

MICHAEL M. SCHNITZER

DIRECTOR

Michael Schnitzer is a Director of The NorthBridge Group. He focuses on management consulting and works with clients to address strategy issues central to maximizing performance. Helping clients develop effective responses to increasingly deregulated markets is central to Mr. Schnitzer's work for electric and gas utilities. He has developed initiatives in marketing, pricing, regulatory relations and supply planning. He also has broad experience in utility reorganizations, having served as a financial advisor to secured parties in three utility bankruptcies and has developed and evaluated a wide array of restructuring proposals. Mr. Schnitzer's project assignments have included:

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UTILITY

- For several major electric utilities, Mr. Schnitzer has assisted in the development of restructuring plans to facilitate retail access.
- For several major electric utilities, Mr. Schnitzer has assisted in the development of Acid Rain compliance plans, helping his clients take full advantage of the flexibility afforded under the Clean Air Act Amendments of 1990.
- For several major electric utilities, Mr. Schnitzer has assessed the merits of proposed policies requiring utilities to incorporate monetized environmental externalities in their resource planning process.
- For several groups of non-utility parties, Mr. Schnitzer has helped develop comprehensive cost recovery programs, including incentives, for utility-sponsored conservation and load management programs.
- For several major electric utilities, Mr. Schnitzer has analyzed financial restructuring opportunities -- including leverage, sale/leaseback and splitting off generating assets -- to develop strategies for improving competitiveness and increasing shareholder value.
- For several major utilities, Mr. Schnitzer has assessed transmission capacity, expansion costs and policies for encouraging economic transmission expansions.
- For several major electric utilities, Mr. Schnitzer has assessed short- and long-term wholesale opportunities and developed marketing plans and proposals for specific candidate buyers.
- For a major investor in an electric utility, Mr. Schnitzer has analyzed rate levels and asset values under alternative financial structures and ratemaking treatments.
- For a gas utility, Mr. Schnitzer identified necessary changes in regulatory policy to permit fair competition in gas purchasing and transportation.
- For several major utilities, Mr. Schnitzer has analyzed the economics of completing their construction programs and evaluated alternative ratemaking treatments of new generating capacity.

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## MANUFACTURING

- For a private sector steel client, Mr. Schnitzer assessed the profitability of new steel investments and the key conditions that will determine profitability, including an assessment of international competitors.
- For a private sector steel client, Mr. Schnitzer evaluated the relationship among labor costs, profitability and investment opportunity over the coming decade.
- For a private sector steel client, Mr. Schnitzer developed an integrated production and costing model to evaluate modernization and cost-reducing investment opportunities, and he assessed the effectiveness of marketing and sales activities, recommending ways in which these activities could be strengthened.
- For a major coatings manufacturer, Mr. Schnitzer analyzed alternative plant configurations and production strategies to identify profitable investment opportunities and developed new procedures for production scheduling and inventory control to reduce costs and improve sales.

Mr. Schnitzer has testified before the Maine, New Hampshire, Ohio, Pennsylvania, Rhode Island and Texas Public Utility Commissions, the Arkansas, Delaware, Maryland, New Mexico and Wisconsin Public Service Commissions, the Indiana Utility Regulatory Commission, the Massachusetts Department of Public Utilities and the Vermont Public Service Board. He is a former adjunct research fellow at the Energy and Environmental Policy Center, John F. Kennedy School of Government, Harvard University.

Before joining NorthBridge, Mr. Schnitzer was a Managing Director at Putnam, Hayes & Bartlett, Inc., where he co-directed the firm's regulated industry practice. Prior to that he was a member of the executive staff of the Appalachian Mountain Club. His experience as assistant to the executive director included the development of financial models and organizational strategic plans, as well as the negotiation of multi-party real estate transactions and the settlement of environmental litigation.

Mr. Schnitzer received an A.B. in chemistry, with honors, from Harvard University, and an M.S. in management from the Sloan School, Massachusetts Institute of Technology.

DERIVATION OF NEW ENTRY CEILING PRICE RANGE IN 2006

EXHIBIT MMS - 2

		Competitive Capital Structure & Investment Horizon	DQE Capital Structure & Investment Horizon	Units [1]	Proposed Source/Derivation
<i>Inputs</i>	CC capital investment - low	395	395	\$/kw	Survey of recent industry information.
	CC capital investment - high	500	500	\$/kw	Survey of recent industry information.
	Capital structure	67.0	40.1	% equity	Competitive data based on assumption. DQE data provided by the Company.
	Risk-free rate	7.0	7.0	%	Financial market data.
	Equity premium	7.0	4.5	%	Competitive data based on analysis of historic financial market data. DQE data provided by the Company.
	Debt premium	1.5	1.5	%	Competitive data based on analysis of historic financial market data. DQE data provided by the Company.
	Income tax rate	41.5	41.5	%	Data provided by the Company.
	Investment horizon - long	15	20	years	Competitive data based on assumption. DQE data provided by the Company.
	Investment horizon - short	10	20	years	Competitive data based on assumption. DQE data provided by the Company.
	CC Fixed O&M	35.6	35.6	\$/kw-yr	1993 EPRI-TAG escalated at inflation.
	CC A&G	17.8	17.8	\$/kw-yr	Assumption.
	Property tax rate	0.8	0.8	%	Data provided by the Company.
	Gas spot price	2.9	2.9	\$/mmbtu	Analysis of current forward contracts for gas.
	Variable O&M	0.5	0.5	\$/mwh	1993 EPRI-TAG escalated at inflation.
	Heat rate -- low	6,365	6,365	btu/kwh	High heat rate decreased at annual rate of 0.5%.
	Heat rate -- high	6,625	6,625	btu/kwh	Survey of recent industry information.
	Inflation	2.5	2.5	%	Data provided by the Company.
	CC capacity factor	84	84	%	Average of DQE baseload units.
<i>Intermediate Calculations</i>	Capital carrying charge - low	18	12	%	First year real levelized revenue requirement using long investment horizon.
	Capital carrying charge - high	23	12	%	First year real levelized revenue requirement using short investment horizon.
	CC fixed cost - low	125.5	101.1	\$/kw-yr	Low investment x low carrying charge (includes property taxes) plus fixed O&M and A&G.
	CC fixed cost - high	169.3	113.8	\$/kw-yr	High investment x high carrying charge (includes property taxes) plus fixed O&M and A&G.
	Gas expected spot cost	2.9	2.9	\$/mmBtu	Analysis of current forward contracts for gas.
	CC variable cost - low	18.9	18.9	\$/mwh	Gas at low heat rate + variable O&M.
	CC variable cost - high	19.7	19.7	\$/mwh	Gas at high heat rate + variable O&M.
<i>Final Calculations</i>	2005 avg long-run mkt price - low	36	33	\$/mwh	Low values for CC fixed cost and CC variable cost.
	2005 avg long-run mkt price - high	43	35	\$/mwh	High values for CC fixed cost and CC variable cost.
	2006 avg long-run mkt price - low	37	34	\$/mwh	2005 average long-run market price (low) escalated at inflation.
	2006 avg long-run mkt price - high	44	36	\$/mwh	2005 average long-run market price (high) escalated at inflation.

Notes: [1] Units are in 2005 dollars unless otherwise noted.

**DERIVATION OF NATURAL GAS SPOT PRICE IN 2005**

**EXHIBIT MMS - 3**

	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Forward Contract at Henry Hub</i>									
PV of forward quote at risk-free discount rate	13.1								
Equivalent spot price estimate escalated at inflation rate		2.2	2.2	2.3	2.4	2.4	2.5	2.5	2.6
PV of equivalent spot price estimate at risk-adjusted discount rate	13.1								
<i>Basis Differential from Henry Hub to TCO</i>									
Basis differential escalated at inflation rate		0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Estimate of delivered natural gas spot price		2.4	2.5	2.6	2.6	2.7	2.8	2.8	2.9

*Notes:*

The risk-free discount rate is assumed to be 7%.

The risk-adjusted discount rate is assumed to be 9%.

The annual inflation rate is assumed to be 2.5%.

DERIVATION OF SPOT EQUIVALENT TO SOLICITATION RESULTS IN 2005

EXHIBIT MMS - 4

	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>All-hours equivalent of 8-Year Solicitation Results</i>									
PV of solicitation results at risk-free discount rate	116.1								
Equivalent spot price estimate escalated at inflation rate		19.4	19.9	20.4	20.9	21.4	22.0	22.5	23.1
PV of equivalent spot price estimate at risk-adjusted discount rate	116.1								
<i>All-hours equivalent of 1-Year Solicitation Results</i>									
PV of solicitation results at risk-free discount rate	16.3								
Equivalent spot price estimate		17.8							
PV of equivalent spot price estimate at risk-adjusted discount rate	16.3								
<i>Alternative all-hours equivalent 8-Year Solicitation Results</i>									
Alternative spot price estimate using 1-year results in 1998		17.8	18.7	19.7	20.8	21.9	23.1	24.3	25.6
PV of alternative spot price estimate at risk-adjusted discount rate	116.1								

Notes:

The risk-free discount rate is assumed to be 7%.  
 The risk-adjusted discount rate is assumed to be 9%.  
 The annual inflation rate is assumed to be 2.5%.

DERIVATION OF ALTERNATIVE NEW ENTRY CEILING PRICES

EXHIBIT MMS - 6

	High End of Price Range based on Competitive Capital Structure & Investment Horizon	Equivalent Spot Price Ramped-up to High End of Competitive Price Range by 2010	Implied Growth in Spot Price Ramp-up to High End	Real Levelized Equivalent to Spot Price Ramp-up to High End	Low End of Price Range based on Competitive Capital Structure & Investment Horizon	Equivalent Spot Price Ramped-up to Low End of Competitive Price Range by 2010	Implied Growth in Spot Price Ramp-up to Low End	Real Levelized Equivalent to Spot Price Ramp-up
2005	43	27		40	36	27		35
2006	44	30	12.8%	41	37	29	9.0%	35
2007	45	34	12.8%	42	38	32	9.0%	36
2008	46	38	12.8%	43	39	34	9.0%	37
2009	47	43	12.8%	44	40	37	9.0%	38
2010	48	48	12.8%	45	41	41	9.0%	39
2011	50	50	2.5%	47	42	42	2.5%	40
2012	51	51	2.5%	48	43	43	2.5%	41
2013	52	52	2.5%	49	44	44	2.5%	42
2014	53	53	2.5%	50	45	45	2.5%	43
2015	55	55	2.5%	51	46	46	2.5%	44
2016	56	56	2.5%	53	47	47	2.5%	45
2017	58	58	2.5%	54	49	49	2.5%	47
2018	59	59	2.5%	55	50	50	2.5%	48
2019	60	60	2.5%	57	51	51	2.5%	49
2020	62	62	2.5%	58	52	52	2.5%	50
2021	64	64	2.5%	60	54	54	2.5%	51
2022	65	65	2.5%	61	55	55	2.5%	53
2023	67	67	2.5%	63	56	56	2.5%	54
2024	68	68	2.5%	64	58	58	2.5%	55
2025	70	70	2.5%	66	59	59	2.5%	57
Present Value:		492		492		424		424

## **ESTIMATION PROBLEMS FOR MARKET PRICE FORECASTS**

### **Overview**

There are two major causes of the over-estimation of likely future market prices:

- Over-estimation of the likely future market price of busbar power (the point at which power exits the plant and enters the grid), and
- Inappropriate use of various "adders" which further inflate the market price estimates of staff and certain other parties.

The bottom-up "administrative" approach of determining future prices is based on the estimated cost of new resource additions – principally gas fired combined cycle capacity. By bottom-up administrative approach I mean a cost-based forecast of market prices typically generated using a computer model, with the input numbers based on assumptions rather than actual market transactions.

### **Projection of Market Prices Revisits Avoided Cost Proceedings**

The procedure of estimating market prices based on the cost of new supply is not a new idea, it is just a new name. In the nearly twenty years since the passage of PURPA, many state commissions have engaged in the administrative determination of "avoided cost" using the same bottom up procedure to price purchase power obligations. The results of these avoided cost determinations reveal a history of excessive overestimation – actual market prices have turned out to be far lower than the estimated avoided costs. Indeed, in New England, New York, New Jersey, Pennsylvania and California, these above-market avoided

cost contracts represent a significant portion of the stranded cost problem. This overestimation problem is too pervasive to be dismissed as simply bad luck. Rather the chronic overestimation results from basic flaws in the approach, flaws which also infect the market price analysis of staff and other parties. To illustrate these basic flaws in the avoided cost approach let me describe three specific examples of the avoided cost overestimation problem from Texas, Massachusetts and New York.

### **Texas**

In Texas, the Docket No. 6064, "Application of Houston Lighting & Power Company For Approval of Standard Avoided Cost Calculation" was a filing that represented a stipulated settlement agreed to among the parties pursuant to PUC ruling 23.66 (h) (3). That ruling required HL&P to file an application for approval of a standard avoided cost calculation and terms and conditions for purchase of firm energy and capacity from qualifying facilities. The methodology adopted in that case used a proxy unit to determine HL&P's avoided cost. They found that the avoided source of incremental capacity and energy was a lignite-fired base load generating station. This filing contained the forecasted energy and capacity costs of that station stipulated to by the parties.

The table below shows the energy, capacity and total costs for the facility assuming an 84% capacity factor:

<u>Year</u>	<u>Energy (\$/MWh)</u>	<u>Capacity (\$/MWh)</u>	<u>Total (\$/MWh)</u>
1985	26.0	18.1	44.1
1986	27.8	19.2	47.0
1987	29.7	20.4	50.1
1988	31.9	21.7	53.6
1989	34.1	23.0	57.1
1990	36.6	24.4	61.0
1991	39.0	26.0	65.0
1992	41.5	27.6	69.1
1993	44.3	29.3	73.6
1994	47.1	31.1	78.2
1995	50.1 (est)	33.0	83.1
1996	53.2 (est)	35.0	88.2

These forecasts are substantially in excess of actual prices. The average of the weekly *on-peak* ERCOT prices published by Power Markets Week in 1996 was \$24.4/MWh. The 1996 price in all hours averaged \$19.0/MWh. Today the price paid to HL&P's wholesale generators is approximately \$20/MWh.

### **Massachusetts**

In Massachusetts in 1991, the Department of Public Utilities (DPU) ordered Boston Edison to issue a request for proposals for power from non-utility generators (DPU 90-270). The RFP would contain maximum, or ceiling prices,

that could be bid to Boston Edison, based on the company's avoided costs. The DPU required Boston Edison to use the cost of its avoided unit, a gas-fired combined cycle facility. Boston Edison had previously submitted an IRP filing to the Massachusetts Energy Facilities Siting Council containing the cost to build this facility (EFSC 90-12/12A). The capital cost was \$900 per kW, the heat rate 8,236 Btu/kWh, and gas prices were forecast at \$4.42 per Mcf in 1995.

The ceiling prices based on that methodology are produced in the table below which shows the total costs for the facility:

<u>Year</u>	<u>Total (\$/MWh)</u>
1995	55.9
1996	58.3
1997	63.5
1998	69.5
1999	76.2
2000	83.6
2001	90.1
2002	99.5
2003	108.9
2004	118.4

These forecasts are substantially in excess of actual prices. The average of the weekly *on peak* NEPOOL prices published by Power Markets Week in 1995 was \$25.4/MWh. The 1996 price in all hours averaged \$24.0/MWh, and through August, 1997 the average all hours price was \$25.6/MWh. Current projects under

discussion in New England quote prices in the \$30 to \$40 per MWh range, less than half the level projected just six years ago.

### **New York**

In New York in 1986, the Public Service Commission (NYPSC) issued an order (Opinion 86-8) adopting long-run avoided cost estimates for the purpose of establishing the price at which New York utilities would sign purchase power agreements with non-utility generators. The NYPSC required the following methodology for determining the ceiling price. The NYPSC adopted a two-phased approach. In the first phase, avoided energy costs were calculated using production cost modeling, while avoided capacity costs were calculated based on the cost of a new combustion turbine, adjusted to reflect existing capacity excess. In the second phase avoided costs in total were based on a new coal-fired proxy unit. The avoided costs based on that methodology are shown in the table below for New York State Electric and Gas Company, the company with the lowest avoided costs:

<u>Year</u>	<u>Total (\$/MWh)</u>
1990	46.3
1991	48.8
1992	55.8
1993	63.0
1994	69.0
1995	74.7

1996	82.2
1997	90.6
1998	99.8
1999	109.9

Once again, these forecasts are substantially in excess of actual prices. The average of the weekly *on-peak* NYPP prices published by Power Markets Week in 1995 was \$25.3/MWh. The 1996 price in all hours averaged \$20.2/MWh, and through August, 1997 the average all hours price was \$22.3/MWh.

#### **Summary: Flaws in the Avoided Cost Approach**

There are at least three major flaws in the avoided cost approach. First, all of these avoided cost projections were premised on a "fixed technology" perspective. That is, all assumed that the then-current preferred technology would remain the economic choice for a long period of time, and that its cost and performance would not improve. In each of the three cases, this assumption turned out to be incorrect. In two cases the wrong technology was picked – gas, and not coal turned out to be the economic choice due both to *technological progress* and changes in relative fuels prices. In the third case, gas combined cycle was the proxy unit, but the cost and performance assumptions did not take the possibility of further improvement into account, and thus this forecast also turned out to be too high.

The second problem is the assumption that projected reserve margins could be used to estimate the need date for new supply, and that the power market would remain in equilibrium thereafter. In at least two of these cases, the power market did not behave in this fashion. Supply and demand did not in fact achieve equilibrium on the forecast schedule, and prices turned out to be lower than forecast for this reason as well. The notion that markets move predictably to equilibrium conditions and remain there has yet to be demonstrated.

