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September 18, 1998

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HAND DELIVERED

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

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

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SECRETARY'S BUREAU

Dear Secretary McNulty:

Enclosed please find the original plus nine copies of the Office of Small Business Advocate's Comments on the Second Compliance Filing of Duquesne Light Company for filing in the above captioned matter.

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

Sincerely,

Angela T. Jones

Angela T. Jones
Assistant Small Business Advocate

Enclosures

cc: Cheryl Walker Davis, Director
Office of Special Assistants

Mr. Brian Kalcic

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
98 SEP 18 11:13:10

PA.P.U.C.
SECRETARY'S BUREAU

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

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OFFICE OF SMALL BUSINESS ADVOCATE
COMMENTS ON THE SECOND COMPLIANCE FILING OF
DUQUESNE LIGHT COMPANY

DOCKETED
SEP 22 1998

By Opinion and Order in the Application to Approve Restructuring Plan Pursuant to 66 Pa. C.S. § 2806(d), Docket No. R-00974104, entered on August 13, 1998 ("First Compliance Order"), the Pennsylvania Public Utility Commission directed Duquesne Light Company ("Duquesne" or "Company") to submit revised stand-alone case and merged case¹ compliance filings on or before September 12, 1998.² Duquesne filed its Second Compliance Filing on September 11, 1998. Pursuant to Ordering Paragraph 5 of the First Compliance Order, the Office of Small Business Advocate ("OSBA") files the following comments relative to the Company's Second Compliance Filing.

I. **Realized Rate of Return in Establishing Transmission and Distribution Rates for Unbundled Tariffs**

Duquesne avers that its transmission and distribution (T&D) rates have been developed on the basis of 1996 test year volumes. Second Compliance Filing at 3-4. The Company provides Appendix A to its Second Compliance Filing to

1

Duquesne is no longer petitioning for a merged case scenario since it is unaware of any facts that would suggest a consummation of the merger of the Company's parent, DQE, and Allegheny Energy. Application to Approve Restructuring Plan Pursuant to 66 Pa. C.S. § 2806(d), Docket No. R-00974104 (2nd Compliance Filing) at 1.

2

First Compliance Order, Ordering ¶4, at 57.

support its unbundled T&D rates. Id at 3. The OSBA notes that Schedule A of Appendix A reflects a (PA PUC jurisdictional) distribution rate of return of 9.37%. This rate of return is not in compliance with the First Compliance Order.

The Commission states in its First Compliance Order, that "OCA believe[d]... the Company was directed to determine the rate of return which was realized for T&D service for the 1996 test year, and unbundled the T&D rates from generation based upon the realized rate of return of 9.03%³ (Exhibit JAL-1C Revised - Response to OSBA-2-24)." First Compliance Order at 10. In the First Compliance Filing, the Company erroneously used class rates of return from its 1988 cost of service study to unbundle rates. However, the Commission affirmed that "[i]t is clear ... that [the Commission] intended the use of the 1996 cost of service study ... rather than [the 1988 cost of service study]. The Company is directed to comply with the Order and use the 1996 data." Id at 11.

The calculation shown in Schedule A of Appendix A to the Second Compliance Filing arrives at a total distribution rate of return of 9.37% which is not the overall system average realized rate of return of 8.86% (or even 9.03%), but rather the rate of return for the unbundled distribution component only. In essence, by applying the overall realized class rates of return from its 1996 cost-of-service study to just the distribution component, Duquesne would realize a higher rate of return on distribution plant than generation plant (Since the Company's overall realized system average rate of return is only 8.86%, the implicit weighted average return on generation must be lower than 8.86%). Stated differently, Duquesne's current bundled distribution rate is lower than the Company's proposed unbundled distribution rate.

3

Even this figure is incorrect as OSBA witness, Mr. Kalcic illustrates through OSBA Exhibit No. 1, Schedule BK-2 (attached for convenience). The correct rate of return figure is 8.86%.

Duquesne's unbundling approach would achieve an increased rate of return for the Company,⁴ and would shift costs to ratepayers since the total charges for non-generation services would exceed the non-generation charges that were applicable as of the enactment date of the Competition Act.⁵ Clearly, this approach is prohibited.

Moreover, this method would provide the same effect that the Commission has already considered and rejected in the Opinion and Order⁶ to this proceeding where the Commission stated:

Duquesne's approach would establish an increased opportunity to achieve the authorized rate of return on T&D while essentially reducing the authorized rate of return of generation. The Recommended Decision correctly holds that, on day one after implementation of new rates as approved by this Commission, a utility begins earning "realized" or "earned" rate of return and not "required" rate of return.

Furthermore, in the Stipulation in Partial Settlement with respect to the Petition of UGI Utilities, Inc. - Electric Division (UGI) et al., ("Petition of UGI") Docket No. R-00973975, signed May 21, 1998, it was found that the initial unbundled T&D rates reflected a substantially lower rate of return than the generation component. T&D rates were subsequently adjusted to equalize the

4

In order to correct Duquesne's Second Compliance Filing, the class returns shown in Schedule A of Appendix A must be scaled back across-the-board until the overall distribution return equates to the system average realized return in 1996. Since the generation credit in the stand alone case is tied to the pilot rate, reducing Duquesne's unbundled T&D rates per the above would result in ratepayers being credited with a higher CTC.

5

Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. § 2804(4)(I)(B).

6

Application to Approve Restructuring Plan Pursuant to 66 Pa. C.S. § 2806(d), Docket No. R-00974104, entered May 29, 1998, at 40-41.


returns across UGI's generation, transmission and distribution functions.⁷ This approach maintained the cost of service for non-generation at the same levels that existed prior to the enactment of the Competition Act; and thus, followed the mandates of the Competition Act.

While the OSBA recognizes that the above agreement is not precedent because it was in fact a Stipulation in Partial Settlement between the parties, it is certainly persuasive since the Commission did implicitly adopt this approach as part of its Order when it ruled that the Stipulation in Partial Settlement was reasonable and in the public interest.⁸

II. Conclusion

On the basis of the foregoing, the Office of Small Business Advocate respectfully requests that the Commission direct Duquesne to use a realized rate of return of 8.86% when determining its unbundled T&D rates. In the alternative, given the OCA's 1996 realized rate of return figure of 9.03%⁹, the Office of Small Business Advocate respectfully requests that the Commission direct Duquesne to use a realized rate of return of no more than 9.03% in its unbundled T&D rates.

Respectfully submitted,


Angela T. Jones
Assistant Small Business Advocate

Dated: September 18, 1998

7

See, Petition of UGI, UGI Statement No. 1-R at 3-4.

8

See Petition of UGI Utilities, Inc. - Electric Division, et al., Docket No. R-00973975, Opinion and Order entered on June 19, 1998, ordering ¶ 3.

9

See page 10 of the Commission's First Compliance Order.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Application of Duquesne :
Light Company For Approval :
Of Its Restructuring Plan :
Under Section 2806 Of The :
Public Utility Code :

Docket No. ^{PA P.U.C.} E-86576-102
SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Comments on the Second Compliance Filing of Duquesne Light Company on behalf of the Office of Small Business Advocate by first class mail (unless otherwise indicated) upon the persons addressed below:

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Date: September 18, 1998



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VIA FEDERAL EXPRESS

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SECRETARY'S BUREAU

Mr. James McNulty
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**Re: Comments of Strategic Energy Ltd. ("SEL") on the
Duquesne Light Revised Compliance Filing - Docket No. R-00974104**

Dear Secretary McNulty:

Attached is an original and nine copies of Strategic Energy Ltd.'s ("SEL's") comments on the Supplier Tariff contained in the Second Compliance Filing of Duquesne Light Company Regarding Stand-Alone Restructuring Plan.

Sincerely,

Joseph Kubacki, Jr., Esq.
PA Attorney I.D. - 27445

JK/kmg
Enclosure

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

Duquesne Light Company
Proposed Supplier Tariff portion of its
Revised Compliance Filing Under
Restructuring Final Order.

Docket No. R-00974104

STRATEGIC ENERGY LTD.

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COMMENTS

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SEP 22 1998

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Dated: September 18, 1998

1

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A. Scheduling of EGS Loads

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B. Consumption Energy Imbalance

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C. Imbalance Penalties

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D. Credit Requirements

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E. Potential Charges for Data Processing Costs

7

F. Duquesne Reimbursement to EGS for Customer Payments

1 **A. Scheduling of EGS Loads**

2 In the Public Utility Commission's ("Commission") Opinion and Order on
3 Duquesne's Compliance Filing, the Commission stated "we do not believe that SEL has
4 established that one hour-ahead scheduling would be feasible on the Duquesne system",
5 but strongly encouraged the parties to work to establish the one hour-ahead scheduling
6 protocol. (*Opinion and Order on Rule 6.4.2 – Procedure for Forecasting.*) SEL believes
7 that one hour-ahead scheduling is feasible on the Duquesne system considering that it is
8 done on the PJM system, which is more complicated in that it encompasses several
9 utilities. It did not seem necessary, therefore, to present additional evidence that hour-
10 ahead scheduling is feasible on Duquesne's system.

11 Duquesne's Revised Compliance Filing states (*Page 7, Section B.2.*) that
12 "Duquesne convened a 'Supplier Tariff Conference' on Thursday, August 27, 1998 to
13 further address these issues" where Duquesne addressed the issues of Credit
14 Requirements, Bad Credit, and the function of a Scheduling Coordinator. Although
15 several EGSs present at the meeting expressed a desire to address additional issues,
16 including Forecasting, Duquesne refused to discuss them. Duquesne seemed to disregard
17 completely the Commission's encouragement to work with the other parties to establish
18 hour-ahead scheduling.

19 As for demonstrating the feasibility of hour-ahead scheduling, beyond the PJM
20 example, there is currently an hourly market for wholesale power in all regions of the
21 United States. The transactions in this bilateral, over-the-counter market are

1 accommodated by schedules effected immediately after the close of each transaction. If a
2 party to such a transaction can reserve necessary transmission and submit required NERC
3 tags, then a Control Area Operator can accept the schedule with sufficient notice.

4 **Proposed Alternative**

5 SEL suggests that Duquesne provide forecasts that EGSs can use as guidelines for
6 determining the appropriate amounts of power to deliver into Duquesne's control area on
7 an hour-by-hour basis. The ability to modify schedules up to 20 minutes before each
8 hour allows EGSs to manage their load and forecasting inefficiencies more effectively
9 and reduces the EDC's responsibility to balance an EGS's supply and demand. This is
10 extremely important considering the extreme volatility of market pricing experienced
11 during the summer of 1998. Since Duquesne currently accommodates hour-ahead
12 schedules for wholesale counterparties, it should be able to do so for retail suppliers.

13 SEL requests that the Commission direct Duquesne to provide its forecast before
14 7:00 A.M. the day prior to the day to which the forecast applies. EGSs then can submit
15 schedules of power deliveries to Duquesne by 1:00 P.M. with the option to modify those
16 schedules up to twenty minutes before each hour. This is consistent with how the
17 wholesale markets for power currently operates.

18 **Consumption Energy Imbalance**

19 The Commission ordered Duquesne to release to the EGS Duquesne's
20 methodology, algorithms and data used to calculate consumption energy imbalance.

1 Duquesne revised its Supplier Tariff to add: “The data used to calculate Consumption
2 Energy Imbalance for each EGS will be made available upon request.” Simply providing
3 the data is insufficient. The EGS has the challenge to estimate, in advance, the
4 consumption that Duquesne will estimate¹ for each hour after Duquesne has complete
5 meter read information. Even with the methodology, algorithms and data, it will be
6 difficult for an EGS to estimate what Duquesne’s historical consumption estimate will be.
7 Therefore, SEL recommends that the Commission again direct Duquesne to provide its
8 methodology and algorithms in addition to the data.

9 **B. Imbalance Penalties**

10 In the Commission’s Opinion and Order (*Opinion and Order 5. Consumption*
11 *Energy Imbalance.*) the Commission approved Duquesne’s use of the OATT protocol and
12 stated that SEL had offered no alternative to utilizing this procedure. SEL is offering an
13 alternative in these comments and requests that the Commission reconsider its approval
14 of the OATT protocol for several reasons.

15 **1. The Imbalance Bandwidth is Too Narrow**

16 In requests for reconsideration of FERC’s Order 888, several small utilities
17 suggested that the 1.5% bandwidth imposes obligations on the transmission customer that

¹ For customers with meters that are not read hourly, Duquesne must estimate the historical consumption hour-by-hour for the period between meter reads. There is great potential for Duquesne’s estimate to be inaccurate, not due to a lack of competence, but because the problem is impossible to solve with great accuracy. However, EGSs can avoid Consumption Imbalance penalties by matching supply deliveries to Duquesne’s historical consumption estimate, and these supply deliveries must be made in advance of having actual meter-read information.

1 the transmission provider does not impose on itself.² FERC rejected this argument
2 stating:

3
4 We do not agree with APPA that the bandwidth imposes an obligation on the
5 transmission customer that the transmission provider does not impose on itself.
6 The Final Rule treats all wholesale customers comparably. The transmission
7 provider must also use its pro forma tariff and apply the same bandwidth for sales
8 to its **wholesale** customers. [Emphasis added.]³
9

10 SEL emphasizes that Duquesne must apply the same bandwidth for sales to its
11 wholesale customers because matching generation supplies to wholesale sales is
12 relatively trivial compared with matching supplies to an aggregation of retail customers.
13 It is important to distinguish retail aggregation from wholesale sales because the problem
14 of determining actual usage accurately is nearly impossible, let alone forecasting usage
15 accurately.

16 There should be little if any imbalances for simple transfers of a block of power
17 from one control area to another. Utilities enter their transaction schedules into an
18 Energy Management System computer, and Automatic Generation Control equipment
19 does the balancing. No estimating for the next hour is required. Supplying a wholesale
20 utility, such as a municipal utility (“muni”) or a cooperative (co-op), within a control area
21 is more difficult because of the challenge of estimating consumption from one hour to the
22 next. A muni or co-op, however, can easily determine its total consumption on a real-time
23 basis by dynamically metering the points where it interconnects with its control area, and

² FERC Docket Nos. RM95-8-001 and RM94-7-002, FERC Order 888A, Page 167, bottom of page.

³ Ibid. Page 171, fourth paragraph.

1 the best indicator of what the consumption will be in an hour is the consumption in the
2 previous hour. The muni or co-op can employ statistical methods to estimate next-hour
3 usage relatively accurately, although achieving the 98.5% accuracy required by the 1.5%
4 deviation bandwidth is quite an accomplishment.

5 Retail aggregators face a challenge that is not faced by other wholesale
6 purchasers, and which likely were not considered by FERC in determining that a 1.5%
7 bandwidth is adequate. It is impossible for retail aggregators to determine the amount of
8 power that its customers are consuming at any point in time without dynamically
9 metering each customer individually, and such metering is physically impossible and will
10 likely always be financially infeasible. In SEL's analysis, without dynamic metering of
11 all customers, the best forecasts will likely be 85%-90% accurate⁴ *on average over a*
12 *month*, and aggregate hourly projections will vary from actual usage by anywhere
13 between 0% to 40%, and possibly even higher. Because a 40% bandwidth may be of
14 little benefit, SEL suggests an alternative that eliminates the need for a bandwidth of the
15 type FERC envisions.

16 2. FERC Is Not The Appropriate Venue to Facilitate Retail Choice

17 In Pennsylvania

⁴ SEL used auto-regressive moving average time-series analysis and corrected for temperature, the rate of change of temperature, humidity, the rate of change of humidity, pressure and the rate of change of pressure. Using historical weather information as we did is the same as having perfect weather forecasts for each hour of the year. Our best results produced accuracies that averaged approximately 96%. Without hourly consumption information, we would not be able to use time-series analysis techniques, greatly reducing expected accuracy. Furthermore, real consumption forecasts are subject to inaccuracies in real weather forecasts.

1 The imbalances between EDCs and EGSs are estimated based on factors outlined
2 in the EDC Supplier Tariffs, which are under the jurisdiction of the states. The supplier
3 tariffs can be implemented to eliminate imbalances as FERC knows them by using
4 automatic balancing provisions, as does West Penn's as well as those of the PJM utilities.
5 Duquesne and Penn Power both have proposed that the retail aggregators should be
6 subject to the same imbalance bandwidths and charges/penalties as other wholesale
7 purchasers that face much simpler forecasting problems. If the Commission allows EDCs
8 to charge for imbalances according to their OATTs, then the only recourse of EGSs
9 would be to petition FERC to create a new category of imbalance bandwidths and charges
10 that would facilitate retail choice in western Pennsylvania. Such a prospect seems
11 unlikely. SEL suspects that FERC would defer this issue to the states. This issue could
12 be resolved easily if the Commission would standardize the implementation of Imbalance
13 Charges across the state and eliminate penalties such as those in Duquesne's OATT⁵.

14 **3. EDCs Should Not Receive Windfall Profits By Operating A**
15 **Control Area**

16 Duquesne is likely to profit by providing imbalance service even if no service is
17 provided. This is best illustrated by an example: Suppose Duquesne's system lambda is
18 \$30, one aggregator's forecast is 10 MW too high, and another's forecast is 10 MW too
19 low. Duquesne gives \$27 per MWh to the aggregator that oversupplied and charges \$33
20 per MWh to the one that under-supplied, netting \$600 for nothing. If this were an off-

⁵ Duquesne's OATT specifies charges 110% of lambda for under-supply, and provides 90% of lambda for over-supply. **Add to this.**

1 peak hour, Duquesne would only give \$21 to the aggregator that oversupplies, and would
2 net \$900. A better solution is to have Duquesne transact for imbalances at \$30, its
3 lambda, whether imbalances are positive or negative. Then, if an aggregator's forecast is
4 low, it pay's Duquesne's cost to supply the difference, which is all an EDC deserves.

5 **Proposed Alternative 1**

6 SEL suggests that the Commission implement the Supplier Tariff prepared by
7 MAPSA that is adapted from the PP&L Supplier Tariff and modified for use in ECAR
8 instead of in PJM. This tariff should be used with the substitution of Duquesne for West
9 Penn, and addresses the imbalance issue. In addition, using this tariff standardizes
10 interaction between EDCs and EGSs as much as possible by using most of the provisions
11 in the PJM utilities Supplier Tariffs.

12

13 **Proposed Alternative 2**

14 SEL suggests that the charge for under-supplying in Duquesne should be
15 Duquesne's system lambda, or Duquesne's hourly out-of-pocket cost. West Penn has
16 proposed to balance at the hourly marginal price of its control area. In PJM, balancing is
17 at the hourly Locational Marginal Price ("LMP"). If this alternative is adopted for
18 Duquesne, however, SEL also suggests that Duquesne's hourly lambda or cost be
19 monitored. This is necessary because we believe that there is currently no standard
20 method to calculate system-lambda, and that utilities have great discretion as to what to

1 include in the calculation of lambda. Finally, SEL proposes that the hourly lambda/cost
2 be posted electronically and updated every five minutes as PJM does with its LMP.
3 Since hourly forecasts of usage can easily be off by 40% or more, the EGS should be able
4 to protect itself should lambda/cost increase substantially by scheduling additional power
5 into Duquesne.

6 Because it is impossible to accurately predict the consumption of an aggregate of
7 retail customers that are not, and cannot be, metered in real-time, the Commission should
8 adopt this alternative to FERC OATT provisions for imbalance charges/penalties.

9 **Note Regarding System Lambda and Imbalance Charges**

10 Duquesne defines System Lambda as “the out-of-pocket costs, measured in
11 dollars per megawatt-hour, associated with producing the last MWH of energy on the
12 Transmission Provider’s system in a given hour, whether that energy is produced by
13 owned generation or the purchase of power from a third party.”⁶ Regardless of the
14 Commission’s resolution of Duquesne’s Imbalance charges/penalties, the determination
15 of Duquesne’s System Lambda must be addressed. If Duquesne’s System Lambda is the
16 basis for Duquesne to settle Imbalances, there must be a mechanism to verify that
17 Duquesne’s calculation of System Lambda is correct and fair.

18 EGSs participating in the retail choice pilot in Duquesne’s territory currently pay
19 Duquesne for supply based on Duquesne’s calculation of System Lambda for every hour
20 when the EGS supply is insufficient to cover its customers’ consumption. However,

⁶ Duquesne OATT Schedule 4 – Energy Imbalance Service, third paragraph.

1 there is no way for EGSs to verify or challenge Duquesne's calculations. A hypothetical
2 example illustrates why this concerns SEL. Suppose that Duquesne expects its system
3 load and reserve requirements to be 500 MW lower than its available capacity next week.
4 Duquesne then sells 500 MW in the week-ahead market, but the actual load is 100 MW
5 greater than Duquesne expected, and Duquesne ends up buying. The EGS, according to
6 Duquesne's OATT protocol, ends up paying 110% of whatever Duquesne paid for the
7 power. If Duquesne's purchase costs \$4,000 the EGS pays Duquesne \$4,400. The EGS
8 receives no benefit from Duquesne selling its supply forward, yet pays the price of
9 Duquesne mismanaging its supply.

10 The example above represents inequity even if Duquesne makes an honest
11 mistake in managing its supply. However, EGS may also be subject to intentional
12 manipulation of Duquesne's System Lambda. Since Duquesne defines System Lambda
13 to be the cost of the last megawatt produced or purchased, Duquesne could purchase 1
14 MW for a year at \$10,000 per MWh to set its System Lambda high. Although this
15 example may seem extreme, it illustrates a real possibility using Duquesne's definition of
16 System Lambda. A more likely abuse for Duquesne to arbitrarily set Lambda at levels
17 that are higher than it could possibly justify just because nobody can see what is taking
18 place.

19 SEL suggests that the Commission allow EGSs to audit and challenge Duquesne's
20 calculation of System Lambda or monitor Duquesne's calculations itself through
21 Commission audits of Duquesne's calculations. If the Commission rejects this proposal,
22 then the Commission should at least force Duquesne to post its System Lambda

1 calculation. This way, EGSs can protect themselves against imbalance charges that are
2 based on extremely high-cost purchases as occurred on June 22, 1998, when Duquesne
3 billed for Imbalances based on a System Lambda that reached a level of \$4,000 per
4 MWh. Such posting would allow EGSs to deliver more power into Duquesne's system
5 than Duquesne's forecast indicates in case Duquesne's forecast turns out to be too low.
6 With this solution, an EGS has the option to avoid receiving a bill for imbalance charges
7 45 days after the end of the month indicating (i) that it purchased power through
8 Duquesne at astronomical prices and (ii) that the EGS lost money that it could have
9 avoided if only the EGS was aware that Duquesne was paying so much for power at the
10 time of Duquesne's purchase.

11 **D. Credit Requirements**

12 The Commission directed Duquesne to conduct meetings with interested parties to
13 address credit issues in its Opinion and Order (*Opinion and Order 6. Credit*
14 *Requirements*) and stated that the Commission "expects that the parties will work
15 together to resolve as many of the outstanding matters as possible and that the
16 Company's next compliance tariff will reflect the agreement among the parties on these
17 issues." Clearly, the changes Duquesne made related to credit issues are not the result of
18 the agreement of the parties. Instead of requiring a letter of credit from EGSs with bad
19 credit, Duquesne has modified its Supplier Tariff to require a letter of credit from all
20 suppliers. This is an unwarranted requirement. EGSs already post security to their
21 suppliers and the state and to the EDCs if required by the EDC OATT. Using the
22 Supplier Tariff as proposed by Duquesne, the imbalance charge is not covered by the

1 Supplier Tariff, so Duquesne's example illustrating potential liability is incorrect. Under
2 the Supplier Tariff, Duquesne should only be able to require credit for charges that result
3 from the Supplier Tariff. By using the potential OATT imbalance charges, Duquesne
4 attempts to apply credit requirements of EGSs that Duquesne does not apply to itself, or
5 any purchaser of transmission services that is not an EGS in its service territory. Such
6 discriminatory requirements of EGSs should not be allowed.

7 **E. Potential Charges for Data Processing Costs**

8 Duquesne proposes new language in Rule 4.14(e) notifying EGSs that it will
9 assess processing costs against the EGS for sending Duquesne "the same erroneous data
10 more than once." Duquesne does not specify the amount of the charge in its tariff, nor
11 does it notify EGSs that EGSs can assess similar charges against the sending EDC for
12 sending erroneous data more than once to the EGS. If Duquesne has the right, the EGS
13 should have the same right. Even if this is corrected, however, the tariff does not explain
14 who will determine if a violation has occurred or how it will make such determination.
15 SEL suggests that such determination should not be at the sole discretion of one party,
16 but should go through a dispute resolution process if charges are challenged.

17 **F. Duquesne Reimbursement to EGS for Customer Payments**

18 Duquesne modified its Rule 12.1.5 to indicate that Duquesne shall reimburse the
19 EGS every two weeks for all energy charges, late fees, sales taxes, and any other taxes
20 and charges collected on behalf of the EGS to include the language "within twenty-five

1 days of receipt of payment from the Customer consistent with Section 2807 (c) (3) of the
2 Competition Act.” The language in the Competition Act, Section 2807 (c) (3) reads:

3 The electric distribution company shall not be required to forward payment to
4 entities providing services to customers, and on whose behalf the electric
5 distribution company is billing those customers, before the electric distribution
6 company has received-payment for those services from customers.

7 The only way that Duquesne’s proposed timeline for reimbursing EGSs is
8 consistent with the language in the Act is that Duquesne does not forward payment to
9 EGSs before receiving payment from Customers. The Act does not say that Duquesne
10 has as much as 25 days to forward Customer payments to EGSs. SEL requests that the
11 Commission direct Duquesne to forward Customer payments to EGSs each business day
12 for Customer payments received three business days prior unless an EGS agrees to
13 receive Customer payments less frequently. Allowing Duquesne to hold on to EGS cash
14 any longer than three days benefits Duquesne to the significant detriment of EGSs with
15 regard to EGS cash flow and float. Duquesne should have no difficulty determining the
16 amount to forward to each EGS once it has processed its Customer payments, and
17 Duquesne likely processes Customer payments as quickly as possible. Of course, the
18 Commission is likely in a position to verify that this is the case.

19

20 **End of Comments**

Certificate of Service

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the persons indicated below by First-Class Mail. Docket No. R-00974104.

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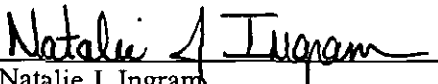
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DATE: September 18, 1998

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

DATE: September 21, 1998
SUBJECT: R-00974104, R-00974104C0001-C0002
PUC v. Duquesne Light Company
TO: Aggie Brewster, Supervisor
Docket Section
FROM: Norma R. Lewis, Scheduling Supervisor
Office of Administrative Law Judge

KJR

The past due scheduled action report indicates that an open entry for a hearing held on 12/19/97 exists for the above-captioned case. Hearing were scheduled beginning December 15 through and including December 19, 1997 before ALJ Corbett.

The hearing report or appearance sheet from the ALJ, indicated that no hearing was held on 12/19/97. No notice was prepared to cancel that hearing. Please consider this memo verification of the cancellation of December 19, 1997 hearing and remove the entry from the report.

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ORIGINAL

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

Dear Secretary McNulty:

Enclosed please find the original plus nine copies of an amended version of the Office of Small Business Advocate's Comments on the Second Compliance Filing of Duquesne Light Company for filing in the above captioned matter. An attachment was inadvertently omitted previously.

A copy of just the attachment to these Comments has been served today on all known parties in this proceeding. A Certificate of Service to that effect is enclosed.

Sincerely,

Angela T. Jones
Assistant Small Business Advocate

Enclosures

cc: Cheryl Walker Davis, Director
Office of Special Assistants

Mr. Brian Kalcic

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Attachment to the Comments on the Second Compliance Filing of Duquesne Light Company on behalf of the Office of Small Business Advocate by first class mail (unless otherwise indicated) upon the persons addressed below:

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ORIGINAL

September 21, 1998

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Room B-20, North Office Building
Harrisburg, PA 17120

VIA HAND DELIVERY

RE: Pennsylvania Public Utility Commission v. Duquesne Light Company; Docket No. R-00974104

Dear Secretary McNulty:

Enclosed for filing are the original and nine (9) copies of the Comments of the Duquesne Industrial Intervenors to the Revised Compliance Filing of Duquesne Light Company.

As evidenced by the attached certificate of service, all parties to this proceeding have been duly served. Please date stamp the extra copy of this transmittal letter and return it for our filing purposes.

DOCUMENT
FOLDER

Very truly yours,

MCNEES, WALLACE & NURICK

By *Pamela C. Polacek*

Pamela C. Polacek

Counsel to the Duquesne Industrial Intervenors

PCP:jag

Enclosures

- c: Cheryl Walker Davis, Office of Special Assistants (w/enc.) (via hand delivery)
Robert Bennett, Bureau of Fixed Utility Services (w/enc.) (via hand delivery)
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Commissioner David W. Rolka (w/enc.) (via hand delivery)
Commissioner Nora Mead Brownell (w/enc.) (via hand delivery)
Commissioner Aaron Wilson, Jr. (w/enc.) (via hand delivery)
Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET. AL.

v.

DUQUESNE LIGHT COMPANY

APPLICATION FOR APPROVAL OF ITS
RESTRUCTURING PLAN UNDER SECTION
2806 OF THE PUBLIC UTILITY CODE

ORIGINAL

DOCKET NO. R-00974104

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SECRETARY'S BUREAU

COMMENTS OF THE
DUQUESNE INDUSTRIAL INTERVENORS
TO THE REVISED COMPLIANCE FILING OF
DUQUESNE LIGHT COMPANY

BOC Gases
General Motors Corp.
J&L Specialty Steel, Inc.
LTV Steel Company, Inc.

Nabisco Inc.
Nova Chemicals, Inc.
USX Corporation - US Steel Group

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Dated: September 21, 1998

DOCKETED
SEP 22 1998

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I. INTRODUCTION

On May 29, 1998, the Pennsylvania Public Utility Commission ("PUC" or "Commission") issued an Opinion and Order in this proceeding approving, with modifications, Duquesne Light Company's ("Duquesne" or "Company") Restructuring Plan. Pennsylvania Public Utility Commission v. Duquesne Light Company, Docket No. R-00794104, Opinion and Order entered on May 29, 1998 (hereinafter, "Final Order"). The Final Order required Duquesne to submit a compliance filing incorporating all of the Commission's conclusions and directives on June 18, 1998.

The Company submitted a compliance filing by the deadline established in the Final Order addressing both the merger scenario and the stand-alone scenario (hereinafter, "Original Compliance Filing"). Many parties, including the Duquesne Industrial Intervenors ("DII"), submitted Comments on the Duquesne Original Compliance Filing highlighting numerous and pervasive flaws that existed in the Company's filing (hereinafter, "DII Comments"). Duquesne subsequently filed "Reply Comments" in the proceeding on July 6, 1998.

On August 13, 1998, the Commission issued an Opinion and Order resolving the issues raised in the Comments. Pennsylvania Public Utility Commission v. Duquesne Light Company, Docket No. P-00974104, Opinion and Order on Compliance Filing entered on August 13, 1998 (hereinafter, "Order on Compliance Filing"). The Order on Compliance Filing required Duquesne to submit a revised compliance filing by September 12, 1998. The Commission stated that the revised compliance filing should be based on the decisions in the Final Order as modified by the Order on Compliance Filing. Id. at 56. Duquesne was directed to "precisely

reflect the balanced consideration reflected in the Final Order as reconsidered, clarified, amended, and corrected by [the Order on Compliance Filing]." Id.

Duquesne submitted its revised filing on September 14, 1998 (hereinafter, "Revised Compliance Filing").¹ Prior to the submission of the Revised Compliance Filing, on August 28, 1998, the Company filed with the Commission the "Petition for Clarification and Reconsideration of Duquesne Light Company Regarding Stand-alone Restructuring Plan" (hereinafter, "Duquesne Petition for Reconsideration"). According to the Company, the Petition raised certain "computational issues where the Compliance Order either appears to include an inadvertent error or is ambiguous regarding the intended treatment of a cost or revenue item." Duquesne Petition for Reconsideration, p. 1. The Company stated its intention to "correct" these errors in its Revised Compliance Filing. Id. DII submitted an Answer in Opposition to the Duquesne Petition explaining that the alleged "inadvertent errors" in the Order on Compliance Filing were not "errors" but rather were the rejection by the Commission of the Duquesne positions on these issues. See Answer of Duquesne Industrial Intervenors in Opposition to the Petition for Clarification and Reconsideration of Duquesne Light Company Regarding Stand-Alone Restructuring Plan, submitted on September 8, 1998 (hereinafter "DII Answer") (incorporated herein by reference). The requests for "clarification" are in reality seeking "reconsideration." As explained in the DII Answer, the Company fails to meet the relevant standard for reconsideration of these issues and its Petition for Reconsideration consequently

¹Because the date specified in the Order on Compliance Filing was a Saturday, the Company's Revised Compliance Filing was received by the Commission and the parties, in hand, on Monday, September 14, 1998. Counsel for DII was e-mailed the tariff sheets and proofs of revenue on Friday, September 11, 1998.

must be rejected. However, because the Commission has not resolved the Petition for Reconsideration and the Company has included the inappropriate treatment of these items in its Revised Compliance Filing, DII will again address the issues in these Comments.

DII has been an active participant in this proceeding. DII members consume large amounts of electricity pursuant to tariffs, rules and riders provided by Duquesne, including Rates GL, L and HVPS, Riders 7, 8, and 20, and Rule 4 Contracts. Because electricity is a major production expense for many of the group members, DII concurs in the Commission's desire through this process to ensure that the electric consumers in this Commonwealth "will be well-positioned to begin and implement successfully the difficult task of moving expeditiously and effectively to a full competitive electric generation market." Order on Compliance Filing, p. 56. To this end, DII offers further comment on the Company's effort to embody the principles of the Electricity Generation Customer Choice and Competition Act (66 Pa. C.S. § 2801, et seq., hereinafter, "Chapter 28" or the "Act"), the Final Order, and the Order on Compliance Filing in the tariffs that will govern the ability of customers to access the competitive market during Duquesne's stranded cost recovery period. DII concentrates its Comments only on the flaws that exist in the current filing and does not attempt to reargue positions previously considered and rejected by the Commission with respect to Duquesne's stand-alone restructuring plan. Specifically, DII comments on flaws that appear to exist in the Company's distribution cost of service study ("COSS"), a change made by the Company in its provider of last resort responsibility to all customers, the level of energy cost rate ("ECR") rolled into Duquesne's base rates (and rate cap), the sales volume used by Duquesne in developing its transmission and distribution rate, and tariff and unbundling issues regarding Rule 4, and Riders 7, 8, 9 and 20.

