

Uniform Cover and Calendar Sheet

1. REPORT DATE: <p style="text-align: center;">June 15, 1999</p>	2. BUREAU AGENDA NO. <p style="text-align: center;">JUN-1999-A-11</p>
3. BUREAU: <p style="text-align: center;">Audits</p>	
4. SECTION(S): <p style="text-align: center;">Eastern Region</p>	5. PUBLIC MEETING DATE: <p style="text-align: center;">JUNE 24, 1999</p>
6. APPROVED BY: Director: G.W.Bartron 3-5000 Supervisor: J.T.Crawford 2-0302	JUB
7. PERSON IN CHARGE: <p style="text-align: center;">J. Dukes 7-7235</p>	DOCKETED
8. DOCKET NO. <p style="text-align: center;">R-00973954 / D-00985040</p>	JUL 12 1999

9. (a) CAPTION (abbreviate if more than 4 lines)
 (b) Short summary of history & facts, documents & briefs
 (c) Recommendation
- (a) REPORT ON THE REVIEW OF PP&L INC.'S TRANSFER OF ITS EGS FUNCTION TO ITS AFFILIATE, PP&L ENERGYPLUS COMPANY.
- (b) On August 12, 1998, the Commission approved a Joint Petition for Settlement of PP&L Inc.'s Restructuring Plan. Section K.2 of the Joint Petition provides in part, that the Settlement is conditioned upon the Commission's approval of PP&L's transfer of its EGS function to a PP&L affiliate. Additionally, Section K.2 provides that the transfer of the EGS function is to be subject to Commission review and approval. The Bureau of Audits has completed its review of PP&L's EGS transfer for consistency with the spirit of the Joint Petition for Settlement.
- (c) Staff recommends:
- that the Commission approve the transfer of PP&L Inc.'s EGS function to its affiliate, PP&L EnergyPlus Company.
 - that the Commission make the report a public document.

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10. MOTION BY: Commissioner Chm. Quain
 Commissioner Rolka - Yes
 Commissioner Brownell - Yes
 Commissioner Wilson - Yes

SECONDED: Commissioner Bloom

CONTENTS OF MOTION: Staff recommendation adopted.



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

REP

IN REPLY PLEASE
REFER TO OUR FILE

June 24, 1999

MR PAUL E RUSSELL
ASSOCIATE GENERAL COUNSEL
PP&L INC
TWO NORTH NINTH STREET
ALLENTOWN PA 18101-1179

RE: REVIEW OF PP&L INC.'s TRANSFER OF ITS EGS FUNCTION TO
ITS AFFILIATE, PP&L ENERGYPLUS CO.
DOCKET NOS. R-00973954 / D-0098S040

Dear Mr. Russell:

Attached is a report prepared by the Commission's Bureau of Audits regarding the Bureau's review of PP&L Inc.'s transfer of its EGS function to its affiliate, PP&L EnergyPlus Co. At its June 24, 1999, public meeting, the Commission adopted the Bureau's recommendation to approve the EGS function transfer to EnergyPlus Co. and to make the report a public document.

The Commission appreciates the cooperation extended to its Staff by the employees of PP&L Inc.

Sincerely,

James J. McNulty

James J. McNulty
Secretary

DOCKETED
JUN 25 1999

JJM:js

Enclosure

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

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**BUREAU OF AUDITS
REPORT ON THE REVIEW OF SECTION K.2 OF THE PETITION
FOR FULL SETTLEMENT OF PP&L'S RESTRUCTURING PLAN
AT
DOCKET NO. R-00973954**

BACKGROUND:

On April 1, 1997, PP&L Inc. (PP&L or The Company) submitted its Restructuring Plan to the Commission. Thirteen public input and eleven evidentiary hearings were held before an Administrative Law Judge (ALJ). On April 7, 1998, the ALJ issued his recommend decision. The ALJ recommended, among other matters, that PP&L recover approximately \$4 billion in stranded costs. By Order issued June 15, 1998, the Commission modified the ALJ's decision and set stranded costs at \$2.86 billion. On July 1, 1998, PP&L and the Anthracite Region Independent Power Producers Association (ARIPPA) filed petitions requesting reconsideration that the Commission amend certain aspects of its Restructuring Order.

