BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 8

Direct Testimony of Joseph R. Schadt

Q. Please state your full name and business address.

A. Joseph R. Schadt, Two North Ninth Street, Allentown, Pennsylvania, 18101

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company ("PP&L" or the "Company") as Manager-Financial Support Services in the Company's Financial Department.

Q. Please describe your educational background and employment history.

A. I received a Bachelor's Degree in Accounting from Wake Forest University in May 1979. Upon graduation, I worked for Duke Power Company for two years in its Accounting Systems and Forecasting departments. In July 1981, I began working for PP&L.

Q. Please describe your employment history with the Company.

A. I began my employment with the Company as an Accountant in the General Accounting Department and remained there for four years, progressing to the position of Senior Accountant. In General Accounting, I participated in the maintenance and closing of the Company's books and records and had primary responsibility for the calculation of the actual cost components of the Energy Cost Rate, unbilled revenues and the miscellaneous billing function. Subsequently, I transferred to the Financial Reporting Department where I remained for nine years. I was promoted to Accounting Analyst in Financial Reporting and my responsibilities included the completion and filing of the Company's Annual Report to Shareowners, Forms 10-Q and 10-K for the Securities and Exchange Commission and FERC Form 1. Through my

experience in General Accounting and Financial Reporting, I was able to develop a thorough knowledge of accounting and reporting concepts applicable to the electric utility industry in general and PP&L in particular. In November 1994, I was promoted to the position of Supervisor--Accounting Research. In this position, I had primary responsibility for developing the Company's position on open accounting issues applicable to the industry. In addition, I was significantly involved in special projects, such as transmission access and other deregulation issues. In February 1996, I was promoted to my current position, Manager--Financial Support Services. In this position, I have primary responsibility for the Company's financial forecasting, budgeting and business planning functions. Additionally, my department continues to have primary responsibility for accounting research and the analysis of the financial implications due to the deregulation of the generation portion of the electric utility industry.

Q. Please describe any memberships in professional or industry associations.

A. I am currently a member of the Accounting Standards Committee and the Nuclear Decommissioning task force of the Edison Electric Institute.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony and accompanying exhibit describe and support the Company's calculation of "stranded costs" as provided for in the Electricity Generation Customer Choice and Competition Act (the "Act").

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines submitted in Exhibit 2?

A. Yes. Under the caption entitled Restructuring Issues, I am responsible for the following guidelines: RP-D.5., G.4., L.1., L.2., L.3., L.4., L.5., L.7., L.8., L.10., L.11., and L.17.

Q. Please summarize your testimony.

A. Applying the definition of transition or stranded costs set forth in the Act, PP&L's stranded costs at January 1, 1999 before mitigation equal $5.6 billion. Future initiatives to mitigate stranded costs are described in Mr. Hill's testimony and reduce PP&L's stranded costs at January 1, 1999 to $4.6 billion.

Q. What costs are included in the Company's claim?

A. As provided for in the Act, the Company's claim is comprised of (1) regulatory assets and other deferred charges typically recoverable under traditional regulation, and cost obligations under Commission-approved contracts with non-utility generators ("NUGs"); (2) prudently-incurred costs related to cancellation, buyout, buydown or renegotiation of NUG contracts and (3) net plant investments and operating costs associated with existing generation plants and facilities, disposal of spent nuclear fuel, decommissioning costs associated with existing generating plants, and other transition costs, including severance, early retirement, outplacement and related costs for employees who are affected by changes that are expected to occur as a result of the restructuring of the electric utility industry pursuant to the Act.

I have segregated the calculation of PP&L's stranded costs into the following four areas:

- Nuclear generation
- Fossil generation
- NUGs
- Generation-related regulatory assets

The fossil category includes the Company's coal-fired, oil-fired, hydroelectric, combustion turbine and diesel generating facilities.

Q. Please describe the Company's methodology for determining stranded costs.

A. As explained in the Act, stranded costs are the present value of net generation-related costs that would be recoverable under traditional regulation but may not be recoverable in a competitive market and that remain after mitigation efforts. The methodology for calculating nuclear generation plant and fossil generation plant stranded costs compares the annual revenue requirements for each generating plant to the projected annual revenues each plant would receive from the sale of its output using market-based prices for each year beginning January 1, 1999 to the end of its remaining service life. A PUC jurisdictional percentage was applied to the annual excess or deficiency. The calculation of the PUC jurisdictional percentage is explained in Mr. Kleha's testimony and exhibits. The resulting stream of annual excesses or deficiencies was discounted to present value. This present value figure is the PUC jurisdictional amount of stranded costs for nuclear generating plants and fossil generating plants.

For NUGs, I compared the expected annual cost of the output that PP&L is required to purchase under each NUG contract from January 1, 1999 through

the end of the initial contract term to the annual revenues from the sale of such output using market-based prices. To the resulting deficiency, I added the annual payments to be paid after December 31, 1998 for two NUG buyouts recently negotiated by the Company. A PUC jurisdictional percentage was applied to the total annual deficiency. The resulting stream of annual deficiencies was discounted to present value. This present value figure is the PUC jurisdictional amount of stranded costs for NUGs.

For generation-related regulatory assets, I determined the annual amortization that would be charged to expense beginning January 1, 1999 under traditional cost-based regulation. A PUC jurisdictional percentage was applied to the amortization. The resulting stream of annual amortizations was discounted to present value. This present value figure is the PUC jurisdictional amount of stranded costs for generation-related regulatory assets.

Q. Have you prepared an exhibit setting forth the results of the Company's stranded costs?

A. Yes. Exhibit JRS 1 shows the stranded costs by the four categories I previously identified: nuclear generation, fossil generation, non-utility generation, and regulatory assets. It includes detailed calculations by plant, by NUG, and by generation-related regulatory asset. For each category, I compared the revenue requirements to competitive market revenues. The Economics Resources Group, Inc. ("ERG") calculated the market revenues, which include components for energy and capacity. See PP&L's response to the Commission's filing

guidelines at Appendix A, Section L, Item 9 for detailed information regarding market revenues.

Nuclear Generation

Q. Please describe in more detail the calculation of the annual revenue requirements for nuclear generation.

A. The annual revenue requirements for nuclear generation include the following cost components:

- Return on investment
- Income taxes associated with the return on investment
- Depreciation
- Fuel expense
- Operation and maintenance expense
- Decommissioning costs
- Taxes other than income

A summary of the annual revenue requirements for nuclear generation is provided in Tab C of Exhibit JRS 1.

Return on Investment

I calculated the return on investment for each year beginning January 1, 1999 to the end of the generating units' lives by multiplying the Company's nuclear rate base by the Company's weighted cost of capital at December 31, 1996. Details of the weighted cost of capital are provided in Tab A of Exhibit JRS 1. Capital structure and the embedded cost of debt and preferred stock were supplied by the Company's Financial Department. The cost of equity (11.5%) is the allowance in the Company's most recent base rate case at Docket No. R-00943271 and is discussed in the testimony of Mr. Moul.

Nuclear rate base includes the net book value of nuclear generation plant, capitalized software costs related to nuclear operations included in intangible plant, an allocated portion of general plant supporting nuclear generation, nuclear plant materials and supplies inventory, and prepayments applicable to nuclear generation operations less accumulated deferred income taxes applicable to nuclear generation plant.

The starting point for the calculation is the net book value of the Company's nuclear generation plant, intangible plant and general plant at December 31, 1996, derived from the Company's books and records. Net book value was reduced to reflect a reclassification of the nuclear depreciation reserve from transmission and distribution depreciation reserves, which is one of the Company's mitigation strategies. Budgeted capital additions for 1997 were provided by the Company's Nuclear Department and future capital additions were projected by escalating 1997 budgeted additions by 2.5%. According to

the Nuclear Department, the 1997 budgeted additions are representative of annual amounts needed to operate properly and maintain the Susquehanna plant. The escalation factor of 2.5% is an estimate of the average long-term inflation rate and was provided by ERG. Depreciation is described more fully below, but essentially is calculated using straight-line depreciation over the remaining life of the plant (the book lives end on July 17, 2022 for Unit 1 and March 23, 2024 for Unit 2), plus, in 1997 and 1998, the additional depreciation related to the modified sinking fund method of depreciation, which converts to straight-line depreciation in 1999. The accumulated deferred income taxes applicable to nuclear generation were projected as of the end of each year. The amount of prepayments related to nuclear operations and material and supplies inventory was calculated by taking the average balance for the 13-month period ended December 31, 1996 and escalating that amount at a 2.5% rate for the remaining life of the plant.

In summary, the Company's nuclear rate base at the end of each year is the sum of the net book value of nuclear generation plant, computer software used in nuclear generation and included in intangible plant, an allocated portion of general plant, nuclear plant materials and supplies inventory, and prepayments applicable to nuclear generation operations less accumulated deferred income taxes applicable to nuclear generation plant

Income Taxes Associated with the Return on Investment

In contrast to the other items of revenue discussed herein, there is no corresponding item of expense deductible for income tax purposes for the return on equity capital. To ensure that the equity investors receive the after-tax return on their investment, I grossed up the revenue requirement for Federal and State income taxes payable on the return. I calculated the amount of the "gross up" using the following formula:

$$\text{Gross Up} = \frac{\text{After-Tax Return on Equity Capital}}{\text{(1 minus Effective Income Tax Rate)}} \text{ minus } \text{After-Tax Return on Equity Capital}$$

The Effective Income Tax Rate is 41.4935%, calculated as follows:

Statuatory Federal tax rate	35.0000%
Statuatory State tax rate	9.9900%
Less: Impact of State tax deduction for Federal taxes	-3.4965%
Effective income tax rate	41.4935%

In accordance with Federal income tax law, the PUC allowed the Company to return the benefit of the Federal investment tax credit to ratepayers ratably over the life of the assets that generated the credit.

Therefore, total income taxes were reduced by the amortization of investment tax credits applicable to nuclear generation. The amortization of investment tax credits uses the straight-line methodology over the lives of the related assets.

Depreciation

Depreciation represents the return to the Company of its investment in nuclear generation facilities and, beginning January 1, 1999, is calculated using the

straight-line depreciation methodology over the lives of the generating units (the scheduled retirement dates are July 17, 2022 for Unit 1 and March 23, 2024 for Unit 2). The effect of the reserve reclassification is not reflected in the depreciation basis; this effectively mitigates nuclear stranded costs by $317 million. Depreciation also includes the depreciation of the Company's general plant allocated to nuclear generation and the depreciation of computer software included in intangible plant. Depreciation of general plant is calculated using the straight-line methodology over the book life, through June 30, 2044, and computer software included in intangible plant is depreciated on a straight-line method over five years. All capital additions are assumed to be placed in service in the middle of the year; accordingly, one-half year of depreciation is calculated on each year's capital additions.

Fuel Expense

I obtained projected nuclear fuel costs for the Susquehanna plant from the Company's Nuclear Department. Fuel expense is calculated by multiplying a mills/kwh rate by the expected kwh output. Expected kwh output is calculated using a 78% capacity factor, which is the average actual capacity factor for 1993-1996 and is representative of the capacity factor the Nuclear Department believes will be attained in the future.

Operation and Maintenance Expense

I obtained annual projected operation and maintenance expenses for the Susquehanna plant from the Company's Nuclear Department. These expenses include payroll taxes and employee benefits. The annual projected operation and maintenance expenses were derived by escalating 1997 budgeted operation and maintenance expenses at the rate of 2.5%. I projected annual administrative and general costs of the Company and allocated a portion to nuclear generation (see Mr. Kleha's testimony and exhibits for an explanation of allocation factors). Through 2001, administrative and general costs are projected to decline as the Company re-engineers its processes in preparation for competition. Beginning in 2002, administrative and general costs escalate at a 2.5% annual rate.

Nuclear Decommissioning

I included in annual nuclear decommissioning expense the amount that the Company is recovering in its existing retail and wholesale rates and then adjusted revenue requirements to the applicable PUC jurisdictional portion.

Taxes Other Than Income

I calculated the annual expense for taxes other than income. Taxes other than income applicable to nuclear generation include an allocated portion of the Company's expense for Pennsylvania capital stock tax and Pennsylvania public

utility realty tax. I escalated these taxes at a rate of 2.5% for the remaining lives of the nuclear generating units.

Fossil Generation

Q. Please describe in more detail the calculation of the annual revenue requirements for fossil generation.

A. The methodology is essentially the same as the methodology used for nuclear generation. The annual revenue requirements for fossil generation include the following cost components:

- Return on investment
- Income taxes associated with the return on investment
- Depreciation
- Fuel expense
- Operation and maintenance expense
- Decommissioning costs
- Taxes other than income

A summary of the annual revenue requirements for fossil generation is provided in Tab D of Exhibit JRS 1.

Return On Investment

I calculated the return on investment for each year beginning January 1, 1999 to the end of the life of each fossil, hydroelectric, combustion turbine and diesel generating plant (fossil plants) by multiplying the Company's fossil rate base by

the Company's weighted cost of capital at December 31, 1996. Details of the weighted cost of capital are provided in Tab A of Exhibit JRS 1. Capital structure and the embedded cost of debt and preferred stock were supplied by the Company's Financial Department. The cost of equity (11.5%) is the allowance in the Company's most recent base rate case at Docket No. R-00943271 and is discussed in the testimony of Mr. Moul.

Fossil rate base includes the net book value of fossil generation plant, an allocation portion of general plant supporting fossil generation, fossil plant fuel inventory, materials and supplies inventory, and prepayments applicable to fossil plant generation operations less accumulated deferred income taxes applicable to fossil generation plant.

The starting point for the calculation is the net book value of the Company's fossil generation plant and general plant at December 31, 1996, derived from the Company's books and records. Projected capital additions are detailed in PP&L's five-year construction budget for 1997-2001, with minor adjustments to reflect updated information provided by the Power Production and Engineering Department. For example, clean air compliance costs in the 1997-2001 construction budget exclude costs for Selective Catalytic Reduction (SCR) to better reflect current compliance strategies. Beyond 2001, capital additions have been forecast on an individual plant basis through their remaining book lives by the Power Production and Engineering Department. Depreciation is described more fully below but essentially is calculated using straight-line depreciation over the remaining life of the plants. The accumulated deferred

income taxes applicable to fossil plant generation were projected as of the end of each year. The amount of prepayments related to fossil plant operations and fuel and material and supplies inventory was calculated by taking the average balance for the 13-month period ended December 31, 1996 and escalating that amount at a 2.5% rate for the remaining lives of the plants.

In summary, the Company's fossil rate base at the end of each year is the sum of the net book value of fossil generating plant, and allocated portion of general plant, fossil plant fuel and materials and supplies inventory, and prepayments applicable to fossil generation operations less accumulated deferred income taxes applicable to fossil generation plant.

Income Taxes Associated with the Return on Investment

In contrast to the other items of revenue discussed herein, there is no corresponding item of expense deductible for income tax purposes for the return on equity capital. To ensure that the equity investors receive the after-tax return on their investment, I grossed up the revenue requirement for Federal and State income taxes payable on the return. I calculated the amount of the "gross up" using the following formula:

$$\text{Gross Up} = \frac{\text{After-Tax Return on Equity Capital}}{\text{(1 minus Effective Income Tax Rate)}} \text{ minus } \text{After-Tax Return on Equity Capital}$$

The Effective Income Tax Rate is 41.4935%, calculated as follows:

Statuatory Federal tax rate	35.0000%
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Less: Impact of State tax deduction for Federal taxes	-3.4965%
Effective income tax rate	41.4935%

In accordance with Federal income tax law, the PUC allowed the Company to return the benefit of the Federal investment tax credit to ratepayers ratably over the life of the assets that generated the credit.

Therefore, total income taxes were reduced by the amortization of investment tax credits applicable to nuclear generation. The amortization of investment tax credits uses the straight-line methodology over the lives of the related assets.

Depreciation

Depreciation represents the return to the Company of its investment in fossil generation facilities and is calculated using the straight-line depreciation methodology over the lives of the generating plants. Depreciation also includes the depreciation of the Company's general plant allocated to fossil generation. Depreciation of general plant is calculated using the straight-line methodology over the book life, through June 30, 2044. All capital additions are assumed to be placed in service in the middle of the year; accordingly, one-half year of depreciation is calculated on each year's capital additions.

Fuel Expense

The Power System Support Department, in cooperation with ERG, used the Electric Generation Expansion Analysis System (EGEAS) to model the Pennsylvania-New Jersey-Maryland power pool operations over time. Outputs from the EGEAS model include the estimated amount of energy that each plant within PJM will produce, fuel costs, and each plant's projected capacity factor. See PP&L's response to the Commission's filing guideline at Appendix A, Section L, Item 9 for detailed information about the outputs of the EGEAS model.

Operation and Maintenance Expense

I obtained annual projected operation and maintenance expenses from the Company's Power Production and Engineering Department. These expenses include payroll taxes and employee benefits. For 1997 through 2001, the Company has an operation and maintenance plan, which reflects specific costs designed to achieve certain availability goals. Beyond that time frame, direct operation and maintenance costs are escalated at the rate of 2.5%, with certain adjustments. For example, in 2004, operation and maintenance costs are increased to reflect the installation of additional equipment to comply with clean air requirements. Other minor adjustments to reflect timing differences between plant outages also are incorporated. In addition, operation and maintenance costs are projected to begin to decline in the two years before a plant is retired. Because all plants are projected to retire on June 30 of their retirement year, operation and maintenance costs in that final year are one-half the annual level. I calculated the projected annual administrative and general costs of the

Company and allocated a portion to fossil generation (see Mr. Kleha's testimony and exhibits for an explanation of allocation factors). Through 2001, these costs are projected to decline as the Company as it prepares for competition. Beginning in 2002, administrative and general costs are calculated to escalate at a 2.5% rate.

Fossil Plant Decommissioning

I included the projected cost of decommissioning for each coal-fired and oil-fired generating plant beginning in the last year of the plant's remaining life. The decommissioning activities are projected over a 3-year period. Consequently, 40% of the projected cost is included in the last year of the plant's life, 40% in the subsequent year and 20% in the following year. In conjunction with PP&L's most recent base rate case at Docket No. R-00943271, PP&L submitted a study that estimated the Company's decommissioning costs for its wholly-owned fossil plants. See PP&L's response to the Commission's filing guideline at Appendix A, Section L, Item 2 for the decommissioning study completed for fossil plants. Decommissioning estimates for Keystone and Conemaugh are based on a 1996 study conducted by an independent consultant and well provided by the plant operator.

Taxes Other Than Income

I calculated the annual expense for taxes other than income. Taxes other than income applicable to fossil plant generation include an allocated portion of the Company's expense for Pennsylvania capital stock tax and Pennsylvania public utility realty tax. I escalated these taxes at a rate of 2.5% for the remaining lives of the fossil generation plants.

Contracts with NUGs

Q. Please describe the stranded cost NUG calculation.

A. I calculated stranded costs associated with NUG contracts by comparing the difference between the contract cost of output purchased from NUGs, beginning January 1, 1999 through the end of the contract terms, to the market value of that output. I adjusted this difference for the PUC jurisdictional portion and discounted the difference to determine the present value at January 1, 1999. In addition, I included the present value of payments occurring after December 31, 1998 for buyout costs associated with two NUG contracts discussed below. A summary of NUG costs is provided at Tab E of Exhibit JRS 1.

Purchases

I calculated the amount the Company will have to pay to each NUG, in most cases, by multiplying the estimated output purchases from the NUG by the contract price. Annual output purchased from each NUG is estimated to equal

the average annual generation during the three years 1994-1996 and is assumed to continue at this level until the contract ends.

This approach, however, was not applicable to three NUG contracts. First, for one NUG which recently became dispatchable in lieu of being a must-run unit for generation scheduling purposes, I directly included the projected amount of payments to that NUG. Second, for a NUG that is forecasted to come on-line January 1, 1998, I used an 80% capacity factor to estimate annual output purchases, based on information the NUG provided to the FERC. Third, I used the 1996 capacity factor to estimate annual output purchased for a NUG that only reached its "normal" operating capacity in 1996.

Market value of output purchased from NUGs

The market value of the purchased output was calculated by multiplying the output purchased by the projected market clearing price of generation (MCPG), supplied by Dr. Jones. For all NUGs, except the one that is dispatchable, the MCPG is the weighted average market price that applies to base-load units. For the dispatchable NUG, the market price used is the peak MCPG, because the output of this NUG is dispatched only during times of peak system demand

Buyout costs

As part of the Company's efforts to mitigate stranded costs, PP&L has entered into agreements to buy out contracts with two NUGs. One buyout has been approved by the Commission, and another buyout is still pending Commission

approval. The payments to be made after December 31, 1998 to buy out these two contracts are included in the calculation of the Company's stranded costs.

Regulatory Assets

Q. Please describe the calculation of stranded costs relative to regulatory assets.

A. Regulatory assets are costs, incurred by entities subject to cost-based rate regulation, the recognition of which as an expense of which is deferred to the time that Commission-approved rates authorizing the recovery of the cost are recovered from customers. Entities that are not subject to cost-based regulation recognize such costs as an expense when incurred.

The Company's calculation of stranded costs related to regulatory assets is the present value at January 1, 1999 of the PUC jurisdictional portion of net regulatory assets that are generation-related and are comprised of:

- Unrecovered energy costs
- Post-retirement benefits other than pensions
- Deferred Susquehanna operating and carrying costs
- Utility plant carrying charges on common facilities after in-service date
- Retired miners' health care costs
- DOE assessment
- Deferred Susquehanna refueling costs
- Voluntary early retirement plan
- Employee transition costs

- Rate case expenses
- Taxes recoverable
- Investment tax credits (regulatory liability)

A summary of the Company's regulatory assets and their amortizations is provided in Tab F of Exhibit JRS 1.

Unrecovered Energy Costs

On January 1, 1997, PP&L's energy costs, which were being recovered through the ECR, were rolled into base rates, and the ECR became inactive. As of that date, PP&L had uncollected energy costs of $17.2 million associated with the ECR. The Commission issued a tentative order at Docket Nos. P-00961131 and R-00963842 allowing PP&L to defer as a regulatory asset its uncollected energy costs as of December 31, 1996, as well as future amounts that represent the difference between the amount of energy costs rolled into base rates and PP&L's estimated on-going energy costs. PP&L booked as a regulatory asset $16.9 million of the 1996 undercollection in December 1996 and the remaining $0.3 million in January 1997. Average on-going energy costs for 1997 and 1998 are estimated to exceed the amount rolled into base rates by $31.5 million per year for PUC jurisdictional customers.

I included in the calculation of stranded costs the $17.2 million of actual uncollected energy costs as of December 31, 1996 and $31.5 million of estimated unrecovered on-going energy costs for the years 1997 and 1998.

Post-retirement Benefits Other Than Pensions

The Commission, in its Final Order at Docket No. R-00943271, permitted recovery of the PUC jurisdictional amount of retiree health care costs resulting from the adoption of Statement of Financial Accounting Standard No. 106 (SFAS 106), "Employers' Accounting for Post-retirement Benefits Other Than Pensions." In addition, the PUC permitted PP&L to recover, over a period of about 17 years, the amount of SFAS 106 costs that would have been deferred from January 1, 1993 through September 30, 1995.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the PUC jurisdictional portion of the generation-related amount of these costs.

Deferred Susquehanna Operating and Carrying Costs

The PUC, in its Final Order at Docket No. R-00943271, permitted recovery over 10 years of certain deferred operating and capital costs, net of energy savings, incurred from the time Susquehanna Unit 2 was placed in commercial operation until the effective date of base rate recognition for that Unit.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the PUC jurisdictional portion of these costs.

Utility Plant Carrying Charges on Common Facilities After In-Service Date

PP&L has certain facilities that serve dual-unit power plants and are generally referred to as common facilities. Although these facilities generally are placed in service with the first unit, Pennsylvania ratemaking traditionally has allowed only one-half of common facilities to be included in rate base when the first unit is placed in service. Consequently, one-half of common facilities remains in construction work in progress after the first unit at the plant is placed into service and continues to accumulate carrying charges until the final unit is placed in service. The regulatory asset represents carrying charges on common facilities that were not included in rates when Susquehanna Unit 1 and Martins Creek Unit 3 were placed in commercial operation. These charges were reclassified in 1987 from electric utility plant in service to a deferred debit in accordance with a FERC order. Such charges are being amortized over the remaining depreciable life of the related property and are included in PUC jurisdictional electric service rates.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the PUC jurisdictional portion of these costs.

Retired Miners' Health Care Costs

The Energy Policy Act of 1992 imposed a liability on PP&L for the health care of retired coal miners. The Commission allowed recovery of the PUC jurisdictional portion of these costs through the ECR over a 10-year period beginning on

April 1, 1994. In January 1997, the portion of the liability that was recorded on a subsidiary's books was transferred to PP&L's books to maximize tax benefits, and PP&L reduced the regulatory asset by the additional tax benefits of $1.56 million.

Because the calculations for the health care benefits already are stated on a present value basis and apply only to PUC jurisdictional customers, I included in the calculation of stranded costs the recorded value of the regulatory asset at January 1, 1999

DOE Assessment

The Energy Policy Act of 1992 provides for an assessment, over a 15-year period, on utilities with nuclear power operations, including PP&L, to provide funds for the decontamination and decommissioning of the Department of Energy's ("DOE") uranium enrichment facilities. The Energy Act states that the assessment shall be deemed a necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as other fuel costs.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the PUC jurisdictional portion of this assessment.

Deferred Susquehanna Refueling Costs

This regulatory asset represents incremental maintenance costs incurred during refueling and inspection outages which are deferred and subsequently amortized from the end of the outage until the next scheduled refueling and inspection outage is completed.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the PUC jurisdictional portion of these costs.

Voluntary Early Retirement Plan

The Commission, in its Final Order at Docket No. R-00943271, permitted the Company to recover over five years the PUC jurisdictional cost of the 1994 Voluntary Early Retirement Program.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the PUC jurisdictional portion of the generation-related portion of these costs.

Employee Transition Costs

I estimated additional severance and incremental pension costs expected to be incurred between 1997-2001 as a result of the Company's projected decline in the number of employees due to its efforts to prepare for a competitive market. PP&L's Human Resources and Development Department provided the per-employee estimate for these transition costs. I calculated a 5-year amortization

period for these costs incurred in each of those years. I included in stranded costs the present value of the PUC jurisdictional portion of the generation-related portion of these costs.