II. COMMENTS

A. **The Commission Should Not Expend Resources Considering Issues Raised By The Company Regarding The Treatment Of Stranded Costs In The Divestiture Plan.**

In the Final Order, the Commission accepted the Company's proposal to divest its generation assets to determine the Company's stranded cost recovery if the merger with Allegheny Power System is not consummated. Final Order, at 79-80. Because this divestiture could not be performed prior to January 1, 1999, in order to establish unbundled rates for Duquesne's customers until a definitive stranded cost level (and yearly CTCs to ensure recovery of that stranded cost) can be established, the Commission decided that Duquesne should continue using the generation credits developed for the pilot program. Id. at 81-82. The CTC for each customer class until the divestiture occurs is the difference between the current bundled rate, less the transmission and distribution charges and the pilot customer participation credit.

Duquesne's Revised Compliance Filing makes assertions regarding the "correct calculation of deferred taxes and deferred fuel." See Revised Compliance Filing, Narrative, p. 4. These issues are only relevant if the Company is establishing a CTC based on a determined level of stranded cost recovery. Because the present Revised Compliance Filing does not contain CTCs based on a determined level of stranded cost recovery, the Commission does not need to expend resources considering these issues at this time. Duquesne has the opportunity to address (and have the Commission render a decision on) these issues in the divestiture plan. Id. at 81.

The divestiture comments are the appropriate vehicle for parties to respond. DII fully reserves its rights to respond to those, and other issues, at that time.²

B. The Company's Statements Regarding Later Submission Of A Revised Compliance Filing Addressing The Merger Scenario Prevents Customers From Planning Alternative Sources Of Supply In A Timely Manner.

The Company's Revised Compliance Filing addresses only the stand-alone scenario and not the merger scenario. Duquesne states that, in the event circumstances change prior to October 5, 1998, and consummation of the merger seems likely, the Company will "promptly submit the necessary tariffs and documents pertinent to the merger restructuring plan in a manner that appropriately implements the Compliance Order." *Id.* at 1-2.

Although DII understands the Company's position that, in its view, consummation of the merger is unlikely, DII is concerned that later submission of a revised merger compliance filing may detrimentally impact the development of a competitive market in the Duquesne service territory. Pursuant to the Commission's phase-in procedures, customers must have contracts with suppliers finalized by November 1, 1998, in order to be assured of delivery on January 1, 1999. Enrollment Procedures Applicable to Electric Distribution Companies and Electric

²It should be noted that the Commission has not addressed the correct treatment of "deferred taxes" under a divestiture scenario. The Commission included the so-called deferred taxes in the schedules calculating yearly CTC recovery under an administrative determination. See Final Order, Attachment C. The Commission rejected DII's arguments on this issue with respect to an administrative determination in the Order on Compliance Filing. Order on Compliance Filing, pp. 15-16. The Company and the parties never submitted testimony regarding this issue in the divestiture scenario because the company raised the proposal in rejoinder testimony. See Duquesne Statement No. 1-Rejoinder, Rejoinder Testimony of David D. Marshall. The Commission accepted the offer to divest with the express acknowledgment that issues would need to be addressed and resolved in divestiture plan submitted by the Company, including the ratemaking accounting for use of the proceeds. See Final Order, p. 81.

Suppliers During the Phased Implementation of Direct Access, Docket No. H-00960890F.00014, Secretarial Letter issued on June 26, 1998. At this point in time less than two months remain until that deadline. Customers are negotiating contracts based on the only information available (i.e., the pilot shopping credits that will be used if the merger is not consummated or the shopping credits in the Commission's Order on Compliance Filing that will be used if the merger is consummated). Submission of a merger scenario compliance filing that changes the shopping credits for customers may require renegotiation of these contracts. In the alternative, customers may be forced to delay contract execution until Duquesne makes up its mind regarding the merger. Duquesne's reservation of the opportunity to submit a revised compliance filing for the merger scenario inappropriately increases uncertainty for customers in the Company's service territory that are attempting to negotiate with alternative suppliers. This may lead to customer confusion and reluctance to participate in the market.

Moreover, to the extent the Company suddenly "decides" to submit a revised filing, the parties may not be in a position to immediately analyze and render comments on that revised filing. As the Commission is aware, many parties, attorneys, and consultants, are involved in all of the major restructuring proceedings in the Commonwealth. To the extent this additional filing comes without advanced notice and an adequate opportunity to comment, errors in the filing may not be detected that may have a detrimental impact on competition in the Duquesne service territory for the next eight years. All that the Commission and the parties have worked to accomplish over the last eighteen months may be diminished by an eleventh hour decision by Duquesne to submit a merger scenario compliance filing.

C. Inconsistencies Exist In Duquesne's Distribution Cost of Service Study That Indicate Potential Flaws Requiring Further Information and Analysis.

As part of the Revised Compliance Filing, Duquesne was required to correct pervasive flaws that existed in its calculation of transmission and distribution rates in the Original Compliance Filing. Specifically, Duquesne was required to correct errors in the calculation of its distribution revenue requirement, the sales volume used in the build-up of transmission and distribution rates, and the class rates of return used to establish rates. Order on Compliance Filing, pp. 5-7 & 9-11. The revised distribution COSS submitted by Duquesne in support of its proposed rates contains some apparent inconsistencies that may indicate flaws in the study.³ DII has requested from the Company, and is in the process of receiving, the workpapers and documentation supporting the COSS. This information is necessary to fully analyze the COSS. After receipt and analysis of this information, DII will inform the Commission by supplemental comments whether the explanation provided by the Company is acceptable.

DII offers here some general observations of apparent flaws in the distribution COSS. In support of these Comments, DII attaches an affidavit by Mr. Stephen Baron, DII's rate design witness in this proceeding. See Appendix A, Affidavit of Stephen Baron. As Mr. Baron explains, two significant anomalies are present in the COSS. First, the ratio between the Rate L and Rate HVPS distribution revenue requirement is vastly different from the ratio between the Rate L and Rate HVPS distribution rate bases. See id. at ¶¶ 7-8. As Mr. Baron explains, the

³It should be noted that the Company did not submit in testimony a COSS comparable to the one submitted in the Revised Compliance Filing because of the dispute among the parties over the appropriate class rates of return to be used in establishing transmission and distribution rates.

ratio for the revenue requirements is two-to-one, while the ratio for the rate base is approximately eight-to-one. Id. A difference of this magnitude may indicate flaws in the study.

Second, a problem appears to exist in the amount of income taxes allocated to Rates L and HVPS in the COSS. See id. at ¶ 9. Duquesne has assigned to Rate HVPS approximately three times the amount of income taxes that it assigned to Rate L. This appears to be a flaw based on the fact that Rate HVPS earns a negative return on equity for the Company, while Rate L earns a positive return. Id. In other words, Duquesne assigns to Rate HVPS more income tax responsibility even though the Company does not earn a profit from the distribution service provided to the class.⁴ This apparent inconsistency in the revised distribution COSS is not explained in the Revised Compliance Filing.

As aforementioned, DII requested the workpapers and analysis necessary to verify the accuracy of the COSS. Upon receipt of this information from the Company, DII will promptly analyze this issue and provide supplemental comments, as necessary, as soon as reasonably practicable to ensure the distribution rates in the filing are correct. DII requests and appreciates the Commission's consideration in these circumstances.

D. The Company's Changes in Its Duty to Provide Service As the Provider of Last Resort Are Unreasonable and Not Authorized By the Compliance Filing Order.

The Revised Compliance Filing makes a substantial change in the Company's obligation to provide to customers provider of last resort service at tariffed rates. This change was not

⁴This was not an issue addressed by DII in testimony in the proceeding because the Company's distribution COSS in the proceeding was based on a requested positive rate of return for each class, rather than the realized rates of return that included some classes producing negative returns for the Company.

authorized by the Order on Compliance Filing and is otherwise contrary to the Company's obligation to provide service at the capped tariff rates to customers that access competitive supply and then return to the Company or customers whose competitive supplier fails to deliver electricity. This change must be rejected.

Duquesne proposes to add the following language to its tariff to deal with its provider of last resort obligations to customers that access competitive supply:

For customers who elect to purchase their generation from an EGS, the customer is responsible for any other charges from the EGS. For reasonable periods of time in a month in which the supplier becomes unavailable or during which the customer has not chosen a supplier, the company will supply electricity at the above charges. However, this will not apply in instances where the Company supplies electricity when an EGS defaults on their contract with the customer.

See, Revised Compliance Filing, Proposed Tariff, pp. 59 & 63. This language replaces the following language from the Original Compliance Filing:

For customers who elect to purchase their generation from an EGS, the customer is responsible for any other charges from the EGS. Any month in which the supplier becomes unavailable or during which the customer has not chosen a supplier, the Company will supply electricity at the above charges.

This charge is neither authorized by the Order on Compliance Filing nor consistent with the Final Order's directive that all customers have the ability to access the competitive market and return to service from Duquesne at the applicable rate caps. The proposed language limits this ability to return to service at the tariff rates for only "reasonable periods of time in a month" and completely eliminates the ability to return to capped rates if the customer's supplier fails to deliver. This change is unreasonable, unwarranted and must be rejected. Duquesne must be directed to submit a further revised compliance filing returning to the original language.

E. The Company Inappropriately Used 1996 Sales Volumes in Developing Transmission and Distribution Rates.

One of the issues raised in Duquesne's Petition for Reconsideration was the appropriate year's sales volume to be used in developing transmission and distribution rates. See Duquesne Petition for Reconsideration, pp. 4-5. Despite two Commission pronouncements that the 1999 volumes developed by the OCA should be used, the Company insists in the Petition and in the Revised Compliance Filing that 1996 volumes be employed. See id.; see also Revised Compliance Filing, Narrative, pp. 3-4. As explained in DII's Answer in Opposition to the Duquesne Petition, the Company has not met the applicable standard for the Commission to grant a Petition for Reconsideration of this issue and the request should be rejected. See DII Answer, pp. 8-10. Consequently, the Company should be directed to submit a further revised compliance filing using the 1999 sales volumes to develop the transmission and distribution rates.

As DII explains in its Answer, the Commission addressed the correct year's sales volumes to be used in calculating transmission and distribution rates in two of its orders. In Attachment E to the Final Order, the Commission specifically used the OCA's retail sales for 1999 in performing the buildup of Duquesne's transmission and distribution rate See Final Order, Attachment E, line 4. In the Order on Compliance Filing, the Commission reiterated and reaffirmed its specific decision to use 1999 sales volumes to determine transmission and distribution rates, stating:

While in our May 29, 1998, Order, we adopted the ALJ's recommendation to employ Duquesne's use of its 1996 cost of service study as the basis for allocating all of its costs between generation, transmission, and distribution, we also concluded that it was appropriate to employ the OCA's 1999 sales level of

12,519,000,000 kWh for the buildup of T&D rates. We will adopt the clarification requested by the OCA, and we would direct Duquesne to employ the 1999 sales level.

Order on Compliance Filing, p. 9 (emphasis added). In the Compliance Filing Order, the Commission again employed the 1999 sales volumes in its revised buildup of Duquesne's transmission and distribution rates. See id., Attachment "Buildup of Duquesne Light's T&D Rates," line 4. The Commission thus has considered the issue of the correct sales volume on two occasions and on both occasions has rejected Duquesne's assertion that the 1996 sales levels should be used. No reason exists for the Commission to consider this issue for a third time under the guise of Duquesne's request for "clarification." Duquesne should be directed to submit a further revised compliance filing using the 1999 sales volumes to develop transmission and distribution rates.

F. The Company's Proposal To Roll The ECR Into Base Rates At An Adjusted Level Violates The Rate Cap.

Another issue raised in Duquesne's Petition for Reconsideration is the appropriate ECR level to be rolled into base rates and reflected in the capped system average rates used to establish unbundled rates in this proceeding. Duquesne Petition for Reconsideration, pp. 2-3. Duquesne claims that the portion of the ECR in effect on December 31, 1996, representing prior over-collections should be removed from the calculation of the capped rate at December 31, 1996. Id. The Company implements its position on this issue in the Revised Compliance Filing. As DII explains in its Answer to the Petition, a roll-in of the ECR at any level other than the actual level effective on December 31, 1996, has been specifically rejected by the Commission. See DII Answer, pp. 4-8. As the Company fails to provide any new or novel arguments in

support of its position, the Petition for Reconsideration must be denied and Duquesne must submit a further revised compliance filing reflecting the proper roll-in amount.

As DII explains in its Answer, the Commission's Final Order indicates that the ECR roll-in was performed in calculating the system-average unbundled rates reflected in Attachment A of the Final Order. See Final Order, Attachment A, notes. In addition, the Final Order indicates that "[n]on-shopping customers will pay the unbundled rate for generation such that the total rate will precisely reflect current existing rates." Id. at 183. In the Order on Compliance Filing, the Commission explicitly confirms that this rate includes the ECR roll-in at 12.8 mils per kWh.

The OCA argues that the Company's base rates and ECR in effect, on the effective date of the Act, were designed to recover 12.8 mils/kWh. The OCA noted that throughout the restructuring case, the Company indicated that the proposed Energy Cost Rate (ECR) was higher than the ECR that was in effect at the effective date of the Act.

We will adopt the position of the OCA. Therefore, we direct Duquesne to reflect the ECR, in effect on the effective date of the Act, which is designed to recover 12.8 mils/kWh in energy costs in rate calculations.

Order on Compliance Filing, pp. 11-12. Thus, the Commission clearly rejected the Company's proposals to roll the ECR into base rates at any level other than the 12.8 mils in the rate effective on December 31, 1996.

The Company effectuates the roll-in by adjusting 1996 class revenues in the distribution COSS by -2.737 mils per kWh. See Revised Compliance Filing, Appendix A, "Explanation of Adjustments to Original Compliance Filing", p. 2. As Mr. Baron explains in the affidavit attached to these Comments, however, the correct adjustment is -3.628 mils per kWh. See Appendix A, ¶ 12. An adjustment of -3.628 mils per kWh corresponds with the 12.8 mils year-end fuel factor that the Commission specifically stated should be rolled into base rates to

calculate the rate cap. Id. The Company's adjustment inappropriately increases the rate cap and should be rejected.

In addition, as DII explains in its Answer, the Commission's prior decision regarding the ECR level to be rolled into base rates is fully consistent with the Act and principles of ratemaking. The Act clearly specifies that the statutory rate caps protecting consumers during the period of stranded cost recovery are based on the level of charges "approved by the Commission for such service as of the effective date of this Chapter." 66 Pa. C.S. §§ 2804(4)(i)(A) & (B) & 2804(4)(ii). Clearly, to the extent that a utility is requesting that the ECR rate be rolled into the base rates, the only permissible level under the Act is the actual ECR level in effect on the effective date of the Act (i.e., December 31, 1996). Although the Act provides that the rate caps can be adjusted in certain circumstances, the existence of an over-collection in the ECR in effect on December 31, 1996, is not one of the specified circumstances sufficient to vary the rate cap from the rate level in effect on December 31, 1996. See id. § 2804(4)(iii).

The Duquesne proposal to adjust the ECR level at December 31, 1996, prior to rolling the ECR into base rates is contrary to the dictates of the Act and should be rejected. Duquesne should be ordered to submit a further revised compliance filing rolling the ECR into rates at the proper level.

G. The Company's Treatment of Tariff Issues Concerning Rule 4 and Riders 8, 9, and 20 Does Not Fully Comport With The Commission's Directives.

DII objected to the Company's proposed treatment of Tariff Rule 4 and Riders 8, 9, and 20 in the Original Compliance Filing. See DII Comments, pp. 7-20. The Commission accepted many of DII's criticisms in the Order on Compliance Filing. See Order on Compliance Filing,

pp. 20-22. The Company's Revised Compliance Filing, however, does not fully implement the Commission's directives.⁵

1. The Company's Tariff Does Not Ensure That Customers on Rule 4 and Rider 8, 9 and 20 Contracts Will Maintain Rates Complying With The Statutory Rate Caps.

In the DII Comments to the Original Compliance Filing, DII noted that the Company failed to include language in its tariff discussing its continuing obligation to provide rates to Rule 4 and Rider 8, 9 and 20 customers after contract expiration that adhere to the statutory rate caps. See DII Comments, p. 13. The Commission acknowledged DII's concerns, noting that "[i]n other restructuring proceedings, we have stated that the rate cap provisions of Section 2804(4) of the Act apply to customers taking service under special contracts." Order on Compliance Filing, p. 21; see also Final Order, p. 221. The Company's Revised Compliance Filing, however, fails to implement the Commission's directives.

Duquesne failed to include in Rule 4 and Riders 8, 9 and 20 language addressing adherence to the rate caps through the continued availability to these customers of rates consistent with the charges in effect on January 1, 1997. In fact, Riders 8, 9 and 20 specifically state that the riders are available to customers "for a period not exceeding five (5) years." Revised Compliance Filing, Proposed Tariff, pp. 97, 103 & 130. Customers that had these contracts as of December 31, 1996, will have the arrangements expire by December 31, 2001, at the latest.⁶

⁵Although the Company claims that it did not provide any customer a discount under Rider 20 during 1996, DII addresses all three tariff Riders for completeness.

⁶This assumes a five year contract was entered into on December 31, 1996. If the contract was entered into prior to December 31, 1996, or if the contract duration was less than five years, the contract will expire before December 31, 2001.

Obviously, the generation rate cap will remain effective after this date and must be adhered to by the Company.⁷ See 66 Pa. C.S. § 2804(4)(ii). In addition, it is possible that contracts will expire prior to the end of the transmission and distribution rate cap. See id. § 2804(4)(i). The Company must be required to submit a further revised compliance filing specifying in its tariff that it will adhere to these rate caps after expiration of the contracts and make available to Rule 4, and Rider 8, 9 and 20 contract customers rates commensurate with the rate cap as of January 1, 1997.

2. The Tariff Language Must Further Clarify How Rule 4 and Riders 8, 9 and 20 Contracts will be Unbundled and the Discount In the Contract Allocated.

In the DII Comments on the Original Compliance Filing, DII raised numerous issues regarding the Company's unbundling of Rule 4 and Rider 8, 9 and 20 arrangements. See DII Comments, pp. 14-17. The Commission acknowledged many of DII's criticisms, including the necessity of allocating a portion of the discounts in these rates to the customer's CTC. See Order on Compliance Filing, pp. 20-22. The Company's Revised Compliance Filing remains unclear regarding this issue.

Duquesne implements the unbundling directive for Rule 4 by stating "the dollar value of the customer's discount from otherwise applicable tariff rates will be allocated equally between the CTC charges of the bill and the generation charges of the bill." See Revised Compliance Filing, Proposed Tariff, p. 10. The Company proposes the following unbundling treatment for the discounts in Riders 8, 9 and 20:

⁷The transmission and distribution rate cap expires 54 months from the effective date of Chapter 28 (i.e., June 30, 2001). 66 Pa. C.S. § 2804(4)(i). The generation rate cap continues for the earlier of nine years from the effective date of Chapter 28 or until Duquesne is no longer recovering stranded costs. Id. § 2804(4)(ii).

The dollar value of the credit will be applied first to the total distribution charges of the contract. If the credit is greater than the total distribution charges, the balance of the credit will be allocated equally between the CTC charges of the bill and the generation charges of the bill.

Id. at 102, 107 & 133. The Company's illustration of unbundling in the Revised Compliance Filing shows the total discount provided in 1996 to all customers in each rate schedule under the arrangements and the aggregate portion that will be allocated to the applicable unbundled elements. See Revised Compliance Filing, Appendix C.

Duquesne must be directed to modify its tariff language to specify that the discounts in each of the unbundled rate elements will apply to both to both demand and energy components of the unbundled rate element. This is necessary to ensure compliance with the rate caps for these customers. For example, Rider 8 provides a percent discount for incremental unit demand charges and a percentage discount for incremental unit energy charges. See Revised Compliance Filing, Proposed Tariff, pp. 97-98. Both the demand and energy charges of each unbundled rate element must continue to be eligible for the discount and must have the discount designed into the unbundled rates.

3. Duquesne's Tariff Language Inappropriately Implies That Unbundling Will Vary Based On Whether The Customer Accesses Competitive Supply or Continues to Purchase Power From The Company.

In the Commission's Order on Compliance Filing, it is clear that all special contracts must be unbundled. See Order on Compliance Filing, p. 20. It is also clear that the customer must have three options available to them. The customer can: (1) take service under the contract; (2) terminate the contract and obtain electricity from an EGS; or, (3) retain the Company's services under the unbundled contract rates and obtain electricity from an EGS. Id. at 20-21.

Because of the language used by the Company, the tariff could be interpreted as authorizing disparate treatment for a customer depending on whether the customer remains taking service from the Company or switches to an alternative supplier. Any ambiguity on this issue can be removed by making the following changes to the language:

~~For contracts that do not contain provisions governing the customer's rights under direct access, the Company will unbundle the customer's contract effective as of January 1, 1999, in a manner that retains the customer discount and reflects the amount of transmission, distribution, CTC and generation charges in the customer contract. †The customer may continue to purchase electricity from the Company in accordance with the terms and conditions of the contract; terminate the contract and obtain electricity from an EGS on the otherwise applicable tariff rates according to their eligibility under direct access; or, retain the Company's services under the unbundled rates of the contract and purchase electrical energy from an EGS. For customers who continue to purchase power from the Company through their contract, the Company will unbundle the contract in a manner that retains the customer discount and reflects the amount of transmission, distribution, CTC and generation charges in the customer contract. The dollar value of the customer's discount from the otherwise applicable tariff rates will be allocated equally between the CTC charges components of the bill and the generation charges components of the unbundled rates bill. The discount will be applied to both the demand and energy components of the unbundled rate elements. Contract expiration shall not affect the applicability of any statutory rate cap. For customers who elect to terminate their contract and obtain electricity from an EGS, the customer will return to the otherwise applicable tariff rates. For customers who retain the unbundled contract rates and purchase electricity from an EGS, the discount allocated to the CTC charges (that discount that would have otherwise been provided to the customer had they continued to purchase electricity from the Company under the contract) will be applied to the CTC charges of the bill.~~

The quoted passage is from proposed Rule 4.⁸ Similar language should be used regarding the unbundling of Rider 8, 9 and 20 arrangements, with appropriate changes to reflect the differing allocation of the discount to distribution, and CTC and generation rates (if necessary) because of

⁸DII's proposed language addresses unbundling and the rate cap issues discussed previously in these Comments.

the nature of the discount. This language will remove any ambiguity that may exist regarding this issue. DII requests that the Commission direct the Company to include this passage in its tariff Rule 4 and Riders 8, 9 and 20 to govern the unbundling of special contracts.

H. The Company Fails To Include Language Regarding the Transmission and Distribution Rate Cap.

The proposed tariff submitted with the Revised Compliance Filing states on numerous rate schedules the transmission charges that will be imposed on customers receiving supply from the Company. See e.g., Revised Compliance Filing, Proposed Tariff, pp. 31, 39-40, 48-49, 57-58 & 62. The Company fails to acknowledge that it must comply with the Act's rate caps in imposing the transmission charge.⁹ During the first 54 months after enactment of the Act, the "charges of the utility for non-generation services that are regulated as of the effective date of this chapter . . . shall not exceed the non-generation charges that have been approved by the commission for such service as of the effective date of this chapter." 66 Pa. C.S. § 2804(4)(i)(B).

Although the Commission does not regulate transmission, at the effective date of the chapter, the Commission regulated the bundled rate that Duquesne was permitted to charge customers for service, which included a transmission component. Consequently, the transmission charge that Duquesne levies on customers for the first 54 months must comply with the non-generation charge rate caps. This is applicable whether or not the Federal Energy Regulatory Commission ("FERC") changes the transmission charge revenue requirements. Consequently, if the FERC-approved transmission charge will result in the customer's charges

⁹DII did not raise this specific concern in its Comments on the Original Compliance Filing; however, given the fundamental importance of the rate caps to the balance between utility and customer interests in Chapter 28, DII requests that the Commission consider the issue.

for non-generation services exceeding the level in effect on January 1, 1997, the Company must adjust other aspects of the non-generation charges to ensure rate cap compliance (i.e., the distribution charge).

Nothing in the Company's filing acknowledges its obligation to comply with the rate cap or explains how it intends to adjust other charges to ensure compliance with the rate cap. The Company must be directed to resubmit its Revised Compliance Filing with both an acknowledgment of the rate cap obligations and an explanation of how it will comply with those obligations if the FERC approves a transmission rate at variance with the rate used to unbundle the tariffs.

I. The Company's Treatment of Interruptible Customers Under Rider 7 Is Improper.

Duquesne adds a sentence to its tariff Rider 7 that improperly restricts the ability of these customers to participate in the competitive market during the phase-in. Specifically, Duquesne limits the ability of customer to receive interruptible service from other suppliers during phase-in. This is improper and must be corrected.

The Order on Compliance Filing did not require Duquesne to make any changes to Rider 7. See Order on Compliance Filing, pp. 30-31. On its own initiative, however, Duquesne adds the following sentence to Rider 7:

Customers purchasing electricity from the Company and an EGS must purchase their entire interruptible load from the Company in order to qualify for the credit in this rider.

Revised Compliance Filing, Proposed Tariff, p. 94. The Company's chart in Appendix D explaining the tariff changes categorizes this change as "clarifying language regarding electricity

purchased from the Company." Id., Appendix D. The Company's "clarifying language," however, is improper and will prevent interruptible customers from participating in the first two stages of direct access phase-in.

During the first two stages of direct access phase-in, industrial and large commercial customers have the opportunity to have at least 33 % and 66 % of their load supplied by a competitive supplier. The remaining portion of the customer's load will be supplied by the Company. The Company's language in Rider 7, however, states that an interruptible customer will lose the ability to have interruptible load supplied by the Company if it takes any interruptible power from an EGS. In order to continue receiving interruptible service from the Company, customer must either remain with the Company for their entire load during phase-in, or contract with an EGS only for firm power; the customer cannot remain 100% interruptible by receiving 66% of its interruptible power from an EGS and 33% from the Company. This is inconsistent with the intent of the partial load phase-in and effectively forces any customer that wants to take 100% interruptible load during phase in to remain with the Company.

The Company's proposal to limit the availability of interruptible service is improper and anti-competitive and must be eliminated from the direct access tariff. Duquesne must be directed to submit a further revised compliance filing eliminating the restriction.

III. CONCLUSION

WHEREFORE, the Duquesne Industrial Intervenors respectfully request the Commission to order Duquesne to modify the rates, terms and conditions of its proposed tariff consistent with these Comments.

Respectfully submitted,

McNEES, WALLACE & NURICK

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Dated: September 21, 1998

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET. AL.**

v.

**DUQUESNE LIGHT COMPANY
FOR APPROVAL OF ITS
RESTRUCTURING PLAN UNDER
SECTION 2806 OF THE
PUBLIC UTILITY CODE**

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) **DOCKET NO. R-00974104**
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**AFFIDAVIT
OF
STEPHEN J. BARON**

**J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA**

OCTOBER 1998

AFFIDAVIT OF STEPHEN J. BARON

**STATE OF GEORGIA
COUNTY OF FULTON**

Before me, the undersigned Notary Public in and for the County of Fulton, State of Georgia, personally came and appeared Stephen J. Baron, who was sworn by me and attested to the following facts:

1. I am the President and a Principal of J. Kennedy and Associates, Inc. ("Kennedy and Associates"), a firm of utility rate, planning and economic consultants in Atlanta, Georgia. Kennedy and Associates provides consulting services in the electric, telephone and gas utility industries.

2. I have more than twenty-three years of experience in the electric utility industry in the areas of generation planning, economic analysis, load and energy forecasting and cost analysis. I have a Bachelor of Arts Degree from the University of Florida (1972) and a Master of Arts Degree in Economics (1974) also from the University of Florida. My areas of specialization were econometrics, statistics, and public utility economics. I have been employed by the Florida Public Service Commission; the Utility Rate Consulting Division of Ebasco Services, where I was a Vice President; the firm of Coopers & Lybrand, where I was a Manager in the Utility Regulatory and Advisory Services Group; and as a Principal and co-founder of the firm of J. Kennedy and Associates, Inc.

3. During the course of my professional career, I have testified as an expert in more than 100 cases before the FERC and twenty-two State Regulatory Commissions, including more than 30 appearances before the Pennsylvania PUC. I have presented numerous papers and published articles in Electrical World and Public Utilities Fortnightly and have authored a study for the Electric Power Research Institute on "Load Data Transfer Techniques."

4. I have presented expert testimony on the subjects of electric utility restructuring, system planning, load forecasting and cost analysis, cost allocation, rate design, and regulatory policy issues. I have participated and testified in each of the major electric utility restructuring proceedings in Pennsylvania, including Duquesne Light Company ("Duquesne" or "Company") Docket No. R-00974104.

5. I have reviewed Duquesne's Second Compliance Filing of September 11, 1998. Although I did not have detailed workpapers supporting the compliance filing available at the time of my review, I have identified what appears to be a significant problem with the Company's unbundled distribution revenue requirement analysis.

6. The specific problem that I have identified concerns attachments to Duquesne's Compliance Filing; Schedule A "Cost of Service Study (1996) Distribution COS Summary" and Schedule B of the attachments, which is the second page of the cost of service summary for distribution revenue requirements.

7. Schedule A shows the summary of the development of Duquesne's Compliance Filing distribution revenue requirements. On a Pennsylvania PUC jurisdictional

basis, Duquesne has calculated distribution revenue requirements in its Second Compliance Filing to be \$250,268,519. As shown on Schedule A, the corresponding distribution revenue requirement for Rate Schedule L is \$11,002,004 and is \$5,053,339 for Rate Schedule HVPS.¹ Effectively, the Rate Schedule L distribution revenue requirement is more than two times the Rate Schedule HVPS distribution revenue requirement.

8. At the same time that Rate Schedule L revenue requirement is approximately twice the Rate Schedule HVPS distribution revenue requirement, the distribution rate base for Rate Schedule L of \$58,402,775 is approximately eight times larger than the distribution rate base for Rate Schedule HVPS (\$7,527,955). These values are shown on Schedule B of Duquesne's Second Compliance Filing attachments.

9. Focusing on Schedule A again, Duquesne calculated that the test year rate of return for Rate Schedule L is 6.33%, while the overall rate of return for Rate Schedule HVPS is 0.83%. At the same time, however, Duquesne has calculated the total income taxes for Rate Schedule L to be \$231,477, while for Rate HVPS, total income taxes are \$821,181. There is no apparent explanation as to why the income taxes for Rate Schedule HVPS are over three times as high as they are for Rate Schedule L, when the overall HVPS rate of return is 0.83% and the return on equity for Rate Schedule HVPS is shown to be -10.41%. Based on the rate of return result for Rate Schedule HVPS (compared to Rate Schedule L), there does not appear to be any apparent reason why the HVPS "total income taxes" would be in excess of three times the amount for Rate Schedule L, which has a rate base eight

¹ I have used a comparison between Rate Schedules L and HVPS as an illustration of the disparities that I have identified in the distribution analysis. This is not intended to suggest that the problem(s), if any, are only associated with these two classes.

times larger than Rate Schedule HVPS and a positive rate of return on equity (upon which taxes are paid), compared to the Rate Schedule HVPS negative return on equity.

10. The previous observations regarding a comparison between Rate Schedule L and Rate Schedule HVPS suggests that there may be a problem with the Company's distribution cost of service analysis. Without the benefit of the underlying workpapers and other supporting documents, it is not possible to specifically identify the causes of the anomalies that I have identified.

11. If, as is suggested by my previous observations, the Company's distribution cost of service study is incorrect, the underlying distribution rates calculated by Duquesne in its Second Compliance Filing are also incorrect. In addition, the Company's calculation of CTC rates and revenues would be incorrect as well, since these are based on a residual calculation.

12. I have also examined the calculation of the overall rate cap. Duquesne has calculated an overall rate cap of 8.87 cents per kWh. This rate cap reflects a roll-in of -2.737 mills/kWh for the 1996 year-end ECR level. This ECR (-2.737 mills/kWh) corresponds to the year-end unit fuel cost of \$13.833/kWh but does not include the actual "error correction factor" in effect at year-end 1996. The actual year end 1996 ECR is -3.628 mills/kWh, which includes the actual error correction factor of 0.851 mills (before GRT adjustment). The Commission ordered year-end fuel factor of 12.8 mills corresponds to the actual effective ECR of -3.628 mills/kWh that should have been used in the calculation of the overall rate cap.

Stephen J. Baron
Stephen J. Baron

Sworn to and subscribed before me on this
18th day of October 1998.

Barbara J. Trojanowski
Notary Public

Notary Public, Cobb County, Georgia.
My Commission Expires January 26, 2001

CERTIFICATE OF SERVICE

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

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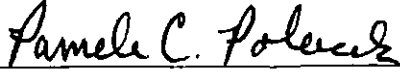
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Certificate of Service
Docket No. R-00974104
Page 5

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Dated this 21st day of September, 1998, in Harrisburg, Pennsylvania.

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*ALSO ADMITTED TO THE FLORIDA BAR

September 21, 1998

Re: Pa. Public Utility Commission v. Duquesne Light Co.

(Application to Approve Restructuring Plan Pursuant to 66 Pa. C.S. § 2806(d))

Via FedEx

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
B-18 North Office Building
Harrisburg, PA 17120

Dear Mr. McNulty:

Enclosed are an original and 15 copies of the Comments of Green Mountain Energy Resources, L.L.C. to be filed in the above-captioned matter, together with a Certificate of Service.

If you have any questions regarding this matter, please contact me at your convenience.

Sincerely yours,

RHOADS & SINON LLP

By: *James H. Cawley*
James H. Cawley

cc: Service List

DOCUMENT FOLDER

R-00974104

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SEP 21 1998

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

Duquesne Light Company
(Application to Approve Restructuring Plan
Pursuant to 66 Pa. C.S. § 2806(d))

Docket No. R-00974104

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SEP 21 1998

Comments of
Green Mountain Energy Resources, L.L.C.
on the Supplier Tariff (Credit Requirements)
of the Second Compliance Filing of Duquesne Light Company
Regarding Stand-Alone Restructuring Plan

PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DOCUMENT
FOLDER

NOW COMES Green Mountain Energy Resources, L.L.C. ("GMER"), licensed as an Electric Generation Supplier at Docket No. A-110073 (June 4, 1998), and files these comments to the supplier tariff (credit requirements) of Duquesne Light Company's ("Duquesne") Second Compliance Filing Regarding Stand-Alone Restructuring Plan ("Second Compliance Filing"), and in support thereof states as follows:

DOCKETED
SEP 24 1998

1. In its September 11, 1998, Second Compliance Filing, Duquesne has departed substantially from the Supplier Tariff credit requirements approved by this Commission in the compliance filings of PP&L, Inc. and PECO Energy. Second Compliance Filing, Appendix G, ¶ 12.4, at 40.

