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January 7, 1998

BY HAND DELIVERY

James McNulty, Acting Secretary
Pennsylvania Public Utility Commission
Room B-20, North Office Building
Harrisburg, PA 17105-3265

KJR

Re: Application Of PECO Energy Company For Approval Of Its Restructuring Plan
Under Section 2806 Of The Public Utility Code,
Docket No. R-00973953

Dear Secretary McNulty:

Enclosed for filing with the Commission are an original and three copies of PECO Energy Company's Petition for Rehearing, Reconsideration and Amendment of the Order Entered December 23, 1997.

Sincerely,

Paul R. Bonney
Paul R. Bonney

PRB/mbo

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w/enclosures

- cc: John M. Quain, Chairman (by hand delivery)
- David W. Rolka, Commissioner (by hand delivery)
- John Hanger, Commissioner (by hand delivery)
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- John Povilaitis, Law Bureau (by hand delivery)
- Administrative Law Judge Marlane R. Chestnut (by first class mail)
- Administrative Law Judge Charles E. Rainey, Jr. (by first class mail)
- Certificate of service (by fax and first class mail)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PECO ENERGY COMPANY

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PETITION OF PECO ENERGY COMPANY FOR
REHEARING, RECONSIDERATION, CLARIFICATION AND
AMENDMENT OF THE ORDER ENTERED DECEMBER 23, 1997

PECO Energy Company ("PECO" or the "Company"), pursuant to Sections 703(f) and 703(g) of the Public Utility Code (66 Pa. C.S. §§ 703(f) and 703(g)), hereby requests that the Pennsylvania Public Utility Commission (the "Commission") rehear, reconsider, clarify and amend its December 23, 1997 Order at the above-captioned docket (1) to correct certain errors in the Commission's quantification of PECO's stranded costs, (2) to clarify its discussion of PECO's consumer education program and (3) to stay, for several months, the requirement that PECO initiate an open enrollment period for customer choice on March 1, 1998.

More specifically, and as set forth herein, PECO has identified eight separate errors which serve to **understate** its Commission-approved stranded costs by approximately \$629 million. In the interest of presenting a complete and balanced analysis, PECO also seeks correction of an additional error, approximating \$471 million, which results in an **overstatement** of its Commission-approved recoverable costs. In addition, PECO requests that the Commission make it clear that the \$24 million budgeted by PECO for consumer education contemplated a four-year program spanning the period 1997-2000 and that it further indicate that the allocation

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of that amount between Company-specific and statewide initiatives will be determined in the separate proceeding envisioned by the Order. Finally, PECO asks that the open enrollment period be delayed by several months so that the effectiveness of contemplated consumer education efforts can be improved.

In making this filing, PECO is not withdrawing its support of the Partial Settlement that was filed with the Commission on August 27, 1997. To the contrary, PECO continues to believe that the agreement contained therein would create the best structure for significant rate relief and robust competition in the long-run, while, at the same time, treating shareholders fairly. If, however, the Commission is unwilling to revisit the merits of the Partial Settlement, then it should clarify and amend its December 23 Order in the manner described hereinafter.

I. INTRODUCTION

1. On April 1, 1997, PECO filed a comprehensive electric restructuring plan for approval by the Commission under Section 2806 of the Public Utility Code (66 Pa. C.S. § 2806). As part of that filing, PECO quantified its projected stranded costs and submitted a competitive transition charge ("CTC") mechanism to provide for their recovery.

2. Numerous parties thereafter intervened in the proceeding and several of them challenged individual elements of PECO's stranded cost claim. In response, PECO submitted extensive rebuttal testimony in which it reviewed and critiqued the adjustments proposed by the opposing parties.

3. Following evidentiary hearings and the filing of Initial Briefs,^{1/} the Commission determined that PECO's stranded costs would approximate \$5.024 billion. A detailed breakdown of the Commission's stranded cost findings may be found at pages 101-02 of its December 23 Order. In addition, the Commission directed PECO "to conduct an open enrollment period, beginning March 1, 1998, to identify customers that will be able to shop for electric generation supply as of January 2, 1999" (Order, p. 160).

4. In Duick v. Pennsylvania Gas & Water Co., 56 Pa. P.U.C. 533, 558-59 (1982), the Commission reviewed the criteria that it applies in determining whether a petition for rehearing and/or reconsideration should be granted:

We view the situation, as follows:

1. A petition for rehearing, under the provisions of 66 Pa. C.S. §703(f), properly must seek the reopening of the record for the introduction of additional evidence of some sort. As grounds therefore it must allege newly discovered evidence, not discoverable through the exercise of due diligence prior to the close of the record. Public Utility Commission v. Reading Co., (1975) 21 Pa. Cmwlth. 334, 338, 345 A.2d 311; Mobilfone v. Pennsylvania Pub. Utility Commission, (1975) 24 Pa. Cmwlth. 243, 355 A.2d 611; Abramson v. Pennsylvania Pub. Utility Commission, (1980) 489 Pa. 267, 414 A.2d 60.

* * *

3. A petition for reconsideration, under the provisions of 66 Pa. C.S. § 703(g), may properly raise any matters designed to convince the Commission that it should exercise its discretion under this code section to rescind or amend a prior order in whole or in part. In this regard we agree with the Court in the Pennsylvania Railroad Company case, wherein it was

^{1/} The Initial Briefs were limited to 45 pages in length and the filing of Reply Briefs was not permitted.

said that “[p]arties . . . , cannot be permitted by a second motion to review and reconsider, to raise the same questions which were specifically considered and decided against them . . .” What we expect to see raised in such petitions are new and novel arguments, not previously heard, or considerations which appear to have been overlooked or not addressed by the Commission. (Emphasis added)

As explained below, this Petition clearly satisfies the foregoing criteria.

II. COMPUTATIONAL AND OTHER ERRORS THAT NEED TO BE CORRECTED

5. PECO has identified nine separate computational and other errors in the December 23 Order relating to the quantification of PECO’s stranded costs. When these errors are corrected, the Commission’s composite stranded cost finding increases by \$158 million to approximately \$5.182 billion.

A. Net Plant

6. At page 80 of its Order, the Commission adopts, as a starting point for quantifying PECO’s stranded generating plant costs, a depreciated book value figure at December 31, 1998 of \$6.688 billion, which apparently was derived from PECO’s case-in-chief. It then proceeds to make two adjustments to that figure (one of which is discussed below) to derive a net book value figure of \$6.639 billion (Order, pp. 80, 102).

7. The Commission’s analysis understates PECO’s stranded costs because it ignores the fact that PECO, in response to intervenor concerns, allocated an additional \$98.9 million of common and general plant from the transmission and distribution (“T&D”) functions to the

generation function as part of its rebuttal case (Ex. ABC-10).^{2/} Attached to this Motion as Appendix A is a copy of Exhibit ABC-1, Revised Schedule 2, page 1 of 2, which shows that PECO's final net plant claim equaled \$6.787 billion, not \$6.688 billion as assumed by the Commission. If this error is not corrected, PECO's T&D rates would have to be increased to reflect this additional cost.

B. Audit Adjustment

8. At page 81 of its Order, the Commission reduces PECO's net plant balance by approximately \$35.4 million to reflect plant that OCA witness LaCapra purportedly claimed was not used and useful and, therefore, should no longer be carried on the Company's books. In fact, although he included this adjustment in his quantification of PECO's stranded costs, Mr. LaCapra did not discuss the issue in either his direct or his surrebuttal testimony. Instead, and as shown on the attached Exhibit RLC-2, page 2 of 10 (Appendix B), Mr. LaCapra simply adopted, without any analysis whatsoever, one side of an adjustment proposed by the Commission's Bureau of Audits in a May 22, 1997 report, while ignoring the other, offsetting side of the adjustment fully spelled out in the same report.

9. In his rebuttal testimony (PECO St. 3-R, p. 33), PECO witness Cohn reviewed Mr. LaCapra's proposed adjustment and explained why it was in error:

^{2/} This amount is separate and apart from the \$460.7 million of T&D costs which the Commission allocates to the generation function at page 62 of its Order.

Q. Mr. LaCapra proposes to reduce net plant by \$35,214,000 to reflect the results of the Commission's property records audit. Is such an adjustment appropriate?

A. No, it is not. The PaPUC audit noted that there was \$35,214,000 in generation plant that should have been retired. The specific adjustment proposed in the audit reduced both plant-in-service and accrued depreciation by \$35,214,000. The net result is no change in net plant, i.e. the depreciated original cost of plant-in-service would remain the same. Accordingly, Mr. LaCapra's proposed adjustment is erroneous and inconsistent with the audit's findings. No change in net plant is required as a result of the audit.

Mr. LaCapra offered no response in his surrebuttal testimony. The correction of this error increases PECO's stranded costs by \$35.4 million.^{2/}

C. Deferred Fuel (Interest)

10. At page 101 of its Order, the Commission recognizes, as a stranded cost, \$96.162 million of deferred fuel expense, noting that such amount had previously been approved by the Commission in its May 22, 1997 Qualified Rate Order ("QRO") at Docket No. R-00973877. The Commission further states as to this item that, in its May 22 QRO, it "granted interest to the net present value date of 12/31/98" (Order, p. 71).

