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OCT 03 2001

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September 17, 2001

**BY HAND DELIVERY**

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

R-0097395

SECRETARY'S  
PUBLIC  
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Dear Secretary McNulty:

Section C.1 of the Settlement Agreement in PPL Electric Utilities Corporation's ("PPL Electric") electric restructuring proceeding requires PPL Electric to transfer 20% of its residential service customers to a provider of last resort other than PPL Electric beginning January 1, 2002. The purpose of this letter is to inform the Pennsylvania Public Utility Commission (the "Commission") of PPL Electric's ongoing plans to implement this provision of the Settlement Agreement. Specifically, PPL Electric has developed the following schedule for implementing Competitive Default Service ("CDS") in its service territory for calendar year 2002. This schedule may be subject to minor modifications as it is implemented.

- |                                |   |
|--------------------------------|---|
| September 24, 2001             | Send advanced notification ( <i>intent to bid</i> ) to all Electric Generation Suppliers licensed in Pennsylvania and provide other public notice |
| September 25 – October 7, 2001 | Supply copies of a Request for Proposal (RFP) to all interested parties and answer questions regarding the RFP                                    |
| October 8, 2001                | Due date for all CDS bids   |

James J. McNulty, Secretary  
September 17, 2001  
Page 2

October 12, 2001	Select the successful qualified bidder
October 12-19, 2001	Negotiate CDS Agreement with winning bidder
October 19, 2001	Execute final CDS Agreement for 2002
November 7, 2001	Transmit customer list (20% randomly selected) to the CDS supplier
November 21, 2001	Notify customers that they have been selected for CDS supplier service
December 17, 2001	CDS supplier begins to send enrollments to PPL Electric
January 2002	Selected customers are transferred to CDS as of their January 2002 meter reading date

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It is PPL Electric's desire to implement a successful CDS program pursuant to the terms of its Settlement Agreement. Therefore, for CDS during 2002, PPL Electric has decided to retain "customer care functions" as part of the CDS process. These functions include billing and collections, customer dispute and inquiry, and universal service. This decision was based on PPL Electric's desire to provide the best possible chance for success of the CDS program. Based on its knowledge of the market, PPL Electric believes that EGSs are not, at this time, interested or able to provide the customer care functions on an economic basis in 2002. In PPL Electric's view, requiring the CDS supplier to offer the customer care functions would eliminate any possibility of a successful CDS program in 2002. PPL Electric will continue to evaluate this issue and may include customer care functions in future CDS proposals.

As shown below, I have sent a copy of this letter to all active parties to PPL Electric's restructuring proceeding.

If you have any questions regarding PPL Electric's CDS program, please call me.

Very truly yours,

*Paul E. Russell*

James J. McNulty, Secretary  
September 17, 2001  
Page 3

cc: Certificate of Service  
Glen R. Thomas  
Robert K. Bloom  
Aaron Wilson, Jr.  
Terrance J. Fitzpatrick

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

---

Application of PP&L, Inc. For Approval :  
of Its Restructuring Plan Under Section : Docket No. R-00973954  
2806 of the Public Utility Code :

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**CERTIFICATION OF SERVICE**

---

I hereby certify that I have this day served a true copy of the foregoing documents upon the participant(s), listed below, in accordance with the requirements of §1.54 (relating to service by a participant):

**FIRST CLASS MAIL**

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Pennsylvania Public Utility Commission  
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Eugene Brady, Executive Director  
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Assistant Consumer Advocate  
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Environmental Energy Project  
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Ambler, PA 19002

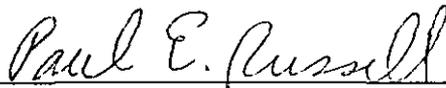
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Koff, Wendolowski, Ferguson & Mangan  
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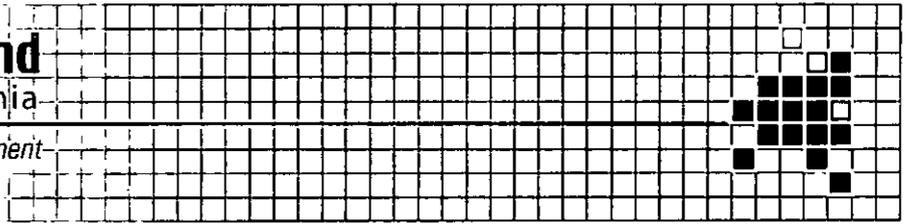
Dated: September 17, 2001

  
\_\_\_\_\_  
Paul E. Russell

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SECRETARY'S BUREAU

# Sustainable Energy Fund of Central Eastern Pennsylvania

Investing to Improve Energy and the Environment



October 19, 2001

Joint Petitioners

DOCUMENT  
FOLDER

RE: DOCKET # R-00973954

Dear Joint Petitioner:

In accordance with the requirements of the Joint Petition for the settlement of PP&L restructuring plan, and the subsequent PP&L Sustainable Energy Fund By-Laws, as approved by the PUC, which established the Sustainable Energy Fund, *(Please note that henceforth we are now doing business as Sustainable Energy Fund of Central Eastern PA)*. Enclosed, please find the following:

1. The Sustainable Energy Fund of Central Eastern PA Annual Plan
2. The Sustainable Energy Fund of Central Eastern PA Annual Report for the period July 1, 2000 – June 30, 2001

Please feel free to contact me with any questions you may have.

We will forward, this time next year, the Annual Plan for the Period of July 1, 2002 – June 30, 2003. If you would prefer to be taken off of our mailing list please let us know either by Email, or a telephone call.

Sincerely,

  
Thomas J. Tuffey  
Executive Director

Enc.

Cc: James McNulty  
Andrew Tubbs  
Maria Hanley  
Calvin Birge  
Brian Nagle, President of SEF Board of Directors

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**Sustainable Energy Fund  
Of Central Eastern Pennsylvania  
(As established by the PUC-PP&L Utilities  
Settlement Agreement)**

**Annual Report  
To the  
Pennsylvania Public Utility Commission  
And to the  
Joint Petitioners**

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OCT 29 2001

**For the Period  
July 1, 2000 - June 30, 2001**

**DOCUMENT  
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October 16, 2001

Sustainable Energy Fund  
The Sovereign Building  
609 Hamilton Street  
Allentown, Pa. 18101  
(610) 740-3182  
(610) 740-9511 Fax  
[PPLTSEF@aol.com](mailto:PPLTSEF@aol.com)

SECRETARIAT BUREAU  
PUC

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Thomas J. Tuffey, Ph.D.  
Executive Director

**Our mission is to promote, research and invest in clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PPL ratepayers.**

## **1.0 OVERVIEW**

This is the Sustainable Energy Fund of Central Eastern Pennsylvania's (SEF) first annual report to the Pennsylvania Public Utility Commission and to the joint petitioners in the PPL Utilities restructuring proceeding. It discusses the progress that the SEF has made in the period from July 1, 2000 through June 30, 2001

The SEF Board of Directors chose to develop a new organization through which to manage its funds and accomplish its mission. By doing so, they also chose to be actively involved in the conduct of the SEF.

Consequently the first six-month period was characterized by the start-up activities that took the Fund to a fully functioning operation. The SEF constructed governance, administrative, marketing, and financial management systems while still reserving time to do some real business. The second half of the year was characterized by more networking activities and our increased focus on program related investments (PRI's). By the end of the fiscal year, June 30, 2001, the SEF made commitments to \$2,365,000.00 in grants and PRI's, almost twice the first year goal.

The current and future SEF focus, is to move beyond the capacity to merely meet obligations. We intend to improve the systems, alliances, and behaviors so that we, and our partners, may together excel.

