

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

ORIGINAL

DIRECT DIAL  
 (202) 371-7714  
 DIRECT FAX  
 (202) 371-7096

005740

August 19, 1998

James J. McNulty  
 Office of the Prothonotary  
 Pennsylvania Public Utility Commission  
 North Office Building, Rm. B-20  
 North St. & Commonwealth Ave.  
 Harrisburg, PA 17105-3265

DOCUMENT FOLDER

RECEIVED SECRETARY'S BUREAU

98 AUG 24 AM 9:37

Re: R-00974104 - Supplier Tariff Conference

Dear Mr. McNulty:

Enclosed is a copy of a Notice from Duquesne Light Company ("Duquesne") to licensed Electric Generation Suppliers ("EGSs") and interested parties regarding Duquesne's proposal to hold a Supplier Tariff conference on Thursday, August 27, 1998.

Sincerely,

Victor A. Contract  
 Counsel to Duquesne Light Company

Enclosure

cc: All Parties  
 Licensed EGSs who indicated  
 an interest in Serving Customers  
 of Duquesne

SRB

87

005741

NOTICE

August 19, 1998

TO: Licensed Electric Generation Suppliers and Interested Parties  
 FROM: Duquesne Light Company  
 RE: R-00974104 - Supplier Tariff Conference

98 AUG 24 AM 9:37  
 RECEIVED  
 SECRETARY'S BUREAU

Pursuant to the Order on Compliance Filing dated August 13, 1998, Duquesne Light Company hereby notifies licensed Electric Generation Suppliers and interested parties that it will convene a conference to resolve outstanding matters involving the proposed Supplier Tariff.

The conference will be held on Thursday, August 27, 1998 at 10:00 A.M. at the David L. Lawrence Convention Center, 1001 Penn Avenue, Pittsburgh, PA 15222 (directions are attached). In order to estimate attendance at the meeting, please confirm with Mark Freise at (412) 393-6366 (telephone) or (412) 393-6018 (fax).

For further information, please contact Richard Herskovitz at (412) 393-6129, Mark Freise at (412) 393-6366, or Victor Contract at (202) 371-7714.

Attachment

DOCKETED  
 AUG 26 1998

DOCUMENT  
 FOLDER

**DIRECTIONS TO:  
DAVID L. LAWRENCE CONVENTION CENTER  
1001 PENN AVENUE  
PITTSBURGH, PA 15222-3899  
(412) 565-6000**

**FROM AIRPORT**

Follow 279 North through the Ft. Pitt Tunnels and across the Ft. Pitt Bridge. Take the 10th Street Bypass to 10th Street. The Convention Center is located at the corner of 10th Street and Penn Avenue.

**FROM EAST**

Follow the Turnpike (route 76) to Exit 6 (Monroeville). Follow 376 West to the boulevard of the Allies Exit and follow this to the Crosstown Boulevard. Stay to the left and follow the Convention Center signs. At the second light make a right onto Smithfield Street. At the next light make a right onto Liberty Avenue. At the next light make a left onto 10th Street. The Convention Center is located on the corner of 10th Street and Penn Avenue.

**FROM NORTH**

Take 79 South to 279 South. Follow 279 toward 579 Liberty Bridge. Follow the signs for Pittsburgh and the Lawrence Convention Center. The Convention Center is located on the corner of 10th Street and Penn Avenue.

**FROM OHIO TURNPIKE**

Follow Pennsylvania turnpike to Exit #5 (Allegheny Valley). Take Route 28 South and follow to the North Side of Pittsburgh. Go across the 16th Street Bridge and make a right onto Penn Avenue. The Convention Center is located on the corner of 10th Street and Penn Avenue.

**FROM SOUTH**

Take 79 North to the Pittsburgh Exit. Follow 279 North through the Ft. Pitt Tunnels and across the Ft. Pitt Bridge. Take the 10th Street Bypass to 10th Street. The Convention Center is located on the corner of 10th Street and Penn Avenue.

**FROM WEST VIRGINIA (WHEELING, MORGANTOWN)**

Take Route 70 to Washington, PA. Proceed to Route 79 North and take 279 North (continue with directions from airport).

**LANDMARKS NEAR THE CONVENTION CENTER**

Double Tree Hotel and Greyhound Bus Terminal

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION

Docket No. R-00974104

v.

DUQUESNE LIGHT COMPANY  
Application to Approve  
Restructuring Plan Pursuant  
to 66 Pa.C.C. §2806(d)

RECEIVED

AUG 26 1998

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU  
GENERATION AUCTION PLAN  
OF  
DUQUESNE LIGHT COMPANY

DOCUMENT  
FOLDER

Larry R. Crayne  
Assistant General Counsel  
Richard S. Herskovitz  
Corporate Attorney  
Duquesne Light Company  
411 Seventh Avenue  
Pittsburgh, PA 15219  
(412) 393-6049  
(412) 393-6129

John S. Moot  
Kathleen L. Barrón  
Skadden, Arps, Slate, Meagher  
& Flom LLP  
1440 New York Ave., N.W.  
Washington, D.C. 20005  
Counsel for Duquesne Light Company  
(202) 371-7310  
(202) 371-7939 (fax)

Dated: August 27, 1998

DOCKETED

SEP 01 1998

## TABLE OF CONTENTS

INTRODUCTION .....	1
I. ADMINISTRATIVE PROCEDURES .....	4
II. AUCTION DESIGN AND TIMETABLE .....	6
A. Two-Phase, Sealed Bid Procedure .....	6
B. Prohibited Forms of Bidding .....	7
C. Bidder Qualifications .....	8
D. Other Bid Evaluation Criteria .....	9
E. Asset Bundles .....	10
F. Market Power Considerations .....	11
G. Auction Procedures and Timetables .....	13
III. ASSETS AND ENCUMBRANCES TRANSFERRED .....	16
A. General .....	16
B. Specific Assets Transferred .....	16
1. Wholly Owned Fossil Plants .....	17
2. Jointly Owned Fossil Units .....	17
3. Jointly Owned Nuclear Units .....	18
4. Purchased Power Contracts .....	19
5. Power Sale Contracts .....	19
C. Specific Obligations and Encumbrances .....	20
1. CAPCO Agreements .....	20
2. Environmental Issues .....	21
(a) General .....	21
(b) SO <sub>2</sub> and NO <sub>x</sub> Emissions .....	22
(c) Operating Permits .....	23
3. Decommissioning .....	24
4. Beaver Valley Lease .....	24
IV. PROVIDER OF LAST RESORT .....	24
V. OPERATIONAL ISSUES .....	26
A. Transmission Service .....	26
B. Maintaining System Reliability .....	27
1. Interconnection Agreement .....	28
2. Ancillary Services .....	28

	(a) Scheduling Service .....	29
	(b) Reactive Supply and Voltage Control .....	29
	(c) Regulation and Frequency Response Service .	30
	(d) Energy Imbalance Service .....	31
	(e) Operating Reserve – Spinning Reserve Service .....	32
	(f) Operating Reserve – Supplemental Reserve Service .....	32
	3. "Must-Run" Service .....	33
VI.	IMPACT ON EMPLOYEES AND COMMUNITIES .....	34
VII.	ACCOUNTING FOR AUCTION PROCEEDS .....	35
VIII.	REGULATORY APPROVALS .....	36
	A. Pennsylvania Approvals .....	37
	B. Federal Energy Regulatory Commission Approvals .....	37
	C. Nuclear Regulatory Commission .....	38
	D. U.S. Department of Justice and Federal Trade Commission .	38

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>Pennsylvania Public Utility</b>	)	
<b>Commission,</b>	)	
<b>v.</b>	)	<b>Docket No. R-00974104</b>
<b>Duquesne Light Company</b>	)	
<b>Application to Approve</b>	)	
<b>Restructuring Plan Pursuant</b>	)	
<b>to 66 Pa. C.S. § 2806(d)</b>	)	

**GENERATION AUCTION PLAN  
OF  
DUQUESNE LIGHT COMPANY**

---

Pursuant to the Commission's May 29, 1998 order in this proceeding ("Restructuring Order"), Duquesne Light Company ("Duquesne") hereby submits the plan by which it will auction its generating assets to determine the stranded costs associated therewith ("Auction Plan").<sup>1</sup>

**INTRODUCTION**

The Restructuring Order approved Duquesne's auction plan on the basis of a finding that "only a market-based determination of stranded costs can reasonably satisfy the 'known and measurable' criteria set forth in the Act." Restructuring Order at 83. "Specifically, an actual 'arms length' market transaction between a willing seller and a willing buyer to determine the value of an asset is superior to the expert predictions of

---

<sup>1</sup> This filing is in furtherance of Duquesne's stand-alone restructuring plan, which applies if the merger with Allegheny Energy, Inc. is not consummated.

what the future value of the asset may be." *Id.* at 79. The overriding objective of the Auction Plan therefore is to allow the market to establish a fair valuation of Duquesne's generation assets (and liabilities), which, in turn, will ensure that Duquesne recovers no more, and no less, than its known and measurable stranded costs from ratepayers. The principal elements of the plan are summarized briefly below. . . .

The first section addresses the administrative procedures applicable to the auction. These procedures include, as prescribed by the Commission, a 60-day comment period for interested parties and a 30-day response period for Duquesne. Duquesne also is agreeing to sponsor a technical conference to provide interested parties an additional opportunity to receive information regarding the auction prior to the filing of their comments. Duquesne is hopeful that informal processes such as this conference will reduce the number of issues that are presented to the Commission.

The second section describes the auction design and timetable. Duquesne is using the same two-phase, sealed bid procedure that has proven successful in recent auctions in other regions of the country. The procedure provides an initial round of nonbinding bids that can be used to identify the bidders that place the highest value on the assets, provides all bidders the opportunity to comment on the transaction documents, and identifies the asset "bundles" that are most likely to maximize value. The second round of bidding is limited to a short list of bidders that, after having the opportunity for expanded due diligence, submit binding, sealed bids; Duquesne will then select the bid(s)

that best maximize value and balance other relevant considerations. This section also discusses other design issues, such as factors unique to the nuclear assets and market power considerations.

The third section provides an overview of the significant assets and encumbrances being transferred. The assets include, *inter alia*, the generating units, the plant sites, rights-of-way, fuel stocks, environmental allowances, and the generation-related labor force. The liabilities include, *inter alia*, environmental and decommissioning expenses, fuel and other contract obligations associated with the plants, and labor-related expenses, including union contracts and pension liabilities. Potential purchasers will be provided detailed information regarding all material rights and obligations associated with the plants, thereby ensuring that they have a full appreciation of these matters before final bids are due.

The fourth section addresses the provider of last resort ("POLR") responsibility. Duquesne will consider, during the course of the auction, several options to fulfill this responsibility, including entering into transition power contracts with the generation purchasers and/or using wholesale market purchases. Duquesne also will consider whether to auction (or retain) the POLR rights and obligations.

The fifth section addresses operational issues such as transmission access, ancillary services, and "must-run" plants. Generally, this section addresses the manner in which reliability will be maintained following the divestiture, including the procedures

and contracts that will govern the procurement of ancillary services and must-run services from the divested generators.

The sixth section addresses the impact on employees and communities. Duquesne expects that its generation-related workforce will be a valuable asset to potential purchasers. Duquesne is currently negotiating with its union to reach a mutually acceptable resolution of labor-related issues, but no agreement has been reached at this time.

The seventh section discusses the accounting for auction proceeds. It provides a brief overview of the various elements of this accounting, including transaction costs and tax effects. A more detailed discussion is included in Appendix G, which also provides a numerical example that illustrates the accounting under a set of assumed circumstances.

The eighth, and final, section describes the regulatory approvals associated with the divestiture.

## **I. ADMINISTRATIVE PROCEDURES**

The Restructuring Order provides that, upon the filing of this Auction Plan, interested parties will have 60 days to file written comments and Duquesne will have 30 days to respond. Restructuring Order at 80. The Commission is then expected to issue an order approving, subject to modifications, the Auction Plan. Duquesne is requesting that, in such an order, the Commission provide certainty as to (i) the auction

procedures that have been approved, and (ii) the accounting for the auction proceeds. Providing such certainty will be important to bidders, giving them confidence that the asset sale will close on a timely basis without regulatory delays. It is also important that neither Duquesne nor the buyers be subject to a *post-hoc* review of matters related to the conduct of the auction. Certainty is beneficial to consumers as well, as it will enhance the auction and facilitate a final determination of CTCs as soon as possible.

To expedite this process, Duquesne will sponsor a technical conference that permits interested parties, in advance of filing their comments, to discuss the Auction Plan in more detail with Duquesne. Duquesne will determine an appropriate date and format for such a conference after consultation with some of the more active parties in the case. Duquesne is hopeful that this conference, and any follow-up discussions, will clarify issues and lead to a dialogue that supports a mutually agreeable resolution of certain issues, thereby reducing the number of issues presented for Commission review.<sup>2</sup>

Duquesne also intends to keep the Commission staff apprised of material developments during the pendency of the auction. While Duquesne will not be requesting Commission pre-approval of any matter, it is important that Duquesne be able to provide updates to the Commission regarding nonconfidential information relevant to

---

<sup>2</sup> In addition to the technical conference, interested parties may contact the undersigned if there are portions of the Auction Plan they wish to discuss further with representatives of the Company on an informal basis.

each phase of the auction.<sup>3</sup> In the event that significant modifications to the Auction Plan are necessary or appropriate, Duquesne would submit any such proposed modifications to the Commission as an amendment to the Auction Plan for its review and approval. Any such amendments would be subject to comment by the parties to this case. Such amendments could include the filing of agreements with the union or FirstEnergy Corp. regarding the disposition of Duquesne's share of the jointly owned units.

## II. AUCTION DESIGN AND TIMETABLE

### A. Two-Phase, Sealed Bid Procedure

Duquesne will use the same two-phase,<sup>4</sup> sealed bid procedure that has been used in virtually all of the other recent generating plant divestitures. This procedure has several benefits. The first bidding phase solicits nonbinding "indicative" bids, thereby allowing the Company to identify the investors that place the highest value on the plants and indicating whether there is a common preference as to the "bundling" of particular assets. It also allows the Company to review bidders' comments on drafts of the Asset Purchase Agreement and other relevant documents (the "Transaction Agreements"), so that the short-listed bidders know in advance the scope and nature of the assets and liabilities they will assume and can tailor their due diligence accordingly.

---

<sup>3</sup> This is similar to the informal process used in other jurisdictions. *See, e.g., Order Authorizing the Process for Auctioning of Generating Plant, New York State Electric & Gas Co., Case No. 96-E-0891* (N.Y. PSC Apr. 24, 1998) (utility directed to "consult with staff on the important auction decisions").

<sup>4</sup> The "two phases" relate to the two *bidding* phases. In addition, there is a preliminary phase involving the qualification of bidders and a closing phase involving regulatory approvals.

These nonbinding bids are based on summary materials provided to all bidders by Duquesne, rather than on detailed due diligence by every purchaser, thereby lessening the resource and financial burdens on all parties at this initial stage.

The second phase then allows the short list of bidders to perform detailed due diligence based on revised drafts of the Transaction Agreements that will form the basis for all final bids, which can then be compared, to the extent practicable, on a consistent basis. The sealed nature of the bids also is beneficial. It preserves confidentiality, limits the possibility of judicial challenges by losing bidders, and ensures that each investor bids on the basis of its own analysis of plant value without regard to whether other bidders arrive at lower valuations. These procedures are discussed in more detail in Section II.G.

**B. Prohibited Forms of Bidding**

The goal of maximizing auction proceeds is best achieved by attracting the largest number of bidders, by sustaining a high level of competition throughout the process, and by keeping each bidder's deliberations confidential. Seeking the largest possible pool of bidders will ensure that those placing the highest value on the company's assets participate. Ensuring that bidders participating in both bidding phases maintain their individual identity will help to sustain the high level of competition. Maintaining the confidentiality of bidders' efforts also will help to ensure that the highest possible

price is received. For these reasons, certain restrictions will be placed on bidders during the auction process.

The limitations are as follows. Bidders will be prohibited from joining with other bidders during the auction process except as disclosed to Duquesne in the initial statement of interest.<sup>5</sup> This includes acting through partnership, joint venture or *limited liability entities in which the actual participants are not disclosed*, or acting in any advisory capacity or holding an option with another bidding entity. All bidders will be restricted from cooperating, communicating or colluding with other bidders, and from disclosing to other bidders any confidential information, including the content of bids, the bidding strategies or the conditions to their bids. These are standard restrictions used in many previous auctions.

### **C. Bidder Qualifications**

Duquesne will not consider proposals from any entity that does not have an established record of experience in the ownership and operation of electric power projects. In order to ensure the continued reliability of electric service, in the preliminary phase, each potential bidder will be required to set forth its experience in this area. This discussion must include identification of specific electric plants owned and/or operated by that potential bidder, with their size and fuel type described. The Company will not

---

<sup>5</sup> Bidding combinations will be permitted if they are disclosed and accepted by Duquesne in advance of the submission of such bids. Any proposed group disclosed in the initial statement must include information on each member of the group and must include a separate statement of interest from each group member.

approve any applicant to proceed into Phase I unless that applicant has demonstrated that it has this required experience.

As a part of their responses to Phase I, along with their indicative, non-binding bids, bidders may be required to expand on their experience in the ownership and/or operation of electric plants. In addition, they will be required to provide proof that they have the financial ability to complete the transaction without a financing contingency if they are selected. The bidders also will have to state any objections they have to the forms of the Transaction Agreements presented to them, so that the Company can evaluate each bidder's willingness to conform to the standards proposed. Duquesne will take all of these elements into account in evaluating the Phase I bids.

**D. Other Bid Evaluation Criteria**

In addition to the foregoing qualifications, Duquesne will apply economic criteria in determining whether a bid constitutes a "qualifying bid." This factor could arise in a sale of Duquesne's nuclear assets, as such assets have produced few, if any, bids in other sales/auctions nationally. The test for a qualifying bid will be as follows:

Duquesne may accept a bid for any asset, or bundle of assets, if the after tax proceeds to Duquesne exceed the after tax costs that Duquesne would incur if the unit was not sold, such costs to include decommissioning and any other continuing costs (such as the Ohio property taxes associated with Perry).<sup>6</sup>

---

<sup>6</sup> Using this criterion, it is possible that Duquesne would accept what otherwise might be viewed as a "negative bid," *i.e.*, an agreement to sell the plant for a net value of less than zero. As an

## E. Asset Bundles

The Auction Plan is designed, to the extent practicable, to allow potential purchasers (*i.e.*, the market) to determine the divestiture structure that best maximizes the value of Duquesne's assets. Duquesne has a mix of generation, including both nuclear and fossil. Some of these assets are wholly-owned and operated; others represent only a minority, non-operating shares of units operated by FirstEnergy Corp.; and others are minority, operating interests (Beaver Valley). Investors will likely place differing values on varying combinations of these assets. Recognizing this, Duquesne will permit the submission of nonbinding bids for any combination of the assets at the initial stage of the auction.<sup>7</sup> This will allow the market to signal which asset bundles are preferred. Using this information, Duquesne may define the bundles on which all final bids must be based, such that final bids can be compared on a consistent basis.

---

example, a qualifying bid for Duquesne's interest in the Perry nuclear plant would be an agreement to purchase the asset provided Duquesne makes a payment of \$5 million to the purchaser to cover additional decommissioning costs. The net cost to Duquesne, \$5 million, is less than the costs that would be incurred if Duquesne continued to own the unit, even if the unit was thereafter shut down. *See* DLC Ex. DJC-13. In calculating the qualifying bid for any unit, Duquesne will not "double count" costs, such as labor-related expenses, to the extent such costs are avoided (or recovered) through other elements of the Auction Plan, such as the accounting for proceeds.

<sup>7</sup> However, Duquesne will require bidders in the initial round to allocate their proposed purchase price among the selected assets. This will provide useful information regarding the appropriate asset bundles to be used for Phase II bidding.

With respect to the CAPCO Units (eight units at five plant sites that Duquesne owns, as a tenant in common, with FirstEnergy Corp.<sup>8</sup>), the Restructuring Order requires Duquesne to submit a plan of disposition, including an evaluation of its ability to "swap Duquesne's stake in [the nuclear] units with [FirstEnergy] for the output of other fossil units." Restructuring Order at 81. Duquesne has commenced discussions with FirstEnergy to determine if there is a mutually agreeable approach to the treatment of the CAPCO Units in this or any other manner. No agreement has yet been reached, nor can any representation be made that such an agreement will occur. In the interim, Duquesne is taking all actions necessary to protect its rights to dispose of the CAPCO assets without unreasonable restrictions.<sup>9</sup>

**F. Market Power Considerations.**

There are several scenarios under which market power concerns may be relevant to the generation auction. The U.S. Department of Justice will have authority to review the transfer under the Hart-Scott-Rodino Antitrust Improvements Act.<sup>10</sup> This

---

<sup>8</sup> CAPCO, the Central Area Power Coordination Group, was the name given to the original group of utilities that constructed the CAPCO units, The Cleveland Electric Illuminating Company ("CEI"), Ohio Edison Company, Pennsylvania Power Company, Toledo Edison Company, and Duquesne Light Company. Each of the other four utilities are now affiliated with FirstEnergy. The CAPCO Units are Beaver Valley Power Station Units Nos. 1 and 2, Perry Unit No. 1, W.H. Sammis Unit No. 7, Bruce Mansfield Units Nos. 1, 2 and 3, and Eastlake Unit No. 5.

<sup>9</sup> See *Duquesne Light Co., Ohio Edison Co. et al.*, FERC Docket No. EL98-68-000 (filed July 31, 1998) (complaint seeking finding that FirstEnergy cannot unreasonably withhold consent to the assignment of the CAPCO agreements to the purchaser of Duquesne's generating assets).

<sup>10</sup> 15 U.S.C. § 18a(a)(3).

Commission must approve the disposition of Duquesne's plants and may consider market power implications in its decision.<sup>11</sup> The FERC will consider market power in determining whether the purchaser(s) should be granted authority to sell power from the plants at market-based rates.<sup>12</sup>

In recognition of the foregoing, Duquesne will request that each bidder that owns substantial assets in the market area (ECAR) submit an analysis of the degree to which its planned acquisition would impact wholesale or retail power markets. Duquesne will request that the purchaser utilize the FERC's Merger Guidelines as a guide in analyzing such effects. Duquesne will consider this market power analysis in determining whether to place any limitations on the bidders, such as accepting final bids only for selected plants or with a total MW capability that is capped. The foregoing determinations would be without prejudice to the Commission or any other regulatory body making its own determination as to whether transferring the plants to any particular bidder(s) raises market power concerns.

---

<sup>11</sup> See 66 Pa.C.S. § 2811(e); Opinion and Order, *Joint Application of DQE, Inc., Allegheny Power System, Inc. et al.*, Docket No. A-110150F.0015 (PaPUC May 29, 1998).

<sup>12</sup> *El Segundo Power, LLC et al.*, 84 FERC ¶ 61,011 (1998) (market-based rates for ancillary services); *El Segundo Power, LLC*, 82 FERC ¶ 61,126 (1998) (market-based rates for power sales).

## **G. Auction Procedures and Timetables**

The auction procedures, including the preliminary and closing phases, are discussed in more detail below.

**Preliminary Phase (2-4 weeks):** Duquesne will send letters to a broad range of potential bidders announcing the auction of its generating assets. Interested and qualified parties will submit initial indications of interest and evidence of their qualifications to bid, including their experience in owning and/or operating electric plants. In order to receive the Offering Memorandum and other material essential to participation in Phase I, all bidders must sign a confidentiality agreement (draft attached as Appendix C). *To expedite the auction, Duquesne expects to commence this phase prior to receipt of a Commission order on the Auction Plan.*

**Phase I (6-8 weeks):** Duquesne will make an initial selection of bidders who are qualified by their experience to be considered to purchase the assets. The selected bidders will then receive a copy of the Offering Memorandum, selected due diligence information and drafts of the Asset Purchase Agreement and other Transaction Documents.<sup>13</sup> During Phase I, those participants will be permitted to ask questions through Duquesne's investment advisors, but they will not be allowed to conduct additional due diligence beyond the materials supplied. At the end of Phase I, the bidders

---

<sup>13</sup> A term sheet for the Asset Purchase Agreement is attached as Appendix D; term sheets for the Interconnection Agreement and Operating Agreement are attached as Appendices E and F.

will be invited to submit non-binding, indicative initial bids ("Initial Bids") to express their interest in acquiring some, all, or any combination of the assets offered.

An Initial Bid should include a description of the assets to be purchased; an indicative, non-binding purchase price and an allocation of that price among the assets to be purchased; a description of any conditions precedent to closing, including corporate or regulatory approvals; evidence of the bidder's experience in operating electric power plants; a discussion of the bidder's plans for mitigating the impact of the sale on utility employees; and a description of the anticipated sources and structure for financing the acquisition.<sup>14</sup> In addition, bidders must submit copies of the Asset Purchase Agreement and other Transaction Documents marked to show objections or suggested changes, if any.

Based on these Initial Bids, Duquesne expects to select and notify a smaller number of participants ("Phase II Bidders") to be invited to participate in Phase II of the auction.

**Phase II (10-15 weeks):** Phase II Bidders will receive complete bidding instructions for the Final Bid. Based on the results of the Initial Bids, Duquesne will have decided whether or not to divide the assets into required groupings for the Final Bid. Duquesne will also distribute a revised version of the Asset Purchase Agreement and the other Transaction Documents, based on the comments received in Phase I and such other

---

<sup>14</sup> No financing contingencies will be permitted (*i.e.*, purchasers will not be permitted to refuse to close the transaction in the event they do not receive satisfactory financing).

matters as Duquesne may deem appropriate. During Phase II, the Bidders will have the opportunity to conduct substantial additional due diligence, to tour the asset facilities that are for sale and to meet with members of Duquesne's management team. Requests for additional information will be accommodated at the discretion of the Company.

At the conclusion of Phase II, Phase II bidders may either withdraw or submit final, binding bids. Duquesne will set forth bidding requirements intended to ensure that these bids are not encumbered with substantial conditions or requirements for changes to the terms as they are then proposed.

Following submission of these Final Bids, Duquesne may select one or more winning bidders or may negotiate further issues with one or more bidders.<sup>15</sup> In the event a number of acceptable bids offer substantially identical consideration for some or all of the assets, Duquesne may employ a process by which bidders have the opportunity to improve their offers in order to enhance their chances of becoming a winning bidder. Duquesne therefore reserves the right to conduct additional informal bidding rounds among selected bidders over a short time frame under appropriate circumstances. Once the winning bidder(s) are selected, Duquesne will proceed to the execution of the Asset Purchase Agreement and any related agreements with each such bidder as expeditiously as possible.

---

<sup>15</sup> In the unlikely event that insufficient qualifying bids are received for some or all of the facilities, Duquesne reserves the right to reject any such bids and to cancel the auction as to those plants or, in the alternative, to restart the process using, *inter alia*, revised protocols. Any such decision would be filed with the Commission for its review.

**Closing Phase:** The closing phase of the auction will begin with the public announcement of the transaction by Duquesne and the successful bidder(s). Those parties will then make all filings required and pursue all of the regulatory approvals necessary to consummate the sale of the assets. The closing will take place as soon as all of those approvals have been secured.

The preliminary timetable for the auction is attached as Appendix H.

### **III. ASSETS AND ENCUMBRANCES TRANSFERRED**

#### **A. General**

Duquesne intends to divest all of the assets and liabilities that are related to its generating stations and to retain all that are related to its transmission assets.<sup>16</sup> Specific assets and encumbrances are described in more detail below and in Appendix A.

#### **B. Specific Assets Transferred**

Appendix A is a summary of the physical characteristics of each facility that will be offered in the auction, including location, fuel, number of units, net dependable capability and seasonal capability, commercial operation date, major rebuild dates, and any other key technical facts. The key facilities and contracts being transferred are briefly summarized below.

---

<sup>16</sup> As a general matter, the point of physical demarcation between the retained transmission assets and the divested generation assets is the high voltage bushings of the main unit step-up transformer(s) and the station service transformer(s).

## **1. Wholly Owned Fossil Plants**

Duquesne wholly owns four fossil generating plants: Cheswick (570 MW), Elrama (487 MW), Phillips (308 MW) and Brunot Island (234 MW). The first two plants, Cheswick and Elrama, are coal-fired plants for which the Restructuring Order authorizes full stranded cost recovery. The Phillips Plant is not in rate base and is not subject to stranded cost recovery under the Restructuring Order. Consequently, the proceeds for the sale of this plant, if any, will be retained by shareholders. The Brunot Island plant is a hybrid facility, with Units 1 and 2 subject to stranded cost recovery and Units 3 and 4 not in rate base and not subject to stranded cost recovery. The proceeds for the sale of the former will be credited to stranded cost recovery, while the proceeds from the sale of the latter will be retained by shareholders. Bidders will be required to specify separate values for the non-rate base units so that a market-based allocation of proceeds can be made.

## **2. Jointly Owned Fossil Units**

Duquesne has an ownership interest as a tenant in common with FirstEnergy in five fossil units at three plant sites: Mansfield Unit Nos. 1-3 (400 MW), Eastlake Unit No. 5 (186 MW), and Sammis Unit No. 7 (187 MW).<sup>17</sup> In each instance, Duquesne's interest represents a minority, non-operating interest in the unit. Duquesne's rights and obligations regarding the operation of the unit and the costs associated

---

<sup>17</sup> The MW capability of the units refers to Duquesne's share of unit capability.

therewith are specified in the unit operating agreements. Duquesne will transfer these rights and obligations with its ownership interest in the units to the new owner(s).

### **3. Jointly Owned Nuclear Units**

Duquesne has an ownership interest as a tenant in common with FirstEnergy in three nuclear units at two plant sites: Beaver Valley Unit Nos. 1 & 2 (498 MW) and Perry Unit No. 1 (164 MW).<sup>18</sup> Duquesne is a minority owner of each unit, but is the operator of the Beaver Valley plant. Duquesne's rights and obligations regarding the operation of each unit and the costs associated therewith are specified in the unit operating agreements. Duquesne expects to transfer these rights and obligations with its ownership interest in the units to the new owner(s).

Consistent with industry practice, including GPU's sale of the Three Mile Island plant, Duquesne will meet with qualified nuclear operators to assess their interest in purchasing these nuclear assets. Given the limited number of qualified purchasers and the potential complexity of the sale of nuclear capacity, Duquesne expects to begin such meetings prior to issuance of a Commission order on the Auction Plan.

### **4. Purchased Power Contracts**

Duquesne has three power purchase contracts that were entered into over ten years ago pursuant to its obligations under the Public Utility Regulatory Policies Act of 1978 ("PURPA"). Two of these agreements are with small hydroelectric projects and

---

<sup>18</sup> The MW capability of the units refers to Duquesne's share of unit capability.

the third is with a small landfill gas-fired facility, all of which are Qualifying Facilities under PURPA. Duquesne is obligated to purchase "any and all of the [net] electric energy . . . to be generated" at these three projects; under the contracts, the projects could have a maximum total net output of about 12 MW, but they have actually produced only about 6 MW. Duquesne pays for this power at its filed tariff rate for such purchases. Duquesne intends to transfer and assign these three power purchase agreements to a purchaser under the auction.

#### **5. Power Sale Contracts**

Duquesne entered into a 100 MW, eight-year firm power sale ("Power Sale Agreement" or PSA), terminating on December 31, 2005, in conjunction with its Request for Proposals issued as part of the Restructuring Plan. Duquesne's power sale auction was consistent with the Commission's Order of October 2, 1997, which encouraged all Pennsylvania utilities to "sell an amount of capacity into the market equivalent to the pilot amount."<sup>19</sup> Because Duquesne will no longer be able to supply the 100 MW from its owned generation, Duquesne will transfer its rights and obligations under the contract to one of the winning bidders.<sup>20</sup> Duquesne will bundle the PSA with

---

<sup>19</sup> *Chapter 28 Electricity Generation Customer Choice and Competition Act Retail Access Pilot Programs*, Docket Nos. P-00971168, *et al.*, Order, slip op. at 3 (Oct. 2, 1998).

<sup>20</sup> Duquesne has the right to assign its interest in the PSA contract with the prior written consent of the purchaser, which consent shall not be unreasonably withheld. Power Sale Agreement § 7.6 (incorporating by reference § 4.8 of Exhibit II thereof). (The Power Sale Agreement is included as an exhibit to Robert Irvin's direct testimony in this proceeding, DLC Ex. RAI-4 at 11.)

sufficient generating assets to support the sale in a manner that best maximizes total value.

### **C. Specific Obligations and Encumbrances**

#### **1. CAPCO Agreements**

The operation of the CAPCO units is governed by five nearly identical operating agreements.<sup>21</sup> These operating agreements set forth the rights and responsibilities of the operator of each plant, which in all cases other than Beaver Valley is an affiliate of FirstEnergy. The agreements also detail the obligations of the non-operator owners to contribute to the costs of operating and maintaining the plants and the corresponding rights to receive capacity and energy from the plants. As part of the divestiture, Duquesne expects to assign its interest in the operating agreement associated with each CAPCO asset that is divested.<sup>22</sup>

The CAPCO companies also entered into the Transmission Facilities Agreement, which designated certain transmission facilities as CAPCO lines to facilitate

---

<sup>21</sup> Operating Agreement for Beaver Valley Power Station Units Nos. 1 and 2 as Amended and Restated September 15, 1987 ("BV"); Operating Agreement for Perry Unit No. 1, entered into March 10, 1987 ("Perry"); Operating Agreement for W.H. Sammis Unit No. 7, entered into September 1, 1971 ("Sammis"); Operating Agreement for Bruce Mansfield Units No. 1, 2 and 3, entered into June 1, 1976 ("Mansfield"); Operating Agreement for Eastlake Unit No. 5, entered into September 21, 1972 ("Eastlake"). Duquesne's ownership share in each unit is described in Appendix A.

<sup>22</sup> On July 31, 1998, Duquesne filed a complaint at FERC against FirstEnergy, requesting that the FERC hold that FirstEnergy cannot unreasonably withhold its consent to such an assignment. *Duquesne Light Company, Ohio Edison Co., et al.*, Docket No. EL98-68-000.

the parties usage of the CAPCO units.<sup>23</sup> The companies also executed a Basic Operating Agreement to coordinate operation of the parties' systems and provide for capacity and energy transactions among themselves.<sup>24</sup> The divestiture is not expected to require the assignment of the Basic Operating Agreement or Transmission Facilities Agreement, although no final determination has been made at this time. As indicated, Duquesne is currently in discussions with FirstEnergy in an attempt to reach a mutual accommodation regarding the CAPCO Units.

## **2. Environmental Issues**

### **(a) General**

The new owners will be required to assume all existing and future environmental liabilities, obligations and responsibilities, whether known or unknown, associated with the generating stations. The purchasers will also be required to provide to Duquesne and DQE a comprehensive indemnity for the assumed obligations.

To assist each bidder in understanding the potential environmental liabilities it will assume, Duquesne will hire a qualified and recognized third-party consultant to conduct a "Phase I" environmental assessment of all Duquesne-operated generating sites and ancillary facilities and the jointly-owned generating facilities operated by FirstEnergy (assuming reasonable access is provided). The Phase I

---

<sup>23</sup> CAPCO Transmission Facilities Agreement, entered into September 14, 1967 ("TFA").

<sup>24</sup> CAPCO Basic Operating Agreement as Amended January 1, 1993 ("BOA").

assessment (which is a report based on a site visit, interview, and a summary review of certain documents without invasive sampling) will be performed in the fall of 1998, and will therefore be available to all initial bidders. If the Phase I assessments identify areas of potential concern, targeted Phase II environmental assessments (including sampling of particular areas) will be conducted, with the expectation that such Phase II assessment - reports will be available to bidders submitting final, binding bids so that they may factor environmental risks into their bids in an informed manner.

**(b) SO<sub>2</sub> and NO<sub>x</sub> Emissions**

Duquesne is required to comply with state and federal regulations regarding the emission of sulfur dioxides (SO<sub>2</sub>) and nitrogen oxides (NO<sub>x</sub>). The new owners will be required to operate the facilities in full compliance with these regulations.

Under Title IV of the Clean Air Act, certain annual allowances of SO<sub>2</sub> emissions are allocated to each generating station. The new owners will be assigned the future annual SO<sub>2</sub> allowances allocated to each unit by the EPA. In addition, the accumulated bank of allowances (which is projected to equal approximately 12,000 tons of SO<sub>2</sub> at the end of 1998) will be assigned to the new owner of the Cheswick facility.

Pursuant to Title I of the Clean Air Act, and a Memorandum of Understanding among the states participating in the Northeast Ozone Transport Commission, Pennsylvania has adopted a "NO<sub>x</sub> Budget" program under which, commencing in 1999, electric generating facilities must limit their emissions of NO<sub>x</sub>

during the ozone control season (May through September). Each facility has been allocated a certain number of allowances, measured in tons of NO<sub>x</sub> and, if actual emissions during the control season exceed the allocated annual allowances, the affected facility must acquire additional offsetting allowances from other units. Certain units which are in cold reserve (Brunot Island and Phillips) have been assigned conditional allocations of NO<sub>x</sub> emission allowances under the Pennsylvania NO<sub>x</sub> Budget rule.<sup>25</sup>

### **(c) Operating Permits**

Duquesne holds a number of operating permits pertaining to air, water discharge, and solid waste, as well as other environmental permits. It is the Company's intention to transfer and assign these permits to the new owners to the extent allowed by state and federal regulations. If any such permits cannot be transferred, the new owner will be obligated to apply for them.

### **3. Decommissioning**

The cost of decommissioning Duquesne's nuclear assets was estimated in the Restructuring Order on an administrative basis and a portion of that cost is authorized for recovery in a separate line item of stranded costs. No such recovery for fossil decommissioning was authorized. The Auction Plan contemplates that the purchaser(s)

---

<sup>25</sup> At both Brunot Island and Phillips, submissions have been made to the PADEP to recognize the registry of emissions for a reactivation of the facilities. Duquesne has applied for, but has not yet received, a registry of NO<sub>x</sub> emissions reduction credits ("ERCs") for the Phillips facility in the event that the Phillips units are permanently shutdown.

will assume the decommissioning obligations for both the nuclear and fossil units. This will provide for a fair market valuation of these costs.

