RP - F.15

ATTACHMENT 1

PENNSYLAVANIA POWER AND LIGHT COMPANY
ELECTRIC UTILITY RESTRUCTURING FILING

AUTHORITY NUMBER	DESCRIPTION	EXPENDITURES AS OF 12/31/96	TOTAL ESTIMATED COST	EXPECTED IN-SERVICE DATE
	MARTINS CREEK SES			
102376	Close Low Volume Ash Basin	229,624	662,700	Mar-97
	SUNBURY SES			
102160	Close Ash Basin No. 1 - Phase 1	120,680	400,000	May-99
102199	Close Ash Basin No. 2 - Phase 1	95,115	1,267,000	May-99
102384	Construct Bottom Ash Dewatering System	234,744	2,325,000	May-97
	TOTAL	450,539	3,992,000	
	BRUNNER ISLAND SES			
102431	New Pyrites Disposal Area	7,615	140,000	Jun-97
103831	Add Pyrites Dewatering System	273,963	385,000	Apr-97
103832	Coal Pile Remediation	477,098	2,954,000	Dec-98
102147	Close Ash Basin No. 7 - Phase 2	131,343	1,968,000	Dec-98
102320	Land Improvemnts to Wetlands - Phase 2	85,512	443,000	Nov-97
102145	Close SW Portion of Ash Basin No. 4	399,421	1,131,000	Jul-97
102412	Replace Bottom Ash Line	2,799	250,000	Jul-97
102146	Ash Basin No. 6 - Add Wastewater Piping System	448,754	1,244,000	Apr-97
	TOTAL	1,826,505	8,515,000	

PENNSYLAVANIA POWER AND LIGHT COMPANY
ELECTRIC UTILITY RESTRUCTURING FILING

AUTHORITY NUMBER	DESCRIPTION	EXPENDITURES AS OF 12/31/96	TOTAL ESTIMATED COST	EXPECTED IN-SERVICE DATE
	MONTOUR SES			
102093	Close Ash Basin #1	354,226	4,100,000	Nov-01
102272	New Bottom Ash Facilities	164,704	2,014,000	Sep-99
102273	New Pyrites Facilities	54,717	805,000	Nov-98
102398	Construct Spray Pond for Cooling Tower Blowdown	7,821	1,000,000	Sep-99
102332	Add Wastewater Pre-Treatment Facilities	59,366	2,500,000	Sep-99
	TOTAL	640,834	10,419,000	
	HOLTWOOD HES			
102236	Install Fish Passage Facility	19,225,866	20,876,000	Mar-97

RP - F.15

ATTACHMENT 2

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102376

TYPE: SPECIFIC PHASE: PROJECT AUTHORIZATION WORK ORDER:

TITLE: MARTINS CREEK SES - CLOSE LOW VOLUME WASTE BASIN

COST AREA		AUTHORIZED CAPITAL AMT: $	662,700
RESP:	632 PWR PROD-MARTINS CREEK	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	662,700
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	1164
		PROJECT PRIORITY:	

EST START DATES: ENGINEERING: 09/96 CONSTRUCTION: 10/96 EST IN SERVICE: 03/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Design and implement a clean closure plan for the low volume waste basin at Martins Creek SES. The scope of work includes removing the liner and sediment and disposing of them in Ash Basin No. 4 and providing proper fill and cover.

Pa. Residual Waste Regulations require annual clean out of storage impoundments. During the 1993 clean out of the basin, tears were observed in the liner indicating damage from clean outs. PP&L petitioned the DEP to extend the solids removal to every 3 years to lengthen the service life of the basin. However, the increase in storage time would change the designation of the basin from a storage impoundment to a disposal impoundment. Disposal impoundments must be modified to meet current Residual Waste Regulations or be closed. The basin could not be economically modified to meet current regulations and the basin's function was replaced with sluice channels (BI 1165, ER 102382).

PP&L has committed to the Pa. Department of Environmental Protection that it will close the basin upon removal from service. The lowest cost plan for closure of the basin involves removing the solids and liner and disposing of them in Ash Basin No. 4. This clean closure (removing the waste) enables the Company to save money in not having to install an expensive synthetic closure cap and not having to perform long term ground water monitoring.

RELATED ERS:

CAPITAL ESTIMATES		
ENGINEERING & OVERHEADS	$	127,500
CONTRACT CONSTRUCTION		507,000
CONSTRUCTION LABOR		
MATERIAL AND EQUIPMENT		
AFUDC		28,200
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	662,700
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	662,700

*** ER ACTIVE WORK COPY ***

PRINT NO. 3 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-ENGINEERING/TECHNICAL SVCS

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102160

TYPE: SPECIFIC PHASE: ADVANCE WORK ORDER:

TITLE: SUNBURY SES - CLOSE ASH BASIN #1 - PHASE I

COST AREA		AUTHORIZED CAPITAL AMT: $	666,800
RESP:	631 PWR PROD-SUNBURY	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	400,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	2141
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 05/93 CONSTRUCTION: EST IN SERVICE: 05/99

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Advance Project Authorization is required to obtain soil from the Susquehanna Valley Mall expansion project. This fill is currently available and its purchase now would save the company several million dollars over acquisition at the planned basin closure date.

Design a closure plan for Ash Basin #1 at Sunbury SES that is acceptable to the DER.

This project is required because the PA Solid Waste Regulations passed in 1992 call for stringent requirements to operate the #1 ash basin. Costs to meet these requirements have been estimated to exceed other alternatives; therefore, we request the closure of #1 basin.

RELATED ERS:

CAPITAL ESTIMATES	
ENGINEERING & OVERHEADS	$
CONTRACT CONSTRUCTION	
CONSTRUCTION LABOR	
MATERIAL AND EQUIPMENT	
AFUDC	
CONTINGENCIES	
CONSTR. COST RECOVERY	
TOTAL ADDITIONS	$
REMOVAL COST	
RETIREMENT RELATED RECOVERY	
AUTHORIZED AMOUNT	$ 666,800

*** ER ACTIVE WORK COPY ***

PRINT NO. 3 AUTHORIZED: _____(SIGNED)_____

TITLE: EXEC VP AND COO

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102199

TYPE: SPECIFIC PHASE: ADVANCE WORK ORDER:

TITLE: SUNBURY SES - CLOSE ASH BASIN #2 - PHASE 1

COST AREA			
RESP:	631 PWR PROD-SUNBURY	AUTHORIZED CAPITAL AMT: $	801,300
CONSTR:	551 MWF-POWER PLANTS	RELATED EXPENSE AMT: $	
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET EST: $	1,267,000
		BUDGET ITEM NO:	2142
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 05/93 CONSTRUCTION: EST IN SERVICE: 05/99

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Advance Project Authorization is required to obtain soil from the Susquehanna Valley Mall expansion project. This fill is currently available and its purchase now would save the company several million dollars over acquisition at the planned basin closure date.

Design a closure plan for Ash Basin #2 at Sunbury SES that is acceptable to the DER.

This project is required because the PA Solid Waste Regulations passed in 1992 call for stringent requirements to operate the #2 ash basin. Costs to meet these requirements have been estimated to exceed other alternatives; therefore, we request the closure of #2 basin.

RELATED ERS: 102160

CAPITAL ESTIMATES	
ENGINEERING & OVERHEADS	$
CONTRACT CONSTRUCTION	
CONSTRUCTION LABOR	
MATERIAL AND EQUIPMENT	
AFUDC	
CONTINGENCIES	
CONSTR. COST RECOVERY	
TOTAL ADDITIONS	$
REMOVAL COST	
RETIREMENT RELATED RECOVERY	
AUTHORIZED AMOUNT	$ 801,300

*** ER ACTIVE WORK COPY ***

PRINT NO. 4 AUTHORIZED: _____(SIGNED)_____

TITLE: EXEC VP AND COO

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102384

TYPE: SPECIFIC PHASE: PROJECT AUTHORIZATION WORK ORDER:

TITLE: SUNBURY SES - CONSTRUCT BOTTOM ASH DEWATERING SYSTEM

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	2,325,800
RESP:	631 PWR PROD-SUNBURY	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	2,325,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	2175
		PROJECT PRIORITY:	

EST START DATES: ENGINEERING: 03/95 CONSTRUCTION: 03/96 EST IN SERVICE: 05/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Construct a bottom ash dewatering system at Sunbury SES. Mechanical equipment will be installed to separate the ash from the sluicewater. After separation, the bottom ash will be stockpiled for offsite recycling or disposal. The sluicing water is pH neutral and requires no treatment beyond solids removal. Effluent from the bottom ash dewatering systems will be combined with the discharge from the new Interim Wastewater Treatment facility and pumped directly to the river.

Sunbury basins No. 1 and 2 do not meet new PA Residual Waste Regulation requirements. Ash Basin No. 1 is currently used for bottom ash storage; therefore, closing this basin will require changes in the bottom ash disposal process. The new PA regulations require nonconfoming facilities to be removed from service before July 4, 1997, and closed shortly thereafter. This project will maintain environmental compliance after Ash Basin No. 1 is removed from service.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	402,900
CONTRACT CONSTRUCTION		30,900
CONSTRUCTION LABOR		427,700
MATERIAL AND EQUIPMENT		1,051,400
AFUDC		197,900
CONTINGENCIES		215,000
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	2,325,800
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	2,325,800

*** ER ACTIVE WORK COPY ***

PRINT NO. 2 AUTHORIZED: _____(SIGNED)_____
TITLE: VP-POWER PRODUCTION & ENGRG

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102431

TYPE: SPECIFIC PHASE: PROJECT ESTIMATE WORK ORDER:

TITLE: BRUNNER ISLAND SES - CONSTRUCT NEW PYRITES DISPOSAL AREA

- - - - - - - - COST AREA - - - - - - - -	
RESP: 639 PWR PROD-BRUNNER ISLAND	AUTHORIZED CAPITAL AMT: $ 25,000
CONSTR: 551 MWF-POWER PLANTS	RELATED EXPENSE AMT: $
ENG BY: 622 ENG & TECHNICAL SERVICES	BUDGET EST: $ NON BUDGETED
	BUDGET ITEM NO: 4115
	PROJECT PRIORITY:

EST START DATES: ENGINEERING: CONSTRUCTION: EST IN SERVICE: 06/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Brunner Island must close Ash Basin 4 under the residual waste regulations. Currently pyrites are sluiced to the basin. The closure plan for the basin includes removing the pyrites--a clean closure. In addition, a hydrobin/dry disposal system will be added to the pyrites collection system for in-service by July, 1997. The plant needs a disposal facility on site for existing and future pyrites production with an in-service date of June 30, 1997.

PP&L has completed preliminary studies that show pyrites can be safely entombed in stabilized fly ash, removing the ability of the pyrites to produce acidic leachate. It is proposed to build the pyrites disposal facility on the currently still active north portion of Ash Basin 5.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -	
ENGINEERING & OVERHEADS	$
CONTRACT CONSTRUCTION	
CONSTRUCTION LABOR	
MATERIAL AND EQUIPMENT	
AFUDC	
CONTINGENCIES	
CONSTR. COST RECOVERY	
TOTAL ADDITIONS	$
REMOVAL COST	
RETIREMENT RELATED RECOVERY	
AUTHORIZED AMOUNT	$ 25,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 1 AUTHORIZED: _____(SIGNED)_____

TITLE: ENGINEERING DESIGN SUPV

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 103831

TYPE: SPECIFIC PHASE: PROJECT AUTHORIZATION WORK ORDER:

TITLE: BRUNNER ISLAND SES - ADD PYRITES DEWATERING SYSTEM

COST AREA		AUTHORIZED CAPITAL AMT: $	485,000
RESP:	639 PWR PROD-BRUNNER ISLAND	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	385,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	4115
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 01/96 CONSTRUCTION: 10/96 EST IN SERVICE: 04/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

This project includes the design, purchase and installation of a pyrites dewatering bin to collect and dewater pyrites from Units 1,2 and 3. Pyrites will be sluiced from the existing Units 1 & 2 transfer tank and the Unit 3 transfer tank to the new dewatering bin. New overflow and drain lines will be run to the equalization basin. The pyrites will be loaded into trucks for disposal at an off-site permitted facility.

RELATED ERS:

CAPITAL ESTIMATES

ENGINEERING & OVERHEADS	$	153,100
CONTRACT CONSTRUCTION		28,400
CONSTRUCTION LABOR		78,500
MATERIAL AND EQUIPMENT		195,800
AFUDC		24,000
CONTINGENCIES		5,200
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	485,000
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	485,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 2 AUTHORIZED: _____(SIGNED)_____
TITLE: SUPT OF PLANT

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 103832

TYPE: SPECIFIC PHASE: REVISED DESIGN ENGR WORK ORDER:

TITLE: BRUNNER ISLAND SES - COAL PILE REMEDIATION

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	355,000
RESP:	639 PWR PROD-BRUNNER ISLAND	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	2,954,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	4116
		PROJECT PRIORITY:	

EST START DATES: ENGINEERING: CONSTRUCTION: EST IN SERVICE: 12/98

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Install a liner under the coal pile to comply with Residual Waste Regulations of the Pennsylvania Department of Environmental Resources.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		
MATERIAL AND EQUIPMENT		
AFUDC		
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	355,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 3 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-ENGINEERING SERVICES

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102147

TYPE: SPECIFIC PHASE: DESIGN ENGINEERING WORK ORDER:

TITLE: BRUNNER ISLAND SES CLOSE ASH BASIN #7 - PHASE I

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	164,100
RESP:	639 PWR PROD-BRUNNER ISLAND	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	1,968,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	4206
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 02/93 CONSTRUCTION: EST IN SERVICE: 12/98

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Design a closure plan for Ash Basin #7 at Brunner Island SES that is acceptable to the DER. The plans will include removal of pH control facilities and outlet structures, installation of a two-foot layer of clay or synthetic liner, installation of a drainage layer, and installation of a two-foot thick layer of cover soils. Grading may be modified to accommodate future uses such as recreation or farming.

This project is required because the Pennsylvania Residual Waste Regulation requires basins that are adversely affecting the local groundwater to be lined or to be closed. It is not practical to line these basins that have been in-service for several years, therefore the only alternative is to close these basins.

RELATED ERS: 102146

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		
MATERIAL AND EQUIPMENT		
AFUDC		
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	164,100

*** ER ACTIVE WORK COPY ***

PRINT NO. 3 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-FOSSIL PLANT ENGRG

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102320

TYPE: SPECIFIC **PHASE:** PROJECT AUTHORIZATION **WORK ORDER:**

TITLE: BRUNNER ISLAND SES - ADD LAND IMPROVEMENTS TO WETLANDS PHASE 2

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	443,100
RESP:	639 PWR PROD-BRUNNER ISLAND	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	433,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	4231
		PROJECT PRIORITY:	10

EST START DATES: **ENGINEERING:** 11/93 **CONSTRUCTION:** 06/95 **EST IN SERVICE:** 11/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Install 4 prefabricated reinforced concrete water level control structures along with the associated 18" piping and the placement of limestone, mushroom and top soils, and vegetation to complete the wetlands restoration.

This work was committed to as part of the PA DER permit to construct Ash Basin #7. A slurry wall and cap added to Basin #3 has dramatically reduced inflow of low pH leachate into the wetlands area. Prior to the installation of the slurry wall, only vegetation resistant to acidic conditions could grow in this area which resulted in the growth of undesirable weeds for a wetlands area. This success of the slurry wall allows other vegetation to thrive and thus, the wetlands restoration can now be successfully completed.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	95,400
CONTRACT CONSTRUCTION		264,300
CONSTRUCTION LABOR		32,100
MATERIAL AND EQUIPMENT		15,300
AFUDC		36,000
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	443,100
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	443,100

*** ER ACTIVE WORK COPY ***

PRINT NO. 4 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-FOSSIL PLANT ENGRG

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102145

TYPE: SPECIFIC PHASE: PROJECT AUTHORIZATION WORK ORDER:

TITLE: BRUNNER ISLAND SES - CLOSE SOUTHWEST PORTION OF ASH BASIN #4

COST AREA			
RESP:	639 PWR PROD-BRUNNER ISLAND	AUTHORIZED CAPITAL AMT: $	1,131,300
CONSTR:	551 MWF-POWER PLANTS	RELATED EXPENSE AMT: $	
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET EST: $	1,131,000
		BUDGET ITEM NO:	4234
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 02/94 CONSTRUCTION: 04/95 EST IN SERVICE: 11/96

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Design a closure plan for the southwest corner of Ash Basin #4 at Brunner Island SES that is acceptable to the DER. The plan will include the removal or encapsulation of mill rejects and a closure capping system.

This project is required because the Pennsylvania Residual Waste Regulation requires basins that are adversely affecting the local groundwater to be lined or to be closed. It is not practical to line these basins that have been in-service for several years; therefore the only alternative is to close these basins.

Basin #4 will be closed in two parts. The first part will be included in this ER, and will be sized to accommodate new water treatment facilities on top, and will be completed in 1996. The remainder of the basin will be closed as a separate project after 1997.

RELATED ERS:

CAPITAL ESTIMATES		
ENGINEERING & OVERHEADS	$	103,800
CONTRACT CONSTRUCTION		268,300
CONSTRUCTION LABOR		653,800
MATERIAL AND EQUIPMENT		33,000
AFUDC		72,400
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	1,131,300
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	1,131,300

*** ER ACTIVE WORK COPY ***

PRINT NO. 5 AUTHORIZED: _____(SIGNED)_____
TITLE: MGR-FOSSIL PLANT ENGRG

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102412

TYPE: SPECIFIC **PHASE:** PROJECT AUTHORIZATION **WORK ORDER:**

TITLE: BRUNNER ISLAND SES - REPLACE UNIT #3 BOTTOM ASH LINE

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	249,700
RESP:	639 PWR PROD-BRUNNER ISLAND	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	249,700
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	4255
		PROJECT PRIORITY:	

EST START DATES: **ENGINEERING:** 10/96 **CONSTRUCTION:** 01/97 **EST IN SERVICE:** 07/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Replace approximately 2,000 feet of existing basalt lined bottom ash sluice line which runs between the river discharge channel and Ash Basin 4. The line would be replaced with new basalt lined pipe of the same type as the existing pipe. The existing pipe supports would be reused.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	19,900
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		65,100
MATERIAL AND EQUIPMENT		144,200
AFUDC		9,500
CONTINGENCIES		11,000
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	249,700
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	249,700

*** ER ACTIVE WORK COPY ***

PRINT NO. 1 AUTHORIZED: _____(SIGNED)_____

TITLE: VP-POWER PRODUCTION & ENGRG.

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102146

TYPE: SPECIFIC PHASE: PROJECT AUTHORIZATION WORK ORDER:

TITLE: BRUNNER ISLAND SES ASH BASIN #6 - ADD WASTE WATER PIPING SYSTEM

COST AREA		AUTHORIZED CAPITAL AMT: $	1,200,000
RESP:	639 PWR PROD-BRUNNER ISLAND	RELATED EXPENSE AMT: $	40,700
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	1,244,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	4257
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 02/93 CONSTRUCTION: 11/96 EST IN SERVICE: 04/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Design, purchase and installation of new waste water system equipment required to allow Ash Basin 6 to remain in-service after Ash Basins 4 and 7 have been removed from service.

Waste water currently entering Ash Basins 4 and 7 will be rerouted to Ash Basin 6.

RELATED ERS: 102147

CAPITAL ESTIMATES

ENGINEERING & OVERHEADS	$	309,400
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		409,200
MATERIAL AND EQUIPMENT		351,200
AFUDC		54,700
CONTINGENCIES		71,100
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	1,195,600
REMOVAL COST		5,400
RETIREMENT RELATED RECOVERY		1,000-
AUTHORIZED AMOUNT	$	1,200,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 4 AUTHORIZED: _____(SIGNED)_____

TITLE: EXEC VP AND COO

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102093

TYPE: SPECIFIC PHASE: DESIGN ENGINEERING WORK ORDER:

TITLE: MONTOUR SES CLOSE ASH BASIN #1

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	473,400
RESP:	630 PWR PROD-MONTOUR	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	4,100,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	5154
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 03/93 CONSTRUCTION: EST IN SERVICE: 11/01

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Design a closure plan for Ash Basin #1 at Montour SES that is acceptable to the DER. The plan will include removal of equipment and structures from the basin, installation of a two-foot layer of clay or synthetic liner, installation of a drainage layer, and installation of a two-foot thick layer of cover soils. The plan will also state the year in which final closure will occur, if the basin is to be closed in stages, descriptions of erosion and sedimentation control, regrading and revegetation, water quality monitoring, leachate management, and proposed land use following the closure of the ash basin.

This project is required because the Pennsylvania Residual Waste Regulation requires basins that are adversely affecting the local groundwater to be lined or to be closed. It is not practical to line a basin that has been in-service for several years, therefore the only alternative is to close the basin.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		
MATERIAL AND EQUIPMENT		
AFUDC		
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	473,400

*** ER ACTIVE WORK COPY ***

PRINT NO. 6 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-FOSSIL PLANT ENGRG

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102272

TYPE: SPECIFIC PHASE: PROJECT ESTIMATE WORK ORDER:

TITLE: MONTOUR SES - NEW BOTTOM ASH FACILITIES

- - - - - - - - COST AREA - - - - - - - -		AUTHORIZED CAPITAL AMT: $	25,000
RESP:	630 PWR PROD-MONTOUR	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	2,014,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	5156
		PROJECT PRIORITY:	

EST START DATES: ENGINEERING: CONSTRUCTION: EST IN SERVICE: 09/99

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Provide new facilities for the handling, dewatering, storage and disposal of bottom ash at Montour SES. The facilities will conform to the requirements of the new PA DER Residual Waste Regulations adopted July 1992.

This project is required because Ash Basin No. 1, which currently receives the bottom ash must be closed by July 1997 as a result of the Residual Waste Regulations. New, more extensive replacement facilities must be provided so that the Montour units can continue to operate.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -	
ENGINEERING & OVERHEADS	$
CONTRACT CONSTRUCTION	
CONSTRUCTION LABOR	
MATERIAL AND EQUIPMENT	
AFUDC	
CONTINGENCIES	
CONSTR. COST RECOVERY	
TOTAL ADDITIONS	$
REMOVAL COST	
RETIREMENT RELATED RECOVERY	
AUTHORIZED AMOUNT	$ 25,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 2 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-FPE SERVICES & DRAFTING

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102273

TYPE: SPECIFIC PHASE: PROJECT ESTIMATE WORK ORDER:

TITLE: MONTOUR SES - NEW PYRITES FACILITIES

- - - - - - - COST AREA - - - - - - -		AUTHORIZED CAPITAL AMT: $	25,000
RESP:	630 PWR PROD-MONTOUR	RELATED EXPENSE AMT: $	
CONSTR:	551 MWF-POWER PLANTS	BUDGET EST: $	805,000
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET ITEM NO:	5157
		PROJECT PRIORITY:	

EST START DATES: ENGINEERING: CONSTRUCTION: EST IN SERVICE: 11/98

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Provide new facilities for the handling, dewatering and disposal of pyrites at Montour SES. The facilities will conform to the requirements of the new PA DER Residual Waste Regulations adopted July 1992.

This project is required because Ash Basin No. 1, which currently receives the pyrites, must be closed by July 1997 as a result of the Residual Waste Regulations. New, more extensive replacement facilities must be provided so that the Montour units can continue to operate.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		
MATERIAL AND EQUIPMENT		
AFUDC		
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	25,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 2 AUTHORIZED: _____(SIGNED)_____

TITLE: MGR-FPE SERVICES & DRAFTING

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102398

TYPE: SPECIFIC **PHASE:** PROJECT ESTIMATE **WORK ORDER:**

TITLE: MONTOUR SES - CONSTRUCT A SPRAY COOLING POND FOR COOLING TOWER BLOWDOWN

- - - - - - - - COST AREA - - - - - - - -			
RESP:	630 PWR PROD-MONTOUR	**AUTHORIZED CAPITAL AMT:** $	25,000
CONSTR:	551 MWF-POWER PLANTS	**RELATED EXPENSE AMT:** $	
ENG BY:	622 ENG & TECHNICAL SERVICES	**BUDGET EST:** $	1,000,000
		BUDGET ITEM NO:	5181
		PROJECT PRIORITY:	

EST START DATES: **ENGINEERING:** **CONSTRUCTION:** **EST IN SERVICE:** 09/99

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Construct a spray cooling pond to provide cooling for cooling tower blowdown and other plant waste streams prior to discharge to the Chillisquaque Creek. Route the blowdown and waste streams from each Unit to the spray pond, and install piping, spray nozzles, sumps and pumps for the spray cooling system. The spray pond will be a 2-stage system with two branches, one per unit, so that any needed maintenance can be performed during outages.

This project is required because Ash Basin #1 must be closed by 7/97 under the 1992 DER Residual Waste Management Regulations. This 145 acre basin provides cooling for cooling tower blowdown which is used for ash sluice water. A replacement means of cooling is needed to meet expected temperature requirements for Plant wastewater discharges. We currently do not meet the usual DER discharge temperature requirements but have an NPDES Section 316a thermal variance. This variance will be reviewed by the DER when we apply for approval of plant wastewater system changes (new bottom ash & pyrites handling systems, wastewater pretreatment basins & wastewater treatment plant) that will also result from the Basin #1 closure.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -		
ENGINEERING & OVERHEADS	$	
CONTRACT CONSTRUCTION		
CONSTRUCTION LABOR		
MATERIAL AND EQUIPMENT		
AFUDC		
CONTINGENCIES		
CONSTR. COST RECOVERY		
TOTAL ADDITIONS	$	
REMOVAL COST		
RETIREMENT RELATED RECOVERY		
AUTHORIZED AMOUNT	$	25,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 1 **AUTHORIZED:** _____(SIGNED)_____

TITLE: MGR-FPE SERVICES & DRAFTING

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102332

TYPE: SPECIFIC **PHASE:** PROJECT ESTIMATE **WORK ORDER:**

TITLE: MONTOUR SES UNITS 1 & 2 - INSTALL WASTE WATER PRETREATMENT FACILITY

- - - - - - - - COST AREA - - - - - - - -			
RESP:	630 PWR PROD-MONTOUR	**AUTHORIZED CAPITAL AMT:** $	25,000
CONSTR:	551 MWF-POWER PLANTS	**RELATED EXPENSE AMT:** $	
ENG BY:	622 ENG & TECHNICAL SERVICES	**BUDGET EST:** $	2,500,000
		BUDGET ITEM NO:	5180
		PROJECT PRIORITY:	

EST START DATES: **ENGINEERING:** **CONSTRUCTION:** **EST IN SERVICE:** 09/99

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Construct a facility to pretreat (remove solids and/or adjust pH) air heater wash water, precipitator wash water, demineralizer regeneration wastes, and wet backup system fly ash sluice.

This project is required because the Montour Waste Water Treatment Plan recommends installing a neutralization sump for pH adjustment for the demineralizer regeneration wastes, equipment washes, and any other potentially hazardous wastes. This will allow hazardous wastes to be treated prior to entering the Plant Waste Basin and detention basin where final pH adjustments can be made prior to release to the river. Solids removed will also occur in the Plant Waste Basin. This basin will be dredged periodically to maintain its capacity. These changes will bring the plant in compliance with RCRA.