## **2.0 ACCOMPLISHMENTS**

Some of this period's accomplishments follow:

### *2.1 Governance*

The PUC approved the SEF by-laws at the end of June 2000 and the SEF began official operations July 1, 2000. The period prior to operation was an active one, during which the Board met eleven times to plan the organization and prepare its affairs to be ready for start-up operations. The Directors also contracted with a consultant <sup>1</sup> to provide staff to carry out its activities and to assist them in forming

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<sup>1</sup> Winsor Associates, Philadelphia, PA

a common vision. It further retained Dechert, Price & Rhoads for legal counsel and to prepare its by-laws. Start-up costs prior to by-laws approval were either directly paid by PPL or were paid through funds advanced to SEF by PPL. During this early period, the Board was able to accomplish several critical tasks as follow:

- The decision to develop its own organization rather than contract the funds to be administered by an existing entity. Accompanying this decision was the design for structure and governance of the new organization.
- The By-Laws were prepared and submitted to the PUC for approval.
- The Investment Policy was developed and approved. Asset management firms and accountants were solicited and selected.
- An open search process for an Executive Director was conducted. The finalist, Mr. Thomas J. Tuffey was selected from 126 candidates and retained in May 2000 as a consultant to further plan for start-up upon approval of the by-laws.

The Executive Director officially started on July 1, 2000, immediately upon PUC approval of the by-laws. There have been six formal meetings of the Board since retaining the Executive Director, including a one and one half day planning retreat to develop the scope of the Annual Plan. Additionally, all of our Directors attended the two-day "Partners Retreat" of the regional funds at Lake Wallenpaupack. A majority of the Board also attended the Directors Training Program at the Rittenhouse Hotel, Philadelphia, PA. The Board approved the Plan and budget, made \$2,365,000.00 in grants and investment commitments, and directed the operations. The Board Committees: Administration/Finance (A/F), and Program Related Investments (PRI), are regularly engaged in issues or considering PRI opportunities, often by e-mail or telephone, and in face to face meetings. SEF staff consults and meets with individual Directors several times a week. Director referrals of PRI opportunities occur regularly. This is a very involved Board.

To avoid market confusion, the Board approved the use of a fictitious name in business dealings. The SEF does business as the Sustainable Energy Fund of Central Eastern Pennsylvania.

During the second half of the year, the U.S. Internal Revenue Service (IRS) approved our status as a 501c3 non-profit foundation, supporting organization. The SEF is neither subject to federal taxation, nor does the SEF have a tax motivation obligation to make grants. The Board still chose to assign 5-10% of the disbursement budget to grants.

The SEF has actively participated in the design and start-up of the Pennsylvania Sustainable Energy Board (PASEB). This organization is intended to provide both support and oversight to the regional funds. SEF considers it to be a critical success factor and it is committed to its early and effective implementation.

## *2.2 Asset Management*

Funds were held since January 1, 1999 by PPL in an interest bearing account until the SEF was prepared to accept them. On July 10, 2000 the SEF received a transfer of \$4,863,251.99.<sup>2</sup>

Additional funds are transferred monthly from PPL to the SEF account with First Union National Bank. SEF management retains funds for operations and PRI disbursements, and transfers investment assets to custodian accounts at Charles Schwab Inc. All transactions are in accordance with SEF operating practices and are carefully monitored.

The Finance Committee prepared the Statement of Investment Policy that was adopted by the Board. Our investment policy is environmentally responsible and attempts to support our energy mission. Based on this policy, RFP's were issued for two asset managers and one custodial account manager. In July 2000, Berkshire Asset Management, Inc., and Dearden, Maguire, Weaver and Barrett, Inc. were both retained as asset managers, each to manage one half of the allocated investment funds. Both were instructed to employ 70% equity and 30% fixed income securities portfolio allocation. Charles Schwab, Inc. was appointed as the Custodian and First Union National Bank was approved for the working capital accounts. The asset managers will report performance quarterly and may be replaced at any time.

We disbursed \$4,700,000.00 to the Asset Managers in July 2000. An additional \$1,750,000.00 was disbursed throughout the year.

The period reported on was a very difficult one for the equity markets, however, through a combination of cautious entry of the equities market, exceptional equity selections, a strong preference for large capitalization companies with strong earnings growth available for reasonable price, and solid performance of the cash and fixed assets portfolios, the asset accounts net of fees grew by \$76,852, just over 1% (one percent). Certainly less than the planned 8% (eight percent) of our Plan, but considering the market conditions, when the S&P was down 14.32% (7/31/00 – 7/31/01) during the same period, our Asset Managers did a fine job.

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<sup>2</sup> Funds are collected by PPL from the ratepayer in accordance with the Joint Petitioners for the settlement of PP&L restructuring plan, as approved by the PUC, which established the Sustainable Energy Fund.

Although our investment performance fell short of the plan, it was offset by higher ratepayer income due to an exceptionally cold winter, a lag in cash disbursements after PRI commitments by the Board (due to legal document preparations and negotiations), and a budget surplus from SEF operations.

The SEF completed the year with the asset accounts at \$6,526,852.00, and an operating cash position of \$1,084,581.00. (The latter is consciously high to meet an October disbursement requirement of \$1,150,000.00).

All taken into account, The SEF completed the year with a Fund balance of \$7,589,000 versus a plan of \$6,972,000, a \$617,000 positive variance.

Hence, we judge our Balance Sheet position to be essentially on plan and strong. We remain cautious relative to the equity markets, but believe we are well positioned.

### *2.3 Operations*

The operational strategy during this period was to establish a foundation organization and to solicit and make our first Program Related Investments. This approach recognized the importance of initiating marketing for deal flow and that operating experience is the best determinant of ultimate organizational design.

Considerable staff time and attention was devoted to start up; as of the end of the first fiscal year, the SEF was fully functional.

Accomplishments include:

- Selected office location, furniture, equipment and supplies
- Recruited staff (full time Executive Director, Associate and part time Financial Comptroller)
- Established asset transaction systems and procedures
- Retained accountant and auditor, Campbell, Rappold & Yurasits, and attorneys, Hourigan, Kluger & Quinn
- Established payroll, insurance, and vendor contracts through a critical selection process
- Established financial accounting & reporting systems and procedures
- Developed PRI Tracking & Reporting System
- Developed standard business forms and contracts
- Completed and Submitted approval of tax status to IRS
- Completed of Annual Plan and Budget
- Completed and submitted Semi-Annual Report to PUC
- Established Personnel & Benefits Policy
- Completed marketing brochure
- Initiated an extensive market/alliance networking program

## 2.4 Program Related Investments

A broad range of marketing, network and alliance building activities were conducted. As a result, the SEF received and considered over 110 inquiries and requests. Each was considered by staff to determine mission fit in accordance with the criteria established in the Annual Plan. Most were also discussed with the Chairman of the Investment Committee to keep him informed and to seek guidance.

The Board of Directors made the following commitments, totaling \$2,365,000:

- **Grant \$165,000**
  - \$20,000 Allentown technology demonstration micro turbines generating power for sewage treatment plant digester gas
  - \$50,000 to Pennsylvania Sustainable Energy Board
  - \$10,000 to MAREC (Mid Atlantic Renewable Energy Coalition) to support consumer education/awareness advertising
  - \$10,000 to Clean Energy Fund Network (CEFN) to support common initiatives across the seven northeast states' clean energy funds
  - \$75,000 to the SEF Program to place windmills for demonstration and curriculum purposes at Environmental Education Centers
  
- **Program Related Investments \$2,225,000**
  - \$100,000 *Loan* to Energy Unlimited to support wind energy development projects in PPL territory
  - \$500,000 *Subordinated Debt with Warrants* to PowerWeb, an energy load management software company, co-invested with SDF
  - \$150,000 *Loan/Royalty payments* to Community Energy, Inc. to market renewable/wind energy in the PPL territory
  - \$25,000 *Loan* AFC First Financial to aid in the development of the business plan for the FANNIE MAE Energy Loan Program for owner occupied residential properties
  - \$300,000 *Loan* to Masonic Homes for new energy efficient heating system incorporating micro turbines. (Subsequently declined for more advantageous bond financing by MH)
  - \$1,150,000 *Loan* to Somerset Wind for 9 MW wind project, co-invested with other regional PA Funds

There is a lag time between Board Commitments and cash disbursements as the legal documents are drafted and further negotiations are conducted. Additionally, a recipient may choose to cancel/delay a project or finance it through other channels.