Rate Case Expenses

The Commission, in its Final Order at Docket No. R-00943271, permitted the Company recovery, over four years, of expenses incurred in connection with that rate case.

I calculated the annual recovery that would occur through existing rates and included in the stranded cost calculation the present value of the generation-related portion of the costs.

Taxes Recoverable

Taxes recoverable represent tax liabilities that (1) emanate from past regulated operations which have not been funded by ratepayers and (2) the Company is obligated to pay to taxing authorities in the future. Taxes recoverable arise from differences between book and tax depreciation and from differences in how the cost of property is calculated for book and tax purposes.

The Internal Revenue Code permits taxpayers to depreciate the cost of plant and equipment over periods that generally are shorter than the property's useful life, as determined under generally accepted accounting principles. Rates are set using the longer GAAP lives. Accordingly, in the initial years of the property's life, the cost of the property is depreciated faster for tax purposes than

for regulatory purposes. This higher level of tax depreciation results in tax benefits greater than the level associated with the book depreciation used for ratemaking purposes. Conversely, depreciation of the same property in the later years of its life is lower for tax purposes than for regulatory purposes. Because the Company made the bulk of its capital improvements a number of years ago, book and regulatory depreciation currently exceeds tax depreciation for many of the Company's assets.

In Pennsylvania, utility rates traditionally have been set based on the doctrine of "actual taxes paid," except where Federal law requires normalization. Consequently, the tax benefits produced by the difference between book and tax depreciation are used to reduce customers' rates below the levels that otherwise would apply in the absence of such tax benefits.

A second difference between book and tax cost arises from the accounting for financing costs. Cost for book and regulatory purposes includes the cost of debt and equity issued to finance construction. Until the early 1980's, the tax cost excluded this cost of money. In 1982 and 1986, Congress changed the tax rules to require that interest costs be capitalized.

Pursuant to its adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109), PP&L calculated the amount of taxes recoverable, as follows: In determining the amount of deferred taxes required under the standard, PP&L calculated the total amount of taxes that would have been recorded on the Company's books, if the Company had fully normalized income taxes to reflect the book/tax timing differences discussed

above. The total amount of deferred taxes that would have been recorded if PP&L had recognized these differences was compared to the amount of deferred income taxes already recorded on the Company's balance sheet. The net difference, or the amount of unrecorded deferred taxes, was then "grossed up" to produce the appropriate revenue requirements level. The sum of the unrecorded deferred tax amount and applicable revenue requirements "gross up" component represents the SFAS 109 taxes recoverable amount which is recorded currently on the Company's balance sheet and would be recoverable through future rates under traditional regulation.

I calculated the annual amortization amount of generation-related taxes recoverable applicable to PUC jurisdictional customers beginning January 1, 1999 that would apply under traditional regulation and included in the stranded cost calculation the present value of that annual amortization.

Investment Tax Credits (Regulatory Liability)

When Federal tax law allowed the Company to take advantage of investment tax credits, the Company deferred immediate recognition of these credits as income by recording a liability for accumulated deferred investment tax credits. The amortization of accumulated investment tax credits, including the associated income tax effect, reduces the cost-of-service over the lives of the assets that generated the investment tax credits, and accordingly, customer rates. In connection with the adoption of SFAS 109, the Company recorded a deferred tax asset for the associated income tax effect of accumulated deferred investment

tax credits and a regulatory liability to recognize the ratemaking treatment of the tax effect.

I calculated the annual amortization of the generation-related portion of the regulatory liability applicable to PUC jurisdictional customers beginning January 1, 1999 that would apply under traditional regulation and reduced the stranded cost calculation by the present value of the annual amortization.

Market revenues

Q. Please explain the calculation of future revenue recovery in a competitive market.

A. In a competitive market, the sales price of a product or service is set by market forces, not by cost-of-service rate regulation. Thus, future revenues will depend upon the market price of electricity. To determine revenues in this context, one must project the market price of electricity and then determine the market revenue expected from each of the Company's generating plants. These projections and calculations are discussed more fully in the testimony of Dr. Scott T. Jones. A summary of the market prices used in PP&L's stranded cost calculation is provided in Tab J of Exhibit JRS 1.

Q. Please explain how you utilized these market price and market revenue inputs in your analysis.

A. For the nuclear generating plant and for each fossil generating plant, I used the revenue projections applicable to each plant for each year from January 1, 1999 to the end of that plant's life

For each NUG contract, I applied the market price of electricity to the projected output purchases for each year beginning January 1, 1999 to the end of the contract term.

Calculation of stranded costs

Q. Please explain how these two revenue streams were compared and discounted.

A. For the nuclear plant and for each fossil generating plant, I calculated the difference between its projected market revenue and its projected revenue requirement for each year from January 1, 1999 to the end of its useful life.

For each year from January 1, 1999 to the end of the contract term, I calculated, for each NUG, the difference between (1) the projected market value of the output purchased and (2) the cost of that output under existing contract rates or the buyout payments projected to occur after 1998.

I then discounted each generating plant's and each NUG's stream of differences between market revenues and revenue requirements using a discount rate of 7.92%.

For regulatory assets, I calculated the annual PUC jurisdictional amount of the amortization of generation-related regulatory assets. Because market revenues are not associated with regulatory assets, I discounted that stream of amortizations to January 1, 1999 at a 7.92% discount rate.

Q. How is the discount rate derived?

A. The discount rate of 7.92% used in the calculations is the Company's weighted after-tax cost of capital as of December 31, 1996. Details are provided in Tab A of Exhibit JRS 1.

Q. Have you reflected mitigation efforts in your analysis?

A. Mitigation measures are specifically discussed in Mr. Hill's testimony. For purposes of my testimony, there are two categories of mitigation, past and future. Past mitigation efforts are reflected in PP&L's current rates which are below the Pennsylvania average and very near the national average. Without this mitigation, PP&L's rates would be much higher today and so would its stranded costs. Future mitigation relates to PP&L's plans that have not yet been implemented. If these efforts are successful, they will reduce the Company's stranded costs. Even though there is no assurance that this future mitigation will occur, PP&L has elected to deduct these projected mitigation efforts from its stranded cost claim.

Q. What is the impact of future mitigation efforts on the Company's stranded costs?

A. The Company's stranded costs would be more than 20% higher without future mitigation efforts. This difference of over $1 billion is comprised of:

- $649 million reduction in nuclear generating plant costs
- $258 million reduction in fossil generating plant costs
- $100 million for NUG buy-outs

Q. What are the Company's total stranded costs net of future mitigation efforts?

A. The Company's stranded costs, net of future mitigation efforts, total $4,611 million and are comprised of:

$2,852 million for nuclear generating plant costs

$718 million for fossil generating plant costs

$657 million for NUGs

$384 million for regulatory assets

Exhibit JRS 1 provides the details of the Company's stranded costs after mitigation.

Q. Does this conclude your testimony?

A. Yes, it does.

Direct Testimony

Volumn 2

Statements 9-17

Docket No. R-00973954

ORIGINAL

Pennsylvania Power & Light Company
Docket No. R-00973954
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ERM

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BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 9

Direct Testimony of Susan F. Tierney, Ph.D.

I NAME, BUSINESS ADDRESS AND POSITION

Q. Please state your name and business address.

A. My name is Susan F. Tierney. My business address is One Mifflin Place, Cambridge, Massachusetts, 02138.

Q. What position do you hold?

A. I am a Principal and Managing Consultant, The Economics Resource Group, Inc. My firm specializes in economic and regulatory policy consulting services to private and public organizations in traditionally regulated industries.

II QUALIFICATIONS

Q. Please describe your educational background and prior work experience pertaining to the matters before the Pennsylvania Public Utility Commission ("Commission").

A. I have been involved in issues related to utility regulation and policy for nearly fifteen years, as a regulator, a policy maker, a professor, and now a consultant. Over this period, I have been directly involved in issues that are the subject of this proceeding: economic regulation of utilities, including policies to introduce competition into industries previously character-

ized by monopoly conditions; electric supply and demand forecasting; market pricing for energy products; resource cost analysis; and rate design. My particular expertise is with regard to the role of governmental policies to make markets work more effectively in industries and activities (like the provision of electricity service, or telecommunications) traditionally subject to heavy government regulation, while also ensuring the maintenance of certain public benefits that are not delivered through market forces alone.

Prior to joining The Economics Resource Group, Inc., I served as the Assistant Secretary for Policy at the U.S. Department of Energy (1993-95). Before that, I held senior positions in the Massachusetts state government as Secretary of Environmental Affairs (1991-1993); Commissioner of the Department of Public Utilities (1988-1991); Executive Director of the Energy Facilities Siting Council (1984-1988); and Senior Economist, Executive Office of Energy Resources (1983-1984).

Prior to my work in state and federal government, I was an Assistant Professor at the University of California (Irvine). I hold a Ph.D. in Regional Planning and Public Policy from Cornell University (1980). My resume is attached as Exhibit SFT 1, listing my background and experience in further detail.

III PURPOSE AND CONCLUSIONS

Q. What is the purpose of your testimony?

A. Pennsylvania Power and Light Company ("PP&L" or the "Company") has asked me to address the economic and policy basis for the Company's proposed rate design filed as part of this Restructuring Plan. Specifically, I will explain the reasons why PP&L has proposed a Progressive Rate Design package in this restructuring proceeding.

First, my testimony explains the important elements of electric industry restructuring that have shaped PP&L's proposed rate design approach. Then my testimony describes the important goals of rate design in this transition period and evaluates how PP&L's Progressive Rate Design proposal satisfies those goals.

The second half of my testimony will describe the starting point for PP&L's new Progressive Rate Design package: the unbundling of today's rates into their functional elements. Then I will describe the Company's proposed rates as they pertain to the non-bypassable portion of the Company's service. This portion of the rates includes transmission and distribution charges; competitive transition charges ("CTC"); and universal service/social programs charges. My testimony then describes how PP&L proposes to charge for Basic Utility Supply Service for those customers who decide to stay with or return to PP&L for supplies during the transition period.

Q. Please state your conclusions and recommendations.

A. My overall conclusion is that this Restructuring Plan is an important opportunity for PP&L to move its current rates to a more progressive rate design -- one that is better aligned than today's rates to fit consumers' needs in a competitive market.

- PP&L sees the transition from regulated monopoly service to fully competitive electricity service as an important period for:
- readying customers for choice and equipping them with information they need to make educated supply decisions;
- ensuring that all customers are provided non-discriminatory access to monopoly utility service (i.e., transmission and distribution services) regardless of who supplies them with power;
- enabling competitors to reach consumers on a comparable basis with the host electric utility company; and
- enabling PP&L to recover its stranded costs and its revenue requirements for transmission and distribution service, social and universal service programs, and supply services provided to consumers under PP&L's continuing obligation to serve as the supplier of last resort under Section 2807 of Pennsylvania's 1996 Electricity Generation Customer Choice and Competition Act ("the Act").

The rates proposed as part of this overall Restructuring Plan are an important element in ensuring that all of these elements are part of a successful transition period.

- Consistent with these objectives, PP&L has adopted an approach for unbundling its current rates designed to avoid cost-shifting across or within rate classes, by using a "bottom-up" approach based on the tariffed rates themselves as the unit of unbundling.
- The rates are unbundled for all customers and redesigned for some customers, as described below:

- All residential customers will be offered a Traditional Rate Option that is identical to today's rate except that it is fully unbundled.

- All customers will also have the option of taking service under a Customized Rate Design Option that shifts half of the amount of a customer's competitive transition charges from a usage-based (cents-per-kilowatt-hour) charge under the unbundled Traditional Rate Option, to a fixed monthly CTC customer charge.

- All other customers will take service under this progressive Customized Rate plan, which again shifts half of the competitive transition charges into a fixed CTC customer charge.

- For PP&L's Basic Utility Supply Service, provided to customers who (1) do not yet have the opportunity for direct access, (2) have the opportunity for direct access but have not selected an alternative electric generation supplier or (3) who contract for electric energy and that energy is not delivered, the energy and capacity rate will be tied to the prevailing market price.

    - Prices will be based on the average annual supply costs for customers taking Basic Utility Supply Service from PP&L.

    - Customers with appropriate time-of-use or demand meters will be charged rates that reflect their pattern of use or demand as appropriate.

    - All such supply customers will enjoy the benefits of supplier choice, rate cap protection and market prices.

This approach is appropriate for many reasons. First, it establishes rates for incremental use of electricity that are more efficient than today's rates. This Progressive Rate Design better reflects the marginal cost of providing service to customers, enabling them to make better informed consumption decisions. The Progressive Rate Design reduces the distortive effects of stranded cost collection on energy use, while maintaining a degree of continuity with today's rates by moving only half of the transition charges into a fixed customer charge.

The more price-sensitive customers will be required to take service under the more efficient rate design, while RS residential customers will be given the option of switching to the more efficient rate design or remaining on the traditional but unbundled rate design. The Progressive Rate Design not only complies with the overall rate cap, but also affords rate relief for all customers in the form of sharply lower marginal energy rates for customers taking service under the efficient Customized Rate redesign.

For these reasons, I recommend that the Commission approve the Company's proposed Progressive Rate Design plan.

IV THE CONTEXT FOR RATE DESIGN

IV.A Overview

Q. Please describe the context in which the Company has designed its rates.

A. PP&L's Progressive Rate Design proposal has its direct roots in Pennsylvania's efforts to introduce market forces into the electric power industry.

As described in the testimony of Dr. Joseph Kalt, the past few years have witnessed significant change in the electric power industry in Pennsylvania and elsewhere. Perhaps the most significant change is the initially gradual and recently accelerated introduction of market forces into the generation market -- first, through competition in the incremental supplies of power introduced through the Public Utility Regulatory Policies Act.

then more recently with the opening up of transmission facilities on a non-discriminatory basis through the enactment and implementation of the Energy Policy Act of 1992. Subsequently, regulatory actions of the Federal Energy Regulatory Commission in bulk power markets and recent activities of various states with high retail electricity rates have begun to introduce competition into retail electricity markets.

Clearly, Pennsylvania is a leader among states in restructuring retail markets. With passage of the Act, Pennsylvania has set the stage for retail competition to begin in earnest in 1999, with the intervening period dedicated to readying customers and suppliers for choice through pilot programs, consumer education and information, rate caps, the unbundling of rates, and the setting of transition charges. The transition period will last through 2005.

Q. Please identify the specific constraints and considerations that have shaped PP&L's proposed rate design in this filing.

A. There are three major constraints that have shaped PP&L's proposed rate design: (1) the specific provisions of the Pennsylvania Act; (2) the long-standing principles of sound rate design as they are applicable to services in transition from fully regulated to partially regulated rates; and (3) the current level of PP&L's rates relative to those of other utility companies in Pennsylvania and in other states.

IV.B The Electricity Generation Customer Choice and Competition Act

Q. Please describe the features of the transition period that have affected the design of the Company's proposed rates, both in the short term and longer term.

A. Several features of the Act have shaped PP&L's rate design for the transition period. Overall, the Act creates a transition period that moves retail electricity service from a regulated monopoly to a set of unbundled services which include competitive and regulated functions.

First, and perhaps most importantly, customers will be able to choose their supplier. Starting with the three-year phase-in period from 1999 through 2001, consumers will be able to select their preferred supplier. They will have the opportunity to choose their supplier or to stay with (or return to) the local utility for electricity supply service. As a consequence, consumers will have the opportunity to shop for competitively priced supplies, with terms and conditions established in the market (subject to limited regulation).

Secondly, even though they will be able to choose their supplier, all customers will take unbundled transmission and distribution service from the local utility under regulated rates. These rates will be capped through June 30, 2001. As part of local delivery service, all customers will support universal service through non-bypassable charges paid to the local utility.

Third, all customers also will pay a non-bypassable transition charge to recover the utility's stranded costs during the transition period. As described in the testimony of Mr. Joseph Schadt, PP&L's stranded costs exceed the amount that -- given the rate cap -- PP&L will be able to collect through competitive transition charges even with the CTC set at the maximum level under the cap. All customers will be assessed these transition charges according to the allocations approved in the Company's last rate case, as described in the testimony of Mr. Joseph Kleha. Consistent with the overall move towards markets and efficiency, transition charges will need to be consistent with or at least not distort efficient market price signals, taking other important rate design objectives into account as well.

Fourth, non-bypassable delivery and transition charges will be unbundled and non-discriminatory for all consumers regardless of who supplies them with their power. There also will be no cross subsidies across delivery and generation-related services.

Fifth, while the transition period will move the industry and its customers away from a traditional rate-regulated environment based on cost-of-service principles, consumers will not fully experience rates associated with a deregulated generation market during the transition period for several reasons. Electric utility companies must offer regulated (bundled) electricity service at unbundled rates subject to a nine-year rate cap that commenced on January 1, 1997. Unlike sellers in a purely competitive

market, these companies are required to serve as the supplier of last resort, unless the Commission decides to give this role to another entity. The fact that an electric company must serve as supplier of last resort means that customers may choose to take supply service from another supplier, then come back to that local utility, or stay with the local utility for supplies over the transition period. Thus, regardless of the price signals offered in the competitive market during the transition, PP&L's distribution customers will always have the escape valve of obtaining basic utility service at capped rates.

Sixth, at least at the start of the transition period, when customers begin to have choice among suppliers, there is a good chance that many customers will still lack sufficient information about the mechanics, implications and obligations of having the right to choose their electricity supplier. As part of their preparation for choice, many consumers will take with them certain expectations about what competition will offer to them. Having never had the opportunity to select from among various retail electricity suppliers in the past, many consumers may lack information about the values and risks of various options. To the extent that they have thought about what competition might mean for them as individuals, they may be looking for, among other things, lower rates, better service, a credible service provider. Many may not understand that some portions of electricity service will be competitive while others may not. Many consumers --

especially residential customers -- may need time to get ready to make the kinds of informed choices regarding competitive electric supply service that they make all the time about obtaining other competitive goods and services in their daily lives. To help them, PP&L will provide educational information to customers during the transition to retail choice.

Seventh, all customers must benefit from choice: all must be able to choose by 2001, and there may be no cost shifting in transition rates either within or across rate classes.

Together, these seven features of the transition period set the stage for the rate design that PP&L has developed for the transition period and proposes as part of this Restructuring Plan.

Q. What are the specific elements of the Act that set the direction of PP&L's rate design?

A. There are two aspects of the Act that provide the foundations for PP&L's proposed rate design: the overall conceptual underpinnings of the Act's *policy direction*; *and the specific provisions that relate to rates and rate* design during the 1997-2005 transition period.

There are several features of the Act's conceptual underpinnings that shape the policy goals of the Company's rate design. These are: preparing customers for choice; improving efficiency in the production, delivery and use of electricity; providing rate relief; ensuring non-discriminatory access to supply and support for transition charges and delivery

charges; and ensuring the provision of supplies to all consumers, by having PP&L or some other company be the "supplier of last resort".

With regard to the specific relevant statutory provisions of the Act, there may be no increase in rates during the transition period, with delivery rates capped for four and a half years, and generation-related rates (supply and transition charges) capped for nine years; there may be no interclass or intraclass cost shifting; rates must be unbundled consistent with the allocations most recently approved by the Commission; tariffs must allow customers to remain with PP&L as their supplier, or to choose another supplier, or to return to PP&L after having chosen another supplier, or to obtain supply service from PP&L as a new customer; and tariffs must treat returning customers the same as new customers.

IV.C Traditional Rate Design Principles

Q. Are there elements of traditional rate design policy which continue to be relevant in the transition period?

A. Yes. Given the fact that during the transition period, PP&L's utility rates will continue to be regulated, there are several features of traditional rate design policy that are relevant, and that are appropriate for shaping PP&L's rate design.

These principles are:

- Rates should be designed to produce revenues sufficient to cover cost of service and transition charges;
- Rates should be designed to produce both revenue and rate stability and predictability;
- Efficient rate classes and price signals in the different elements of the rate structure (i.e., customer charges, demand-related charges, energy-related charges) should be established so as to discourage wasteful use of electricity while promoting all efficient types and levels of use;
- Rates should be designed to ensure fairness and non-discrimination in apportioning total costs of service among the different ratepayers so as to avoid arbitrariness and to discourage tactics that could impose costs unfairly on the utility and its remaining customers; and finally,
- Rates should be designed so that on balance they satisfy the objectives of efficiency, simplicity, continuity, gradualism, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application.

Q. Please comment on the appropriateness of placing importance on efficiency as an objective during this transition period.

A. This Restructuring Plan is a particularly opportune time for Pennsylvania to begin to place greater weight on efficient pricing of electricity in retail rates. As stated above, it should be balanced with other objectives, but it should play an important role as Pennsylvania moves towards competition.

As viewed even by the leading proponents of marginal-cost-based pricing, efficiency is a principle that should be pursued insofar as it is compatible with other desirable objectives, but "must play a major or even a dominant role in any scheme of rates or prices that seriously pretends to have as a major motive the efficient utilization of available resources and facilities."[1] While marginal-cost-based pricing is by no means a new concept -- it has been promoted by such regulatory leaders as Alfred Kahn and others in state commissions since the 1970s -- it has yet to see full application in electric rate setting, as commissions around the country have balanced its use against a variety of competing objectives. In the context of the current movement to introduce market forces into Pennsylvania's retail electric industry in order to capture the efficiency benefits of competition, it seems the appropriate time to have marginal-cost-based pricing play a more dominant role in the design of that portion of rates that will remain regulated.

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[1] Quotation from William Vickrey ("Some Implications of Marginal Cost Pricing for Public Utilities," *American Economic Review, Paper and Proceedings*, May 1955, 45: 605-620), in James Bonbright, Albert Danielsen and David Kamerschen, *Principles of Public Utility Rates* (Public Utility Reports, Inc.: Arlington, Virginia, 1988).

IV.D PP&L's Rates in Comparison to Other Companies' Rates

Q. Please describe the goal of rate relief and how it applies to PP&L, in light of how its rate levels compare to those of other companies in Pennsylvania and in other states.

A. In many respects, the impetus for the legislation that was passed last year was the fact that Pennsylvania's electricity rates are high relative to other states. Indeed, 1996 data from the Energy Information Administration ("EIA")[2] show Pennsylvania's average retail rate was 7.9 cents per kilo-watt-hour -- a penny above the national average rate of 6.9 cents per kilo-watt-hour. (*See* Exhibit SFT 4) Political support for restructuring policy in the Commonwealth has been implicitly predicated upon an expectation of rate relief in the future -- with this point of view explicitly codified in the nine-year rate cap established in the new law.

As the Act itself recognizes, rates in Pennsylvania vary considerably across electric utility companies in the state. Consumers in some part of the state face quite high rates, while others enjoy rates close to or below the national average. A comparison of retail rates within Pennsylvania and in other states reveals important context for PP&L's rate design challenge.

My Exhibit SFT 2, using 1995 data, the latest full-year data that are available, illustrates how Pennsylvania and PP&L rates compare with utility

[2] EIA, Electric Sales and Revenue, 1995. EIA's data for 1996 is not final.

rates elsewhere. PP&L's average rate in 1995 was 7.2 cents per kilowatt-hour -- more than half a penny below the statewide average of 7.9 cents per kilowatt-hour, and only 3 mills per kilowatt-hour above the national average (6.9 cents per kilowatt-hour). (*See* Exhibit SFT 2.) PP&L's rates are therefore already relatively low in the state, in part because PP&L maintained relatively flat base rates over the past decade. (*See* Exhibit SFT 3.) PP&L's rates are nearly 30 percent lower than PECO's (at 9.9 cents per kilowatt-hour in 1995) and nearly 20 percent lower than Duquesne's (at 8.9 cents per kilowatt-hour in 1995), and have been substantially below these other companies' rates for more than a decade.

In fact, in real terms, PP&L's rates dropped by 25 percent over the past decade. As shown in Exhibit SFT 4, PP&L's rates have gotten closer to the national average over the past decade, while the spread between Pennsylvania's average rate and the national average rate has stayed fairly consistent over the decade.

In fact, rates for PP&L's residential customers have dropped below the national average over the past decade, while Pennsylvania's overall residential rate has been well above the national average for the past 10 years. (Exhibit SFT 5.) Today, PP&L's residential customers' monthly bills are well below those paid by customers in the region.

PP&L's rates have been well below the average rates in several other states in the region (e.g., New York and New Jersey, with rates

above 10.0 cents per kilowatt-hour), and only slightly above other nearby states (e.g., Maryland, having rates close to 7.0 cents per kilowatt-hour). (*See* Exhibits SFT 2 and SFT 6.) Some of the companies in these regions have had even higher rates, such as Long Island Lighting (15.4 cents/kwh), Con Edison (13.5 cents/kwh), and Jersey Central Power and Light (11.3 cents/kwh). (*See* Exhibit SFT 2.)

Beyond the Pennsylvania-New Jersey-Maryland Interconnection region and New York, other states with high electricity costs are actively restructuring their retail electric industries. As shown in Exhibits SFT 2 and SFT 6, rates in these states are as high as 11.72 cents per kilowatt-hour (Public Service Company of New Hampshire). In New England, where all six states have active restructuring activities, all of the states now have average rates higher than those in Pennsylvania and have seen their rates rise dramatically over the past decade.

Further, as compared to companies in high cost states now undergoing restructuring, PP&L's rates are very low and have stayed low for the past ten years. (*See* Exhibits SFT 2 and SFT 6.) Despite that, the new Act's nine-year energy and capacity rate cap will likely cause PP&L's currently low rates to decrease further in real terms, by about 20 percent over the next nine years on top of the 25 percent decrease in real terms over the past decade.

By contrast, customers of Massachusetts Electric Company, for example, whose rates are at 9.4 cents/kilowatt-hour, have seen their rates rise by 2.5 cents per kilowatt-hour over the past decade. Even with its recently approved 10-percent rate reduction in exchange for full recovery of stranded costs, Massachusetts Electric's rates will still be 17 percent higher than PP&L's existing rates. California's highly publicized electric industry restructuring will result in rates in the short term that are still 20-percent higher than PP&L's are today. A recently announced proposal to gradually reduce Long Island Lighting Company's rates by 30 percent over the next few years would still leave that company's customers paying 3.5 cents more per kilowatt-hour than a PP&L customer pays today. (*See* Exhibit SFT 2.)

By the end of the transition period, PP&L's rates will have been flat for nearly two decades.[3] Twenty years of flat nominal prices is virtually unheard of in American commerce. [4] Yet, even in light of these facts, PP&L has designed its rate proposal in a way that provides additional appropriate and strategic rate relief to its customers in the form of reducing the marginal rate in the Company's Progressive Rate plan.