The third problem has been fuels price forecasts, particularly oil and natural gas. Past forecasts have proven to be much too high, contributing significantly to the over-estimation of avoided cost.

PENNSYLVANIA UTILITY COMMISSION

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PENNSYLVANIA PUBLIC :  
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v. : Docket No. R-00974104  
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DUQUESNE LIGHT COMPANY :  
Application for approval :  
of restructuring plan :  
pursuant to 66 Pa. C.S. :  
Section 2806(d). :  
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Washington, D.C.

Monday, November 17, 1997

Deposition of

DAVID SCHOENGOLD

a witness, called for examination by counsel  
for Duquesne, pursuant to notice and agreement  
of counsel, beginning at approximately  
2:20 p.m., at the offices of Skadden Arps Slate  
Meagher & Flom, L.L.P., 1440 New York Avenue,  
Northwest, Washington, D.C., before Shari R.  
Broussard, notary public in and for the  
District of Columbia, when were present on  
behalf of the respective parties:

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Q Is it fair to say that your analysis or your calculations assume that the shareholders have not already been compensated for the stranded cost disallowance or sharing that you proposed?

A That the shareholders have not been compensated for the stranded cost disallowance that I proposed?

Q That's correct.

A I haven't followed the performance of Duquesne stock, so I don't know just what they

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may or may not have been compensated for. But  
I didn't make any assumptions in my analysis as  
to whether or not they had been compensated for  
that potential disallowance.

THE PENNSYLVANIA UTILITY COMMISSION

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PENNSYLVANIA PUBLIC UTILITY      :
COMMISSION,                       :
                                   :
                                   :   Docket No.
                                   :   R-00974104
v.                                  :
DUQUESNE LIGHT COMPANY           :
  Application to approve          :
  restructuring plan pursuant    :
  to 66 Pa. C.S. Section 2806(d) :
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Washington, D.C.

Wednesday, November 19, 1997

Deposition of

ROBERT B. WEISENMILLER, PH.D.

a witness, called for examination by counsel for Duquesne, pursuant to notice and agreement of counsel, beginning at approximately 11:25 a.m., at the Law Firm of Skadden, Arps, Slate, Meagher & Flom, L.L.P., 1440 New York Avenue, Northwest, Washington, D.C., before Shari R. Broussard, notary public in and for the District of Columbia, when were present on behalf of the respective parties:



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Q Have you undertaken any analysis of whether, under Mr. Schnitzer's high line, whether the company not only has no stranded cost in 2005 but has no stranded cost in 1999?

A No, I did not look at that.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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 In re :  
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 DUQUESNE LIGHT COMPANY : Docket No. R-00974104  
 Application to approve :  
 restructuring plan pursuant :  
 to 66 Pa. C.S. Section 2806. :  
 -----X

Washington, D.C.

Friday, November 21, 1997

Deposition of

MATTHEW KAHAL

a witness, called for examination by counsel  
 for Applicant pursuant to notice and agreement  
 of counsel, beginning at approximately  
 11:08 a.m. at the law offices of Skadden Arps  
 Slate Meagher & Flom, L.L.P., 1440 New York  
 Avenue, Northwest, Washington, D.C., before  
 Shari R. Broussard, notary public in and for  
 the District of Columbia, when were present on  
 behalf of the respective parties:



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Q Are you contending that Duquesne's  
shareholders have been compensated for this  
disallowance or adjustment?

A They may have been in the sense that  
during some period of time Duquesne  
shareholders may have earned returns that  
exceeded the cost of capital, but that's not  
the basis of what I'm doing.

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

- - -

DEPOSITION OF

STEPHEN J. BARON

November 18, 1997

10:00 a.m.

J. Kennedy and Associates, Inc.

35 Glenlake Parkway

Suite 435

Atlanta, GA 30328

Wanda L. Robinson, RMR, CRR-B-1973

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Q. Do you believe that Duquesne's  
shareholders have been compensated for the risk of  
such a disallowance that you propose?

A. I haven't made that determination. I  
simply don't know at this point in time.

R-00974104  
Duquesne Exhibits  
MKO-1A thru MKO-1E  
and MKO-2  
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EXHIBIT MKO-1 SECTION A

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**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

Test Year

Operating Revenues:

Electric Service Revenues	
440 Residential Sales	\$404,183,112
442 Commercial Sales	475,319,391
442 Industrial Sales	189,526,889
444 Public Street and Highway Lighting	16,620,246
447 Sales For Resale - Pitcairn	857,283
Total Electric Service Revenues	<u>1,086,506,921</u>
Other Electric Revenues	
450 Late Payment Charges	4,746,547
451 Miscellaneous Service Revenues	1,454,946
454 Rent from Electric Property	7,608,687
456 Other Electric Revenues	24,275,196
447 Sales For Resale - Other Utilities	58,291,849
Total Other Electric Revenues	<u>96,377,225</u>
Total Operating Revenues	1,182,884,146

Operating Expenses:

Production Expense	
500 Operation Supervision and Engineering	5,264,774
501 Fuel	175,962,858
502 Steam Expenses	9,003,904
505 Electric Expenses	2,148,465
506 Miscellaneous Labor and Expenses	7,322,114
507 Rents	335,734
509 Emission Allowance	2,068,025
510 Maintenance Supervision and Engineering	1,504,322
511 Maintenance of Structures	1,255,864
512 Maintenance of Boiler Plant	16,766,780
513 Maintenance of Electric Plant	4,803,725
514 Maintenance of Misc. Plant Equipment	5,353,336
Total Steam Power O&M Expenses	<u>231,789,901</u>
517 Operation Supervision and Engineering	13,575,986
518 Fuel	26,648,415
519 Coolants and Water	558,656
520 Steam Expenses	5,455,447
523 Electric Expenses	129,447
524 Miscellaneous Nuclear Power Expenses	16,937,324
525 Rents	47,728,121
528 Maintenance Supervision and Engineering	3,295,342
529 Maintenance of Structures	1,641,883

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**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>
530 Maintenance of Reactor Plant	7,760,707
531 Maintenance of Electric Plant	3,324,829
532 Maintenance of Misc. Nuclear Plant	8,111,238
Total Nuclear Power O&M Expenses	<u>135,167,395</u>
546 Operation Supervision and Engineering	26,232
547 Fuel	201,637
548 Generation Expenses	25,322
549 Miscellaneous Other Power Expenses	130,029
551 Maintenance Supervision and Engineering	26,391
552 Maintenance of Structures	32,128
553 Maintenance of Electric Plant	36,380
554 Maintenance of Misc. Generation Plant	17,924
Total Other Power O&M Expenses	<u>496,043</u>
555 Purchased Power	32,269,274
556 System Load Dispatching	828,636
557 Other Power Supply Expense	382,659
557 Deferred Energy Costs	(4,527,073)
Total Power Production Expenses	<u>396,406,835</u>
 Transmission Expenses	
560 Operation Supervision and Engineering	229,232
561 Load Dispatching	715,428
562 Station Expenses	585,615
563 Overhead Line Expenses	3,116
564 Underground Line Expenses	33,965
565 Transmission of Electricity by Others	5,411,140
566 Miscellaneous Expenses	64,167
567 Rents	486,227
568 Maintenance Supervision and Engineering	61,655
569 Maintenance of Structures	457,572
570 Maintenance of Station Equipment	438,228
571 Maintenance of Overhead Lines	2,275,982
572 Maintenance of Underground Lines	40,997
573 Maintenance of Misc. Transmission Plant	0
Total Transmission Expenses	<u>10,803,324</u>
 Distribution Expenses	
580 Operation Supervision and Engineering	1,266,741
581 Load Dispatching	574,447
582 Station Expenses	2,833,152
583 Overhead Line Expenses	3,631,484
584 Underground Line Expenses	802,063
585 Street Lighting and Signal System	292,590
586 Meter Expenses	1,285,488
587 Customer Installations	3,447,613

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>
588 Miscellaneous Expenses	3,192,187
589 Rents	1,827,440
590 Maintenance Supervision and Engineering	454,314
591 Maintenance of Structures	466,745
592 Maintenance of Station Equipment	1,457,120
593 Maintenance of Overhead Lines	13,504,784
594 Maintenance of Underground Lines	845,121
595 Maintenance of Line Transformers	105,029
596 Maint. of Street Lighting and Signal System	84,234
597 Maintenance of Meters	596,821
598 Maintenance of Misc. Distribution Plant	403,934
Total Distribution Expenses	<u>37,071,307</u>
 Customer Accounts Expenses	
901 Supervision	3,406,371
902 Meter Reading	4,382,518
903 Customer Records and Collection	13,520,070
904 Uncollectible Accounts	11,000,000
905 Miscellaneous Customer Accounts Exp.	187,178
Total Customer Accounts Expenses	<u>32,496,137</u>
 Customer Service and Info Expenses	
907 Supervision	176,328
908 Customer Assistance Expenses	1,740,258
909 Info and Instructional Advertising Expenses	220,069
910 Misc. Customer Service and Info Expenses	30,974
Total Customer Service and Info Expenses	<u>2,167,629</u>
 Sales Expenses	
911 Supervision	18,837
912 Demonstrating and Selling	4,377,036
913 Advertising	19,427
916 Miscellaneous Sales Expenses	118,689
Total Sales Expenses	<u>4,533,989</u>
 Administrative and General Expenses	
920 Administrative and General Salaries	25,690,455
921 Office Supplies and Expenses	5,596,877
922 Administrative Expense Transferred	(6,171,869)
923 Outside Services Employed	8,467,154
924 Property Insurance	5,604,103
925 Injuries and Damages	3,604,775
926 Employee Pension and Benefits	12,725,517
928 Regulatory Commission Expenses	1,790,074
929 Duplicate Charges	(1,247,245)

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>
930 Miscellaneous General Expenses	20,628,427
931 Rents	11,498,652
935 Maintenance of General Plant	3,262,706
Total Administrative and General Expenses	<u>91,449,626</u>
 Total Operating Expenses	 574,928,847
 403 Depreciation Expense	 172,588,875
403 Nuclear Decontamination and Dismantling Expense	5,027,197
404 Amortization of Leasehold Improvements	8,193,897
405 Amortization of Early Window Costs	9,702,476
405 Amortization of Transition Costs	0
406 Amortization of Utility Plant Adjustments	353,580
407 Amortization of Perry Unit No. 2 Abandonment Loss	8,471,653
408 Taxes Other Than Income Taxes	<u>84,569,688</u>
 Total Operating Expenses Before Federal and State Income Taxes	 <u>863,836,213</u>
 Net Operating Income Before Federal and State Income Taxes	 319,047,933
 409 Federal Income Tax	94,901,767
409 State Income Tax	29,130,353
410 Deferred Federal Income Tax	15,799,927
410 Deferred State Income Tax	1,235,284
411 Income Tax Deferred in Prior Years	(36,611,485)
411 Amortization of Investment Tax Credits	(7,838,483)
411 Gain From Disposal of Allowances	<u>(226,313)</u>
 Total Income Taxes	 <u>96,391,050</u>
 Net Utility Operating Income	 222,656,883
 418 Equity in Subsidiary Company's Earnings	31,619,253
418 Non-Operating Rental Income & Expense	(57,428)
419 Interest Revenues	11,563,066
419 Allowance For Funds Used During Construction	1
421 Miscellaneous Non-Operating Income	<u>3,452,177</u>
 Total Other Income	 <u>46,577,069</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>
426 Donations	1,606,873
426 Civic, Political and Related Activities	725,714
426 Other	<u>6,330,988</u>
 Total Other Income Deductions	 <u>8,663,575</u>
 409 Federal Income Tax	 (418,561)
409 State Income Tax	(779,727)
420 Investment Tax Credit	<u>(1,720,529)</u>
 Total Taxes Applicable to Other Income and Deductions	 <u>(2,918,817)</u>
 Income Before Interest Charges	 263,489,194
 <u>Interest Charges</u>	
427 Interest on Long-Term Debt	82,504,832
428 Amortization of Debt Discount and Expense	6,091,881
429 Amortization of Premium on Debt	(118,820)
431 Other Interest	26,670,636
432 Allowance For Borrowed Funds Used During Construction	<u>(1,249,515)</u>
 Total Interest Charges	 <u>113,899,014</u>
 Net Income	 <u>\$149,590,180</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	<u>Test Year</u>
<u>Intangible Plant:</u>	
301 Organization	\$100,275
302 Franchises and Consents	6,830
303 Miscellaneous Intangible Plant	286,993,420
Total Intangible Plant	<u>287,100,525</u>
<u>Production Plant:</u>	
Steam Production Plant	
310 Land and Land Rights	8,026,760
311 Structures and Improvements	128,853,875
312 Boiler Plant Equipment	484,460,835
313 Engines/Engine-Driven Generators	0
314 Turbogenerator Units	115,768,800
315 Accessory Electric Equipment	78,729,366
316 Misc. Power Plant Equipment	24,280,712
Total Steam Production Plant	<u>840,120,348</u>
Nuclear Production Plant	
320 Land and Land Rights	617,903
321 Structures and Improvements	229,416,299
322 Reactor Plant Equipment	656,156,421
323 Turbo Generator Units	119,726,878
324 Accessory Electric Equipment	161,470,226
325 Misc. Power Plant Equipment	72,991,217
Total Nuclear Production Plant	<u>1,240,378,944</u>
Hydraulic Production Plant	
330 Land and Land Rights	0
331 Structures and Improvements	0
332 Reservoirs, Dams, and Waterways	0
333 Water Wheels, Turbines, and Generators	0
334 Accessory Electric Equipment	0
335 Misc. Power Plant Equipment	0
336 Roads, Railroads, and Bridges	0
Total Hydraulic Production Plant	<u>0</u>
Other Production Plant	
340 Land and Land Rights	393,704
341 Structures and Improvement	8,150,271
342 Fuel Holders, Products, and Accessories	3,371,626

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	<u>Test Year</u>
343 Prime Movers	436,877
344 Generators	22,779,984
345 Accessory Electric Equipment	6,674,134
346 Misc. Power Plant Equipment	1,092,833
Total Other Production Plant	42,899,429
 Total Production Plant	 2,123,398,721

Transmission Plant:

350 Land and Land Rights	9,833,085
352 Structures and Improvements	8,073,681
353 Station Equipment	124,857,725
354 Towers and Fixtures	66,632,752
355 Poles and Fixtures	5,653,323
356 Overhead Conductors and Devices	43,975,550
357 Underground Conduit	34,250,903
358 Underground Conductors and Devices	18,895,858
359 Roads and Trails	13,879
Total Transmission Plant	312,186,756

Distribution Plant:

360 Land and Land Rights	8,902,261
361 Structures and Improvements	41,029,378
362 Station Equipment	318,016,298
363 Storage Battery Equipment	0
364 Poles, Towers, and Fixtures	218,026,447
365 Overhead Conductors and Devices	168,933,236
366 Underground Conduit	74,561,251
367 Underground Conductors and Devices	112,816,627
368 Line Transformers	150,946,402
369 Services	57,792,430
370 Meters	59,652,919
371 Installations on Customer Premises	37,793
372 Leased Property on Customer Premises	0
373 Street Lighting and Signal Systems	22,510,688
Total Distribution Plant	1,233,225,730

General Plant:

389 Land and Land Rights	6,199,971
390 Structures and Improvements	64,438,073
391 Office Furniture and Equipment	48,657,786

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	<u>Test Year</u>
392 Transportation Equipment	16,877,412
393 Stores Equipment	2,340,839
394 Tools, Shop and Garage Equipment	9,830,485
395 Laboratory Equipment	6,289,389
396 Power Operated Equipment	1,304,358
397 Communication Equipment	88,873,334
398 Miscellaneous Equipment	432,311
Subtotal	<u>245,243,958</u>
399 Other Tangible Property	72,495,480
Total General Plant	<u>317,739,438</u>
TOTAL	<u><u>\$4,273,651,170</u></u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Accumulated Depreciation

	<u>Test Year</u>
<u>Intangible Plant:</u>	
301 Organization	\$0
302 Franchises and Consents	0
303 Miscellaneous Intangible Plant	24,586,227
Total Intangible Plant	<u>24,586,227</u>
 <u>Production Plant:</u>	
Steam Production Plant	
310 Land and Land Rights	0
311 Structures and Improvements	73,121,619
312 Boiler Plant Equipment	218,157,215
313 Engines/Engine-Driven Generators	0
314 Turbogenerator Units	64,854,044
315 Accessory Electric Equipment	40,961,416
316 Misc. Power Plant Equipment	14,257,747
Total Steam Production Plant	<u>411,352,041</u>
 Nuclear Production Plant	
320 Land and Land Rights	0
321 Structures and Improvements	125,861,202
322 Reactor Plant Equipment	315,714,113
323 Turbo Generator Units	67,672,070
324 Accessory Electric Equipment	86,599,467
325 Misc. Power Plant Equipment	36,502,357
Total Nuclear Production Plant	<u>632,349,209</u>
 Hydraulic Production Plant	
330 Land and Land Rights	0
331 Structures and Improvements	0
332 Reservoirs, Dams, and Waterways	0
333 Water Wheels, Turbines, and Generators	0
334 Accessory Electric Equipment	0
335 Misc. Power Plant Equipment	0
336 Roads, Railroads, and Bridges	0
Total Hydraulic Production Plant	<u>0</u>
 Other Production Plant	
340 Land and Land Rights	0
341 Structures and Improvement	3,289,817
342 Fuel Holders, Products, and Accessories	1,583,911