Reconsideration was denied with a limited exception; the Commission granted PP&L's request to correct a typographical error resulting in a shopping credit of 3.72 cents per KWH in 1999. Appeals were filed in Commonwealth Court and in United States District Court. On August 12, 1998, the active parties submitted a Joint Petition for Settlement which was approved by the Commission on August 27, 1998. Section K.2 of the Joint Petition provides, in part, that the Settlement is conditioned upon, the Commission's approval of PP&L's transfer of its EGS function to a PP&L EGS affiliate. Section K.2 additionally provides that the transfer will be subject to Commission review and audit prior to Commission approval to assure consistency with the spirit of the Settlement, including the Codes of Conduct adopted therein. PP&L, Inc. and its EGS affiliate, PP&L EnergyPlus Co.(EnergyPlus) submitted proprietary and confidential information to the Bureau of Audits for review as required in the Order. This report conveys the results of our review of this information.

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OBJECTIVES AND SCOPE:

The scope of our work was to review PP&L's transfer of its EGS function to its affiliate, EnergyPlus. We reviewed the transfer of certain intellectual property, electric sales contracts, certain miscellaneous contracts, specific physical assets and personnel. The objective of this review was directed toward determining whether the transfers were made in the spirit of the settlement and within the framework of the Company's code of conduct.

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AUDIT RESULTS:

Observations and Conclusions:

Based on our review work we believe that all applicable transfers from PP&L Inc. to EnergyPlus were made in the spirit of the Settlement and within the framework of the Code of Conduct. The intellectual property consisted of two trademark applications pending before the United States Patent and Trademark Office and a membership in the Institute for the Study of Business Markets. The total costs associated with the trademark applications was \$7,912. The cost of the membership transferred from PP&L Inc. to EnergyPlus was \$10,000.

There was a total of approximately 280 electric sales contracts which were transferred from PP&L Inc. to EnergyPlus. These contracts were with large, mid and small business customers. The potential future revenues associated with the contracts entered into with the large business customers, is estimated to be in excess of \$52 million annually. There were 6 miscellaneous contracts transferred to EnergyPlus. These contracts were primarily associated with providing services related to retail electric generation. These services are primarily concerned with marketing and promotion activities.

The physical assets transferred from PP&L Inc. to EnergyPlus by September 15, 1998, consisted of office furniture and equipment purchased within one year of the transfer. Prior to the transfer, the office furniture and equipment was never placed into service. The furniture and equipment were transferred to EnergyPlus at their purchase price of \$390,902. There were no generating assets transferred from PP&L Inc. to EnergyPlus. At the time of our audit, EnergyPlus did not intend to own generating assets. On November 24, 1998, EnergyPlus entered into a wholesale-purchase-power-contract with PP&L Inc. to meet it's future energy requirements.

PP&L informed the Audit Bureau that approximately 98 employees would be transferred from PP&L Inc. to EnergyPlus. We determined that as of October 2, 1998, 90 individuals had been transferred. These individuals were mostly marketing and sales related employees as well as their clerical support staff. All payroll costs associated with these employees prior to their transfer were recorded on the books of PP&L Inc. as an expense. The payroll expense of the transferred employees recorded on the books of EnergyPlus from September 15, 1998, through December 31, 1998, was \$ 2,457,794. These costs included \$543,747 of employee benefits consisting of such items as payroll taxes, medical care (active and retirement plans) life insurance, and pension benefits. As EnergyPlus employees, these individuals do not have authorized access to PP&L Inc.'s customer information system, in accordance with PP&L's code of conduct.

ACKNOWLEDGEMENTS

We wish to express our appreciation to the officers and staff of PP&L, Inc. for the cooperation and assistance given us during the course of our examination. The review was conducted by John Dukes, CPA of our Eastern Region.