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[3] Total rates will have been flat for 15.5 years. Any increase after that will be limited to an increase, if any, in transmission or distribution rates.

[4] Two decades of flat nominal rates (1985-2005) is equivalent to a 50 percent reduction in real terms.

V PP&L'S PROGRESSIVE RATE DESIGN

V.A Overall Approach

Q. How has PP&L designed its rates, in light of these statutory, rate policy, and comparative rate level constraints and objectives?

A. First, PP&L has maintained the spirit and letter of the Act: a rate cap for all customers; unbundled, non-discriminatory rates; and no interclass or intraclass cost shifting.

Second, PP&L has proposed a rate package that keeps customers' rates below average in Pennsylvania and that provides effective rate relief by reducing the marginal rate for electric energy. This is fair and maintains the relatively low prices that PP&L customers have enjoyed for many years.

Third, PP&L has taken the opportunity to provide more efficient marginal price signal to consumers as part of the move toward a more competitive market in Pennsylvania. Using today's rate designs as a starting point, PP&L's proposed Progressive Rates gradually move towards a more efficient price signal in the usage-related portions of the rate (i.e., dollar/kilowatt demand charges and cents/kilowatt-hour energy charges).

This is desirable for several reasons. It is socially efficient: consumers making consumption decisions on the margin should not be

influenced by transition costs. It speeds the transition to the competitive world, by reducing the influence of transition charge recovery on prices in emerging competitive markets. And it fosters economic development as commercial and industrial customers "see" prices that more accurately reflect the cost to serve.

Since PP&L's current rate structures do not reflect marginal costs in the usage-related portions of the rates, considerable rate restructuring would be required to bring today's rates fully to marginal cost. Moving all the way to marginal cost is not possible if other important rate design policy objectives, such as continuity, gradualism, and public acceptability, are to be respected. Therefore, the goal of efficiency has had to be tempered with these other objectives.

Fourth, PP&L has attempted to keep rates as simple as possible at a time when there already is tremendous change underway for electricity consumers. PP&L has placed a high premium on maintaining simplicity especially for residential consumers, and has therefore given them the default option of traditional unbundled rates with no rate redesign. Residential consumers may, however, voluntarily elect the more efficient rate design. Only the more efficient Customized Rate will be available for business and industrial customers.

Fifth, PP&L's tariffs offer non-discriminatory rates for delivery services and transition charges for all customers regardless of who supplies them with their electricity.

Sixth, PP&L has designed rates to ensure the collection of adequate revenues in order to provide transmission and distribution services, market-priced generation services for customers who take Basic Utility Supply Service from PP&L, and collection of competitive transition charges -- all subject to the rate cap. Pricing electricity service more closely to marginal costs affords benefits not only to consumers, but also to PP&L. Shifting some of the competitive transition charges into fixed charges reduces the impact of weather and other factors affecting demand on CTC collection, and therefore reduces the degree of revenue risk to PP&L.

Finally, PP&L has designed its tariff so as to protect the Company from abusive gaming of supplier choice during the transition period, in which PP&L is the provider of last resort.

V.B Description of the Progressive Rate Design

Q. Please describe PP&L's Progressive Rate design proposal.

A. There are three topics that are relevant for explaining PP&L's Progressive Rate package:

(a) The methodology for unbundling PP&L's current rates;

(b) The Company's proposed rate design for the non-bypassable portion of the rates; and

(c) PP&L's proposal for designing its "provider of last resort" Basic Utility Supply Service.

V.B.1 PP&L's Unbundling Methodology

Q. Please describe the approach that PP&L has used to unbundle its rates, as directed by the Act and the Commission.

A. As further described in the testimonies of Mr. Joseph Kleha and Mr. Douglas Krall, the Company has adopted an unbundling approach that is, by its design and application, consistent with the statutory rate caps established for delivery services and for generation-related services[5] for individual customers. Further, this approach satisfies the Act's requirement that transition charges be allocated to customer classes in a manner that does not shift interclass or intraclass costs, and is consistent with the allocation method most recently approved by the Commission.[6]

To assure this consistency with the customer-specific rate cap and with the prohibition against cost shifting, PP&L developed its unbundling approach in a "bottom-up" fashion, rather than a "top-down" fashion. Rather than start with a company-wide estimate of stranded costs, for

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[5] Section 2804 of the Act.
[6] Section 2808 of the Act.

example, which would then be assigned to all customer classes -- the top-down approach -- PP&L started with the individual rate structure for each customer class and unbundled that rate first in order to separate delivery costs from generation-related costs, and then to separate the latter into supply costs (priced at prevailing market rates) and competitive transition charges. (*See* Exhibit SFT 7.) This is PP&L's "bottom-up" approach to unbundling.

For each rate, the Company used the cost allocations from the last approved (base) rate case to identify that portion of the rate related to delivery versus generation charges and to assign these charges to the appropriate rate elements in that rate class (i.e., customer, energy, and demand charges). The delivery charges were separated into transmission and distribution charges. The market-priced supplies were separated out of the generation-related charges, leaving the residual amount as that rate class' competitive transition charges (*See* Exhibit SFT 7). Because PP&L's total transition costs are estimated to exceed the amount that PP&L expects to be able to collect under the rate cap over the transition period, PP&L must use all of the remaining room under the cap -- after delivery and supply charges are backed out -- in order to recover those stranded costs that can be recovered under the rate cap.

Exhibit SFT 8 shows the steps in PP&L's unbundling methodology, using the Rate Schedule RS as an example. The process starts with

collection of data from the past base rate case and from Company records on numbers of customers, demand levels, and kilowatt-hour sales. Then, the process commences with the current bundled rate design, which in the case of Rate Schedule RS includes a $6.47 customer charge and a three-part declining-block kilowatt-hour usage rate.

The next unbundling step is to determine the transmission and distribution portion of the rates, using the allocations approved in the Company's most recent rate case. From these approved allocations, PP&L established the portion of total Rate Schedule RS revenues that recover delivery costs. Some of these distribution revenues are collected through customer charges. The remainder is recovered in kilowatt-hour charges. As shown in Exhibit SFT 9, Illustrative Unbundling Example, the delivery charges in each rate class are backed out of the overall capped rate for that class, leaving generation-related charges as the residual in that class' rate. From the generation-related amount,[7] supply costs are backed out using estimated market prices, leaving the remainder as competitive transition charges for this rate class.

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[7] Since customers on Rate Schedule RS have no demand charges, any capacity-related (dollar per kilowatt) costs are combined with energy-supply related costs (cents per kilowatt-hour) to make up total supply-related costs collected through kilowatt-hour charges. For other customer classes with demand charges, the unbundling process works the same as described for the kilowatt-hour charges above: starting with total supply-related demand charges, the amount associated with the market price for capacity (by customer class) is subtracted, leaving the residual amount of supply-related demand charges attributable to CTC. For these classes, then, there are CTC charges in the fixed charge and the variable dollar/kilowatt and cents/kwh charges. (See Section V.B.2, below, and Exhibit SFT 8.)

Since market prices are projected to increase while the rate cap is in place, CTC charges will also change over time -- indeed CTC charges will decrease over the years. As part of this Restructuring Plan, annual CTC charges will be established for each rate class for each year, with the CTC fixed in advance, but declining from one year to the next. (*See* Exhibit SFT 10.)

The unbundled customer bill will have the separated items noted on the bill, as shown conceptually in Exhibit SFT 9. The testimonies of Mr. Krall and Mr. Kleha will describe this unbundling approach in greater detail, and will demonstrate the implications of this unbundling approach on overall revenue collections, and collection of stranded costs in particular.

In summary, PP&L's overall "bottom up" methodology accomplishes the multiple objectives of separating delivery from generation-related charges on the bill in a non-discriminatory manner while offering rate cap protection for all distribution customers regardless of who supplies them, without shifting costs within or across classes.

V.B.2 Rate Design for Non-bypassable Portions of the Rates: Transmission and Distribution, Competitive Transition Charges, and Social Programs

Q. How do these unbundled rates relate to the Company's Progressive Rate Design proposals for the non-bypassable portion of customers rates?

A. PP&L's unbundled rates are the starting point for the Company's proposed rates for the basic regulated retail services: transmission and distribution

charges, transition charges, and social program charges (which are included in delivery rates). Based on these unbundled rates, PP&L has designed the standard rates for its distribution customers: All customers other than residential customers must take service under redesigned Customized Rates, as described conceptually below. Residential RS customers will have the option of taking service under unbundled Traditional Rates (which include no redesign from today's rates) or under redesigned Customized Rates. These Progressive Rate proposals are summarized here, and are explained in greater detail in the testimony of Mr. Krall and Mr. Oliver Kasper.

V.B.2.a Residential (RS) Customers

Q. Please describe the "basic" Progressive Rate plan offered to residential consumers.

A. All residential customers will be offered rates during the transition period that are structured identically to today's rates, except that the rates will be unbundled, as described above. In this Traditional Rate, customers will continue to pay a $6.47 customer charge to cover a portion of delivery charges. Customers will also be charged three other unbundled rate elements:

1. a flat cents-per-kilowatt-hour charge for delivery services;

2. a flat cents-per-kilowatt-hour charge for supply (which includes both energy and capacity-related charges) for those customers who take PP&L's Basic Utility Supply Service, as described in Section V.B.3);[8] and
3. a declining block structure for the residual CTC charges. (*See* Exhibit SFT 9.)

Together, these charges would be capped at today's rate.

Additionally, each residential customer will have the opportunity to take service under an optional Customized Rate design. This customized redesign is intended to offer residential consumers the opportunity to have a more efficient rate than the Traditional Rate which is based on today's rate structure. In this optional Customized Rate design, some of the CTC amounts collected in kwh charges in the Traditional Rate would be shifted into a CTC customer charge, resulting in a higher total customer charge, and a lower marginal usage rate. The Customized Rate would shift 50 percent of the CTC dollars collected in a traditional kwh charge to a CTC customer charge. The total amount of CTC shifted to and collected in

[8] Customers who take supply service from a supplier other than PP&L will have no PP&L supply line item on their bill; if these other suppliers' charges are billed by PP&L, then this amount would appear on the bill.

fixed charges would vary by customer, based on each customer's historical use in the year immediately preceding the effective date of the Act.[9]

For each customer who elects this Customized Option, the rate redesign will be calculated in a way that avoids an overall rate increase or decrease given that customer's historical level of electricity use. This will be done through a customer-specific analysis that looks at average monthly kilowatt-hour usage over each customer's twelve months of actual use prior to January 1, 1997, then multiplies that monthly average kilowatt-hour usage level times the CTC rates in the Traditional Option for the RS class. This produces a dollar amount for total CTC charges.

Half of the amount collected in CTC charges would then be shifted into a CTC customer charge, which will be stated separately from the $6.47 existing distribution customer charge. The CTC kilowatt-hour rate would be modified to collect exactly the other half of the CTC dollars at that customer's historical level of use. Once redesigned, this new customized CTC customer charge would be retained for the rest of the transition period, although the level of the cents-per-kilowatt-hour charge would decline over time consistent with the established schedule for CTC charges, as discussed above.

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[9] This period was chosen to avoid gaming and to hold to the cost allocations in place at the time the Act was passed.

This approach -- including the redesigned Customized Rate Option and the default Traditional Option available to all residential customers -- produces the following benefits:

- No residential customer will be forced to adopt a more efficient rate redesign, although all residential customers may choose to do so.
- Residential customers who stay on the Traditional Rate design, along with those who choose the more efficient Customized Option, will have rates consistent with their current rates at their own recent historical level of use. (*See* Exhibit SFT 11, which provide illustrative customer bills for residential customers using 300 kilowatt-hours, 600 kilowatt-hours, and 1200 kilowatt-hours a month.) New and returning residential customers who choose the Customized Rate will have their rate structured according to the usage patterns of residential customers with comparable end-uses.
- The Customized Option moves customers' rates in the direction of marginal prices, but does not go all the way all at once.
- Customers who take service under the efficient Customized Rate design will see an estimated rate reduction of 16 percent for all use in the tail block (i.e., usage above 600 kilowatt-hours). (See Exhibit SFT 12.)

- There will be no cost shifting among customers either within or across classes.
- All customers will enjoy the rate cap benefits, and will face non-discriminatory delivery and CTC charges, regardless of who supplies them with their power.
- The Company will use the same methodology for customizing the rates of all individual consumers who choose efficient rates, with customer-specific historical data.

The policy of offering residential customers traditional unbundled rates, with an option to elect a more efficient rate redesign, properly balances the multiple objectives of rate design. It clearly satisfies the Act's rate design requirements. It meets traditional rate design objectives by balancing simplicity, gradualism, efficiency, predictability, and enhancement of revenue collection. Further, PP&L's Progressive Rate proposal provides rate relief in the form of a rate cap for all customers, and rate reductions for customers who elect the customized redesign.

Q. Earlier, you stated that, for the Customized Rate, the total amount of CTC shifted to fixed charges would vary by customer, based on each customer's historical use in the year immediately preceding the effective date of the Act. Please explain further your statement that this period was

chosen to avoid gaming and to hold to the cost allocations in place at the time the Act was passed.

A. PP&L sought to select an appropriate historical benchmark period for setting CTC collections that was consistent with the rate designs, stranded costs and stranded cost allocations in place prior to the commencement of the transition to competition. A principal goal in choosing the benchmark was fairness: given that the Restructuring Plan's costs, cost allocations, rates, and billing data are based on 1996 data, equity required that customers' redesigned rates should also be based on 1996 data. For all customers other than new customers for whom no such historical billing data exists, the use of 1996 data provides an appropriate common, consistent and just basis for restructuring rates.

Therefore, PP&L chose the effective date of the Act as the end of the benchmark period, since this is the date at which the rate cap went into effect, and in which transition cost allocations were frozen.

V.B.2.b All Other Customers

Q. Please describe the Company's proposed Progressive Rates for non-bypassable service charges for all other customers.

A. All customers other than residential customers would be required to take service under the same efficient Customized Rate redesign that residential customers may elect as an optional rate. Because these other customer

groups are generally more price sensitive, PP&L has made these efficient Customized Rate designs the required rate for all other customers other than residential customers.

As described above, this rate redesign would restructure the rate, shifting a portion of CTC charges into a customer charge. For each customer, half of the usage-based CTC charge as calculated under traditional unbundled rates would be moved to a fixed CTC customer charge, and the usage-based CTC charge would be cut in half in order to collect exactly the remaining CTC dollars at that customer's actual average historical monthly use in the year ending December 31, 1996.

With the rate redesign, customers will see an immediate marginal rate reduction, which varies in size by customer class. (*See* Exhibit SFT 12.) For example, GS-1 customers will see a 16-percent reduction in their marginal rate; GS-3 customers will see a 5-percent reduction; LP-4 customers, a 6-percent reduction; LP-5 customers an 8.5 percent reduction; GH1 and GH2 customers, 11 percent and 13.5 percent reductions, respectively.

No PP&L customers, including residential customers, will see an increase in their marginal rates; 99 percent of all customers will be able to receive[10] at least a 5-percent decrease in marginal rates; and 88 percent

[10] This reference to the fact that customers "will be able" to receive a rate reduction of at least a certain amount is meant to reflect the fact that RS customers, who make up 87 percent of PP&L's

of all PP&L customers will be able to receive marginal rate reductions in the range of 11 percent to 16.5 percent. Across all customer classes, the weighted average reduction in the marginal rate is 15 percent.[11]

For new customers in the RS class opting for the Customized Rate design and all new customers in other rate classes, the Company will determine historical use based on Company estimates of usage levels for the appropriate comparable residential, commercial or industrial establishments. Consistent with the Act's requirement that customers who choose to return to PP&L for service be treated the same as new customers, the CTC for returning customers in all rate categories will be calculated on the same basis.

V.B.3 Rate Design for the Bypassable Portion of the Rates: PP&L's "Basic Utility Supply Service"

Q. Please describe PP&L's proposal for providing tariffed supply service to its distribution customers under the Company's status as "supplier of last resort."

A. Under the new Act, PP&L will have the "universal service" responsibility to provide electricity to all consumers who do not choose another supplier. After retail choice begins in the Commonwealth, customers may stay with

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customer base, have the option to elect efficient Customized Rates, but are not required to do so. If they do, they will see a marginal rate reduction of 16 percent.

[11] This weighting is based on the sum of each class' percentage of total PP&L customers times that class' percentage reduction in the marginal rate.

PP&L, select another supplier, or return to PP&L after having been served (or even while still being partially served) by another supplier. In fact, over the transition period, customers have the right to go back and forth between PP&L and other suppliers for their electricity supply service. The Act explicitly states that PP&L's distribution customers who leave PP&L as a supplier once they have choice and then return to PP&L for their supplies are entitled to the same service as any new customer of PP&L. Any customer who stays with or returns to PP&L will enjoy rate cap protection.

This situation affords customers a substantial benefit during the transition period. It also sets up a significant opportunity for gaming, to the potentially significant disadvantage of the supplier of last resort who must stand ready to provide bundled service (at unbundled rates) to all comers, even if the average cost to provide that service changes significantly over time and even if supply prices unexpectedly rise significantly during the transition period. One can expect that marketers will aggressively pursue customers with good load characteristics and other low-cost-to-serve attributes, potentially leaving PP&L's regulated utility with the job of supplying mainly high-cost customers. Without reasonable safeguards, PP&L could be put in the financially untenable situation of becoming a revolving-door supplier during high cost supply periods (e.g., peak hours of a day, or peak seasons of the year), and losing customers during low-cost

supply periods. If this happens, it will become relatively more costly for PP&L to serve customers that do not choose another supplier, which will have to be reflected in higher rates for this service, subject to the cap.

In light of this potential problem and in keeping with the statutory requirement that it offer supply services to all comers at rates that are effectively capped, PP&L has proposed the following Basic Utility Supply Service:

- After choice is available to any individual consumer, he or she may stay with PP&L, or choose another supplier as required by the Act.
- Except during the grace period for residential customers (described below), if an existing customer chooses another supplier and then returns to PP&L for supply service, he or she would return to PP&L as a "new customer."
- All new customers would be subject to the provision in the current tariff that they remain with PP&L as a supplier for a minimum of one year.
- There will be a grace period of approximately 6 months at the beginning of the choice transition period for each of the three phase-in periods from 1999 through 2001, during which a PP&L residential customer who chooses another supplier may return to PP&L as an existing customer.

- New and existing customers will have their supply priced at market prices, subject to the cap.
- All customers without appropriate time-of-use meters (e.g., RS customers) will have supply priced on an average annual kilowatt-hour price basis, tied to prevailing market prices -- read-justed annually to reflect price changes and reduced, if neces-sary, to comply with the cap.
- For customers with time-of-use meters, PP&L would have the right to peg supply prices to hourly spot market prices (again subject to the cap).
- For all of these customers, CTC charges would be set according to a predetermined schedule at the beginning of the transition period, as described in Sections V.B.1 and Exhibit SFT 10. For customers on hourly or other time-of-use market rates for basic utility supply, compliance with the rate cap will be based on an annual review of CTC charges against the price of the Basic Utility Service.

This proposal assures appropriate rate protection for consumers, by charging for supply at prevailing market prices, by limiting total generation-related costs (both CTC and the market prices) to no higher than today's capped rates, by passing through to consumers reductions in market prices where the combination of CTC charges and market prices fall below

the cap, and by protecting PP&L from excessive gaming based on its supplier of last resort obligation during periods of high-cost supply.

VI CONCLUSIONS

Q. Please state your conclusions and recommendations.

A. My overall conclusion is that PP&L's Restructuring Plan is an important opportunity to move the Company's current rates to a more Progressive Rate design -- one that is better aligned than today's rates to fit consumers' needs in a competitive market.

- PP&L sees the transition from regulated monopoly service to fully competitive electricity service as an important period for:
    - readying customers for choice and equipping them with information they need to make educated supply decisions;
    - ensuring that all customers are provided non-discriminatory access to monopoly utility service (i.e., transmission and distribution services) regardless of who supplies them with power;
    - enabling competitors to reach consumers on a comparable basis with the host electric utility company; and
    - enabling PP&L to recover its stranded costs and its revenue requirements for transmission and distribution service, social and universal service programs, and supply services provided to

consumers under PP&L's continuing obligation to serve as the supplier of last resort.

The rates proposed as part of this overall Restructuring Plan are an important element in ensuring that all of these elements are part of a successful transition period.

- Consistent with these objectives, PP&L has adopted an approach for unbundling its current rates designed to avoid cost-shifting across or within rate classes, by using a "bottom-up" approach based on the tariffed rates themselves as the unit of unbundling.
- The rates are unbundled for all customers and redesigned for some customers:

- All residential customers will be offered a Traditional Rate Option that is identical to today's rate except that this rate is fully unbundled.

- All residential customers will also have the option of taking service under a Customized Rate Design Option that shifts half of the amount of a customer's competitive transition charges from a usage-based (cents-per-kilowatt-hour) charge under the Traditional Rate Option, to a fixed monthly CTC customer charge.

- All other customers will take service under this progressive Customized Rate plan, again shifting half of the competitive transition charges into a fixed CTC customer charge.

- For PP&L's Basic Utility Supply Service, provided to customers who either stay with PP&L after they have retail choice or return to PP&L's service, the rate will be tied to the prevailing market price.

    - Prices will be based on the average annual supply costs for customers taking Basic Utility Supply Service from PP&L.

    - Customers with appropriate time-of-use or demand meters will be charged rates that reflect their pattern of use or demand as appropriate.

    - All such supply customers will enjoy the benefits of supplier choice, rate cap protection and market prices.

This approach is appropriate for many reasons. First, it establishes rates for incremental use of electricity that are more efficient than today's rates. This Progressive Rate Design better reflects the marginal cost of providing service to customers, enabling them to make better informed consumption decisions. The Progressive Rate Design reduces the distortive effects of stranded cost collection on energy use, while maintaining a degree of continuity with today's rates by moving only half of the transition charges into fixed customer charges. The more price-sensitive customers will be required to take service under the more efficient rate design, while residential customers will be given the option of switching to the more effi-

cient rate design, or remaining on the traditional, but unbundled rate design.

The bottom line is that with this Progressive Rate Design, customers will enjoy the benefits of supplier choice, rate cap protection, market prices, and a more efficient price signal that is appropriate to the transition to competition. For these reasons, I recommend that the Commission approve the Company's proposed Progressive Rate Design plan.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 10

Direct Testimony of Douglas A. Krall

Q. Please state your name and business address.

A. My name is Douglas A. Krall. My business address is Two North Ninth Street, Allentown, PA 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company ("PP&L" or the "Company") as Manager-Resource Planning and Pricing.

Q. What is your educational background?

A. I graduated from Stevens Institute of Technology in Hoboken, New Jersey in 1973 with a Bachelor of Engineering degree in Mechanical Engineering. I have completed additional courses in Business Administration at Muhlenberg College in Allentown, Pennsylvania.

Q. Are you a registered professional engineer?

A. Yes. I have been a registered professional engineer in the Commonwealth of Pennsylvania since 1977.

Q. Please describe your professional experience.

A. I joined PP&L's Mechanical Engineering Department in 1973 as an Engineer-Level I. In 1974, the engineering functions were restructured, and I became a member of the Power Plant Engineering Department. In

1975, I was promoted to the position of Engineer-Level II, and in 1978 to the position of Project Engineer within that department. Later in 1978, I transferred to the System Planning Department, and in 1981, I was promoted to the position of Senior Project Engineer. In 1984, I was promoted to the position of Manager-Generation Development and Planning within the System Planning Department. In April 1996, I became the Manager-Resource Planning and Pricing. In this capacity, I supervise the development of integrated resource plans, the administration of PP&L's responsibilities regarding non-utility generation, the development of the Company's construction budget and the development and administration of the Company's tariff for electric service.

Q. Have you previously submitted testimony before the Pennsylvania Public Utility Commission ("PUC"), the Federal Energy Regulatory Commission ("FERC"), or any other regulatory agency?

A. Yes. I have testified before the PUC on four occasions. Most recently, I testified on behalf of PP&L at Docket No. P-00961114 regarding an agreement between the Company and a non-utility generator for the buyout of a power purchase agreement. I also have testified on behalf of PP&L regarding its construction budget and deactivation dates for its fossil and hydro generating stations during the Company's most recent base rate

proceeding at Docket No. R-00943271 and the impacts on PP&L and its customers of an existing power purchase agreement at Docket Nos. R-00953346, et al., and P-00950915. I testified on behalf of Interstate Energy Company, a subsidiary of PP&L, regarding its application to provide natural gas transportation service to existing customers at Docket No. A-140200. Before the FERC, I have testified regarding PP&L's compliance plans under the 1990 Clean Air Act Amendments at Docket No. ER95-1267, and regarding PP&L's investment in generating plants to serve its wholesale customers at Docket No. SC97-1-000.

Q. Please describe the purpose of your testimony.

A. The purpose of my testimony is to describe PP&L's "Progressive Rate Design", which represents the unbundled rates that PP&L proposes to charge its retail service customers beginning January 1, 1999, the start of the customer choice phase-in period.

Q. How does your testimony relate to that of Dr. Tierney and Mr. Kleha?

A. Dr. Tierney explains the economic and regulatory considerations that form the basis for the design of PP&L's progressive rate design. Mr. Kleha presents PP&L's most recent cost allocation study which forms the basis for approved retail rates and the unbundling of the retail costs of providing service and applicable revenue requirements into functional components,

principally, energy, other production, transmission, and distribution. I present the application of the Progressive Rate Design, described by Dr. Tierney, to the cost-of-service data provided by Mr. Kleha.

Q Please summarize the conclusions of your testimony.

A. My testimony, in combination with the testimony of Mr. Kleha, Dr. Tierney, and Mr. Kasper, sets forth a proposed unbundling of PP&L's current retail rates which will facilitate the efforts of customers who wish to choose their generation supplier and will provide a mechanism for PP&L to recover costs which may become stranded by the transition to competition. This unbundling has been accomplished without the shifting of costs within or between rate classes, and it has been done in way which should promote customer understanding.

Q. Please summarize PP&L's Progressive Rate Design.

A. Exhibit DAK 1, which is attached to my direct testimony, is a chart which sets forth all of the major rate categories under the Progressive Rate Design proposal. Other rates which apply to fewer customers and to special circumstances can be found in the proposed retail tariff provided as Exhibit OGK 2.