2. To illustrate, ¶ 12.4 of the Commission-approved Supplier Tariff of PP&L, Inc. is as follows, with Duquesne's deletions bracketed and language additions underlined:

12.4 Guarantee of Payments. Before the Company will render service or continue to render service, the Company [may] shall require an applicant for Coordination Service or an EGS currently receiving such service [that has Bad Credit] to provide a [cash deposit, letter of credit, surety bond, or other guarantee, satisfactory] deposit in the form of a letter of credit to the Company. The Company will hold the deposit as security for the payment of final bills and compliance with the Company's Rules and Regulations. [In addition, the Company may require an EGS to post a deposit at any time if the Company determines that the EGS is no longer creditworthy or has Bad Credit.] An EGS shall have the right to submit to the Commission for resolution any reasonable dispute regarding such [deposit, letter of credit, surety bond or other guarantee] letter of credit sought by the Company if the EGS believes such a requirement is inappropriately based or assessed. The Company reserves the right to implement further procedures for guarantee of payments and credit review procedures.

[12.5] **12.4.1 Amount of Deposits.** The [deposit] letter of credit shall be equal to [the value of Coordination Services Charges the Company projects the EGS will incur during the next two billing periods based on that EGS's forecasted load obligation] (i) \$250,000, or (ii) two months of EGS's customers' forecasted MWH load multiplied by \$25,00, whichever is less.

3. In the introduction to its Second Compliance Filing, Duquesne explains that it proposes these revisions to ensure that it will be able to collect payment in the event that an EGS "defaults on supply" or "is insolvent," in which case it "may not fully recover ... energy and imbalance charges" Second Compliance Filing at 8, 9.

4. The filing contains no explanation for the \$250,000 amount of the mandatory letter of credit, whereas "[t]he \$25.00 is intended to approximate system lambda and to cover the potential default of an EGS on its obligations to supply and to ensure that Duquesne is reimbursed for supplying such energy." *Id.* at 8.

5. Thus, Duquesne has proposed that it be protected against the loss of *energy* charges by inflating its *coordination* charges, far beyond any justifiable cost basis for those

coordination charges. It also seeks the unfettered discretion to implement all manner of other “procedures for guarantee of payments and credit review procedures.” Proposed ¶ 12.4. For example, Pennsylvania Power has already demanded confidential financial information from GMER, despite the public availability of GMER’s credit information (including from Dun & Bradstreet), and perhaps this same needlessly intrusive demand for proprietary information would be encompassed within Duquesne’s credit review “procedures.”

6. Duquesne’s proposed mandatory security requirement, imposed on the unquestionably creditworthy and those few who may be less so, restricted only to a letter of credit, and potentially used as the basis for denying “registration” to an EGS and coordination services to an EGS during the pendency of an appeal to the Commission (see the last sentence of proposed ¶ 3.5), is an unnecessary financial burden on EGSs and constitutes a barrier to entry into Duquesne’s service territory.

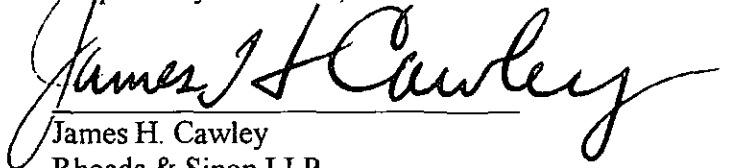
7. Furthermore, such security is not needed given the availability of the \$250,000 bond, letter of credit, or other appropriate security required of EGSs to become licensed by the Commission. That security is furnished “to ensure the financial responsibility of the electric generation supplier and the supply of electricity at retail in accordance with contracts, agreements or arrangements.” 66 Pa. C.S. § 2809(c)(1)(i). This language undoubtedly was drafted so as to encompass Duquesne’s concerns. Thus, the security now held by the Commission displaces the need for separate security by each EDC, and especially where the EGS is unquestionably creditworthy.

8. For those EGSs seeking to serve customers throughout the Commonwealth (and especially for those EGSs that do business in the emerging electricity markets in other states

besides Pennsylvania), the cumulative burden of a licensing security in the amount of \$250,000, *plus* the same security requirement imposed by Duquesne (and perhaps other EDCs if Duquesne's proposed tariff language is approved by the Commission, discourages active EGS participation in the Pennsylvania marketplace.

WHEREFORE, for the foregoing reasons, Green Mountain Energy Resources requests the Commission to maintain uniformity in EDC supplier tariffs by rejecting Duquesne's proposed departures from those already negotiated by PP&L, Inc., PECO Energy, and suppliers and recently approved by this Commission.

Respectfully submitted,



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(717) 233-5731

Attorneys for
GREEN MOUNTAIN ENERGY RESOURCES, L.L.C.

Dated: September 21, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served true copies (and an electronic version) of the Comments of Green Mountain Energy Resources, L.L.C. to Duquesne Light Co.'s Second Compliance Filing upon the following participants in accordance with the requirements of 52 Pa. Code § 1.54.

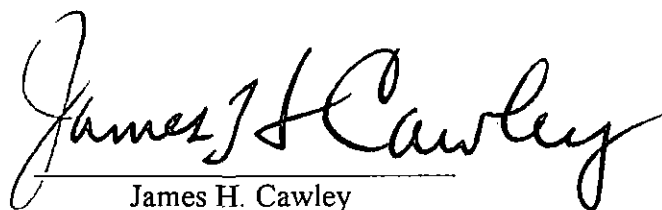
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Dated: September 21, 1998



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September 21, 1998

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98 SEP 21 PM 3:37
P.A.P.U.C.
SECRETARY'S BUREAU

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

Dear Secretary McNulty;

Enclosed please find an original and (10) copies of the Office of Consumer Advocate's Comments on Duquesne Light Company's Second Compliance Filing, in the above-captioned proceeding.

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

Sincerely,

Tanya J. McCloskey
Tanya J. McCloskey
Assistant Consumer Advocate

Enclosure

cc: All parties of record
Office of Special Assistants
Donald H. Muth, FUS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF DUQUESNE LIGHT :
COMPANY FOR APPROVAL OF ITS :
RESTRUCTURING PLAN UNDER :
SECTION 2806 OF THE PUBLIC :
UTILITY CODE :

Docket No. R-0097410

PA.P.U.C.
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COMMENTS TO THE
SECOND COMPLIANCE FILING

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DOCKETED
SEP 24 1998

Dated: September 21, 1998

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I. INTRODUCTION

The Office of Consumer Advocate is in receipt of Duquesne Light Company's Second Compliance Filing. As noted in the Second Compliance Filing, the Second Compliance Filing was served by overnight mail for receipt by the parties on Monday, September 14, 1998 since the Commission's Order had required filing on a date which fell on a Saturday. To obtain the full seven day response period contemplated by the Commission's Order, Duquesne recognizes that the parties' Comments to the Compliance Filing should be due, in hand, on Monday, September 21, 1998. Second Compliance Filing, p.2, fn.1. In accordance with this schedule, the OCA has reviewed the Second Compliance Filing and identified certain areas where the Second Compliance Filing may not fully implement the Commission's Compliance Order. Importantly, Duquesne did not reflect the changes regarding its universal service recovery mechanism directed by the Commission and Duquesne utilized a different energy cost rate than that approved by the Commission when rolling its ECR into base rates. Additionally, the OCA submits that the Company's tariff language regarding the reconciliation of interim CTC payments prior to divestiture remains unclear. To avoid complications following divestiture, the OCA recommends that the language be amended to clearly state that each class will be credited with its CTC collections during the interim period when determining the class obligation for stranded cost recovery following divestiture.

The OCA would also note that it has identified a change in the Second Compliance Filing that was not identified by the Company in Appendix D and was not directed by the Commission in its Order. This change occurs for all rate schedules in the section entitled "Electric Charges" and appears to limit the Company's obligation as provider of last resort to customers who

do not choose an alternative supplier, whose alternative supplier is unavailable, or whose alternative supplier defaults. The OCA submits that there is no justification for these changes in the Second Compliance Filing and the changes should be rejected. The language that appears in the Company's Original Compliance Filing should be reinstated. Additionally, the OCA submits that the parties should be permitted to file Supplemental Comments if the parties identify any other non-ordered or non-identified changes to the Tariff in the Company's black-lined version of the Tariff. Given the limited time for review, and the complexity of other issues for review in the Second Compliance Filing, the OCA has been unable to determine if any other significant changes have been made to the Tariff. The OCA is concerned that other changes could significantly affect the implementation of customer choice if undetected. As such, other parties provided an appropriate period for review and response to determine if changes beyond those identified in Appendix D have been made to the Tariff.

The OCA hereby submits its Comments regarding Duquesne's Second Compliance Filing.

II. SPECIFIC ISSUES

A. Universal Service Charge--Tariff Rider No. 21

At page 36 of its Compliance Order, the Commission directed Duquesne to revise Tariff Rider No. 21--Universal Service Charge to include universal service program costs as well as universal service program savings in the reconciliation mechanism. The Commission directed the following modification:

Therefore, we direct Duquesne to revise Tariff Rider No. 21 to read: "U=The estimated *net* universal service program costs related to the Company's Customer Assistance Programs (CAP), Customer Assistance and Referral Evaluation Service

(CARES), Smart Comfort Program, Hardship Fund and Consumer Credit Counseling Service (CCCS) for the computation year.”

Duquesne Order on Compliance at 36. Duquesne has not implemented this requirement. Specifically, Duquesne has not inserted the word “*net*” before “universal service program costs” in its Tariff Rider No. 21.

The OCA recognizes that the Company has filed a Petition for Reconsideration on this issue which the OCA has opposed. The OCA submits that, for the reasons set forth by the OCA in its Answer to the Petition for Reconsideration, Duquesne should be required to amend its tariff to comport with the Commission’s Order. The Commission has consistently stated that in reconciling universal service program costs, it will require a reconciliation of the cost savings. Application of West Penn Power Company, Docket No. R-00973981 (Order on Compliance of July 23, 1998 at 27-28) and Guidelines For Maintaining Universal Service, Docket M-00960890F.0010 (Order of July 11, 1997 at 13, 34-35, Appendix D). In accordance with these decisions, and the Commission’s Order on Compliance for Duquesne, the OCA requests that the Commission direct Duquesne to amend its Tariff Rider No. 21 to comply with the Commission’s directives.

B. ECR Roll-In

At page 5 of its Revised Compliance Filing, the Company indicates that it has “shown the correct calculation of its ECR” in this Compliance Filing, as it explained in its Petition for Reconsideration. In its Petition for Reconsideration, Duquesne sought a determination that the appropriate ECR to roll in is not 12.8 mills/kWh as determined by the Commission in its Order of August 13, 1998 but 13.713 mills/kWh. The Company argues that 13.713 mills/kWh is the appropriate amount because it removes the overcollection balance that was reflected in the ECR rate

on the effective date of the Act. Petition at 3. The OCA has filed an Answer opposing Duquesne's Petition for Reconsideration of this matter.

The OCA submits that Duquesne should be directed to reflect the 12.8 mills/kwh as its energy costs when it includes its ECR in base rates. As set forth fully in the OCA's Answer to the Petition for Reconsideration, the issue here is not what components made up the rate on the effective date of the Act but what the total ECR rate was on the effective date of the Act. On the effective date of the Act, Duquesne was charging an ECR that allowed it to collect energy costs of 12.8 mills/kWh. Duquesne, however, has utilized the 13.713 mills/kWh in the Revised Compliance Filing. Although this is a reduction from the 14.7 mills/kWh utilized in the original filing, the OCA submits that the Company has not complied with the Commission's Order.¹

As such, the OCA submits that Duquesne should be directed to roll its ECR into base rates at the 12.8 mills/kWh level.

C. Rule 3.3--Competitive Transition Charge Reconciliation

In Tariff Rule 3.3, the Company has proposed a methodology for accounting for CTC collections during the interim period and then reconciling these revenues at the time of divestiture. It is the OCA's understanding that the Company will track these collections by rate class. The OCA submits, however, that the Company's tariff rule should also clearly state that the revenues collected from each class in this interim period will be used to adjust the amount owed by each class. The

¹ At page 5, fn.2, the Company notes that the effect of utilizing the 13.713 mills/kWh results in a reduction to the system average rate cap. This reduction in the system average rate cap is a result of the Company removing the 14.7 mills/kWh utilized in its original filing, and utilizing the 13.713 mills/kWh it now proposes when it rolls its ECR into base rates. The OCA anticipates a further reduction in the system average rate cap when the ECR is rolled into base rates at the Commission ordered level of 12.8 mills/kWh.

OCA believes this is the intention of the Company's Tariff Rule 3.3, but additional language could be added to the rule to clarify this point.

Additionally, the OCA would again caution that this methodology could result in some class' contribution to stranded cost during this interim period being extremely low. This could present difficulties in setting a CTC within the constraints of the Act. Undercollection of charges during this interim period would put upward pressure on the CTC charges that would result in no meaningful shopping credit for some classes. The OCA anticipates that this could be a potential problem for residential heating customers in Rate RH. The Company's tariff language does not recognize this possibility, and may require the Commission to determine a CTC methodology prior to receiving full information regarding the level of stranded cost.

As such, the OCA submits that the Company's tariff should be clarified to recognize these possibilities.

D. Supplier of Last Resort--Rate RS, Rate RH, Rate RA and all other Rate Schedules
At Original Page No. 31 for Rate RS, Original Page No. 34 for Rate RH, and Original Page 37 for Rate RA in the section headed "Electric Charges" in the third paragraph, the Company has added a clause to the second sentence and has add a third sentence. The Company was not directed to make any modifications to this paragraph, and the Company did not identify any changes to this paragraph in Appendix D when listing the changes made to the tariff. The paragraph existed in the Original Compliance Filing and was intended to describe the Company's obligation when a customer's supplier becomes unavailable, or the customer has not chosen a supplier. In other words, the paragraph set forth the Company's provider of last resort obligation for those customers. The OCA submits that the Company's revisions to this paragraph change the obligation and are in fact

inconsistent with the Company's obligation as provider of last resort. As such, the OCA submits that these changes should be deleted, and the language filed in the Original Compliance filing utilized in its place.

The Company has made two changes to its obligation as provider of last resort in this Second Compliance Filing. First, when describing its obligations to customers who have not chosen or whose supplier is unavailable, the Company limits its obligations to "reasonable periods of time in a month." The OCA submits that there is no basis for limiting this obligation. The statutory obligation to serve these customers at the rates contained in the tariff is without limitation. As such, the limitation should be removed and the original language reinserted. The second sentence of the third paragraph under "Electric Charges" should read:

Any month in which the supplier becomes unavailable or during which the customer has not chosen a supplier, the Company will supply electricity at the above charges.

See, e.g., Original Compliance Filing, Original Page No. 29 and Original Page No.32.

Second, the Company has added a sentence to address the situation where an EGS defaults on the contract. Initially, the OCA would note that this situation seems to be no different than a supplier being "unavailable," but Duquesne now seeks to treat this situation differently. In essence, it appears that Duquesne seeks the ability to impose charges on customers above the capped tariffed rate levels if the supplier defaults. This proposal is in direct violation of the rate cap provisions of the Act. The OCA submits that this sentence should be deleted. There is no justification for the Company's attempt in the Second Compliance Filing to change its obligations to customers who have selected an EGS that defaults. This is a fundamental change in Duquesne's obligation and is wholly inconsistent with the Commission's Orders in this and every other

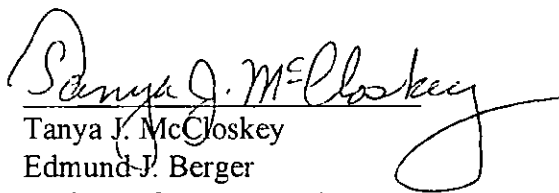
restructuring proceeding. As such, the sentence should be deleted from the Second Compliance Filing.

Additionally, as set forth in the Introduction, the OCA requests that other parties be provided an opportunity for Supplemental Comments if significant changes, beyond those identified in Appendix D of the Second Compliance Filing are identified. Given the complex nature of the Second Compliance Filing, other parties should be given an opportunity for review and response if other non-ordered changes have been made to the Compliance Tariffs.

III. CONCLUSION

For the reasons set forth above, and for the reasons set forth in the OCA's Answer to Duquesne's Petition for Reconsideration of the Compliance Order, the OCA respectfully urges the Commission to direct Duquesne Light Company to further modify its Second Compliance Tariff consistent with the positions set forth in these Comments, and to make any further modifications deemed necessary upon any further review conducted by the Commission.

Respectfully submitted,


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Dated: September 21, 1998
48309

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document,
Office Consumer Advocate's Comments to Duquesne Light Company's Second Compliance Filing,
upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54
(relating to service by a participant), in the manner and upon the persons listed below:

Dated this 21st day of September, 1998.

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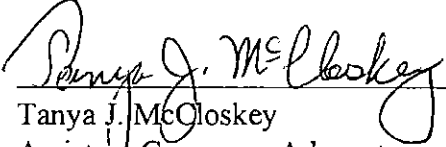
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September 21, 1998

James McNulty, Secretary
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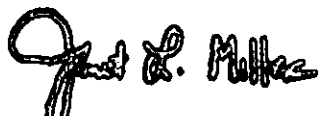
RE: Application of Duquesne Light Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code; Docket No. R-00974104;
COMMENTS OF MID-ATLANTIC POWER SUPPLY ASSOCIATION TO DUQUESNE LIGHT COMPANY'S SEPTEMBER 18, 1998 REVISED COMPLIANCE FILING

Dear Mr. McNulty:

Enclosed, for filing with the Commission, are the original and fifteen (15) copies of the Comments of the Mid-Atlantic Power Supply Association to the above-captioned docket.

If you have any questions concerning this filing, please direct them to me.

Very truly yours,


Janet L. Miller

Counsel for the Mid-Atlantic
Power Supply Association

JLM/kmg
Enclosures

cc: Per Certificate of Service

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ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Docket No. R-00974104

**COMMENTS OF THE
MID-ATLANTIC POWER SUPPLY ASSOCIATION
TO THE SEPTEMBER 11, 1998 SECOND COMPLIANCE FILING OF
DUQUESNE LIGHT COMPANY
REGARDING STAND-ALONE RESTRUCTURING PLAN**

**DOCUMENT
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SECRETARY'S BUREAU**

The Mid-Atlantic Power Supply Association ("MAPSA")¹, by and through its counsel, Malatesta Hawke & McKeon LLP, hereby submits comments to the Second Compliance Filing (dated September 11, 1998), of the Duquesne Light Company ("Duquesne") in the above-captioned matter.

GENERAL COMMENTS

In general, MAPSA's main areas of concern are the Electric Generation Supplier Coordination Tariff ("Supplier Tariff") which was attached as Appendix G to Duquesne's Second Compliance Filing. MAPSA constantly has advocated that Pennsylvania electric utilities, statewide, be required to adopt identical supplier coordination tariffs to the extent

¹ MAPSA is an association of power marketers, independent power producers and a broad range of companies who support the electric services industry with an interest in the emerging electric power supply market within the Commonwealth of Pennsylvania and the Mid-Atlantic region. The comments contained in this filing represent the position of MAPSA as an organization, but not necessarily the view of any particular member with respect to any specific issue.

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possible, in recognition of the fact that certain operational differences exist between utilities and that there are differences between the ECAR and the PJM. MAPSA's review of Duquesne's Second Compliance Supplier Tariff reveals that the tariff does not track consistently with the Supplier Coordination Tariffs previously approved by this Commission in other electric restructuring matters. MAPSA has attached to these comments as "**Appendix A**" what it believes to be an appropriate Supplier Tariff to be used by Duquesne. **Appendix A** is a "redlined" version of PP&L's Supplier Coordination Tariff. The modifications indicated by the redlined version are, in some cases, an acceptance of Duquesne's revisions to what originally was PP&L's Supplier Coordination Tariff, and, in other cases, are modifications proposed by MAPSA. In any event, all of the modifications are acceptable to MAPSA.

MAPSA's failure to comment in this document as to other aspects of Duquesne's September 11, 1998 Second Compliance Filing should not be viewed as acquiescence to the Company's positions in unaddressed areas.

SPECIFIC COMMENTS

In addition to the general comments set forth above, MAPSA makes the following specific comments with respect to the proposed "Credit Requirements" provisions of Duquesne's proposed Supplier Tariff:

Definition of "Bad Credit": The definition of Bad Credit proposed by Duquesne has been expanded to include "a history of delinquent obligations (as evidenced by two payments overdue by sixty days)." This is not referring to delinquent obligations to Duquesne, but simply to any late payments that appear on an EGS' credit report. This is inappropriate in that credit standards for an EGS' dealings with Duquesne should be limited to the EGS' credit history with

the EDC. In addition, the specific standards set forth in the proposed definition ("two payments overdue by sixty days") are unduly harsh if the overall credit of an EGS is good. This provision of the definition should be deleted.

Section 12.4 - Guarantee of Payments and Section 12.4.1 - Amount of Deposits.

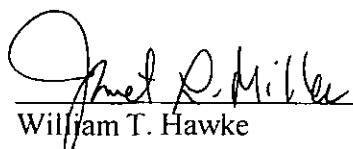
Section 12.4 has been modified to provide that "the Company shall require an applicant for Coordination Service² or an EGS currently receiving such service to provide a deposit in the form of a letter of Credit to the Company." Section 12.4.1 provides that the letter of credit or deposit shall be "equal to (i) \$250,000, or (ii) two months of EGS's customer's forecasted MWH load multiplied by \$25.00, whichever is less." These additional credit standards are onerous and are without regard to the credit standing of the EGS. This is in contrast to the credit standard provisions of the Supplier Coordination Tariffs approved by the Commission in connection with the PECO Energy and PP&L restructuring proceedings, which tariffs provided that a deposit was required only upon a finding of bad credit on the part of the EGS. In addition, the PP&L and PECO Supplier Coordination Tariffs provide that the amount of the deposit is to be equal to "the value of Coordination Service Charges the Company projects the EGS will incur during the next two billing periods based upon the EGS's forecasted load obligation." The credit standards applied by Duquesne's Supplier Tariff should not be greater than those previously approved by the Commission for other Pennsylvania electric utilities and Duquesne should be directed to change Sections 12.4 and 12.4.1 accordingly.

² Duquesne also has inappropriately expanded the definition of "Coordination Services" to include "those transmission and Ancillary services offered under the OATT tariff, and transmission losses and distribution losses."

CONCLUSION

MAPSA respectfully submits **Appendix A** as its alternative to the September 11, 1998 Duquesne Second Compliance Supplier Coordination Tariff. MAPSA believes that, in general, its proposed tariff provides a more workable framework than the Supplier Tariff proposed by Duquesne. To the extent that MAPSA's proposed language differs from Duquesne's, MAPSA urges this Commission to adopt its language. To the extent this Commission believes it necessary to require additional proceedings in which to resolve outstanding issues with regard to Duquesne's Supplier Tariff, MAPSA would agree to such a proceeding on a "fast track" basis. MAPSA believes it is imperative that the Supplier Coordination Tariffs used by the electric distribution companies be identical statewide to the extent possible. MAPSA's proposed modifications to Duquesne's proposed tariff accomplish that goal fairly. MAPSA respectfully requests this Commission to reject Duquesne's proposed Supplier Coordination Tariff and, rather, to adopt the Supplier Coordination Tariff proposed by MAPSA.

Respectfully submitted,



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DATED: September 21, 1998

APPENDIX "A"

DUQUESNE LIGHT COMPANY
ELECTRIC GENERATION SUPPLIER SERVICES TARIFF

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HOW TO USE LOOSE-LEAF TARIFF

1. This Tariff is issued on the loose-leaf plan. Each page will be issued as "original page," consecutively numbered, commencing with the title page, which in all cases will be considered as Page No. 1. For example: "Original Page No. 2", "Original Page No. 3, " etc.

2. All changes in, additions to, or eliminations from, original pages will be made by the issue of consecutively numbered supplements to this Tariff and by reprinting the page or pages affected by such change, addition, or elimination. Such supplements will indicate the changes which they effect and will carry a statement of the make-up of the Tariff, as revised. The Table of Contents will be reissued with each supplement.

3. When a page is reprinted the first time, it will be designated under the P.U.C. number as 'First Revised Page No....,' the second time as 'Second Revised Page No.....' etc. First revised pages will supersede original pages; second revised pages will supersede first revised pages, etc.

4. When changes or additions to be made require more space than is available, one or more pages will be added to the Tariff, to which the same number will be given with letter affix. For example, if changes were to be made in Original Page No. 2 and, to show the changed matter, more than one page should be required, the new page would be issued as 'First Revised Page No. 2, superseding Original Page No. 2'; and the added page would be issued as 'Original Page No. 2A.' If a second added page should be required, it would be issued as 'Original Page No. 2B.' Subsequent reprints will be consecutively designated as 'First Revised...,' 'Second Revised...,' etc.

5. On receipt of a revised page it will be placed in the Tariff immediately following the page which it supersedes, and the page which is to be superseded thereby plainly marked see following page for pending revision. On the date when such revised page becomes effective, the page superseded should be removed from the Tariff.

DEFINITION OF TERMS AND EXPLANATION OF ABBREVIATIONS

Active Load Management - the process for arranging to have firm load become interruptible in accordance with criteria established by EDC.

Ancillary Services – those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the Transmission Provider's Transmission System in accordance with Good Utility Practice. As used herein, Ancillary Services shall include Ancillary Services as defined by Order 888A issued by the Federal Energy Regulatory Commission on March 4, 1997.

~~Duquesne~~ Duquesne Light Company

Duquesne Control Area Operator's Marginal Hourly Price – the price at which Consumption Energy Imbalance will be traded. In the near term, this price will be equal to the marginal cost of power to serve ~~Duquesne Light West Penn Power Company's~~ regulated load, primarily sourced from Duquesne's generation. After Duquesne Light Company's bundled service load is no longer served by its own generation, the price will be based upon power purchased from the market by the Control Area Operator.

Duquesne Transmission Tariff - The Duquesne Light Company Pro Forma Open Access Transmission Service Tariff on file with the FERC and which sets forth the rates, terms and conditions of transmission service over Duquesne's transmission facilities.

Appropriate Similar Day – a load profile from an historical day selected to be comparable to forecasted day based on weekday, month, season, and weather.

Bad Credit - an EGS has bad credit if it is insolvent (as evidenced by a credit report prepared by a reputable credit bureau or credit reporting agency, or public financial data, liabilities exceeding assets or generally failing to pay debts as they become due) or has failed to pay Company invoices when they became due on two or more occasions within the last twelve billing cycles.

Charge - any fee or charge that is billable by the Company to an EGS under this Tariff, including any Coordination Services Charge and/or fees for Energy Imbalance services subject to the Duquesne Transmission Tariff, Retail Supplement, as amended and accepted for filing by the Federal Energy Regulatory Commission..

Company – Duquesne Light Company.

Competition Act - the Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. §2801, et seq.

Competitive Energy Supply - unbundled energy and/or capacity provided by an Electric Generation Supplier.

Control Area – An electric power system or combination of electric power systems to which a common automatic generation control scheme is applied in order to:

- (1) match, at all times, the power output of the generators within the electric power system(s) and capacity and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);
- (2) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;
- (3) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice; and
- (4) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

Coordinated Suppliers – Electric Generation Suppliers who have appointed a Scheduling Coordinator as their designated agent for certain Coordination Services.

Coordination Activities - all activities related to the provision of Coordination Services.

Coordination Obligations - all obligations identified in Rule 4 of this Coordination Tariff, relating to the provision of Coordination Services.

Coordination Services - those services that provide the required interface and coordination between EGS and the Company in order to effect the delivery of Competitive Energy Supply to service Customers located within the Company's service territory. Coordination Services may include load forecasting, scheduling activities, and energy imbalance services.

Coordination Services Charges - all Charges stated in the Charges section of this Tariff that are billed by the Company for Coordination Services performed hereunder.

Direct Access – Direct Access shall have the meaning as set forth in the Competition Act.

EDC Tariff – Duquesne Light Company Tariff Electric Pa. P.U.C. No. ___39.

EDEWG – (Electronic Data Exchange Working Group) – Group developing standardized formats and methodology for exchanging information electronically within the Pennsylvania deregulated electric market.

EGS Load Forecast – An hourly projection of load or capacity prepared by an EGS for each hourly-metered customer that has elected to have their EGS perform this service.

EGS Program – The type of generation services the EGS provides for its Eligible Customers.

Electric Distribution Company (EDC) - an entity that has been granted the authority or has an obligation pursuant to State or local law, regulation or franchise to sell electric energy to end-users located within the PA jurisdiction of the Duquesne Light Company.

Electric Generation Supplier (EGS) – a person or corporation, including municipal corporations which choose to provide service outside their municipal limits except to the extent provided prior to the effective date of the Act, brokers and marketers, aggregators or any other entities, that sell to end-use customers electricity or related services for sale to end-use customers utilizing the jurisdictional transmission and distribution facilities of an electric distribution company.

Eligible Customer – Any retail customer within the Allegheny Power Control Area taking unbundled transmission and generation services pursuant to The Electricity Generation Customer Choice and Competition Act (Act), as enacted by the Legislature of the Commonwealth of Pennsylvania, as amended from time to time (“customer”).

FERC – Federal Energy Regulatory Commission.

Hourly Metering Equipment - metering equipment that supplies hourly or sub-hourly readings of kW and power factor via remote communications or through on-site querying of the metering equipment.

Interconnected Operations Services – Services that the Company may offer voluntarily pursuant to the DuquesneAP Transmission Tariff, in addition to Ancillary Services, to facilitate the delivery of power, e.g., Real Power Transmission Losses.

Interest Index - an annual interest rate determined by the average yield of 1 -Year Treasury Bills for September, October and November of the previous year, as reasonably determined by DuquesneWest Penn Power.

Kilowatt or kW - unit of measurement of useful power equivalent to 1,000 watts.

Load Forecast – An hourly projection of load or capacity prepared by DuquesneAP for all monthly-metered customers and hourly-metered customers who have not elected to have their EGS perform this service.

Megawatt or MW - one thousand kilowatts.

Meter Read Date - the date on which the Company schedules a meter to be read for purposes of producing a customer bill in accordance with the regularly scheduled billing cycles of the Company.

Month - a month under this Tariff means 1/12 of a year, or the period of approximately 30 days between two regular consecutive readings of the Company's meter or meters installed on the customer's premises.

Monthly Metering – Meters from which scalar readings--kWh, kW, etc.--are obtained on a bill cycle basis.

PAPUC or Commission - The Pennsylvania Public Utility Commission.

Pre-Schedule – An aggregate hourly projection of load or capacity, compiled by DuquesneAP, or by the EGS at its option, in a manner that is consistent with Control Area protocols, used to forecast generation and transmission transfer capability required to meet load for customers within the DuquesneAP Control Area. One aggregate Pre-schedule is compiled for each EGS one business day before the delivery of power.

Schedule – Schedule for receipt and delivery of capacity and energy for the benefit of customers, prepared by the EGS and submitted to the DuquesneAP Control Area in the format prescribed by DuquesneAP. The schedule or combination of schedules is intended to meet the EGS' Pre-Schedule.

Scheduling Coordinator - an entity that performs one or more of an EGS' Coordination Obligations.

Supplier Tariff – this Electric Generation Supplier Service Tariff.

RULES AND REGULATIONS

1. THE TARIFF

- 1.1 Filing And Posting.** A copy of this Supplier Tariff, which comprises the Charges, Rules and Regulations and Riders under which the Company will provide Coordination Services to Electric Generation Suppliers, is on file with the Commission and is posted and open to inspection at the offices of the Company.
- 1.2 Revisions.** This Supplier Tariff may be revised, amended, supplemented or otherwise changed from time to time in accordance with the Pennsylvania Public Utility Code, and such changes, when effective, shall have the same force as the present Supplier Tariff.
- 1.3 Application.** The Supplier Tariff provisions apply to all EGSs providing Competitive Energy Supply to Customers located in the Company's service territory, including an affiliate or division of the Company that provides Competitive Energy Supply, and with whom the Company has executed an Individual Coordination Agreement as required herein. In addition, the Charges herein shall apply to anyone receiving service unlawfully or to any unauthorized or fraudulent receipt of Coordination Services.
- 1.4 Rules and Regulations.** The Rules and Regulations, filed as part of this Supplier Tariff, are a part of every Individual Coordination Agreement entered into by the Company pursuant to this Supplier Tariff and govern all Coordination Activities, unless specifically modified by a Charge or Rider provision. The obligations imposed on EGSs in the Rules and Regulations apply as well to everyone receiving service unlawfully or to any unauthorized or fraudulent receipt of Coordination Services.
- 1.5 Use Of Riders.** The terms governing the supply of Coordination Services under this Supplier Tariff or a Charge therein may be modified or amended only by the application of those standard Riders, filed as part of this Supplier Tariff.
- 1.6 Statement by Agents.** No Company representative has authority to modify a Supplier Tariff rule or provision, or to bind the Company by any promise or representation contrary thereto.

2. SCOPE AND PURPOSE OF TARIFF

- 2.1 Scope and Purpose of Tariff.** This Supplier Tariff sets forth the basic requirements for interactions and coordination between the Company as the Electric Distribution Company and EGSs necessary for ensuring the delivery of Competitive Energy Supply from EGSs to their Customers commencing on January 1, 1999.

2.2 Applicability of Terms to Scheduling Coordinators. As used in this Supplier Tariff, the term EGS shall apply equally to a Scheduling Coordinator for an EGS's responsibilities and rights properly assigned to that Scheduling Coordinator by the EGS.

3. COMMENCEMENT OF EDC/EGS COORDINATION

3.1 Registration for Coordination Services. An EGS seeking to obtain Coordination Services hereunder must deliver to the Company a completed registration, consisting of the following:

- (a) an Individual Coordination Agreement, as contained in a Rider hereto, fully executed in triplicate by a duly authorized representative of the EGS; and
- (b) the EGS' Pennsylvania sales tax identification number.

3.2 Incomplete Registrations. In the event the EGS submits an incomplete registration, the Company shall provide written notice to the EGS of the registration's deficiencies within ten (10) business days after the date of service, as determined under 52 Pa. Code § 1.56, of the registration. An incomplete registration is not due for processing by the Company until it is completed by the EGS and delivered to the Company.

3.3 Credit Check. A registration for Coordination Services shall constitute authorization to the Company to conduct a background credit check on the EGS.

