
24 1989-1991	63.7%	71.3%	65.6%
25 1990-1992	69.2%	76.7%	68.4%
26 1991-1993	60.9%	81.2%	68.6%
27 1992-1994	47.4%	82.9%	71.2%

28  
29 12. Q. What are some of the reasons why Perry's capacity factors have been below the  
30 industry median?

1 A. There are two major reasons for Perry's below median capacity factors. The first is  
2 non-refueling outages. If you will refer to the table below, you see that Perry has  
3 experienced several non-refueling outages over the past few years. Further, some  
4 of Perry's outages have been for extended periods of time.

5  
6 The numbers and durations of non-refueling outages experienced by Perry and  
7 Beaver Valley 2 during recent years are as follows:

8  
9

	<u>Perry</u>		<u>Beaver Valley</u>		
<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>	<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>
10 1991	4	35 days	1991	1	2 days
11 1992	2	11 days	1992	0	0 days
12 * 1993	5	205 days	1993	1	2 days
13 1994	1	2 days	1994	1	21 days
14 1995*	6	23 days	1995*	1	2 days
15 Average	4	55 days	Average	1	5 days

16  
17  
18  
19

20 \* Through November 20, 1995.

21  
22 The second reason for Perry's low capacity factor is extended refueling outages. If  
23 you will refer to the following table, you can see that Perry refueling outages have  
24 extended for long periods of time, whereas Beaver Valley 2 refueling outages have  
25 been significantly shorter. In fact, Perry's last refueling outage lasted more than a  
26 half year, in spite of the fact that it came on the heels of a 45-day mid-cycle  
27 maintenance outage.

28  
29 The duration of Perry and Beaver Valley 2 refueling outages are as follows:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

<u>Perry</u>		<u>Beaver Valley 2</u>	
<u>Refueling Outage</u>	<u>Days</u>	<u>Refueling Outage</u>	<u>Days</u>
RF01	159 days	2R01	77 days
RF02	119 days	2R02	80 days
RF03	84 days	2R03	60 days
1994 * RF04	190 days	2R04	81 days
Average	138 days	2R05	45 days
		Average	69 days

Both of these factors have contributed to Perry's below median capacity factors.

13 Q. What else can you tell us about Perry's operating history?

A. During 1993 the Perry Plant experienced a decline in operational performance. This was evidenced by five non-refueling outages, a capacity factor of 38.8% for the year, and the Nuclear Regulatory Commission's formal recognition of Perry as a plant with declining performance. This level of operational performance was accompanied by financial performance as noted by a total production cost per MWH of \$42.42 and actual O&M and Capital costs which exceeded original projections by \$45 million. During the last quarter of 1993, Perry management adopted a plan, called the Perry Course of Action ("PCA"), in an attempt to correct the problems associated with the plant. The PCA included a limited number of management changes, a mid-cycle maintenance outage, various studies and reviews, and an increase in planned O&M and Capital expenditures of more than \$85 million. The PCA was to conclude at the end of Perry's fifth refueling outage, originally scheduled for the Spring of 1995.

Perry's difficulties continued throughout 1994, when the plant experienced a 44.3% capacity factor, one non-refueling outage as well as an extended 190 day refueling outage, a total production cost per MWH of \$57.10, and actual O&M and Capital

1 costs which exceeded original projections by \$97 million. Perry's fourth refueling  
2 outage was originally scheduled for 90 days and \$28.7 million. In November 1993,  
3 the outage cost was increased to \$44.3 million. In March 1994 it was increased  
4 again to \$72.3 million. The outage eventually cost \$94 million and lasted 190 days.  
5

6 The large number of outages in 1993 and the extended refueling outage in 1994  
7 resulted in the postponement of Perry's fifth refueling outage to January 1996.  
8 Perry's management has stated that the PCA will be concluded when that outage is  
9 finished.  
10

- 11 14. Q. Please describe the recent financial performance of Perry and Beaver Valley 2.  
12 A. Whereas Perry's cost per MWH has been above the industry median, Beaver Valley  
13 2 has been a better than average performer in terms of cost per MWH. If you will  
14 refer to the table below, you can see that the three-year average non-fuel operation  
15 and maintenance costs per MWH for Perry have consistently been higher than the  
16 median. Meanwhile, the average costs per MWH for Beaver Valley 2 have been  
17 lower than the industry median.  
18

19 Perry and Beaver Valley 2 non-fuel O&M costs per MWH (three-year averages) as  
20 compared to the industry median for recent years are as follows:  
21

<u>Year</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
25 1989-1991	\$20.79	\$13.93	\$14.87
26 1990-1992	\$17.23	\$14.07	\$16.12
27 1991-1993	\$19.18	\$13.88	\$15.47
28 1992-1994	\$29.21	\$13.35	\$15.74

29  
30 Another measure of Perry's performance is the cost of Perry's refueling outage  
31 costs. The table below shows the incremental refueling outage costs for Beaver

1 Valley 2 and Perry. As you can see, Perry's refueling outage costs have been nearly  
 2 double those of Beaver Valley 2. In fact, Perry's last outage cost nearly the same as  
 3 the cost of the last three outages for Beaver Valley 2 combined!

4  
 5 The incremental cost of refueling outages at Perry and Beaver Valley 2 are as  
 6 follows:

<u>Perry</u>		<u>Beaver Valley 2</u>	
<u>Refueling Outage</u>	<u>Amount</u>	<u>Refueling Outage</u>	<u>Amount</u>
RF01	\$54.5 Million	2R01	\$22.9 Million
RF02	\$41.7 Million	2R02	\$29.2 Million
RF03	\$26.7 Million	2R03	\$39.1 Million
RF04	\$94.0 Million	2R04	\$30.5 Million
Average	54.2 Million	2R05	\$26.2 Million
		Average.	\$29.6 Million

7  
 8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17 Another way to compare the plants is to include incremental capital costs as well as  
 18 non-fuel O&M costs. The following table shows three-year average composite  
 19 costs per MWH for Perry and Beaver Valley 2, as well as the industry median. It  
 20 shows that the cost per MWH for Perry is consistently above the median, while the  
 21 cost for Beaver Valley 2 is lower than the median.

22  
 23 The composite (O&M and incremental capital) cost per MWH for Perry and Beaver  
 24 Valley 2 are as follows:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

<u>Three-Year Period</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
1989-1991	\$24.59	\$15.94	\$18.24
1990-1992	\$23.63	\$16.96	\$21.05
1991-1993	\$26.26	\$16.57	\$19.74
1992-1994	\$35.91	\$14.96	\$19.56

15. Q. What has been the impact of Perry's recent performance in terms of dollars?
- A. Perry has consistently exceeded its budget, and its financial performance continues to put upward pressure on Centerior's rates and to be a drain on the resources of all the plant owners. As indicated in Exhibit 7, Perry will exceed its original cost projections for 1993 to 1997 by more than \$250 million, including billing markups. Duquesne's 13.74% share of this exceedence amounts to \$35 million. These amounts reflect a further overbudget condition projected for 1995.
16. Q. Please describe this 1995 overbudget condition.
- A. In May 1995, we became aware of a projected \$3.6 million overbudget condition for Perry's current year non-outage O&M costs. In July 1995 Perry's management revised the overbudget condition down to \$2.5 million. In October 1995 the estimate was increased to \$6.3 million, exclusive of billing markups. The explanation received from Perry officials for the overrun is that \$3.6 million of the variance is attributable to "unfunctionalized reductions", which Centerior informs us means that Perry's management never developed a specific plan to achieve a budget reduction target that corporate management told the plant to make. Another \$2.2 million of the variance is due to inventory adjustments resulting from the inability to find certain inventory that was stored in the plant or due to inventory shortages identified when performing cycle counts in the warehouse. The remaining \$0.5 million of the variance is attributed to unanticipated EPRI fees allocated from Centerior to Perry. Such fees generally are recovered from the non-operating

1 owners through the application of the Administrative and General billing markup,  
2 and should not be allocated to Perry's O&M accounts. To do so would represent a  
3 double recovery of the fees. Centerior officials have agreed to reverse this  
4 allocation.

5  
6 17. Q. Would you please summarize the financial situation at Perry?

7 A. Upon completion of Perry's fifth refueling outage in early 1996, Centerior will have  
8 spent \$195 million more than its original projections for Perry's operations,  
9 including corporate administrative and general overhead costs.

10  
11 18. Q. Has Perry's performance improved over time as a result of these expenditures?

12 A. As we saw in Exhibit 1, Perry's three-year average capacity factor has actually  
13 declined in recent years while its cost per MWH has increased, as shown in Exhibits  
14 4, 5, and 6. This trend concerns us.

15  
16 We believe that the substantial sums already invested in Perry warrant superior  
17 performance. After spending more than \$195 million of additional funds on Perry,  
18 Centerior's management should demand superior performance from the plant.

19  
20 19. Q. Do you believe there may be a management problem with Perry?

21 ~~\*~~ A. Yes. Because the plant is relatively new and because Centerior has already invested  
22 significant amounts of additional sums in the plant, superior performance is  
23 warranted. Yet, there has been a continuing trend of increased budgets that are  
24 exceeded, outage schedules that cannot be met, and declining operational  
25 performance. Perry's management stated in 1993 that, "There is no reason Perry  
26 cannot become the best plant in the United States. It was well-designed and well-  
27 built; it has a dedicated, well-trained and knowledgeable staff from top to bottom."  
28 We are concerned about Perry's recent performance and management's ability to  
29 achieve a needed improvement.

30

1 20. Q. What is needed to improve Perry's performance in the future?

2 A. We suggest that management and accountability, not equipment, are the source of  
3 the problem at Perry. Thus a new, stronger set of incentives are needed to place  
4 Perry among the top performing plants in the industry. We have, therefore,  
5 developed a plan which will focus management's attention on improving Perry's  
6 performance and which is consistent with the strategy of providing utilities an  
7 opportunity to minimize their exposure to stranded investment.

8  
9 Description of the Relative Performance Incentive Plan

10  
11 21. Q. How does the RPIP provide heightened incentives and a score card for continuous  
12 improvement at Perry?

13 A. As we will describe below, the RPIP will provide Centerior's management with a  
14 direct financial incentive to achieve top quartile performance among its peers. In  
15 addition, creation of a benchmark will provide Centerior's customers, shareholders  
16 and regulators with visible evidence of the progress management is making toward  
17 improved performance.

18  
19 22. Q. Please describe Duquesne's proposal to help improve Perry's performance.

20 A. Duquesne proposes to establish a Relative Performance Incentive Plan that would  
21 apply to 164 MW of Centerior's share of Beaver Valley 2's capacity and to  
22 Duquesne's 164 MW share of Perry's capacity. The purpose of the Plan is to  
23 provide heightened incentives for Centerior shareholders and management to focus  
24 on continuous improvement at Perry, and for DLC shareholders and management to  
25 focus on continuing improvement at Beaver Valley 2.

26  
27 23. Q. In summary, how would the Plan work?

28 A. Simply put, Duquesne and Centerior would pay a competitive price per MWH for  
29 power produced by the plant operated by the other utility. The Plan is described in  
30 detail in Exhibit 8; however, I will provide a brief overview here. Duquesne would

1 pay for its share of Perry's production, and Centerior would pay for 164 MW of its  
2 share of Beaver Valley 2's production, at a price equal to the cost per MWH of the  
3 most expensive plant in the top quartile of a comparative panel of BWR or PWR  
4 plants. In this case, top quartile means lowest cost per MWH. If Perry or Beaver  
5 Valley 2 performs better than the top quartile threshold, the operator will keep the  
6 difference between its actual costs and the benchmark as a performance bonus. If  
7 either plant performs worse than the top quartile threshold, the operator will absorb  
8 the difference between its actual costs and the benchmark as a performance penalty.  
9 Thus, the Plan has the potential to save Ohio ratepayers substantial amounts of  
10 money through superior performance at Perry and Beaver Valley 2.

11  
12 24. Q. What costs would be reflected in the benchmark cost per MWH?

13 A. We propose including those costs over which the operating company has complete  
14 control, including all non-fuel operating and maintenance costs (including refueling  
15 outage costs) and capital expenditures. Fuel costs, insurance and property taxes  
16 would be excluded because each owning company has some control over its share  
17 of those costs.

18  
19 25. Q. How would top quartile performance be established?

20 A. The three year average composite cost per MWH would be calculated for all U.S.  
21 nuclear plants using the most recently published FERC Form 1 data as compiled by  
22 the Utility Data Institute (UDI) or the Resource Data International (RDI). Three-  
23 year averages will be used to normalize the effects of refueling outages. Data for a  
24 particular year is generally available by the summer of the following year.

25  
26 The plants would then be segregated into a BWR panel and a PWR panel with each  
27 panel being divided into quartiles. The top quartile of each panel will represent the  
28 lowest cost plants and any uneven number of plants in the panel will be placed in  
29 the lowest quartiles. Any plants reporting a zero or negative level of capital  
30 spending would be excluded from the panels so as not to distort the benchmark data

1 with one-year aberrations. Also, the Millstone Plant will be excluded because it  
2 includes one BWR unit and one PWR unit and separate data for each unit is not  
3 readily available.

4  
5 26. Q. Why do you propose to use separate panels for Perry and Beaver Valley 2?

6 A. We recognize that historically BWR plants have been more expensive to operate  
7 than PWR plants. This is evident by looking at Exhibit 9, which shows the top  
8 quartile threshold for the BWR and PWR panels over the last several years. Our  
9 intent is not to hold Perry to unrealistic goals. Rather, we want Perry to achieve  
10 top quartile status when compared to other BWR plants. If Perry were to achieve  
11 top PWR performance, the benefits to the Ohio ratepayers would be even more  
12 significant.

13  
14 27. Q. Doesn't Beaver Valley 2, being part of a two reactor site, have an unfair advantage  
15 over Perry, which is a single unit site?

16 A. No. Perry is a large unit at 1200 MW. Beaver Valley is a small 2 unit PWR station  
17 with a total capacity of about 1600 MW. Further, it is not impossible for a single  
18 unit BWR to achieve top quartile status. As shown in Exhibits 10 to 13, in each  
19 three-year period at least 20% of the top quartile BWR plants are single unit plants.  
20 In addition, as discussed further below, we do not propose to hold Perry to top  
21 quartile status until late 1997, giving Perry's management an additional two years to  
22 achieve that level of performance. Finally, Perry has the benefit of nearly \$200  
23 million of incremental expenditures to improve its performance, and we are  
24 certainly justified in expecting superior performance from the plant. Beaver Valley  
25 2 has not had the benefit of those kinds of expenditures.

26  
27 28. Q. When would the Plan be implemented for Perry?

28 A. Starting January 1, 1996, Duquesne's payments to Centerior for Duquesne's share  
29 of Perry's non-fuel costs (before adding billing markups) will be capped at the  
30 \* amounts specified in the Perry Strategic Business Planning Report dated July 1995

1 (the Perry Plan). Please refer to Exhibit 14. This arrangement will continue until  
2 Perry enters its sixth refueling outage, presently scheduled to start in September  
3 1997.

4  
5 At that time, Perry's refueling outage costs will be billed as incurred. At the  
6 completion of the refueling outage, Perry's generation for the ensuing operating  
7 cycle will be billed using the BWR benchmark cost per MWH, adjusted for the cost  
8 of the just completed refueling outage.

9  
10 29. Q. When would the Plan be implemented for Beaver Valley 2?

11 A. We propose to hold Beaver Valley 2 to top quartile performance starting a year  
12 earlier than for Perry. We propose that starting January 1, 1996, Beaver Valley 2's  
13 non-fuel O&M and Capital costs be limited to the amounts specified in the Beaver  
14 Valley 2 Top Quartile Forecast (the BV2 Forecast). Please refer to Exhibit 13.  
15 This arrangement will continue until Beaver Valley 2 enters its sixth refueling  
16 outage, presently scheduled to start in September 1996.

17  
18 At that time, Beaver Valley 2's refueling outage costs will be billed as incurred. At  
19 the completion of the refueling outage, 164 MW of Centerior's share of Beaver  
20 Valley 2's generation for the ensuing operating cycle will be billed using the PWR  
21 benchmark cost per MWH, adjusted for the cost of the just completed refueling  
22 outage.

23  
24 30. Q. Will any reconciliation of costs be required?

25 A. Yes. As described in detail in Exhibit 8, at the end of each operating cycle, a  
26 comparison will be made between the actual amounts billed for each plant and the  
27 amounts that would have been billed using actual generation and the applicable  
28 benchmark cost per MWH. Any difference between the actual billings and the  
29 calculated amount must be paid by or refunded to the non-operating owner. This

1 reconciliation is necessary to ensure that actual billings do not exceed top quartile  
2 levels.


3  
4 31. Q. Would any other charges be permitted?

5 A. No other charges for capital or non-fuel O&M costs would be permitted. Fuel  
6 costs, insurance and property taxes would be billed as currently calculated under the  
7 plants' operating agreements.

8  
9 32. Q. When would the Plan terminate?

10 A. The Plan would be effective for four cycles for each plant. It would run until the  
11 end of Perry's ninth operating cycle and until the end of Beaver Valley 2's tenth  
12 operating cycle.

13  
14 33. Q. Why have you brought this proposal before the PUCO in this forum?

15 A. Duquesne has encouraged Centerior's management over the past several years to  
16 improve Perry's performance. By the time the Perry Course of Action is complete  
17 at the end of this upcoming refueling outage in March of 1996, Centerior will have  
18 spent more than \$195 million in excess of the multi-year Perry plan Centerior  
19  provided Duquesne back in 1993. During 1993 and 1994 Perry's capacity factors  
20 were 39% and 44% respectively, and Duquesne was penalized in both years by the  
21 Pennsylvania PUC for replacement power costs, in addition to having to fund our  
22 share of these increased amounts. And again this year, Perry will still exceed its  
23 operating expense budget by \$6.3 million, plus overheads.