RELATED ERS:

- - - - - - CAPITAL ESTIMATES - - - - -	
ENGINEERING & OVERHEADS	$
CONTRACT CONSTRUCTION	
CONSTRUCTION LABOR	
MATERIAL AND EQUIPMENT	
AFUDC	
CONTINGENCIES	
CONSTR. COST RECOVERY	
TOTAL ADDITIONS	$
REMOVAL COST	
RETIREMENT RELATED RECOVERY	
AUTHORIZED AMOUNT	$ 25,000

*** ER ACTIVE WORK COPY ***

PRINT NO. 1 **AUTHORIZED:** _____(SIGNED)_____

TITLE: MGR-FPE SERVICES & DRAFTING

FORM NO: 100-434 **EXPENDITURE REQUISITION** ER NO.: 102236

TYPE: SPECIFIC PHASE: PROJECT AUTHORIZATION WORK ORDER:

TITLE: HOLTWOOD HES - INSTALL UPSTREAM FISH PASSAGE FACILITIES

COST AREA			
RESP:	642 PWR PROD-HOLTWOOD	AUTHORIZED CAPITAL AMT: $	20,882,200
CONSTR:	551 MWF-POWER PLANTS	RELATED EXPENSE AMT: $	87,300
ENG BY:	622 ENG & TECHNICAL SERVICES	BUDGET EST: $	20,876,000
		BUDGET ITEM NO:	6034
		PROJECT PRIORITY:	10

EST START DATES: ENGINEERING: 03/93 CONSTRUCTION: 04/95 EST IN SERVICE: 03/97

DESCRIPTION OF WORK, PURPOSE AND NECESSITY, STATUS OF ASSOCIATED LAND R/W:

Install two fish lifts, one in the tailrace and one in the spillway, and an associated 300 foot long rubber crest dam at Holtwood. The project also includes tunneling through the plant deflection wall, mass concrete removal, and removal of the existing trash gate.

This project is required to permit the passage of American Shad and other migratory species upstream of the Holtwood Dam to their historical spawning areas. This project represents the culmination of a utility financed ten-year restoration effort. During this restoration period, American Shad populations have substantially increased in the Susquehanna River. As a result of this population increase, and the construction of a fish passage facility at the down-river Conowingo project. PP&L has entered into a settlement agreement with the regulatory agencies providing for construction of the fishlifts by 1997.

RELATED ERS:

CAPITAL ESTIMATES	
ENGINEERING & OVERHEADS	$ 3,096,700
CONTRACT CONSTRUCTION	14,750,000
CONSTRUCTION LABOR	186,200
MATERIAL AND EQUIPMENT	
AFUDC	1,701,300
CONTINGENCIES	941,000
CONSTR. COST RECOVERY	
TOTAL ADDITIONS	$ 20,675,200
REMOVAL COST	207,000
RETIREMENT RELATED RECOVERY	
AUTHORIZED AMOUNT	$ 20,882,200

*** ER ACTIVE WORK COPY ***

PRINT NO. 4 AUTHORIZED: _____(SIGNED)_____

TITLE: EXEC VP AND COO

Q. For materials and supplies or fuel inventory provide a supporting schedule for each amount showing the latest actual thirteen monthly balances and showing in the case of fuel inventory claims, the type of fuel, and location, as in station, and the quantity and price claimed.

A. The requested information for materials and supplies for the year ended December 31, 1996 is provided in Attachments 1 and 2.

The requested information on fuel inventories for the year ended December 31, 1996 is provided in Attachments 3 and 4.

RP - F.16.

ATTACHMENT 1

PENNSYLVANIA POWER & LIGHT COMPANY

Plant Materials and Operating Supplies

As of December 31, 1996

(Thousands of Dollars)

Line No.	Month	Amount
1	December 1995	$107,479
2	January 1996	107,189
3	February	106,587
4	March	105,310
5	April	105,816
6	May	104,452
7	June	105,085
8	July	110,044
9	August	105,067
10	September	104,572
11	October	103,270
12	November	103,124
13	December	104,468
14	Total Plant Materials and Operating Supplies	$1,372,463
15	Monthly Average	$105,574

RP - F.16.

ATTACHMENT 2

PENNSYLVANIA POWER & LIGHT COMPANY

Stores Expense Undistributed

As of December 31, 1996

(Thousands of Dollars)

Line No.	Month	Amount
1	December 1995	$435
2	January 1996	447
3	February	469
4	March	502
5	April	515
6	May	551
7	June	603
8	July	830
9	August	940
10	September	869
11	October	717
12	November	718
13	December	943
14	Total Stores Expense Undistributed	$8,539
15	Monthly Average	$657

RP - F.16.

ATTACHMENT 3

PENNSYLVANIA POWER & LIGHT COMPANY
FUEL INVENTORIES - ELECTRIC OPERATIONS

13 Months Ended December 31, 1996

Mo/Yr	Sunbury SES Bituminous Coal		Sunbury SES Anthracite Coal		Sunbury SES Petroleum Coke		Martins Creek SES Bituminous Coal		Hollwood SES Anthracite Coal		Hollwood SES Petroleum Coke	
	Tons	Amount	Tons	Amount	Tons	Amount	Tons	Amount	Tons	Amount	Tons	Amount
Dec-95	52,160	1,525,832	591,186	8,012,593	22,426	383,769	34,382	1,341,070	79,473	1,547,436	0	0
Jan-96	59,019	1,711,271	547,680	7,431,525	22,054	410,581	21,988	836,702	51,309	1,028,367	5,332	53,399
Feb-96	73,493	2,288,501	504,860	6,869,303	20,716	377,341	9,974	358,472	56,283	1,136,602	220	2,199
Mar-96	112,272	3,711,355	460,974	6,285,477	19,945	381,756	16,814	597,924	63,842	1,270,870	212	2,095
Apr-96	126,660	4,239,494	423,737	5,787,187	18,167	369,591	27,845	1,008,541	71,925	1,425,879	5,201	56,802
May-96	131,683	4,426,354	426,240	5,853,401	16,265	336,362	23,960	738,009	81,391	1,639,425	3,067	32,365
Jun-96	120,722	4,011,723	443,697	6,108,339	29,880	651,159	38,409	1,318,872	79,804	1,599,082	2,177	35,208
Jul-96	124,836	4,150,538	477,994	6,566,829	18,191	394,146	40,846	1,456,375	85,736	1,711,194	4,120	62,887
Aug-96	109,925	3,548,336	528,295	7,232,644	9,927	216,759	36,341	1,287,584	89,984	1,792,084	3,273	46,349
Sep-96	120,345	3,910,279	545,902	7,490,251	5,768	121,783	38,389	1,147,912	88,467	1,751,056	3,412	41,475
Oct-96	136,519	4,448,160	556,630	7,654,099	15,227	407,644	44,187	1,451,679	102,275	1,984,131	8,732	93,757
Nov-96	104,542	3,575,546	600,240	8,306,944	22,473	628,270	59,821	1,710,123	96,242	1,872,943	14,396	151,788
Dec-96	92,819	3,109,736	558,144	7,733,766	21,705	553,662	71,716	2,336,050	85,417	1,628,960	13,089	136,765
Totals	**1,364,784**	**44,657,125**	**6,665,679**	**91,332,358**	**242,743**	**5,232,822**	**484,651**	**15,589,314**	**1,032,148**	**20,388,130**	**63,232**	**715,089**
13 Mo Avg	104,984	3,435,163	512,737	7,025,566	18,673	402,525	35,742	1,199,178	79,396	1,568,318	4,864	55,007
Dec 96 Unit Cost		33.58		13.86		25.51		32.57		19.07		10.45
13 Mo. Avg. Units x Dec 96 Unit Cost		3,525,363		7,106,535		476,348		1,164,117		1,514,082		50,829

Totals may not agree due to rounding.

Mo/Yr	Montour SES Bituminous Coal Tons	Montour SES Bituminous Coal Amount	Brunner Island Bituminous Coal Tons	Brunner Island Bituminous Coal Amount	Keystone Bituminous Coal Tons	Keystone Bituminous Coal Amount	Conemaugh Bituminous Coal Tons	Conemaugh Bituminous Coal Amount	Lady Jane Off Site Bituminous Coal Tons	Lady Jane Off Site Bituminous Coal Amount	System Reserve Anthracite Silt Coal Tons	System Reserve Anthracite Silt Coal Amount
Dec-95	220,532	7,758,785	476,821	18,625,742	69,186	2,528,471	69,345	2,033,718	5,688	171,813	3,627,389	18,905,479
Jan-96	233,759	8,457,738	372,512	14,602,811	63,198	2,329,636	63,053	1,876,169	15,489	480,324	3,619,164	18,846,349
Feb-96	273,689	9,869,798	316,922	12,360,671	66,428	2,504,033	67,831	2,056,627	9,813	318,933	3,602,464	18,726,290
Mar-96	340,082	12,116,232	373,041	14,575,667	72,916	2,961,690	63,692	1,960,237	9,561	300,493	3,574,290	18,523,749
Apr-96	444,395	15,839,968	459,626	18,006,819	65,684	2,581,082	67,079	2,078,964	5,721	184,153	3,552,394	18,366,338
May-96	597,018	21,229,542	463,867	18,111,613	54,879	2,108,732	64,411	1,999,702	7,407	240,721	3,480,434	17,849,018
Jun-96	723,769	25,800,681	244,372	9,550,599	46,586	1,721,375	52,931	1,653,487	6,515	210,134	3,401,457	17,281,255
Jul-96	672,270	24,038,277	99,547	3,898,227	29,353	1,063,825	47,799	1,500,650	1,409	44,190	3,305,698	16,592,845
Aug-96	624,425	22,310,758	183,981	7,153,792	36,882	1,321,368	38,888	1,234,065	11,927	368,039	3,200,966	15,839,926
Sep-96	581,593	20,744,395	293,609	11,235,256	37,693	1,336,846	51,385	1,593,605	1,981	61,519	3,129,829	15,328,519
Oct-96	461,236	16,452,161	513,694	19,692,062	56,496	1,982,673	64,311	1,982,847	2,342	70,638	3,058,504	14,815,763
Nov-96	359,627	12,934,157	648,097	25,042,739	54,556	1,867,135	62,901	1,946,246	5,141	158,338	3,011,737	14,479,556
Dec-96	344,186	12,456,985	654,432	25,331,205	44,493	1,557,573	54,981	1,737,055	2,934	85,110	2,999,928	14,394,662
Totals	**5,876,584**	**210,009,476**	**5,100,521**	**198,187,203**	**698,330**	**25,864,439**	**768,607**	**23,653,373**	**85,907**	**2,692,405**	**43,584,255**	**219,949,748**
13 Mo Avg	452,045	16,154,575	392,348	15,245,169	53,718	1,989,572	59,124	1,819,490	6,608	207,108	3,351,097	16,919,211
Dec 96 Unit Cost		36.19		38.71		35.01		31.59		29.01		4.80
13 Mo. Avg. Units x Dec 96 Unit Cost		16,359,509		15,187,791		1,880,667		1,867,727		191,698		16,085,266

	Total Coal Inventory		Sunbury SES #2 Lt.Dist.Oil		Martins Creek SES #2 Lt.Dist.Oil		Hollwood SES #2 Lt.Dist.Oil		Montour SES #2 Lt.Dist.Oil		Brunner Island SES #2 Lt.Dist.Oil	
Mo/Yr	Tons	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount
Dec-95	5,248,668	62,834,708	36,274	20,967	45,259	24,924	26,846	16,327	315,003	186,539	200,148	123,240
Jan-96	5,074,657	58,064,872	40,321	24,547	49,719	26,494	20,929	13,141	138,437	89,532	192,934	119,750
Feb-96	5,002,693	56,866,769	38,041	23,682	62,219	40,796	18,951	11,721	0	0	178,321	108,516
Mar-96	5,107,642	62,687,544	43,998	28,799	38,336	14,985	26,534	18,194	362,126	278,300	165,978	104,819
Apr-96	5,268,416	69,944,918	40,368	27,891	33,300	20,316	22,770	15,661	327,230	248,554	166,051	131,179
May-96	5,350,621	74,565,245	41,113	27,334	40,690	26,508	22,808	15,677	288,732	219,311	176,028	118,726
Jun-96	5,190,319	69,941,914	40,627	24,787	27,131	17,343	19,042	13,191	285,961	187,412	181,014	108,724
Jul-96	4,907,800	61,479,983	41,046	24,840	50,457	28,583	23,331	15,043	247,886	150,477	129,730	76,738
Aug-96	4,874,616	62,351,705	40,316	24,785	49,737	30,311	24,514	15,874	282,813	173,030	190,074	114,814
Sep-96	4,898,353	64,762,897	37,733	23,662	31,521	17,966	24,486	15,782	334,734	219,897	135,766	89,092
Oct-96	5,020,152	71,035,614	40,127	27,902	32,145	17,931	23,049	14,783	322,667	223,633	169,535	121,310
Nov-96	5,039,772	72,673,784	26,378	18,976	9,470	5,541	22,439	15,242	338,342	250,129	34,769	25,582
Dec-96	4,943,643	71,061,529	41,284	31,387	0	0	25,115	17,720	337,354	260,140	175,806	137,610
Totals	65,927,350	858,271,483	507,626	329,558	469,984	271,698	300,814	198,355	3,681,286	2,486,956	2,116,154	1,380,101
13 Mo Avg	5,071,335	66,020,883	39,048	25,351	36,153	20,900	23,140	15,258	275,483	191,304	162,781	106,162
Dec 96 Unit Cost		14.37		0.76		#DIV/0!		0.71		0.77		0.78
13 Mo. Avg. Units x Dec 96 Unit Cost		72,875,084		29,676		#DIV/0!		16,429		212,122		126,969

Mo/Yr	Keystone SES #2 Lt.Dist.Oil Gallons	Keystone SES #2 Lt.Dist.Oil Amount	Conemaugh SES #2 Lt.Dist.Oil Gallons	Conemaugh SES #2 Lt.Dist.Oil Amount	MCK SES - Oil Fired #2 Lt.Dist.Oil (On Site) Barrels	MCK SES - Oil Fired #2 Lt.Dist.Oil (On Site) Amount	MCK SES - Oil Fired #6 Residual Oil(On Site) Barrels	MCK SES - Oil Fired #6 Residual Oil(On Site) Amount	MCK SES - Oil Fired #2 Lt.Dist.Oil (Off Site) Barrels	MCK SES - Oil Fired #2 Lt.Dist.Oil (Off Site) Amount	MCK SES - Oil Fired #6 Residual Oil(Off Site) Barrels	MCK SES - Oil Fired #6 Residual Oil(Off Site) Amount
Dec-95	45,215	24,311	31,389	15,349	1,820	42,211	69,001	1,074,752	101,415	2,225,833	953,238	14,786,039
Jan-96	42,798	24,600	26,034	13,904	0	0	54,052	955,136	85,318	1,919,646	1,203,526	21,395,559
Feb-96	40,670	23,427	30,002	16,582	3,623	107,837	74,974	1,335,163	55,881	1,270,585	844,225	15,005,294
Mar-96	44,150	25,751	22,799	12,597	0	0	51,127	911,648	56,489	1,379,660	1,379,782	24,567,060
Apr-96	42,698	27,364	29,651	18,954	0	5	60,893	1,126,149	108,147	2,673,795	1,359,525	24,478,809
May-96	44,702	28,571	26,662	16,852	0	1	46,229	853,912	104,620	2,637,039	1,349,866	24,339,328
Jun-96	45,782	29,084	27,097	16,676	0	19	62,983	1,141,887	92,219	2,331,647	1,175,029	21,175,951
Jul-96	46,453	29,322	35,504	21,766	0	0	65,298	1,179,197	76,923	1,962,454	914,573	16,445,212
Aug-96	38,829	24,533	32,997	20,284	0	6	79,505	1,434,309	62,058	1,598,505	706,495	12,624,878
Sep-96	45,782	29,460	29,176	17,953	9,809	226,486	72,884	1,314,403	51,219	1,334,890	665,697	11,945,111
Oct-96	47,062	31,420	22,995	14,121	7,957	183,728	71,232	1,288,246	47,101	1,221,134	976,113	18,224,455
Nov-96	42,350	28,263	30,648	20,361	8,701	219,087	71,683	1,318,505	108,076	3,213,756	976,621	18,939,478
Dec-96	48,448	33,671	25,490	16,957	11,438	308,263	71,928	1,344,144	101,329	3,017,733	948,786	18,519,511
Totals	**574,939**	**369,780**	**370,444**	**222,351**	**43,348**	**1,087,643**	**851,769**	**15,277,450**	**1,048,795**	**26,786,677**	**13,453,478**	**242,446,885**
13 Mo Avg	44,226	27,674	28,496	17,104	3,334	83,665	65,521	1,175,188	80,677	2,060,514	1,034,883	18,649,745
Dec 96 Unit Cost		0.69		0.67		26.95		18.69		29.78		19.52
13 Mo. Avg. Units x Dec 96 Unit Cost		30,516		19,092		89,851		1,224,587		2,402,561		20,200,916

Martins Creek SES On-Site/Off-Site Combined Data:

	Mo.Avg.Bbls	13 Mo.Avg.Cost	Avg.Unit Cost
#2 Oil	84,011	2,144,179	25.52
#6 Oil	1,100,404	19,824,933	18.02

	Allentown CTG #2 Lt.Distl.Oil		Martins Creek CTG #2 Lt.Distl.Oil		Harwood CTG #2 Lt.Distl.Oil		Jenkins CTG #2 Lt.Distl.Oil		Fishbach CTG #2 Lt.Distl.Oil		Williamsport CTG #2 Lt.Distl.Oil	
Mo/Yr	Gallons	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount
Dec-95	190,292	102,433	258,572	136,067	92,741	50,290	91,129	49,682	86,995	47,544	93,152	48,203
Jan-96	194,138	111,176	287,382	202,569	95,304	53,545	94,561	53,721	82,019	46,143	97,876	54,377
Feb-96	185,071	106,126	297,225	44,909	95,078	53,545	93,103	52,893	95,817	54,323	97,488	54,377
Mar-96	194,641	117,077	314,714	248,574	92,026	53,217	96,892	57,123	93,772	53,727	92,732	53,422
Apr-96	194,504	117,077	327,309	219,845	92,026	53,217	96,828	57,123	94,047	53,727	92,375	53,422
May-96	191,254	116,836	317,342	199,715	95,694	59,469	90,124	55,843	89,376	53,359	96,615	57,705
Jun-96	186,948	113,747	274,634	150,788	92,741	57,000	92,521	57,164	83,730	49,988	93,637	54,946
Jul-96	190,292	114,570	206,018	135,824	92,870	56,777	91,484	56,234	84,005	50,369	94,252	55,294
Aug-96	190,338	114,570	292,981	134,498	92,870	56,777	91,484	56,234	84,096	50,369	94,123	55,294
Sep-96	186,124	113,837	153,190	66,269	90,371	55,860	91,517	56,234	83,791	50,369	94,058	55,294
Oct-96	185,345	113,361	153,190	66,269	93,130	58,623	93,622	58,852	83,944	50,369	94,512	55,294
Nov-96	185,208	113,361	153,190	66,269	93,097	58,623	93,654	58,852	80,920	48,555	93,734	55,294
Dec-96	185,483	116,927	153,190	66,269	94,266	60,524	95,597	61,292	91,604	57,853	97,456	60,046
Totals	**2,459,638**	**1,471,098**	**3,188,937**	**1,737,865**	**1,212,214**	**727,465**	**1,212,516**	**731,248**	**1,134,116**	**686,695**	**1,232,010**	**712,970**
13 Mo Avg	189,203	113,161	245,303	133,682	93,247	55,959	93,270	56,250	87,240	51,284	94,770	54,844
Dec 96 Unit Cost		0.63		0.43		0.64		0.64		0.63		0.62
13 Mo. Avg. Units x Dec 96 Unit Cost		119,198		105,480		59,678		59,693		54,961		58,757

Mo/Yr	Lock Haven CTG #2 Lt.Distl.Oil Gallons	Amount	Sunbury CTG #2 Lt.Distl.Oil Gallons	Amount	Harrisburg CTG #2 Lt.Distl.Oil Gallons	Amount	West Shore CTG #2 Lt.Distl.Oil Gallons	Amount	Total Oil Inventory(Gals) Other Than MCK SES-Oil Fired Gallons	Amount	Total Oil Inventory(Bbls) Martins Creek SES-Oil Fired Barrels	Amount
Dec-95	93,345	54,675	172,868	92,111	188,416	99,942	81,317	43,003	2,048,981	1,135,605	1,125,474	18,128,835
Jan-96	90,902	53,088	187,548	102,153	189,651	108,163	87,026	48,154	1,917,579	1,145,056	1,342,896	24,270,341
Feb-96	90,810	53,088	182,874	99,607	186,581	106,412	84,188	46,584	1,776,439	896,587	978,703	17,718,880
Mar-96	88,674	51,839	176,225	97,073	188,232	112,971	85,103	49,648	2,126,932	1,378,116	1,487,398	26,858,388
Apr-96	88,704	51,839	176,488	97,073	189,148	115,690	84,646	49,381	2,118,143	1,358,312	1,526,565	28,278,758
May-96	91,207	54,045	176,225	97,073	188,187	116,111	84,035	50,421	2,060,794	1,313,554	1,600,715	27,830,280
Jun-96	88,247	52,291	176,225	97,073	189,377	114,758	83,301	49,577	1,988,016	1,194,531	1,330,231	24,649,504
Jul-96	93,620	55,653	176,357	97,073	187,131	112,147	84,951	50,380	1,876,387	1,131,092	1,056,794	19,586,863
Aug-96	93,620	55,653	176,554	97,073	184,933	111,154	84,951	50,380	2,046,230	1,185,636	848,058	16,657,698
Sep-96	91,024	54,109	176,554	97,073	185,391	111,803	84,951	50,380	1,876,169	1,126,041	799,589	14,820,890
Oct-96	91,024	54,109	176,357	97,073	185,529	111,803	84,707	50,380	1,898,940	1,167,234	1,102,404	20,917,563
Nov-96	91,024	54,109	176,225	97,073	185,071	111,527	84,279	50,380	1,740,798	1,078,137	1,165,081	23,690,826
Dec-96	89,498	53,202	176,093	97,073	188,004	114,984	88,155	53,616	1,912,843	1,239,271	1,133,481	23,189,651
Totals	1,181,699	697,700	2,306,593	1,264,603	2,436,661	1,447,464	1,101,610	642,286	25,386,230	16,348,172	15,397,391	285,598,455
13 Mo Avg	90,900	53,669	177,430	97,277	187,358	111,343	84,739	49,407	1,952,787	1,180,629	1,184,415	21,969,112
Dec 96 Unit Cost		0.59		0.55		0 61		0 61		0.65		20.46
13 Mo. Avg. Units x Dec 96 Unit Cost		53,631		97,587		114,288		51,691		1,269,312		24,233,131

Mo/Yr	Grand Total Oil (Equiv. Bbls) All Steam Sta & Comb. Turbines Barrels	Amount	Average Cost Per Barrel	Teco Pipeline Natural Gas MMBTU	Amount	Tetco Pipeline Natural Gas MMBTU	Amount	Transco Pipeline Natural Gas MMBTU	Amount	Off Site - M/C Natural Gas MMBTU	Amount
Dec-95	1,174,259	19,264,440	16.41	0	0	0	0	0	0.00	0	0
Jan-96	1,388,553	25,416,397	18.30	0	0	0	0	0	0.00	0	0
Feb-96	1,020,999	18,615,466	18.23	0	0	0	0	0	0.00	0	0
Mar-96	1,538,040	28,236,484	18.36	0	0	0	0	0	0.00	0	0
Apr-96	1,576,997	29,637,071	18.79	0	0	0	0	0	0.00	0	0
May-96	1,549,782	29,143,834	18.81	0	0	0	0	0	0.00	0	0
Jun-96	1,377,565	25,844,034	18.76	69,035	199,314	0	0	0	0.00	40,000	118,655
Jul-96	1,101,446	20,717,955	18.81	4,857	15,855	0	0	0	0.00	0	0
Aug-96	896,754	16,843,333	18.78	8,822	21,227	0	0	0	0.00	0	0
Sep-96	844,260	15,945,931	18.89	755	1,103	0	0	0	0.00	0	0
Oct-96	1,147,617	22,084,797	19.24	135,033	8,561	2,019	13,423	0	0.00	0	0
Nov-96	1,206,528	24,768,963	20.53	85,360	225,246	36	244	0	0.00	0	0
Dec-96	1,179,025	24,428,922	20.72	0	18,455	0	0	0	0.00	0	0
Totals	16,001,825	300,946,627	245	303,862	489,760	2,055	13,667	0	0	40,000	118,655
13 Mo Avg	1,230,910	23,149,741		23,374	37,674	158	1,051	0	0	3,077	9,127
Dec 96 Unit Cost		20.72			#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
13 Mo. Avg. Units x Dec 96 Unit Cost		25,504,455			#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!

Mo/Yr	Units 3 Natur MMBTU	4 M/C Gas Amount	IEC Pipeline Natural Gas MMBTU	Amount	Total Gas Martins Creek MMBTU	Inventory Natural Gas Amount	Average Cost Per MMBTU
Dec-95	0	0	0	0	0	0	#DIV/0!
Jan-96	0	0	0	0	0	0	#DIV/0!
Feb-96	0	0	0	0	0	0	#DIV/0!
Mar-96	0	0	0	0	0	0	#DIV/0!
Apr-96	0	0	0	0	0	0	#DIV/0!
May-96	0	0	0	0	0	0	#DIV/0!
Jun-96	7,504	21,200	5,344	13,401	121,883	352,570	2.89
Jul-96	8,700	28,993	3,602	11,607	17,359	57,465	3.31
Aug-96	45,097	122,272	3,916	9,232	57,835	152,731	2.64
Sep-96	97,550	136,714	347,835	313,359	446,140	451,176	1.01
Oct-96	13,545	104,633	10,679	70,998	161,276	197,614	1.23
Nov-96	0	0	1,502	10,317	86,898	235,806	2.71
Dec-96	2,571	14,950	1,868	10,249	4,439	43,655	9.83
Totals	174,967	429,762	374,946	439,163	895,830	1,491,006	#DIV/0!
13 Mo Avg	13,459	33,059	28,842	33,782	68,910	114,693	
Dec 96 Unit Cost		5.81		5.49		9.83	
13 Mo. Avg. Units x Dec 96 Unit Cost		78,197		158,343		677,385	

RP - F.16.

ATTACHMENT 4

PENNSYLVANIA POWER & LIGHT COMPANY

Fuel Stock Expense Undistributed

As of December 31, 1996

(Thousands of Dollars)

Line No.	Month	Amount
1	December 1995	$134
2	January 1996	98
3	February	84
4	March	110
5	April	158
6	May	203
7	June	195
8	July	197
9	August	164
10	September	174
11	October	229
12	November	261
13	December	274
14	Total Fuel Stock Expense Undistributed	$2,281
15	Monthly Average	$175

Q. State the basis of cash working capital claim, if made.

A. See Attachment 1 of the response to Question RP - A.4.

RP-F.18.
D.S. Hoch

Q. Provide the surviving original cost plant at the appropriate base year date or dates by account or functional property group and include claimed depreciation reserves. Provide annual depreciation accruals where appropriate. These calculations should be provided for plant in service as well as other categories, including but not limited to, contributions in aid of construction, customers' advances for construction, and anticipated retirements associated with construction work in progress claims, if applicable.

A. See the response to Question RP-E.1.(b) for surviving original cost plant, claimed depreciation reserves and annual depreciation accruals for the 12 months ended December 31,1996.

No claim is being made in this filing for contribution in aid of construction, customers' advances for construction, or anticipated retirements associated with construction work in progress.

RP - F.19.
M. J. Berish

Q. Provide a schedule for the base year 1996 disclosing regulatory assets and regulatory liabilities (other than deferred income taxes) with each balance separately identified and described as to source and cause. Provide actual 1996 accruals and reversals. Provide copies of orders or excerpts authorizing the establishment of each regulatory asset or liability and the amortization treatment thereof.

A. See Attachment 1 for complete schedule of regulatory assets and regulatory liabilities. For the assets, the Debit column corresponds to actual 1996 accruals and the Credit column corresponds to actual reversals. For the liabilities, the Debit column corresponds to reversals and the Credit column corresponds to accruals.