^{3/} The May 22, 1997 audit report was not made a part of the record by the OCA, notwithstanding the Commission's admonition that its findings would have relevance to PECO's restructuring proceeding "only if and when the report is introduced into evidence by a witness under oath and is subjected to cross-examination. . ." (May 22, 1997 Secretarial Letter). To the extent necessary, PECO requests that the record be reopened and relevant excerpts from the report, copies of which are attached hereto as Appendix C, be admitted pursuant to 52 Pa. Code § 5.406.

11. The May 22 QRO (p. 44) indicates that the Commission did, in fact, accept PECO's claim for associated interest. However, and contrary to the December 23 Order, the \$96.162 million figure represented a net present value at June 30, 1997, not December 31, 1998. This may be confirmed by reference to Exhibit ABC-10, page 1 in the securitization proceeding, a copy of which has been attached hereto as Appendix D.^{4/}

12. In its December 23 Order (pp. 19-20), the Commission notes that "legal impediments" to securitization currently exist in the form of pending appeals and that such impediments will likely preclude PECO from securitizing any of its stranded costs for some time. Since PECO will therefore not begin to recover its stranded costs until 1999 (through the operation of a CTC), it is appropriate that interest on its deferred fuel balances be included through December 31, 1998. The resulting amount, as claimed by PECO in this proceeding (Ex. ABC-1, Sch. 6, p. 1) and as accepted by OCA witness LaCapra (Ex. RLC-2, p. 2 (Revised)), is \$109.33 million, or \$13.2 million greater than the Commission's allowance.

D. Deferred Fuel (Underrecovery)

13. At page 71 of its Order, the Commission denies PECO's claim for \$22.0 million per year of deferred fuel costs, representing its estimate of the annual underrecovery of expenses to be incurred during the nine-year period following the roll-in to base rates of PECO's Energy Cost Adjustment as of December 31, 1996. In so doing, the Commission concludes that such

^{4/} PECO included in its claim interest only through June 30, 1997 because it was requesting approval to securitize, and thereby begin to recover, its stranded costs at the earliest possible date following entry of the QRO.

underrecoveries are not “known and measurable” and, therefore, cannot qualify as recoverable stranded costs.

14. In his rebuttal testimony (PECO St. 3-R, p. 24; Ex. ABC-6), which was submitted on July 18, 1997, PECO witness Cohn noted that for the first five months of 1997 (i.e. through May), the deferred amount, after adjusting for Salem replacement power, approximated \$19.7 million. PECO believes these data confirm that its projected annual underrecovery is reasonable and, indeed, conservative.

15. As set forth in Mr. Cohn’s affidavit attached hereto as Appendix E, the underrecovered amount of deferred fuel expense for the first eleven months of 1997 (i.e. through November) grew to approximately \$29 million. These additional costs are not speculative or uncertain in any sense, but instead have already been incurred. As such, it is entirely appropriate that they be recognized as stranded costs.

16. Consistent with its recent experience, PECO firmly believes that it will continue to underrecover its fuel costs during the period from December 1, 1997 through December 31, 1998. The extent of that underrecovery, however, will not be known until early 1999. Consequently, PECO requests that the Commission allow PECO to include, in its true-up/reconciliation of stranded costs, any under- or overrecovery of deferred fuel costs during the

period December 1, 1997 through December 31, 1998, as described by Mr. Cohn in his affidavit.^{5/}

E. Deferred Limerick Common Plant

17. At page 76 of its Order, the Commission recognizes, as a stranded cost, \$175.8 million of deferred Limerick Common Plant carrying charges, noting that such amount had previously been approved by the Commission in its May 22 QRO. However, in quantifying PECO's total stranded costs on page 101, the Commission inadvertently substitutes the figure of \$158.3 million. As confirmed by a review of the May 22 QRO (p. 45) and PECO's claim in this proceeding (Ex. ABC-1, Sch. 6, p. 1), the proper figure is \$175.8 million. Correction of this error increases PECO's stranded costs by \$17.5 million.

F. SFAS 106 (Employee Retirement Costs)

18. In its December 23 Order, the Commission adopts two adjustments to the Company's claim for recovery of SFAS 106 expenses proposed by PAIEUG witness Kollen.

^{5/} In its May 22, 1997 Order at Docket Nos. P-00961126 and R-00963838, the Commission confirmed PECO's right to seek full recovery of these costs in the future (pp. 10-11):

4. That (a) PECO Energy Company shall have the right to defer, and, in the future, to seek full recovery of an amount that represents the difference between the rolled-in rates and a figure that reflects PECO Energy Company's average fuel costs, which difference is to be determined in conjunction with PECO Energy Company's restructuring filing submitted on April 1, 1997; and (b) the mechanism through which PECO Energy Company may seek recovery of these amounts will be the Competitive Transition Charge, the Intangible Charge, or an automatic adjustment clause that conforms with the requirements of 66 Pa. C.S. §1307.

First, the Commission disallows PECO's claim to recover a regulatory asset of \$67 million recorded in connection with the implementation of the Company's Voluntary Retirement Incentive Program and Voluntary Separation Incentive Program ("VRIP/VSIP") (Order, pp. 73-74). Second, the Commission recognizes a "regulatory liability" (i.e., an amount to be returned to customers) of \$151 million representing "earnings" that Mr. Kollen estimated would be achieved over a **future** 24-year period on **future** contributions to the independent trust accounts established to fund PECO's SFAS 106 liability (See PAIEUG St. 3, pp. 33-34 and Ex. LK-6) (Order, p. 77). As explained below, these adjustments reflect a fundamental misunderstanding of the issues involved.

19. The Commission disallows PECO's claim to recover the regulatory asset for SFAS 106 expenses recorded in connection with the adoption of its VRIP/VSIP because "under traditional ratemaking, PECO would not be permitted to recover its claim at this time" and because the claim "does not represent a recoverable regulatory asset" (Order, pp. 73-74). However, as PECO witness Cohn stated in both his direct and rebuttal testimony, this regulatory asset represents expenses that the Commission previously approved for recovery **and which are actually being recovered in PECO's existing rates** (PECO St. 3, pp. 33-34; PECO St. 3-R, pp.16-17).^{6/} Contrary to the Commission's apparent misunderstanding, this component of PECO's stranded cost claim does not represent a new or previously unrecognized expense.

^{6/} The Order (p. 73) states that "PECO claims that these costs are recoverable stranded regulatory assets, because they never previously have been included in rates recoverable from ratepayers." No record citation is provided for this alleged claim by PECO. In fact, no PECO witness made such a statement.

Accordingly, disallowance of the Company's claim would deny the Company recovery of an expense that it was recovering under Commission-approved rates and clearly would have continued to recover under a regulatory environment.

20. By its Order entered October 19, 1994 at Docket No. R-00922479, the Commission approved the settlement of a rate proceeding that permitted PECO to increase its annual electric rates by \$25 million to fully fund its SFAS 106 obligation (PECO St. 3, p. 32). Included in the \$25 million figure was the amortization, over a twenty-year period, of PECO's SFAS 106 "transition obligation". Accordingly, a revenue stream that was sufficient, on an actuarial basis, to fully fund the transition obligation had been provided as part of the \$25 million rate increase previously approved by the Commission (PECO St. 3, pp. 32-33).

21. PECO initiated the VRIP/VSIP in 1994, and offers of retirement or separation were accepted by a number of Company employees. Under generally accepted accounting principles ("GAAP"), PECO was required to recognize as an expense, in the year of retirement or separation, the portion of its transition obligation that related to the employees that accepted retirement or separation. As a result, absent deferral, OPEB expenses that otherwise would have been recognized over a prospective 18-year period would have been recognized in 1994 for book purposes. However, because recovery of these same expenses had already been provided for in PECO's existing rates, PECO was permitted to defer the expense recognition per books and, instead, record a regulatory asset in like amount in accordance with the requirements of SFAS 71 (PECO St. 3, pp. 33-34). Among opposing parties, no witness other than Mr. Kollen disputed

the Company's position that the establishment of this regulatory asset was fully authorized by GAAP and the Commission's October 19, 1994 rate order.^{7/}

22. In its restructuring filing, the Company claimed the VRIP/VSIP SFAS 106 regulatory asset of \$67 million for recovery as a stranded cost. In addition, PECO made a concomitant adjustment to reduce by the same amount the pension and benefit expenses deducted from estimated market revenue to be produced by the Company's generating plants in calculating their market value (PECO St. 3-R, p. 14-15; Ex. ABC-4). As a result, the net market value of PECO's generating plants is higher than would be the case if the remainder of the 20-year amortization of the entire transition obligation had been fully reflected as a component of PECO's ongoing operating and maintenance expense.^{8/} The Commission cannot use the resulting lower stranded cost estimates for PECO's generating assets and, at the same time, deny PECO's recovery of the stranded regulatory asset for SFAS 106 expenses associated with the VRIP/VSIP.

23. As an alternative basis for his proposed adjustment, Mr. Kollen contended that the SFAS 106 regulatory asset recorded in connection with PECO's VRIP/VSIP should not be recoverable because customers have not benefited from the wage and salary expense savings of

^{7/} Mr. Catlin, on behalf of the OCA, raised an unrelated issue with respect to the Company's claim, which he withdrew in his rejoinder testimony after reviewing the Company's rebuttal testimony (See OCA St. 3S, Ex. TSC-1; PECO St. 3-R, pp. 14-15).