24  
25 After reflecting on the PUCO staff testimony, we began to see a confluence of  
26 Duquesne interests with public policy interests in Ohio. We have developed this  
27 proposal to complement the PUCO staff proposal.

1  
2 Duquesne's Willingness To Include Beaver Valley 2  
3

4 34. Q. Are there other ways in which the RPIP benefits the PUCO and Ohio customers?

5 A. Yes, there are. Thus far we have focused on the benefits related to Perry  
6 performance improvement, which are certainly significant. But the proposed RPIP  
7 also brings Beaver Valley 2 benefits to the PUCO and Ohio customers as well.  
8

9 35. Q. How do Beaver Valley 2 benefits result from the proposal?

10 A. Because the performance improvement proposal is reciprocal, Duquesne will also  
11 face additional focus and accountability on its performance at Beaver Valley 2. To  
12 the extent that this focus and accountability translate into better performance at  
13 Beaver Valley 2, these benefits flow directly to both Centerior and Ohio Edison as  
14 the owners of more than 85% of Beaver Valley 2. The fact that the RPIP applies  
15 only to 164 MW does not in any way limit its benefits. If Beaver Valley 2 achieves  
16 top quartile performance, the cost of all of Beaver Valley 2 generation will decrease  
17 and 86.26% of these benefits will flow back to the Ohio owners and assist the  
18 PUCO in protecting the interests of the ratepayers and shareholders of Centerior  
19 and Ohio Edison.  
20

21 36. Q. Can you identify the magnitude of this Beaver Valley 2 benefit to Ohio ratepayers?

22 A. Because Duquesne's performance at Beaver Valley 2 is already quite good, the  
23 benefit here is less dramatic than for Perry. Put another way, Ohio customers are  
24 already reaping the benefits of Duquesne's performance at Beaver Valley 2.  
25 However, there is always room for further improvement -- indeed achieving and  
26 maintaining top quartile performance will require continuous improvement -- and  
27 the RPIP provides additional focus and accountability for Duquesne as well. As  
28 shown below, to the extent that Duquesne improves Beaver Valley 2's historical  
29 performance to top quartile status, the annual benefits to Ohio are approximately  
30 \$11.2 million, or \$112 million over a 10-year period.

1		
2	Beaver Valley 2 Composite Cost per MWH	\$14.96
3	PWR Top Quartile Composite Cost per MWH	<u>\$12.83</u>
4	Difference	\$2.13
5	Times Beaver Valley 2 Annual Average Generation (MWH)	<u>6,077,928</u>
6	Annual Savings	<u>\$12,945,987</u>
7	Centerior Share of Annual Savings (44.38%)	\$5,745,429
8	Ohio Edison Share of Annual Savings (41.88%)	<u>\$5,421,779</u>
9	Annual Savings to Ohio Ratepayers	<u>\$11,167,208</u>
10	Total 10-year Savings to Ohio Ratepayers	<u>\$111,672,080</u>
11		

12 Conclusion

13

14 37. Q. Do you have any concluding remarks?

15 A. Yes. We believe that Perry's recent financial and operational performance has been  
16 declining. We are concerned about this trend and management's ability to bring  
17 about improved performance at Perry. The additional amounts of money spent at  
18 Perry should have been adequate to correct any physical or mechanical problems  
19 with the plant, yet its performance has shown a declining trend. A new approach  
20 that emphasizes financial incentives and management accountability is needed. We  
21 believe we have suggested a simple but powerful incentive plan that will focus  
22 management and shareholder attention on improving Perry's and Beaver Valley 2's  
23 performance. This plan has the potential to provide more than \$1 billion of  
24 benefits to Ohio ratepayers from improved performance at both plants. We believe  
25 the plan is consistent with the PUCO's actions in other rate proceedings, and is in  
26 the best interests of Ohio ratepayers and, in the long-run, Centerior's shareholders.

27

28 If the Commission doubts that Centerior's management can achieve top quartile  
29 performance at Perry, and rejects the Relative Performance Incentive Plan, we  
30 suggest that the PUCO condition any further rate increases upon Centerior's

1 agreement to transfer the Perry Operating Agreement to a nuclear operator with a  
2 proven track record within a six month period. Duquesne would support such a  
3 transfer under the CAPCO Ownership Agreement and would work with Ohio  
4 Edison and Centerior to find a mutually acceptable nuclear operator.

**CAPACITY FACTORS**

Perry and Beaver Valley 2 capacity factors, a measure of how often a plant operates, for recent years (three year averages) as compared to the industry median are as follows:

<b><u>Period</u></b>	<b><u>Perry(a)</u></b>	<b><u>Beaver Valley 2 (b)</u></b>	<b><u>Industry Median(b)</u></b>
1988-1990	58.4%	69.9%	63.1%
1989-1991	63.7%	71.3%	65.6%
1990-1992	69.2%	76.7%	68.4%
1991-1993	60.9%	81.2%	68.6%
1992-1994	47.9%	82.9%	71.2%

Source: (a) FERC Form 1 data as published by UDI.

(b) Duquesne internal operations records.

**NON-REFUELING OUTAGES**

The numbers and durations of non-refueling outages experienced by Perry and Beaver Valley 2 during recent years are as follows:

<u>Perry (a)</u>			<u>Beaver Valley (b)</u>		
<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>	<u>Year</u>	<u>Number of Outages</u>	<u>Duration of Outages</u>
1991	4	35 days	1991	1	2 days
1992	2	11 days	1992	0	0 days
1993	5	205 days	1993	1	2 days
1994	1	2 days	1994	1	21 days
1995*	6	23 days	1995*	1	2 days
Average	4	55 days	Average	1	5 days

\* Through November 20, 1995.

Source: (a) Perry Monthly Performance Reports and Perry site personnel.  
 (b) Duquesne internal operations records.

**REFUELING OUTAGE DURATION**

The duration of Perry and Beaver Valley 2 refueling outages are as follows:

<u>Perry (a)</u>		<u>Beaver Valley 2 (b)</u>	
<u>Refueling Outage</u>	<u>Days</u>	<u>Refueling Outage</u>	<u>Days</u>
RF01	159 Days	2R01	77 days
RF02	119 days	2R02	80 days
RF03	84 days	2R03	60 days
RF04	190 days	2R04	81 days
Average	138 days	2R05	45 days
		Average	69 days

Source: (a) Perry monthly billings and Perry site personnel.  
 (b) Duquesne internal operations records.

**NON-FUEL OPERATION AND  
MAINTENANCE COSTS PER MWH**

Perry and Beaver Valley 2 non-fuel O&M costs per MWH (three-year averages) as compared to the industry median for recent years are as follows:

<u>Year</u>	<u>Perry</u>	<u>Beaver Valley 2</u>	<u>Industry Median</u>
1989-1991	\$20.79	\$13.93	\$14.87
1990-1992	\$17.23	\$14.07	\$16.12
1991-1993	\$19.18	\$13.88	\$15.47
1992-1994	\$29.21	\$13.35	\$15.74

Source: FERC Form 1 data as published by UDI.

**REFUELING OUTAGE COSTS**

The incremental cost of refueling outages at Perry and Beaver Valley 2 are as follows:

<u>Perry (a)</u>		<u>Beaver Valley (b)</u>	
<u>Refueling Outage</u>	<u>Amount</u>	<u>Refueling Outage</u>	<u>Amount</u>
RF01	\$54.5 Million	2R01	\$22.9 Million
RF02	\$41.7 Million	2R02	\$29.2 Million
RF03	\$26.7 Million	2R03	\$39.1 Million
RF04	\$94.0 Million	2R04	\$30.5 Million
Average	\$54.2 Million	2R05	\$26.2 Million
		Average	\$29.6 Million

Source: (a) Perry monthly billings and Perry site personnel.  
 (b) Duquesne internal financial records.

**COMPOSITE COST PER MWH**

<b><u>Three-Year Period</u></b>	<b><u>Perry</u></b>	<b><u>Beaver Valley 2</u></b>	<b><u>Industry Median</u></b>
1989-1991	\$24.59	\$15.94	\$18.24
1990-1992	\$23.63	\$16.96	\$21.05
1991-1993	\$26.26	\$16.57	\$19.74
1992-1994	\$35.91	\$14.96	\$19.56

Note: Composite Cost Per MWH includes non-fuel O&M costs and incremental capital expenditures.

Source: FERC Form 1 Data.

**PERRY NUCLEAR POWER PLANT**  
**Original Goal vs. Actual or Projected Costs**  
**(Millions of CAPCO Dollars)**

	<u>ACTUAL</u>		<u>PROJECTED</u>			<u>5 YEAR TOTAL</u>
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	
<i>Original Goal (a):</i>						
O&M (b)	114.7	\$148.1	\$109.7	\$144.3	\$155.3	\$672.1
Capital	<u>25.2</u>	<u>37.1</u>	<u>30.0</u>	<u>41.8</u>	<u>33.2</u>	<u>167.3</u>
Total	139.9	185.2	139.7	186.1	188.5	839.4
<i>1993 PCA Costs:</i>	<u>13.0</u>	<u>50.2</u>	<u>20.8</u>	<u>1.7</u>	<u>0.0</u>	<u>85.7</u>
<i>Additional Increases</i>	<u>32.0</u>	<u>46.7</u>	<u>14.7</u>	<u>46.5</u>	<u>24.3</u>	<u>164.2</u>
Total Costs	<u>\$189.6</u>	<u>\$276.9</u>	<u>\$175.2</u>	<u>\$234.3</u>	<u>\$212.8</u>	<u>\$1,088.8</u>
Increase From Original Goal	<u>\$49.7</u>	<u>\$91.7</u>	<u>\$35.5</u>	<u>\$48.2</u>	<u>\$24.3</u>	<u>\$249.4</u>
Percentage Increase From Original Goal	<u>35.5%</u>	<u>49.5%</u>	<u>25.4%</u>	<u>25.9%</u>	<u>12.8%</u>	<u>29.7%</u>

(a) Based on 3-9-93 projections including Centerior allocations to Perry and billing markups.

(b) Amounts exclude insurance costs.

Sources: various Centerior budgeting and billing data.

**THE RELATIVE PERFORMANCE INCENTIVE PLAN**

- A) **INCREMENTAL REFUELING OUTAGE COSTS** will be billed to the non-operating owners as incurred, except that such costs will be capped at the amounts included in the **PERRY PLAN** and in **Beaver Valley 2's Five Year Top Quartile Forecast** (see Exhibit 14).
- B) At the end of each refueling outage for Perry and Beaver Valley 2, **TOTAL EXPECTED GENERATION** for the ensuing **OPERATING CYCLE** will be multiplied by the **TOP QUARTILE BWR COMPOSITE COST PER MWH** or **TOP QUARTILE PWR COMPOSITE COST PER MWH**, whichever is applicable, to arrive at **TOTAL QUALIFIED COSTS**.
- C) Each unit's **INCREMENTAL REFUELING OUTAGE COSTS** from the most recently completed refueling outage will be subtracted from **TOTAL QUALIFIED COSTS** to arrive at **TOTAL QUALIFIED NON-OUTAGE COSTS**.
- D) Each unit's **TOTAL QUALIFIED NON-OUTAGE COSTS** will be divided by its **EXPECTED GENERATION** to arrive at the unit's **BILLING COST PER MWH**.
- E) Perry's **BILLING COST PER MWH** will be multiplied by Duquesne's share of Perry's **NET GENERATION** for each month during the **OPERATING CYCLE** to arrive at the amount of non-outage O&M and Capital costs billable to Duquesne. That amount will be multiplied by the **OVERHEAD FACTOR** to arrive at the total amount billable to Duquesne for the month. Similarly, Beaver Valley 2's **BILLING COST PER MWH** will be multiplied by 164 MW of Centerior's share of Beaver Valley 2's **NET GENERATION** for each month during an **OPERATING CYCLE** to arrive at the

amount of non-outage O&M and Capital costs billable to Centerior for the month. That amount will be multiplied by the OVERHEAD FACTOR to arrive at the total amount billable to Centerior for the month for 164 MW of Centerior's interest in Beaver Valley 2.

- F) At the end of each OPERATING CYCLE, Duquesne's share of Perry's actual NET GENERATION for the OPERATING CYCLE will be multiplied by the applicable TOP QUARTILE BWR COMPOSITE COST PER MWH. This total will be compared to the total amount paid by Duquesne to Centerior during the most recently completed OPERATING CYCLE under paragraphs A and E above. If the total amount paid by Duquesne is greater than the product of the TOP QUARTILE BWR COMPOSITE COST PER MWH and Perry's NET GENERATION, the difference will be refunded to Duquesne. If the total amount paid by Duquesne is less than the product of the TOP QUARTILE BWR COMPOSITE COST PER MWH and Perry's NET GENERATION, the difference will be paid to Centerior by Duquesne.
- G) Similarly, at the end of each OPERATING CYCLE, Centerior's 165 MW share of Beaver Valley 2's actual NET GENERATION for the OPERATING CYCLE will be multiplied by the applicable TOP QUARTILE PWR COMPOSITE COST PER MWH. This total will be compared to the total amount paid by Centerior to Duquesne during the most recently completed OPERATING CYCLE under paragraphs A and E above. If the total amount paid by Centerior is greater than the product of the TOP QUARTILE PWR COMPOSITE COST PER MWH and Beaver Valley 2's NET GENERATION, the difference will be refunded to Centerior. If the total amount paid by Centerior is less than the product of the TOP QUARTILE PWR COMPOSITE COST PER MWH and Beaver Valley 2's NET GENERATION, the difference will be paid to Duquesne by Centerior.

- H) For the period from January 1, 1996 to September 30, 1997, Duquesne will pay Centerior for Duquesne's share of Perry's actual NON-FUEL O&M COSTS and Capital costs as incurred, except that Duquesne's payments, before adding billing markups, to Centerior will be limited to Duquesne's share of Perry's INCREMENTAL REFUELING OUTAGE COSTS, STEADY STATE COSTS, and Capital costs as set forth in the PERRY PLAN (see Exhibit 14).
- I) For the period from January 1, 1996 to September 30, 1996, Centerior will pay Duquesne for Centerior's share of Beaver Valley 2's actual NON-FUEL O&M COSTS and Capital costs as incurred, except that Centerior's payments, before adding billing markups, to Duquesne will be limited to Centerior's share of Beaver Valley 2's INCREMENTAL REFUELING OUTAGE COSTS, STEADY STATE COSTS, and Capital costs as set forth in Beaver Valley 2's Five Year Top Quartile Forecast (see Exhibit 14).
- J) If the start of Perry's sixth (6th) refueling outage is accelerated to before September 1, 1997 or delayed beyond September 30, 1997, the provisions of paragraph H above will apply through the end of the month in which the sixth (6th) refueling outage begins and Perry's 1997 STEADY STATE COSTS, and Capital costs as set forth in the PERRY PLAN will be prorated for the number of months in 1997 for which paragraph H is applicable (see Exhibit 14).
- K) If the start of Beaver Valley 2's sixth (6th) refueling outage is accelerated to before September 1, 1996 or delayed beyond September 30, 1996, the provisions of paragraph I above will apply through the end of the month in which the sixth (6th) refueling outage begins and Beaver Valley 2's 1996 STEADY STATE COSTS, and Capital costs as set forth in Beaver Valley 2's operating budget will be prorated for the number of months in 1996 for which paragraph I is applicable (see Exhibit 14).

**L) This Plan will apply to Duquesne's 13.74% interest in Perry and to 164 MW of Centerior's interest in Beaver Valley 2.**

**M) This Plan will apply to Perry's fifth (5th), sixth (6th), seventh (7th), and eighth (8th) refueling outages and its sixth (6th), seventh (7th), eighth (8th), and ninth (9th) OPERATING CYCLES, and to Beaver Valley 2's sixth (6th), seventh (7th), eighth (8th) and ninth (9th) refueling outages and its seventh (7th), eighth (8th), ninth (9th), and tenth (10th) OPERATING CYCLES.**

**N. For Perry's costs, this Plan will terminate at the end of Perry's ninth (9th) OPERATING CYCLE and for Beaver Valley 2's costs the Plan will terminate at the end of Beaver Valley 2's tenth (10th) OPERATING CYCLE.**

**HISTORICAL TRENDING OF  
TOP QUARTILE COMPOSITE COST PER MWH**

	<b>Three-Year Average Cost Per MWH</b>			
	<u>1989-1991</u>	<u>1990-1992</u>	<u>1991-1993</u>	<u>1992-1994</u>
BWR's	\$17.02	\$17.25	\$17.01	\$16.28
PWR's	\$13.32	\$13.48	\$13.10	\$12.83

Source: FERC Form 1 data as published by UDI.

Note: Any plants reporting a negative or zero level of capital spending for the three year period were excluded from the calculation of the top quartile composite cost per MWH to eliminate any single year aberrations. In addition, the Millstone Station was excluded because it includes one BWR unit and one PWR unit and separate data for each unit was not available.