See Attachment 2 for copies of orders that authorize the establishment and amortization treatment of such assets and liabilities.

RP - F.19

ATTACHMENT 1

Name of Respondent	This Report is:	Date of Report	Year of Report
PENNSYLVANIA POWER & LIGHT COMPANY	(1) [x] An Original (2) [ ] A Resubmission	(Mo, Da, Yr)	Dec. 31, 1996

OTHER REGULATORY ASSETS (Account 182.3)

1. Reporting below the particulars (details) called for concerning other regulatory assets which are created through the ratemaking actions of regulatory agencies (*and not includable in other amounts*).
2. For regulatory assets being amortized, show period of amortization in column (a).
3. Minor items (5% of the Balance at End of Year for Account 182.3 or amounts less than $50,000, whichever is less) may be grouped by classes.

Line No.	Description and Purpose of Other Regulatory Assets (a)	Debits (b)	CREDITS		Balance at End of Year (e)
			Account Charged (c)	Amount (d)	
1	PP&L's unrecovered energy costs at December	$16,888,923			$16,888,923
2	31, 1996 that are recoverable as a "transition or				
3	stranded cost" in PP&L's restructuring plan in				
4	accordance with a tentative order issued by the				
5	PUC on December 19, 1996. P-00961131/R-00963842				
6					
7	Taxes recoverable through future rates–		282	24,683,115	1,109,564,999
8	SFAS 109 adjustment N/A		283	19,110,624	
9			190	3,474,125	
10					
11	Deferral of costs associated with postretirement		401	3,326,076	28,079,943
12	benefits other than pensions. The PUC portion is				
13	being amortized over 17.3 yrs & the FERC portion				
14	over 3 yrs in accordance with 1995 rate case R-00943271				
15	decision and October 1995 FERC approval,respectively				
16	ER95-1267-000				
17	Deferred operating and carrying costs–		407	6,277,155	43,940,163
18	Susquehanna, excluding fuel, amortized over		421	(452,304)	
19	10 years in accordance with the 1995 PUC		401	(803,127)	
20	rate case decision. P-820367				
21					
22	Reclassification of utility plant carrying charges,		406	1,271,520	20,764,050
23	recorded on common facilities after in-service				
24	date, in accordance with FERC Order FA84-12-				
25	001--amortized beginning January 1987 over				
26	remaining depreciable book life of related				
27	property. FA84-12-001				
28					
29	Deferral of the charges to expense for the	1,275,909	253	3,948,409	9,134,576
30	estimated liability for retired coal miners health		401	1,368,816	
31	care benefits imposed by the Energy Policy Act		171	449,374	
32	of 1992-amortized over a ten year period. P-920588				
33					
34	Deferral of the estimated assessment imposed	967,705	401	2,760,992	29,823,571
35	by the Energy Policy Act of 1992 for the		242	69,161	
36	decontamination and decommissioning fund to				
37	cleanup uranium enrichment facilities operated				
38	by the DOE, amortized over a 15-year period. P-920588				
39					
40	Susquehanna deferred refueling costs amort-	14,771,832	407	20,195,563	14,149,723
41	ized over the period of time the unit returns to				
42	service through the end of the next refueling				
43	outage. R-00943271				
44	TOTAL				

Name of Respondent	This Report is:	Date of Report	Year of Report
PENNSYLVANIA POWER & LIGHT COMPANY	(1) [x] An Original (2) [ ] A Resubmission	(Mo, Da, Yr)	Dec. 31, 1996

OTHER REGULATORY ASSETS (Account 182.3)

1. Reporting below the particulars (details) called for concerning other regulatory assets which are created through the ratemaking actions of regulatory agencies (and not includable in other amounts).
2. For regulatory assets being amortized, show period of amortization in column (a).
3. Minor items (5% of the Balance at End of Year for Account 182.3 or amounts less than $50,000, whichever is less) may be grouped by classes.

Line No.	Description and Purpose of Other Regulatory Assets (a)	Debits (b)	CREDITS		Balance at End of Year (e)
			Account Charged (c)	Amount (d)	
1	Deferred costs of Voluntary Early Retirement		401	$13,132,024	$49,245,089
2	Program amortized over 5 years beginning				
3	October 1995 in accordance with the 1995 PUC				
4	rate case decision. R-00943271				
5					
6	Deferral of charges to expense for costs		401	372,750	1,025,063
7	incurred for the filing of the 1994 PUC rate case				
8	amortized over 4 years beginning October 1995.				
9	R-00943271				
10					
11					
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29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44	TOTAL	$33,904,369		$99,184,273	$1,322,616,100

Name of Respondent	This Report is:	Date of Report	Year of Report
PENNSYLVANIA POWER & LIGHT COMPANY	(1) [x] An Original (2) [ ] A Resubmission	(Mo, Da, Yr)	Dec. 31, 1996

OTHER REGULATORY LIABILITIES (Account 254)

1. *Reporting below the particulars (details) called for* concerning other regulatory assets which are created through the ratemaking actions of regulatory agencies (and not includable in other amounts).
2. For regulatory liabilities being amortized, show period of amortization in column (a).
3. Minor items (5% of the Balance at End of Year for Account 254 or amounts less than $50,000, whichever is less) may be grouped by classes.

Line No.	Description and Purpose of Other Regulatory Assets (a)	DEBITS Account Credited (b)	DEBITS Amount (c)	Credits (d)	Balance at End of Year (e)
1	Regulatory Liability associated with	190	$7,034,685		$146,967,340
2	*SFAS 109 adjustment pertaining*				
3	to Accumulated Deferred				
4	investment Tax Credits in				
5	accordance with FERC issued N/A				
6	guidelines				
7					
8					
9	Susquehanna SES energy savings	407	3,930,550		41,270,885
10	(increased interchange power sales	401	786,110		
11	less fuel expense) deferred and				
12	amortized in accordance with the				
13	1995 PUC rate case. P-820367				
14					
15	Contract claim settlement agreement	407	12,432,712	$ 943,604	9,332,196
16	proceeds to be credited to	131	12,534		
17	customers - component of the				
18	Special Base Rate Credit ER-91-322-000				
19	Adjustment - amortized over P-910521				
20	approximately 60 months				
21					
22	Deferred cost of power plant spare	407	2,939,099		-
23	parts-amortized generally over				
24	a five-year period beginning 1991.				
25	R-911899				
26					
27					
28	Gain on sale of emission	411	291,758	6	6
29	allowances in accordance with				
30	FERC Order 552 FERC ORDER 552				
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41	TOTAL		$27,427,448	$ 943,610	$197,570,427

RP - F.19

ATTACHMENT 2

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held September 27, 1995

Commissioners Present:

John M. Quain, Chairman
Lisa Crutchfield, Vice Chairman
John Hanger, Statement attached
David W. Rolka
Robert K. Bloom

Pennsylvania Public Utility Commission, et al.	Docket Nos. R-00943271C001-C0145
M&M/Mars, Inc.	Intervenor
Bethlehem Steel Corporation	Intervenor
University/College Coalition	Intervenor

v.

Pennsylvania Power & Light Co.

OPINION AND ORDER

TABLE OF CONTENTS

OPINION AND ORDER

I. INTRODUCTION

On December 30, 1994, Pennsylvania Power & Light Company ("PP&L" or "Company") filed Supplement No. 50 to Tariff Electric-Pa. P.U.C. No. 200, to become effective February 28, 1995. This filing contained changes calculated to produce $261,635,000 in additional annual revenues, based on the projected level of operations for the 12 months ending September 30, 1995. This amount represents an average increase of approximately 11.7 percent of PP&L's annual retail base revenues.

The filing was suspended by operation of law until September 28, 1995. By order adopted January 26, 1995 and entered January 27, 1995, the Commission instituted an investigation into the lawfulness, justness and reasonableness of the proposed rates, as well as the Company's present rates. The matter was thereupon referred to the Office of Administrative Law Judge and subsequently assigned to Administrative Law Judge ("ALJ") Robert A. Christianson.

A prehearing conference concerning the matter was held in Harrisburg on March 7, 1995, before ALJ Michael C. Schnierle. However, before hearings were held the case was reassigned to ALJ Robert A. Christianson. A litigation scheduled was established at the prehearing conference and approximately 16 days of evidentiary hearings were conducted at the North Office Building in Harrisburg. In addition, Public Input hearings were held in Harrisburg, Lancaster, Williamsport, Scranton, Wilkes-Barre, Hazleton, Pottsville, Allentown and Bethlehem, for the purpose of receiving testimony from the public.

A total of 145 formal complaints were submitted by various parties, in response to the Company's general rate increase filing. Three petitions to intervene were granted. In addition, the Commission's Office of Trial Staff ("OTS") participated actively in the proceeding. The various associated complaints were consolidated with the underlying Commission proceeding, for purpose of hearing and decision.

Main briefs were filed on or about June 16, 1995 by the following: the OTS; PP&L; the Office of Consumer Advocate ("OCA"); the Office of Small Business Advocate ("OSBA"); the PP&L Industrial Customer Alliance ("PPLICA" hereafter); the Department of Defense and the Federal Executive Agencies ("DOD"); Bethlehem Steel Corporation ("Beth Steel"); the Central Eastern Pennsylvania Fuel Oil Dealers ("CEPFOD"); the Crown American Realty Trust ("Crown"); the University/College Coalition ("UCC"); the Commission on Economic Opportunity ("CEO"); the Sierra Club; and Eric Epstein.

By motion dated July 3, 1995, PP&L sought to strike portions of Mr. Epstein's main brief. Also, the OTS, by motion dated July 3, 1995, moved to strike portions of the reply brief of the Sierra Club. In an interlocutory ruling, ALJ Christianson granted the motion to strike the testimony of Mr. Bruce Biewald of the Tellus Institute.[1] Further, ALJ Christianson declined to strike certain portions of the brief of Mr. Epstein. (See Recommended Decision, p. 95).

The record in this proceeding was closed, subject to certain provisions, at the last hearing, held on May 26, 1995. Before then, PP&L had submitted a request for transcript corrections, dated April 24, 1995. PP&L also submitted another

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[1] This proffered testimony addressed Demand Side Management ("DSM") design and initiatives and lost revenue recovery.

such request, dated June 13, 1995. No opposition to them was indicated and both requests were, therefore, granted.

Additionally, PP&L, by letter dated June 7, 1995, requested that a portion of OCA witness Kahal's testimony in another proceeding be made part of this proceeding. The Kahal testimony relates to cross-examination by PP&L of Mr. Kahal late in this proceeding. The reference is to another proceeding wherein ALJ Christianson presided. No indications of opposition to this PP&L request were received and the motion was granted. ALJ Christianson designated the cross-referenced testimony as PP&L Cross-Examination Exhibit No. 1 and it was made a part of the record. A copy was provided for inclusion in the main file and the parties were served with the PP&L request which contains the passage in question.[2]

On July 31, 1995, the Recommended Decision ("R.D." hereafter) of ALJ Christianson issued in this matter. Upon consideration of the evidence, the main and reply briefs of the parties, ALJ Christianson concluded as follows:

> In accordance with the foregoing discussion, I conclude that Pennsylvania Power & Light Company has shown the need for $2,463,631,000 in annual operating revenues, an increase of $61,744,000. I recommend that this increase be allowed and that additional relief be granted, and additional requirements be imposed, as indicated above;

Further, the R.D. contained the following Ordering Paragraphs:

---

[2] This exhibit relates generally to avoided cost calculations. This other proceeding involves Pennsylvania Electric Company and carries the lead docket number of P-870235.

1. That Pennsylvania Power & Light Company shall not place into effect the rates contained in Supplement No. 50 to Tariff Electric-Pa. P.U.C. No. 200, the same having been found to be unjust, unreasonable and, therefore, unlawful.

2. That Pennsylvania Power & Light Company may file tariffs or tariff supplements containing rates, provisions, rules and regulations which are consistent with the Recommended Decision and are designed to produce annual operating revenues not in excess of $2,463,631,000, on a Pennsylvania jurisdictional basis.

3. That the tariffs or tariff supplements mentioned in paragraph two, above, may be filed to become effective on one day's notice.

4. That Pennsylvania Power & Light Company shall file detailed calculations, with its tariff filing, which shall demonstrate, to the Commission's satisfaction, that the filed rates comply with the Commission's order concerning this proceeding.

5. That Pennsylvania Power & Light Company shall comply with all directives, conclusions and recommendations contained in the body of the Recommended Decision, which are not the subject of an individual directive in these ordering paragraphs, as fully as if they were the subject of a specific ordering paragraph.

6. That the complaints filed by other parties to this base rate proceeding, docketed at R-00943271, that is, docket numbers R-00943271C0001 through R-00943271C0145, are granted or denied to the extent consistent with the Recommended Decision.

7. That, upon Commission approval of the tariffs filed in compliance with the Commission's order, these proceedings at R-00943271 shall be closed.

Various Exceptions and Replies were filed by the Company, the OTS, the OCA, the OSBA, PPLICA, UCC, DOD, Bethlehem Steel, CEPFOD, the Sierra Club and Mr. Eric Epstein.

Also, by letter dated August 23, 1995, we were informed by the Company that the Exceptions of Mr. Epstein were not properly addressed. As a consequence, the copy of Mr. Epstein's Exceptions served upon PP&L was not received until on or about August 21, 1995. The August 23, 1995 letter requests that it be treated as a letter-reply to the Exceptions of Mr. Epstein. Finding good cause, we shall, hereby, consider the August 23, 1995 letter of PP&L in the nature of Replies to the Exceptions of Mr. Epstein.

VI. EXPENSES

A. Reduction in Employees

The OCA proposed a reduction in expenses to reflect benefit savings associated with PP&L's projected reduction in its complement of employees. (OCA M. B., p. 96, R. B., p. 44). PP&L has not contested this adjustment. The ALJ recommended that the OCA's proposal be adopted.

Based on our review of the record as developed, we conclude that the OCA's adjustment is reasonable and appropriate. We note that neither PP&L or any other party to the proceeding excepted to the ALJ's adjustment relative to reduction in the number of employees. Accordingly, we shall accept the adjustment as proposed by the OCA and, therefore, reduce PP&L's expenses by $171,000 on a jurisdictional basis.

B. Early Retirement Program

PP&L implemented a Voluntary Early Retirement Program ("VERP"), on September 25, 1994. (PP&L M.B., p. 79). The VERP allowed eligible employees to select early retirement without a substantial reduction in retirement benefits. (Id.).

PP&L's initial filing included a net reduction in operating expenses of $13.9 million as a result of the VERP program. The PP&L proposal was a net figure based on anticipated savings and anticipated costs.

The DOD, through its witness Prisco, had proposed to increase the PP&L adjustment by an additional $3.2, but the adjustment was, apparently, abandoned after explanation from the Company. (R.D., p. 41).

PPLICA and the OCA[7] raised concerns about this matter.

PPLICA proposed two specific adjustments. First, PPLICA proposed that the amortization cost be reduced by the amount of savings enjoyed before the end of the test year. Generally, the end of the future test year is approximately the same as the end of litigation and the commencement of new rates. The other PPLICA adjustment was to change the amortization period from five years to ten years, mainly because this parallels the length of time during which actual payment would be made under the retirement program. This adjustment, of course, reduces the annual revenue requirement associated with this amortization. PPLICA arrives at a total adjustment of $9.6 million annually.

PP&L, in its Main Brief, responded that the VERP program has not produced cost savings and that it has already reflected a full year of savings in its rate filing. It acknowledges that there might be some modest level of savings realized later in the future test year, but it also asserts that it will experience increased expenses and plant additions during the same time period. PP&L further argues that the 10 year amortization period is inconsistent with the general Commission treatment of similar costs, pointing out that Pennsylvania does not allow a return on these amortizations. The Company argues that a five year period for amortization is consistent with precedent.

ALJ Christianson, on review of the positions of the parties, agreed with PP&L to reject both adjustments. He stated that he does not discern evidence of cost decreases sufficient to justify the PPLICA adjustment. He further reasoned that, while he could agree that some of the cost increases associated with

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[7] The OCA proposed to adopt, essentially, the PPLICA adjustment to this Company claim. (OCA R. B., p. 73).

the recent months might not be continued over the long term, he found no good basis for adding in short-term information for the creation of an adjustment. Concerning the amortization period, the ALJ also agrees with PP&L. The ALJ opined that, while the total program might last longer, in the sense indicated by PPLICA, there is no return allowed on the amortizations and he would not string out the cost recovery to be allowed PP&L. A five year period is more consistent with past practice and with the facts. While reasonable minds could differ, concluded the ALJ, he viewed the PP&L proposal as better than the alternatives proposed by the two other parties.
(R.D., pp. 44-45).

PPLICA and the OCA filed Exceptions to the recommendation.

In its Exceptions, PPLICA again argues that the Company must be required to adjust its proposal in two specific ways. First, PPLICA argues that the Company should be required to reduce the total cost of its Early Retirement program by the amount of savings that it would have obtained by the end of the test year. Second, recovery of the program costs should be amortized over a ten year period, consistent with the length of the plan.

In support of its first contention, PPLICA points out that the Company has achieved savings as a result of this program, and that it is not fair that the Company should be allowed to recover the gross costs of the program when the Company was the beneficiary of nine months of program-related savings. (PPLICA M.B., pp. 43-44) In support of its second contention, PPLICA argues that the ALJ's recommendation unreasonably disregarded PPLICA's argument that a ten-year straight-line amortization period for net program cost is more equitable than a five-year period since it more closely parallels

the length of time during which actual payment will be made under the program. (PPLICA M.B., p. 44) Therefore, PPLICA submits that the ALJ's recommendation should be reversed and the Company's revenue requirement should be reduced by an additional $4 million to recognize an extension of the amortization period from five to ten years for recovery of the program costs. (PPLICA Exc., pp. 32-34)

In its Exceptions, the OCA points out that it supports the adjustment to this item which was proposed by the PPLICA witness, to reduce the amount of the costs which the Company is allowed to amortize by netting out the savings which the Company will realize from the early retirement program prior to the time the savings are reflected in rates. The OCA submits that the ALJ's recommended denial of this adjustment fails to recognize that the Company seeks to recover the gross cost of the program from December of 1994 to September of 1995, despite the fact that it is also the beneficiary of nine months of program savings in this time period. The OCA further submits that adoption of the ALJ's recommendation would result in a mismatch between the costs and the benefits of the program. (OCA Exc., pp. 18-19)

In response to the Exceptions of PPLICA and the OCA, the Company states that, as recognized by the ALJ, the Company's filing already incorporates a full year of annualized savings. PPLICA and the OCA seek an additional adjustment for savings during the future test year, but do not mention that these alleged savings did not materialize. As to PPLICA's proposal that the program savings be amortized over ten years, rather than five years, the Company argues that the five year amortization period which it proposes is consistent with Commission practice, particularly since the Company did not claim any return on the unamortized portion of the adjustment. PP&L asserts that most of the costs will be incurred over the next five years. (PP&L R. Exc., pp. 24-25)

On review of this issue, we agree with the recommendation of the ALJ, and we shall, hereby, accept the Company's position. Based on our review of the record, we do not discern evidence of additional cost decreases sufficient to justify the proposed adjustment. While some of the cost increases associated with recent months might not be continued over the long term, there is no sufficient rationale for using the short term information for creation of an adjustment. As recognized by the ALJ, the Company's filing already incorporates a full year of annualized savings. (PP&L M.B., p. 82) The OCA and PPLICA seek an additional adjustment for savings during the future test year. However, these savings have failed to materialize. The original PP&L proposal is a better measure of the impact of this program.

Concerning the amortization period, we also agree with the Company. There is no good basis to unduly extend the cost recovery to be allowed PP&L. A five year period is more consistent with past practice, particularly since the Company did not claim any return on the unamortized portion of the adjustment. (PP&L M.B., pp. 83-84, PP&L R.B., pp. 28-29)

The Exceptions of the OCA and PPLICA on the issue of PP&L's VERP are, therefore, denied.

C. Post-Retirement Benefits (SFAS 106)

PP&L requested the recovery of $31.095 million in deferred costs resulting from compliance with Statement of Financial Accounting Standard No. 106 ("SFAS 106") amortized over 17.3 years.[8] (PP&L M.B., p. 91). This constitutes an annual cost

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[8] The Company also claimed $25.8 million in current SFAS 106 costs. This claim had no controversy.

of service of $1.797 million ($1.55 million on a Pennsylvania jurisdictional basis) and a revenue requirement of $1.894 million. [9]

Consistent with SFAS 106, companies subject to generally accepted accounting principles shifted to use of an accrual method of accounting, rather than a cash method, for post-retirement benefits other than pensions. Adoption of this standard served to increase the level of benefits reflected in financial statements and produce significant transition costs from the former methods. This situation is not unique to PP&L but is a familiar topic of litigation recently.

The fundamental challenge against the deferred costs is essentially that it violates the prohibition against "retroactive ratemaking". See Pike County Light and Power Company v. Pennsylvania Public Utility Commission, 87 Pa. Commonwealth Ct. 451, 456, 487 A.2d 118, 121 (1985) -"[t]he Commission clearly may not establish rates which are calculated to retroactively recover surpluses or refund deficits created by inaccuracies in its prior rate authorizations."; and Philadelphia Electric Company v. Pennsylvania Public Utility Commission, 93 Pa. Commonwealth Ct. 410, 422, 502 A.2d 722, 727-728 (1985) :

> "The general rule is that there may be no line by line examination of the relative success or failure of the utility to have accurately projected its particular items of expense or revenue and an excess over the projection of an isolated item of revenue or expense may not be, without more, the subject of the

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[9] In December 1990, the Financial Accounting Standards Board ("FASB"), the body responsible for establishing generally accepted accounting principles ("GAAP") issued SFAS No. 106 requiring employers to adopt accrual accounting for benefits other than pensions to retired employees ("OPEBs"), i.e. health care and life insurance benefits and dental benefits. See Pennsylvania Public Utility Commission v. Philadelphia Electric Company, et al. Docket No. P-920588 (Order entered November 4, 1992).

Commission's order of refund or recovery, respectively, on the occasion of the utility's subsequent rate increase requests."

The OTS, the OCA and PPLICA provided arguments against the recovery of the PP&L expense. The argument against recognition of the claim is that it relates to compensation of employees for past services and, therefore, is a matter of past history which should not be a matter of prospective ratemaking.[10]

The OTS specifically argued that the matter was raised during 1992 when PP&L filed a petition requesting permission to defer costs. The OTS refers to Popowsky v. Pennsylvania Public Utility Commission, 164 Pa. Commonwealth Court 338, 642 A.2d 648 (1994) ("SFAS 106 - PP&L") involving PP&L and asserts that allowance of the deferred expense is barred therein by the doctrine of retroactive ratemaking.

In the opinion of the OTS, Commonwealth Court explained that the exception to retroactive ratemaking for "extraordinary" expenses did not apply to PP&L's situation. The OTS argues that the Company could have elected to come in for a general rate proceeding earlier since the SFAS 106 ruling was not unanticipated. The OTS would characterize an extraordinary expense as: (1) a one-time expense for a substantial item that would not appear as a continuing expense and (2) one which comes "out of the blue" and would never be recovered if ratemaking were strictly prospective.

The OTS continues its SFAS 106 discussion in its Reply Brief. It characterizes its differences with PP&L as differences in interpretation of court precedent. The OTS states that the

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[10] The issue of the proposed discount rate treated herein by the OCA will be addressed in Section VI.E of this Opinion and Order.

Commission's treatment of the PP&L transition obligation was not appealed to Commonwealth Court, and that Commonwealth Court dismissed the fundamental PP&L position on the basis that incremental costs were anticipated at an earlier time and could have been recovered in an earlier proceeding. It would apply the same ruling to this PP&L request for incremental costs. The OTS refers to the Pennsylvania-American case in Commonwealth Court, Popowsky v. Pennsylvania Public Utility Commission, 164 Pa. Commonwealth Ct. 600, 643 A.2d 1146 (1994), ("SFAS 106 - PAWC") where it was found that there was no retroactive ratemaking because Pennsylvania-American was merely requesting a timing change and not attempting to correct an incorrect projection. The OTS argues that the Pennsylvania-American situation does not shield PP&L here.

The OCA also argues that the claim must be denied because it is retroactive ratemaking. It refers to court precedent, which it views as controlling, and to a Commission decision in a West Penn case in which the Commission held that the Company had failed to claim costs in a timely manner and that the rule against retroactive ratemaking should preclude recovery. The OCA sees no distinction in claiming this cost in a general rate increase proceeding as opposed to some other type of proceeding. The OCA refers to both the PP&L court precedent and the SFAS 106 -PAWC court precedent. The OCA proposes an adjustment of approximately $1 million.

PPLICA, relying upon Commonwealth Court interpretation of SFAS 106 - PP&L and SFAS 106 - PAWC, is of the opinion that the Commission is legally precluded from approving the PP&L proposal. PPLICA concludes that this PP&L claim should be denied, to make the result consistent with the recent Commission action in a West Penn case.

PP&L begins its position in support of this expense with the general proposition that utilities are prohibited from recovering past costs through future rates, but that there is an exception to this rule for extraordinary and non-recurring expenses. As an example, PP&L refers to an amortization of prior period tax losses, and goes on to claim that, in this instance, its SFAS 106 claim does not reflect surpluses or deficits created by a prior inaccurate rate authorization. PP&L asserts that the SFAS 106 change only altered the timing of recovery of cost and not the total amount of recovery. PP&L concludes that this SFAS 106 claim does not violate the general rule against retroactive ratemaking. PP&L then refers to the PP&L and the Pennsylvania-American decisions by Commonwealth Court. PP&L makes the same fundamental arguments in its Reply Brief.

ALJ Christianson, upon consideration of the positions of the parties, concluded that PP&L should be permitted recovery of the amount for SFAS 106 costs. He viewed the SFAS 106 change as an extraordinary and one time event, which occurred outside the test year but should be recognized. He stated that, in his decision on this issue, he did not consider himself to be controlled by case law which could be subject to varying interpretations, and in addition, is on appeal.

The ALJ further asserted that he agreed with PP&L that this sort of adjustment can be considered in a base rate proceeding better than in a non-base rate proceeding. The ALJ, therefore, concluded that lack of recognition in this instance would be unfair to the utility.

The OTS, the OCA, and PPLICA all filed Exceptions to the recommendation of the ALJ on this issue.

In its Exceptions, the OTS refers to the statement of the ALJ, found on page 50 of his Recommended Decision, that he is

not "controlled by case law which could be read either way and is, in addition, on appeal". The OTS argues that the ALJ is controlled by case law, and that, in addition, whether the case at issue is on appeal has no bearing on the holding of the case. The OTS then states that the Commonwealth Court decision in SFAS 106 - PP&L provides sufficient rationale as to why PP&L's request to recover an expense associated with the amortization of the regulatory asset of accumulated deferred OPEB (other post-employment benefits) expenses is barred by the doctrine of retroactive ratemaking.

The OTS further asserts that most of the arguments advanced by the Company were rejected by the Commonwealth Court in the SFAS 106 - PP&L, supra, on the premise that the costs were anticipated at an earlier time and could have been recovered in an earlier proceeding. In addition, the OTS argues that the Company cannot support its claim that the SFAS 106 cost is extraordinary because the Company did not produce any evidence to suggest that the SFAS 106 ruling was not unanticipated. The OTS concludes therefore, that PP&L's recovery of $1,797,000 for the 17.3 amortization of the deferred expense of $31,095,000 should be denied. (OTS Exc., pp. 11-12).