^{8/} Because other market price witnesses, including Messrs. Smith and LaCapra on behalf of the OCA, incorporated this element of the Company's market price analysis (OCA St. 1, p. 10), their estimates of the market value of PECO's generation assets are also lower as a result.

approximately \$100 million per year created by the VRIP/VSIP. This contention was repeated in the Commission's Order (p. 73), although it is not clear that the Commission gave it any weight. Mr. Kollen's argument should be discarded because it is unfounded and was thoroughly refuted by Mr. Cohn. Specifically, the wage and salary expense savings have already been recognized through lower operating and maintenance expenses used in the calculation of the net market value of the Company's generating assets, which results in a higher market valuation and lower stranded costs. To recognize these savings a second time as an offset to deferred SFAS 106 costs would be an obvious and improper double-count. Additionally, Mr. Kollen ignored the fact that the Company, through its shareholders, absorbed \$250 million in costs associated with the VRIP/VSIP which were booked in 1995 and have never been recognized in rates. These costs offset virtually all of the VRIP/VSIP savings for the years 1995, 1996 and 1997 (PECO St. 3-R, pp. 15-16).

24. For the reasons explained above, PECO's claim for recovery of the regulatory asset recorded in connection with the VRIP/VSIP is proper and should be allowed. The bases for the disallowance of this claim articulated in the Order -- i.e., that the costs at issue had not previously been approved for recovery and are not reflected in current rates -- are factually incorrect. Failing to allow PECO to continue to recover these previously approved costs would be improper and unlawful.

G. SFAS 106 Earnings

25. As previously explained, the Commission has also accepted Mr. Kollen's adjustment to impute a regulatory liability of \$151 million for "SFAS 106 trust fund earnings" (Order, p. 77). The Commission explained the alleged basis for adopting this adjustment as follows:

These earnings represent amounts recovered from ratepayers prior to the Company's associated cash expense. According to witness Kollen, PECO continued to overcollect from ratepayers even after the overfunding became apparent and contributions to the fund were reduced.

The Commission's decision is premised on assumptions that are factually incorrect, are not supported by any record evidence and do not even accurately reflect Mr. Kollen's argument in support of his proposed adjustment.

26. At the outset, it should be emphasized that no one -- not even Mr. Kollen -- has asserted that the trust accounts PECO established to fund its SFAS 106 expense are "over funded." And, in fact, they are not. As a consequence, PECO clearly could not have been "aware" of any such "overfunding." Furthermore, PECO did not "reduce" its contributions to the SFAS 106 trust accounts while it "continued to overcollect from ratepayers," nor did Mr. Kollen ever suggest that PECO had done so. Indeed, if this issue had been raised on the record, PECO would have presented evidence to show that its contributions to the SFAS 106 trust accounts were actually **higher** than the \$25 million it was recovering in rates^{9/}. Simply stated, the

^{9/} As Mr. Cohn notes in his affidavit (Appendix E), PECO contributed \$59.6 million to its
(continued...)

rationale articulated in the Order is devoid of record support and is unrelated to the positions taken by any party.

27. The assumption at the heart of Mr. Kollen's argument is that contributions to the SFAS 106 trust accounts will fully fund future OPEB expenditures and that the "earnings" on such contributions represent an excess amount that will build up in the account and never have to be expended. This is simply not the case. Contributions to the SFAS 106 trust accounts are determined on an actuarial basis to provide adequate -- but not excessive -- amounts so that the sum of such contributions together with the earnings thereon will fund future OPEB obligations. If the earnings on the trust balances were eliminated, which is the practical effect of treating such earnings as a regulatory liability as Mr. Kollen suggests, the trust balance would be insufficient, at the current contribution level, to pay OPEB obligations as they are incurred (PECO St. 3-R, pp. 17-18).

28. Mr. Kollen contended that expenditures for future OPEB costs will be less than the sum of contributions to the trust accounts and the earnings thereon, and he prepared an exhibit purporting to show that effect (See PAIEUG St. 3, Ex. LK-6). However, as Mr. Cohn explained, the error in Mr. Kollen's analysis lies in the fact that the "expenditures" Mr. Kollen reflects are not the actual amounts that will be paid out of the trust in future years. Rather, they represent the present value of such expenditures. However, as SFAS 106 recognizes, those costs will inflate with the passage of time because of the time value of money effect as well as medical

2/(...continued)

SFAS 106 trust accounts in 1995, \$46.5 million in 1996 and \$47.9 million in 1997.

cost escalation. Earnings on the SFAS 106 trust account balance are the principal mechanism for offsetting, at least in part, this inflation and cost escalation effect. Mr. Kollen completely ignored these factors in developing his proposed adjustment. In other words, he inflated the trust account balances for future earnings thereon over a prospective 24-year period, but left the OPEB costs themselves at their **current** present value amount. Thus, he manufactured a mismatch where none would exist if both expenditures and account balances were stated on a consistent basis (PECO St. 3-R, pp. 17-18). Mr. Kollen's proposed adjustment is factually and conceptually wrong and should not be adopted.

H. Pension Fund "Overcollection"

29. At page 76 of its Order, the Commission reduces PECO's stranded costs by \$217.3 million to reflect an alleged "overcollection" of pension expense based on the testimony of PAIEUG witness Kollen and Navy witness Smith. According to the Commission, this offset is necessary to "recompense" customers given the absence of any future true-up or reconciliation mechanism.

30. This adjustment is fundamentally flawed because customers have already been "recompensed" in this proceeding in the form of an annual pension expense claim (i.e. only \$200,000 has been reflected in the market value analysis) which expressly takes into account the "overcollected" status of PECO's pension fund. As PECO witness Cohn explained (PECO St. 3-R, pp. 19-20):

Q. Are such adjustments appropriate?

A. No, they are entirely inappropriate. At the outset, it should be emphasized that the apparent over funding of the pension plan is a transitory situation. One or two years of lackluster performance of the stock market could reverse the overfunding situation. Additionally, because the Company does not have access to the pension funds, it is improper to credit the overfunding against stranded costs. The only benefit the Company could realize from the overfunding status is a lower annual pension expense, and the Company has already fully credited this lower expense level to the benefit of customers in its stranded cost calculation.

Q. How has the Company provided customers the benefit of the current pension fund excess?

A. Pension plan funding status directly affects the annual pension expense because the overfunded amount is amortized against, and reduces, the annual service cost. The generation-related service cost is approximately \$13.4 million per year based on the latest actuarial study. Amortization of the pension fund excess provides a credit of \$13.2 million against that cost, as shown in Exhibit ABC-5. Accordingly, in calculating the market value of its generating plant assets, the Company included annual pension expense of less than \$200,000. In this way, the Company has already given customers the full benefit of the pension plan overfunding by lowering the costs of generation and thereby increasing the market value of its generating assets. The adjustments proposed by Messrs. Kollen and Smith would double count this benefit.

31. If PECO's pension fund were not currently "overcollected", its **annual** generation-related pension expense would be approximately \$13.2 million greater. This, in turn, would significantly lower the net market value of its generating facilities and increase its stranded generating costs. Consequently, if this error is not corrected, customers will receive the

benefit of past pension fund earnings twice -- (1) a higher imputed market value for PECO's plants and (2) a direct offset to its stranded regulatory assets.^{10/}

I. SFAS 109

32. At pages 68-70 of its Order, the Commission addresses the Company's claim for the recovery of a generation-related accumulated deferred tax liability recognized in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS 109") and reflected on the Company's balance sheet as a regulatory asset pursuant to Statement of Financial Accounting Standards No. 71 ("SFAS 71"). The Commission granted PECO's claim for accumulated deferred income taxes but, as explained below, overstated the amount PECO is entitled to recover by including the nominal value, rather than the present value, of such deferred taxes in its calculation of the stranded costs upon which PECO may earn a return (See Order, pp. 70, 101-102 and 109).

33. The generation-related accumulated deferred taxes to be recorded on PECO's balance sheet, as of December 31, 1998, in accordance with SFAS 109 and SFAS 71 is \$1.687 billion. In its restructuring plan filed on April 1, 1997, PECO proposed to recover the regulatory

^{10/} PAIEUG witness Kollen did not dispute any of this in his surrebuttal testimony. Instead, he shifted gears and, **for the first time**, contended that the earnings assumption in the pension expense computation was too low and that PECO had somehow understated "the incremental cost of new capacity" (PAIEUG St. 3S, pp. 14-15). In addition to being improperly raised on surrebuttal, neither of these belated arguments was supported by any record evidence. Navy witness Smith, who initially proposed a similar adjustment, did not respond to Mr. Cohn's critique.

asset associated with this amount by means of a straight-line amortization over a seven-year transition period (PECO St. 3, pp. 38-39; Ex. ABC-1, Sch. 10, p.4).

34. No party disputed PECO's right to recover generation-related accumulated deferred taxes recorded pursuant to SFAS 109, nor did anyone disagree with PECO's quantification of the nominal value of such deferred taxes to be recorded per books at December 31, 1998. However, OCA witness Catlin and PAIEUG witness Kollen contended that, because the accumulated deferred taxes would be paid out to state and federal taxing authorities in the future, PECO's stranded regulatory asset should be the present value, at December 31, 1998, of such future expenditures. As PECO witness Cohn explained, employing a present value quantification of accumulated deferred income taxes and permitting a return on the unamortized balance over the transition period is the economic equivalent of stating such deferred taxes at their nominal value and amortizing them over the same period **without** a return (PECO St. 3-R, p. 20).