Q. Is PP&L changing any of its existing customer classes?

A. No. All of the major customer classes reflected in its current tariff will remain the same. Customers will continue to qualify for the rates of their current classes as long as they continue to take service within the criteria of those classes. As explained by Mr. Kasper, the availability of certain provisions of PP&L's current bundled rates will be closed to new customers and will not be available to those customers who purchase generation from alternative suppliers.

RATE SCHEDULE RS OPTION

Q. Please describe the development of the Rate Schedule RS rate options.

A. As described by Dr. Tierney, under the Progressive Rate Design, there are two alternative rate options, the Traditional Rate Schedule RS ("RS-Traditional") rate option and the Customized Rate Schedule RS ("RS-Customized") rate option.

Q. Why do you refer to each rate structure as an option?

A. In PP&L's proposal, residential customers will have the option to elect to receive service under either of these rate structures.

Q. What are the components contained in the RS-Traditional option?

A. The RS-Traditional option includes charges for delivery, a competitive transition charge ("CTC"), and an optional charge for generation.

Q. Please describe the components that make up the delivery charge.

A. The delivery charge is designed to recover the revenue requirements associated with the transmission, distribution and customer service functions, and public purpose programs applicable to the Rate Schedule RS rate class. The delivery charges for Rate Schedule RS include a customer charge of $6.47 per month, which is identical to the current customer charge, and a flat cent/kWh charge. The amount of the monthly customer charge was established in the Company's most recent base rate case and recovers only a portion of the distribution and customer service function revenue requirements. The remaining revenue requirements for the distribution and customer service function, as well as all of the revenue requirements associated with the transmission function, are recovered through per-kWh use charges in both the existing Rate Schedule RS rates and in the RS-Traditional option.

Q. Why does PP&L propose a flat cent/kWh charges for delivery instead of a blocked structure?

A. PP&L determined that a flat charge was much more straightforward. By moving the blocked charges to the CTC, which is a temporary charge, PP&L is moving toward a much simpler and easier to understand pricing approach.

Q. Does the delivery charge consist of several components.

A. Yes, the delivery charge includes charges for transmission, distribution and universal service.

Q. How will PP&L inform its customers of the nature of the components within the delivery charge?

A. The charges for transmission and public purpose programs are explicitly described in PP&L's proposed tariff which is provided as Exhibit OGK 2. Although these charges will not appear as line items on the bill, the Company proposes to include messages on the bill which inform customers of these charges. The transmission charges, of course, will be subject to approval by the FERC.

Q. Are there any additional services that PP&L will provide under transmission service?

A. Yes. As discussed in Mr. Whitehead's testimony, PP&L will provide ancillary services obtained from the PJM Independent System Operator ("ISO").

Q. What will PP&L charge for these additional ancillary services?

A. At this time, PP&L does not know what price it will be charged by the ISO for these services. Therefore, charges for ancillary services are not included in the transmission service rate. When the cost of these services

is determined, and approved by the FERC, PP&L will add a charge for ancillary services to the transmission service rate. At that time, PP&L will adjust the generation-related CTC component, if necessary, to avoid exceeding the rate cap requirements of the Electricity Generation Customer Choice and Competition Act ("Act").

Q. Please discuss development of the CTC.

A. The CTC is used to recover the stranded cost amount discussed in the testimony of Mr. Schadt. The CTC is equal to the residual amount in each energy block that remains after subtracting the delivery charge and an estimated charge for market-based generation from the total rates allowable under the rate cap. The total estimated charge for market-based generation includes separate, explicit estimates for market-based energy and market-based capacity.

Q. How did PP&L determine the rate level allowable under the rate cap?

A. The rate cap is based on the rates in effect on December 31, 1996. This includes the SBRCA tariff provisions at December 31, 1996, which provide for the expiration of the SBRCA at April 1, 1997. Subsequent rate changes in the Company's current tariff that were scheduled to go into effect on or after the beginning of the transition to retail competition (January 1, 1999) are not reflected in the Company's rates during the rate

cap periods under the Act. For example, the Economic and Industrial Development Initiative ("EDI/IDI") Riders were scheduled to expire during the competition phase-in period and would have resulted in rate increases for participants in those programs. However, PP&L believes, that it would be inconsistent with the policy behind the Act to implement these changes.

Q. In PP&L's most recent base rate case, the Company indicated that it would reduce the depreciation charges for its Susquehanna plant, beginning in 1999, and that this reduction would reduce customer rates at January 1, 1999. Has the Company revised this proposal in light of the Customer Choice Act?

A. Yes. The Company's filing reduces Susquehanna's annual depreciation expense beginning January 1, 1999, and uses the additional revenue available under the rate cap. The Company does not propose to reduce rates below the rate cap to reflect this reduction in depreciation expense.

Q. Why not?

A. In its most recent base rate case, PP&L did propose to reduce its rates existing at January 1, 1999, under the assumption that traditional rate regulation would continue. Under traditional rate regulation, PP&L would have been able to file for a base rate increase during 1997, 1998, or thereafter to recover increased costs of providing service, including gen-

eral inflation and other factors. Because of the rate caps in the Act, this is no longer possible. Indeed, based on current inflation estimates, as a result of the rate cap, PP&L's rates, in real terms, will be lower at January 1, 1999, than they were at January 1, 1996, by more than twice the $85 million reduction contemplated as a result of the change in Susquehanna depreciation expense. To require a rate reduction to reduce the rate cap under these circumstances would be unfair, inappropriate, inconsistent with the Act and inconsistent with the assumptions underlying the PUC's 1995 rate order.

Q. Does the proposed CTC fully recover the Company's estimated stranded costs?

A. No. Based on the Company's projections, the proposed CTC will recover $4.210 billion in stranded costs, which is $401 million less than the Company's calculated stranded costs.

Q. Is the CTC set at the same level in all years of the transition period?

A. No. As discussed in the testimony of Dr. Tierney, because the market-based cost of generation is forecast to increase during the transition period, the magnitude of the CTC charges must decline during the transition period to stay within the cap established on generation-related

charges. The CTC charges for each of the seven years are shown on each rate schedule provided in PP&L's proposed tariff (Exhibit OGK 2).

Q. How did you develop the estimate for the market-based generation component that was used to determine the CTC charges?

A. The estimate for the market-based generation component uses estimates of the future price of market-based energy and capacity from the price forecasts that were presented in the testimony of Dr. Jones. The market-based energy cost is an estimate of the average (cent/kWh) market price of a block of energy with the same hourly profile as the residential customer class. The market-based capacity price is an estimate of the average (cent/kWh) cost of the required amount of capacity needed to meet the projected PJM capacity obligation resulting from serving the residential customer class.

Q. How will customers who do not choose an alternative supplier obtain energy and capacity?

A. In accordance with the Act, PP&L will serve as the so-called "supplier of last resort" for customers who do not choose an alternative generation supplier and for customers whose alternative supplier fails to deliver. The Act specifies that PP&L will have the obligation to acquire generation at "prevailing market prices" to serve such customers.

Q. How will PP&L establish the actual optional price of generation for customers who choose not to shop or who return to basic utility service?

A. Dr. Tierney's testimony describes the nature of PP&L's Basic Utility Supply Service. PP&L is not able, at this time, to specify exactly how that will be done because the market place is in the very early stages of its evolution. One possibility is that the market will develop rapidly and there will be an active and visible market price signal which will establish the market price. If such a signal does not exist, an alternative might be for PP&L to conduct a competitive solicitation for energy and capacity for the upcoming year. The result of that solicitation would establish the market price.

Q. How will PP&L determine the price for customers whose supplier fails to deliver?

A. As I already indicated, it is difficult to be specific until markets have developed; however, it would be fair to say that the price in this instance, would probably reflect spot market prices. Prices for customers who elect to take service from PP&L would reflect their ability to plan and contract for energy and capacity.

Q. Please describe how the "Customized" option was developed.

A. The Customized option produces a fixed, individualized CTC for each customer for a portion of stranded cost recovery. The determination of the

fixed portion of the CTC is the result of taking 50% of each CTC step in the RS-Traditional rate structure and calculating a customer's monthly CTC for this portion of the total charge based on a fixed base historic period. The historic period will be calendar year 1996 for each customer signing up for the Customized rate option. This calculated fixed CTC will remain unchanged through the entire transition period.

Q. Is this inconsistent with your earlier statement that the CTC will decline through the transition?

A. No. Although the fixed portion of the CTC will remain constant, the usage-based portion will decline. In fact, it will not only decline for those customers electing the Customized option, but, also, for those opting for the Traditional option. The following example for a single month with two different usages will demonstrate the principle:

RS-TRADITIONAL CALCULATION OF CTC

Average monthly usage in 1996:	1,000 kWh	500 kWh
3.917 cents per kWh for first 200 kWh	$ 7.83	$ 7.83
2.919 cents per kWh for next 600 kWh	$17.52	$ 8.76
2.320 cents per kWh for all remaining	$ 4.64	$ 0.00
TOTAL CTC CHARGES	$29.99	$16.59

RS-CUSTOMIZED CALCULATION OF CTC

Average monthly usage in 1996:	1,000 kWh	500 kWh
Fixed CTC equal to 50% of RS-Traditional	$14.99	$ 8.29
1.959 cents per kWh for first 200 kWh	$ 3.92	$ 3.92
1.460 cents per kWh for next 600 kWh	$ 8.76	$ 4.38
1.160 cents per kWh for all remaining	$ 2.32	$ 0.00
TOTAL CTC CHARGES	$29.99	$16.59

Note, that for the same usage in a given month, both methods produce the same total CTC charges. Also, note that the fixed charges in the Customized calculation of the CTC are considerably different between the two usage levels, hence the individualized nature of the fixed CTC charge per customer.

Q. Will new residential customers who do not have 12 months of historical usage be able to select the Customized option?

A. Yes. PP&L will use the type of information used to establish budget billing parameters for new customers to develop a Customized option, if a new customer so desires. Whenever 12 months of history is available, the CTC will be recalculated in order to assure that it is a reasonable representation of the customer's usage. This practice is consistent with the Company's existing budget billing program.

GENERAL SERVICE AND LARGE POWER RATES (RATE SCHEDULES GS-1, GS-3, LP-4, LP-5, LP-6)

Q. Please describe the development of the General Service and Large Power rate designs.

A. The rate designs that are provided for all General Service and Large Power customers are similar to the Customized option for residential customers.

Q. Were the members of the General Service and Large Power rate classes given the option of a traditional unbundled rate design?

A. No. As explained by Dr. Tierney, customers in these classes are more price sensitive and more familiar with economic issues than the average residential customer. These customers should move to the efficient rate design so that the Commonwealth can achieve the economic benefits intended by Act.

Q. What are the components contained in the General Service and Large Power customer rate designs?

A. The General Service and Large Power customer rate designs include charges for delivery, a CTC and an optional charge for generation.

Q. How was the charge for the delivery component developed?

A. The delivery charge is designed to recover the revenue requirements associated with the distribution, transmission and customer services functions, and public purpose programs applicable to the General Service and Large Power rate classes. For example, the distribution charges for Rate Schedule GS-1 include a customer charge, which is identical to the current customer charge in Rate Schedule GS-1, and a flat cents/kWh charge. The delivery charges for the other General Service and Large Power rate schedules include a meter charge, which is identical to the current meter charge in those rate schedules, and a flat cents/kWh charge.

Q. Why did you use a flat cent/kWh charge for the delivery charge instead of a blocked structure?

A. Consistent with the reasoning used for residential customers, PP&L determined that a flat charge was much more straightforward. By moving the blocked charges to the CTC, which is a temporary charge, PP&L is moving toward a much simpler and easier to understand pricing approach.

Q. Please discuss development of the CTC.

A. Development of the CTC follows the same approach used for the RS-Customized option. First, the residual amount in the demand charge and in each energy block that remains after subtracting the delivery charge and an estimated charge for market-based generation was calculated. The

determination of the fixed portion of the CTC is the result of taking 50% of each CTC charge and calculating a customer's unique monthly CTC for this portion based on a fixed base historic period. The variable CTC then becomes 50% of the total residual amount.

Q. Is the CTC set at the same level in all years of the transition period?

A. No. As I explained previously, because the market-based cost of generation is expected to increase during the transition period, the magnitude of the CTC charges declines during the transition period.

Q. How did you develop the estimate for the market-based generation component that was used to determine the CTC charges?

A. The estimate for the market-based generation component uses the estimates of the future price of market-based energy and capacity from the price forecasts that were discussed in the testimony of Dr. Jones. The market-based energy cost is an estimate of the average (cents/kWh) market price of a block of energy with the same hourly profile as the General Service and Large Power customer classes. The market-based capacity price is an estimate of the average (cents/kWh) cost of the required amount of capacity needed to meet the PJM capacity obligation resulting from serving the General Service and Large Power customer classes.

Q. Could you please summarize the conclusions of your testimony?

A. My testimony, in combination with the testimony of Mr. Kleha, Dr. Tierney, and Mr. Kasper, sets forth a proposed unbundling of PP&L's current retail rates which will facilitate the efforts of customers who wish to choose their generation supplier and will provide a mechanism for PP&L to recover costs which may become stranded by the transition to competition. This unbundling has been accomplished without the shifting of costs within or between rate classes, and it has been done in way which should promote customer understanding.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT DAK 1

PP&L's Proposed Progressive Rate Design

Residential

Rate Schedule RS (RS - Traditional)

Delivery		$6.47 per month
		1.961 cents per KWH
CTC	First 200 KWH	3.917 cents per KWH
	Next 600 KWH	2.919 cents per KWH
	Additional KWH	2.320 cents per KWH
Generation		Optional

Rate Schedule RS (RS - Customized)

Delivery		$6.47 per month
		1.961 cents per KWH
CTC	Fixed	Customized $ per month
	First 200 KWH	1.959 cents per KWH
	Next 600 KWH	1.460 cents per KWH
	Additional KWH	1.160 cents per KWH
Generation		Optional

General Service

Rate Schedule GS-1 (GS-1 - Customized)

Delivery		$7.48 per month
		3.104 cents per KWH
CTC	Fixed	Customized $ per month
	Demand	$0.07 per KW in excess of 5 KW
	First 150 KWH	2.456 cents per KWH
	Additional KWH	1.158 cents per KWH
Generation		Optional

Rate Schedule GS-3 (GS-3 - Customized)

Delivery		1.438 cents per KWH
CTC	Fixed	Customized $ per month
	Demand	$2.51 per KW
	First 200 KWH	1.295 cents per KWH
	Next 200 KWH	0.596 cents per KWH
	Additional KWH	0.498 cents per KWH
Generation		Optional

Large General Service

Rate Schedule LP-4 (LP-4 Customized)

Delivery		0.800 cents per KWH
CTC	Fixed	Customized $ per month
	Demand	$2.175 per KW
	First 200 KWH	1.490 cents per KWH
	Next 200 KWH	0.791 cents per KWH
	Additional KWH	0.492 cents per KWH
Generation		Optional

Rate Schedule LP-5 (LP-5 - Customized)

Delivery		0.366 cents per KWH
CTC	Fixed	Customized $ per month
	Demand	$1.98 per KW
	First 200 KWH	1.393 cents per KWH
	Next 200 KWH	0.994 cents per KWH
	Additional KWH	0.693 cents per KWH
Generation		Optional

Rate Schedule LP-6 (LP-6 - Customized)

Delivery		0.367 cents per KWH
CTC	Fixed	Customized $ per month
	Demand	$2.035 per KW
	First 200 KWH	1.194 cents per KWH
	Next 200 KWH	0.247 cents per KWH
	Additional KWH	-0.054 cents per KWH
Generation		Optional

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 11

Direct Testimony of Oliver G. Kasper

Q. Please state your full name and business address.

A. Oliver G. Kasper, Two North Ninth Street, Allentown, Pennsylvania, 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company ("PP&L" or the "Company") as Manager-Pricing and Contract Administration.

Q. What are your principal duties and responsibilities as Manager-Pricing and Contract Administration?

A. I am responsible for tariff administration which involves the development of PP&L's retail tariff rules and regulations, and ensuring the uniform administration of these rates, regulations and interpretations throughout the Company. I also direct the development of the Company's rate design function and supervise the cost of service function.

Q. What is your educational background?

A. I graduated from Michigan Technological University in 1973 with a Bachelor of Mechanical Engineering. I am a Registered Professional Engineer in the Commonwealth of Pennsylvania.

Q. Please describe your professional experience.

A. I was employed by Westinghouse Electric Corporation in 1973 and served in the Marketing Department of the Steam Turbine Division as an Application Engineer. During this period, I was involved with all aspects of the initial design and proposal preparation for large steam turbine generator sets. I also was the technical license contact for two foreign manufacturers of Westinghouse turbine generators.

In 1976, I joined PP&L as a construction engineer for the Susquehanna Steam Electric Station. In this position, I was responsible for long-term storage and maintenance for all equipment during construction, and assembly of the Unit 1 and Unit 2 turbine generator sets.

In 1978, I was named Energy Management Engineer in PP&L's Energy Conservation Department in the former Northern Division. My responsibilities included energy conservation, service coordination, and marketing with PP&L's large industrial and commercial customers in that division.

In 1982, I was promoted to Senior Engineer-Research and Technical Services; later the department was renamed Industrial and Commercial (I&C) Marketing Programs. My responsibilities included residential thermal storage heating systems research, commercial and industrial HVAC and process heating/cooling applications, research and development, commercial and industrial lighting design, and educating PP&L's staff and customers about cogeneration.

In 1989, I was promoted to the position of I&C Marketing Manager in PP&L's Lancaster Division. My responsibilities included managing a staff who provided direct service and marketing contacts for all industrial and commercial customers in that division. I was promoted to Manager-Pricing and Contract Administration in 1991, the position I now hold.

Q. Mr. Kasper, what is the purpose of your testimony?

A. My testimony addresses three subjects: (1) pro-forma impact of the proposed unbundled rate designs (proof of revenues) as described in Mr. Krall's testimony, (2) the changes required to the availability of several current bundled rates and service options as a result of the transition to retail competition, and (3) other proposed tariff rule changes.

PRO-FORMA IMPACT OF THE PROPOSED RATE UNBUNDLED DESIGN

Q. Mr. Kasper, please explain how the proposed unbundled rates were developed.

A. Unbundled rates consist of three major components: delivery, energy and capacity, and the Competitive Transition Charge ("CTC"). Revenue requirements for unbundled delivery service were obtained from the cost allocation study presented by Mr. Kleha. Delivery service rates were designed to recover the delivery service revenue requirements reflected in PP&L's retail

customer rates filed in compliance with this Commission's Final Order at Docket No. R-00943271.

Unbundled capacity and energy charges were developed based on the forecasted market value of energy and capacity for 1999. The CTC was then calculated as the difference between the existing bundled retail rates and the sum of the unbundled delivery and capacity and energy charges.

The resulting unbundled rates were then adjusted for the State Tax Adjustment (STAS) and Energy Cost Rate (ECR) roll-ins that became effective on January 1, 1997. This was done by first adjusting the delivery service charges for the STAS roll-in, then adjusting the CTC for both the STAS and ECR roll-ins.

The "Customized" unbundled rate design was then calculated as described in Mr. Krall's testimony. Due to rounding, this resulted in some minor adjustments to the final rates to ensure that all customers rates were consistent with revenue neutralality or received a slight decrease in the move from a straight unbundled rate design to the Customized rate structure.

To calculate the CTC for the years 2000 through 2005, the forecasted energy and capacity values for each year were used and a new CTC was calculated consistent with the rate caps established by Section 2804(4) of the Electricity Generation Customer Choice and Competition Act ("Act").

Q. Mr. Kasper, please describe the Proof of Revenues developed for the proposed rates.

A. Exhibit OGK 1 is the Company's current Tariff No. 200. Exhibit OGK 2 is the Company's proposed unbundled Tariff No. 201. The Proof of Revenue Summary Sheet in Exhibit OGK 4 shows the revenues produced on both a bundled and an unbundled basis for the 12-month period ended December 31, 1996. As shown in that exhibit, the total revenues produced by the present Tariff No. 200 bundled rates and proposed Tariff No. 201 unbundled rates are essentially the same, with the unbundled rates in Tariff No. 201 producing the same or slightly less revenue than the present Tariff No. 200 bundled rates. The proposed rate design in Tariff No. 201 includes the delivery charge, the competitive transition charge, and forecasted market price for both energy and capacity in 1999. The definition of these terms is provided in Exhibit OGK 4.

Q. Does this unbundled rate design produce any intra-class rate impacts?

A. No. This can be demonstrated by the following examples:

RESIDENTIAL RATE CLASS

Rate Schedule RS	Present Rates (Tariff 200)	Proposed Rates (Tariff 201)	Difference
0 KWH	$6.47	$6.47	0
500 KWH	$47.70	$47.70	0
1000 KWH	$85.74	$85.74	0
1500 KWH	$121.98	$121.98	0

COMMERCIAL AND INDUSTRIAL RATE CLASSES

Rate Schedule	KW	KWH	Present Rates (Tariff 200)	Proposed Rates (Tariff 201)	Difference
GS-1	12	1,500	$178.02	$178.02	0
GS-3	50	12,500	$1,117.58	$1,117.58	0
LP-4	1000	400,000	$28,154.00	$28,154.00	0
LP-5	5000	2,500,000	$150,520.00	$150,520.00	0
LP-6	10000	5,000,000	$292,040.00	$292,040.00	0

As shown in these tables, the proposed unbundled rate design is revenue neutral when compared to the Company's present bundled rate design.

AVAILABILITY OF BUNDLED RATES

Q. Does the introduction of retail competition affect the Company's current bundled rate design?

A. Yes. The Company's current bundled rates reflect the effects of the various riders and options included in the existing tariff structure. Many of these provisions are no longer applicable or appropriate when the Company does not provide bundled service. As a result, the Company is proposing to eliminate a number of these provisions as of January 1, 1999. However, in order to comply with the rate caps established by the Act, customers taking service under these provisions at December 31, 1996 will be grandfathered to the extent that the Company, as the electric distribution utility, remains the customer's bundled supplier of last resort, i.e., provides Basic Utility Supply Service ("BUSS"). These provisions will not be available to customers who purchase energy from alternative suppliers, including the Company's Retail Energy Supply group, and will not be available to those who return to the Company for BUSS after purchasing generation from an alternative supplier.

ECONOMIC INDUSTRIAL DEVELOPMENT INITIATIVE (EDI/IDI) RIDERS

Q. Please describe the Economic Development and Industrial Development Riders.

A. The Economic Development Initiative (EDI) credits initially were made available in 1987 to PP&L's Rate Schedule GS-3, LP-4, and LP-5 customers with loads over 500 KW. The EDI credits for existing customers are 1¢/KWH and $2/KW, respectively, for energy and capacity taken in excess of defined base period amounts. To receive these credits,

customers must have signed contracts agreeing to expand production or expand physical facilities. For new customers, the EDI credit is 1¢/KWH for energy taken in excess of 400 hours use of demand. The EDI credit program was closed to new applicants at the end of 1989. Those customers on the program receive the full credit through 1997. Thereafter, the credit is reduced to 70% of the full level in 1998, 35% of the full level in 1999, and eliminated as of January 1, 2000.

The Industrial Development Initiative (IDI) credits were introduced in 1992. The terms are essentially identical to the EDI programs except that IDI credits are available only to industrial customers, the normal base period for calculation purposes is 1991, and the IDI rider currently is open to eligible customers through the end of 1997.

Q. What is the impact of the current EDI/IDI programs?

A. According to PP&L's EDI monitoring reports filed with the PUC, as of December 31, 1996, there were 411 customers on the EDI rider and 389 customers on the IDI rider. As shown on the summary sheet in Exhibit OGK 4, customers utilizing the EDI/IDI riders receive about $30.6 million in credits annually.

Q. Does PP&L propose to continue the EDI/IDI credits?

A. PP&L is proposing to eliminate the phase-out of the credit and extend the programs for current participants through 2005, which is the end of the transition period established in the Act. No new customers will be eligible for these credits.

Q. Why do you plan to continue EDI/IDI credits for those currently on the program?

A. The planned phase-out of the credits would increase charges for participating customers. Extension of the credits will keep rates revenue neutral throughout the transition period.

Q. Will these credits be available to customers who elect to purchase energy and capacity from alternative energy suppliers?

A. No. The EDI and IDI credits are energy and capacity credits related to the Company's bundled generation function. If a customer chooses to buy energy and capacity from another source, including the Company's Retail Energy Supply group, the credits no longer apply.

Q. Will the credits be available to a customer that begins purchasing energy and capacity for an alternative supplier and later returns to the Company as the provider of last resort?

A. No. The EDI and IDI credits are not be available to new customers after 1989 and 1997, respectively. Under the Act, returning customers will be treated as new customers and will not be eligible for these credits.

DEMAND FREE DAYS RATE OPTION

Q. Please describe the Demand Free Days (DFD) billing option?

A. In January 1986, as a means of encouraging economic development and improving the system load factor, PP&L implemented a Demand Free Days billing option for customers served on Rate Schedule LP-5 with a monthly demand of at least 10,000 KW or greater. Eligible customers could pre-select two weekdays per week, from Tuesday to Friday, as "demand free." The demand created by the customers on the pre-selected days would not be used for billing purposes. This option was expanded in July 1992 to include three demand-free days and to include customers having a monthly maximum demand of at least 5,000 KW. There currently are 24 customers served under this option, which is scheduled to be eliminated on January 1, 1998.

Q. Do you plan to continue the Demand Free Days billing option?

A. This option will be closed to new customers on January 1, 1998. Participants who were in the program at December 31, 1996, however, will

continue to receive this option through the end of the transition period, i.e., December 31, 2005.

Q. Will these credits be available to customers that elect to purchase energy and capacity from other providers?

A. The Demand Free Days option, like EDI/IDI credits, are capacity and energy credits, related to the Company's bundled generation function. If a customer chooses to buy energy and capacity from an alternative supplier, including the Company's Retail Energy Marketing Group, they will not receive the credit. In addition, as with the EDI/IDI credits, demand-free days credits will not be available to returning customers.

COMPETITIVE RATE RIDER

Q. Please describe the Competitive Rate Rider.

A. In October 1994, PP&L filed the Competitive Rate Rider ("CRR") as a competitively-priced rate option for new and existing customers with monthly demands greater than 5000 KW and served under Rate Schedule LP-5. In 1995, this option was expanded to include customers on Rate Schedules LP-6 and IS-T. The CRR was a three-year experimental rate rider, which is scheduled to terminate December 31, 1997.