**DEFINITIONS OF TERMS**

- 1) **PERRY CAPACITY**: is defined as 1194 megawatts;
- 2) **BEAVER VALLEY 2 CAPACITY**: is defined as 820 megawatts;
- 3) **TOTAL POSSIBLE GENERATION**: is defined as a unit's CAPACITY multiplied by the number of hours in the unit's OPERATING CYCLE;
- 4) **MEDIAN UNPLANNED CAPABILITY LOSS FACTOR**: is defined as the most current median unplanned capacity loss factor for a 12-month period for all U.S. nuclear plants as published by INPO.
- 5) **INPO**: is defined as the Institute of Nuclear Power Operations.
- 6) **BWR PLANTS**: is defined as all boiling water reactor nuclear plants in the United States;
- 7) **PWR PLANTS**: is defined as all pressurized water reactor nuclear plants in the United States;
- 8) **TOTAL EXPECTED GENERATION**: is defined as a unit's TOTAL POSSIBLE GENERATION multiplied by one (1) minus the MEDIAN UNPLANNED CAPACITY LOSS FACTOR;
- 9) **TOP QUARTILE BWR COMPOSITE COST PER MWH**: is defined as the lowest three-year average COMPOSITE COST PER MWH for all BWR plants with top quartile COMPOSITE COST PER MWH for the most recent three-year period, as published by the Utility Data Institute or the Resource Data International. For purposes of establishing TOP QUARTILE BWR COMPOSITE COST PER MWH, all BWR plants will be divided into equal quartiles according to their three-year average COMPOSITE COST PER MWH with plants having the lowest COMPOSITE COST PER MWH comprising the top quartile and with any uneven number of plants being placed in the lowest quartiles;

- 10) TOP QUARTILE PWR COMPOSITE COST PER MWH: is defined as the lowest three-year average COMPOSITE COST PER MWH for all PWR plants with top quartile COMPOSITE COST PER MWH for the most recent three-year period, as published by the Utility Data Institute or the Resource Data International. For purposes of establishing TOP QUARTILE PWR COMPOSITE COST PER MWH, all PWR plants will be divided into equal quartiles according to their three-year average COMPOSITE COST PER MWH with plants having the lowest COMPOSITE COST PER MWH comprising the top quartile and with any uneven number of plants being placed in the lowest quartiles;
- 11) COMPOSITE COST PER MWH: is defined as the quotient obtained by dividing the sum of a plant's total NON-FUEL O&M COSTS for the most recent three-year period plus the plant's INCREMENTAL CAPITAL COSTS for the same period by the plant's NET GENERATION for the same period;
- 12) NON-FUEL O&M COSTS: is defined as a plant's operation and maintenance costs, exclusive of fuel costs, as defined by the F.E.R.C. and as reported in F.E.R.C. FORM ONE;
- 13) INCREMENTAL CAPITAL COSTS: is defined as the difference between the total investment in a plant as of the end of a three-year period and as of the beginning of the period, as reported in F.E.R.C. FORM ONE. For purposes of calculating INCREMENTAL CAPITAL COSTS, the total investment in a plant as of the end of the year prior to the applicable three-year period will be used as the total investment in the plant as of the beginning of the period. Further, for purposes of determining TOP QUARTILE BWR COMPOSITE COST PER MWH or TOP QUARTILE PWR COMPOSITE COST PER MWH, any plant with zero or negative INCREMENTAL CAPITAL COSTS for the three year period will be excluded from the determination of the top quartile;

- 14) **F.E.R.C.**; is the Federal Energy Regulatory Commission;
- 15) **F.E.R.C. FORM ONE**: is the Annual Report of Major Electric Utilities, Licensees And Others, filed by utilities with the F.E.R.C.;
- 16) **NET GENERATION**: is a plant's net power output as reported in F.E.R.C. FORM ONE expressed in MWH;
- 17) **TOTAL QUALIFIED COSTS**: is defined as the product of a unit's TOTAL EXPECTED GENERATION and TOP QUARTILE BWR COMPOSITE COST PER MWH or TOP QUARTILE PWR COMPOSITE COST PER MWH, as applicable;
- 18) **TOTAL QUALIFIED NON-OUTAGE COSTS**: is defined as the difference between a unit's TOTAL QUALIFIED COSTS for an OPERATING CYCLE and the INCREMENTAL REFUELING OUTAGE COSTS of the refueling outage immediately preceding the OPERATING CYCLE;
- 19) **OPERATING CYCLE**: is defined as the period of time between a unit's scheduled refueling outages;
- 20) **INCREMENTAL REFUELING OUTAGE COSTS**: is defined as O&M costs incurred during a refueling outage that are in addition to STEADY STATE COSTS. INCREMENTAL REFUELING OUTAGE COSTS may include utility employee overtime costs but will exclude utility employee straight time costs;

- 21) **STEADY STATE COSTS**: is defined as a unit's normal day-to-day non-fuel O&M costs;
- 22) **BILLING COST PER MWH**: is defined as the quotient obtained by dividing TOTAL QUALIFIED NON-OUTAGE COSTS by TOTAL EXPECTED GENERATION;
- 23) **BILLABLE DIRECT COSTS**: is defined as the product of a unit's net power output and the applicable BILLING COST PER MWH;
- 23) **O&M**: means a unit's operations and maintenance costs.
- 24) **OVERHEAD FACTOR**: is defined as the rate applied to BILLABLE DIRECT COSTS to reimburse the operating utility for administrative and general costs, labor fringe benefit costs, and working capital costs. The rate will be determined by multiplying the applicable LABOR COMPONENT PERCENTAGE by one (1) plus the LABOR FRINGE BENEFITS ADDITIVE RATE; that product will be multiplied by one (1) plus the ADMINISTRATIVE AND GENERAL ADDITIVE RATE; that product will be multiplied by one (1) plus the WORKING CAPITAL ADDITIVE RATE;
- 25) **LABOR COMPONENT PERCENTAGE**: is defined as the ratio of a unit's direct NON-FUEL O&M labor costs (utility employees) to total NON-FUEL O&M COSTS for the most recent annual period;
- 26) **LABOR FRINGE BENEFITS ADDITIVE RATE**: is defined as the fringe benefit rate used for CAPCO billing purposes;

- 27) ADMINISTRATIVE AND GENERAL ADDITIVE RATE: is defined as the administrative and general rate used for CAPCO billing purposes;
- 28) WORKING CAPITAL ADDITIVE RATE: is defined as the working capital rate used for CAPCO billing purposes;
- 29) CAPCO: is the Central Area Power Coordination group;
- 30) PERRY: is the Perry Nuclear Power Plant Unit #1;
- 31) BEAVER VALLEY 2: is the Beaver Valley Power Station Unit #2;
- 32) PERRY PLAN: is the Perry Strategic Business Planning Report dated July 1995;
- 33) MWH: is defined as a unit's megawatt hours of electrical power output.

PWR's

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1989 - 1991			\$/MWH	Rank
		MWH	Capital	Non Fuel		
PRAIRIE ISLAND	2	8,125,644	9,404,551	62,627,304	8.86	1
POINT BEACH	2	7,243,482	8,630,092	58,566,766	9.28	2
OCONEE	3	19,155,454	16,727,890	162,266,663	9.34	3
MAINE YANKEE	1	6,021,933	7,062,656	50,486,113	9.56	4
WOLF CREEK (KS)	1	7,814,122	11,752,437	74,056,374	10.98	5
CATAWBA	2	13,838,403	6,976,341	148,910,585	11.26	6
ST LUCIE	2	11,782,828	14,503,887	125,129,275	11.85	7
MCGUIRE	2	14,255,914	20,609,420	157,511,343	12.49	8
BRAIDWOOD	2	12,629,902	32,300,041	135,899,430	13.32	9
FARLEY	2	11,982,055	27,408,287	136,813,759	13.71	10
NORTH ANNA	2	12,240,045	62,495,768	115,783,246	14.57	11
SEQUOYAH	2	15,113,045	97,345,907	123,284,847	14.60	12
SUMMER	1	5,627,377	7,190,374	75,987,887	14.78	13
DC COOK	2	12,911,043	44,178,170	147,801,719	14.87	14
WATERFORD 3	1	7,833,605	24,187,583	95,460,190	15.27	15
KEWAUNEE	1	3,772,341	4,697,898	55,140,118	15.86	16
MILLSTONE 3	1	6,110,816	19,936,981	81,735,486	16.64	17
ZION	2	9,680,668	24,273,320	137,145,914	16.67	18
SALEM (NJ)	2	13,232,018	64,636,033	169,363,803	17.68	19
ARKANSAS ONE	2	10,919,363	37,770,018	159,020,642	18.02	20
DIABLO CANYON	2	15,719,751	73,990,195	211,832,884	18.18	21
BEAVER VALLEY	2	9,821,262	24,704,853	154,465,847	18.24	22
THREE MILE ISLAND	1	6,062,495	33,188,638	80,948,345	18.83	23
SURRY	2	8,416,741	61,382,370	104,805,580	19.74	24
INDIAN POINT THREE	1	5,767,073	32,088,412	99,616,333	22.84	25
ROBINSON TWO	1	3,626,417	32,968,147	66,820,384	27.52	26
SAN ONOFRE	3	15,949,718	200,933,574	247,796,993	28.13	27
GINNA	1	3,325,389	31,001,024	64,157,560	28.62	28
CRYSTAL RIVER 3	1	4,176,692	22,095,888	97,856,531	28.72	29
DAVIS BESSE	1	5,785,183	63,872,414	113,892,355	30.73	30
PALISADES (MI)	1	3,813,355	42,670,418	75,053,425	30.87	31
INDIAN POINT TWO	1	4,494,188	25,034,463	128,690,625	34.21	32
TROJAN	1	4,355,749	33,341,730	120,641,793	35.35	33
CONNECTICUT YANKEE	1	2,607,860	19,195,873	80,853,791	38.36	34
FORT CALHOUN	1	2,976,082	32,614,107	85,450,992	39.67	35
CALVERT CLIFFS	2	4,335,571	25,042,258	152,061,540	40.85	36
YANKEE	1	1,047,747	7,260,825	38,891,746	44.05	37
TURKEY POINT 3&4	2	5,143,509	126,200,467	188,798,635	61.24	38

BWR's

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1989 - 1991				Rank
		MWH	Capital	Non Fuel	\$/MWH	
LASALLE	2	14,337,290	29,794,475	135,828,968	11.55	1
SUSQUEHANNA	2	14,607,836	26,540,933	167,992,932	13.32	2
GRAND GULF	1	8,129,469	26,324,722	99,816,583	15.52	3
VERMONT YANKEE	1	3,777,119	5,173,180	57,954,473	16.71	4
QUAD CITIES	2	9,515,417	30,529,999	131,411,823	17.02	5
DRESDEN	2	8,205,461	12,723,556	129,445,649	17.33	6
HOPE CREEK	1	7,348,596	38,205,344	90,517,091	17.52	7
BRUNSWICK (NC)	2	8,256,582	16,780,959	132,791,715	18.12	8
HATCH	2	10,281,176	38,259,748	153,878,480	18.69	9
MONTICELLO (MN)	1	3,582,621	14,068,447	53,280,153	18.80	10
FITZPATRICK	1	4,711,340	7,624,175	94,596,476	21.70	11
DUANE ARNOLD	1	3,447,112	26,375,000	48,780,353	21.80	12
RIVER BEND	1	5,688,255	10,022,335	124,776,547	23.70	13
PERRY (OH)	1	6,977,147	26,502,246	145,057,018	24.59	14
FERMI	1	6,146,687	41,212,874	120,711,278	26.34	15
PEACH BOTTOM	2	9,450,669	65,240,027	234,566,633	31.72	16
PILGRIM	1	3,125,180	32,926,789	93,424,616	40.43	17
BIG ROCK POINT	1	443,543	1,035,121	18,541,171	44.14	18
OYSTER CREEK	1	3,216,685	51,645,327	104,411,059	48.51	19
LIMERICK	2	11,114,138	1,135,738,342	187,221,624	119.03	20
BROWNS FERRY	2	519,913	302,963,439	78,166,028	733.06	21

Source: FERC Form 1 data as published by UDI.

## PWRs

PLANT	NUM UNIT S	THREE YEAR AVERAGE		1990 - 1992		Rank
		MWH	Capital	Non Fuel	\$\$/MWH	
CALLAWAY	1	8,687,128	309,698	82,155,037	9.49	1
POINT BEACH	2	7,303,047	6,644,614	66,161,110	9.97	2
OCONEE	3	18,947,765	22,780,702	171,651,592	10.26	3
CATAWBA	2	14,517,058	11,791,638	159,635,748	11.81	4
NORTH ANNA	2	12,734,792	40,100,329	113,137,117	12.03	5
SEQUOYAH	2	15,306,109	67,966,368	119,298,935	12.23	6
BRAIDWOOD	2	14,004,545	40,351,264	140,369,861	12.90	7
ST LUCIE	2	11,849,407	13,183,247	146,509,313	13.48	8
SUMMER	1	6,319,190	7,226,415	78,819,505	13.62	9
MAINE YANKEE	1	5,494,031	12,515,953	63,094,128	13.76	10
MCGUIRE	2	13,939,945	28,796,893	167,251,657	14.06	11
FARLEY	2	11,789,031	24,651,826	151,881,936	14.97	12
WATERFORD 3	1	7,838,019	24,722,011	95,428,261	15.33	13
SURRY	2	10,945,461	58,457,586	111,312,609	15.51	14
KEWAUNEE	1	3,837,764	6,627,594	58,591,856	16.99	15
BEAVER VALLEY	2	11,007,912	24,635,405	162,851,180	17.03	16
ARKANSAS ONE	2	11,746,502	33,791,767	169,492,840	17.31	17
PRAIRIE ISLAND	2	7,603,382	55,462,533	79,889,656	17.80	18
DC COOK	2	11,019,017	18,215,323	178,149,733	17.82	19
MILLSTONE 3	1	5,927,474	18,937,282	90,129,547	18.40	20
DIABLO CANYON	2	16,014,986	108,114,607	220,890,430	20.54	21
THREE MILE ISLAND	1	5,968,781	41,927,708	83,726,243	21.05	22
DAVIS BESSE	1	5,892,077	29,059,569	105,346,793	22.81	23
SALEM (NJ)	2	11,910,340	73,092,993	202,422,837	23.13	24
ZION	2	8,597,950	35,644,208	163,341,032	23.14	25
INDIAN POINT TWO	1	5,633,994	21,396,941	109,913,098	23.31	26
INDIAN POINT THREE	1	5,697,712	27,942,429	108,322,726	23.92	27
ROBINSON TWO	1	4,053,253	24,759,236	77,214,386	25.16	28
CRYSTAL RIVER 3	1	4,972,393	29,304,083	102,541,378	26.52	29
GINNA	1	3,464,047	29,636,957	64,891,805	27.29	30
CONNECTICUT YANKEE	1	2,921,887	5,740,050	78,454,483	28.82	31
PALISADES (MI)	1	4,218,349	52,655,991	73,977,657	30.02	32
CALVERT CLIFFS	2	6,983,822	44,037,289	166,911,141	30.21	33
FORT CALHOUN	1	2,721,437	26,137,212	74,161,164	36.85	34
TURKEY POINT 3&4	2	5,963,920	99,745,619	189,189,960	48.45	35

## BWRs

PLANT	NUM UNIT S	THREE YEAR AVERAGE - 1990 - 1992				Rank
		MWH	Capital	Non Fuel	\$\$/MWH	
SUSQUEHANNA	2	14,719,113	15,982,044	170,254,394	12.65	1
LASALLE	2	14,197,672	34,234,469	153,884,267	13.25	2
MONTICELLO (MN)	1	4,184,856	5,893,782	54,353,315	14.40	3
HATCH	2	10,356,782	8,687,005	159,131,413	16.20	4
VERMONT YANKEE	1	3,819,725	1,530,110	64,343,448	17.25	5
HOPE CREEK	1	7,496,875	35,458,912	96,848,963	17.65	6
QUAD CITIES	2	8,853,276	33,195,108	157,249,563	21.51	7
FERMI	1	6,861,644	43,042,392	110,578,334	22.39	8
DRESDEN	2	7,329,770	21,619,003	145,018,580	22.73	9
PERRY (OH)	1	7,586,166	48,534,908	130,734,469	23.63	10
DUANE ARNOLD	1	3,530,176	27,843,762	57,213,221	24.09	11
PEACH BOTTOM	2	12,388,568	72,176,685	229,413,409	24.34	12
BRUNSWICK (NC)	2	6,494,738	23,018,543	160,267,484	28.22	13
PILGRIM	1	4,136,584	28,617,602	90,261,506	28.74	14
RIVER BEND	1	5,014,145	9,315,803	137,711,609	29.32	15
OYSTER CREEK	1	3,927,924	35,479,399	109,030,446	36.79	16
BIG ROCK POINT	1	394,474	817,400	19,821,983	52.32	17
FITZPATRICK	1	2,659,558	18,966,679	132,435,676	56.93	18
LIMERICK	2	14,282,179	1,032,549,260	188,792,990	85.52	19
BROWNS FERRY	2	3,358,994	237,960,709	82,323,352	95.35	20

Source: FERC Form 1 data as published by UDI.