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

Accumulated Depreciation

	<u>Test Year</u>
343 Prime Movers	223,568
344 Generators	10,856,250
345 Accessory Electric Equipment	1,919,779
346 Misc. Power Plant Equipment	1,128,485
Total Other Production Plant	<u>19,001,810</u>
 Total Production Plant	 <u>1,062,703,060</u>

Transmission Plant:

350 Land and Land Rights	0
352 Structures and Improvements	1,960,150
353 Station Equipment	50,537,060
354 Towers and Fixtures	23,349,334
355 Poles and Fixtures	1,666,715
356 Overhead Conductors and Devices	21,424,367
357 Underground Conduit	8,072,593
358 Underground Conductors and Devices	7,918,705
359 Roads and Trails	5,122
Total Transmission Plant	<u>114,934,046</u>

Distribution Plant:

360 Land and Land Rights	0
361 Structures and Improvements	13,307,734
362 Station Equipment	71,647,813
363 Storage Battery Equipment	0
364 Poles, Towers, and Fixtures	66,699,658
365 Overhead Conductors and Devices	60,090,427
366 Underground Conduit	15,840,062
367 Underground Conductors and Devices	34,037,405
368 Line Transformers	51,529,607
369 Services	19,868,087
370 Meters	25,120,856
371 Installations on Customer Premises	(37,544)
372 Leased Property on Customer Premises	0
373 Street Lighting and Signal Systems	14,747,084
Total Distribution Plant	<u>372,851,189</u>

General Plant:

389 Land and Land Rights	0
390 Structures and Improvements	22,588,933
391 Office Furniture and Equipment	20,284,790

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Accumulated Depreciation

	<u>Test Year</u>
392 Transportation Equipment	9,511,415
393 Stores Equipment	880,929
394 Tools, Shop and Garage Equipment	3,534,301
395 Laboratory Equipment	2,217,133
396 Power Operated Equipment	855,117
397 Communication Equipment	49,594,356
398 Miscellaneous Equipment	169,296
Subtotal	<u>109,636,270</u>
399 Other Tangible Property	67,751,995
Total General Plant	<u>177,388,265</u>
TOTAL	<u><u>\$1,752,462,787</u></u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Net Book Value

	<u>Test Year</u>
<u>Intangible Plant:</u>	
301 Organization	\$100,275
302 Franchises and Consents	6,830
303 Miscellaneous Intangible Plant	262,407,193
Total Intangible Plant	<u>262,514,298</u>
 <u>Production Plant:</u>	
Steam Production Plant	
310 Land and Land Rights	8,026,760
311 Structures and Improvements	55,732,256
312 Boiler Plant Equipment	266,303,620
313 Engines/Engine-Driven Generators	0
314 Turbogenerator Units	50,914,756
315 Accessory Electric Equipment	37,767,950
316 Misc. Power Plant Equipment	10,022,965
Total Steam Production Plant	<u>428,768,307</u>
Nuclear Production Plant	
320 Land and Land Rights	617,903
321 Structures and Improvements	103,555,097
322 Reactor Plant Equipment	340,442,308
323 Turbo Generator Units	52,054,808
324 Accessory Electric Equipment	74,870,759
325 Misc. Power Plant Equipment	36,488,860
Total Nuclear Production Plant	<u>608,029,735</u>
Hydraulic Production Plant	
330 Land and Land Rights	0
331 Structures and Improvements	0
332 Reservoirs, Dams, and Waterways	0
333 Water Wheels, Turbines, and Generators	0
334 Accessory Electric Equipment	0
335 Misc. Power Plant Equipment	0
336 Roads, Railroads, and Bridges	0
Total Hydraulic Production Plant	<u>0</u>
Other Production Plant	
340 Land and Land Rights	393,704
341 Structures and Improvement	4,860,454
342 Fuel Holders, Products, and Accessories	1,787,715

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Net Book Value

	<u>Test Year</u>
343 Prime Movers	213,309
344 Generators	11,923,734
345 Accessory Electric Equipment	4,754,355
346 Misc. Power Plant Equipment	(35,652)
Total Other Production Plant	<u>23,897,619</u>

Total Production Plant	<u>1,060,695,661</u>
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Transmission Plant:

350 Land and Land Rights	9,833,085
352 Structures and Improvements	6,113,531
353 Station Equipment	74,320,665
354 Towers and Fixtures	43,283,418
355 Poles and Fixtures	3,986,608
356 Overhead Conductors and Devices	22,551,183
357 Underground Conduit	26,178,310
358 Underground Conductors and Devices	10,977,153
359 Roads and Trails	8,757
Total Transmission Plant	<u>197,252,710</u>

Distribution Plant:

360 Land and Land Rights	8,902,261
361 Structures and Improvements	27,721,644
362 Station Equipment	246,368,485
363 Storage Battery Equipment	0
364 Poles, Towers, and Fixtures	151,326,789
365 Overhead Conductors and Devices	108,842,809
366 Underground Conduit	58,721,189
367 Underground Conductors and Devices	78,779,222
368 Line Transformers	99,416,795
369 Services	37,924,343
370 Meters	34,532,063
371 Installations on Customer Premises	75,337
372 Leased Property on Customer Premises	0
373 Street Lighting and Signal Systems	7,763,604
Total Distribution Plant	<u>860,374,541</u>

General Plant:

389 Land and Land Rights	6,199,971
390 Structures and Improvements	41,849,140
391 Office Furniture and Equipment	28,372,996

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Net Book Value

	<u>Test Year</u>
392 Transportation Equipment	7,365,997
393 Stores Equipment	1,459,910
394 Tools, Shop and Garage Equipment	6,296,184
395 Laboratory Equipment	4,072,256
396 Power Operated Equipment	449,241
397 Communication Equipment	39,278,978
398 Miscellaneous Equipment	263,015
Subtotal	<u>135,607,688</u>
399 Other Tangible Property	67,751,995
Total General Plant	<u>203,359,683</u>
TOTAL	<u><u>\$2,584,196,893</u></u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Deferred Taxes

	<u>Test Year</u>
<u>Intangible Plant:</u>	
301 Organization	\$0
302 Franchises and Consents	0
303 Miscellaneous Intangible Plant	3,363,051
Total Intangible Plant	<u>3,363,051</u>
 <u>Production Plant:</u>	
Steam Production Plant	
310 Land and Land Rights	
311 Structures and Improvements	
312 Boiler Plant Equipment	
313 Engines/Engine-Driven Generators	
314 Turbogenerator Units	
315 Assesory Electric Equipment	
316 Misc. Power Plant Equipment	
Total Steam Production Plant	<u>64,681,794</u>
 Nuclear Production Plant	
320 Land and Land Rights	
321 Structures and Improvements	
322 Reactor Plant Equipment	
323 Turbo Generator Units	
324 Accessory Electric Equipment	
325 Misc. Power Plant Equipment	
Total Nuclear Production Plant	<u>168,710,461</u>
 Hydraulic Production Plant	
330 Land and Land Rights	
331 Structures and Improvements	
332 Reservoirs, Dams, and Waterways	
333 Water Wheels, Turbines, and Generators	
334 Accessory Electric Equipment	
335 Misc. Power Plant Equipment	
336 Roads, Railroads, and Bridges	
Total Hydraulic Production Plant	<u>0</u>
 Other Production Plant	
340 Land and Land Rights	
341 Structures and Improvement	
342 Fuel Holders, Products, and Accessories	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Deferred Taxes

Test Year

343	Prime Movers	
344	Generators	
345	Accessory Electric Equipment	
346	Misc. Power Plant Equipment	
	Total Other Production Plant	<u>3,269,464</u>

Total Production Plant	<u>236,661,719</u>
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Transmission Plant:

350	Land and Land Rights	
352	Structures and Improvements	
353	Station Equipment	
354	Towers and Fixtures	
355	Poles and Fixtures	
356	Overhead Conductors and Devices	
357	Underground Conduit	
358	Underground Conductors and Devices	
359	Roads and Trails	
	Total Transmission Plant	<u>23,087,876</u>

Distribution Plant:

360	Land and Land Rights	
361	Structures and Improvements	
362	Station Equipment	
363	Storage Battery Equipment	
364	Poles, Towers, and Fixtures	
365	Overhead Conductors and Devices	
366	Underground Conduit	
367	Underground Conductors and Devices	
368	Line Transformers	
369	Services	
370	Meters	
371	Installations on Customer Premises	
372	Leased Property on Customer Premises	
373	Street Lighting and Signal Systems	
	Total Distribution Plant	<u>99,290,960</u>

General Plant:

389	Land and Land Rights
390	Structures and Improvements
391	Office Furniture and Equipment

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Deferred Taxes

Test Year

392	Transportation Equipment	
393	Stores Equipment	
394	Tools, Shop and Garage Equipment	
395	Laboratory Equipment	
396	Power Operated Equipment	
397	Communication Equipment	
398	Miscellaneous Equipment	
	Subtotal	<u>25,765,908</u>
399	Other Tangible Property	<u>11,227,191</u>
	Total General Plant	<u>36,993,099</u>
	TOTAL	<u>\$399,396,705</u>

EXHIBIT MKO-1 SECTION B

97 DEC 17 PM 3:23  
RECEIVED  
PROTHONOTARY'S OFFICE

023494

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
<u>Operating Revenues:</u>				
Electric Service Revenues				
440 Residential Sales	\$404,183,112	\$14,288,888	1,2,10,12	\$418,472,000
442 Commercial Sales	475,319,391	27,272,878	1,2,10	502,592,269
442 Industrial Sales	189,526,889	10,114,404	1,2,10	199,641,293
444 Public Street and Highway Lighting	16,620,246	421,139	1,2,10	17,041,385
447 Sales For Resale - Pitcairn	857,283	927	2	858,210
Total Electric Service Revenues	1,086,506,921	52,098,236		1,138,605,157
Other Electric Revenues				
450 Late Payment Charges	4,746,547			4,746,547
451 Miscellaneous Service Revenues	1,454,946			1,454,946
454 Rent from Electric Property	7,608,687			7,608,687
456 Other Electric Revenues	24,275,196	(1,147,264)	3,12	23,127,932
447 Sales For Resale - Other Utilities	58,291,849	(22,649,094)	12	35,642,755
Total Other Electric Revenues	96,377,225	(23,796,358)		72,580,867
Total Operating Revenues	1,182,884,146	28,301,878		1,211,186,024
<u>Operating Expenses:</u>				
Production Expense				
500 Operation Supervision and Engineering	5,264,774	739,872	5,6,12	6,004,646
501 Fuel	175,962,858	(19,557,695)	11,12,14	156,405,163
502 Steam Expenses	9,003,904	(413,389)	12	8,590,515
505 Electric Expenses	2,148,465	(43,591)	12	2,104,874
506 Miscellaneous Labor and Expenses	7,322,114	(562,387)	12	6,759,727
507 Rents	335,734	(256)	12	335,478
509 Emission Allowance	2,068,025			2,068,025
510 Maintenance Supervision and Engineering	1,504,322	(258,352)	12	1,245,970
511 Maintenance of Structures	1,255,864	(294,925)	12	960,939
512 Maintenance of Boiler Plant	16,766,780	(1,372,988)	12	15,393,792
513 Maintenance of Electric Plant	4,803,725	(779,026)	12	4,024,699
514 Maintenance of Misc. Plant Equipment	5,353,336	(715,789)	12	4,637,547
Total Steam Power O&M Expenses	231,789,901	(23,258,526)		208,531,375
517 Operation Supervision and Engineering	13,575,986			13,575,986
518 Fuel	26,648,415	(907,606)	11	25,740,809
519 Coolants and Water	558,656			558,656
520 Steam Expenses	5,455,447			5,455,447
523 Electric Expenses	129,447			129,447
524 Miscellaneous Nuclear Power Expenses	16,937,324			16,937,324
525 Rents	47,728,121	(1,505,001)	11	46,223,120
528 Maintenance Supervision and Engineering	3,295,342			3,295,342
529 Maintenance of Structures	1,641,883			1,641,883
530 Maintenance of Reactor Plant	7,760,707			7,760,707
531 Maintenance of Electric Plant	3,324,829			3,324,829
532 Maintenance of Misc. Nuclear Plant	8,111,238	(90,300)	11	8,020,938
Total Nuclear Power O&M Expenses	135,167,395	(2,502,907)		132,664,488
546 Operation Supervision and Engineering	26,232			26,232
547 Fuel	201,637			201,637
548 Generation Expenses	25,322			25,322