#### **4. Beaver Valley Lease**

In 1987, Duquesne entered into an agreement to sell and lease back its interest in Beaver Valley Unit 2. This arrangement was approved by the Commission. If Duquesne receives a qualifying bid for Beaver Valley Unit 2, Duquesne may transfer its lease obligations to the purchaser. A number of arrangements regarding the lease may be discussed with potential purchasers and the lessors during the process.

#### **IV. PROVIDER OF LAST RESORT**

Under the Customer Choice Act and the Restructuring Order, Duquesne's retail customers have an ongoing right to take bundled service at the rate cap level, even if they initially elect to be served by another supplier. Until the auction is consummated, Duquesne will meet its obligation to provide reliable service at the rate cap level using its owned generation. After the auction closes, Duquesne will no longer own generation with which to reliably meet this obligation. Duquesne has three basic options to ensure that the price cap obligation can be reliably met following the divestiture.

First, Duquesne can bundle transition power contracts with some or all of its generation assets to provide a contractual source of capacity and energy during the rate cap period. The transition power contracts that would be sold with the generating assets would likely be option contracts, rather than forward contracts. That is, Duquesne would

have the right, but not the obligation, to purchase capacity and energy at specified prices in whatever amounts are required to reliably serve customers choosing the rate cap service. This is because the rate cap service is an option which customers may choose, and not a service which they are obliged to take; Duquesne therefore cannot predict how many customers will choose this service from year to year.

Second, Duquesne may consider auctioning the POLR service. Depending on perceptions of future market prices, future shopping credit levels, and customer switching behavior, some market participants may view acquiring the POLR service as an attractive opportunity and be willing to bid for the opportunity to provide this service at the shopping credits approved by the Commission. To the extent the sale of the POLR service through the auction process yields net proceeds to Duquesne, such proceeds would be credited to stranded cost recovery consistent with the accounting procedures specified in Appendix G.

Third, Duquesne may contract for power in the wholesale power markets to provide this service. These contracts would likely be options to purchase capacity and energy, rather than fixed commitments, given the uncertainty in the number of customers taking this service. Duquesne does not, however, know at this time if there is adequate market liquidity to obtain these option contracts in sufficient quantity and duration to reliably meet its obligation to provide rate cap service.

Duquesne expects to evaluate, through the generation auction process, whether either of the first two options would provide an appropriate balance between maximizing auction proceeds (and hence stranded cost mitigation) and reliably meeting the POLR obligation.

## **V. OPERATIONAL ISSUES**

The following operational issues will be addressed by various agreements associated with the divestiture of Duquesne's generating assets.

### **A. Transmission Service**

Duquesne is required by FERC Order No. 888 to provide open access transmission service to all eligible customers. The purchasers of Duquesne's generation assets will qualify as eligible customers and therefore will take transmission service under Duquesne's Open Access Transmission Tariff ("OATT"). The OATT provides for both network and point-to-point service. Under the OATT, customers must use point-to-point service for any off-system sales; therefore, if the generators are selling into the market outside the Duquesne control area, they will purchase point-to-point service and pay the FERC-approved rates therefor. If the generators are selling to customers within Duquesne's control area, they can utilize network service that has been arranged by Duquesne's customers (or their EGS). Under network service, the customer (or EGS) pays the embedded transmission charges and designates certain network resources. The generators would function as the network resources and would not incur additional

embedded transmission charges under this scenario, provided that either the customers or EGS already are bearing such charges.

It also is likely that the operation of Duquesne's transmission system will be transferred to an Independent System Operator within the next few years. The contractual arrangements between Duquesne and the purchasers that could be affected by the establishment of an ISO will include provisions permitting termination, amendment or assignment to the ISO to ensure an orderly transition. In the unlikely event that an ISO is in place before the divestiture closes, subsequent filings specifying the nature of the services provided to, and required from, the generators would likely be required.

**B. Maintaining System Reliability**

There are three types of contractual arrangements that will be necessary to maintain system reliability following the divestiture: (i) interconnection agreements between Duquesne and the generators, (ii) agreements to provide ancillary services as required by ECAR, and (iii) agreements to provide "must-run" services to ensure that generators in "load pockets" are producing energy when necessary to maintain reliability.

**1. Interconnection Agreement**

Duquesne and the generation purchaser(s) will enter into standard interconnection agreements that obligate the parties to maintain their respective facilities in a manner that preserves reliability and otherwise provides for the coordination necessary on an integrated electric system. A draft term sheet of such an agreement is

attached as Appendix E. The agreement will identify how Duquesne and the new owners of its generating facilities will operate, modify, and maintain facilities located on each party's property but necessary for the operation of the other party's facilities.

## 2. Ancillary Services

In Order No. 888, the FERC ruled that all transmission providers must offer ancillary services to direct access customers at regulated rates.<sup>26</sup> With one exception,<sup>27</sup> all these ancillary services are provided by generating units and each is "necessary to maintain the integrity of the transmission system." Order No. 888, FERC Stats. & Regs. [Regulations Preambles 1991-96] ¶ 31,036, at 31,703 (1996).<sup>28</sup> The divestiture of generation will affect the manner in which these services are procured by Duquesne and offered to customers. Following the divestiture Duquesne will procure these services from the asset purchasers, or the regional market if possible, and recover

---

<sup>26</sup> Duquesne's ancillary service rates were filed and accepted by the FERC pursuant to an uncontested settlement in *Duquesne Light Company*, Docket No. OA96-56-000.

<sup>27</sup> The exception is "scheduling" service, which is the function of programming an energy management system to accept the projected deliveries by suppliers of generation to the Duquesne control area; the costs associated with this service are primarily labor and control center facilities. DLC St. 5 at 20.

<sup>28</sup> At present, all such services, with one exception (supplemental operating reserves), must be provided by the control area operator; they cannot be procured competitively from other control areas. Order No. 888 at 31,715-716; DLC St. 7 at 13-14. However, as Order No. 888 recognizes, the customer, at its option and consistent with reliability, may institute "dynamic scheduling," which effectively transfers, through telemetry equipment, the load of one control area to the load of another control area. In this manner, a geographically distant control area could supply ancillary services to Duquesne's customers or Duquesne itself following the divestiture of its generation.

the related costs from retail customers through FERC-approved charges.<sup>29</sup> The terms for *procurement of these services from the divested units will be included in the Interconnection Agreements*. A more detailed discussion of these services is provided below.

**(a) Scheduling Service**

The scheduling service provided by Duquesne will not be affected significantly by the divestiture, as it is the only service that is not provided by Duquesne's generators.

**(b) Reactive Supply and Voltage Control**

"In order to maintain transmission voltages on the Transmission Provider's *transmission facilities within acceptable limits, generation facilities under the control of the control area operator are operated to produce (or absorb) reactive power.*" Order No. 888, *Pro Forma* Tariff, Schedule 2. At present, this service is provided to support the Duquesne transmission system by the generators that are located in close proximity to Duquesne's system. Following the divestiture, it will be necessary, at a minimum, to require the Cheswick, Elrama, Brunot Island, Beaver Valley and Mansfield plants to provide reactive power to the system. This requirement will be embodied in the Interconnection Agreement that the owner of each such asset will be required to sign.

---

<sup>29</sup> *At present, Duquesne anticipates filing a formula rate that allows it to recover these costs on a dollar-for-dollar basis as they are incurred. To the extent retail customers have the ability to self-supply such services, they may avoid some or all of these charges.*

The Agreement will provide, as necessary, compensation for any legitimate costs associated with instructions to supply or absorb reactive power.<sup>30</sup>

**(c) Regulation and Frequency Response Service**

"Regulation and Frequency Response Service is necessary to provide for the continuous balancing of resources (generation and interchange) with load and for maintaining scheduled Interconnection frequency at sixty cycles per second (60 Hz). Order No. 888, *Pro Forma* Tariff, Schedule 3. At present, Duquesne provides this service through the use of automatic generation control ("AGC") equipment that has been installed at some of Duquesne's generating plants.<sup>31</sup> The AGC equipment is programmed to automatically increase, or decrease, generation output on a moment-to-moment basis to maintain the appropriate balance of control area generation and load.

Following the divestiture, Duquesne will continue to procure the amount of regulation service required for Duquesne's control area load. This service can be

---

<sup>30</sup> Unlike real power, the production or absorption of reactive power does not require the expenditure of significant incremental costs, such as those incurred by burning fuel. When a unit is called upon to operate at other than unity power factor (*i.e.*, to produce or absorb reactive power), with the exception of insignificant heating losses in the windings, the only "cost" incurred may be the lost opportunity to make sales of real power due to limitations on the amount of real power that can be produced at the same time the unit is, as instructed, operating at other than unity power factor. As an example, the Mansfield plant is often required to produce real power and reactive power during summer peak periods. There may be opportunity costs associated with limitations on the ability of the plant to generate real power during such periods, when prices are at their highest. By contrast, when Mansfield is required to absorb reactive power during low load periods, opportunity costs may not be incurred because during those same periods Mansfield may be operating at less than full load due to economic conditions.

<sup>31</sup> The plants that are equipped with AGC are Cheswick, Elrama, Mansfield and Sammis. The nuclear units, Beaver Valley and Perry, are not so designed; the Eastlake plant also is not equipped with AGC equipment.

procured from generating units within the control area, such as Cheswick and Elrama, or from other control areas if "dynamic scheduling" is arranged.<sup>32</sup> Duquesne will arrange for such service on a least-cost basis, most likely through establishment of a bidding protocol for eligible units.<sup>33</sup> The owners of the generation will be required to cap their bids at FERC-regulated rates unless they have received authorization from FERC to charge market-based rates for ancillary services.<sup>34</sup>

**(d) Energy Imbalance Service**

"Energy Imbalance Service is provided when a difference occurs between the scheduled and the actual delivery of energy to a load located within a Control Area over a single hour." Order No. 888, *Pro Forma* Tariff, Schedule 4. At present, Duquesne, as the control area operator, increases its purchases or generation output to meet the load of a direct access customer if its EGS has delivered less than the amount of power its customers demand in that hour or, alternatively, Duquesne decreases its purchases or generation output to account for any over-deliveries by an EGS. Following the divestiture, Duquesne will continue to perform the same function, but all the service will be provided through increases or decreases in wholesale market *purchases*.

---

<sup>32</sup> As indicated *supra*, "dynamic scheduling" is the establishment of communication links with other control areas such that the generators within those control areas receive electronic signals from Duquesne indicating the amount of ancillary services, including regulation service, required to serve load in the Duquesne area on a moment-to-moment basis.

<sup>33</sup> To the extent a regional power exchange and/or an ISO was established prior to the closing of the divestiture, Duquesne might be relieved of the responsibility of establishing its own protocols.

<sup>34</sup> *El Segundo Power, LLC et al.*, 84 FERC ¶ 61,011 (1998).

**(e) Operating Reserve – Spinning Reserve Service**

"Spinning Reserve Service is needed to serve load immediately in the event of a system contingency. Spinning Reserve Service may be provided by generating units that are on-line and loaded at less than maximum output." Order No. 888, *Pro Forma* Tariff, Schedule 5. At present, Duquesne provides spinning reserve service from its coal-fired generation that is operating at less than full capacity. Following the divestiture, Duquesne will continue to procure spinning reserve service from these generators or from generators located in other control areas if a "dynamic scheduling" arrangement is implemented. Duquesne will arrange for such service on a least-cost basis, most likely through establishment of a bidding protocol for eligible units. The owners of the generation will be required to cap their bids at FERC-regulated rates unless they have received authorization from FERC to charge market-based rates for ancillary services.

**(f) Operating Reserve – Supplemental Reserve Service**

"Supplemental Reserve Service is needed to serve load in the event of a system contingency; however, it is not available immediately to serve load but rather within a short period of time. Supplemental Reserve Service may be provided by generating units that are on-line but unloaded, by quick-start generation or by interruptible load." Order No. 888, *Pro Forma* Tariff, Schedule 6. At present, this service is provided by Duquesne's coal-fired generation that is operating at less than full

capacity and/or the combustion turbines at Brunot Island. Following the divestiture, Duquesne will procure supplemental reserves on a least-cost basis from the divested units or other control areas.<sup>35</sup>

### 3. "Must-Run" Service

Duquesne relies on its combined generation and transmission resources to reliably serve its load across the eastern half of the Duquesne system during peak load times. In order for the system to withstand a single generation or transmission contingency during such periods, both Elrama and Cheswick must be operating.<sup>36</sup> As a result of these operating limitations, Duquesne will impose certain operating restrictions on the owners of the Cheswick and Elrama plants to ensure that reliability is maintained. These restrictions will be embodied in operating agreements that allow Duquesne to call on the new owners to operate each plant at a minimum output level (or greater) during certain hours of peak load. (A term sheet for the Operating Agreements is attached as Appendix F.) This type of arrangement has been utilized in other markets where utilities have divested their generation<sup>37</sup> and will ensure that the reliable supply of electric power is not jeopardized by the divestiture of Duquesne's generating facilities.

---

<sup>35</sup> Unlike the other ancillary services, ECAR does not require that supplemental reserves be provided by generators within the control area.

<sup>36</sup> Even though the Elrama plant consists of multiple units, as opposed to only one large unit at Cheswick, a common header system for the scrubber at Elrama makes the plant susceptible to common mode failure.

<sup>37</sup> See *Pacific Gas & Electric Co. et al.*, 81 FERC ¶ 61,322 (1997).

To compensate the new owners for the responsibilities under the Cheswick and Elrama operating agreements, Duquesne will reimburse them for the amount by which their costs to generate at the minimum levels required by the agreements exceed the market price for the energy produced. If the new owners cannot sell the output of the plants during those hours, Duquesne will purchase the minimum amounts of output under the agreements at a cost-based rate, as defined in the operating agreements. In addition, Duquesne has reserved the right to cancel the agreements if the need for local generation support becomes unnecessary because of adequate transmission and/or distribution remedies.

## **VI. IMPACT ON EMPLOYEES AND COMMUNITIES**

The Customer Choice Act require utilities to discuss, in their restructuring plans, the "impacts of the proposed plan on the utility's employees." 66 Pa. C.S. § 2806(e). Consistent with that requirement, the Commission required Duquesne, in its divestiture plan, to "set forth transitional issues and the resolution of those issues in a manner that is fair to . . . the employees of the Company, local communities, and other affected parties." Restructuring Order at 81.

Duquesne's employees represent valuable assets to potential purchasers. Duquesne is currently developing the procedures for transferring non-union employees and preparing severance packages for those who may not be retained by the purchasers. Duquesne is also negotiating with its union concerning the effects of divestiture on its

unionized employees. These negotiations are ongoing. Duquesne is hopeful that a mutually agreeable resolution of issues with the union will be reached in the near future. If and when such an agreement is reached, Duquesne will promptly file it with the Commission. If no such agreement is reached, Duquesne will submit its own plan, which will be subject to review and comment by interested parties.

## **VII. ACCOUNTING FOR AUCTION PROCEEDS**

As required by the Commission, the proceeds from the auction will determine the stranded costs of Duquesne for the Company's generation. Accounting protocols will establish a market-based stranded cost valuation and reconcile that actual valuation with the collection of interim CTCs. The net auction proceeds (after transaction costs) will be adjusted for current taxes payable by Duquesne based on the difference between the net sales price and the tax basis of each asset. The after-tax proceeds will be compared to the administratively determined market value of \$110.95 million to calculate a market value offset credit. An adjustment to reconcile the timing differences between the date of sale and the date of the Commission's administrative determination will be necessary.

The deferred taxes recoverable under an administrative determination of stranded costs will similarly be reduced by a deferred tax offset credit. For each dollar of stranded costs offset by the auction proceeds, the recoverable deferred taxes will be

reduced by approximately \$0.71, based on a deferred tax credit factor equal to  $(\text{Tax Rate}/(1-\text{Tax Rate}))$  calculated at the current statutory tax rate of 41.4935 percent.

*Duquesne will collect interim CTCs based on the approved pilot credits until the auction and the reconciliation of auction results are completed. The interim CTC revenues will be allocated between the return on (and recovery of) the allowed stranded cost balance and the amortization of recoverable deferred taxes. The interim CTC and deferred tax balances will then be reduced by the market value and deferred tax offset credits respectively. From the date of reconciliation forward, the CTC revenue requirements on the new CTC and deferred tax balances will be recalculated to produce average shopping credits for Duquesne customers equal to those initially established in the Restructuring Order. A more detailed description of these accounting protocols is set out in Appendix G.*

## **VIII. REGULATORY APPROVALS**

Several regulatory approvals will be required to complete the transactions described herein. Duquesne expects that the identification of specific required authorizations will continue as the auction progresses, but expects at a minimum to make the following regulatory filings (a summary of the required approvals is attached as Appendix B):

**A. Pennsylvania Approvals**

As noted above, upon selection of a successful bidder for the generating assets, Duquesne expects to file an application with the PaPUC pursuant to 66 Pa.C.S. § 1102 for a certificate of public convenience to transfer the assets to the new owner.

Duquesne or the bidders also will file with the Pennsylvania Department of Environmental Protection and any other necessary state agencies to transfer or reissue all permits pertaining to air, water discharge and solid waste permits, as well as any other environmental permits applicable to the assets transferred.

**B. Federal Energy Regulatory Commission Approvals**

The FERC has authority, pursuant to Federal Power Act ("FPA") section 203, 16 U.S.C. § 824b, to review the transfer of any transmission facilities or jurisdictional contracts. In addition, the FERC will have jurisdiction to review certain agreements associated with continued operation of the divested units, such as the Interconnection Agreement and the Cheswick and Elrama Operating Agreements, under FPA section 205, 16 U.S.C. § 824d.

The new owner also requests a determination from the FERC under Public Utility Holding Company Act section 32, 15 U.S.C. § 79z-5a, that upon consummation of the transaction it will be an exempt wholesale generator. Before making such a determination, FERC will require a PaPUC finding that allowing the asset to be considered an EWG will benefit consumers, is in the public interest, and does not violate

state law. Duquesne would request such a finding in the context of the PaPUC's order approving a certificate of public convenience and necessity for the assets being transferred.

**C. Nuclear Regulatory Commission**

The Nuclear Regulatory Commission will have authority to review a transfer of the operating permit for the Beaver Valley station, pursuant to section 184 of the Atomic Energy Act, 42 U.S.C. § 2234.


**D. U.S. Department of Justice and Federal Trade Commission**

Pursuant to the Hart-Scott-Rodino Antitrust Improvements Act, 15 U.S.C. § 18a(a)(3), it is expected that Duquesne and the new owner will submit to the U.S. Department of Justice and the Federal Trade Commission certain notifications and reports required for certain mergers and acquisitions.

WHEREFORE, Duquesne's auction plan should be accepted as described herein.

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  
Kathleen L. Barrón  
SKADDEN, ARPS, SLATE, MEAGHER  
& FLOM LLP  
1440 New York Ave., N.W.  
Washington, D.C. 20005-2111  
(202) 371-7310

## Beaver Valley Station

### A. Plant Description

Beaver Valley Power Station Units 1 and 2 ("BVPS-1" and "BVPS-2") are located in the borough of Shippingport, Pennsylvania, on the Ohio River approximately 25 miles northwest of downtown Pittsburgh. BVPS-1 began commercial operation in 1976, while BVPS-2 first generated electricity in 1987. Each unit is co-owned by Duquesne and First Energy. BVPS-1 and BVPS-2 are each rated at approximately 810 net MW. Duquesne owns 47.5% of BVPS-1 (385 MW) and 13.74% of BVPS-2 (113 MW). Duquesne currently operates both units on a 453 acre site. BVPS-1 and BVPS-2 are connected to the 345 KV transmission system through a switchyard located at the facility.

BVPS-1 is a pressurized water reactor using a steam generator and turbine generator furnished by Westinghouse Electric Corporation. The balance of the unit was designed and constructed by Duquesne Light Co., with the assistance of Stone & Webster Engineering Corporation (S&W).

BVPS-2 is also a pressurized water reactor that uses a steam generator and turbine generator furnished by Westinghouse Electric Corporation. Stone & Webster Engineering Corporation (S&W) acted as the principal architect engineer for BVPS-2.

Beaver Valley Power Station has committed to fuel fabrication contracts with Westinghouse and enrichment contracts with United States Enrichment Corporation (USEC). Procurement contracts have been established for all of the company's raw uranium needs through 2000. The fuel is currently purchased by a

### Beaver Valley Station

third party and leased to Duquesne. BVPS-1 is projected to have adequate spent storage capacity through the end of the unit's licensed life (2016). BVPS-2 is projected to exhaust its spent fuel storage capacity in 2012.

Duquesne intends to sell all station equipment, facilities and inventories with the exception of the land and facilities related to the switchyards. Duquesne will transfer, to the extent possible, all fuel and service contracts, and Duquesne's share of fuel inventories. The new owner will assume decommissioning implementation responsibility and all environmental liabilities related to the land and other facilities sold. The sale shall include transfer of the NRC issued operating license for the Beaver Valley units and requires NRC approval of the transfer.

Low level radioactive waste is hauled away under contract and shipped to a disposal facility at Barnwell, South Carolina. Spent fuel from Beaver Valley Units 1 and 2 is currently stored on-site pending the opening of a DOE facility.

In addition to the assets that support plant operation, the remaining portions of the adjacent Shippingport Atomic Power Station (SAPS) will be included in the sale. All NSSS portions of the SAPS station were removed by the Department of Energy (DOE) contractors and the affected area has been returned to a natural (radiologically clean) state. There is no spent fuel from the Shippingport facility remaining on site. Remaining SAPS structures include an office building, a service building, the turbine building, an intake structure, an outfall structure, a water treating facility, a water tank, two warehouse buildings, a

## Beaver Valley Station

guard house, a visitors center, and several small shed-type structures. Most power production components within the turbine building remain, including a 100 MWe Westinghouse turbine-generator set, and 2400v station service switchgear.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of Duquesne's interest in equipment and facilities that are necessary for the operation of Beaver Valley Units 1 and 2, and the Shippingport assets. This includes, but is not limited to, the following:

- Westinghouse three-loop, closed-cycle, pressurized water nuclear steam supply system for BVPS-1
- Westinghouse three-loop, closed-cycle, pressurized water nuclear steam supply system for BVPS-2
- 1,800 rpm, 22 kv, 3 phase, 60 cycle Westinghouse turbine generator for BVPS-1
- 1,800 rpm, 22 kv, 3 phase, 60 cycle Westinghouse turbine generator for BVPS-2
- Pumps, condensers, ejectors, and coolers for turbines
- Moisture separator-reheaters for turbines
- Condensate-feedwater cycle: transformers, switchgear and buses, motor control centers, batteries
- 500 foot natural draft cooling tower for BVPS-1
- 500 foot natural draft cooling tower for BVPS-2
- Generation step-up transformers to 345kv
- System station service transformers
- Westinghouse reactor coolant pumps
- Plant training simulators
- Water storage tanks
- Meterological tower
- Interconnecting tunnels
- Potable and sanitary water system
- Site drainage system
- Fire protection system
- Chlorination system
- Communications systems

## Beaver Valley Station

- Radioactive waste disposal system
- Fuel handling system
- Auxiliary systems
- Two diesel engine-driven generators per unit to supply emergency power
- Spare parts and materials inventory (valued at \$55.3 million)
- Nuclear fuel inventory, both spent and new
- Containment structures
- Intake structure
- Alternate intake structure
- Auxiliary buildings
- Turbine buildings
- Control building
- BVPS-2 condensate polishing building
- Diesel generator buildings
- BVPS-1 waste handling building
- Fuel and decontamination buildings
- Safeguards buildings
- Warehouses
- Service buildings
- Steam and cable vault
- Enclosures for water storage tanks
- Emergency outfall structure
- Cooling tower pump house
- Gaseous waste storage area
- Approximately 453 acres of land
- Shippingport Atomic Power Station Assets
  - One story office building
  - Six story service building
  - Turbine building
  - Intake structure
  - Outfall structure
  - Water treating facility
  - Water tank
  - Two warehouse buildings
  - Guardhouse
  - Visitors center building
  - Several small shed-type structures
  - 100 MWe Westinghouse turbine-generator set
  - 2400v station service switchgear

### C. Physical Assets Excluded From Sale

Beaver Valley Station

- Switchyards
- Land upon which switchyards are located
- Switchyard controls
- Transmission lines from the terminations to each of the main output transformers and each of the system station service transformers
- Transmission towers

D. Items Subject to Easement

In order for the new owner as well as Duquesne to access certain areas within each other's property, easements will be established as follows:

Granted to Duquesne

- Access to switchyards
- Access to capacitor bank yards

Granted to the new owner

None.

E. Fuel Contracts

The following fuel contracts service Duquesne Light Company's ownership of both Beaver Valley Station and Perry Station, unless indicated otherwise:

Company Name: Cogema  
Quantity: 86,000 +/-30% lbs U<sub>3</sub>O<sub>8</sub>  
Expiration Date: 2000

Company Name: Uranium Resources, Inc.  
Quantity: 76,000 lbs U<sub>3</sub>O<sub>8</sub>  
Expiration Date: 1999

Company Name: Uranium Resources, Inc.  
Quantity: 96,000 +/-20% lbs U<sub>3</sub>O<sub>8</sub>  
Expiration Date: 2000

Beaver Valley Station

Company Name:	Uranium Resources, Inc.
Quantity:	10,000 +/-20% lbs U <sub>3</sub> O <sub>8</sub>
Expiration Date:	2001
Company Name:	Uranium Resources, Inc.
Quantity:	100,000 +/-20% lbs U <sub>3</sub> O <sub>8</sub>
Expiration Date:	2002
Company Name:	Nukem
Quantity:	144,000 lbs U <sub>3</sub> O <sub>8</sub>
Expiration Date:	2000
Company Name:	Nukem
Quantity:	10,000 lbs U <sub>3</sub> O <sub>8</sub>
Expiration Date:	2001
Company Name:	Nukem
Quantity:	80,000 lbs U <sub>3</sub> O <sub>8</sub>
Expiration Date:	2002
Company Name:	Global Nuclear Services
Quantity:	34,200-41,800 kg UF <sub>6</sub>
Expiration Date:	1999
Company Name:	Global Nuclear Services
Quantity:	43,200-52,800 kg UF <sub>6</sub>
Expiration Date:	2000
Company Name:	Global Nuclear Services
Quantity:	7,200-8,800 kg UF <sub>6</sub>
Expiration Date:	2001
Company Name:	Global Nuclear Services
Quantity:	34,200-41,800 kg UF <sub>6</sub>
Expiration Date:	2002
Company Name:	CoverDym
Quantity:	330,000 kg minimum, 1,000,000 maximum conversion services
Contract Length:	1/98-12/31/02

**Beaver Valley Station**

Company Name: Westinghouse  
Quantity: Beaver Valley Unit 1 – 4 core reloads fabrication;  
Beaver Valley Unit 2 – 3 core reloads fabrication  
Projected Expiration Date:  
Beaver Valley Unit 1 – 2004  
Beaver Valley Unit 2 - 2002

Company Name: United States Enrichment Company  
Quantity: Enrichment requirements  
Expiration Date: 1999

Company Name: United States Enrichment Company  
Quantity: Enrichment requirements  
Contract Length: 2009-2014, can terminate contract ten years in advance for  
a year or more at a time

Company Name: General Electric  
Quantity: Fabrication requirements for Perry  
Contract Length: *Life of plant*

F. Other Major Service Contracts

- Steam generator inspection (Framatome)
- Security (Burns)
- Craft labor (Bechtel)
- General waste disposal
- Radioactive waste disposal
- Environmental monitoring
- Staff augmentation

## G. Environmental Obligations and Permits

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA <sup>1</sup> and PADEP <sup>2</sup> regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99) and 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143), and in the permits cited in this table.	<p>PADEP Air Quality Operating Permit No. 04-302-055 (issued Jan. 26, 1994) (applies to Unit 2 auxiliary boiler); Application for Air Quality Operating Permit (State Only) submitted June 5, 1996.</p> <p>PADEP Air Quality Operating Permit No. 04-399-005A (issued Jan. 26, 1994) (applies to black diesel (ERF)); Application for Air Quality Operating Permit (State Only) submitted June 5, 1996.</p> <p>PADEP Air Quality Operating Permit No. 04-399-004 (issued Jan. 26, 1994) (applies to emergency diesel generator); Application for Air Quality Operating Permit (State Only) submitted June 5, 1996.</p> <p>PADEP Air Quality Operating Permit No. 04-399-006 (issued Jan. 26, 1994) (applies to south office shops building diesel generator); Application for Air Quality Operating Permit (State Only) submitted June 5, 1996.</p> <p>Application for PADEP Air Quality Operating Permit submitted June 5, 1996 (for Unit 1 emergency diesel generator, previously a grandfathered source).</p> <p>PADEP Open Burning Permit No. 91117 (issued Jan. 16, 1998; expires Dec. 31, 1998) (authorized burning for fire school).</p>
Aviation	Compliance with FAA <sup>3</sup> requirements applicable to objects affecting navigable airspace, as provided in FAA regulations, 14 C.F.R. Part 77, including those for marking and lighting obstructions, and for maintaining such markings and lighting.	

1 USEPA = United States Environmental Protection Agency.

2 PADEP = Pennsylvania Department of Environmental Resources.

3 FAA = Federal Aviation Administration, United States Department of Transportation.

Beaver Valley Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Chemical Reporting	Compliance with MSDS, <sup>4</sup> Tier I and Tier II reporting under EPCRA §§ 311 & 312, 42 U.S.C. §§ 11021-22, and 40 C.F.R. Part 370, and with the Pennsylvania Hazardous Material Emergency Planning and Response Act, 35 P.S. §§ 6022.101 <i>et seq.</i> , and the Pennsylvania Worker and Community Right to Know Act, 35 P.S. §§ 7301 <i>et seq.</i>	
Communications	Compliance with requirements for radio services, as provided in the Federal Communications Act and FCC <sup>5</sup> regulations thereunder, including requirements for Private Land Mobile Radio Services, 47 C.F.R. Part 90, particularly for Power Radio Services, 47 C.F.R. § 90.63, and licensing thereof, 47 C.F.R. Part 90, Subpart G, and in licenses cited in this table.	FCC Radio Station License Nos. KA77523 (expires Sept. 5, 2000) (for radio operated crane) and WNXP276 (expires Oct. 18, 2001) (for B.V. Simulator). FCC Microwave Radio Station License No. WAH757 (expires Oct. 20, 1999). <i>Duquesne Light intends to maintain these licenses for purposes of its distribution system. New licenses will be needed for the facility</i>
Nuclear Energy	Compliance with requirements for licensing and operation of a nuclear power facility, as provided in the Atomic Energy Act, as amended, 42 U.S.C. §§ 2011 <i>et seq.</i> , and NRC <sup>6</sup> regulations, 10 C.F.R. Ch. I, Parts 1 through 199.	AEA Nuclear License No. DPR66 (for Unit 1). AEA Nuclear License No. NPF-73 (for Unit 2).
Oil Pollution	Compliance with requirements for oil pollution prevention, including those for spill prevention control and countermeasure planning, as provided in 40 C.F.R. Part 112.	

4 MSDS = Material Safety Data Sheet.  
5 FCC = Federal Communications Commission.  
6 NRC = Nuclear Regulatory Commission.

Beaver Valley Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
PCBs	<p>Compliance with USEPA regulations for use and disposal of PCB items under 40 C.F.R. Part 761.</p> <p>The facility has no known PCB-contaminated electrical equipment in service or in storage for reuse.</p>	
Solid Waste	<p>Compliance with requirements for generators of hazardous waste, as provided in RCRA,<sup>7</sup> 42 U.S.C. § 6901 <i>et seq.</i>, and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i>, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and 25 Pa. Code Part I, Subpart C, Art. VII., Chs. 260 through 262.</p>	<p>USEPA/PADEP Hazardous Waste Generator Identification No. PAD-000797712.</p>
Solid Waste	<p>Compliance with requirements for generators of residual waste, as provided in the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i>, and PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. IX., Ch. 287, Subch. B, including requirements for chemical analysis of waste and biennial reporting.</p>	
Storage Tanks	<p>Compliance with requirements of RCRA, Subchapter IX, 42 U.S.C. §§ 6991 <i>et seq.</i>, and USEPA regulations thereunder, 40 C.F.R. Part 280, for underground storage tanks, including the upgrade requirements of 40 C.F.R. § 280.21, and the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i>, and PADEP regulations thereunder, 25 Pa. Code Ch. 245.</p> <p>The one regulated tank at the facility is exempt from the release detection requirements of 40 C.F.R. Part 280, Subpart D, because it stores fuel solely for use by an emergency power generator, <i>see</i> 40 C.F.R. § 280.10(d) &amp; 25 Pa. Code § 245.403(b).</p>	<p>PADEP Storage Tank Registration Certificate No. 246443 (expires Oct. 4, 1998) (registering 1 underground storage tank for Unit #1).</p> <p>PADEP Storage Tank Registration Certificate No. 246444 (expires Oct. 4, 1998) (registering 1 underground storage tank for Unit #2).</p>

7 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.

Beaver Valley Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Storage Tanks	Compliance with the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i> , and PADEP regulations thereunder, 25 Pa. Code Ch. 245, for aboveground storage tanks, including requirements for spill prevention and response planning, release prevention and leak detection, and certified inspections.	PADEP Storage Tank Registration Certificate No. 246443 (expires Oct. 4, 1998) (registering 6 aboveground storage tanks for Unit #1). PADEP Storage Tank Registration Certificate No. 246444 (expires Oct. 4, 1998) (registering 3 aboveground storage tanks for Unit #2).
Storage Tanks	Emergency containment will be required on all regulated aboveground tanks by Oct. 2000. Secondary containment on such tanks will be required by Oct. 2007. <i>See</i> 25 Pa. Code § 245.612(e).	
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and 25 Pa. Code Part I, Subpart C, Art. II., Chs. 91 through 97 & Subpart A, Art. II, Ch. 16 and in the permits cited in this table.	NPDES Permit No. PA0025615 (issued Sept. 29, 1995; expires Sept. 29, 2000; application for renewal due March 29, 2000) (applies to Units 1 and 2). PADEP Industrial Waste Permit No. 0482404 (issued Nov. 10, 1982) (applies to Unit 2 RBC system (sewage)). PADEP Industrial Waste Permit No. 0479403 (issued April 1, 1980) (applies to Units 1 and 2 RBC System (sewage)). PADEP Industrial Waste Permit No. 0478201 (issued Feb. 15, 1978) (applies to Unit 1 oil separator effluent). PADEP Industrial Waste Permit No. 0473211 (issued April 11, 1974) (applies to Unit 1 all discharges from Units 1 and 2). PADEP Industrial Waste Permit No. 0472411 (issued Nov. 6, 1972) (applies to Unit 1 package plant (sewage)). PADEP Industrial Waste Permit No. 0470208 (issued Feb. 25, 1971) (applies to Unit 1 radiation and water treating waste). PADEP Industrial Waste Permit No. 0470203 (issued June 26, 1970) (applies to Unit 1 condenser cooling water).
Water Quality	The facility is undertaking a study of Peggs Run. The study will be complete in late 1999 and may impact the effluent limits for Outfall 013.	NPDES Permit No. PA0025615.

Beaver Valley Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with erosion control and dam safety and waterway management requirements, as provided in PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. II., Chs. 102 and 105, and in the permits cited in this table.	<p>PADEP Erosion and Sedimentation Permit No. 0025615 (issued April 30, 1984) (applies to emergency outfall/impact basin).</p> <p>PADEP Encroachment Permit No. 0473734 (issued Sept. 24, 1985) (applies to Peggs Run).</p> <p>PADEP Encroachment Permit No. E-04-85 (issued Nov. 14, 1984) (applies to Unit 1 storm sewer).</p> <p>PADEP Encroachment Permit No. E-04-78 (issued May 11, 1984) (applies to Unit 1 emergency outfall/impact basin).</p> <p>PADEP Encroachment Permit No. 0477723 (issued Oct. 28, 1977) (applies to Units 1 and 2 culvert closing).</p> <p>PADEP Encroachment Permit No. 0477706 (issued April 21, 1977) (applies to fill required for parking lot construction).</p> <p>PADEP Encroachment Permit No. 0477705 (issued March 10, 1977) (applies to construction and operation of barge slip).</p> <p>PADEP Encroachment Permit No. 04575711 (issued Aug. 29, 1975) (applies to Unit 2 auxiliary intake).</p> <p>PADEP Erosion and Sedimentation Plan No. 0473802 (issued Jan. 16, 1974).</p> <p>PADEP Encroachment Permit No. 91522 (issued July 23, 1971) (applies to Peggs Run relocation).</p> <p>PADEP Encroachment Permit No. 18737 (issued July 2, 1971) (applies to Unit 1 intake and discharge structures).</p> <p>PADEP Encroachment Permit No. 19184 (issued Jan. 12, 1971) (applies to Unit 1 barge unloading slip).</p> <p>PADEP Encroachment Permit No. 18772 (issued June 9, 1970) (applies to Unit 1 entrance to road culvert).</p>

Beaver Valley Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323, and in the permits cited in this table.	Army Corps of Engineers Dredging Permit No. 91009 (issued March 20, 1991; expires Dec. 31, 2001).
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001. <i>See</i> 63 Fed. Reg. 40,683 (July 30, 1998).	
Water Quality	Preparedness, prevention and contingency (PPC) planning required under multiple PADEP permits and/or regulations.	