In its Exceptions, the OCA argues that the ALJ erred in his assertion that SFAS 106 - PP&L, supra, could be read either way. The OCA argues again that the case law is clear that these costs are prohibited from recovery in a base rate case, and, further, that recovery of these costs herein would violate the rule against retroactive ratemaking. The OCA further argues that the Commonwealth Court was quite clear that these costs are not "extraordinary" so as to fit within an exception to the rule against retroactive ratemaking. The OCA concludes that, for these reasons, the ALJ's recommendation should be rejected and the Company's net income should be adjusted by $900,000 on a

Pennsylvania jurisdictional basis as shown on Schedule TSC-11. (OCA Exc., pp. 19-22)

PPLICA also argues in its Exceptions that, given that the legality of SFAS 106 cost recovery is currently pending before the Courts, the Company's proposal must be rejected, and PP&L's expenses must be adjusted downward by $1.797 million. (PPLICA Exc., p. 35).

In its replies to Exceptions, the Company again emphasizes that these claimed costs do not fall within the scope of the rule against retroactive ratemaking. The Company asserts that the amount it claims for costs accrued under SFAS 106 is identical over time to the amount that would be paid under a cash-based accounting method. The switch to SFAS 106 merely modified the timing of the Company's recovery of OPEBs, not the total amount of such costs. (PP&L St. 3-R, pp. 7-8). The Company also argues that, even if the rule against retroactive ratemaking were to apply, the Company's claim falls within the well-established exception for extraordinary and non-recurring costs.

The Company then refers to the case of PAPUC v. Pennsylvania-American Water Co., 79 Pa. P.U.C. 25, 42-51 (1993), aff'd, Popowsky v. Pa. P.U.C., supra, in which, according to the Company, the utility requested and received Commission permission to recover its past SFAS 106 expenses in the context of a base rate proceeding. The Court affirmed the Commission's order, rejecting arguments that such order violated the general rule against retroactive ratemaking. SFAS 106 - PAWC, 164 Pa. Commonwealth Ct. at 608. The Company concludes that these costs are extraordinary and non-recurring, and thus fall within the exception to the general rule against retroactive ratemaking. (PP&L R. Exc., pp. 20-21)

On review of this issue in light of the record as developed, we find that there is merit to the position advanced by the Company. We shall, therefore, adopt the recommendation of ALJ Christianson and permit the claim. Our determination that the claim should be permitted is grounded in the observation that the Company has acted expeditiously in seeking the recovery of SFAS 106 costs at the earliest opportunity in light of the legal uncertainty created by the Commonwealth Court's ruling in SFAS 106 - PP&L. Consistent with the Commonwealth Court's discussion of UGI Corp. v. Pennsylvania Public Utility Commission, 49 Pa. Commonwealth Ct. 69, 410 A.2d 923 (1980) in Columbia Gas of Pennsylvania, Inc. v. Pennsylvania Pubic Utility Commission, 149 Pa. Commonwealth Ct. 247, 613 A.2d 74 (1992), PP&L has taken steps to immediately seek recovery of the expenses created by SFAS 106.

Notwithstanding that the language in SFAS 106 - PP&L strongly suggests that the Company could have anticipated certain costs associated with implementation of SFAS 106, the change in financial accounting methodology and the legal uncertainty surrounding compliance with same is of an extraordinary, substantial and non-recurring nature which should be recognized outside the test year. Although this is the type of Company claim that should be approached with caution, our "bottom line" is that the lack of recognition of this claim would be fundamentally unfair to the Company.

Therefore, the Exceptions filed on this issue by the OTS, the OCA, and PPLICA, are all denied.

D. Pension Expense

PP&L bases its pension cost claim on an accrual method. It states that both the OTS and the OCA propose complete disallowance of this claim. The OTS theory is that PP&L will not

be making any cash contributions to the fund during the future test year. The OCA bases its disallowance proposal on its view of the appropriate discount rate involved.

The OTS discussion begins at page 86 of its Main Brief, where it recommends a $10,224,000 reduction to operating expenses and a $5,273,000 reduction to rate base. It refers to SFAS 87 and also to alternative computations made to comply with the Employer Retirement Income Security Act ("ERISA") and IRS rules. The OTS further states that, in this instance, there is no cash contribution required and it would treat pension expense on a cash only basis. The OTS refers to PP&L testimony that cash contributions are projected for 1996, but it views this as speculation and states that, in any event, payment will not occur until even later. With the lack of cash contributions, the OTS concludes, it would find no basis for a claim. The OTS again addresses this matter in its Reply Brief, commencing at page 38, wherein it responds to the PP&L argument in favor of an accrual basis. The OTS refers to its witness' testimony about payments not occurring until 1998. The OTS concludes that it would disregard PP&L's arguments relating to potential future payments because PP&L may have another base rate case within two years.

The OCA argument concerning this topic is based on a difference of opinion relating to discount rates. The same argument applies to the SFAS 106 matter. The OCA discusses these arguments together, commencing at page 147 of its Main Brief. The ALJ elected to follow the OCA format to discuss them together, under a separate heading. The ALJ first discussed the OTS proposed adjustment to the PP&L claim.

The PP&L discussion of the OTS adjustment commences at page 85 of its Main Brief. It provides several reasons why the OTS adjustment should be rejected. The Company first argues that pension expense is an extremely variable cost. It further views

the OTS adjustment as inconsistent with the Commission adoption of SFAS 106, relating to other forms of post-retirement benefits. PP&L takes the position that it makes no sense to calculate pension expense on a cash basis yet calculate retirement benefits other than pensions on an accrual basis. PP&L addresses this issue again in its Reply Brief, commencing at page 29, wherein it refers to both the argument of the OTS and of the OCA.

The ALJ stated that, although the OTS presents a good, coherent argument, he found himself in agreement with PP&L. He further stated that, although precedent provides mixed guidance, he finally agreed with the fundamental principle that an accrual method is better than a cash method. The ALJ added that use of the accrual method should be fair to both ratepayers and stockholders, if this method is used consistently, and that use of this method would seem to provide for a more consistent and less variable expense element. The ALJ also opined that what is really at issue is a timing difference, which should work out over time. He concluded that he accepts the argument that this issue should be decided the same way as the SFAS 106 issue, and he rejected the OTS adjustment for this item. (R.D., pp. 52-53).

The OTS takes Exception to the recommendation of the ALJ on this issue.

In its Exceptions, the OTS argues that the ALJ erred in rejecting the OTS' proposed adjustment for this item. The OTS notes that the purpose of SFAS 87 is to allow the user of the financial statements to compare the pension plans and expenses among different companies. The OTS asserts that SFAS 87 does not address funding requirements of pension plans or the ratemaking treatment of the expense. Accordingly, the ALJ's adoption of the Company's SFAS 87 ratemaking treatment should be rejected, since the amount is not designed to be recovered in a rate proceeding. (OTS St. 4, p. 11).

In addition, the OTS argues that its position on this issue is consistent with prior Commission rulings on this issue. The OTS further argues that, in the instant proceeding, the future test year ends on September 30, 1995, and that there is no record evidence that the Company will be making a cash contribution to its pension fund during the test year. Therefore, the OTS submits that the Company's claim for pension expense should be limited to the annual pension contribution computed in compliance with ERISA and IRS rules. Since the Company has failed to satisfy these requirements, the OTS urges that the total claim of $10,224,000 be disallowed. (OTS Exc., pp. 7-10).

In its response to the OTS' Exception, the Company points out that its claim for pension expense is based on SFAS 87. The Company maintains that this approach is appropriate because it is consistent with the accrual basis upon which all other major expense claims are established, and also it avoids the arbitrary variability of annual cash contributions. The Company further asserts that this approach is wholly consistent with relevant Commission precedent. Also, the Company states that it will make substantial cash contributions to its pension plan in each of the next three years, and that these cash contributions will exceed its SFAS accrual claim. Thus, the adoption of the Company's claim should result in lower rates to customers over time. (PP&L R. Exc., pp. 22-23).

On review of this issue, we find the recommendation of the ALJ that the Company's claim for this item be accepted to be in accord with the evidence as developed in this proceeding. We note that pension expense tends to be an extremely variable cost, from year to year. As noted by the ALJ, consistent use of the accrual method should be fair to both ratepayers and stockholders, over the long term. Further, consistent use of the accrual method will, over time, provide for a more consistent and

less variable expense element. We agree with the Company's position that it makes no sense to calculate pension expense on a cash basis, but to calculate retirement benefits other than pensions on an accrual basis.

For these reasons, the Exception filed by the OTS on this issue is denied.

E. The OCA Discount Rate Argument

The OCA addresses this matter, commencing at page 147 of its Main Brief. PP&L presents its main argument, commencing at page 89, with a reference, within the SFAS 106 discussion, at page 96 of its Main Brief. It presents a related argument, commencing at page 31 of its Reply Brief. The corresponding OCA Reply Brief argument commences at page 64.

The OCA would increase the discount rate for both pension and post-retirement benefits costs from 7.5 percent to 8.5 percent, in order to reflect current market bond yields. The OCA's position is that the relevant yield has increased. The OCA refers to use of an 8.75 rate by the PP&L actuary in another proceeding, and also to other uses of a higher discount rate. The OCA repeats its fundamental arguments in its Reply Brief, taking the position that PP&L has not provided the appropriate underlying basis for its choice of 7.5 percent.

PP&L states that, in the exercise of its informed judgment, the use of 7.5 percent is appropriate. The discussion of this matter in PP&L's Reply Brief begins at page 31. PP&L states that it would not merely rely on the choices of other utilities, and it refers to the possibility of 7.9 percent as a reasonable choice. It also refers to rate of return testimony as indicating a decline in rates. PP&L states that its burden of

proof is not to disprove other possibilities but to provide reasonable support for its own position.

The ALJ stated that he can agree with PP&L that it has met the fundamental burden of proof. On the other hand, continued the ALJ, the OCA has also provided a substantial case concerning this discount rate matter. The ALJ recognized that the OCA provides numbers above 7.5 percent and its argument is rather persuasive, but then he stated that the OCA's numbers could be wrong and that PP&L's could be right. While the OCA's approach is not particularly systematic, he stated, PP&L could have provided a better defense of its choice.

The ALJ concluded that this topic is rather like the topic of the proper equity return, where various numbers can be supplied and reasonable minds can differ. The ALJ finally accepted PP&L's 7.5 percent, largely based on the arguments contained at page 32 of its Reply Brief. The ALJ added that rates may have been up but appear to be declining at the moment, and that, with regard to future prospects, PP&L's number appears to be correct. (R.D., p. 54).

The OCA excepts to the recommendation of the ALJ on this issue.

The OCA argues that the Company fails to provide sufficient evidence to support its proposed 7.5% discount rate. The Company's witness testified on cross-examination that the discount rate is normally based on investment grade bonds and it is intended to reflect the time value of money. However, the OCA contends that the Company's witness offered no explanation as to how the Company selected its proposed rate other than to state that its proposed rate "was determined based on a detailed analysis of a variety of factors". The Company failed to enumerate or discuss these factors. Furthermore, the OCA argues

that the Company has failed to differentiate its case from the case of those companies that have utilized a rate in the range of 8.5%. On the other hand, the OCA has established a record that supports its recommended 8.5% discount rate. (OCA Exc., pp. 22-24).

In response to the OCA's Exceptions on this issue, the Company states that the OCA's proposed rate should be rejected. The Company states that it has submitted substantial evidence supporting its proposed 7.5% rate, including the testimony of its actuary that the Company's pension obligations could be settled at a rate of 25 to 50 basis points below long-term government bonds, which were then trading at 7.9%. The OCA ignores this evidence and argues that the Company's discount rate should be increased because other utilities have employed higher discount rates. The Company argues that the circumstances affecting the choice of discount rates can vary from company to company and the fact that other companies at other points in time selected higher discount rates does not support any adjustment to the Company's claim. (PP&L R. Exc., pp. 23-24).

Based on our review of the record as developed, we conclude that the position espoused by PP&L on the issue of the discount rate is the most tenable. As noted by the ALJ, this is an issue on which reasonable minds may differ. However, in the final analysis, PP&L has met its burden of proof on this issue. The Company has submitted substantial evidence supporting its proposed 7.5% rate, including the testimony of its actuary that the Company's pension obligations could be settled at a rate of 25 to 50 basis points below long-term government bonds, which were then trading at 7.9%. (PP&L M.B., p. 90, PP&L R.B., p. 32). While the OCA argued that the Company's discount rate should be increased because other utilities have employed higher discount rates, we are cognizant that the circumstances affecting the choice of discount rates can vary from company to company.

F. The SFAS 112 Claim

SFAS 112 concerns accounting treatment of long-term disability and other benefits provided to employees and their families. PP&L's claim reflects an accrual for the anticipated increase in future liabilities for these long-term benefits. The OCA would retain a cash basis, thereby reducing the Company's expense claim by $592,000 on a jurisdictional basis.

The OCA argues that the PP&L claim is a projection and is in addition to the actual benefits which PP&L will pay during the future test year. The OCA states that PP&L intends to pay these costs on a pay-as-you-go basis and has no plan to establish a separate fund for this liability. The OCA indicates that the Company plans no changes in actual payment methods, and it would draw a distinction between SFAS 106 and SFAS 112. (OCA M.B., pp. 156-158. OCA R.B., pp. 71-73).

PP&L argues that it keeps its books and records on an accrual basis. The accrual method of SFAS 112 is fully consistent with generally accepted accounting principles and well-established ratemaking principles, argues the Company. PP&L strives for a consistency with other types of benefit expenses, and it refers to SFAS 106. It asserts that the OCA offered no reasoned basis for continuing the cash method. (PP&L M.B., pp. 96-98, PP&L R.B., p. 37).

The ALJ stated that reference to the record indicates that these liabilities are relatively short-term, and he found no valid argument that the claim should be denied as too speculative. The ALJ also asserted that the OCA argues that there is no particular fund for these amounts and that PP&L should not be allowed to collect revenues before it actually pays out the funds in question. The ALJ further noted PP&L's argument that an accrual basis is reasonable and consistent with other

accruals. PP&L would have revenue collection occur when the fundamental liability is incurred, not when funds are ultimately paid out. The ALJ stated that he would be more comfortable if there were a separate fund, with monitoring of income and expenditures. However, the ALJ concluded that such monitoring, or lack of monitoring, is not a significant problem. PP&L's handling of these funds can be readily tracked and reviewed. The ALJ concluded by accepting PP&L's fundamental argument that this item should be treated like other similar items, and he rejected this proposed OCA adjustment.
(R.D., p. 56).

The OCA filed Exceptions to the ALJ's recommendation on this issue.

The OCA argues in its Exceptions that there is no point in switching to an accrual basis if the Company plans to pay for these benefits on a pay-as-you-go basis, as the Company has admitted that it does. In addition, the ALJ's recommendation fails to consider that the Company has stated that it will not establish a separate fund for this liability if it recovers these costs prior to incurring them. The OCA continues that the reasons supporting the accrual method for ratemaking purposes for other benefit expenses under SFAS 106 are not present for the potential liability under SFAS 112. SFAS 112 does not create a significant, long-term difference between cash and accrual expenses for which FASB has determined a regulatory asset will not be allowed. Therefore, concludes the OCA, the expenses under SFAS 112 and SFAS 106 should not be treated the same for ratemaking purposes. (OCA Exc., pp. 24-25).

In response, the Company states simply that the ALJ has properly rejected this OCA proposed adjustment, for the reasons it set forth in its Initial Brief, at pages 96-98.

On review of this issue, we are in agreement with the recommendation of the ALJ, to adopt the position of the Company. The record indicates that the liabilities involved in this item are relatively short-term, and we find no basis to the claim that they should be denied as too speculative. We, on the other hand, agree with the Company that accounting for this item on an accrual basis is reasonable and consistent with other accruals. In addition, as pointed out by the ALJ, the Company's handling of these funds can be readily tracked and reviewed. In our view, this item should be treated the same as other similar items.

Therefore, the OCA's Exception on this issue is denied.

G. The Susquehanna Early Window Deferrals

As PP&L explains, the early window deferrals involve operating and maintenance expenses incurred between the date a new generating unit enters commercial operation and the date it is recognized in rates.

The OTS provides various relevant dates. Susquehanna 1 ("Susquehanna 1", "Unit 1", or "SSES 1") went into service on June 8, 1983 and was recognized in rates effective August 22, 1983, pursuant to the Commission Order entered on August 22, 1983 at Docket No. R-822169. (OTS St. 4, p. 16). Susquehanna 2 ("Susquehanna 2", "Unit 2", or "SSES 2") went into service February 12, 1985, and was recognized in rates effective April 26, 1985, pursuant to the Commission's Order entered on April 26, 1985 at Docket No. R-842651. (OTS St. 4, p. 16). The Commission had, during 1982 and again during 1983, authorized these two deferrals, for accounting purposes only. (Orders at Docket Nos. P-820367, entered July 29, 1982, and at P-830461, entered November 9, 1983). Those authorizing orders left the question of the justness and reasonableness of costs and rates for a later proceeding.

The OTS takes the position that the claims should be disallowed because PP&L failed to claim any recovery of these expenses at the first opportunity available and because recovery constitutes impermissible retroactive ratemaking. It argues that, in the case of Susquehanna 1, the Company had the Susquehanna 2 base rate proceeding available shortly thereafter and did not claim the Susquehanna 1 deferrals at that time. PP&L takes the position, on the other hand, that it did not make a claim in this 1984-1985 Susquehanna 2 case because it wanted to minimize the amount being requested in that case.

The OTS takes the position that PP&L could have filed an earlier rate case and not waited 10 years to seek recovery. The OTS further argues that retroactive ratemaking is not to be favored. In its Reply Brief, commencing at page 45, the OTS responds to PP&L. The OTS refers to Commonwealth Court decisions which support its position, including Columbia Gas of Pennsylvania, Inc. v. Pennsylvania Public Utility Commission, 149 Pa. Commonwealth Ct. 247, 613 A.2d 74 (1992), affirmed, _____Pa. ____, 636 A.2d 627 (1994), and Irwin A. Popowsky, Consumer Advocate v. Pennsylvania Public Utility Commission, 642 A.2d 648 (1994). The OTS contends that these rulings changed the manner in which the Commission must view deferred claims by utility companies in Pennsylvania.

The OCA introduces the background of this matter at page 103 of its Main Brief. It outlines the general rule against retroactive ratemaking, with reference to limited exceptions it recognizes. It further states that the Commission has made it clear that recovery of deferred early window costs is not to become part of routine regulatory practice. It also points out that the mere granting of accounting accrual does not mean that there will be subsequent approval of the expense. The OCA refers to two instances where the Commission allowed this recovery.

There are indications in these decisions that there is no green light for these deferrals and that the costs, to be recognized, should be extraordinary and nonrecurring.

The OCA Reply Brief discussion commences at page 48. It again refers to the rule against retroactive ratemaking. The OCA states that PP&L has not shown that there should be departure from the basic rule, in this instance. It also discusses the element of negative financial impact. The dollar amount involved here is approximately $40 million. The OCA views this amount, as a write-off, as relatively minor, compared to amounts allowed by the Commission previously. The OCA refers to the fact that the Company did not seek these reimbursements sooner. While the OCA agrees that the previous Commission orders did not set a time limit on recovery, it asserts that PP&L still must present a timely claim in order to recover these costs.

PP&L discusses this matter in terms of timeliness and the general rule against retroactive ratemaking. It states that it is seeking a 10 year amortization of the amount of approximately $40 million. PP&L refers to the lack of a time limit in the Commission "early window" orders. It also makes the policy argument that a strict time limit requirement would encourage frequent rate cases. It refers to the magnitude of the Susquehanna 2 rate filing and its own desire to avoid additional expenses at that point. It is not seeking to violate the general rule against retroactive ratemaking, and the construction of a new nuclear plant is obviously extraordinary and non-recurring. PP&L again addresses this matter in its Reply Brief, starting at page 38, wherein it asserts that denial of this claim now would have a substantial adverse impact on PP&L earnings. It refers to a drop of close to 18 percent for 1995.

The ALJ stated that he found no assertion that the costs in question were imprudent. The arguments were that any

allowance now would involve retroactive ratemaking, and that PP&L has simply waited too long for recovery of these costs. The ALJ then stated that he was not convinced by the retroactive ratemaking arguments. He pointed out that PP&L carefully asked for Commission allowance of these accruals, and he agreed with PP&L's position that the event in question was unusual and not of the sort that would reoccur frequently. The ALJ also stated that bringing the two plants into service was certainly anticipated.

The ALJ concluded that, given the total picture, and the significant impact on PP&L's finances, he was inclined to allow the two recognitions. A factor in his decision was the fact that the Commission had indicated to PP&L that, absent imprudence or some other similar problem, it could recover these costs later. Moreover, added the ALJ, this is the sort of major event which can reasonably be handled with such special treatment. He further noted that the financial impact on the Company is significant.

However, the ALJ then noted that he was more troubled by the delay in seeking recognition of these costs. He stated that he could accept the Susquehanna 2 delay, because there had been no base rate case since 1985. He would not require a special rate case just to recognize these costs. However, he added, the Susquehanna 2 case came shortly after the Susquehanna 1 case and PP&L could well have claimed the Susquehanna 1 costs in the Susquehanna 2 case. PP&L argues, noted the ALJ, that it sought to keep the Susquehanna 2 increase as low as it could. The ALJ declared that he does not accept this answer, given the significant revenue request in the 1985 case and the minimal impact on total cost. Given the early chance PP&L had to seek recognition of the Susquehanna 1 costs, the ALJ concluded that the claim for Susquehanna 1 early window amortization should be denied, reducing annual O&M expense by $2,035,000. He accepted

the Susquehanna 2 amortization cost of $1,886,000 per year. (R.D., pp. 60-62).

The Company and the OCA filed Exceptions to the recommendation of the ALJ on this issue.

In its Exceptions, PP&L claims that the ALJ's recommendation that the Susquehanna 1 "early window" costs be denied is inappropriate for several reasons. First, the Commission authorized the Company to defer its claim for Susquehanna 1 early window costs in Petition of Pennsylvania Power & Light Co., Docket No. R-820367, Docket No. P-820367, Pa. PUC LEXIS 75 (Order entered July 29, 1982). This order did not establish any time limit on PP&L's ability to claim and recover its Susquehanna 1 early window deferrals, and certainly it did not require PP&L to claim these costs in its next base rate proceeding. Second, argues the Company, the recommended adjustment is inequitable. Third, as the Company has previously explained, it did not claim its Susquehanna 1 early window costs in its Unit 2 Case because it sought to minimize its requested rate increase and the concomitant impact on its customers. The Company argues that its efforts to reduce the requested rate increase in 1985 should be recognized as appropriate, and it should not be penalized for its decision. (PP&L Exc., pp. 46-48).

In response to PP&L's Exceptions on this issue, the OCA notes that the rule against retroactive ratemaking prohibits the inclusion of a utility's past costs in future rates. The OCA argues that the Company's claim is barred as a matter of law. To the extent that "early window" claims are legal at all, they must meet the three pronged test established by prior Commission rulings. The ALJ, argues the OCA, correctly determined that the Company's claim for recovery of Susquehanna 1 "early window" costs could not meet the standards set forth by the Commission.

Finally, argues the OCA, the Company has failed to demonstrate that denial of its claim would have a substantial negative impact on the utility. (OCA R. Exc., pp. 19-21).

The OTS also responds to the Company's argument on this issue, stating that the early window claim for Susquehanna 1 should be disallowed because the Company failed to claim any recovery of the expense at the first opportunity. The OTS further argues that to allow recovery now would constitute impermissible retroactive ratemaking. Finally, the OTS refers to the Commonwealth Court decisions which have been cited above. (OTS R. Exc., pp. 36-38).

The OCA, on the other hand, excepts to the ALJ's recommendation to permit PP&L to recover its deferred "early window" costs for Susquehanna 2. Initially, the OCA notes that it disagrees with the ALJ's reading of the Commission's Declaratory Orders regarding the accounting treatment for these deferred costs. The OCA states that, when the Commission granted PP&L's petitions for permission to defer the Susquehanna early window costs for accounting purposes, it specifically stated in each case that the issuance of the Order was not a determination that the Company may recover the deferred costs.

In addition, the OCA asserts that the Commission, in numerous cases where it has considered a utility's request for recovery of deferred costs, has made it clear that actual recovery of deferred costs is not to become a part of routine regulatory practice. Rather, cautions the OCA, each request must be considered to determine if an exception to the rule against retroactive ratemaking is warranted.

The OCA also points out that the Company has waited over nine years to file for recovery of the Susquehanna 2 early window costs. During this time period, PP&L suffered no

constraints on its ability to seek rate relief, but it voluntarily elected not to file. In addition, argues the OCA, the Company has not demonstrated that denial of recovery of its early window costs would have a substantial negative impact on the company. Finally, the OCA submits that current ratepayers should not be asked to bear these past costs, as this would constitute improper retroactive ratemaking. (OCA Exc., pp. 26-31).

In response to the OCA's Exceptions, the Company refers to the Declaratory Orders mentioned by the OCA. The Company states that, while it is true that these Declaratory Orders do not guarantee recovery of early window costs, this is irrelevant given that the Commission in several base rate orders has approved recovery of early window costs for other utilities. In response to the OCA's assertion that the Company did not file a claim for these costs until several years after they were deferred, the Company states that, again, this claim is correct but irrelevant.

The Company argues that it has engaged in a number of aggressive and extraordinary measures to control costs, increase sales, and maintain its earnings without raising base rates. The Company argues that it should be rewarded for its efforts, not penalized by having valid cost claims rejected. Therefore, PP&L contends that the OCA's claim that almost $40 million, representing approximately 20% of the Company's earnings, is not "significant" should be rejected. (PP&L R. Exc., pp. 14-15).

Based on our review of the record, we find the recommendation proposed by the ALJ, that the "early window" costs for Susquehanna Unit 1 be disallowed, but that the "early window" costs for Susquehanna Unit 2 be allowed, to be in accord with the evidence and the law. The costs for Susquehanna 1 were incurred by the Company in 1983, and were not claimed by the Company in

its subsequent base rate case in 1984. The Company voluntarily elected not to seek recovery at that time. It is not that these costs, for Susquehanna 1 and 2, were imprudently incurred, but, as pointed out by the ALJ, the Company has waited too long to claim recognition of the Susquehanna 1 costs. We have previously made clear our position that the recovery of deferred "early window" costs is not to become part of routine regulatory practice.

Therefore, the Exceptions filed by PP&L on the recommendation of the ALJ with regard to the treatment of the Susquehanna 1 costs, are denied. The Exceptions of the OCA are denied consistent with our discussion herein.

H. Susquehanna Refueling Outage Expense

The OCA observes that PP&L normalizes refueling outage costs by, typically, amortizing over 18 months, the period between refueling outages. PP&L proposes that we look at the most recent outage for each unit as a measure. It also states that the annual amortization associated with reload six at Susquehanna 2, reflected in the future test year, was unusually high. The OCA reviews the PP&L rebuttal testimony and relies on its own surrebuttal testimony. This involves, in part, a comparison between Unit 1 and Unit 2.

The parties differ about the relative costs of the units. The OCA would base an amortization on the costs of reload eight at Susquehanna Unit 1 and of reload seven at Unit 2. The jurisdictional adjustment is slightly more than $1 million. In its Reply Brief, the OCA responds to PP&L's assertion that its adjustment is arbitrary and unsupported, again referring to the problems experienced with reload six at Unit 2. The OCA would have the cost reflect the most recent outages at the units.

PP&L, in its Main Brief, refers to the OCA's avoidance of the Unit 2 reload six costs. It compares these costs to those for Unit 1 reload eight projected costs, and would have Unit 2 reload six found to be reasonable. PP&L characterizes the OCA's adjustment as arbitrary and unsupported. In its Reply Brief, PP&L argues that it is more appropriate to determine the refueling outage expenses based on the most recent actual costs (Unit 1 reload seven and Unit 2 reload six) rather than the estimated data relied upon by the OCA.