3.4 Processing of Registrations. The Company shall complete the processing of each registration for Coordination Services within ten (10) business days after the date of service of the registration, as determined under 52 Pa. Code § 1.56, of the completed registration. The Company shall approve all completed registrations unless grounds for rejecting the registration, as defined below, exist.

3.5 Grounds for Rejecting Registration. The Company may reject any registration for Coordination Services on any of the following grounds:

- (a) the EGS has undisputed outstanding debts to the Company arising from its previous receipt of Coordination Services from the Company under this Tariff;
- (b) the EGS has failed to comply with credit requirements specified in Rule 12 of the Tariff; and/or
- (c) the EGS has failed to submit a completed registration within thirty (30) calendar days after the date of service of the registration, as determined under 52 Pa. Code § 1.56, of written notice of the registration's deficiency.

The Company may also petition the PAPUC to reject the registration of an EGS with Bad Credit. The Company need not provide Coordination Services to the EGS pending the PaPUC's review of said Petition unless the EGS has provided security to the Company as provided for in Rule 12.4.

- 3.6 Offer of Conditional Acceptance of Registration.** Where grounds for rejection of a registration exist due to an EGS' outstanding and undisputed debts to the Company arising from previous receipt of Coordination Services from the Company under the Tariff, the Company may offer the affected EGS a conditional acceptance if the EGS pays such debts before it receives Coordination Services. If the EGS rejects the Company's offer of conditional acceptance under this Rule, then its registration for Coordination Services will be deemed rejected.
- 3.7 Rejection of Registration.** Upon rejection of any registration, the Company shall provide the affected EGS with written notice of rejection within the time periods set forth in Rule 3.4, and shall state the basis for its rejection.
- 3.8 Approval of Registration.** Upon its approval of a registration for Coordination Services, or pursuant to an order of the Commission approving a registration, the Company shall execute the Individual Coordination Agreement tendered by the registrant and shall file a copy with the PAPUC, shall provide one to the EGS by delivering such within the period set forth in Rule 3.4 and shall maintain a copy for its own records.
- 3.9 Identification Numbers.** Upon its approval of a registration for Coordination Services, the Company will assign to the EGS a supplier identification number to be used in subsequent electronic information exchange between the EGS and the Company. In addition, the Company may also assign to the EGS identification numbers that may be required by the DuquesneAP Control Area Operator in connection with the submission and/or confirmation of Schedules for serving load in the Company's service territory.
- 3.10 Commencement of Coordination Services.** Coordination Services shall commence within fifteen days after the Company's acceptance of an EGS' registration for Coordination Services provided that all of the information necessary for the Company to provide Coordination Services has been provided to the Company and any conditions required under Rule 3.6 have been satisfied by the EGS.

4. COORDINATION OBLIGATIONS

- 4.1 Provision of Coordination Services.** The Company shall provide all Coordination Services, as provided herein, necessary for the delivery of an EGS' energy and/or capacity to serve retail access load located within the Company's service territory.
- 4.2 Timeliness and Due Diligence.** EGSs shall exercise due diligence in meeting their obligations and deadlines under this Supplier Tariff so as to facilitate Direct Access.
- 4.3 Duty of Cooperation.** The Company and each EGS will cooperate in order to ensure delivery of Competitive Energy Supply to Customers as provided for by this Supplier Tariff, the EDC Tariff, the DuquesneAP Transmission Tariff, and the Competition Act.

- 4.4 State Licensing.** An EGS must have and maintain in good standing a license from the PAPUC as an authorized EGS.
- 4.5 Energy Procurement.** An EGS must make all necessary arrangements for obtaining Competitive Energy Supply in a quantity sufficient to serve its Customers.
- 4.6 Control Area Services and Obligations.** An EGS is responsible for procuring those Ancillary and/or Interconnected Operations Services assigned to the EGS, identified in Rule 4.6.1 of this Supplier Tariff, that are necessary for the delivery of Competitive Energy Supply to its Customers.
- 4.6.1 EGS Responsibilities.** An EGS is responsible for procuring and/or delivering the following Ancillary and Interconnected Operations Services that are necessary for the delivery of Competitive Energy Supply to its Customers.
- (a) **Supply Energy Imbalance.** Supply Energy Imbalance is the difference between a Pre-Schedule and associated Schedule(s). Discrepancies between a Pre-Schedule and associated Schedule(s) will occur if EGS fails to meet its Pre-Schedule, in whole or in part. EGS remains solely responsible for supplying a Schedule(s) and for notifying the DuquesneAP Transmission Marketing Department if it will not deliver power to meet its Pre-Schedule. EGS' failure to supply a Schedule(s) or to deliver power to meet the Pre-Schedule will require the DuquesneAP Control Area operator to automatically supply the deficient amount of power. DuquesneAP will not accept Schedule(s) that are greater than the Pre-Schedule.
- (b) **Consumption Energy Imbalance.** Consumption Energy Imbalance is the difference between the Pre-Schedule and the Customer's metered actual use. When such a difference arises, the DuquesneAP Control Area will react accordingly. Specifically, if actual use is greater than the Pre-Schedule, DuquesneAP will automatically supply own or contracted power to make up for the deficiency. If actual use is less than the Pre-Schedule, DuquesneAP will automatically back down its own or contracted generation by the amount of oversupply. Consumption Energy Imbalance will be settled as follows:
- If actual use is greater than the Pre-Schedule, EGS will pay the Company the DuquesneAP Control Area Operator's Marginal Hourly Price.
 - If actual use is less than the Pre-Schedule, the Company will pay EGS the DuquesneAP Control Area Operator's Marginal Hourly Price.

Supply and Consumption Energy Imbalance will be charged according to the DuquesneAP Transmission Tariff, Retail Supplement, as revised and as may be subsequently amended and accepted for filing by the FERC. Such charges shall be billed directly to the EGS who remains solely responsible for all Energy Imbalance charges.

Detailed information about trading of Consumption Energy Imbalance can be found in Rule 8 of this Supplier Tariff.

- (c) **Real Power Transmission Losses.** Real Power Transmission Losses shall be calculated in accordance with the general terms and conditions of the DuquesneAP Transmission Tariff. However, for the limited purpose of providing retail access in the state of Pennsylvania beginning on 1/1/99, the Company will require that EGSs who provide Competitive Energy Supply will also be responsible for securing and delivering Real Power Transmission Losses pursuant to the Pennsylvania PUC's Opinion and Order No. R-00973981. Real Power Transmission Losses will be scheduled according to the requirements of Rule 7 of this Supplier Tariff.
- (d) **Distribution Losses.** Distribution Losses shall be provided in accordance with the terms and conditions of this Supplier Tariff and the EDC Tariff. EGS will be responsible for scheduling Distribution Losses according to the requirements of Rule 7 of this Supplier Tariff.

4.6.2 The Company's Responsibilities. Ancillary Services will be provided in accordance with the general terms and conditions of the DuquesneAP Transmission Tariff. However, for the limited purpose of providing retail access in the state of Pennsylvania beginning on 1/1/99, the Company will supply all Ancillary Services associated with Competitive Energy Supply pursuant to the PA PUC's Opinion and Order No R-00973981.

- (a) . All Ancillary Service charges other than those associated with Energy Imbalance (see Rules 4.6.1(a) and 4.6.1(b)) shall be billed to the Customer as part of the Transmission Charge of the appropriate rate schedule of the EDC Tariff. Energy Imbalance charges are not included in the said Transmission Charge and shall be billed to the EGS.

4.7 Scheduling. An EGS must make all necessary arrangements for scheduling the delivery of capacity and/or energy, including Real Power Transmission and Distribution Losses, into the DuquesneAP Control Area. The Company shall assist in these scheduling processes as set forth in Rule 7 of this Supplier Tariff.

4.8 Reliability Requirements. An EGS shall satisfy all reliability requirements issued by the PAPUC, ECAR, NERC, or any successor organization, or any other governing reliability council with authority over the EGS, that apply to EGSs. Any penalties or sanctions issued by such governing bodies reliability council(s) to the DuquesneAP Control Area will be fairly apportioned by an independent third party to any EGSs whose behavior contributed to the violation.

~~An EGS shall abide by the decisions and actions of the Duquesne AP Control Area Operator in regards to standard operating policies established by ECAR, including the ECAR reserve-sharing program.~~

4.9 Determination of Forecasted Load. The EGS Company will prepare hourly Load Forecasts for ~~monthly metered~~ all customers based upon customer class load profile curves and historical Customer usage provided by the Company as discussed in Rule 6 of this Supplier Tariff. ~~A Customer with an hourly meter may elect to have its EGS submit its Load Forecast on its behalf. However, if an EGS chooses not to prepare an hourly Load Forecast, the Company will be the default provide one of the Load Forecast.~~

4.10 Consumption Energy Imbalances. The Company will supply calendar month hourly Consumption Energy Imbalances to the EGS as soon as practicable after the calendar month has been fully metered as set forth in Rule 8 of this Supplier Tariff.

4.11 Supply of Data. An EGS and the Company shall supply to the other all data, materials or other information specified in this Supplier Tariff, or otherwise reasonably required by the EGS or Company in connection with the provision of Coordination Services, in a thorough and timely manner.

4.12 Communication Requirements. An EGS must be equipped with the following communications capabilities:

- Internet electronic mail (e-mail), including the capability to receive ASCII file attachments;
- Internet browser (Netscape 4.0 or better) for access to Allegheny Power Supplier web-site and file uploads and downloads;
- Electronic Transmission methodologies compliant with the Consensus Plan for Electronic Data Exchange Standards for Electronic Deregulation in the Commonwealth of Pennsylvania, prepared by the Electronic Data Exchange Working Group (EDEWG). ~~(Value-Added Network with shared costs between Allegheny Power and EGS through January 1, 1999. Internet File Transfer methodology to be recommended by EDEWG by August 15, 1998, for use after January 1, 1999); and~~
- Fax.

4.13 Record Retention. An EGS and the Company shall comply with all applicable laws and PUC rules and regulations for record retention, including but not limited to those Rules of Chapter 56 of the Pa PUC's regulations.

4.14 Payment Obligation. The Company's provision of Coordination Services to an EGS is contingent upon the EGS's payment of all charges provided for in this Tariff.

4.15 Data Exchange.

- (a) Except where otherwise noted, the Company will exchange data with an EGS utilizing data formats and transfer methodologies compliant with the Consensus Plan for

Electronic Data Exchange Standards for Electric Deregulation in the Commonwealth of Pennsylvania, prepared by the Electronic Data Exchange Working Group (EDEWG). This plan requires Electronic Data Interchange (EDI) transactions be used for exchanging customer volunteer, EGS selection, billing determinant, and payment information.

- (b) Subject to Rule 4.15(c), below, the Company shall make available to an EGS, upon the customer's successful selection of that EGS, the following information. The information will be provided in an electronic format compliant with the Consensus Plan for Electronic Data Exchange Standards for Electric Deregulation in the Commonwealth of Pennsylvania:
- (i) Account Number
 - (ii) Customer Name
 - (iii) Service Address, City, State and Zip Code
 - (iv) Care of Name
 - (v) Mailing Address, City, State and Zip Code
 - (vi) Phone Number
 - (vii) Customer Billing Identification
 - (viii) Rate Code
 - (ix) Meter Number(s)
 - (x) Percentage of load eligible for participation
 - (xi) Previous 12 months usage information
- (c) An EGS must notify its Customers that by signing up for Competitive Energy Supply with the EGS, the Customer is consenting to the disclosure by the Company to the EGS of certain basic information about the Customer, as listed in Rule 4.15(b). At minimum, the notice shall inform the Customer that the following information will be disclosed: the Customer's account number, data about meter readings, rate code and electric usage, the Customer's address(es) and telephone number.
- (d) The Company will maintain on the Allegheny Power Supplier Website copies of the standard file formats it will provide to EGSs containing the data listed in this Rule of this Tariff. The Company will not change the file formats without first providing via internet electronic mail and posting on the Allegheny Power Supplier Website at least seven days notice of any such change. The Company will make a good faith effort to provide a greater period of notice when warranted.
- (e) Nothing in this Rule 4.15 shall prohibit the Company from making available to EGSs other electronic data, in formats chosen by the Company. The Company will not change the file formats of the electronic data made available under this Rule without first providing via Internet electronic mail and posting on the Allegheny Power Supplier Website at least seven days notice of such change. The Company will make a good faith effort to provide a greater period of notice when warranted.

- 4.16 Code of Conduct.** The Interim Code of Conduct contained in the Company's EDC Tariff is incorporated herein by reference.
- 4.17 Standards of Conduct and Customer Disclosure for Licensed EGSs.** The Standards of Conduct, as filed by the Company with FERC in compliance with Order No. 889, are incorporated herein. Customer Disclosure for Licensees will be established by the Final Rulemaking Order Establishing Customer Information Disclosure Requirements for Electricity Providers, 52 PA. Code Chapter 45., Docket No. L00970126, and Final Rulemaking Order Re: Licensing: 52.PA.Code. Chapter 54 and Section 3.551. Docket No. L00970129.
- 4.18 Emergency Operation.**
- 4.18.1** Retail transmission services shall be provided pursuant to the Duquesne Transmission Tariff. EGS shall fulfill the Duquesne Transmission Tariff requirements on behalf of its customers in regards to load shedding and curtailment procedures. EGS shall accept the Duquesne Control Area Operator's determination that an emergency exists and comply with the Control Area Operator's directives.
- 4.18.2** An EGS shall shed load to rectify any imbalance it has knowingly created in failing to meet its Pre-Schedule in the event that the Duquesne Control Area Operator is unable to secure energy/capacity.

5. DIRECT ACCESS PROCEDURES

- 5.1 Customer Enrollment.** The selection of Customers eligible to obtain Competitive Energy Supply shall occur in accordance with the Direct Access Procedures set forth in this Tariff and in the EDC Tariff.
- 5.1.1 Mail Method:** The Company will process Company-supplied enrollment cards that are returned to the Company. The cards the Company will use will contain check-off boxes, which a Customer would check to indicate the Customer's dissent to disclosure of confidential Customer-specific information.
- 5.1.2 EGS Method:** EGSs may enroll Customers during the enrollment period in any manner they wish, but must send Customer enrollments to the Company via properly formatted electronic files (account number, Customer name, Customer address, rate code, authorization to release Customer information) using EDEWG compliant formats and methodology. An EGS must also include within its electronic file an indication as to which of the Customers it enrolls have dissented to disclosure of Customer-specific information as set forth below in Rule 5.1.5. EGSs shall forward the electronic files on a daily basis to the Company. The Company will acknowledge

receipt of the enrollment file via electronic confirmation. The Company shall provide confirmation within two business days of all electronic files received. Such confirmation shall include the reason for any rejections (e.g., invalid account number). Such confirmation shall also include information an EGS can use to identify rejected records.

5.1.3

- (a) **Provision of Residential and Street Lighting Customer Lists.** Concurrent with the Company notifying Customers of their eligibility to select an EGS, the Company shall provide to all EGSs a complete list of eligible enrolled Customer information in electronic format. Said list shall include Pilot Customers. Said list shall be provided electronically and be made available on the same date Customers are notified that they have been enrolled. Said list shall include all of the information outlined in Rule 5.1.4, below for Customers that consent to the release of Customer information. Information, so noted in said list, will not be provided if Customer dissents to its release. If, after the final date for the enrollment period, less than 66% of the non-coincident peak load for residential and street lighting customers has been enrolled, the Company shall provide all licensed EGSs with a list of enrolled Customers in such rate classes to date. The Company will continue to enroll Customers and the list of enrolled Customers will be updated weekly until the loads of the enrolled Customers comprise 66% of the non-coincident peak load of residential and street lighting rate classes or full Direct Access begins.
- (b) **Provision of Industrial and Commercial Customer Lists.** Concurrent with the Company notifying Customers of their eligibility to select an EGS, the Company shall provide all EGSs a complete list of eligible enrolled Customer Information in electronic format. Said list shall include the Pilot Customers. Said list shall be provided electronically and be made available on the same date Customers are notified that they have been enrolled. Said list shall include all of the information outlined in Rule 5.1.4, below for Customers that consent to the release of Customer information. Information, so noted in said list, will not be provided if Customer dissents to its release. After the final date for the enrollment period the total aggregated non-coincident peak load represented by the enrolled Industrial and Commercial Customers by Rate Schedule will be compared to the load available (66% of the non-coincident peak load) for each Rate Schedule. If the enrolled load is equal to or less than the load available for any of these Rate Schedules each enrolled customer in such Rate Schedule will be eligible to purchase 100% of their generation needs from an EGS. If the enrolled load is greater than the load available for any of these Rate Schedules each enrolled customer will be eligible to purchase a fixed percentage of their hourly generation needs from an EGS. This fixed percentage for each such Rate Schedule will be calculated as the total load available (66% of the non-coincident peak load for such Rate Schedule) divided by the total aggregated non-coincident peak load represented by the enrolled customers for such Rate Schedule. This fixed

percentage will be provided to the customer and all EGSs as part of the notification process described above.

5.1.4 Data Exchange. The list of enrolled Customers that the Company provides to all EGSs pursuant to Rule 5.1.3, above, shall contain the following information about Customers:

- (i) Allegheny Power Account Number
- (ii) Customer Name
- (iii) Mailing Address
- (iv) Mailing City
- (v) Mailing State
- (vi) Zip
- (vii) Mailing Zip – Sector
- (viii) Spouse's Name
- (ix) Service Address
- (x) Service City - State
- (xi) Service Zip
- (xii) Service Zip - Sector
- (xiii) Phone Number - (Not shown if Customer dissents)
- (xiv) Annual kWhs - (Not shown if Customer dissents)
- (xiv) Number of Months a Customer if Less Than 12
- (xv) Customer Class
- (xvi) Rate Code
- (xvii) DuquesneS Load Profile Code
- (xvii) Single Highest Monthly Peak Demand during previous 12 months
- (Not shown if Customer dissents)
- (xix) Eligibility Date
- (xx) Percentage of Load Eligible for Deregulation

5.1.5 Manner of Customer Consent. An EGS that enrolls a Customer in accordance with Rule 5.1.2 of this Tariff must ask the Customer whether the Customer dissents to the disclosure to all EGSs by the Company of Customer-specific information. The EGS must retain (for the period of time required by Rule 4.13) a record indicating whether the Customer dissented to such disclosure. If the record is not itself a hard copy document, but rather an electronic or computer record, the EGS must be able to print or otherwise reproduce the record in hard copy.

5.2 Switching Among EGSs (or between an EGS and the Company as the Provider-of-Last Resort), and Initial Selection of an EGS. Initial EGS selections and switching by Customers shall occur in accordance with the Direct Access Procedures contained in this Supplier Tariff and the EDC Tariff.

5.2.1

- (a) An EGS must notify its Customers that by signing up for Competitive Energy Supply with the EGS, the Customer is consenting to the disclosure by the Company to the EGS of certain basic information about the Customer, as listed in Rule 4.15(b). At minimum, the notice shall inform the Customer that the following information will be disclosed: the Customer's account number, data about meter readings, rate class and electric usage, the Customer's address(es) and telephone number.

Furthermore, if the EGS would like to acquire historical usage information regarding Customers receiving Competitive Energy Supply, regardless of the Customers' enrollment designation regarding the release of that information to all EGSs, serving EGS must include statement of disclosure in notice.

- (b) If a Customer or person authorized to act on the Customer's behalf contacts the Company to select an EGS, the Company will direct the Customer to contact that EGS and provide the telephone number of the EGS to the Customer, if required.

5.2.2

- (a) If a Customer contacts a new EGS to request a change of EGS and the new EGS agrees to serve the Customer, the Customer's new EGS shall obtain appropriate written authorization from the Customer or person authorized to act on the Customer's behalf indicating the Customer's choice of EGS. The written authorization shall include the Customer's acknowledgment that the Customer has received the notice required by Rule 5.2.1a. It is the EGS' responsibility to maintain records of the Customer's written authorization in the event of a dispute, in order to provide documented evidence of authorization to the Company or the Commission.
- (b) The Customer's new EGS shall also submit the Customer's information using a file format designated by the Company via EDEWG compliant formats and methodology. The required electronic files shall include, at a minimum, EGS ID, Allegheny Power Account Number, Action (ADD), Customer Name (at least first four characters as shown on eligible customer list), Rate Code, Billing Option, Price Plan (if one-bill option is selected), Transaction Date and Transaction Time. Upon receipt of the electronic file from the EGS, the Company will automatically confirm receipt of the file via EDEWG compliant formats and methodology. Within two business days of receipt of the electronic file, the Company will validate the records contained in the file, and will provide an electronic validation, including the number of records received and the reason for any rejections. Such validation shall include appropriate control totals such as number of records received, and the reason for any rejections (e.g., invalid account number). Such validation shall also include information an EGS can use to identify rejected records. If a Customer selects more than one EGS, the EGS that submitted the EGS selection record with the latest valid EGS transaction date and time to the Company 15 days prior to the

customer's regularly scheduled Meter Read Date will be eligible to become the EGS of record on the Customers regularly scheduled Meter Read Date.

- (c) The Company will send the Customer a confirmation letter notifying the Customer of the right to rescind. If the Customer does not contact the Company within 10 days of the date on the confirmation letter, then the Company will process the selection. The selection will be effective as of the next scheduled Meter Read Date and the EGS will become the EGS of record for delivery provided that: (1) the Company has received at least 15 days prior notice from the EGS and all Customer information provided to the Company is accurate and complete; (2) the 10-day waiting period has expired; and (3) the Customer has not contacted the Company to dispute the EGS selection. In such circumstances, the Company will send the new EGS an electronic file, via EDEWG compliant formats and methodology, containing information for the new Customers of record for that particular EGS, in accordance with Rule 4.15(b).

If, during the 10-day waiting period, the Customer elects to rescind its new EGS selection, the Company will notify the rejected EGS of the rescission electronically via EDEWG compliant formats and methodology. In the event the Customer rescinds their EGS selection after the 10-day waiting period and within the 15 days preceding the Customer's next regularly scheduled meter reading date, the Customer will be required to remain with the selected EGS for a minimum of one billing cycle.

- (d) Within one business day of processing the request for new EGS, the Company will notify the Customer's prior EGS, via EDEWG compliant formats and methodology, of the discontinuance of service to the Customer from that prior EGS.

5.2.3

- (a) **Request for Customer Information.** If an EGS wishes to obtain from the Company confidential Customer specific information about a Customer with whom the EGS is discussing the possibility of providing Competitive Energy Supply, the Company will only provide such information if the EGS provides to the Company a copy of written documentation indicating that the Customer has authorized the release of Customer information to the EGS.
- (b) **Request for Customer Historical Load Information.** EGS may wish to acquire historical usage information regarding Customers receiving Competitive Energy Supply, regardless of the customers' enrollment designation regarding the release of that information to all EGSs. Serving EGS must include statement of disclosure in notice to Customer. EGS may also wish to obtain this information about a Customer with whom the EGS is discussing the possibility of providing Competitive Energy Supply, authorization detailed in Rule 5.2.3(a) is required. EGS may request historical load information from Company via an electronic

format and communication method compliant with the EDEWG Standards. EGS is required to retain proof of notice of disclosure. Company will fulfill said data request via an electronic format and communication method compliant with EDEWG Standards.

- 5.2.4** If a Customer contacts the Company to request a change of EGS to the Company's tariffed Generation Charges for Provider of Last Resort (PLR) Service, the Company will process the request as follows. The Company will send the Customer a confirmation letter notifying the Customer of the right to rescind. If the Customer does not contact the Company within 10 days of the date on the confirmation letter, then the Company will process the request. The request will be effective as of the next scheduled Meter Read Date and the Company as the PLR will become the supplier of record for delivery provided that: (1) the Company has received at least 15 days prior notice from the Customer, and (2) the 10-day waiting period has expired; and (3) the Customer has not contacted the Company to rescind or dispute the switch to PLR Service. The Company will notify the Customers prior EGS, via EDEWG compliant formats and methodology within one business day of processing the request for new EGS, of the discontinuance of service to the Customer from that prior EGS.
- 5.2.5** If a Customer contacts the Company to discontinue electric service at the Customer's then current location, and initiates a request for service at a new location in the Company's service territory, the Company will notify the current EGS, via EDEWG compliant formats and methodology, of the Customer's discontinuance of service for the account at the Customer's old location. The Company will inform the Customer that an EGS must be selected to provide the generation service for the new location even if the Customer wishes to have the current EGS provide the generation service at the new location. The Company will direct the Customer to contact the EGS and provide the telephone number of the EGS to the Customer, if required. The Company will provide generation service as PLR at new location until such time a valid EGS selection is made.
- 5.2.6** If the Company elects to change the account number for a Customer receiving Competitive Energy Supply from an EGS, the Company will notify the EGS of the change in account number at the same Customer location, via EDEWG compliant formats and methodology.
- 5.2.7** During the initial supplier selection period from September 1, 1998 through January 1, 1999, supplier selections received by the Company from the EGS in accordance with Rule 5.2 will be processed so as to become effective on the customer's regularly scheduled read date on or after January 1, 1999.

5.3 Provisions relating to an EGS' Customers.

5.3.1 Arrangements with EGS Customers. EGSs shall be solely responsible for having appropriate contractual or other arrangements with their Customers necessary to implement Direct Access consistent with all applicable laws, PAPUC requirements, and this Tariff. The Company shall not be responsible for monitoring, reviewing or enforcing such contracts or arrangements.

5.3.2 Transfer of Cost Obligations Between EGSs and Customers. Nothing in this Tariff is intended to prevent an EGS and a Customer from agreeing to reallocate between them any charges that this Tariff imposes on the EGS, provided that any such agreement shall not change in any way the EGS' obligation to pay such charges to the Company, and that any such agreement shall not confer upon the Company any right to seek recourse directly from the EGS' Customer for any charges owed to the Company by the EGS.

6. LOAD FORECASTING

6.1 Customer Load Forecasting. ~~The Company, in conjunction with an~~ An EGS, shall perform a ~~Customer load forecasting process for each EGS' load requirements which shall estimate an EGS' its anticipated aggregate hourly Customer load.~~ The aggregate hourly load forecast shall define the hourly energy requirements for an EGS. Energy will be delivered to the Duquesne Control Area using the Duquesne power scheduling policies and procedures. If an EGS does not estimate its anticipated aggregate hourly load, the Company will provide the estimate.

6.2 Forecasting Methodology.

6.2.1 Monthly-Metered Customer Forecasts. For each EGS, the Company will provide ~~hourly Load Forecasts-Profiles~~ for Customers with monthly metering equipment, which will the EGS can use to establish the its hourly supply obligations of the EGS for serving ~~such its~~ Customers. The Company has developed and will maintain, based on load survey data, ~~load forecast profile categories~~ corresponding to the Company's current rate classes identified in the EDC Tariff. EGSs may use these ~~Representative historical load curves of these rate classes will be as~~ the basis for preparing the forecasts for the aggregate of an EGS's monthly-metered Customers in each rate class.

6.2.2 Hourly-Metered Customer Forecasts. An EGS may provide hourly load ~~forecasts~~ for their Customers with Hourly Metering Equipment, whether or not the metering equipment is the same equipment that is used by the Company and the EGS for billing purposes. If an EGS does not provide such forecasts, then the EGS can ~~DuquesneAP will provide hourly Load Forecasts using apply~~ Duquesne's methodology load profiles for hourly-metered customers. It will be the EGS'

responsibility to inform the Company if the EGS will be providing the hourly load forecast on behalf of any of its customers. load forecasts or relying on Duquesne to provide the load forecasts.

6.2.3 Typical Load Curve Data. ~~On or before the day of energy scheduling~~ As early as possible, the Company will make available to EGSs the typical load curves, customer counts, and usage factors necessary to calculate the hourly Load Forecast usage for monthly-metered all Customers. The Company will make this This information will be available on an ongoing basis for an EGS to download from a password secured Company web-site.

6.2.3.1 Updates to Typical Load Curve Data. The Company shall review annually its methodology, algorithms, and load forecasting results and shall perform additional load studies to update the load curve data as required.

6.2.3.2 Customer Counts. The Company will make available to EGSs customer counts, as they change, for use by the EGS to verify the number of customers the EGS has in each rate class against the number of customers for which the EGS has received confirmation from the Company that the customers have chosen the EGS.

6.2.3.2 Usage Factors. For monthly-metered customers, the Company will apply usage factors after the fact to allocate customers' monthly usage across all hours of the month. The Company will make available all such usage factors to EGSs as well as any algorithms the Company uses to apply such usage factors as soon as they are available. The Company will estimate the usage factors on a day-ahead basis and make them available on its web site. The Company will also make available all usage factors as used in the Company's final estimates of hourly usage.

6.2.4 Right to Aggregate. EGSs may aggregate their Customers' loads when shopping competitively for power. Customers receiving Competitive Energy Supply from an EGS may aggregate multiple sites or meters for the purpose of energy scheduling and billing of generation charges only if the EGS performs the billing of the Competitive Energy Supply.

6.2.5 Split Loads. Customers may choose to be supplied by more than one EGS. Where one or more of the EGSs serving the customer fails to fulfill its obligation to supply generation services, the customer may receive service from the Company. However, in order for the customer to continue to receive service from the customer's other EGS(s), the customer must arrange for a replacement for the non-supplying EGSs by the end of the second full monthly billing cycle after the customer receives notice of the EGS's failure to supply. If, by that time, the customer has not replaced the

~~non-supplying EGS(s), the customer must either discontinue receiving service from the Company or receive replacement service from the Company. Not allowed. Only one EGS will be allowed to provide energy services through a customer's meter.~~

- 6.2.6 Partial Loads.** Applicable during the phase-in period through January 1, 2000. EGS or EDC will schedule partial loads as a fixed percentage applied to Customer's load profile. This fixed percentage will be calculated as described in Rule 5.1.3(b) respective to EDC rate classification. The EDC fixed percentage will be one minus the respective EGS fixed percentage for the Customer. These fixed percentages will be applied to the Customer's total load to determine generation costs only.

6.3 Daily Forecasting Process.

- 6.3.1 Business Days and Scheduling Window.** The daily forecasting process shall be performed on each business day. A business day is a weekday excepting Company holidays. The daily forecasting process shall be performed on each business day for a scheduling window consisting of all following days through the next business day.

For example, the daily forecasting process shall be performed Monday through Thursday (except holidays) for a scheduling window that covers the following day (midnight to midnight). If the following day is a holiday, then the scheduling window shall include the holiday and be extended to include the first business day following the holiday. Similarly, the daily forecasting process shall be performed on Friday for a scheduling window consisting of the following Saturday, Sunday, and Monday. If the Monday is a holiday, then the scheduling window shall include the holiday and extend through the first business day following the holiday.

The Company shall provide respective typical month load curves for the monthly-metered Customers to the EGS one month prior to current forecast month.

- 6.3.2 Process Description for Forecasting.** The following process shall be followed on each business day:

~~**Step 1: Monthly-Metered Customer Load Forecast**~~

~~The Company will calculate for each EGS a Load Forecast for each monthly-metered rate class by multiplying the representative load curve for the appropriate day type by the number of an EGS' Customers (including Customers of any Coordinated Suppliers that have a designated EGS as their Scheduling Coordinator) in that rate class and adjusting the hourly values upward by an amount necessary to cover line losses based on EDC provided Transmission and Distribution loss percentages (See EDC Tariff) for the Customer class to which each Customer belongs. The Company will forward this information to the EGS according to Rule 7.3 of this Supplier Tariff.~~

~~**Step 2a: Hourly-Metered Customer Load Forecast**~~

~~By 7:00 a.m. Eastern Prevailing Time of the business day before delivery of power an EGS shall provide the EGS Load Forecast for each of an EGS' hourly metered Customers and for each hourly metered Customer of any Coordinated Suppliers that have a designated EGS as their Scheduling Coordinator (Communication medium will be determined at a later date subject to mutual agreement with EGS or PUC approval). Forecasts for hourly metered Customers will include estimated losses based on Company furnished Transmission and Distribution loss factors for each rate class.~~

Step 1. The EGS will submit a preliminary schedule of its aggregate hourly usage for all customers to the Company by 7:00 A.M. for next-day usage up to the next business day.

Step 2. The Company will reject any disputed schedules as early as possible, but no later than 9:00 A.M. of the same day. Schedules not rejected by 9:00 A.M. will be deemed accepted.

Step 3. Any disputes will be settled by 10:00 A.M. of the same day. If disputes are unresolved, the last accepted schedule for an appropriate similar day will be used and the Company and EGS will meet as early as possible to resolve the dispute. If forecasting disputes continue, then a mutually acceptable third party will arbitrate and the expense of arbitration will be shared equally.

Step 4. The EGS can modify its pre-schedule for the remainder of the day on an hourly basis with twenty minutes notice before the hour of the change.

~~If an EGS fails to enter an EGS Load Forecast for any of its required hourly metered Customers by 7:00 a.m. Eastern Prevailing Time the business day before delivery of power, the Company will use an EGS' previously entered values for an Appropriate Similar Day. If no previous values exist for the Appropriate Similar Day for an hourly-metered Customer, the Company shall provide a profile based on an historical typical day. Such default values shall be binding on an EGS that fails to enter load forecasts as required as if it had entered the values itself.~~

~~**Step 2b: Company Right to Reject EGS Forecast**~~

~~The Company and the EGS shall seek to reach an agreement as to the load forecasts submitted by an EGS under Step 2a, provided that nothing in this Step 2b shall limit the Company's right to reject a forecast and submit a Company forecast pursuant to Step 3.~~

~~**Step 3: Resolution of Rejected EGS Forecast**~~

~~If Company review of EGS submitted Load Forecasts identifies a problem with load forecast that could result in rejection of EGS Load Forecast, the Company will notify the EGS by 9:00 a.m. Eastern Prevailing Time. If conditions permit, the Company will attempt to explain to the EGS the reason for rejection and resolve forecast problems. If the reason for rejecting an EGS Load Forecast values or changes cannot be resolved by 10:00 a.m. Eastern Prevailing Time, the scheduling process will continue using the Company forecast values. The times (deadlines) included in this Step 3 are tentative and may change subject to mutual agreement with EGSs or PUC approval.~~

6.4 Real-Time Load Following (Dynamic Scheduling). To the extent an EGS pays for the necessary metering and telecommunications equipment and installation by EDC for actual load following, an EGS may follow such Customers' loads. To the extent that an EGS' total supply is for such Customers, an EGS shall be obligated to follow such Customers' loads on a real-time basis.