## Brunot Island Station

### A. Plant Description

The Brunot Island Power Station is located on Brunot Island, approximately two miles down the Ohio River from downtown Pittsburgh. The Brunot Island property is a true island, approximately 150 acres, with pedestrian access over a rail bridge catwalk and equipment access by barge landing. The power generation facility consists of two separate installations, hereafter described as the Peaking Facility and the Combined Cycle facility, both with ancillary and supporting structures and installations. Also located on the Brunot Island property is a major transmission substation, which is interconnected with Duquesne's 345 KV and 138 KV transmission system, and which supplies power to downtown Pittsburgh and the surrounding area at 23 KV, 69 KV and 138 KV. Duquesne will retain this substation facility.

The Peaking facility was installed in 1972, and consists of three General Electric Frame 5 simple cycle combustion turbine generators, each rated at a nominal 18 MW summer, 22 MW winter capacity. These units burn number two fuel oil, which is stored in two 750,000 gallon oil storage tanks. Duquesne is the sole owner and operator of these units, which are interconnected to Duquesne's 138 KV transmission system. Peaking Facility units are designated as Brunot Island Units 1A, 1B, and 1C.

The Combined Cycle facility entered commercial operation in 1974, and was originally designed as a 330 MW (winter rated) combined cycle power station. The Combined Cycle plant includes three General Electric MS-7000

## Brunot Island Station

Frame 7 combustion turbine generators, each rated at a “new and clean” 65 MW nominal winter rating in simple cycle mode. Current rating of these units is 56 MW winter, 45 MW summer. Each combustion turbine is equipped with a bypass damper, silencer, and exhaust stack, which allow the turbine to operate in simple cycle as well as in combined cycle mode.

Exhaust gas from each combustion turbine discharges into an associated heat recovery boiler. The heat recovery boilers were manufactured by General Electric, and are extended tube, forced circulation, single pressure units, with supplemental oil firing. These boilers are rated to produce 368,000 pounds of steam per hour at 1250 psig and 950 degrees F. Cooled exhaust gasses are discharged through separate exhaust stacks mounted on each boiler.

Steam from each boiler discharges into a common main steam header, and then to a conventional non-reheat steam turbine generator, manufactured by General Electric, and rated at 143 MW gross. Steam exhausted from the turbine discharges into a surface condenser, which is cooled by a closed loop circulating water system and a multi-cell mechanical draft cooling tower.

The combined cycle facility burns number two fuel oil, which is delivered by truck via the barge landing or by barge using the barge handling/ unloading facility. The combustion turbines associated with the Combined Cycle Facility are designated Units 2A, 2B, and 3, while the steam turbine is designated Unit 4. Duquesne is the sole owner/ operator of these units which are interconnected to Duquesne’s 69 KV and 138 KV transmission systems.

### **Brunot Island Station**

The combined cycle facility last operated in 1982, and is presently considered to be inoperable. Following Duquesne's 1987 rate case, the entire Combined Cycle Facility was removed from rate base and placed in cold reserve, although the combustion turbines were still operated in simple cycle mode as required for customer load.

Following the sale of Duquesne's Fort Martin Station, Units 2A and 2B were returned to rate base as simple cycle units (burning fuel oil). At that time Unit 3 was disassembled and was not returned to service, but this unit has now been placed back in service (but not in rate base) for the summer of 1998.

All three combustion turbine units are considered to be fully operational in simple cycle mode, but the steam portion of the combined cycle facility is not operational. All three peaking facility units are also fully operational. Duquesne intends to sell all station equipment, facilities and inventories. Duquesne also intends to sell the entire Brunot Island acreage and intends to lease or obtain use rights for the land upon which the substation and various other transmission related facilities are located. Duquesne will transfer, to the extent possible, all service contracts, environmental and operating permits to the new owner. The new owner will assume all environmental liabilities related to the land and other facilities sold, excluding those parcels where the substation and other transmission facilities are located.

## Brunot Island Station

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of equipment and facilities that are necessary for the operating of Brunot Island

Power Station. This includes, but is not limited to, the following:

- Peaking Facility Combustion Turbine/ Generators (Units 1A, 1B, 1C)
- Combined Cycle Combustion Turbine/ Generators (Units 2A, 2B, 3)
- Combined Cycle Steam Turbine Generator (Unit 4)
- Heat Recovery Boilers and Duct Burners
- Controls and Instrumentation
- Auxiliary equipment
- Cooling Tower
- Fans
- Pumps
- Compressors
- Heat exchangers .
- Auxiliary systems
- Water treating
- Fuel handling
- Main step-up and station service transformers
- Barge Handling/ Unloading Facility
- Station service sub-stations
- Associated switch gear
- Fuel oil storage tanks ( Five 1.5 million gallon tanks and Two 750,000 gallon tanks)
- Buildings and structures
- Main turbine/generator building
- Plant administration building
- Warehouse
- Screenhouse and Intake Structure
- Miscellaneous other small buildings and structures
- Approximately 150 acres that include the land upon which the above facilities are located which includes the entirety of Brunot Island.

**Brunot Island Station**

C. Physical Assets Excluded From Sale

The physical assets to be excluded from transfer to the new owner include:

- Brunot Island bulk transmission substation, including associated transformation equipment, switchgear, control systems, and ancillary buildings.
- Communication equipment connecting the Brunot Island bulk transmission substation to Duquesne's System Operations Center.
- Transmission lines from the disconnect switches on the high voltage side of the main step-up and station service transformers
- Switch yard controls, metering and protective relay equipment located in the main control room and relay rooms

D. Items Subject to Easements

In order for the new owner as well as Duquesne to access certain areas within each other's property, easements will be established as follows:

Granted to Duquesne

- Access to the Brunot Island bulk transmission substation.
- Access to the substation communication equipment.
- Access to the transmission lines (overhead and underground) up to the disconnect switches on the high voltage side of the main and station service transformers
- Access to the switchyard controls in the plant control and relay rooms
- Access to the Barge Landing Facility and Rail Bridge Catwalk
- Access to the transmission towers located on the new owner's property

Granted to the new owner

- Access to the North Side ferry landing
- Access to the rail bridge catwalk

E. Fuel Contracts

None.

**Brunot Island Station**

F. Other Major Service Contracts

Name: C&C Marine Maintenance  
Purpose: Ferry service from North Side to Brunot Island  
Expiration date: December 31, 1998

G. SO<sub>2</sub> Emission Allowances

Brunot Island receives no allowances for SO<sub>2</sub> under Title IV of the Federal Clean Air Act. The output of the plant is exempt from SO<sub>2</sub> allowance requirements until reactivated to combined cycle operation. Units 1A, 1B and 1C are exempt from Title IV requirements as single cycle units. Units 2A, 2B and 3 will be subject to Title IV requirements if reactivated to combined cycle operation.

H. NO<sub>x</sub> Emissions

Pursuant to Title I of the Clean Air Act and the Pennsylvania NO<sub>2</sub> Budget Rule, commencing in 1999, covered generation facilities will be subject to limitations on the total tons of NO<sub>2</sub> emitted during the May-September control period, based on the number of NO<sub>2</sub> emission allowances allocated to the facility plus any allowances which the facility may acquire from other units. Duquesne believes that the Brunot Island facility will not be subject to these regulations until it reactivates combined cycle capacity. Under the NO<sub>2</sub> Budget Rule, the Pennsylvania Department of Environmental Protection may allocate the allowances to Brunot Island if the generating units are reactivated up to the following amounts. These allowances are intended to cover facility emissions, and may not be banked or transferred.

Title 1, NO<sub>x</sub> Budget Rule Allowances: Conditional allocation of 246 tons if reactivated

Brunot Island Station

I. Environmental Obligations and Permits

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA, <sup>1</sup> PADEP <sup>2</sup> and Allegheny County Health Department regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143), and Allegheny County Rules and Regulations, Art. XXI, and in the permits cited in this table.	BEQ <sup>3</sup> Air Emissions Operating Permit No. 1065009-000-23600 (applies to combustion turbines 1A, 1B and 1C).  BEQ Air Emissions Operating Permit No. 1065009-000-23601 (applies to Combustion Turbines 2A, 2B and 3).  BEQ Air Emissions Installation Permit No. 91-I-005-C (issued Sept. 3, 1993 expires if construction ceases) (applies to Combustion Turbines 2A, 2B and 3).  Title V permit will supersede above permits when issued.
Air Quality	Compliance with simple-cycle RACT limits, including annual average capacity factors.	RACT Plan Approval/Order and Agreement No. 214 (issued May 20, 1996).
Air Quality	Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i> , and the Rules and Regulations of the Allegheny County Health Department, Art. XXI, Part C.	Title V permit application submitted November 27, 1995.
Air Quality	Compliance with Clean Air Act Acid Rain (Title IV) requirements., including "Phase II" Acid Rain requirements which start Jan. 1, 2000, as provided in 40 C.F.R. Part 73, if reactivated to combined cycle operation. Units 1A, 1B and 1C are exempt from Title IV requirements as single-cycle units. Units 2A, 2B and 3 will be subject to Title IV requirements if reactivated to combined cycle operation.	

1 USEPA = United States Environmental Protection Agency.  
 2 PADEP = Pennsylvania Department of Environmental Resources.  
 3 BEQ = Bureau of Environmental Quality, Allegheny County Department of Health.

Brunot Island Station

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	<p>In accordance with the September 27, 1994 MOU<sup>4</sup> among OTC<sup>5</sup> states, PADEP promulgated regulations to limit emissions of nitrogen oxides (NOx) from fossil-fired combustion units. See 27 Pa. Bulletin 5683 (Nov. 1, 1997). These regulations are designed to ensure that, by May 1, 1999, affected facilities in the "outer zone" (including Brunot Island, if reactivated to combined cycle operation) must reduce their combined rate of NOx emissions by 55 percent of the 1990 baseline or emit NOx at a rate no greater than 0.20 pounds per million Btu. Further regulations may be promulgated in order to achieve the goal of the MOU that, by May 1, 2003, these facilities reduce their combined rate of NOx emissions by 75 percent of the 1990 baseline or emit NOx at a rate no greater than 0.15 pounds per million Btu.</p> <p>Under PADEP's current regulations, 25 Pa. Code §§ 123.101 through 123.120, beginning in 1999, each affected source must hold by December 31 of each year a quantity of "NOx allowances" equal to or greater than the total NOx emitted from the source during the "NOx allowance control period" (May 1 through September 30) for the year. Duquesne believes that these requirements do not apply to the facility unless it is reactivated to full combined cycled operations. Under 25 Pa. Code § 115(c), PADEP <u>may</u> allocate Brunot Island NOx allowances up to 246 tons. If the facility is reactivated to combined cycle operations, compliance with these requirements may require installation of additional controls or the purchase of NOx emission allowances if it is projected that emissions during a control period will exceed the NOx allowances held by the facility.</p>	

4 MOU = Memorandum of Understanding.

5 OTC = Northeast Ozone Transport Commission.

## Brunot Island Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Boating	Compliance with requirements of Pennsylvania Fish and Boat Commission for boating, 58 Pa. Code Part II, Subpart C, including boat registration, 58 Pa. Code Ch. 93.	PA Fish Commission Boat Registration No. PA7327EE (expires March 31, 1999).
Boilers	Compliance with requirements for boilers and unfired pressure vessels, including requirements for inspections thereof, as provided in 34 Pa. Code Ch. 3.	PA Dept. of Labor and Industry Boiler and Unfired Pressure Vessel File No. 000057, location no. 14.
Chemical Reporting	Compliance with MSDS, <sup>6</sup> Tier I and Tier II reporting under EPCRA §§ 311 & 312, 42 U.S.C. §§ 11021-22, and 40 C.F.R. Part 370, and with the Pennsylvania Hazardous Material Emergency Planning and Response Act, 35 P.S. §§ 6022.101 <i>et seq.</i> , and the Pennsylvania Worker and Community Right to Know Act, 35 P.S. §§ 7301 <i>et seq.</i>	
Communications	Compliance with requirements for radio services, as provided in the Federal Communications Act and FCC <sup>7</sup> regulations thereunder, including requirements for Private Land Mobile Radio Services, 47 C.F.R. Part 90, particularly for Power Radio Services, 47 C.F.R. § 90.63, and licensing thereof, 47 C.F.R. Part 90, Subpart G, and in licenses cited in this table.	FCC Radio Station License No. KB27361 (expires Jan. 22, 2003). FCC Microwave Radio Station License No. KXN74 (expires Dec. 31, 2002). <i>Duquesne Light intends to maintain these licenses for purposes of its distribution system. New licenses will be needed for the facility</i>
Oil Pollution	Compliance with requirements for oil pollution prevention, including those for spill prevention control and countermeasure planning, as provided in 40 C.F.R. Part 112.	
Oil Pollution	Compliance with requirements for facility response planning, as provided in 40 C.F.R. Part 112 and 33 C.F.R. Part 154.	Letter approval by U.S. Coast Guard of facility's Operations Manual issued June 29, 1998.

6 MSDS = Material Safety Data Sheet.

7 FCC = Federal Communications Commission.

## Brunot Island Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
PCBs	Compliance with USEPA regulations for use and disposal of PCB items under 40 C.F.R. Part 761.  The facility has no known PCB-contaminated electrical equipment in service or in storage for reuse.	
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, <sup>8</sup> 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and 25 Pa. Code Part I, Subpart C, Art. VII., Chs. 260 through 262.	USEPA/PADEP Hazardous Waste Generator Identification No. PAD-000797795.
Solid Waste	Compliance with requirements for generators of residual waste, as provided in the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. IX., Ch. 287.	
Storage Tanks	Compliance with the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i> , and PADEP regulations thereunder, 25 Pa. Code Ch. 245, for aboveground storage tanks, including requirements for spill prevention and response planning, release prevention and leak detection, and certified inspections.	PADEP Storage Tank Registration Certificate No. 244977 (expires Oct. 4, 1998 (registering 12 aboveground storage tanks).
Storage Tanks	Emergency containment will be required on three regulated aboveground tanks by Oct. 2000. Secondary containment on these tanks will be required by Oct. 2007. <i>See</i> 25 Pa. Code § 245.612(e).	
Storage Tanks	Compliance with local requirements relating to storage tanks, including City of Pittsburgh ordinance regarding flammable liquids and fire prevention.	City of Pittsburgh Flammable Liquids (Fire Prevention) Permit Nos. 0066, 0431, 0432, 0433, 0434, 0435 and 0436.

8 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.

## Brunot Island Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and 25 Pa. Code Part I, Subpart C, Art. II., Chs. 91 through 97 & Subpart A, Art. II, Ch. 16 and in the permits cited in this table.	NPDES Permit No. PA0031933 (issued May 15, 1995; expires May 15, 2000; application for renewal due Nov. 15, 1999). PADEP Industrial Waste Permit No. 0273218 (issued Feb. 4, 1974).
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001. <i>See</i> 63 Fed. Reg. 40,683 (July 30, 1998).	NPDES Permit No. PA0031933.
Water Quality	Preparedness, prevention and contingency (PPC) planning required under multiple PADEP permits and/or regulations.	
Water Quality	Compliance with erosion control and dam safety and waterway management requirements, as provided in PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. II., Chs. 102 and 105, and in the permits cited in this table.	PADEP License Agreement No. E-02-147 (issued Nov. 1, 1997; expires Nov. 1, 1998) (authorizing occupation of submerged state lands to repair, replace, operate, maintain and remove intake discharge structures and docking facilities on the Ohio River).
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323, and in the permits cited in this table.	Army Corps of Engineers Maintenance Dredging Permit No. 91119 (issued Feb. 20, 1992; expires Dec. 31, 2002) (applies to maintenance dredging of Ohio River). Army Corps of Engineers Maintenance Dredging Permit No. 91117 (issued Feb. 20, 1992; expires Dec. 31, 2002) (applies to maintenance dredging of Ohio River). Army Corps of Engineers/PADEP Electric Wire Crossing Permit No. 0278732 (issued May 17, 1978) (for wire crossing Ohio River). <i>[Note: Duquesne Light intends to maintain its wire crossing permit for purposes of its distribution system.]</i>

## Cheswick Station

### A. Plant Description

The Cheswick Power Station ("Cheswick") is located in the borough of Springdale, Pennsylvania, on the Allegheny River approximately 15 miles from downtown Pittsburgh. This single unit station has a net dependable capacity (NDC) of 570 MW and began commercial operation in 1970. Duquesne is the sole owner and operator of the plant, which is interconnected to Duquesne's 138 KV transmission system. The plant and associated facilities are situated on approximately 277 acres, excluding the switchyard, but including the Lefever Road disposal site and the Monarch Mine dewatering site.

The main steam generator was manufactured by Combustion Engineering. It is tangentially fired with pulverized coal and has a maximum continuous rating of four million pounds of steam per hour. The steam turbine generator was manufactured by General Electric and is rated at 592 MW at inlet steam conditions of 2,520 psig/1000°F/1000°F. The plant is equipped with an electrostatic precipitator, with ammonia and SO<sub>3</sub> injection for flue gas conditioning for the control of particulate emissions.

Cheswick is operated as a baseload facility and burns a blend of low and medium sulfur bituminous coal. Currently, Duquesne procures approximately 50% of the coal under long term contracts with the remainder purchased on a spot basis. In 1986, the main boiler was equipped with the capability to burn natural gas for light-off and low load stabilization. The natural gas delivery system can provide up to 20% of the heat input required for maximum continuous rating.

### Cheswick Station

Duquesne intends to sell all station equipment, facilities, and inventories, and certain ancillary facilities related to station operations, with the exception of the land and facilities related to the switchyards. Duquesne will transfer, to the extent possible, all fuel contracts, services contracts, environmental and operating permits.

In addition Duquesne will transfer to the new owner of the Cheswick station the following related facilities: (1) the Lefever Road Disposal Site; (2) the Harwick/Cornell/Monarch underground mine complex ("Harwick Complex") and related mine dewatering and treatment facility; and (3) a bottom ash processing area. The Lefever Road Disposal Site is a permitted ash and pyritic waste material disposal landfill located in Indiana Township, approximately four miles northwest of the Cheswick Station. The current permitted area is approximately 140 acres, with an estimated capacity (developed in steps) of approximately 4.8 million cubic yards. Leachate from the waste disposal area is directed to the Harwick Complex, and is treated as part of the mine waters recovered at the Monarch Mine Treatment Plant.

Presently, whenever feasible, fly ash generated at the Cheswick Station is piped in slurry form for injection into the Harwick Complex, as part of an approved "beneficial use" for filling mine voids and mine subsidence avoidance. This beneficial use of the fly ash provides an economic method for disposition of the ash; while preserving the capacity of the Lefever Road Disposal Site. In addition, the Harwick Complex receives leachate generated from the closed Kissick Ash Disposal Site.

Presently, the Harwick Complex receives approximately 2 million gallons per day (mgd) of slurry ash and ash disposal site leachate. Associated with the Harwick Complex, the

## Cheswick Station

Monarch Mine Treatment Plant provides for dewatering and treatment of acid mine drainage waters generated from the mine complex in accordance with permits issued by the Pennsylvania Department of Environmental Protection. The output of the Monarch Mine Treatment plant is typically 6 to 8 mgd, depending on the quantity of ash slurry injected into the mine. This water includes liquid from the slurried ash, leachate from the Lefever and Kissick disposal sites, and infiltration from the surrounding strata.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of equipment and facilities that are necessary for the operation of Cheswick Power Station. This includes, but is not limited to, the following:

- Main steam generator
- Main steam turbine
- Main generator
- Controls
- Auxiliary equipment
  - Fans
  - Pumps
  - Compressors
  - Heat exchangers
- Auxiliary systems
  - Auxiliary boilers
  - Water treating
  - Coal handling
  - Ash handling
  - Processing and storage facilities
- Main step-up and station service transformers
- Station service sub-stations
- Associated switch gear
- Fuel storage tanks
- Ash disposal facilities
  - Abandoned underground coal mine complex and associated dewatering and treatment facilities

## Cheswick Station

- Lefever Road above ground ash disposal site
- Buildings and structures
  - Main boiler/turbine/generator building
  - Plant administration building
  - Warehouse
  - Monarch mine dewatering
  - Coal handling process and control building
  - Screenhouse
  - Coal handling equipment garage
  - Miscellaneous other small buildings and structures
- Approximately 277 acres that include the land upon which the above facilities are located and the surrounding parcels

### C. Physical Assets Excluded From Sale

- East switchyard
- West switchyard
- Capacitor bank yard
- Transmission lines from the disconnect switches on the high voltage side of the main step-up and station service transformers
- Land upon which switch yards are located
- Switch yard controls, metering and protective relay equipment located in the main control room and relay rooms

### D. Items Subject to Easement

In order for the new owner as well as Duquesne to access certain areas within each other's property, easements will be established as follows:

#### Granted to Duquesne

- Access to the East switchyard
- Access to the Capacitor yard
- Access to the transmission lines up to the disconnect switches on the high voltage side of the main and station service transformers
- Access to the switchyard controls in the plant control and relay rooms
- Access to the transmission towers located on the new owner's property

**Cheswick Station**

Granted to the new owner

- Access to the fly ash transport lines to the mine injection boreholes

E. Fuel Contracts

Approximately 50% of Cheswick's coal requirements are provided by two

long term contracts. They are as follows:

Name: Appalachian Mining Company  
Quantity: 25,000 to 30,000 tons per month  
Expiration Date: September 30, 2002  
Delivery: Barge F.O.B. Cheswick Power Station

Name: Quintain Resources, Inc.  
Quantity: 20,000 to 25,000 tons per month  
Expiration Date: September 30, 2002  
Delivery: Truck F.O.B. Cheswick Power Station

In addition, the natural gas requirements for Cheswick are provided through a long term contract with:

Name: Enserch Energy Services, Inc.  
Quantity: 14,000 MCF per month  
Expiration Date: August 31, 1999

F. Other Major Service Contracts

Name: MPW Services  
Purpose: Demineralizer and Reverse Osmosis Unit Services  
Expiration Date: November 30, 2000

G. SO<sub>2</sub> Emission Allowances

Under Title IV of the Federal Clean Air Act, the following annual SO<sub>2</sub> allowances have been assigned to this facility:

Cheswick Station

2000 – 2009

16,753

2010 and Beyond

16,860

In addition, Cheswick will receive the emission allowances in Duquesne's bank accumulated through the closing, estimated to total 12,000 at the end of 1998.

H. NOX Emissions

Pursuant to Title I of the Clean Air Act and the Pennsylvania NO<sub>2</sub> Budget Rule, commencing in 1999, the facility will be subject to limitations on the total tons of NO<sub>2</sub> emitted during the May-September control period, based on the number of NO<sub>2</sub> emission allowances allocated to the facility plus any allowances which the facility may acquire from other units. The facility has been allocated the following NO<sub>2</sub> emission allowances under the NO<sub>2</sub> Budget Rule, which may be used to cover emissions from the facility, or may be banked or sold:

Title 1, NOx Budget Rule Allowances

2,114 tons

Cheswick Station

Appendix A  
Detailed Plant Information

I. Environmental Obligations and Permits  
(including LeFever Road Ash Disposal Site, Harwick Mine Complex/Monarch Mine Treatment Plant, and Bottom Ash Processing Area)

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA, <sup>1</sup> PADEP <sup>2</sup> and Allegheny County Health Department regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143), and Allegheny County Rules and Regulations, Art. XXI, and in the permits cited in this table.	<p>BEQ<sup>3</sup> Air Emissions Permit No. 1065009-003-00600 (applies to auxiliary boiler).</p> <p>BEQ RACT Plan Approval Order and Agreement No. 217 (issued March 6, 1996; expires upon issuance of Title V permit) (applies to Boiler No. 1, installation of low NOx burners; superseded by RACT Plan Approval Order and Agreement No. 212).</p> <p>Above permits will be superseded by Title V permit when issued.</p>

1 USEPA = United States Environmental Protection Agency.  
 2 PADEP = Pennsylvania Department of Environmental Resources.  
 3 BEQ = Bureau of Environmental Quality, Allegheny County Department of Health.

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i> , and the Rules and Regulations of the Allegheny County Health Department, Art. XXI, Part C.	BEQ Title V Air Emissions Permit Application (submitted Nov. 27, 1995).
Air Quality	<p>In accordance with the September 27, 1994 MOU<sup>4</sup> among OTC<sup>5</sup> states, PADEP promulgated regulations to limit emissions of nitrogen oxides (NOx) from fossil-fired combustion units. See 27 Pa. Bulletin 5683 (Nov. 1, 1997). These regulations are designed to ensure that, by May 1, 1999, affected facilities in the "outer zone" (including Cheswick) must reduce their combined rate of NOx emissions by 55 percent of the 1990 baseline or emit NOx at a rate no greater than 0.20 pounds per million Btu. Further regulations may be promulgated in order to achieve the goal of the MOU that, by May 1, 2003, these facilities reduce their combined rate of NOx emissions by 75 percent of the 1990 baseline or emit NOx at a rate no greater than 0.15 pounds per million Btu.</p> <p>Under PADEP's current regulations, 25 Pa. Code §§ 123.101-123.120, beginning in 1999, each affected source must hold by December 31 of each year a quantity of "NOx allowances" equal to or greater than the total NOx emitted from the source during the "NOx allowance control period" (May 1 through September 30) for the year. Under 25 Pa. Code § 115(a), Cheswick was allocated an initial allowance of 2,114 tons. Compliance with these requirements may require installation of additional controls or the purchase of NOx emission allowances if it is projected that emissions during a control period will exceed the NOx allowances held by the facility.</p>	

4 MOU = Memorandum of Understanding.

5 OTC = Northeast Ozone Transport Commission.

## Cheswick Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with Clean Air Act Acid Rain (Title IV) requirements, including "Phase II" Acid Rain requirements which start Jan. 1, 2000, as provided in 40 C.F.R. Part 73. The facility was allocated an initial Phase I sulfur dioxide allowance of 38,139 tons, <i>see</i> 40 C.F.R. § 73.10 (Table 1), and an initial Phase II sulfur dioxide allowance of 16,751 tons, <i>see</i> 40 C.F.R. § 73.10 (Table 2).	
Aviation	Compliance with FAA <sup>6</sup> requirements applicable to objects affecting navigable airspace, as provided in FAA regulations, 14 C.F.R. Part 77, including those for marking and lighting obstructions, and for maintaining such markings and lighting.	
Boilers	Compliance with requirements for boilers and unfired pressure vessels, including requirements for inspections thereof, as provided in 34 Pa. Code Ch. 3.	PA Dept. of Labor and Industry Boiler and Unfired Pressure Vessel File No. 000057, location nos. 7, 17 and 18.
Chemical Reporting	Compliance with MSDS, <sup>7</sup> Tier I and Tier II reporting under EPCRA §§ 311 & 312, 42 U.S.C. §§ 11021-22, and 40 C.F.R. Part 370, and with the Pennsylvania Hazardous Material Emergency Planning and Response Act, 35 P.S. §§ 6022.101 <i>et seq.</i> , and the Pennsylvania Worker and Community Right to Know Act, 35 P.S. §§ 7301 <i>et seq.</i>	

6 FAA = Federal Aviation Administration, United States Department of Transportation.

7 MSDS = Material Safety Data Sheet.

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Chemical Reporting	<p>Compliance with toxic chemical release reporting under EPCRA § 313, 42. U.S.C. § 11023, and 40 C.F.R. Part 372.</p> <p>In accordance with recent amendments to USEPA's rules, 62 Fed. Reg. 23,834 (May 1, 1997), the first toxic chemical release report will be due July 1, 1999, if the facility uses a toxic chemical in excess of an applicable threshold amount.</p>	
Communications	<p>Compliance with requirements for radio services, as provided in the Federal Communications Act and FCC<sup>8</sup> regulations thereunder, including requirements for Private Land Mobile Radio Services, 47 C.F.R. Part 90, particularly for Power Radio Services, 47 C.F.R. § 90.63, and licensing thereof, 47 C.F.R. Part 90, Subpart G, and in licenses cited in this table.</p>	<p>FCC Radio Station License No. KGB404 (expires Dec. 14, 1999).</p> <p>FCC Microwave Radio Station License No. WBD37 (expires April 26, 2000).</p> <p><i>Duquesne Light intends to maintain these licenses for purposes of its distribution system. New licenses will be needed for the facility</i></p>
Nuclear Energy	<p>Compliance with requirements for possessing and using radioactive materials, as provided in the Atomic Energy Act, as amended, 42 U.S.C. §§ 2011 <i>et seq.</i>; and NRC<sup>9</sup> regulations, 10 C.F.R. Part 30.</p>	<p>NRC License No. 37-06424-06 (authorizes possession of radioactive sources for analysis of samples using Gamma Metrics Bulk Materials Analyzer).</p>
Oil Pollution	<p>Compliance with requirements for oil pollution prevention, including those for spill prevention control and countermeasure planning, as provided in 40 C.F.R. Part 112.</p>	
PCBs	<p>Compliance with USEPA regulations for use and disposal of PCB items under 40 C.F.R. Part 761.</p> <p>The facility has no known PCB-contaminated electrical equipment in service or in storage for reuse.</p>	

8 FCC = Federal Communications Commission.

9 NRC = Nuclear Regulatory Commission.

PROGRAM	OBLIGATIONS	PERMITS AND REFERENCES
Solid Waste	<p>Compliance with PADEP regulations for residual waste management, 25 Pa. Code Chs. 287 (General Provisions), 288 (Residual Waste Landfills), 289 (Residual Waste Disposal Impoundments) and 299 (Storage and Transportation of Residual Waste), including requirements for upgradient and downgradient groundwater monitoring, <i>see</i> 25 Pa. Code 288.251, and bonding, <i>see</i> 25 Pa. Code §§ 287.301 <i>et seq.</i> -</p> <p>A collateral bond in the amount of \$2,507,355.00 has been posted for the LeFever Road facility.</p>	PADEP Solid Waste Permit No. 300720 (issued March 24, 1982) (applies to LeFever Road ash disposal site).
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, 10 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and 25 Pa. Code Part I, Subpart C, Art. VII., Chs. 260 through 262.	USEPA/PADEP Hazardous Waste Generator Identification No. PA-0007915606.
Solid Waste	Compliance with requirements for generators of residual waste, as provided in the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. IX., Ch. 287, Subch. B, including requirements for chemical analysis of waste and biennial reporting.	
Storage Tanks	Compliance with the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i> , and PADEP regulations thereunder, 25 Pa. Code Ch. 245, for aboveground storage tanks, including requirements for spill prevention and response planning, release prevention and leak detection, and certified inspections.	PADEP Storage Tank Registration Certificate No. 245031 (registering 10 aboveground storage tanks).

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Storage Tanks	Emergency containment will be required on three regulated aboveground tanks by Oct. 2000. Secondary containment on these tanks will be required by Oct. 2007. See 25 Pa. Code § 245.612(e).	
Storage Tanks	Compliance with the requirements of the requirements of RCRA, Subchapter IX, 42 U.S.C. §§ 6991 <i>et seq.</i> , and 40 C.F.R. Part 280, including the upgrade requirements of 40 C.F.R. § 280.21, and the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i> , and 25 Pa. Code Ch. 245, including requirements for certified inspections.  [Are these tanks covered by RCRA? What sizes are the tanks?]	PADEP Storage Tank Registration Certificate No. 02-13379 (registering 2 underground gasoline storage tanks).
Storage Tanks	Compliance with local requirements relating to storage tanks, including Allegheny County requirements for fire and explosion safety.	Allegheny County Police Certificate of Fire and Explosion Safety No. S-0107 (issued Sept. 24, 1990) (identifying 2 aboveground tanks).  Allegheny County Police Certificate of Fire and Explosion Safety No. 5116 (issued March 3, 14, 1990) (identifying underground tanks).

## Cheswick Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and 25 Pa. Code Part I, Subpart C, Art. II., Chs. 91 through 97 & Subpart A, Art. II, Ch. 16 and in the permits cited in this table.	<p>NPDES Permit No. PA0001627 (issued Sept. 29, 1995; expires Sept. 29, 2000; renewal application due March 29, 2000) (applies to Cheswick unit).</p> <p>PADEP Industrial Waste Permit No. 0277206 (issued Sep. 29, 1977) (applies to coal pile runoff, misc. waste pond discharges, outfall 004 and screen backwash).</p> <p>PADEP Industrial Waste Permit No. 0272216 (issued Aug. 9, 1973) (applies to bottom ash recycling).</p> <p>PADEP Industrial Waste Permit No. 0271208 (issued April 10, 1973) (applies to fly ash slurry - Monarch Mine No. 1 and 2 Treatment Plant).</p> <p>PADEP Industrial Waste Permit No. 0270205 (issued Feb. 16, 1971) (applies Monarch Mine No. 1 Treatment Plant).</p> <p>PADEP Industrial Waste Permit No. 0270201 (issued March 17, 1970) (applies to emergency ash settlement basin).</p> <p>PADEP Industrial Waste Permit No. 5671021 (issued April 22, 1968) (applies to condenser cooling water).</p>
Water Quality	Facility employs a circulating water cooling system subject to a variance under Clean Water Act § 316(a), 42 U.S.C. § 1326(a).	NPDES Permit No. PA0001627.
Water Quality	EPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001. <i>See</i> 63 Fed. Reg. 40,683 (July 30, 1998).	NPDES Permit No. PA0001627.

Cheswick Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with erosion control and dam safety and waterway management requirements, as provided in PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. II., Chs. 102 and 105, and in the permits cited in this table.	<p>PADEP Encroachments Permit No. E-02-145 (issued Oct. 1, 1997; expires Oct. 1, 1998) (applies to intake discharge structure and mooring facility).</p> <p>PADEP Encroachment Permit No. GP070296202 (issued Jan. 25, 1996) (applies to maintenance of Lefever Road disposal site stream crossing).</p> <p>PADEP Encroachment Permit No. GP070295220 (issued Dec. 22, 1995) (authorizes construction and maintenance of 72-inch culvert crossing on drainage ditch tributary to Tawney Run).</p> <p>PADEP Dam Safety Permit No. ENC:02-231 (02-231) (issued June 15, 1982) (applies to maintenance of existing stream enclosure, Tawney Run).</p> <p>PADEP Permit No. D02-063.</p> <p>PADEP Encroachment Permit No. 0277728 (issued May 18, 1977) (authorizing construction and maintenance of headwall and rip rap).</p> <p>PADEP Maintenance Permit No. 0277720 (issued Apr. 7, 1977) (authorized construction of maintenance of 5-inch slurry line).</p> <p>PADEP Maintenance Permit No. 0273756 (issued July 31, 1973) (authorizing construction and maintenance of pipe bridge).</p> <p>PADEP Encroachment Permit No. 20365 (issued Jan. 2, 1973) (authorizing construction of retaining walls on Tawney Run).</p> <p>PADEP Encroachments Permit No. 20003 (issued July 10, 1972) (authorizing construction of stilling basin on Little Deer Creek).</p>

## Cheswick Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323, and in the permits cited in this table.	<p>Army Corps of Engineers Maintenance Dredging Permit No. 91116 (issued Feb. 6, 1992; expires Aug. 1, 2002) (applies to maintenance dredging of Allegheny River).</p> <p>Army Corps of Engineers/PADEP Maintenance Permit No. 17439 (5956-DLCo.) (issued March 13, 1968) (applies to construction of intake, discharge and docking structures).</p> <p>Army Corps of Engineers/PADEP Electric Wire Crossing Permit Nos. 17387, 17634, 17635, 17636, 17637 and 17638 (issued Jan. 1, 1990), and No. 17329 (issued Nov. 14, 1967) (for wire crossing Allegheny River). <i>[Note: Duquesne Light intends to maintain its wire crossing permits for its distribution system.]</i></p>
Water Quality	Preparedness, prevention and contingency (PPC) planning required under multiple PADEP permits and/or regulations.	

## Eastlake Station

### A. Plant Description

Located on the southern shore of Lake Erie in the town of Eastlake, Ohio, Eastlake Unit 5 ("Eastlake") began generating electricity in 1972. The Eastlake Station is situated on a 120 acre site with Eastlake Unit 5 occupying approximately 3 acres of the site. The five unit station has a maximum generating capacity of 1,233 MW and Duquesne owns 31.2% of Unit 5 (186 MW) and 15.59% of common equipment. The plant is operated by Cleveland Electric Illuminating Company, a First Energy Group company.

Unit 5 went into commercial operation in 1972 and is comprised of a steam turbine-generator manufactured by General Electric. It is supplied steam from a Babcock & Wilcox supercritical pulverized coal steam generator. The steam generator is rated to produce 4.63 million pounds of steam per hour with steam conditions of 3,500 psig/1005°F/1005°F.

The unit is operated as a baseload facility and alternately burns medium and high sulphur coal. Currently, First Energy procures about 90% of the coal under a long-term contract from Powhatan 6 and Emerald. The remainder, West Point, is purchased on a spot basis. Emerald and Powhatan are delivered by unit train while West Point is trucked. The plant uses electrostatic precipitators, and an SO<sub>3</sub> flue gas conditioning system as needed, to minimize particulate emissions.

Duquesne intends to sell its interest in all station equipment, facilities and inventories associated with unit 5 and common equipment. Duquesne will transfer, to the extent possible, its ownership interest in all fuel contracts in

## Eastlake Station

existence at the date of closing, as well as service contracts, environmental and operating permits. The new owner will assume Duquesne's share of all environmental liabilities related to the land and other facilities sold, including the active ash disposal facility.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of Duquesne's undivided interest in the equipment and facilities that are necessary for the operation of Eastlake Unit 5. This includes, but is not limited to, the following:

- Main steam generator
- Main steam turbine
- Main generator
- Controls
- Auxiliary equipment
- Fans
- Pumps
- Compressors
- Heat exchangers
- Auxiliary turbines
- Auxiliary systems
- Water treatment
- Coal handling
- Ash handling
- SO<sub>3</sub> flue gas conditioning
- Electrical and switchgear
- Main step-up and station service transformers
- Ash disposal facility at North Park
- Unit 5 control room
- Buildings and structures
- Main boiler/turbine/generator building
- Plant administration building
- Crusher house
- Coal dumper house

**Eastlake Station**

- Screenhouse
- 600 foot concrete stack with steel liner
- Guardhouse
- Miscellaneous other small buildings and structures

C. Physical Assets Excluded From Sale

- Switchyards
- Land upon which switchyards are located
- Switchyard controls
- Transmission lines from the terminations to each of the main output transformers and each of the system station service transformers
- Transmission towers

D. Items Subject to Easement

None.