The ALJ noted that the OCA's fundamental argument is that costs for reload six at Unit 2 were abnormally high and should not be used as a measure for ratemaking purposes. The ALJ stated that the OCA approach seems to be arbitrary and that he would strive for consistency in ratemaking, rather than jumping from one measure to another, depending on the result, or depending upon particular details of the data. The ALJ concluded that he does not find reload six at Unit 2 to be so out of line that it should not be used as an appropriate measure for this ratemaking calculation. He accepted the PP&L position and rejected the proposed adjustment. (R.D., p. 63).

The OCA excepts to the ALJ's recommendation on this issue.

The OCA notes that the Company normalizes refueling outage costs by amortizing the costs of the outage over the period between refueling outages, which is typically around 18 months. The OCA argues that the ALJ erred in accepting PP&L's determination of future test year refueling outage expense, which was based on the completion of the amortization of Reload Outage 7 and the initiation of Reload Outage 8 at Susquehanna Unit 1 and the amortization of Reload Outage 6 at Unit 2.

The OCA also argues that, due to the unusually high level of expense associated with Reload Outage 6 at Unit 2, the OCA witness adjusted the amortization of refueling outage costs to reflect the annualized level of costs based on the most recent outage for each unit as of the end of the test period. The OCA further asserts that the ALJ's finding that the costs for Reload 6 at Unit 2 were not "so out of line that it should not be used as an appropriate measure for this ratemaking calculation" fails to consider the many problems that occurred during Reload 6. (OCA Exc., pp. 31-33).

In response to these Exceptions, the Company counters that, despite repeated assertions to the contrary, the OCA did not, in fact, utilize data for the "most recent" Susquehanna refueling outages to develop its claim. For example, continues the Company, the OCA proposes to utilize the cost of Reload 7 at Susquehanna 2, even though this outage has not even begun and will not be completed until several months after the end of the future test year. Moreover, the OCA's contention that the cost of Reload 6 for Unit 2 was abnormally high is wrong. Most of the increases in cost which occurred during this outage were capital costs, not operating and maintenance expenses. The Company presented extensive evidence that the operating and maintenance expenses incurred for this outage were not abnormal. These costs were virtually the same as other outage costs, which the OCA accepted without objection. (PP&L R. Exc., pp. 19-20).

On review of this issue, we conclude that the recommendation of the ALJ is in accord with the evidence as developed in this proceeding. The basic argument of the OCA is that costs for Reload six at Unit 2 were abnormally high and should not be used as a measure for ratemaking purposes. We find the OCA's position on this issue to be arbitrary. As we stated earlier, we believe that it is in the public interest that we strive for consistency in ratemaking, where appropriate, rather

than switching from one measure to another, depending on the result, or depending on the particular details of the data. The costs for Reload six at Unit 2 were not so out of line that it would be inappropriate to use these results for this ratemaking calculation.

For these reasons, the Exceptions of the OCA on this issue are denied.

I. Environmental Remediation Costs

The OTS discusses this topic, commencing at page 84 of its Main Brief. PP&L's discussion commences at page 105 of its Main Brief. PP&L refers to the OTS' adjustment and to the OCA's adjustment. The OTS pursued a challenge to this claim.

The OTS criticizes the PP&L claim as speculative in nature and based primarily on potential future costs. It points out that, between the filing of the OTS direct testimony and the filing of rebuttal testimony, PP&L and the Department of Environmental Resources (DER) reached an agreement concerning cleanup efforts. The agreement provides for a 10 year program which will have an impact on 134 sites. In recognition of this agreement, the OTS reduced its disallowance recommendation by a considerable amount. The OTS points out that the agreement calls for PP&L to spend up to $5 million a year.

The OTS points out that PP&L's claim had been based on $5.4 million a year. The OTS focuses on this $400,000 difference and recommends a slightly smaller disallowance. Commencing at page 32 of its Reply Brief, the OTS points out that its final adjustment was based on PP&L information. The OTS notes the proposal of $5.4 million and the apparent final agreement at $5 million or, perhaps, less. It proposes a $326,000 reduction.

PP&L first describes the situation with regard to the originally proposed adjustments. It refers to the April 27, 1995 agreement between PP&L and DER. PP&L points out that the OCA's witness withdrew his proposed adjustment. In its Reply Brief, starting at page 47, PP&L provides a jurisdictional adjustment, based on the final OTS position. The Company appears to agree that the adjustment is based on the difference between the $5.4 million as originally estimated and the maximum amount which appears to be provided for in the agreement with DER. It notes that the agreement does not prohibit the Company from spending additional amounts. PP&L concludes by asserting that its original claim of $5.4 million is reasonable.

Under the circumstances, stated the ALJ, he found that the OTS final adjustment was appropriate. The agreement apparently calls for PP&L to spend up to $5 million. It could spend more but it could also spend less. The ALJ asserted that he would base the projection on the agreement and would focus on the $5 million, which is apparently the OTS position. The ALJ further opined that this modest adjustment appears to be quite proper, and an improvement upon the original PP&L projection. The ALJ observed, in conclusion, that this adjustment was based on information which became available during litigation. (R.D., p. 65).

The Company and the Sierra Club filed Exceptions to the recommendation of the ALJ on this issue.

The Company argues that, as it explained in its Initial and Reply Briefs, its recent agreement with DER requires it to investigate and, if necessary, to clean up 134 potentially contaminated sites. Given the large number of sites and the broad scope of work encompassed by the agreement, asserts the Company, its claim of $5.4 million is a more accurate projection of the costs it will likely incur on an ongoing basis than the

reduced amount proposed by the ALJ. Therefore, the ALJ's proposed adjustment should be rejected. (PP&L Exc., p. 55).

The Sierra Club in its Exceptions states that the ALJ should have recommended full recovery for the costs of environmental remediation because cleaning up or avoiding pollution is a cost of providing power. The Sierra Club also asserts that, while the adjustment proposed by the OTS herein seems to track the settlement, it also provides the wrong signals to management, and it may not track the realities of environmental cleanup costs. The Sierra Club further suggests that the environmental remediation be treated as a fund for ratemaking purposes. (Sierra Club Exc., pp. 18-20).

In response to the Exceptions of the Company and the Sierra Club, the OTS refers to PP&L Exh. MJB-9, which provides as follows:

> ...This agreement states, during the next 10 years, PP&L will investigate all 134 sites and spend up to $5 million a year on investigation and clean up operations. (Emphasis Added)

The OTS further asserts that the Company was given ample opportunity to provide evidence as to whether PP&L Exh. MJB-9 did not accurately reflect the agreement between PP&L and DER. In the absence of a contrary answer by the Company, the parties and the Commission must assume that the agreement obligates the Company to pay at least $5 million for "environmental remediation expenses". The OTS asserts finally that the plain language of the agreement must be recognized in this proceeding, which provides only for a maximum payment of $5 million for this item. (OTS R. Exc., pp. 35-36).

On review of this issue, we agree with the position of the ALJ, which is that the final adjustment as proposed by the OTS is the appropriate adjustment. The agreement between the Company and DER calls for PP&L to spend up to $5 million for environmental remediation, and it is appropriate to base the adjustment herein on the agreement. The Company was given ample opportunity to provide evidence as to whether the relevant Company exhibit (MJB-9) did not reflect the agreement between the Company and DER, and it failed to do so. On cross-examination, PP&L witness Berish acknowledged that PP&L exhibit MJB-9 did not differ in any respect from the agreement between the Company and DER. Our adjustment to this item will reduce the Company's claim on this item by $326,000.

Therefore, the Exceptions of the Company and the Sierra Club on this issue will be denied.

J. Uncollectible Accounts

The PP&L discussion sets forth, at page 97 and at page 101 of its main brief, essentially two claims. The first claim is one of approximately $17 million for normal uncollectible accounts expenses and the second claim is slightly less than $1 million for costs associated with PP&L's customer assistance program, referred to as the OnTrack Payment Program (OTPP). (R.D., p. 66). After a brief discussion of the parties' positions, the ALJ recommended adoption of OTS' position on one part of the claim i.e., reducing operating expenses by $1,234,000, and with PP&L's position on the OTPP i.e., reducing that expense by $130,000. (R.D., pp. 69-70).

There were no exceptions filed to this determination. Finding it otherwise reasonable and supported by the evidentiary record, we adopt the recommendation of the ALJ.

K. Rate Case Expense

PP&L seeks to normalize its rate case expense over a two-year period although the OTS seeks a four-year period and DOD seeks a three-year period. (R.D., pp. 70-71). After noting the admittedly unusual length of time since PP&L's last rate case i.e., ten years, the ALJ opted for the OTS' four year period. (R.D., pp. 72).

PP&L takes exception to the recommendation that PP&L's rate case expense claim be reduced by $373,000 to reflect a four-year normalization period. PP&L claims that the level of rate relief proposed by the Recommended Decision makes it inconceivable that the Company will wait another ten years before seeking an increase in base rates. (PP&L Exc., pp. 6).

PP&L objects that the OTS' proposal was based on a review of PP&L base rate cases over a twenty-year period, including the abnormally long ten-year period since the filing of its last base rate proceeding, and that the ALJ thus wrongfully refused to exclude this ten-year filing period from his analysis. (PP&L Exc., pp. 54-55).

PP&L objects to the ALJ's conclusion that a four-year normalization period was appropriate. PP&L cites its Initial (M.B., pp. 111-113) and Reply (R.B., pp. 49-50) Briefs for the proposition that the record evidence demonstrates that the abnormally long stay-out period preceding this case is not likely to recur. (PP&L Exc., pp. 54). If this unusual period is disregarded, PP&L's average rate case filing period is 2.3 years. (PP&L Exc., pp. 54 citing PP&L St. 3-R, pp. 5-6). PP&L claims that its two-year proposal, therefore, is clearly reasonable.

Moreover, given the level of revenue increase proposed by the ALJ and the ALJ's recommended denial of the Company's

proposal for ECR recovery of returning capacity, PP&L claims that it is simply not credible to expect that the Company will stay out for four years before filing another base rate case. PP&L concludes that a four-year normalization provides no reasonable chance to recover its reasonable rate case expense and must be rejected as inconsistent with recent Commission precedent.[11]

The OTS rejoins that PP&L's claim overlooks the fact that the purpose of averaging historical filing intervals is to mitigate the aberrations of long and short periods occurring during an historical period. (OTS R. Exc., pp. 33-34, Emphasis supplied). The OTS cites PP&L's testimony to the effect that the two-year period was used, not for purposes related to the long period since the last filing, but because that was used in the last case and there was no better choice. (OTS R. Exc., pp. 34 citing Tr. 536).

After consideration, we shall adopt the ALJ's recommendation and deny the parties' exceptions to the extent they are inconsistent with this Opinion and Order. We do so because, notwithstanding the fact that there has been an exceptionally long period since PP&L's last rate case, the record shows that PP&L picked the two-year period based on its last rate case. That choice, in our view, makes this case different from recent cases in which we endorsed a four-year normalization for this expense. We also take this action because, unlike those

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[11] Moreover, while each company's circumstances are unique, PP&L would note that a four-year normalization is out of line with other recent Commission decisions. See, e.g., Pa. P.U.C. v. West Penn Power Co., Docket No. R-00942986, 1994 Pa. PUC LEXIS 144 (Order entered December 29, 1994)(24 months); Pa. P.U.C. v. UGI Utilities, Inc. (Elec. Div.), Docket No. R-00932862, 1994 Pa. PUC LEXIS 1137 (Order entered July 27, 1994)(16 months); Pa. P.U.C. v. Pennsylvania-American Water Co., Docket No. R-00932670, 1994 Pa. PUC LEXIS 120 (Order entered July 16, 1994)(12 months); Pa. P.U.C. v. Roaring Creek Water Co., Docket No. R-00932665, 1994 Pa. PUC LEXIS 41 (Order entered February 3, 1994)(12 months).

cases, PP&L has not filed a base rate case for several years. Finally, the lapse in time since the last rate case reinforces the validity of using the averaged historical filing period for its intended purpose as presented by the OTS.

L. Social Programs

PP&L's proposal consists of two existing programs and six new programs aimed at addressing customer and community needs. These include the following:

Build-A-Neighborhood Program
Affordable Housing Program
Small Business Program
Keep Warm Plan
Payment Protection Plan
Winter Emergency Plan
Operation HELP Contribution Enhancement Program
CARES Extension Pilot Program

PP&L claims that these programs are designed to promote the effective usage of electricity and economic development while providing utility support services in PP&L's service territory. (R.D., pp. 72-73). PP&L further states that the total annual projected cost of these programs is $6.7 million, of which only $3.5 million is sought for recovery herein (conservation, efficiency, load management and rate incentive programs). The remaining $3.2 million (other program costs including charitable contributions, neighborhood improvements, closing and real estate costs, grants for small businesses) will be funded entirely by shareholders. (R.D., p. 73).

The other parties, especially OTS and CEO, took strong positions on PP&L's proposal. (R.D., pp. 73-79). The ALJ recommended that, although some of the considerations herein were beyond the scope of this ratemaking proceeding and might be considered elsewhere (R.D., p. 80), no adjustments be made.

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
HARRISBURG, PA 17105-3265

Public Meeting held December 19, 1996

Commissioners Present:

John M. Quain, Chairman
Lisa Crutchfield, Vice Chairman
John Hanger
David W. Rolka
Robert K. Bloom

Pennsylvania Power & Light Company's Application For Approval Of The Roll-In Of The Energy Cost Adjustment And State Tax Adjustment Surcharge Effective January 1, 1997.	Docket No. P-00961131 R-00963842

TENTATIVE ORDER

BY THE COMMISSION:

On December 13, 1996, Pennsylvania Power & Light Company (PP&L or the Company) filed an Application with the Commission pursuant to 52 Pa. Code § 53.102 of the Commission's regulations. The Application requests special permission to file a tariff supplement on less than 60 days statutory notice. The proposed tariff supplement provides for the Company's energy cost rate (ECR) and state tax adjustment surcharge (STAS) to be rolled into base rates. Additionally, the Application requests, among other matters, that PP&L be authorized to defer certain unrecovered energy costs as "regulatory assets" or "other deferred charges" and, that such amounts are recoverable as a "transition or stranded cost" in PP&L's restructuring plan to be filed in 1997.

The following is a summary of the Company's Application:

- Effective January 1, 1997, PP&L's energy costs currently being recovered through the ECR will be rolled-into base rates and its ECR rider will become inactive.

- Concurrent with the ECR roll-in, PP&L will roll into base rates its existing STAS credit.

- Neither PP&L's unrecovered energy costs as of December 31, 1996, nor its expected future level of unrecovered energy costs are included in the rolled-in rates. These amounts are approximately $13.9 million and $31.5 million per year, respectively.

- PP&L requests that the Commission determine the above two categories of unrecovered costs to be "regulatory assets" or "other deferred charges" that are recoverable as "transition or stranded costs" under the Act.

- PP&L's Application emphasizes that it does not seek a determination of the prudence of its energy costs for the period ending December 31, 1996 but, merely a declaration that such unrecovered costs are properly classified as "regulatory assets" or "other deferred charges."

- The Company requests that the effects of rolling in the ECR and STAS be reflected in the energy supply agreement between PP&L and Bethlehem Steel Corporation.

- The Application requests that the Commission grant such waivers of its regulations as are necessary to enable expedited approval of the Application and, that Supplement No. 63 to Electric PA PUC No. 200 become effective January 1, 1997, subject to the subsequent resolution of any timely filed complaints.

- PP&L will provide customer notice of the Application via news releases on the dat it is filed and on the day the Commission acts upon it. Additionally, if the Commission approves PP&L's request, customers will be informed of the change through bill inserts.

Discussion

The Company's request to roll its ECR and STAS into base rates is essentially rate neutral. In fact, the methodology employed by PP&L to accomplish the roll-ins, actually results in a very minute rate decrease of approximately $26,000. Additionally, since the Company's Application and attendant Appendices contain information sufficient enough to determine the accuracy of the roll-ins and because PP&L will provide notice of the filing to its customers through both newspaper releases and bill inserts, the Company's request to submit a tariff supplement on less than 60 days notice is granted.

The Commission grants the Company's request to incorporate effects of the ECR and STAS roll-ins in its agreement with Bethlehem Steel Corporation. Since the rates charged Bethlehem Steel Corporation pursuant to this agreement include both the ECR and STAS, it is necessary and appropriate that the agreement be revised to reflect the roll-ins.

The Commission further grants the Company's request to declare that unrecovered energy costs incurred as of December 31, 1996, and such costs which may be incurred as a result of the ECR roll-in are, "regulatory assets and other deferred charges". Under normal regulatory practice, these undercollections would be reconciled in filings to be made in April of 1997 and would be recovered from customers over the next automatic adjustment clause period, provided that the costs incurred were prudently incurred and reasonable in amount. When granting this declaration the Commission notes that it believes the appropriate forum to address the prudence and reasonableness of these undercollections is in conjunction with a filing submitted by the Company in response to Section 2806 of the Electricity Generation Customer Choice and Competition Act (Act). It would not be proper for the Commission to rule, with finality, on the prudence and reasonableness of these undercollections, and the length of the amortization period until such time as the matter can be thoroughly reviewed by all interested parties. Additionally, the Company's application of its ECR up through December 31, 1996, is subject to audit pursuant to Section 1307(d) of the Public Utility Code. The under-collections associated with this ECR application are subject to adjustment should the results of the 1307(d) audit so warrant.

Accordingly, the Company's under recovered energy and other costs that have been deferred to date may continue to be accumulated and deferred post-December 31, 1996. In the Commission's opinion, these accumulated deferrals are "regulatory assets and other deferred charges typically recoverable under current regulatory practice" within the meaning and scope of Section 2808(c)(1). As such, these are costs that are recoverable in the future as part of an electric utility's Competitive Transition Charge, Intangible Transition Charge, or an automatic adjustment clause, so long as the total charges do not exceed the electric utility's rate cap. **Therefore,**

IT IS ORDERED:

1. That the Application for Approval of the roll-in of Pennsylvania Power & Light Company's Energy Cost Rate and State Tax Adjustment Surcharge into base rates and its proposed Supplement No. 63 to Electric - PA PUC No. 200, is approved.

2. That the Company's under recovered energy and other costs due to operation of its automatic adjustment clause rates that have been deferred to date may continue to be deferred after December 31, 1996.

3. That (a) the Company shall have the right to defer and, in the future, to seek full recovery of an amount that represents the accumulated deferred undercollection of its energy costs incurred during the period February 1, 1996, through December 31, 1996, which undercollection amount would have been recovered by the Company through the ECR; (b) adjustments may be made following entry of the Tentative Order to account for actual costs for the months of November and December of 1996, and any audit findings made by the Commission's Bureau of Audits for the period ending December 31, 1996; and (c) the mechanism through which the Company may seek recovery of these accumulated deferred under recoveries will be the Competitive Transition Charge, the Intangible Transition Charge, or an automatic adjustment clause that conforms with the requirements of Section 1307 of the Public Utility Code.

4. That (a) the 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 the Company's average fuel costs, which difference is $31.5 million per year; and (b) the mechanism through which the Company may seek recovery of these amounts will be the Competitive Transition Charge, the Intangible Transition Charge, or an automatic adjustment clause that conforms with the requirements of Section 1307 of the Public Utility Code.

5. That the Company's accumulated deferred under recovered energy costs described in ordering paragraphs 3 and 4 are regulatory assets and other deferred charges typically recoverable under current regulatory practice within the meaning of Section 2808(c)(1) of the Act.

6. That under Section 1307 and 1307(a) of the Public Utility Code, Supplement No. 63 is hereby permitted to become effective as filed as of January 1, 1997, subject to refund pursuant to the findings, terms and conditions of any order the Commission may issue to resolve any complaints a third party files against this Tentative Order, if any, which complaints must be filed by no later than February 28, 1997.

7. That for purposes of determining the "rate cap" to be imposed on an electric distribution utility pursuant to Section 2804 of the Act, the rates contained in Supplement No. 63 shall be considered the rates approved by the Commission as of December 31, 1996.

8. That this Tentative Order will become final without further Commission action as of February 28, 1997, if no complaints are filed against it by that date.

9. That a copy of this Tentative Order be served on the Office of Consumer Advocate, Office of Small Business Advocate, Office of Trial Staff and the Philadelphia Area Industrial Energy Users Group.

BY THE COMMISSION,

John G. Alford
Secretary

(SEAL)

Order Adopted: December 19, 1996

Order Entered: DEC 19 1996

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

March 31, 1992

IN REPLY PLEASE REFER TO OUR FILE

P-00910521

RECEIVED

APR 1 1992

OFFICE OF GENERAL COUNSEL

PAUL E RUSSELL ESQUIRE
PENNSYLVANIA POWER & LIGHT COMPANY
TWO NORTH NINTH STREET
ALLENTOWN PA 18101-1179

Petition of Pennsylvania Power & Light Company for a Declaratory Order and Public Interest Determination Regarding a Settlement Agreement with General Electric Company.

To Whom It May Concern:

This is to advise you that an Order has been adopted by the Commission in Public Meeting on February 27, 1992 in the above entitled proceeding.

A copy of this Order has been enclosed for your records.

Very truly yours,

John G. Alford

John G. Alford, Secretary

smk
Encls.
Cert.Mail

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held February 27, 1992

Commissioners Present:

David W. Rolka, Chairman
Joseph Rhodes, Jr., Vice Chairman
Wendell F. Holland, Commissioner

Petition of Pennsylvania Power & Light Company for a Declaratory Order and Public Interest Determination Regarding a Settlement Agreement with General Electric Company — P-00910521

ORDER

BY THE COMMISSION:

We adopt as our action the Recommended Decision of Administrative Law Judge Marlane R. Chestnut, dated January 29, 1992, modified to the extent of clarifying Ordering Paragraph No. 3. We further conclude that the Exceptions filed by the Office of Trial Staff on February 18, 1992 must be denied; THEREFORE,

IT IS ORDERED:

1. That the following statements and exhibits be admitted into the record:

PP&L Exh. 1:	Direct Testimony of G. D. Calliendo
PP&L Exh. 2:	Direct Testimony of K. R. Conrad
PP&L Exh. 3:	Direct Testimony of J. A. Weyandt
PP&L Exh. 4:	Direct Testimony of J. M. Kleha
PP&L Exh. 5:	PP&L Responses to OCA Interrogatories, Set II

2. That the Petition to Intervene filed by the Lehigh Valley Power Committee be granted.

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

ISSUED: February 11, 1992

IN REPLY PLEASE REFER TO OUR FILE

P-910521

RECEIVED

FEB 12 1992

OFFICE OF GENERAL COUNSEL

PAUL E RUSSELL, ESQUIRE
PENNSYLVANIA POWER & LIGHT COMPANY
TWO NORTH NINTH STREET
ALLENTOWN PA 18101-1179

Petition of Pennsylvania Power & Light Company

TO WHOM IT MAY CONCERN:

Enclosed is a copy of the Recommended Decision of Administrative Law Judge Marlane R. Chestnut.

An original and nine (9) copies of signed exceptions to the decision, if any, MUST BE FILED WITH THE SECRETARY OF THE COMMISSION IN ROOM B-18, NORTH OFFICE BUILDING, NORTH STREET AND COMMONWEALTH AVENUE, HARRISBURG, PA OR MAILED TO P.O. BOX 3265, HARRISBURG, PA 17120; a copy in the hands of the Office of Special Assistants, Room 116; and a copy served in the office of each party of record no later than February 18, 1992. 52 Pa. Code §1.56(b) cannot be used to extend the prescribed period for the filing of exceptions or reply exceptions.

Replies to exceptions, if any, must be served on the Secretary of the Commission, in the manner described above, no later than February 24, 1992 as well as served upon the parties.

Exceptions and reply exceptions shall obey 52 Pa. Code 5.533 and 5.535, particularly the 40-page limit for exceptions and the 25-page limit for replies to exceptions. Exceptions should be clearly labeled as "EXCEPTIONS OF (name of party) - (protestant, complainant, staff, etc.)".

Any reference to specific sections of the Administrative Law Judge's Recommended Decision shall include the page number(s) of the cited section of the decision.

All timely filed exceptions and replies thereto will be submitted to the Commission for consideration at Public Meeting. Late filed exceptions and late filed replies might not be considered by the Commission. This decision will be listed on the agenda for Public Meeting on February 27, 1992.

Very truly yours,

Allison K. Turner

Allison K. Turner
Chief Administrative Law Judge

JZ
Encls.
Certified Mail
Receipt Requested

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Pennsylvania Power & Light Company for a Declaratory Order and Public Interest Determination Regarding a Settlement Agreement with General Electric Company	:	Docket Number P-910521

RECOMMENDED DECISION

Before
MARLANE R. CHESTNUT
Administrative Law Judge

January 29, 1992

TABLE OF CONTENTS

I. HISTORY OF THE PROCEEDING

On May 28, 1991, Pennsylvania Power & Light Company (PP&L, company or petitioner) filed with the Pennsylvania Public Utility Commission (Commission) a Petition for a Declaratory Order and Public Interest Determination in connection with an April 4, 1991 settlement agreement between PP&L and General Electric Company (GE) which is intended to resolve claims arising out of GE's design of the Mark II containment vessel at the Susquehanna Steam Electric Station (Susquehanna). The settlement agreement, by which PP&L is to receive cash and future discounts on goods and services worth approximately $80 million from GE, contains a provision stating that the agreement "shall not become final or binding upon the parties unless and until it is approved by a final order of the PUC in a form and substance acceptable to PP&L . . . . PP&L shall have sole discretion as to the determination of whether any PUC order is final and whether its form and substance are acceptable."

In the Petition, PP&L requested that the Commission issue an order finding the GE settlement agreement and PP&L's plan to return the jurisdictional portion of the award (approximately $55 million) to its Pennsylvania customers over a five-year period through its Special Base Rate Credit Adjustment (SBRCA) to be just and reasonable and in the public interest.

PP&L notified its customers of the Petition by bill insert, and served copies of the Petition on the Office of Trial Staff (OTS), the Office of Consumer Advocate (OCA) and the Office of Small Business Advocate (OSBA). OTS filed a letter, to which PP&L responded, setting forth its position that the declaratory order procedure requested by PP&L was inappropriate. A Notice of Intervention was filed by OCA.

By Order entered August 23, 1991 (later corrected by Order entered August 28, 1991), the Commission referred the Petition to the Office of Administrative Law Judge for preparation of a recommended decision to address the following issues:

(1) the precise nature of the hydrodynamic loads problem encountered at Susquehanna and PP&L's and GE's role in the initial design, reanalysis and modification of Susquehanna;

(2) the extent of damages, direct and indirect, which PP&L and ratepayers experienced as a result of the problem;

(3) the justness and reasonableness of PP&L's proposed method of returning the settlement proceeds to ratepayers; and

(4) whether or not granting the petition is in the public interest.

The matter was assigned to me, and a prehearing conference was held in Harrisburg on September 9, 1991. The company, OTS and OCA were present and participated. On September 12, 1991, a Petition to Intervene was filed by the

Lehigh Valley Power Committee (LVPC), an ad hoc group of industrial customers served by PP&L.

The company filed its direct case, and responded to discovery requests. A second prehearing conference was held telephonically on October 23, 1991. It was agreed that no evidentiary hearings were necessary, so I established a briefing schedule, and directed PP&L to include in its initial brief a summary of the testimony designed to answer the issues delineated in the Commission's August 28, 1991 Corrected Order. Initial Briefs were filed by PP&L, OTS and OCA on November 22, 1991. Reply Briefs were filed by PP&L and OTS on December 11, 1991. The record consists of the four statements submitted by PP&L, and an additional exhibit comprised of certain interrogatory respones.