This rate rider was designed to enable PP&L to compete for load in the electric utility marketplace. To be eligible for the CRR, a customer must first

demonstrate that it has a verifiable competitive alternative to service under the applicable rate schedule and that the customer intends to select that alternative. Once these conditions are met, PP&L, at its discretion, can develop an alternative rate to meet competition, as long as the competitive rate recovers all of the Company's short-run marginal costs of providing service and provides a contribution to fixed costs. As of December 31, 1996, 2 customers had signed CRR contracts with PP&L.

Q. Does the Company plan to continue the CRR?

A. Yes. Under the Company's current tariff, the CRR rate rider is an experimental tariff provision scheduled to end on January 1, 1998. Supplement No. 65, Exhibit OGK 3, extends this provision to January 1, 1999. Tariff No. 201 extends the CRR through December 31, 2005, but it is applicable to delivery charges and the CTC only.

OTHER RATE RIDERS

Q. Do you plan to carry forward with the other rate riders that currently are available in the Company's Tariff 200?

A. Yes. The Time-of-Day (TOD) rate options currently available for Rate Schedules RWO, RTS, RTD, GS-1, GS-3, LP-4, LP-5, etc., will remain in their current form and availability for those customers who purchase BUSS from the Company. These credits were used to offset generation costs and

improve system load factor. Accordingly, as with the other credits discussed above, if a customer chooses to buy energy and capacity from an alternative supplier, including the Company's Retail Energy Supply group, these options will no longer be available.

RATE SCHEDULES

Q. Describe the Price Response Service-1 (PR-1) and Price Response Service-2 (PR-2) Rate Schedules.

A. In October, 1994, PP&L filed a real time pricing option for use in a three-year pilot program ending December 31, 1997. The pilot program was designed to provide customers with demands greater than 2,000 KW an opportunity to respond to hourly price signals by reducing usage during high-cost hours and increasing usage during low-cost hours. To implement the program, the Company created two new rate schedules:

1) Rate Schedule PR-1 (Price Response Service - Firm Power) - This is an experimental rate for industrial and commercial customers with firm service requirements selected by the Company for a three-year real-time pricing pilot program.

2) Rate Schedule PR-2 (Price Response Service - Interruptible Power) - This is an experimental rate for industrial and commercial customers with interruptible service requirements selected by the Company for a three-year real-time pricing pilot program.

Both rate schedules have a two-part rate consisting of: (1) the customer's base bill and (2) real-time prices for use above or below the customer's base load. As of December 31, 1996, there were fifteen PR-1 and ten PR-2 customers participating in the pilots.

Q. Do you plan to continue this experimental program?

A. Yes, under certain conditions. PR-1 and PR-2 will remain available to all eligible customers through December 31, 1998. Thereafter, it will be available to those customers who are not eligible for retail competition in 1999 and 2000. These rates will expire for all customers on January 1, 2001.

Q. What are the proposed changes to Rate Schedules PRS-1 and PRS-2 in Supplement 65?

A. Two changes are proposed to respond to customer demand for this rate option: (1) The Company will expand the availability of this experimental program from twenty-five (25) to thirty-five (35) customers; and (2) customers will need to have a monthly demand of at least 300 KW year-round be served under Rate Schedule LP-4, LP-5, LP-6, IS-T, or IS-P.

INTERRUPTIBLE SERVICE

Q. Are there any proposed changes to Rate Schedule IS-1, ISP, IST, or ISA in Supplement 65?

A. Yes. As with the other rate options discussed above, interruptible service is part of the Company's bundled service. Since it is generation-related, it is not appropriate to continue interruptible service after the transition to retail competition. Therefore, the Company proposes to close these rate schedules to new customers as of January 1, 1999. In addition, the rate schedule will not be available for those who choose an alternative supplier, including the Company's Retail Energy Supply group and will not be available to returning customers. Those customers receiving service under these rate schedules as of December 31, 1996, can remain through 2005, as long as they continue to take BUSS from the Company. If a customer purchases capacity and energy from an alternative supplier, the customer's delivery and CTC will be calculated under Rate Schedule LP-4, LP-5 or LP-6, whichever is appropriate.

Q. Is the Company proposing any other changes to the tariff regarding interruptible service?

A. The Company's current tariff has a 500 MW cap on the amount of interruptible load. The Company proposes to retain the cap, but remove the definition contained in the tariff.

Q. Why is the Company proposing to remove the definition?

A. The Company consistently has calculated the amount of available interruptible load as a customer's maximum actual annual demand (in any 12-month period) and the customer's firm contract demand. This is consistent with the underlying purpose of interruptible load (to reduce peak demand) and how the Company calculates interruptible load as a capacity reserve obligation in the Pennsylvania-New Jersey-Maryland Interconnection. Unfortunately, the definition of the cap in the Company's tariff has created some confusion and has led some customers to propose a substantially different method for calculating interruptible load based upon 12-month monthly average data. This alternative definition is inconsistent with how the Company has always calculated interruptible load, completely at odds with the purpose of and need for interruptible load, and substantially understates the amount of interruptible load on the Company's system. If this alternative definition were adopted, it would force the Company to contract for excessive amounts of interruptible load to the detriment of the Company and its other customers. To avoid continued controversy, the Company seeks to remove the definition from the tariff.

Q. Is the Company proposing any change in the way it calculates interruptible load?

A No. The Company proposes to calculate interruptible load in the same manner as it always has done.

Q. Is the Company proposing to change the 500 MW cap?

A. It is not, as long as its method of calculation is approved. If an alternative definition is adopted, then the cap should be significantly reduced because it would provide excessive and unneeded interruptible load.

TARIFF RULE CHANGES

Q. What other significant changes are proposed by PP&L in this proceeding?

A. Several significant changes are being proposed for various tariff rules. In Supplement 65 to Tariff 200 and Tariff 201:

- Rule 4 is changed to indicate that the Company may upon request, supply services over and above those which the Company would normally provide, if the customer agrees to pay the Company a fair and non-discriminatory price for those related services.
- Rule 9E was changed to indicate that the Budget Billing interest rate is changed from 1% per month to one-twelfth of the average of 1-year Treasury Bills for the months of September, October, and November of the previous year.

In Tariff 201:

- Rule 6A:
  - A line is added to exclude fuel supply disruption from qualifying for backup power supply.

- Paragraph E(5) is added to indicate that a customer-specific, fixed, per month CTC developed by the Company, which is equal to 100% of the customers estimated CTC revenue, if the customer elects to install on-site generation on or after January 1, 1999.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 12

Direct Testimony of William H. Whitehead

Q. Please state your full name and business address.

A. William H. Whitehead, Two North Ninth Street, Allentown, Pennsylvania 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company (PP&L or the Company) as a Senior Project Engineer.

Q. Please describe your educational background.

A. I graduated from Bucknell University in 1973 with a Bachelor of Science Degree in Electrical Engineering. I also completed a two-year course of study in Power Systems Engineering.

Q. Please describe your employment history with the Company.

A. I joined PP&L in 1973 as an entry-level Engineer in the former Relay and Control Engineering Department. I moved through the engineering progression line within Relay and Control until I became a Project Engineer. My responsibility during that time included the design and implementation of protective relay schemes for substations and switchyards from 12 kV through 230 kV.

In 1982, I accepted an assignment as a Senior Engineer in the Load Management section of the former Energy Conservation and Customer

Services Department. My primary responsibility was to chair a task team evaluating direct control load management and to make a recommendation to corporate management.

In 1983, I became a Senior Engineer in the Alternative Energy Programs group. In that role, I assumed responsibility for the negotiation of agreements with non-utility generators that wanted to interconnect with the PP&L system. I also assumed the additional responsibility of administration for the signed agreements. In late 1986, this function was moved to the former System Planning Department. I retained these responsibilities as a Senior Project Engineer-System Planning, and accepted additional responsibilities in support of corporate strategy development.

In 1994, I accepted an assignment in the Transmission and Distribution Planning section of the former System Planning Department. In that role, I was responsible for overseeing the development of the capital budget for transmission and distribution facilities in PP&L's former Lancaster Division, including the conversion of the 69 kV system in the Lancaster area to 138 kV.

In 1995, I accepted my current assignment as a Senior Project Engineer. In this position, I have been responsible for representing PP&L on various PJM committees, including the PJM Operating Arrangements Committee. I also have participated in the evaluation of various alternative structures for PJM. My most recent responsibilities have included rep-

resenting PP&L on several sub-groups that are developing the ISO governance structure and reliability criteria for the restructured PJM Power Pool, and in the group overseeing the development of the comprehensive PJM restructuring filing.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibits WHW 1, WHW 2, and WHW 3.

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines submitted in Exhibit No. 2?

A. Yes, I am responsible for responses to the following Commission filing guidelines: RP-G.1, G.2, M.1 and M.6.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is threefold. First, I will describe the Pennsylvania-New Jersey-Maryland Interconnection ("PJM") and explain how the ongoing restructuring of the PJM is important to the transition to retail competition. Second, I will present PP&L's allocation of its delivery system between unbundled transmission regulated by the Federal Energy Regulatory Commission ("FERC") and distribution regulated by this Commission using the FERC's seven-part jurisdictional test. Third, I will discuss how PP&L will offer retail open access transmission following the

introduction of customer choice under the Electricity Generation Customer Choice and Competition Act ("Act").

Q. Please summarize your testimony.

A. My testimony contains three major conclusions:

(1) The restructured PJM will be designed to accommodate retail competition and to facilitate the development of an open and robust competitive retail market though institution of an Independent System Operator ("ISO"), a new governance structure, and a power exchange.

(2) PP&L proposes that its 69 kV and above transmission system be designated unbundled interstate transmission regulated by the FERC. Facilities for power delivery at lower voltages would remain within this Commission's retail distribution jurisdiction.

(3) Following the introduction of customer choice, PP&L will offer retail transmission under the network transmission service terms and conditions of the PJM Open Access Transmission Tariff, using a rate schedule designed to recover the transmission portion of its costs currently reflected in bundled retail rates.

I. PJM RESTRUCTURING

Q What is the status of the PJM restructuring effort?

A. The members of the PJM filed a complete restructuring plan with the FERC on July 24, 1996. The purpose of the PJM restructuring is to open the pool to full wholesale competition for electric generation output in accordance with the directives of the Energy Policy Act of 1992 and FERC Order No. 888, while maintaining the long-standing energy supply reliability associated with operation of the PJM pool. The PJM pool restructuring also will enable individual PJM utilities to accommodate retail access in accordance with appropriate state requirements. The restructuring provides for a new pool-wide transmission tariff and a competitive energy market for PJM, including an ISO. The FERC rejected PJM's July 24 filing on November 13, 1996, primarily because of concerns with the ISO structure and the perceived lack of broad stakeholder input. The FERC encouraged "all of the PJM members as well as the stakeholders to craft a new ISO proposal." FERC also reiterated that PJM and other power pools were still required to file a joint pool-wide *pro forma* open-access transmission tariff by the December 31, 1996 compliance deadline required by Order No. 888. Subsequently, the PJM member companies submitted an Order No. 888 compliance filing to FERC on December 31, 1996 which included a pool-wide transmission tariff proposal and revisions to the PJM agreement to allow open membership in PJM. The PJM members indicated that a comprehensive restructuring proposal would be developed with input from all stakeholders and submitted to the FERC by

May 31, 1997. The FERC accepted PJM's December 31, 1996, compliance filing on February 28, 1997 for implementation on an interim basis beginning March 1, 1997. However, with regard to transmission congestion pricing, FERC announced that a technical conference will be scheduled to resolve questions related to implementation of a method for transmission congestion management.

Q. Why is PJM restructuring relevant to PP&L's Restructuring Plan?

A. Although much of the PJM restructuring will be transparent to the retail market, several aspects of a restructured PJM will directly impact retail market operation:

- The new PJM ISO will be responsible for transmission operation in the PJM control area, including the administration of the PJM Open Access Transmission Tariff. Retail transmission transactions will be arranged through the ISO, and most ancillary services will be provided by the ISO.
- The ISO will include a power exchange that facilitates a residual spot energy market. This spot market will be open to all eligible entities supplying load in the control area, to help provide efficient, low-cost energy. This will replace the current "split-the-savings" pricing system.

- All load-serving entities are likely to be required to maintain sufficient generation reserves, and be willing to share those reserves in an emergency. This will help to maintain the high level of reliability that customers have come to expect.

Q. Please describe the operations and functions of the PJM pool prior to April 1, 1997, that are important for understanding the proposed changes.

A. The foundation of PJM is reliability. Although the current members of PJM monitor their own local facilities, PJM, through its control center, monitors the cumulative effects of all the PJM members' operations on reliability more comprehensively and economically than if each member were to act as its own control area. A real-time monitoring system allows the region's generation and transmission resources to be utilized to near maximum capability while maintaining reliability. Reliability, in conformance with North American Electric Reliability Council ("NERC") and Mid-Atlantic Area Council ("MAAC") guidelines, has several facets:

- Reliability of the transmission system is assured by operating the system to withstand the failure or loss of any single system component without causing damage to any facilities, loss of customer load or excessive change in system voltage.
- Real-time, instantaneous operation and control of all available resources to meet customers' instantaneous demands;

- Short-term planning of generation supply for the next hour and longer periods of time; and
- Long-term planning for the adequacy of generation supply, including the sharing of reserves, and the ability to deliver that supply to customers over reliable transmission facilities.

PJM provides a central economic dispatch of available generating capacity with energy delivered over "free-flowing" ties among the member companies. The pool also provides for power transactions with systems outside the PJM pool. Power flows on key indicator transmission lines are monitored and generation and/or transmission of energy is adjusted by PJM as needed to most economically relieve any single contingency reliability concern. Costs to run higher cost ("off-cost") generation to relieve the overload or voltage concern are shared by all members, not just by the member that causes the dispatch of "off-cost" generation.

PJM dispatches the most economic combination of generating units to meet the system load, and the energy consumption of individual member companies are detailed in the interchange accounting. The interchange accounting is adjusted for any bilateral sales that member companies make with other members or with non-members. Residual energy adjustments are allocated among the member companies on a "split savings" basis -- that is, the difference between what it would have cost each utility to generate all of its own customers' power requirements and the

actual pool costs under the optimum economic scheduling of generating units -- split equally between buying and selling utilities. In this way, the most economic energy always is dispatched, with the appropriate charges and credits to the member companies. The savings are reflected in each of the utilities' customer rates.

The PJM bulk power transmission system consists of the 500 kV, 345 kV, and 230 kV transmission facilities owned by the member companies. Within PJM there are over 50 intra-system interconnections and more than 30 interconnections with other pools. Most, but not all, of the 500 kV transmission facilities are governed by three extra-high voltage agreements, with joint investments by multiple member companies. Transmission "uses" on the joint-investment systems are monitored "after-the-fact" and charges and credits are made to the member companies based on usage. Transmission within the pool is free-flowing, and interconnections with other pools are used to deliver economic energy, as well as to meet emergency energy needs.

Eligible wholesale customers have open access to the transmission facilities within PJM under the individual member companies' Open Access Transmission Tariffs. Under these tariffs, an eligible customer is able to reserve and schedule transmission for the delivery of energy within the pool, or the delivery of energy through or out of the pool. No individual PJM member company has ties with every one of the pools adjacent to

PJM. As a result, eligible wholesale customers sometimes would need to obtain transmission service from more than one PJM member company in order to deliver the energy to the load.

PJM has implemented an Internet-based Open Access Same-time Information System ("OASIS"), in accordance with FERC Order No. 889, for the use of the member companies in implementing their Open Access Transmission Tariffs. Eligible customers have requested transmission service with an individual member company using the OASIS. Each member company has responded to the requests on its OASIS page and provided mechanisms for the scheduling of the transmission service with the PJM pool. Although all transmission service reservations are made via the Internet using the OASIS, the scheduling of the transmission service generally is completed by telephone or FAX. The PJM member companies then reported the scheduled transactions to PJM for eligible customers who were not members of the pool.

PJM is governed by a Management Committee comprised of representatives of the eight member utilities. The Management Committee is responsible for policy regarding pool operations.

Q. Describe the operation and function of the PJM Power Pool beginning April 1, 1997.

A. On April 1, 1997, PJM's operation will change in several respects to comply with the February 28, 1997 FERC Order. In that Order, which is applicable for an interim *period until* the comprehensive PJM pool restructuring plan is submitted on May 31, 1997 and subsequently approved by the FERC, the PJM members were ordered to implement a pool-wide open access transmission tariff, establish open and non-discriminatory PJM membership provisions, and to create a new independent Board to oversee the operations of the PJM interconnection office. The FERC also ordered that, for the interim period, the costs of congestion should be allocated among all transmission users.

The interim open access transmission tariff is comprised of zonal rates for network service and a pool-wide rate for point-to-point services. Network service for each of the ten transmission zones, which generally are the same as the ten utility service areas within PJM, is provided at rates designed to recover the transmission revenue requirements for the respective zone in which the customer load is located. The rate for firm point-to-point service is the sum of the revenue requirements for the ten zones divided by the peak load in the PJM pool. There is no charge for the embedded transmission system for non-firm point-to-point customers. However, all transmission service customers are required to pay for losses and ancillary services as specified in the PJM tariff.

A new Management Committee structure will be implemented in PJM as of April 1, 1997. Each party to the PJM Interconnection Agreement, including new parties not previously involved with the governance of PJM, will appoint a representative to serve on the Management Committee. The Management Committee will be composed of five sectors: (1) Generation Owners, (2) Other Suppliers, (3) Transmission Owners, (4) Wholesale System Users (and the representative of the FERC, if any), and (5) Retail System Users (and the representatives of state electric utility regulatory commissions or offices of consumer advocates, if any). The Management Committee will elect the PJM Board. The PJM Board, which will be comprised of seven voting members, will have authority for supervision and administration of all matters pertaining to the Interconnection. The Management Committee will act in an advisory role to the PJM Board.

A cost-based bidding system for determining the "merit-order" dispatch of generation will replace the current cost-based dispatch system. This is the initial step in anticipation of market-based price bids that will likely replace cost-based bids. The remainder of the day-to-day PJM pool operations generally will remain unchanged.

Q. Describe the proposed restructuring of the PJM, the details of which will be filed with the FERC by May 31, 1997.

A. Recognizing that not all of the details are set, and that FERC approval is necessary before the key changes take place, PP&L believes that the PJM will be restructured along the following lines. Because the foundation of PJM is reliability, the restructured PJM will assure continued electric system reliability by requiring all participants in the marketplace to agree to adopt the MAAC, NERC and other applicable reliability criteria. In PP&L's opinion, the restructured PJM will have the following elements:

INDEPENDENT SYSTEM OPERATOR - The restructured PJM is expected to incorporate the use of an ISO to administer a power exchange and operate the regional transmission system. Among other things, the ISO will:

- Operate the PJM control area;
- Direct and coordinate the operation of all transmission facilities in the PJM control area;
- Administer the PJM control area Open Access Transmission Tariff, including the determination of available transmission capability to provide service under the tariff;
- Administer a protocol for regional transmission expansion planning, including the development of a regional transmission plan;
- Coordinate the planned outages of all transmission facilities, including coordinating outages of such facilities with related generation outages;

- Develop and promulgate directives and other guidelines for the operation of the transmission facilities in the PJM control area; and
- Operate the PJM OASIS.

RELIABILITY - Reliability of electric supply will be assured by requiring all load-serving entities to agree to maintain and share sufficient generation reserves. A capacity benefit margin (CBM) will be maintained for imports to assure that sufficient generation can be imported from other regions during times of emergency. Transmission system reliability will be maintained by assuring operation in accordance with NERC guidelines.

POWER EXCHANGE - The power exchange will operate a whole-sale energy market that facilitates both a vigorous bi-lateral market and a residual 'spot' market. The power exchange may be integrated with the ISO to provide the most efficient operation of generating units through the "merit order" scheduling and dispatch of bid resources. The spot market will clear at the marginal price of energy bids. The power exchange also may coordinate with other regional power exchanges on a day-ahead basis to assure operation of the most cost-effective generation on a regional basis to provide consumers with the maximum benefit. The design of the energy market will support and facilitate retail customer choice of supplier as the states adopt retail access legislation/regulations.

MARKET OPERATION - The energy market will provide fair and balanced comparable access for all buyers and sellers. All parties will be accountable for their commitments to day-ahead price quotes for generation offers and energy purchases.

TRANSMISSION SERVICE AND PRICING - The ISO will administer customer transmission service requirements on a comparable and non-discriminatory basis for both intra-pool and inter-pool transactions. The transmission rate design will ensure recovery of 100% of the transmission system revenue requirements of each transmission owner and no transmission owner will recover more than the owner's transmission revenue requirements. Transmission service will include all ancillary services defined by the FERC in Order No. 888. Any pool-wide transmission rate filed with the FERC will be applicable for providing retail access service requirements.

Q. What are the impacts on PP&L's Restructuring Plan if the new PJM structure is significantly different from PP&L's expectation?

A. It is difficult to predict the impacts on the Company's Restructuring Plan because there simply is not sufficient information available at this time. However, PP&L will inform the Commission if the new PJM structure is different from PP&L's expectation and if there is an impact on PP&L's Restructuring Plan.

II. JURISDICTIONAL SEPARATION OF TRANSMISSION AND DISTRIBUTION

Q. How did the FERC address the jurisdictional boundary between the FERC and the States?

A. In Order No. 888, the FERC stated that:

a) it has exclusive jurisdiction over the rates, terms and conditions of unbundled retail transmission in interstate commerce up to the point of local distribution.

b) the states have jurisdiction over local distribution facilities. The Commission said it will give deference to state views on which facilities are transmission and which are local distribution.

In Order No. 888, the FERC recognized that there is no clear way to distinguish those facilities used for transmission from those used for distribution. Therefore, the FERC established a list of seven indicators as a test for determining which facilities serve a distribution function. Those seven indicators are:

1. Local distribution facilities are normally in close proximity to retail customers.
2. Local distribution facilities are primarily radial in character.
3. Power flows into local distribution systems; it rarely, if ever, flows out.

4. When power enters a local distribution system, it is not reconsigned or transported on to some other market.
5. Power entering a local distribution system is consumed in a comparatively restricted geographical area.
6. Meters are based at the transmission/local distribution interface to measure flows into the local distribution system.
7. Local distribution systems will be reduced voltage.

Moreover, the FERC recognized the knowledge and expertise of the state regulatory authorities concerning the facilities that they regulated. Thus, the FERC agreed to defer to the recommendations of the state regulatory authorities regarding where to draw the jurisdictional line under its technical test for local distribution facilities. In granting such deference, the FERC expects the state regulators to specifically evaluate the seven indicators and any other relevant facts in order to make recommendations consistent with the essential elements of the rule.

Q. How would the application of the seven-part test apply to PP&L?

A. In the PJM restructuring filing, PP&L identified all of its facilities operating at voltages of 69 kV and above as transmission facilities. Many of the facilities in the 69 kV and the 138 kV voltage class provide a significant bulk power network transmission function. Additionally, the 69 kV and 138 kV voltage levels frequently are used as an outlet for generation, both util-

ity and non-utility. Although other portions of the 69 kV and 138 kV system may not currently provide the same level of support to the network transmission system, because all 69 kV and 138 kV facilities are capable of being used to provide similar generation outlet or network support services, they have been included in a common transmission voltage category. The map provided in the response to the Commission's filing guideline at Appendix A, Section G, Item 2 shows all of PP&L's 500 kV through 69 kV transmission facilities. Exhibit WHW 1 provides a schematic illustration of PP&L's transmission and distribution facilities.

PP&L currently serves some FERC jurisdictional customers at the local distribution level of 12 kV. Because both wholesale and retail customers are served from the same local distribution facilities, PP&L believes that the same 'local delivery' rate should apply for all customers served at a given local distribution voltage level.

Q. Have you performed the FERC seven part distribution test on PP&L's proposed transmission facilities?

A. Yes.

Q. Please describe the results of your evaluation?

A. The results are presented in Exhibit WHW 2.

Q. Will retail customers taking service under 69 kV and above pay any retail Commission jurisdictional retail distribution charges?

A. Yes. Under Order No. 888, the FERC assumes that there always will be a state jurisdictional element for all retail customers. Thus, all retail delivery customers will still be subject to the Commission's jurisdiction that requires the retail customer to pay a fair share of transition charges. In PP&L's case, the Company's electric meter and any associated equipment will constitute the minimum retail jurisdictional distribution property applicable to all retail delivery customers.

III. RETAIL TRANSMISSION TARIFF AND RATES

Q. How will Transmission Service be provided for retail access customers within PP&L's franchised area?

A. Unbundled transmission service will be provided to retail access customer's within PP&L's franchised area according to the provisions of the PJM control area Open Access Transmission Tariff. The PJM tariff was accepted by the FERC on February 28, 1997, as an interim tariff for pool-wide transmission service. The PJM tariff is considered interim until a new transmission rate structure and tariff is submitted to and accepted by the FERC. The PJM stakeholders expect to file a new transmission service rate design as part of the comprehensive pool restructuring package by May 31, 1997.

Q. What is the Transmission Service rate applicable to retail access customers located in PP&L's franchised area?

A. The PJM control area Open Access Transmission Tariff, which is accessible via the Internet on the PJM home page (www.pjm.com) and is set forth in Exhibit WHW 3, provides both network and point-to-point services, in conformance with the FERC Order No. 888 pro forma tariff. All retail access customers will use Network Integration Transmission Service.

PP&L expects to file a separate rate schedule for retail transmission service to be used in conjunction with the terms and conditions in the PJM control area Open Access Transmission Tariff. PP&L will seek to recover its applicable transmission service revenue requirements for retail customer transmission services through customer rates. The PP&L retail transmission rates will be based on a per-kWh use charge. The transmission rate schedules PP&L expects to propose to the FERC are provided in the direct testimony of Oliver G. Kasper and proposed Tariff Electric - Pa. P.U.C. No. 201 ("Tariff 201"), provided as Exhibit OGK 2. The rate schedules for retail transmission service meet the requirements of the Act in that there is no shifting of transmission costs within or across rate classes. The transmission rate schedules for recovery of transmission service revenue requirements associated with unbundled retail customer rates are, of course, subject to FERC review and approval. In addition,

modifications to these rates may be required as necessitated by the on-going restructuring of PJM.