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
549 Miscellaneous Other Power Expenses	130,029			130,029
551 Maintenance Supervision and Engineering	26,391			26,391
552 Maintenance of Structures	32,128			32,128
553 Maintenance of Electric Plant	36,380			36,380
554 Maintenance of Misc. Generation Plant	17,924			17,924
Total Other Power O&M Expenses	<u>496,043</u>	0		<u>496,043</u>
555 Purchased Power	32,269,274			32,269,274
556 System Load Dispatching	828,636			828,636
557 Other Power Supply Expense	382,659			382,659
557 Deferred Energy Costs	(4,527,073)	4,527,073	7	0
Total Power Production Expenses	<u>396,406,835</u>	<u>(21,234,360)</u>		<u>375,172,475</u>
<b>Transmission Expenses</b>				
560 Operation Supervision and Engineering	229,232	60,164	4,5	289,396
561 Load Dispatching	715,428			715,428
562 Station Expenses	585,615			585,615
563 Overhead Line Expenses	3,116			3,116
564 Underground Line Expenses	33,965			33,965
565 Transmission of Electricity by Others	5,411,140			5,411,140
566 Miscellaneous Expenses	64,167			64,167
567 Rents	486,227			486,227
568 Maintenance Supervision and Engineering	61,655			61,655
569 Maintenance of Structures	457,572			457,572
570 Maintenance of Station Equipment	438,228			438,228
571 Maintenance of Overhead Lines	2,275,982			2,275,982
572 Maintenance of Underground Lines	40,997			40,997
573 Maintenance of Misc. Transmission Plant	0			0
Total Transmission Expenses	<u>10,803,324</u>	<u>60,164</u>		<u>10,863,488</u>
<b>Distribution Expenses</b>				
580 Operation Supervision and Engineering	1,266,741	950,158	4,5	2,216,899
581 Load Dispatching	574,447			574,447
582 Station Expenses	2,833,152			2,833,152
583 Overhead Line Expenses	3,631,484			3,631,484
584 Underground Line Expenses	802,063			802,063
585 Street Lighting and Signal System	292,590			292,590
586 Meter Expenses	1,285,488			1,285,488
587 Customer Installations	3,447,613			3,447,613
588 Miscellaneous Expenses	3,192,187			3,192,187
589 Rents	1,827,440			1,827,440
590 Maintenance Supervision and Engineering	454,314			454,314
591 Maintenance of Structures	466,745			466,745
592 Maintenance of Station Equipment	1,457,120			1,457,120
593 Maintenance of Overhead Lines	13,504,784			13,504,784
594 Maintenance of Underground Lines	845,121			845,121
595 Maintenance of Line Transformers	105,029			105,029
596 Maint. of Street Lighting and Signal System	84,234			84,234
597 Maintenance of Meters	596,821			596,821
598 Maintenance of Misc. Distribution Plant	403,934			403,934
Total Distribution Expenses	<u>37,071,307</u>	<u>950,158</u>		<u>38,021,465</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
<b>Customer Accounts Expenses</b>				
901 Supervision	3,406,371			3,406,371
902 Meter Reading	4,382,518			4,382,518
903 Customer Records and Collection	13,520,070			13,520,070
904 Uncollectible Accounts	11,000,000			11,000,000
905 Miscellaneous Customer Accounts Exp.	187,178			187,178
<b>Total Customer Accounts Expenses</b>	<b>32,496,137</b>	<b>0</b>		<b>32,496,137</b>
<b>Customer Service and Info Expenses</b>				
907 Supervision	176,328			176,328
908 Customer Assistance Expenses	1,740,258			1,740,258
909 Info and Instructional Advertising Expenses	220,069			220,069
910 Misc. Customer Service and Info Expenses	30,974			30,974
<b>Total Customer Service and Info Expenses</b>	<b>2,167,629</b>	<b>0</b>		<b>2,167,629</b>
<b>Sales Expenses</b>				
911 Supervision	18,837			18,837
912 Demonstrating and Selling	4,377,036			4,377,036
913 Advertising	19,427			19,427
916 Miscellaneous Sales Expenses	118,689			118,689
<b>Total Sales Expenses</b>	<b>4,533,989</b>	<b>0</b>		<b>4,533,989</b>
<b>Administrative and General Expenses</b>				
920 Administrative and General Salaries	25,690,455	648,390	4.5	26,338,845
921 Office Supplies and Expenses	5,596,877			5,596,877
922 Administrative Expense Transferred	(6,171,869)			(6,171,869)
923 Outside Services Employed	8,467,154			8,467,154
924 Property Insurance	5,604,103			5,604,103
925 Injuries and Damages	3,604,775			3,604,775
926 Employee Pension and Benefits	12,725,517	778,929	6	13,504,446
928 Regulatory Commission Expenses	1,790,074			1,790,074
929 Duplicate Charges	(1,247,245)			(1,247,245)
930 Miscellaneous General Expenses	20,628,427			20,628,427
931 Rents	11,498,652			11,498,652
935 Maintenance of General Plant	3,262,706			3,262,706
<b>Total Administrative and General Expenses</b>	<b>91,449,626</b>	<b>1,427,319</b>		<b>92,876,945</b>
<b>Total Operating Expenses</b>	<b>574,928,847</b>	<b>(18,796,719)</b>		<b>556,132,128</b>
403 Depreciation Expense	172,588,875	25,000,000	12	197,588,875
403 Nuclear Decontamination and Dismantling Expense	5,027,197	(5,027,197)	11	0
404 Amortization of Leasehold Improvements	8,193,897			8,193,897
405 Amortization of Early Window Costs	9,702,476	(9,702,476)	11	0
405 Amortization of Transition Costs	0	84,031,667	11	84,031,667
406 Amortization of Utility Plant Adjustments	353,580	(353,580)	13	0
407 Amortization of Perry Unit No. 2 Abandonment Loss	8,471,653	(8,471,653)	9	0
408 Taxes Other Than Income Taxes	84,569,688	(4,352,878)	12	80,216,810
<b>Total Operating Expenses Before Federal and State Income Taxes</b>	<b>863,836,213</b>	<b>62,327,164</b>		<b>926,163,377</b>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
Net Operating Income Before Federal and State Income Taxes	319,047,933	(34,025,286)		285,022,647
409 Federal Income Tax	94,901,767	(1,898,439)	8,15	93,003,328
409 State Income Tax	29,130,353	5,215,971	15	34,346,324
410 Deferred Federal Income Tax	15,799,927	(42,740,251)	11,15	(26,940,324)
410 Deferred State Income Tax	1,235,284	(220,443)	15	1,014,841
411 Income Tax Deferred in Prior Years	(36,611,485)			(36,611,485)
411 Amortization of Investment Tax Credits	(7,838,483)			(7,838,483)
411 Gain From Disposal of Allowances	(226,313)			(226,313)
<b>Total Income Taxes</b>	<b>96,391,050</b>	<b>(39,643,162)</b>		<b>56,747,888</b>
Net Utility Operating Income	222,656,883	5,617,876		228,274,759
418 Equity in Subsidiary Company's Earnings	31,619,253	(19,665,341)	8	11,953,912
418 Non-Operating Rental Income & Expense	(57,428)			(57,428)
419 Interest Revenues	11,563,066			11,563,066
419 Allowance For Funds Used During Construction	1			1
421 Miscellaneous Non-Operating Income	3,452,177			3,452,177
<b>Total Other Income</b>	<b>46,577,069</b>	<b>(19,665,341)</b>		<b>26,911,728</b>
426 Donations	1,606,873			1,606,873
426 Civic, Political and Related Activities	725,714			725,714
426 Other	6,330,988			6,330,988
<b>Total Other Income Deductions</b>	<b>8,663,575</b>	<b>0</b>		<b>8,663,575</b>
409 Federal Income Tax	(418,561)			(418,561)
409 State Income Tax	(779,727)			(779,727)
420 Investment Tax Credit	(1,720,529)			(1,720,529)
<b>Total Taxes Applicable to Other Income and Deductions</b>	<b>(2,918,817)</b>	<b>0</b>		<b>(2,918,817)</b>
Income Before Interest Charges	263,489,194	(14,047,465)		249,441,729
<b>Interest Charges</b>				
427 Interest on Long-Term Debt	82,504,832			82,504,832
428 Amortization of Debt Discount and Expense	6,091,881	(3,765,532)	11	2,326,349
429 Amortization of Premium on Debt	(118,820)			(118,820)
431 Other Interest	26,670,636			26,670,636
432 Allowance For Borrowed Funds Used During Construction	(1,249,515)			(1,249,515)
<b>Total Interest Charges</b>	<b>113,899,014</b>	<b>(3,765,532)</b>		<b>110,133,482</b>
<b>Net Income</b>	<b>\$149,590,180</b>	<b>(\$10,281,933)</b>		<b>\$139,308,247</b>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	Test Year	Adjustments		Adjusted Test Year
<u>Intangible Plant:</u>				
301 Organization	\$100,275			\$100,275
302 Franchises and Consents	6,830			6,830
303 Miscellaneous Intangible Plant	286,993,420	(243,000,000)	1	43,993,420
Total Intangible Plant	<u>287,100,525</u>	<u>(243,000,000)</u>		<u>44,100,525</u>
<u>Production Plant:</u>				
Steam Production Plant				
310 Land and Land Rights	8,026,760			8,026,760
311 Structures and Improvements	128,853,875			128,853,875
312 Boiler Plant Equipment	484,460,835			484,460,835
313 Engines/Engine-Driven Generators	0			0
314 Turbogenerator Units	115,768,800			115,768,800
315 Accessory Electric Equipment	78,729,366			78,729,366
316 Misc. Power Plant Equipment	24,280,712			24,280,712
Total Steam Production Plant	<u>840,120,348</u>	<u>0</u>		<u>840,120,348</u>
Nuclear Production Plant				
320 Land and Land Rights	617,903			617,903
321 Structures and Improvements	229,416,299			229,416,299
322 Reactor Plant Equipment	656,156,421	243,000,000	1	899,156,421
323 Turbo Generator Units	119,726,878			119,726,878
324 Accessory Electric Equipment	161,470,226			161,470,226
325 Misc. Power Plant Equipment	72,991,217			72,991,217
Total Nuclear Production Plant	<u>1,240,378,944</u>	<u>243,000,000</u>		<u>1,483,378,944</u>
Hydraulic Production Plant				
330 Land and Land Rights	0			0
331 Structures and Improvements	0			0
332 Reservoirs, Dams, and Waterways	0			0
333 Water Wheels, Turbines, and Generators	0			0
334 Accessory Electric Equipment	0			0
335 Misc. Power Plant Equipment	0			0
336 Roads, Railroads, and Bridges	0			0
Total Hydraulic Production Plant	<u>0</u>	<u>0</u>		<u>0</u>
Other Production Plant				
340 Land and Land Rights	393,704			393,704
341 Structures and Improvement	8,150,271			8,150,271
342 Fuel Holders, Products, and Accessories	3,371,626			3,371,626
343 Prime Movers	436,877			436,877
344 Generators	22,779,984			22,779,984
345 Accessory Electric Equipment	6,674,134			6,674,134
346 Misc. Power Plant Equipment	1,092,833			1,092,833
Total Other Production Plant	<u>42,899,429</u>	<u>0</u>		<u>42,899,429</u>
Total Production Plant	<u>2,123,398,721</u>	<u>243,000,000</u>		<u>2,366,398,721</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	<u>Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
<u>Transmission Plant:</u>			
350 Land and Land Rights	9,833,085		9,833,085
352 Structures and Improvements	8,073,681		8,073,681
353 Station Equipment	124,857,725		124,857,725
354 Towers and Fixtures	66,632,752		66,632,752
355 Poles and Fixtures	5,653,323		5,653,323
356 Overhead Conductors and Devices	43,975,550		43,975,550
357 Underground Conduit	34,250,903		34,250,903
358 Underground Conductors and Devices	18,895,858		18,895,858
359 Roads and Trails	13,879		13,879
Total Transmission Plant	<u>312,186,756</u>	<u>0</u>	<u>312,186,756</u>
<u>Distribution Plant:</u>			
360 Land and Land Rights	8,902,261		8,902,261
361 Structures and Improvements	41,029,378		41,029,378
362 Station Equipment	318,016,298		318,016,298
363 Storage Battery Equipment	0		0
364 Poles, Towers, and Fixtures	218,026,447		218,026,447
365 Overhead Conductors and Devices	168,933,236		168,933,236
366 Underground Conduit	74,561,251		74,561,251
367 Underground Conductors and Devices	112,816,627		112,816,627
368 Line Transformers	150,946,402		150,946,402
369 Services	57,792,430		57,792,430
370 Meters	59,652,919		59,652,919
371 Installations on Customer Premises	37,793		37,793
372 Leased Property on Customer Premises	0		0
373 Street Lighting and Signal Systems	22,510,688		22,510,688
Total Distribution Plant	<u>1,233,225,730</u>	<u>0</u>	<u>1,233,225,730</u>
<u>General Plant:</u>			
389 Land and Land Rights	6,199,971		6,199,971
390 Structures and Improvements	64,438,073		64,438,073
391 Office Furniture and Equipment	48,657,786		48,657,786
392 Transportation Equipment	16,877,412		16,877,412
393 Stores Equipment	2,340,839		2,340,839
394 Tools, Shop and Garage Equipment	9,830,485		9,830,485
395 Laboratory Equipment	6,289,389		6,289,389
396 Power Operated Equipment	1,304,358		1,304,358
397 Communication Equipment	88,873,334		88,873,334
398 Miscellaneous Equipment	432,311		432,311
Subtotal	<u>245,243,958</u>	<u>0</u>	<u>245,243,958</u>
399 Other Tangible Property	72,495,480	(72,495,480)	0
Total General Plant	<u>317,739,438</u>	<u>(72,495,480)</u>	<u>245,243,958</u>
TOTAL	<u>\$4,273,651,170</u>	<u>(\$72,495,480)</u>	<u>\$4,201,155,690</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Accumulated Depreciation

	Test Year	Adjustments		Adjusted Test Year
<u>Intangible Plant:</u>				
301 Organization	\$0			\$0
302 Franchises and Consents	0			0
303 Miscellaneous Intangible Plant	24,586,227	(24,586,227)	1	0
Total Intangible Plant	24,586,227	(24,586,227)		0
<u>Production Plant:</u>				
Steam Production Plant				
310 Land and Land Rights	0			0
311 Structures and Improvements	73,121,619			73,121,619
312 Boiler Plant Equipment	218,157,215			218,157,215
313 Engines/Engine-Driven Generators	0			0
314 Turbogenerator Units	64,854,044			64,854,044
315 Accessory Electric Equipment	40,961,416			40,961,416
316 Misc. Power Plant Equipment	14,257,747			14,257,747
Total Steam Production Plant	411,352,041	0		411,352,041
Nuclear Production Plant				
320 Land and Land Rights	0			0
321 Structures and Improvements	125,861,202			125,861,202
322 Reactor Plant Equipment	315,714,113	18,824,322	1,2	334,538,435
323 Turbo Generator Units	67,672,070			67,672,070
324 Accessory Electric Equipment	86,599,467			86,599,467
325 Misc. Power Plant Equipment	36,502,357			36,502,357
Total Nuclear Production Plant	632,349,209	18,824,322		651,173,531
Hydraulic Production Plant				
330 Land and Land Rights	0			0
331 Structures and Improvements	0			0
332 Reservoirs, Dams, and Waterways	0			0
333 Water Wheels, Turbines, and Generators	0			0
334 Accessory Electric Equipment	0			0
335 Misc. Power Plant Equipment	0			0
336 Roads, Railroads, and Bridges	0			0
Total Hydraulic Production Plant	0	0		0
Other Production Plant				
340 Land and Land Rights	0			0
341 Structures and Improvement	3,289,817			3,289,817
342 Fuel Holders, Products, and Accessories	1,583,911			1,583,911
343 Prime Movers	223,568			223,568
344 Generators	10,856,250			10,856,250
345 Accessory Electric Equipment	1,919,779			1,919,779
346 Misc. Power Plant Equipment	1,128,485			1,128,485
Total Other Production Plant	19,001,810	0		19,001,810
Total Production Plant	1,062,703,060	18,824,322		1,081,527,382

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Accumulated Depreciation

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
<u>Transmission Plant:</u>				
350 Land and Land Rights	0			0
352 Structures and Improvements	1,960,150			1,960,150
353 Station Equipment	50,537,060	2,756,556	2	53,293,616
354 Towers and Fixtures	23,349,334			23,349,334
355 Poles and Fixtures	1,666,715			1,666,715
356 Overhead Conductors and Devices	21,424,367			21,424,367
357 Underground Conduit	8,072,593			8,072,593
358 Underground Conductors and Devices	7,918,705			7,918,705
359 Roads and Trails	5,122			5,122
Total Transmission Plant	<u>114,934,046</u>	<u>2,756,556</u>		<u>117,690,602</u>
<u>Distribution Plant:</u>				
360 Land and Land Rights	0			0
361 Structures and Improvements	13,307,734			13,307,734
362 Station Equipment	71,647,813	13,556,779	2	85,204,592
363 Storage Battery Equipment	0			0
364 Poles, Towers, and Fixtures	66,699,658			66,699,658
365 Overhead Conductors and Devices	60,090,427			60,090,427
366 Underground Conduit	15,840,062			15,840,062
367 Underground Conductors and Devices	34,037,405			34,037,405
368 Line Transformers	51,529,607			51,529,607
369 Services	19,868,087			19,868,087
370 Meters	25,120,856			25,120,856
371 Installations on Customer Premises	(37,544)			(37,544)
372 Leased Property on Customer Premises	0			0
373 Street Lighting and Signal Systems	14,747,084			14,747,084
Total Distribution Plant	<u>372,851,189</u>	<u>13,556,779</u>		<u>386,407,968</u>
<u>General Plant:</u>				
389 Land and Land Rights	0			0
390 Structures and Improvements	22,588,933			22,588,933
391 Office Furniture and Equipment	20,284,790			20,284,790
392 Transportation Equipment	9,511,415			9,511,415
393 Stores Equipment	880,929			880,929
394 Tools, Shop and Garage Equipment	3,534,301			3,534,301
395 Laboratory Equipment	2,217,133			2,217,133
396 Power Operated Equipment	855,117			855,117
397 Communication Equipment	49,594,356			49,594,356
398 Miscellaneous Equipment	169,296			169,296
Subtotal	<u>109,636,270</u>	<u>0</u>		<u>109,636,270</u>
399 Other Tangible Property	67,751,995	(67,751,995)	2,3	0
Total General Plant	<u>177,388,265</u>	<u>(67,751,995)</u>		<u>109,636,270</u>
TOTAL	<u>\$1,752,462,787</u>	<u>(\$57,200,565)</u>		<u>\$1,695,262,222</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Net Book Value

	Test Year	Adjustments	Adjusted Test Year
<u>Intangible Plant:</u>			
301 Organization	\$100,275	\$0	\$100,275
302 Franchises and Consents	6,830	0	6,830
303 Miscellaneous Intangible Plant	262,407,193	(218,413,773)	43,993,420
Total Intangible Plant	262,514,298	(218,413,773)	44,100,525
<u>Production Plant:</u>			
Steam Production Plant			
310 Land and Land Rights	8,026,760	0	8,026,760
311 Structures and Improvements	55,732,256	0	55,732,256
312 Boiler Plant Equipment	266,303,620	0	266,303,620
313 Engines/Engine-Driven Generators	0	0	0
314 Turbogenerator Units	50,914,756	0	50,914,756
315 Accessory Electric Equipment	37,767,950	0	37,767,950
316 Misc. Power Plant Equipment	10,022,965	0	10,022,965
Total Steam Production Plant	428,768,307	0	428,768,307
Nuclear Production Plant			
320 Land and Land Rights	617,903	0	617,903
321 Structures and Improvements	103,555,097	0	103,555,097
322 Reactor Plant Equipment	340,442,308	224,175,678	564,617,986
323 Turbo Generator Units	52,054,808	0	52,054,808
324 Accessory Electric Equipment	74,870,759	0	74,870,759
325 Misc. Power Plant Equipment	36,488,860	0	36,488,860
Total Nuclear Production Plant	608,029,735	224,175,678	832,205,413
Hydraulic Production Plant			
330 Land and Land Rights	0	0	0
331 Structures and Improvements	0	0	0
332 Reservoirs, Dams, and Waterways	0	0	0
333 Water Wheels, Turbines, and Generators	0	0	0
334 Accessory Electric Equipment	0	0	0
335 Misc. Power Plant Equipment	0	0	0
336 Roads, Railroads, and Bridges	0	0	0
Total Hydraulic Production Plant	0	0	0
Other Production Plant			
340 Land and Land Rights	393,704	0	393,704
341 Structures and Improvement	4,860,454	0	4,860,454
342 Fuel Holders, Products, and Accessories	1,787,715	0	1,787,715
343 Prime Movers	213,309	0	213,309
344 Generators	11,923,734	0	11,923,734
345 Accessory Electric Equipment	4,754,355	0	4,754,355
346 Misc. Power Plant Equipment	(35,652)	0	(35,652)
Total Other Production Plant	23,897,619	0	23,897,619
Total Production Plant	1,060,695,661	224,175,678	1,284,871,339

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Net Book Value

	<u>Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
<u>Transmission Plant:</u>			
350 Land and Land Rights	9,833,085	0	9,833,085
352 Structures and Improvements	6,113,531	0	6,113,531
353 Station Equipment	74,320,665	(2,756,556)	71,564,109
354 Towers and Fixtures	43,283,418	0	43,283,418
355 Poles and Fixtures	3,986,608	0	3,986,608
356 Overhead Conductors and Devices	22,551,183	0	22,551,183
357 Underground Conduit	26,178,310	0	26,178,310
358 Underground Conductors and Devices	10,977,153	0	10,977,153
359 Roads and Trails	8,757	0	8,757
Total Transmission Plant	<u>197,252,710</u>	<u>(2,756,556)</u>	<u>194,496,154</u>
<u>Distribution Plant:</u>			
360 Land and Land Rights	8,902,261	0	8,902,261
361 Structures and Improvements	27,721,644	0	27,721,644
362 Station Equipment	246,368,485	(13,556,779)	232,811,706
363 Storage Battery Equipment	0	0	0
364 Poles, Towers, and Fixtures	151,326,789	0	151,326,789
365 Overhead Conductors and Devices	108,842,809	0	108,842,809
366 Underground Conduit	58,721,189	0	58,721,189
367 Underground Conductors and Devices	78,779,222	0	78,779,222
368 Line Transformers	99,416,795	0	99,416,795
369 Services	37,924,343	0	37,924,343
370 Meters	34,532,063	0	34,532,063
371 Installations on Customer Premises	75,337	0	75,337
372 Leased Property on Customer Premises	0	0	0
373 Street Lighting and Signal Systems	7,763,604	0	7,763,604
Total Distribution Plant	<u>860,374,541</u>	<u>(13,556,779)</u>	<u>846,817,762</u>
<u>General Plant:</u>			
389 Land and Land Rights	6,199,971	0	6,199,971
390 Structures and Improvements	41,849,140	0	41,849,140
391 Office Furniture and Equipment	28,372,996	0	28,372,996
392 Transportation Equipment	7,365,997	0	7,365,997
393 Stores Equipment	1,459,910	0	1,459,910
394 Tools, Shop and Garage Equipment	6,296,184	0	6,296,184
395 Laboratory Equipment	4,072,256	0	4,072,256
396 Power Operated Equipment	449,241	0	449,241
397 Communication Equipment	39,278,978	0	39,278,978
398 Miscellaneous Equipment	263,015	0	263,015
Subtotal	<u>135,607,688</u>	<u>0</u>	<u>135,607,688</u>
399 Other Tangible Property	67,751,995	(67,751,995)	0
Total General Plant	<u>203,359,683</u>	<u>(67,751,995)</u>	<u>135,607,688</u>
TOTAL	<u>\$2,584,196,893</u>	<u>(\$78,303,425)</u>	<u>\$2,505,893,468</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Deferred Taxes