II. DISCUSSION

A. Commission Authority to Issue the Requested Declaratory Orders

In its Petition, PP&L has requested that the Commission issue two declaratory orders finding that the settlement with GE, and PP&L's proposal for returning the settlement proceeds to its ratepayers, are just and reasonable and in the public interest. No party has objected to either the terms of the settlement, or to the rate proposal. The sole issue in contention is OTS's position that the Commission lacks jurisdiction to issue a

declaratory order in this case pursuant to 66 Pa.C.S. §331(f), as the order is not intended to terminate a controversy or to remove uncertainty, but is sought by PP&L to eliminate future challenges to the prudency of the settlement. OTS further states that even if the Commission decides that it does have jurisdiction to enter a declaratory order in this proceeding, it should exercise its discretion and not enter such an order.[1]

The Commission's authority to issue declaratory orders is contained in Section 331 of the Public Utility Code, 66 Pa.C.S. §331(f):

> The commission, with like effect as in the case of other orders, and in its sound discretion, may issue a declaratory order to terminate a controversy or remove uncertainty.

The rules and regulations promulgated by the Commission also contain a procedure for the filing and consideration of petitions requesting issuance of declaratory orders. 52 Pa. Code §5.42 provides in relevant part:

> (a) Petitions for issuance of a declaratory order to terminate a controversy or to remove uncertainty shall state clearly and concisely

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1 I am assuming that OTS' objections go to the portion of the Petition which addresses PP&L's request for a Declaration of Public Interest, i.e., a declaratory order stating that the GE settlement is just, reasonable and in the public interest. It is unclear to me whether OTS also is objecting to the company's request that the Commission issue a declaratory order approving the proposed method of returning the settlement proceeds to ratepayers via the SBRCA.

> the controversy or uncertainty which is the subject of the petition, shall cite the statutory provision or other authority involved and shall include a complete statement of the facts and grounds prompting the petition, together with a full disclosure of the interest of the petitioner.
>
> (b) A copy of the petition shall be served directly on the Office of Consumer Advocate, all persons directly affected and on the other parties whom petitioner believes will be affected by the petition. The service shall be evidenced with a certificate of service filed with the petition.

In its Initial Brief at 5, PP&L argues that the Commission's authority to rule on the instant Petition is clear under §331(f), and that:

> . . . [t]here is no rational reason to delay resolution of the issues raised in PP&L's Petition. PP&L proposes to reduce rates now, not in the future. The underlying facts have been extensively litigated in prior rate cases, and all facts relevant to the Petition are currently known and readily available. The Company's customers have been notified of the Petition. All parties had an ample opportunity to examine the facts and to advance whatever positions they deem appropriate. Since all necessary facts are now available and since PP&L proposes to return the proceeds now through an immediate base rate reduction, OTS' "advance" ratemaking approval argument must fail.

The OCA acknowledges that there is no specific provision of the Public Utility Code which addresses the present petition, but that the Commission's jurisdictional authority to act in this case may be inferred from case law and prior Commission orders which interpret various provisions of the

Public Utility Code. The OCA has taken the position that the Commission has the authority pursuant to §§331, 501[2] and 1301[3] of the Public Utility Code to issue a declaratory order finding that the GE settlement and the resulting rate change are just, reasonable and in the public interest, and that such authority should be exercised in this case. The OCA argues that the Commission's decision with respect to the construction of the Limerick 2 Nuclear Plant, ultimately addressed by the Pennsylvania Supreme Court in Pa. P.U.C. v. Philadelphia Electric Co., 501 Pa. 153, 460 A.2d 734 (1983), supports the proposition that the Commission may act in this case. In that proceeding, the Commission determined after investigation that the construction of the Limerick 2 plant was not in the public interest, and therefore refused to approve the issuance of additional securities certificates whose proceeds were to be used for continued construction. The Supreme Court upheld the Commission's order.

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2 Section 501(b) provides that: "The commission shall have general administrative power and authority to supervise and regulate all public utilities doing business within this Commonwealth. The commission may make such regulations, not inconsistent with law, as may be necessary or proper in the exercise of its powers or for the performance of its duties."

3 Section 1301 provides that: "Every rate made, demanded or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission."

The OTS argues that the Commission does not have authority to act upon PP&L's Petition for Declaratory Order and Public Interest Determination because the company has failed to demonstrate that there is any controversy or uncertainty, as required by §331(f). As summarized in OTS's Reply Brief at 1:

> The most straightforward, logical and traditional way of handling the PP&L - GE Settlement would have been for PP&L to execute its settlement and then file a tariff with the Commission effectuating the payment or credit to customers of $55 million over five years.
>
> The fear of an after-the-fact prudence review or the need to eliminate any potential future controversy regarding the settlement funds is unwarranted and cannot support invoking the Commission's jurisdiction to issue a Section 331(f) declaratory order nor the exercise of the Commission's discretion, assuming arguendo that jurisdiction over the subject matter does lie.

The OTS further argues that PP&L is seeking to eliminate the future risks of possible challenge to the prudence of the settlement by shifting its burden of managerial prerogative. As OTS puts it, "To twist the arm of the Commission by making the settlement contingent upon the Commission's finding the settlement to be in the public interest is unconscionable and would create a precedent which could overwhelm the Commission as utilities attempt to obtain advance Commission 'blessing' for all manner of decisions which have ratemaking implications" (Main Brief at 3).

PP&L has responded to OTS's arguments by asserting that issuance of a declaratory order will remove uncertainty inasmuch as the company might be "second-guessed" when it "would be too late to respond to any PUC concerns." It points out that if the Commission has jurisdiction to issue an order approving the reasonableness of the return of the settlement proceeds, then it also must possess the jurisdiction to approve the underlying settlement. In addition to the authority granted to the Commission pursuant to §331(f), PP&L cites §1301 as authority for the Commission to act in this case. Finally, PP&L claims that "the fundamental flaw in OTS' position is that it has simply refused to recognize the significance of the fact that PP&L is proposing to reduce its rates now, not in the future. PP&L does not seek advance ratemaking approval; it seeks current ratemaking approval. OTS' failure to recognize this basic distinction has led it to an erroneous conclusion" (PP&L Reply Brief at 3).

In reply, OTS argues that the Limerick 2 case relied on by OCA does not support its position in this proceeding. OTS states that the holding in that case is clear that it was the express regulatory power of §1903 that permitted the Commission's limited intercession in what otherwise constituted a management decision, and contends that there is no statutory grant of authority that justifies the Commission's involvement in this

proceeding (OTS Reply Brief at 2-3). Finally, OTS contends in its Reply Brief at 5 that:

> There is a category of management decisions which have current or almost current rate impact and which are not subject to Commission pre-approval. This category of decisions involves fuel and energy purchases which are reflected in electric utility energy cost rates (ECR) and gas utility cost rates (GCR) or Section 1307(f) rates. When a gas utility makes a management decision to purchase a greater amount of spot market gas rather than committing to a long-term supply, there is no Commission approval requirement as a condition to consummation of such contracts nor should there be. However, if the Commission grants the instant requested prudency pre-approval, what is to prevent a flood of declaratory petitions by gas utilities? Or, for that matter, petitions by electric utilities regarding coal purchases.

Upon consideration of the arguments advanced by the various parties, as well as relevant statutory and case law, it is my conclusion that the Commission does have authority to issue the declaratory orders as requested in this proceeding. I find especially persuasive the argument that if the Commission has jurisdiction to decide the matter at some future time, the Commission has jurisdiction to decide the issue now in the form of a declaratory order, given that all the facts that would be adduced in that future proceeding are available now for the Commission's review. While it is true that there is not a great deal of uncertainty or controversy associated with the PP&L - GE settlement, the fact remains that the reasonableness of that

settlement would have been examined by the Commission at some point, when the company would have sought Commission approval to make tariff changes based on the settlement. In this case, that requested tariff change was filed contemporaneously with the Petition requesting the public interest determination.

As pointed out by the company, it is requesting Commission approval for its proposal to immediately return to its ratepayers the jurisdictional portion of the settlement proceeds. To find that such a change in rates is just and reasonable, the Commission may review the underlying basis for the requested rate change. Since the proposed immediate rate change grows out of the terms of the settlement, the Commission has authority to review the settlement in order to determine whether it is just, reasonable and in the public interest. OTS's argument, that "authority to review the underlying basis for a requested rate increase or reduction does not equate to review before the fact . . . " (OTS Reply Brief at 4), while true as far as it goes, fails to reflect the fact that in certain circumstances, authority to review the underlying basis for a requested rate change may provide authority for a before-the fact review.

In this case, the facts upon which the Commission's decision concerning both the settlement and the rate proposal must be made are known and fixed, so that a decision would not be based on an incomplete or changing set of facts. While the

company did not file a tariff revision to implement its proposal to return the settlement proceeds to its ratepayers, this issue is a part of the proceeding by virtue of PP&L's request that the Commission issue a declaratory order finding that PP&L's plan to utilize the Special Base Credit Adjustment be just and reasonable.

Even if the company had not requested approval to flow the settlement proceeds back to its ratepayers, because the Commission may be called upon to review the reasonableness of the settlement at some point in time, the Commission has jurisdiction to make that determination now. This is appropriate because all the relevant facts are available, and notice and an opportunity to be heard were provided to PP&L's ratepayers and interested parties such as the OTS and OCA.

B. Nature of the Hydrodynamic Loads Problem

In its Order, the Commission directed that the Recommended Decision rendered in this case include, inter alia, a discussion of the precise nature of the hydrodynamic loads problem encountered at Susquehanna, and PP&L's and GE's role in the initial design, reanalysis and modification of Susquehanna. This issue was addressed in the testimony submitted by PP&L, and not contested by any party. Inasmuch as PP&L accurately and concisely summarized the testimony submitted on this issue, this

portion of the Recommended Decision will be taken from the company's Initial Brief at 20-25.

Susquehanna is a nuclear power plant located near Berwick, Pennsylvania, consisting of two boiling water reactor nuclear units. Each unit has a net capacity of 1050 megawatts (Exh. 3 at 5).

The Susquehanna nuclear reactors and associated equipment were supplied by GE. The architect/engineer was Bechtel Corporation (Bechtel). Susquehanna construction began in November 1973. Susquehanna Unit 1 began commercial operation in June 1983. Susquehanna Unit 2 began commercial operation in February 1985 (Exh. 3 at 5-6).

The reactor vessel and associated systems at nuclear plants are enclosed in a containment structure to prevent the release of radioactivity. The Mark II containment structure at Susquehanna is a steel-lined, reinforced concrete structure consisting of a drywell and a wetwell, which are separated by a concrete diaphragm slab.[4] The drywell surrounds the reactor and the associated equipment. The wetwell is located underneath the drywell and contains 24 feet of water. The wetwell is a suppression chamber which condenses steam released from the

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[4] GE marketed three generations of pressure suppression containments, i.e., Mark I, Mark II and Mark III. PP&L originally was to use a Mark I containment, but later switched to Mark II (Exh. 2 at 9).

reactor into the drywell, thereby reducing the pressure exerted on the containment structure. The drywell and wetwell are connected by a series of pipes and vents which allow steam to move from the drywell into the wetwell in the event of release.

Steam can be released from the reactor and associated piping in two ways: (1) the opening of safety relief valves (SRV); and (2) a loss of coolant accident (LOCA). SRVs open either automatically at preset pressure levels or manually when the plant operator desires to reduce pressure in the reactor vessel. When the SRVs are open, the steam travels from the reactor piping into steam discharge pipes which run directly into the wetwell (Exh. 3 at 8).

In a LOCA, large amounts of steam would be released into the drywell from a break in a system containing reactor coolant. This steam would be vented from the drywell into the wetwell through a series of large "downcomer" or vent pipes where the steam is condensed and the containment pressure is reduced (Exh. 3 at 8-9).

The Mark II pressure suppression containment at Susquehanna was invented, designed and developed by GE. GE required that utilities using its BWRs employ a pressure suppression containment. GE supplied minimum functional requirements and design criteria for the containment, including the pressure analysis necessary to establish containment safety

in the event of a design basis accident. Bechtel constructed the Susquehanna containment based on the design criteria supplied by GE (Exh. 2 at 7, 10).

In 1975, when the basic design of Susquehanna was complete and construction had started, GE advised PP&L of new hydrodynamic loads which could affect the integrity of the containment structure. Since the new loads could not be incorporated into the existing plant design, extensive further testing and analysis were necessary (Exh. 3 at 9).

When PP&L learned of these new loads, it stopped construction of the containment and assembled a task force to evaluate these new loads and determine whether and when construction could resume. The task force concluded that on the basis of cost and schedule considerations, PP&L should proceed with construction and incorporate interim solutions until the problems associated with the new hydrodynamic loads could be solved (Exh. 3 at 13).

During the next several years, PP&L undertook a variety of activities to analyze, test, define, and quantify the new hydrodynamic loads and to reflect those loads in the Susquehanna containment construction. From 1975 through 1982, the utilities building plants with a Mark II containment worked together through the Mark II Owners Group to exchange information and address design issues related to the new hydrodynamic loads (Exh.

3 at 17-18). In addition, PP&L was concerned that the work of the Mark II Owners Group, Bechtel and GE was not proceeding promptly enough to accommodate the Susquehanna construction schedule and retained other consulting firms, including SRI International and Kraftwerk Union (KWU) to perform other tests. SRI reviewed the work of Bechtel and GE and made recommendations concerning analytical work and testing which needed to be pursued. KWU developed the quencher device that was ultimately used to mitigate the hydrodynamic effects of SRV discharges. KWU also performed LOCA-related tests to define certain pressure waves which could occur in the event of a LOCA. These tests were ultimately used as a design basis for Susquehanna (Exh. 3 at 18-20).

As a result of the pressure wave and load definitions developed by GE, the Mark II Owners Group, SRI, KWU and others, the structure and equipment at Susquehanna had to be reassessed to assure that they could function adequately under the new load definitions. This required extensive work, including a reanalysis by Bechtel of the containment structure to determine the effects of the new loads on structures and to ascertain the loads which would be transmitted from the structures to equipment and piping. Bechtel's work also required it to develop various models, including a three-dimensional dynamic model of the containment and a thermal mixing model to study how steam would

mix when released into the drywell. Bechtel also reanalyzed the reactor, control buildings and other associated equipment (Exh. 3 at 20).

As a result of this reanalysis, a number of modifications were made to the plant (Exh. 3 at 21). These included redesign and modification of the bracing systems which support the downcomer vent pipes and SRV lines; extensive redesign and modification of piping in the containment; requalification of electrical, mechanical and control equipment in the containment; the installation of quenchers at the end of the SRV discharge pipes; redesign and modification of vacuum breakers; analysis and requalification of nuclear steam supply system equipment and piping supplied by GE, including the reactor pressure vessel; and the preparation of a Design Assessment Report to demonstrate to the NRC that the Susquehanna design was adequate to accommodate both the new SRV and LOCA loads (Exh. 3 at 22-31).

Shortly after the new loads were identified, PP&L recognized that it might have certain legal claims against GE regarding the design of the Mark II containment. It became apparent that GE might not have adequately tested the Mark II design and might not have fully disclosed all available information regarding the new loads on a timely basis. If PP&L or Bechtel had known about the new loads sooner, they might have

been reflected in the initial design of the plant at substantial cost and schedule savings (Exh. 2 at 7-12).

In order to avoid immediate litigation, which undoubtedly would have disrupted the construction and schedule for Susquehanna, the company entered into standstill agreements with GE regarding potential Mark II claims (Exh. 1 at 4-5). After the construction of Susquehanna was completed, the company engaged in an extensive legal and factual analysis of these claims, which ultimately led to the negotiated settlement which is the subject of this proceeding.

C. Nature and Extent of Damages

In its Order, the Commission directed that the Recommended Decision rendered in this case include, inter alia, a discussion of the extent of damages, direct and indirect, which PP&L and its ratepayers experienced as a result of the problem. This issue was addressed in the testimony submitted by PP&L, and not contested by any party. Inasmuch as PP&L accurately and concisely summarized the testimony submitted on this issue, this portion of the Recommended Decision will be taken from the company's Initial Brief at 26-30, which explains how PP&L retained Bechtel to estimate the cost and schedule impact of the new hydrodynamic loads.

Bechtel first examined the direct cost impact and concluded that the late identification of hydrodynamic loads

increased the construction cost of Susquehanna by $115 million (Exh. 3 at 15). While the company believes that the Bechtel study is well grounded, it is based on several assumptions which could affect the results. Most significantly, Bechtel employed an "as built" assumption under which it assumed that the plant which would have been built if the new hydrodynamic loads were identified earlier is the same as the plant actually built. Id. In addition, for several major cost items, Bechtel was forced to base its estimate on samples and other cost assumptions. The result is a study sufficient for its intended purpose of settlement negotiation, but not conclusive as to the precise effect of the new loads on Susquehanna direct costs.

Bechtel approached the direct cost study by dividing the task into the following 18 topics for separate study and analysis (Exh. 3, Attachment 2):

Topic 1: Historical/Background

Topic 2: Ramshead/SRV Discharge Piping

Topic 3: Initial Assessment & Modifications

Topic 4: Mark II Owners Group

Topic 5: KWU SRV Loads

Topic 6: KWU LOCA Tests

Topic 7: SRI Tests and Consulting Services

Topic 8: Structural Analyses and Modification

Topic 9: Downcomer and SRV Line Bracing Modifications

Topic 10:	Piping Reanalyses and Modification
Topic 11:	Equipment Reanalyses and Modification
Topic 12:	T-Quencher Fabrication/Installation
Topic 13:	Vacuum Breakers
Topic 14:	GE New Loads Assessment
Topic 15:	Thermal Mixing
Topic 16:	Design Assessment Report
Topic 17:	3-D Reactor Building Model
Topic 18:	Humphrey Concerns

For each of these topics, Bechtel first determined the work performed due to new loads and then estimated the cost incurred to perform this additional work (Exh. 3 at 15-32). The $115 million figure includes the total cost of topics 2-17. Topic 1 was simply an historical overview. Topic 18 was excluded because the Humphrey concerns were ultimately found to be groundless. Id. at 15.

After the direct study was completed, PP&L asked Bechtel to attempt to estimate the delay in construction, if any, caused by late identification of the hydrodynamic loads. As explained in more detail below, the contract between PP&L and GE excluded consequential damages, but if the company could prove fraud against GE, it could overcome that exclusion and recover consequential damages proximately caused by late identification of the hydrodynamic loads. Therefore, for settlement purposes,

the company asked Bechtel to determine if the hydrodynamic loads issue caused a schedule delay in the Susquehanna construction schedule.

After extensive analysis, Bechtel estimated that the hydrodynamic loads issue resulted in a 339-day delay in the commercial operation of Susquehanna 2 (Exh. 3 at 34). Mr. Weyandt explained the schedule study (Exh. 3 at 33-34):

> The study is based on resource (manpower) availability for both engineering and construction, and is determined from the estimated additional effort expended due to hydrodynamic loads which was reported in the direct cost study. As discussed above, the greatest PP&L expenditure identified in the cost study was due to the impact of hydrodynamic loads on the piping system, design and construction. These modifications were considered in Topic 10 and constitute approximately 50% of the $115 million cost identified in that study.
>
> The schedule study focuses on delays caused by Topic 10 work. The study collected construction manhours information from historical data on a quarterly basis to indicate work performed relative to hydrodynamic load modifications. This was divided by the total number of weeks during the reporting period, and then by 40 manhours per week to represent the average piping manpower used during each quarter. Engineering manhours were also compiled, but on a monthly basis. They were divided by 40 manhours per week, the result representing the average engineering manpower working during this period. This process was conducted for both Unit 1 and Unit 2.
>
> This quantity and manhour data was used as a basis for determining the additional manhours attributable to piping reanalysis and

> modifications due to hydrodynamic loads. The impact was determined by identifying the maximum weekly manhour "work-off" rates for engineering and construction, i.e., the fastest rate at which the work could be accomplished in estimated manhours. By taking the peak manhour work-off levels and dividing them into the additional manhours calculation, the result is the shortest possible durations for those work operations. When totaled for both engineering and construction on Unit 1 and Unit 2, the total schedule impact was calculated.

The schedule study was not as rigorous as the direct cost study and was designed to determine the overall magnitude of the company's claim. The major problem with the study was to separate the schedule effect of new loads from schedule effects caused by other issues. As Mr. Weyandt explained (Exh. 3 at 34-35):

> [T]here is no direct evidence linking hydrodynamic loads with the schedule delays; rather, it is circumstantially inferred. The schedule study concluded that there was never one particular item which was the sole cause for delay and extension of the schedule during the period which was reviewed. In fact, the Susquehanna construction schedule was driven by a number of factors in addition to hydrodynamic loads which may have affected the constructions schedule.

Separation of the schedule effects of these various items was beyond the scope of the Bechtel study. Therefore, Bechtel simply assumed that the new loads work was always the critical path for completion of Susquehanna Unit 2 and that all other work could have been finished 339 days sooner.

PP&L then calculated the dollar effect of a 339-day delay. There were two components: lost generation and additional AFUDC. The value of the lost generation, based on the cost of replacing the generation of Susquehanna Unit 2 during its first 339 days of commercial operation, was $200.2 million. The amount of additional AFUDC, based on the actual AFUDC for Susquehanna Unit 2 for the 339-day period, was $136.2 million (Exh. 5, Interrogatory 1).

D. Proposed Return of Settlement Proceeds

In its Order, the Commission directed that the Recommended Decision rendered in this case include, inter alia, a discussion of the justness and reasonableness of PP&L's proposed method of returning the settlement proceeds to ratepayers. This issue was addressed in the testimony submitted by PP&L, and not contested by any party. Inasmuch as PP&L accurately and concisely summarized the testimony submitted on this issue, this portion of the Recommended Decision will be taken from the company's Initial Brief at 30 - 31.

PP&L proposes to return the net settlement proceeds to its customers over five years through the SBRCA. The $80 million settlement was first reduced to reflect Allegheny Electric Cooperative's share as a 10% owner of the plant. The remaining $72 million ($80 million x 90%) was then reduced to reflect the costs of investigating and settling these cases. The net amount

was then allocated between FERC and PUC customers utilizing traditional cost of service techniques. Based on these techniques, the FERC customers' share is approximately $15 million, and the PUC customers' share is approximately $55 million (Exh. 4 at 4-6).

PP&L proposes to pass this $55 million to customers over five years through the SBRCA with interest on the unamortized balance. PP&L elected a five-year period because it roughly approximates the period of time over which the discount on GE goods and services will be used. Five years also is a period typically used by the PUC to recover/return one-time non-recurring items. As compared to the alternative of reducing rate base, the company's approach returns the money immediately rather than over the remaining life of the Susquehanna plant (Exh. 4 at 7-9).

Near the end of the five-year period, the company will "true-up" the proceeds actually received with the amount returned to customers, and any necessary reconciling adjustments will be made (Exh. 4 at 9).

In sum, the company's proposal will permit prompt return of the proceeds through an immediate rate decrease, is consistent with Commission precedent, is not objected to by any party and therefore should be approved.

E. Necessity for Declatory Order and Declaration of Public Interest

As discussed above, I have determined that the Commission has the authority to enter a declaratory order addressing the justness and reasonableness of the PP&L - GE settlement, given the factual and procedural status of this proceeding. The issue now is whether that authority should be exercised so as to result in an issuance of a declaration of public interest.[5]

The company's position is that the Commission should issue the order because it has demonstrated the reasonableness of the settlement (PP&L Initial Brief at 32-40), that the declaration was requested so as to receive "timely guidance that will allow [PP&L] to know the PUC's position on an important public interest issue. Like any rational decision-maker, PP&L is seeking to ascertain, to the extent practicable, all relevant facts which bear on the wisdom of settling its claims against GE" (PP&L Reply Brief at 6). The OCA agrees with the company that the Commission should exercise its discretion, citing ". . . the magnitude of the settlement agreement, the public interest in receiving benefits from the settlement through a rate reduction,

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5 Again, I am assuming that OTS' objections are directed to the company's request for the issuance of the declaration of public interest regarding the settlement, not the company's requested declaratory order concerning the settlement proceeds.

and the need for finality and binding approval for the agreement" (OCA Main Brief at 13).

OTS contends that the Commission should not exercise its discretion to issue a declaratory order because the issue as presented is outside the Commission's area of expertise, based on OTS' analysis of prior declaratory orders entered by the Commission. It states in its Main Brief at 10:

> A review of prior Commission declaratory orders creates the boundary of declaratory order subject matter. The instant petition far exceeds the limits of this boundary and will create a precedent which could result in untoward numbers of declaratory order requests. At the very least, the Commission should restrict itself to matters peculiarly within the expertise of the Commission such as service area jurisdictional disputes and rate accounting matters. The question of whether the settlement amount with GE is a fair and reasonable one is a subject area of such complexity and so foreign to traditional regulatory matters that the Commission should have rejected consideration of the petition ab initio.

First, I cannot agree that the subject matter of the petition is outside the Commission's area of expertise. The Commission certainly is capable of evaluating the reasonableness of the settlement, especially in terms of the impact on PP&L's ratepayers. The Mark II issue was addressed in numerous rate proceedings, so the Commission is aware of the matters encompassed within the settlement. Whether it is reasonable for the company to settle, and whether this particular settlement is

in the interests of PP&L and its ratepayers are decisions the Commission can make on the basis of the record adduced.

Had the company filed only the Petition for Declaratory Order seeking a determination from the Commission that the settlement is in the public interest, then I agree that perhaps the Commission should not exercise its discretion in accepting the petition. What makes this proceeding different is the fact that PP&L simultaneously requested that the Commission approve its proposal to immediately return to its ratepayers over a five-year period the settlement proceeds.

In this case, OTS is correct that the company could have executed the settlement, and then requested Commission approval for the rate change. As part of its rate review, the Commission would have made a determination as to the reasonableness of the settlement. That determination likely would have been binding and not subject to later challenge pursuant to Section 316 of the Public Utility Code,[6] 66 Pa. C.S. §316, as well as general principles of collateral estoppel and res judicata.

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6 In relevant part, §316, Effect of commission action, provides that: "Whenever the commission shall make any rule, regulation, finding, determination or order, the same shall be prima facie evidence of the facts found and shall remain conclusive upon all parties affected thereby, unless set aside, annulled or modified on judicial review."

Here, it is not necessary to issue a separate declaration finding the settlement to be in the public interest. That determination, amply supported by the company in its case, can be made as part of the company's request for a declaratory order approving the return of the settlement proceeds. While the Commission may, if it chooses, adopt the procedure requested by the company, it is not necessary to make two separate public interest determinations. By making this determination in the context of the rate request, the company is protected from future challenges to the reasonableness of the settlement, while the OTS concerns that a declaratory order here could be used to justify other, less appropriate requests for declaratory orders, are addressed.

Therefore, I recommend that the Commission approve the request for a declaratory order approving PP&L's proposal to return the benefits from the settlement to its customers through the Special Base Rate Credit Adjustment, as it and the settlement upon which it is based are fair and reasonable.

III. RECOMMENDED ORDER

THEREFORE,

IT IS RECOMMENDED, subject to Commission approval, that the following order be adopted and entered:

1. That the following statements and exhibits be admitted into the record:

PP&L Exh. 1: Direct Testimony of G. D. Calliendo
PP&L Exh. 2: Direct Testimony of K. R. Conrad
PP&L Exh. 3: Direct Testimony of J. A. Weyandt
PP&L Exh. 4: Direct Testimony of J. M. Kleha
PP&L Exh. 5: PP&L Responses to OCA Interrogatories, Set II

2. That the Petition to Intervene filed by the Lehigh Valley Power Committee be granted.

3. That a declaratory order be issued via the Special Base Rate Credit Adjustment approving PP&L's plan to return to its ratepayers the jurisdictional portion of the proceeds of the settlement reached with General Electric Company.