E. Fuel Contracts

Company Name: The American Coal Sales Company  
Quantity: Approximately 100,000 Tons per month to the Eastlake Power Station  
Expiration Date: December 31, 1999  
Delivery: Railroad

F. Other Major Service Contracts

N/A

G. SO<sub>2</sub> Emission Allowances

Under Title IV of the Federal Clean Air Act, Duquesne's ownership share of the annual SO<sub>2</sub> allowances assigned to this facility is as follows:

2000 – 2009  
5,138

2010 and Beyond  
5,172

H. Environmental Obligations and Permits

**NOTE: Duquesne Light Company is not the operator of the Eastlake Power Station. The facility operator, First Energy Corporation, is responsible for obtaining and maintaining all required permits. Although some generally applicable compliance obligations for the facility are listed below, other obligations and all permits and references will be identified at a later date. All permits and other relevant information will be available for review by bidders during the due diligence period.**

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , and USEPA <sup>1</sup> and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), and Ohio Admin. Code Chs. 3745-14 through 3745-26.	
Air Quality	<p>Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i>, and Ohio EPA regulations, Ohio Admin. Code Ch. 3745-77.</p> <p>Pending approval of Title V permit, the terms and conditions of existing operating permit(s) continue, as provided in Ohio Admin. Code § 3745-77-04, and facility may operate in conformance with the Clean Air Act and regulations thereunder.</p>	

<sup>1</sup> USEPA = United States Environmental Protection Agency.

Eastlake Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with Clean Air Act Acid Rain (Title IV) requirements., including "Phase II" Acid Rain requirements which start Jan. 1, 2000, as provided in 40 C.F.R. Part 73. The facility was allocated an initial Phase I sulfur dioxide allowance of 37,349 tons for Unit 5, <i>see</i> 40 C.F.R. § 73.10 (Table 1), and an initial Phase II sulfur dioxide allowance of 16,468 tons for Unit 5, <i>see</i> 40 C.F.R. § 73.10 (Table 2).	
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, <sup>2</sup> 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and Ohio Admin. Code Ch. 3745-52.	
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and Ohio Admin. Code Chs.3745-31 through 3745-45.	
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323.	

2 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.

## Elrama Station

A. Plant Description

The Elrama Power Station is located in the community of Elrama, Pennsylvania on the Monongahela River about 25 miles southwest of Pittsburgh. The plant consists of four units with a combined net capacity of 487 MW. The first unit went into commercial operation in 1952 and the fourth and last unit was placed in commercial operation in 1960. In 1975, the plant was retrofitted with wet scrubbers for the removal of particulate and sulfur dioxide from the boiler flue gas. Duquesne is the sole owner and operator of the plant which is interconnected to Duquesne's 69 KV and 138 KV transmission system. The plant and associated facilities are situated on approximately 48 acres, excluding the switchyard, with the major portion of the plant property in Washington County, and the remainder located in Allegheny County.

The turbine-generators for all four units were manufactured by Westinghouse. Each of these units is supplied with steam from boilers manufactured by Babcock and Wilcox. The ratings for these units are summarized in the following table:

Unit	Boiler Capacity #/hr. x 1000	Turbine Generator	
		Inlet Steam °F/°F/psig	Net Capacity MW
1	900	950/1200	100
2	900	950/1200	100
3	875	1000/1000/1450	112
4	1,300	1000/1000/1800	175

## Elrama Station

Elrama is operated as an intermediate load facility and burns medium to high sulfur bituminous coal. Currently, Duquesne procures approximately 30% of the plant's coal requirements from a captive mine and the remainder of the coal is purchased on a spot basis. The captive mine arrangement will expire in March of 2000. Light off fuel is No. 2 fuel oil.

Duquesne intends to sell all station equipment, facilities and inventories with the exception of the land and facilities related to switchyards. Duquesne will transfer, to the extent possible, all fuel and lime contracts in existence at the date of closing, as well as service contracts, environmental and operating permits. Duquesne will also transfer to the new owner the lease for the property on which the current ash disposal facility is located. This fully permitted site is located within two miles of the plant. The new owner will assume all environmental liabilities related to the land and other facilities sold, as well as the environmental liabilities associated with the current ash disposal facility.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of equipment and facilities that are necessary for the operation of the Elrama Power Station. This includes but is not limited to the following:

- Main steam generators
- Main steam turbines
- Main generators
- Station service generators
- Instrumentation and controls necessary to operate the generating units
- Auxiliary equipment

## Elrama Station

- fans
- pumps
- compressors
- heat exchangers
- Auxiliary systems
  - auxiliary boiler
  - water treating
  - coal handling
  - ash handling
- Main step-up and station service transformers
- Station service sub-stations
- Associated switchgear
- Fuel storage tank
- Flue gas scrubbers and associated facilities
  - hot and cold flue gas duct work
  - scrubber stack
  - scrubber modules
  - ID fans
  - recycle pumps and piping
  - thickeners
  - all associated piping
  - instrumentation and controls necessary to operate the scrubbers and auxiliaries
- Building and Structures
  - main boiler/turbine/generator building
  - plant administration building
  - parts warehouse
  - coal handling process and control building
  - screenhouse
  - scrubber building
  - scrubber switchgear building
  - miscellaneous other small buildings and structures
- Approximately 48 acres that include the land upon which the above facilities are located.

### C. Assets to be Excluded from the Sale

The physical assets to be excluded from transfer to the new owner include:

- Switchyard and all equipment within switchyard
- Transmission lines from the disconnect switches on the high voltage side of the main step-up and station service transformers

**Elrama Station**

- Land upon which the switchyards are located
- Switchyard controls, metering and protective relay equipment located in the main control room and relay rooms

D. Items Subject to Easements

In order for the new owner as well as Duquesne to access certain areas within each other's property, easements will be established as follows:

Granted to Duquesne

- Access to the switchyard
- Access to the transmission lines up to the disconnect switches on the high voltage side of the main and station transformers
- Access to the switchyard controls, metering and relays in the plant control and relay rooms
- Access to transmission towers located on the new owner's property

Granted to the new owner

- Access to fly ash transport lines and other piping located on property retained by Duquesne Light

E. Fuel Contracts

None.

F. Other Major Service Contracts

Name:	Dravo Lime Company
Quantity:	40,000 to 60,000 tons of scrubber process lime per year
Expiration Date:	December 31, 2000
Name of Service Provider:	Conversion Systems, Inc.
Purpose:	Scrubber Sludge Stabilization
Expiration Date:	February 29, 1999 (extension under negotiation)

**Elrama Station**

Name of Service Provider: Trumbell Corporation  
 Purpose: Ash/Sludge Hauling and Disposal  
 Expiration Date: October 31, 2000

Name of Service Provider: Fred and Marino Fiore  
 Quantity: Lease of Property for Ash Disposal Site  
 Expiration Date: December 31, 1999

Name of Service Provider: MPW Corporation  
 Quantity: Demineralized Water  
 Expiration Date: December 31, 1998

G. SO<sub>2</sub> Emission Allowances

Under Title IV of the Federal Clean Air Act, the following annual SO<sub>2</sub> allowances have been assigned to this facility:

<u>2000 – 2009</u>	<u>2010 and Beyond</u>
7,367	5,468

H. NO<sub>x</sub> Emissions

Pursuant to Title I of the Clean Air Act and the Pennsylvania NO<sub>2</sub> Budget Rule, commencing in 1999, the facility will be subject to limitations on the total tons of NO<sub>2</sub> emitted during the May-September control period, based on the number of NO<sub>2</sub> emission allowances allocated to the facility plus any allowances which the facility may acquire from other units. The facility has been allocated the following NO<sub>2</sub> emission allowances under the NO<sub>2</sub> Budget Rule, which may be used to cover emissions from the facility, or may be banked or sold:

Title 1, NO <sub>x</sub> Budget Rule Allowances	2,129 tons
---	------------

I. Environmental Obligations and Permits  
(including ash disposal site and Fern Valley Disposal Site)

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA <sup>1</sup> and PADEP <sup>2</sup> regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99) and 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143), and in the permits cited in this table.	PADEP Air Quality Operating Permit No. 63-000-14 (issued Oct. 20, 1997; expires Sept. 1, 2002) (RACT for Low NOx Burners for main boiler and 66% capacity factor for auxiliary boiler).
Air Quality	Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i> , and PADEP regulations, 25 Pa. Code Ch. 127, Subch. G, §§ 127.501 <i>et seq.</i>  Pending approval of Title V permit, the terms and conditions of existing operating permit(s) continue, as provided in 25 Pa. Code § 127.505(d), and facility may operate in conformance with the Pennsylvania Air Pollution Control Act, the Clean Air Act and regulations thereunder.	PADEP Title V Permit Application submitted Aug. 7, 1995.

1 USEPA = United States Environmental Protection Agency.

2 PADEP = Pennsylvania Department of Environmental Resources.

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	<p>In accordance with the September 27, 1994 MOU<sup>3</sup> among OTC<sup>4</sup> states, PADEP promulgated regulations to limit emissions of nitrogen oxides (NOx) from fossil-fired combustion units. <i>See</i> 27 Pa. Bulletin 5683 (Nov. 1, 1997). These regulations are designed to ensure that, by May 1, 1999, affected facilities in the "outer zone" (including Elrama) must reduce their combined rate of NOx emissions by 55 percent of the 1990 baseline or emit NOx at a rate no greater than 0.20 pounds per million Btu. Further regulations may be promulgated in order to achieve the goal of the MOU that, by May 1, 2003, these facilities reduce their combined rate of NOx emissions by 75 percent of the 1990 baseline or emit NOx at a rate no greater than 0.15 pounds per million Btu.</p> <p>Under PADEP's current regulations, 25 Pa. Code §§ 123.101-123.120, beginning in 1999, each affected source must hold by December 31 of each year a quantity of "NOx allowances" equal to or greater than the total NOx emitted from the source during the "NOx allowance control period" (May 1 through September 30) for the year. Under 25 Pa. Code § 115(a), Elrama's units were allocated initial allowances of 334 tons (Unit 1), 333 tons (Unit 2), 446 tons (Unit 3), and 1,016 tons (Unit 4). Compliance with these requirements may require installation of additional controls or the purchase of NOx emission allowances if it is projected that emissions during a control period will exceed the NOx allowances held by the facility.</p>	

3 MOU = Memorandum of Understanding.

4 OTC = Northeast Ozone Transport Commission.

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Aviation	Compliance with FAA <sup>5</sup> requirements applicable to objects affecting navigable airspace, as provided in FAA regulations, 14 C.F.R. Part 77, including those for marking and lighting obstructions, and for maintaining such markings and lighting.	
Boilers	Compliance with requirements for boilers and unfired pressure vessels, including requirements for inspections thereof, as provided in 34 Pa. Code Ch. 3.	PA Dept. of Labor and Industry Boiler and Unfired Pressure Vessel File No. 000057, location no. 26.
Chemical Reporting	Compliance with MSDS, <sup>6</sup> Tier I and Tier II reporting under EPCRA §§ 311 & 312, 42 U.S.C. §§ 11021-22, and 40 C.F.R. Part 370, and with the Pennsylvania Hazardous Material Emergency Planning and Response Act, 35 P.S. §§ 6022.101 <i>et seq.</i> , and the Pennsylvania Worker and Community Right to Know Act, 35 P.S. §§ 7301 <i>et seq.</i>	
Chemical Reporting	Compliance with toxic chemical release reporting under EPCRA § 313, 42 U.S.C. § 11023, and 40 C.F.R. Part 372.  In accordance with recent amendments to USEPA's rules, 62 Fed. Reg. 23,834 (May 1, 1997), the first toxic chemical release report will be due July 1, 1999, if the facility uses a toxic chemical in excess of an applicable threshold amount.	
Communications	Compliance with requirements for radio services, as provided in the Federal Communications Act and FCC <sup>7</sup> regulations thereunder, including requirements for Private Land Mobile Radio Services, 47 C.F.R. Part 90, particularly for Power Radio Services, 47 C.F.R. § 90.63, and licensing thereof, 47 C.F.R. Part 90, Subpart G, and in licenses cited in this table.	FCC Radio Station License No. HGC686 (expires Aug. 3, 2003). FCC Microwave Radio Station License No. KHX75 (expires June 27, 1999). <i>Duquesne Light intends to maintain these licenses for purposes of its distribution system. New licenses will be needed for the facility.</i>

5 FAA = Federal Aviation Administration, United States Department of Transportation.

6 MSDS = Material Safety Data Sheet.

7 FCC = Federal Communications Commission.

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Oil Pollution	Compliance with requirements for oil pollution prevention, including those for spill prevention control and countermeasure planning, as provided in 40 C.F.R. Part 112.	
PCBs	Compliance with USEPA regulations for use and disposal of PCB items under 40 C.F.R. Part 761.  The facility has no known PCB-contaminated electrical equipment in service or in storage for reuse.	
Solid Waste	Compliance with PADEP regulations for residual waste management, 25 Pa. Code Chs. 287 (General Provisions), 288 (Residual Waste Landfills), 289 (Residual Waste Disposal Impoundments) and 299 (Storage and Transportation of Residual Waste), including requirements for upgradient and downgradient groundwater monitoring, <i>see</i> 25 Pa. Code 288.251, and bonding, <i>see</i> 25 Pa. Code §§ 287.301 <i>et seq.</i>  Collateral bonds in the amounts of \$791,817.00 and \$3,150,865.00 have been posted for the Elrama Ash Disposal and Fern Valley Disposal sites, respectively.	PADEP Solid Waste Permit No. 300578 (issued Jan. 16, 1975) (applies to Elrama Ash Disposal Site).  PADEP Solid Waste Permit No. 300615 (issued Aug. 30, 1989) (applies to Fern Valley Disposal Site).
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, 8 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and 25 Pa. Code Part I, Subpart C, Art. VII., Chs. 260 through 262.	USEPA/PADEP Hazardous Waste Generator Identification No. PAD-000800367.

## Elrama Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Solid Waste	Compliance with requirements for generators of residual waste, as provided in the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. IX., Ch. 287, Subch. B, including requirements for chemical analysis of waste and biennial reporting.	PADEP Solid Waste Permit No. WMGR052 (issued Dec. 23, 1997; expires Dec. 23, 2007) (for beneficial use of stabilized FGD material (LPC) as construction material, mine sealing and fire control, and abandoned mine reclamation).
Storage Tanks	Compliance with the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i> , and PADEP regulations thereunder, 25 Pa. Code Ch. 245, for aboveground storage tanks, including requirements for spill prevention and response planning, release prevention and leak detection, and certified inspections.	PADEP Storage Tank Registration Certificate No. 245033 (expires Oct. 4, 1990) (registering 4 aboveground storage tanks).
Storage Tanks	Emergency containment will be required on three regulated aboveground tanks by Oct. 2000. Secondary containment on these tanks will be required by Oct. 2007. <i>See</i> 25 Pa. Code § 245.612(c).	
Storage Tanks	Compliance with the requirements of the Pennsylvania State Police Fire Marshall for storage and handling of flammable or combustible liquids, 37 Pa. Code Part I, Subpart B (administration recently transferred to Pennsylvania Department of Business and Industry).	PA State Police Fire Marshall Approval for Storage and Handling of Flammable or Combustible Liquids, No. 2574-204-958 (issued Oct. 1, 1990).

## Elrama Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and 25 Pa. Code Part I, Subpart C, Art. II., Chs. 91 through 97 & Subpart A, Art. II, Ch. 16 and in the permits cited in this table.	<p>NPDES Permit No. PA0001571 (issued Sept. 20, 1996; expires Sept. 20, 2001; application for renewal due March 20, 2001).</p> <p>Facility employs a circulating water cooling system subject to a variance under Clean Water Act § 316(a), 42 U.S.C. § 1326(a). See NPDES Permit No. PA0001571.</p> <p>NPDES Permit PA0098121 (issued June 17, 1997; expires June 17, 2002; application for renewal due Dec. 17, 2001).</p> <p>NPDES Permit No. PA0090271 (issued Sept. 6, 1994; expires Sept. 6, 1999; application for renewal due March 6, 1999) (applies to Fern Valley Disposal Site).</p> <p>PADEP Industrial Waste Permit No. 0287202-T1 (issued Feb. 1, 1989) (Fern Valley Disposal Site).</p> <p>PADEP Industrial Waste Permit No. 6377210 (issued Aug. 29, 1978) (applies to coal pile runoff and polishing ponds).</p> <p>PADEP Industrial Waste Permit No. 6373209 (issued Jan. 20, 1975) (applies to treated wet scrubber).</p> <p>PADEP Industrial Waste Permit No. 6372205 (issued June 21, 1973) (applies to discharge to Monogahela River).</p>
Water Quality	Facility has performed and submitted to PADEP a site-specific study of need for water quality based discharge limit for chlorine, concluding that it is not needed. The study is under review by PADEP.	NPDES Permit No. PA0001571.
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001.	

## Elrama Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323, and in the permits cited in this table.	<p>Army Corps of Engineers Maintenance Dredging Permit No. 91115 (issued Feb. 5, 1992; expires Aug. 1, 2002) (authorizes dredging along left bank of Monogahela River).</p> <p>Army Corps of Engineers Electric Wire Crossing Permit No. 16423 (issued June 27, 1966) (approved by PADEP also on April 18, 1966) (for wire crossing Monogahela River). <i>[Note: Duquesne Light intends to maintain its wire crossing permit for its distribution system.]</i></p>
Water Quality	Preparedness, prevention and contingency (PPC) planning required under multiple PADEP permits and/or regulations.	
Water Quality	Compliance with erosion control and dam safety and waterway management requirements, as provided in PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. II., Chs. 102 and 105, and in the permits cited in this table.	PADEP Submerged Land Permit No. S-6378727 (issued Oct. 1, 1997; expires Oct. 1, 1998) (applies to intake and discharge structures and docking and mooring facilities).

## Mansfield Station

### A. Plant Description

Located on the Ohio River in the town of Shippingport, Pennsylvania, Mansfield Station began generating electricity in 1976. This three unit station generates a maximum 2,360 MW and Duquesne owns 29.3% of Unit 1 (228 MW), 8% of Unit 2 (62 MW), 13.74% of Unit 3 (110 MW), 17.01% of facilities shared by all three units, and 18.65% of common facilities (shared by Units 1 & 2). The plant is located on approximately 2,100 acres and is operated by Pennsylvania Power, a First Energy company.

Built in 1971, Mansfield is comprised of three units each with a turbine-generator manufactured by General Electric. Each generator is supplied from a supercritical Foster Wheeler wall fired pulverized coal steam generator. The steam generators are rated to produce 6.4 million pounds of steam per hour with steam conditions of 3,500 psig/1000°F/1000°F.

The plant is operated as a baseload facility, burns high sulfur coal, and scrubs emissions. Units 1 and 2 are equipped with scrubber/absorber air quality control systems to remove both particulates and sulfur dioxide. Unit 3 has a precipitator/absorber system to remove particulates and sulfur dioxide. Scrubber sludge is disposed by pumping to an earth dam impoundment, Little Blue Run, approximately 12 miles away. The station procures lime and fuel under contracts that expire in December of 1999.

Duquesne intends to sell its interest in all station equipment, facilities and inventories. Duquesne will transfer, to the extent possible, its ownership interest

## Mansfield Station

in all fuel contracts in existence at the date of closing, as well as service contracts, environmental and operating permits. The new owner will assume Duquesne's share of all environmental liabilities related to the land and other facilities sold, including the active ash disposal facility.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of Duquesne's undivided interest in the equipment and facilities that are necessary for the operation of Mansfield Power Station. This includes, but is not limited to, the following for each unit unless otherwise noted:

- Main steam generator
- Main steam turbine
- Main generator
- Controls
- Scrubber/absorber (Units 1 & 2)
- Precipitator/absorber (Unit 3)
- Auxiliary equipment
  - Fans
  - Pumps
  - Compressors
  - Pulverizer mills
  - Heat exchangers
  - Auxiliary turbines
- Auxiliary systems
  - Water treating
  - Coal handling
  - Lime handling
  - Electrical and switchgear
- Buildings and structures
  - Main boiler/turbine/generator building
  - Plant administration building
  - Lime handling building
  - Coal handling building
  - Guardhouse

**Mansfield Station**

- Cooling towers (one for each unit)
- 950 foot chimney with four flues (Units 1 & 2)
- 600 foot chimney with two flues (Unit 3)
- FOG plant (will produce gypsum from scrubber sludge for nearby wallboard plant under construction)
- Miscellaneous other buildings and structures

C. Physical Assets Excluded From Sale

- Switchyards
- Land upon which switchyards are located
- Switchyard controls
- Transmission lines from the terminations to each of the main output transformers and each of the system station service transformers
- Transmission towers

D. Items Subject to Easement

None.

E. Fuel Contracts

Company Name: Consol, Inc.  
Quantity: 500,000 Tons per month  
Expiration Date: December, 1999  
Delivery: Barge and truck

F. Other Major Service Contracts

None.

G. SO<sub>2</sub> Emission Allowances

Under Title IV of the Federal Clean Air Act, Duquesne's ownership share of the annual SO<sub>2</sub> allowances assigned to this facility is as follows:

**Mansfield Station**

<u>Unit</u>	<u>2000 – 2009</u>	<u>2010 and Beyond</u>
1	3,695	3,719
2	1,116	1,124
3	1,972	1,985

H. NOX Emissions

Pursuant to Title I of the Clean Air Act and the Pennsylvania NO<sub>2</sub> Budget Rule, commencing in 1999, the facility will be subject to limitations on the total tons of NO<sub>2</sub> emitted during the May-September control period, based on the number of NO<sub>2</sub> emission allowances allocated to the facility plus any allowances which the facility may acquire from other units. The station has been allocated NO<sub>2</sub> emission allowances under the NO<sub>2</sub> Budget Rule, which may be used to cover emissions from the facility, or may be banked or sold. The following represent Duquesne's allocated share of those allowances:

Title 1, NOx Budget Rule Allowances

Unit 1	749
Unit 2	219
Unit 3	366

## I. Environmental Obligations and Permits

**NOTE:** *Duquesne Light Company is not the operator of the Mansfield Power Station. The facility operator, First Energy Corporation, is responsible for obtaining and maintaining all required permits. Although some generally applicable compliance obligations for the facility are listed below, other obligations and all permits and references will be identified at a later date. All permits and other relevant information will be available for review by bidders during the due diligence period.*

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA <sup>1</sup> and PADEP <sup>2</sup> regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99) and 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143).	

1 USEPA = United States Environmental Protection Agency.

2 PADEP = Pennsylvania Department of Environmental Resources.

Mansfield Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	<p>Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i>, and PADEP regulations, 25 Pa. Code Ch. 127, Subch. G, §§ 127.501 <i>et seq.</i></p> <p>Pending approval of Title V permit, the terms and conditions of existing operating permit(s) continue, as provided in 25 Pa. Code § 127.505(d), and facility may operate in conformance with the Pennsylvania Air Pollution Control Act, the Clean Air Act and regulations thereunder.</p>	

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	<p>In accordance with the September 27, 1994 MOU<sup>3</sup> among OTC<sup>4</sup> states, PADEP promulgated regulations to limit emissions of nitrogen oxides (NOx) from fossil-fired combustion units. <i>See</i> 27 Pa. Bulletin 5683 (Nov. 1, 1997). These regulations are designed to ensure that, by May 1, 1999, affected facilities in the "outer zone" (including Mansfield) must reduce their combined rate of NOx emissions by 55 percent of the 1990 baseline or emit NOx at a rate no greater than 0.20 pounds per million Btu. Further regulations may be promulgated in order to achieve the goal of the MOU that, by May 1, 2003, these facilities reduce their combined rate of Nox emissions by 75 percent of the 1990 baseline or emit NOx at a rate no greater than 0.15 pounds per million Btu.</p> <p>Under PADEP's current regulations, 25 Pa. Code §§ 123.101-123.120, beginning in 1999, each affected source must hold by December 31 of each year a quantity of "NOx allowances" equal to or greater than the total NOx emitted from the source during the "NOx allowance control period" (May 1 through September 30) for the year. Under 25 Pa. Code § 115(a), Mansfield's units were allocated initial allowances of 2,993 tons (Unit 1), 3,866 tons (Unit 2) and 3,504 tons (Unit 3). The Company's per unit share of the initial allowances is 749 (Unit 1), 219 (Unit 2) and 366 (Unit 3). Compliance with these requirements may require installation of additional controls or the purchase of NOx emission allowances if it is projected that emissions during a control period will exceed the NOx allowances held by the facility.</p>	

3 MOU = Memorandum of Understanding.

4 OTC = Northeast Ozone Transport Commission.

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with Clean Air Act Acid Rain (Title IV) requirements., including "Phase II" Acid Rain requirements which start Jan. 1, 2000, as provided in 40 C.F.R. Part 73. The facility was allocated an initial Phase II sulfur dioxide allowances of 12,606 tons (Unit 1), 13,650 tons (Unit 2) and 14,350 tons (Unit 3), <i>see</i> 40 C.F.R. § 73.10 (Table 2).	
Chemical Reporting	Compliance with toxic chemical release reporting under EPCRA § 313, 42. U.S.C. § 11023, and 40 C.F.R. Part 372.  In accordance with recent amendments to USEPA's rules, 62 Fed. Reg. 23,834 (May 1, 1997), the facility is now subject to Part 372. The first toxic chemical release report will be due July 1, 1999, if the facility uses a toxic chemical in excess of an applicable threshold amount.	
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, <sup>5</sup> 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and 25 Pa. Code Part I, Subpart C, Art. VII., Chs. 260 through 262.	
Solid Waste	Compliance with requirements for generators of residual waste, as provided in the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. IX., Ch. 287, Subch. B, including requirements for chemical analysis of waste and biennial reporting.	

5 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.

Mansfield Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and 25 Pa. Code Part I, Subpart C, Art. II., Chs. 91 through 97 & Subpart A, Art. II, Ch. 16.	
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001.	
Water Quality	Preparedness, prevention and contingency (PPC) planning required under multiple PADEP permits and/or regulations.	
Water Quality	Compliance with erosion control and dam safety and waterway management requirements, as provided in PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. II., Chs. 102 and 105.	
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323.	

## Perry Station

### A. Plant Description

Perry Nuclear Power Plant, Unit 1 is located on the southeast shoreline of Lake Erie, in Lake County, Ohio, approximately 7 miles Northeast of Painesville, Ohio. Perry 1 began commercial operation in 1987. Perry 1 is co-owned by Duquesne and First Energy. Perry unit 1 is rated at approximately 1200 net MW. Duquesne owns 13.74% of Perry Unit 1 (164 MW). First Energy operates Perry on an 1100 acre site that also includes structures associated with the cancelled Perry unit 2. Perry Unit 1 is connected to the transmission system operated by First Energy.

Perry Unit 1 is a Boiling Water Reactor (BWR-6) using a reactor and turbine furnished by General Electric Company. The architectural engineering was completed by Gilbert Associates, and the constructor was Kaiser Engineers, Inc.

Duquesne has provided its portion of fuel for Perry through separate Duquesne controlled contracts. The fuel is currently purchased by a third party and leased to Duquesne.

Duquesne intends to sell its ownership in all station equipment, facilities, and inventories associated with Perry. Duquesne will transfer, to the extent possible, all fuel and service contracts, and Duquesne's share of fuel inventories. The new owner will assume Duquesne's share of decommissioning implementation responsibility, and environmental liabilities associated with Perry. The sale will require NRC approval.

## Perry Station

Low level radioactive waste is disposed of under contract, and is shipped to a low level waste disposal facility. Spent fuel is currently stored on site pending the opening of a DOE facility. Perry 1 is projected to deplete its current fuel storage capacity in the year 2011.

### B. Physical Assets included in sale

The physical assets to be transferred to the new owner consist of Duquesne's interest in equipment and facilities that are necessary for the operation of Perry Station. This includes, but is not limited to, the following:

- General Electric BWR-6 nuclear steam supply system
- MARK III containment building
- General Electric main turbine generator rated at 1250 MW (gross)
- All pumps, piping, valves, heat exchangers, switchgear, and other reactor and balance of plant equipment installed in the plant.
- One natural draft cooling tower
- Generation step-up and station service transformers
- Plant training simulator
- Water and fuel oil storage tanks
- Fire protection system
- Fuel Handling system
- Communications systems
- Spare parts and materials inventory (valued at \$28.4 million, DLC share \$3.9 M)
- Nuclear fuel inventory, both spent and new
- Three class 1E emergency diesel generators
- Two Hydrogen Recombiners
- Standby Gas treatment system
- Office and Shop building
- Service Water Pump House
- Emergency Service Water Pump House
- Discharge tunnel entrance structure
- Discharge tunnel de-chlorination equipment building
- Circulating water pumphouses
- Auxiliary boiler building and boiler equipment
- Unit 1 turbine building

**Perry Station**

- Turbine power complexes
- Water treating Building
- Off-gas buildings
- Auxiliary buildings
- Intermediate building
- Radwaste building
- Diesel generator building
- Control Complex
- Guardhouse
- Start-up building
- Heater bay structures
- Approximately 1100 acres of land

C. Physical assets excluded from sale

None.

D. Items subject to easement

None.

E. Fuel Contracts:

See Beaver Valley Station description.

F. Other major service contracts

- Craft labor
- General waste disposal
- Radioactive waste disposal

## G. Environmental Obligations and Permits

**NOTE: Duquesne Light Company is not the operator of the Perry Power Station. The facility operator, First Energy Corporation, is responsible for obtaining and maintaining all required permits. Although some generally applicable compliance obligations for the facility are listed below, other obligations and all permits and references will be identified at a later date. All permits and other relevant information will be available for review by bidders during the due diligence period.**

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , and USEPA <sup>1</sup> and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), and Ohio Admin. Code Chs. 3745-14 through 3745-26.	
Nuclear Energy	Compliance with requirements for licensing and operation of a nuclear power facility, as provided in the Atomic Energy Act, as amended, 42 U.S.C. §§ 2011 <i>et seq.</i> , and NRC <sup>2</sup> regulations, 10 C.F.R. Ch. I, Parts 1 through 199.	
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, <sup>3</sup> 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and Ohio Admin. Code Ch. 3745-52.	
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and Ohio Admin. Code Chs. 3745-31 through 3745-45.	

1 USEPA = United States Environmental Protection Agency.

2 NRC = Nuclear Regulatory Commission.

3 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.

Perry Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001.	
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323.	

## Phillips Station

### A. Plant Description

The Phillips Power Station is located on approximately 42 acres in the community of Crescent Township, Pennsylvania, approximately 15 miles down the Ohio River from downtown Pittsburgh. This plant is presently deactivated and in cold reserve. The plant consists of six boilers and four turbine generator units with an expected output, upon reactivation, of 308 MW. Boiler units 1 through 5 are interconnected by a steam header system and serve turbine generator units 1 through 3. These are non-reheat units. Boiler 6 separately serves turbine generator unit 4, and this unit is of reheat design. The first unit went into commercial operation in 1943, with turbine generator unit 4/ boiler 6 entering commercial operation in 1956. In 1975 Phillips was retrofitted with wet scrubbers for the removal of sulfur dioxides and particulates from the boiler flue gas. Duquesne is the sole owner and operator of the plant which is interconnected to Duquesne's 69 KV and 138 KV transmission system.

Adjacent to the Phillips property is the Crescent bulk transmission substation, which is interconnected with Duquesne's Collier and Beaver Valley substations over the 345 KV transmission system, and with Duquesne's Raccoon, Beaver Valley, Brunot Island, and Cheswick substations over the 138 KV transmission system. Phillips is interconnected to this facility over the 138 KV system. This substation facility will be retained by Duquesne Light.

Following Duquesne's 1987 rate case, the entire Phillips facility was removed from rate base, placed in cold reserve, and has not operated since that time.

Duquesne intends to sell all station equipment, facilities and inventories with the exception of the land and facilities related to the switchyards. Duquesne will transfer, to the

## Phillips Station

extent possible, all service contracts, environmental and operating permits. The new owner will assume all environmental liabilities related to the land and other facilities sold.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of equipment and facilities that are necessary for the operating of Phillips Power Station. This includes, but is not limited to, the following:

- Main Station Steam Generators (Boiler Units 1-6)
- Main Steam Turbine/ Generators (Units 1-4)
- Controls and Instrumentation necessary to operate the generating units
- Auxiliary equipment
  - Fans
  - Pumps
  - Compressors
  - Heat exchangers
- Auxiliary systems
  - Auxiliary boiler
  - Water treating
  - Coal handling
  - Ash Handling
- Main step-up and station service transformers
- Barge Handling/ Unloading Facility
- Station service sub-stations
- Associated switch gear
- Flue Gas Scrubbers and associated Facilities
  - Hot and Cold flue gas duct work
  - Scrubber stack
  - Scrubber modules
  - ID fans
  - Recycle pumps and piping
  - Thickeners
  - All associated piping
  - Instrumentation and controls necessary to operate the scrubbers and auxiliaries
- Buildings and structures
  - Main Boiler/Turbine/Generator building
  - Plant administration building
  - Warehouse

## Phillips Station

- Coal Handling process and control building
- Screenhouse and Intake Structure
- Scrubber building
- Scrubber Switchgear building
- Miscellaneous other small buildings and structures
- Approximately 42 acres that include the land upon which the above facilities are located.

### C. Physical Assets Excluded From Sale

The physical assets to be excluded from transfer to the new owner include:

- Phillips bulk transmission substation, including associated transformation equipment, switchgear, control systems, and ancillary buildings.
- Communication equipment connecting the Phillips bulk transmission substation to Duquesne's System Operations Center.
- Phillips Switchyard and all equipment within the Switchyard.
- Transmission lines from the disconnect switches on the high voltage side of the main step-up and station service transformers
- Land upon which switch yards and substation are located
- Switch yard controls, metering and protective relay equipment located in the main control room and relay rooms

### D. Items Subject to Easements

In order for the new owners as well as Duquesne to access certain areas within each other's property, easements will be established as follows:

#### Granted to Duquesne

- Access to the switchyard.
- Access to the switchyard and substation communication equipment.
- Access to the transmission lines up to the disconnect switches on the high voltage side of the main and station service transformers
- Access to the switchyard and substation controls in the plant control and relay rooms.

### E. Fuel Contracts

None.

Phillips Station

F. Other Major Service Contracts

None.

G. SO<sub>2</sub> Emission Allowances

Under Title IV of the Federal Clean Air Act, the following annual SO<sub>2</sub> allowances have been assigned to this facility:

<u>2000 – 2009</u>	<u>2010 and Beyond</u>
6,582	2,097

H. NO<sub>x</sub> Emissions

Pursuant to Title I of the Clean Air Act and the Pennsylvania NO<sub>2</sub> Budget Rule, commencing in 1999, covered generation facilities will be subject to limitations on the total tons of NO<sub>2</sub> emitted during the May-September control period, based on the number of NO<sub>2</sub> emission allowances allocated to the facility plus any allowances which the facility may acquire from other units. Phillips will be subject to these requirements upon reactivation. Under the NO<sub>2</sub> Budget Rule, the Pennsylvania Department of Environmental Protection may allocate annual allowances to Phillips if the generating units are reactivated up to the following amounts. These allowances are intended to cover facility emissions, and may not be banked or sold.

Title 1, NO<sub>x</sub> Budget Rule Allowances: Conditional allocation of 1,686 tons if reactivated.

## I. Environmental Obligations and Permits

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA, <sup>1</sup> PADEP <sup>2</sup> and Allegheny County Health Department regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143), and Allegheny County Rules and Regulations, Art. XXI, and in the permits cited in this table.	BEQ <sup>3</sup> Air Emissions Operating Permit No. 1065009-002-00200 (applies to boilers 1 through 6). BEQ Air Emissions Operating Permit No. 1065009-002-00600 (applies to auxiliary boiler). BEQ Air Emissions Installation Permit No. 91-I-0014-C (applies to boilers 1 through 6) (expires if reactivation/maintenance activities cease).

- 
- 1 USEPA = United States Environmental Protection Agency.  
2 PADEP = Pennsylvania Department of Environmental Resources.  
3 BEQ = Bureau of Environmental Quality, Allegheny County Department of Health.

Phillips Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001.	
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323.	

I. Environmental Obligations and Permits

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , the Pennsylvania Air Pollution Control Act, 35 P.S. §§ 4001 <i>et seq.</i> , and USEPA, <sup>1</sup> PADEP <sup>2</sup> and Allegheny County Health Department regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), 25 Pa. Code Part I, Subpart C, Art. III. (Chs. 121 through 143), and Allegheny County Rules and Regulations, Art. XXI, and in the permits cited in this table.	BEQ <sup>3</sup> Air Emissions Operating Permit No. 1065009-002-00200 (applies to boilers 1 through 6).  BEQ Air Emissions Operating Permit No. 1065009-002-00600 (applies to auxiliary boiler).  BEQ Air Emissions Installation Permit No. 91-I-0014-C (applies to boilers 1 through 6) (expires if reactivation/maintenance activities cease).

1 USEPA = United States Environmental Protection Agency.  
 2 PADEP = Pennsylvania Department of Environmental Resources.  
 3 BEQ = Bureau of Environmental Quality, Allegheny County Department of Health.