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
<u>Intangible Plant:</u>				
301 Organization	\$0			\$0
302 Franchises and Consents	0			0
303 Miscellaneous Intangible Plant	3,363,051	(3,363,051)	1	0
Total Intangible Plant	<u>3,363,051</u>	<u>(3,363,051)</u>		<u>0</u>
<u>Production Plant:</u>				
Steam Production Plant				
310 Land and Land Rights				
311 Structures and Improvements				
312 Boiler Plant Equipment				
313 Engines/Engine-Driven Generators				
314 Turbogenerator Units				
315 Accessory Electric Equipment				
316 Misc. Power Plant Equipment				
Total Steam Production Plant	<u>64,681,794</u>	<u>0</u>		<u>64,681,794</u>
Nuclear Production Plant				
320 Land and Land Rights				
321 Structures and Improvements				
322 Reactor Plant Equipment				
323 Turbo Generator Units				
324 Accessory Electric Equipment				
325 Misc. Power Plant Equipment				
Total Nuclear Production Plant	<u>168,710,461</u>	<u>295,013,937</u>	1,2	<u>463,724,398</u>
Hydraulic Production Plant				
330 Land and Land Rights				
331 Structures and Improvements				
332 Reservoirs, Dams, and Waterways				
333 Water Wheels, Turbines, and Generators				
334 Accessory Electric Equipment				
335 Misc. Power Plant Equipment				
336 Roads, Railroads, and Bridges				
Total Hydraulic Production Plant	<u>0</u>	<u>0</u>		<u>0</u>
Other Production Plant				
340 Land and Land Rights				
341 Structures and Improvement				
342 Fuel Holders, Products, and Accessories				
343 Prime Movers				
344 Generators				
345 Accessory Electric Equipment				
346 Misc. Power Plant Equipment				
Total Other Production Plant	<u>3,269,464</u>	<u>0</u>		<u>3,269,464</u>
Total Production Plant	<u>236,661,719</u>	<u>295,013,937</u>		<u>531,675,656</u>

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Deferred Taxes

	<u>Test Year</u>	<u>Adjustments</u>		<u>Adjusted Test Year</u>
<u>Transmission Plant:</u>				
350 Land and Land Rights				
352 Structures and Improvements				
353 Station Equipment				
354 Towers and Fixtures				
355 Poles and Fixtures				
356 Overhead Conductors and Devices				
357 Underground Conduit				
358 Underground Conductors and Devices				
359 Roads and Trails				
Total Transmission Plant	<u>23,087,876</u>	<u>43,830,767</u>	2	<u>66,918,643</u>
<u>Distribution Plant:</u>				
360 Land and Land Rights				
361 Structures and Improvements				
362 Station Equipment				
363 Storage Battery Equipment				
364 Poles, Towers, and Fixtures				
365 Overhead Conductors and Devices				
366 Underground Conduit				
367 Underground Conductors and Devices				
368 Line Transformers				
369 Services				
370 Meters				
371 Installations on Customer Premises				
372 Leased Property on Customer Premises				
373 Street Lighting and Signal Systems				
Total Distribution Plant	<u>99,290,960</u>	<u>111,259,635</u>	2	<u>210,550,595</u>
<u>General Plant:</u>				
389 Land and Land Rights				
390 Structures and Improvements				
391 Office Furniture and Equipment				
392 Transportation Equipment				
393 Stores Equipment				
394 Tools, Shop and Garage Equipment				
395 Laboratory Equipment				
396 Power Operated Equipment				
397 Communication Equipment				
398 Miscellaneous Equipment				
Subtotal	<u>25,765,908</u>	<u>0</u>		<u>25,765,908</u>
399 Other Tangible Property	<u>11,227,191</u>	<u>(11,227,191)</u>	5	<u>0</u>
Total General Plant	<u>36,993,099</u>	<u>(11,227,191)</u>		<u>25,765,908</u>
TOTAL	<u>\$399,396,705</u>	<u>\$435,514,097</u>		<u>\$834,910,802</u>

EXHIBIT MKO-1 SECTION C

**DUQUESNE LIGHT COMPANY**  
**Functionalized Rate Base**  
**For the Year Ended December 31, 1996**

	Total	Generation	Transmission	Distribution
Gross Plant	\$4,201,155,690	\$2,540,456,719	\$319,052,035	\$1,341,646,936
Accumulated Depreciation	1,695,262,222	1,147,480,150	120,291,943	427,490,129
Net Book Value	2,505,893,468	1,392,976,569	198,760,092	914,156,807
Deferred Taxes	(834,910,802)	(547,175,389)	(67,529,991)	(220,205,422)
Net Plant	1,670,982,666	845,801,180	131,230,101	693,951,385
Regulatory Assets	544,788,485	455,273,723	32,670,171	56,844,591
Phillips	78,399,252	78,399,252		
Brunot Island	28,758,563	28,758,563		
Warwick	15,294,914	15,294,914		
Deferred Taxes	(39,966,357)	(39,966,357)		
Working Capital	69,940,000	63,590,000	1,240,000	5,110,000
Rate Base	\$2,368,197,523	\$1,447,151,275	\$165,140,272	\$755,905,976

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	Adjusted Test Year	Generation	Transmission	Distribution
<u>Intangible Plant:</u>				
301 Organization	\$100,275	\$60,321	\$2,379	\$37,574
302 Franchises and Consents	6,830	4,109	162	2,559
303 Miscellaneous Intangible Plant	43,993,420	26,464,671	1,043,832	16,484,916
Total Intangible Plant	44,100,525	26,529,101	1,046,374	16,525,050
<u>Production Plant:</u>				
<u>Steam Production Plant</u>				
310 Land and Land Rights	8,026,760	8,026,760		
311 Structures and Improvements	128,853,875	128,853,875		
312 Boiler Plant Equipment	484,460,835	484,460,835		
313 Engines/Engine-Driven Generators	0	0		
314 Turbogenerator Units	115,768,800	115,768,800		
315 Accessory Electric Equipment	78,729,366	78,729,366		
316 Misc. Power Plant Equipment	24,280,712	24,280,712		
Total Steam Production Plant	840,120,348	840,120,348	0	0
<u>Nuclear Production Plant</u>				
320 Land and Land Rights	617,903	617,903		
321 Structures and Improvements	229,416,299	229,416,299		
322 Reactor Plant Equipment	899,156,421	899,156,421		
323 Turbo Generator Units	119,726,878	119,726,878		
324 Accessory Electric Equipment	161,470,226	161,470,226		
325 Misc. Power Plant Equipment	72,991,217	72,991,217		
Total Nuclear Production Plant	1,483,378,944	1,483,378,944	0	0
<u>Hydraulic Production Plant</u>				
330 Land and Land Rights	0	0		
331 Structures and Improvements	0	0		
332 Reservoirs, Dams, and Waterways	0	0		
333 Water Wheels, Turbines, and Generators	0	0		
334 Accessory Electric Equipment	0	0		
335 Misc. Power Plant Equipment	0	0		
336 Roads, Railroads, and Bridges	0	0		
Total Hydraulic Production Plant	0	0	0	0
<u>Other Production Plant</u>				
340 Land and Land Rights	393,704	393,704		
341 Structures and Improvement	8,150,271	8,150,271		
342 Fuel Holders, Products, and Accessories	3,371,626	3,371,626		
343 Prime Movers	436,877	436,877		
344 Generators	22,779,984	22,779,984		
345 Accessory Electric Equipment	6,674,134	6,674,134		
346 Misc. Power Plant Equipment	1,092,833	1,092,833		
Total Other Production Plant	42,899,429	42,899,429	0	0
Total Production Plant	2,366,398,721	2,366,398,721	0	0
<u>Transmission Plant:</u>				
350 Land and Land Rights	9,833,085		9,833,085	
352 Structures and Improvements	8,073,681		8,073,681	
353 Station Equipment	124,857,725		124,857,725	
354 Towers and Fixtures	66,632,752		66,632,752	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	Adjusted Test Year	<u>Generation</u>	<u>Transmission</u>	<u>Distribution</u>
355 Poles and Fixtures	5,653,323		5,653,323	
356 Overhead Conductors and Devices	43,975,550		43,975,550	
357 Underground Conduit	34,250,903		34,250,903	
358 Underground Conductors and Devices	18,895,858		18,895,858	
359 Roads and Trails	13,879		13,879	
Total Transmission Plant	312,186,756	0	312,186,756	0
<u>Distribution Plant:</u>				
360 Land and Land Rights	8,902,261			8,902,261
361 Structures and Improvements	41,029,378			41,029,378
362 Station Equipment	318,016,298			318,016,298
363 Storage Battery Equipment	0			0
364 Poles, Towers, and Fixtures	218,026,447			218,026,447
365 Overhead Conductors and Devices	168,933,236			168,933,236
366 Underground Conduit	74,561,251			74,561,251
367 Underground Conductors and Devices	112,816,627			112,816,627
368 Line Transformers	150,946,402			150,946,402
369 Services	57,792,430			57,792,430
370 Meters	59,652,919			59,652,919
371 Installations on Customer Premises	37,793			37,793
372 Leased Property on Customer Premises	0			0
373 Street Lighting and Signal Systems	22,510,688			22,510,688
Total Distribution Plant	1,233,225,730	0	0	1,233,225,730
<u>General Plant:</u>				
389 Land and Land Rights	6,199,971	3,729,653	147,107	2,323,211
390 Structures and Improvements	64,438,073	38,763,352	1,528,923	24,145,798
391 Office Furniture and Equipment	48,657,786	29,270,566	1,154,504	18,232,716
392 Transportation Equipment	16,877,412	10,152,772	400,451	6,324,190
393 Stores Equipment	2,340,839	1,408,155	55,541	877,143
394 Tools, Shop and Garage Equipment	9,830,485	5,913,624	233,248	3,683,613
395 Laboratory Equipment	6,289,389	3,783,443	149,228	2,356,717
396 Power Operated Equipment	1,304,358	784,649	30,949	488,760
397 Communication Equipment	88,873,334	53,462,622	2,108,698	33,302,014
398 Miscellaneous Equipment	432,311	260,061	10,257	161,993
Subtotal	245,243,958	147,528,897	5,818,906	91,896,155
399 Other Tangible Property	0	0	0	0
Total General Plant	245,243,958	147,528,897	5,818,906	91,896,155
TOTAL	\$4,201,155,690	\$2,540,456,719	\$319,052,035	\$1,341,646,935

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Accumulated Depreciation

	Adjusted Test Year	Generation	Transmission	Distribution
<u>Intangible Plant:</u>				
301 Organization	\$0			
302 Franchises and Consents	0			
303 Miscellaneous Intangible Plant	0			
Total Intangible Plant	0	0	0	0
<u>Production Plant:</u>				
Steam Production Plant				
310 Land and Land Rights	0	0		
311 Structures and Improvements	73,121,619	73,121,619		
312 Boiler Plant Equipment	218,157,215	218,157,215		
313 Engines/Engine-Driven Generators	0	0		
314 Turbogenerator Units	64,854,044	64,854,044		
315 Accessory Electric Equipment	40,961,416	40,961,416		
316 Misc. Power Plant Equipment	14,257,747	14,257,747		
Total Steam Production Plant	411,352,041	411,352,041	0	0
Nuclear Production Plant				
320 Land and Land Rights	0	0		
321 Structures and Improvements	125,861,202	125,861,202		
322 Reactor Plant Equipment	334,538,435	334,538,435		
323 Turbo Generator Units	67,672,070	67,672,070		
324 Accessory Electric Equipment	86,599,467	86,599,467		
325 Misc. Power Plant Equipment	36,502,357	36,502,357		
Total Nuclear Production Plant	651,173,531	651,173,531	0	0
Hydraulic Production Plant				
330 Land and Land Rights	0	0		
331 Structures and Improvements	0	0		
332 Reservoirs, Dams, and Waterways	0	0		
333 Water Wheels, Turbines, and Generators	0	0		
334 Accessory Electric Equipment	0	0		
335 Misc. Power Plant Equipment	0	0		
336 Roads, Railroads, and Bridges	0	0		
Total Hydraulic Production Plant	0	0	0	0
Other Production Plant				
340 Land and Land Rights	0	0		
341 Structures and Improvement	3,289,817	3,289,817		
342 Fuel Holders, Products, and Accessories	1,583,911	1,583,911		
343 Prime Movers	223,568	223,568		
344 Generators	10,856,250	10,856,250		
345 Accessory Electric Equipment	1,919,779	1,919,779		
346 Misc. Power Plant Equipment	1,128,485	1,128,485		
Total Other Production Plant	19,001,810	19,001,810	0	0
Total Production Plant	1,081,527,382	1,081,527,382	0	0
<u>Transmission Plant:</u>				
350 Land and Land Rights	0		0	
352 Structures and Improvements	1,960,150		1,960,150	
353 Station Equipment	53,293,616		53,293,616	
354 Towers and Fixtures	23,349,334		23,349,334	
355 Poles and Fixtures	1,666,715		1,666,715	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Accumulated Depreciation

	Adjusted Test Year	Generation	Transmission	Distribution
356 Overhead Conductors and Devices	21,424,367		21,424,367	
357 Underground Conduit	8,072,593		8,072,593	
358 Underground Conductors and Devices	7,918,705		7,918,705	
359 Roads and Trails	5,122		5,122	
Total Transmission Plant	117,690,602	0	117,690,602	0
<u>Distribution Plant:</u>				
360 Land and Land Rights	0			0
361 Structures and Improvements	13,307,734			13,307,734
362 Station Equipment	85,204,592			85,204,592
363 Storage Battery Equipment	0			0
364 Poles, Towers, and Fixtures	66,699,658			66,699,658
365 Overhead Conductors and Devices	60,090,427			60,090,427
366 Underground Conduit	15,840,062			15,840,062
367 Underground Conductors and Devices	34,037,405			34,037,405
368 Line Transformers	51,529,607			51,529,607
369 Services	19,868,087			19,868,087
370 Meters	25,120,856			25,120,856
371 Installations on Customer Premises	(37,544)			(37,544)
372 Leased Property on Customer Premises	0			0
373 Street Lighting and Signal Systems	14,747,084			14,747,084
Total Distribution Plant	386,407,968	0	0	386,407,968
<u>General Plant:</u>				
389 Land and Land Rights	0	0	0	0
390 Structures and Improvements	22,588,933	13,588,593	535,968	8,464,372
391 Office Furniture and Equipment	20,284,790	12,202,513	481,297	7,600,979
392 Transportation Equipment	9,511,415	5,721,685	225,677	3,564,053
393 Stores Equipment	880,929	529,931	20,902	330,096
394 Tools, Shop and Garage Equipment	3,534,301	2,126,093	83,858	1,324,349
395 Laboratory Equipment	2,217,133	1,333,738	52,606	830,789
396 Power Operated Equipment	855,117	514,404	20,289	320,424
397 Communication Equipment	49,594,356	29,833,969	1,176,726	18,583,661
398 Miscellaneous Equipment	169,296	101,842	4,017	63,437
Subtotal	109,636,270	65,952,768	2,601,341	41,082,161
399 Other Tangible Property	0	0	0	0
Total General Plant	109,636,270	65,952,768	2,601,341	41,082,161
TOTAL	\$1,695,262,222	\$1,147,480,150	\$120,291,943	\$427,490,128