For real-time load following, an EGS will have special obligations with respect to both the Company and its Control Area Operator that must be dealt with on a Customer-by-Customer basis to ensure operational integrity. An EGS, the Company, and its Control Area Operator shall work cooperatively to address the technical and operational issues posed by real-time load following as the need arises. The loads of Customers using real-time load following will not be incorporated into an EGS' hourly load forecasts except as required for Duquesne Control Area operation and transmission purposes. An EGS shall supply specific information regarding the generation resources committed to following the EGS load. If the generation resources are located outside the Duquesne Control Area, EGS must arrange for the cooperative involvement of any other parties necessary to institute such dynamic scheduling.

To the extent an EGS' commencement of real-time load following requires modifications of the Company's computer, telemetering, telecommunication, and other systems to enable such activity, the EGS making such request shall be responsible for paying the Company's incremental costs associated with such modifications. The Company shall bill the EGS for any such costs in accordance with Rule 12 of this Tariff. All other costs imposed by parties involved in the overall arrangements shall be for the EGS' account.

~~**6.5 Adequacy of Forecast.** If an EGS should question the adequacy of the Company forecast for the monthly metered customers, and EGS may provide, at its own discretion, its own forecast for the aggregate requirements of its monthly metered Customers, independent of the Company's forecast for comparative purposes only. The EGS and the Company shall concur on the compatibility of the forecasting methodology to be used by the EGS. However, by executing an Individual Coordination Agreement, an EGS agrees that the Company's Load Forecast for monthly metered Customers will be used for scheduling and will be adequate for this purpose. An EGS' remedies for any claimed deficiency in the Company's forecast for monthly metered Customers shall be limited to either:~~

- ~~2. _____~~ 1. _____ arranging, at its own expense, for the installation pursuant to PDuquesneAPUC rules and procedures of Hourly Metering Equipment at Customer's

~~premises in order to permit the Customer to be forecasted, billed and reconciled as an hourly Customer; or~~

~~2. entering, at its own expense, into a joint load study with the Company to develop new load curves that meet standards for Company approval.~~

7. LOAD SCHEDULING

~~7.1 Development of Aggregate Hourly Forecast. The accepted EGS Load Forecasts resulting from Step 3 of Rule 6.3.2 will be combined with all Load Forecasts prepared by the Company to form an aggregate hourly forecast by EGS.~~

~~7.1.1 The aggregate hourly forecast shall include transmission and distribution losses according to the provisions of the EDC Tariff.~~

7.2 Accumulation to Whole MWs. In accordance with inter-control area scheduling protocol that requires scheduling and delivery of power be done in whole MWs, ~~AP the EGS will~~ accumulate the aggregate hourly forecast of kWh load until a whole MW is reached, at which point it will appear on the Pre-Schedule. Any kWh balance that remains at the end of the day will be shown on the Pre-Schedule as a carryover, which will be applied as a beginning balance to the following day's Pre-Schedule.

~~7.3 Pre-Schedule. AP will forward to the EGS its Pre-Schedule by 11:00 a.m. Eastern Prevailing Time one business day before the delivery of power.~~

7.4 Schedules. Pursuant to the Network Operating Agreement, EGS shall submit daily Schedule(s), aggregated by source of supply, to Duquesne Transmission Marketing by 1:00 p.m. Eastern Prevailing Time one business day before the delivery of power. The aggregate of the EGS' Schedules shall precisely meet its Pre-Schedule. All Schedules shall be in compliance with NERC tagging guidelines. Schedule(s) may also be communicated to the Duquesne Control Area via a dynamic schedule. Arrangements for dynamic scheduling must be made under a separate agreement with the Duquesne Control Area. For Further information about dynamic scheduling, refer to Rule 6.4 of this Supplier Tariff. The times (deadlines) included in this Rule 7.4 and Rule 7.3 are tentative and may change subject to mutual agreement with EGSs or PUC approval.

7.5 Manual Load Schedule Changes. Manual schedule changes to accommodate changes in generation sources and pre-schedules will be permitted up to 20 minutes before the start of the next clock hour or the start of the next half-hour provided that all parties (including all affected Control Areas) agree to such changes. Notice of such changes shall be submitted by phone to Duquesne Transmission Marketing at (724) 838-6064.

Manual schedule changes to accommodate 30 minute interruptible loads will also be permitted. Such schedule changes shall be provided by the EGS to Duquesne Transmission

Marketing as soon as possible after Customer or EGS has been notified of the requirement to drop the interruptible load, but in no event later than 20 minutes before the start of the interruption. EGSs shall specifically tell Duquesne Transmission Marketing when schedule changes are attributable to 30-minute interruptible loads. In such instances, EGS will not be penalized for Supply Energy Imbalance arising from schedule changes due to interruptible loads. However, failure of a customer to drop the interruptible portion of its load will be reflected in the Consumption Energy Imbalance billed to the EGS.

8. CONSUMPTION ENERGY IMBALANCE SERVICE

- 8.1 General Description.** In this Rule 8, all references to "EGS" apply equally to the EDC. Consumption Energy Imbalance service accounts for mismatches between an EGS' Pre-schedule (with Duquesne Control Area Operator-approved load schedule changes) for serving its Customers and the energy that was actually used by those Customers. This service differs from Supply Energy Imbalance Service - in that the latter accounts for differences between an EGS' hourly energy obligation (Pre-schedule) and the quantity of energy actually delivered by the EGS. Given the absence of universal real-time metering, the calculation of Consumption Energy Imbalance quantities must typically occur after the monthly reading of Customers' meters.
- 8.2 Billing.** The EGS will rely on Duquesne Control Area Operator to perform calculations to determine the monetary value of Consumption Energy Imbalance quantities and to bill and/or credit EGSs for oversupplies and undersupplies at the Duquesne Control Area Operator's Marginal Hourly Price. The Company also shall provide any data necessary for an EGS to independently determine Duquesne's Hourly Marginal Price. Furthermore, -EGSs have the right to audit Duquesne's calculations of, and methods to determine, Marginal Hourly Price.
- 8.3 The Company's Role.** The Company will assist Duquesne Control Area Operator in accounting for Consumption Energy Imbalance quantities by (1) collecting all Customer usage data; (2) determining hourly Consumption Energy Imbalance quantities for each EGS; (3) calculating summing the hourly Consumption Energy Imbalance quantities to provide monthly consumption energy imbalance quantities for each EGS; and (4) submitting the Consumption Energy Imbalance quantities to the Duquesne Control Area Operator. The Company also shall provide any data necessary for an EGS to independently determine the Consumption Energy Imbalance calculations.

The Company will post its Hourly Marginal Price on its Internet site within five minutes after the hour for every hour. It will maintain daily reports of Hourly Marginal Price for a period of thirty days after posting.

- 8.4 Meter Data Collection.** Meter data collected by the Company shall be utilized to calculate the quantity of energy actually consumed by an EGS' Customers for a particular period. Such collection shall occur at the time of a Customer's monthly meter reading. Thus, in order

to measure the energy consumed by all Customers on a particular day, at least one month is required for data collection. In general, on each day that new metered-usage data is posted, one or more days in the previous month will become 'fully metered.'

8.4.1 Monthly-metered Customers. Data from monthly-metered Customers is collected in subsets corresponding to customer billing cycles (billing routes), which close on different days of the month. To reconcile energy mismatches on an hourly basis, the Company shall convert such meter data, including estimates, for Customers to the equivalent hourly usage. Rate class load curves will be applied to metered usage to derive an estimate for the hour-by-hour usage.

8.4.2 Hourly-Metered Customers. Data from hourly-metered Customers will also be collected by the Company monthly on a billing route basis.

8.5 Determine Consumption Energy Imbalances. Each business day that new fully metered days are available, the Company will determine hourly Consumption Energy Imbalance quantities for that portion of the previous month's usage corresponding to new fully-metered days.

The following calculations will be used to determine the hourly Consumption Energy Imbalance quantities:

Step 1: Determine Customer Hourly Profiles

Monthly-metered Customers' billed usage (based on actual or estimated meter readings) will be spread over each hour in the usage period based on each Customer's representative hourly usage curve based on actual hourly weather data for the usage period. The monthly-metered Customer's estimated usage by hour will be multiplied by the appropriate loss factor respective to Customer rate class to determine the Customer's gross usage by hour.

Each hourly-metered Customer's hourly usage will be multiplied by a loss factor determined by Customer rate class to determine the Customer's gross usage by hour.

Step 2: Aggregate Profiles

The gross hourly usage quantity for monthly-metered Customers will be aggregated by the Company to arrive at a total gross monthly-metered Customer usage quantity by hour for each EGS. The gross hourly usage quantity for each hourly-metered Customer will also be aggregated by the Company to arrive at a total gross hourly-metered Customer usage quantity by hour for each EGS.

Step 3: Allocate Error to Profiles

The gross hourly loads for the EGSs and the EDC for hourly-metered and monthly-metered customers will be provided to Duquesne Control Area. The Duquesne Control Area will

compare the aggregate of the EGS and EDC loads to the Duquesne Control Area loads for the Pennsylvania jurisdiction for each respective hour.

Any differences will be allocated used to reshape the consumption shape of to the EGS and EDC monthly-metered loads based on a ratio of each load to the total monthly-metered load of the EGSs and Pennsylvania jurisdictional EDC on an hourly basis. After reshaping the consumption profiles, the sum of hourly usage for an EDC must still equal its aggregate monthly usage.

Step 4: Calculate Consumption Energy Imbalances

Hourly Consumption Energy Imbalances are calculated respective to each EGS' Pre-Schedules, including the effect of any confirmed changes to the load schedules entered before the Duquesne Control Area accounting deadline. For each EGS, the aggregate of the respective adjusted monthly-metered customers hourly loads from Step 3 and the hourly-metered hourly loads from Step 2 for a particular day is subtracted from the respective Pre-Schedule for the same day. The hourly differences are Consumption Energy Imbalances.

8.6 Monthly Reconciliation. After a calendar month becomes fully metered, the Company will compute and make available to the Duquesne Control Area the complete hourly Consumption Energy Imbalance quantities for that calendar month. The Duquesne Control Area will be responsible to calculate the EGS Consumption Energy Imbalance dollar amounts for each hour and to include the Consumption Energy Imbalance dollar amounts in the monthly Duquesne Control Area bills to each EGS. The EGS can audit these calculations.

8.7 Imbalance Trading. Consumption Energy Imbalance will be traded between the Company and each EGS based upon the following terms and conditions.

- If hourly Consumption Energy Imbalance is positive, (actual use is greater than the Pre-Schedule), EGS will pay the Company for the amount of the imbalance at the Duquesne Control Area Operator's Marginal Hourly Price.
- If hourly Consumption Energy Imbalance is negative, (actual use is less than the Pre-Schedule), the Company will pay the EGS for the amount of the imbalance at the Duquesne Control Area Operator's Marginal Hourly Price.
- The Company will track Consumption Energy Imbalance on an hourly basis. Net Consumption Energy Imbalance for the billing period will either be charged or paid to the EGS in accordance with the billing provisions of the Duquesne Transmission Tariff.
- The Company will make available any data necessary for an EGS to verify Net Consumption Energy Imbalance upon request.

Trading of imbalances between the Company and each EGS, as described above, will allow for the efficient and equitable provision of imbalance service without the unnecessary

administrative burden that would result from a multi-party imbalance market where EGSs traded among themselves.

9. UTILIZATION OF SCHEDULING COORDINATORS

- 9.1 Participation Through a Scheduling Coordinator.** If an EGS chooses not to interact directly with Duquesne for scheduling purposes, an EGS may become a Coordinated Supplier by entering into a business arrangement with another EGS that will act as a Scheduling Coordinator. A Coordinated Supplier may enter into this business arrangement with a Scheduling Coordinator(s) for an individual service such as load forecasting, or for a variety of services encompassing assessing import capability, load forecasting, and scheduling (including reconciliation rights and responsibilities). To the extent it is responsible for the following activities, the Scheduling Coordinator's assessment of import capability, load forecasting, and scheduling (including reconciliation rights and responsibilities) shall include its own Customers and the Customers of its Coordinated Suppliers. All actions of the Scheduling Coordinator that relate to one of its Coordinated Suppliers are binding on, and attributable to, said Coordinated Supplier.
- 9.2 Designation of a Scheduling Coordinator.** To designate a Scheduling Coordinator, an EGS must provide Duquesne with a completed Scheduling Coordinator Designation Form, included as a Rider hereto, fully executed by both the EGS and the Scheduling Coordinator. The Scheduling Coordinator Designation Form is not intended to supplement or replace any agency contract between an EGS and a Scheduling Coordinator.
- 9.3 Change in or Termination of Scheduling Coordinator.** To change Scheduling Coordinators, or cease using a Scheduling Coordinator, an EGS shall notify Duquesne in writing and said notice shall specify the effective month of the change or termination. The effective day of the change or termination shall be the first day of the month indicated in the notification letter unless notification is received by Duquesne less than ten business days before the first day of that month, in which case the effective day of the change shall be the first day of the subsequent month. In the event an EGS ceases using a Scheduling Coordinator, an EGS shall immediately resume the direct performance of all EGS obligations under this Tariff.
- 9.4 Scheduling and Reconciliation through a Scheduling Coordinator.** Coordinated Suppliers cannot submit Schedules to Duquesne, nor can Coordinated Suppliers propose scheduling changes on an individual basis. Rather, the Scheduling Coordinator is responsible for submitting all schedules and changes thereto on behalf of itself as well as its Coordinated Suppliers. The Scheduling Coordinator shall be the sole point of contact with the Duquesne Control Area in regards to all scheduling and reconciliation activities.
- 9.5 ~~9.5~~ Primary Obligations of A Coordinated Supplier.** Notwithstanding their designations of Scheduling Coordinators, each and every EGS remains primarily responsible for fully satisfying the requirements of this Supplier Tariff.

9.6—9.6 Separate Scheduling and Billing for Coordinated Suppliers. The Company will handle information flow for Coordinated suppliers separately from the information for a Scheduling Coordinator that is also an EGS. The Company will not, for example, aggregate the consumption energy imbalance of the Coordinated Supplier with that of its Scheduling Coordinator. The information requirements for each Coordinated Supplier are the same as if it were an independent EGS.

10. METERING DATA

10.1 Meter Data Provided by the Company to an EGS. Regardless of whether the Company or an EGS performs Customer billing for an EGS' energy charges, the Company will make available to an EGS, via the EDEWG compliant formats and methodology, daily files containing meter readings, usage, registered demand (where applicable), and reading type information (i.e., actual or estimated), and any other relevant information mutually agreed upon by the Company and EGS, for each of an EGS' Customers as it becomes available by billing route.

11. CONFIDENTIALITY OF INFORMATION

11.1 Generally. All confidential or proprietary information made available by the Company to an EGS in connection with the provision of Coordination Services, including but not limited to load curve data, and information regarding the business processes of the Company and the computer and communication systems owned or leased by the Company, shall be used only for purposes of receiving Coordination Services and/or providing Competitive Energy Supply to Customers in the Company's service territory. Other than disclosures to EGS Representatives for the purpose of enabling an EGS to fulfill its obligations under this Tariff or provide Competitive Energy Supply to Customers in the Company's service territory, an EGS may not disclose confidential or proprietary information without the Company's prior authorization and/or consent.

11.2 Customer Information. The EGS shall keep all Customer-specific information supplied by the Company confidential unless the EGS has the Customer's written authorization to do otherwise.

12. PAYMENT AND BILLING

12.1 Customer Billing by the Company. All EGS charges to Customers, if billed by the Company, shall be billed in accordance with the EDC Tariff and the following provisions:

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- (a) **Company Billing for EGS.** The Company will bill price plans offered by the EGS which are based on fixed and variable charges similar to those the Company employs for billing distribution service and default provider of last resort service. Nothing in this Rule shall require the Company to manually bill more Customers within a rate class than it bills manually for its distribution service Customers within that class. Within this context, if the Company's billing system has the capability to bill the price plans offered by the EGS, the EGS may request the Company to do all or some of the billing for the EGS' Customers based on the Customers' preferences. In addition, the Company will include on its bill EGS late fees as required by the PAPUC. However in no case shall the Company require the EGS to provide separate Customer lists or perform unique scheduling and reconciliation services for customers billed directly by the Company.
- (b) **Billing Files.** Where the EGS has requested the Company to act as the EGS' billing agent the Company shall electronically transmit files of billing detail daily to the EGS. Such files shall include the Customer account number, rate codes, usage information, demand and energy charges, sales tax, and other EGS charges. The information will be provided in an electronic format compliant with the Consensus Plan for Electronic Data Exchange Standards for Electric Deregulation in the Commonwealth of Pennsylvania.
- (c) **Budget Billing.** The Company will develop dual tracking systems to administer budget billing and apply payments for EGS charges and Company charges.
- (d) **Sales Tax Exemption.** With respect to Customers receiving one bill from the Company, the EGS for whom the Company is billing must provide the applicable sales tax exemption percentage to the Company. The Company will use the sales tax exemption percentage provided by the EGS for billing the EGS' charges. The EGS is responsible for holding appropriate exemption certificates and is liable for the collection and remittance of sales tax on the EGS' charges.
- (e) **Company Reimbursement to EGS for Customer Payments.** Where the Company acts as the billing agent for the EGS, the Company shall reimburse the EGS for all energy charges, late fees, sales taxes, and other charges collected on behalf of the EGS on a daily basis. EGS customer payments will be issued by Allegheny Power two business days after posting to the customer's account.
- (f) **EGS Billing Data.** The EGS shall provide all necessary data in its possession for the timely generation of bills. A failure of the EGS to provide necessary data to the Company in a timely fashion may delay generation of a bill for the month to which the data pertains. In such instances, the EGS is responsible for all fines and violations, if any, arising as a consequence of the Company's inability to render a timely bill.

12.2 EGS Payment Obligations to the Company. An EGS shall pay all Coordination Services Charges or hereunder any other Charge it incurs in accordance with the following provisions:

- 12.2.1 Billing Procedure.** Each month, the Company shall submit an invoice to the EGS for all Coordination Services Charges provided under this Tariff. The invoice may be transmitted to the EGS by any reasonable method requested by the EGS. An EGS shall make payment for Charges incurred on or before the due date shown on the bill. The due date shall be determined by the Company and shall not be less than fifteen (15) days from the date of transmittal of the bill.
- 12.2.2 Billing Corrections and Estimated Billings.** Notwithstanding anything stated herein: (1) bills shall be subject to adjustment for any errors in arithmetic, computation, meter readings, estimating or other errors for a period of six (6) months from the date of such original monthly billing and (2) the Company shall be entitled to submit estimated bills (subject to correction) in the event the EGS fails to supply necessary information in a timely fashion or other circumstances limit the timely availability of necessary data.
- 12.2.3 Manner of Payment.** The EGS may make payments of funds payable to the Company by wire transfer to a bank designated by the Company. The Company may require that an EGS that is not creditworthy tender payment by means of a certified, cashier's, teller's, or bank check, or by wire transfer, or other immediately available funds. If disputes arise regarding an EGS bill, the EGS must pay the undisputed portion of disputed bills under investigation.
- 12.2.4 Late Fee for Unpaid Balances.** If payment is made to the Company after the due date shown on the bill, a late fee will be added to the unpaid balance until the entire bill is paid. This late fee will be $\frac{1}{2}\%$ per month on the unpaid balance.
- 12.2.5 EGS Default.** In the event the EGS fails to make payment to the Company on or before the due date as described above, and such failure of payment is not corrected within thirty (30) calendar days after the Company notifies the EGS to cure such failure, a Default by the EGS shall be deemed to exist. In the event of a billing dispute between the Company and the EGS, the Company will continue to provide service pursuant to the Individual Coordination Agreement and the Tariff as long as the EGS continues to make all payments. A billing dispute shall be dealt with promptly in accordance with the dispute resolution procedures set forth below in Rule 18.
- ~~**12.2.6 Collection Costs.** If an EGS is in Default, as defined in Rule 12.2.5 or Rule 16.3, and the Company files suit against the EGS to collect a delinquent balance on an account (whether active or inactive) or to ensure payment of current bills for Coordination Services, the EGS will be required to pay the Company's out-of-pocket court costs (including filing, service, witness, and attorneys' fees).~~

12.3 Billing for Supplier Obligations to Other Parties. The Company will assume no responsibility for billing between an EGS and any energy source or a Scheduling Coordinator and any Coordinated Suppliers.

- 12.4 Guarantee of Payments.** Before the Company will render service or continue to render service, the Company may require an applicant for Coordination Service or an EGS currently receiving such service that has Bad Credit to provide a cash deposit, letter of credit, surety bond, or other guarantee, satisfactory to the Company. The Company will hold the deposit as security for the payment of final bills and compliance with the Company's Rules and Regulations. In addition, the Company may require an EGS to post a deposit at any time if the Company determines that the EGS is no longer creditworthy or has Bad Credit. An EGS shall have the right to submit to the Commission for resolution any reasonable dispute regarding such deposit, letter of credit, surety bond or other guarantee sought by the Company if the EGS believes such a requirement is inappropriately based or assessed.
- 12.5 Amount of Deposits.** The deposit shall be equal to the value of Coordination Services Charges the Company projects the EGS will incur during the next two billing periods based on that EGS' forecasted load obligation.
- 12.6 Return of Deposits.** Deposits secured from an EGS shall either be applied with interest to the EGS' account or returned to the EGS with interest when the EGS becomes creditworthy. In cases of discontinuance or termination of service, deposits will be returned with accrued interest upon payment of all service charges and guarantees or with deduction of unpaid accounts.
- 12.7 Interest on Deposits.** The Company will allow simple interest on cash deposits calculated at the lower of the Interest Index or six (6) percent. Deposits shall cease to bear interest upon discontinuance of service (or, if earlier, when the Company closes the account).
- 12.8 Credit Information.** In addition to information required otherwise hereunder, an EGS shall be required to provide to the Company such credit information as the Company requires. The Company will report to a national credit bureau the EGS' credit history with the Company.

13. WITHDRAWAL BY EGS FROM RETAIL SERVICE

- 13.1 Notice of Withdrawal to the Company.** An EGS shall provide electronic notice to the Company in a form specified by the Company of withdrawal by the EGS from retail service in a manner consistent with the PaPUC's rulings in Docket No. 00960890F.0013, and any subsequent applicable PaPUC rulings.
- 13.2 Notice to Customers.** An EGS shall provide notice to its Customers of withdrawal by the EGS from retail service in accordance with the PaPUC's rulings in Docket No. 00960890F.0013 and any subsequent applicable PAPUC rulings

13.3 Costs for Noncompliance. An EGS that withdraws from retail service and fails to provide at least ninety (90) days written notice of said withdrawal shall reimburse the Company for any of the following costs associated with the withdrawal:

- (a) mailings by the Company to the EGS' Customers to inform them of the withdrawal and their options;
- (b) non-standard/manual bill calculation and production performed by the Company;
- (c) EGS data transfer responsibilities that must be performed by the Company; and
- (d) charges or penalties imposed on the Company by Allegheny Power or other third parties resulting from EGS withdrawing early.

13.4 EGS Default. In the event an EGS fails to provide service as scheduled to serve its Customers for a period greater than 24 hours, the Company may determine the EGS in default. In the event of an EGS default, the Company is the Provider of Last Resort. The EGS and EGS' Customers will be jointly and severally liable from the time of default until the EGS' Customers' first billing cycle for costs of energy and all costs incurred by the Company to notify Customers and make changes to switch Customers back to the EDC. The energy provided to the EGS' Customer will be charged as Supply Energy Imbalance according to the Duquesne Transmission Tariff, Retail Supplement, as revised and as may be subsequently amended and accepted for filing by the FERC, until all EGS' Customers have been switched to the EDC upon each Customer's regularly scheduled meter read date..

14. EGS' DISCONTINUANCE OF SERVICE TO CUSTOMERS

14.1 Notice of Discontinuance to the Company. An EGS shall provide electronic notice to the Company in a form specified by the Company of all intended discontinuances of service to Customers in a manner consistent with applicable PAPUC rules, said rules to apply to all Customer classes.

14.2 Notice to Customers. An EGS shall provide a minimum of 30 days advance notice to any Customer it intends to stop serving of such intended discontinuance in a manner consistent with the PaPUC's rulings in Docket No. 00960890F.0013 and any subsequent applicable PaPUC rulings. The application of this Rule 14.2 will, however, be limited to the classes of Customers to which the referenced PAPUC rulings will apply. With respect to all other classes of Customers, it will be the EGS' responsibility to provide notice to a Customer of its intention to discontinue service in accordance with the EGS' contractual obligations with the Customer.

14.3 Effective Date of Discontinuance. Any discontinuance will be effective on a Meter Read Date and in accordance with the EGS switching rules in this Tariff and the EDC Tariff.

15. LIABILITY

15.1 General Limitation on Liability. The Company shall have no duty or liability with respect to Competitive Energy Supply before it is delivered by an EGS toward an interconnection point with the Duquesne Control Area. After its receipt of Competitive Energy Supply at the point of delivery, the Company shall have the same duty and liability for transmission and distribution service to customers receiving Competitive Energy Supply as to those receiving electric energy and capacity from the Company,

15.2 Limitation on Liability for Service Interruptions and Variations. The Company does not guarantee continuous, regular and uninterrupted supply of service. The Company may, without liability, interrupt or limit the supply of service for the purpose of making repairs, changes, or improvements in any part of its system for the general good of the service or the safety of the public or for the purpose of preventing or limiting any actual or threatened instability or disturbance of the system. The Company is also not liable for any damages due to accident, strike, storm, riot, fire, flood, legal process, state or municipal interference, or any other cause beyond the Company's control.

15.3 Additional Limitations on Liability In Connection With Direct Access. Other than its duty to deliver Competitive Energy Supply, the Company shall have no duty or liability to an EGS providing Competitive Energy Supply arising out of or related to a contract or other relationship between an EGS and a Customer of the EGS.

The Company shall implement Customer selection of an EGS consistent with applicable rules of the Commission and shall have no liability to an EGS providing Competitive Energy Supply arising out of or related to switching EGS, unless the Company is negligent in switching or failing to switch a Customer.

15.4 Company's Indemnification of EGS. Subject to Rule 15.2, in the event the Company is not able to render continuous, regular, and uninterrupted supply of service due to interruption or service limitations not caused by the EGS, the Company shall hold the EGS harmless for any penalties, fines, or other costs that the Company may incur.

16. BREACH OF COORDINATION OBLIGATIONS

16.1 Breach of Obligations. The Company or an EGS shall be deemed to be in breach of its Coordination Obligations under the Individual Coordination Agreement and this Tariff upon its failure to observe any material term or condition of this Tariff, including any Rule and Regulation, Charge or Rider thereof.

16.2 Events of Breach. A material breach of Coordination Obligations hereunder, as described in Rule 16.1, shall include, but is not limited to, the following:

- (a) a breach of any Rule or Regulation of the Tariff;
- (b) an EGS' failure to maintain license or certification as an electric generation supplier or electricity supplier from the PAPUC;
- (c) an EGS' failure to make payment of any undisputed Coordination Services Charges in the time prescribed
- (d) the involuntary bankruptcy/insolvency of the EGS, including but not limited to, the appointment of a receiver, liquidator or trustee of the EGS, or a decree by such a court adjudging the EGS bankrupt or insolvent or sequestering any substantial part of its property or a petition to declare bankruptcy as to reorganize the EGS; or
- (e) an EGS' filing of a voluntary petition in bankruptcy under any provision of any federal or state bankruptcy law, or its consent to the filing of any bankruptcy or reorganization petition against it under any similar law; or without limiting the generality of the foregoing, an EGS admits in writing its inability to pay its debts generally as they become due or consents to the appointment of a receiver, trustee or liquidator of it or of all or any part of its property.

16.3 Cure and Default. If either the Company or an EGS materially breaches any of its Coordination Obligations (hereinafter the Breaching Party), the other party (hereinafter the Non-Breaching Party) shall provide the Breaching Party a written notice describing such breach in reasonable detail and demanding its cure. The Breaching Party shall be deemed to be in default ("Default") of its obligations under this Tariff and the Individual Coordination Agreement if: (i) it fails to cure its breach within thirty (30) days after its receipt of such notice; or (ii) the breach cannot be cured within such period and the Breaching Party does not commence action to cure the breach within said period and thereafter diligently pursues such action to completion.

16.4 Rights Upon Default. Notwithstanding anything stated herein, upon the occurrence of any Default, the party not in Default shall be entitled to (i) commence an action to require the party in Default to remedy such Default and specifically perform its duties and obligations hereunder in accordance with the terms and conditions hereof, and (ii) exercise such other rights and remedies as it may have in equity or at law.

17. TERMINATION OF INDIVIDUAL COORDINATION AGREEMENT

17.1 Termination. An Individual Coordination Agreement will or may be terminated as follows:

- (a) **Withdrawal of the EGS from Retail Service.** In the event the EGS ceases to participate in or otherwise withdraws the provision of Competitive Energy Supply to Customers in the Company's Service Territory, the Individual Coordination Agreement

between the EGS and the Company shall terminate thirty (30) days following the date on which the EGS has no more active Customers.

- (b) **The Company's Termination Rights Upon Default by EGS.** In the event of a Default by the EGS, the Company may terminate the Individual Coordination Agreement between the EGS and the Company by providing written notice to the EGS in Default, without prejudice to any remedies at law or in equity available to the party not in Default by reason of the Default,

17.2 Effect of Termination. Termination of Individual Coordination Agreements will have the same effect on an EGS' Customers as the EGS' discontinuance of supply to such Customers described in Rule 23.5 of the EDC Tariff: If a Customer of a terminated EGS has not switched to another EGS prior to termination, said Customer will receive PLR Service (as defined in the EDC Tariff) pending its selection of another EGS.

17.3 Survival of Obligations. Termination of an Individual Coordination Agreement for any reason shall not relieve the Company or an EGS of any obligation accrued or accruing prior to such termination.

18. ALTERNATIVE DISPUTE RESOLUTION

18.1 Informal Resolution of Disputes. The Company and EGS shall use good faith and commercially reasonable efforts to informally resolve all disputes arising out of the implementation of this Tariff and/or the conduct of Coordination Activities hereunder. The EGS' point of contact for all information, operations, questions, and problems regarding Coordination Activities shall be the Company's Supplier Administration Group and the Via EDEWG compliant formats and methodology.

18.2 Internal Dispute Resolution Procedures. Any dispute between the Company and an EGS under this Tariff or Individual Coordination Agreement shall be referred to a designated senior representative of each of the parties for resolution on an informal basis as promptly as practicable. In the event the designated representatives are unable to resolve the dispute within thirty (30) days (or such other period as the parties may agree upon) such dispute, by mutual agreement, may be referred to mediation in accordance with the Code of Conduct in the EDC Tariff or either party may unilaterally submit the dispute to arbitration to be resolved in accordance with the arbitration procedures set forth below.

18.3 External Arbitration Procedures. If the amount in dispute is \$500,000 or less, the arbitration initiated under the Tariff or any Individual Coordination Agreement shall be conducted before a single neutral arbitrator appointed by the parties. If the parties fail to agree upon a single arbitrator within twenty (20) days of the referral of the dispute to arbitration the parties shall request the American Arbitration Association to appoint a single neutral arbitrator. If the amount in dispute exceeds \$500,000, each party shall choose one

neutral arbitrator who shall sit on a three-member arbitration panel. The two arbitrators so chosen shall within twenty (20) days of their selection, select a third arbitrator to chair the arbitration panel. In any case, the arbitrators chosen shall be knowledgeable in electric utility matters, including electric transmission and bulk power issues, and shall not have any current or past *substantial* business or financial relationships with any party to the arbitration (except prior arbitration). The arbitrator(s) shall provide each of the parties an opportunity to be heard and, except as otherwise provided herein, shall generally conduct the arbitration in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association.

18.4 Arbitration Decisions. Unless otherwise agreed, the arbitrator(s) shall render a decision within ninety (90) days of their appointment and shall notify the parties in writing of such decision and the reasons therefor. The arbitrator(s) shall be authorized only to interpret and apply the provisions of the Tariff and any Individual Coordination Agreement and shall have *no power to modify or change any provisions in any manner. The decision of the arbitrator(s) shall be final and binding upon the Parties, and judgment on the award may be entered in any court of competent jurisdiction. The decision of the arbitrator(s) may be appealed solely on the grounds that the conduct of the arbitrator(s); or the decision itself, violated the standards set forth in 42 Pa. C.S.A. §7341. The final decision of the arbitrator must also be filed with FERC and PAPUC, if it affects their respective jurisdictional rates, terms and conditions of service or facilities.*

18.5 Costs. Each Party shall be responsible for its own costs incurred during the arbitration process and for the following costs, if applicable:

- (a) the cost of the arbitrator chosen by the party to sit on the three member panel and a proportionate share of the cost of the third arbitrator chosen; or
- (b) a proportionate share of the cost of the single arbitrator jointly chosen by the parties.

18.6 Rights Under the Federal Power Act. Nothing in this Section shall restrict the rights of any party to file a complaint with FERC under relevant provisions of the Federal Power Act or to initiate other compliant procedures permitted by the FERC. In addition, nothing contained herein shall be construed as affecting in any way the right of the Company to unilaterally make application to the FERC for a change, under Section 205 of the Federal Power Act, in the charges specified herein that are subject to the jurisdiction of the FERC.

18.7 Rights Under the Pennsylvania Public Utility Code. Nothing in this Section shall restrict the rights of any party to file a complaint with the Pa PUC under relevant provisions of the Pennsylvania Public Utility Code.

19. MISCELLANEOUS

19.1 Notices. Unless otherwise stated herein, any notice contemplated by this Tariff shall be in writing and shall be given to the other party at the addresses stated in the notice section of the Individual Coordination Agreement. If given by electronic transmission (including fax, telex, telecopy or Internet email), notice shall be deemed given on the date sent and shall be confirmed by a written copy sent by first class mail. If sent in writing by first class mail, notice shall be deemed given on the fifth business day following deposit in the United States mail (as noted by the postmark), properly addressed, with postage prepaid. If sent by same-day or overnight delivery service, notice shall be deemed given on the day of delivery. The Company and an EGS may change their representative for receiving notices contemplated by this Tariff by delivering written notice of their new representatives to the other.

19.2 No Prejudice of Rights. The failure by either the Company or the EGS to enforce any of the terms of this Tariff or any Individual Coordination Agreement shall not be deemed a waiver of the right of either to do so.

19.3 Gratuities to Employees. The Company's employees are strictly forbidden to demand or accept any personal compensation, or gifts, for service rendered by them while working for the Company on the Company's time.