Funds disbursed by June 30, 2001 totaled \$360,000.

### 3.0 FINANCIAL REPORT

As discussed, the SEF received \$4,863,252 (includes interest \$199,929) from PPL on July 10, 2000. Monthly fund transfers from PPL through the period were:

July	\$266,721
August	\$261,021
September	\$268,303
October	\$243,883
November	\$250,670
December	\$292,013
January	\$340,942
February	\$343,146
March	\$294,772
April	\$270,017
May	\$251,792
June	\$250,230

As of year-end, a total of \$8,196,792 has been received.

During the first fiscal year, the SEF received Grants totaling \$47,300 from the following:<sup>3</sup>

- \$10,000 PA DEP – Allentown technology demonstration, micro turbines
- \$10,000 PA DEP – Windmills/wind education for environmental education centers
- \$10,000 PPL, Inc. – Windmills/wind education for environmental education centers
- \$ 7,300 PA Environmental Council – Partner's Retreat
- \$ 5,000 GPU Berks – Venture Capital for PA Funds
- \$ 5,000 GPU West Penn – Venture Capital for PA Funds

\$6,450,000 has been transferred to the Schwab custodian accountants for investment by the two asset managers. As of year-end, the assets invested after fees and market fluctuations totaled \$6,526,852

Operating expenses for the fiscal year, July 2000 to June 2001 totaled \$258,122 9.2% under the approved budget, additionally, start-up expenses were \$103,332.

At end of year, cash totaled \$812,041.

The SEF completed the year with Net Assets of \$7,589,000.

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<sup>3</sup> NOTE: Cash is not received until all grant milestones are fulfilled.

The year-end audited financial statements may be found in Appendix A.

#### **4.0 NEXT STEPS**

The SEF focus going forward is to concentrate on building the marketing infrastructure and alliances that will produce solid deal flow into the future. The flexibility to stay sensitive to the market opportunities and to adjust operations to capitalize on those opportunities will be key. The second year plan will be available on October 16, 2001 upon approval by the Board and presented at the Annual Meeting on that date.

Further attention will be devoted to fine tuning the systems and practices established during the first six-month period.

#### **5.0 CONCLUSION**

The Sustainable Energy Fund has made satisfactory progress during this initial formative period. The SEF looks forward to further progress in fulfilling its mission to develop a sustainable energy environment via market leadership and sustainable program related investments.

#### **6.0 BOARD MEMBERSHIP**

Craig Onori, President  
Agere Systems  
Room 22E-130HC  
555 Union Blvd.  
Allentown, PA 18103-3286

Brian Nagle, Vice President & Chairman Program Related Investment Committee  
PPL, Corporate Services  
Two North Ninth Street, GENTW8  
Allentown, PA 18101-1170

Eric J. Epstein, Chairman Administrative/Finance Committee  
EFMR Monitoring Group  
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Gary F. Lamont  
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75 Green Mountain Drive  
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Marcus Sheffer  
Energy Opportunities  
1200 East Camping Road  
Wellsville, PA 17365-9783

OPEN SEAT

**PP&L SUSTAINABLE ENERGY FUND  
d/b/a SUSTAINABLE ENERGY FUND OF  
CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**Financial Statements and Auditors' Report**

**June 30, 2001**

**CAMPBELL, RAPPOLD & YURASITS LLP**  
Certified Public Accountants  
1033 SOUTH CEDAR CREST BOULEVARD  
ALLENTOWN, PA 18103



**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

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**CAMPBELL, RAPPOLD & YURASITS LLP**

Certified Public Accountants

1033 SOUTH CEDAR CREST BOULEVARD • ALLENTOWN, PA 18103-5443 • (610) 435-7489  
2710 WILLIAM PENN HIGHWAY • EASTON, PA 18045-5268 • (610) 258-2855  
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JAMES S. ANDERSON, CPA  
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JAMES F. BOVA, CPA  
MARYSUE BULCAVAGE, CPA  
MELISSA A. GRUBE, CPA, CSEP  
DENNIS S. HELLER, CPA  
WARREN R. HENDERSON, CPA  
ROBERT J. TUCKER, CPA

SALLIE A. BAMBU, CPA  
TARA L. BENDER, CPA  
DAWN C. HANKINS, CPA  
SUSAN S. KOSS, CPA  
HEIDI D. WOJCIECHOWSKI, CPA  
JOSEPH C. ZOVKO, CPA

CONSULTANT  
DALLAS C. HENNINGER, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors  
PP&L Sustainable Energy Fund  
d/b/a Sustainable Energy Fund of  
Central Eastern PA  
Allentown, PA

We have audited the accompanying statement of financial position of PP&L Sustainable Energy Fund (A Not-for-Profit Corporation) as of June 30, 2001 and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PP&L Sustainable Energy Fund as of June 30, 2001, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Campbell, Rappold & Yurasits LLP*  
Certified Public Accountants

August 17, 2001

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2001**

**ASSETS:**

Cash	\$ 812,041
Ratepayer's Contribution Receivable	266,104
Royalty Receivable	2,160
Investments (Note 3)	6,526,852
Program Related Investments, Net (Note 4)	334,167
Office Equipment, Net (Note 5)	9,410
Deposits	<u>875</u>
 Total Assets	 <u>\$7,951,609</u>

**LIABILITIES:**

Accounts Payable	\$ 25,089
Accrued Employee Benefits	<u>18,251</u>
 Total Liabilities	 <u>43,340</u>

**NET ASSETS:**

Unrestricted Net Assets	<u>7,908,269</u>
 Total Liabilities and Net Assets	 <u>\$7,951,609</u>

See accompanying notes to financial statements.

PP&L SUSTAINABLE ENERGY FUND  
d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2001

Revenues and Gains:

PPL Ratepayers' Contribution (Note 8)	\$8,196,762
Interest Income	26,050
Investment Return (Note 3)	76,852
Royalties	2,160
Other	<u>18,300</u>
Total Revenue and Gains	<u>8,320,124</u>

Expenses:

Grants Made	35,401
Loss Reserve	<u>15,000</u>
Total Program Expenses	<u>50,401</u>

Salaries and Wages	107,595
Fringe Benefits	29,178
Payroll Taxes	10,613
Training	1,425
Rent	9,980
Insurance	3,842
Depreciation	2,029
Furniture Rental	300
Dues and Publications	463
Marketing	6,771
Printing and Postage	6,742
Telephone	4,864
MIS Support/Web Hosting	1,466
Start-up Costs (Note 8)	103,332
Board Expense/Stipends	12,523
Professional Fees	42,095
Travel	10,799
Office Supplies	5,610
Miscellaneous	<u>1,827</u>

Total Management and General Expense 361,454

Total Expenses 411,855

Increase in Unrestricted Net Assets 7,908,269

Unrestricted Net Assets, Beginning —

Unrestricted Net Assets, Ending \$7,908,269

See accompanying notes to financial statements.

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENT CASH FLOWS**  
**Year Ended June 30, 2001**

*Cash Flows from Operating Activities:*

Increase in Net Assets	\$7,908,269
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	2,029
Loan Loss Reserve	15,000
Increase in Accounts Receivable	(268,264)
Increase in Deposit	(875)
Increase in Account Payable	25,089
Increase in Accrued Employee Benefit	18,251
Loss on Investments	<u>90,931</u>
 Net Cash Provided by Operating Activities	 <u>7,790,430</u>

*Cash Flows from Investing Activities:*

Purchase of Office Equipment and Furniture	(11,439)
Purchase of Investments	(6,989,723)
Proceeds from Sale of Investments	371,940
Increase in Program Related Investments	(350,000)
Return of Program Related Investments	<u>833</u>
 Net Cash Used in Investing Activities	 <u>(6,978,389)</u>
 Increase in Cash and Cash Equivalents	 812,041
 Cash and Cash Equivalents, Beginning of Year	 <u>—</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <b><u>\$ 812,041</u></b>

See accompanying notes to financial statements.