35. In its Order (p. 70), the Commission accepts the Company's position that it should be entitled to recover either (1) the **nominal** value of its accumulated deferred taxes (\$1.687 billion) at December 31, 1998, by straight-line amortization **without a return**, or (2) the **present value** of such deferred taxes based on a discount period reflecting the "actual due dates [for payment] of the deferred taxes," **with a return** on the unamortized balance. (Order, p. 70). However, in calculating the amount of stranded costs on which PECO is entitled to earn a return, the Commission included PECO's accumulated deferred taxes at their nominal value rather than their present value. The present value of such deferred taxes at December 31, 1998, based upon

expected payments over an eight and one-half year transition period and the Commission-approved discount rate of 7.47%, is \$1.216 billion, as explained in Mr. Cohn's affidavit (Appendix E).

J. Summary Of Necessary Corrections

36. The net effect of correcting the foregoing errors is an increase in PECO's stranded costs of approximately \$158 million:

Net Plant	\$ 99 million
Audit Adjustment	\$ 35 million
Deferred Fuel (Interest)	\$ 13 million
Deferred Fuel (Underrecovery)	\$ 29 million
Limerick Common Plant	\$ 18 million
SFAS 106 (Employee Retirement Costs)	\$ 67 million
SFAS 106 (Earnings)	\$151 million
Pension Fund "Overcollection"	\$217 million
<u>SFAS 109</u>	<u>\$(471) million</u>
Total	\$158 million

III. THE COMMISSION SHOULD CLARIFY ITS DISCUSSION OF PECO'S CONSUMER EDUCATION PROGRAM

37. At page 151 of its Order, the Commission mistakenly characterizes PECO's total consumer education budget as a three-year, \$24 million program. In fact, the budget PECO proposed was a **four-year** budget of \$24.2 million, including \$5.6 million that the Company allocated for consumer education activities in 1997 (PECO St. 17-R; Ex. GSK-4). Ultimately, the Company devoted approximately \$1 million of the 1997 budget to statewide consumer education, including the statewide television commercials and the Commission mailings to

customers. As a consequence, approximately \$18.6 million remains for the period 1998-2000. PECO therefore requests that the Commission clarify the December 23 Order to reflect that the Company's consumer education program entails a four-year \$24 million budget covering the period 1997-2000 or, alternatively, a three-year \$18.6 million budget for the period 1998-2000.

38. At page 153 of its Order, the Commission directs PECO to appropriate 65% of its consumer education budget, or \$15.6 million, for a statewide consumer education program.^{11/} However, at page 157 of its Order, the Commission states that it intends to "initiate a separate proceeding regarding the statewide portion of PECO's Customer Education Plan . . ." PECO respectfully suggests that all issues relating to a statewide consumer education program, including the allocation of PECO's consumer education budget between statewide and local efforts, and the proper mechanism for funding any statewide program, be addressed in that separate proceeding.

IV. AN EXTENSION OF THE MARCH 1, 1998 OPEN ENROLLMENT DATE IS APPROPRIATE

39. At page 47 of its Order and again at Ordering Paragraph 6 (p. 160), the Commission directs PECO to initiate an open enrollment period beginning March 1, 1998 for the two-thirds of its customer base which, under the Order, would be eligible to shop for electric generation effective January 2, 1999. The December 23 Order is silent, however, on why such

^{11/} It is unclear how the Commission determined the percentage of the consumer education budget to be developed to statewide education.

an accelerated start to the enrollment process is necessary or, for that matter, in the public interest.

40. PECO respectfully submits that the March 1, 1998 start date should be reconsidered and extended for several months, principally for two reasons. First, its implementation would deny PECO customers the benefit of an orderly and coordinated education outreach program. Simply stated, PECO will not be in a position, between now and March 1, to prepare and disseminate the types of materials that customers will need to make educated decisions. Moreover, the Order (p. 153) directs PECO to commit a significant portion of its consumer education budget to a statewide campaign, which currently is not expected to be fully developed and in place for months to come.^{12/}

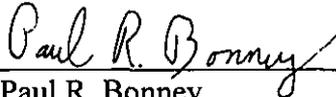
The second reason why the Commission should stay the March 1 start date is that a number of generic issues remain unresolved. Indeed, there are now pending various rulemakings and working group initiatives which could have a profound effect on the introduction of retail choice in Pennsylvania. The absence of established "rules of the road" -- and the likelihood that existing procedures will change as more information is assembled -- cuts in favor of narrowing the window between the time customers must first enroll and the time they must actually select a supplier.

^{12/} As indicated previously, the Commission, at page 157 of its Order, notes its intention to initiate a separate proceeding regarding the statewide portion of PECO's consumer education program.

41. PECO therefore asks the Commission to reconsider this directive and to establish instead a schedule that will allow PECO to enhance the effectiveness of consumer education efforts and to minimize the potential for customer confusion. More specifically, PECO proposes that the open enrollment period commence on July 1, 1998 or such other date as the customers of Pennsylvania's other jurisdictional electric utilities are first allowed to formally express their interest in participating in the initial stage of the phase-in of customer choice. Based on experience it gained from its recently inaugurated pilot program, PECO is confident that such a schedule would provide ample time to ensure customer participation effective January 1999.

WHEREFORE, PECO requests that the Commission reconsider and amend its Order entered December 23, 1997 in the above captioned proceeding in the manner set forth above.

Respectfully submitted,


Paul R. Bonney
Assistant General Counsel

PECO Energy Company
2301 Market Street
P.O. Box 8699
Philadelphia, PA 19101-8699
(215) 841-4252

Dated: January 7, 1998

APPENDIX "A"

REVISED
 Schedule 2
 page 1 of 2

PECO Energy Company
Summary of Generation Plant Assets
 as of 12/31/98
 (\$1000)

	Plant	Reserve	Net Plant
Intangible Plant	\$ 98,700	\$ 26,744	\$ 71,592
Steam Generating	\$ 1,445,455	\$ 911,255	\$ 528,693
Nuclear Generating	\$ 8,503,230	\$ 2,859,685	\$ 5,627,852
Hydraulic	\$ 126,155	\$ 50,813	\$ 73,921
Other	\$ 145,335	\$ 140,086	\$ 4,407
Common & General	\$ 134,265	\$ 35,353	\$ 98,912
SPCO (a)	\$ 117,926	\$ 34,364	\$ 83,563
TOTAL	\$ 10,571,065	\$ 4,058,300	\$ 6,488,941
Adjusted Net Plant For Stranded Investment			\$ 6,488,941
Estimated CWIP @ 12/31/98			<u>\$ 298,355</u>
Net Plant + CWIP For Stranded Cost Estimate			\$ 6,787,296

(a) Susquehanna Power Company - Owner of Conowingo Dam

APPENDIX "B"

PECO Energy Company

Net Book Value of Generation Plant as of January 1, 1999
Summary of Adjustments to Exhibit ABC-1

<u>\$000</u>	<u>Adjustment</u>	<u>Net Plant</u>
Exhibit ABC-1		\$6,688,384
<u>Adjustments</u>		
Exclude plant no longer used and useful as identified in the Bureau of Audits' report dated May 22, 1997 (excluding the adjustment for the Delaware plant)	(\$35,419)	\$6,652,965
Adjust cost of land by inflation factor to reflect current value	(\$25,000)	\$6,627,965
Adj. Net Book Value as of 1/1/99		\$6,627,965
Difference		(\$60,419)
% increase/(decrease)		-0.9%

APPENDIX "C"

PECO Energy Company
Illustrative Calculation of The
Impact of Securitizing \$3.6 Billion of Stranded Assets
(PECO Claim)
(Thousand\$)

Total Amount of Stranded Costs	\$	3,600,000	
 Estimated Revenue Requirement Reduction on Stranded Costs			
Total Stranded Cost Securitized	\$	3,600,000	
Less: Decommissioning underfunding	\$	-	(Exhibit ABC - 1)
Deferred Fuel - 1996(a)	\$	96,162	
Deferred Fuel - Other(a)	\$	143,300	
		<hr/>	
Assets Generating a Rate Reduction	\$	3,360,538	
Revenue Reqmnt Reduction per \$1 billion slice	\$	203,534	(Exhibit ABC - 10, p.3)
		<hr/>	
Revenue Requirement Reduction	\$	683,985	
Less: GRT on the ITC Revenue	\$	25,900	
Net Revenue Requirement Reduction	\$	658,085	(20.1% of net revenue)
 Estimated Total ITC Revenue Requirement			
Assets Securitized	\$	3,600,000	
Plus: Refunding Expense	\$	253,503	
Issuance Expense	\$	23,833	
		<hr/>	
Total Transition Bonds Issued	\$	3,877,336	
Annual Payment @ 7.42%, 10 years	\$	562,728	(17.2% of net revenue)
		<hr/>	
Net Rate Reduction for Customers	\$	95,357	(2.9% of net revenue)

(a) present value @6/30/97

APPENDIX "D"



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

May 22, 1997

JFP /
KGL /
TPH /
AAM /
FRB /
JRR /

MR THOMAS P HILL
CONTROLLER
PECO ENERGY COMPANY
2301 MARKET STREET
PO BOX 8699
PHILADELPHIA PA 19101-8699

Jackie Price
SAW /
ABC /
SRX /
MLB
PHB

RE: REVIEW OF POTENTIAL STRANDED COSTS
D-97S001

Dear Mr. Hill:

Enclosed is a copy of the Bureau of Audits' report on the review of Potential Stranded Costs at PECO Energy Company. This report was presented to the Commission at its public meeting of May 22, 1997, and released to the public.