## Phillips Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i> , and the Rules and Regulations of the Allegheny County Health Department, Art. XXI, Part C.	BEQ Title V Permit Application submitted Nov. 27, 1995.
Air Quality	<p>In accordance with the September 27, 1994 MOU<sup>4</sup> among OTC<sup>5</sup> states, PADEP promulgated regulations to limit emissions of nitrogen oxides (NOx) from fossil-fired combustion units. <i>See</i> 27 Pa. Bulletin 5683 (Nov. 1, 1997). These regulations are designed to ensure that, by May 1, 1999, affected facilities in the "outer zone" (including Phillips, if reactivated) must reduce their combined rate of NOx emissions by 55 percent of the 1990 baseline or emit NOx at a rate no greater than 0.20 pounds per million Btu. Further regulations may be promulgated in order to achieve the goal of the MOU that, by May 1, 2003, these facilities reduce their combined rate of NOx emissions by 75 percent of the 1990 baseline or emit NOx at a rate no greater than 0.15 pounds per million Btu.</p> <p>Under PADEP's current regulations, 25 Pa. Code §§ 123.101 through 123.120, beginning in 1999, each affected source must hold by December 31 of each year a quantity of "NOx allowances" equal to or greater than the total NOx emitted from the source during the "NOx allowance control period" (May 1 through September 30) for the year. Under 25 Pa. Code § 115(c), PADEP <u>may</u> allocate Phillips NOx allowances up to 1,686 tons. If the facility is reactivated, compliance with these requirements may require installation of additional controls or the purchase of NOx emission allowances if it is projected that emissions during a control period will exceed the NOx allowances held by the facility.</p>	

4 MOU = Memorandum of Understanding.

5 OTC = Northeast Ozone Transport Commission.

Phillips Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with Clean Air Act Acid Rain (Title IV) requirements, including "Phase II" Acid Rain requirements which start Jan. 1, 2000, as provided in 40 C.F.R. Part 73. The facility was allocated an initial Phase II sulfur dioxide allowances of 662 tons (Boiler 1), 504 tons (Boiler 2), 1,162 tons (Boiler 3), 1,111 tons (Boiler 4), 1,130 tons (Boiler 5) and 2,013 tons (Boiler 6), <i>see</i> 40 C.F.R. § 73.10 (Table 2).	
Aviation	Compliance with FAA <sup>6</sup> requirements applicable to objects affecting navigable airspace, as provided in FAA regulations, 14 C.F.R. Part 77, including those for marking and lighting obstructions, and for maintaining such markings and lighting.	
Boilers	Compliance with requirements for boilers and unfired pressure vessels, including requirements for inspections thereof, as provided in 34 Pa. Code Ch. 3.	PA Dept. of Labor and Industry Boiler and Unfired Pressure Vessel Registration No. 000057, location no. 33.
Chemical Reporting	Compliance with MSDS, <sup>7</sup> Tier I and Tier II reporting under EPCRA §§ 311 & 312, 42 U.S.C. §§ 11021-22, and 40 C.F.R. Part 370, and with the Pennsylvania Hazardous Material Emergency Planning and Response Act, 35 P.S. §§ 6022.101 <i>et seq.</i> , and the Pennsylvania Worker and Community Right to Know Act, 35 P.S. §§ 7301 <i>et seq.</i>	

6 FAA = Federal Aviation Administration, United States Department of Transportation.

7 MSDS = Material Safety Data Sheet.

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Chemical Reporting	Compliance with toxic chemical release reporting under EPCRA § 313, 42. U.S.C. § 11023, and 40 C.F.R. Part 372. The facility currently is not expected to have toxic chemical release reporting obligations under these provisions because it should not exceed any applicable threshold quantity of a covered chemical in the calendar year 1998. However, in accordance with recent amendments to USEPA's rules, 62 Fed. Reg. 23,834 (May 1, 1997), the facility may be subject to these requirements upon startup.	
Communications	Compliance with requirements for radio services, as provided in the Federal Communications Act and FCC <sup>8</sup> regulations thereunder, including requirements for Private Land Mobile Radio Services, 47 C.F.R. Part 90, particularly for Power Radio Services, 47 C.F.R. § 90.63, and licensing thereof, 47 C.F.R. Part 90, Subpart G, and in licenses cited in this table.	FCC Radio Station License No. KGB431 (expires Aug. 3, 2003). FCC Microwave Radio Station License No. KZN96 (expires Aug. 9, 2000). <i>Duquesne Light intends to maintain these licenses for purposes of its distribution system. New licenses will be needed for the facility</i>
Oil Pollution	Compliance with requirements for oil pollution prevention, including those for spill prevention control and countermeasure planning, as provided in 40 C.F.R. Part 112.	
PCBs	Compliance with USEPA regulations for use and disposal of PCB items under 40 C.F.R. Part 761.  The facility has no known PCB-contaminated electrical equipment in service or in storage for reuse.	
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, <sup>9</sup> 42 U.S.C. § 6901 <i>et seq.</i> , and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and 25 Pa. Code Part I, Subpart C, Art. VII., Chs. 260 through 262.	USEPA/PADEP Hazardous Waste Generator Identification No. PAD-000765552.

8 FCC = Federal Communications Commission.

9 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.

## Phillips Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Solid Waste	Compliance with requirements for generators of residual waste, as provided in the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i> , and PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. IX., Ch. 287, Subch. B, including requirements for chemical analysis of waste and biennial reporting.	
Solid Waste	<p>Compliance with PADEP regulations for residual waste management, 25 Pa. Code Chs. 287 (General Provisions), 288 (Residual Waste Landfills), 289 (Residual Waste Disposal Impoundments) and 299 (Storage and Transportation of Residual Waste), including requirements for upgradient and downgradient groundwater monitoring, <i>see</i> 25 Pa. Code 288.251, and bonding, <i>see</i> 25 Pa. Code §§ 287.301 <i>et seq.</i></p> <p>A collateral bond in the amount of \$955,442.00 has been posted for the Phillips Ash Disposal Site.</p>	PADEP Solid Waste Permit No. 300440 (issued July 8, 1975).
Storage Tanks	Compliance with the requirements of the Pennsylvania Storage Tank and Spill Prevention Act, 35 P.S. § 6021.101 <i>et seq.</i> , and PADEP regulations thereunder, 25 Pa. Code Ch. 245, for aboveground storage tanks, including requirements for spill prevention and response planning, release prevention and leak detection, and certified inspections.	PADEP Storage Tank Registration Certificate No. 244988 (expires Oct. 4, 1998) (registering 6 aboveground storage tanks).
Storage Tanks	Emergency containment will be required on three regulated aboveground tanks by Oct. 2000. Secondary containment on these tanks will be required by Oct. 2007. <i>See</i> 25 Pa. Code § 245.612(e).	

## Phillips Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and PADEP regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and 25 Pa. Code Part I, Subpart C, Art. II., Chs. 91 through 97 & Subpart A, Art. II, Ch. 16 and in the permits cited in this table.	NPDES Permit No. PA0001619 (issued April 18, 1995; expires April 18, 2000; renewal application due Oct. 18, 1999). PADEP Industrial Waste Permit No. 0278202 (issued March 30, 1978) (applies to oil separator and misc. sources). PADEP Industrial Waste Permit No. 0273207 (issued Nov. 8, 1973) (applies to scrubber ponds). PADEP Industrial Waste Permit No. 0271216 (issued May 8, 1972) (applies station discharges). PADEP Industrial Waste Permit No. 0270210 (issued Nov. 30, 1970) (applies to ash ponds).
Water Quality	If the facility is restarted, the existing bottom ash ponds must first be lined or replaced with a new wastewater treatment system.	NPDES Permit No. PA0001619. Consent Adjudication in the matter of <i>PADER v. Duquesne Light Co.</i> , PA Environmental Hearing Board Docket No. 88-481-CP-M (dated Nov. 7, 1990).
Water Quality	Upon startup, the facility may be required to comply with thermal discharge limits or obtain a variance from Clean Water Act § 316(a), 42 U.S.C. § 1326(a).	NPDES Permit No. PA0001619.
Water Quality	USEPA is developing new regulations under Clean Water Act § 316(b), 42 U.S.C. § 1326(b), which may require study and modification of the cooling water intake structure and cooling system. These regulations are scheduled to be final by August 13, 2001.	
Water Quality	Preparedness, prevention and contingency (PPC) planning required under multiple PADEP permits and/or regulations.	
Water Quality	Compliance with erosion control and dam safety and waterway management requirements, as provided in PADEP regulations, 25 Pa. Code Part I, Subpart C, Art. II., Chs. 102 and 105, and in the permits cited in this table.	PADEP Submerged Land License No. E-02-146 (issued Oct. 1, 1997; expires Oct. 1, 1998) (applies to intake/discharge structures and barge docking facilities).

Phillips Station

Appendix A  
Detailed Plant Information

<u>PROGRAM</u>	<u>OBLIGATIONS</u>	<u>PERMITS AND REFERENCES</u>
Water Quality	Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323, and in the permits cited in this table.	<p>Army Corps of Engineers Maintenance Dredging Permit No. 91118 (issued Feb. 6, 1992; expires Dec. 31, 2002) (authorizes maintenance dredging along Ohio River).</p> <p>Army Corps of Engineers Construction Permit No. 83042 (PADEP No. E-04-68) (issued Sept. 18, 1983; expires Dec. 31, 1986) (applies to 24-inch diameter storm water discharge pipe and stone gutter).</p>

## Sammis Station

### A. Plant Description

Located on the Ohio River in the town of Stratton, Ohio, Sammis Station (“Sammis”) began generating electricity in 1959. The Sammis Station is situated on a 140 acre site with Sammis Unit 7 occupying approximately 2.5 acres of the site. The seven unit station has a maximum generating capacity of 2,233 MW and Duquesne owns 31.2% of Unit 7 (187 MW), 12.4417% of facilities shared by all three units, and 8.4782% of common facilities (shared by Units 5, 6 & 7). The plant is operated by Ohio Edison, a First Energy company. It is connected into a 138 KV transmission system.

Built in 1971, Sammis Unit 7 is comprised of a steam turbine-generator manufactured by Westinghouse. It is supplied steam from a supercritical Babcock & Wilcox pulverized coal steam generator. The steam generator is rated to produce 4.6 million pounds of steam per hour with steam conditions of 3,500 psig/1000°F/1000°F.

The unit is operated as a baseload facility and burns low sulphur coal. Currently, First Energy procures about 53% of the coal under a long-term contract. The remainder is purchased on a spot basis. The plant uses electrostatic precipitators to minimize particulate emissions.

### B. Physical Assets Included in Sale

The physical assets to be transferred to the new owner consist of Duquesne’s individual interest in the equipment and facilities that are necessary

## Sammis Station

for the operation of Sammis Unit 7. This includes, but is not limited to, the following:

- Main steam generator
- Main steam turbine
- Main generator
- Controls
- Auxiliary equipment
- Fans
- Pumps
- Compressors
- Heat exchangers
- Auxiliary turbines
- Auxiliary systems
- Water treatment
- Coal handling
- Ash handling
- Electrical and switchgear
- Main step-up and station service transformers
- Buildings and structures
- Main boiler/turbine/generator building
- Plant administration building
- 1000 foot concrete stack with steel liner
- Guardhouses
- Ash silo
- Miscellaneous other small buildings and structures

### C. Physical Assets Excluded From Sale

- Switchyards
- Land upon which switchyards are located
- Switchyard controls
- Transmission lines from the terminations to each of the main output transformers and each of the system station service transformers
- Transmission towers

### D. Items Subject to Easement

None.

**Sammis Station**

E. Fuel Contracts

Company Name: Arch Coal Company  
Quantity: 50,000 Tons per month  
Expiration Date: December, 2002  
Delivery: Barge

Company Name: Arch Coal Company  
Quantity: 60,000 Tons per month  
Expiration Date: February, 2003  
Delivery: Barge

Company Name: Cypress Amax Minerals  
Quantity: 35,000 Tons per month  
Expiration Date: March, 2000  
Delivery: Barge

Company Name: AT Massey Coal Co.  
Quantity: 80,000 Tons per month  
Expiration Date: December, 2001  
Delivery: Barge

Company Name: Ziegler Coal Holding Co.  
Quantity: 35,000 Tons per month  
Expiration Date: October, 2000  
Delivery: Barge

F. Other Major Service Contracts

N/A

G. SO<sub>2</sub> Emission Allowances

Under Title IV of the Federal Clean Air Act, Duquesne's ownership share of the annual SO<sub>2</sub> allowances assigned to this facility is as follows:

2000 – 2009  
5,768

2010 and Beyond  
5,805

H. Environmental Obligations and Permits

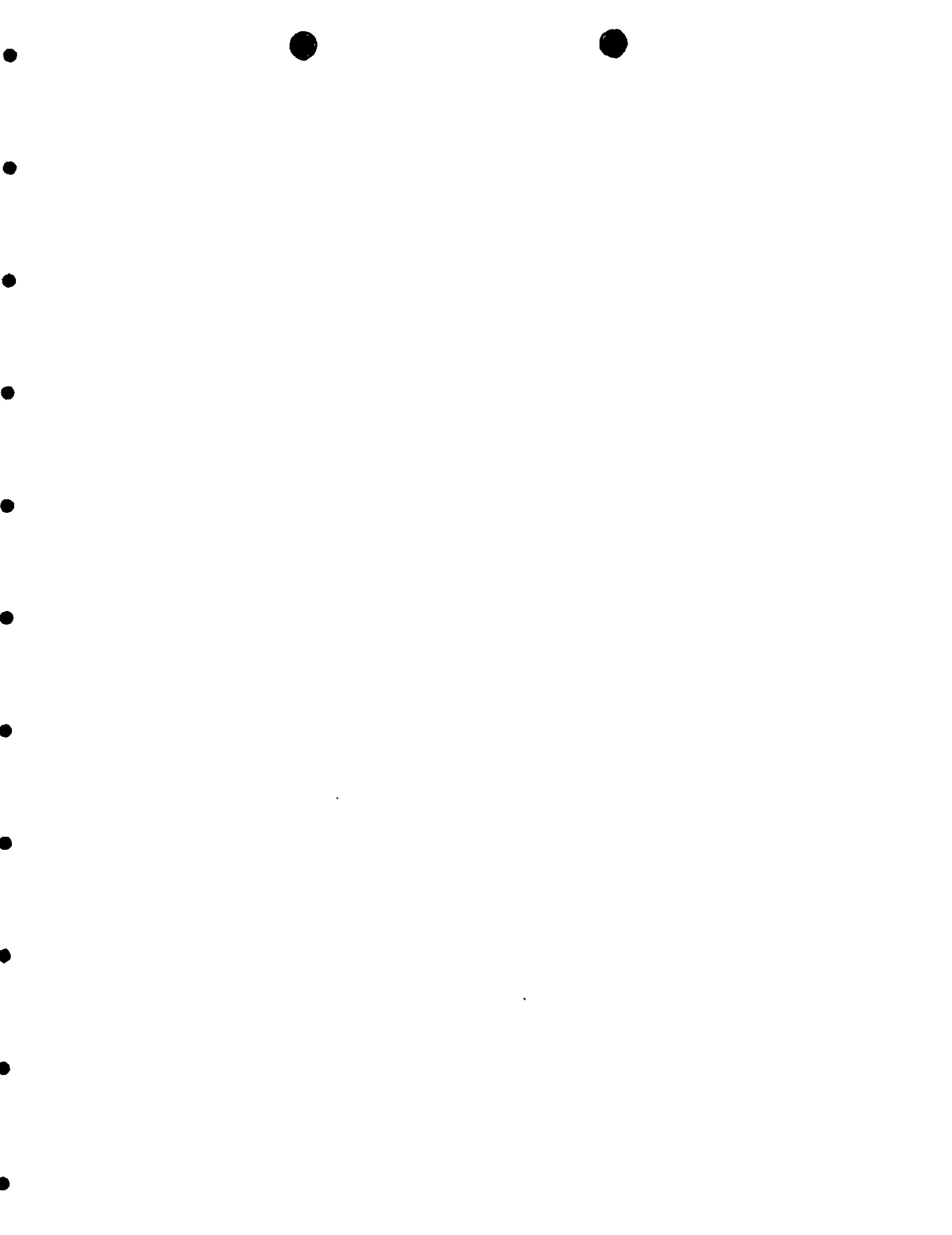
**NOTE: Duquesne Light Company is not the operator of the Sammiss Power Station. The facility operator, First Energy Corporation, is responsible for obtaining and maintaining all required permits. Although some generally applicable compliance obligations for the facility are listed below, other obligations and all permits and references will be identified at a later date. All permits and other relevant information will be available for review by bidders during the due diligence period**

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	Compliance with air emissions limitations, control technology requirements, and monitoring, testing and reporting obligations, as provided in the Clean Air Act, 42 U.S.C. §§ 7401 <i>et seq.</i> , and USEPA <sup>1</sup> and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99), and Ohio Admin. Code Chs. 3745-14 through 3745-26.	
Air Quality	Obtain Title V permit, as provided in Subchapter V of the Clean Air Act, 42 U.S.C. §§ 7661 <i>et seq.</i> , and Ohio EPA regulations, Ohio Admin. Code Ch. 3745-77.  Pending approval of Title V permit, the terms and conditions of existing operating permit(s) continue, as provided in Ohio Admin. Code § 3745-77-04, and facility may operate in conformance with the Clean Air Act and regulations thereunder.	
Air Quality	Compliance with Clean Air Act Acid Rain (Title IV) requirements., including “Phase II” Acid Rain requirements which start Jan. 1, 2000, as provided in 40 C.F.R. Part 73. The facility was allocated an initial Phase II sulfur dioxide allowance of 18,486 tons, <i>see</i> 40 C.F.R. § 73.10 (Table 2).	

<sup>1</sup> USEPA = United States Environmental Protection Agency.

<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Chemical Reporting	<p>Compliance with toxic chemical release reporting under EPCRA § 313, 42. U.S.C. § 11023, and 40 C.F.R. Part 372.</p> <p>In accordance with recent amendments to USEPA's rules, 62 Fed. Reg. 23,834 (May 1, 1997), the facility is now subject to Part 372. The first toxic chemical release report will be due July 1, 1999, if the facility uses a toxic chemical in excess of an applicable threshold amount.</p>	
Solid Waste	<p>Compliance with requirements for generators of hazardous waste, as provided in RCRA, <sup>2</sup> 42 U.S.C. § 6901 <i>et seq.</i>, and the Pennsylvania Solid Waste Management Act, 35 P.S. §§ 6018.101 <i>et seq.</i>, and USEPA and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. I, Parts 260 through 262, and Ohio Admin. Code Ch. 3745-52.</p>	
Water Quality	<p>Compliance with wastewater discharge effluent limits, control technology requirements, and monitoring, testing and reporting obligations, as provided in Clean Water Act § 402, 42 U.S.C. § 1342, and USEPA and Ohio EPA regulations, 40 C.F.R. Ch. I, Subch. D (Parts 100 through 149) and Ohio Admin. Code Chs.3745-31 through 3745-45.</p>	
Water Quality	<p>Compliance with requirements for discharge of dredge or fill material into navigable waters, as provided in Clean Water Act § 404, 33 U.S.C. § 1344, and regulations of the U.S. Army Corps of Engineers, 33 C.F.R. Part 323.</p>	

2 RCRA = The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act.



**IDENTIFIED REGULATORY APPROVALS AND PERMIT TRANSFER REQUIREMENTS**

<i>Approval Required From:</i>	<i>To:</i>	<i>Pursuant To:</i>
Pennsylvania Public Utility Commission	To transfer title, possession and use of generating assets at Cheswick, Elrama, Beaver Valley, Bruce Mansfield, Phillips, and Brunot Island plants	66 Pa. C.S. §1102
Federal Energy Regulatory Commission	Transfer or assignment of jurisdictional facilities	Federal Power Act §203, 16 U.S.C. §824b
Federal Energy Regulatory Commission	Approval of Interconnection Agreement and Cheswick and Elrama Operating Agreements	Federal power Act §205, 16 U.S.C. §824d
U.S. Department of Justice and Federal Trade Commission	Notification and report form for certain mergers and acquisitions	Hart-Scott-Rodino Act, 15 U.S.C. §18a(a)(3)
Nuclear Regulatory Commission	Transfer of nuclear license for Beaver Valley	Atomic Energy Act §184, 42 U.S.C. §2234 and NRC Regulations, 10 C.F.R. §50.80.
Nuclear Regulatory Commission	Transfer of licenses for radioactive sources associated with various meter and measuring devices.	Atomic Energy Act §81, 42 U.S.C. §2111 and NRC Regulations, 10 C.F.R. §30.41.
Pa. Department of Environmental Protection	Transfer air quality operating permits and/or plan approvals issued by PaDEP to Duquesne (Elrama, Beaver Valley)	25 Pa. Code §§ 127.32 & 127.462 (application for minor permit modification).
Pa. Department of Environmental Protection	Transfer of pending Title V operating permit applications	25 Pa. Code Ch. 127 (PaDEP must be notified of change of control, application must be updated, and compliance history form for new owner must be submitted.)
Allegheny County Health Department, Bureau of Environmental Quality	Transfer of air quality construction permits and operating permits (Cheswick, Phillips, Brunot Island)  Transfer of permit for open burning.	Allegheny Health Dept. Regulations, Art. XXI, §2102.03.e. (Must be accompanied by compliance certifications under §§2103.11.b.9 and 2102.06.b.2

<i>Approval Required From:</i>	<i>To:</i>	<i>Pursuant To:</i>
Allegheny County Health Department, Bureau of Environmental Quality	Transfer of pending Title V operating permit applications	Allegheny Health Dept. Regulations, Art. XXI. (AHD must be notified of change of control, application must be updated, and compliance history form and certification for new owner must be submitted.)
Pa. Department of Environmental Protection	Transfer/reissuance of solid waste permits for residual waste landfills (Lefever and Fern Valley)	25 Pa. Code §287.221, Ch. 288 (requires compliance history form and submission of new insurance and closure bonds)
Pa. Department of Environmental Protection	Transfer of registrations of captive processing permit-by-rule facilities (wastewater treatment and other units)	25 Pa. Code §287.102.
Pa. Department of Environmental Protection	Request for determination of applicability under Residual Waste General Permit No. WMGR052 (beneficial use of LPC Material)	25 Pa. Code §287.641.
U.S. Environmental Protection Agency/Pa. Department of Environmental Protection	Transfer or issuance of new hazardous waste generator identification number	25 Pa. Code §262.12
Pa. Department of Environmental Protection	Transfer of NPDES Permits for industrial wastewater and stormwater discharges, and industrial wastewater treatment facility permits	Pa. Clean Streams Law, 35 P.S. §691.1 <i>et seq.</i> ; 25 Pa. Code Ch. 91-92; Form 3600-FM-WQ228
Pa. Department of Environmental Protection	Transfer of water obstructions and encroachments permits and submerged land license agreements for various road and utility line stream crossings, and waterway structures.	Pa. Dam Safety and Encroachments Act, 32 P.S. §693.1 <i>et seq.</i> ; 25 Pa. Code §§105.25, 105.31-105.35
U.S. Army Corps of Engineers	Transfer of permits issued under Rivers & Harbors Act §10 and Clean Water Act §404 for waterway structures and fill in navigable waters	33 C.F.R. Part 325
Pa. Department of Environmental Protection	Transfer of registration/permits for underground and aboveground storage tanks.	Pa. Storage Tank and Spill Prevention Act, 35 P.S. §6021.101 <i>et seq.</i> ; 25 Pa. Code §245
Allegheny County Fire Marshal	Certificate of Fire and Explosion Safety for storage tanks within County, but not within City of Pittsburgh (Cheswick and Phillips)	

<i>Approval Required From:</i>	<i>To:</i>	<i>Pursuant To:</i>
City of Pittsburgh, Fire Bureau	Transfer/issuance of new flammable liquids (fire prevention) permit (Brunot Island)	
Pa. Department of Labor and Industry (formerly State Fire Marshal)	Transfer of approvals for storage and handling of flammable or combustible liquids.	Act 13 of 1998
Pa. Department of Labor and Industry	Transfer of boiler and pressure vessel registrations	34 Pa. Code §3.33
Various Municipalities	Subdivision/land development plan approval for subdivision of plant facilities between generating units and switchyards/substations.	Pa. Municipalities Planning Code, 53 P.S. §10501 <i>et seq.</i> and municipal ordinances.



DRAFT CONFIDENTIALITY AGREEMENT

\_\_\_\_\_, 1998

[BIDDER]

Attention: \_\_\_\_\_

Ladies and Gentlemen:

You have expressed interest in exploring the possible acquisition (the "Proposed Acquisition") of certain generation assets and related other assets (collectively, the "Assets") of Duquesne Light Company, a subsidiary of DQE, Inc. (collectively, the "Company"). As a condition to the furnishing to you and your Representatives (as defined below) of a confidential Offering Memorandum and certain other information about the Assets and operations of the Company, you agree to be bound by the terms and conditions of this letter agreement, and you further agree to inform any Representative to whom Proprietary Information (as defined below) is disclosed of the contents of this agreement and that, by receiving such information, such Representative is agreeing to be bound by this agreement.

All information about the Company furnished by or on behalf of the Company or its Representatives, or learned by you in connection with visits to the Company's facilities in connection with your consideration of the Proposed Acquisition, whether furnished or learned before or after the date hereof, whether oral or written, and regardless of the manner or form in which it is furnished or learned (together with notes, memoranda, summaries, analyses, compilations and other writings relating thereto or based thereon prepared by you or your Representatives), is referred to in this letter agreement as "Proprietary Information." Proprietary Information does not include, however, information which (a) is or becomes generally available to the public other than as a result of a disclosure by you or your Representatives, (b) was available to you on a nonconfidential basis prior to its disclosure by the Company or its Representatives or (c) becomes available to you on a nonconfidential basis from a person other than the Company or its Representatives who is not otherwise bound by a confidentiality

agreement, or is otherwise not under any obligation to the Company or any of its Representatives not to transmit the information to you. As used in this letter agreement, the term "Representative" means, as to any person, such person's affiliates and its and their directors, officers, employees, agents, advisors (including, without limitation, financial and technical advisors, counsel and accountants) and controlling persons. As used in this letter agreement, the term "person" shall be broadly interpreted to include, without limitation, any corporation, company, partnership, other entity or individual.

Except as required by law, unless otherwise agreed to in advance in writing by the Company, for a period of three years from the date of any acquisition of Assets by you or the signing of this agreement, whichever is later, you agree (a) to keep all Proprietary Information confidential and not to disclose or reveal any Proprietary Information to any person other than your Representatives who are actively and directly participating in your evaluation of the Proposed Acquisition or who otherwise need to know the Proprietary Information for the purpose of evaluating the Proposed Acquisition, (b) not to use Proprietary Information for any purpose other than in connection with your evaluation of the Proposed Acquisition or the consummation of the Proposed Acquisition in a manner that the Company has approved and (c) not to disclose to the public, the press, or any person (other than those of your Representatives who are actively and directly participating in your evaluation of the Proposed Acquisition or who otherwise need to know for the purpose of evaluating the Proposed Acquisition) any information about the Proposed Acquisition, or the terms or conditions or any other facts relating thereto, including, without limitation, the fact that discussions are taking place with respect thereto or the status thereof, the existence of this letter or the fact that Proprietary Information has been made available to you or your Representatives. You will treat any Proprietary Information at least according to the same internal security procedures and with the same degree of care regarding its secrecy and confidentiality as your similar information is treated within your organization. You will notify the Company of any unauthorized disclosure to third parties that you discover, and you shall endeavor to prevent further such disclosures. You will be responsible for any breach of this agreement by any of your Representatives and agree to take all reasonable measures to restrain your Representatives from prohibited or unauthorized disclosure or use of Proprietary Information.

In the event that you are requested pursuant to, or required by, applicable law or regulation or by legal process to disclose any Proprietary Information or any other information concerning the Company or the Proposed Acquisition, you shall seek a written opinion from reputable and experienced outside counsel that a specific disclosure is necessary in order for you not to be in violation of or default under an

applicable law, regulation or governmental order. You agree that you will provide the Company with prompt notice of such request or requirement, including a copy of such opinion together with the text of the proposed disclosure as far in advance of its disclosure as is reasonably practicable, and will in good faith consult with and consider the suggestions of the Company concerning the nature and scope of the information you propose to disclose. The Company may seek an appropriate protective order or other remedy, may consult with you with respect to the Company's taking steps to resist or narrow the scope of such request or legal process, or may waive compliance, in whole or in part, in the Company's sole discretion, with the terms of this letter agreement. You agree to cooperate fully with and not to oppose any action by the Company to obtain a protective order or other appropriate remedy. In the event that no such protective order or other remedy is obtained, or that the Company waives compliance with the terms of this letter agreement, you agree that you will furnish only that portion of the Proprietary Information which you are advised by counsel is legally required. In any such event you will use your reasonable best efforts to ensure that all Proprietary Information and other information that is so disclosed will be accorded confidential treatment. All Proprietary Information shall remain the property of the Company.

At any time after termination of discussions by either party to this agreement with respect to a Proposed Acquisition, you will, upon the request of the Company, promptly (and in no event later than five business days after such request) redeliver to us all copies of the Proprietary Information furnished to you by or on behalf of the Company, and destroy all Proprietary Information prepared by you or any of your Representatives. Notwithstanding the return or destruction of the Proprietary Information, you and your Representatives will continue to be bound by your obligations hereunder.

- You acknowledge that none of the Company, or its Representatives and none of the respective officers, directors, employees, agents or controlling persons of such Representatives makes any express or implied representation or warranty as to the accuracy or completeness of any Proprietary Information, and you agree that none of such persons shall have any liability to you or any of your Representatives relating to or arising from use of any Proprietary Information or for any errors therein or omissions therefrom. You also agree that you are not entitled to rely on the accuracy or completeness of any Proprietary Information and that you shall be entitled to rely solely on such representations and warranties regarding Proprietary Information as may be made to you in any final acquisition agreement relating to the Proposed Acquisition, subject to the terms and conditions of such agreement.

You acknowledge that you are aware, and you will advise your Representatives who are informed of the matters that are the subject of this letter agreement, of the restrictions imposed by the United States securities laws on the purchase or sale of securities by any person who has received material, non-public information from the issuer of such securities, which may include certain portions of the Proprietary Information, and on the communication of such information to any other person.

You agree that, without the Company's prior written consent, you will not for a period of three years from the date hereof directly or indirectly solicit for employment any non-union person who is now employed by the Company or any of its subsidiaries and who is identified by you as a result of your evaluation or otherwise in connection with the Proposed Acquisition; provided, however, that you shall not be prohibited from (i) employing any such person who contacts you on his or her own initiative and without any direct or indirect solicitation by you and (ii) conducting generalized solicitations for employees (which solicitations are not specifically targeted at Company employees) through the use of media advertisements, professional search firms or otherwise. Notwithstanding the foregoing, this provision is not intended to prevent the successful bidder from identifying certain individuals or groups of individuals that it would like to employ as part of the Proposed Acquisition.

You agree that this letter agreement is not intended to, and does not, constitute an agreement to consummate a Proposed Acquisition or to enter into a definitive agreement to do so, and neither the Company nor you will have any rights or obligations of any kind whatsoever with respect to a Proposed Acquisition by virtue of this letter agreement or any other written or oral expression by either party hereto unless and until a final acquisition agreement regarding the Proposed Acquisition has been executed and delivered by you and the Company, other than for the matters specifically referred to herein. You also acknowledge and agree that (i) the Company and its Representatives may conduct the process that may or may not result in the Proposed Acquisition in such manner as the Company, in its sole discretion, may determine (including, without limitation, negotiating and entering into a final acquisition agreement with any third party without notice to you), (ii) the Company reserves the right to change (in its sole discretion, at any time and without notice to you) the procedures relating to the consideration of the Proposed Acquisition, (iii) the Company reserves the right to reject any and all proposals made by you or your Representatives with regard to the Proposed Acquisition and to terminate all further discussions with you and request that you return all Proprietary Information, and (iv) neither the Company nor any of its Representatives nor any third party with whom the Company may enter into any agreement for or

complete any transaction, including but not limited to a Proposed Acquisition, shall have any liability to you arising out of or relating to such transaction.

You agree to abide by all of the due diligence, auction and other procedures set forth in any and all published documents or procedures concerning the Proposed Acquisition process provided to you or your Representatives by the Company or the Company's Representatives during the course of the Asset divestiture process. You understand that compliance with such procedures is a condition to your participation in the process relating to the sale of the Assets, that noncompliance will be grounds for disqualification, and that determinations of compliance will be solely within the judgment of the Company. In particular, you agree not to initiate or maintain contact (other than in the ordinary course of business) with any officer, director, employee or agent of the Company regarding its business, operations, prospects, finances or any other matter pertaining to the Company or the Proposed Acquisition. It is understood that the Company and its Representatives will arrange for appropriate contacts for due diligence purposes.

As a further condition to the furnishing of the Proprietary Information, you agree that you, your affiliates and associates (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "1934 Act")) will not, and you and they will not assist or encourage others (including by providing financing) to, directly or indirectly, for a period of three years from the date of this agreement, unless specifically requested or permitted in writing in advance by the Company:

- (i) acquire or agree, offer, seek or propose (whether publicly or otherwise) to acquire ownership (including but not limited to beneficial ownership (as defined in Rule 13d-3 under the 1934 Act)) of (x) the Company or any of its assets or businesses, (y) any securities issued by the Company or (z) any rights or options to acquire such ownership (including from a person other than the Company), whether by means of a negotiated purchase of securities or assets, tender or exchange offer, merger or other business combination, recapitalization, restructuring or other extraordinary transaction (a "Business Combination Transaction"), or
- (ii) enter into any discussions, negotiations, agreements, arrangements or understandings with any third party with respect to any of the foregoing (other than with a bona fide financial institution which is your Representative).

You also agree not to request the Company or any of its Representatives to amend or waive any provision of this paragraph (including this sentence). If at any time you are approached by any third party concerning your or their participation in any of the types of matters referred to in clauses (i) or (ii) above, you will communicate with such third party concerning such participation, except that you will promptly inform such third party that you are bound by certain confidentiality obligations in respect of such assets, *businesses or securities (without referring to this letter)*.

You further acknowledge that, in order to ensure the integrity of the auction and provide persons participating in the auction process with fair assurance that if they are a chosen successful bidder they will not become involved in a legal dispute, the results of the auction as determined by the Company in its sole discretion must be final. In consideration of the collective benefit to all persons participating in the auction process of finality in the auction process and of the Company providing you with access to its Proprietary Information pursuant to this letter agreement, the sufficiency of such consideration which is hereby acknowledged, you further agree not to assert, in any regulatory, judicial or other forum, including but not limited to any proceeding before the Pennsylvania Public Utility Commission, any claim or complaint regarding or related to the conduct or result of the Asset divestiture process. Without limiting the foregoing, you specifically agree not to seek from any regulatory agency or any court any order, judgment or decree that your bid was the "highest" or "best" bid, that you are or should be chosen as the successful bidder in the process, that the Company erred in its evaluation of the price, terms or conditions of your bid or any bid of any other person participating in the process as compared to the chosen successful bidder's bid (if there be one), or that the Company otherwise exercised its discretion or conducted the Asset divestiture process in an inappropriate manner.

You acknowledge and agree that money damages would not be a sufficient remedy for any breach of any provision of this agreement by you, and that in addition to the rights and remedies otherwise available to the Company, you agree that the Company shall be entitled to equitable relief by way of specific performance, injunction or otherwise if you or any of your Representatives breach or threaten to breach any of the provisions of this letter agreement. You also agree to indemnify and hold the Company harmless from any damages, loss, cost or liability (including, without limitation, legal fees, the cost of enforcing this indemnity, and any adverse effect on the sale price for the Assets) arising out of or resulting from any unauthorized use or disclosure by you or your Representatives of the Proprietary Information.

It is further understood and agreed that no failure or delay by us in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

This letter agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts executed in and to be performed in that state. You and each of your Representatives irrevocably agree to submit to personal jurisdiction of any Pennsylvania State or Federal court and any appellate court from any thereof in respect to any action, dispute or proceeding arising out of this letter agreement. You and each of your Representatives further irrevocably waive, to the fullest extent you and they may effectively do so, the defense of an inconvenient forum to the maintenance of any such action or proceeding.

This letter agreement shall also be binding on your successors and permitted assigns.

Any assignment of this letter agreement by you without our prior written consent shall be void. The Company reserves the right to assign its rights and the enforcement thereof under this letter agreement to any purchaser of the Assets.

This letter agreement contains the entire agreement between you and us concerning confidentiality of the Proprietary Information and supersedes any previous agreements whether written or oral pertaining to said Proprietary Information. No modification of this letter agreement or waiver of the terms and conditions hereof shall be binding upon you or us, unless approved in writing by each of you and us.

If any provision of this letter agreement shall, for any reason, be adjudged by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not affect, impair or invalidate the remainder of this letter agreement but shall be confined in its operation to the provision of this agreement directly involved in the controversy in which such judgment shall have been rendered.

This letter agreement may be executed in counterparts and signature pages exchanged by facsimile, and each counterpart shall be deemed to be an original, but both counterparts of which shall constitute the same agreement.

Please confirm your agreement with the foregoing by signing and returning to the undersigned both copies of this letter. By so executing this agreement, you further

represent and warrant that you have authority to act on behalf of, and to bind, the Bidder to perform this agreement and otherwise comply with all the obligations stated herein.

DQE, Inc.