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2001**

**1. Nature of Organization**

PP&L Sustainable Energy Fund, d/b/a Sustainable Energy Fund of Central Eastern PA (the Organization) is a Pennsylvania non-profit corporation formed to promote, research and invest in clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PPL ratepayers.

The Organization was incorporated in November, 1999 and began operations July, 2000. The Organization was formed pursuant to a joint settlement agreement arising from the Pennsylvania Utility Commission (PUC) electric utility deregulation proceedings in 1998. The agreement provides, in part, a rate surcharge on electric power consumers (ratepayers) through 2004. The surcharge is collected from the ratepayers by the power distribution entity, PPL Electric Utilities Corporation for this local service area, and remitted to the Organization for investment.

The Organization is managed by an executive director who reports to a Board of Directors. The Board members were nominated by the various petitioners to the joint settlement agreement. The PUC also maintains oversight of the Fund.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of PP&L Sustainable Energy Fund have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2001, all net assets are unrestricted.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2001**

**Concentration of Revenue**

The Organization receives a substantial amount of its support from the PPL ratepayer's contributions, as more fully described in Note 1, which expires after 2004.

**Donated Services**

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, individuals, principally the members of the Board of Directors, volunteer their time and perform a variety of tasks that assist the Organization with specific investment programs, and various committee assignments.

**Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

**Concentration of Credit and Market Risk**

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Organization places its cash at a high credit quality financial institution. From time to time, deposits at the institution exceed federal depository insurance limits. The Organization has significant investments in stocks and bonds. Though the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Organization. In addition, investments do not represent significant concentrations of market risk in as much as the Organization's investment portfolio is adequately diversified among issuers. Concentrations of credit risk with respect to program related investments are subject to the individual credit worthiness of the borrowers who are predominately located in central eastern Pennsylvania and associated with the power industry. Consequently, the ability to realize the amounts may be affected by economic fluctuations in the power industry in this geographic region. The Organization performs ongoing credit evaluations and reserves for estimated and known uncollectibles.

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2001**

*Office Equipment*

Office equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and computed on straight-line and accelerated methods.

*Advertising Costs*

Advertising costs are expensed as incurred.

**3. Investments**

Investments are managed by professional investment managers. The investment managers are subject to the Organization's investment policies which contain objectives, guidelines and restrictions designed to complement the Organization's activities and mission. Investments at June 30, 2001 were comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Government Obligations	\$ 940,792	\$ 969,321	\$ 28,529
Corporate Bonds	807,047	802,414	(4,633)
Equity Securities	4,379,127	4,244,038	(135,089)
Temporary Cash and Money Market	<u>511,079</u>	<u>511,079</u>	<u>—</u>
	<u>\$6,638,045</u>	<u>\$6,526,852</u>	<u>\$(111,193)</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$195,368
Net Realized and Unrealized Losses On Investments	<u>(90,931)</u>
	104,437
Less Investment Advisory Fees	<u>(27,585)</u>
Total Investment Return	<u>\$ 76,852</u>

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2001**

**4. Program Related Investments**

Program related investments consist of loans made to entities to assist them in pursuing sustainable energy opportunities.

\$500,000 Loan Receivable, Monthly Principal Repayments of \$1,042 Through April 2002, \$3,125 Through April 2003 and \$7,500 Thereafter, Due April 2008. \$250,000 Advanced as of June 30, 2001 with Required Principal Payments Reduced Pro-rata. Borrower Pays Monthly Royalties at 3% of their Gross Revenue up to a Maximum of \$1,300,000 Over the Term of the Loan. Secured by Assets of the Borrowers.	\$249,167
\$100,000 Loan Receivable, Interest Only at 10%, Due February, 2006. Secured by Assets of the Borrower	<u>100,000</u>
	349,167
Less Loss Reserve	<u>(15,000)</u>
	<u>\$334,167</u>

**5. Office Equipment**

Furniture	\$ 6,904
Computer Equipment	<u>4,535</u>
	11,439
Less Accumulated Depreciation	<u>(2,029)</u>
	<u>\$ 9,410</u>

**6. Lease**

The Organization leases its office facilities under a non-cancellable operating lease commencing January 1, 2001 through June 30, 2003 with automatic one year renewal terms thereafter. Future minimum lease payments under the lease are:

Years ended	<u>Amount</u>
June 30:	
2002	\$16,800
2003	19,200

**PP&L SUSTAINABLE ENERGY FUND**  
**d/b/a SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

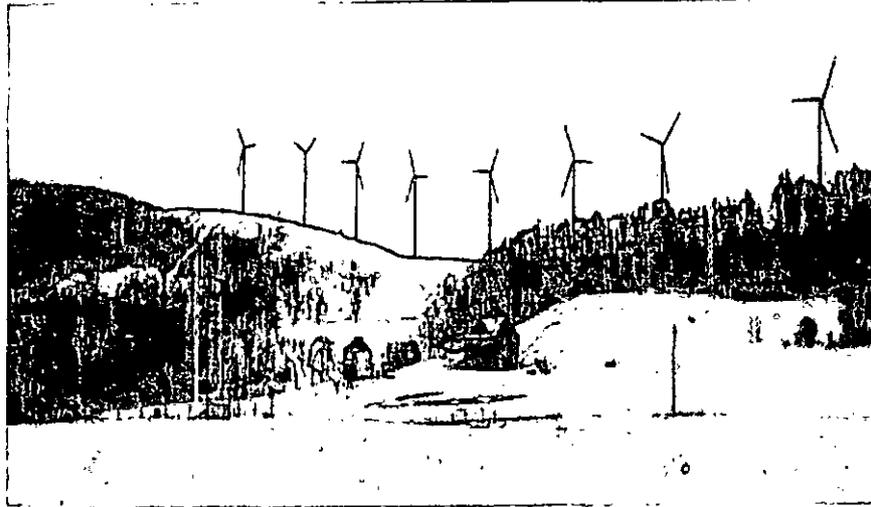
**June 30, 2001**

**7. Retirement Plan**

The Organization has a defined contribution retirement plan (the Plan) covering all full time employees having attained 21 years of age with three months of service. The Organization makes contribution to the Plan each year equal to 10% of all participants compensation plus 4.3% of compensation in excess of 40% of the Social Security Taxable Wage base in effect on the first day of each Plan year. Total expense for the year ended June 30, 2001 was \$11,980.

**8. Startup and Pre-Operating Activities**

Included in Ratepayer Contributions in the accompanying Statements of Activities is \$4,663,323 of surcharges collected for the period January 1999 (inception) through June 30, 2000 plus \$199,929 of related earnings. Also, included in Start-up Costs in the statement is \$71,161 of organizational and development costs incurred during the same period. In July 2000, upon commencement of the Organization's operations, the former custodian of the funds distributed the net amount to the Organization. Accordingly, the amounts are reported in current period operations.