The audit report was on the public meeting agenda only to make a public release of the audit report and findings (as required by Section 211 of the PUC procedures Manual). The vote to make the report public does not indicate Commission adoption of any of the audit's findings.

In addition, it should be noted that the various findings in this audit report will have relevance to the pending restructuring proceeding only if and when the report is introduced into evidence by a witness under oath and is subjected to cross-examination and rebuttal testimony by the Company. At this point, it is unknown whether any party to the restructuring proceeding will make use of any portion of the audit report as part of its case.

The Commission appreciates the cooperation extended by the officers and employees of PECO Energy Company during the conduct of the review.

Very truly yours,

John G. Alford
Secretary

Enclosure

Contact Person: John T. Crawford
(717) 772-0302

PECO ENERGY COMPANY

A REPORT ON THE REVIEW OF
POTENTIAL STRANDED COSTS

Prepared For The Public Utility Commission

By The Bureau Of Audits

May 1997

Finding #1 - Surviving Original Cost Plant Balances In Account 101 - Electric Plant In Service - Were Overstated By \$36,770,621 For Plant No Longer Used And Useful, Which Should Be Retired And Offset To Account 108 - Accumulated Provision For Depreciation.

A review of utility generation assets including plant tours at Limerick Nuclear Generating Station, Peach Bottom Atomic Power Station, Cromby, Delaware, Eddystone, and Schuylkill Fossil Generating Stations was conducted. As a result of these plant tours, we found \$36,770,621 in unrecorded retirements which reflect equipment no longer useful in utility operations. An updated Statement Of Plant In Service is shown as Exhibit No. 1. Further detail of the Schedule Of Net Book Value Per Generating Site is shown as Exhibit No. 2. Appropriate Recommended Adjusting Journal Entries are attached as Exhibit No. 3.

Recommendation:

We recommend that PECO Energy retire \$36,770,621 from Plant In Service for equipment no longer used in utility operations.

PECO ENERGY COMPANY

STATEMENT OF CHANGES IN ELECTRIC PLANT IN SERVICE

For the Six Years Ended December 31, 1996

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Plant Accounts At 1/1/91	Additions	Retirements	Adjustments	Transfers	Plant Accounts At 12/31/96	Utility Property Under Lease at 12/31/96 Inc. in (7)	PUC Audit Adjustments	Plant Accounts As Adjusted At 12/31/96
Intangible Plant (301-303)	\$ 162,934	\$85,276,217	\$ 0	\$ 0	\$ 0	\$ 85,439,151	\$ 0	\$ 0	\$ 85,439,151
Production Plant-Steam (310-316)	1,119,317,379	266,713,657	37,651,344	0	0	1,348,379,692	0	34,234,653	1,314,145,039
Production Plant-Nuclear 320-325)	8,443,846,701	504,566,819	141,077,827	0	(16,607)	8,807,319,086	0	2,535,968	8,804,783,118
Production Plant-Hydraulic(330-336)	84,699,764	11,428,413	1,584,564	0	0	94,543,613	0	0	94,543,613
Production-Plant - Other (340-346)	125,434,705	22,715,482	8,453,233	(60,843)	725,411	140,361,522	570,428	0	139,791,094
Transmission Plant (350-359)	685,077,363	85,412,668	15,486,443	0	63,516,688	818,520,276	0	0	818,520,276
Distribution Plant (360-373)	2,100,980,810	647,509,711	64,519,278	(505,027)	(55,144,939)	2,628,321,277	520,031	0	2,627,801,246
General Plant (389-398)	58,694,296	39,330,405	3,160,210	0	(757,461)	94,107,030	142,755	0	93,964,275
Other Tangible Property Limerick Units 1 & 2 Disallowance (399)	(532,804,553)	0	(5,289,292)	95,553	0	(527,419,708)	0	0	(527,419,708)
	<u>\$12,085,409,399</u>	<u>\$1,662,953,372</u>	<u>\$266,643,607</u>	<u>(\$470,317)</u>	<u>\$8,323,092</u>	<u>\$13,489,571,939</u>	<u>\$1,233,214</u>	<u>\$36,770,621</u>	<u>\$13,451,568,104</u>

PECO ENERGY COMPANY - ELECTRIC DIVISION

SCHEDULE OF NET BOOK VALUE BY GENERATING SITE

FOR YEAR END 12/31/96

SITE CATEGORY: STEAM PRODUCTION

<u>Generating Site</u>	(1) Plant Balance As Adjusted <u>12/31/96</u>	(2) <u>Reserve</u>	(3) PA PUC Adjustment To <u>Reserve</u>	(4=1-2+3) Adjusted Net Plant Balance <u>@12/31/96</u>
Schuylkill	\$ 42,140,794	\$ 42,654,463	\$ 761,565	\$ 247,896
Eddystone 1 & 2	443,600,723	257,844,667	6,789,899	192,545,955
Delaware	68,502,720	67,180,136	1,351,868	2,674,452
Richmond	0	256,995		(256,995)
Donemaugh	165,508,930	66,854,583		98,654,347
Keystone	107,926,789	58,490,601		49,436,188
Eddystone 3	67,817,867	44,415,838	7,398,669	30,800,698
Eddystone 4	68,928,149	43,822,048	9,737,629	34,843,730
Eddystone Common C/F	157,641,383	81,308,773	4,261,776	80,594,386
Cromby 1 - Coal Unit	111,724,805	77,820,125	609,225	34,513,905
Cromby 2 - Oil Unit	47,646,006	33,958,360	2,847,928	16,535,574
Cromby Common C/F	31,437,271	25,257,200	476,094	6,656,165
Allied Chemical	0	(259,719)		259,719
Essex Chemical	0	(1,599,679)		1,599,679
Tools & Work Equipment	809,716	695,386		114,330
SAMAC	<u>459,886</u>	<u>193,136</u>		<u>266,750</u>
TOTAL - Steam	<u>\$ 1,314,145,039</u>	<u>\$ 798,892,913</u>	<u>\$ 34,234,653</u>	<u>\$ 549,486,779</u>

PECO ENERGY COMPANY - ELECTRIC DIVISION
SCHEDULE OF NET BOOK VALUE BY GENERATING SITE
FOR YEAR END 12/31/96

SITE CATEGORY: LIMERICK

<u>Generating Site</u>	(1) Plant Balance As Adjusted @ 12/31/96	(2) <u>Reserve</u>	(3) PA PUC Adjustment To <u>Reserve</u>	(4=1-2+3) Adjusted Net Plant Balance @ 12/31/96
Limerick 1	\$ 2,676,614,646	\$ 769,846,228	\$ 0	\$ 1,906,768,418
LESS Limerick 1 Disallowance	<u>(364,429,501)</u>	<u>(107,200,944)</u>	<u>0</u>	<u>(257,228,557)</u>
Net Limerick 1	<u>\$ 2,312,185,145</u>	<u>\$ 662,645,284</u>	<u>\$ 0</u>	<u>\$ 1,649,539,861</u>
Limerick 2	\$ 2,839,748,594	\$ 543,871,660	\$ 0	\$ 2,295,876,934
LESS Limerick 2 Disallowance	<u>(162,990,206)</u>	<u>(42,380,759)</u>	<u>0</u>	<u>(120,609,447)</u>
Net Limerick 2	<u>\$ 2,676,758,388</u>	<u>\$ 501,490,901</u>	<u>\$ 0</u>	<u>\$ 2,175,267,487</u>
Limerick Common	<u>\$ 1,253,906,955</u>	<u>\$ 309,738,657</u>	<u>\$ 0</u>	<u>\$ 944,168,298</u>
Summary				
<u>TOTAL Limerick</u>				
Limerick 1, 2, Common	\$6,770,270,195	\$1,623,456,545	\$ 0	\$5,146,813,650
Less Disallowance	<u>(527,419,707)</u>	<u>(149,581,703)</u>	<u>0</u>	<u>(377,838,004)</u>
TOTAL Limerick	<u>\$6,242,850,488</u>	<u>\$1,473,874,842</u>	<u>\$ 0</u>	<u>\$4,768,975,646</u>

PECO ENERGY COMPANY - ELECTRIC DIVISION
SCHEDULE OF NET BOOK VALUE BY GENERATING SITE
FOR YEAR END 12/31/96

SITE CATEGORY: OTHER NUCLEAR

<u>Generating Site</u>	(1) Plant Balance As Adjusted <u>12/31/96</u>	(2) <u>Reserve</u>	(3) PA PUC Adjustment To <u>Reserve</u>	(4=1-2+3) Adjusted Net Plant Balance <u>@ 12/31/96</u>
Merrill Creek	\$ 1,003,897	\$ 132,120	0	\$ 871,777
Bradshaw Reservoir	87,260,487	4,609,407	0	82,651,080
Salem 1	382,970,274	160,447,441	0	222,522,833
Salem 2	437,326,680	130,609,181	0	306,717,499
Salem CF / Common	369,296,601	122,445,888	0	246,850,713
Peach Bottom 2 & 3	737,766,115	321,509,669	\$2,535,968	418,792,414
Chesterbrook	7,230,072	561,298	0	6,668,774
Nuclear EDF/NC	2,300,359	324,932	0	1,975,427
NE Coal Storage	520,297	19,302	0	500,995
Oregon Shop-Nuclear Tools	540,199	35,999	0	504,200
Peach Bottom Training Center	479,068	98,356	0	380,712
Nuclear Information Center	1,420,955	188,186	0	1,232,769
Nuclear Training Center	<u>6,397,919</u>	<u>1,099,709</u>	<u>0</u>	<u>5,298,210</u>
TOTAL - Other Nuclear	<u>\$ 2,034,512,923</u>	<u>\$ 742,081,488</u>	<u>\$2,535,968</u>	<u>\$1,294,967,403</u>