## PWRs

PLANT	THREE YEAR AVERAGE - 1991 -1993					Rank
	NUM UNITS	MWH	Capital	Non Fuel	\$\$/MWH	
CALLAWAY	1	8,814,893	6,188,766	83,805,589	10.21	1
OCONEE	3	18,947,688	27,348,487	170,606,858	10.45	2
POINT BEACH	2	7,411,070	7,287,994	74,500,035	11.04	3
BYRON	2	15,343,322	26,491,482	143,754,951	11.10	4
CATAWBA	2	15,328,615	1,105,214	168,983,369	11.10	5
BRAIDWOOD	2	14,486,738	25,633,758	140,824,368	11.49	6
WOLF CREEK (KS)	1	7,416,271	2,114,401	88,983,994	12.28	7
MCGUIRE	2	14,315,879	22,259,906	163,877,211	13.00	8
NORTH ANNA	2	12,304,018	47,667,580	113,524,555	13.10	9
MAINE YANKEE	1	5,787,410	10,622,680	65,532,141	13.16	10
ST LUCIE	2	12,000,537	11,591,041	148,853,741	13.37	11
SUMMER	1	6,320,021	7,651,527	81,349,177	14.08	12
WATERFORD 3	1	8,016,218	15,704,373	98,737,839	14.28	13
FARLEY	2	11,772,530	22,100,663	161,026,981	15.56	14
SURRY	2	10,999,106	64,054,858	113,075,579	16.10	15
DC COOK	2	12,751,780	27,131,402	182,601,697	16.45	16
ARKANSAS ONE	2	12,486,264	40,416,916	169,369,163	16.80	17
PRAIRIE ISLAND	2	7,766,606	53,501,357	77,756,092	16.90	18
HARRIS (NC)	1	6,287,797	37,044,980	70,556,971	17.11	19
KEWAUNEE	1	3,809,989	6,120,892	59,299,976	17.17	20
DAVIS BESSE	1	6,530,458	27,524,425	95,440,410	18.83	21
BEAVER VALLEY	2	10,693,340	26,974,187	178,388,840	19.20	22
ZION	2	10,346,155	29,796,837	169,755,727	19.29	23
DIABLO CANYON	2	16,195,721	85,687,494	233,740,541	19.72	24
THREE MILE ISLAND	1	6,188,540	36,071,095	86,134,292	19.75	25
CALVERT CLIFFS	2	10,666,955	63,391,144	169,534,920	21.84	26
SEQUOYAH	2	12,524,313	146,970,966	127,835,129	21.94	27
MILLSTONE 3	1	5,349,615	15,891,423	104,335,839	22.47	28
CRYSTAL RIVER 3	1	5,612,575	22,372,263	104,266,138	22.56	29
ROBINSON TWO	1	4,345,155	26,521,112	78,968,072	24.28	30
CONNECTICUT YANKEE	1	3,788,596	7,325,149	86,087,699	24.66	31
INDIAN POINT TWO	1	5,874,888	26,452,157	120,035,652	24.93	32
SALEM (NJ)	2	11,932,048	88,034,049	226,807,871	26.39	33
GINNA	1	3,481,221	27,701,523	66,338,466	27.01	34
INDIAN POINT THREE	1	4,417,973	19,231,762	106,956,667	28.56	35
FORT CALHOUN	1	2,952,249	17,999,725	72,352,161	30.60	36
PALISADES (MI)	1	4,395,628	64,849,432	77,825,561	32.46	37
TURKEY POINT 3&4	2	6,824,164	92,975,285	169,961,833	38.53	38
COMANCHE PEAK	2	7,884,076	1,672,723,864	132,385,859	228.96	39

BWRs

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1991 -1993			Rank	
		MWH	Capital	Non Fuel \$/MWH		
LIMERICK	2	15,402,122	12,396,364	190,122,499	13.15	1
SUSQUEHANNA	2	14,321,744	18,599,533	182,302,447	14.03	2
LASALLE	2	13,605,158	47,039,525	154,802,361	14.84	3
MONTICELLO (MN)	1	3,970,515	3,210,133	59,620,811	15.82	4
HATCH	2	10,140,301	21,194,892	151,252,536	17.01	5
FERMI	1	7,256,268	13,141,626	111,629,632	17.19	6
HOPE CREEK	1	7,737,084	40,980,514	101,748,967	18.45	7
VERMONT YANKEE	1	3,738,351	7,291,788	67,184,115	19.92	8
DUANE ARNOLD	1	3,604,655	20,618,516	56,540,845	21.41	9
PEACH BOTTOM	2	12,308,447	49,088,181	235,959,349	23.16	10
QUAD CITIES	2	8,339,868	49,298,403	169,345,516	26.22	11
PERRY (OH)	1	6,679,528	47,279,248	128,120,830	26.26	12
CLINTON	1	5,602,427	58,417,096	97,940,446	27.91	13
DRESDEN	2	6,926,175	40,841,876	163,685,613	29.53	14
COOPER	1	4,914,838	78,010,919	68,008,588	29.71	15
RIVER BEND	1	4,902,584	2,412,097	145,677,498	30.21	16
NINE MILE POINT 1	1	3,718,988	36,612,752	79,691,801	31.27	17
PILGRIM	1	4,169,095	43,903,530	96,674,566	33.72	18
OYSTER CREEK	1	4,047,492	64,630,251	114,519,843	44.26	19
BRUNSWICK (NC)	2	5,007,101	33,036,621	190,069,951	44.56	20
FITZPATRICK	1	2,707,737	23,970,346	129,395,000	56.64	21
BIG ROCK POINT	1	394,641	1,952,848	22,063,481	60.86	22
BROWNS FERRY	2	5,120,275	469,124,118	106,420,372	112.41	23

Source: FERC Form 1 data as published by UDI.

## PWRs

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1992 -1994			Rank	
		MWH	Capital	Non Fuel \$\$/MWH		
BYRON	2	15,748,707	17,943,020	142,275,489	10.17	1
BRAIDWOOD	2	15,323,962	17,643,906	138,257,201	10.17	2
NORTH ANNA	2	12,629,301	26,399,850	106,501,682	10.52	3
CALLAWAY	1	8,823,933	6,048,301	86,996,400	10.54	4
OCONEE	3	18,572,043	27,959,762	174,709,714	10.91	5
POINT BEACH	2	7,523,901	13,325,167	76,660,493	11.96	6
MCGUIRE	2	14,039,417	6,046,942	167,710,148	12.38	7
HARRIS (NC)	1	6,348,664	3,698,848	77,092,836	12.73	8
WOLF CREEK (KS)	1	8,306,401	13,144,190	93,412,042	12.83	9
MAINE YANKEE	1	5,909,950	10,713,302	65,715,138	12.93	10
FARLEY	2	12,124,876	5,143,925	154,348,200	13.15	11
WATERFORD 3	1	8,229,241	17,462,382	98,105,972	14.04	12
SUMMER	1	6,027,680	2,480,663	83,070,793	14.19	13
SURRY	2	11,188,018	51,153,060	110,962,287	14.49	14
KEWAUNEE	1	3,905,514	3,149,719	53,685,146	14.55	15
ST LUCIE	2	11,579,258	19,550,805	157,092,058	15.26	16
MILLSTONE 3	1	7,521,996	9,730,446	105,662,389	15.34	17
ARKANSAS ONE	2	12,906,900	37,989,041	163,304,228	15.60	18
BEAVER VALLEY	2	11,406,665	22,358,968	155,910,283	15.63	19
TURKEY POINT 3&4	2	9,417,796	4,020,249	152,821,206	16.65	20
THREE MILE ISLAND	1	6,496,251	26,563,360	88,651,035	17.74	21
PRAIRIE ISLAND	2	7,701,392	60,509,677	76,803,157	17.83	22
CALVERT CLIFFS	2	11,394,761	60,334,923	162,503,250	19.56	23
DIABLO CANYON	2	16,259,755	95,360,365	237,342,209	20.46	24
ZION	2	10,648,917	51,054,071	167,644,505	20.54	25
DC COOK	2	10,674,206	26,916,581	198,182,622	21.09	26
CONNECTICUT YANKEE	1	3,820,355	5,073,663	78,980,941	22.00	27
CRYSTAL RIVER 3	1	5,783,074	29,060,523	101,170,466	22.52	28
ROBINSON TWO	1	4,298,139	24,267,165	78,888,689	24.00	29
PALISADES (MI)	1	4,277,655	29,967,461	77,096,459	25.03	30
GINNA	1	3,442,897	22,630,907	65,161,841	25.50	31
FORT CALHOUN	1	3,243,754	17,190,429	71,435,315	27.32	32
SEQUOYAH	2	9,971,433	132,244,127	148,394,581	28.14	33
SALEM (NJ)	2	10,890,289	81,576,857	242,851,945	29.79	34
INDIAN POINT THREE	1	1,984,383	13,179,000	119,428,333	66.83	35
COMANCHE PEAK	2	10,974,965	1,669,394,603	148,084,182	165.60	36

**BWRs**

PLANT	NUM UNITS	THREE YEAR AVERAGE - 1992 -1994			Rank	
		MWH	Capital	Non Fuel \$/MWH		
LIMERICK	2	15,787,638	12,291,087	184,389,745	12.46	1
MONTICELLO (MN)	1	4,090,964	4,630,226	55,624,144	14.73	2
HATCH	2	10,525,394	6,476,261	149,669,672	14.84	3
SUSQUEHANNA	2	14,139,469	28,682,688	181,503,076	14.87	4
LASALLE	2	12,875,752	53,549,266	156,109,056	16.28	5
HOPE CREEK	1	7,647,814	17,238,384	112,631,329	16.98	6
PEACH BOTTOM	2	14,371,356	35,940,317	216,067,232	17.54	7
VERMONT YANKEE	1	3,807,429	7,180,737	67,358,558	19.58	8
DUANE ARNOLD	1	3,591,845	17,832,464	59,619,849	21.56	9
FERMI	1	5,178,415	9,393,281	117,416,764	24.49	10
CLINTON	1	6,053,798	52,450,604	96,134,197	24.54	11
NINE MILE POINT 1	1	4,067,135	38,459,100	76,930,673	28.37	12
QUAD CITIES	2	7,273,768	39,429,107	185,287,174	30.89	13
PILGRIM	1	4,302,276	35,746,402	100,652,330	31.70	14
DRESDEN	2	6,978,924	54,648,573	172,712,315	32.58	15
MILLSTONE 1&2	2	8,312,940	60,823,722	215,391,507	33.23	16
PERRY (OH)	1	5,199,752	34,810,645	151,888,210	35.91	17
COOPER	1	4,055,989	88,886,846	73,952,862	40.15	18
OYSTER CREEK	1	4,273,430	60,645,904	116,272,264	41.40	19
FITZPATRICK	1	3,239,503	21,573,333	126,217,333	45.62	20
BRUNSWICK (NC)	2	5,916,165	92,807,414	201,934,365	49.82	21
BROWNS FERRY	2	7,581,354	306,550,345	106,650,090	54.50	22
BIG ROCK POINT	1	367,202	2,346,760	22,992,519	69.01	23

Source: FERC Form 1 data as published by UDI.

COST CAPS

For purposes of the Performance Incentive Plan, each unit's costs will be capped as follows:

## Perry Costs (a):

1996 Non-Outage O&M Costs-----	\$109.1 million
1996 Capital Costs-----	\$29.1 million
Fifth Refueling Outage Costs (including those incurred in 1995)-----	\$53.9 million
1997 Non-Outage O&M Costs Through 9-30-97 (\$102.8 million times 9/12)-----	\$77.1 million
1997 Capital Costs Through 9-30-97 (\$31.6 million times 9/12)-----	\$23.7 million

## Beaver Valley 2 Costs (b):

1996 Non-Outage O&M Costs Through 9-30-96 (\$54.0 million times 9/12)-----	\$40.5 million
1996 Capital Costs Through 9-30-96 (\$8.0 million times 9/12)-----	\$6.0 million

- (a) All amounts are per the "Perry Strategic Business Planning Report" dated July 1995.
- (b) All amounts per Beaver Valley 2's "Five Year Top Quartile Forecast".

**RELATIVE PERFORMANCE IMPROVEMENT PLAN**  
**BENEFITS TO OHIO RATEPAYERS FROM IMPROVED PERFORMANCE (a)**

Perry Composite Cost per MWH	\$35.91
BWR Top Quartile Composite Cost per MWH	<u>\$16.28</u>
Difference	\$19.63
Times Perry Annual Average Generation (MWH)	<u>5,199,752</u>
Annual Savings	<u>\$102,071,132</u>
Centerior Share of Annual Savings (51.02%)	\$52,076,691
Ohio Edison Share of Annual Savings (30%)	<u>\$30,621,340</u>
Annual Savings to Ohio Ratepayers	<u>\$82,698,031</u>
Total 10-year Savings to Ohio Ratepayers	<u>\$826,980,310</u>

(a) Based on 1992 to 1994 results.

Source: FERC Form 1 data as published by UDI.

**RELATIVE PERFORMANCE IMPROVEMENT PLAN  
BENEFITS TO OHIO RATEPAYERS FROM IMPROVED PERFORMANCE  
AT BEAVER VALLEY (a)**

---

Beaver Valley 2 Composite Cost per MWH	\$14.96
PWR Top Quartile Composite Cost per MWH	<u>\$12.83</u>
Difference	\$2.13
Times Beaver Valley 2 Annual Average Generation (MWH)	<u>6,077,928</u>
Annual Savings	<u>\$12,945,987</u>
Centerior Share of Annual Savings (44.38%)	\$5,745,429
Ohio Edison Share of Annual Savings (41.88%)	<u>\$5,421,779</u>
Annual Savings to Ohio Ratepayers	<u>\$11,167,208</u>
Total 10-years Savings to Ohio Ratepayers	<u>\$111,672,080</u>
Annual Generation Data:	
1992	5,785,051
1993	5,318,697
1994	<u>7,130,036</u>
Total	<u>18,233,785</u>
Three-Year Average	<u>6,077,928</u>

(a) Based on 1992 to 1994 results.

Source: FERC Form 1 data as published by UDI.

**BIOGRAPHY****David D. Marshall**

David D. Marshall is President and Chief Operating Officer of Duquesne Light Company and Executive Vice President of DQE, the parent holding company. Mr. Marshall's responsibilities for Duquesne Light Company cover all administrative and operating functions with the exception of the Company's Nuclear Group.

Mr. Marshall joined Duquesne Light in February 1985 as General Manager, Planning, Budgeting and Rates. In August 1987 he was elected Vice President, Corporate Development; in October 1990 he was made Assistant to the President; in February 1992 he was elected Executive Vice President; and in February 1995 he was elected to his current position.

Prior to joining Duquesne Light he was employed by Central Vermont Public Service Corporation where he served in various financial capacities, including Assistant Vice President of Finance. Before that he worked as a Research Associate for Resource Planning Associates in Washington DC and as a Research Assistant for Charles River Associates in Boston, Massachusetts.

He received a Bachelor of Arts Degree from Colby College in 1975 with a combined major in economics and mathematics. He received a Masters Degree in business administration from the Amos Tuck School of Business Administration, Dartmouth College in 1980.

He has submitted extensive testimony before the Pennsylvania Public Utility Commission, and has submitted written testimony before the Federal Energy Regulatory Commission. He has also presented written and oral testimony on numerous occasions before the Vermont Public Service Board.

**BIOGRAPHY**

**JAMES E. CROSS**  
**Senior Vice President**  
**and**  
**Chief Nuclear Officer**  
**Duquesne Light Company**

Mr. James E. Cross is Senior Vice President and Chief Nuclear Officer for Duquesne Light Company, and is corporate officer responsible for the engineering, construction, operation and maintenance of the company's nuclear power units. Mr. Cross assumed his current position in September 1994.

Prior to joining Duquesne Light Company, Mr. Cross was Vice President Thermal Resources and Chief Nuclear Officer for Portland General Electric Company. In this position he had the responsibility for six combined-cycle gas turbine plants, a coal plant, and construction of a new General Electric 7F combined-cycle gas plant as well as overall responsibility for licensing, shut down activities, and decommissioning of the Trojan Nuclear Plant.

Mr. Cross' 23-year career in the nuclear power industry includes management positions with Florida Power and Light, Mississippi Power and Light and Tennessee Valley Authority.

Mr. Cross holds a Bachelor of Science Degree in Electrical Engineering from the University of South Florida.

Mr. Cross presently resides with his wife, Lyn, and sons, Jonathan and Stephen, in Franklin Park, Pennsylvania.

**BIOGRAPHY**

**Ralph E. Duckworth, Jr.**

Ralph E. Duckworth, Jr. is Controller - Nuclear of Duquesne Light Company. Mr. Duckworth's responsibilities for Duquesne Light cover all financial matters related to the Company's Nuclear Power Division.

Mr. Duckworth joined Duquesne Light in October 1985 as Manager, Regulatory Reporting. In May 1987 he was promoted to the position of Manager, General Accounting and in December 1990 he was promoted to his current position.

Prior to joining Duquesne Light he was employed by Deloitte & Touche where he served in various auditing capacities, including Senior Audit Manager.

He received a Bachelor of Arts Degree from Carnegie-Mellon University in 1973 with a major in economics. He received a Masters Degree in business administration from the Katz Graduate School of Business, University of Pittsburgh in 1974.

He also served as an adjunct faculty member at the H. John Heinz III School of Public Policy at Carnegie-Mellon University from 1980 to 1989 where he taught a variety of accounting and management courses.

He is a certified public accountant and a member of the Pennsylvania and American Institutes of Certified Public Accountants.

129648

Table No. 12

**Demand-Side Management Programs**

98 JAN 23 PM 3:27

Program	RECEIVED PROTHONOTARY'S OFFICE				
	1995	1996	1997	1998	1999
(Cumulative MW)					
<b>Residential</b>					
High-Efficiency Lighting	0.0	0.2	0.3	0.3	0.3
Load Management Pilot Research	0.0	1.5	1.5	1.5	1.5
<b>Small/Medium Commercial</b>					
Load Management	0.3	0.8	1.5	2.5	3.5
<b>Large Customer</b>					
Cool Storage	1.3	3.4	5.8	8.0	10.0
Customer Generator	2.0	27.0	35.0	40.0	45.0
Long-Term Contracted Interruptible	75.0	106.0	106.0	106.0	106.0
<b>Total Impact</b>	<b>78.6</b>	<b>138.9</b>	<b>150.1</b>	<b>158.3</b>	<b>166.3</b>

**Reactivation of Phillips Power Station: The cold-reserved Phillips Power Station can be cost-effectively reactivated and will be competitive for an intermediate to long-term firm bulk power sale.**

In support of long-term firm power sales, the cold-reserved Phillips Power Station is projected to be returned to commercial operation in 1997. Depending on the outcome of Duquesne's bulk power marketing efforts, the actual in-service date of Phillips may be advanced or delayed. The 300 MW Phillips Power Station is a highly reliable, cost-competitive coal-fired alternative for an intermediate or long-term power purchase by another utility. Phillips consists of a common-header plant and a stand-alone unit. The common-header plant, when returned to service, will include three boilers and three turbine generators. The common-header portion of the station is expected to have a summer rating of 172 megawatts. The stand-alone unit is expected to have a summer rating of 128 megawatts. This plant is already equipped with flue gas desulfurization equipment, and is already permitted and fully capable of meeting Phase II Clean Air Act SO<sub>2</sub> emissions requirements. This is a significant competitive advantage offered by few if any alternatives in the marketplace. Low NO<sub>x</sub> burner technology will be implemented to meet NO<sub>x</sub> emissions control requirements, and new continuous emissions monitors will be installed. Because this plant has been carefully maintained while in cold-reserved status, it can be reactivated at a cost which, including remaining book value, is competitive with a new combined cycle facility.