January 29 1992

Marlane R Chestnut

MARLANE R. CHESTNUT
Administrative Law Judge

FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D. C. 20426

In Reply Refer To:
Docket No. ER91-322-000

Pepper, Hamilton & Sheetz
Attention: Mr. Craig A. Marks
Attorney for Pennsylvania Power & Light Company
1300 Nineteenth Street, N.W.
Washington, D.C. 20036-1685

Dear Mr. Marks:

On September 4, 1991, you filed a settlement agreement among Pennsylvania Power & Light Company (PP&L), Allegheny Electric Cooperative, the Boroughs of Blakely, Catawissa, Duncannon, Ephrata, Hatfield, Kutztown, Lansdale, Lehighton, Mifflinburg, Olyphant, Perkasie, Quakertown, St. Clair, Schuylkill Haven, Watsontown, and Weatherly, Pennsylvania, and the Citizens' Electric Company of Lewisburg. On September 23, 1991, and September 24, 1991, staff and PP&L, respectively, submitted comments in support of the settlement. No other comments were received. On October 18, 1991, the presiding administrative law judge certified the uncontested settlement to the Commission.

Based on staff's analysis, the settlement rates would not result in a rate of return in excess of staff's recommended 10.44% rate which includes an 11.70% return on common equity with an equity ratio of 44.22%.

Articles III and IV of the settlement agreement provide for two credit provisions with an effective date of April 1, 1992, or such later date when the Pennsylvania Public Utilities Commission approves implementation of a similar retail rate treatment. You are hereby directed to notify the Commission of the actual date the credit provisions go into effect.

The subject settlement is in the public interest and is hereby approved. The rates submitted with the settlement are accepted for filing and are designated and made effective as shown on the Enclosure. The Commission's approval of this settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding.

This letter terminates Docket No. ER91-322-000.

By direction of the Commission.

Lois D. Cashell
Secretary

Enclosure

cc: To All Parties

ENCLOSURE

Pennsyvania Power & Light Company
Docket No. ER91-322-000
Settlement Rate Schedule Designations
Effective: May 19, 1991

	Designation	Description
(1)	Supplement No. 31 to Rate Schedule FERC No. 28 (Supersedes Supplement No. 30)	Resale rates to the Borough of Watsontown
(2)	Supplement No. 35 to Rate Schedule FERC No. 32 (Supersedes Supplement No. 34)	Resale rates to the Borough of Duncannon
(3)	Supplement No. 23 to Rate Schedule FERC No. 45 (Supersedes Supplement No. 22)	Resale rates to the Borough of Blakely
(4)	Supplement No. 28 to Rate Schedule FERC No. 50 (Supersedes Supplement No. 27)	Resale rates to the Borough of Weatherly
(5)	Supplement No. 28 to Rate Schedule FERC No. 51 (Supersedes Supplement No. 27)	Resale rates to the Borough of Schuylkill Haven
(6)	Supplement No. 22 to Rate Schedule FERC No. 54 (Supersedes Supplement No. 21)	Resale rates to the Borough of Perkasie
(7)	Supplement No. 21 to Rate Schedule FERC No. 56 (Supersedes Supplement No. 20)	Resale rates to the Borough of St. Clair
(8)	Supplement No. 21 to Rate Schedule FERC No. 57 (Supersedes Supplement No. 20)	Resale rates to the Borough of Catawassa
(9)	Supplement No. 26 to Rate Schedule FERC No. 58 (Supersedes Supplement No. 25)	Resale rates to the Borough of Ephrata
(10)	Supplement No. 21 to Rate Schedule FERC No. 61 (Supersedes Supplement No. 20)	Resale rates to Citizens Electric Company
(11)	Supplement No. 27 to Rate Schedule FERC No. 63 (Supersedes Supplement No. 26)	Resale rates to the Borough of Lehighton

(12)	Supplement No. 15 to Rate Schedule FERC No. 69 (Supersedes Supplement No. 14)	Resale rates to the Borough of Hatfield
(13)	Supplement No. 15 to Rate Schedule FERC No. 70 (Supersedes Supplement No. 14)	Resale rates to the Borough of Mifflinburg
(14)	Supplement No. 15 to Rate Schedule FERC No. 71 (Supersedes Supplement No. 14)	Resale rates to the Borough of Quakertown
(15)	Supplement No. 15 to Rate Schedule FERC No. 79 (Supersedes Supplement No. 14)	Resale rates to the Borough of Kutztown
(16)	Supplement No. 10 to Rate Schedule FERC No. 86	Resale rates to the Borough of Olyphant
(17)	Supplement No. 15 to Rate Schedule FERC No. 88 (Supersedes Supplement No. 14)	Resale rates to the Borough of Lansdale
(18)	Supplement No. 6 to Rate Schedule FERC No. 93 (Supersedes Supplement No. 5)	Resale rates to Allegheny Electric Cooperative, Inc.

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held October 13, 1994

Commissioners Present:

David W. Rolka, Chairman
Joseph Rhodes, Jr., Vice Chairman
John M. Quain
Lisa Crutchfield
John Hanger

Pennsylvania Public Utility Commission

Docket No. R-00922479 et al.

v.

PECO Energy Company
(Retail Electric Operations)

TENTATIVE ORDER

BY THE COMMISSION:

Before the Commission is the Joint Petition for Settlement filed October 6, 1994 by PECO Energy Company (PECO), the Office of Consumer Advocate (OCA) and the Philadelphia Area Industrial Energy Users Group (PAIEUG) which proposes to settle an appeal pending before the Commonwealth Court regarding our disposition of PECO's filing of Supplement No. 69 to its Electric Service Tariff Pa. P.U.C. No. 26. The three parties filed statements in support of the settlement.

For the reasons which follow, we will approve the proposed settlement by Tentative Order. The Tentative Order will

be served on all parties of record in the original rate case, with any objections to be filed within twenty (20) days of the entry date of this order. Barring receipt of any objections, the tentative order will become final following the twenty day period. If any comments are received, then the matter will be referred back to the Law Bureau for preparation of an appropriate order.

BACKGROUND

On September 11, 1992, PECO filed for an increase in annual retail electric revenues of approximately $50.2 million which was to reflect its increase in operating expense associated with implementation of Statement of Financial Accounting Standard No. 106 (SFAS 106). The request was opposed by OCA, PAIEUG and other parties.

Following an evidentiary proceeding, the Commission ruled that PECO's request did not fall within the provisions of the Limerick 2 Settlement at No. M-900271, which barred PECO from seeking a base rate increase prior to April 1, 1994. However, our order did determine that PECO's reasonable level of SFAS operating expense was $36.5 million annually and permitted the deferral of such amount for recovery in a future rate case.

PECO filed a Petition for Review in the Commonwealth Court on September 30, 1993 at Docket No. 2355 C.D. 1993, and PAIEUG and OCA intervened. The matter has been briefed and was awaiting oral argument when the parties received a continuance because of this settlement.

SUMMARY OF THE PROPOSED SETTLEMENT

The terms of the proposed settlement include the following:

- PECO will withdraw with prejudice its appeal in this matter and thus eliminate the uncertainty and further costs of litigating the SFAS 106 cost recovery issue.

- PECO will increase retail electric base rates $25 million annually effective January 1, 1995. Base rates for all classes of electric service will increase by an equal percentage.

- No uncovered SFAS 106 expenses will be deferred for future rate recovery, and PECO will externally fund all its retail electric SFAS 106 costs as part of aggressive management of its benefit programs in order to contain its SFAS 106 costs.

- Except for severely limited circumstances, PECO will not file for a base rate increase before April 1, 1999. Exceptions include energy cost adjustments, changes in state or federal taxes, and demand side management surcharges, as well as nuclear plant decommissioning expenses and spent nuclear fuel disposal expenses resulting from changes in federal or state requirements.

- Commission rate investigations and complaint proceedings may result in reductions in PECO's rates but not in increases during the stay-out period.

- If current rate recovery of SFAS 106 expense is ultimately disallowed through OCA's appeal to the Supreme Court of the Commonwealth Court decision in Popowsky v. Pennsylvania Public Utility Commission, No. 1188 C.D. 1993 (June 7, 1994), then any party to this settlement may elect to void the settlement.

The parties state that the settlement is in the public interest for the following reasons:

- The settlement resolves the appeal taken by PECO from the September 2, 1993 order adjudicating its SFAS 106 costs, which relieves all parties of the need to litigate it further and incur more costs.

- Under the settlement, PECO may recover no more than $25 million in annual SFAS 106 recovery, less than half of its requested amount, and considerably less than the $36.5 million deferral allowed under the appealed order.

- PECO agrees not to file for an increase in retail electric base rates prior to April 1, 1999 with limited exceptions, which extends the period of base rate stability for five years into

the future and serves to maintain the benefits of the earlier Limerick 2 settlement agreement.

- PECO's increased stay-out period prevents the incurrence of administrative and litigation costs that a PECO rate increase filing would cause.

DISCUSSION

The Commission has carefully considered the terms of the settlement and the supporting positions of the parties to the settlement, and will tentatively approve it because its provisions are even more favorable to the ratepayers than the provisions of the September 2, 1993 Commission order and because we believe that the settlement agreement taken as a whole is in the public interest.

The primary bone of contention among the parties was whether the previous Limerick 2 settlement agreement allowed PECO to come to the Commission for an increase in its base rates due to the required change in SFAS 106 accounting procedures prior to April 1, 1994. As part of the present settlement, PECO agrees not to implement higher rates to cover its SFAS 106 costs until January 1, 1995. The agreement removes this obstacle from consideration.

The settlement also prevents PECO from deferring its SFAS 106 operating expenses for recovery in its next base rate case as had been provided by the Commission's order entered September 2, 1993. PECO asked for $50.6 million, and the Commission had allowed

$32 million. In this settlement, PECO agrees to accept $25 million, which turns out to be less than one percent (.77%) of its retail base rates. PECO further agrees to externally fund all its retail electric SFAS 106 costs and to manage aggressively its benefit programs in order to contain its SFAS 106 costs.

Barring certain specific events, PECO will not come to the Commission for a base rate increase for another five years past the date agreed upon in the prior settlement, the terms of which will not be abrogated by this agreement.

On the other hand, the settlement agreement does not preclude a Commission investigation into PECO's rates during the stay-out period, and the Commission's right to reduce rates at the conclusion of such investigation is specifically preserved.

All parties recognize that the outcome of Popowsky v. Pa.P.U.C., No. 1188 C.D. 1993 (June 7, 1994) may result in the disallowance of SFAS 106 expenses, and in that event, any petitioner may elect to void the settlement.

This agreement also maintains PECO's right under the Limerick 2 agreement to retain 16.5% of Limerick energy savings. PECO's portion of 16.5%, which a negotiated figure, approximates the portion of PECO's Limerick investment which is not currently recovered through customer rates. In allowing PECO to retain 16.5% of Limerick's energy savings, PECO is given an incentive to operate Limerick 1 and 2 efficiently to the benefit of all parties.

The settlement agreement is comprehensive, benefits the ratepayers as well as the parties and is in the public interest. For the reasons set forth herein, we tentatively approve the

proposed settlement agreement as being in the public interest, THEREFORE;

IT IS ORDERED:

1. That, subject to the withdrawal and discontinuance of all appellate proceedings pursuant to paragraph 1 of the settlement agreement, the proposed settlement is tentatively approved.

2. That all signatories to the proposed settlement shall be bound by and shall adhere to its terms.

3. That upon final Commission approval of the settlement, PECO shall file tariffs or tariff supplements effective January 1, 1995 as described in the settlement agreement. Such tariff or tariff supplements are filed pursuant to the intent and terms of the settlement, and shall not be altered or amended, except after notice and hearing, and according to the intent and terms of the settlement.

4. That a copy of this Tentative Order shall be served on all parties of record to Docket No. R-00922479, et al.; those parties and any other interested party shall have twenty (20) days from the date of entry of this order to file any exceptions.

5. That, if no exceptions are received within twenty (20) days of the entry of this order, it will become final without further action by the Commission.

6. That the matter be referred to the Law Bureau for preparation of a final order if exceptions are received within twenty (20) days from the date of entry of this order.

7. That, upon receipt by the Commission of evidence of the filing of compliance tariffs and the discontinuance of appeals in accordance with the settlement, this docket shall be marked closed.

BY THE COMMISSION,

John G. Alford

John G. Alford
Secretary

(SEAL)

ORDER ADOPTED: October 13, 1994

ORDER ENTERED: OCT 19 1994

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG, Pa. 17120

March 27, 1991

IN REPLY PLEASE
REFER TO OUR FILE

R-911899

Paul E. Russell, Esquire
Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, PA 18101-1179

Pennsylvania Public Utility Commission
v.
Pennsylvania Power & Light Company

To Whom It May Concern:

This is to advise you that an Opinion and Order has been adopted by the Commission in Public Meeting on March 22, 1991 in the above entitled proceeding.

An Opinion and Order has been enclosed for your records.

Very truly yours,

Jerry Rich, Secretary

smk
Encls.
Cert. Mail

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
HARRISBURG, PA 17120

Public meeting held March 22, 1991

Commissioners Present:

William H. Smith, Chairman
Joseph Rhodes Jr., Vice Chairman
Frank Fischl
Wendell F. Holland
David W. Rolka

Pennsylvania Public Utility Commission
v
Pennsylvania Power & Light Company R-911899

OPINION AND ORDER

BY THE COMMISSION:

On January 30, 1991, Pennsylvania Power & Light Company ("Company") filed Supplement No. 28 to Tariff Electric-Pa. P.U.C. No. 200. The filing proposes the establishment of a Special Base Rate Credit Adjustment ("SBRCA"). The proposed effective date is April 1, 1991, which is also the effective date of the Company's new Energy Cost Rate ("ECR"). The net effect of the SBRCA and the ECR will be a 1.45% increase in PA PUC jurisdictional revenues.

Discussion

The SBRCA proposed by the Company includes the following elements: 1) A base rate decrease of approximately $19.7 million to reflect a change in the method of

accounting for power plant spare parts and 2) A base rate decrease of approximately $5.9 million to reflect a half-year's effect of the Atlantic City Electric ("ACE") purchase of 125 MW of coal capacity (changing to a full year's credit of $11.8 million beginning on April 1, 1992). The proposed changes will produce an overall average base rate decrease of approximately $25.6 million on April 1, 1991, changing to an overall average base rate decrease of approximately $31.5 million on April 1, 1992 (See Attachment A).

On January 1, 1991, the Company changed its method of accounting for spare parts at its power plants to the deferred (inventory) method. Under this method, appropriate spare parts are charged to an inventory account when purchased, and then charged to the appropriate capital or expense account when the parts are used or consumed. The accounting entry to record the initial spare parts inventory would be a charge to the inventory account and a credit (reduction) to operating expense. The credit applicable to retail customers totals approximately $94.1 million (See Attachment B). The Company is requesting permission to return this one time credit to retail customers over approximately a five year period. An allocated portion of the total credit will also be reflected in the Company's bulk power agreements and in the Company's resale base rates subject to FERC jurisdiction.

On October 1, 1991, ACE's current purchase of 125 MW of the Company's Susquehanna plant nuclear capacity and energy

will terminate. At that time, Baltimore Gas And Electric Company ("BG&E") will begin to purchase 125 MW of Susquehanna capacity and energy. Because the BG&E agreement replaces the ACE agreement, the Company's revenue requirement related to this sale of Susquehanna capacity and energy will not be affected.

At the same time, pursuant to an agreement executed in 1983, ACE will begin to purchase 125 MW of capacity and energy from the Company's wholly owned coal units and PP&L will recover from ACE approximately $11.8 million in non-energy costs. Transactions under this agreement had not begun at the time of the Company's last base rate case, and thus these non-energy costs currently are being recovered from customers through retail base rates. This new agreement, which terminates on September 30, 2000, represents a significant change in the assignment of costs between retail and wholesale customers. The Company proposes to remove these non-energy costs from retail base rates by reflecting the costs as a credit to customers' bills as part of the SBRCA. The jurisdictional portion of the credit is approximately $11.8 million per year (See Attachment C). This is an annual credit, and no amortization period is involved in computing the impact on customer rates.

The Company proposes to return the above-mentioned credits through the SBRCA. The credits will be combined and applied as a uniform percentage reduction in the base rate

charges on each monthly bill. The SBRCA will appear as a single line item on the customers' bills each month.

The Company's filing is a feasible way of dealing with a positive attrition situation. While it is unusual to implement what is in essence a negative surcharge, it is not unique. We authorized such a mechanism at M-860105 (Investigation into the Ratemaking Impacts of the Tax Reform Act of 1986).

The use of a five year amortization period is not unreasonable. On numerous occasions in the past, we have allowed five year amortization of "one time" expense items. In the instant filing, we are being asked to allow the five year amortization of "one time" items.

Upon our review, it does not appear that the proposed tariff revisions are unlawful, unjust, unreasonable, or contrary to the public interest; therefore, they shall be allowed to become effective. However, this permission does not constitute a determination that such tariff revisions are just and reasonable, but only that further investigation is not warranted at this time; **THEREFORE,**

IT IS ORDERED:

1. That Supplement No. 28 to Tariff Electric-Pa. P.U.C. No. 200 be permitted to become effective on April 1, 1991.

2. That this Order is without prejudice to any formal complaints timely filed against Respondent's proposed rate changes.

3. That a copy of this Order shall be served upon the Respondent and any persons who have filed formal complaints against Respondent's proposed rate changes.

BY THE COMMISSION

Jerry Rich, Secretary

(Seal)

ORDER ADOPTED: March 22, 1991

ORDER ENTERED: MAR 27 1991

Calculation of Special Base Rate Credit Adjustment

Effective April 1, 1991

Power Plant Spare Parts Inventory Credit		
Annual Credit Amount	$19,686,000	
1991 Credit Rate		- 1.07%
Atlantic City Electric Coal Agreement Credit		
Half-Year Credit Amount	$ 5,929,000	
1991 Credit Rate		- 0.32
Special Base Rate Credit Adjustment		- 1.39%

Effective April 1, 1992

Power Plant Spare Parts Inventory Credit		
Annual Credit Amount	$19,686,000	
1992 Credit Rate		- 1.07%
Atlantic City Electric Coal Agreement Credit		
Annual Credit Amount	$11,858,000	
1992 Credit Rate		- 0.64
Special Base Rate Credit Adjustment		- 1.71%

Calculation of Power Plant Spare Parts Inventory Adjustment Effect on Annual PUC Revenue Requirements ($000)

	Adjustment Amount		Annual Amortization[1]
	Total System	PUC Jurisdiction[2]	PUC Jurisdiction
Fossil			
Wholly Owned Coal	$ 59,961	$48,685	$ 9,737
Oil and Other Coal	16,599	14,003	2,801
Nuclear	40,226	31,411	6,282
Total	$116,786	$94,099	18,820
		Gross Receipts Tax	866
		Annual Revenue Requirements Effect	$19,686

1/ Based on a five-year amortization period.

2/ Net of amounts allocated to Atlantic City, Jersey Central Power & Light, Baltimore Gas and Electric, UGI and FERC resale customers.

Calculation of Atlantic City Coal Agreement Effect On Annual PUC Revenue Requirements ($000)

Electric Plant in Service	$44,784
Less: Depreciation Reserve	18,921
Net Electric Plant	25,863
Plus: Working Capital	2,696
Less: Accumulated Deferred Income Taxes	1,891
Net Rate Base	$26,668
Return @12.12%	$ 3,232
O&M Expense	5,390
Depreciation Expense	1,212
Taxes, Other Than Income	414
Income Taxes - Current	993
Income Taxes - Deferred	197
Investment Tax Credit - Net	(38)
Less: Revenue Credits	64
Total	11,336
Gross Receipts Tax	522
Annual Revenue Requirements Effect	$11,858

73 FERC ¶ 61,114

J. McCabe
R. Sarko
R. Bernini

Attached is the final order.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Elizabeth Anne Moler, Chair; Vicky A. Bailey, James J. Hoecker, William L. Massey, and Donald F. Santa, Jr.

Pennsylvania Power and Light Company) Docket No. ER95-1267-000

ORDER ACCEPTING FOR FILING AND SUSPENDING RATES, AND ESTABLISHING HEARING PROCEDURES

(Issued October 26, 1995)

Introduction

On June 26, 1995, as completed on August 31, 1995, Pennsylvania Power & Light Company (Penn Power) filed revisions to its rates for certain unit power sales to recover the projected costs of post-retirement benefits other than pensions (PBOPs) on an accrual basis. We will accept the proposed rate change for filing, suspend it for one day and set Penn Power's rates for hearing.

Background

The Commission's Policy on PBOPs

In the past, utilities generally accounted for the costs of PBOPs and recovered the costs of PBOPs in rates on a pay-as-you-go basis (at the time the company paid the benefits). In response to a December 1990 ruling by the Financial Accounting standards Board (FASB), the Commission issued a Policy Statement allowing recovery of PBOP costs on an accrual basis under certain conditions. Post Employment Benefits Other Then Pensions, 61 FERC ¶ 61,330 (1992), order on clarification, 65 FERC ¶ 61,035 (1993)(Policy Statement); accord, New England Power Company, Opinion No. 379, 61 FERC ¶ 61,331 (1992), reh'g denied, Opinion No. 379-A, 65 FERC ¶ 61,036 (1993), aff'd sub nom. Town of Norwood v. FERC, 53 F.3d 377 (D.C. Cir. 1995).

In brief, the Commission permits utilities to recover PBOPs in rates as the PBOPs accrue, if the companies: (1) make cash deposits to an irrevocable external trust fund at least quarterly in amounts that are proportional and, on an annual basis, equal to the annual allowance for PBOPs; and (2) make contributions to the trust fund in a manner that results in the lowest tax liability. 61 FERC at 62,200. The Policy Statement also provides that the change to the accrual method from the pay-as-you-go method may be deferred for up to three years until the utility files a general rate case that would reflect this change.

Id. Also relevant to this filing, the Commission declined to adopt a general policy of allowing a utility to make a filing limited to PBOPs, opting rather to consider these requests on a case-by-case basis. Id. at 62,200, 62,204.

Penn Power's Filing

On January 1, 1993, Penn Power began charging PBOP expenses using the accrual method, but without filing for Commission authorization. Eventually, the company refunded to its customers the sum it collected (about $4 million). In this docket, Penn Power has filed a request to charge PBOP expenses on an accrual basis. Penn Power proposes to treat the $4 million previously billed without Commission authorization and subsequently refunded as a deferral to be amortized over the lesser of three years or the remaining life of the existing contracts with its customers. 1/ Penn Power commits to deposit all amounts it collects into an external trust fund.

Penn Power requests waiver of the Commission's filing requirements under Section 35.13 to allow an abbreviated, PBOP-only filing. Penn Power also requests waiver of the Commission's 60-day prior notice requirement in order to allow its proposal to become effective one day after the issuance of an order.

In addition, Penn Power requests clarification that, because of a rate moratorium with its requirements customers, the company need not file a general rate case for its requirements customers within three years. 2/

1/ The customers are Baltimore Gas & Electric Company (BG&E), Atlantic City Electric Company (ACE), Jersey Central Power & Light Company (Jersey Central), and UGI Corporation (UGI). The contract expiration dates are: BG&E, 2001; ACE, 1998; Jersey Central, 1999; and UGI, 2008. Thus, under Penn Power's proposal BG&E, UGI, and Jersey Central will have an amortization period of three years and ACE will have an amortization period of two years.

2/ This request for a declaratory determination concerning rates charged to wholesale customers other than the four discussed above is a request for a declaratory order that must be filed separately from the instant rate change filing. 18 C.F.R. §§ 381.302, 385.207 (1995). See, e.g., LG&E Power Marketing, Inc., 68 FERC ¶ 61,247 at 62,125 (1994) (advising applicant to file a petition for declaratory order if applicant wishes a Commission determination of jurisdiction); see generally Entergy Services, Inc., 52 FERC ¶ 61,317 at 62,270 (1990); Louisiana Power & Light Company, 50

(continued...)

Notices, Interventions, Protests and Other Pleadings

Notices of Penn Power's filings were published in the Federal Register, 3/ with comments, protests, or interventions due on or before September 27, 1995.

On July 21, 1995, Jersey Central Power & Light Company (Jersey Central) filed a motion to intervene, motion to reject, answer and protest.

On July 21, 1995, Allegheny Electric Cooperative, Inc. (Allegheny) filed a motion to intervene in which, in response to Penn Power's request for clarification, it requests that the Commission limit Penn Power's ability to collect amounts related to the period of the rate moratorium.

On July 24, 1995, the Pennsylvania Boroughs 4/ filed a motion to intervene, protest and motion for summary judgment. They, like Allegheny, object to Penn Power's request for clarification.

On August 7, 1995, Penn Power filed a motion for leave to file an answer. Penn Power also requests that the Commission deny the motions to reject.

On September 27, 1995, Jersey Central filed a supplemental motion to intervene, motion to reject, answer to requests for waiver and protest, in which it renews its earlier motions and protests to Penn Power's filing.

On October 12, 1995, Penn Power filed a motion for waiver of Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (1995), for the limited purpose of filing an answer to Jersey Central's September 27, 1995 pleading.

2/(...continued)
FERC ¶ 61,040, at 61,062-63 (1990). Accordingly, this request will be dismissed without prejudice to resubmittal.

3/ 60 Fed. Reg. 36,133, 48,509 (1995).

4/ Pennsylvania Boroughs include Lansdale, Blakely, Catawissa, Ephrata, Hatfield, Kutztown, Lehighton, Mifflinburg, Olyphant, Perkasie, Quakertown, St. Clair, Schuylkill, Haven, Watsontown, and Weatherly Pennsylvania.

Discussion

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (1995), the timely, unopposed motions to intervene of Allegheny, Pennsylvania Boroughs, and Jersey Central serve to make them parties to this proceeding.

Motions to Reject

Jersey Central requests that the Commission reject Penn Power's filing as deficient because the proposal lacks specificity and adequate cost support. Our review indicates that, as amended, the filing substantially complies with our filing requirements and contains sufficient information for us to perform a preliminary analysis of Penn Power's proposal. Jersey Central may argue for greater specificity in Penn Power's rate schedule at the hearing initiated below.

In addition, the Pennsylvania Boroughs urge us to reject the filing because it conflicts with a settlement under which Penn Power agreed to a rate moratorium. As we are dismissing Penn Power's request without prejudice to its resubmittal as a petition for a declaratory order, we will dismiss the motion to reject as moot.

Stand Alone Filing

Jersey Central requests that the Commission reject Penn Power's proposal to limit the scope of this proceeding to PBOP cost recovery only. Penn Power responds that the Policy Statement and Maine Yankee Atomic Power Company 5/ stand for the proposition that utilities may make stand alone PBOP filings that do not subject the other components of a formula rate to scrutiny under section 205 of the Federal Power Act, 16 U.S.C. § 824d (1994). We find that this proceeding should not be limited to PBOP cost-recovery only.

Penn Power suggests that the Policy Statement indicates that the Commission would be inclined to allow proceedings limited to PBOP cost-recovery only. We disagree. To the contrary, the Policy Statement expressly determined that allowing up to a three-year deferral provided an opportunity to incorporate PBOP cost recovery on an accrual basis in a general rate case where all costs could be evaluated. Moreover, while the Policy Statement adds that requests for PBOP only proceedings would be entertained on a case-by-case basis, Penn Power has provided no compelling reason to limit the Commission's review in this particular proceeding. Maine Yankee is also off-point. There,

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5/ 66 FERC ¶ 61,375, order on clarification, 68 FERC ¶ 61,190 (1994) (Maine Yankee).

the Commission approved a process which provides for limited cost support to be filed for future updates (a process which Penn Power is also proposing for future updates), but which also expressly cautioned that even such filings constituted filings under section 205. See 68 FERC at 61,958-59, see also 66 FERC at 62,252-53.