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Net Book Value

	Adjusted Test Year	Generation	Transmission	Distribution
<u>Intangible Plant:</u>				
301 Organization	\$100,275	\$60,321	\$2,379	\$37,574
302 Franchises and Consents	6,830	4,109	162	2,559
303 Miscellaneous Intangible Plant	43,993,420	26,464,671	1,043,832	16,484,916
Total Intangible Plant	44,100,525	26,529,101	1,046,374	16,525,050
<u>Production Plant:</u>				
Steam Production Plant				
310 Land and Land Rights	8,026,760	8,026,760	0	0
311 Structures and Improvements	55,732,256	55,732,256	0	0
312 Boiler Plant Equipment	266,303,620	266,303,620	0	0
313 Engines/Engine-Driven Generators	0	0	0	0
314 Turbogenerator Units	50,914,756	50,914,756	0	0
315 Accessory Electric Equipment	37,767,950	37,767,950	0	0
316 Misc. Power Plant Equipment	10,022,965	10,022,965	0	0
Total Steam Production Plant	428,768,307	428,768,307	0	0
Nuclear Production Plant				
320 Land and Land Rights	617,903	617,903	0	0
321 Structures and Improvements	103,555,097	103,555,097	0	0
322 Reactor Plant Equipment	564,617,986	564,617,986	0	0
323 Turbo Generator Units	52,054,808	52,054,808	0	0
324 Accessory Electric Equipment	74,870,759	74,870,759	0	0
325 Misc. Power Plant Equipment	36,488,860	36,488,860	0	0
Total Nuclear Production Plant	832,205,413	832,205,413	0	0
Hydraulic Production Plant				
330 Land and Land Rights	0	0	0	0
331 Structures and Improvements	0	0	0	0
332 Reservoirs, Dams, and Waterways	0	0	0	0
333 Water Wheels, Turbines, and Generators	0	0	0	0
334 Accessory Electric Equipment	0	0	0	0
335 Misc. Power Plant Equipment	0	0	0	0
336 Roads, Railroads, and Bridges	0	0	0	0
Total Hydraulic Production Plant	0	0	0	0
Other Production Plant				
340 Land and Land Rights	393,704	393,704	0	0
341 Structures and Improvement	4,860,454	4,860,454	0	0
342 Fuel Holders, Products, and Accessories	1,787,715	1,787,715	0	0
343 Prime Movers	213,309	213,309	0	0
344 Generators	11,923,734	11,923,734	0	0
345 Accessory Electric Equipment	4,754,355	4,754,355	0	0
346 Misc. Power Plant Equipment	(35,652)	(35,652)	0	0
Total Other Production Plant	23,897,619	23,897,619	0	0
Total Production Plant	1,284,871,339	1,284,871,339	0	0
<u>Transmission Plant:</u>				
350 Land and Land Rights	9,833,085	0	9,833,085	0
352 Structures and Improvements	6,113,531	0	6,113,531	0
353 Station Equipment	71,564,109	0	71,564,109	0
354 Towers and Fixtures	43,283,418	0	43,283,418	0
355 Poles and Fixtures	3,986,608	0	3,986,608	0

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Net Book Value

	Adjusted Test Year	Generation	Transmission	Distribution
356 Overhead Conductors and Devices	22,551,183	0	22,551,183	0
357 Underground Conduit	26,178,310	0	26,178,310	0
358 Underground Conductors and Devices	10,977,153	0	10,977,153	0
359 Roads and Trails	8,757	0	8,757	0
Total Transmission Plant	194,496,154	0	194,496,154	0
<b>Distribution Plant:</b>				
360 Land and Land Rights	8,902,261	0	0	8,902,261
361 Structures and Improvements	27,721,644	0	0	27,721,644
362 Station Equipment	232,811,706	0	0	232,811,706
363 Storage Battery Equipment	0	0	0	0
364 Poles, Towers, and Fixtures	151,326,789	0	0	151,326,789
365 Overhead Conductors and Devices	108,842,809	0	0	108,842,809
366 Underground Conduit	58,721,189	0	0	58,721,189
367 Underground Conductors and Devices	78,779,222	0	0	78,779,222
368 Line Transformers	99,416,795	0	0	99,416,795
369 Services	37,924,343	0	0	37,924,343
370 Meters	34,532,063	0	0	34,532,063
371 Installations on Customer Premises	75,337	0	0	75,337
372 Leased Property on Customer Premises	0	0	0	0
373 Street Lighting and Signal Systems	7,763,604	0	0	7,763,604
Total Distribution Plant	846,817,762	0	0	846,817,762
<b>General Plant:</b>				
389 Land and Land Rights	6,199,971	3,729,653	147,107	2,323,211
390 Structures and Improvements	41,849,140	25,174,759	992,955	15,681,426
391 Office Furniture and Equipment	28,372,996	17,068,053	673,206	10,631,737
392 Transportation Equipment	7,365,997	4,431,087	174,773	2,760,137
393 Stores Equipment	1,459,910	878,223	34,639	547,048
394 Tools, Shop and Garage Equipment	6,296,184	3,787,531	149,390	2,359,263
395 Laboratory Equipment	4,072,256	2,449,705	96,622	1,525,928
396 Power Operated Equipment	449,241	270,245	10,659	168,337
397 Communication Equipment	39,278,978	23,628,653	931,973	14,718,353
398 Miscellaneous Equipment	263,015	158,219	6,241	98,555
Subtotal	135,607,688	81,576,128	3,217,565	50,813,995
399 Other Tangible Property	0	0	0	0
Total General Plant	135,607,688	81,576,128	3,217,565	50,813,995
TOTAL	\$2,505,893,468	\$1,392,976,569	\$198,760,092	\$914,156,807

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Deferred Taxes

	Adjusted Test Year	Generation	Transmission	Distribution
<u>Intangible Plant:</u>				
301 Organization	\$0			
302 Franchises and Consents	0			
303 Miscellaneous Intangible Plant	0	0	0	0
Total Intangible Plant	0	0	0	0
<u>Production Plant:</u>				
<u>Steam Production Plant</u>				
310 Land and Land Rights				
311 Structures and Improvements				
312 Boiler Plant Equipment				
313 Engines/Engine-Driven Generators				
314 Turbogenerator Units				
315 Accessory Electric Equipment				
316 Misc. Power Plant Equipment				
Total Steam Production Plant	64,681,794	64,681,794	0	0
<u>Nuclear Production Plant</u>				
320 Land and Land Rights				
321 Structures and Improvements				
322 Reactor Plant Equipment				
323 Turbo Generator Units				
324 Accessory Electric Equipment				
325 Misc. Power Plant Equipment				
Total Nuclear Production Plant	463,724,398	463,724,398	0	0
<u>Hydraulic Production Plant</u>				
330 Land and Land Rights				
331 Structures and Improvements				
332 Reservoirs, Dams, and Waterways				
333 Water Wheels, Turbines, and Generators				
334 Accessory Electric Equipment				
335 Misc. Power Plant Equipment				
336 Roads, Railroads, and Bridges				
Total Hydraulic Production Plant	0	0	0	0
<u>Other Production Plant</u>				
340 Land and Land Rights				
341 Structures and Improvement				
342 Fuel Holders, Products, and Accessories				
343 Prime Movers				
344 Generators				
345 Accessory Electric Equipment				
346 Misc. Power Plant Equipment				
Total Other Production Plant	3,269,464	3,269,464	0	0
Total Production Plant	531,675,656	531,675,656	0	0
<u>Transmission Plant:</u>				
350 Land and Land Rights				
352 Structures and Improvements				
353 Station Equipment				
354 Towers and Fixtures				
355 Poles and Fixtures				

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
 Deferred Taxes

	<u>Adjusted Test Year</u>	<u>Generation</u>	<u>Transmission</u>	<u>Distribution</u>
356 Overhead Conductors and Devices				
357 Underground Conduit				
358 Underground Conductors and Devices				
359 Roads and Trails				
Total Transmission Plant	66,918,643	0	66,918,643	0
<u>Distribution Plant:</u>				
360 Land and Land Rights				
361 Structures and Improvements				
362 Station Equipment				
363 Storage Battery Equipment				
364 Poles, Towers, and Fixtures				
365 Overhead Conductors and Devices				
366 Underground Conduit				
367 Underground Conductors and Devices				
368 Line Transformers				
369 Services				
370 Meters				
371 Installations on Customer Premises				
372 Leased Property on Customer Premises				
373 Street Lighting and Signal Systems				
Total Distribution Plant	210,550,595	0	0	210,550,595
<u>General Plant:</u>				
389 Land and Land Rights				
390 Structures and Improvements				
391 Office Furniture and Equipment				
392 Transportation Equipment				
393 Stores Equipment				
394 Tools, Shop and Garage Equipment				
395 Laboratory Equipment				
396 Power Operated Equipment				
397 Communication Equipment				
398 Miscellaneous Equipment				
Subtotal	25,765,908	15,499,733	611,348	9,654,827
399 Other Tangible Property	0			
Total General Plant	25,765,908	15,499,733	611,348	9,654,827
TOTAL	\$834,910,802	\$547,175,389	\$67,529,991	\$220,205,422

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Adjusted Test Year	Generation	Transmission	Distribution
<u>Operating Revenues:</u>				
Electric Service Revenues				
440 Residential Sales	\$418,472,000			
442 Commercial Sales	502,592,269			
442 Industrial Sales	199,641,293			
444 Public Street and Highway Lighting	17,041,385			
447 Sales For Resale - Pitcairn	858,210			
Total Electric Service Revenues	1,138,605,157	0	0	0
Other Electric Revenues				
450 Late Payment Charges	4,746,547			
451 Miscellaneous Service Revenues	1,454,946			
454 Rent from Electric Property	7,608,687			
456 Other Electric Revenues	23,127,932			
447 Sales For Resale - Other Utilities	35,642,755			
Total Other Electric Revenues	72,580,867	0	0	0
Total Operating Revenues	1,211,186,024	0	0	0
<u>Operating Expenses:</u>				
Production Expense				
500 Operation Supervision and Engineering	6,004,646	\$6,004,646		
501 Fuel	156,405,163	156,405,163		
502 Steam Expenses	8,590,515	8,590,515		
505 Electric Expenses	2,104,874	2,104,874		
506 Miscellaneous Labor and Expenses	6,759,727	6,759,727		
507 Rents	335,478	335,478		
509 Emission Allowance	2,068,025	2,068,025		
510 Maintenance Supervision and Engineering	1,245,970	1,245,970		
511 Maintenance of Structures	960,939	960,939		
512 Maintenance of Boiler Plant	15,393,792	15,393,792		
513 Maintenance of Electric Plant	4,024,699	4,024,699		
514 Maintenance of Misc. Plant Equipment	4,637,547	4,637,547		
Total Steam Power O&M Expenses	208,531,375	208,531,375	0	0
517 Operation Supervision and Engineering	13,575,986	13,575,986		
518 Fuel	25,740,809	25,740,809		
519 Coolants and Water	558,656	558,656		
520 Steam Expenses	5,455,447	5,455,447		
523 Electric Expenses	129,447	129,447		
524 Miscellaneous Nuclear Power Expenses	16,937,324	16,937,324		
525 Rents	46,223,120	46,223,120		
528 Maintenance Supervision and Engineering	3,295,342	3,295,342		
529 Maintenance of Structures	1,641,883	1,641,883		
530 Maintenance of Reactor Plant	7,760,707	7,760,707		
531 Maintenance of Electric Plant	3,324,829	3,324,829		
532 Maintenance of Misc. Nuclear Plant	8,020,938	8,020,938		
Total Nuclear Power O&M Expenses	132,664,488	132,664,488	0	0
546 Operation Supervision and Engineering	26,232	26,232		
547 Fuel	201,637	201,637		
548 Generation Expenses	25,322	25,322		
549 Miscellaneous Other Power Expenses	130,029	130,029		
551 Maintenance Supervision and Engineering	26,391	26,391		
552 Maintenance of Structures	32,128	32,128		

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Adjusted Test Year	Generation	Transmission	Distribution
553 Maintenance of Electric Plant	36,380	36,380		
554 Maintenance of Misc. Generation Plant	17,924	17,924		
Total Other Power O&M Expenses	496,043	496,043	0	0
555 Purchased Power	32,269,274	32,269,274		
556 System Load Dispatching	828,636	828,636		
557 Other Power Supply Expense	382,659	382,659		
557 Deferred Energy Costs	0	0		
Total Power Production Expenses	375,172,475	375,172,475	0	0
<b>Transmission Expenses</b>				
560 Operation Supervision and Engineering	289,396		\$289,396	
561 Load Dispatching	715,428		715,428	
562 Station Expenses	585,615		585,615	
563 Overhead Line Expenses	3,116		3,116	
564 Underground Line Expenses	33,965		33,965	
565 Transmission of Electricity by Others	5,411,140		5,411,140	
566 Miscellaneous Expenses	64,167		64,167	
567 Rents	486,227		486,227	
568 Maintenance Supervision and Engineering	61,655		61,655	
569 Maintenance of Structures	457,572		457,572	
570 Maintenance of Station Equipment	438,228		438,228	
571 Maintenance of Overhead Lines	2,275,982		2,275,982	
572 Maintenance of Underground Lines	40,997		40,997	
573 Maintenance of Misc. Transmission Plant	0		0	
Total Transmission Expenses	10,863,488	0	10,863,488	0
<b>Distribution Expenses</b>				
580 Operation Supervision and Engineering	2,216,899			\$2,216,899
581 Load Dispatching	574,447			574,447
582 Station Expenses	2,833,152			2,833,152
583 Overhead Line Expenses	3,631,484			3,631,484
584 Underground Line Expenses	802,063			802,063
585 Street Lighting and Signal System	292,590			292,590
586 Meter Expenses	1,285,488			1,285,488
587 Customer Installations	3,447,613			3,447,613
588 Miscellaneous Expenses	3,192,187			3,192,187
589 Rents	1,827,440			1,827,440
590 Maintenance Supervision and Engineering	454,314			454,314
591 Maintenance of Structures	466,745			466,745
592 Maintenance of Station Equipment	1,457,120			1,457,120
593 Maintenance of Overhead Lines	13,504,784			13,504,784
594 Maintenance of Underground Lines	845,121			845,121
595 Maintenance of Line Transformers	105,029			105,029
596 Maint. of Street Lighting and Signal System	84,234			84,234
597 Maintenance of Meters	596,821			596,821
598 Maintenance of Misc. Distribution Plant	403,934			403,934
Total Distribution Expenses	38,021,465	0	0	38,021,465
<b>Customer Accounts Expenses</b>				
901 Supervision	3,406,371			3,406,371
902 Meter Reading	4,382,518			4,382,518
903 Customer Records and Collection	13,520,070			13,520,070
904 Uncollectible Accounts	11,000,000			11,000,000
905 Miscellaneous Customer Accounts Exp.	187,178			187,178
Total Customer Accounts Expenses	32,496,137	0	0	32,496,137

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Adjusted Test Year	Generation	Transmission	Distribution
<b>Customer Service and Info Expenses</b>				
907 Supervision	176,328			176,328
908 Customer Assistance Expenses	1,740,258			1,740,258
909 Info and Instructional Advertising Expenses	220,069			220,069
910 Misc. Customer Service and Info Expenses	30,974			30,974
Total Customer Service and Info Expenses	2,167,629	0	0	2,167,629
<b>Sales Expenses</b>				
911 Supervision	18,837			18,837
912 Demonstrating and Selling	4,377,036			4,377,036
913 Advertising	19,427			19,427
916 Miscellaneous Sales Expenses	118,689			118,689
Total Sales Expenses	4,533,989	0	0	4,533,989
<b>Administrative and General Expenses</b>				
920 Administrative and General Salaries	26,338,845	15,844,389	624,942	9,869,514
921 Office Supplies and Expenses	5,596,877	3,366,856	132,797	2,097,224
922 Administrative Expense Transferred	(6,171,869)	(3,712,748)	(146,440)	(2,312,681)
923 Outside Services Employed	8,467,154	5,093,499	200,900	3,172,755
924 Property Insurance	5,604,103	5,155,774	57,196	391,133
925 Injuries and Damages	3,604,775	2,168,488	85,531	1,350,757
926 Employee Pension and Benefits	13,504,446	8,123,731	320,420	5,060,295
928 Regulatory Commission Expenses	1,790,074	1,076,836	42,473	670,764
929 Duplicate Charges	(1,247,245)	(750,292)	(29,593)	(467,359)
930 Miscellaneous General Expenses	20,628,427	16,124,258	304,936	4,199,233
931 Rents	11,498,652	6,917,126	272,829	4,308,697
935 Maintenance of General Plant	3,262,706	641,465	488,802	2,132,439
Total Administrative and General Expenses	92,876,945	60,049,383	2,354,793	30,472,770
Total Operating Expenses	556,132,128	435,221,858	13,218,281	107,691,990
403 Depreciation Expense	197,588,875	151,016,336	6,734,746	39,837,794
403 Nuclear Decontamination and Dismantling Expense	0			
404 Amortization of Leasehold Improvements	8,193,897	4,676,182	448,779	3,068,936
405 Amortization of Early Window Costs	0			
405 Amortization of Transition Costs	84,031,667	84,031,667		
406 Amortization of Utility Plant Adjustments	0			
407 Amortization of Perry Unit No. 2 Abandonment Loss	0			
408 Taxes Other Than Income Taxes	80,216,810	57,682,569	1,341,908	21,192,333
Total Operating Expenses Before Federal and State Income Taxes	926,163,377	732,628,612	21,743,713	171,791,052
Net Operating Income Before Federal and State Income Taxes	285,022,647	(732,628,612)	(21,743,713)	(171,791,052)
409 Federal Income Tax	93,003,328	73,568,984	2,183,457	17,250,887
409 State Income Tax	34,346,324	27,169,180	806,355	6,370,789
410 Deferred Federal Income Tax	(26,940,324)	(30,241,939)	370,938	2,930,677
410 Deferred State Income Tax	1,014,841	802,776	23,826	188,240
411 Income Tax Deferred in Prior Years	(36,611,485)	(28,961,004)	(859,535)	(6,790,946)
411 Amortization of Investment Tax Credits	(7,838,483)	(6,200,523)	(184,026)	(1,453,935)