19.4 Assignment.

19.4.1 An Individual Coordination Agreement hereunder may not be assigned by either the Company or the EGS without (a) any necessary regulatory approval and (b) the consent of the other party, which consent shall not be unreasonably withheld.

19.4.2 Any assignment occurring in accordance with Rule 19.4.1 hereunder shall be binding upon, and oblige and inure to the benefit of, the successors and assigns of the parties to the Individual Coordination Agreement.

19.5 Governing Law. To the extent not subject to the exclusive jurisdiction of FERC, the formation, validity, interpretation, execution, amendment and termination of this Tariff or any Individual Coordination Agreement shall be governed by the laws of the Commonwealth of Pennsylvania.

The Tariff or any Individual Coordination Agreement, and the performance of the parties' obligations thereunder, is subject to and contingent upon (i) present and future local, state and federal laws, and (ii) present and future regulations or orders of any local, state or federal regulating authority having jurisdiction over the matter set forth herein.

If at any time during the term of the Tariff or any Individual Coordination Agreement, FERC, the PAPUC or a court of competent jurisdiction issues an order under which a party hereto believes that its rights, interests and/or expectations under the Agreement are materially affected by said order, the party so affected shall within thirty (30) days of said final order provide the other party with notice setting forth in reasonable detail how said order has materially affected its rights, interests and/or expectations in the Agreement. Within thirty

(30) days from the receiving party's receipt of said notice the parties agree to attempt through good faith negotiations to resolve the issue. If the parties are unable to resolve the issue within thirty (30) days from the commencement of negotiations, either party may at the close of said thirty (30) day period terminate the Agreement, subject to any applicable regulatory requirements, following an additional thirty (30) days prior written notice to the other party without any liability or responsibility whatsoever except for obligations arising prior to the date of service termination.

INDIVIDUAL COORDINATION AGREEMENT RIDER

- 1.0 This Individual Coordination Agreement ("Agreement"), dated as of _____
Is entered into, by and between Allegheny Power (the 'Company') and _____.
- 2.0. The Company agrees to supply, and the EGS agrees to have the Company supply, all "Coordination Services" specified in the Electric Generation Supplier Coordination Tariff ('EGS Coordination Tariff'), including but not limited to load forecasting, load scheduling, and reconciliation services. Both Parties agree that such services are necessary to coordinate the delivery of Competitive Energy Supply to Customers located within the Company's service territory.
- 3.0 Representations and Warranties.
- a) The EGS hereby represents, warrants and covenants as follows:
- (i) The EGS is in compliance, and will continue to comply, with all obligations, rules and regulations, as established and interpreted by the Duquesne Control Area Operator, that are applicable to EDCs serving Customers located in the Duquesne Control Area; and
- (ii) The EGS is licensed by the PAPUC to provide Competitive Energy Supply to Customers in Pennsylvania and has and will continue to satisfy all other PAPUC requirements applicable to EGSS. (b) The Company and the EGS, individually referred to hereafter as the 'Party,' each represents, warrants and covenants as follows:
- (iii) Each Party's performance of its obligations hereunder has been duly authorized by all necessary action on the part of the Party and does not and will not conflict with or result in a breach of the Party's charter documents or bylaws or any indenture, mortgage, other agreement or instrument, or any statute or rule, regulation, order, judgment, or decree of any judicial or administrative body to which the Party is a party or by which the Party or any of its properties is bound or subject.
- (iv) This Agreement is a valid and binding obligation of the Party, enforceable in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency or similar laws from time to time in effect that affect creditors' rights generally or by general principles of equity.
- 4.0 The EGS shall provide notice to the Company via facsimile, with a copy delivered pursuant to overnight mail, at such time that the EGS learns that any of the

representations, warranties, or covenants in Rule 3 of this Agreement have been violated.

5.0 As consideration for Coordination Services provided by the Company, the EGS shall pay the Company those Coordination Services Charges billed to the EGS in accordance with the terms and conditions of the EGS Coordination Tariff.

6.0 Coordination Services between the Company and the EGS will commence on _____.

7.0 Any notice or request made to or by either Party regarding this Agreement shall be made to the representative of the other Party as indicated below.

Allegheny Power
(Address)
(City & State)

Attn:
Title:
Telephone:
Facsimile:
Internet E-Mail:

To the EGS:

Attn:
Title:
Telephone:
Facsimile:
Internet E-Mail:

8.0 The EGS Supplier Services Tariff and the Duquesne Transmission Tariff (collectively "Tariffs") are incorporated herein by reference and made a part hereof. By signing below, EGS acknowledges that it has read and understands the Tariffs and will strictly comply with the terms and conditions contained in the Tariffs. All terms used in this Agreement that are not otherwise defined shall have the meaning provided in the EGS Supplier Tariff.

IN WITNESS WHEREOF, and intending to be legally bound thereby, Allegheny Power and the EGS identified above have caused this Coordination Agreement to be executed by their respective authorized officials.

ALLEGHENY POWER

EGS

By:

By:

Name _____

Name _____

Title _____

Title _____

Date _____

Date _____

SCHEDULING COORDINATOR DESIGNATION FORM

1.0 This Scheduling Coordinator Designation Form, dated _____, is being submitted to Allegheny Power (Duquesne) by the following Electric Generation Supplier (EGS):

2.0 By submitting this form, the EGS hereby notifies Duquesne that it has appointed the following entity to act as its Scheduling Coordinator, effective the first day of _____, in accordance with Rule 9 of the Company's Electric Generation Supplier Services Tariff (Supplier Tariff):

3.0 The EGS further notifies the Company that it is designating the EGS identified in the preceding paragraph as its Scheduling Coordinator for the specific purpose(s) (please check and/or fill in):

Load Forecasting

Assessing Import Capability

Scheduling and Assumption of Reconciliation Rights and Responsibilities

4.0 Duquesne may utilize the Scheduling Coordinator as the sole point of contact with the EGS in connection with Duquesne's provision of Coordination Services to the EGS. Likewise, the Scheduling Coordinator appointed by the EGS shall be responsible for the performance of all Coordination Obligations of the EGS that are specifically delegated to said Scheduling Coordinator in this Form.

5.0 The EGS agrees that Duquesne may bill the Scheduling Coordinator directly for all Coordination Services Charges attributable to the EGS and that the Scheduling Coordinator will pay the Company such charges on behalf of the EGS in accordance with the terms and conditions in the Supplier Tariff.

7.0 All inquiries, communications or notices relating to the EGS' use of the Scheduling Coordinator designated above may be directed to the following representatives:

To the EGS:

Attn: _____

Title: _____

Telephone: _____

Facsimile: _____

Internet email: _____

To the Scheduling Coordinator:

Attn: _____

Title: _____

Telephone: _____

Facsimile: _____

Internet email: _____

8.0 The Supplier Tariff is incorporated herein by reference and made a part hereof. All capitalized terms used, but not defined, in this designation form shall have the meaning stated in the Supplier Tariff.

9.0 The EGS has executed this designation form below by its duly authorized representative as follows:

Signature: _____

Name: _____

Title: _____

Date: _____

10.0 The EGS has obtained the following Acknowledgment and Consent to this designation, which is executed below by the duly authorized representative of the Scheduling Coordinator:

Acknowledgment and Consent

Intending to be legally bound thereby, the duly authorized representative of above-designated Scheduling Coordinator has executed this document below to acknowledge and consent to its appointment as a Scheduling Coordinator, and to further state its agreement to abide by the terms and conditions of its designation set forth above in the Scheduling Coordinator Designation Form prepared by the EGS, including the terms and conditions of the Supplier Tariff which is incorporated therein by reference.

Signature: _____

Name: _____

Title: _____

Date: _____

6.0 The EGS and its appointed Scheduling Coordinator shall comply with all terms and conditions of the Supplier Tariff, including those pertaining to Scheduling Coordinators and to payment and billing.

CERTIFICATE OF SERVICE

I hereby certify that this day a copy of the foregoing document has been served upon the persons indicated below by First Class Mail.

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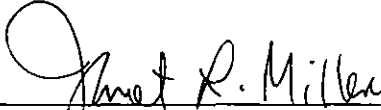
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Janet L. Miller

Dated: September 21, 1998

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September 22, 1998

James McNulty, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Room B-18, North Office Building
Harrisburg, PA 17105-3265

**DOCUMENT
FOLDER**

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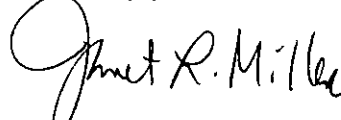
**RE: Application of Duquesne Light Company for Approval of its Restructuring
Plan Under Section 2806 of the Public Utility Code; Docket No. R-00974104;
REVISED CERTIFICATE OF SERVICE**

Dear Mr. McNulty:

Enclosed, for filing with the Commission, are the original and fifteen (15) copies of an Amended Certificate of Service showing the correct service list used to transmit the September 21, 1998 Comments of the Mid-Atlantic Power Supply Association in connection with the above-captioned docket.

If you have any questions concerning this filing, please direct them to me.

Very truly yours,



Janet L. Miller

Counsel for the Mid-Atlantic
Power Supply Association

JLM/kmg
Enclosures



CERTIFICATE OF SERVICE

I hereby certify that this day a copy of the foregoing document has been served upon the persons indicated below by First Class Mail.

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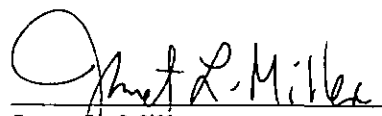
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SECRETARY'S BUREAU

Dated: September 21, 1998


Janet L. Miller

COMMONWEALTH OF PENNSYLVANIA

DATE: September 29, 1998

SUBJECT: R-00974104

TO: Bureau of Fixed Utility Services

FROM: James J. McNulty, Secretary

KJR

LAF

Petition of Duquesne Light Company for
Clarification and Reconsideration Regarding
Stand-Alone Restructuring Plan

DOCUMENT
FOLDER

Per memo dated September 11, 1998,
from Cheryl Walker Davis, Director of Office of
Special Assistants, the above-docketed
proceeding is being re-assigned to your Office
for appropriate action.

laf

pc: Chairman and Commissioners
Office of Special Assistants
Law Bureau

DOCKETED
SEP 29 1998

ORIGINAL

DOCUMENT
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

Docket No. R-00974104

DOCKETED

OCT 01 1998

**REPLY COMMENTS OF DUQUESNE LIGHT COMPANY
REGARDING SECOND COMPLIANCE FILING OF DUQUESNE LIGHT
COMPANY STAND-ALONE RESTRUCTURING PLAN**

Duquesne Light Company ("Duquesne") hereby requests leave to submit limited reply comments to the comments of the intervenors on the Second Compliance Filing dated September 11, 1998. By filing limited reply comments, Duquesne is attempting to limit the Commission's workload by not rearguing matters previously addressed and is not thereby waiving any argument or position addressed in Duquesne's Second Compliance Filing or its Petition for Reconsideration regarding the Compliance Order.

1. Realized Returns.

The OSBA states that the rate of return used by Duquesne in computing distribution revenue requirements is not in compliance with the First Compliance Order. The OSBA cites the fact that the Commission directed the Company to determine the rate of return which was realized for T&D service for the 1996 test year based upon a realized rate of return of 9.03%. The OSBA also notes that

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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Schedule A of Appendix A attached to Duquesne's Second Compliance filing shows an overall return of 9.37% for distribution, which does not equate to the overall system average rate of 8.87%. As a remedy, the OSBA requests the Commission to direct Duquesne to use a realized rate of return of 8.86% (the return calculated by its witness) in determining its unbundled T&D rates or, in the alternative, to direct Duquesne to use a realized return of no more than 9.03% in its unbundled T&D rates.

The OSBA's contentions should be rejected as contrary to the plain language of the Commission's orders and based upon an apparent misunderstanding of the nature of the realized return calculations ordered by the Commission. First, the 9.03% realized return cited in the Commission's Order on Duquesne's Compliance Filing was computed in response to OSBA -2-22. (The OSBA cites Duquesne's response to OSBA-2-24 as the source of the 9.03% return figure. While this number appears there as well, the response to OSBA-2-24 simply restated Exhibit JAL-1C on the basis of an equalized return of 9.03%). As was indicated in the response to the table attached as part of the response to OSBA-2-22, the 9.03% figure represents a system wide return based on adjusted 1996 revenues and test year costs. It measures the system-wide realized return on combined production, transmission, and distribution rate base. As shown on that response, class rates of return varied from a low of -7.09% (HVPS) to a high of 59.79% (Traffic Signals). Applying the 9.03% return to the distribution rate base to calculate revenue requirements would be wrong for two reasons. First, it would be inconsistent with the Commis-

sion's Order on Duquesne's First Compliance Filing. This is because the 9.03% return is based on 1996 class revenues adjusted for the ECR roll-in amount Duquesne requested in its restructuring case (based on a fuel and purchased power cost of \$14.70/MWh). Since the Commission rejected the company's ECR roll-in amount, the realized rates of return must be re-computed to reflect the approved roll-in amount in 1996 revenues. Second, the use of an equalized return to develop class revenue requirements would obliterate any distinction in class returns. This is totally inconsistent with the Commission's Order on Duquesne's restructuring plan. (See page 52 of Commission Order on Restructuring and Recommended Decision at page 67.)

The Company has recalculated the system and class rates of return incorporating an ECR roll-in amount based on a fuel and purchased power cost of \$13.71/MWh. (See Duquesne's Petition for Clarification and Reconsideration.) The effect is to lower the overall return from 9.03% to 8.87%. As explained above, the system wide realized return – in this case 8.87% – is the return on the combined rate base for production, transmission, and distribution. The class rates of return varied from -1.35% (SE) to 38.10% (Traffic Lights). (See copy of relevant portion of Appendix A attached to Duquesne's Second Compliance Filing). These class rates of return were then used to determine the class-specific distribution-related revenue requirements as reflected in Duquesne's unbundled tariff rates. In its Second Compliance Filing, Duquesne applied these same class realized rates of return to the

allocated distribution rate base to develop revenue requirements. As indicated in Appendix A, the application of the class-specific 1996 realized returns produce a PaPUC jurisdictional distribution revenue requirement of \$250.3 million and an overall return on distribution plant of 9.37%. The overall return on distribution plant results not from an error in application, but as a result of simple arithmetic. The overall return for distribution plant is a summary measure recognizing the fact that the allocation factors for distribution rate base differs from that for production and transmission plant, nothing more. The important point is that Duquesne computed distribution revenue requirements on the basis of 1996 class-realized rates of return, as the Commission ordered.

Finally, the OSBA claims that under its approach Duquesne "would realize a higher rate of return for the unbundled distribution component only." This leads the OSBA to erroneously conclude that "by applying the overall realized class rates of return from its 1996 cost of service study to adjust the distribution component, Duquesne would realize a higher rate of return on distribution plant than generation plant." This is just not correct. Duquesne's methodology would apply the exact same class rate of return to each component of rates -- generation, transmission, and distribution. For RS, the realized rate of return was 10.89% based on 1996 revenues (adjusted for the ECR roll-in) -- the same return Duquesne calculated for all components of rate base (production, distribution, and transmission). The reason the system-wide returns vary by functional cost category is because the overall return is

a weighted average of each classes return (where the weights are the allocated share of rate base) and these weighting factors vary by cost function. What the OSBA is recommending is that the Company use an equalized rate of return for each class based on the system wide average. While this can be done, it would completely eliminate class rate of return differentials – which the Commission directed the Company to restore in its Order on Duquesne's Restructuring Filing.

2. ECR Roll-In and 1999 Sales Volumes.

The OCA and DII raise issues relating to the calculation of the ECR roll-in and the use of 1999 sales volumes for setting transmission and distribution rates. These contentions are in error for all the reasons provided in Duquesne's Petition for Reconsideration.

3. Rule 4 and Riders 8, 9 and 20.

DII raises several issues regarding Rule 4 contracts and Riders 8, 9 and 20. These contentions, in Duquesne's view, merely rehash arguments previously raised or merit no response at all.

4. Credit Requirements

Three parties - Green Mountain Energy Resources, L.L.C. ("GMER"), Mid-Atlantic Power Supply Association ("MAPSA"), and Strategic Energy Ltd. ("SEL"), address Duquesne's revised credit procedures. GMER comments that Duquesne's \$250,000 letter of credit is unnecessary because the Commission's security requirement is furnished to ensure the financial responsibility of the EGS.

GMER Comments at 3. GMER is incorrect. The primary purpose of the Commission's security requirement is to ensure collection of the gross receipts tax, and to protect consumers from an EGS's failure to remit the tax. Licensing Requirements for Electric Generation Suppliers, No. L-00970129, Final Order (April 24, 1998) (Licensing Order). The Commission also is named the sole beneficiary. 52 Pa. Code § 54.40. The Commonwealth has priority for its tax claims against the security, and an EDC may make a claim against the bond only for reimbursement of the gross receipts tax. Licensing Order at 30-31. Contrary to GMER's suggestions, it is clear the Commission security would not provide Duquesne with adequate recourse. See Second Compliance Filing at 8-11.

GMER also states that Duquesne's credit review procedures are needlessly intrusive. GMER Comments at 2-3. This allegation is patently false. Duquesne stated at the Supplier Tariff meeting, and reiterates, that it would conduct a credit check through data that is commercially available from an independent third-party reporting company. This type of credit check is routine and should alleviate GMER's concerns. See Definition of Bad Credit.

MAPSA also comments that Duquesne's review of an EGS' credit history should be limited to that EGS's dealings with Duquesne. MAPSA Comments at 2-3. MAPSA's suggestion is unworkable. In an instance when an EGS is initiating a new commercial relationship with Duquesne, the Company would have no history available to facilitate a credit review. An EGS also may manipulate its credit

history so that its history with Duquesne does not reflect the overall creditworthiness of the EGS's operations (i.e. - the history with Duquesne may be superior to the history with other creditors). MAPSA's comments (including the proposed tariff revisions) should be rejected.

SEL comments that Duquesne's letter of credit requirement is unwarranted because EGSs already post security when required under the EDC OATT, and that the requirement is discriminatory. SEL Comments at 12-13. SEL's comments miss the point. Duquesne reiterates that its credit requirement is intended to cover the Company's exposure when an EGS defaults on its obligations to supply power and is not intended to duplicate the OATT requirements. Second Compliance Filing at 8 -9.

5. Scheduling Issues

SEL alleges that one-hour ahead scheduling is feasible on Duquesne's system, Duquesne should provide forecasts that EGSs can use as guidelines for determining the amount of power to deliver on an hourly basis, and that Duquesne should provide its forecast by 7:00 A.M. the day before the forecast applies. SEL Comments at 3-4. Duquesne reiterates that its scheduling procedures comply with NERC and ECAR scheduling guidelines and good utility operating practices. In accordance with these guidelines, Duquesne normally accepts scheduling changes with two hours notice, except during an emergency situation, when Duquesne will accept scheduling changes with less than two hours notice. See Tariff Rule 7.3.

Duquesne objects to SEL's request that the Company provide a forecast by 8 a.m. SEL has provided no valid reason for its proposal. At the same time, no other party has urged Duquesne to move the forecast to 7:00 a.m. Duquesne also believes SEL's revision is unnecessary given that the EGS may continue to modify its schedule pursuant to Rule 7.3.

6. Consumption Energy Imbalance

SEL alleges that it is insufficient for Duquesne to simply provide the data used to calculate Consumption Energy Imbalance and instead Duquesne should provide its methodology and algorithms. SEL Comments at 4-5. SEL's request goes beyond the scope of the Commission's Order. The Commission stated that EGSs "should be able to see how their bills are calculated." Compliance Order at 52. Duquesne's proposal accomplishes that goal. The monthly bill will contain all the data in sufficient detail so that an EGS will be able to calculate in duplicate its bill. SEL's request should be rejected.

7. Imbalance Charge

SEL offers an alternative to the Commission-approved use of the OATT protocol. SEL Comments at 5-12. SEL's proposal should be rejected because Duquesne's rate for energy imbalance is provided under Duquesne's FERC-approved tariff. Duquesne further objects to the characterization of the imbalance charge as a "penalty" because in reality it is a charge the FERC determined to be just and reasonable.

8. Electronic Data Transfer Standards

SEL complains that Duquesne has not specified the charge against an EGS for sending erroneous data more than once. SEL Comments at 13. SEL's complaint is misdirected. Duquesne's proposal mirrors the language adopted by the EDEWG, and SEL's comments should be directed towards the EDEWG. This Compliance proceeding should not be used to reopen analysis of Commission directives in generic proceedings.

SEL also states that Duquesne should forward funds received from Customers within three days of receipt because the current proposal is inconsistent with the Competition Act. SEL Comments at 13-14. SEL is incorrect. Neither the Commission nor the EDEWG determined that an EDC must forward funds within 3 days of receipt. Rather, as Duquesne previously stated, the Company only is obligated to forward funds within 25 days of receipt of billing data. See Standard for Electronic Data Transfer and Exchange Between Electric Distribution Companies and Electric Generation Suppliers, Docket No. M-00960890F.0015 at 14-15 (August 13, 1998).

9. MAPSA's Proposed Tariff

MAPSA proposes a revised Supplier Tariff without explanation of the changes contained therein. MAPSA Comments at Appendix A. MAPSA's provides a "red-lined" version of PP&L's tariff and MAPSA's proposal. However, MAPSA fails to compare its proposal with Duquesne's Second Compliance Tariff.

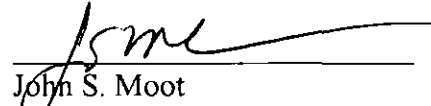
MAPSA summarily requests that, to the extent its proposed language differs from Duquesne's Second Compliance Tariff, the Commission should adopt its language. MAPSA Comments at 4. Without either adequate explanation or reference to Duquesne's Second Compliance Tariff, it is impossible for Duquesne, the Commission, or interested parties to determine exactly how MAPSA's proposal differs from Duquesne's, and to understand the intent or relevance of MAPSA's changes.

For example, MAPSA's proposed tariff includes a "red-lined" definition of "Pre-Schedule." MAPSA Appendix A at 7. Beyond the fact that the importance of the definition is not readily discernable, this term is not incorporated into Duquesne's Second Compliance Tariff. MAPSA's proposal also revises PP&L's Load Forecasting protocol, but it is unclear how this would vary from Duquesne's proposal. MAPSA Appendix A at Rules 4.9 and 6. Therefore, Duquesne recommends the Commission disregard MAPSA's proposed tariff.

WHEREFORE, Duquesne's Second Compliance Filing should be
accepted without modification or condition for the reasons stated above.

Respectfully submitted,

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PAMELA C. POLACEK
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James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Room B-20, North Office Building
Harrisburg, PA 17120

VIA HAND DELIVERY

RE: Pennsylvania Public Utility Commission v. Duquesne Light Company; Docket No. R-00974104

Dear Secretary McNulty:

Enclosed for filing are the original and nine (9) copies of the Supplemental Comments of the Duquesne Industrial Intervenors to the Revised Compliance Filing of Duquesne Light Company.

As evidenced by the attached certificate of service, all parties to this proceeding have been duly served. Please date stamp the extra copy of this transmittal letter and return it for our filing purposes.

Very truly yours,

McNEES, WALLACE & NURICK

By

Pamela C. Polacek

Pamela C. Polacek

Counsel to the Duquesne Industrial Intervenors

DOCUMENT
FOLDER

PCP:jag
Enclosures

- c: Cheryl Walker Davis, Office of Special Assistants (w/enc.) (via hand delivery)
Robert Bennett, Bureau of Fixed Utility Services (w/enc.) (via hand delivery)
Chairman John M. Quain (w/enc.) (via hand delivery)
Vice Chairman Robert K. Bloom (w/enc.) (via hand delivery)
Commissioner David W. Rolka (w/enc.) (via hand delivery)
Commissioner Nora Mead Brownell (w/enc.) (via hand delivery)
Commissioner Aaron Wilson, Jr. (w/enc.) (via hand delivery)
Certificate of Service

31

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION, ET. AL. :

v. :

DUQUESNE LIGHT COMPANY :

DOCKET NO. R-00974104

APPLICATION FOR APPROVAL OF ITS :
RESTRUCTURING PLAN UNDER SECTION :
2806 OF THE PUBLIC UTILITY CODE :

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SECRETARY'S BUREAU

**SUPPLEMENTAL COMMENTS OF THE
DUQUESNE INDUSTRIAL INTERVENORS
TO THE REVISED COMPLIANCE FILING OF
DUQUESNE LIGHT COMPANY**

BOC Gases
General Motors Corp.
J&L Specialty Steel, Inc.
LTV Steel Company, Inc.

Nabisco Inc.
Nova Chemicals, Inc.
USX Corporation - US Steel Group

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Counsel to the Duquesne Industrial Intervenors

DOCKETED
OCT 13 1998

**DOCUMENT
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Dated: October 8, 1998

I. INTRODUCTION

On September 14, 1998, the Duquesne Light Company ("Duquesne" or "Company") submitted a Revised Compliance Filing in its restructuring proceeding at Application of Duquesne Light Company for Approval of Its Restructuring Plan Under Section 2806 of the Public Utility Code, Docket No. R-00974101. On September 21, 1998, the Duquesne Industrial Intervenors ("DII") submitted Comments on the Revised Compliance Filing detailing many errors in the Revised Compliance Filing. DII also identified inconsistencies in the Company's Distribution Cost of Service Study ("COSS") that indicated possible flaws in the study. DII Comments, pp. 7-8. DII was in the process of obtaining the workpapers and supporting information for the COSS in order to analyze the inconsistencies. Upon further review, DII has identified a clear error in the Company's treatment of income taxes in the COSS. DII submits these Supplemental Comments to explain in detail the error.

II. SUPPLEMENTAL COMMENTS

A. **Duquesne's Distribution COSS Inappropriately Assigns Income Tax Responsibility and Improperly Inflates the Distribution Revenue Requirement for Rates HVPS and L.**

As noted in DII's September 21, 1998 Comments to Duquesne's Revised Compliance Filing, certain inconsistencies exist in the Company's distribution COSS that seem to indicate flaws in the study. First, the ratio between the Rate L and Rate HVPS distribution revenue requirements is vastly different than the ratio between the Rate L and Rate HVPS distribution rate bases. DII Comments, pp. 7-8. Second, the amount of income tax assigned to Rate HVPS is drastically higher than the amount assigned to Rate L, despite the fact that Rate HVPS earns a negative return on equity. Id. at 8. Based on the unexplained existence of these anomalies, DII requested the workpapers and other supporting information from the Company to verify the accuracy of its distribution COSS. DII did not receive that information in sufficient time to analyze and include a position in the DII Comments. Consequently, DII requested the consideration of the Commission to submit Supplemental Comments.

Subsequently, DII received the supporting information and completed a sufficient analysis to identify a major flaw in the COSS. DII attaches the affidavit of Mr. Stephen J. Baron explaining DII's analysis as Exhibit A to these Supplemental Comments. See Exhibit A, Affidavit of Stephen J. Baron (hereinafter, "Baron Affidavit"). In general, the identified flaw emanates from the Company's calculation of the income taxes assigned to each Rate Schedule in determining the distribution revenue requirement. This flaw results in an unreasonable and unjustified inflation of the distribution revenue requirement (and the resulting distribution rate) for Rate Schedules HVPS and L.

The Company used an inappropriate allocation factor to calculate the amount of income taxes assigned to the distribution revenue requirement for each Rate Schedule. As explained in Mr. Baron's affidavit, the Company used different allocation factors to assign different categories of costs to the Rate Schedules in its COSS. See Baron Affidavit, ¶ 8. These allocation factors are calculated based on the proportion of a type of cost assigned to the various Rate Schedules compared to the Company total for that type of cost. For example, the "Distribution Plant Factor" (Allocator 102) is based on the relative proportion of distribution plant assigned to each Rate Schedule in comparison to the Company's total distribution plant. Similarly, the "Production, Transmission, Distribution Plant Factor" (Allocator 103) is based on the portion of production, transmission and distribution plant assigned to each Rate Schedule in comparison to the Company's total production, transmission and distribution plant. The basis for and calculation of the various allocation factors is set forth in the Company's distribution COSS. The relevant page is attached to Mr. Baron's affidavit as Attachment 5. See id., Attachment 5.

The distribution COSS is, of course, the analysis used to calculate each Rate Schedule's distribution rate that will be in effect until June 30, 2001, under the Competition Act. In assigning the relative proportion of distribution-related income taxes that will be recovered from each Rate Schedule's distribution rates during this period, the Company used the blended allocation factor for production, transmission and distribution plant (Allocator 103) rather than the allocation factor based solely on distribution plant (Allocator 102). Id. ¶ 8-10. The more appropriate allocation would base distribution-related income taxes on the distribution-only allocation factor. Id. The use of the blended allocation factor is an error and must be corrected by the Company in a further revised compliance filing.

The use of the blended allocation factor (Allocator 103) overstates the amount of income taxes properly allocated to Rates HVPS and L. Rates such as these take service at higher voltage levels and have relatively lower levels of distribution plant. For example, as shown on Attachment 5 to Mr. Baron's affidavit, Rate HVPS has a distribution plant allocation factor of 0.914%, but a blended production, transmission and distribution plant allocation factor of 5.653%. See id., Attachment 5. The misallocation of income taxes to the HVPS distribution rates because of the use of the blended allocation factor results in the distribution revenue requirement (and resulting rates) for HVPS being 23% higher than if the proper distribution allocation factor is used. See id., ¶ 11, Attachment 6. This is a significant increase in distribution rates that must be corrected by the Company through submission of a further compliance filing using the proper allocation factor for distribution-related income taxes in formulating the distribution COSS.

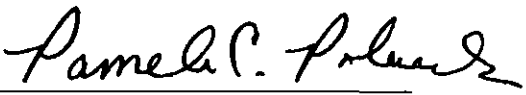
In assigning income tax responsibility, the Company's distribution COSS uses an inappropriate blended allocation factor based on production, transmission and distribution plant rather than a factor based solely on distribution plant. This error drastically increases the amount of income taxes assigned to Rates L and HVPS and, consequently, inappropriately increases the distribution rate for those Rate Schedules. This constitutes an impermissible inter-class cost shift under the Competition Act and must be corrected. Duquesne must be directed to submit a further revised compliance filing containing proper distribution rates.

III. CONCLUSION

WHEREFORE, the Duquesne Industrial Intervenors respectfully request that the Commission order Duquesne Light Company to submit a further revised compliance study reflecting distribution rates consistent with these Supplemental Comments and the additional concerns raised in DII's September 21, 1998 Comments.

Respectfully submitted,

McNEES, WALLACE & NURICK

By 

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Dated: October 8, 1998

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET. AL.**

V.

**DUQUESNE LIGHT COMPANY
FOR APPROVAL OF ITS
RESTRUCTURING PLAN UNDER
SECTION 2806 OF THE
PUBLIC UTILITY CODE**

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) **DOCKET NO. R-00974104**
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**AFFIDAVIT
OF
STEPHEN J. BARON**

**J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA**

OCTOBER 1998

AFFIDAVIT OF STEPHEN J. BARON

**STATE OF GEORGIA
COUNTY OF FULTON**

Before me, the undersigned Notary Public in and for the County of Fulton, State of Georgia, personally came and appeared Stephen J. Baron, who was sworn by me and attested to the following facts:

1. I am the President and a Principal of J. Kennedy and Associates, Inc. ("Kennedy and Associates"), a firm of utility rate, planning and economic consultants in Atlanta, Georgia. Kennedy and Associates provides consulting services in the electric, telephone and gas utility industries.

2. I have more than twenty-three years of experience in the electric utility industry in the areas of generation planning, economic analysis, load and energy forecasting and cost analysis. I have a Bachelor of Arts Degree from the University of Florida (1972) and a Master of Arts Degree in Economics (1974) also from the University of Florida. My areas of specialization were econometrics, statistics, and public utility economics. I have been employed by the Florida Public Service Commission; the Utility Rate Consulting Division of Ebasco Services, where I was a Vice President; the firm of Coopers & Lybrand, where I was a Manager in the Utility Regulatory and Advisory Services Group; and as a Principal and co-founder of the firm of J. Kennedy and Associates, Inc.

3. During the course of my professional career, I have testified as an expert in more than 100 cases before the FERC and twenty-two State Regulatory Commissions, including more than 30 appearances before the Pennsylvania PUC. I have presented numerous papers and published articles in Electrical World and Public Utilities Fortnightly and have authored a study for the Electric Power Research Institute on "Load Data Transfer Techniques."

4. I have presented expert testimony on the subjects of electric utility restructuring, system planning, load forecasting and cost analysis, cost allocation, rate design, and regulatory policy issues. I have participated and testified in each of the major electric utility restructuring proceedings in Pennsylvania, including Duquesne Light Company ("Duquesne" or "Company") Docket No. R-00974104.

5. Having obtained some, but not all, of the workpapers supporting Duquesne's Second Compliance Filing of September 11, 1998, I have now been able to identify the cause of the apparently incorrect allocation of income tax expense in Duquesne's distribution cost of service study.

6. In a previous affidavit, I identified concerns associated with the income tax values shown on Schedule A of Duquesne's Compliance Filing, which contained the summary results of the distribution cost of service analysis. In the affidavit, I noted that the total income taxes for Rate Schedule L were \$231,477, while the total income taxes for Rate Schedule HVPS were \$821,181. This is despite the fact that the total revenue requirements for Rate Schedule L were more than two times greater than they were for Rate Schedule HVPS distribution cost of service and, the rate of return for Rate Schedule L is 6.33% vs.

0.83% for Rate Schedule HVPS. A reproduction of Schedule A from Duquesne's Second Compliance Filing is attached to this affidavit as Attachment 1.

7. Attachment 2 to my affidavit shows the calculations necessary to arrive at Duquesne's income tax level (for distribution) at a 0.83% rate of return for Rate Schedule HVPS. As shown on Attachment 1 (from Duquesne's Second Compliance Filing), HVPS income taxes have been calculated to be \$821,181. As can be seen in Attachment 2 to my affidavit, this \$821,181 value is derived by utilizing the income taxes from Duquesne's original filed cost of service study at a 9.61% rate of return (as contained in Exhibit JAL-1C, page 6 of 6), and subtracting the tax effect of the rate of return differential based on the difference between 9.61% (the original Duquesne ROR request) and the actual earned ROR (per the Commission order) contained in the Company's Second Compliance Study of 0.83%. Thus, the starting point for the income tax calculation in the Second Compliance Filing of \$821,181 is Duquesne's original filed cost of service study. A copy of Exhibit JAL-1(C), page 6 of 6, is contained in Attachment 3 of this affidavit. This is from Duquesne's original filed COS.