Jersey Central asserts that Penn Power's supplemental submission provides no additional basis to exempt Penn Power's rates from section 205 scrutiny. We agree. Penn Power has provided no adequate justification for the Commission to limit its review in this case. Section 205 review is also necessary if the Commission is to evaluate whether the proposed calculations of PBOP expenses are reasonable in light of their interaction with the other components of the rates.

In sum, in the hearing ordered below, the recovery of PBOP expenses in rates (including the recovery of the $4 million previously recovered and then refunded, and presently carried as a deferral) as well as the other components of the rates will be subject to full section 205 scrutiny.

Suspension and Hearing

Our preliminary review of Penn Power's filing indicates that Penn Power's rates have not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful. Accordingly, we will accept Penn Power's rates for filing, suspend them for one day, to become effective subject to refund, and set them for hearing, as ordered below.

In West Texas Utilities Company, 18 FERC ¶ 61,189 (1982), we explained that when our preliminary analysis indicates that the proposed rates may be unjust and unreasonable, but may not be substantially excessive, as defined in West Texas, we would generally impose a one day suspension. Here our preliminary examination indicates that the proposed rates may not be substantially excessive. Accordingly, we will suspend the proposed rates for one day to become effective November 1, 1995, subject to refund.

Waiver of Notice Requirements

Penn Power requests waiver of the Commission's 60-day prior notice requirement so that its proposal can become effective the day after the Commission issues its order herein. We find no justification for an abbreviated notice period. Accordingly, we will establish an effective date of November 1, 1995, reflecting a one day suspension following the required 60-days' prior notice.

The Commission orders:

(A) Penn Power's proposed amendments to its unit power sales agreements are hereby accepted for filing and suspended for one day, to become effective on November 1, 1995, subject to refund.

(B) Penn Power's request for clarification with respect to its rates to its requirements customers is hereby dismissed without prejudice, as, discussed in the body of this order. The Pennsylvania Boroughs motion to reject is hereby dismissed as moot.

(C) Pursuant to the authority contained and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission, by section 402(a) of the Department of Energy Organization Act and by the Federal Power Act, particularly sections 205 and 206, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R. Chapter 1), a public hearing shall be held in Docket No. ER95-1267-000 concerning the justness and reasonableness of Penn Power's rates, as discussed in the body of this order.

(D) A presiding administrative law judge, to be designated by the Chief Administrative Law Judge, shall convene a conference in this proceeding to be held within approximately fifteen (15) days from the date of this order, in a hearing room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426. The presiding judge is authorized to establish procedural dates, including a date for the submission of the company's case-in-chief, and to rule on all motions (except motions to dismiss) as provided for in the Commission's Rules of Practice and Procedure.

(E) Jersey Central's motion to reject is hereby denied.

(F) Penn Power's request for waiver of the 60-day prior notice requirement is hereby denied.

(G) Penn Power is hereby informed of the rate schedule designations as shown on Attachment A.

By the Commission.

(S E A L)

Linwood A. Watson, Jr.,
Acting Secretary.

Attachment A

Pennsylvania Power & Light Company
Docket No. ER95-1267-000
Rate Schedule Designations

	Designation	Customer/Description
(1)	Supplement No. 15 to Rate Schedule FERC No. 84	Jersey Central Power & Light - Projected Effect of SFAS 106 Costs on Contract Customer Billings for 1996
(2)	Supplement No. 7 to Rate Schedule FERC No. 85	Atlantic City Electric Company - Projected Effect of SFAS 106 Costs on Contract Customer Billings for 1996
(3)	Supplement No. 13 to Rate Schedule FERC No. 92	Baltimore Gas & Electric Company - Projected Effect of SFAS 106 Costs on Contract Customer Billings for 1996
(4)	Supplement No. 4 to Rate Schedule FERC No. 113	UGI Corporation Projected Effect of SFAS 106 Costs on Contract Customer Billings for 1996

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OCA-AD
FA84-12-000

Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, Pennsylvania 18101

DEC 11 1985

Attention: G. F. Vanderslice,
Vice President and Comptroller

Gentlemen:

The staff has made an examination of your Company's books and records relating to changes in the recorded cost of system-wide electric utility plant, Licensed Projects Nos. 487 and 1881 and the related accumulated provision for depreciation from January 1, 1976, through December 31, 1983.

The staff also made a selective examination of accounting policies, practices, procedures and internal controls to test overall compliance with the accounting and related regulations of the Commission.

Concurrent with the staff's examination of the licensed projects, the accounting for the amount established in Account 215.1, Appropriated retained earnings - Amortization reserve, Federal, pursuant to Section 10(d) of the Federal Power Act, as of December 31, 1983, was also examined.

A summary of the recorded cost of system-wide utility plant and licensed project plant and related accumulated provision for depreciation and staff adjustments thereto is as folows:

	Total System-wide Electric Plant	Total Project Plant
Approved as of December 31, 1975 1/	$2,429,588,867	$33,674,493
Net changes through December 31, 1983	4,072,394,857	4,638,826
Claimed as of December 31, 1983	6,501,983,724	38,313,319
Staff adjustments	20,618,950	-
Approved as of December 31, 1983	$6,481,364,774	$38,313,319

1/ Federal Energy Regulatory Commisssion letter directive dated September 18, 1978.

Accumulated Provision for Depreciation

	Total System-wide Electric Plant	Total Project Plant
Approved as of December 31, 1975 1/	$404,053,738	$13,717,506
Net changes through December 31, 1983	514,282,398	2,628,779
Claimed as of December 31, 1983	$918,336,136	$16,346,285

The details for the above balances as of December 31, 1983, are shown on attached Schedule Nos. 1, 1A and 1B. The detailed correcting entries are set forth on attached Schedule No. 2. These entries were agreed to by your Company, except for Entry Nos. 1, 2 and 3. The corrective action recommended by the staff, except as noted, is hereby approved and directed.

The examination of overall compliance with the accounting and related regulations of the Commission disclosed certain accounting and reporting exceptions. The compliance exceptions are shown on Schedule No. 3 and correcting entries are shown on Schedule No. 2. The corrective action recommended by the staff was agreed to by your Company except for Compliance Exception No. 1, Schedule No. 3, and Correcting Entry Nos. 1, 2, and 3 on attached Schedule No. 2. The corrective action recommended by the staff, except as noted, is hereby approved and directed.

The amounts recorded in Account 215.1, Appropriated retained earnings-Amortization reserve, Federal, pursuant to Section 10(d) of the Federal Power Act, and Commission Order No. 387 as of December 31, 1983, follow:

Project No.	Name	Amount
487	Wallenpaupack	$1,872,280
1881	Holtwood	1,190,543
	Total	$3,062,823

The staff review disclosed that the Company's computations were made in a manner consistent with applicable accounting principles, allocation procedures and legal precedents discussed or cited by the Commission in its Statement of Policy, Order No. 387, issued August 4, 1969, (42 FPC 329) and Commission Opinion Nos. 596 and 596A.

1/ Federal Energy Regulatory Commission letter directive dated September 18, 1978.

In the letter directive issued on September 18, 1978, approval of your Company's accounting for the allowance for funds during construction (AFUDC) was reserved pending further study. The current examination included a review of rates used to capitalize AFUDC for periods prior to 1978. By Order No. 561, issued February 2, 1977, the Federal Power Commission amended its accounting regulations to provide a formula for calculating the maximum allowable AFUDC rates. The staff determined that AFUDC rates used by the Company did not result in the capitalization of AFUDC in excess of that which would have been permissible at rates developed by the formula. Accordingly, the previous reservation of amounts capitalized at rates in excess of 6 1/2% is hereby withdrawn.

We note your disagreement with the staff in regard to Correcting Entry No. 1, 2 and 3 on Schedule No. 2 and Compliance Exception No. 1 on Schedule No. 3. Under these circumstances, the Company is hereby requested to notify the Commission in writing within 30 days from the date of this letter directive as to whether the Company consents to the disposition of these matters in accordance with the shortened hearing procedures set forth in Part 41, Accounts, Records and Memoranda, of the Commission's Regulations under the Federal Power Act (18 CFR 41.1, et. seq.).

The foregoing action is without prejudice to the right to require hereafter such adjustments as may be considered proper from additional information which may come to the attention of the Commission.

The agreement with or absence of objection to the foregoing, except as noted, including licensed project plant determination, by your Company and the Pennsylvania Public Utility Commission has been noted by the Commission and obviates the necessity for invoking the provisions of Sections 4.4, 4.5, 4.22 and 4.23 of the Commission's Regulations under the Federal Power Act.

By direction of the Commission.

Kenneth F. Plumb

Secretary

Attachments

Pennsylvania Power & Light Company — Schedule No. 1

Summary of Electric Utility Plant and Related Accumulated Provisions for Depreciation as of December 31, 1983

Account Number	Utility Plant	Recorded Balances	Staff Adjustments	Approved Balances
101	Plant in service			
	Nonproject	$4,690,548,379	$386,676,465	$5,077,224,844
	Licensed projects			
	Project No. 487	16,713,621	-	16,713,621
	Project No. 1881	20,518,573	-	20,518,573
105	Plant held for future use	33,370,210	-	33,370,210
107	Construction work in progress			
	Nonproject	1,729,142,345	(407,295,415)	1,321,846,930
	Licensed projects			
	Project No. 487	25,241	-	25,241
	Project No. 1881	1,055,884	-	1,055,884
120.1	Nuclear fuel in process of refinement conversion, enrichment and fabrication	10,609,471	-	10,609,471
	Total Plant	$6,501,983,724	$(20,618,950)	$6,481,364,774
	Accumulated Provision for Depreciation			
108	Accumulated provision for depreciation of electric utility plant			
	Nonproject	$ 901,989,851	$ -	$ 901,989,851
	Licensed projects			
	Project No. 487 (Wallenpaupack)	6,505,476	-	6,505,476
	Project No. 1881 (Holtwood)	9,840,809	-	9,840,809
	Total Accumulated Depreciation	$ 918,336,136	$ -	$ 918,336,136

Pennsylvania Power & Light Company

Schedule No. 1A

Project No. 487 - Wallenpaupack
Summary of Actual Legitimate Original Cost
as of December 31, 1983

Account Number	Title	Approved as of Dec. 31, 1975	Net Additions through Dec. 31, 1983	Recorded and Approved as of Dec. 31, 1983
	Hydraulic Production Plant			
330	Land and land rights	$ 2,533,534	$ (872)	$ 2,532,662
331	Structures & improvements	1,518,807	1,086,984	2,605,791
332	Reservoirs, dams & waterways	8,246,307	743,168	8,787,475
333	Water wheels, turbines & generators	580,140	(5,977)	574,163
334	Accessory electric equipment	282,089	638,897	920,985
335	Miscellaneous power plant equipment	124,103	49,370	173,473
336	Roads, railroads & bridges	174,322	-	174,322
	Total Hydraulic Production Plant	$13,459,302	$ 2,511,570	$15,970,872
	Transmission Plant			
352	Structures & improvements	24,473	(24,473)	-
353	Station equipment	658,576	(658,576)	-
	Total Transmission Plant	$ 683,049	$ (683,049)	$ -
	Distribution Plant			
361	Structures & improvements	72,480	35,278	107,758
362	Station equipment	128,735	506,256	634,991
	Total Distribution Plant	$ 201,215	$ 541,534	$ 742,749
	General Plant			
394	Tools, shop, & garage equipment	292	(292)	-
397	Communication equipment	18,771	(18,771)	-
398	Miscellaneous equipment	-	-	-
	Total General Plant	$ 19,063	$ (19,063)	$ -
	Total Account 101 - Electric plant in service	$14,362,629	$ 2,350,992	$16,713,621
	Total Account 107 - Construction work in progress	$ 77	$ 25,164	$ 25,241
	Total Project Plant	$14,362,706	$ 2,376,156	$16,738,862

Pennsylvania Power & Light Company

Schedule No. 1B

Project No. 1881 - Holtwood
Summary of Actual Legitimate Original Cost
as of December 31, 1983

Account Number	Title	Approved as of Dec. 31, 1975	Net Additions through Dec. 31, 1983	Recorded and Approved as of Dec. 31, 1983
	Intangible Plant			
303	Miscellaneous plant	$ 21,414	$ -	$ 21,414
	Total Intangible Plant	$ 21,414	$ -	21,414
	Hydraulic Production Plant			
330	Land and land rights	$ 2,034,511	$ 77,852	$ 2,132.363
331	Structures & improvements	1,863,869	439,886	2,303,755
332	Reservoirs, dams & waterways	6,515,951	593,355	7,109,306
333	Water wheels, turbines & generators	5,346,168	(54,514)	5,291,654
334	Accessory electric equipment	1,582,915	241,665	1,824,580
335	Miscellaneous power plant equipment	446,802	440,256	887,058
336	Roads, railroads & bridges	91,817	289	92,106
	Total Hydraulic Production Plant	$17,882,033	$1,758,789	$19,640,822
	Transmission Plant			
352	Structures & improvements	38,149	-	38,149
353	Station equipment	832,912	(14,725)	818,187
	Total Transmission Plant	$ 871,061	$ (14,725)	$ 856,336
	General Plant			
397	Communication equipment	9,251	(9,251)	-
	Total General Plant	9,251	(9,251)	-
	Total Account 101 - Electric plant in service	18,783,759	1,734,814	20,518,573
	Total Account 107 - Construction work in progress	528,028	527,856	1,055,884
	Total Project Plant	$19,311,787	$2,262,670	$21,574,457

Correcting Entries as of December 31, 1983

Account Number	Description	Debit	Credit
	Entry No. 1		
101	Electric plant in service	$387,595,075	
107	Construction work in progress-Electric		$387,595,075
	To reclassify the investment in common plant facilities at the Susquehanna Plant as of December 31, 1983. Susquehanna Unit No. 1 was declared in-service on June 8, 1983. The Company improperly retained 50% of its investment in common facilities in Account 107 pending completion of Susquehanna Unit No. 2. (Refer to Compliance Exception No. 1 for further details.)		
	The Company did not agree with the staff's recommendation.		

Number	Description	Debit	Credit
	Entry No. 2		
186	Miscellaneous deferred debits	$ 19,700,340	
107	Construction work in progress-Electric		$ 19,700,340

To reclassify carrying charge accruals on the investment in common facilities at the Susquehanna Plant which were improperly retained in Account 107, Construction work in process, after the in-service date of Unit No. 1.

The above correction reflects carrying charges accrued through December 31, 1983. The actual adjustment should reclassify carrying charges accrued through the date that the correcting entry is made. In addition, entries should be made to further reclassify the carrying charge accruals from Account 419.1, Allowance for other funds used during construction and 432, Allowance for borrowed funds used during construction-Credit, to Account 421, Miscellaneous nonoperating income, for both past periods and that of the current year.

The balance in Account 186 should be amortized to Account 406, Amortization of electric plant acquisition adjustments over the remaining depreciable book life of the property. (Refer to Compliance Exception No. 1, Schedule No. 3 for more details.)

The Company did not agree with the staff's recommendation.

Number	Description	Debit	Credit
	Entry No. 3		
186	Miscellaneous deferred debits	$ 898,965	
101	Electric plant in service		$ 898,965
	To reclassify carrying charges recorded on common facilities after the in-service date of Martins Creek Unit No. 3.		
	The balance in Account 186 should be amortized to Account 406, Amortization of electric plant acquisition adjustments over the remaining depreciable book life of the property. (Refer to Compliance Exception No. 1, Schedule No. 3 for further details.)		
	The Company did not agree with the staff's recommendation.		
	Entry No. 4		
421	Miscellaneous nonoperating income	405,889	
186	Miscellaneous deferred debits		405,889
	To correct the accrual of carrying charges on deferred charges associated with Susquehanna Unit No. 1 from the beginning of commercial operation until the unit was allowed in rates by the Pennsylvania Public Utility Company.		
	The Company's computation of carrying charges should have been based upon the procedures for computing AFUDC. The Company improperly included in the base for computing carrying charges for the month of June 1983 the total amount of AFUDC as of May 31, 1983. Under the provisions for computing AFUDC, only the January 1, 1983, balance of AFUDC should have been included in the investment base.		

Account Number	Description	Debit	Credit
	Entry No. 5		
190	Accumulated deferred income taxes	$ 509,938	
283	Accumulated deferred income taxes-Other		$ 509,938
	To reclassify deferred income taxes applicable to deferred compensation payments, severance pay, etc. to the proper account.		
	Entry No. 6		
410.1	Provision for deferred income	73,180	
282	Accumulated deferred income taxes-Other property		73,180
	To record deferred income taxes applicable to the Class Life System and cost of removal differences which were normalized for wholesale rates. (Refer to Compliance Exception No. 3, Schedule No. 3 for further details.)		

Account Number	Description	Debit	Credit
	Entry No. 7		
409	Income taxes, utility operating income	$ 420,150	
255	Accumulated deferred investment tax credits	420,150	
236	Taxes accrued		$ 420,150
411.4	Investment tax credit adjustments, utility operations		420,150
	To correct the tax accounts so as to properly reflect the amounts claimed on the 1980 Federal income tax return.		
	The Company recorded an adjustment of investment tax credits (ITC) in Account 255, Accumulated deferred investment tax credits, after it filed its 1980 Federal income tax return. The adjustment failed to take into account a journal entry recorded in July 1981, which increased the amount of ITC recorded by $420,150 applicable to the 1980 tax year. As a result, the amount of ITC recorded in Account 255 was overstated by the above amount.		
	Entry No. 8		
419.1	Allowance for other funds used during construction	11,826	
432	Allowance for borrowed funds used during construction-Credit	7,819	
101	Electric plant in service		19,645
	To reverse AFUDC improperly capitalized on unpaid accruals.		

Account Number	Description	Debit	Credit
	Entry No. 9		
190	Accumulated deferred income taxes	$ 386,746	
253	Other deferred credits		$ 386,746
	To reclassify deferred income taxes applicable to the book/ tax timing difference for decommissioning costs of Susquehanna Nuclear Plant Unit No. 1. The above amount reflects the tax effects of the decommissioning accruals permitted in rates through December 31, 1983. The actual adjustment shall reclassify any book/tax timing differences as of the date of the correction. (Refer to Compliance Exception No. 2, Schedule No. 3 for further details.)		
	Entry No. 10		
255	Accumulated deferred investment tax credits	22,681,903	
253	Other deferred credits		22,681,903
	To reclassify deferred amounts recorded as investment tax credits to the proper account. (Refer to Compliance Exception No. 8 on Schedule No. 3 for further details.)		

Compliance Exceptions

The Company has agreed to take corrective action on the following compliance exceptions, except for item No. 1.

1. Accounting for common facilities

The Company improperly classified a portion of its investment in common facilities in two generating plants in Account 107 after the in-service date of the first unit at each station. In addition, the Company improperly classified accruals of carrying charges permitted by the Pennsylvania Public Utility Commission (PPUC) in the accounts established for allowance for funds used during construction.

a.) Susquehanna Nuclear Plant consists of two generating units. Susquehanna Unit No. 1 was placed into commercial operation on June 8, 1983. Susquehanna Unit No. 2 was still under construction as of the audit completion date.

At the time Susquehanna Unit No. 1 was place in service, the Company transferred only one-half of the cost of common facilities at the Susquehanna Plant to Account 101, Electric plant in service. The balance of the investment in the common facilities remained recorded in Account 107, Construction work in progress-Electric. The Company planned to transfer the remaining amount to Account 101 concurrent with the in-service date of Unit No. 2. The investment in common facilities which was retained in Account 107 continued to accrue allowance for funds used during construction (AFUDC).

b.) Martins Creek Unit Nos. 3 and 4 were built at the same time. Unit No. 3 went in service on October 15, 1975. The Company accrued AFUDC on plant facilities common to Martins Creek Unit Nos. 3 and 4 after the in-service date of Unit No. 3.

The Company's accounting for the common facilities is based upon Pennsylania Public Utility Commission (PUC) rate orders, involving generating stations where two units were being constructed. In these cases, the PUC allowed only one half of the cost of common facilities to be included in rate base concurrent with the in-service of the first unit.

The Company's accounting for the common facilities related to the Susquehanna and Martins Creek projects is not in accordance with the instructions to Account 107 of the Uniform System of Accounts. Instruction B to Account 107 states, in part, "...if a project, such as a hydroelectric project, a steam station or a transmission line, is designed to consist of two or more units or circuits which may be placed in service at different dates, any expenditures which are common to and which will be used in operation of the project as a whole shall be included in electric plant in service upon the completion and the readiness of service of the

first unit. Any expenditures which are identified exclusively with units of property not yet in service shall be included in this account."

In addition, the Company's accounting for the accrual of AFUDC on the balance of the investment in common facilities included in Account 107 after the in service date of Susquehanna Unit No. 1, and Martins Creek Unit No. 3 is contrary to the requirements of Electric Plant Instruction 3(17) of the Uniform System of Accounts. EPI 3(17) states, in part, "Allowance for funds used during construction includes the net cost for the period of construction...." The construction period for the investment in common facilities ended with the in-service dates of Susquehanna Unit No. 1 and Martins Creek Unit No. 3. Therefore, AFUDC on the total investment in common facilities should have been ceased at the in-service dates of the related units.

In Docket No. EL80-4, issued November 19, 1980, to Metropolitan Edison Company the Commission ordered, under similar circumstances, that AFUDC accrued on common facilities after the in-service date of the first unit should be recorded in Account 186, Miscellaneous deferred debits.

The staff recommended that the Company (1) revise its procedures to account for the cost of common facilities in accordance with the instruction to Account 107 in the future, and (2) record Correcting Entries Nos. 1, 2 and 3 shown on Schedule No. 2 to properly state the accounts related to common plant and carrying charges as of December 31, 1983.

2. Accounting for deferred income taxes related to decommissioning costs

The Company was allowed to collect a provision in rates for the cost of decommissioning the Susquehanna Nuclear Plant Unit No. 1 by the Pennsylvania Public Utility Commission (PPUC) in Docket No. R-822169, effective August 22, 1983. Further, the PPUC approved the Company's proposal that an escrow account be set up and amounts collected from customers be placed in this account for investment in tax-free securities.

The Company recorded the accrual for decommissioning costs by debiting Account 524, Miscellaneous nuclear power expense, and crediting Account 253, Other deferred credits. The accrual for the related deferred income taxes was recorded by debiting Account 253 and crediting Account 411.1, Provision for deferred income taxes-Credit, utility operating income.

The Company's accounting for deferred income taxes related to decommissioning costs was not in accordance with General Instruction No. 18E of the Uniform System of Accounts, which provides that such tax effects be recorded in Account 190, Accumulated deferred income taxes.

The staff recommended that the Company: (1) establish procedures to classify the tax effects of future decommissioning costs accruals in Account 190 to the extent there is a book/tax timing difference, and (2) record Correcting Entry No. 9 to properly reclassify the tax effects of decommissioning cost accruals as of December 31, 1983.

3. Accounting for deferred income taxes

In January 1981, the Pennsylvania Public Utility Commission in Docket No. R-80031114 denied the Company recovery of normalized tax benefits produced by the Class Life Asset Depreciation Range (ADR) provisions of the Internal Revenue Code. The Company ceased the recording of deferred taxes related to ADR timing differences on a total (both retail and wholesale) basis as of January 1, 1981.

The FERC had authorized normalized recovery in rates of tax benefits of ADR in Docket No. ER76-826, which was in effect from November 2, 1976, through August 9, 1981. The Company ceased collecting normalized taxes in the wholesale cost-of-service in Docket No. ER81-392.

General Instruction 18C of the Uniform System of Accounts states that "Should the utility be subject to more than one agency having rate jurisdiction, its accounts shall appropriately reflect the ratemaking treatment (deferral or flow-through) of each jurisdiction." Under this requirement, the Company should have recorded deferred income taxes related to normalized tax benefits produced by Class Life System and cost of removal for the period January 1, through August 9, 1981, as related to FERC jurisdictional business.

The staff recommended that the Company: (1) revise its procedures to comply with General Instruction No. 18C in the future, and (2) record Correcting Entry No. 6 on Schedule No. 2 to restate deferred income taxes.

4. Accounting for income tax deferrals

The Pennsylvania Public Utility Commission, in rate Order No. R-822169, issued August 1983, required that accumulated deferred income taxes in excess of balances computed at the current Federal income tax rate of 46% be amortized over a five year period to income.

In September 1983, the Company began amortization of accumulated deferred income taxes which exceeded amounts required at the current Federal income tax rate (46%). The amortization included amounts applicable to FERC jurisdictional rates, as well as retail rates.

Instruction D to Account 282, Accumulated deferred income taxes-Other property, states, in part, "The utility is restricted in its use of this account to the purposes set forth above. It shall not transfer the balance in this account or any portion thereof to retained earnings or make any use thereof except as provided in the text of this account without prior approval of the Commission." The Company did not obtain Commission approval to amortize the portion of deferred taxes related to wholesale sales.

The staff recommended that the Company: (1) record a correcting entry to reverse the adjustment recorded in 1982 for 1983, and (2) retain this balance in Account 282 until further disposition has been approved by the Commission.

5. Accounting for power used in aid of construction

The Company owned a 90 percent ownership interest in the Susquehanna Plant, with Allegheny Electric Cooperative, Inc. (Allegheny) owning the remaining 10 percent interest.

The Company provided electric power to the Susquehanna Unit No. 1 and Unit No. 2 construction sites and charged the power to the work orders based upon large power and general service retail rate schedules. The total charges for construction power were accumulated in the work orders, with Allegheny then billed its proportionate share.

The Company's accounting was not in compliance with electric Plant Instruction No. 2 which states in part "...electric plant shall be included in the account at the cost incurred by the utility". The staff's opinion was that power provided for use at construction sites should be charged at the incremental costs incurred by the utility to produce such power.

The staff recommended that the Company revise its procedures to require that all power provided for construction sites be charged at the incremental cost incurred to produce such power. The staff did not recommend an adjustment to the plant accounts because the Company provided documentation showing that the offsetting credit amounts were included as operating revenues for ratemaking purposes.

6. Billings to Atlantic City Electric Company

The Company's billings to Atlantic City Electric Company for August and September 1983 under the capacity and energy sales agreement dated September 24, 1979 contained certain errors in the

calculation of the operation and maintenance expense component of the billings. As a result, the Company overbilled Atlantic City Electric Company by $49,600.

The staff recommended that the Company refund the overbilled amounts to Atlantic City Electric Company. In accordance with the terms of the contract, no provision for any interest need be applied to the adjustment. The Company corrected the billings to Atlantic City in July 1984.

7. Interest on past due electric billings

The Company accounted for interest accrued on billings to Atlantic City Electric Company, which were past due as a result of a contract dispute, by crediting such amounts to Account 419, Interest and dividend income. The amount of interest recorded in Account 419 during the period of dispute was $129,340.

The Uniform System of Accounts requires that additional charges imposed because of the failure of customers to pay electric bills on or before a specified date be recorded in Account 450, Forfeited discounts.

The staff recommended that the Company comply with the requirements of the Uniform System of Accounts and record interest derived on past due electric billings in Account 450 in the future.

8. Improper amounts recorded in Account 255, Accumulated deferred investment tax credits

The Company filed a consolidated federal income tax return with its subsidiaries. During the audit period, the Company included $22,681,903 in Account 255, Accumulated deferred investment tax credits, based upon a calculation of investment tax credits (ITC) which could have been available had the Company filed a separate federal income tax return. The amounts were not utilized to compute the Company's consolidated Federal income tax liability. In the opinion of the staff, only utilized ITC should be recorded in Account 255.

The staff recommended that the Company: (1) cease the practice of recording unutilized ITC in Account 255 and (2) record Correcting Entry No. 10 on Schedule No. 2 to reclassify these amounts to the proper account.