By: \_\_\_\_\_

Name:

Title:

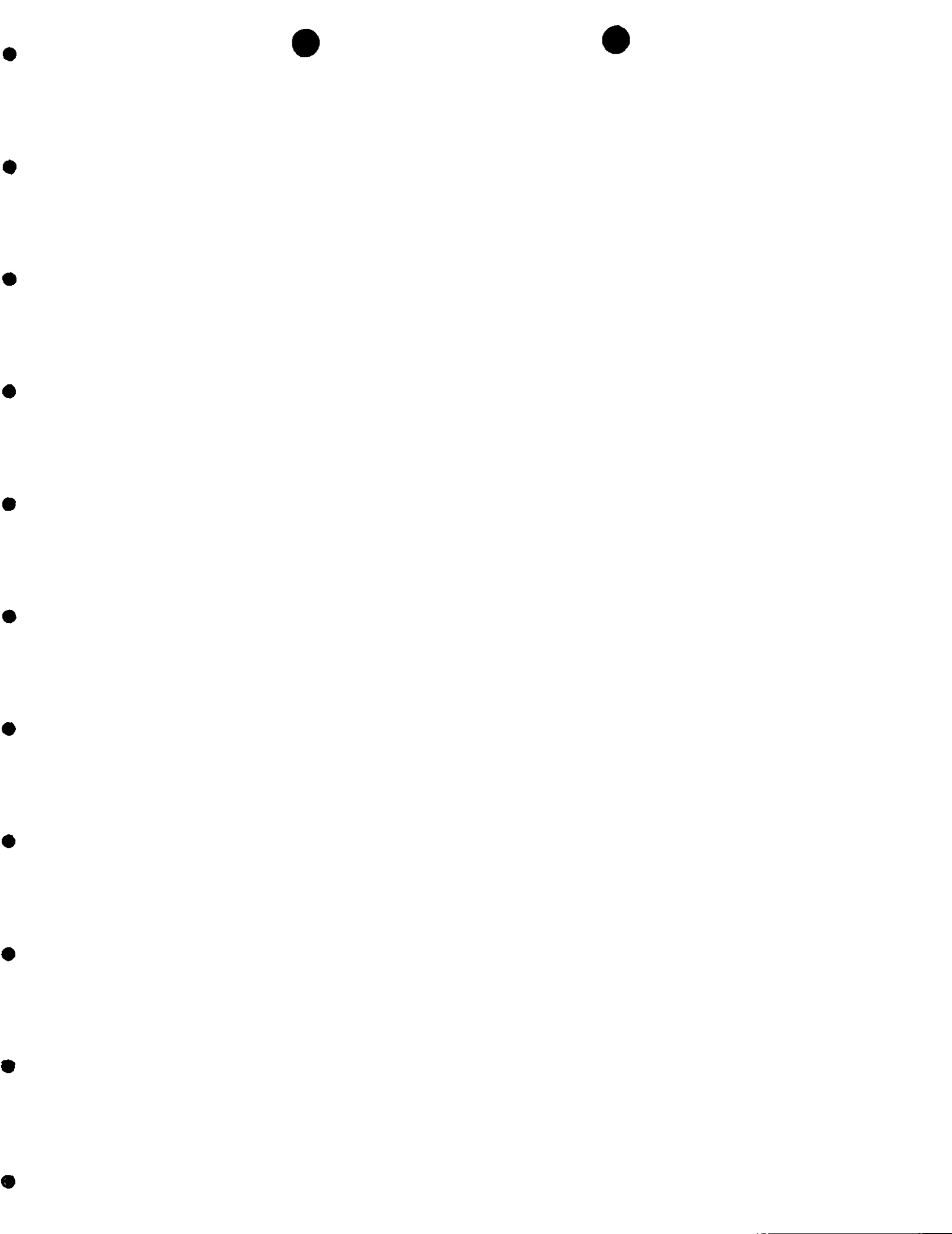
Accepted and Agreed as of the date  
first written above:

[BIDDER]

By: \_\_\_\_\_

Name:

Title:



**Asset Purchase Agreement  
Term Sheet**

<b>I. Purchased Assets:</b>	Those assets specified in a schedule to the Asset Purchase Agreement.
<b>II. Excluded Assets:</b>	All those assets of the Seller not included in the Purchased Assets.
<b>III. Assumed Liabilities:</b>	All liabilities, known or unknown, absolute or contingent, directly or indirectly relating to the Purchased Assets. The liabilities to be assumed by the Purchaser will include all existing and future environmental liabilities relating to the Purchased Assets, whether known or unknown. These liabilities shall also include all labor/pension liabilities that continue or arise after the Closing Date.
<b>IV. Excluded Liabilities:</b>	Those liabilities specified in a schedule to the Asset Purchase Agreement.
<b>V. Purchase Price:</b>	<p>The purchase price shall be specified in U.S. Dollars. The purchase price shall be subject to adjustment shortly before the Closing Date to reflect maintenance and capital expenditures incurred and to reflect changes in inventory, fuel reserves, etc., in each case since the date of execution of the Asset Purchase Agreement.</p> <p>Obtaining financing for payment of the purchase price shall not be an acceptable condition precedent to the Purchaser's obligations under the Asset Purchase Agreement.</p>
<b>VI. Guarantee of Purchaser's Obligations:</b>	If the Purchaser is not a creditworthy entity, it shall be required to provide the Seller with a guaranty, from an entity acceptable to the Seller, unconditionally guaranteeing the Purchaser's obligations under the Asset Purchase Agreement.

<b>VII. Proration:</b>	<p>The parties shall prorate all items normally prorated (including real and personal property taxes, rents, permitting/licensing fees, sewer rents and other utility charges), with the Seller being liable to the extent such items relate to any period through the Closing Date, and the Purchaser being liable to the extent such items relate to any period after the Closing Date.</p>
<b>VIII. Time/Place of Closing:</b>	<p>At the offices of the Seller's counsel on the date the conditions to closing are satisfied or waived. Customary conditions to closing shall be imposed; these shall include the receipt of specified regulatory approvals necessary to consummate the transaction, but shall not include the Purchaser's receipt of other regulatory approvals that may be desirable but are not necessary, such as FERC approval of its market-based rate authority.</p>
<b>IX. Payment of Purchase Price:</b>	<p>On the Closing Date, the Purchaser shall pay the Purchase Price (together with any adjustments thereto in respect of maintenance, capital expenditures, inventory and/or fuel) to the Seller in immediately available funds.</p>
<b>X. Deliveries by the Seller on the Closing Date:</b>	<p>(a) A bill of sale and deed(s) conveying the Purchased Assets to the Purchaser; (b) all consents to the transfer of the Purchased Assets specified in the Asset Purchase Agreement; (c) an opinion of counsel to the Seller reasonably satisfactory to the Purchaser; and (d) such other agreements or instruments as may be required to be delivered pursuant to the Asset Purchase Agreement.</p>

**XI. Deliveries by the Purchaser on the Closing Date:**

(a) The Purchase Price (as described in paragraph IX); (b) instrument(s) of assumption with respect to the Assumed Liabilities; (c) an opinion of counsel to the Purchaser reasonably satisfactory to the Seller; and (d) such other agreements or instruments as may be required to be delivered pursuant to the Asset Purchase Agreement.

**XII. Representations of the Seller:**

(a) Due organization and qualification to do business; (b) authority relative to the Asset Purchase Agreement; (c) obtaining certain requisite consents and approvals; (d) financial statements provided fairly present the financial position of the Seller; (e) except as disclosed on a schedule to the Asset Purchase Agreement, no known liability of the Seller with respect to the Purchased Assets; (f) except as disclosed on a schedule to the Asset Purchase Agreement, there has been no change or event which would constitute a material adverse effect in respect of the Purchased Assets; (g) the Seller's title to the real property is subject only to encumbrances disclosed on a schedule to the Asset Purchase Agreement or other permitted encumbrances; (h) except as disclosed on a schedule to the Asset Purchase Agreement, all material liability and casualty insurance policies are in full force and effect; (i) except as disclosed on a schedule to the Asset Purchase Agreement or in any public filing by the Seller with the SEC, the Seller (A) is in substantial compliance with all material permits, (B) has not received any notice of violation under CERCLA or any similar law, and (C) has not entered into any consent decree or order relating to compliance with environmental laws or clean-up of hazardous substances, in each case where such event would, in the aggregate, reasonably be expected to create a material adverse effect; (j) the Seller has delivered to the Purchaser copies of all collective bargaining agreements to be assumed by the Purchaser; (k) status of employee benefit plans to be assumed by the Purchaser; and (l) except as disclosed on a schedule to the Asset Purchase Agreement, no legal proceedings pending that could, in the aggregate, reasonably be expected to create a material adverse effect.

<p><b>XIII. Representations of the Purchaser:</b></p>	<p>(a) Due organization and qualification to do business; (b) authority relative to the Asset Purchase Agreement; (c) obtaining requisite consents and approvals; and (d) has sufficient funds available to pay the Purchase Price on the Closing Date.</p>
<p><b>XIV. Covenants of the Seller:</b></p>	<p>(a) The Seller shall operate the Purchased Assets in the usual, regular and ordinary course of business consistent with good industry practice from the date of execution of the Asset Purchase Agreement until the Closing Date, but shall not take certain actions specified in the Asset Purchase Agreement without the prior written consent of the Buyer.</p> <p>(b) Between the date of execution of the Asset Purchase Agreement and the Closing Date, the Seller will give the Purchaser access to all books, records, plants and other facilities constituting the Purchased Assets during ordinary business hours and upon reasonable notice. The Purchaser's right to such access is conditioned on entering into appropriate confidentiality agreement(s).</p>
<p><b>XV. Covenants of the Purchaser:</b></p>	<p>(a) The Purchaser shall offer employment to those employees of the Seller specified in the Asset Purchase Agreement.</p> <p>(b) All transfer and sales taxes incurred in connection with the Asset Purchase Agreement shall be borne by the Purchaser.</p>

**XVI. Covenants of the Parties:**

(a) Except as otherwise specified, each party shall bear its own expenses.

(b) Subject to the terms of the Asset Purchase Agreement, each of the parties will take or cause to be taken all action to consummate and make effective the sale of the Purchased Assets.

(c) The parties shall consult with each other prior to making any public announcement or disclosure with respect to the Asset Purchase Agreement or the transactions contemplated thereby.

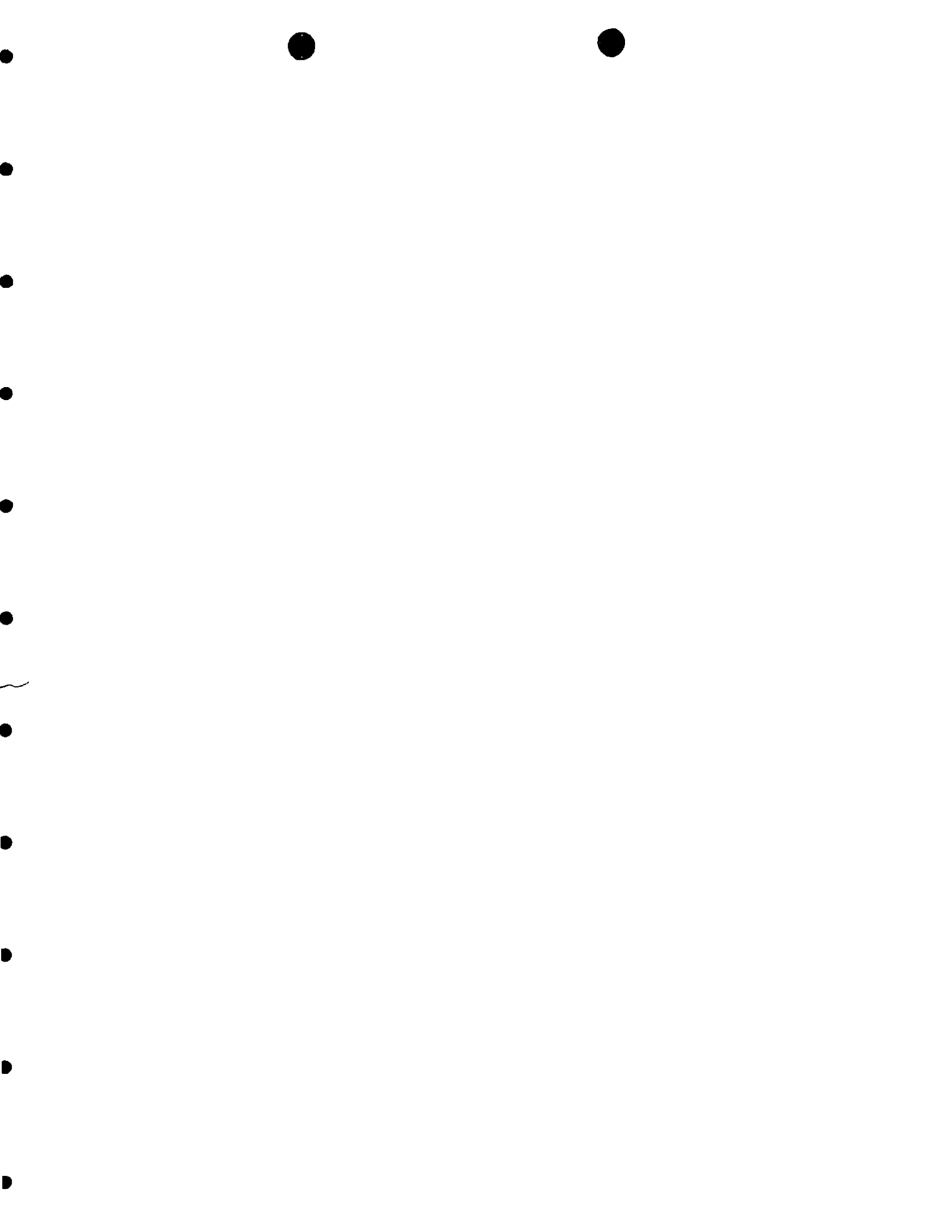
(d) Each party shall cause the filings required under the HSR Act to be made promptly. In addition, each party shall diligently cooperate with each other to obtain other required consents and regulatory approvals to the transfer of the Purchased Assets to the Purchaser.

(e) The parties agree that each party is responsible for the fees of its own broker, and represent that no other brokers have been involved.

<p><b>XVII. Risk of Loss:</b></p>	<p>If, before the Closing Date, a portion of the Purchased Assets are taken by eminent domain or damaged by fire or other casualty, and the fair market value of such damage or the cost of repair is less than 15% of the Purchase Price, the Seller shall, at its option, either (i) reduce the Purchase Price, (ii) transfer upon the Closing insurance proceeds sufficient to fully restore the Purchased Assets, or (iii) repair or restore the Purchased Assets and delay the Closing Date and the Termination Date for a reasonable time necessary to do so. If the fair market value of such damage or the cost of repair is more than 15% of the Purchase Price, the Purchaser may elect either (i) to terminate this Agreement with respect to the damaged Purchased Assets only, with an appropriate reduction of the Purchase Price, or (ii) require the Seller to transfer on the Closing the proceeds of applicable insurance to the Purchaser.</p>
<p><b>XVIII. Indemnification:</b></p>	<p>Each party shall indemnify, defend and hold harmless the other party against any claims or losses arising out of a breach by that party of a covenant or agreement or specified representations contained in the Asset Purchase Agreement.</p>
<p><b>XIX. Termination:</b></p>	<p>(a) By both parties by mutual consent. (b) By either party if the Closing Date has failed to occur by a specified date, unless such failure is due to the action or inaction of the party seeking to terminate the agreement. (c) By either party if a governmental approval which is a condition to the parties' obligation to close has been finally denied. (d) By either party if the other party commits a material breach under the agreement which has rendered the non-defaulting party unable to satisfy any condition to closing. (e) In the event of a casualty or condemnation as described in paragraph XVIII.</p>

**XX. Survival:**

Except as expressly provided, no provisions of the agreement (including the warranties) shall survive the Closing.



## DRAFT INTERCONNECTION TERM SHEET

Terms and Conditions	
1. Parties	<p><u>Seller</u>: Duquesne Light Company  <u>Buyer</u>: successful bidder at auction</p>
2. Term	<p>(a) Closing date as defined in asset purchase agreement  (b) The Agreement shall continue in full force and effect until the unit(s) to which it applies are retired, unless the parties mutually agree to terminate the Agreement at an earlier date. If either party wishes to extend, parties shall negotiate in good faith to extend or renegotiate agreement.  (c) Applicable provisions shall continue in effect following termination to the extent necessary to provide for final billings, billing adjustments and payments pertaining to liability and indemnification obligations arising from acts and events that occurred while Agreement in effect.</p>
3. Continuing Obligations and Responsibilities: 3.1 Interconnection	<p>(a) <u>Interconnection service</u>: Parties shall have continuing obligations, as specified in the Agreement, associated with the operation, maintenance and any modifications to the property and equipment each owns on either side of the interconnection point. Schedule A will specify the point of demarcation as the high voltage bushings of the main unit step-up transformer(s) and the station service transformer(s).  (b) <u>Transmission/ancillary services</u>: Buyer is responsible for making arrangements under applicable tariffs for transmission and ancillary services associated with delivering capacity/energy from the Asset and obtaining capacity/energy for station service.  (c) <u>Additional facilities</u>: If Seller determines that an addition to, modification of, or replacement of its interconnection facilities is required, Seller will install such facilities and Buyer will pay the reasonable costs thereof. Dispute resolution provisions govern.</p>
3.2 Access, Easements, etc.	The Buyer and Seller shall easements to each other sufficient to allow access to each other's facilities, such as switchyard, transmission lines and towers, and switchyard control, metering and relay equipment located in the generating plant control and relay rooms.

<p><b>3.3 Facility and Equipment Maintenance</b></p>	<p>(a) Each party to maintain own property, equipment, facilities and access to such facilities.</p> <p>(b) Buyer shall maintain common use roadways and plant accesses.</p> <p>(c) Equipment testing: Seller may request that Buyer at its cost test telemetering, relay, control or other equipment and provide such test results to Seller.</p>
<p><b>3.4 New Construction or Modifications</b></p>	<p>(a) To the extent Seller's construction or modification of its system is reasonably expected to have a material adverse effect on Buyer's operation of the Asset, Seller will provide as much notice as practicable to Buyer. If Buyer requests modifications to Seller's plan of construction or modification, Seller will accommodate such requests if practicable, consistent with reliability-criteria and Buyer agrees to pay all related costs of the change of plan.</p> <p>(b) If Buyer plans any additions or modifications of the Asset that reasonably may be expected to have a material adverse effect on Seller's system, Buyer shall submit plans and specifications to Seller as soon as practicable prior to commercial operation date of addition. If Buyer plans to increase the capacity of the Assets, and such capacity increase cannot be reliably be accommodated without the installation or modification of facilities by Seller, any increase in such capacity shall not become operational until such installations or modifications are made and Buyer pays the related costs.</p>
<p><b>3.5 Inspections</b></p>	<p>(a) Seller may, at its own expense, inspect all maintenance activities, equipment work, installation work, and construction work to Buyer's facilities. If Seller observes any deficiencies or defects that might reasonably be expected to adversely affect Seller's transmission system or interconnection facilities, Seller must notify the Buyer, and the Buyer must immediately make any corrections necessitated by Good Utility Practice.</p> <p>(b) Joint-use facilities shall be inspected jointly, each party bearing respective costs. Deficiencies must be corrected by party owning the facility.</p>
<p><b>3.6 Information Reporting</b></p>	<p>(a) Buyer shall promptly provide Seller with all information, documents or data that might reasonably affect the transmission system and which is reasonably requested by Seller or other persons having a need for such information, including NERC or ECAR.</p> <p>(b) Buyer shall gather information pertaining to generation, transmission, and distribution operating parameters for electronic transmittal to Seller using SCADA, RTU equipment, or equivalent means. Information pertaining to generation operating parameters shall be provided with Buyer's RTUs in accordance with Schedule A.</p>
<p><b>3.7 Local Services</b></p>	<p>Seller and Buyer agree to provide the following services to each other, which services shall not be terminated without the other party's consent upon prior notice.</p>

<p><b>3.8 Seller-Provided Local Services</b></p>	<p>(a) <u>Building Services</u>: HVAC, lighting etc. provided at no charge for Buyer's storage spaces, offices and control houses located on Seller's facilities.</p> <p>(b) <u>Revenue Metering</u>: Seller shall, at Buyer's expense, own, maintain and repair Revenue Meters, conduct tests and prepare reports for same. If Revenue Meters and Point of Interconnection are not the same, data shall be adjusted to account for losses. Seller shall own and maintain at Buyer's expense equipment for real-time communications, real-time reactive power, hourly kWh information, and such other information as Seller may require.</p>
<p><b>3.9 Buyer-Provided Local Services</b></p>	<p>(a) <u>Substation Service Power</u>: provided at no charge in the quantities at locations where such power is provided immediately prior to closing.</p> <p>(b) <u>General Services</u>: Buyer shall provide at no charge general on-site services for Seller's storage spaces, offices and control houses located on Buyer's facilities, including, as applicable, HVAC, lighting, potable water, substation sewage, substation paging, substation O&amp;M, meter reading service, and storage or office space.</p> <p>(b) <u>Remote Terminal Units</u>: Buyer shall own RTU's and make available to Seller all data collected at no charge.</p>
<p><b>3.10 Communications</b></p>	<p>Seller shall assign to Buyer all necessary licenses for two-way radio equipment, antennas and other associated hardware used at Buyer's generation facilities immediately prior to Closing.</p>
<p><b>3.11 Spare Parts</b></p>	<p>The Parties shall provide each other available spare parts in the event of emergencies or equipment failures, at agreed upon price.</p>
<p><b>3.12 Emergency Procedure</b></p>	<p>Seller shall provide Buyer with prompt notification of transmission system emergencies affecting Buyer's Asset. Buyer shall provide Seller with prompt notification of generation equipment emergencies affecting Seller's operations. The party recognizing an emergency that might endanger life or property shall take any reasonable and necessary action to prevent or mitigate danger or loss. If the emergency involves transmission equipment, the Buyer shall notify the Seller's dispatch personnel prior to performing any switching operations.</p>
<p><b>3.13 Interconnection Service Interruptions</b></p>	<p>If in the reasonable exercise of Seller's judgment, operation of Buyer's equipment might adversely impact the reliability of the transmission system, Seller may discontinue interconnection service until the condition has been corrected. Unless there is an emergency or risk is imminent, notice will be given to Buyer and, where practicable, suitable time to correct will be provided. If interconnection service is interrupted due to Buyer's failure to operate Asset pursuant to good utility practice, Buyer shall compensate Seller for all costs reasonably incurred.</p>

<p><b>3.14 Non-dispatchability Notification</b></p>	<p>Buyer shall give Seller as much notice as practicable of the expected date and time when generation will be resumed. In the event of an unplanned outage, Buyer shall promptly provide Seller notice of the outage and of the expected schedule for restart of the unit.</p>
<p><b>3.15 Scheduled Maintenance Notification &amp; Coordination</b></p>	<p>(a) Each party will provide advance notice to the other before beginning work on control and protective relaying schemes. (b) Seller will give Buyer advance written notice of scheduled maintenance of transmission facilities that might affect the operation of the Asset. Any such notice shall be consistent with the requirements of FERC Order No. 889 regarding the release of transmission-related information. To the extent practicable, testing, shutdown or withdrawal of transmission facilities that might be expected to affect the Asset will be scheduled to coincide with Buyer's scheduled outages of the Asset. (c) In October of each year, Buyer will provide non-binding maintenance schedule to Seller for the following calendar year. Buyer will give Seller advance written notice of scheduled maintenance of the Asset that might affect the operation of the transmission system.</p>
<p><b>3.16 Safety</b></p>	<p>(a) Parties are solely responsible for the safety and supervision of their own employees, agents, representatives and subcontractors. (b) Each party will comply with Seller's switching &amp; tagging rules (when clearance involves the high voltage bushings of the main unit step-up transformer(s) or the station service transformer(s)) attached at Schedule B. (c) Buyer is responsible for all switching on Buyer's side of the point of interconnection and Seller is responsible for all switching at the point of interconnection and on its side of such point. (d) Each party is responsible for training, testing and certifying operators for inclusion on a Joint Tag List. Each year, each Party shall provide the other with a list of its employees qualified for inclusion on the Joint Tag List.</p>
<p><b>3.17 Environmental Compliance and Procedures</b></p>	<p>(a) Buyer is responsible for complying with all environmental laws applicable to the Asset, obtaining and maintaining in force all required permits, and making all required reports. Buyer shall not take any actions that might be expected to have a material adverse environmental impact on the Seller's operations. (b) Buyer shall notify Seller of any release of hazardous substances or any type of remediation activities within 24 hours of occurrence. (c) Parties agree to coordinate concerning any regulatory required plans, activities or filings.</p>

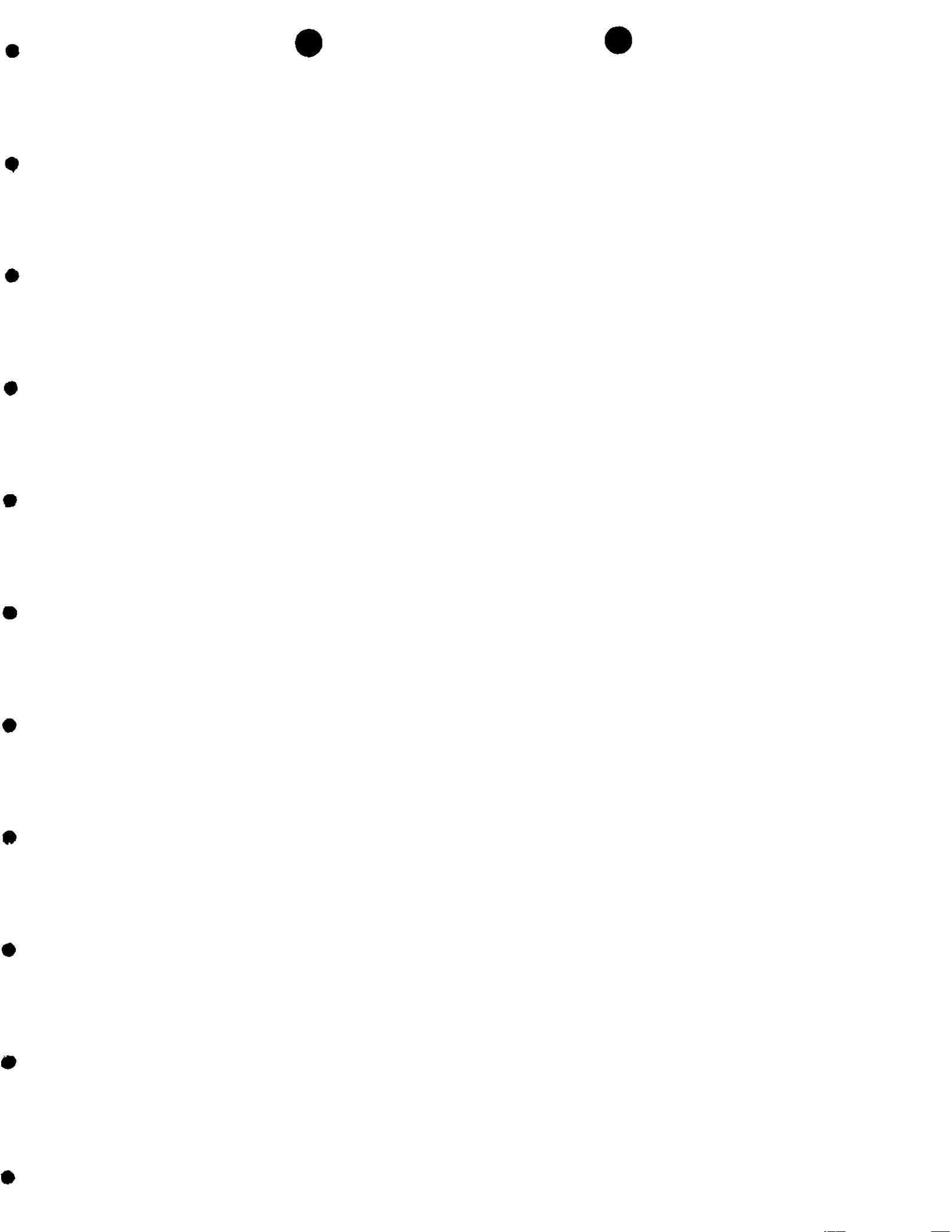
<p><b>3.18 Ancillary Services</b></p>	<p>Seller shall have the right to call on Buyer's Assets to provide supplemental and spinning reserves, regulation and frequency response service, reactive supply and voltage control service and energy imbalance service. If seller intends to purchase these services, it will provide reasonable notice to Buyer. Seller will compensate Buyer for the incremental costs incurred in providing these services. Such compensation may include verifiable opportunity costs, if any, to the extent the output of the unit is affected, and Buyer incurs opportunity costs as a result, in providing any of such services.</p>
<p><b>4. Operations</b> <b>4.1 General</b></p>	<p>(a) All equipment will be operated in a safe and efficient manner in accordance with all applicable laws.</p> <p>(b) Buyer shall comply with requests of Seller pertaining to operations and such requests shall be issued pursuant to good utility practice and on a not unduly discriminatory basis. If Buyer disagrees with the request, Buyer shall comply pending resolution of the dispute under Section 12. The parties agree to cooperate in good faith to expedite the resolution of any disputes under this section.</p>

<p>4.2 Buyer's Operating Obligations</p>	<p>(a) Buyer shall request permission before opening and closing circuit breakers. Buyer shall carry out all switching orders in timely manner. Buyer shall keep Seller advised of Asset's capabilities of participation in system restoration and/or black start capability. Buyer's equipment shall conform with industry standards for harmonic distortion and voltage fluctuation.</p> <p>(b) Electrical supply to point of interconnection shall be three-phase 60 Hz alternating current at the nominal-system voltage at the point of interconnection.</p> <p>(c) <u>Reactive Supply and Voltage Control Requirements:</u>  (1) Buyer shall operate the Asset with automatic voltage regulation equipment in service at all times. The voltage regulators shall control voltage consistent with the range of voltages set forth in Schedule C or as agreed to by the parties. Seller may require Buyer to provide reactive power from the Asset or to absorb reactive power from the Transmission system.  (2) If Buyer fails to maintain voltage in accordance with Schedule C or as otherwise agreed to by the parties, the Seller will provide written notice to Buyer of the Seller's intent to remedy the situation. If the Buyer does not promptly commence appropriate action after receiving such notice, Seller may take necessary action at Buyer's expense, including the installation of capacitor banks or other reactive compensation equipment necessary to ensure the proper voltage or reactive supply.  (3) Buyer shall notify Seller if the Asset reaches a VAR limit, there is any deviation from the assigned voltage schedule, or any automatic voltage regulator is removed from or restored to service.</p> <p>(d) Buyer shall adhere to Seller's service restoration plan and black start criteria.</p>
<p>4.3 Auditing of Accounts and Records</p>	<p>Within 2 years following each calendar year, Buyer and Seller shall have the right to audit each other's accounts and records pertaining to transactions under this Agreement.</p>
<p>4.4 Future ISO Requirements</p>	<p>If the Seller enters into an agreement with an ISO under which the ISO acquires the right to control Seller's transmission system, Buyer and Seller shall negotiate necessary and appropriate changes, including termination if appropriate, of the Agreement to provide an orderly transition to control of the transmission system by the ISO.</p>

<p><b>5. Cost Responsibilities and Billing Procedures</b></p>	<p>(a) <u>Cost Responsibilities for Local Services</u>: Each Party is responsible for the costs for services provided to the other party in Sections 3.8 and 3.9 above as set forth therein. For services that have identified prices/rate schedules, said payment shall be in accord with such schedules as in effect from time to time. For services without identified prices/rate schedules but that require reimbursement, the Parties shall agree upon the price/rate to be paid prior to performing such services.</p> <p>(b) <u>Billing Procedures</u>: Monthly invoices, to be paid within 30 days. Interest on unpaid amounts calculated in accordance with FERC's regulations.</p> <p>(c) <u>Default</u>. If either Party fails to make timely payment, and such failure is not corrected within 30 days of notice to cure, default shall be deemed to exist and Section 8 applies. Each party shall continue to provide services notwithstanding a billing dispute as long as the other continues to make payments not in dispute and pays disputed amounts into escrow account. If Buyer fails to meet these requirements for continuation of interconnection service, Seller may provide notice to Buyer of its intention to suspend service in 60 days in accordance with FERC policy.</p>
<p><b>6. Documentation</b></p>	<p>(a) All documentation furnished to or obtained by the Parties pursuant to this Agreement shall be confidential and treated as proprietary.</p> <p>(b) Drawings that describe the Asset will be transferred to Buyer and drawings describing joint-use facilities will be marked "common drawings" and retained by Seller, with a copy provided to Buyer.</p> <p>(c) Seller makes no representations as to the accuracy, detail or completeness of the drawings provided to Buyer at Closing and the Buyer hereby releases the Seller from all liability arising as a result of Buyer's use of such drawings.</p>
<p><b>7. Confidentiality</b></p>	<p>(a) Parties to hold in confidence all documents furnished by the other in connection with Agreement, except to the extent that disclosure of such documents is necessary to avert unplanned transmission or generation service interruptions or to more speedily restore transmission or generation service. Any independent auditor shall be subject to a confidentiality agreement.</p> <p>(b) Monetary damages are inadequate to compensate for breach of this provision; the Parties agree that each shall be entitled to equitable relief if the other breaches or threatens to breach its obligations hereunder.</p>

<p><b>8. Default</b></p>	<p>The following are events of default:</p> <ul style="list-style-type: none"> <li>(a) failure to pay any amount when due</li> <li>(b) breach of material term or condition of this Agreement</li> <li>(c) appointment of receiver or liquidator or trustee if not discharged within 60 days</li> <li>(d) entry of decree of bankruptcy or insolvency if not discharged or stayed within 60 days</li> <li>(e) filing of voluntary petition in bankruptcy</li> </ul> <p>Upon default, each party shall provide opportunity to cure. Notwithstanding such opportunity, the non-defaulting party may commence an action for specific performance or exercise other rights.</p>
<p><b>9. Indemnification</b></p>	<p>Seller and Buyer to provide reciprocal indemnities for damage to property, injury or death of any person. Notice of indemnification shall be given within 90 days. Indemnification obligations survive this Agreement.</p>
<p><b>10. Insurance</b></p>	<ul style="list-style-type: none"> <li>(a) Each Party to maintain fire, liability, worker's compensation, and other forms of insurance in the manner and amounts set forth in Schedule D. Certificates of insurance will be provided to each Party.</li> <li>(b) The Parties waive any right of subrogation under their respective policies for any liability each has agreed to assume under this Agreement. Evidence of this shall be noted on all certificates of insurance.</li> </ul>
<p><b>11. Force Majeure</b></p>	<ul style="list-style-type: none"> <li>(a) Neither Seller or Buyer shall be liable for failure to carry out any obligation if and only to the extent that it is prevented from performing by an event of force majeure. Force majeure to include causes beyond the reasonable control of the Party affected which by the exercise of reasonable diligence that Party is unable to prevent.</li> <li>(b) Prompt written notice of a force majeure event relied upon for excusal from performance shall be provided. All performance obligations hereunder shall be extended by a period equal to the term of the resultant delay.</li> </ul>
<p><b>12. Disputes</b></p>	<ul style="list-style-type: none"> <li>(a) Any claim or dispute shall be submitted in writing to the other Party not later than 60 days after the circumstances that gave rise to the claim or dispute have taken place. The Parties shall use their best efforts to resolve the claim or dispute, initially through good faith negotiations or upon failure of same, through ADR. If claim or dispute is not resolved, either Party may, upon giving the other party at least 10 days written notice, initiate litigation in a court of competent jurisdiction.</li> <li>(b) Nothing shall limit the right of either party to file a complaint with the FERC.</li> </ul>

<b>13. Representations</b>	<p>Organization  Authority relative to Agreement  Regulatory approval  Compliance with law  Representations to continue in full force and effect for term of Agreement.</p>
<b>14. Assignment</b>	<p>(a) Not unless written consent of other Party, said consent not to be unreasonably withheld. Exception for purpose of financing or refinancing.  (b) Assignment does not relieve Buyer of liability unless and until assignee in writing agrees to assume obligations of Buyer and Seller has consented to such assumption, said consent not to be unreasonably withheld.  (c) If Buyer terminates its existence, Seller shall have the right to enjoin Buyer's successor from using the property in any manner that interferes with Seller's ability to carry out its ongoing operations.</p>
<b>15. Subcontractors</b>	<p>All subsidiaries to comply with terms and conditions of this Agreement. Each party is fully responsible for acts of its subcontractors.</p>
<b>16. Labor Relations</b>	<p>Each Party will immediately notify the other Party of any labor dispute or anticipated labor dispute that might affect the operations of the other Party.</p>
<b>17. Independent Contractor Status</b>	<p>No relationship is to be presumed from Agreement other than independent contractor.</p>
<b>18. Miscellaneous</b>	<p>Inclusion of general terms typical for such agreements, including limitations of liability; waiver; governing law; severability; amendment; and third party beneficiaries.</p>



**APPENDIX F**

**DRAFT CHESWICK AND ELRAMA OPERATING AGREEMENTS  
TERM SHEET**

The purpose of the Cheswick and Elrama Operating Agreements is to set forth the responsibilities of the new owner(s) of these facilities and of Duquesne with regard to operation of the Assets during peak periods.