PECO ENERGY COMPANY - ELECTRIC DIVISION
SCHEDULE OF NET BOOK VALUE BY GENERATING SITE
FOR YEAR END 12/31/96

SITE CATEGORY: HYDRAULIC

<u>Generating Site</u>	(1) Plant Balance As Adjusted @ 12/31/96	(2) <u>Reserve</u>	(3) PA PUC Adjustment To <u>Reserve</u>	(4=1-2+3) Adjusted Net Plant Balance @12/31/96
Muddy Run	<u>\$ 94,543,613</u>	<u>\$ 42,873,026</u>	<u>\$ 0</u>	<u>\$ 51,670,587</u>
TOTAL Hydraulic	<u>\$ 94,543,613</u>	<u>\$ 42,873,026</u>	<u>\$ 0</u>	<u>\$ 51,670,587</u>

PECO ENERGY COMPANY - ELECTRIC DIVISION
SCHEDULE OF NET BOOK VALUE BY GENERATING SITE
FOR YEAR END 12/31/96

SITE CATEGORY: OTHER CTs / COMBUSTION TURBINES

<u>Generating Site</u>	(1) Plant Balance As Adjusted <u>12/31/96</u>	(2) <u>Reserve</u>	(3) PA PUC Adjustment To <u>Reserve</u>	(4=1-2+3) Adjusted Net Plant Balance <u>@ 12/31/96</u>
Southwark C.T.	\$ 7,881,501	\$ 7,383,379	\$ 0	\$ 498,122
Eddystone C.T.	8,316,215	8,254,746	0	61,469
Cromby Diesel	841,728	809,655	0	32,073
Delaware Diesel	303,510	298,674	0	4,836
Schuylkill Diesel	291,377	291,377	0	0
Delaware C.T.	7,961,578	7,886,645	0	74,933
Schuylkill C.T.	2,561,767	2,560,719	0	1,048
Chester C.T.	6,110,788	6,104,752	0	6,036
Keystone Diesel	217,112	185,993	0	31,119
Falls C.T.	5,884,238	5,884,238	0	0
Moser C.T.	6,073,853	6,072,580	0	1,273
Conemaugh Diesel	203,964	158,726	0	45,238
Richmond C.T.	12,278,200	10,146,625	0	2,131,575
Salem C.T.	2,494,073	2,494,073	0	0
Croydon C.T.	75,326,183	63,110,342	0	12,215,841
Portable In Stations	<u>3,045,007</u>	<u>3,045,007</u>	<u>0</u>	<u>0</u>
TOTAL - Other C.Ts	<u>\$ 139,791,094</u>	<u>\$ 124,687,531</u>	<u>\$ 0</u>	<u>\$ 15,103,563</u>

PECO ENERGY COMPANY

Pennsylvania PUC Adjusting Entries

December 31, 1996

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
108 Accumulated Provision For Depreciation Of Electric Utility Plant	\$ 761,565	
311 Structures and Improvements		\$ 2,964
312 Boiler Plant Equipment		203,627
314 Turbogenerator Units		127,220
315 Accessory Electric Equipment		389,614
316 Miscellaneous Power Equipment		38,140
To Retire From Plant In Service, Equipment No Longer Useful In Utility Operations At The Schuylkill Generating Station		
316 Miscellaneous Power Equipment - Delaware Generating Station	\$ 34,857	
316 Miscellaneous Power Equipment - Schuylkill Generating Station		\$ 34,857
To Transfer Miscellaneous Power Equipment From Schuylkill Generating Station To Delaware Generating Station		
108 Accumulated Provision For Depreciation Of Electric Utility Plant	\$ 3,933,247	
311 Structures and Improvements		\$ 11,786
312 Boiler Plant Equipment		3,568,971
314 Turbogenerator Units		117,079
315 Accessory Electric Equipment		105,220
316 Miscellaneous Power Equipment		130,191
To Retire From Plant In Service, Equipment No Longer Useful In Utility Operations At The Cromby Generating Station		

PECO ENERGY COMPANY

Pennsylvania PUC Adjusting Entries

December 31, 1996 (Continued)

	<u>Debit</u>	<u>Credit</u>
108 Accumulated Provision For Depreciation Of Electric Utility Plant	\$ 1,351,868	
311 Structures and Improvements		\$ 384,093
312 Boiler Plant Equipment		758,218
314 Turbogenerator Units		54,765
315 Accessory Electric Equipment		17,336
316 Miscellaneous Power Equipment To Retire From Plant In Service, Equipment No Longer Useful In Utility Operations At The Delaware Generating Station		137,456
108 Accumulated Provision For Depreciation of Electric Utility Plant	\$28,187,973	
311 Structures and Improvements		\$ 379,451
312 Boiler Plant Equipment		26,874,179
314 Turbogenerator Units		289,389
315 Accessory Electric Equipment		408,685
316 Miscellaneous Power Equipment To Retire From Plant In Service Equipment No Longer Useful In Utility Operations at The Eddystone Generating Station.		236,269
108 Accumulated Provision For Depreciation of Electric Utility Plant	\$2,535,968	
321 Structures and Improvements		\$1,907,322
322 Reactor Plant Equipment		126,756
325 Misc. Power Plant Equipment To Retire From Plant In Service, Equipment No Longer Useful In Utility Operations At The Peach Bottom Atomic Power Station.		501,890

Pennsylvania Public Utility Commission
Harrisburg, PA 17105-3265

PECO ENERGY COMPANY

PUBLIC MEETING -
MAY 22, 1997
MAY-97-A-19
DOCKET NO. D-97S001

PENNSYLVANIA POWER & LIGHT
COMPANY

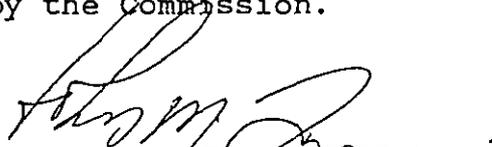
MAY-97-A-20
DOCKET NO. D-97S004

Auditor's Reports on the Review
of Potential Stranded Costs

STATEMENT OF CHAIRMAN JOHN M. QUAIN

I would like to note that the action of the Commission today relative to the PECO Energy Company and Pennsylvania Power & Light Company audit reports are merely procedural. The reports are on the public meeting agenda only to permit a public release of the reports. This is required by our Procedures Manual. A vote to make the reports public should not be viewed as an adoption of any of the audits' findings by the Commission.

5-22-97
DATE


JOHN M. QUAIN, CHAIRMAN

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania

AUDITOR'S REPORT ON THE REVIEW
OF POTENTIAL STRANDED COSTS OF
PENNSYLVANIA POWER & LIGHT

PECO ENERGY COMPANY

PUBLIC MEETING-
MAY 22, 1997
MAY-97-A-20
DOCKET NO. D-97S004
MAY-97-A-19
DOCKET NO. D-97S001

STATEMENT OF COMMISSIONER JOHN HANGER

I encourage participants in the restructuring proceedings for electric utilities to review the Audit Reports that are being released today for PP&L and PECO, as well as those that will be released in the near future for the other utilities. The Bureau of Audits reviewed selected matters deemed to have potential significance in determining the level of stranded costs of each utility and/or mitigation of those costs.

The Reports are solely the work product of the Bureau of Audits, although each utility was given an "exit interview" that includes an opportunity for the utility to identify errors or items that it believes are mischaracterized or inappropriate. The Commission is simply releasing the Reports to the public, without endorsement of any kind.

The subject matter of the Reports will not be included in the record of the restructuring proceedings unless a party takes action to do so.

May 21, 1997
DATED

John Hanger
JOHN HANGER, COMMISSIONER

APPENDIX "E"

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC
UTILITY COMMISSION**

v.

PECO ENERGY COMPANY

:
:
:
:
:
:

Docket No. R-00973953

AFFIDAVIT OF ALAN B. COHN

I, Alan B. Cohn, do hereby depose and state as follows:

1. I am employed by PECO Electric Company (“PECO” or the “Company”) as Manager of the Business Analysis and Support Section in the Company’s Rates and Regulatory Affairs Division.

2. I have participated previously in this proceeding. Specifically, I submitted direct testimony (PECO St. No. 3) and accompanying exhibits (PECO Exhibits ABC-1 and 2) with PECO’s April 1, 1997 filing. I also submitted rebuttal testimony (PECO St. 3-R) and accompanying exhibits (PECO Exhibit ABC-1, Revised Schedules 1 and 2 and Exhibits ABC-3 through ABC-10). In addition, I submitted rejoinder testimony (PECO St. 3-RJ) and accompanying exhibits (Exhibits ABC-11 through ABC-13) that responded to criticisms of a Partial Settlement among PECO and various other parties. All of the aforementioned statements and exhibits were admitted in the record of this proceeding. In addition, I was cross-examined under oath during a hearing held in this proceeding on October 16, 1997.