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Adjusted Test Year	Generation	Transmission	Distribution
411 Gain From Disposal of Allowances	(226,313)	(179,022)	(5,313)	(41,978)
Total Income Taxes	56,747,888	35,958,453	2,335,702	18,453,733
Net Utility Operating Income	228,274,759	(768,587,064)	(24,079,415)	(190,244,785)
418 Equity in Subsidiary Company's Earnings	11,953,912			
418 Non-Operating Rental Income & Expense	(57,428)			
419 Interest Revenues	11,563,066			
419 Allowance For Funds Used During Construction	1			
421 Miscellaneous Non-Operating Income	3,452,177			
Total Other Income	26,911,728	0	0	0
426 Donations	1,606,873			
426 Civic, Political and Related Activities	725,714			
426 Other	6,330,988			
Total Other Income Deductions	8,663,575	0	0	0
409 Federal Income Tax	(418,561)			
409 State Income Tax	(779,727)			
420 Investment Tax Credit	(1,720,529)			
Total Taxes Applicable to Other Income and Deductions	(2,918,817)	0	0	0
Income Before Interest Charges	249,441,729	(768,587,064)	(24,079,415)	(190,244,785)
<u>Interest Charges</u>				
427 Interest on Long-Term Debt	82,504,832	44,537,921	7,079,971	30,886,940
428 Amortization of Debt Discount and Expense	2,326,349	(477,001)	522,761	2,280,588
429 Amortization of Premium on Debt	(118,820)	(64,142)	(10,196)	(44,482)
431 Other Interest	26,670,636	14,397,395	2,288,682	9,984,559
432 Allowance For Borrowed Funds Used During Construction	(1,249,515)	(674,516)	(107,224)	(467,775)
Total Interest Charges	110,133,482	57,719,658	9,773,994	42,639,831
Net Income	<u>\$139,308,247</u>	<u>(\$826,306,722)</u>	<u>(\$33,853,409)</u>	<u>(\$232,884,616)</u>

EXHIBIT MKO-1 SECTION D

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

**ADJUSTMENTS**

1. To eliminate State Tax Adjustment Surcharge revenues

Residential revenues	\$3,399,000
Commercial revenues	4,038,000
Industrial revenues	1,642,000
Street Lighting revenues	135,000

2. To eliminate Energy Cost Rate revenues

Residential revenues	\$10,794,458
Commercial revenues	21,248,163
Industrial revenues	8,472,404
Street Lighting revenues	233,233
Pitcairn revenues	927

3. To annualize effect of refueling outages on A&G revenues

BV1 and BV2 1996 outage costs	\$18,842,000
A&G percentage	13.4%
A&G revenues related to outages	2,524,828
Portion in excess of 12 months	1/3
Adjustment to A&G revenues	\$841,609

4. To annualize union wage increase effective 10/1/96

Annual union wages	\$54,958,562	
Average percentage increase	3.0%	
Annual union wage increase	1,648,757	
Portion included in base 1996	3/4	
Adjustment to annualize	1,236,568	
Generation % of labor	39.9%	\$493,993
Transmission % of labor	2.2%	\$26,934
Distribution % of labor	34.4%	\$425,368
A&G % of labor	23.5%	\$290,272

5. To annualize management wage increase effective 4/1/97

Annual management wages	\$50,853,070	
Average percentage increase	3.0%	
Annual management wage increase	1,525,592	
Generation % of labor	39.9%	\$609,454
Transmission % of labor	2.2%	\$33,230
Distribution % of labor	34.4%	\$524,790
A&G % of labor	23.5%	\$358,118

6. To adjust for fringes on wage increases

Labor increase	\$2,762,160
Fringe rate	28.2%
Fringes on wage increases	\$778,929

7. To eliminate deferred fuel expense

8. To reclassify the benefits of leasing investments to customers

9. To normalize property loss amortization

10. To annualize change in number of customers

	Avg.	Year-end	Increased Customers	Avg Usage	Increased Usage	Avg Rate	Increased Revenues
Residential	522,004	522,773	769	6,362	4,892,202	\$0.122	\$595,430
Commercial	53,831	54,056	225	106,581	23,980,692	\$0.083	1,986,715
Industrial	2,018	2,018	0	1,627,843	0	\$0.058	0
Street Lighting	1,885	1,891	6	37,359	224,155	\$0.236	52,906

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

**ADJUSTMENTS**

**11. To annualize generation-related regulatory asset recovery**

	Balance	1/9 Annual	Base Year	Difference	
Regulatory tax receivable	\$244,800,000	\$27,200,000	\$12,634,000	\$14,566,000	Deferred tax expense
Unamortized premium on reacquired debt	56,949,000	6,327,667	3,336,466	2,991,200	Interest expense
Unamortized debt expense	5,476,000	608,444	429,066	179,379	Interest expense
BV No. 2 premium on reacquired debt	30,059,000	3,339,889	1,505,001	1,834,888	Nuclear rent expense
Deferred rate synchronization costs	41,446,000	4,605,111	9,702,476	(5,097,365)	Depreciation/Amortization
Injuries and damages	9,053,000	1,005,889	0	1,005,889	
Compensated absences	7,954,000	883,778	0	883,778	
Deferred nuclear refueling outage costs	13,461,000	1,495,667	0	1,495,667	
Pre-accrual of nuclear refueling outage costs	9,665,000	1,073,889	0	1,073,889	
DOE decontamination and decommissioning	9,780,000	1,086,667	907,606	179,061	Nuclear fuel
Deferred coal costs	12,130,000	1,347,778	1,774,556	(426,778)	Fossil fuel
Deferred caretaker costs	6,772,000	752,444	0	752,444	
BV2 training costs	2,616,000	290,667	90,300	200,367	Misc. nuclear power
Low level radioactive waste	2,274,000	252,667	0	252,667	
Deferred pilot program costs	4,350,000	483,333	0	483,333	
Nuclear decommissioning	108,000,000	12,000,000	5,027,197	6,972,803	Depreciation
Fossil decommissioning	191,500,000	21,277,778	0	21,277,778	
	<u>\$756,285,000</u>	<u>\$84,031,667</u>	<u>\$35,406,667</u>	<u>\$48,624,999</u>	

**12. To annualize effects of Ft. Martin sale**

Ft. Martin-related A&G billings	(305,655)
Taxes other than income	(4,352,878)
Sales for resale - other utilities	(22,649,094)
Operation Supervision and Engineering	(363,575)
Fuel	(18,217,806)
Steam Expenses	(413,389)
Electric Expenses	(43,591)
Miscellaneous Labor and Expenses	(562,387)
Rents	(256)
Maintenance Supervision and Engineering	(258,352)
Maintenance of Structures	(294,925)
Maintenance of Boiler Plant	(1,372,988)
Maintenance of Electric Plant	(779,026)
Maintenance of Misc. Plant Equipment	(715,789)
Depreciation	25,000,000
Residential revenues	(500,000)

**13. To annualize FERC audit adjustment**

**14. To annualize fuel change in number of customers**

	Increased Usage	Avg Rate	
Residential	4,892,202	\$0.015	\$73,082
Commercial	23,980,692	\$0.015	358,236
Industrial	0	\$0.015	0
Street Lighting	224,155	\$0.015	3,349
			<u>\$434,667</u>

**15. To tax effect above changes**

Current Taxes:		Entries
Operating revenue effects	\$28,301,878	1,2,3,10,12
Operating expense/General tax effects	(23,149,597)	4,5,6,7,11,12,14
Less deferred tax items:		
Deferred fuel expense	4,527,073	7
Current effects	<u>(27,676,670)</u>	
Change in taxable income	55,978,548	
State tax effect	5,215,971	
Federal tax effect	17,766,902	
<b>Deferred Taxes:</b>		
Deferred fuel expense	4,527,073	7
Depreciation and amortization expense	85,476,761	9,11,12,13
Interest	(3,765,532)	
Change in taxable income	<u>(86,238,302)</u>	
State tax effect	(220,443)	
Federal tax effect	(30,106,251)	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

**ADJUSTMENTS**

1. To reclassify Perry-related intangibles

2. To reclassify SFAS 109-related balances

Accumulated depreciation	21,400,000
Deferred taxes	446,741,288

3. To eliminate Warwick balances from rate base

Gross plant	\$72,495,480
Accumulated depreciation	57,200,566

4. To normalize for increase in depreciation in 1997

5. To eliminate non-rate base deferred taxes

EXHIBIT MKO-1 SECTION E

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Test Year	Adjustments		Adjusted Test Year	Generation	Transmission	Distribution	Allocation
<b>Operating Revenues:</b>								
Electric Service Revenues								
440 Residential Sales	\$404,183,112	\$14,288,888	1,2,10,12	\$418,472,000				
442 Commercial Sales	475,319,391	27,272,878	1,2,10	502,592,269				
442 Industrial Sales	189,526,889	10,114,404	1,2,10	199,641,293				
444 Public Street and Highway Lighting	16,620,246	421,139	1,2,10	17,041,385				
447 Sales For Resale - Pitcairn	857,283	927	2	858,210				
Total Electric Service Revenues	1,086,506,921	52,098,236		1,138,605,157	0	0	0	
Other Electric Revenues								
450 Late Payment Charges	4,746,547			4,746,547				
451 Miscellaneous Service Revenues	1,454,946			1,454,946				
454 Rent from Electric Property	7,608,687			7,608,687				
456 Other Electric Revenues	24,275,196	(1,147,264)	3,12	23,127,932				
447 Sales For Resale - Other Utilities	58,291,849	(22,649,094)	12	35,642,755				
Total Other Electric Revenues	96,377,225	(23,796,358)		72,580,867	0	0	0	
Total Operating Revenues	1,182,884,146	28,301,878		1,211,186,024	0	0	0	
<b>Operating Expenses:</b>								
Production Expense								
500 Operation Supervision and Engineering	5,264,774	739,872	5,6,12	6,004,646	\$6,004,646			Direct
501 Fuel	175,962,858	(19,557,695)	11,12,14	156,405,163	156,405,163			Direct
502 Steam Expenses	9,003,904	(413,389)	12	8,590,515	8,590,515			Direct
505 Electric Expenses	2,148,465	(43,591)	12	2,104,874	2,104,874			Direct
506 Miscellaneous Labor and Expenses	7,322,114	(562,387)	12	6,759,727	6,759,727			Direct
507 Rents	335,734	(256)	12	335,478	335,478			Direct
509 Emission Allowance	2,068,025			2,068,025	2,068,025			Direct
510 Maintenance Supervision and Engineering	1,504,322	(258,352)	12	1,245,970	1,245,970			Direct
511 Maintenance of Structures	1,255,864	(294,925)	12	960,939	960,939			Direct
512 Maintenance of Boiler Plant	16,766,780	(1,372,988)	12	15,393,792	15,393,792			Direct
513 Maintenance of Electric Plant	4,803,725	(779,026)	12	4,024,699	4,024,699			Direct
514 Maintenance of Misc. Plant Equipment	5,353,336	(715,789)	12	4,637,547	4,637,547			Direct
Total Steam Power O&M Expenses	231,789,901	(23,258,526)		208,531,375	208,531,375	0	0	
517 Operation Supervision and Engineering	13,575,986			13,575,986	13,575,986			Direct
518 Fuel	26,648,415	(907,606)	11	25,740,809	25,740,809			Direct
519 Coolants and Water	558,656			558,656	558,656			Direct
520 Steam Expenses	5,455,447			5,455,447	5,455,447			Direct
523 Electric Expenses	129,447			129,447	129,447			Direct
524 Miscellaneous Nuclear Power Expenses	16,937,324			16,937,324	16,937,324			Direct
525 Rents	47,728,121	(1,505,001)	11	46,223,120	46,223,120			Direct
528 Maintenance Supervision and Engineering	3,295,342			3,295,342	3,295,342			Direct
529 Maintenance of Structures	1,641,883			1,641,883	1,641,883			Direct
530 Maintenance of Reactor Plant	7,760,707			7,760,707	7,760,707			Direct
531 Maintenance of Electric Plant	3,324,829			3,324,829	3,324,829			Direct
532 Maintenance of Misc. Nuclear Plant	8,111,238	(90,300)	11	8,020,938	8,020,938			Direct
Total Nuclear Power O&M Expenses	135,167,395	(2,502,907)		132,664,488	132,664,488	0	0	
546 Operation Supervision and Engineering	26,232			26,232	26,232			Direct
547 Fuel	201,637			201,637	201,637			Direct
548 Generation Expenses	25,322			25,322	25,322			Direct
549 Miscellaneous Other Power Expenses	130,029			130,029	130,029			Direct
551 Maintenance Supervision and Engineering	26,391			26,391	26,391			Direct
552 Maintenance of Structures	32,128			32,128	32,128			Direct
553 Maintenance of Electric Plant	36,380			36,380	36,380			Direct
554 Maintenance of Misc. Generation Plant	17,924			17,924	17,924			Direct
Total Other Power O&M Expenses	496,043	0		496,043	496,043	0	0	
555 Purchased Power	32,269,274			32,269,274	32,269,274			Direct
556 System Load Dispatching	828,636			828,636	828,636			Direct
557 Other Power Supply Expense	382,659			382,659	382,659			Direct
557 Deferred Energy Costs	(4,527,073)	4,527,073	7	0	0			Direct
Total Power Production Expenses	396,406,835	(21,234,360)		375,172,475	375,172,475	0	0	
Transmission Expenses								
560 Operation Supervision and Engineering	229,232	60,164	4,5	289,396		\$289,396		Direct
561 Load Dispatching	715,428			715,428		715,428		Direct
562 Station Expenses	585,615			585,615		585,615		Direct
563 Overhead Line Expenses	3,116			3,116		3,116		Direct
564 Underground Line Expenses	33,965			33,965		33,965		Direct
565 Transmission of Electricity by Others	5,411,140			5,411,140		5,411,140		Direct
566 Miscellaneous Expenses	64,167			64,167		64,167		Direct
567 Rents	486,227			486,227		486,227		Direct
568 Maintenance Supervision and Engineering	61,655			61,655		61,655		Direct
569 Maintenance of Structures	457,572			457,572		457,572		Direct
570 Maintenance of Station Equipment	438,228			438,228		438,228		Direct
571 Maintenance of Overhead Lines	2,275,982			2,275,982		2,275,982		Direct
572 Maintenance of Underground Lines	40,997			40,997		40,997		Direct
573 Maintenance of Misc. Transmission Plant	0			0		0		Direct
Total Transmission Expenses	10,803,324	60,164		10,863,488	0	10,863,488	0	Direct