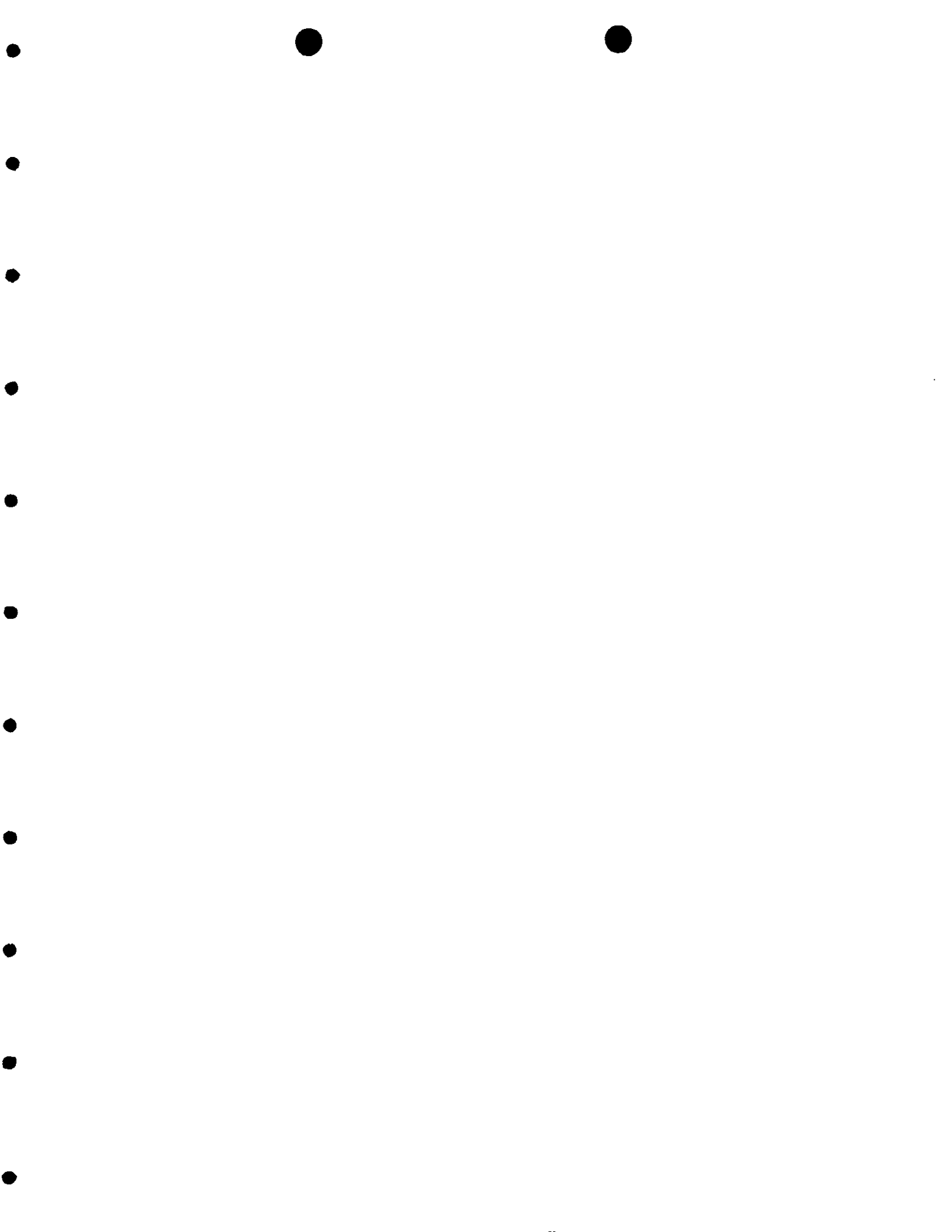
Terms and Conditions	
<b>1. Parties</b>	Seller: Duquesne Light Company Buyer: successful bidder at auction for Cheswick and Elrama plants
<b>2. Term</b>	2.1 This agreement shall become effective as of the Closing Date, and shall continue in full force and effect for sixty calendar months, unless extended by the Parties, and unless cancelled by Seller before the scheduled expiration.  2.2 This agreement can be extended by the Parties under mutually agreeable terms and conditions at any time.  2.3 Seller has the right to cancel this agreement upon 180 days' notice if, in its judgment, the need for local generation support in the area adjacent to the Asset becomes unnecessary because of adequate transmission and/or distribution remedies.

<b>3. Services Rendered</b>	<p>3.1 Duquesne reserves the right, at any time during the months of December-February and May-September, to require the Asset to run at minimum output level for purposes of system reliability. Duquesne System Operations will provide the plant owner/operator at least three days' notice so to operate the unit. Once committed, the Asset will remain committed until notified by Duquesne that such unit commitment is no longer required.</p> <p>3.2 Once the asset is committed, Duquesne will have the right to require the Asset to dispatch to an operating level in excess of the minimum output level. Duquesne will provide the owner with advance notice that is sufficient to achieve this level of output, consistent with the reliable operation of the unit and good utility practice.</p> <p>3.3 Under certain emergency conditions (i.e., one of the stations is unexpectedly unavailable), Duquesne has the right to require output of the Asset up to its full capability.</p>
-----------------------------	---

<p><b>4. Payment</b></p>	<p>4.1 Except as described in section 4.4, Seller shall pay Buyer the amount by which Buyer's costs for operating at contract levels, as defined in section 4.2, exceed the market price index, as defined in section 4.3. No reimbursement will be made for costs incurred to operate above the levels defined in sections 3.1 and 3.2.</p> <p>4.2 Costs for operation shall consist of minimum-generation costs (i.e., the cost of fuel to operate at minimum generation levels, plus any start up costs) plus additional production costs for operating at levels above minimum generation levels. Minimum generation costs equal a fixed dollar amount per hour, subject to escalation based on a coal price index as described in Exhibit 1. Additional production costs (i.e., incremental cost of production at levels above minimum generation output) are calculated based on an energy cost curve, multiplied by an initial coal price, subject to escalation by the same coal price index.</p> <p>4.3 Market price, for the purpose of calculating payments in section 4.1, will equal</p> <ul style="list-style-type: none"> <li>(a) the day-ahead on-peak price for the "Into Cinergy" market for all on-peak hours, or an equivalent as agreed to by the Parties</li> <li>(b) the weekly off-peak index published in "Power Markets Weekly" or an equivalent as agreed to by the Parties</li> </ul> <p>4.4 If Buyer notifies Seller of its inability to schedule a transaction, as described below in section 5.2, then Seller will pay Buyer's cost, as described in section 4.2.</p>
--------------------------	--

<p><b>5. Scheduling</b></p>	<p>5.1 Buyer is entitled to sell all the output of the Asset (including the minimum amounts under this Agreement) to third parties under bilateral arrangements. Buyer will schedule its transactions through Seller as specified in accordance with the procedures and requirements of the Seller or other control area operator and as required under Duquesne's Open Access Transmission Tariff.</p> <p>5.2 If Buyer can not, using due diligence, find a purchaser for the output during a particular time period, Buyer must notify Seller 24 hours before the beginning of that period. Seller will purchase the output specified in Section 3 from Buyer at the cost as described in section 4.2.</p> <p>5.3 Plant/unit maintenance will be coordinated with Duquesne. Planned maintenance will be prohibited during the months of May through September. Planned maintenance between December and February must receive prior approval from Duquesne.</p>
<p><b>6. Failure to perform</b></p>	<p>If Buyer fails to operate the Asset at the level instructed by Seller, and the consequence is a loss of load on Seller's system, Buyer shall pay Seller \$1,000/MWH for the load (in MWHs) shed as a result of Buyer's failure to operate at prescribed levels.</p>
<p><b>7. Disputes</b></p>	<p>Any claim or dispute shall be submitted in writing to the other Party not later than 60 days after the circumstances that gave rise to the claim or dispute have taken place. The Parties shall use their best efforts to resolve the claim or dispute, initially through good faith negotiations or upon failure of same, through ADR.</p> <p>If claim or dispute is not resolved, either Party may, upon giving the other party at least 10 days written notice, initiate litigation in a court of competent jurisdiction.</p> <p>Nothing shall limit the right of either party to file a complaint with the FERC.</p>
<p><b>8. Assignment</b></p>	<p>Not unless written consent of other Party, said consent not to be unreasonably withheld. Exception for purpose of financing or refinancing.</p> <p>Assignment does not relieve Buyer of liability unless and until assignee agrees in writing to assume obligations of Buyer and Seller has consented to such assumption, said consent not to be unreasonably withheld.</p>
<p><b>9. Miscellaneous</b></p>	<p>Inclusion of general terms typical for such agreements, including <i>limitations of liability; waiver; governing law; severability; amendment; and third party beneficiaries.</i></p>

<b>Exhibit 1</b>	Calculation of Costs for Operation.
------------------	-------------------------------------



**ACCOUNTING PROTOCOLS  
FOR DUQUESNE GENERATION AUCTION**

As required by the Commission, the proceeds from the auction conducted pursuant to this Auction Plan will be used to determine the stranded costs of Duquesne for the Company's generation. This section will discuss the accounting protocols necessary to establish a market-based stranded cost valuation for generation from the auction proceeds and to reconcile that actual valuation with the collection of interim CTC charges<sup>1</sup> based on the generation credits from Duquesne's Pilot.

**A. Net Auction Proceeds**

The net auction proceeds ("Net Auction Proceeds") from the transfer of all divested Utility Assets<sup>2</sup> shall be defined as the sum of the sales prices paid by the new owners less the transaction costs.<sup>3</sup> Transaction costs shall include all

---

<sup>1</sup> The Commission's August 13, 1998 Opinion and Order on Duquesne's compliance filing (the "Compliance Order") adopted the Company's proposal for the interim CTC charges. Compliance Order at 12.

<sup>2</sup> Utility Assets are those assets divested by Duquesne which have had their book values included for purposes of determining stranded costs. Assets that have been excluded by the Commission in determining stranded costs (e.g., the non-rate base portions of the Brunot Island generating units) are not considered as Utility Assets for purposes of determining the Net Auction Proceeds.

<sup>3</sup> The sales price shall be deemed to be zero for any Utility Asset for which a transfer is not completed, whether because no qualifying bids were received or because conditions prece-

(continued...)

reasonable incremental expenditures that are assignable to the divested Utility Assets ("Transaction Costs"), including but not limited to:

- (i) The costs of developing and implementing this Auction Plan (e.g., fees of outside experts, including investment bankers, engineering and environmental consultants, economic and financial consultants and legal counsel, and any expenditures associated with a potential transfer of the Beaver Valley Unit 2 lease);
- (ii) Incremental O & M costs (e.g., associated with the demarcation of facilities at Utility Assets), employee costs, environmental costs and any tax implications relating to this Auction Plan other than those described below under After-tax Auction Proceeds;
- (iii) Incremental divestiture-related capital expenditures (e.g., associated with the demarcation of facilities at Utility Assets) necessary to complete the transfers to new owners; and

---

<sup>3</sup> (...continued)  
dent to such a transfer were not satisfied. In the event Duquesne receives a qualifying "negative bid" (See Section II.D., E. Qualifying Bids) that Duquesne is prepared to accept, the negative bid will be used to reduce the sum of the other non-negative sales prices for Utility Assets in determining the Net Auction Proceeds.

- (iv) The present value of any severance costs payable to employees at the Utility Assets divested pursuant to this Auction Plan.

As an illustrative example assume that the sum of the sales prices for all Utility Assets is equal to \$500 million<sup>4</sup> and that Transaction Costs total \$25 million, including: \$20 million for fees of outside experts; \$3 million of incremental O & M, employee and environmental costs; and \$2 of million incremental divestiture-related capital expenditures. In that event, the Net Auction Proceeds would equal \$475 million or the sum of the sales prices (\$500 million) less the Transaction Costs (\$25 million).

**B. After-tax Auction Proceeds**

The after-tax gains or losses on the transfer of divested assets will be reflected in determining the after-tax auction proceeds ("After-tax Auction Proceeds") from the sale of Utility Assets under this Auction Plan. The After-tax Auction Proceeds shall be defined as the Net Auction Proceeds less current taxes payable ("Current Taxes") as a result of the transfers of the Utility Assets divested.

---

<sup>4</sup> The total includes a negative qualifying bid of \$15.0 million for Perry that includes a market determination of an additional \$5.0 million of required nuclear decommissioning funding in excess of that authorized for recovery by the Commission for Perry. The sum of the sales prices for all other assets is \$515 million, resulting in a total sum of \$500 million.

Current Taxes are defined as all Pennsylvania or Ohio, and any other applicable gross receipts, excess dividends, property transfer and sales taxes (including applicable surcharges); plus, the difference between the Net Auction Proceeds and the remaining tax basis of the Utility Assets divested at the date of transfer, multiplied by the then-current combined federal-state income tax rate (currently 41.4935%).

Again, as an illustrative example, in addition to the above assumptions assume the tax basis of assets divested is \$180 million on the date of closing, the tax rate is 41.4935% on the date of closing and no other Pennsylvania or Ohio taxes are applicable. In that event, the After-tax Auction Proceeds will equal \$352.59 million, or Net Auction Proceeds (\$475.00 million) less Current Taxes (\$122.41 million) as shown in the table below.

	(\$000)
<b>Sum of Sales Prices</b>	500,000
(Transaction Costs)	<u>(25,000)</u>
<b>Net Auction Proceeds</b>	475,000
(Tax Basis)	<u>(180,000)</u>
<b>Taxable Gain</b>	295,000
Current Taxes @ 41.4935%	<u>(122,406)</u>
<b>After-tax Auction Proceeds</b>	352,594

### C. Stand Alone Base Case

The Restructuring Order includes a determination of stranded costs based on an administrative determination of the after-tax market value of Duquesne's generating assets as of year-end 1998. This total after-tax value is based on the Commission's acceptance of the OCA's calculation<sup>5</sup> of a NPV of \$99.4 million from a margin analysis of Duquesne's owned-units as reproduced in Appendix G (at 1a). The OCA proposed certain adjustments to the results of the margin analysis, which were rejected in part and accepted in part by the Commission.<sup>6</sup> The net effect of all the Commission's accepted adjustments to the OCA's \$99.4 million margin NPV was to increase this value to \$110.95 million.

The Stand Alone Base Case for Duquesne is attached as Appendix G (at 2a). This table presents a revised Appendix B from the Restructuring Order, with an additional column to show the corrections to the Commission's deferred tax calculation from the Compliance Order.<sup>7</sup> A copy of the Stranded Cost Allowance from the Compliance Order is reproduced in Appendix G (at 3a).

---

<sup>5</sup> Schedule MIK-1, December 1997 Update, Page 2 of 3.

<sup>6</sup> Restructuring Order at 123, 128.

<sup>7</sup> The Compliance Order was issued on August 13<sup>th</sup> and contains certain calculational errors. Duquesne will correct those errors in its revised compliance filing. The Stand Alone Base Case in Appendix G (at 2a) reflects the corrections that Duquesne will seek to the Compliance Order.

Three changes are necessary to properly reflect the administrative determination of stranded costs for Duquesne on a stand alone basis. First, the Compliance Order Stranded Cost Allowance in Appendix G (at 3a) includes the generation Merger Savings of \$152.28 million. In a non-merger scenario, no generation merger savings are obtainable. Second, pursuant to the Compliance Order the Deferred Fuel Cost Regulatory Asset should be shown at its updated value of \$25.00 million because Duquesne has been denied a roll-in of its ECR at the higher value reflected in the original compliance filing. Third, the Commission's calculation of \$493 million for deferred taxes is in error, and must be restated as \$653 million on a stand alone basis, most of which is attributable to the foregone merger synergies. The corrections to the deferred tax calculation are summarized below:

<b>Deferred Tax Item</b>	<b>(\$Million)</b>
a. Generating Plant Book <sup>8</sup>	372.46
Corrected Value	<u>411.34</u>
<b>a. Increase</b>	<b>38.88</b>
b. Merger Savings	(107.99) -
Corrected Value	<u>0.00</u>
<b>b. Increase</b>	<b>107.99</b>
c. Deferred Fuel Costs	4.77
Corrected Value	<u>17.73</u>
<b>c. Increase</b>	<b>12.96</b>
<b>Total Increase (a. + b. + c.)</b>	<b>159.83</b>
<b>PA Jurisdictional (at 99.9%)</b>	<b>159.67</b>

#### **D. Reconciliation with Stand Alone Base Case**

To reconcile the stranded costs resulting from the actual market value (i.e., the After-tax Auction Proceeds) with the Stand Alone Base Case resulting from the Commission's year-end 1998 administratively determined value of \$110.95

---

<sup>8</sup> For purposes of this summary calculation, the Restructuring Order's understatement of deferred tax balances by \$38.88 million has been attributed solely to Generating Plan Book. Duquesne took exception to this computational error in the Merger Compliance Filing. Page 2, note 2 clearly states that "Appendix A [to the Compliance Filing] also provides a description and break-down of the correct deferred tax balance associated with the Commission's administrative determination of stranded costs, while excluding the deferred taxes associated with disallowed cost items, including BI and Phillips. The Final Order does not explain how the deferred tax balance contained in Appendix D was derived, but it is not correct." The relevant pages of Appendix A to the Compliance Filing are reproduced here in Appendix G (at 4a-4c). The difference between the Commission's undocumented \$493.345 million deferred tax balance and Duquesne's detailed calculation of \$532.188 million (Appendix G at 4b) is \$38.88 million, as adjusted for the 99.9% PA jurisdictional factor.

million will require an adjustment to account for the timing of the auction.<sup>9</sup> Continuing with the example discussed above, assume the asset sales close at year-end 1999 and the After-tax Auction Proceeds (as calculated above) are \$352.59 million. This amount cannot be reconciled directly (i.e., by subtraction) with the Commission's \$110.95 million administratively determined value because of the timing difference. However, the OCA's margin analysis can be moved forward to year-end 1999 to calculate the comparable present value by applying the OCA's NPV of margin methodology from that date forward.

Appendix G (at 5a) contains a summary table showing the values that would be obtained from Mr. Kahal's margin analysis if the margins were recalculated at the same 6.88% discount rate at year-end 1999 and year-end 2000. This table is based on the workpapers filed with the OCA direct testimony, including a spreadsheet (Margin\_2.xls) prepared by OCA witness Kahal. The first column replicates the results of the OCA analysis as filed (at year-end 1998). The second and third columns show the recalculation of the margin results adjusted for timing. The OCA's after-tax margin NPV increases to \$126.3 million and \$164.5 million at year-end 1999 and 2000 respectively. The difference from the year-end 1998 value of \$99.4 million is shown at the bottom of the table.

---

<sup>9</sup> The Commission recognizes that the divestiture may not be accomplished by January 1, 1999 and requires that the actual stranded utility generation value be reconciled. *See* Restructuring Order at 81-82.

The future NPVs are greater than the year-end 1998 value by \$27.0 million and \$65.1 million respectively. These values have been calculated directly from Margin\_2.xls. A printout of pages from Margin\_2.xls is attached as Appendix G (at 6a-6d), and shows the annual after-tax margin summaries for each Duquesne plant as calculated by Mr. Kahal. The year-end 1998 margin NPVs for each unit appear at the far right of the second page of each table following the year 2026. The calculated OCA values are used by Mr. Kahal to derive the margins shown on Schedule MIK-1, December 1997 Update, Page 2 of 3.

Continuing with the example discussed above, Duquesne will adjust the Stand Alone Base Case administrative value of \$110.95 million upward by the \$27.0 million difference shown in Appendix G (at 5a) and then subtract this adjusted value from the After-tax Auction Proceeds to determine the offsetting credit to ratepayers ("Market Value Offset Credit").<sup>10</sup> An equivalent credit to the recoverable deferred taxes is calculated by multiplying the Market Value Offset Credit by the fraction (Tax Rate/(1-Tax Rate)). At a statutory tax rate of 41.4935% this will provide a deferred tax credit ("Deferred Tax Offset Credit") equal to approximately

---

<sup>10</sup> This assumes the closing occurs at year-end 1999. An earlier or later closing would require a different adjustment. The values at year-end 1998, 1999 and 2000 can be used to interpolate the adjustment if the closing of the auction occurs earlier in calendar 1999 or later in calendar year 2000.

\$0.71 for every dollar of Market Value Offset Credit. Continuing with our example, the derivation of these credits is shown in the table below.

	(\$000)
Administrative Value	- 110,950
Adjustment for OCA Margin	27,000
	---
<b>Future Administrative Value</b>	137,950
After-tax Auction Proceeds	— - - <u>(352,594)</u>
<b>Market Value Offset Credit</b>	(214,644)
<b>Deferred Tax Offset Credit</b>	(152,228)
(@ \$.71 per \$)	

**E. Reconciliation with Interim CTC Revenues**

The Restructuring Order provides if Duquesne divests its generating assets through an auction process, that beginning in 1999 an interim CTC may be charged to shopping customers based on the Pilot credits. Duquesne filed class specific residual CTC tariffs based on the Pilot credits in its Stand Alone Compliance Filing. The resulting Company average 1999 CTCs are approximately 2.7 cents (excluding GRT). The CTC revenues collected prior to completion of the auction will be allocable to recovery of stranded costs, return on the unamortized balance of stranded costs, and amortization of deferred taxes. However, the magnitude of the Market Value Offset Credit and the Deferred Tax Offset Credit will not be known until the auction is completed.

The first step in the reconciliation process is to calculate a pro-forma set of monthly CTC revenue requirements (in the form of Appendix C of the Restructuring Order) beginning in 1999 based on the Stand Alone Base Case.<sup>11</sup> However, the Compliance Order required Duquesne to calculate CTC revenue requirements that would produce average shopping credits equal to those produced in the Restructuring Order.<sup>12</sup> Accordingly, within each year, the monthly pro-forma CTC revenue requirements provide for a levelized recovery of stranded costs at a fully grossed-up return of 11% and a levelized amortization of the associated deferred tax balances.<sup>13</sup> However, the annual total CTC revenue requirement is constrained to produce an average shopping credit equal to 4.00 cents/kWh in 1999, 4.22 cents/kWh in 2000 and so forth, consistent with the shopping credits in the Restructuring Order.

Continuing with the example discussed above, Appendix G (at 7a) shows the CTC revenue requirements under the Stand Alone Base Case in 1999 and

---

<sup>11</sup> Under the Stand Alone Base Case a 1999 beginning stranded cost balance of \$1,502 million and deferred tax balance of \$653 million must be recovered through the CTC.

<sup>12</sup> Compliance Order at 15-16.

<sup>13</sup> The Compliance Order provides that Duquesne's average CTCs must be recalculated, adjusting for the new treatment of deferred taxes, the disallowance of the ECR roll-in and the recalculation of T&D rates, in order to produce the same shopping credits as in the Restructuring Order. This may require an extension of the recovery period and will result in different year-to-year CTC revenue requirements.

2000.<sup>14</sup> In 1999, the total monthly revenue requirements pro-formed are \$27,000,000 consisting of \$22,847,259 of blended CTC recovery and return and \$4,152,741 of deferred tax amortization.

The 1999 pro-forma CTC revenue requirements-under the Stand Alone Base Case are less than the CTC revenues that will be collected under the Pilot credit tariffs, assuming the forecast level of sales during the interim period is realized. At 1,098,149,355 kWh/month, the monthly 1999 CTC revenues recovered under the Pilot tariffs will be \$29, 815,194.

Appendix G (at 8a) shows the reconciliation between the pro-forma CTC revenue requirements (based on the Stand Alone Base Case) and the 1999 interim CTC revenues collected (assuming the forecast sales under the Pilot Credit CTCs are realized). The realized revenues are allocated between CTC recovery and return (84.62% of CTC revenue) and deferred tax amortization (15.38% of CTC revenue). The 84.62% portion of realized 1999 CTC revenues allocated to CTC recovery and return is further decomposed into the recovery of and return on the CTC balance of \$1,502 million.

Based on the 1999 CTC revenue collections (under the CTC Pilot credit tariffs) and the above allocation between the stranded cost and deferred tax

---

<sup>14</sup> For purposes of the example, we have assumed the total CTC Revenue Requirements are constrained to the values set out in the Commission Shopping Credit table to the Compliance Order. The actual constraints will be determined in Duquesne's next Compliance Filing.

components, the 1999 Ending Stranded Cost Balance will be \$1,375,380,051 and the 1999 Ending Deferred Tax Balance will be \$597,983,204. The Market Value Offset Credit of \$214.6 million and the Deferred Tax Offset Credit of \$152.2 million will be applied against these unamortized balances as shown in the table below.

	(\$000)
1999 Ending CTC Balance	1,375,380
Market Value Offset Credit	(214,644)
<b>2000 Beginning CTC Balance</b>	<b>1,160,736</b>
1999 Ending DT Balance	597,983
Deferred Tax Offset Credit	(152,228)
<b>2000 Beginning DT Balance</b>	<b>445,755</b>

#### **F. Post-Auction CTC Design**

Based on the above reconciliation of the year 2000 starting balances (after applying the Market Value Offset Credit and the Deferred Tax Offset Credit), the new balances can be reamortized using the same methodology as approved in the Compliance Order.<sup>15</sup>

---

<sup>15</sup> After application of the credits, the actual CTC revenue requirements would be recalculated to produce average shopping credits on a company-wide basis equal to those in the Restructuring Order. The resulting annual CTC revenue requirements would be allocated to rate classes based on the production cost allocation methodology set out in Duquesne's compliance filing. The annual reconciliation of class CTC revenues to class CTC revenue requirements (as determined after the application of the above credits), would be performed on a class specific basis with a recalculation of monthly recovery, return and deferred tax amortization based on actual sales volumes of that class.

Appendix G (at 9a) sets out the CTC revenue requirements assuming the Market Value Offset Credit and the Deferred Tax Offset Credit are applied at the beginning of 2000. Again, using the CTC Revenue Requirements from the Compliance Order for illustrative purposes, the CTC and Deferred Tax balances are fully amortized by year-end 2006.

PaPUC Docket No. R-00974104  
Schedule MIK-1  
December 1997 Update  
Page 2 of 3

DUQUESNE LIGHT COMPANY

Owned-Generation Stranded Cost Summary  
Before Adjustments  
(millions \$)

<u>Plant</u>	<u>Net Book Value @ 12/31/98</u>	<u>NPV Net Margins<sup>(1)</sup></u>	<u>NPV Decommissioning Cost<sup>(3)</sup></u>	<u>Initial Stranded Cost</u>
Perry	\$232.34	\$0	\$18.93	\$ 251.27
Beaver Valley 1	212.14	0	17.52	229.66
Beaver Valley 2 <sup>(4)</sup>	545.84	0	8.02	553.86
Elrama	90.39	0	-	90.39
Cheswick	105.46	(36.9)	-	142.36
Mansfield	94.81	129.6	-	(34.79)
Sammis	33.31	3.4	-	29.91
Eastlake	30.97	0	-	30.97
Brunot Island	<u>17.06</u>	<u>0</u>	<u>-</u>	<u>17.06</u>
Owned-Units Subtotal	\$1,362.32	\$99.4 <sup>(2)</sup>	\$44.47	\$1,307.39
Working Capital	\$61.53	\$15.91	-	\$ 45.62
Cold Reserve Plants <sup>(5)</sup>	<u>\$64.06</u>	<u>\$0.00</u>	<u>-</u>	<u>\$ 64.06</u>
<b>Total</b>	<b>\$1,487.91</b>	<b>\$115.31</b>	<b>\$44.47</b>	<b>\$1,417.07</b>

<sup>(1)</sup> Excludes fossil decommissioning costs. Negative net margins are treated as zero.

<sup>(2)</sup> The total has been increased by 3.4 percent (a half-year of discounting) to account for the fact that Duquesne's cash flow model applies a full year discount in the first year.

<sup>(3)</sup> Source: Schedule TSC-2. Mr. Catlin's annual revenue requirement for 1999-2005 is converted to a NPV amount at 1/1/99 using a 6.88 percent discount rate.

<sup>(4)</sup> Beaver Valley 2 amount is the sum of reported net book value (\$32.48 million) plus the NPV of the lease (\$513.36 million). Source: Schedule TSC-1.

<sup>(5)</sup> This includes \$3.48 million of remaining net book value for the Warwick mine at 12/31/98.

Stand Alone Base Case

**Duquesne Light Restructuring**

<u>Category/Item:</u>	<u>Deferred Taxes</u>	<u>Amount</u>
<b>Book Value:</b>		
Generating Plant Book Value	\$ 411.34	\$ 852.03
Beaver Valley 2 Lease PV	\$ 213.01	\$ 300.35
M&S Fuel Related Sunk Costs	-	-
Working Capital	-	\$ 61.53
Costs Independent of Operation	-	-
Generation Market Value	\$ (78.69)	\$ (110.95)
Merger Savings	\$ -	\$ -
<b>Total Stranded Generation:</b>	<b>\$ 545.66</b>	<b>\$ 1,102.96</b>
<b>Decommissioning:</b>		
Nuclear Decommissioning	-	\$ 42.96
Fossil Decommissioning	-	-
<b>Total Decommissioning</b>	<b>\$ -</b>	<b>\$ 42.96</b>
<b>Regulatory Assets:</b>		
FAS 109 (including Plant reversal)	\$ 57.48	\$ 179.00
Post '05 Unamortized Debt Costs	\$ 10.67	\$ 18.67
Pre '06 Unamortized Debt Costs	\$ 6.82	\$ 9.61
Deferred Rate Synch. (Early Window)	\$ 1.87	\$ 23.50
Deferred Employee Costs	-	\$ 14.24
Deferred Nuclear Maintenance	\$ 1.35	\$ 1.90
US DOE Decommissioning	\$ 2.33	\$ 3.25
Deferred Coal Costs	-	-
Deferred Caretaker Costs	-	-
Pre-Accrued Nuclear Outage	-	-
BV2 Training Costs	\$ 0.84	\$ 1.58
Low Level Radioactive Waste	-	\$ 2.27
Coal Cost Equalization	-	\$ 0.12
Transition Costs	\$ 7.51	\$ 10.59
SFAS 106 Deferral	\$ 1.40	\$ 1.97
Deferred Fuel Costs	\$ 17.73	\$ 25.00
Other Regulatory Assets	-	\$ 0.53
Consumer Education	-	\$ 10.00
Sale-Leaseback Tax Effect (Gain)	-	\$ 55.13
Deferred Rate Synch. Costs	-	-
BV2 Tax Effect	-	\$ 0.17
<b>Total Regulatory Assets:</b>	<b>\$ 108.00</b>	<b>\$ 357.53</b>
PA Jurisdictional % (1-FERC Allocation)	99.900%	99.900%
<b>TOTAL STRANDED, STAND ALONE WITH JURISDICTIONAL ALLOCATION</b>	<b>\$ 653.012</b>	<b>\$ 1,501.948</b>

Stranded Cost Allowance  
(\$Millions)

<b>Duquesne Light Restructuring</b>	
<u>Category/Item:</u>	<u>Amount</u>
<b>Book Value:</b>	
Generating Plant Book Value	\$ 852.03
Beaver Valley 2 Lease PV	\$ 300.35
M&S Fuel Related Sunk Costs	-
Working Capital	\$ 61.53
Costs Independent of Operation	-
Generation Market Value	\$ (110.95)
Merger Savings	\$ (152.28)
<b>Total Stranded Generation:</b>	<b>\$ 950.68</b>
<b>Decommissioning:</b>	
Nuclear Decommissioning	\$ 42.98
Fossil Decommissioning	-
<b>Total Decommissioning</b>	<b>\$ 42.96</b>
<b>Regulatory Assets:</b>	
FAS 109 (including Plant reversal)	\$ 179.00
Post '05 Unamortized Debt Costs	\$ 18.67
Pre '06 Unamortized Debt Costs	\$ 9.61
Deferred Rate Synch. (Early Window)	\$ 23.50
Deferred Employee Costs	\$ 14.24
Deferred Nuclear Maintenance	\$ 1.90
US DOE Decommissioning	\$ 3.25
Deferred Coal Costs	-
Deferred Caretaker Costs	-
Pre-Accrued Nuclear Outage	-
BV2 Training Costs	\$ 1.58
Low Level Radioactive Waste	\$ 2.27
Coal Cost Equalization	\$ 0.12
Transition Costs	\$ 10.59
SFAS 106 Deferral	\$ 1.97
Deferred Fuel Costs	\$ 6.73
Other Regulatory Assets	\$ 0.53
Consumer Education	\$ 10.00
Sale-Leaseback Tax Effect (Gain)	\$ 55.13
Deferred Rate Synch. Costs	-
BV2 Tax Effect	\$ 0.17
<b>Total Regulatory Assets:</b>	<b>\$ 339.26</b>
<b>PA Jurisdictional % (1-FERC Allocation)</b>	<b>99.900%</b>
<b>TOTAL STRANDED, WITH MERGER AND JURISDICTIONAL ALLOCATION</b>	<b>\$ 1,331.567</b>

## Discussion re: Deferred Taxes in PaPUC Decision

The May 29, 1998 Opinion and Order of the Commission determined and allowed recovery of stranded costs for Duquesne in the amount of \$1,331,567,100 in the event the merger with Allegheny is consummated. Attachment B to the Order summarizes the individual components of stranded costs (net of tax) allowed by the Commission under the merger case. Attachment D to the Order identifies a Deferred Tax Principal balance of \$493,344,701 associated with this stranded cost determination. The Order contains no equivalent breakout of the individual components of the deferred tax total comparable to that of stranded costs presented in Attachment B.

The April 13, 1998 Exceptions of Duquesne to the ALJ Recommended Decision included an Appendix B that presented a Revised Exhibit No. DJC-10 summarizing the stranded cost recommendations of Duquesne, the OCA and the ALJ. Appendix B presented both Gross and Net stranded cost components, and the deferred tax balances associated with each component.

Duquesne believes the Commission has referred to the component breakout presented in Appendix B to Duquesne's Exceptions in deriving the deferred tax total presented in Attachment D to the Order. However, the Company has been unable to replicate the derivation of the Order's \$493,344,701 deferred tax balance.

The attached table "Stranded Cost Allowance with Associated Deferred Taxes" is based on Attachment B to the Commission's Order and Appendix B of Duquesne's Exceptions. The table presents an associated deferred tax balance for each component allowed by the Commission in the merger case. These balances are based on the deferred tax recommendations of the ALJ (for components allowed by the Order) as set out in Revised Exhibit No. DJC-10, except as otherwise shown in the Notes on Deferred Taxes below.

### Notes on Deferred Taxes:

- 1) The balance of \$411.34 MM reflects an addition of \$2.56 MM (to the ALJ's balance of \$408.78 MM) for deferred taxes associated with the Warwick Mine plant balance, that was allowed by the Order, but not included in the ALJ's recommended decision. Note that deferred taxes associated with Brunot Island and Phillips were not included in the ALJ balance of \$408.92 MM. See Note ALJ-1, Appendix B, DLC Exceptions.
- 2) The Order determined a generation market value of \$110.95 MM, less than the \$286.03 MM value recommended by the ALJ. In Appendix B, the associated reduction in the deferred taxes associated with the ALJ's recommended market value is \$202.86 MM. Duquesne has calculated an imputed reduction of \$78.69 MM for the Order's market value based on a tax rate of 41.4935%.
- 3) The Order has adopted the OCA's recommended value for certain Regulatory Assets. The deferred tax balances reflect the OCA's values shown in Appendix B, DLC Exceptions.
- 4) The deferred taxes associated with the Deferred Fuel Costs reflect the Order's value of \$6.73 MM and have not been updated through May 29, 1998.