Q. Is there a need for PP&L to file a full retail transmission tariff?

A. No, PP&L views the proposed PJM control area Open Access Transmission Tariff, which includes PP&L's 500 kV through 69 kV transmission facilities, as being adequate for all wholesale suppliers to transmit energy to the PP&L system. Final delivery of energy to end-use customers served by PP&L's local distribution service then will be provided pursuant to PP&L's tariff, applicable to each retail customer rate class. PP&L's position appears to be consistent with the FERC's views. In The Washington Water Power Company, Docket No. ER97-960-000, the FERC stated: "... absent a showing that a separate retail transmission tariff is appropriate to accommodate the state's open access program, we expect unbundled retail transmission service in interstate commerce by public utilities to be provided pursuant to the open access compliance transmission tariffs."

Q. How do the current costs of transmission service paid by all retail customers compare with the rates based on the PJM control area Open Access Transmission Tariff?

A. The PJM control area Open-Access Transmission Tariff, filed with the FERC on December 31, 1997, is based on the terms and conditions in FERC Order No. 888. The transmission tariff provides for three types of service: Non-firm Point-to-Point (Non-Firm PTP), Firm Point-To-Point (Firm PTP), and Network Integration (Network) Transmission Service. PP&L submitted revenue requirements for inclusion in the PJM control area Open Access Transmission Tariff that were based on PP&L's Open Access Transmission Tariff filed on July 9, 1996. The PP&L tariff was based on costs used in the then most recent PP&L proceeding before the FERC which reflected data for the future test year ended December 31, 1994.

PP&L's currently approved retail rates include recovery of transmission service revenue requirements from retail customers based on a projection of costs for the future test year ended September 30, 1995. With the rate cap imposed by the Act as of January 1, 1997, customer rates are capped at this level for a period of 4-1/2 years.

Because the July 9, 1996 tariff was based on costs for the future test year ended December 31, 1994, the cost bases for transmission service under existing PUC-approved base rates and the July 9, 1996 FERC transmission tariff filing are different. Even though the cost bases are different, the methodologies for determining the transmission service

rates for the FERC tariff and under PP&L's retail customer rates are consistent.

Q. What are the differences between retail transmission services and wholesale transmission services?

A. There is no physical difference between retail and wholesale transmission services. Current differences in rates for each service are simply due to the different test year cost data used for the FERC wholesale rate compared to the PUC retail rate and the fact that the wholesale tariff is stated in terms of demand charges and PP&L's retail transmission tariff is stated in terms of usage.

Q. What are the rates for point-to-point (PTP) services under the PJM control area Open Access Transmission Tariff.

A. The PJM tariff provides for wholesale energy deliveries over the bulk power transmission facilities located within the PJM service territory. The monthly rates, not including ancillary services, for Firm PTP service are:

Yearly delivery:	one-twelfth of the demand charge of $22.382/kW of Reserved Capacity per year.
Monthly delivery:	$ 1.865/kW of Reserved Capacity per month.
Weekly delivery:	$ 0.4304/kW of Reserved Capacity per week.
Daily delivery:	$ 0.0861/kW of Reserved Capacity per day.

The charge for non-firm transmission service will not include an embedded cost component, but will include charges for ancillary services and losses.

Q. Describe the ancillary services associated with transmission service that are required for retail transmission service for the PP&L Retail Pilot Program.

A. Ancillary services are needed for transmission service to maintain reliability within and among the control areas affected by the transmission service. For the PP&L Retail Pilot, all retail customers in the PP&L franchised service area will receive ancillary services as part of the bundled transmission and distribution services recovered through PP&L's bundled retail rates.

Q. Describe the ancillary services associated with transmission service that are required for retail transmission service for full retail access on January 1, 1999.

A. For full retail access on January 1, 1999, all ancillary services will be provided by the PJM control area ISO.

a. PJM must offer and the retail customer must take the following ancillary services:

1. Scheduling, System Control and Dispatch Service; and

2. Reactive Supply and Voltage Control from Generation Source Service.

b. PJM must offer, but the retail customer may obtain elsewhere, the following ancillary services:

1. Regulation and Frequency Response Service;

2. Energy Imbalance Service;

3. Operating Reserve - Spinning Reserve Service; and

4. Operating Reserve - Supplemental Reserve Service.

Q. What will the ISO charge for ancillary services?

A. At this time, there is insufficient information to predict what the ISO will charge for ancillary services. PP&L expects that it will simply pass through to retail customers any ISO charges for ancillary services attributable to its retail customers.

Q. What is the procedure for securing retail transmission service?

A. Retail transmission service will be secured by the load-serving entity ("LSE") -- the supplier of electricity -- acting as the agent of the retail access customer. Based on PP&L's understanding of the future restructured PJM, the LSE will secure transmission service from the PJM ISO.

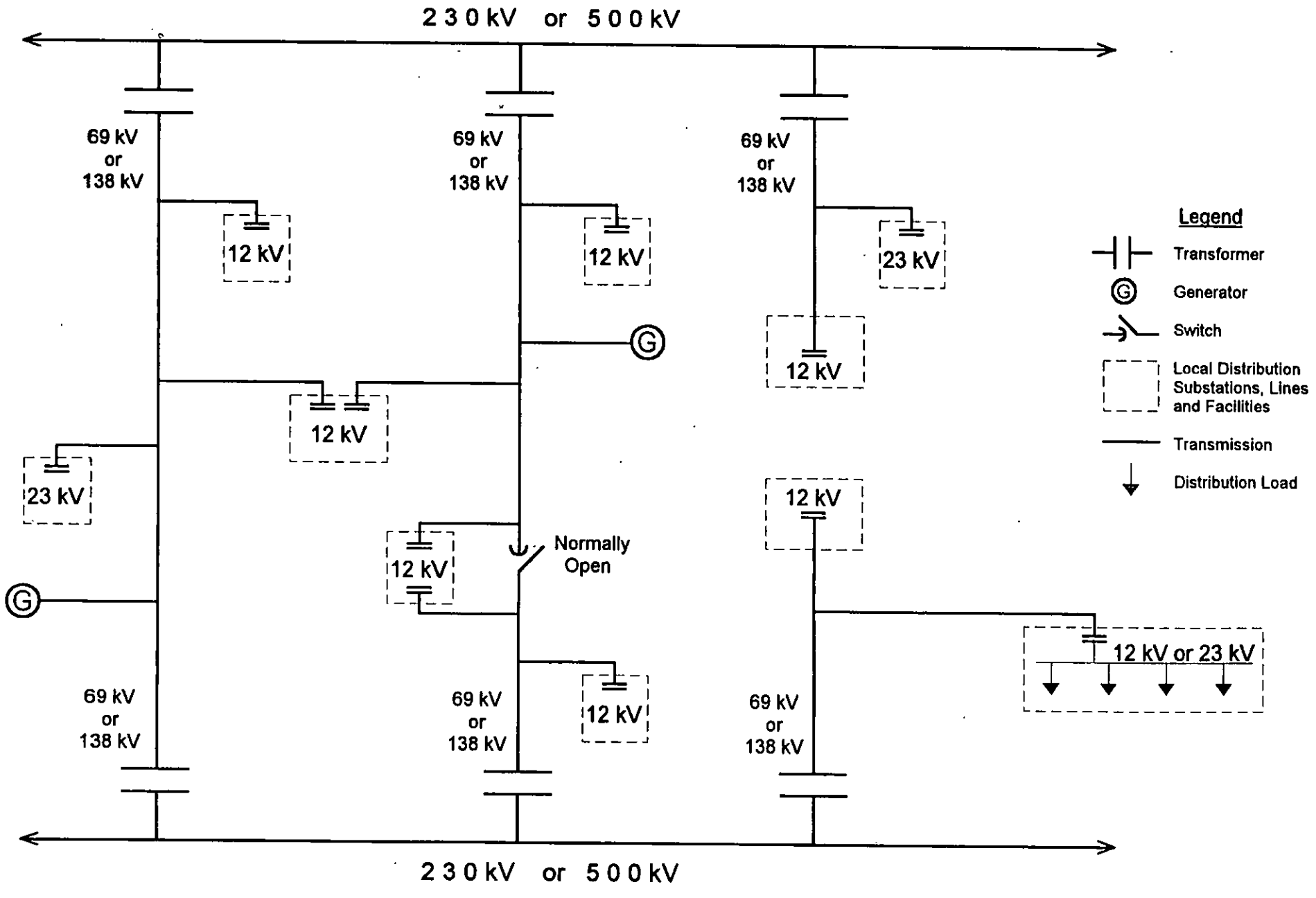
Alternative suppliers using energy sources located outside the PJM control area for delivery to retail customers located within the PJM control area will be required to use the OASIS to obtain transmission service to deliver the energy from their source into the PJM control area.

Energy that is delivered into the PJM control area or energy from sources located within the PJM control area may be delivered to end-use customers located within the PJM control area under a retail tariff which does not require use of the OASIS for deliveries within the pool.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT WHW 1



Types of Transmission Facilities

EXHIBIT WHW 2

Comparison of PP&L's 69 kV And 138 kV Facilities
to FERC's Seven Local Distribution Indicators

FERC INDICATOR	PP&L COMPARISON
1. Local distribution facilities are normally in close proximity to retail customers.	Although a few PP&L retail customers receive high voltage service directly from the transmission system at 69 kV through 230 kV, most customers receive supply at 12 kV and lower voltage levels.
2. Local distribution facilities are primarily radial in character	Many of PP&L's 69 kV and 138 kV lines are normally operated in a network rather than radial configuration or, through switching, can be operated in network. Lines operating below 69 kV are radial and very localized.
3. Power flows into local distribution systems; it rarely, if ever, flows out.	Many of PP&L's 69 kV and 138 kV lines are operated in network or capable of network operation allowing power to flow into or out of the system. Power generally enters into the portion of the system operated below 69 kV to supply end-use customers and rarely flows out.
4. When power enters a local distribution system, it is not reconsigned or transported on to some other market.	Power flowing over some of PP&L's 69 kV and 138 kV facilities may be directed to another market. All of PP&L's 69 kV and 138 kV facilities are readily capable of providing a generation outlet (e.g. to accommodate small power sources). Power flowing over facilities operating below 69 kV supplies locally connected customers and is not reconsigned or transported to another market.
5. Power entering a local distribution system is consumed in a comparatively restricted geographical area.	Power flows on PP&L's 69 kV and 138 kV facilities may merge with network flows and travel over a considerable distance. Power entering PP&L's facilities operating below 69 kV is generally consumed in a comparatively restricted local geographical area.

FERC INDICATOR	PP&L COMPARISON
6. Meters are based at the transmission/local distribution interface to measure flows into the local distribution system.	PP&L performs distribution load checks, using flow-based metering, at substations where voltage is transformed from 69 kV and above to levels below 69 kV.
7. Local distribution systems will be reduced voltage.	PP&L's facilities operating at 69 kV and above are not considered to be at reduced voltage. PP&L's facilities operating at 23 kV, 12 kV and lower are considered to operate at reduced voltage, and therefore, are part of PP&L's distribution system. PP&L differentiates, in its work rules and procedures, the 23 kV and 12 kV facilities from the 69 kV and higher facilities.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 13

Direct Testimony of Robert M. Geneczko

Q. Please state your full name and business address.

A. Robert M. Geneczko, Two North Ninth Street, Allentown, Pennsylvania 18101

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company ("PP&L" or the "Company") as its Vice President-Electrical Systems.

Q. Please describe your educational background.

A. I graduated from Lafayette College in 1974 with a Bachelor of Science Degree in Electrical Engineering. I also have taken many of the fundamental courses that would be required for an MBA.

Q. Please describe your employment history with the Company.

A. I joined PP&L in 1974 as an entry-level Engineer in the former System Planning Department. I moved through the Engineering progression line within System Planning until I became Manager- New Capacity Planning and Energy Analysis. My responsibilities during that time included various engineering economic analyses of load management and capacity options, power plant fuels and efficiency improvements, PJM studies and committee participation, PP&L retail marketing applications, and bulk power sales evaluations. As Manager, I had oversight responsibility for those studies.

In 1987, I accepted a rotational assignment in the Planning section of the Fuels Department, returning to my former position in 1988.

I became Manager of the System Planning Department in 1988 and assumed additional responsibilities for: planning the PP&L Electrical System, capital budget coordination for the Company, PJM planning, NUG contract administration, and for certain bulk power sales.

In 1993, I became Vice President of PP&L's former Susquehanna Division. In that role, I assumed line responsibility for field operations of one of PP&L's five Divisions. These responsibilities included distribution construction and maintenance, service connections, customer service, marketing and economic development, and local community relations.

In late 1994, I became Vice President of Electrical Systems. In this role, I assumed responsibility for oversight of engineering, construction, and maintenance coordination for all of PP&L's electrical facilities. That responsibility was recently broadened to include planning and operation responsibilities, as well as the transmission interface responsibility for PJM. I remain in this position at present.

Q. Please describe any memberships in any professional or industry associations.

A. I am a Registered Professional Engineer in the State of Pennsylvania.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony and accompanying exhibits describe and explain how PP&L will implement its new responsibilities under the Electric Generation Customer Choice and Competition Act ("the Act"), principally Section 2804(6), to "provide transmission and distribution service to all retail electric customers in their service territory and to electric cooperative corporations and electric generation suppliers, affiliated or nonaffiliated, on rates, terms of access and conditions that are comparable to the utility's own use of its system." In doing so, I will describe the Company's recent corporate restructuring that will facilitate its participation on a fair and equitable basis in the retail market as a generation supplier, as well as the internal rules it has adopted for these purposes.

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring Exhibits RMG 1, RMG 2, and RMG 3.

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines submitted in Exhibit No. 2?

A. Yes, I am responsible for responses to the following Commission filing guidelines: RP-I.1., 0.6., P.21., P.23., P.24. and P.25.

Q. Please summarize your testimony.

A. Because PP&L intends to compete in the restructured retail electric power industry as a competitive supplier of electric energy, capacity and related services, PP&L is implementing a functional separation between its electric delivery activities, principally transmission and distribution, and its generation supply and marketing activities. The Company also is extending its Code of Conduct adopted pursuant to FERC Order Nos. 888 and 889 to govern the relationship between its delivery and supply functions on the retail level, and will supplement that Code of Conduct with specific protections for its retail delivery customers. Once implemented, these measures will ensure fair and equitable participation to alternative electric suppliers, PP&L's competitive electric supply business, and all PP&L delivery customers, regardless of their supplier. PP&L's continuing obligation to serve non-choosing or new customers under Section 2807(e)(3) of the Act will be implemented as a function of the Company's delivery business because this obligation arises from PP&L's residual utility obligations and is subject to continuing regulation under the Act.

Q. Please explain the relationship of FERC Order No. 889 to PP&L's restructuring proposals regarding corporate structure under the Act.

A. As described in the direct testimony of Mr. Whitehead, under FERC's Order No. 888 and the recently issued Order No. 888-A, after PP&L unbundles its retail electric rates, as it must do under Section 2804(3) of the Act, it must

offer transmission service to its retail customers under a FERC-approved retail transmission tariff. The FERC has stated that it sees no reason why its open access wholesale transmission tariff should not apply to retail transmission as well, which is what PP&L is proposing. Because all of PP&L's customers who purchase electric power from an alternative supplier or from PP&L's Generation Supply Group will be using transmission, the FERC's rules, of which Order Nos. 889 and 889-A are principally relevant here, will apply. Accordingly, PP&L believes that the Code of Conduct set forth in FERC regulations at 18 C.F.R. § 37.4 generally governs how PP&L's delivery function will deal with alternative suppliers and PP&L's competitive electric supply business, the Generation Supply Group. PP&L already has taken steps to comply with those rules for its wholesale operations and will simply extend its Order No. 889 Code of Conduct to its retail transmission operations. PP&L also will adopt specific measures to protect its retail delivery customers and permit them to have access to the competitive electric power marketplace.

Q. Please describe how PP&L has revised its corporate structure to prepare for retail customer choice.

A. The Company organizationally has separated generation supply functions, which will become unregulated, from the electric delivery functions which will continue to be regulated. Generation supply functions will be carried out by

the Generation Supply group which is comprised of three departments: Generation, the Energy Marketing Center, and Retail Energy Supply. Electric delivery functions will be carried out by the Electric Delivery group which is comprised of three departments: Electrical Systems, Delivery Services and Economic Development, and Customer Service. Each department in both groups is headed by a corporate officer. This separation also is illustrated in Exhibit RMG 1.

Q. Please describe the functions of the Generation Supply group.

A. The Generation department is responsible for operating and maintaining fossil and nuclear generating units and purchasing coal and nuclear fuel. The Energy Marketing Center is responsible for bulk power energy purchases and sales, commodity fuel transactions, and scheduling its generation and energy transactions with the power pool. The Retail Energy Supply department is responsible for non-tariff energy sales to retail customers.

Q. Please describe the functions of the Electric Delivery group.

A. The Electrical Systems department is responsible for the planning, engineering, and operation of the transmission and distribution system. The Delivery Services and Economic Development department is responsible for supply planning, tariff development and administration, tariff electric sales, economic and community development activities, and electrotechnology

development. The Customer Service department is responsible for metering, billing, call answering, complaint resolution, customer education and Chapter 56 compliance.

Q. How do the Generation Supply and Electric Delivery groups relate to other departments in the Company?

A. The Generation Supply group and Electric Delivery group will receive financial, legal, human resource, and other support from various corporate service organizations at fair and non-discriminatory prices. In addition, PP&L will take steps to ensure that support service employees do not act as a conduit for improper communications between Electric Delivery employees and Generation Supply employees.

Q. How does the Company propose to insure that all alternative suppliers are treated on a fair and equitable basis?

A. First, as noted above, the Company has developed and implemented a Code of Conduct to comply with FERC Order No. 889 which requires the separation of the transmission function and wholesale energy merchant function. This Code of Conduct has been filed with the FERC. A copy of this Code of Conduct is provided as Exhibit RMG 2. It will be extended to cover the provision of retail transmission service to alternative suppliers.

Second, the Company is proposing another code of conduct, the Retail Access Code of Conduct, to govern the relationship between the Generation

Supply group, the Electric Delivery group, supporting service organizations and alternative energy suppliers.

The Retail Access Code of Conduct is designed to control the dissemination of confidential customer information, restrict access to competitive information, prevent cross-subsidies between regulated and unregulated activities, and prevent discriminatory practices, primarily in the context of PP&L dealing with its retail customers and their alternative suppliers of electricity, including PP&L's Retail Energy Supply Group. The Code:

(1) describes the customer and supplier information that will be considered confidential and restricts access to this information to only those individuals involved in the administration of energy supply by alternative suppliers;

(2) restricts the assignment of responsibilities between employees in the Generation Supply group and Electric Delivery group;

(3) requires separate cost accounting between groups and appropriate cost allocations for shared services;

(4) specifies conditions to ensure the Electric Delivery group will provide delivery services in a non-discriminatory manner;

(5) requires the Code be communicated throughout the Company;

(6) specifies enforcement procedures; and

(7) proposes to develop a dispute resolution procedure.

The Code is provided as Exhibit RMG 3.

Q. How does the Retail Access Code of Conduct relate to PP&L's Order No. 889 Code of Conduct?

A. The two must be read together. The Order No. 889 Code of Conduct deals with a great many details of the wholesale competitive market and the posting of information on an Open Access Same-time Information System ("OASIS"). Many of these functions will be carried out by the reorganized PJM Interconnection Association and the Independent System Operator. As noted in the testimony of Mr. Whitehead, PP&L will provide retail transmission access under the terms and conditions of the PJM open access tariff filed with the FERC. The Retail Access Code of Conduct addresses specific issues relevant to retail competition, in particular, issues arising from the fact that PP&L's Electricity Delivery group has had, and will continue to have, a long-term relationship with its retail customers and, of necessity, possesses competitively-sensitive information regarding their demand for and use of power. Of course, should any conflict of interpretation or implementation arise between the two codes of conduct, the Order No. 889 code would take precedence.

Q. Please describe how the Company plans to participate in the retail market as a generation supplier.

A. First, as required by law, the Company will continue to provide energy to retail customers in its franchised territory at regulated rates. This will include customers who do not yet have a choice of generation supplier, customers who have a choice, but do not choose an alternative supplier, or customers who have chosen an alternative generation supplier who fails to deliver electricity. This function, because it will remain regulated, will be conducted by the Electric Delivery group.

In addition, the PP&L Generation Supply group will market energy at competitive, non-regulated prices to retail customers within and outside the Company's franchised service territory who have a choice of generation supplier. These sales also will be made to customers participating in Pennsylvania pilot programs, including the Company's own pilot program.

Q. Will the Electric Delivery group maintain investment in generation to meet its supply obligations.

A. No. It is expected that the Electric Delivery group will meet its supply obligations by obtaining power at prevailing market prices at "arms length" from either the Generation Supply group or from alternative suppliers.

Q. Who is responsible for administering PP&L's Code of Conduct?

A. Under PP&L's Order No. 889 Code of Conduct, the Manager - T&D Operations generally is responsible for administering the code and ensuring

that all employees observe the code and that all suppliers and customers are treated in a non-discriminatory manner. As Vice-President of Electrical Systems that responsibility rests with me. In general, however, PP&L's Order No. 889 and Retail Access Codes of Conduct will be incorporated into the Company's Standards of Integrity and, as such, are an obligation of all employees. Mr. Frank A. Long, the Company's Executive Vice President and Chief Operating Officer, has responsibility for ensuring that these codes are honored.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT RMG 1

Organization of Generation Supply and Electric Delivery Groups

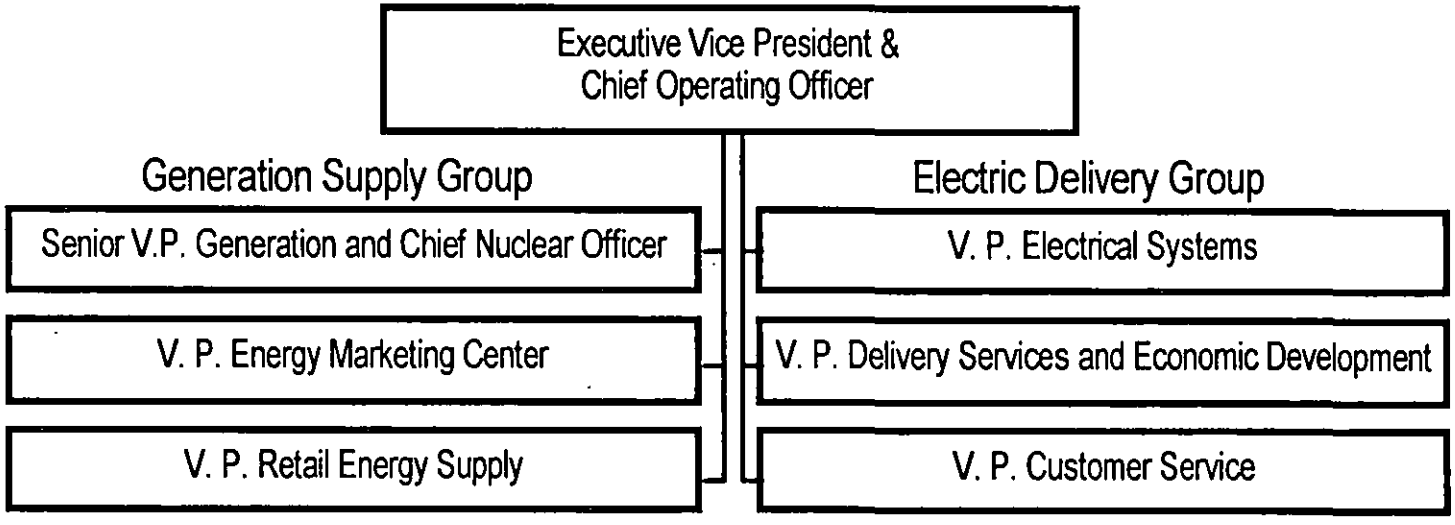


EXHIBIT RMG 2

Standards of Conduct for Compliance with FERC Order 889
Pennsylvania Power & Light Company

(effective January 3, 1997)

(a) Applicability

These Standards apply to all employees and contractors of Pennsylvania Power & Light Company ("PP&L") and its Affiliates.

(b) Purpose

The purpose of these Standards is to fulfill FERC's requirement that PP&L maintain written procedures implementing the FERC Standards of Conduct described in FERC Order No. 889.[1/] The FERC Standards of Conduct contained in 18 C.F.R. § 37.4 are incorporated herein.

(c) Definitions

(1) Affiliate, in accordance with the definition in 18 C.F.R. § 161.2(a), means another person which controls, is controlled by, or is under common control with, PP&L.

(2) FERC means the Federal Energy Regulatory Commission.

(3) OASIS means the Open Access Same-time Information System. PP&L participates in the Pennsylvania-New Jersey-Maryland Interconnection ("PJM") OASIS. The address of the PJM OASIS is http://oasis.pjm.com.

(4) Transmission Functions means functions involving the design, construction, maintenance, reliability planning, engineering, and operation of PP&L's transmission system. The Manager - T&D Operations, or his designee, will determine which personnel are engaged in these functions.

(5) Wholesale Merchant Functions means functions involving the sale for resale, or purchase for resale, of electric energy in interstate commerce by PP&L or any Affiliate. The employees in PP&L's Energy Marketing Center are currently the only personnel that perform these functions.

[1/] Open Access Same-Time Information System (formerly Real-Time Information Networks) and Standards of Conduct, 61 Fed. Reg. 21,737 (May 10, 1996), FERC Stats. & Regs. ¶ 31,037 (1996).

(d) General Rules

(1) Except as provided in paragraph (d)(2) of this section, personnel engaged in Transmission Functions will function independently of personnel engaged in Wholesale Merchant Functions. Personnel who provide services and support to the Transmission Function, the Wholesale Merchant Function, or both functions are required to adhere to all appropriate provisions of these Standards.

(2) Notwithstanding any other provisions in these Standards, in emergency circumstances affecting system reliability, Transmission Function personnel may take whatever steps are necessary to keep the system in operation. The Manager - T&D Operations is responsible for reporting to FERC and on the OASIS each emergency that resulted in any deviation from these Standards, within 24 hours of such deviation.

(e) Rules governing employee conduct

(1) Prohibitions. Wholesale Merchant Function personnel are prohibited from:

(i) conducting Transmission Functions; and

(ii) having access to the Transmission Control Center and regional Transmission and Distribution Operations centers. Cardkey access will be used to enforce these restrictions. If access to these facilities is provided for the purpose of training or personnel familiarization with transmission operations, such access will be provided to all PP&L transmission customers.