***SUSTAINABLE ENERGY  
FUND  
OF CENTRAL EASTERN PA***  
*Investing to Improve Energy & Environment*

*Annual Plan*

*July 1, 2001—June 30, 2002*

*The Sovereign Building*

*609 Hamilton Street*

*Allentown, PA 18101-2111*

*Phone (610) 740-3182 ▪ Fax (610) 740-9511*

*ppltsef@aol.com*

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## 1.0 INTRODUCTION TO THE SUSTAINABLE ENERGY FUND

### 1.1 *Our Mission*

**Our mission is to promote, research and invest in clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PPL ratepayers.**

The Sustainable Energy Fund of Central Eastern PA (SEF) is a private, non-profit foundation. We intend to make investments:

- ◆ To promote the use of renewable energy and advanced clean energy technologies among residential, commercial, institutional and industrial customers in the PPL service territory.
- ◆ To promote energy conservation and energy efficiency among residential, commercial, institutional, and industrial customers in the PPL territory.
- ◆ To promote the start-up, attraction, expansion and retention of sustainable energy businesses and projects in the PPL service territory, or when the investment may be outside the territory but it provides an indirect benefit to ratepayers in PPL territory.

### 1.2 *How We Are Organized*

The SEF was founded in November 1999 as a result of the Pennsylvania Public Utility Commission electric utility restructuring proceedings. A group of environmentalists and consumer advocate petitioners made the SEF a key component of the joint settlement with PPL, Inc. (now PPL Electric Utilities Corporation) and the PUC. The initial SEF funding of approximately \$20.5 million will be generated over six years through a rate surcharge on PPL ratepayers.

Each group of petitioners to the joint settlement agreement, including energy suppliers, industrial consumers, environmentalists and PPL, nominated an individual to serve on the SEF Board of Directors. The Directors agreed to play an active and vital leadership role in the governance and operation of the Fund and committed to design an organization that could function efficiently and flexibly as its needs change and grow.

The SEF is incorporated as a 501(c)(3) private foundation and is managed by an Executive Director who reports solely to the Board of Directors. The PUC maintains oversight of the Fund, requiring annual audits and semi-annual reports. The SEF holds an annual meeting in October that is open to the public and produces an annual report that is also available to the public.

The Fund is independent from PPL Electric Utilities Corporation. It maintains constructive ties with PPL, including a PPL employee who serves on the Board of Directors, and the SEF receives monthly payments from PPL ratepayers as directed by the settlement.

The SEF is committed to continue its mission beyond the six years of PPL funding. The Board will accomplish this goal by structuring its program-related investments to realize a financial return. It will also maximize the impact of its funds by bringing other partners into its investments. The Fund also has developed a responsible investment policy for its reserve funds that assures continuity and supports its overall mission.

One of the SEF goals is to extend the fund's benefits to all members of the public in the PPL service territory and, when possible, to the Commonwealth of Pennsylvania and beyond. Its aim is to focus benefits on the PPL ratepayers from whom the SEF receives its funding while allowing the fund to contribute to worthwhile projects that will affect a broader area. The Sustainable Energy Fund is also positioned to participate in projects with other regional funds, other organizations, and to receive additional funding from entities promoting similar agendas.

#### Values Statement for SEF Operations

***Mission Oriented:*** Focus to achieve a sustainable energy economy.  
***Good Steward:*** Assure future of fund and deliver value to ratepayers.  
***Good Citizen:*** Enhance social value for Central Eastern Pennsylvania.

***In addition, we practice:*** Equal Opportunity and Respect for All  
Lead by Example ("Walk the Talk")  
Entrepreneurial Behavior  
Team Player – Open and Sharing

1.3 *The SEF Board of Directors and Management Staff*

The SEF Board of Directors and staff were nominated by the petitioners to the joint settlement agreement, as indicated below, and were approved by the PUC. They are:

**Directors**

NAME	ORGANIZATION	NOMINATED BY	SEF BOARD POSITION
<i>Eric J. Epstein</i>	EFMR Monitoring Group	Environmentalists	Chairman Administration/ Finance
<i>Gary F. Lamont</i>	Conyngnam Pass Company	PA. Weatherization	Treasurer & Secretary
<i>Brian C. Nagle</i>	RPL Corporate Services	PPL Electric Utilities Corporation	Vice President & Chairman Investment Committee
<i>Karen K. O'Neill</i>	Green Mountain Energy	MAPSA	Director
<i>Craig Onori</i>	Agere Systems	PPL Industrial Customer Alliance	President
<i>Marcus B. Sheffer</i>	Energy Opportunities	Environmentalists	Director
OPEN			

**Staff**

<i>Thomas J. Tuffey</i>	Executive Director
<i>Patricia L. Woods</i>	Associate

**Brief Biographic Descriptions follow:**

**Eric J. Epstein** is the chairman of the Three Mile Island Alert and coordinator of the EFMR Monitoring Group. Mr. Epstein is also a Professor of Holocaust Studies at West Chester University, and Academic Coordinator at Tri-County OIC. Mr. Epstein has been involved for over 20 years with research regarding decommissioning, decontamination and environmental safety at the Peach Bottom, Three Mile Island, and Susquehanna nuclear power plants. He has written numerous professional papers, contributed to publications and provided testimony regarding utility restructuring, electric power competition, and nuclear power safety issues.

**Gary F. Lamont** is the principal of the Conyngham Pass Company, a management consulting firm, and Sleepy Hollow Housing Associates, a real estate development company. He is a member of the First Heritage Bank Board of Directors and President of the CAN DO Foundation. Among other organizations in which he is active include, board membership with the Hospital Service Association of Northeastern Pennsylvania, FM Kirby Center for Performing Arts, Luzerne County Convention Center, and Industrial Development Authorization, Security Savings Charitable Foundation, The Pennsylvania State University Advisory Board - Hazleton Campus, CAN DO inc., Commission of Economic Opportunity, Sustainable Energy Fund of Central Eastern PA, Luzerne Foundation and the Earth Conservancy.

**Brian C. Nagle, P.E.** is an Environmental Supervisor within the Environmental Management Division of PPL Corporate Services. He is responsible for Corporate Environmental Constituencies, including stakeholders and external communications. He is involved with Brownfield's Economic Development initiatives to identify, prioritize and fund remediation of sites for economic development. Mr. Nagle is a member of the Lehigh Valley Land Recycling Initiative, the Chamber of Business & Industry Environmental Affairs Committee and the Lehigh Valley Green Future Fund.

**Karen K. O'Neill**, is Vice President of New Markets for Green Mountain Energy. Ms. O'Neill is responsible for regulatory affairs nationwide for her company; she has been personally involved with Pennsylvania regulatory matters since 1997. Green Mountain Energy is a leading retailer of cleaner and renewable energy, and the company and its customers are responsible for development of new wind and solar resources in Pennsylvania and elsewhere. Ms. O'Neill is interested in making sustainable energy resources affordable, efficient, effective and pervasive.