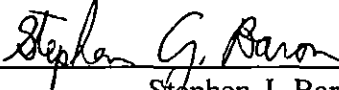
8. As I will demonstrate, the error that Duquesne has made in its Second Compliance Filing distribution tax calculation is derived from the calculation of income taxes in the original COS study (at a 9.61% rate of return). Since this was the starting point for computing the income taxes in the Second Compliance Filing (using a rate of return of 0.83%), the Second Compliance Filing also contains this error. Attachment 4 to my affidavit contains Exhibit JAL-1(B), page 21 of 23 of Duquesne's original filed cost of service study in this proceeding. The third column on this exhibit shows a series of numbers ranging from 100 to 110 and represents the allocation factor used to allocate the particular cost item.

Focusing on FERC Account 409, federal income tax, and Account 409, state income tax, it can be seen that Duquesne has allocated the distribution portion of income taxes using allocator 103.

9. Affidavit Attachment 5 shows the basis for each of the allocation factors used in Duquesne's original cost of service study. As can be seen from this attachment, Allocator No. 103 is based on the sum of production, transmission and distribution plant. *The problem with using this allocator is that it substantially overstates the income taxes associated with distribution facilities for some rate class, principally rate classes that take service at higher voltage levels and that have relatively lower levels of distribution plant, such as Rate Schedule HVPS and Rate Schedule L.*


10. Effectively, Duquesne has assigned federal and state income taxes associated with distribution service on the basis of the total level of production, transmission and distribution plant for the rate schedule. Clearly, for Rate Schedules HVPS and L, this overstates the amount of income taxes that should be assigned to the class. This is particularly problematic for Rate Schedule HVPS because these customers take service at very high voltages and thus have a relatively small proportion of distribution plant. On the other hand, Rate Schedules HVPS and L have a relatively high proportion (compared to their overall revenue requirements) of production and transmission plant. The effect of Duquesne's misallocation of federal and state income taxes is to overstate distribution revenue requirements and understate production and transmission. This error has continued in the Company's Second Compliance Filing.

11. Affidavit Attachment 6 summarizes the impact of this error on the distribution revenue requirements for each rate schedule. For Rate Schedule HVPS, correcting the error in income tax allocation would result in a 23% decrease in the distribution charge for HVPS, as compared to the Company's second compliance filing proposal.



Stephen J. Baron

Sworn to and subscribed before me on this
7th day of October 1998.



Notary Public

Notary Public, Cobb County, Georgia.
My Commission Expires January 26, 2001

COST OF SERVICE STUDY

(1998)

Distribution COS Summary

	Total Utility	FERC JURIS.	PA PUC JURIS.	RA	RS	RH	GS/GM	GMH	GL	GLH	L	HVPS	AL	SE	SM	SH	TRAFFIC SIGNALS
OPTION 2 SOLVE FOR COST OF SERVICE																	
sum rev fr. cust and adj.	250,352,923	84,403	250,288,519	773,405	118,976,580	5,040,241	60,828,239	5,068,982	30,446,273	3,298,425	11,002,004	5,053,339	325	1,102,980	8,064,374	78,403	534,990
Revenues fr. Customers Incl. GRt at Stat Ra	248,422,428	73,479	248,348,947	760,814	117,820,083	5,014,227	61,141,663	5,012,902	30,211,811	3,065,622	10,490,834	4,871,964	328	1,192,707	8,170,255	77,941	517,997
Adjustment diff bet COS and Stat Rate	1,930,496	10,924	1,919,572	12,591	1,156,476	28,014	(313,424)	56,080	234,662	232,803	511,170	181,375	(3)	(89,747)	(105,882)	462	18,994
Revenues fr. Others	14,108,307	4,118	14,104,188	50,483	5,443,784	480,974	3,584,237	433,803	2,003,068	306,830	875,566	128,988	20	210,327	472,457	3,308	10,372
Total Revenues	264,481,229	88,522	264,372,708	823,868	124,420,324	5,521,215	64,412,478	5,502,786	32,449,341	3,605,256	11,977,570	5,182,337	345	1,313,288	8,538,830	81,711	545,362
Distribution O&M Expense	108,272,036	16,781	108,255,256	430,603	57,858,192	3,904,535	23,957,356	2,343,615	8,833,528	1,015,326	3,486,208	3,100,161	173	1,015,945	2,176,803	20,499	112,311
Distribution Dep. and Amortization	42,910,032	12,332	42,897,699	149,830	15,972,086	1,429,271	10,202,401	1,266,816	6,001,875	917,571	2,948,905	393,559	61	1,088,050	2,488,127	10,071	31,477
Taxes other than Income and GRT	7,670,821	5,497	7,665,324	28,806	2,430,506	257,743	1,952,315	228,040	1,366,924	229,283	833,188	399,754	10	45,635	89,077	992	4,981
Interest Expense	34,236,348	10,318	34,226,030	123,212	13,116,276	1,179,101	8,784,626	1,072,739	5,030,602	788,205	2,483,692	320,107	49	408,712	905,533	7,948	25,230
Adjustment to COS Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Receipts taxes	11,433,668	3,382	11,430,286	35,017	5,422,682	230,780	2,814,051	230,719	1,390,493	141,096	482,842	224,233	15	54,894	376,037	3,587	23,841
	1,930,496	10,924	1,919,572	12,591	1,156,476	28,014	(313,424)	56,080	234,662	232,803	511,170	181,375	(3)	(89,747)	(105,882)	462	18,994
Expenses	206,453,402	59,234	206,394,188	777,858	95,956,307	7,027,444	47,397,325	5,198,010	22,857,884	3,304,284	10,545,985	4,619,189	305	2,523,489	5,927,695	43,559	214,833
Taxable Income	58,007,827	29,288	57,978,540	46,010	28,464,016	(1,506,229)	17,015,151	304,778	9,591,457	300,971	1,431,585	563,148	40	(1,210,201)	2,609,135	38,152	330,529
Taxes at statutory rate	24,069,478	12,153	24,057,325	19,091	11,810,717	(624,987)	7,060,182	126,462	3,979,831	124,884	594,015	233,670	16	(502,155)	1,082,622	15,830	137,148
Adjust (COS less calculated) (Fired)	57,810,057	67,716	57,742,341	202,725	14,630,792	2,016,711	14,480,123	1,652,342	12,148,947	2,170,323	4,981,789	5,653,932	(12)	(6,549)	(221,232)	1,359	31,089
Other Income taxes	(64,779,064)	(63,484)	(64,715,580)	(229,320)	(18,302,212)	(2,267,938)	(16,306,349)	(1,895,454)	(12,703,302)	(2,214,171)	(5,344,326)	(5,066,421)	0	(163,893)	(180,088)	(4,535)	(37,572)
Total Income Taxes	17,100,471	18,385	17,084,068	(7,504)	8,139,296	(876,214)	5,233,956	(116,650)	3,425,477	81,036	231,477	821,181	5	(672,596)	681,301	12,655	130,665
Preferred Dividends	5,853,052	1,764	5,851,289	21,064	2,242,381	201,579	1,501,821	183,396	860,033	131,333	424,612	54,728	8	89,873	154,810	1,359	4,313
return available for Common	35,054,304	11,139	35,043,165	32,449	18,082,359	(831,595)	10,279,374	238,030	5,305,947	88,603	775,496	(312,758)	27	(607,478)	1,773,024	24,138	195,551
TARGET ROE by Rate Class (calc)	10.91%	11.50%	10.91%	2.81%	14.69%	-7.51%	12.47%	2.36%	11.24%	1.23%	3.33%	-10.41%	5.76%	-15.83%	20.86%	32.36%	82.57%
TARGET ROR by Rate Class Input	9.37%	9.61%	9.37%	6.12%	10.89%	1.99%	10.00%	5.95%	9.50%	5.49%	6.33%	0.83%	7.31%	-1.35%	13.36%	17.97%	38.10%

**Duquesne Light Company
 Analysis of Second Compliance Filing
 Rate HVPS Income Tax Calculation - Distribution COS**

<u>DISTRIBUTION COS CATEGORY</u>	<u>AMOUNT</u>	<u>SOURCE</u>
1 Dist Taxes - Original COS @ 9.61% ROR	1,687,847	Ex. JAL -1C, page 6 of 6
2 Taxes other than income (dist only)	399,754	Ex. JAL -1(B), page 21 of 23
3 Income Taxes @ 9.61% ROR	1,288,093	Row (1) - Row (2)
4 Distribution Rate Base	7,496,657	Ex. JAL -1C, page 6 of 6
5 ROR - Original COS	9.61%	
6 ROR - 2nd Compliance Study	0.83%	Schedule A, 2nd Compliance Filing
7 Difference	-8.78%	Row (5) less Row (6)
8 Income effect	(658,354)	Row (7) times Row (4)
9 Revenue Multiplier	1.70921	1/(1-tax rate)
10 Revenue Requirement Effect	(1,125,267)	Row (8) times Row (9)
11 Taxes on income effect	(466,913)	Row (10) times tax rate (41.4935%)
12 Updated Taxes @ 0.83%	821,180	Row (3) + Row (11)
13 Taxes Per Compliance Filing	821,181	Schedule A, 2nd Compliance Filing

COST OF SERVICE STUDY

(1996)

Distribution COS Summary

Exhibit JAL - 1 (C)

Page 6 of 6

	Total Utility	FERC JURIS.	PA PUC JURIS.	BA	BR	BH	ORIGM	GMH	OL	OLH	L	HVPS	AL	RE	RM	RH	TRAFFIC SIGNALS
Distribution Plant In Service	1,341,646,934	391,641	1,341,255,293	4,798,858	517,681,488	45,738,804	340,847,492	41,253,080	190,484,233	28,178,404	82,772,857	12,267,266	1,801	20,001,345	44,928,857	314,587	888,322
less Accumulated Depreciation	(427,480,128)	(117,207)	(427,372,821)	(1,511,411)	(187,150,882)	(14,284,375)	(108,571,085)	(12,875,288)	(58,717,658)	(8,743,828)	(28,838,482)	(3,743,172)	(582)	(8,754,443)	(18,858,882)	(102,114)	(312,854)
Net Distribution Plant	914,166,806	274,434	913,882,372	3,287,446	330,530,606	31,454,429	232,276,407	28,377,792	131,766,575	19,434,576	53,934,375	8,524,094	1,308	11,246,902	24,968,860	212,473	675,468
Additions To Net Distribution Plant																	
Land/Plant Held For Future Use	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CWIP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deductions To Net Distribution Plant																	
ADIT	(108,945,787)	(31,802)	(108,813,985)	(389,682)	(42,037,302)	(3,714,129)	(27,877,847)	(3,348,875)	(15,487,898)	(2,388,375)	17,533,420)	(986,139)	(154)	(1,024,170)	(3,648,358)	(25,545)	(80,092)
Distribution Rate Base	805,211,019	242,631	804,868,388	2,897,765	308,493,524	27,730,300	208,588,560	25,028,917	116,288,678	18,085,201	58,402,775	7,527,955	1,155	9,622,732	21,321,501	186,928	583,376
Adjustments To Distribution Rate Base	(3,423,008)	(889)	(3,422,007)	(12,244)	(1,320,785)	(116,886)	(888,620)	(105,251)	(485,891)	(74,444)	(238,885)	(31,288)	(5)	(51,030)	(114,628)	(803)	(2,518)
Rate Base Adjusted For Rate-making	801,788,013	241,632	801,546,381	2,885,521	307,172,739	27,613,804	205,728,940	25,122,666	117,812,688	17,880,757	58,168,080	7,486,657	1,150	9,571,702	21,206,871	186,125	580,858
Return on Rate Base	77,051,878	23,221	77,028,607	277,289	29,518,300	2,653,687	19,770,551	2,414,280	11,321,798	1,728,912	5,589,780	720,429	110	918,841	2,037,880	17,887	56,782
Distribution O & M Expenses	108,272,038	16,781	108,255,256	430,803	57,858,192	3,904,535	23,957,358	2,343,815	8,833,528	1,015,328	3,488,208	3,100,181	173	1,015,945	2,178,803	20,499	112,311
Distribution Depreciation/Amortization	42,910,032	12,332	42,897,699	148,630	15,872,088	1,428,271	10,202,401	1,288,818	6,001,875	817,571	2,848,905	383,559	81	1,088,050	2,488,127	10,071	31,477
Taxes	28,124,555	21,882	28,102,673	80,829	7,788,578	874,124	6,822,255	783,854	4,881,207	835,883	2,218,378	1,887,847	34	118,813	208,281	2,814	16,277
Distribution Revenue Requirement	258,358,451	78,218	258,284,238	848,181	111,138,152	8,881,592	60,552,564	6,788,670	31,038,210	4,482,481	14,241,248	5,801,888	378	3,140,648	8,807,181	51,071	218,847
less Off-System Sales Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
less Other Revenue	(14,108,302)	(4,118)	(14,104,188)	(50,483)	(5,443,284)	(480,874)	(3,584,237)	(433,803)	(2,003,088)	(308,820)	(875,588)	(128,888)	(20)	(210,322)	(472,457)	(3,308)	(10,322)
Total Retail Distribution Cost	240,250,145	70,097	240,180,047	897,698	105,694,383	8,398,623	56,968,328	6,354,872	28,035,142	4,180,661	13,265,883	5,772,998	358	2,930,321	8,434,734	47,763	208,475

Exhibit JAL-1C
Page 6 of 6

Attachment 3

COST OF SERVICE STUDY
(By FERC Account - 1996)

FERC ACCT	Description of Account	Total Utility	FERC JURIS.	PA PUC JURIS.	RA	RS	RH	GS/GM	GMH	GL	GLH	L	HVPS	AL	SE	SM	SH	TRAFFIC SIGNALS
Taxes (P262)																		
408	Taxes Other Than Income Taxes	44,063,033																
	Production	35,917,995	25,740	35,892,255	125,515	11,381,068	1,206,861	9,141,555	1,067,778	6,400,511	1,073,599	2,964,760	1,871,816	47	213,681	417,097	4,646	23,322
	Transmission	474,217	340	473,877	1,657	150,262	15,934	120,894	14,098	84,504	14,174	39,143	24,713	1	2,821	5,507	61	308
	Distribution	7,670,821	5,497	7,665,324	26,806	2,430,596	257,743	1,952,315	228,040	1,366,924	229,263	633,168	369,754	10	45,635	89,077	892	4,981
409	Federal Income Tax	93,003,328																
	Production	73,568,984	55,728	73,513,256	256,348	22,897,768	2,468,417	18,633,447	2,163,991	13,230,317	2,238,659	6,043,820	4,158,894	96	481,833	904,027	8,826	47,014
	Transmission	2,183,457	1,654	2,181,803	7,608	679,584	73,260	553,023	64,225	392,663	66,441	179,376	123,432	3	13,701	26,831	262	1,395
	Distribution	17,250,887	13,067	17,237,820	60,110	5,389,203	578,809	4,369,280	507,425	3,102,322	524,934	1,417,190	975,202	22	108,246	211,982	2,069	11,024
409	State Income Tax	34,346,324																
	Production	27,189,180	20,580	27,148,600	94,670	8,456,194	911,591	6,881,371	799,168	4,885,984	626,741	2,231,995	1,535,888	35	170,482	333,859	3,259	17,362
	Transmission	806,355	611	805,744	2,810	250,972	27,055	204,232	23,718	145,011	24,537	66,243	45,584	1	5,060	9,909	97	515
	Distribution	6,370,789	4,826	6,365,963	22,199	1,982,858	213,755	1,613,584	187,393	1,145,694	193,659	523,371	360,144	8	39,976	78,285	764	4,071
410	Deferred Income Tax	(26,940,324)																
	Production	(30,241,939)	(29,509)	(30,212,430)	(106,987)	(8,544,302)	(1,058,788)	(7,812,384)	(884,915)	(5,930,500)	(1,033,745)	(2,495,092)	(2,365,167)	(42)	(76,523)	(84,099)	(2,237)	(17,648)
	Transmission	370,938	349	370,589	1,007	86,847	97,211	9,388	76,444	13,455	48,536	29,454	0	0	206	226	6	252
	Distribution	2,930,677	855	2,929,822	10,483	1,130,817	99,911	744,543	90,113	416,091	63,737	202,651	26,796	4	43,691	98,142	687	2,155
410	Deferred State Income Tax	1,014,841																
	Production	802,776	783	801,992	2,840	226,810	26,106	202,072	23,490	157,426	27,441	66,233	62,784	1	2,031	2,232	59	468
	Transmission	23,826	22	23,803	85	5,578	485	6,244	603	4,910	884	3,118	1,892	0	13	15	0	16
	Distribution	188,240	55	188,185	673	72,633	6,417	47,823	5,788	26,726	4,094	13,016	1,721	0	2,806	6,304	44	138
411	Income Tax Deferred In Prior Years	(38,611,485)																
	Production	(28,961,004)	(28,260)	(28,932,744)	(102,455)	(8,182,398)	(1,013,942)	(7,289,952)	(847,433)	(5,679,307)	(989,960)	(2,389,410)	(2,264,987)	(40)	(73,282)	(80,537)	(2,142)	(16,900)
	Transmission	(859,535)	(810)	(858,725)	(2,334)	(201,241)	(17,508)	(225,257)	(21,763)	(177,136)	(524)	(112,467)	(88,251)	(0)	(477)	(524)	(14)	(585)
	Distribution	(6,790,946)	(1,982)	(6,788,964)	(24,290)	(2,820,322)	(231,514)	(1,725,250)	(208,809)	(964,164)	(147,691)	(469,583)	(82,093)	(10)	(101,240)	(227,414)	(1,592)	(4,982)
411	Amortization of Investment Tax Credits	(7,838,483)																
	Production	(6,200,523)	(6,050)	(6,194,472)	(21,936)	(1,751,843)	(217,084)	(1,560,772)	(181,435)	(1,215,934)	(211,949)	(511,570)	(484,932)	(9)	(15,690)	(17,243)	(459)	(3,618)
	Transmission	(184,026)	(173)	(183,852)	(500)	(43,086)	(3,749)	(48,227)	(4,657)	(37,925)	(6,675)	(24,079)	(14,813)	(0)	(102)	(112)	(3)	(125)
	Distribution	(1,453,935)	(424)	(1,453,510)	(5,200)	(561,008)	(49,567)	(369,374)	(44,708)	(206,427)	(31,620)	(100,537)	(13,294)	(2)	(21,675)	(48,689)	(341)	(1,069)
411	Gain From Disposal Of Allowances	(226,313)																
	Production	(179,022)	(175)	(178,847)	(633)	(50,579)	(6,268)	(45,063)	(5,238)	(35,107)	(6,119)	(14,770)	(14,001)	(0)	(453)	(498)	(13)	(104)
	Transmission	(5,313)	(5)	(5,308)	(14)	(1,244)	(108)	(1,392)	(134)	(1,095)	(193)	(685)	(422)	(0)	(3)	(3)	(0)	(4)
	Distribution	(41,978)	(12)	(41,966)	(150)	(16,197)	(1,431)	(10,665)	(1,291)	(5,960)	(913)	(2,903)	(384)	(0)	(626)	(1,406)	(10)	(31)
Total All Taxes		100,810,921	62,707	100,748,214	348,280	33,148,967	3,295,942	25,679,058	2,984,846	17,181,975	2,841,775	8,311,515	4,329,932	127	819,912	1,722,967	14,962	67,946
Total All Taxes - Class Percentage		100%	0.0622%	99.9378%	0.3455%	32.8823%	3.2694%	25.4725%	2.9608%	17.0438%	2.8189%	8.2447%	4.2951%	0.0001%	0.8133%	1.7091%	0.0148%	0.0674%
Total Taxes Summary																		
	Production	71,876,447	36,837	71,837,610	247,363	24,432,716	2,318,892	18,350,275	2,135,405	11,813,390	1,924,667	5,895,965	2,500,296	89	681,880	1,474,839	11,939	49,896
	Transmission	2,809,919	1,988	2,807,931	10,298	927,672	102,925	706,528	85,487	487,377	81,428	199,174	141,789	4	21,219	41,848	409	1,774
	Distribution	26,124,555	21,882	26,102,673	90,629	7,788,579	874,124	6,822,255	763,954	4,881,207	835,683	2,216,376	1,687,847	34	116,813	206,281	2,614	16,277
	Total	100,810,921	62,707	100,748,214	348,280	33,148,967	3,295,942	25,679,058	2,984,846	17,181,975	2,841,775	8,311,515	4,329,932	127	819,912	1,722,967	14,962	67,946

COST OF SERVICE STUDY
(Allocation Table - 1996)

Exhibit JAL - 1 (D)
From Pages 3 - 4 of 6

Allocator Offset Number	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Allocator Number	Total Utility	FERC JURIS.	PA PUC JURIS.	RA	RS	RH	GS/GM	GMH	GL	GLH	L	HVPS	AL	SE	SM	SH	TRAFFIC SIGNALS
Description																	
CALCULATED ALLOCATORS																	
* Sum Production Plant	2,368,398,721	2,309,065	2,364,069,636	8,371,583	668,582,339	82,849,039	595,660,714	69,243,606	464,055,166	80,889,437	195,238,257	185,071,708	3,259	5,987,865	6,580,681	175,045	1,380,915
100 Production Plant Factor	100.000%	0.098%	99.902%	0.354%	28.253%	3.501%	25.172%	2.926%	19.610%	3.418%	8.250%	7.821%	0.000%	0.253%	0.278%	0.007%	0.058%
* Sum Transmission Plant	312,188,756	294,078	311,892,678	847,900	73,091,533	6,359,087	81,814,322	7,900,816	64,338,635	11,324,125	40,848,332	24,789,158	90	173,099	190,218	5,061	212,303
101 Transmission Plant Factor	100.000%	0.094%	99.906%	0.272%	23.413%	2.037%	28.207%	2.531%	20.608%	3.627%	13.085%	7.940%	0.000%	0.055%	0.061%	0.002%	0.068%
* Sum Distribution Plant	1,233,225,730	359,992	1,232,865,738	4,411,052	475,846,599	42,042,559	313,302,916	37,919,335	175,090,817	26,820,438	85,275,511	11,275,923	1,748	18,384,996	41,298,065	289,165	906,616
102 Distribution Plant Factor	100.000%	0.029%	99.971%	0.358%	38.586%	3.409%	25.405%	3.075%	14.198%	2.175%	6.915%	0.914%	0.000%	1.491%	3.349%	0.023%	0.074%
* Sum Prod, Trans, Dist Plant	3,911,811,207	2,963,155	3,908,848,052	13,630,535	1,217,520,471	131,250,685	990,777,951	115,063,757	703,482,638	119,034,000	321,362,100	221,136,789	5,098	24,545,960	48,068,964	469,271	2,499,834
103 Prod,Trans,Dist Plant Factor	100.000%	0.076%	99.924%	0.348%	31.124%	3.355%	25.328%	2.941%	17.984%	3.043%	8.215%	5.653%	0.000%	0.627%	1.228%	0.012%	0.064%
* Sum Production O&M Expense	341,691,907	337,305	341,354,602	1,075,659	90,110,353	10,247,344	79,474,296	9,569,180	72,993,845	12,016,559	34,679,968	29,135,351	411	837,002	919,814	24,478	270,342
104 Production O&M Factor	100.000%	0.099%	99.901%	0.315%	26.372%	2.999%	23.259%	2.801%	21.362%	3.517%	10.149%	8.527%	0.000%	0.245%	0.269%	0.007%	0.079%
* Total Power Expense	32,651,933	32,542	32,619,391	92,215	8,100,353	842,984	7,075,504	880,345	7,450,792	1,175,036	3,829,361	2,975,747	35	77,791	85,483	2,275	31,468
105 Total Power Expense Factor	100.000%	0.100%	99.900%	0.282%	24.808%	2.582%	21.669%	2.696%	22.819%	3.599%	11.728%	9.114%	0.000%	0.238%	0.262%	0.007%	0.096%
* Sum Transmission O&M Expense	11,112,079	10,702	11,101,377	30,857	2,659,951	231,420	2,874,410	287,527	2,341,342	412,108	1,240,499	902,128	3	6,299	6,922	184	7,726
106 Transmission O&M Factor	100.000%	0.096%	99.904%	0.278%	23.937%	2.083%	26.767%	2.588%	21.070%	3.709%	11.164%	8.118%	0.000%	0.057%	0.062%	0.002%	0.070%
* Sum Distribution O&M Expense	38,601,510	9,031	38,592,479	148,425	15,496,637	1,419,441	9,685,560	1,041,431	4,708,860	504,223	1,821,942	1,934,363	63	575,506	1,212,155	11,541	34,333
107 Distribution O&M Factor	100.000%	0.023%	99.977%	0.379%	40.145%	3.677%	25.091%	2.698%	12.199%	1.306%	4.720%	5.011%	0.000%	1.491%	3.140%	0.030%	0.089%
* Total Net Plant	2,117,723,954	1,517,613	2,118,206,341	7,400,380	671,027,416	71,156,479	538,985,816	62,956,173	377,373,942	63,289,382	174,802,157	110,362,211	2,773	12,598,635	24,592,016	273,923	1,375,037
110 Total Revenue Factor	100.000%	0.072%	99.928%	0.349%	31.686%	3.360%	25.451%	2.973%	17.820%	2.989%	8.254%	5.211%	0.000%	0.595%	1.161%	0.013%	0.065%
Steam Production Plant Accts. 311-316 Ratio (P3116)	832,093,588	813,031	831,280,557	2,906,363	233,290,518	28,851,161	207,619,261	24,227,731	164,853,661	28,537,429	70,470,511	65,752,785	1,129	2,097,766	2,305,436	61,327	505,459
112 Sum of Account 311-316 Factor	100.000%	0.098%	99.902%	0.349%	28.037%	3.443%	24.951%	2.912%	19.812%	3.430%	8.469%	7.902%	0.000%	0.252%	0.277%	0.007%	0.061%
Nuclear Production Plant Accts. 321-325 Ratio (P3215)	1,482,761,041	1,445,883	1,481,315,158	5,278,603	420,522,824	52,338,272	374,857,369	43,493,872	289,285,655	50,600,899	120,723,237	115,365,117	2,057	3,758,788	4,130,932	109,880	847,653
113 Sum of Account 321-325 Factor	100.000%	0.098%	99.902%	0.356%	28.361%	3.530%	25.281%	2.933%	19.510%	3.413%	8.142%	7.780%	0.000%	0.253%	0.279%	0.007%	0.057%
Other Production Plant Accts. 341-346 Ratio (P3416)	42,505,725	41,382	42,464,343	153,603	12,165,190	1,529,778	10,857,945	1,254,180	8,190,171	1,444,783	3,349,460	3,265,783	60	108,225	118,941	3,164	23,083
114 Sum of Account 341-346 Factor	100.000%	0.097%	99.903%	0.361%	28.620%	3.599%	25.545%	2.951%	19.268%	3.399%	7.880%	7.683%	0.000%	0.255%	0.280%	0.007%	0.054%
Transmission Plant Accounts 352-353 Ratio (P3523)	132,931,406	126,231	132,805,175	363,955	31,374,008	2,729,592	35,065,858	3,391,368	27,616,032	4,860,798	16,513,708	10,640,565	39	74,302	81,650	2,172	91,129
116 Sum of Account 352-353 Factor	100.000%	0.095%	99.905%	0.274%	23.602%	2.053%	26.379%	2.551%	20.775%	3.657%	12.423%	8.005%	0.000%	0.056%	0.061%	0.002%	0.069%
Transmission Plant Accounts 354-356 Ratio (P3546)	116,261,625	106,497	116,155,128	307,058	26,469,344	2,302,878	29,689,311	2,861,199	23,298,848	4,100,915	17,938,117	8,977,138	33	62,686	68,885	1,833	76,883
117 Sum of Account 354-356 Factor	100.000%	0.092%	99.908%	0.264%	22.767%	1.981%	25.537%	2.461%	20.040%	3.527%	15.429%	7.721%	0.000%	0.054%	0.059%	0.002%	0.066%
Distribution Plant Accounts 361-362 Ratio (P3612)	359,045,676	180,074	358,865,602	1,238,624	97,974,483	12,721,867	83,317,744	10,764,481	64,564,982	8,326,651	60,757,637	6,843,227	474	961,105	1,196,162	24,786	173,380
118 Sum of Account 361-362 Factor	100.000%	0.050%	99.950%	0.345%	27.287%	3.543%	25.990%	2.998%	17.982%	2.319%	16.922%	1.906%	0.000%	0.268%	0.333%	0.007%	0.048%

Attachment 5

DUQUESNE LIGHT COMPANY
Analysis of Distribution Revenue Requirements
From "Corrected" Cost of Service Study

<u>Rate Schedule</u>	2nd Compliance Filing	<u>Corrected</u>	<u>Difference</u>	Percent Difference
RA	773,405	775,692	2,288	0.30%
RS	118,976,560	120,824,078	1,847,519	1.55%
RH	5,040,241	5,053,591	13,350	0.26%
GS/GM	60,828,239	60,847,379	19,140	0.03%
GMH	5,068,982	5,102,005	33,023	0.65%
GL	30,446,273	29,508,868	(937,404)	-3.08%
GLH	3,298,425	3,083,468	(214,958)	-6.52%
L	11,002,004	10,680,023	(321,981)	-2.93%
HVPS	5,053,339	3,879,972	(1,173,367)	-23.22%
AL	325	327	3	0.87%
SE	1,102,960	1,316,730	213,770	19.38%
SM	8,064,374	8,589,306	524,932	6.51%
SH	78,403	81,239	2,836	3.62%
TRAFFIC SIGNALS	534,990	537,370	2,380	0.44%
Total PA Juris	250,268,519	250,280,048	11,528	0.00%

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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1000 Louisiana, Suite 5800
Houston, TX 77002-5050

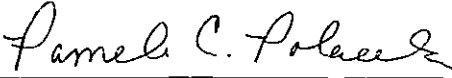
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Pamela C. Polacek, Esq.
Counsel to the Duquesne Industrial Intervenor

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PA.P.U.C.
SECRETARY'S BUREAU



University of Pittsburgh

Facilities Management Division

3400 Forbes Avenue
Pittsburgh, Pennsylvania 15260
412-624-9500

October 12, 1998

ORIGINAL

Commonwealth of Pennsylvania
PA Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

To Whom It May Concern:

Please add the following name and address to all mailing lists having to do with the Restructuring Plan Under Section 2806 of the PUC for the following utilities:

Duquesne Light Co.	Docket R-00974104
West Penn Power	Docket R-00973981
Pennsylvania Electric	Docket R-00974009
Pennsylvania Power	Docket R-00974149

Mary Rugh
University of Pittsburgh
Facilities Management Div.
Eureka Building
3400 Forbes Avenue
Pittsburgh, PA 15260

016910

KJR

DOCKETED

OCT 21 1998

If you have any questions, please call me at (412) 383-2250.

Sincerely,

Mary Rugh
Sr. Electrical Engineer

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SECRETARY'S BUREAU

DOCUMENT FOLDER

MR:cl

SKADDEN, ARPS, SLATE, MEAGHER & FLOM

ORIGINAL

1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005-2111

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DIRECT FAX
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OCT 16 1998

October 14, 1998

VIA OVERNIGHT DELIVERY

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James J. McNulty
Secretary
Office of the Prothonotary
Pennsylvania Public Utility Commission
North Office Building
Harrisburg, Pa. 17105-3265

OCT 14 1998

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DOCUM
FOL

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

Dear Secretary McNulty:

In accordance with the Commission's May 29, 1998 order on Duquesne's restructuring plan ("Restructuring Order"), which approved the proposed generation auction and required Duquesne to evaluate a potential swap of generation assets with FirstEnergy Corp. (Restructuring Order at 80-81), Duquesne hereby submits an agreement in principle between Duquesne and FirstEnergy providing for the exchange of certain generating assets.

1. Summary of Generation Exchange

Duquesne is transferring to FirstEnergy its partial ownership interest in three nuclear and five fossil generating units having a total capacity of approximately 1400 MW, while FirstEnergy is transferring to Duquesne its ownership interest in three fossil generating stations having a total capacity of approximately 1300 MW. The assets being exchanged are as follows: Duquesne will transfer to FirstEnergy its rights and interest in the Beaver Valley Power Station Units Nos. 1 &

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October 14, 1998
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2, Perry Unit No. 1, W.H. Sammis Unit No. 7, Bruce Mansfield Units Nos. 1, 2 & 3, and Eastlake Unit No. 5 (together, "DLC Interests"), while FirstEnergy will transfer to Duquesne its rights and interest in the Avon Lake, New Castle, and Niles generating stations (together, "FE Interests").¹

The generation exchange is structured to coincide with and complement Duquesne's auction of all its generating assets, including the Cheswick and Elrama generating plants. The FirstEnergy fossil generating stations being transferred to Duquesne will be auctioned together with all of Duquesne's other generating assets (the only exception being the partial interests being transferred to FirstEnergy). All the auction protocols and procedures, as set forth in the Generation Auction Plan dated August 27, 1998, will continue to apply. For example, bidders in the initial round of the auction can offer to purchase the entire bundle of assets, including the FE Interests, or can submit bids on separate asset bundles as they so desire. FirstEnergy has committed to cooperate in and support Duquesne's auction process.

2. Benefits of Generation Exchange

Duquesne expects that the generation exchange will benefit Duquesne's customers in two principal respects. First, the generation exchange will permit Duquesne to sell assets that should be more marketable than the current portfolio of assets held by Duquesne. Currently, approximately one-half of Duquesne's generating capability consists of *partial* ownership interests in eight

¹ For convenience, references to FirstEnergy include its subsidiary operating companies, Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company, and The Toledo Electric Company ("FE Subsidiaries"). The FE Subsidiaries are the entities that own the FE Interests and are the entities that will purchase the DLC Interests.

James J. McNulty
October 14, 1998
Page 3

generating units, with Duquesne having operational control of only two of these units (Beaver Valley 1 & 2). Consequently, without the generating exchange, one-half of the assets being auctioned would have been encumbered with material restrictions related to joint ownership and none of the jointly owned fossil interests (Mansfield, Sammis, and Eastlake) would have conveyed operating control. It is expected that wholly owned fossil generation will be more marketable than encumbered nuclear and fossil interests.

Second, Duquesne has secured a financial commitment from FirstEnergy that will ensure that the net proceeds from Duquesne's generation auction will be sufficient, at a minimum, to maintain or reduce the level of stranded cost recovery approved by the PaPUC in its May 29, 1998 restructuring order. Consequently, the auction can now only *benefit* customers. By contrast, without FirstEnergy's commitment, the net proceeds from the auction could have resulted in stranded cost recovery in excess of the administrative determination of stranded costs contained in the Restructuring Order. Ratepayers will now be protected from that possibility and will receive any *additional* value that results from selling assets that should be more marketable than Duquesne's current portfolio.