(2) Transfers. The transfer of employees between the Transmission Function and Wholesale Merchant Function is permitted provided that these transfers are not used as a means to circumvent these Standards. The Manager - T&D Operations will notify the Human Resources Department of each employee and position engaged in either of these functions. The Human Resources Department will then notify the Manager - T&D Operations when an employee is transferred to or from either of these functions. The Manager - T&D Operations will post notice of any such employee transfer on the OASIS as provided in 18 C.F.R. § 37.6(g)(3). The information to be posted must include: the name of the transferring employee, the respective titles held while performing each function,

and the effective date of the transfer. The information posted under this section must remain on the OASIS for 90 days.

(3) Information Access

(i) Wholesale Merchant Function personnel:

(A) shall have access to only that information available to PP&L's open access transmission customers (i.e., the information posted on an OASIS), and will not have preferential access to any information about PP&L's transmission system that is not available to all users of an OASIS; and

(B) are prohibited from obtaining information about PP&L's transmission system (including information about available transmission capability, price, curtailments, ancillary services, engineering, design, outages, status, and the like) through access to information not posted on the OASIS that is not otherwise available to the general public without restriction, or through information through the OASIS that is not also publicly available to all OASIS users.

(ii) PP&L will limit access to information by:

(A) the physical separation and the cardkey access described in section (e)(1)(ii) above; and

(B) the maintenance of computer firewalls and other restrictions to prevent Wholesale Merchant Function personnel from having access to computerized information about PP&L's transmission system that is not at the same time available to all OASIS users. PP&L's Information Services Department will administer these computer restrictions.

(4) Disclosure. Transmission Function personnel are responsible for ensuring compliance with the following provisions:

(i) Transmission Function personnel may not disclose to Wholesale Merchant personnel any information concerning the transmission system of PP&L or the transmission system of another (including

information received from non-affiliates or information about available transmission capability, price, curtailments, ancillary services, etc.) through non-public communications conducted off the OASIS, through access to information not posted on the OASIS that is not at the same time available to the general public without restriction, or through information on the OASIS that is not at the same time publicly available to all OASIS users (such as e-mail).

(ii) If Transmission Function personnel disclose information not posted on the OASIS in a manner contrary to these Standards, such disclosure shall be reported to the Manager - T&D Operations for immediate posting on the OASIS.

(iii) Transmission Function personnel may not share any market information, acquired from non-affiliated transmission customers or potential non-affiliated transmission customers, or developed in the course of responding to requests for transmission or ancillary service on the OASIS, with Wholesale Merchant Function personnel except to the limited extent information is required to be posted on the OASIS in response to a request for transmission service or ancillary services.

(5) Implementing Tariffs

(i) Transmission Function personnel will strictly enforce all tariff provisions relating to the sale or purchase of open access transmission service, if these provisions do not provide for the use of discretion.

(ii) Transmission Function personnel will apply all tariff provisions relating to the sale or purchase of open access transmission service in a fair and impartial manner that treats all customers (including PP&L and any Affiliate) in a non-discriminatory manner, if these provisions involve discretion.

(iii) Transmission Function personnel will maintain a log, available for FERC audit, detailing circumstances and manner in which discretionary terms of the tariff were exercised.

(iv) Transmission Function personnel will not, through PP&L tariffs or otherwise, give preference to

wholesale purchases or sales made on behalf of PP&L's own power customers, or those of an Affiliate, over the interests of any other wholesale customer in matters relating to the sale or purchase of transmission service (including issues of price, curtailments, scheduling, priority, ancillary services, etc.).

(v) If Transmission Function personnel offer a discount on purchases of transmission service made on behalf PP&L's own power customers or those of any Affiliate, then, at the same time, an offer will be posted on the OASIS to provide the same discount to all transmission customers on the same path and on all unconstrained transmission paths.

(vi) If Transmission Function personnel offer a rate discount on ancillary services to an Affiliate, or attribute a discounted ancillary service rate to PP&L's own transactions, an offer will be posted on the OASIS to provide the same discount to all eligible customers.

(6) Books and Records. PP&L will maintain its books of account and records (as prescribed under 18 C.F.R. Parts 101 and 125) separately from those of its Affiliates and these will be available for FERC inspection.

(f) Training

All employees engaged in Transmission Functions and Wholesale Merchant Functions will receive a copy of these Standards. These employees will be required to undergo training on these Standards and the FERC Standards of Conduct. The Manager - T&D Operations is responsible for the development of training and communications material to ensure that these Standards are understood by all personnel involved in either the Transmission Function or the Wholesale Merchant Function.

(g) Violations

Violations of these Standards will be treated as a violation of PP&L's Standards of Integrity and disciplinary action, up to and including dismissal, will be administered in accordance with PP&L's Responsible Behavior policy.

(h) Auditing

Periodic audits of the provisions of these Standards will be conducted to ensure compliance.

(i) Communications and Revisions

These Standards are filed with FERC and are available for public inspection at PP&L's offices in Allentown, Pennsylvania. Revisions to these Standards will be filed with FERC in accordance with FERC regulations.

FORM OF NOTICE

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Pennsylvania Power & Light Company	)	Docket No. ER97-___-___

NOTICE OF FILING

Take notice that on January 3, 1997, Pennsylvania Power & Light Company ("PP&L") tendered for filing its Standards of Conduct in compliance with the Commission's Order No. 889, 61 Fed. Reg. 21,737 (May 10, I996), FERC Stats. & Regs. ¶ 31,037 (1996), reh'g pending.

Any person desiring to be heard or to protest such filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Room 1-A, Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such petitions and protests should be filed on or before _____, 1997. Protests will be considered by the Commission to determine the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.

Lois D. Cashell
Secretary

EXHIBIT RMG 3

Code of Conduct

The relationship of the Generation Supply group, Electric Delivery group, supporting organizations and alternative energy suppliers will be governed by the following code of conduct which is intended to control dissemination of confidential customer information, restrict access to competitive information, prevent cross-subsidies between regulated and unregulated departments, and prevent discriminatory practices.

Segregation of and Restricted Access to Information

1. The following information shall be considered confidential and access to this information shall be limited to only those employees involved in the administration of energy supply by alternative suppliers for the purpose of customer billing, supply scheduling and reconciliation, supplier payments, and customer assistance.

- Supplier pricing and billing information;
- Supplier customer lists;
- Individual customer consumption;
- Identity of the supplier of a participating customer.

2. The Electric Delivery group will release information to a supplier concerning individual customer account history and individual customer consumption only after written approval from the customer.

Assignment of Responsibilities

1. Employees in the Generation Supply group directly involved in marketing energy to customers choosing competitive generation service will not be assigned any responsibilities within the Electric Delivery group and vice versa.

Accounting and Cost Allocations

1. Costs associated with the Generation Supply and Electric Delivery groups will be kept separate.

2. Charges for services between the Generation Supply group, Electric Delivery group and other internal service organizations will be provided at fair and non-discriminatory prices.

Comparability

1. The Electric Delivery group will not condition any discount to a customer or condition any deviation from standard terms of service to a customer on the purchase of energy from the Generation Supply group.

2. The Electric Delivery group will make meter reading, billing and other customer assistance services available to all generation suppliers at non-discriminatory rates, terms and conditions.

3. The Electric Delivery group will process requests for access by all generation suppliers in a non-discriminatory manner.

4. The Electric Delivery group will apply tariff provisions in a non-discriminatory manner.

Communications to Employees and Enforcement

1. The code or conduct will be communicated throughout the Electric Delivery and Generation Supply groups, and other internal service organizations.

2. The code of conduct will be incorporated into the Company's Standards of Integrity.

3. Periodic audits of the code of conduct will be conducted to ensure compliance.

4. Violations of the code of conduct will be treated as a violation of the Company's Standards of Integrity and disciplinary action will be administered in accordance with the Company's Responsible Behavior policy.

5. As deemed appropriate, employees involved in the administration of energy supply by alternative suppliers and having access to competitive information will sign a confidentiality agreement prohibiting improper disclosure of competitive information.

Dispute Resolution Process

1. The Electric Delivery group will establish a procedure for receiving, recording and resolving complaints concerning this code of conduct.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 14

Direct Testimony of Henry W. Baumann

Q. Please state your full name and business address.

A. My name is Henry W. Baumann and my business address is Two North Ninth Street, Allentown, Pa. 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company ("PP&L"). I am the Project Manager of Competitive Intelligence in the Marketing Research section of Marketing & Economic Development.

Q. Please describe your educational background.

A. I graduated from Allentown College in 1983 with a Bachelor of Arts degree in Business and from Lehigh University in 1989 with a Master of Science degree in Economics.

Q. Please describe your employment history with the Company.

A. I have been employed by the Company since 1977. I started as a Laborer in the Construction Department at the Martins Creek Steam Electric Station and progressed through a variety of bargaining unit positions while attending college. I was hired as an Analyst in the Rates & Market Research Department in 1985. My responsibilities included load and sales forecasting and conducting market research surveys. I was named to my present position in 1995.

Q. Please describe your membership in any professional or industry associations.

A. I am a member of the Society of Competitive Intelligence Professionals.

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines in Exhibit No. 2?

A. Yes, I am responsible for the responses to filing guidelines RP-M.3., M.4., M.5. and P.12.

Q. Are you familiar with the Company's retail access pilot program that was filed with the Commission on February 28, 1997?

A. Yes. I actively participated in development of the Company's pilot program. Currently, I am leading the team which is responsible for implementation of the pilot program.

Q. Please summarize the major elements of the pilot program that are relevant to the Company's Restructuring Plan filing.

A. I believe there are two major elements of the pilot program that are relevant to the Company's Restructuring Plan. The first is the education program which is designed to provide customers with enough information about the changes underway in the electric utility industry so that they can make an informed choice. The second element is establishment of rules and proce-

dures for moving into a competitive market. The Company has developed a communications plan and procedures for the pilot program which are good first steps toward customer choice. The pilot program will allow the Company to make changes to these elements based on experience acquired over time.

Q. Please summarize your understanding of how the Electricity Generation Customer Choice and Competition Act ("Act") phases in retail access in Pennsylvania.

A. The first step in the phase-in process is the establishment of retail access pilot programs. The Act authorizes the Commission to order electric utilities to submit proposals for retail access pilot programs which will begin no later than April 1, 1997. The Company has filed a pilot program proposal and is awaiting Commission approval.

The next phase begins on January 1, 1999 when the Act requires electric utilities to make thirty-three percent of the peak load of each customer class available for direct access. An additional thirty-three percent of the peak load must be available on January 1, 2000. All customers will have direct access as of January 1, 2001.

Q. How will the Company select customers to participate in the first two phases of retail access?

A. The enrollment period for the first phase which starts on January 1, 1999, will begin on June 1, 1998 and end on October 1, 1998. The Company will publicize enrollment procedures before and during the enrollment period and will allow customers to volunteer by mail or through the Company's Internet web site. The Company will determine the amount of load for each customer class that will be eligible for retail access. If a customer class is over-subscribed, participants will be selected on a random basis. If a rate schedule is not fully subscribed, enrollment will re-open to all customers within that particular rate schedule. Customers who are participating in the first phase of direct access will be notified by November 2, 1998.

Customer selection for the second phase of retail access will begin on June 1, 1999 and end on October 1, 1999. The selection process in the second phase will proceed in the same manner as the first phase and participants will be notified by November 1, 1999.

Q. How will the Company accommodate customers who are participating in its pilot program and also want to participate in the first phase of retail access?

A. Customers who are participating in the Company's pilot program can enroll in and will be selected for retail access as described above. However, there is one significant difference. The Company recognizes that a customer participating in the pilot program may be reluctant to return to fully regulated rates and service. For that reason, customers who are participating in the Com-

pany's pilot program, but are not selected for the first or second phase of retail access can elect to be "grandfathered" into retail access. However, customers in the Primary and Transmission/Subtransmission groups who have load limits in the pilot program will be limited to that level of load when "grandfathered" into retail access.

Q. How will the Company address competitive distortions affecting customers that may arise during the customer selection process?

A. The Company is sensitive to the fact that the selection process may result in a customer being eligible for retail access in a later group than its competitors. If such a competitive distortion arises, the Company will review the situation on a case-by-case basis and attempt to resolve it to the satisfaction of the affected customers.

Q. How will customers be notified of their status as participants or non-participants?

A. Participants will be notified by mail.

Q. What customer information will be released to alternative suppliers?

A. The Company will release a customer's name, address, and telephone number unless restricted by the customer.

Q. How will customers sign-up to take service from alternative suppliers?

A. The Company will send a list of all licensed alternative suppliers to each participating customer. The customer's chosen supplier will contact the Company to arrange service.

Q. How will the Company confirm a customer's initial selection of or change of alternative suppliers?

A. The Company will require that the alternative supplier provide written notification to PP&L of a customer's decision to purchase electricity from that alternative supplier. The Company will send the supplier's notification information to the customer and request that the customer inform the Company if any of the information is incorrect or inaccurate. If the customer does not respond, the Company will assume the supplier's notification information is correct. I believe these customer verification procedures should address concerns regarding improper customer "slamming" by alternative suppliers.

Q. Can a customer purchase electricity from more than one alternative supplier at a time?

A. A customer participating in PP&L's pilot program cannot purchase electricity from more than one alternative supplier at a time. Beginning on January 1, 1999, customers participating in retail access can purchase from multiple

suppliers and can change suppliers at their discretion subject only to the agreements with their suppliers.

Q. Can a customer return to PP&L?

A. Yes. A customer can return to PP&L's Basic Utility Supply Service at any time.

Q. How will the Company provide service to a customer who returns to PP&L's Basic Utility Supply Service?

A. The Company will provide service to returning customers under the most appropriate tariff retail rate schedule. Returning customers will be considered new customers and will be treated as new customers under the tariff. Accordingly, they will not be eligible for service under tariff provisions that have been closed to new applicants. In addition, they will be required to enter into one year service contracts to avoid "gaming" concerns. However, there is an exception to this rule. All residential customers will have one six-month grace period to gain experience with competition. If a residential customer returns during that grace period, he or she will be considered and treated as an existing customer, not a new customer.

Q. How will the Company select generation suppliers to participate in retail access?

A. The Company will not select suppliers. Any supplier which is licensed by the Commission and which satisfies any requirements imposed by PJM or its successor can participate.

Q. Will the Company provide information regarding generation suppliers to its customers?

A. The Company will send a list of all alternative suppliers licensed by the Commission to customers at the time they become eligible for retail access. Alternative suppliers, of course, will be responsible for informing prospective customers about their products.

Q. Did the Company propose rules and procedures for alternative suppliers in its retail access pilot program?

A. Yes.

Q. Why did the Company propose these rules and procedures?

A. The Company is responsible for maintaining the safety and reliability of the electric transmission and distribution system. The Company has proposed these rules to insure that this goal is met and to insure that all alternative suppliers are treated fairly and equitably.

In addition, because PJM has not yet created an Independent System Operator ("ISO") to manage these transactions, the Company would be required to assume a management role for some period of time.

Q. Is the Company proposing similar rules and procedures for generation suppliers in this Restructuring Plan filing?

A. No. The Company anticipates that an ISO will be in place before retail access begins and that the ISO will establish appropriate rules and procedures to manage retail transactions. For example, transmission to the PP&L delivery system will be accomplished under the PJM open access tariff administered by the ISO. Accordingly, there is no need to create additional requirements. As explained in the testimony of Mr. William H. Whitehead, however, the Company intends to file a retail transmission rate schedule for use with the PJM open access tariff.

Q. Will the Company consider imposing such rules and procedures if an ISO is not established by January 1, 1999?

A. Yes. Although the Company believes an ISO will be in place, this may not occur by January 1, 1999. In that event, the Company will evaluate the situation and consider imposing any rules and procedures required to protect safe, reliable and efficient operation of its system.

Q. Is the Company proposing to collect any fees and charges from generation suppliers?

A. Yes. The Company is proposing to charge alternative suppliers for billing services. The alternative supplier does not have to pay these charges if it chooses to perform its own billing.

Q. Why does the Company believes it is appropriate to collect these fees and charges?

A. The Company believes that the costs of its billing system should be shared by alternative suppliers and their customers that use the system and not be borne solely by customers who do not benefit from these services.

Q. Does that conclude your testimony?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 15

Direct Testimony of Bernard J. Bujnowski

Q. Please state your full name and business address.

A. Bernard J. Bujnowski, Two North Ninth Street, Allentown, Pennsylvania 18101.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company as Manager - Customer Contact Operations. I am currently on special assignment to replace PP&L's customer information system.

Q. Please describe your educational background and employment history.

A. I received a B.A. Liberal Arts Degree from King's College, Wilkes-Barre, Pennsylvania and a B.S. from Michigan State University in Planning Administration. I have been employed by PP&L since 1978. Prior to that, I was employed by a consulting engineering firm in New Haven, Connecticut, for five years. I also was employed for an 18-month period in the Federal Energy Regulatory Commission's Division of Licensed Projects.

Q. Please describe your employment history with the Company.

A. I have held various positions in PP&L's Customer Services, Marketing and Economic Development, and Community Services Departments. Prior positions included Community Planning Consultant, Supervisor of Com-

munity Services, Manager - Special Projects, Director - Customer Services, and my current position, Manager - Customer Contact Operations.

Q. Please describe any memberships in any professional or industry associations.

A. I am a member of the EEI/AGA Customer Services Committee.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony and accompanying exhibits describe and support the Company's proposals for customer metering, billing and collection procedures.

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines submitted in Exhibit No. 2.

A. Yes. I am responsible for the Company's responses to the following Commission filing guidelines: RP-P. 13., P. 14. and P. 15.

Q. Please summarize your testimony.

A. PP&L will provide and maintain its standard meter installations for customers. The meters will be read monthly on a schedule determined by the Company. In addition, the Company will bill participating customers for all electric services provided by PP&L and services provided by alternative suppliers, unless the customer requests two separate bills. In the latter

circumstance, the Company will supply all appropriate meter reading data to the alternative suppliers on a monthly basis. The Company intends to apply its current bill collection procedures and practices consistent with the requirements of Chapter 56.

Q. Please describe the Company's proposals regarding meter reading.

A. The Company will provide and maintain its standard meter installations for customers. Pursuant to Section 2807(B) of the Electricity Generation Customer Choice and Competition Act ("Act"), participating customers will be required to compensate PP&L for any non-standard meter installations required by alternative suppliers. Current customer meter reading schedules will be maintained (i.e., spread throughout the month) so that billing cycles do not fall on the same day.

The Company recognizes that additional service options may be available to the customer in a more competitive environment. The Company will evaluate these options and endeavor to provide the metering equipment consistent with the objectives of customer choice and accurate, economical billing.

Q. Will the Company charge customers for these meters?

A. At the present time, the Company has no plans to charge customers for meters, except where alternative suppliers require special meters.

Customers will be billed for the additional costs of those non-standard metering installations.

Q. Will the Company permit any other parties to provide meters or meter reading services?

A. The Company does not intend to permit other parties to provide meters or meter reading services at the present time. PP&L believes that this approach is consistent with current regulatory policy and the intent of the Act which opens electricity generation and supply to competition, but retains electric transmission and distribution services within a regulated utility.

Q. Will the Company provide meter reading data to customers or any other parties?

A. If a customer requests a separate bill from an alternative supplier, the Company will provide that customer's meter reading data to the alternative supplier. This data would include the type of reading, KW and/or KWH consumption, and meter reading date. In addition, the Company will provide meter reading data directly to a customer, if the customer requests that data in writing.

Q. Please describe the Company's proposals regarding customer billing.

A. PP&L will bill customers consistent with the procedures described in Exhibit BJB 1. In addition, the Company is in the process of replacing its current information system, which supports all customer service functions, including billing, with a new, state-of-the-art information system. PP&L believes that this new system, which will take over two years to build and install, will result in improved levels of customer satisfaction regarding billing accuracy, timely resolution of customer inquiries, and increased billing options consistent with customer choice. The new system is scheduled for deployment on January 1, 1999.

Q. Will the Company be able to bill alternate suppliers, as well as customers for all of the services it provides?

A. The Company will be able to bill customers or the alternative supplier for all of the services it provides. In addition, the Company expects to be in a position to provide "third party" billing services, including billing services for alternative suppliers.

Q. Is the Company willing to permit other parties to bill customers?

A. The Company is not willing to permit other parties to bill its customers for the services PP&L provides to them.

I believe this approach is consistent with current regulatory policy and the intent of the Act which opens electricity generation and supply to competi-

tion, but retain electric transmission and distribution services within a regulated utility.

Q. How will the Company administer customer requests for billing by an alternative supplier?

A. In those instances where the customer requests billing by an alternative supplier, it will be necessary for the Company to provide the alternative supplier with energy usage and other customer account information. This exchange of data would be accomplished through electronic data transfer. Experience gained through PP&L's retail access competition pilot program will provide valuable insights in the development of standard procedures in the administration of billing by alternative suppliers.

Q. Will the Company charge either the customer or the alternative supplier for these services?

A. The Company intends to assess a billing charge on alternative suppliers in those instances where the customer elects a single bill. Under the provision of the Company's retail access competition pilot program, these charges include a $1.10 billing charge which is intended to cover billing overheads. There will be no additional charge if customers elect to be billed separately for energy and capacity by their alternative supplier.

Q. Please describe the Company's current customer bill collection procedures and practices.

A. Customer meters are read and bills are issued each month. Residential customers have 20 days to pay their bill and commercial/industrial customers have 15 days. Primarily, collection efforts are conducted by PP&L personnel. These efforts involve telephone and mail contact with delinquent customers. Various outbound calling campaigns are conducted to encourage delinquent customers to pay. If the customer does not pay, the service termination process begins. For commercial/industrial customers, only a 3-day notification is required prior to service termination. For residential customers, a 10-day notice and a 3-day notice are required prior to service termination. For continued service, payment plans are established for residential customers. Commercial and industrial customers generally are required to pay the full overdue amount before being reconnected.

The Company's collection efforts are supplemented by referral of some customers to third-party collection agencies and attorneys. Also, a variety of programs are available to assist low-income residential customers who do not have the ability to pay their electric bill.

These procedures have been developed consistent with the Commission's Chapter 56 requirements.

Q. Is the Company proposing to continue these bill collection practices after the phase-in of retail access has begun?

A. Yes. The Company's collection practices have been carefully developed over time and, I believe, will continue to be appropriate even after retail access is available. However, the Company will place increased emphasis on positive identification and on verification of the credit worthiness of new applicants.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT BJB 1

Pennsylvania Power & Light Company
Billing Procedures

- PP&L will bill customers for PP&L and Alternative Supplier ("A/S") charges unless the customer requests two separate bills.
- A/S will provide to PP&L billing information regarding the A/S charges in order for PP&L to provide the customer one bill.
- PP&L will continue to read the meter for all customers.
- PP&L will continue to bill customers on their current billing cycles.
- PP&L will bill customers receiving energy from an A/S based on charges provided by the A/S.
- Where the Company bills for an A/S, charges will be a separate line on the bill. A message with the name, address and telephone number of the A/S also will appear on the bill.
- PP&L will submit electronically all billing information to the A/S regarding their customers.
- Billing information sent to the A/S will include the following if applicable: account number, customer name, service address, mailing address, type of meter reading, KW and/or KWH consumption, meter reading date, number of days in billing cycle, A/S energy charge, A/S Pennsylvania sales tax, due date, gross receipts tax.
- If PP&L provides billing services, the A/S will be required to enter into a contract with PP&L for the terms and conditions of the billing and collections.
- The funds remitted to the A/S will reflect actual billed amounts to A/S customers less charges for billing.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 16

Direct Testimony of Timothy R. Dahl

Q. Please state your full name and business address.

A. Timothy R. Dahl, 827 Hausman Road, P.O. Box 3500, Allentown, Pennsylvania 18106.

Q. By whom are you employed and in what capacity?

A. I am currently a Customer Relations Specialist for Pennsylvania Power & Light Company (PP&L). One of my primary responsibilities is to oversee and coordinate the Company's universal service programs.

Q. Please describe your educational background and employment history.

A. I graduated from Central Washington University in 1973 with a Bachelor of Arts degree in Political Science and from Arizona State University in 1978 with a Master of Arts degree in Political Science. I started my full-time working career with Pennsylvania Power & Light Company in June 1978.

Q. Please describe your employment history with the Company.

A. I joined PP&L in June 1978 as a Consumer Affairs Specialist and was promoted to Coordinator-Consumer Programs in July 1980. In May 1986, I was promoted to the position of Supervisor-Consumer Programs. My primary responsibilities included: developing and implementing programs such as CARES, Operation HELP, and WRAP; coordinating public participation activities; conducting special studies on consumer issues

(e.g., elderly, Hispanic customers); and developing working relationship with consumer groups, coalitions, government agencies, and community-based organizations. In June 1992, the Customer Services Department was reorganized and my title was changed to Coordinator-Consumer Affairs.

PP&L encourages job rotations as a means of career development for employees. From March 1993 through May 1994, I completed a job rotation as Research Associate in the Company's Public Affairs Department. My duties included tracking federal legislation on environmental issues and developing processes to strengthen the department's client services. I returned to my former position in Customer Services in May 1994. As the result of a department reorganization, I assumed my current position of Customer Relations Specialist in April 1995.

I have participated in numerous training and professional opportunities at PP&L, such as: public participation, conflict resolution, effective writing, team building, government relations, and personal computer applications. In addition, I have completed numerous business administration courses at Muhlenberg College and Allentown College.

Q. Please describe any memberships in any professional or industry associations.

A. I have served in various capacities, including chairperson, of the Edison Electric Institute's (EEI) Consumer Affairs Committee, and I am currently a member of EEI's Consumer and Community Affairs Committee. I am a member of the Pennsylvania Electric Association's Consumer Services Committee, and my responsibilities have included serving as chairperson of the Committee. I belong to the National Low Income Energy Consortium, and I am a member of the Pennsylvania Energy Assistance and Weatherization Coalition. I am a long-time member of the Society of Consumer Affairs Professionals, and I have previously been a member of the National Fuel Fund Network.

Q. What is the purpose of your testimony?

A. My testimony describes and supports the Company's universal service programs and its energy conservation programs.

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines submitted in Exhibit No. 2.

A. Yes. I am responsible for the responses to the following Commission filing guidelines:

RP-P.1., P.2., P.3., P.5., P.6., P.7., P.8., P.9., P.10., and P.11.