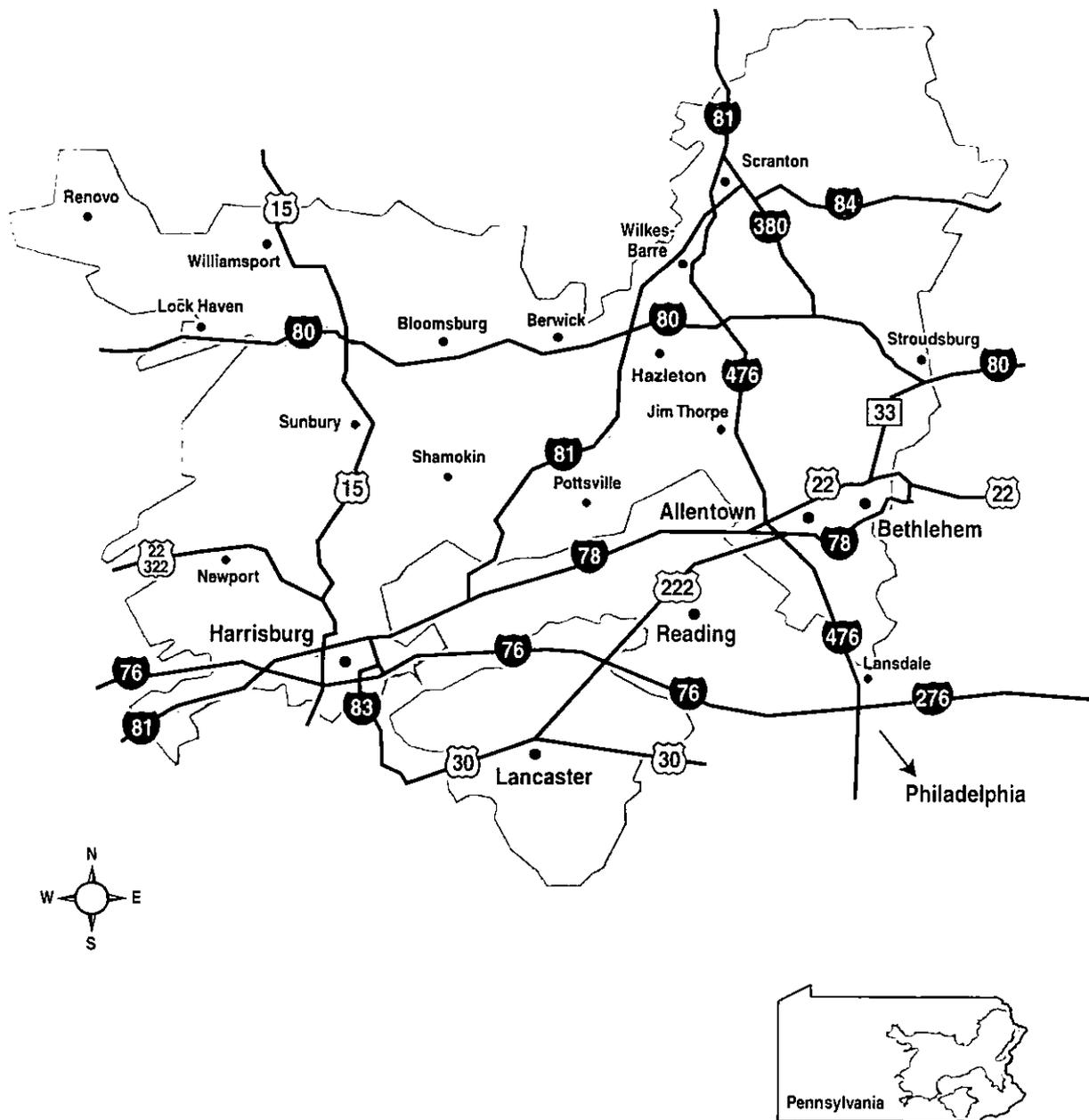
**Craig Onori, P.E.** is currently the Energy Manager for Agere Systems Microelectronics Group. In this position, he is responsible for the energy management, which includes an improvement program as part of the ISO 14001 Environmental Management Program at the Microelectronics manufacturing plant in Allentown, PA. Since 1995 Mr. Onori has served as Chairman of the Lucent Technologies Premium Power Forum, which is comprised of representatives from numerous Lucent business units, electric utility and telecommunication service companies. The Forum examines the integration of premium power emerging energy technologies (photovoltaic, fuel cells, flywheels) with telecommunications products and systems.

**Marcus B. Sheffer** is an energy/environmental consultant with over 19 years of experience. His company, Energy Opportunities, provides technical consulting services on projects relating to energy management, efficiency and conservation, renewable energy systems, and the environmental impacts of human enterprises. Mr. Sheffer is a partner in Seven Group, a multi-disciplinary team of professionals focused on sustainable development. Prior to forming Energy Opportunities in 1993, Mr. Sheffer was employed by the Pennsylvania Energy Office. Volunteer activities include leadership positions with the Green Building Association of Central PA, AIA PA Committee on the Environment, PP&L Sustainable Energy Fund, and US Green Building Council. He is designated by the Association of Energy Engineers as a Certified Energy Manager (CEM), and is a US EPA Greens Lights Surveyor Ally. Professional memberships include ASHRAE and IESNA. Sheffer has earned a Bachelor of Arts degree in Environmental Studies in 1981 and a Master of Science degree in Public Administration in 1986, both from Shippensburg University.

**Thomas J. Tuffey** is the SEF Executive Director. Dr. Tuffey has over 25 years of energy/environmental experience in various businesses and entrepreneurial roles. He was Executive Vice President of Roy F. Weston, Inc., a 3,000 person-engineering firm; Founder and CEO of EMAX Solution Partners, a chemical management software firm; and Publisher/President of EMIS Tech Publishing. He has been actively involved in the formation of several new, venture capital financed organizations and in several mergers and acquisitions.

**Patricia L. Woods** is an Associate with the SEF. Ms. Woods has over 20 years experience in Customer Service, Distribution, and Sales. Her career has spanned various business arenas including Health and Beauty Aids, Importing/Exporting, Medical Equipment, and Real Estate. She is also a notary public.

1.4 Map of PPL Territory



## 2.0 SEF PROGRAM RELATED INVESTMENTS

### 2.1 *Targets*

The SEF intends to finance the start up, expansion and attraction of businesses and/or projects within the PPL service territory (or outside the territory but which will indirectly benefit ratepayers) that:

- ◆ Produce electricity from renewable energy sources
- ◆ Design, manufacture, install and/or service renewable energy or advanced clean energy technologies.
- ◆ Provide renewable energy or advanced clean energy services.
- ◆ Design, manufacture, install and/or service energy conservation or energy efficient technologies.
- ◆ Provide energy conservation or energy efficiency services.

SEF financing is generally available for projects that have access to financing at conventional rates and terms, but need some additional financial encouragement. Although we have not adopted strictly defined categories of projects, these concepts are generally applicable:

***Renewable Energy Projects*** – draw power from naturally replenished sources. They may include solar electric and solar heating projects, wind power, power generated from biomass sources and small hydroelectric projects with minimal environmental impact.

***Clean Energy Projects*** – produce energy using technology and processes that have minimal impacts on the environment. These projects may include micro turbines, fuel cells, distributed generation projects and flywheel/battery technology.

***Energy Efficiency/Energy Conservation Projects*** – will save electricity and other energy. They may include efficient building design, heating ventilating and cooling (HVAC), efficient lighting and other controls, building and other materials, energy audits and system integration, and other projects that conserve energy resources.

***Grants*** – the SEF may also disburse a limited number of grants to organizations seeking funding of projects consistent with the Fund's mission. Grants must advance SEF mission-related purposes and are typically for \$25,000 or less. Research projects are not eligible for grant financing.

See *Appendix A* for our Sustainable Energy Fund Grant Guidelines

## 2.2 *Program-Related Investments*

### **Financial Tools**

The financing provided by The Sustainable Energy Fund to projects in these primary markets may be:

- ◆ Loan related products
- ◆ Royalty financing
- ◆ Equity investment
- ◆ Grants

The SEF and the customer shall determine the specific financial tool and the specific terms of the financial assistance. As a matter of policy, The SEF does not provide for technology rebates, write-downs or other subsidies. Considering our resources, our research indicates that they are not an effective means to achieve mission.

Our Commercial Energy Loan Program is described in *Appendix B*.

### **Reviewing Mission Fit and Criteria**

The SEF is committed to giving each project proposal an equal opportunity to be financed. It encourages all groups, large and small, non-profit and for profit, well-established companies and start-ups to submit sustainable energy proposals. The Sustainable Energy Fund looks forward to receiving a variety of project proposals spanning the program interests defined by the mission.

The SEF Board of Directors approves financing with recommendations from staff and committees.

The fund will use appropriate criteria to determine which projects will receive funding. The first test will be whether the project fits with the fund's mission. Viability, including financial, management and technical aspects of the project, will be reviewed second. This test will determine an applicant's commitment, ability to carry out the project and to meet its payments and other obligations to the Fund. If the project passes these two tests, it will then be judged on other suitable criteria, including such social benefits as job creation, community welfare, avoidance of adverse impacts, land restoration, etc.