The methodology for accomplishing the reactivation of Phillips Power Station is to divide the project into two phases. Phase I of the project, which has been completed, defined the scope of work for reactivation. Phase I was comprised of (1) an assessment of major components, (2) engineering studies to evaluate and make

recommendations on components/systems and (3) development of a reactivation plan to return all other components/systems to service. Since Phillips is already licensed as a generation site, there is no need for a lengthy and contentious siting and permitting process. Phase II, the reactivation work leading to commercial operation of the facility, will be initiated immediately upon successful conclusion of an off-system power purchase agreement with an interested buyer.

**Reactivation of Brunot Island Station: The cold-reserved Brunot Island facilities can be cost-effectively reactivated to meet retail load growth and support firm bulk power sales.**

The 267 MW Brunot Island Combined Cycle (BICC) facility currently consists of three oil-fired combustion turbines and a steam turbine designed for combined cycle operation. The combined summer rating of the combustion turbines is 135 MW, and the steam turbine is rated at 132 MW. This facility was placed in cold-reserve at the same time as the Phillips plant, however, the combustion turbines are currently operational and are used to mitigate emergency load situations. It is anticipated that the simple cycle combustion turbines will be reactivated to serve peaking load requirements on the Duquesne system, while the combined cycle steam turbine is expected to be reactivated to support retail load growth and to meet bulk power sales opportunities.

From an environmental perspective the Brunot Island facility is relatively benign. The facility currently burns Number 2 fuel oil, and is permitted for operation 16 hours per day. Prior to reactivation as a combined cycle facility, this plant will be converted to dual firing with both natural gas and fuel oil, and has received permits allowing unconstrained operation on natural gas. The major competitive advantage offered by the Brunot Island facility in the marketplace is low price. The reactivation cost for the entire combined cycle plant, including book value, is substantially below the cost of a new simple cycle peaking turbine. The Brunot Island combustion turbines alone can be reactivated at a cost below most demand-side management or conservation programs.

A condition assessment and several additional engineering studies at the Brunot Island Combined Cycle (BICC) facility have been completed. The findings have been incorporated into a plan for the reactivation. The current recommended course of action is: (1) Replace the existing heat recovery boilers and steam piping with new equipment, (2) Convert the combustion turbines to natural gas/oil dual firing, (3) Install a steam injection system for nitrogen oxide emission control, and (4) Implement a maintenance rehabilitation program on the remaining plant equipment. Since Brunot Island is already licensed as a generation site, there is no need for a lengthy and contentious siting and permitting process. The reactivation work leading to commercial operation of the facility will be initiated immediately as required to meet retail load growth or upon successful conclusion of an off-system power purchase agreement with an interested buyer.

Table No. 12  
**Demand-Side Management Programs**

129649

Program	98 JAN 23 PM 3:27	1995	1996	1997	1998	1999
		(Cumulative MW)				
<b>Residential</b>						
High-Efficiency Lighting		0.0	0.2	0.3	0.3	0.3
Load Management Pilot Research		0.0	1.5	1.5	1.5	1.5
<b>Small/Medium Commercial</b>						
Load Management		0.3	0.8	1.5	2.5	3.5
<b>Large Customer</b>						
Cool Storage		1.3	3.4	5.8	8.0	10.0
Customer Generator		2.0	27.0	35.0	40.0	45.0
Long-Term Contracted Interruptible		75.0	106.0	106.0	106.0	106.0
<b>Total Impact</b>		<b>78.6</b>	<b>138.9</b>	<b>150.1</b>	<b>158.3</b>	<b>166.3</b>

**Reactivation of Phillips Power Station: The cold-reserved Phillips Power Station can be cost-effectively reactivated and will be competitive for an intermediate to long-term firm bulk power sale.**

In support of long-term firm power sales, the cold-reserved Phillips Power Station is projected to be returned to commercial operation in 1997. Depending on the outcome of Duquesne's bulk power marketing efforts, the actual in-service date of Phillips may be advanced or delayed. The 300 MW Phillips Power Station is a highly reliable, cost-competitive coal-fired alternative for an intermediate or long-term power purchase by another utility. Phillips consists of a common-header plant and a stand-alone unit. The common-header plant, when returned to service, will include three boilers and three turbine generators. The common-header portion of the station is expected to have a summer rating of 172 megawatts. The stand-alone unit is expected to have a summer rating of 128 megawatts. This plant is already equipped with flue gas desulfurization equipment, and is already permitted and fully capable of meeting Phase II Clean Air Act SO<sub>2</sub> emissions requirements. This is a significant competitive advantage offered by few if any alternatives in the marketplace. Low NO<sub>x</sub> burner technology will be implemented to meet NO<sub>x</sub> emissions control requirements, and new continuous emissions monitors will be installed. Because this plant has been carefully maintained while in cold-reserved status, it can be reactivated at a cost which, including remaining book value, is competitive with a new combined cycle facility.

The methodology for accomplishing the reactivation of Phillips Power Station is to divide the project into two phases. Phase I of the project, which has been completed, defined the scope of work for reactivation. Phase I was comprised of (1) an assessment of major components, (2) engineering studies to evaluate and make

recommendations on components/systems and (3) development of a reactivation plan to return all other components/systems to service. Since Phillips is already licensed as a generation site, there is no need for a lengthy and contentious siting and permitting process. Phase II, the reactivation work leading to commercial operation of the facility, will be initiated immediately upon successful conclusion of an off-system power purchase agreement with an interested buyer.

**Reactivation of Brunot Island Station: The cold-reserved Brunot Island facilities can be cost-effectively reactivated to meet retail load growth and support firm bulk power sales.**

The 267 MW Brunot Island Combined Cycle (BICC) facility currently consists of three oil-fired combustion turbines and a steam turbine designed for combined cycle operation. The combined summer rating of the combustion turbines is 135 MW, and the steam turbine is rated at 132 MW. This facility was placed in cold-reserve at the same time as the Phillips plant, however, the combustion turbines are currently operational and are used to mitigate emergency load situations. It is anticipated that the simple cycle combustion turbines will be reactivated to serve peaking load requirements on the Duquesne system, while the combined cycle steam turbine is expected to be reactivated to support retail load growth and to meet bulk power sales opportunities.

From an environmental perspective the Brunot Island facility is relatively benign. The facility currently burns Number 2 fuel oil, and is permitted for operation 16 hours per day. Prior to reactivation as a combined cycle facility, this plant will be converted to dual firing with both natural gas and fuel oil, and has received permits allowing unconstrained operation on natural gas. The major competitive advantage offered by the Brunot Island facility in the marketplace is low price. The reactivation cost for the entire combined cycle plant, including book value, is substantially below the cost of a new simple cycle peaking turbine. The Brunot Island combustion turbines alone can be reactivated at a cost below most demand-side management or conservation programs.

A condition assessment and several additional engineering studies at the Brunot Island Combined Cycle (BICC) facility have been completed. The findings have been incorporated into a plan for the reactivation. The current recommended course of action is: (1) Replace the existing heat recovery boilers and steam piping with new equipment, (2) Convert the combustion turbines to natural gas/oil dual firing, (3) Install a steam injection system for nitrogen oxide emission control, and (4) Implement a maintenance rehabilitation program on the remaining plant equipment. Since Brunot Island is already licensed as a generation site, there is no need for a lengthy and contentious siting and permitting process. The reactivation work leading to commercial operation of the facility will be initiated immediately as required to meet retail load growth or upon successful conclusion of an off-system power purchase agreement with an interested buyer.

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.

WASHINGTON, D.C. 20005-2111

TEL: (202) 371-7000

FAX: (202) 393-5760

FIRM/AFFILIATE OFFICES

BOSTON  
CHICAGO  
HOUSTON  
LOS ANGELES  
NEWARK  
NEW YORK  
SAN FRANCISCO  
WILMINGTON

BEIJING  
BRUSSELS  
FRANKFURT  
HONG KONG  
LONDON  
MOSCOW  
PARIS  
SINGAPORE  
SYDNEY  
TOKYO  
TORONTO

DIRECT DIAL  
371-7310

DOCKETED

FEB 06 1998

January 22, 1998

Via Facsimile

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

KJR

Re: Duquesne Light Company Restructuring  
Proceeding, Docket No. R-00974104

Dear Judge Corbett:

Provided that Duquesne Light Company receives timely service of the anticipated filings of Enron and DII this noon, Duquesne will file a response to OCA's Objection to the Admission of Exhibit DJC-27, and a response (as necessary) to DII and Enron, by close of business today.

Sincerely,

  
John S. Moot

cc: All parties (via facsimile)  
Prothonotary

DOCUMENT  
FOLDER

RECEIVED

JAN 22 1998

PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

DOCKETED  
FEB 06 1998

ORIGINAL

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCUMENT  
FOLDER

Pennsylvania Public Utility )  
Commission, )

v. )

Docket No. R-00974104

KJR

Duquesne Light Company )  
Application to approve )  
restructuring plan pursuant )  
to 66 Pa. C.S. § 2806(d) )

RECEIVED

JAN 22 1998

RESPONSE TO OBJECTION TO EXHIBIT DJC-27 PA PUBLIC UTILITY COMMISSION  
PROTHONOTARY'S OFFICE

Duquesne Light Company ("Duquesne") hereby responds to the objections of the Office of Consumer Advocate ("OCA") and the Duquesne Industrial Intervenors ("DII") to the admission of Exhibit DJC-27. Duquesne's response is limited to the following three points:

1. OCA argues that Exhibit DJC-27 contains recalculations that "are far from 'corrections,' but, instead, are intended to address disagreements the Company has with OCA's positions." OCA Objection at 2; accord DII Objection at 3-4. This is a puzzling comment. Exhibit DJC-27 was not offered to correct "typographical" errors in Enron Exhibits 6-10; it was offered to provide a calculation that, in Duquesne's view, corrects certain substantive errors in the OCA's and DII's response to

Enron.<sup>1</sup> This was appropriate because, as the Seventh Interim Order held, the admission of Enron Exhibits 6-10 "would deny other parties, including Duquesne Light Company, their due process rights . . ." Order at 2. These due process protections consist of more than proof-reading rights.

2. The OCA and DII also contend that Exhibit DJC-27 includes corrections that could have been addressed in Duquesne's rebuttal testimony or that differ from those contained in the rebuttal testimony. OCA Objection at 2-3; DII Objection at 4. But the point is not whether Duquesne has discovered errors (whether new or old) in Enron Exhibits 6-10 that could have been identified in response to other, earlier exhibits; the point is that, if these parties are permitted to introduce new CTC calculations purportedly applying the PECO

---

<sup>1</sup> Duquesne's corrections cut both ways: some raise the CTC, while others reduce it. It also should be noted that OCA is mistaken in asserting that "the numbers contained in Enron Exhibits 6-10 are the same numbers shown in OCA witness Lee Smith's Direct and Surrebuttal Testimonies." OCA Obj. at 2. Contrary to this assertion, Ms. Smith (i) mistakenly deleted Gross Receipt Tax from the calculations in her surrebuttal testimony and her response to Enron (but not from her direct testimony), and (ii) changed the rates of return in her direct and surrebuttal testimonies (she used claimed rates of return in direct testimony and realized rates of return in surrebuttal).

Order, Duquesne should have a fair (and substantive) opportunity to respond. While DII would like to have the last word on this topic (DII Obj. at 5), that request is inconsistent with the evidentiary procedures used in this case, which give Duquesne the right to "close" on any given issue. Fifth Prehearing Order at 4.

3. Even more importantly, however, these parties seem to be missing the real issue: whether the dispute over these calculations is even ripe. Duquesne believes it is not. Enron Exhibits 6-10 and Exhibit DJC-27 address the implementation question of how to design rates that will recover an approved level of costs (both stranded costs and transmission and distribution costs) pursuant to an approved cost recovery approach. Clearly, this is an implementation question and it can, and should, be addressed in the compliance stage of this proceeding. This is particularly true given that here, unlike the PECO case, there are vastly different stranded cost valuation and recovery proposals that, if approved, require vastly different revenue requirement and rate calculations. (An example is provided in the margin.<sup>2</sup>)

---

<sup>2</sup> The issue of "deferred taxes" - as to which the OCA and DII seem particularly concerned (OCA Obj. at 3; DII Obj. at 4) - is a good example. In Enron Exhib-  
(continued...)

It is more efficient, and fairer to all parties, to address these implementation issues after the Commission has made a determination as to the appropriate method for (i) calculating stranded costs in this case, and (ii) recovering such costs from Duquesne's customers. At that point, the parties can debate, if need be, methodological differences that relate to designing rates that permit Duquesne to recover no more, and no less, than the level of approved costs.

---


<sup>2</sup>(...continued)

its 6-10, stranded costs are stated on a net present value basis and recovered through a fixed schedule of CTCs throughout the transition period. This methodology requires that deferred taxes be treated properly both in the calculation of the net present value of stranded costs and in the calculation of CTCs to recover the revenue requirements associated with those stranded costs. Under Duquesne's proposal, however, the same issues do not arise. Duquesne's proposal is to continue charging rates capped at current levels pursuant to Section 2804(4)(v) of the Act. Under this section, Duquesne is required to use any excess earnings to accelerate the amortization of stranded costs during the transition period; as proposed by Duquesne, such a calculation is qualitatively different, particularly with respect to deferred taxes, than the calculation required by Enron Exhibits 6-10. In particular, there is no net present value calculation made today and, hence, the same calculational issues related to deferred taxes do not arise. (We note that PECO did not propose to use Section 2804(4)(v) and hence no decision regarding that recovery methodology was made in that case.)

WHEREFORE, for the foregoing reasons, the Judge should (i) admit Enron Cross-Examination Exhibits 6-10 and Duquesne Exhibit DJC-27, or (ii) deny the admission of all such exhibits and hold that the issues raised therein are properly handled during the compliance stage of this proceeding.

Respectfully submitted,

Larry R. Crayne  
Assistant General Counsel  
Richard S. Herskovitz  
Corporate Attorney  
Duquesne Light Company  
411 Seventh Avenue  
Pittsburgh, PA 15219  
(412) 393-6049

  
John S. Moot  
Skadden, Arps, Slate,  
Meagher & Flom LLP  
1440 New York Ave., N.W.  
Washington, D.C. 20005-2111  
(202) 371-7310

Dated: January 22, 1998


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, by facsimile, upon the participants on the attached service list in accordance with Section 1.54 of the Commission's regulations.

Dated this 22<sup>nd</sup> day of January, 1998.

  
John S. Moot  
Skadden, Arps, Slate,  
Meagher & Flom LLP  
1440 New York Ave., N.W.  
Washington, D.C. 20005  
(202) 371-7310

Counsel to  
Duquesne Light Company

Kenneth Zielonis  
(Pa. Retailers Assn.)  
Stevens & Lee  
208 North Third St., Ste. 310  
P. O. Box 12090  
Harrisburg, PA 17108-2090

James P. Dougherty  
Robert A. Weishaar  
Pamela C. Polacek  
McNees, Wallace & Nurick  
100 Pine Street  
P. O. Box 1166  
Harrisburg, PA 17108

Kandace F. Melillo  
Wayne T. Scott  
PA Public Utility Commission  
Office of Trial Staff  
901 N. 7<sup>th</sup> Street, Rear  
Third Floor, Pitnick Bldg.  
Harrisburg, PA 17105-3265

Jacqueline R. Morrow  
Rodney R. Akers  
Assistant City Solicitor  
City of Pittsburgh  
313 City County Building  
414 Grant Street  
Pittsburgh, PA 15219

Stephen J. Baron  
J. Kennedy & Associates, Inc.  
Suite 475  
35 Glenlake Parkway  
Atlanta, GA 30328

Karen Oill Moury  
Office of Small Business Advocate  
Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101

Howard M. Louik  
Allegheny County Law Dept.  
300 Fort Pitt Commons  
445 Fort Pitt Blvd.  
Pittsburgh, PA 15219

Marisa A. Sifontes  
Irwin A. Popowsky  
Steven K. Steinmetz  
Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120

Deneice Covert Zeve  
Terry Lupia  
Office of Attorney General  
14th Floor, Strawberry Square  
Harrisburg, PA 17120

Steven Baicker-McKee  
Wanda Schiller  
Babst, Calland, Clements & Zomnir PC  
8th Floor, Two Gateway Center  
Pittsburgh, PA 15222

Kenneth I. Wiseman  
Andrews & Kurth, LLP  
1701 Pennsylvania Ave., N.W.  
Washington, D.C. 20006

Mark F. Sundback  
Andrews & Kurth, LLP  
1701 Pennsylvania Ave., N.W.  
Washington, D.C. 20006

Exeter Associates, Inc.  
Suite 350  
12510 Prosperity Drive  
Silver Spring, MD 20904

Michael I. Kurtz  
David F. Boehm  
Boehm, Kurtz & Lowry  
2110 CBLD Center  
36 East Seventh Street  
Cincinnati, OH 45202

Terrance J. Fitzpatrick  
David M. DeSalle  
Ryan, Russell, Ogden & Seltzer, LLP  
Suite 101  
800 North Third Street  
Harrisburg, PA 17102-2025

Robert B. Weisenmiller  
MRW & Associates, Inc.  
Suite 1440  
1999 Harrison Street  
Oakland, CA 94612-3517

Michael Reid, Director  
Materials Management Services  
Administrative Resources, Inc.  
500 Commonwealth Drive  
Warrendale, PA 15086-7513

Robert J. Stefanko  
341 South Bellefield Avenue  
Pittsburgh, PA 15213

Margaret Peters  
The Peoples Natural Gas Co.  
625 Liberty Avenue  
Pittsburgh, PA 15222-3197

John Stember  
Low Income Advocate Parties  
1705 Allegheny Building  
429 Forbes Avenue  
Pittsburgh, PA 15219