3. The purpose of this Affidavit is to present additional information regarding the Company's claims for deferred fuel costs, employee retirement costs recognized under Statement of Financial Accounting Standards No. 106 ("SFAS 106") and deferred income taxes recorded pursuant to Statement of Financial Accounting Standards No. 109 ("SFAS 109").

DEFERRED FUEL

4. PECO's claim for the recovery of deferred fuel costs is set forth in PECO Statement No. 3 (pp. 28-31) and consists of three components: (1) PECO's actual underrecovery of fuel costs as of December 31, 1996, the effective date of the roll-in to base rates of its Energy Cost Adjustment ("ECA") (\$69.7 million); (2) the Nuclear Performance Factor adjustment to which PECO was entitled for 1996 (\$22 million); and (3) the amount by which PECO's average fuel costs rolled into base rates from its ECA understate its projected fuel costs for the period from January 1, 1997 to December 31, 1998 (\$22 million per year or a total of \$44 million).

5. In its Order (p. 71), the Commission granted the Company's claims for its actual underrecovery at December 31, 1996 and its Nuclear Performance Factor adjustment. However, the Commission denied PECO's claim for the projected underrecovery of fuel costs for the period 1997 through 1998. In so doing, the Commission concludes that: "At this point in time, there is no 'known and measurable' fuel cost since the expenses have not yet been incurred."

6. In my rebuttal testimony (PECO St. 3-R, p. 24; Exh. ABC-6), which was submitted on July 18, 1997, I presented evidence that, for the first five months of 1997 (through May), the Company's actual underrecovery was \$19.7 million (after removing Salem

replacement power costs, which PECO is not seeking to recover from customers). I also explained that these data indicated that PECO's originally estimated annual underrecovery of \$22 million for 1997 was reasonable and, in fact, low.

7. PECO's actual underrecovery of energy costs for the first eleven months of 1997 (i.e., through November 30, 1997), after adjusting for Salem replacement power costs, is \$29.4 million, as shown in Exhibit 1 attached to this Affidavit.

8. PECO has experienced an underrecovery in the month of December in each of the last three years. Consequently, the Company projects that the inclusion of actual data for December 1997 will cause its actual underrecovery to exceed \$29.4 million for 1997. Actual data for December 1997 are expected to be available by January 8, 1998.

9. Based on the data for 1997, PECO projects that it will experience an underrecovery of energy costs in 1998 as well. The extent of that underrecovery will not be known until early 1999.

10. PECO requests that the Commission authorize it to recover its actual fuel costs for the years 1997 and 1998, the period before rate unbundling and competition begins. To that end, PECO requests that the Commission allow it to include its actual underrecovery for 11 months of 1997 of \$29.4 million in recoverable stranded cost. In addition, the Company requests that any over or under recovery of fuel cost for the period December 1, 1997 through December 31, 1998, when known, be added to (or subtracted from) the Company's stranded cost, the recovery of which will be subject to reconciliation and true-up.

SFAS 106 (EMPLOYEE RETIREMENT COSTS)

11. In its April 1, 1997 filing, PECO claimed for recovery a regulatory asset of \$67 million that was recorded in connection with the implementation of its Voluntary Retirement Incentive Program and Voluntary Separation Incentive Program ("VRIP/VSIP"). In addition, PECO made a concomitant adjustment to reduce by the same amount the pension and benefit expenses deducted from the market revenue estimated to be produced by the Company's generating plants in calculating their market value. The effect of that concomitant adjustment was to increase the market value of PECO's generating plants.

12. No party to this proceeding contended that PECO was contributing less than \$25 million per year to the trust accounts established to fund its SFAS 106 liability. In fact, PECO's actual contributions to its SFAS 106 trust accounts in the years 1995-1997 were as follows:

1995	\$59.6 million
1996	\$46.5 million
1997	\$47.9 million

SFAS 109 EXPENSES

13. If the SFAS 109 liability of \$1.687 billion recorded on PECO's books as of December 31, 1998 is to earn a return on the unrecovered balance thereof over the eight and one-half year transition period, then that amount should be stated on a present value basis. The present value analysis should reflect the fact that the deferred income taxes recorded pursuant to

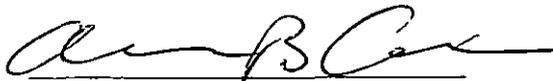
SFAS 109 will be paid to the taxing authorities ratably over the transition period. As shown on Exhibit 2 attached hereto, the present value at December 31, 1998 of such future expenditures, calculated at the Commission-authorized 7.47% discount rate, is \$1.216 billion.

CONCLUSION

Wherefore;

Exhibits 1 and 2 attached hereto were prepared by me or under my direction and supervision.

I hereby swear and affirm that all of the information set forth in this Affidavit and in the accompanying Exhibits is true and correct to the best of my knowledge, information, and belief.



Alan B. Cohn

Sworn to and subscribed before me, a Notary Public
in and for the Commonwealth of Pennsylvania,
County of Philadelphia, this 7th day of January 1998.



Notary Public



EXHIBIT 1

	ENERGY COSTS TO RETAIL SALES \$\$	ENERGY COSTS RECVRD. IN BASE \$\$	ENERGY COSTS OVER BASE \$\$	ENERGY RATE MILLS /KWH	COST OF ENERGY REVENUES \$\$	HT TIME OF USE REVENUES \$\$	TOTAL REVENUES \$\$	CURRENT PERIOD O / (U) \$\$
	(13)=(12)	(14)=(10)*.016439	(15)=(13)-(14)	(16)	(17)=(10)*(16)	(18)	(19)=(17)+(18)	(20)=(19)-(15)
JAN 97	\$40,471,763	\$49,595,415	(\$9,123,652)	-5.655	(\$17,060,775)	(\$517,730)	(\$17,578,505)	(\$8,454,853)
FEB 97	\$41,486,134	\$44,221,698	(\$2,735,564)	-5.655	(\$15,212,221)	(\$504,942)	(\$15,717,163)	(\$12,981,599)
MAR 97	\$37,287,661	\$41,701,888	(\$4,414,227)	-5.655	(\$14,345,409)	(\$504,942)	(\$14,850,351)	(\$10,436,124)
APR 97	\$32,998,238	\$42,135,350	(\$9,137,112)	-5.655	(\$14,494,519)	(\$504,942)	(\$14,999,461)	(\$5,862,349)
MAY 97	\$29,219,047	\$38,458,108	(\$9,239,061)	-5.655	(\$13,229,552)	(\$554,862)	(\$13,784,414)	(\$4,545,353)
JUN 97	\$38,792,592	\$43,037,265	(\$4,244,673)	-5.655	(\$14,804,777)	\$192,233	(\$14,612,544)	(\$10,367,871)
JUL 97	\$51,517,786	\$52,797,699	(\$1,279,913)	-5.655	(\$18,162,357)	\$147,437	(\$18,014,920)	(\$16,735,007)
AUG 97	\$46,127,197	\$49,800,485	(\$3,673,288)	-5.655	(\$17,131,318)	\$176,341	(\$16,954,977)	(\$13,281,689)
SEP 97	\$38,184,857	\$46,812,299	(\$8,627,442)	-5.655	(\$16,103,385)	\$54,896	(\$16,048,489)	(\$7,421,047)
OCT 97	\$34,486,401	\$43,920,650	(\$9,434,249)	-5.655	(\$15,108,661)	(\$554,178)	(\$15,662,839)	(\$6,228,590)
NOV 97	\$30,337,540	\$37,928,433	(\$7,590,893)	-5.655	(\$13,047,344)	(\$537,887)	(\$13,585,231)	(\$5,994,338)
DEC 97								
JAN 98								
TOTAL	\$380,437,453	\$440,813,875	(\$60,376,422)		(\$151,639,543)	(\$2,590,846)	(\$154,230,389)	(\$93,853,967)
Less: Salem outage Adjustment								(\$64,448,203)
Net O/U								(\$29,405,764)

PECO ENERGY - ELECTRIC OPERATIONS

Exhibit - 1
Page 2 of 3

ENERGY COST ADJUSTMENT RECONCILIATION
SCHEDULE 9 (1 OF 2)