#### **Program Related Investment – Criteria Hierarchy**

1. Mission Fit – Does this project support the creation of clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PPL ratepayers?
2. Financial Viability – Will the project be able to meet its payments and other obligations to the Fund?
3. Social Welfare– Does the project create additional social benefits such as; creation of jobs, community welfare, avoidance of adverse impacts, land restoration, etc.

*See Appendix C for additional criteria discussion.*

Additionally, the SEF has developed operating principles designed to integrate our mission goals with commercially viable financing programs. These principles include:

- ◆ Investments will be made in commercially viable entities and generate at least a modest return.
- ◆ Our decisions are based on mission achievement and agreed upon underwriting and investment criteria, not on political or other special considerations.
- ◆ Our applicants are expected to leverage our capital by attracting mainstream investors and lenders to companies or projects in which risk has been reduced by the Fund's participation.
- ◆ Investments and loans are diversified among several industry sectors and types of projects to reduce risk.
- ◆ The intent is to position the SEF to invest in early stage commercial activities, so that we may both influence faster market development, and secure a reasonable return on invested funds, the SEF attempts to have a broad network of alliances. It hopes to be able to refer applicants that do not meet its criteria to those more suitable.

Certain projects will not be supported by the SEF. Excluded projects include energy sources unavailable in our territory, i.e., wave generated energy and those having an adverse impact on the environment. Nuclear energy is excluded by policy. Projects from mature subsidized industries will be given a lower priority.

The SEF intends to support those aspects of the emerging new Pennsylvania Energy Policy that are compatible with its sustainable energy mission. Staff and several Directors are commenting on the PA Energy Policy. When it is finalized and implemented, the SEF will continue to partner with lead agencies like the Pennsylvania Department of Environmental Protection, and the Pennsylvania Department of Community and Economic Development to finance projects and companies that advance the goals of the Policy.

### **Investment Benefits**

The Sustainable Energy Fund's investments will support sustainable energy projects in several ways. Investments may bring a budding technology successfully to market and encourage widespread use. Financial and other support may increase the impact of a proven technology, allowing it to reach a larger population. SEF support may also allow projects to proceed that would not be funded by traditional sources or, after having secured SEF funding or other business development benefits, projects may become eligible for funding through traditional sources.

### **Collaborative Investment Partnerships**

The SEF will establish collaborative partnerships to bring in additional money and support for sustainable energy projects. This network will include private investors, public foundations, community economic development organizations, state and federal agencies and other interested partners. It will provide sustainable energy projects with funds and other support, including business development, which could mean the difference between success and failure. The SEF will continue its collaboration with other regional sustainable energy funds in the PECO Energy, West Penn Power Company and GPU Energy service territories.

### **Investment Tools**

How the SEF invests in a project will depend upon the project proposal. Investments may be commercial loans, subordinated debt, royalty financing, equity placements, or through other financial mechanisms. Depending upon the project, the SEF may offer advantages to applicants, including lower interest rates and beneficial terms.

In some sectors, the investments may be made through a third party. For instance, the SEF is not equipped to handle the loan process requirements of individual homeowners. The intent is to provide that kind of program through third parties in later years.

Investments may be of any size, averaging \$150,000 to \$200,000. The SEF targeted investment portfolio is revised each year, approved by the Board, and published in the fund's Annual Plan.

SEF may also place a limited number of grants to organizations with objectives consistent with the fund's mission. Grants may be for educational programs, to prepare business plans, green building design activities, sustainable energy business start up, or other activities. Grants must advance SEF mission-related purposes and are typically \$25,000 or less.

The SEF conducts its own research into technologies and business models suitable for its early stage commercial market position, the SEF does not provide grants for applicants' research projects.

**2.3 Second Year Projections (July 1, 2001 – June 30, 2002)**

SEF will actively seek financing opportunities in all primary target markets. SEF anticipates making 15 loans, investment and grant commitments during this period, totaling \$2,500,000. The actual dollars loaned and invested, as well as the actual distribution of financial assistance among SEF's target markets, will depend on the available financial opportunities and the deal flow that SEF is able to develop. Opportunities to invest in larger, mission critical projects may skew performance accordingly. It is projected that the second year financial assistance will be as follows:

	No.	Avg. Dollars per Loan/Investment	Total
Renewable Energy - Businesses	2	500,000	1,000,000
Renewable Energy - End users	3	191,666	575,000
Energy Efficiency - Businesses	2	125,000	250,000
Energy Efficiency - End users	3	183,333	550,000
Business Grants	5	25,000	125,000

Currently, the SEF does not yet have a means to support a direct homeowner loan program, however, we plan to provide a program in the near future.

### **Requesting Further Information and/or Financing**

For more information about The Sustainable Energy Fund and to discuss potential projects and financing, please contact Thomas J. Tuffey, the SEF Executive Director, using the information below. Email correspondence is preferred. An Initial Financing Request Form may be found in *Appendix D: Initial Financing Request Form*.

### ***First Year Performance***

The SEF Annual Report submitted to the PUC and the Joint Petitioners, as well as the independent Auditors Report are available for review by request at [ppltsef@aol.com](mailto:ppltsef@aol.com) or at 610-740-3182.

## **3.0 FINANCIAL PLAN**

### **3.1 *Introduction***

The mission of the SEF is focused on a social welfare objective, to do our part to develop a new, sustainable energy infrastructure in the PPL territory, the Commonwealth of Pennsylvania, the nation and the world. Accomplishing that objective provides cleaner air, lessens global warming, conserves resources, creates jobs, and redirects consumer monies from utility bills into more productive areas.

We are further committed that the SEF monies will also be sustainable. Although we do provide a limited grants budget as noted, our investments are into viable businesses and projects that will provide a fair return to the SEF so that future companies and projects can also be financed. This important criterion will force us to be disciplined in our project selection but is critical to our ability to leverage limited funds. We anticipate that it will take as long as 20 years to effect meaningful change in a legacy energy infrastructure that developed over the previous 100 years. Ratepayer financing is scheduled to end December 31, 2004. At that time, our current business plan indicates that we will have approximately \$5.25 million of funds available for investment. In addition, we plan for loans outstanding of about \$13 million, and royalty and equity investments of more than \$4 million. This \$22 million pool of funds will be available to sustain the SEF beyond the initial years and/or will be the foundation for an accelerated program fueled by additional funds, from whatever source.

The SEF organizational design and our financial plan is organized in three elements as follows:

- ◆ Asset Management
- ◆ Program Administration
- ◆ Program Related Investments

### 3.2 *Asset Management*

Ratepayer funds collected by PPL Electric Utilities Corporation from January 1, 1999 through June 30, 2000, amounting to \$4,863,251.99, were transferred to the SEF on July 10, 2000. An additional \$3,319,366 was transferred via monthly payments to the SEF through the first year. Monthly ratepayer contributions determined by electricity usage continue to be collected by PPL and are transferred to the SEF on a monthly basis until December 31, 2004.

The Finance Committee prepared the Statement of Investment Policy that was adopted by the Board in late 1999. Our investment policy is environmentally responsible and attempts to support our energy mission. Based on this policy, RFP's were issued for two asset managers and one custodial account manager. In July 2000, Berkshire Asset Management and Dearden, Maguire, Weaver and Barrett, Inc. were both retained as asset managers, each to manage one half of the allocated investment funds. Both were instructed to employ a 70% equity and 30% fixed income securities portfolio allocation. Charles Schwab was appointed as the Custodian and First Union National Bank was approved for the working capital accounts. The asset managers report performance quarterly and may be replaced at any time.

The projected investment returns are presented in the 5-Year Summary Financial Plan of *Table 1*.

Although equity market conditions were very turbulent during our first year of market investment, we fared reasonably well with a net increase in funds, net of fees of just over 1%.

We believe we are well positioned for either a market recovery or a continued period of product turbulence. Hence, after consultation with our investment advisors, the SEF will plan a 0% return for the current year, and continue to forecast an 8% investment yield in the later years.