Stephen I. Feld  
Pennsylvania Power Company  
1 East Washington Street  
P. O. Box 891  
New Castle, PA 16103-0891

Donald R. Ayersman, Jr.  
1125 Denver Avenue  
Morgantown, WV 26505

Mark J. McGuire  
Ronald N. Carroll  
Jenner & Block  
Suite 1200  
601 13th Street, N.W.  
Washington, D.C. 20005

Tim Merrill  
Suite 200  
4 Penn Center West  
Pittsburgh, PA 15276

Kevin J. McKeon  
William T. Hawke  
Malatesta, Hawke & McKeon, LLP  
P. O. Box 1778  
Harrisburg, PA 17101

Thomas P. Gadsden  
Morgan, Lewis & Bockius  
2000 One Logan Square  
Philadelphia, PA 19103

David Hughes  
4037 Ludwick Street  
Pittsburgh, PA 15217

Thomas J. Augspurger  
Midcon Corporation  
Office of General Counsel  
701 East 22nd Street  
Lombard, IL 60148

William T. Hawke  
Mid-Atlantic Power Supply Assn.  
100 North 10th Street  
Harrisburg, PA 17105

Joseph A. Dworetzky  
John P. Lavelle, Jr.  
Hangley, Aronchick, Segal & Pudlin  
One Logan Square, 12th Floor  
Philadelphia, PA 19103

Roger E. Clark  
905 Denston Drive  
Ambler, PA 19002

Attorney of Record  
Environmental Energy Project  
3700 Vartan Way  
Harrisburg, PA 17110

Scott J. Rubin  
3 Lost Creek Drive  
Selinsgrove, PA 17870-9357

Patricia Armstrong  
Thomas, Thomas, Armstrong & Niesen  
212 Locust Street, Suite 500  
P. O. Box 9500  
Harrisburg, PA 17106-9500

Paul E. Russell  
Pennsylvania Power & Light Co.  
2 North 9th Street  
Allentown, PA 18101

David M. Boonin  
New Energy Ventures East, LLC  
1845 Walnut Street  
Ste. 2525  
Philadelphia, PA 19103

John O'Brien  
Wheeled Electric Power Co.  
Suite 207  
50 Charles Lindburgh Blvd.  
Uniondale, NY 11553

Daniel Clearfield  
Gerald Gornish  
Alan Kohler  
Robert J. Longwell  
Wolf, Block, Schorr &  
Solis-Cohen, LLP  
305 N. Front Street, Ste. 401  
Harrisburg, PA 17101-1236

James D. Steffes  
Enron Power Marketing, Inc.  
1400 Smith Street  
P. O. Box 4428  
Houston, TX 77002

Brian Kalcic  
Excel Consulting  
Suite 720-T  
225 S. Meramec Avenue  
St. Louis, MO 63105

Albert M. Benincasa  
Director, Regulatory Affairs  
Skipping Stone  
46 9th Avenue  
Sea Cliff, NY 11579

Douglas F. John  
John & Hengerer  
1200 17th Street, N.W.  
Suite 600  
Washington, D.C. 20036

Larry R. Crayne  
Richard S. Herskovitz  
Duquesne Light Company  
411 Seventh Avenue, 15th Floor  
Pittsburgh, PA 15219

Vickiren S. Aeschleman  
Director, Regulatory Policy  
QST Energy, Inc.  
300 Hamilton Blvd., Suite 300  
Peoria, IL 61602

Mary Ann Ralls  
[QST Energy, Inc.]  
Duane, Morris & Heckscher LLP  
1667 K Street, N.W., Suite 700  
Washington, D.C. 20006

Mary McFall Hopper  
PECO Energy Company  
2301 Market Street  
P. O. Box 8699  
Philadelphia, PA 19101

Craig R. Kuennen, Ph.D.  
904 Melaleuca Avenue, #N  
Carlsbad, CA 92009

LAW OFFICES  
WOLF, BLOCK, SCHORR AND SOLIS-COHEN LLP

305 N. FRONT STREET  
SUITE 401  
HARRISBURG, PA 17101-1236

(717) 237-7160  
FACSIMILE: (717) 237-7161

DOCKETED

FEB 06 1998

TANYA C. LESHKO  
DIRECT DIAL: (717) 237-7164  
E-MAIL: TLESHKO@WOLFBLOCK.COM

January 22, 1998

VIA FACSIMILE

Hon. John Corbett  
Administrative Law Judge  
Pennsylvania Public Utility Commission  
1103 Pittsburgh State Office Building  
300 Liberty Avenue  
Pittsburgh, PA 15222

DOCUMENT  
FOLDER

PROTHONOTARY'S OFFICE  
PAPUC  
98 JAN 22 PM 2:12  
RECEIVED

KJR

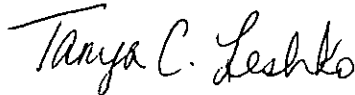
RE: Duquesne Light Company Restructuring  
Docket No. R-00974104

Dear Judge Corbett:

In light of the objections of the Office of the Consumer Advocate and the Duquesne Industrial Intervenors to Duquesne Exhibit DJC-27, Enron is unable to accept Duquesne's conditional offer to withdraw its objection to the admission of Enron Exhibits 6 - 10 in return for DJC-27 being admitted into the record. Enron maintains that its exhibits 6 - 10 should be admitted into the record as of right for the reasons stated in its earlier-filed Motion for Reconsideration of the Seventh Interim Order. Enron respectfully requests that its Motion for Reconsideration be considered on its merits, along with the Answer filed by Duquesne and the above-referenced Objections to the Admission of Evidence.

If you have any questions or concerns about this matter, please feel free to call the undersigned at your convenience.

Respectfully submitted,



Tanya C. Leshko

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

TCL/cln

cc: All Parties of Record  
James J. McNulty, Secretary

PHILADELPHIA, PA • BLUE BELL, PA • CAMDEN, NJ • NORRISTOWN, PA • WILMINGTON, DE

DSH:10897.1

OFFICE OF CONSUMER ADVOCATE  
1425 Strawberry Square  
Harrisburg, Pennsylvania 17120

IRWIN A. POPOWSKY  
Consumer Advocate

(717) 783-5048

January 22, 1998

James J. McNulty, Secretary  
Secretary Bureau  
Pennsylvania Public Utility Commission  
Room B-20, North Office Building  
P. O. Box 3265  
Harrisburg, PA 17105-3265

**DOCUMENT  
FOLDER**

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

KJK

Dear Secretary McNulty;

Enclosed please find an original and three (3) copies of the Office of Consumer Advocate's Objection to the Admission into the Record of Duquesne Exhibit DJC-27 in the above-captioned proceeding.

Copies have been served on all parties of record as shown on the attached Certificate of Service.

Sincerely,

  
Edmund J. Berger  
Assistant Consumer Advocate

PA-PUC  
PROTHONOTARY'S OFFICE

98 JAN 22 PM 3:39

RECORDED

Enclosure

cc: All parties of record  
Honorable John H. Corbett, Jr. (Facsimile)

# ORIGINAL

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKETED

DUQUESNE LIGHT COMPANY  
RESTRUCTURING PROCEEDING

Docket No. R-00974104

FEB 06 1998

PROTHONOTARY'S OFFICE  
PA. P.U.C.  
98 JAN 22 PM 3:39  
RECEIVED

DOCUMENT  
FOLDER

---

OBJECTION OF THE  
OFFICE OF CONSUMER ADVOCATE  
TO THE ADMISSION INTO THE RECORD  
OF DUQUESNE EXHIBIT DJC-27

---

Pursuant to Section 5.402 of the Commission's Rules of Practice and Procedure, 52 Pa. Code § 5.402, the Office of Consumer Advocate ("OCA") respectfully objects to the admission into the record of Duquesne Exhibit DJC-27, which was submitted on January 20, 1997. In support of this Objection, OCA respectfully submits as follows:

1. On January 12, 1998, Enron Power Marketing, Inc. ("Enron"), pursuant to the Sixth Interim Order in this proceeding, moved for the admission of Enron Cross-Examination Exhibits 6-10. These Exhibits are copies of the OCA's responses to Enron interrogatories, which asked OCA to recalculate the numbers contained in certain exhibits, assuming changes in certain inputs to those exhibits.
2. Duquesne objected to the admission of Enron Cross-Examination Exhibits 6-10, and Your Honor denied the admission of those Exhibits in the Seventh Interim Order in this proceeding. Whereupon Enron filed a Motion for Reconsideration of that Order and Duquesne filed an Answer to Motion for Reconsideration. As part of its Answer to Motion for Reconsideration, Duquesne proposed, as an alternative, that Exhibit DJC-27, which accompanied

its Answer also be admitted into the record.

3. While OCA takes no position on the admission of Enron Cross-Examination Exhibits 6-10, OCA objects to the admission of Duquesne Exhibit DJC-27, as presented by the Company. OCA objects to the admission of that Exhibit for a number of reasons. First, Exhibit DJC-27 purports to be a "Corrected OCA Response to ENRON." Clearly, Duquesne's proposed changes to Exhibit DJC-27 are far from "corrections," but, instead, are intended to address disagreements the Company has with OCA's positions as set forth in OCA's Direct and Surrebuttal Testimonies. The Company had ample opportunity to respond to OCA's position in its Rebuttal Testimony, and through its opportunity to present Rejoinder Testimony and perform cross-examination. Since OCA's analysis, as set forth in the Enron Exhibits, utilizes much of the same approach that was utilized by OCA in this case, except for the modifications specified by the interrogatory, OCA submits that the issues raised by the Company have little to do with the modifications to OCA's analysis requested by Enron. Consequently, Duquesne should not now be permitted to present a new critique of OCA's analysis through the presentation of this Exhibit, which it inaccurately characterizes as a corrected response to OCA's interrogatory.

Second, OCA submits that Exhibit DJC-27 is inappropriately submitted as a means to augment the record to address issues that it had every opportunity to address at an earlier point in time, but did not address. For example, with respect to the changes identified in Notes 1 and 2 pertaining to Retail MWHs and the inclusion of Gross Receipts Tax in Transmission and Distribution Rates, the numbers contained in Enron Exhibits 6-10 are the same numbers shown in OCA witness Lee Smith's Direct and Surrebuttal Testimonies. If the Company had wished to

take issue with these numbers, clearly it should have done so at an earlier date.


Third, Duquesne is clearly using its Exhibit as a further opportunity to respond to OCA's case and to introduce alleged corrections to its own case to which OCA has no opportunity to respond. This is particularly evident in Notes 3, 4, and 5 which recalculate OCA's stranded costs and the underlying cost of capital to correspond to the Company's view of the case as reflected in the Company's Rebuttal Exhibits, particularly Exhibits DJC-10 and DJC-12. Note 4 is particularly problematic because it inappropriately and inaccurately attempts to inject into OCA's calculations a treatment of accumulated deferred taxes that is completely inconsistent with OCA's approach to stranded cost valuation and recovery and inaccurately suggests that OCA's approach does not account for these deferred taxes. Additionally, Duquesne seeks to make a correction to Exhibit DJC-12 through Note 4.

OCA's responses to these interrogatories were not provided to address the Company's view of the case in Rebuttal, but rather were intended to respond to the directions contained in the interrogatory, which required the use of the OCA's stranded cost numbers. The Company's efforts to tie its case to these numbers as corrections of OCA's position should be rejected.

WHEREFORE, OCA respectfully objects to the admission into the record of

Duquesne Exhibit DJC-27.

Respectfully submitted,



Edmund J. Berger  
Assistant Consumer Advocate

Counsel for:  
Irwin A. Popowsky  
Consumer Advocate

Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120  
(717) 783-5048

Dated: January 22, 1998

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, executed copy of the OCA's Objection to the Admission into the Record of Duquesne Exhibit DJC-27, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 22nd day of January, 1998.

SERVICE BY INTER-OFFICE MAIL

Kandace Melillo, Esquire  
Wayne Scott, Esquire  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105

SERVICE BY FACSIMILE AND FIRST CLASS MAIL, POSTAGE PREPAID

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

Larry R. Crayne, Esquire  
Duquesne Light Company  
411 Seventh Avenue  
P.O. Box 1930  
Pittsburgh, PA 15230-1930

James P. Dougherty, Esq.  
Robert A. Weishaar, Jr., Esq.  
Pamela C. Polacek, Esq.  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108

Daniel Clearfield, Esquire  
Robert Longwell, Esquire  
Wolf, Block, Schorr and Solis-Cohen  
Suite 401  
305 North Front Street  
Harrisburg, PA 17101

SERVICE BY FIRST CLASS MAIL

Stephen L. Feld, Esquire  
Pennsylvania Power Company  
1 East Washington Street  
P.O. Box 891  
New Castle, PA 16103-0891

Karen Oill Moury, Esquire  
Office of Small Business Adv.  
Suite 1102, Commerce Bldg.  
300 North Second Street  
Harrisburg, PA 17120

Brian Kalcic  
Excel Consulting  
Suite 720-T  
225 S. Meramec Avenue  
St. Louis, MO 63105

Sheila S. Hollis, Esquire  
Mary Ann Ralls, Esquire  
Stephenie A. Sugrue, Esquire  
Duane, Morris & Heckscher LLP  
Suite 700  
1667 K Street, N.W.  
Washington, DC 20006-1608

Scott J. Rubin, Esquire  
3 Lost Creek  
Selinsgrove, PA 17870

Timothy Moran  
986 Greentree Road  
Pittsburgh, PA 15222

Allegheny Electric Cooperative, Inc.  
212 Locust Street  
P.O. Box 1266  
Harrisburg, PA 17108-1266

Mary McFall Hopper, Esquire  
PECO Energy Company  
2301 Market Street S23-1  
Philadelphia, PA 19103

Vickiren S. Aeschleman  
QST Energy Inc.  
Suite 300  
300 Hamilton Blvd.  
Peoria, IL 61602

David Hughes  
4037 Ludwick Street  
Pittsburgh, PA 15217

Jim Ferlo, Counselman  
510 City-Counsel Building  
Pittsburgh, PA 15219

Brian A. Rider, President  
Pennsylvania Retailers' Association  
224 Pine Street  
Harrisburg, PA 17101-1325

Thomas P. Gadsden, Esq.  
Morgan, Lewis & Bockius  
2000 One Logan Square  
Philadelphia, PA 19103-6993

Rodney R. Akers, Esq.  
Assistant City Solicitor  
313 City-County Building  
414 Grant Street  
Pittsburgh, PA 15219

Stephen J. Baron  
J. Kennedy and Associates, Inc.  
Suite 475  
35 Glenlake Parkway  
Atlanta, GA 30328

Patricia Armstrong, Esquire  
Thomas, Thomas, Armstrong & Niesen  
212 Locust Street  
P.O. Box 9500  
Harrisburg, PA 17108-9500

James D. Steffes  
Enron Power Marketing Inc.  
1400 Smith Street  
P.O. Box 4428  
Houston, TX 77002

Steven Baicker-McKee, Esq.  
Wanda Schiller, Esq.  
Babst, Calland, Clements & Zomnir PC  
8th Floor, Two Gateway Center  
Pittsburgh, PA 16222

Kenneth L. Wiseman, Esq.  
Andrews & Kurth, LLP  
1701 Pennsylvania Avenue  
Washington, DC 20006

Mark F. Sundback, Esq.  
Peter J. Thompson, Esq.  
Andrews & Kurth, LLP  
1701 Pennsylvania Avenue, NW  
Washington, DC 20006

Michael L. Kurtz, Esq.  
David F. Boehm, Esq.  
Boehm, Kurtz & Lowry  
2110 CBLD Center  
36 East Seventh Street  
Cincinnati, OH 45202

David M. DeSalle, Esq.  
Terrance J. Fitzpatrick, Esq.  
Ryan, Russell, Ogden & Seltzer, LLP  
Suite 101  
800 North Third Street  
Harrisburg, PA 17102-2025

Howard M. Louik, Esq.  
Allegheny County Law Dept.  
300 Fort Pitt Commons  
445 Fort Pitt boulevard  
Pittsburgh, PA 15219

Robert J. Stefanko, Esq.  
341 South Bellefield Avenue  
Pittsburgh, PA 151213

Margaret Peter, Esq.  
The Peoples Natural Gas Company  
625 Liberty Avenue  
Pittsburgh, PA 15222-3197

John Stember, Esq.  
Low Income Advocate Parties  
1705 Allegheny Bldg.  
429 Forbes Avenue  
Pittsburgh, PA 15219

Donald R. Ayersman, Jr., Esq.  
1125 Denver Avenue  
Morgantown, PA 26505

Mark J. McGuire, Esq.  
Ronald N. Carroll, Esq.  
Jenner & Block, Suite 1200  
601 13th Street, NW  
Washington, DC 20005

Tim Merrill, Esq.  
Suite 200  
4 Penn Center West  
Pittsburgh, PA 15276

Kevin J. McKeon, Esq.  
Malatesta, Hawke & McKeon, LLP  
P.O. Box 1778  
Harrisburg, PA 17101

Paul E. Russell, Esq.  
Pennsylvania Power & Light Company  
2 North 9th Street  
Allentown, PA 18101

Robert B. Weisenmiller  
MRW & Associates, Inc.  
Suite 1440  
1999 Harrison Street  
Oakland, CA 94612-3517

Michael Reid, Director  
Materials Management Services  
Administrative Resources, Inc.  
500 Commonwealth Drive  
Warrendale, PA 15086-7513

Thomas J. Augspurger, Esq.  
Midcon Corporation  
Office of General Counsel  
701 East 22nd Street  
Lombard, IL 60148

William T. Hawke, Esq.  
Mid Atlantic Power Supply Association  
100 North 10th Street  
Harrisburg, PA 17105

Joseph A. Dworetzky, Esq.  
John P. Lavelle, Jr., Esq.  
Hangley, Aronchick, Segal & Pudlin  
12th Floor, One Logan Square  
Philadelphia, PA 19103

Alan J. Barak, Esq.  
Environmentalists  
1417 Blue Mountain Parkway  
Harrisburg, PA 17112

Douglas F. John, Esq.  
JOHN & HENGERER  
Suite 600  
1200 17th Street, N.W.  
Washington, D.C. 20036

David M. Boonin  
New Energy Ventures East, LLC  
Suite 2525  
1845 Walnut Street  
Philadelphia, PA 19103

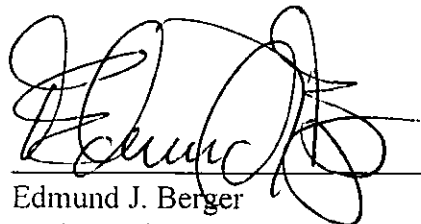
Roger Clark, Esq.  
The Environmentalists  
905 Denston Drive  
Adler, PA 19002-3901

John O'Brien, Esq.  
Wheeled Electric Power Company  
Suite 207  
50 Charles Lindburgh Blvd.  
Uniondale, NY 11553

Albert M. Benincasa, Esq.  
Director, Regulatory Affairs  
Skipping Stone  
46 9th Avenue  
Sea Cliff, NY 11579

John P. Lavelle, Jr., Esq.  
Hangley Aronchick Segal & Pudlin  
One Logan Square, 12th Floor  
Philadelphia, PA 19103-6933

Kenneth Zielonis, Esq.  
Stevens & Lee  
Suite 310  
208 North Third Street  
Harrisburg, PA 17108



Edmund J. Berger  
Assistant Consumer Advocate

Counsel For  
Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120  
(717) 783-5048  
43679

ORIGINAL



DOCUMENT  
FOLDER

OFFICE OF SMALL BUSINESS ADVOCATE

Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, Pennsylvania 17101

Bernard A. Ryan, Jr.  
Small Business Advocate

January 22, 1998

RECEIVED  
JAN 22 PM 2:29  
PROTHONOTARY'S OFFICE  
PAPUC  
(717) 783-2525  
(717) 783-2831 (FAX)

HAND DELIVERED

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

KJR

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 Administrative Law Judge's Sixth Interim Order enclosed please find for filing the Second Joint Stipulation executed by the Office of Small Business Advocate (OSBA). A copy of our testimony and exhibits was filed with the First Joint Stipulation on January 9, 1998. A subsequent filing containing two (2) OSBA cross examination exhibits was filed with your office on January 15, 1998. Copies of all our testimonies have already been served on all parties of record. A copy of this Stipulation is being served upon all parties of record as evidenced by the attached Certificate of Service.