	TOTAL ENERGY COSTS \$\$	LESS: LILR ENERGY \$\$	NET ENERGY COSTS \$\$	TOTAL SYSTEM SALES EXCL LILR KWH	BULK SALES KWH	ALLOC FACT.	ENERGY COSTS ALLOC. TO BULK SALES \$\$	ENERGY COSTS EXCL SUPP & BULK SALES \$\$	TOTAL SYSTEM SALES EXCL. SUPP & BULK KWH	RETAIL SALES KWH	ALLOC. FACTOR	ENERGY COSTS TO RETAIL SALES \$\$
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)=(5)/(4)	(7)=(3)*(6)	(8)=(3)-(7)	(9)=(4)-(5)	(10)	(11)=(10)/(9)	(12)=(11)*(8)
JAN 97	\$55,345,805	\$1,555,833	\$53,789,972	4,009,764,983	858,816,000	0.2142	\$11,521,812	\$42,268,160	3,150,948,983	3,016,936,277	0.9575	\$40,471,763
FEB 97	\$56,293,520	\$1,594,335	\$54,699,185	3,547,059,236	734,048,000	0.2069	\$11,317,261	\$43,381,924	2,813,011,236	2,690,047,935	0.9563	\$41,486,134
MAR 97	\$49,858,718	(\$1,972,202)	\$51,830,920	3,526,156,100	860,438,000	0.244	\$12,646,744	\$39,184,176	2,665,718,100	2,536,765,483	0.9516	\$37,287,661
APR 97	\$45,403,245	\$344,096	\$45,059,149	3,500,042,818	815,623,000	0.233	\$10,498,782	\$34,560,367	2,684,419,818	2,563,133,406	0.9548	\$32,998,238
MAY 97	\$40,944,406	\$338,059	\$40,606,347	3,250,955,014	787,939,000	0.2424	\$9,842,979	\$30,763,368	2,463,016,014	2,339,443,300	0.9498	\$29,219,047
JUN 97	\$52,265,196	\$402,161	\$51,863,035	3,499,907,868	751,731,000	0.2148	\$11,140,180	\$40,722,855	2,748,176,868	2,617,997,757	0.9526	\$38,792,592
JUL 97	\$67,348,223	\$590,665	\$66,757,558	4,161,792,466	808,051,000	0.1942	\$12,964,318	\$53,793,240	3,353,741,466	3,211,734,235	0.9577	\$51,517,786
AUG 97	\$61,668,963	\$567,832	\$61,101,131	4,012,912,848	846,358,000	0.2109	\$12,886,228	\$48,214,903	3,166,554,848	3,029,410,822	0.9567	\$46,127,197
SEP 97	\$51,088,076	\$437,689	\$50,650,387	3,777,346,967	802,306,000	0.2124	\$10,758,142	\$39,892,245	2,975,040,967	2,847,636,639	0.9572	\$38,184,857
OCT 97	\$47,972,536	\$545,629	\$47,426,907	3,674,364,370	861,639,000	0.2345	\$11,121,610	\$36,305,297	2,812,725,370	2,671,734,919	0.9499	\$34,486,401
NOV 97	\$43,468,465	\$369,530	\$43,098,935	3,277,761,865	837,873,000	0.2556	\$11,016,088	\$32,082,847	2,439,888,865	2,307,222,629	0.9456	\$30,337,540
DEC 97												
JAN 98												
TOTAL	\$516,311,347	\$3,217,794	\$513,093,553	36,228,299,552	8,106,006,000		\$114,192,332	\$398,901,221	28,122,293,552	26,815,127,125		380,437,453

REPLACEMENT POWER

OUTPUT DATA (MWH)	JAN 97	FEB 97	MAR 97	APR 97	MAY 97	JUN 97	JUL 97	AUG 97	SEP 97	OCT 97	NOV 97	DEC 97	1997 TOTAL
Generation - Nuclear	2,148,041	1,378,599	2,198,214	1,921,834	2,136,828	1,983,212	2,258,599	2,227,819	2,311,311	2,243,194	2,486,319	0	23,294,330
Generation - Steam	499,144	443,926	363,949	435,011	385,981	472,734	499,924	485,250	383,413	430,768	429,982	0	4,830,064
Generation - Coal	651,805	300,761	391,399	273,221	144,376	333,505	518,911	493,853	373,626	327,848	229,802	0	3,839,507
Generation - Oil	17,897	12,793	(3,376)	(2,412)	(2,429)	33,325	35,658	15,454	4,280	(1,128)	(918)	0	109,147
Generation - Interchange	19,785	13,002	3,833	5,478	4,633	13,987	47,228	10,750	6,098	9,324	5,454	0	139,572
Oil ***	534,375	1,329,397	659,480	780,435	799,832	986,015	937,777	926,777	650,900	841,546	330,091	0	9,378,595
OF	56,443	54,841	43,240	50,524	43,160	34,272	46,286	46,924	25,210	28,926	28,609	0	450,965
NET GI	877,932	1,274,556	616,240	729,901	756,692	951,743	891,441	879,853	625,190	823,610	501,882	0	8,927,640
COST DATA													
Cost - Nuclear	\$10,731,806	\$7,203,493	\$11,050,406	\$9,972,396	\$10,866,575	\$9,404,077	\$11,482,193	\$11,491,291	\$13,882,660	\$12,346,058	\$11,969,408	\$0	129,399,364
Cost - Steam	\$6,310,404	\$6,183,171	\$3,768,223	\$5,388,634	\$4,807,293	\$5,781,110	\$6,314,197	\$6,048,636	\$4,638,245	\$5,098,827	\$5,294,014	\$0	59,582,774
Cost - Coal	\$5,768,441	\$4,820,582	\$6,304,071	\$4,305,090	\$2,341,656	\$4,596,790	\$5,911,617	\$6,760,895	\$5,560,993	\$3,971,264	\$3,050,460	\$0	53,391,899
Cost - Oil	\$4,657,684	\$2,203,506	\$602,733	\$269,445	\$256,912	\$3,593,064	\$7,253,568	\$3,694,868	\$2,793,005	\$2,560,244	\$2,242,867	\$0	30,456,675
Cost - Interchange	\$1,583,901	\$822,049	\$88,886	\$94,368	\$76,761	\$813,596	\$3,238,494	\$482,306	\$211,763	\$332,106	\$332,106	\$0	8,076,517
Oil ***	\$26,294,169	\$35,060,717	\$28,044,419	\$25,373,312	\$22,596,210	\$27,246,570	\$33,148,764	\$33,170,767	\$24,001,389	\$23,664,036	\$20,669,610	\$0	299,769,982
OF	\$1,581,285	\$1,627,363	\$1,158,192	\$1,158,881	\$1,302,250	\$370,827	\$1,419,684	\$1,548,435	\$759,611	\$699,291	\$950,855	\$0	13,108,866
NET CI	\$24,712,384	\$33,433,353	\$26,886,237	\$23,566,430	\$21,292,960	\$27,152,743	\$31,739,270	\$31,822,332	\$23,201,928	\$23,964,745	\$19,678,725	\$0	\$286,661,096
PAI Margin	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%	5.34%
UREC	26.583	25.699	33.163	28.116	26.215	27.099	31.689	30.077	31.093	25.473	33.735		28.761
UNEC	4.996	5.225	5.027	5.189	5.065	4.742	5.083	5.158	6.026	5.504	4.814		5.199
URPC	21.587	20.384	28.136	22.927	21.13	27.357	26.806	24.919	25.087	19.969	28.901		23.577
SALEM DATA													
<u>Unit 1</u>													
CAPACITY HOURS	477	477	477	477	471	471	471	471	471	471	477	477	477
CAPACITY FACTOR	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%
# OF DAYS	0	0	13	30	31	30	31	31	0	0	0	0	0
# OF MWHs	0	0	116,083	267,883	273,331	264,514	273,331	273,331	0	0	0	0	1,468,873
<u>Unit 2</u>													
CAPACITY HOURS	477	477	477	477	471	471	471	471	471	471	471	471	471
CAPACITY FACTOR	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%
# OF DAYS	0	0	0	30	31	30	31	31	0	0	0	0	0
# OF MWHs	0	0	0	267,883	273,331	264,514	273,331	273,331	0	0	0	0	0
Station MWHs	0	0	116,083	535,766	546,662	529,028	546,662	546,662	264,514	273,331	264,514	273,331	3,896,333
TOTAL REP. COST =	\$0	\$0	\$3,266,111	\$12,283,507	\$11,550,968	\$11,827,479	\$14,633,822	\$13,622,270	\$6,635,863	\$5,458,147	\$7,644,719	\$0	\$83,676,715
TOTAL SALES (EXCL. LI PA ECA SALES)	4,009,764,983	3,547,059,236	3,526,156,100	3,500,042,818	3,250,965,014	3,499,507,868	4,161,792,466	4,012,912,848	3,777,346,967	3,674,364,370	3,277,761,865		
% =	0.7584	0.7584	0.7194	0.7323	0.7198	0.748	0.7117	0.7549	0.7539	0.7271	0.7039		
ALLOC. REP. COST	\$0	\$0	\$2,349,640	\$8,995,212	\$8,317,077	\$8,846,954	\$11,308,354	\$10,283,452	\$5,052,777	\$3,968,619	\$5,381,118		
CUM. ALLOC. REP. COS	\$0	\$0	\$1,349,640	\$11,344,852	\$19,656,929	\$28,503,883	\$39,812,237	\$50,095,689	\$55,098,466	\$59,067,085	\$64,448,200		

EXHIBIT 2

PECO Energy Company
Present Value of SFAS 109 Regulatory Asset
(million \$)

Year	Amortization
1999	\$ 199.0
2000	\$ 199.0
2001	\$ 199.0
2002	\$ 199.0
2003	\$ 198.0
2004	\$ 198.0
2005	\$ 198.0
2006	\$ 198.0
2007	\$ 99.1
Total	\$ 1,687.1
NPV@7.47%	\$ 1,216.3

Certificate of Service

I hereby certify that I have this day served the foregoing document on the following in the matter of Pennsylvania Public Utility Commission v. PECO Energy Company Pa. PUC Docket No. R-00973953.

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