Q. Please summarize your testimony.

A. PP&L has been among the industry leaders in implementing programs to address customer and community needs, especially those of low-income customers. In 1996, the Company's annual funding level for universal service programs and energy conservation programs was over $7 million. The Company has reviewed its existing programs and concluded that it must continue its leadership role in this area. In addition, PP&L determined that its annual funding for universal service programs and energy conservation programs would increase from a current level of $7 million to approximately $14.3 million by the year 2002.

Q. Please explain the history of PP&L's commitment to universal service programs and energy conservation programs.

A. PP&L has been among the industry leaders in implementing programs addressing customer and community needs, especially those of low-income customers. The programs are an extension of the Company's long-standing commitment to deal fairly and equitably with all of its customers. They also reflect PP&L's desire to offer programs that address the needs and priorities of its diverse population of customers. The Company believes such activities are in the broad public interest.

Since the late 1970s, PP&L has implemented a variety of programs and services designed to serve the needs of customers and communities. The Company's approach to developing these programs has been inclu-

sive, rather than exclusive. Programs have been based on customer and community needs, and community-based organizations (CBOs) have played a key role in developing policies and procedures for programs. Without their "buy-in" and support, these programs could not have succeeded. In addition, many CBOs have been involved in the direct implementation of low-income programs sponsored by PP&L. The Company believes that the programs discussed in my testimony are the outgrowth of an effective approach that has existed for nearly two decades.

Q. When did PP&L get involved in universal service programs and energy conservation programs?

A. PP&L has a 75-history of community support throughout its 29-county service area. The genesis of the Company's current efforts supporting universal service programs can be traced back to 1972 when PP&L established a Consumer Affairs function. The initial objective of Consumer Affairs was to listen to consumers, identify their needs, and develop programs to meet their expectations. PP&L was one of the first electric utilities to establish a Consumer Affairs function.

Through its Consumer Affairs function, the Company established effective working relationships with national, regional, and state consumer organizations. This early partnering activity cumulated in the first-ever Consumer-Utility Conference, which was held in Hershey, Pennsylvania in

September 1976. Over 400 people from throughout the United States representing consumer groups, utilities, and government agencies participated in the conference. This consumer-utility dialogue was a watershed event in terms of PP&L taking an active role in developing consumer and community programs.

The Company's involvement with consumer organizations and local CBOs created a greater awareness about the needs and concerns of low-income customers. In 1980-81, PP&L began a program called CARES (Customer Assistance & Referrals Evaluation Service). It was an innovative outreach and referral service for customers who were faced with temporary personal or family hardships. The Commission subsequently has encouraged all electric and gas utilities to establish CARES programs.

In 1983, PP&L was one of the first utilities in the nation to start a private fuel fund to help low-income customers pay their energy bills. Known as Operation HELP, the program is supported by donations from PP&L, its customers and employees. From 1983 through the end of 1996, the program has raised nearly $7 million in donations to help almost 32,000 low-income households.

To address the energy conservation needs of low-income families, PP&L started the Winter Relief Assistance Program (WRAP) in 1985. WRAP provides free weatherization services and energy conservation education to qualified low-income customers. In 1988, the PUC directed

all electric and gas utilities in Pennsylvania to start similar weatherization programs, known generically as Low Income Usage Reduction Programs (LIURP).

Q. Please describe PP&L's existing universal service programs and energy conservation programs?

A. The Company's universal service programs and energy conservation programs include the following:

- Customer Assistance & Referral Evaluation Service (CARES)
- Operation HELP
- Winter Relief Assistance Program (WRAP)
- Keep Warm Plan
- OnTrack Payment Program Pilot

Q. What is the current level of funding for these programs?

A. A summary of the 1996 annual funding level for the programs is shown below.

CARES	$ 260,000
Operation HELP	795,000[1]

[1] This total includes $375,000 in donations from customers and PP&L employees and $420,000 in corporate support from the Company.

WRAP	3,023,300
Keep Warm Plan	1,000,000
OnTrack	2,000,000
Total	$7,078,300

Q. Please describe the CARES program.

A. This special outreach and referral service started in late 1980 as a pilot and was expanded system-wide in early 1982. CARES handles customers whose hardship circumstances prevent them from paying the full amount of their electric bills. The program provides affordable payment plans, protection against shut-offs, and referrals to a variety other assistance programs. CARES targets customers who are confronted with temporary personal or family hardships. The referral criteria for CARES include illness, injury, and/or medical bills that significantly reduce household income; a previously good-paying customer with a temporary hardship situation; recent loss of job or major reduction in household income; abandoned spouse or low-income elderly. The program is administered by PP&L's five Customer Programs Directors (CPDs), who work closely with an extensive network of social service agencies. At the end of 1996, the CPDs had about 450 active CARES cases.

Q. Please describe the Operation HELP program.

A. PP&L started this fuel fund in 1983. It is supported by donations from PP&L, its customers and employees and is administered by 16 CBOs throughout the Company's service area. The fund operates year-round and pays any type of home heating bill. Assistance is limited to one grant annually, and all payments go directly to the energy vendor. The program targets low-income customers (at or below 175 percent of the federal poverty level) who are confronted with hardships and have overdue energy bills. To receive assistance, applicants must participate in personal interviews with the administering organizations to determine their eligibility and need.

From March 1983 through December 1996, Operation HELP has raised nearly $7 million to assist almost 32,000 households. Donations from the various funding sources are shown below:

Customers	$3,207,387
PP&L	3,153,737
PP&L Employees	624,078
Total	$6,985,202

PP&L will continue to actively solicit donations to Operation HELP. Over the past five years ended December 31, 1996, donations to the program from all sources have risen over 27 percent. PP&L is confident that the program will continue to receive solid support from shareowners, customers, and employees.

Q. Please describe the WRAP program.

A. WRAP is a free weatherization program for low-income customers. Implemented in 1985, WRAP offers weatherization services and individualized energy conservation counseling. To qualify for WRAP services, applicants must meet the income guidelines; be individually-metered PP&L customers; be at least 18 years of age; and own or rent a home or apartment. WRAP income guidelines are set at 150 percent of the federal poverty level, but can go as high as 175 percent of the federal poverty level for hardship cases. The annual budget for WRAP is $3,023,300.

The program is administered by 13 CBOs, and their services include conducting energy audits, installing weatherization measures, and providing energy conservation counseling. From March 1985 through December 1996, WRAP has provided weatherization services to 33,253 homes at a cost of about $32 million.

PP&L has a significantly higher proportion of electric heating residential customers than other electric utilities in Pennsylvania. As a result, WRAP has targeted low-income households that have electric heat. The combination of strong diagnostic tools (e.g., blowerdoor technology), weatherization measures, and energy conservation education have yielded average annual energy savings of 15-18 percent for nearly 70 percent of those WRAP customers who use electric heat.

Q. Please describe the Keep Warm Plan program.

A. This free weatherization program targets the "working poor" families (those between 151 percent and 200 percent of the federal poverty level). The Keep Warm Plan, which was started in 1996, offers the same weatherization services and energy conservation counseling provided through WRAP. In fact, the organizations that deliver WRAP services also deliver the Keep Warm Plan services. Except for the income levels, the guidelines and procedures for WRAP and the Keep Warm Plan are identical.

The annual funding level for the Keep Warm Plan is $1 million. In 1996, there were 406 jobs completed.

Q. Please describe the OnTrack Payment Program Pilot.

A. Through a Policy Statement issued by the PUC, electric and gas utilities were encouraged to develop and implement special payment programs for low-income customers. These programs are known as customer assistance programs, or CAPs. PP&L began its CAP (known as the OnTrack Payment Program) in January 1994 as a pilot program with a goal to enroll 2,000 participants. The enrollment goal of 2,000 was achieved by July 31, 1995. OnTrack offers a special reduced monthly payment based on family size, income, electric use, and previous payment history; protection from service shut-off; arrearage forgiveness; and referrals to other assistance programs, such as: weatherization and energy assistance.

PP&L's pilot targeted low-income residential customers who have overdue balances and expenses that exceeded household income. Low-income is defined as household income at or below 150 percent of the federal poverty level. The primary objectives of OnTrack are as follows:

1. Improve customers' bill-paying habits;
2. Stabilize or reduce energy usage;
3. Lower uncollectible balances for pilot participants; and
4. Determine the overall impact on PP&L's overdue receivables.

OnTrack is being administered jointly by PP&L and 11 CBOs. The CBOs are responsible for verifying customers' eligibility, establishing affordable payment plans, making referrals to other assistance programs, conducting follow-up activities for missed payments or increased energy usage, and re-certifying customers' eligibility annually.

From PP&L's perspective, the preliminary results from the OnTrack pilot have been encouraging. About 70 percent of participants make their monthly OnTrack payments, and the default rate for non-payment is approximately 15 percent. Historically, over the winter months, PP&L has seen a decline in the number of payments received from payment-troubled customers. OnTrack customers' payments over the winter (i.e., customers who made four or more payments between November and March) increased from 40 percent before they joined OnTrack to 86 percent after

they joined OnTrack. In addition, OnTrack customers' energy usage has remained relatively flat.

Cost avoidance has been another benefit of the OnTrack pilot. Collection efforts (e.g., letters, phone calls, field visits, shut-offs, and reconnections) are expensive and time consuming. PP&L's traditional collection efforts for OnTrack customers have been limited. The Company also has avoided the regulatory costs (e.g., mediations, informal complaints, formal complaints) associated with collection efforts.

Q. Does PP&L have experience with other customer and community programs and services?

A. Yes. I will explain these other programs briefly below.

Double Notice Protection Plan

This plan allows a customer to designate a third party (e.g., family member, minister, social service agency) to receive copies of all Company collection notices. However, third-party participants are under no obligation to pay the customer's bill. This procedure provides another level of protection to prevent unnecessary shut-off for special needs customers.

Extended Due Date Plan

Pension checks normally reach people within the first few days of each month. A senior citizen's bill may be due at a time when it cannot be conveniently paid from the customer's pension check. This plan allows

Social Security recipients and others who depend on a pension to extend the due date of their electric bills to avoid late payment charges.

Waiver of Late Payment Charges

PP&L routinely waives late payment charges for customers receiving a grant through the Low Income Home Energy Assistance Program (LIHEAP).

LIHEAP

This federally-funded program is administered by the Pennsylvania Department of Public Welfare. In Pennsylvania, the program targets customers with very low incomes (at or below 110 percent of the federal poverty level) and overdue balances. PP&L promotes the availability of LIHEAP to customers through a variety of media (e.g., bill inserts, special mailings). The Company's customer service representatives at its centralized customer contact center refer customers to local organizations that administer LIHEAP. PP&L also advocates for adequate federal funding for the program.

Special Communications Needs

PP&L has the capability to communicate directly with customers who are hearing- or speech-impaired. Through the use of a telecommunications device for the deaf (TDD), customers can contact PP&L's customer contact center. A toll-free TDD number is available Monday through Friday

from 7 a.m. to 7 p.m. In addition, the Company offers electric bills in Braille to sight-impaired customers.

Guardian Program

PP&L's field personnel have the opportunity to observe customers' circumstances first hand. If Company field personnel encounter unusual conditions at customers' residences (e.g., piled up newspapers, unkempt lawns, concerns expressed by neighbors), they can contact PP&L's CPDs. The CPDs, who administer CARES, will investigate the situation and intervene on behalf of the customer, if appropriate.

Earned Income Credit

PP&L informs customers about the availability of the federal Earned Income Credit (EIC), which offers tax benefits to lower income working families. The Company uses bill inserts and targeted mailings to alert customers about the EIC. In addition, customer service representatives can provide information about the program in order to answer customers' inquiries.

Q. Did you review these existing programs for the purpose of this Restructuring Plan filing?

A. Yes. I was a member of a PP&L interdepartmental task force that reviewed the Company's universal service programs and energy conservation programs in light of the Restructuring Plan filing and increased

competition in the electric utility industry. These programs also were reviewed with the Company's other competition working groups.

Q. Did you also review these existing programs with individuals or groups outside the Company?

A. Yes. On February 26, 1996 in Harrisburg, Pennsylvania, I participated in a workshop sponsored by the Pennsylvania Weatherization Task Force in which universal service programs and energy conservation programs were discussed. As a part of the workshop, I participated in a breakout session to discuss PP&L's programs and plans in more detail with task force members that administer the Company's existing programs. On February 27, 1997, I participated in a follow-up meeting in Wilkes-Barre, Pennsylvania with community-based organizations that administer PP&L's universal service programs and energy conservation programs.

In addition, I have actively participated in the deliberations of the PUC-sponsored universal service working group. This group, which includes representation from a variety of stakeholders, has conducted a series of meetings in an attempt to reach consensus on issues related to universal service programs and energy conservation programs.

Q. What conclusions did you reach after these reviews?

A. The primary conclusion reached was that PP&L must continue its leadership role in providing quality programs that address the needs of low-income customers. The Company has been a strong proponent of increased competition in the electric utility industry and took a lead role in advocating for new legislation. PP&L, however, understands fully that electric utilities provide an essential service that has broad implications for the public health and well-being of the Commonwealth's citizens. Because competitive markets may not necessarily recognize the importance of these public interests, the Company stated early in the competition debate that the needs of low-income customers must be addressed. As a result, PP&L intends to continue its commitment to the special programs and services it has implemented for low-income customers.

Q. What changes is the Company proposing to its current universal service programs and energy conservation programs?

A. PP&L's universal service programs include CARES, Operation HELP, and the OnTrack Payment Program pilot; its energy conservation programs include WRAP and the Keep Warm Plan. The Company will continue its efforts to maintain the current level of annual funding for CARES, WRAP, and the Keep Warm Plan. Because PP&L will continue to solicit donations from its customers and employees, donations to Operation HELP are expected to increase annually. The annual level of funding for OnTrack

will be expanded from $2 million to $9 million over a three-year period beginning January 1, 1999. The Company's annual funding for universal service programs and energy conservation programs would increase from a current level of $7 million to approximately $14.3 million by the year 2002. The projected funding levels are summarized below.

	1999	2000	2001	Ongoing
CARES	$ 260,000	$ 260,000	$ 260,000	$ 260,000
Operation HELP[2]	856,000	877,000	899,000	922,000
WRAP	3,023,000	3,023,000	3,023,000	3,023,000
Keep Warm Plan	1,000,000	1,000,000	1,000,000	1,000,000
OnTrack	5,875,000	7,750,000	9,625,000	9,100,000
Total	$11,014,000	$12,910,000	$14,807,000	$14,305,000

As of February 28, 1997, there were 1,040 customers enrolled in PP&L's OnTrack program. The Company is proposing to move OnTrack from its pilot phase to a full-time program. The level of enrollment would be increased from 1,040 customers to about 10,000 customers by the year 2001. This "ramping up" of OnTrack over three years anticipates an increase of 3,000 new participants annually. Based on PP&L's experience with its pilot, the annual turnover rate (i.e., existing customers leaving OnTrack and new participants joining the program) is expected to be

[2] Assumes a 2.5 percent annual increase in donations from all sources.

approximately 25-30 percent. In other words, between 2,500 and 3,000 customers would be added annually after 2001 to replace those who left OnTrack for a variety of reasons (e.g., default for non-payment, left service area, requested removal).

Q. Who will be eligible to participate in the expanded OnTrack Payment Program?

A. The expanded OnTrack program will target customers who have the following characteristics:

- Annual household income at or below 150 percent of poverty
- Payment troubled
- Overdue electric bill

There are approximately 58,000 customers who may be eligible for OnTrack based on the above characteristics. As a result, PP&L will seek to concentrate the program on low-income customers who have a demonstrated inability to pay and may be subject to service termination. However, the Company desires the flexibility to enroll customers who have mitigating circumstances as long as their annual household incomes do not exceed 175 percent of the federal poverty level. This type of enrollment flexibility is built into both WRAP and Operation HELP.

Q. How will OnTrack be administered and implemented?

A. PP&L will continue to have the oversight responsibility for the OnTrack Payment Program. Major activities will include reviewing and developing policies and procedures in cooperation with the CBOs that administer OnTrack; referring customers to the program; offering training to the CBOs; providing technical support; arranging for a third-party evaluation of OnTrack; and providing periodic reports to the PUC.

The majority of the day-to-day administration of OnTrack (e.g., determining eligibility, establishing payment plans, explaining program requirements, conducting follow-up) will continue to be the responsibility of the 11 CBOs that are currently administering OnTrack. They have several years of experience with the program and are familiar with all of its procedures. However, PP&L will work closely with the OnTrack agencies to carefully and thoroughly plan for the program's expansion. If needed, PP&L will recruit and train other CBOs to help administer OnTrack.

Q. Is the Company proposing to sponsor any new programs in this area?

A. No, not at this time. However, PP&L will continue to consider new ideas and approaches that may be cost-effective in serving the needs of low-income, payment-troubled customers. As the competitive environment develops and matures over time, there may be other innovative models that should be tested and evaluated. In addition, the Company will continue to make improvements to existing programs where warranted.

Q. Will the OnTrack Program and other programs discussed above be available to those customers who purchase generation from alternative energy suppliers?

A. It is the Company's goal to make these programs available, at least in some form, to customers who purchase generation from alternative suppliers. However, these programs were developed for and are applicable to a bundled bill for electricity. Difficult issues regarding pro-ration and participation by alternative energy suppliers will have to be resolved before a final determination can be made as to whether and how specific programs will be fully or partially available to those customers who do not purchase energy from PP&L. The Company is committed to working with all of the affected parties to resolve these issues in a way which is both fair and equitable.

Q. Does that conclude your direct testimony?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-00973954

PENNSYLVANIA POWER & LIGHT COMPANY

Statement No. 17

Direct Testimony of Dawn G. Lennon

Q. Please state your full name and business address.

A. Dawn G. Lennon, 827 Hausman Road, P.O. Box 3500, Allentown, Pennsylvania 18106.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Power & Light Company as Business Support Manager.

Q. Please describe your educational background and employment history.

A. I have a BA degree in English from Marietta College in Ohio and an MA degree in English from Lehigh University in Pennsylvania. As a certified secondary school teacher in New Jersey and Pennsylvania, I taught grades 7 through 12 for nine years between 1968 and 1978. I also worked for Head Start of the Lehigh Valley from 1972 to 1973 as assistant to the director in charge of volunteers, ancillary personnel, parent participation, and grants.

I was hired in 1978 by PP&L as Consumer Education Coordinator to develop the Company's school energy education program to enhance energy awareness and knowledge of energy conservation. In 1980, I became Energy Education Programs Director; then Manager - Consumer and Education Programs in 1981. In 1983, I became Supervisor - Management Training Programs and then Manager - Management Develop-

ment & Training in 1988. In 1991, I became Manager - Customer Services and then Continuous Improvement Manager in 1993. I assumed my current position as Manager - Business Support in 1997.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony and accompanying exhibits describe and support the Company's Customer Choice Education Program (CCEP).

Q. Are you responsible for any of the Company's responses to the Commission's filing guidelines submitted in Exhibit No. 2.

A. Yes. I am responsible for responses to filing guidelines RP-J.1., J.2., J.3., P.4., P.16., P.17., P.18., P.19., P.20., P.21 and P.23.

Q. Why does PP&L believe a customer education program is needed?

A. In a competitive electric generation market, it will be critical for all consumers to have access to up-to-date information about a variety of topics (e.g., price, steps for selecting a generation supplier and consumer protections). This information will be particularly important in an evolving market that will include new, non-traditional sellers. Searching for and interpreting data on selecting a generation supplier could be a daunting task for many consumers. As a result, customer education programs will meet an important

need. Even if such customer education programs were not required by the Act, PP&L believes that an effective transition requires that such programs be undertaken.

Q. What principles will the Company use to develop the CCEP?

A. PP&L has a long and respected history of providing education materials to the educational community and consumer groups. Consistent with this history, the Company maintains its belief that customer choice education materials and approaches should be objective and balanced. To this end, the key principles for the CCEP are:

1. PP&L will provide clear, balanced and practical explanations of what customer choice is, how it works, what the risks and trade offs are, and how to select an electricity supplier.
2. PP&L will be recognized as a consistent, reliable and trustworthy source of information on customer choice.
3. PP&L will separate customer choice education efforts from sales and marketing initiatives.
4. PP&L will produce customer choice educational materials which are easy to read and understand and which meet high standards of objectivity.
5. PP&L will pursue partnerships with the PUC and with educational, service, and consumer organizations in the development, imple-

mentation, dissemination, and evaluation of educational materials and programs on customer choice.

6. PP&L will continue its customer choice education efforts to address new needs and changes, ensure understanding, and provide ongoing support for customers.

Q. What will be the primary component of the CCEP?

A. The centerpiece of the CCEP will be the Customer Choice Handbook which is designed to serve as a consumer reference for understanding and participating in the opportunity to choose an electricity supplier. The handbook will include an overview of the restructuring of the electric utility industry, an explanation of customer choice and how it works, consumer protection tips, worksheets for determining the customer's choice of suppliers, and answers to important questions about the retail access marketplace.

Q. How will the Customer Choice Handbook be developed?

A. The "Customer Choice Handbook: An explanation of Pennsylvania Power & Light Company's pilot program" will serve as the prototype for a more comprehensive version of the handbook that will be used throughout the transition period. Lessons learned about the effectiveness of the competition pilot handbook will be incorporated into the full retail access edition

of the handbook. A draft of the Customer Choice Handbook will be developed by a team of PP&L employees in conjunction with a wide range of people with an interest in education on retail access -- e.g., customers at large, community agencies and groups, local and state government officials. The final version of the Customer Choice Handbook will reflect the input of representatives from a wide range of outside community organizations and groups.

Q. What groups or individuals will provide input or review during this process?

A. A draft copy of the handbook will be sent to the PUC staff, other stakeholders and over 30 community and social service agency leaders, including Chambers of Commerce, community action agencies, economic development agencies, educators, and local governments. Many of these leaders have worked with PP&L over the years on numerous educational, social service, and community development initiatives. Each individual will be asked to evaluate the handbook using an evaluation form provided.

Q. Is the Company seeking additional input or review?

A. Yes. The Company will continue to seek review of the full retail access edition of the Customer Choice Handbook and other customer choice education initiatives throughout the transition period. As part of its competition

pilot, PP&L will undertake a third-party evaluation of the effectiveness of the handbook and other educational efforts. Evaluation of the Company's overall education efforts through a third party will be ongoing throughout the transition period as well. The findings of this evaluation will enable PP&L to make continuous improvements to all aspects of its customer choice education program so that the needs of customers can be met as the marketplace continues to change through 2001.

Q. What are the Company's plans for release and dissemination of the Customer Choice Handbook?

A. The Company will inform customers of the availability of the handbook through a variety of means: bill inserts, the Company's monthly "Connect" newsletter included in customer bills, newspaper advertisements, and PP&L's Internet website. Customers will be directed to a dedicated, toll-free telephone number to order a handbook through the Company's interactive voice response technology. If customers have a question about the handbook or about customer choice, they may stay on the line and speak directly to a Customer Service Representative. Customers also will be able to order a handbook over the Internet. In addition, PP&L will provide a supply of the handbooks to community agencies and groups for distribution to constituents interested in learning about customer choice.

Q. What other activities will the Company undertake in support of the CCEP?

A. In addition to the handbook, the Company will offer a variety of other educational opportunities for customers. The Company's interactive voice response technology will be used to answer the most frequently asked questions about customer choice. The Company also will train a group of employees as customer choice "educators" who will offer comprehensive and balanced presentations on the restructured electric utility marketplace. These presentations will address questions such as what customer choice is and how it works, what the risks and trade offs are, how customers can protect themselves against fraud, where to find the information they need to make choices, and how to calculate the best choice for their needs.

The Company also will sponsor a customer choice education advisory committee composed of leaders from consumer, education, and community organizations which, with the support of Company personnel and resources, will oversee the development of customer choice educational workshops for target groups, such as low income customers, small business owners, municipalities, and educators. The development of other supplemental educational materials also will be considered to meet established customer needs, including: (1) an audio-tape series that explains the electric industry restructuring and teaches the basics of customer choice, and (2) interactive computer software available on disk or CD-ROM

and found on the Internet which also explains the restructuring and teaches the basics of customer choice.

Q. How does the CCEP relate to the Company's communications and marketing efforts?

A. PP&L's customer choice education program will be kept separate from its communications and marketing efforts. Customer choice education is a developmental process of providing timely, basic information to customers, using a variety of educational methods, so they can make informed decisions when choosing their electricity suppliers. Education provides fundamental knowledge and understanding -- the generic concepts and facts upon which informed choices are made. It will be competitively neutral, favoring no suppliers of energy or capacity. The Company's communications efforts will focus on PP&L's activities in the restructured industry and the Company's marketing efforts will seek to promote products and services. Customer choice education initiatives will be managed by the Company's Customer Services department; customer information through the Corporate Communications department; and product and services promotion through the Delivery Services & Economic Development department.

Q. Has the Company initiated other customer education programs in the past?

A. Yes, the Company initiated its school energy education program in 1978 and has sustained it until the present. A complete kindergarten through twelfth grade curriculum that offers a total package of energy knowledge was developed and has been disseminated to over 6,100 teachers through workshops that explain how the materials were developed and how to use them most effectively. These materials were developed through energy education advisory councils composed of teachers, principals, superintendents, and other educators. In addition, the Company and educators worked in partnership to develop two teacher development programs: the Nuclear Energy Seminar for Teachers and Teaching Environmental Awareness. PP&L's business-education partnership also includes the PP&L 2000 program under which the Company works closely with schools and communities to identify and address opportunities to increase student learning and expand the capacity of teachers. This is a grass-roots, employee volunteerism program.

Q. How successful were these other educational programs?

A. These have been highly successful programs as attested to by both the Company and the educational community. In 1987, the Department of Energy gave national recognition to PP&L for its school energy education program. The fact that this multi-faceted program has continued and grown for nearly two decades is testimony to its success.

Q. Do you expect similar results from CCEP?

A. Yes, the Company expects to follow this same effective model of working in partnership with educators, community organizations and groups to develop customer choice education materials that meet the varied needs of customers. This partnering is the key to the success of the effort and the assurance that educational initiatives are balanced, unbiased, and clear. PP&L expects that its commitment to providing educational programs through the transition period will ensure that the fundamentals of choice will be reinforced with customers and that they will have a reliable source of information available to answer their questions and address their needs.

Q. Does this conclude your testimony?

A. Yes.