Sincerely,

Angela T. Jones  
Assistant Small Business Advocate

Enclosure

cc: Hon. John Corbett  
Parties of Record

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKETED

FEB 06 1998

PA. P.U.C. PROTHONOTARY'S OFFICE

98 JAN 22 PM 2:29

RECEIVED

DOCUMENT FOLDER

SECOND JOINT STIPULATION

Pursuant to the Sixth Interim Order issued by the Presiding Judge on December 30, 1997, Duquesne Light Company ("Duquesne") submits this Second Joint Stipulation, which provides as follows:

1. The testimony and exhibits itemized on the indices attached hereto shall be admitted into the record of this case.

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

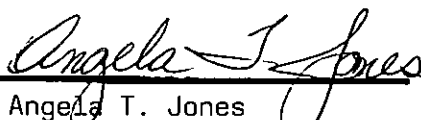
3. Each party sponsoring the testimony and exhibits itemized on the indices attached hereto agrees to execute a copy of this Stipulation by causing counsel of record for each party (or the party itself if that

party is unrepresented by counsel) to place its signature on the appropriate line below. Each such party further agrees to file an executed version of this Stipulation 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 15, 1998

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I certify that I am serving a copy of the foregoing document on behalf of the Office of Small Business Advocate by first class mail upon the persons addressed below:

Hon. John H. Corbett, Jr.  
Administrative Law Judge  
Pa. Public Utility Commission  
1103 Pittsburgh State Office Building  
300 Liberty Avenue  
Pittsburgh, PA 15222  
(412) 565-3550

Larry R. Crayne, Esquire  
Legal Unit  
Duquesne Light Company  
411 Seventh Avenue  
P.O. Box 1930  
Pittsburgh, PA 15230-1930  
(412) 393-6049  
(412) 393-6645 (fax)

John S. Moot, Esquire  
Kurt Bilas, Esquire  
1440 New York Avenue, N.W.  
Washington, DC 20005  
(Duquesne Light Company)  
(202) 371-7310  
(202) 371-7939 (fax)

Kandace F. Melillo, Esquire  
Wayne T. Scott, Esquire  
Office of Trial Staff  
Pa. Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17101  
(Office of Trial Staff)  
(717) 787-1976  
(717) 772-2677 (fax)

James Ferlo, Councilman  
510 City-County Building  
Pittsburgh, PA 15219

Tanya J. McCloskey, Esquire  
Steven K. Steinmetz, Esquire  
Marisa A. Sifontes, Esquire  
Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120  
(Office of Consumer Advocate)  
(717) 783-5048  
(717) 783-7152 (fax)

David Kleppinger, Esquire  
Derrick P. Williamson, Esquire  
McNees, Wallace & Nurick  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
(Duquesne Industrial Intervenors)  
(717) 232-8000  
(717) 237-5300 (fax)

Stephen J. Baron  
J. Kennedy and Associates, Inc.  
Suite 475  
35 Glenlake Parkway  
Atlanta, GA 30328  
(Duquesne Industrial Intervenors)  
(770) 395-1288  
(770) 396-0151 (fax)

Patricia Armstrong, Esquire  
Thomas, Thomas, Armstrong  
& Niesen  
212 Locust Street, Suite 500  
P. O. Box 9500  
Harrisburg, PA 17108-9500  
(Allegheny Elec. Cooperative)  
(717) 255-7600  
(717) 236-8278 (fax)

Steven F. Baicker-McKee, Esq.  
Babst Calland Clements & Zomnir  
Two Gateway Center, 8th Floor  
Pittsburgh, PA 15222  
(Allegheny Teledyne, Inc.)  
(412) 394-5400  
(412) 394-6576 (fax)

Scott J. Rubin, Esquire  
3 Lost Creek Drive  
Selinsgrove, PA 17870  
(Elec. Workers, Local 1600)  
(717) 743-2233  
(717) 743-8145 (fax)

Mary McFall Hopper, Esquire  
Assistant General Counsel  
PECO Energy Company  
2301 Market Street, S23-1  
Philadelphia, PA 19103  
(PECO Energy)  
(215) 841-4917  
(215) 568-3389 (fax)

Kenneth Zielonis, Esquire  
Stevens & Lee  
208 North Third Street  
Suite 310  
P.O. Box 12090  
Harrisburg, PA 17108-2090  
(717) 234-1250  
(717) 234-1939 (fax)

Brian A. Rider, President  
Pennsylvania Retailers' Assoc.  
224 Pine Street  
Harrisburg, PA 17101-1325  
(717) 233-7976

Cynthia S. Bogorad, Esquire  
Spiegel & McDiarmid  
Suite 1100  
1350 New York Avenue, N.W.  
Washington, DC 20005-4798  
(Utility Workers Union)  
(202) 879-4000  
(202) 393-2866 (fax)

Robert F. Young, Esquire  
Deputy General Counsel  
212 Locust Street  
P.O. Box 1266  
Harrisburg, PA 17108-1266  
(Allegheny Elec. Cooperative)  
(717) 233-5704  
(717) 236-0248 (fax)

Stephen L. Feld, Esquire  
Penn Power Company  
Legal Department  
1 East Washington Street  
P.O. Box 891  
New Castle, PA 16103-0891  
(412) 652-5531

Thomas P. Gadsden, Esquire  
Morgan, Lewis & Bockius  
2000 One Logan Square  
Philadelphia, PA 19103  
(Penn Power Company)  
(215) 963-5234  
(215) 963-5299 (fax)

Sheila S. Hollis, Esquire  
Mary Ann Ralls, Esquire  
Duane, Morris & Heckscher LLP  
1667 K Street, N.W. Suite 700  
Washington, DC 20006-1608  
(QST Energy Inc.)  
(202) 776-7800  
(202) 776-7801 (fax)

Vickiren S. Aeschleman, Director  
Regulatory Policy  
QST Energy Inc.  
300 Hamilton Blvd., Suite 300  
Peoria, IL 61602  
(309) 655-1356

Environmental Energy Project  
Attorney of Record  
3700 Vartan Way  
Harrisburg, PA 17110  
(Environmentalists)  
(717) 540-5106  
(717) 541-1970 (fax)

Robert J. Longwell, Esquire  
Daniel Clearfield, Esquire  
Wolf, Block, Schorr & Solis-Cohen  
Locust Court Building  
212 Locust St., Suite 300  
Harrisburg, PA 17101  
(Enron Corp.)  
(717) 237-7160  
(717) 237-7161 (fax)

Kevin McKeon, Esquire  
Malatesta, Hawke & McKeon  
100 North Tenth Street  
P. O. Box 1778  
Harrisburg, PA 17105  
(Peoples Natural Gas Company)  
(717) 236-1300  
(717) 236-4841 (fax)

Howard M. Louik, Esquire  
Allegheny County Law Department  
300 Fort Pitt Commons  
445 Fort Pitt Boulevard  
Pittsburgh, PA 15219  
(Allegheny County)  
(412) 350-1182

Deneice Covert Zeve, Esquire  
Terry Lupia, Esquire  
Office of Attorney General  
14th Floor, Strawberry Square  
Harrisburg, PA 17120  
(Commonwealth of Pennsylvania)  
(717) 787-4530  
(717) 787-1190 (fax)

Exeter Associates  
Suite 350  
12510 Prosperity Drive  
Silver Spring, MD 20904  
(OCA Expert Witness)  
(301) 622-4500  
(301) 622-2686 (fax)

Kenneth L. Wiseman, Esquire  
Andrews & Kurth LLP  
1701 Pennsylvania Avenue NW  
Washington DC 20006  
(Hospital Shared Services)  
(202) 662-2700  
(202) 662-2739 (fax)

John E. Stember, Esquire  
1705 Allegheny Building  
429 Forbes Avenue  
Pittsburgh, PA 15219  
(Low Income Advocates)  
(412) 338-1445  
(412) 232-3730 (fax)

Rodney R. Akers, Esquire  
City of Pittsburgh  
Department of Law  
313 City-County Building  
414 Grant Street  
Pittsburgh, PA 15219  
(412) 255-2015  
(412) 255-2285 (fax)

Samuel W. Braver, Esquire  
Bruce A. Americus, Esquire  
Buchanan Ingersoll Professional Corp.  
One Oxford Centre, 20th Floor  
301 Grant Street  
Pittsburgh, PA 15219-1410  
(City of Pittsburgh)  
(412) 562-8800  
(412) 562-1041 (fax)

Glenn J. Berger, Esquire  
Skadden, Arps, Slate, Meagher  
& Flom LLP  
1440 New York Avenue, N.W.  
Washington, DC 20005-2111  
(Washington Power Company and  
Champion Processing, Inc.)  
(202) 371-7000  
(202) 393-5760 (fax)

Margaret H. Peters, Esquire  
Peoples Natural Gas Company  
625 Liberty Avenue  
Pittsburgh, PA 15222-3197  
(412) 497-6892  
(412) 497-6838 (fax)

Terrance J. Fitzpatrick, Esquire  
David M. DeSalle, Esquire  
Ryan, Russell, Ogden & Seltzer LLP  
Suite 101  
800 North Third Street  
Harrisburg, PA 17102-2025  
(GPU Energy)  
(717) 236-7714  
(717) 236-7816 (fax)

Mark F. Sundback, Esquire  
Andrews & Kurth LLP  
1701 Pennsylvania Avenue NW  
Washington DC 20006  
(Administrative Resources, Inc.)  
(202) 662-2755  
(202) 662-2747 (fax)

Michael Reid, Director  
Materials Management Services  
Administrative Resources, Inc.  
500 Commonwealth Drive  
Warrendale, PA 15086-7513  
(412) 772-7223  
(412) 776-6969 (fax)

Mark J. McGuire, Esquire  
Ronald N. Carroll, Esquire  
Jenner & Block  
Suite 1200, 601 13th Street NW  
Washington DC 20005  
(MidCon Gas Services Corp.)  
(202) 639-6000  
(202) 639-6066 (fax)

Tim Merrill, Esquire  
Suite 200, 4 Penn Center West  
Pittsburgh, PA 15276  
(The Eastern Group)  
(412) 490-0925

Joseph A. Dworetzky, Esquire  
Hangley Aronchick Segal  
& Pudlin  
One Logan Square, Twelfth Floor  
Philadelphia, PA 19103-6933  
(New Energy Ventures)  
(215) 496-7014  
(215) 568-0300 (fax)

Mr. David M. Boonin  
New Energy Ventures, Inc.  
1845 Walnut Street, Suite 2525  
Philadelphia, PA 19103  
(New Energy Ventures)  
(215) 563-9290  
(215) 563-9292 (fax)

James D. Steffes  
Enron Power Marketing, Inc.  
Box 4428  
Houston, TX 77002  
(713) 853-7500  
(713) 646-8160 (fax)

Michael L. Kurtz, Esquire  
Boehm, Kurtz & Lowry  
2110 Society Bank Center  
36 East Seventh Street  
Cincinnati, OH 45202  
(Counsel for ARMCO)  
(513) 421-2255  
(513) 421-2764 (fax)

Robert B. Weisenmiller  
MRW & Associates, Inc.  
Suite 1440  
1999 Harrison Street  
Oakland, CA 94612-3517  
(Hospital Shared Services)  
(510) 834-1999  
(510) 834-0918 (fax)

Robert J. Stefanko, Esquire  
341 South Bellefield Avenue  
Pittsburgh, PA 15213  
(Pittsburgh School District)  
(412) 622-3780

Donald R. Ayersman, Jr., Esquire  
1125 Denver Avenue  
Morgantown, WV 26505  
(IBEW Local 2357)  
(304) 296-3958

Thomas J. Augspurger, Esquire  
MidCon Corporation  
Office of General Counsel  
701 East 22nd Street  
Lombard, IL 60148  
(MidCon Gas Services Corp.)

William T. Hawke, Esquire  
Malatesta, Hawke & McKeon LLP  
100 North Tenth Street  
P.O. Box 1778  
Harrisburg, PA 17101  
(Mid Atlantic Power Supply Assoc.)  
(717) 236-1300  
(717) 236-4841 (fax)

Paul E. Russell, Esquire  
Pennsylvania Power & Light Co.  
Two North Ninth Street  
Allentown, PA 18101-1179  
(PP&L)  
(610) 774-4254  
(610) 774-6726 (fax)

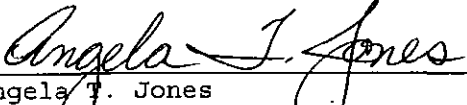
Albert M. Benincasa, Esquire  
Director, Regulatory Affairs  
Skipping Stone  
46 9th Avenue  
Sea Cliff, NY 11579  
(516) 674-4186

Douglas F. John, Esquire  
John & Hengerer  
1200 17th Street, N.W.  
Washington DC 20036  
(Duke Energy Trading/Marketing, LLC)  
(NorAm Energy Management, Inc.)  
(Electric Clearinghouse, Inc.)  
(202) 429-8800  
(202) 429-8805 (fax)

Donald A. Kaplan, Esquire  
Lisa M. Helpert, Esq.  
Preston Gates Ellis & Rouvelas Meeds  
Suite 500  
1735 New York Avenue, N.W.  
Washington DC 20006-4759  
(PP&L)  
(202) 628-1700  
(202) 331-1024 (fax)

Roger Clark, Esquire  
The Environmentalists  
905 Denston Drive  
Ambler, PA 19002-3901  
(215) 643-2364  
(215) 628-2630 (fax)

John O'Brien, Esquire  
Wheeled Electric Power Company  
Suite 207  
50 Charles Lindburgh Boulevard  
Uniondale, NY 11553  
(516) 390-7600

  
Angela T. Jones  
Assistant Small Business Advocate

Date: January 22, 1998

RECEIVED  
98 JAN 22 PM 2:29  
PAJ:U.C.  
PROTHONOTARY'S OFFICE

**MCNEES, WALLACE & NURICK**

ATTORNEYS AT LAW

100 PINE STREET  
P. O. BOX 1166  
HARRISBURG, PA 17108-1166  
TELEPHONE (717) 232-8000  
FAX (717) 237-5300

<http://www.mwn.com>

PAMELA C. POLACEK

DIRECT DIAL: (717) 237-5368

E-MAIL ADDRESS: PPOLACEK@MWN.COM

RECEIVED  
98 JAN 22 PM 1:55  
P.A.P.U.C.  
PROTHONOTARY'S OFFICE  
January 22, 1998

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

DOCUMENT  
FOLDER

**VIA FACSIMILE AND  
FIRST CLASS MAIL**

KJR

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

Dear ALJ Corbett:

This letter responds to the Duquesne Light Company offer of January 20, 1998, to withdraw its objection to the admission of certain Enron cross-examination exhibits if Duquesne is permitted to enter into the evidentiary record an additional exhibit. The Duquesne Industrial Intervenors ("DII") does not find the Company's unilateral "compromise" acceptable. Furthermore, as set forth in the enclosed "Objection to Admission of Exhibits," DII objects to the admission of Duquesne Exhibit DJC-27 into the evidentiary record in this proceeding.

DII urges Your Honor to proceed with consideration of the Enron Motion for Reconsideration paying no countenance to the Duquesne offer.

As evidenced by the attached Certificate of Service, all parties are being served a copy of this document. In addition, the original and three (3) copies are being filed with the Secretary of the Commission.