Stranded Cost Allowance  
with Associated Deferred Taxes  
(\$Millions)

<b>Duquesne Light Restructuring</b>		
<u>Category/Item:</u>	<u>Deferred Taxes</u>	<u>Amount</u>
<b>Book Value:</b>		
Generating Plant Book Value (1)	\$ 411.34	\$ 852.03
Beaver Valley 2 Lease PV	\$ 213.01	\$ 300.35
M&S Fuel Related Sunk Costs	-	-
Working Capital	-	\$ 61.53
Costs Independent of Operation	-	-
Generation Market Value (2)	\$ (78.69)	\$ (110.95)
Merger Savings	\$ (107.99)	\$ (152.28)
<b>Total Stranded Generation:</b>	<b>\$ 437.67</b>	<b>\$ 950.68</b>
<b>Decommissioning:</b>		
Nuclear Decommissioning	-	\$ 42.96
Fossil Decommissioning	-	-
<b>Total Decommissioning</b>	<b>\$ -</b>	<b>\$ 42.96</b>
<b>Regulatory Assets:</b>		
FAS 109 (including Plant reversal)	\$ 57.48	\$ 179.00
Post '05 Unamortized Debt Costs (3)	\$ 10.67	\$ 18.67
Pre '06 Unamortized Debt Costs (3)	\$ 6.82	\$ 9.61
Deferred Rate Synch. (Early Window)	\$ 1.87	\$ 23.50
Deferred Employee Costs	-	\$ 14.24
Deferred Nuclear Maintenance	\$ 1.35	\$ 1.90
US DOE Decommissioning	\$ 2.33	\$ 3.25
Deferred Coal Costs	-	-
Deferred Caretaker Costs	-	-
Pre-Accrued Nuclear Outage	-	-
BV2 Training Costs	\$ 0.84	\$ 1.58
Low Level Radioactive Waste	-	\$ 2.27
Coal Cost Equalization	-	\$ 0.12
Transition Costs	\$ 7.51	\$ 10.59
SFAS 106 Deferral (3)	\$ 1.40	\$ 1.97
Deferred Fuel Costs (4)	\$ 4.78	\$ 6.73
Other Regulatory Assets	-	\$ 0.53
Consumer Education	-	\$ 10.00
Sale-Leaseback Tax Effect (Gain)	-	\$ 55.13
Deferred Rate Synch. Costs	-	-
BV2 Tax Effect	-	\$ 0.17
<b>Total Regulatory Assets:</b>	<b>\$ 95.05</b>	<b>\$ 339.26</b>
PA Jurisdictional % (1-FERC Allocation)	99.900%	99.900%
<b>TOTAL STRANDED, WITH MERGER AND JURISDICTIONAL ALLOCATION</b>	<b>\$532.188</b>	<b>\$ 1,331.567</b>

Duquesne Light Company

Total Stranded Cost Determination  
 As of December 31, 1998  
 (\$ Millions)

	Gross	DLCo Def. Tax	Net	Gross	OCA Def. Tax	Net	Gross	ALJ Def. Tax	Net	Notes
<b>Generating Plant</b>										
Net Book Value of Gen. Plant	\$1,370.53	\$452.92	\$917.61	\$1,365.94	\$452.92	\$913.02	\$1,257.33	\$408.78	\$848.55	(ALJ-1)
Working Capital	0.00	0.00	0.00	61.53	0.00	61.53	61.53	0.00	61.53	(ALJ-2)
M&S and Fuel-Related Sunk Costs	41.11	0.00	41.11	0.00	0.00	0.00	41.11	0.00	41.11	(ALJ-3)
PV of BV2 Lease Expense (1)	475.57	197.33	278.24	513.36	213.01	300.35	513.36	213.01	300.35	(ALJ-4)
Net Book Value	1,887.21	650.25	1,236.96	1,940.83	665.93	1,274.90	1,873.33	621.79	1,251.54	
P V of Decommissioning	123.90	0.00	123.90	44.47	0	44.47	44.47	0.00	44.47	(ALJ-5)
PV of Costs Independent of Operation	208.23	0.00	208.23	0	0	0.00	208.23	0.00	208.23	(ALJ-6)
Estimated Market Value	(46.83)	(19.43)	(27.40)	(511.17)	(212.10)	(299.07)	(488.89)	(202.86)	(286.03)	(ALJ-7)
Stranded Generating Plant	2,172.51	630.82	1,541.69	1,474.13	453.83	1,020.30	1,637.14	418.93	1,218.21	
<b>Regulatory Assets</b>										
SFAS 109	\$236.48	\$57.48	\$179.00	\$236.48	\$57.48	\$179.00	\$236.48	\$57.48	\$179.00	(ALJ-8)
Post-2005 - Unamortized Debt Cost	29.92	10.88	19.04	29.34	10.67	18.67	29.92	10.88	19.04	(ALJ-9)
Pre-2006 - Unamortized Debt Cost	16.76	6.96	9.80	16.43	6.82	9.61	16.76	6.96	9.80	(ALJ-9)
Deferred Rate Sync. Costs	25.37	1.87	23.50	26.52	1.95	24.57	25.37	1.87	23.50	(ALJ-10)
Deferred Employee Costs	13.83	0.00	13.83	14.24	0.00	14.24	13.83	0.00	13.83	(ALJ-10)
Deferred Nuclear Maintenance	3.25	1.35	1.90	3.25	1.35	1.90	3.25	1.35	1.90	
DOE Decom and Decon.	5.58	2.33	3.25	5.74	2.40	3.34	5.58	2.33	3.25	(ALJ-10)
Deferred Coal Costs	13.50	0.00	13.50	0.00	0.00	0.00	0.00	0.00	0.00	(ALJ-11)
Deferred Caretaker Costs	6.77	2.85	3.92	0.00	0.00	0.00	0.00	0.00	0.00	(ALJ-12)
BV2 Training Costs	2.42	0.84	1.58	2.42	0.84	1.58	2.42	0.84	1.58	
Low Level Rad. Waste	2.27	0.00	2.27	2.27	0.00	2.27	2.27	0.00	2.27	
Coal Cost Equalization	0.12	0.00	0.12	0.12	0.00	0.12	0.12	0.00	0.12	
Other	0.53	0.00	0.53	0.53	0.00	0.53	0.53	0.00	0.53	
Pre-Accrue Nuclear Outages	17.60	7.31	10.29	0.00	0.00	0.00	17.60	7.31	10.29	(ALJ-13)
Gain on Sale/Leaseback	55.13	0.00	55.13	55.13	0.00	55.13	55.13	0.00	55.13	
Deferred Rate Sych. Costs (Tax)	0.21	0.00	0.21	0.22	0.00	0.22	0.21	0.00	0.21	(ALJ-10)
BV-2 (Tax)	0.17	0.00	0.17	0.17	0.00	0.17	0.17	0.00	0.17	
Deferred Fuel Cost	11.51	4.78	6.73	11.84	4.92	6.92	11.51	4.78	6.73	(ALJ-10)
Transition Costs	18.10	7.51	10.59	18.20	7.61	10.59	18.10	7.51	10.59	(ALJ-14)
SFAS 106	3.28	1.36	1.92	3.37	1.40	1.97	0.00	0.00	0.00	(ALJ-15)
SFAS 109 Plant	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(ALJ-16)
Total Regulatory Assets	462.80	105.52	357.28	426.27	95.44	330.83	439.25	101.31	337.94	
Total Stranded Cost (Standalone)	\$2,635.31	\$736.34	\$1,898.97	\$1,900.40	\$549.27	\$1,351.13	\$2,076.39	\$520.24	\$1,556.15	
Merger Savings	0.00	0.00	0.00	(260.27)	(107.99)	(152.28)	(260.27)	(107.99)	(152.28)	(ALJ-17)
Total Stranded Cost (w/ Merger Savings)	\$2,635.31	\$736.34	\$1,898.97	\$1,640.13	\$441.28	\$1,198.85	\$1,816.12	\$412.25	\$1,403.87	

DUQUESNE LIGHT COMPANY

Owned-Generation OCA Margin Summary

<u>Plant</u>	12/31/98 NPV <u>Net Margins</u>	12/31/99 NPV <u>Net Margins</u>	12/31/00 NPV <u>Net Margins</u>
Perry	\$0	\$0	\$0
Beaver Valley 1	0	0	8.4
Beaver Valley 2	0	0	0
Eirama	0	0	0
Cheswick	(36.9)	(25.9)	(10.9)
Mansfield	129.6	139.5	148.9
Sammis	3.4	8.4	11.5
Eastlake	0	0	0
Brunot Island	0	0.3	1.1
Owned-Units Subtotal *	\$99.4	\$126.3	\$164.5
Difference from 12/31/98	0.0	27.0	65.1

\* The Owned-Units Subtotal has been increased by 3.4%, one half year's discounting, to accord with Schedule MIK-1 December 1997 Update Page 2 of 3 as reproduced at Appendix G at 8.

**DUQUESNE LIGHT****Costs of Fossil Plants**

\$ in Millions

	Fuel Forecast Provided By Doug Smith						Fuel Forecast Provided By Doug Smith								
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>SUMMARY FOR FOSSIL PLANTS - AFTER TAX</b>															
<b>CHESWICK</b>															
Direct Margin	(9.66)	(12.14)	(9.49)	(5.70)	(2.20)	(23.63)	8.14	10.57	12.60	15.80	18.89	6.92	26.11	34.08	38.18
Margin after Corp O/H	(13.48)	(16.84)	(14.34)	(10.79)	(8.88)	(33.83)	(0.49)	1.12	2.35	5.22	7.90	(6.80)	14.33	21.71	24.61
<b>SAMMIS</b>															
Direct Margin	(2.19)	(0.07)	(4.04)	0.72	3.93	5.57	5.35	7.29	4.14	9.45	9.85	11.55	0.00	0.00	0.00
Margin after Corp O/H	(4.77)	(2.54)	(7.22)	(1.97)	1.16	3.04	2.49	4.48	0.47	6.39	6.64	8.27	0.00	0.00	0.00
<b>EASTLAKE</b>															
Direct Margin	(3.45)	(2.70)	(6.04)	(5.43)	1.23	(0.04)	0.26	2.26	3.73	4.40	5.04	4.66	6.42	0.00	0.00
Margin after Corp O/H	(4.34)	(3.56)	(7.48)	(7.09)	(0.11)	(1.71)	(1.78)	0.30	1.61	1.98	2.47	1.81	3.18	0.00	0.00
<b>ELRAMA</b>															
Direct Margin	(9.66)	(10.01)	(8.63)	(3.11)	5.39	8.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Margin after Corp O/H	(17.26)	(18.25)	(16.85)	(11.17)	(2.84)	0.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>MANSFIELD 1</b>															
Direct Margin	(1.77)	(6.76)	(5.08)	(4.46)	(4.00)	(3.43)	(2.23)	(3.63)	(1.14)	(0.63)	(2.47)	(0.11)	0.54	(0.34)	3.09
Margin after Corp O/H	(3.36)	(9.34)	(7.40)	(6.89)	(6.65)	(5.90)	(4.77)	(6.54)	(3.90)	(3.36)	(5.76)	(3.16)	(2.63)	(4.02)	(0.34)
<b>MANSFIELD 2</b>															
Direct Margin	0.15	0.37	(0.52)	0.87	1.91	1.52	2.61	2.92	2.43	3.95	3.81	3.90	5.09	5.80	5.44
Margin after Corp O/H	(0.57)	(0.38)	(1.45)	0.08	1.09	0.63	1.79	2.07	1.37	3.06	2.82	2.83	4.10	4.74	4.12
<b>MANSFIELD 3</b>															
Direct Margin	2.11	3.06	2.85	3.18	8.91	9.19	10.30	12.38	13.83	14.08	16.43	18.13	19.37	23.46	25.46
Margin after Corp O/H	(0.33)	0.54	0.21	0.27	6.21	6.48	7.43	9.44	10.78	10.76	13.14	14.72	15.88	19.88	21.66
<b>BRUNOT ISLAND</b>															
Direct Margin	(1.50)	(0.67)	(0.68)	(0.48)	0.71	(1.74)	0.80	0.83	0.88	0.93	0.98	1.02	1.09	1.74	0.00
Margin after Corp O/H	(1.79)	(0.82)	(0.83)	(0.66)	0.55	(2.27)	0.61	0.64	0.68	0.71	0.79	0.84	0.89	1.61	0.00

**DUQUESNE LIGHT**

**Costs of Fossil Plants**

\$ in Millions

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	6.88% NPV@ '99
<b>SUMMARY FOR FOSSIL PLAN</b>														
<b>CHESWICK</b>														
Direct Margin	45.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43.4
Margin after Corp O/H	31.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(36.9)
<b>SAMMIS</b>														
Direct Margin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	26.4
Margin after Corp O/H	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.4
<b>EASTLAKE</b>														
Direct Margin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.8)
Margin after Corp O/H	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(15.7)
<b>ELRAMA</b>														
Direct Margin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(17.8)
Margin after Corp O/H	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(56.1)
<b>MANSFIELD 1</b>														
Direct Margin	4.42	2.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(22.6)
Margin after Corp O/H	0.88	(2.06)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(49.5)
<b>MANSFIELD 2</b>														
Direct Margin	7.32	7.05	7.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	26.9
Margin after Corp O/H	6.22	5.68	6.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17.5
<b>MANSFIELD 3</b>														
Direct Margin	26.54	28.81	30.27	30.43	32.53	33.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	146.5
Margin after Corp O/H	22.35	24.34	26.40	26.43	28.07	29.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00	112.1
<b>BRUNOT ISLAND</b>														
Direct Margin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.4
Margin after Corp O/H	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(1.4)

**DUQUESNE LIGHT**  
**Costs of Nuclear Plants**  
 \$ in Millions

	Fuel Forecast Provided By Doug Smith						Fuel Forecast Provided By Doug Smith											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>SUMMARY FOR NUCLEAR PLANTS</b>																		
<b>BEAVER VALLEY 1</b>																		
Direct Margin	(15.13)	(9.43)	(1.62)	(8.26)	0.45	9.08	1.67	3.01	14.03	6.47	6.98	19.86	12.13	15.01	30.29	20.09	36.35	0.00
Margin after Corp O/H	(21.95)	(15.68)	(6.87)	(15.00)	(6.24)	3.94	(5.35)	(4.55)	7.82	(1.60)	(1.35)	12.99	3.09	5.51	22.06	9.73	27.09	0.00
<b>BEAVER VALLEY 2</b>																		
Direct Margin	(6.14)	(2.14)	(4.31)	(3.60)	0.46	(1.38)	(1.01)	1.25	(0.50)	0.07	2.65	0.67	1.36	5.17	3.02	3.80	7.19	4.57
Margin after Corp O/H	(8.38)	(3.90)	(6.46)	(5.81)	(1.40)	(3.51)	(3.31)	(0.86)	(3.07)	(2.56)	0.32	(2.19)	(1.59)	2.50	(0.41)	0.40	3.89	1.18
<b>PERRY</b>																		
Direct Margin	(16.22)	(11.90)	(15.04)	(11.50)	(10.71)	(8.44)	(10.23)	(7.54)	(9.37)	(6.23)	(8.40)	(5.43)	(6.85)	(2.41)	(5.01)	(0.45)	(2.99)	0.68
Margin after Corp O/H	(20.61)	(15.86)	(19.64)	(15.75)	(15.25)	(12.52)	(14.95)	(12.17)	(14.62)	(11.09)	(13.87)	(10.61)	(12.68)	(8.02)	(11.65)	(6.47)	(10.41)	(5.25)

**DUQUESNE LIGHT**

**Costs of Nuclear Plan**

\$ in Millions

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
<b>SUMMARY FOR NUCLEAR P</b>											6.88%
BEAVER VALLEY 1											NPV @ '99
Direct Margin	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43.4
Margin after Corp O/H	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(25.9)
BEAVER VALLEY 2											
Direct Margin	4.78	8.24	5.23	5.46	9.31	5.96	6.23	10.52	6.79	7.09	10.2
Margin after Corp O/H	1.42	4.93	1.47	1.29	5.59	1.33	1.62	5.88	1.67	1.39	(23.2)
PERRY											
Direct Margin	(2.56)	1.38	(2.09)	2.14	(1.49)	2.96	(0.72)	3.84	0.11	4.79	(91.1)
Margin after Corp O/H	(8.98)	(5.33)	(9.19)	(4.99)	(9.63)	(4.87)	(9.19)	(5.26)	(9.18)	(4.64)	(157.7)

Stand Alone Base Case Pro-Forma Revenue Requirements

Total CTC Revenue Requirement: Return Of & On Stranded + Return Of Unamort. Deferred Tax Balance											
		Deferred Tax	\$ 653,012,000			Monthly Return:	Annual Return:				
		Stranded	\$ 1,501,948,000			0.9167%	11.000%				
Month	Monthly kwh	Stranded Beg. of Month	Deferred Tax Beg. of Month	Stranded Cost Revenue Requirement	Deferred Tax Revenue Req.	Total Monthly Revenue Req.	Def Tax %	Stranded %	Return %	Amort %	
1	1,098,149,355	\$ 1,501,948,000	\$ 653,012,000	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	50.99%	33.63%	
2	1,098,149,355	\$ 1,492,868,598	\$ 648,859,259	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	50.68%	33.94%	
3	1,098,149,355	\$ 1,483,705,968	\$ 644,706,517	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	50.37%	34.25%	
4	1,098,149,355	\$ 1,474,459,348	\$ 640,553,776	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	50.06%	34.56%	
5	1,098,149,355	\$ 1,465,127,966	\$ 636,401,035	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	49.74%	34.88%	
6	1,098,149,355	\$ 1,455,711,047	\$ 632,248,293	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	49.42%	35.20%	
7	1,098,149,355	\$ 1,446,207,807	\$ 628,095,552	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	49.10%	35.52%	
8	1,098,149,355	\$ 1,436,617,453	\$ 623,942,811	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	48.77%	35.85%	
9	1,098,149,355	\$ 1,426,939,187	\$ 619,790,069	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	48.45%	36.17%	
10	1,098,149,355	\$ 1,417,172,205	\$ 615,637,328	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	48.11%	36.51%	
11	1,098,149,355	\$ 1,407,315,691	\$ 611,484,587	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	47.78%	36.84%	
12	1,098,149,355	\$ 1,397,368,826	\$ 607,331,845	\$ 22,847,259	\$ 4,152,741	\$ 27,000,000	15.38%	84.62%	47.44%	37.18%	
13	1,116,405,607	\$ 1,387,330,782	\$ 603,179,104	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	47.84%	35.79%	
14	1,116,405,607	\$ 1,377,816,359	\$ 598,827,392	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	47.51%	36.12%	
15	1,116,405,607	\$ 1,368,214,721	\$ 594,475,681	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	47.18%	36.45%	
16	1,116,405,607	\$ 1,358,525,068	\$ 590,123,970	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	46.85%	36.78%	
17	1,116,405,607	\$ 1,348,746,592	\$ 585,772,258	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	46.51%	37.12%	
18	1,116,405,607	\$ 1,338,878,481	\$ 581,420,547	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	46.17%	37.46%	
19	1,116,405,607	\$ 1,328,919,912	\$ 577,068,836	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	45.82%	37.81%	
20	1,116,405,607	\$ 1,318,870,057	\$ 572,717,124	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	45.48%	38.15%	
21	1,116,405,607	\$ 1,308,728,077	\$ 568,365,413	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	45.13%	38.50%	
22	1,116,405,607	\$ 1,298,493,130	\$ 564,013,701	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	44.78%	38.85%	
23	1,116,405,607	\$ 1,288,164,362	\$ 559,661,990	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	44.42%	39.21%	
24	1,116,405,607	\$ 1,277,740,913	\$ 555,310,279	\$ 22,231,622	\$ 4,351,711	\$ 26,583,333	16.37%	83.63%	44.06%	39.57%	

Decomposition of Stranded Revenue Requirement

Month	Return	Recovery	Ending Balance
1	\$ 13,767,857	\$ 9,079,402	\$ 1,492,868,598
2	\$ 13,684,629	\$ 9,162,630	\$ 1,483,705,968
3	\$ 13,600,638	\$ 9,246,621	\$ 1,474,459,348
4	\$ 13,515,877	\$ 9,331,381	\$ 1,465,127,966
5	\$ 13,430,340	\$ 9,416,919	\$ 1,455,711,047
6	\$ 13,344,018	\$ 9,503,241	\$ 1,446,207,807
7	\$ 13,256,905	\$ 9,590,354	\$ 1,436,617,453
8	\$ 13,168,993	\$ 9,678,265	\$ 1,426,939,187
9	\$ 13,080,276	\$ 9,766,983	\$ 1,417,172,205
10	\$ 12,990,745	\$ 9,856,513	\$ 1,407,315,691
11	\$ 12,900,394	\$ 9,946,865	\$ 1,397,368,826
12	\$ 12,809,214	\$ 10,038,044	\$ 1,387,330,782
13	\$ 12,717,199	\$ 9,514,423	\$ 1,377,816,359
14	\$ 12,629,983	\$ 9,601,638	\$ 1,368,214,721
15	\$ 12,541,968	\$ 9,689,653	\$ 1,358,525,068
16	\$ 12,453,146	\$ 9,778,475	\$ 1,348,746,592
17	\$ 12,363,510	\$ 9,868,111	\$ 1,338,878,481
18	\$ 12,273,053	\$ 9,958,569	\$ 1,328,919,912
19	\$ 12,181,765	\$ 10,049,856	\$ 1,318,870,057
20	\$ 12,089,642	\$ 10,141,979	\$ 1,308,728,077
21	\$ 11,996,674	\$ 10,234,948	\$ 1,298,493,130
22	\$ 11,902,854	\$ 10,328,768	\$ 1,288,164,362
23	\$ 11,808,173	\$ 10,423,448	\$ 1,277,740,913
24	\$ 11,712,625	\$ 10,518,997	\$ 1,267,221,917

First Year Pilot Revenues

	Revenue Requirements		Allocation of Pilot Revenues
Monthly CTC	\$ 22,847,259	84.62%	\$ 25,229,461
Monthly Deferred Taxes	\$ 4,152,741	15.38%	\$ 4,585,733
<b>Total Monthly</b>	<b>\$ 27,000,000</b>	<b>100.00%</b>	<b>\$ 29,815,194</b>

Total CTC Revenue Requirement: Return Of & On Stranded Costs + Return Of Unamortized Cost Deferred Tax Balance  
 Total Monthly CTC Revenues based on Pilot Credit Average Residual CTC of \$0.0271504.

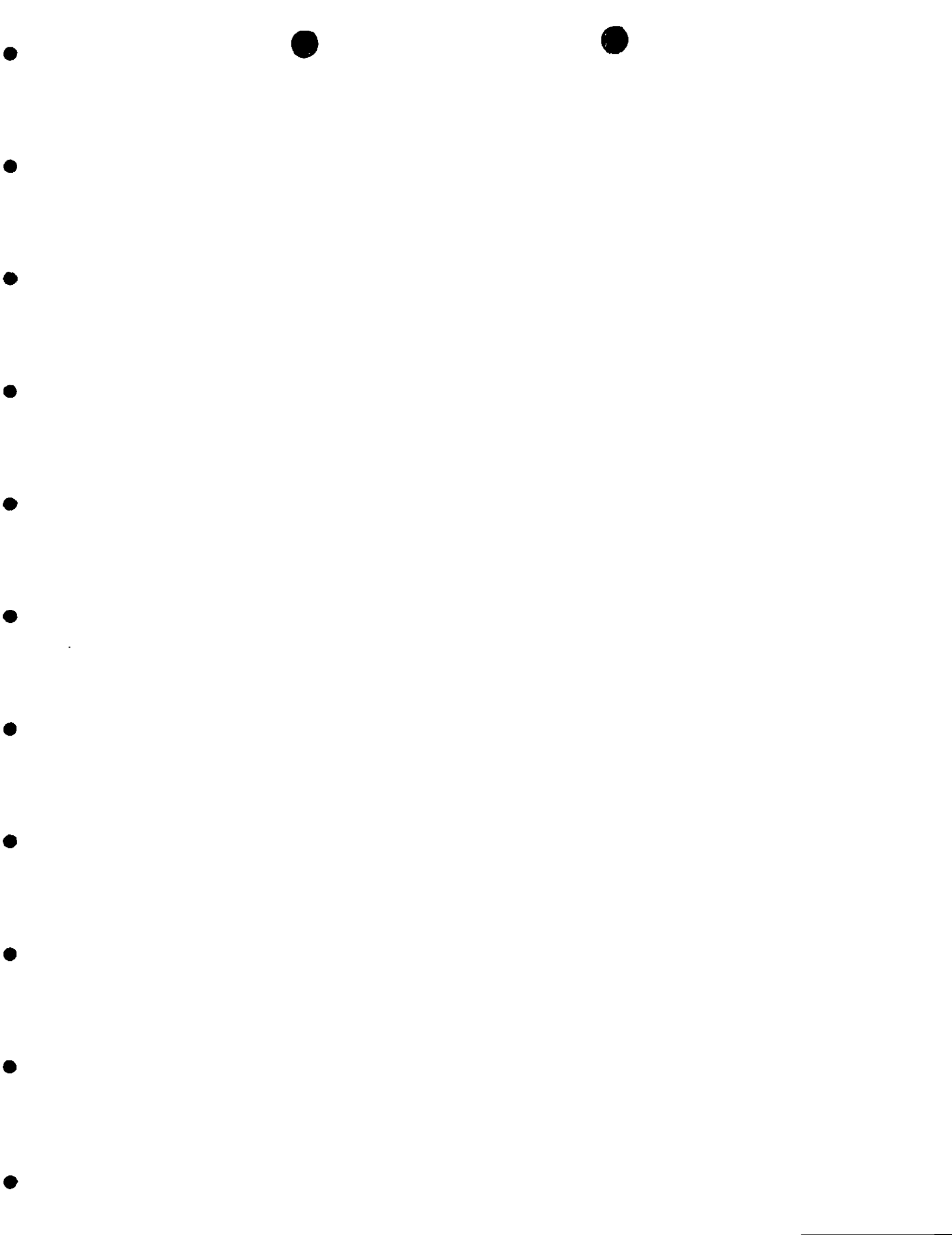
Month	Monthly kwh	Deferred Tax	Deferred Tax Beg. of Month	Stranded Cost Revenues	Deferred Tax Revenues	Total Monthly CTC Revenues	Def Tax %	Stranded %	Return %	Amort %
		Stranded Beg. of Month								
		Deferred Tax \$ 653,012,000								
		Stranded \$ 1,501,948,000								
1	1,098,149,355	\$ 1,501,948,000	\$ 653,012,000	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	50.99%	33.63%
2	1,098,149,355	\$ 1,491,921,921	\$ 648,426,267	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	50.68%	33.94%
3	1,098,149,355	\$ 1,481,803,936	\$ 643,840,534	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	50.37%	34.25%
4	1,098,149,355	\$ 1,471,593,203	\$ 639,254,801	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	50.06%	34.56%
5	1,098,149,355	\$ 1,461,288,872	\$ 634,669,068	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	49.74%	34.88%
6	1,098,149,355	\$ 1,450,890,084	\$ 630,083,335	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	49.42%	35.20%
7	1,098,149,355	\$ 1,440,395,974	\$ 625,497,602	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	49.10%	35.52%
8	1,098,149,355	\$ 1,429,805,668	\$ 620,911,869	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	48.77%	35.85%
9	1,098,149,355	\$ 1,419,118,284	\$ 616,326,136	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	48.45%	36.17%
10	1,098,149,355	\$ 1,408,332,933	\$ 611,740,403	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	48.11%	36.51%
11	1,098,149,355	\$ 1,397,448,716	\$ 607,154,670	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	47.78%	36.84%
12	1,098,149,355	\$ 1,386,464,726	\$ 602,568,937	\$ 25,229,461	\$ 4,585,733	\$ 29,815,194	15.38%	84.62%	47.44%	37.18%

Ending Deferred Tax Balance	\$ 597,983,204
Ending Stranded Balance	\$ 1,375,380,051

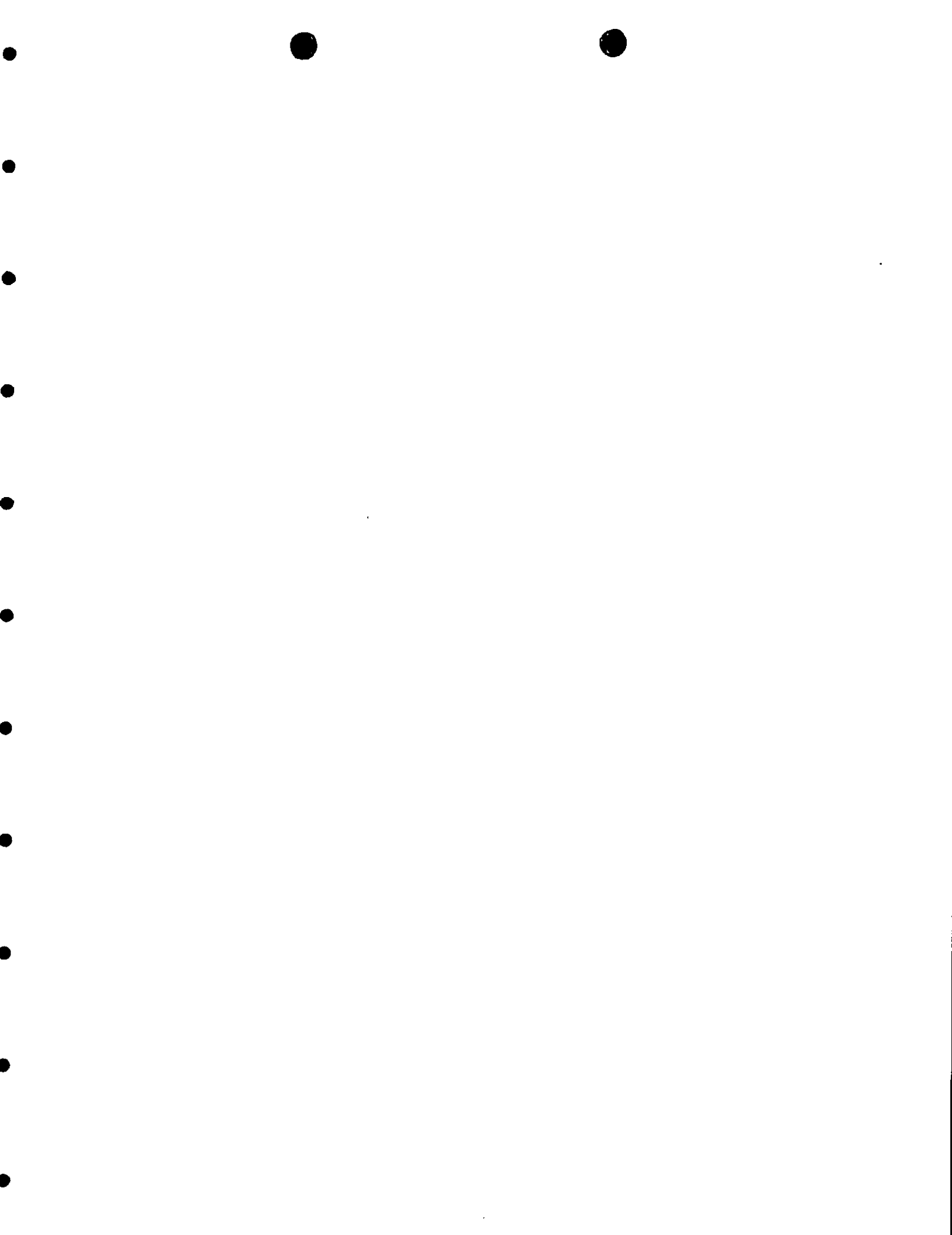
Decomposition of Pilot Revenues

Month	Return	Recovery	Ending Balance
1	\$ 15,203,382	\$ 10,026,079	\$ 1,491,921,921
2	\$ 15,111,477	\$ 10,117,985	\$ 1,481,803,936
3	\$ 15,018,728	\$ 10,210,733	\$ 1,471,593,203
4	\$ 14,925,130	\$ 10,304,331	\$ 1,461,288,872
5	\$ 14,830,674	\$ 10,398,788	\$ 1,450,890,084
6	\$ 14,735,351	\$ 10,494,110	\$ 1,440,395,974
7	\$ 14,639,155	\$ 10,590,306	\$ 1,429,805,668
8	\$ 14,542,078	\$ 10,687,384	\$ 1,419,118,284
9	\$ 14,444,110	\$ 10,785,351	\$ 1,408,332,933
10	\$ 14,345,244	\$ 10,884,217	\$ 1,397,448,716
11	\$ 14,245,472	\$ 10,983,989	\$ 1,386,464,726
12	\$ 14,144,786	\$ 11,084,676	\$ 1,375,380,051

Post-Auction CTC Calculation						
Total CTC Revenue Requirement: Return Of & On Stranded Costs + Return Of Unamortized Cost Deferred Tax Balance						
After Market Value Offset Credit and Deferred Tax Offset Credit						
Month	Monthly kwh	Deferred Tax		Stranded Cost Revenue Requirement	Monthly Return:	Annual Return:
		Stranded	Deferred Tax Beg. of Month		0.9167%	11.000%
		\$ 1,160,735,876	\$ 445,755,023			
13	1,116,405,607	\$ 1,160,735,876	\$ 445,755,023	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
14	1,116,405,607	\$ 1,149,380,228	\$ 441,167,417	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
15	1,116,405,607	\$ 1,137,920,486	\$ 436,579,811	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
16	1,116,405,607	\$ 1,126,355,697	\$ 431,992,205	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
17	1,116,405,607	\$ 1,114,684,898	\$ 427,404,598	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
18	1,116,405,607	\$ 1,102,907,116	\$ 422,816,992	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
19	1,116,405,607	\$ 1,091,021,371	\$ 418,229,386	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
20	1,116,405,607	\$ 1,079,026,673	\$ 413,641,780	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
21	1,116,405,607	\$ 1,066,922,024	\$ 409,054,174	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
22	1,116,405,607	\$ 1,054,706,416	\$ 404,466,567	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
23	1,116,405,607	\$ 1,042,378,831	\$ 399,878,961	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
24	1,116,405,607	\$ 1,029,938,244	\$ 395,291,355	\$ 21,995,727	\$ 4,587,606	\$ 26,583,333
25	1,134,773,443	\$ 1,017,383,618	\$ 390,703,749	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
26	1,134,773,443	\$ 1,005,507,505	\$ 385,905,878	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
27	1,134,773,443	\$ 993,522,527	\$ 381,108,008	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
28	1,134,773,443	\$ 981,427,688	\$ 376,310,137	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
29	1,134,773,443	\$ 969,221,979	\$ 371,512,267	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
30	1,134,773,443	\$ 956,904,384	\$ 366,714,396	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
31	1,134,773,443	\$ 944,473,878	\$ 361,916,525	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
32	1,134,773,443	\$ 931,929,426	\$ 357,118,655	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
33	1,134,773,443	\$ 919,269,983	\$ 352,320,784	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
34	1,134,773,443	\$ 906,494,495	\$ 347,522,914	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
35	1,134,773,443	\$ 893,601,899	\$ 342,725,043	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
36	1,134,773,443	\$ 880,591,120	\$ 337,927,173	\$ 21,202,129	\$ 4,797,871	\$ 26,000,000
37	1,153,788,363	\$ 867,461,076	\$ 333,129,302	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
38	1,153,788,363	\$ 855,021,601	\$ 328,103,837	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
39	1,153,788,363	\$ 842,468,097	\$ 323,078,372	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
40	1,153,788,363	\$ 829,799,519	\$ 318,052,906	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
41	1,153,788,363	\$ 817,014,813	\$ 313,027,441	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
42	1,153,788,363	\$ 804,112,914	\$ 308,001,976	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
43	1,153,788,363	\$ 791,092,747	\$ 302,976,511	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
44	1,153,788,363	\$ 777,953,229	\$ 297,951,045	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
45	1,153,788,363	\$ 764,693,265	\$ 292,925,580	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
46	1,153,788,363	\$ 751,311,751	\$ 287,900,115	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
47	1,153,788,363	\$ 737,807,574	\$ 282,874,650	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
48	1,153,788,363	\$ 724,179,608	\$ 277,849,185	\$ 20,391,202	\$ 5,025,465	\$ 25,416,667
49	1,173,544,032	\$ 710,426,720	\$ 272,823,719	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
50	1,173,544,032	\$ 697,436,804	\$ 267,575,880	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
51	1,173,544,032	\$ 684,327,814	\$ 262,328,040	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
52	1,173,544,032	\$ 671,098,658	\$ 257,080,201	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
53	1,173,544,032	\$ 657,748,236	\$ 251,832,362	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
54	1,173,544,032	\$ 644,275,434	\$ 246,584,522	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
55	1,173,544,032	\$ 630,679,132	\$ 241,336,683	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
56	1,173,544,032	\$ 616,958,196	\$ 236,088,843	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
57	1,173,544,032	\$ 603,111,486	\$ 230,841,004	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
58	1,173,544,032	\$ 589,137,847	\$ 225,593,164	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
59	1,173,544,032	\$ 575,036,117	\$ 220,345,325	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
60	1,173,544,032	\$ 560,805,121	\$ 215,097,485	\$ 19,502,161	\$ 5,247,839	\$ 24,750,000
61	1,194,296,868	\$ 546,443,674	\$ 209,849,646	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
62	1,194,296,868	\$ 532,857,950	\$ 204,361,104	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
63	1,194,296,868	\$ 519,147,690	\$ 198,872,562	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
64	1,194,296,868	\$ 505,311,753	\$ 193,384,020	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
65	1,194,296,868	\$ 491,348,987	\$ 187,895,478	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
66	1,194,296,868	\$ 477,258,228	\$ 182,406,936	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
67	1,194,296,868	\$ 463,038,304	\$ 176,918,394	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
68	1,194,296,868	\$ 448,688,031	\$ 171,429,852	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
69	1,194,296,868	\$ 434,206,214	\$ 165,941,310	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
70	1,194,296,868	\$ 419,591,646	\$ 160,452,768	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
71	1,194,296,868	\$ 404,843,112	\$ 154,964,225	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
72	1,194,296,868	\$ 389,959,383	\$ 149,475,683	\$ 18,594,791	\$ 5,488,542	\$ 24,083,333
73	1,215,630,037	\$ 374,939,220	\$ 143,987,141	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
74	1,215,630,037	\$ 360,945,998	\$ 138,333,973	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
75	1,215,630,037	\$ 346,824,505	\$ 132,680,804	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
76	1,215,630,037	\$ 332,573,565	\$ 127,027,636	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
77	1,215,630,037	\$ 318,191,992	\$ 121,374,468	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
78	1,215,630,037	\$ 303,678,587	\$ 115,721,299	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
79	1,215,630,037	\$ 289,032,143	\$ 110,068,131	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
80	1,215,630,037	\$ 274,251,440	\$ 104,414,962	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
81	1,215,630,037	\$ 259,335,247	\$ 98,761,794	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
82	1,215,630,037	\$ 244,282,322	\$ 93,108,625	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
83	1,215,630,037	\$ 229,091,412	\$ 87,455,457	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
84	1,215,630,037	\$ 213,761,252	\$ 81,802,289	\$ 17,430,165	\$ 5,653,168	\$ 23,083,333
85	1,237,187,874	\$ 198,290,565	\$ 76,149,120	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
86	1,237,187,874	\$ 182,638,469	\$ 69,826,777	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
87	1,237,187,874	\$ 166,842,895	\$ 63,502,434	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
88	1,237,187,874	\$ 150,902,928	\$ 57,179,092	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
89	1,237,187,874	\$ 134,816,041	\$ 50,855,749	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
90	1,237,187,874	\$ 118,582,094	\$ 44,532,406	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
91	1,237,187,874	\$ 102,199,337	\$ 38,209,063	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
92	1,237,187,874	\$ 85,666,404	\$ 31,885,720	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
93	1,237,187,874	\$ 68,981,919	\$ 25,562,377	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
94	1,237,187,874	\$ 52,144,493	\$ 19,239,034	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
95	1,237,187,874	\$ 35,152,724	\$ 12,915,692	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103
96	1,237,187,874	\$ 18,005,197	\$ 6,592,349	\$ 17,469,760	\$ 6,323,343	\$ 23,793,103








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 copy of Duquesne Light Company's Generation Auction Plan by first-class mail, upon the participants on the attached service list in accordance with Section 1.54 of the Commission's regulations.

Dated this 27<sup>th</sup> day of August, 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

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

James P. Dougherty  
David M. Kleppinger  
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

Angela T. Jones  
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

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

Kenneth L. Wiseman  
Robert M. Lamkin  
Andrews & Kurth, LLP  
1701 Pennsylvania Ave., N.W.  
Washington, D.C. 20006

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

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

David F. Boehm  
Michael I. Kurtz  
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 L. Feld  
[for Pa. Power Co.]  
FirstEnergy Corp.  
76 South Main Street  
Akron, OH 44308

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  
Malatesta, Hawke & McKeon, LLP  
100 N. Tenth Street  
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  
Janet L. Miller  
Todd S. Stewart  
Malatesta, Hawke & McKeon, LLP  
100 N. Tenth Street  
P. O. Box 1778  
Harrisburg, PA 17101

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

Roger E. Clark  
The Environmentalists  
905 Denston Drive  
Andler, PA 19002-3901

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  
212 Locust St., Suite 300  
Harrisburg, PA 17101

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  
Gordon J. Smith  
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  
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

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

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

Donald A. Kaplan  
Lisa M. Helpert  
Preston, Gates, Ellis & Rouvelas  
Meeds LLP  
1735 New York Ave., N.W., Ste. 500  
Washington, D.C. 20006-4759

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

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

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

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

Lawrence E. Moncrief  
1364 Silverton Avenue  
Pittsburgh, PA 15206

Douglas C. Smith  
La Capra Associates  
333 Washington Street  
Boston, MA 02108