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Test Year	Adjustments		Adjusted Test Year	Generation	Transmission	Distribution	Allocation
<b>Distribution Expenses</b>								
580 Operation Supervision and Engineering	1,266,741	950,158	4,5	2,216,899			\$2,216,899	Direct
581 Load Dispatching	574,447			574,447			574,447	Direct
582 Station Expenses	2,833,152			2,833,152			2,833,152	Direct
583 Overhead Line Expenses	3,631,484			3,631,484			3,631,484	Direct
584 Underground Line Expenses	802,063			802,063			802,063	Direct
585 Street Lighting and Signal System	292,590			292,590			292,590	Direct
586 Meter Expenses	1,285,488			1,285,488			1,285,488	Direct
587 Customer Installations	3,447,613			3,447,613			3,447,613	Direct
588 Miscellaneous Expenses	3,192,187			3,192,187			3,192,187	Direct
589 Rents	1,827,440			1,827,440			1,827,440	Direct
590 Maintenance Supervision and Engineering	454,314			454,314			454,314	Direct
591 Maintenance of Structures	466,745			466,745			466,745	Direct
592 Maintenance of Station Equipment	1,457,120			1,457,120			1,457,120	Direct
593 Maintenance of Overhead Lines	13,504,784			13,504,784			13,504,784	Direct
594 Maintenance of Underground Lines	845,121			845,121			845,121	Direct
595 Maintenance of Line Transformers	105,029			105,029			105,029	Direct
596 Maint. of Street Lighting and Signal System	84,234			84,234			84,234	Direct
597 Maintenance of Meters	596,821			596,821			596,821	Direct
598 Maintenance of Misc. Distribution Plant	403,934			403,934			403,934	Direct
Total Distribution Expenses	37,071,307	950,158		38,021,465	0	0	38,021,465	
<b>Customer Accounts Expenses</b>								
901 Supervision	3,406,371			3,406,371			3,406,371	Direct
902 Meter Reading	4,382,518			4,382,518			4,382,518	Direct
903 Customer Records and Collection	13,520,070			13,520,070			13,520,070	Direct
904 Uncollectible Accounts	11,000,000			11,000,000			11,000,000	Direct
905 Miscellaneous Customer Accounts Exp.	187,178			187,178			187,178	Direct
Total Customer Accounts Expenses	32,496,137	0		32,496,137	0	0	32,496,137	
<b>Customer Service and Info Expenses</b>								
907 Supervision	176,328			176,328			176,328	Direct
908 Customer Assistance Expenses	1,740,258			1,740,258			1,740,258	Direct
909 Info and Instructional Advertising Expenses	220,069			220,069			220,069	Direct
910 Misc. Customer Service and Info Expenses	30,974			30,974			30,974	Direct
Total Customer Service and Info Expenses	2,167,629	0		2,167,629	0	0	2,167,629	
<b>Sales Expenses</b>								
911 Supervision	18,837			18,837			18,837	Direct
912 Demonstrating and Selling	4,377,036			4,377,036			4,377,036	Direct
913 Advertising	19,427			19,427			19,427	Direct
916 Miscellaneous Sales Expenses	118,689			118,689			118,689	Direct
Total Sales Expenses	4,533,989	0		4,533,989	0	0	4,533,989	
<b>Administrative and General Expenses</b>								
920 Administrative and General Salaries	25,690,455	648,390	4,5	26,338,845	15,844,389	624,942	9,869,514	Labor \$
921 Office Supplies and Expenses	5,596,877			5,596,877	3,366,856	132,797	2,097,224	Labor \$
922 Administrative Expense Transferred	(6,171,869)			(6,171,869)	(3,712,748)	(146,440)	(2,312,681)	Labor \$
923 Outside Services Employed	8,467,154			8,467,154	5,093,499	200,900	3,172,755	Labor \$
924 Property Insurance	5,604,103			5,604,103	5,155,774	57,196	391,133	Analysis of Insurance Costs
925 Injuries and Damages	3,604,775			3,604,775	2,168,488	85,531	1,350,757	Labor \$
926 Employee Pension and Benefits	12,725,517	778,929	6	13,504,446	8,123,731	320,420	5,060,295	Labor \$
928 Regulatory Commission Expenses	1,790,074			1,790,074	1,076,836	42,473	670,764	Labor \$
929 Duplicate Charges	(1,247,245)			(1,247,245)	(750,292)	(29,593)	(467,359)	Labor \$
930 Miscellaneous General Expenses	20,628,427			20,628,427	16,124,258	304,936	4,199,233	See Attached
931 Rents	11,498,652			11,498,652	6,917,126	272,829	4,308,697	Labor \$
935 Maintenance of General Plant	3,262,706			3,262,706	641,465	488,802	2,132,439	See Attached
Total Administrative and General Expenses	91,449,626	1,427,319		92,876,945	60,049,383	2,354,793	30,472,770	
Total Operating Expenses	574,928,847	(18,796,719)		556,132,128	435,221,858	13,216,281	107,691,990	
403 Depreciation Expense	172,588,875	25,000,000	12	197,588,875	151,016,336	6,734,746	39,837,794	Detail Analysis
403 Nuclear Decontamination and Dismantling Expense	5,027,197	(5,027,197)	11	0				
404 Amortization of Leasehold Improvements	8,193,897			8,193,897	4,676,182	448,779	3,068,936	Labor \$
405 Amortization of Early Window Costs	9,702,476	(9,702,476)	11	0				
405 Amortization of Transition Costs	0	84,031,667	11	84,031,667	84,031,667			Direct
406 Amortization of Utility Plant Adjustments	353,580	(353,580)	13	0				
407 Amortization of Perry Unit No. 2 Abandonment Loss	8,471,653	(8,471,653)	9	0				
408 Taxes Other Than Income Taxes	84,569,688	(4,352,878)	12	80,216,810	57,682,569	1,341,908	21,192,333	Detail Analysis
Total Operating Expenses Before Federal and State Income Taxes	863,836,213	62,327,164		926,163,377	732,628,612	21,743,713	171,791,052	
Net Operating Income Before Federal and State Income Taxes	319,047,933	(34,025,286)		285,022,647	(732,628,612)	(21,743,713)	(171,791,052)	
409 Federal Income Tax	94,901,767	(1,898,439)	8,15	93,003,328	73,568,984	2,183,457	17,250,887	O&M Expense
409 State Income Tax	29,130,353	5,215,971	15	34,346,324	27,169,180	806,355	6,370,789	O&M Expense
410 Deferred Federal Income Tax	15,799,927	(42,740,251)	11,15	(26,940,324)	(30,241,939)	370,938	2,930,677	O&M Expense
410 Deferred State Income Tax	1,235,284	(220,443)	15	1,014,841	802,776	23,826	188,240	O&M Expense
411 Income Tax Deferred in Prior Years	(36,611,485)			(36,611,485)	(28,961,004)	(859,535)	(6,790,946)	O&M Expense
411 Amortization of Investment Tax Credits	(7,838,483)			(7,838,483)	(6,200,523)	(184,026)	(1,453,935)	O&M Expense
411 Gain From Disposal of Allowances	(226,313)			(226,313)	(179,022)	(5,313)	(41,978)	O&M Expense
Total Income Taxes	96,391,050	(39,643,162)		56,747,888	35,958,453	2,335,702	18,453,733	
Net Utility Operating Income	222,656,883	5,617,876		228,274,759	(768,587,064)	(24,079,415)	(190,244,785)	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

	Test Year	Adjustments	8	Adjusted Test Year	Generation	Transmission	Distribution	Allocation
418 Equity in Subsidiary Company's Earnings	31,619,253	(19,665,341)		11,953,912				
418 Non-Operating Rental Income & Expense	(57,428)			(57,428)				
419 Interest Revenues	11,563,066			11,563,066				
419 Allowance For Funds Used During Constructio	1			1				
421 Miscellaneous Non-Operating Income	3,452,177			3,452,177				
<b>Total Other Income</b>	<b>46,577,069</b>	<b>(19,665,341)</b>		<b>26,911,728</b>	<b>0</b>	<b>0</b>	<b>0</b>	
426 Donations	1,606,873			1,606,873				
426 Civic, Political and Related Activities	725,714			725,714				
426 Other	6,330,988			6,330,988				
<b>Total Other Income Deductions</b>	<b>8,663,575</b>	<b>0</b>		<b>8,663,575</b>	<b>0</b>	<b>0</b>	<b>0</b>	
409 Federal Income Tax	(418,561)			(418,561)				
409 State Income Tax	(779,727)			(779,727)				
420 Investment Tax Credit	(1,720,529)			(1,720,529)				
<b>Total Taxes Applicable to Other Income and Deductions</b>	<b>(2,918,817)</b>	<b>0</b>		<b>(2,918,817)</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Income Before Interest Charges</b>	<b>263,489,194</b>	<b>(14,047,465)</b>		<b>249,441,729</b>	<b>(768,587,064)</b>	<b>(24,079,415)</b>	<b>(190,244,785)</b>	
<b>Interest Charges</b>								
427 Interest on Long-Term Debt	82,504,832			82,504,832	44,537,921	7,079,971	30,886,940	Net Book Value
428 Amortization of Debt Discount and Expense	6,091,881	(3,765,532)	11	2,326,349	(477,001)	522,761	2,280,588	Net Book Value
429 Amortization of Premium on Debt	(118,820)			(118,820)	(64,142)	(10,196)	(44,482)	Net Book Value
431 Other Interest	26,670,636			26,670,636	14,397,395	2,288,682	9,984,559	Net Book Value
432 Allowance For Borrowed Funds Used During Construction	(1,249,515)			(1,249,515)	(674,516)	(107,224)	(467,775)	Net Book Value
<b>Total Interest Charges</b>	<b>113,899,014</b>	<b>(3,765,532)</b>		<b>110,133,482</b>	<b>57,719,658</b>	<b>9,773,994</b>	<b>42,639,831</b>	
<b>Net Income</b>	<b>\$149,590,180</b>	<b>(\$10,281,933)</b>		<b>\$139,308,247</b>	<b>(\$826,306,722)</b>	<b>(\$33,853,409)</b>	<b>(\$232,884,616)</b>	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
**Gross Plant**

	Test Year	Adjustments	Adjusted Test Year	Generation	Transmission	Distribution	Allocation
<b>Intangible Plant:</b>							
301 Organization	\$100,275		\$100,275	\$60,321	\$2,379	\$37,574	Labor \$
302 Franchises and Consents	6,830		6,830	4,109	162	2,559	Labor \$
303 Miscellaneous Intangible Plant	286,993,420	(243,000,000)	43,993,420	26,464,671	1,043,832	16,484,916	Labor \$
Total Intangible Plant	287,100,525	(243,000,000)	44,100,525	26,529,101	1,046,374	16,525,050	
<b>Production Plant:</b>							
<b>Steam Production Plant</b>							
310 Land and Land Rights	8,026,760		8,026,760	8,026,760			Direct
311 Structures and Improvements	128,853,875		128,853,875	128,853,875			Direct
312 Boiler Plant Equipment	484,460,835		484,460,835	484,460,835			Direct
313 Engines/Engine-Driven Generators	0		0	0			Direct
314 Turbogenerator Units	115,768,800		115,768,800	115,768,800			Direct
315 Accessory Electric Equipment	78,729,366		78,729,366	78,729,366			Direct
316 Misc. Power Plant Equipment	24,280,712		24,280,712	24,280,712			Direct
Total Steam Production Plant	840,120,348	0	840,120,348	840,120,348	0	0	
<b>Nuclear Production Plant</b>							
320 Land and Land Rights	617,903		617,903	617,903			Direct
321 Structures and Improvements	229,416,299		229,416,299	229,416,299			Direct
322 Reactor Plant Equipment	656,156,421	243,000,000	899,156,421	899,156,421			Direct
323 Turbo Generator Units	119,726,878		119,726,878	119,726,878			Direct
324 Accessory Electric Equipment	161,470,226		161,470,226	161,470,226			Direct
325 Misc. Power Plant Equipment	72,991,217		72,991,217	72,991,217			Direct
Total Nuclear Production Plant	1,240,378,944	243,000,000	1,483,378,944	1,483,378,944	0	0	
<b>Hydraulic Production Plant</b>							
330 Land and Land Rights	0		0	0			Direct
331 Structures and Improvements	0		0	0			Direct
332 Reservoirs, Dams, and Waterways	0		0	0			Direct
333 Water Wheels, Turbines, and Generators	0		0	0			Direct
334 Accessory Electric Equipment	0		0	0			Direct
335 Misc. Power Plant Equipment	0		0	0			Direct
336 Roads, Railroads, and Bridges	0		0	0			Direct
Total Hydraulic Production Plant	0	0	0	0	0	0	
<b>Other Production Plant</b>							
340 Land and Land Rights	393,704		393,704	393,704			Direct
341 Structures and Improvement	8,150,271		8,150,271	8,150,271			Direct
342 Fuel Holders, Products, and Accessories	3,371,626		3,371,626	3,371,626			Direct
343 Prime Movers	436,877		436,877	436,877			Direct
344 Generators	22,779,984		22,779,984	22,779,984			Direct
345 Accessory Electric Equipment	6,674,134		6,674,134	6,674,134			Direct
346 Misc. Power Plant Equipment	1,092,833		1,092,833	1,092,833			Direct
Total Other Production Plant	42,899,429	0	42,899,429	42,899,429	0	0	
Total Production Plant	2,123,398,721	243,000,000	2,366,398,721	2,366,398,721	0	0	
<b>Transmission Plant:</b>							
350 Land and Land Rights	9,833,085		9,833,085		9,833,085		Direct
352 Structures and Improvements	8,073,681		8,073,681		8,073,681		Direct
353 Station Equipment	124,857,725		124,857,725		124,857,725		Direct
354 Towers and Fixtures	66,632,752		66,632,752		66,632,752		Direct
355 Poles and Fixtures	5,653,323		5,653,323		5,653,323		Direct
356 Overhead Conductors and Devices	43,975,550		43,975,550		43,975,550		Direct
357 Underground Conduit	34,250,903		34,250,903		34,250,903		Direct
358 Underground Conductors and Devices	18,895,858		18,895,858		18,895,858		Direct
359 Roads and Trails	13,879		13,879		13,879		Direct
Total Transmission Plant	312,186,756	0	312,186,756	0	312,186,756	0	
<b>Distribution Plant:</b>							
360 Land and Land Rights	8,902,261		8,902,261			8,902,261	Direct
361 Structures and Improvements	41,029,378		41,029,378			41,029,378	Direct
362 Station Equipment	318,016,298		318,016,298			318,016,298	Direct
363 Storage Battery Equipment	0		0			0	Direct
364 Poles, Towers, and Fixtures	218,026,447		218,026,447			218,026,447	Direct
365 Overhead Conductors and Devices	168,933,236		168,933,236			168,933,236	Direct
366 Underground Conduit	74,561,251		74,561,251			74,561,251	Direct
367 Underground Conductors and Devices	112,816,627		112,816,627			112,816,627	Direct
368 Line Transformers	150,946,402		150,946,402			150,946,402	Direct
369 Services	57,792,430		57,792,430			57,792,430	Direct
370 Meters	59,652,919		59,652,919			59,652,919	Direct
371 Installations on Customer Premises	37,793		37,793			37,793	Direct
372 Leased Property on Customer Premises	0		0			0	Direct
373 Street Lighting and Signal Systems	22,510,688		22,510,688			22,510,688	Direct
Total Distribution Plant	1,233,225,730	0	1,233,225,730	0	0	1,233,225,730	
<b>General Plant:</b>							
389 Land and Land Rights	6,199,971		6,199,971	3,729,653	147,107	2,323,211	Labor
390 Structures and Improvements	64,438,073		64,438,073	38,763,352	1,528,923	24,145,798	Labor
391 Office Furniture and Equipment	48,657,786		48,657,786	29,270,566	1,154,504	18,232,716	Labor
392 Transportation Equipment	16,877,412		16,877,412	10,152,772	400,451	6,324,190	Labor
393 Stores Equipment	2,340,839		2,340,839	1,408,155	55,541	877,143	Labor
394 Tools, Shop and Garage Equipment	9,830,485		9,830,485	5,913,624	233,248	3,683,613	Labor
395 Laboratory Equipment	6,289,389		6,289,389	3,783,443	149,228	2,356,717	Labor

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**  
Gross Plant

	Test Year	Adjustments	Adjusted Test Year	Generation	Transmission	Distribution	Allocation
396 Power Operated Equipment	1,304,358		1,304,358	784,649	30,949	488,760	Labor
397 Communication Equipment	88,873,334		88,873,334	53,462,622	2,108,698	33,302,014	Labor
398 Miscellaneous Equipment	432,311		432,311	260,061	10,257	161,993	Labor
Subtotal	245,243,958	0	245,243,958	147,528,897	5,818,906	91,896,155	
399 Other Tangible Property	72,495,480	(72,495,480)	0	0	0	0	
Total General Plant	317,739,438	(72,495,480)	245,243,958	147,528,897	5,818,906	91,896,155	
TOTAL	\$4,273,651,170	(\$72,495,480)	\$4,201,155,690	\$2,540,456,719	\$319,052,035	\$1,341,646,935	

**DUQUESNE LIGHT COMPANY**  
**Cost of Service Functionalization**  
**For the Year Ended December 31, 1996**

<b>Labor:</b>	Duquesne Light	CAPCO	Total	%	
Generation	\$42,270,373	\$16,162,893	\$58,433,266	47.9%	60.2%
Transmission	2,304,753		2,304,753	1.9%	2.4%
Distribution	36,398,242		36,398,242	29.8%	37.5%
Admin & General	24,838,263		24,838,263	20.4%	
	<u>\$105,811,631</u>	<u>\$16,162,893</u>	<u>\$121,974,524</u>		

<b>Net Book Value:</b>		%	
Generation	\$1,240,579,558	50.9%	54.0%
Transmission	197,208,738	8.1%	8.6%
Distribution	860,338,924	35.3%	37.4%
Admin & General	140,351,459	5.8%	
	<u>\$2,438,478,679</u>		

<b>Average Net Book Value and Labor:</b>		
Generation	49.4%	57.1%
Transmission	5.0%	5.5%
Distribution	32.6%	37.5%
Admin & General	13.1%	

<b>Account 930</b>		Generation	Transmission	Distribution	
Total	\$20,628,427				
CAPCO A&G	(9,130,438)	9,130,438			
EPRI dues	(1,548,020)	1,008,319	68,853	470,848	Detail Analysis
General	<u>\$9,949,969</u>	<u>5,985,501</u>	<u>236,083</u>	<u>3,728,385</u>	Labor \$
		<u>\$16,124,258</u>	<u>\$304,936</u>	<u>\$4,199,233</u>	

<b>Account 935</b>					
Total	\$3,262,706				
T&D	(2,074,417)		\$386,832	\$1,687,585	Detail Analysis
General	<u>\$1,188,289</u>	<u>641,465</u>	<u>101,970</u>	<u>444,854</u>	Labor \$
		<u>\$641,465</u>	<u>\$488,802</u>	<u>\$2,132,439</u>	

<b>Account 408</b>					
Generation-related	\$28,013,551				
Ft. Martin	<u>4,352,878</u>				
		<u>\$23,660,673</u>			
All else	56,556,137	34,021,896	1,341,908	21,192,333	
		<u>\$57,682,569</u>	<u>\$1,341,908</u>	<u>\$21,192,333</u>	

**DUQUESNE LIGHT COMPANY**  
**Avoidable Overhead**

	\$ Millions	\$ Thousands			Allocation Basis for Savings
		Ches.	Elrama	Perry	
MIS	\$17	\$228	\$228	\$0	MIS Usage Report
Marketing & sales	10	0	0	0	# of employees
Admin Services - net of CAPCO billings	8	271	395	0	# of employees
Treasury	4	0	0	0	
Legal	4	0	0	0	
Reg & Econ Analysis	3	0	0	0	
Human Resources	3	102	148	0	# of employees
Executive Office	3	0	0	0	
Fringes	3	102	148	0	# of employees
Environmental Analysis	2	83	83	125	Assessment of regs.
Public Affairs	2	0	0	0	
V&PR	2	104	95	353	% of gross plant
Customer Accounting	1	0	0	0	
Accounts Payable	1	47	75	0	% of O&M
Reporting/Accounting	1	0	0	0	
Payroll/Tax	1	34	49	0	# of employees
CFO	1	0	0	0	
Internal Audit	1	34	49	0	# of employees
Corporate Secretary	1	0	0	0	
Overhead Avoidable	<u>\$68</u>	<u>\$1,004</u>	<u>\$1,270</u>	<u>\$478</u>	
Overhead Allocated*		\$5,194	\$6,424	\$5,166	
<b>% Overhead Avoidable</b>		<b>19.3%</b>	<b>19.8%</b>	<b>9.3%</b>	

\* Overhead allocated to Generation (60.2% of total) was allocated to plants based upon each plant's prorata share of total direct operating and maintenance costs.

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