Very truly yours,

McNEES, WALLACE & NURICK

By

*Pamela C. Polacek*  
Pamela C. Polacek

Counsel to the Duquesne Industrial Intervenors

PCP/

c: John J. McNulty, Secretary (via hand delivery)  
Certificate of Service

**CERTIFICATE OF SERVICE**

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of Section 1.54 (relating to service by a participant).

**VIA FAX AND FIRST CLASS MAIL**

John S. Moot, Esq.  
Skadden, Arps, Slate, Meagher & Flom LLP  
1440 New York Avenue NW  
Washington DC 20005

Daniel Clearfield, Esq.  
Gerald Gornish, Esq.  
Alan Kohler, Esq.  
Robert J. Longwell, Esq.  
Tanya C. Leshko, Esq.  
Wolf, Block, Schorr & Solis-Cohen, LLP  
305 North Front Street, Suite 401  
Harrisburg, PA 17101-1236

Irwin A. Popowsky, Esq.  
Marisa A. Sifontes, Esq.  
Steven K. Steinmetz, Esq.  
Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120

Larry R. Crayne, Assistant General Counsel  
Richard S. Herskovitz, Esq.  
Duquesne Light Company  
411 Seventh Avenue  
P.O. Box 1930  
Pittsburgh, PA 15230-1930

**VIA FIRST CLASS MAIL**

Angela Jones, Esq.  
Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

Kandace Melillo, Esq.  
Wayne Scott, Esq.  
Pennsylvania Public Utility Commission  
Office of Trial Staff  
901 Rear North 7th Street  
P.O. Box 3265  
Harrisburg, PA 17105-3265

David Hughes  
4037 Ludwick Street  
Pittsburgh, PA 15217

Jim Ferlo, Councilman  
510 City-County Building  
Pittsburgh, PA 15219

Scott J. Rubin, Esq.  
IBEW System Council U-10  
3 Lost Creek Drive  
Selinsgrove, PA 17870

Timothy Moran  
986 Greentree Road  
Pittsburgh, PA 15220

Patricia Armstrong, Esq.  
Thomas, Thomas, Armstrong & Niesen  
Allegheny Electric Cooperative  
212 Locust Street, Suite 500  
P.O. Box 9500  
Harrisburg, PA 17108-9500

Mary McFall Hopper, Esq.  
PECO Energy Company  
2301 Market Street S23-1  
P.O. Box 8699  
Philadelphia, PA 19101-8699

Jacqueline R. Morrow, Esq.  
Rodney R. Akers, Esq.  
Assistant City Solicitor  
313 City County Building  
414 Grant Street  
Pittsburgh, PA 15219

Stephen J. Baron  
J. Kennedy & Associates  
35 Glenlake Parkway, Suite 475  
Atlanta, GA 30328

Howard M. Louik, Esq.  
Allegheny County Law Department  
300 Fort Pitt Commons  
445 Fort Pitt Boulevard  
Pittsburgh, PA 15219

Deneice Covert Zeve, Esq.  
Terry Lupia, Esq.  
Office of Attorney General  
14th Floor, Strawberry Square  
Harrisburg, PA 17120

Steven Baicker-McKee, Esq.  
Wanda Schiller, Esq.  
Babst, Calland, Clements & Zomnir, PC  
8th Floor, Two Gateway Center  
Pittsburgh, PA 15222

Kenneth L. Wiseman, Esq.  
Mark F. Sunback, Esq.  
Peter J. Thompson, Esq.  
Andrews & Kurth, LLP  
1701 Pennsylvania Avenue NW  
Washington DC 20006

Kenneth Maiman, Esq.  
Robert M. Lamkin, Esq.  
Andrews & Kurth L.L.P.  
425 Lexington Avenue  
New York, NY 10017-3903

Exeter Associates, Inc.  
12510 Prosperity Drive, Suite 350  
Silver Spring, MD 20904

Michael L. Kurtz, Esq.  
David F. Boehm, Esq.  
Boehm, Kurtz & Lowry  
2110 CBLD Center  
36 East Seventh Street  
Cincinnati, OH 45202

Terrance J. Fitzpatrick, Esq.  
David M. DeSalle, Esq.  
Ryan, Russell, Ogden & Seltzer, LLP  
Suite 101, 800 North Third Street  
Harrisburg, PA 17102-2025

Robert B. Weisenmiller  
MRW & Associates, Inc.  
1999 Harrison Street, Suite 1440  
Oakland, CA 94612-3517

Michael Reid, Director  
Materials Management Services  
Administrative Resources, Inc.  
500 Commonwealth Drive  
Warrendale, PA 15086-7513

Robert J. Stefanko, Esq.  
Pittsburgh School District  
341 South Bellefield Avenue  
Pittsburgh, PA 15213

Margaret Peters, Esq.  
The Peoples Natural Gas Company  
625 Liberty Avenue  
Pittsburgh, PA 15222-3197

**Certificate of Service**  
**Docket No. R-00974104**  
**Page 3**

John Stember, Esq.  
Low Income Advocate Parties  
1705 Allegheny Building  
429 Forbes Avenue  
Pittsburgh, PA 15219

Stephen L. Feld, Esq.  
Pennsylvania Power Company  
1 East Washington Street  
P.O. Box 891  
New Castle, PA 16103-0891

Donald R. Ayersman, Jr., Esq.  
IBEW Local 2357  
1125 Denver Avenue  
Morgantown, WV 26505

Tim Merrill, Esq.  
The Eastern Group  
Suite 200, 4 Penn Center West  
Pittsburgh, PA 15276

Kevin J. McKeon, Esq.  
Malatesta, Hawke & McKeon, LLP  
P.O. Box 1778  
Harrisburg, PA 17101

Thomas P. Gadsden, Esq.  
Morgan, Lewis & Bockius  
2000 One Logan Square  
Philadelphia, PA 19103

William T. Hawke, Esq.  
Mid Atlantic Power Supply Association  
100 North 10th Street  
Harrisburg, PA 17105

Roger E. Clark, Esquire  
The Environmentalists  
905 Denston Drive  
Ambler, PA 19002

Attorney of Record  
Environmental Energy Project  
3700 Vartan Way  
Harrisburg, PA 17110

Paul E. Russell, Esq.  
Pennsylvania Power & Light Company  
Two North Ninth Street  
Allentown, PA 18101

Donald A. Kaplan, Esq.  
Lisa M. Helpert, Esq.  
Preston Gates Ellis & Rouvelas Meeds LLP  
Suite 500  
1735 New York Avenue, NW  
Washington, DC 20006-4759

David M. Boonin  
New Energy Ventures  
1845 Walnut Street, Suite 2525  
Philadelphia, PA 19103

John O'Brien, Esq.  
Wheeled Electric Power Company  
50 Charles Lindburgh Boulevard, Suite 207  
Uniondale, NY 11553

James D. Steffes  
Enron Power Marketing, Inc.  
1400 Smith Street  
P.O. Box 4428  
Houston, TX 77002

Brian Kalcic  
Excel Consulting  
Suite 720-T  
225 S. Meramec Avenue  
St. Louis, MO 63105

Albert M. Benincasa, Esq.  
Director, Regulatory Affairs  
Skipping Stone  
46 9th Avenue  
Sea Cliff, NY 11579

Kenneth Zielonis, Esq.  
Stevens & Lee  
208 North Third Street, Suite 310  
P. O. Box 12090  
Harrisburg, PA 17108-2090

Brian A. Rider, President  
Pennsylvania Retailers' Association  
224 Pine Street  
Harrisburg, PA 17101-1325

Joseph A. Dworetzky, Esq.  
John P. Lavelle, Jr., Esq.  
Luke E. Dembosky, Esq.  
Hangley Aronchick Segal & Pudlin  
One Logan Square, 12th Floor  
Philadelphia, PA 19103

Mr. John Horton  
Senior Regulatory Analyst  
MidCon Corporation  
701 East 22nd Street  
Lombard, IL 60148

Craig Nifong  
MidCon Corporation  
3200 Southwest Freeway  
Houston, TX 77027

Emmitt C. House, Esq.  
Thomas J. Augspurger, Esq.  
MidCon Corporation  
Office of General Counsel  
701 East 22nd Street  
Lombard, IL 60148

Mark J. McGuire, Esq.  
Ronald N. Carroll, Esq.  
Jenner & Block  
601 Thirteenth Street, N.W.  
Twelfth Floor, Suite 1200  
Washington, DC 20005

Gordon J. Smith, Esq.  
Douglas F. John, Esq.  
John & Hengerer  
1200 17th Street, N.W.  
Suite 600  
Washington, DC 20036

Mary A. Ralls, Esq.  
Stephanie A. Sugrue, Esq.  
Sheila Hollis, Esq.  
Duane, Morris & Heckscher LLP  
1667 K Street NW, Suite 700  
Washington, DC 20006-1608

Vickiren S. Aeshleman  
QTS Energy Inc.  
Suite 300  
300 Hamilton Blvd.  
Peoria, IL 61602

Gary A. Jeffries, Esq.  
CNG Energy Services Corporation  
One Park Ridge Center  
P. O. Box 15746  
Pittsburgh, PA 15244-0746

David Cruthirds, Esq.  
Electric Clearinghouse, Inc.  
1000 Louisiana, Suite 5800  
Houston, TX 77002-5050

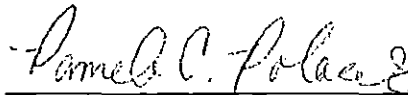
Keith M. Sappenfield, II  
Director of Marketing Support  
NorAm Energy Management, Inc.  
P. O. Box 2628  
Houston, TX 77252-2628

John R. Orr, Esq.  
Duke Energy Trading & Marketing, LLC  
One Westchester Center  
10777 Westheimer, Suite 650  
Houston, TX 77042

Lawrence E. Moncrief, Esq.  
1364 Silverton Avenue  
Pittsburgh, PA 15206

Samuel W. Braver, Esq.  
Bruce A. Americus, Esq.  
Buchanan Ingersoll PC  
One Oxford Centre — 20<sup>th</sup> Floor  
301 Grant Street  
Pittsburgh, PA 15219-1410

John Wilson, Executive Director  
Community Action Association of PA  
222 Pine Street  
Harrisburg, PA 17101



Pamela C. Polacek, Esq.

Dated this 22nd day of January, 1998, in Harrisburg, Pennsylvania.

RECEIVED  
98 JAN 22 PM 1:50  
PAPUC  
PROTHONOTARY'S OFFICE

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Duquesne Industrial Intervenors

v.

Duquesne Light Company

Application of Duquesne Light Company  
for Approval of Restructuring Plan Under  
Section 2806 of the Public Utility Code

Docket No. R-00974104C \_\_\_\_\_

**DOCKETED**

**FEB 16 1998**

PA.P.U.C.  
PROTHONOTARY'S OFFICE

98 JAN 22 PM 1:50

RECEIVED

---

**OBJECTION TO ADMISSION OF EXHIBITS**

---

Pursuant to the procedures set forth in the Sixth Interim Order, Sixth Interim Order, ¶¶ 2 & 4, the Duquesne Industrial Intervenors ("DII") hereby objects to the admission into evidence by Duquesne Light Company of its Exhibit DJC-27. In support thereof, DII states as follows:

1. On December 30, 1997, Administrative Law Judge ("ALJ") John H. Corbett, Jr., issued his Sixth Interim Order in the above-captioned proceeding. That Order canceled the evidentiary hearings scheduled for January 5-9, 1998, set forth procedures for the stipulation of all intervenor testimony and exhibits into the evidentiary record, established a deadline for the development of a common outline for briefs, and, relevant to this objection, established procedures for the admission into the record of data requests.

2. Pursuant to the Sixth Interim Order, on January 12, 1998, Enron Power Marketing, Inc. ("Enron"), forwarded to the ALJ and the parties Enron Cross-Examination Exhibits 6-10, which consisted of responses to data requests that were propounded on DII and the Office of Consumer Advocate by Enron.

**DOCUMENT  
FOLDER**

3. On January 15, 1997, Duquesne submitted to the ALJ and served on the parties its "Objection to Admission of Exhibits." Duquesne objected to the admission of the Enron Exhibits as being untimely, friendly cross-examination, and an alleged violation of Duquesne's due process rights.

4. On January 15, 1998, ALJ Corbett issued his Seventh Interim Order sustaining the Duquesne objection to the admission of the Cross-Examination Exhibits. The ALJ based the decision on due process concerns, a distinction between "answers to the interrogatories" and "responses to on-the-record data requests" and the fact that the exhibits "appear to be friendly cross-examination." See Seventh Interim Order.

5. On January 16, 1998, Enron filed with the Commission and served on the parties the Enron Power Marketing, Inc.'s Motion for Reconsideration of Seventh Interim Order. In that motion, Enron requested the ALJ to reconsider the decision to bar admission of the exhibits.

6. On January 19, 1998, DII forwarded to the ALJ a brief letter in support of the Enron Motion for Reconsideration. The DII letter was filed with the Commission on the following day.

7. On January 20, 1998, Duquesne forwarded to the parties its Answer to the Enron Motion for Reconsideration. In addition, Duquesne indicated that it would withdraw its objection to the admission of the Enron Cross-Examination Exhibit provided that it was permitted to introduce an additional 20 page "exhibit" (Exhibit DJC-27) into the record as well. The Duquesne Exhibit purportedly "provides certain corrections to Enron Exhibits 6-10." See Letter from J. Moot to Judge Corbett (January 20, 1998).

8. DII hereby objects to the admission of Duquesne Exhibit DJC-27. The Exhibit is clearly beyond the scope of documents admissible by stipulation pursuant to the Sixth Interim Order. The Exhibit is misleading. The Exhibit makes “corrections” based on arguments that should have been asserted earlier in the proceeding. Moreover, the Exhibit contains commentary that clearly goes beyond what is necessary to respond and address the DII calculations proposed to be submitted by Enron as a cross-examination exhibit in this proceeding.

9. Duquesne Exhibit DJC-27 is clearly beyond the scope of documents that were contemplated for admission by stipulation under the Sixth Interim Order. Sixth Interim Order, ¶ 2. Regardless of the ALJ’s resolution of the Enron Petition for Reconsideration, the proposed Duquesne Exhibit DJC-27 is clearly not a response to a data request. To the contrary, Exhibit DJC-27 was manufactured by the same party that is requesting its late admission into the evidentiary record. Exhibit DJC-27 is certainly not a “response” as contemplated under the Sixth Interim Order. As further evidence of the inappropriateness of admission of this document under the Sixth Interim Order, the Order specifically states that the responses to the data requests will be admitted into the record “if so requested by the party that made the data request.” Sixth Interim Order, ¶ 2. It is clearly contemplated that the party seeking admission should be a party other than a party that produced the answer to the “data request.”

10. In addition, Exhibit DJC-27 is misleading. The Exhibit purports to correct “certain errors that were both obvious and significant based on Duquesne’s review to date.” Exhibit DJC-27, p. 8. The Exhibit also identifies the tables contained therein as “Corrected DII Response to Enron” and “Corrected OCA Response to Enron.” Id. at 1-7. These tables are not corrected responses by DII — DII forwarded a correct response to Enron. These tables represent how

Duquesne believes the calculations would be determined if its litigation positions were accepted by the Commission in this case. These Exhibits represent, if anything, Duquesne responses to Enron based on the OCA and DII stranded cost calculations. No party to this proceeding requested Duquesne to perform such calculations.

11. The factual assertions contained in the Exhibit are also misleading. For example, the Exhibit contains an illustration of how the Company's treatment of FAS 109 is purportedly mathematically equivalent to the methodology adopted in the PECO restructuring decision. Exhibit DJC-27, pp. 9 & 10. On the surface, the "illustration" shows nothing more than the mathematical truth that adding and subtracting the same number from an equation produces a result identical to not adding the number at all. The exhibit may contain many more similar errors that DII has not detected, does not have sufficient information from Duquesne to analyze, and does not have an opportunity to respond to.

12. Furthermore, the purported "corrections" to the DII Response to Enron are untimely and should have been discussed in the Company's rebuttal case. This proceeding has been through four rounds of testimony.<sup>1</sup> DII witness Baron, in preparing the response to Enron, used the exact same treatment of stranded costs as he used in the CTC calculations contained in his direct testimony. Duquesne had an opportunity to respond to Baron's treatment of these elements in its rebuttal case. It is completely unnecessary for Duquesne to be given another opportunity to respond. This post-hearing litigation of these issues must not be allowed.

---

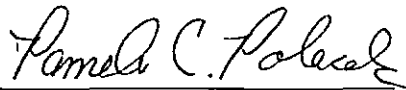
<sup>1</sup>Duquesne has had the opportunity to present direct, rebuttal, surrebuttal and rejoinder testimony.

13. Moreover, Exhibit DJC-27 goes far beyond simply presenting alternative calculations of CTCs. The Exhibit contains an extensive written commentary on the DII calculation. The Exhibit also contains a purported comparison in the difference in treatment between how Duquesne has treated FAS 109 Regulatory Assets versus how PECO treated the same regulatory assets. And, the Exhibit contained two responses by Duquesne witness Lahtinen to Interrogatories of the Office of Small Business Advocate. In the event that this Exhibit as presently constituted is admitted into the evidentiary record in this proceeding, DII must be given the opportunity to respond to this commentary after thorough discovery on a number of issues raised in the Company's analysis. Duquesne's positions on these issues must not be allowed into the record un rebutted. It is clearly inconsistent with DII due process rights to admit this Exhibit into evidence.

**WHEREFORE**, for the reasons mentioned in detail above, DII respectfully requests the presiding Administrative Law Judge to deny admission of Duquesne's Exhibit DLC-27. In the alternative, if DII's objection to proposed Exhibit DJC-27 is overruled, DII requests a fair opportunity to conduct discovery and submit an evidentiary response to this Exhibit.

Respectfully submitted,

McNEES WALLACE & NURICK

By 

James P. Dougherty  
Pamela C. Polacek  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
(717) 237-5249

Counsel for the Duquesne Industrial Intervenors

Dated: January 22, 1998