The foregoing benefits to ratepayers can only be achieved, however, if the Commission provides Duquesne assurance that it will recover its transaction-related costs. Consistent with auctions held in other states, and as explained in Appendix G to the Auction Plan, only the *net* proceeds from the auction should be credited to stranded costs (*i.e.*, the purchase price for the assets is adjusted to reflect transaction-related costs, including tax effects, labor-related costs, the expenses of advisors, and other transaction-related costs). Particularly pertinent to the generation exchange are costs associated with terminating the lease agreements for Beaver

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Valley Unit 2 (referenced in Section 3 of the agreement in principle).² Approving the recovery of such costs will *not* harm ratepayers, as they now have a commitment that the net proceeds from the auction, inclusive of all such costs, will not increase the level of stranded cost recovery previously approved by the Commission³ and, because the portfolio of assets being sold should be more marketable than Duquesne's current portfolio, ratepayers are likely to receive significant additional benefits from the auction.

Finally, the agreement in principle with FirstEnergy provides that the parties will cooperate to resolve labor-related matters, including with respect to union contracts, workforce levels, severance, and employee benefits, in a manner that treats employees fairly and equitably apportions any related resulting costs between Duquesne and FirstEnergy. At present, Duquesne is negotiating with its union to reach a mutually agreeable resolution of issues affecting the union. As indicated in the Generation Auction Plan, Duquesne will make a subsequent filing with the Commission presenting the details of any such agreement with the union or, if such an agreement is not reached, Duquesne will submit its own plan, which will be subject to comment by the parties.

² While the cost of termination has not yet been finally determined, it is not expected to exceed \$90 million.

³ The financial commitment from FirstEnergy permits Duquesne to commit to the Commission that the amount of the Market Value Offset Credit (as defined in the Auction Plan, Appendix G, at 9) that is to be subtracted from the stranded cost balance will never be less than zero (*i.e.*, stranded costs will *not* increase from the Standalone Base Case in Appendix G).

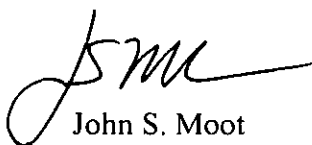
James J. McNulty
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Page 5

3. Procedural Matters

Duquesne has today served all parties to this case with a copy of this filing, including the agreement in principle with FirstEnergy. Duquesne will be prepared to answer questions regarding the generation exchange and all other aspects of the auction plan at a technical conference scheduled for 2:00 p.m., October 21, 1998, in the Commission's Executive Chamber. Thereafter, interested parties may comment on the generation exchange and all other aspects of the auction plan in their comments due to be filed at the end of October. Duquesne will file a reply to those comments as soon as practicable (we anticipate being able to respond in less than 30 days). To facilitate the timely commencement of the auction, Duquesne requests that the Commission issue an order on the auction plan at the earliest possible date, but not later than one of its scheduled meetings in December.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "JSM", with a long horizontal flourish extending to the right.

John S. Moot
Counsel for Duquesne Light Company

Enclosure

cc: All persons on official service list

VICTOR A. ROQUE
Vice President and General Counsel

October 14, 1998

FirstEnergy Corp.
76 South Main St.
Akron, Ohio 44308

Dear Sirs:

This letter confirms the agreement in principle of Duquesne Light Company ("DLC"), a Pennsylvania corporation, and FirstEnergy Corp. ("FE"), an Ohio corporation, acting on behalf of Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company, and The Toledo Electric Company (together, "FE Subsidiaries"), regarding the exchange of interests in certain electric generation facilities (hereinafter "Generation Exchange"). FE shall cause the FE Subsidiaries to perform all acts described herein as necessary or appropriate to fulfill FE's obligations hereunder. The terms of the agreement in principle are as follows:

1. *Interests Exchanged.* The Parties intend to exchange the following interests in electric generation assets:

(a) DLC will assign, convey, transfer and deliver to the FE Subsidiaries its rights, title and interest in and to the following electric generation plants: Beaver Valley Power Station Units Nos. 1 & 2 (subject to Section 3 hereof), Perry Unit No. 1, W.H. Sammis Unit No. 7, Bruce Mansfield Units Nos. 1, 2 & 3, and Eastlake Unit No. 5 (together, "DLC Interests"), as described and identified in Exhibit 1 hereof.

(b) The FE Subsidiaries will assign, convey, transfer and deliver to DLC its rights, title and interest in and to the following electric generation plants: all units located at the Avon Lake, New Castle, and Niles generating stations (together, "FE Interests"), as described and identified in Exhibit 2 hereof.



FirstEnergy Corp.
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Page 2

(c) Each Party will be responsible for the costs of any state or local transfer taxes associated with the transfer of its real property to the other.

2. *Structure of Exchange.*

(a) The Generation Exchange will be structured to qualify as a tax deferred, like-kind exchange under Internal Revenue Code Section 1031. The Parties recognize, however, that certain assets associated with the exchange may constitute nonqualifying property under Section 1031.

(b) The Generation Exchange would be followed immediately by DLC's sale of the FE Interests to the winning bidder ("Winning Bidder") in DLC's generation auction ("DLC Auction"), except as provided in Section 7.

(c) FE will indemnify and hold DLC harmless against claims and liabilities associated with its temporary ownership of the FE Interests to the extent such claims and liabilities are not assumed by the Winning Bidder.

3. *Beaver Valley Unit 2.* DLC will terminate the Facility Leases¹ and will be responsible for all payments and expenses associated with such termination. DLC will indemnify and hold FE harmless against any claims and liabilities associated with the termination of the Facility Leases.

4. *FE Financial Commitment.* FE will provide a financial commitment that DLC has determined will ensure that the net proceeds from the DLC Auction will be sufficient, at a minimum, to maintain or reduce the level of stranded cost recovery approved by the PaPUC in its May 29, 1998 restructuring order.

¹Facility Leases, such dated as of September 15, 1987, by and among The First National Bank of Boston, as Owner Trustee ("FNB") and DLC (as amended, the "Facility Leases").

5. *Decommissioning.* DLC will be responsible for its share of nuclear decommissioning costs for the Beaver Valley Power Station and Perry Unit 1. The Parties will cooperate in developing alternative methods for handling DLC's decommissioning obligations in a manner that caps such obligations at the total funding amounts allowed by the PaPUC in the DLC restructuring order and provides FE the after-tax treatment associated with those funds that are assumed in such order. Any additional decommissioning costs, or costs associated with spent nuclear fuel or the disposal or decommissioning of any other nuclear equipment, facilities or properties of any kind, will be the sole responsibility of FE.

6. *Labor.*

The Parties will cooperate to resolve labor-related matters, including with respect to union contracts, workforce levels, severance, and employee benefits, in a manner that treats employees fairly and equitably apportions any related costs between the Parties. The definitive agreements for the Generation Exchange shall clearly define and apportion the rights and obligations of the Parties regarding these matters.

7. *FENOC.*

(a) DLC will assign, convey, transfer and deliver its right, title and interest in the Beaver Valley Power Station to FE, including the transfer of responsibility for the operation and maintenance of the plant to FirstEnergy Nuclear Operating Company ("FENOC"), and DLC's interest in Perry Unit 1 ("Nuclear Interest Transfer"), as soon as practicable after the receipt of all associated regulatory approvals and the satisfaction of any other condition, as set forth in the definitive agreements, to such a transfer including conditions related to the Facility Lease, decommissioning, labor-related matters, nuclear fuel, and transmission as further described Sections 3, 5, 6, 9, and 10 hereof. Such transfers of DLC's right, title and interest and operating responsibility in or for its nuclear interests will be made as the conditions precedent for such transfer of Beaver Valley Unit 1, Beaver Valley Unit 2 and/or Perry Unit 1 are satisfied.

(b) Upon execution of this agreement in principle, DLC shall provide written notification to FE that it supports the pending Nuclear Regulatory Commission application by FENOC to assume operating responsibility for Perry Unit 1. DLC's support for such NRC application shall not constitute a waiver of DLC's right to withhold consent to the assignment of such operating responsibility to FENOC pursuant to the Perry Unit 1 Operating Agreement, dated as of March 10, 1987, such consent to be required and provided upon execution of the Exchange Agreements described in Section 14.

8. *Cooperation in DLC Auction.*

(a) FE will cooperate with DLC in a commercially reasonable manner to provide for the timely and successful completion of the DLC Auction, including providing the due diligence specified in Section 15 and designating a person or persons having engineering and operational familiarity with respect to each of the FE Interests to be the principal contact person(s) for the auction of the FE Interests and causing such person(s) to make sufficient time available for such purpose as reasonably required by DLC or its consultants or advisors.

(b) FE agrees that it will not submit a bid in DLC's auction.

(c) For any FE employee(s) affected by the Generation Exchange to whom FE desires to submit an offer of continuing employment, FE shall disclose the identity of such employee(s) to DLC reasonably in advance of the date when bids are due in the DLC Auction.

(d) Nothing in this agreement in principle or the definitive agreements shall be deemed to grant FE any rights with respect to, or otherwise to participate in, the implementation of the DLC Auction.

9. *Fuel.* Each Party will sell, assign, convey, transfer and deliver to the other its rights, title and interest in and to the fuel inventories, including nuclear fuel in core, associated with the generation interests being exchanged at the

cost of such fuel inventories. Each Party will also assign, to the extent assignable, all rights and obligations under fuel contracts applicable to such interests. To the extent any such contract is not assignable, including leases for nuclear fuel, the Party to such contract shall agree to resell the fuel delivered under such contract or lease to the other Party and receive from the other Party the cost of such deliveries on an as-incurred basis during the term of the contract or lease, provided that no such contract shall be extended, nor shall any additional nuclear fuel be added to any such leases.

10. *Transmission Facilities.* DLC will sell, assign, convey, transfer and deliver to FE (i) the transmission facilities necessary and appropriate to permit the delivery of power from the Beaver Valley Power Station and the Bruce Mansfield Power Station to the FE transmission system, and (ii) any substation and related facilities as are necessary to meet Nuclear Regulatory Commission requirements for the safe and reliable operation of the Beaver Valley Power Station, provided that arrangements are made for continued use by DLC of such substation facilities as are necessary for the integration and operation of its system. The purchase price for the DLC facilities so transferred shall be equal to the net book costs of such facilities at the closing date of such transaction.

11. *CAPCO Agreements.* All contractual arrangements associated with the Central Area Power Coordination Group ("CAPCO"), including the unit operating agreements associated with the DLC Interests, the Transmission Facilities Agreement, and the CAPCO Basic Operating Agreement, will be modified or terminated so that DLC shall have no further rights or obligations respecting such agreements and in a manner necessary or appropriate to permit compliance by FE with any law, regulation or contract.

12. *Property Tax Litigation.* As of the date of execution of this agreement in principle, FE will receive the full benefits, including any refunds, and shall bear the full costs after such date related to, pending litigation and appeals regarding the property taxes for the Perry, Eastlake and Sammis plants, provided, however, that if the Generation Exchange as to any such unit is not consummated for any reason, the Parties shall negotiate arrangements that place them in the same position as to such unit, with respect to any such costs or benefits, as if this agreement in

principle had not been executed. DLC will continue to take all actions necessary in such proceedings, in cooperation with FE, until the closing subject to reimbursement of all expenses upon closing.

13. *Litigation.* The Generation Exchange will constitute a full settlement of all existing and future litigation between the Parties related to their ownership interests in the CAPCO assets. Following the execution of this agreement in principle, definitive settlement agreements as to any pending litigation will be negotiated consistent with this agreement in principle and will take effect on the date of closing of the Generation Exchange. In addition, upon execution of this agreement in principle, the Parties will jointly seek an order of the Court in the current litigation regarding Eastlake Unit 5 (the "Eastlake Litigation") to stay all proceedings in the Eastlake Litigation pending the complete execution of Exchange Agreements. Upon the complete execution of the Exchange Agreements, the Parties will jointly present to the Court an agreed order which will have the effect of suspending the Eastlake Litigation while preserving the Parties' rights to continue the Eastlake Litigation in the event that the Generation Exchange does not close. If the Generation Exchange does not so close, DLC shall retain all rights with respects to such litigation, with the exception being that execution of the Exchange Agreements shall constitute an irrevocable waiver by DLC of claims for money damages in the Eastlake Litigation but not for any other remedy, including the partition or sale of the unit.

14. *Definitive Agreements.* Following the execution of this agreement in principle, the Parties shall in good faith negotiate as soon as practicable definitive agreements (together with any related schedules, together the "Exchange Agreements") reflecting the terms of the Generation Exchange as set forth in this agreement in principle and containing such additional terms, covenants, representations and warranties, assumptions of liability and other conditions as are normal and customary for transactions of this kind. The representations, warranties, covenants and conditions for FE and DLC are expected to include, but not necessarily be limited to, those set forth in the Asset Purchase Agreement Term Sheet, attached as Appendix D to the DLC Generation Auction Plan.

It is specifically agreed and understood by the Parties that the terms set forth in this agreement in principle do not constitute all of the major terms which will be included in the Exchange Agreements, that the terms set forth herein are subject to further discussion, negotiation, and due diligence, and that this agreement in principle is an expression of intent only and is not intended, nor will it be alleged by either Party, to create or result in any legally binding obligation upon the Parties, - with the sole exception being this sentence and Sections 7(b) and 23.

15. *Due Diligence.*

(a) Between the date of this letter and the date of consummation of the Generation Exchange, FE will (i) give DLC and its authorized representatives (including without limitation, its professional and financial advisors and any qualified bidder in the DLC Auction, together "DLC Representatives"), access during regular business hours upon reasonable notice to all of the generating plants constituting the FE Interests and to all of its books and records associated with the FE Interests, (ii) permit DLC Representatives to make such reasonable inspections as it may require, including the performance of Phase I and Phase II environmental audits as to the FE Interests, provided that DLC bears all of the expenses related to such audits and inspections, (iii) cause FE's officers and those of its subsidiaries to furnish DLC Representatives with such financial and operating data and other information with respect to the FE Interests as DLC Representatives may request from time to time, and (iv) keep DLC Representatives apprised of material developments in the operation and maintenance of the FE Interests. As provided in the letter agreement between FE and DLC respecting confidentiality, the information provided to DLC Representatives will be treated on a confidential basis. DLC will require any qualified bidder in the DLC Auction to execute a confidentiality agreement providing similar protections for due diligence information provided by FE to such bidders.

(b) Between the date of this letter and the date of consummation of the transactions contemplated herein or termination hereof, DLC will keep FE apprised of material developments regarding the operation and maintenance of the Beaver Valley Power Station and shall otherwise provide FE access to such information respecting Beaver Valley as is reasonably required for FE to perform due

diligence for the Generation Exchange. To the extent DLC determines that certain due diligence information should be provided to FE only pursuant to a confidentiality agreement, the Parties shall negotiate such an agreement in good faith.

16. *Assumption of Liabilities.* DLC shall cause the Winning Bidder to assume such liabilities, whether known or unknown, absolute or contingent, direct or indirect, relating to the FE Interests as are normal and customary in transactions of this kind, including liabilities relating to DLC's temporary ownership of the FE Interests. FE will assume such liabilities, whether known or unknown, absolute or contingent, direct or indirect, relating to the DLC Interests as are normal and customary in transactions of this kind. Each Party shall indemnify the other against any claim, and any reasonable expenses incurred by the other party as to such claim, asserting that the other Party's execution of this agreement in principle or the Exchange Agreements constitutes an interference with any contractual obligation of the first Party.

17. *Representations and Warranties.* FE will provide representations and warranties to DLC that are normal and customary for transactions of this kind and the Winning Bidder shall be an intended third party beneficiary thereof. DLC will provide representations and warranties to FE with respect to the DLC Interests that are normal and customary for transactions of this kind, provided that recognition shall be given for the fact FE, not DLC, is the operator of certain of the DLC Interests.

18. *Covenants.* Each Party will provide such covenants as are normal and customary for transactions of this kind, including, without limitation, covenants to operate and maintain their respective generation interests in the regular and ordinary course from the date of execution of the Exchange Agreements to the closing date of the Generation Exchange.

19. *Conditions.* The Exchange Agreements shall include conditions to closing the transaction(s) as are normal and customary for transaction of this kind, including conditions related to securing necessary regulatory approvals and for the absence of any material breach of covenants, representations or warranties under

the Exchange Agreements and, furthermore, a condition that the Agreement and Plan of Merger between DQE, Inc. and Allegheny Energy, Inc. has been terminated and there is no court order requiring DQE to consummate the transactions contemplated under said agreement.

20. *Interim Operations; Proration of Expenses.* The Exchange Agreements shall include covenants regarding interim operation of the FE Interests and DLC Interests following execution of such agreements and prior to closing of the Generation Exchange as are normal and customary for transactions of this kind, including the use of prudent utility practice in operating and maintaining such interests, a fair apportionment of the risk of loss or damage to such interests prior to closing, and limitations on encumbering such interests or making certain capital expenditures during such period. The Exchange Agreements also shall include provisions regarding the proration of costs and expenses as of the closing date, including as to property taxes, fuel inventories, etc.

21. *Expenses.* Except as otherwise provided for herein, each Party will bear its own expenses associated with the Generation Exchange, including expenses associated with legal, financial or other advisors retained to negotiate the Exchange Agreements.

22. *Termination.* If the Parties do not execute definitive Exchange Agreements by December 21, 1998, this agreement in principle shall be terminable by either Party upon written notice to the other. Following any such termination, neither Party will have any further liability or obligation to the other regarding an exchange of generation assets.

23. *Public Announcements; Confidentiality.*

(a) The parties agree that this agreement in principle shall be a public document and, as such, may be disclosed to employees, shareholders and regulatory bodies as necessary and appropriate. Neither Party, however, shall, without the prior consent of the other, make public statements regarding ongoing negotiations to reach agreement with respect to the Exchange Agreements.

FirstEnergy Corp.
October 14, 1998
Page 10

(b) FE acknowledges and agrees that DLC will submit this agreement in principle to the PaPUC for the purpose of obtaining PaPUC approval of the Generation Exchange, including authorization for the accounting for the net proceeds from the sale of the FE Interests. It is anticipated that the PaPUC will be in a position to issue an order regarding this Generation Exchange not later than December 21, 1998.

24. *Governing Law.* This agreement in principle shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without giving effect to the provisions thereof relating to conflicts of law.

25. *Counterparts.* This agreement in principle may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

FirstEnergy Corp.
October 14, 1998
Page 11

If the foregoing correctly reflects the understanding between us,
please so indicate by signing and returning the enclosed copy of this letter at your
earliest convenience.

DUQUESNE LIGHT COMPANY

By: 

Name: Victor A. Rogue

Title: VP and General Counsel

Agreed to and accepted as of
this 14th day of October 1998

FIRSTENERGY CORP.

By: 

Name: Anthony J. Alexander

Title: Exec. V.P. & General Counsel

EXHIBIT 1

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
- Meteorological 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 U₃O₈
Expiration Date: 2000

Company Name: Uranium Resources, Inc.
Quantity: 76,000 lbs U₃O₈
Expiration Date: 1999

Company Name: Uranium Resources, Inc.
Quantity: 96,000 +/-20% lbs U₃O₈
Expiration Date: 2000

Beaver Valley Station

Company Name:	Uranium Resources, Inc.
Quantity:	10,000 +/-20% lbs U ₃ O ₈
Expiration Date:	2001
Company Name:	Uranium Resources, Inc.
Quantity:	100,000 +/-20% lbs U ₃ O ₈
Expiration Date:	2002
Company Name:	Nukem
Quantity:	144,000 lbs U ₃ O ₈
Expiration Date:	2000
Company Name:	Nukem
Quantity:	10,000 lbs U ₃ O ₈
Expiration Date:	2001
Company Name:	Nukem
Quantity:	80,000 lbs U ₃ O ₈
Expiration Date:	2002
Company Name:	Global Nuclear Services
Quantity:	34,200-41,800 kg UF ₆
Expiration Date:	1999
Company Name:	Global Nuclear Services
Quantity:	43,200-52,800 kg UF ₆
Expiration Date:	2000
Company Name:	Global Nuclear Services
Quantity:	7,200-8,800 kg UF ₆
Expiration Date:	2001
Company Name:	Global Nuclear Services
Quantity:	34,200-41,800 kg UF ₆
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

PROGRAM	OBLIGATIONS	PERMITS AND REFERENCES
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 ¹ and PADEP ² 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 ³ 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

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Detailed Plant Information

PROGRAM	OBLIGATIONS	PERMITS AND REFERENCES
Chemical Reporting	Compliance with MSDS, ⁴ 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 ⁵ 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 ⁶ 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

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Detailed Plant Information

PROGRAM	OBLIGATIONS	PERMITS AND REFERENCES
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,⁷ 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) & 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>

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PROGRAM	OBLIGATIONS	PERMITS AND REFERENCES
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. See 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. 1, 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.

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<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>

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<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. See 63 Fed. Reg. 40,683 (July 30, 1998).	
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 SO₂ 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
- SO₂ 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. SO₂ Emission Allowances

Under Title IV of the Federal Clean Air Act, Duquesne's ownership share of the annual SO₂ 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 ¹ 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>	

¹ USEPA = United States Environmental Protection Agency.

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<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, see 40 C.F.R. § 73.10 (Table 1), and an initial Phase II sulfur dioxide allowance of 16,468 tons for Unit 5, see 40 C.F.R. § 73.10 (Table 2).	
Solid Waste	Compliance with requirements for generators of hazardous waste, as provided in RCRA, ² 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.	

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. SO₂ Emission Allowances

Under Title IV of the Federal Clean Air Act, Duquesne's ownership share of the annual SO₂ 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 NO₂ Budget Rule, commencing in 1999, the facility will be subject to limitations on the total tons of NO₂ emitted during the May-September control period, based on the number of NO₂ emission allowances allocated to the facility plus any allowances which the facility may acquire from other units. The station has been allocated NO₂ emission allowances under the NO₂ 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 I, NOx Budget Rule Allowances

Unit 1	749
Unit 2	219
Unit 3	366

Mansfield Station

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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 ¹ and PADEP ² regulations, 40 C.F.R. Ch. I, Subch. C (Parts 50 through 99) and 25 Pa. Code Part J, Subpart C, Art. III. (Chs. 121 through 143).	

1 USEPA = United States Environmental Protection Agency.

2 PADEP = Pennsylvania Department of Environmental Resources.

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<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>	

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<u>PROGRAM</u>	<u>OBLIGATION</u>	<u>PERMITS AND REFERENCES</u>
Air Quality	<p>In accordance with the September 27, 1994 MOU³ among OTC⁴ 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 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.

Mansfield Station

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Detailed Plant Information

PROGRAM	OBLIGATION	PERMITS AND REFERENCES
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), see 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, § 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.	

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 ¹ 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 ² 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, ³ 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.	

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. SO₂ Emission Allowances

Under Title IV of the Federal Clean Air Act, Duquesne's ownership share of the annual SO₂ 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 Sammis 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 ¹ 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, see 40 C.F.R. § 73.10 (Table 2).	

¹ USEPA = United States Environmental Protection Agency.

Sammis Station

Appendix A
Detailed Plant Information

<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,² 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.

EXHIBIT 2

Avon Lake Plant

FirstEnergy intends to perform a like-in-kind trade of all plant equipment, facilities, and inventories, and certain ancillary facilities related to the plant operation, with the exception of the land and facilities related to the switchyards. FirstEnergy will transfer, to the extent possible, all fuel contracts, service contracts, environmental and operating permits.

A. Plant Description

Located on Lake Erie in the city of Avon Lake, Ohio, Avon Plant ("Avon") began generating electricity in 1924. The four operating generating units have a maximum generating capability of 743 MW. The non-operating boiler 6 was decommissioned in 1996 and has a maximum generating capability of 96 MW. Four non-operating oil-fired units, which date to the initial operation of the plant, were decommissioned in 1982. The plant is operated by Cleveland Electric Illuminating Company, a FirstEnergy Company and is connected into the 138 and 345 KV transmission system.

Unit 6 turbine was manufactured by General Electric and is capable of generating 25 MW when supplied with steam from 2 gas fired package boilers. Units 7 is comprised of a steam turbine-generator manufactured by General Electric supplied with steam from a Combustion Engineering pulverized coal fired, drum steam generator. The steam generator produces steam with steam conditions of 850psig/950F and drives a steam turbine rated at 96 MW. Unit 9, built in 1970, is comprised of a steam turbine-generator manufactured by Westinghouse supplied with steam from a supercritical Babcock & Wilcox pulverized coal fired steam generator. The steam generator is rated to produce 4.7 million pounds of steam per hour with steam conditions of 3675 psig/1000F/1000F and drives a steam turbine rate at 596 MW.

Unit 9 is operated as a base load facility and burns medium sulfur coal. Currently, FirstEnergy procures about 55 - 60% of the coal supply for the plant under a long-term contract. Units 6&7 are operated in summer to meet peak demands. The plant uses electrostatic precipitators to minimize

particulate emissions.

The oil fired combustion turbine-generating unit is rated at 26 MW.

A total 500,000 lb/hr. of gas fired package boiler capability was installed in 1997 and is used to provide steam to a nearby industrial facility and can be used to drive unit 6.

B. Physical Assets Included In Sale

The physical assets to be transferred to the new owner consist of FirstEnergy's interest in the equipment and facilities that are necessary for the operation of the generating units. 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
- Precipitators
- Auxiliary Systems
- Water Treatment
- Coal handling
- Ash handling
- Screenhouse
- Electrical and switchgear
- Batteries
- Main step-up and station service transformers
- Gas fired package boiler
- Buildings and structures
- Main boiler/turbine/generator building
- Fuel and spare parts inventories
- Concrete stack with steel liners
- Ash Disposal Facilities
- Mobile equipment
- Combustion turbine generating unit and associated equipment
- Fuel storage tanks
- Miscellaneous other small buildings and structures

- Management Systems
- Acreage that includes the land upon which the above facilities are located.

C. Physical Assets Excluded From Sale

- Switchyards and portions of the plant electrical and customer distribution control room
- Land upon which switchyards are located
- Switchyard controls, metering and protective relaying equipment located in the main control room and relay rooms
- Transmission lines from the termination to the high voltage side of each of the main output transformers and each of the station service transformers
- Transmission towers

D. Items Subject To Easement

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

Granted to FirstEnergy

- Access to switchyard, plant electrical and customer distribution control room
- Access to transmission lines up to the high voltage side of the main and station service transformers
- Access to switchyard controls in the plant control room and relay rooms
- Access to transmission towers located on the new owners property

Granted to the new owner

E. Fuel Contracts

Approximately 100% of New Castle's coal requirements are provided by the following long-term contract.

Name: Arch-Mingo Logan
 Quantity: 900,000 tons per year
 Expiration Date: December 31, 2001
 Delivery: Rail F.O.B. Avon Power Plant

Name: Massey - Sprouse Creek
 Quantity: 160,000 tons per year
 Expiration Date: December 31, 2003
 Delivery: Rail F.O.B. Avon Power Plant

F. Other Major Service Contracts

Name:
 Purpose:
 Expiration Date:

G. Steam Sales Contract

Steam is provided to GEON through a sales contract.

H. SO₂ Emission Allowances

Under Title IV of the Federal Clean Air Act, the following SO₂ allowances have been assigned to this facility:

1-2009

17,353 tons/yr.

2010 and Beyond

19,982 tons/yr.

New Castle Plant

FirstEnergy intends to perform a like-in-kind trade of all plant equipment, facilities, and inventories, and certain ancillary facilities related to the plant operation, with the exception of the land and facilities related to the switchyard. FirstEnergy will transfer, to the extent possible, all fuel contracts, service contracts, environmental and operating permits.

A. Plant Description

Located on the Beaver River near the city of New Castle, Pennsylvania, New Castle Plant ("New Castle") began generating electricity in 1939. The five operating generating units have a maximum generating capability of 339 MW. The two non-operating units at the plant are capable of operating at a maximum generating capability of 83 MW, but were retired in 1993. The plant is operated by Pennsylvania Power Company, a FirstEnergy Company and is connected into the 138 KV transmission system.

The steam electric generating units 3, 4, & 5, built in 1952, 1958, and 1964, are comprised of a steam turbine-generator manufactured by Westinghouse supplied with steam from a Babcock & Wilcox pulverized coal fired, drum steam generator. The steam generators for units 3&4 are each rated to produce 690,000 pounds of steam per hour with steam conditions of 1650psig/1000F/1000F and drive steam turbines each rated at 98 MW. The steam generators for unit 5 is rated to produce 970,000 pounds of steam per hour with steam conditions of 1725psig/1000F/1000F and drives a steam turbine rated at 137 MW.

The units are operated as an intermediate load facility and burn medium sulfur coal. Currently, FirstEnergy procures about 80% of the coal supply for the plant under a long-term contract. The plant uses electrostatic precipitators to minimize particulate emissions.

The two diesel generating units built in 1968, were manufactured by General Motors Electramotive Division and are rated at 3 MW each

B. Physical Assets Included In Sale

The physical assets to be transferred to the new owner consist of FirstEnergy's interest in the equipment and facilities that are necessary for the operation of the two generating units. 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
- Precipitators
- Auxiliary Systems
- Water Treatment
- Coal handling
- Ash handling
- Screenhouse
- Electrical and switchgear
- Batteries
- Main step-up and station service transformers
- Buildings and structures
- Main boiler/turbine/generator building
- 750 Foot concrete stack with steel liners
- Ash ponds
- Ash Disposal Facilities
- Fuel and spare parts inventories
- Diesel generating units and associated equipment
- Fuel storage tanks
- Mobile equipment
- Miscellaneous other small buildings and structures
- Management Systems
- Acreage that includes the land upon which the above facilities are located.

C. Physical Assets Excluded From Sale

- Switchyards
- Land upon which switchyards are located
- Switchyard controls, metering and protective relaying equipment located in the main control room and relay rooms
- Transmission lines from the termination to the high voltage side of each of the main output transformers and each of the station service transformers
- Transmission towers

D. Items Subject To Easement

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

Granted to FirstEnergy

- Access to switchyard
- Access to transmission lines up to the high voltage side of the main and station service transformers
- Access to switchyard controls in the plant control room and relay rooms
- Access to transmission towers located on the new owners property

Granted to the new owner

E. Fuel Contracts

Approximately 80 to 100% of New Castle's coal requirements are provided by the following long-term contract.

Name: Amerikohl
Quantity: Plant requirements
Expiration Date: December 31, 1999 with an option for extension to 12/31/00
Delivery: Truck F.O.B. New Castle Power Plant

F. Other Major Service Contracts

Name:
Purpose:
Expiration Date:

G. SO₂ Emission Allowances

Under Title IV of the Federal Clean Air Act, the following SO₂ allowances have been assigned to this facility:

<u>2000-2009</u>	<u>2010 and Beyond</u>
12,798 tons/yr.	11,248 tons/yr.

H. NO_x Emissions

Pursuant to Title I of the Clean Air Act and the Pennsylvania NO_x Budget Rule, commencing in 1999 the facility will be subject to limitations on the total tons of NO_x emitted during the May-September control period, based upon the number 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_x emission allowances under the NO_x Budget Rule, which may be used to cover the facility, or may be banked or sold:

Title I, NO_x Budget Rule Allowances

1,351 tons/yr.

Niles Plant

FirstEnergy intends to perform a like-in-kind trade of all plant equipment, facilities, and inventories, and certain ancillary facilities related to the plant operation, with the exception of the oil fired combustion turbine generating unit and the land and facilities related to the switchyards. FirstEnergy will transfer, to the extent possible, all fuel contracts, service contracts, environmental and operating permits.

A. Plant Description

Located on the Mahoning River near the city of Niles, Ohio, Niles Plant ("Niles") began generating electricity in 1954. The two unit plant has a maximum generating capability of 216 MW. The plant is operated by Ohio Edison, a FirstEnergy Company and is connected into the 138 KV transmission system.

The two identical units built in 1954, are each comprised of a steam turbine-generator manufactured by Westinghouse supplied with steam from a Babcock & Wilcox cyclone coal fired, drum steam generator. The steam generator is rated to produce 885,000 pounds of steam per hour with steam conditions of 1650psig/1000F/1000F and drives a steam turbine rated at 108 MW.

The units are operated as an intermediate load facility and burns high sulfur coal. The plant is equipped with a limestone scrubber, ducted to both units and capable of scrubbing 120% of the output from one unit. Unit 2 is also equipped with a 33 MW SO₂/NO_x removal system, which has not been operated recently. Currently, FirstEnergy procures about 70% of the coal supply for the plant 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 FirstEnergy's interest in the equipment and facilities that are necessary for the operation of the two generating units. 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
- Precipitators
- SO₂ and NO_X removal systems
- Auxiliary Systems
- Water Treatment
- Coal handling
- Ash handling
- Screenhouse
- Electrical and switchgear
- batteries
- Main step-up and station service transformers
- Buildings and structures
- Main boiler/turbine/generator building
- 393 Foot concrete stack with steel liners
- Ash ponds
- Fuel storage tanks
- Fuel and spare parts inventories
- Mobile equipment
- Miscellaneous other small buildings and structures
- Management Systems
- Acreage that includes the land upon which the above facilities are located.

C. Physical Assets Excluded From Sale

- Switchyards
- Land upon which switchyards are located
- Switchyard controls, metering and protective relaying equipment located in the main control room and relay rooms
- Transmission lines from the termination to the high voltage side of each of the main output transformers and each of the station service transformers
- Transmission towers
- 35 MW oil fired combustion turbine peaking unit and it's auxiliary equipment

D. Items Subject To Easement

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

Granted to FirstEnergy

- Access to switchyard
- Access to transmission lines up to the high voltage side of the main and station service transformers
- Access to switchyard controls in the plant control room and relay rooms
- Access to transmission towers located on the new owners property

Granted to the new owner

E. Fuel Contracts

Approximately 70% of Niles' coal requirements are provided by the following long term contract.

Name: Quaker/Harrison - Nelms
Quantity: 360,000 tons per year
Expiration Date: October 31, 2002
Delivery: Rails F.O.B. Niles Power Plant

F. Other Major Service Contracts

Name: Reed Minerals
Purpose: Bottom ash processing services
Expiration Date:

Name: ABB
Purpose: Limestone scrubber SO2 allowance reimbursement
Expiration Date: 2000

G. SO₂ Emission Allowances

Under Title IV of the Federal Clean Air Act, the following SO₂ allowances have been assigned to this facility:

<u>2000-2009</u>	<u>2010 and Beyond</u>
6,861 tons/yr.	6906 tons/yr.