### 3.3 *Program Administration*

The SEF seeks to place its funds into program related investments (PRI) and limit that used for administration.

The SEF Board chooses to actively administer the fund via an Executive Director and limited staff rather than contract with an existing organization. Its intent is to operate in an efficient and entrepreneurial

Table 1A third party contributions

PP&L Sustainable Energy Fund, Inc.

SEF SUMMARY FINANCIAL PLAN  
Years 1 - 5

Assumed Annual Yield On Financial Assets 8.00%

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>Previous Financial Funding</b>	4,663,323	8,212,938	11,413,826	14,613,817	17,613,809	4,663,323
<b>Additional PPL Ratepayer Contribution</b>	3,533,439	3,200,886	3,199,992	3,199,992	1,699,996	14,734,306
<b>Total PPL Ratepayer Contribution</b>	8,196,762	11,413,826	14,613,817	17,813,809	19,313,805	19,397,628
<b>Beginning Funds Available</b>	4,663,323	7,674,102	7,130,946	7,325,412	7,744,718	4,663,323
<b>Additional PPL Ratepayer Contribution</b>	3,533,439	3,200,886	3,199,992	3,199,992	1,699,996	14,734,306
<b>Other Income</b>						
Processing Fees	0	4,000	6,000	6,000	6,000	22,000
Investment Income	101,236	0	533,716	661,640	602,206	1,698,798
Loan Income	1,666	14,909	16,788	23,478	28,118	86,967
Loan Repayment	833	226,003	859,063	1,761,438	1,902,663	4,738,899
Royalty Income	2,180	11,803	47,616	438,062	986,466	1,498,106
Equity Income	0	0	0	0	0	0
<b>Sub-total Other Income</b>	106,895	255,816	1,463,389	2,780,818	3,438,349	8,043,768
<b>Loss Reserve</b>	16,000	158,750	131,422	166,663	216,747	680,472
<b>Third Party Contributions</b>	18,300	0	1,000,000	2,000,000	2,000,000	6,018,300
<b>Operating Expenses</b>	268,122	328,668	488,914	661,306	617,438	2,234,338
<b>Startup Costs</b>	103,332					103,332
<b>PR Investments:</b>						
Grants	36,401 9%	171,000 5%	600,000 10%	700,000 10%	900,000 10%	2,306,401 9%
Loans	380,000 91%	3,400,000 96%	3,487,600 70%	4,982,600 70%	6,277,600 70%	18,337,600 74%
Royalties	0 0%	0 0%	676,000 14%	846,000 14%	1,216,000 14%	2,836,000 11%
Equity	0 0%	0 0%	337,600 7%	472,600 7%	607,600 7%	1,417,600 6%
<b>Total Distributions</b>	386,401 100%	3,671,000 100%	6,000,000 100%	7,000,000 100%	9,000,000 100%	24,966,401 100%
<b>Ending Funds Available</b>	7,674,102	7,130,946	7,325,412	7,744,718	6,166,626	6,166,626
<b>Loans &amp; Investments Outstanding</b>	334,167	3,360,414	6,869,930	11,261,939	17,230,630	17,230,630
<b>Total Funds and PR</b>	7,908,269	10,481,360	14,185,341	18,986,656	22,396,256	22,396,256

fashion. Staff consists an Executive Director, a full time Associate and a part-time Comptroller. Other services including legal, accounting, marketing, and technical due diligence are outsourced. Hourigan, Kluger & Quinn, provides legal counsel and loan document preparation. The accounting firm of Campbell, Rappold & Yurasits LLP has been retained to assist in developing business systems and perform the annual independent audit.

The Board of Directors holds regularly scheduled quarterly meetings and special meetings to consider Program Related Investments or Governance issues. The Board routinely operates through a two-committee structure: the Administrative/Finance Committee and the Investment Committee (focused on Program Related Investments).

The Second Year Operating Budget may be found in *Table 2*.

### 3.4 *Program Related Investments*

We refer to the investments that we make in companies and or user projects as Program Related Investments (PRI). An investment is individualized to the applicant but is usually in the form of various loan products, an equity investment, or in royalty financing. We also make a limited number of grants, although these are often as precursors to the typical investments discussed.

Each year our Board decides where our funds should be targeted and how much should be disbursed. We will disburse \$2.5M in the second year of operation as indicated in Section 2.3, Second Projections.

Our PRI disbursements are scheduled to ramp up aggressively from a combined \$4.5M for years one and two to \$5.0, \$7.0 and \$9.0 million respectively for years three through five. This disbursement schedule assumes additional income to the SEF in years three, four and five of \$1, \$2, and \$2 million. This new, non-PPL ratepayer income is planned as dollar for dollar disbursements in the year received.

Having decided on the amount of annual disbursements, the Board then considered what kinds of technologies it wished to focus on over the six-year horizon. Our funding is focused on Renewable/Clean Energy and Energy Conservation/Energy Efficiency initiatives, in the form of company and end user financing. These would be projects that companies or end users undertake. The Directors have indicated an allocation preference for years two, three and five. The results suggested more emphasis on energy conservation/energy efficiency projects in years one and two. Year three called for a more balanced approach in all project categories. Year five indicated a shift towards renewable energy projects, especially those companies initiated. Overall, the Directors expect grant expenditures of five to ten percent. Directors emphasized that flexibility is key. Market demand and new opportunities will require realignment. A List of Potential Sustainable Energy Projects is presented in *Appendix E*.

Table 2

## PP&amp;L Sustainable Energy Fund, Inc.

## Second Year Operating Expenses

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Total
<b>STAFF</b>													
Salaries	11667	11667	11667	11667	11667	11958	11958	11958	11958	11958	11958	11958	142042
Fringe Benefits @ 30%	3125	3125	3125	3125	3125	3213	3213	3213	3213	3213	3213	3213	38113
Payroll Taxes	1167	1167	1167	1167	1167	1196	1196	1196	1196	1196	1196	1196	14204
Training		100	100	100	100	100	100	100	100	100	100	100	1100
Sub-total - Staff	15958	16058	16058	16058	16058	16467	16467	16467	16467	16467	16467	16467	195458
<b>OCCUPANCY</b>													
Rent	1400	1400	1400	1400	1400	1400	1400	1400	1400	1400	1400	1400	16800
Insurance	1100		400		2400		0						3900
Furniture	0												0
Office Equipment	0	0											0
	2500	1400	1800	1400	3800	1400	1400	1400	1400	1400	1400	1400	20700
<b>OPERATING</b>													
Board Expense	0	0	500	1000	0	0	200	0	0	300	0	1000	3000
Board Expense - Stipends	300	300	1800	1800	300	300	1200	300	300	1200	300	1200	9300
Dues/Memberships/Publications		100	100	0	0	100	0	100	0	100	0	200	700
Marketing		200	1500		1000		1500		0	500	0	500	5200
Miscellaneous	200	200	200	200	200	200	200	200	200	200	200	200	2400
Office Supplies	500	500	500	500	500	500	500	500	500	500	500	500	6000
<b>Professional Fees</b>													
Auditing	3000						0					0	3000
IT Consultant	0	0											0
Legal	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	24000
Technical Due Diligence	500	500	500	500	500	500	500	500	500	500	500	500	6000
Organization Design	0	0											0
Financial/System Control/Business Plan	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500	30000
	8000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	63000
Printing/Postage	400	400	400	400	400	400	400	400	400	400	400	400	4800
Telephone	600	600	600	600	600	600	600	600	600	600	600	600	7200
Travel	800	800	800	800	800	800	800	800	800	800	800	800	9600
Web Hosting/MIS Support	100	100	100	100	100	100	100	100	100	100	100	100	1200
	10900	8200	11500	10400	8900	8000	10500	8000	7900	9700	7900	10500	112400
<b>TOTAL OPERATING BUDGET</b>	29358	25658	29358	27858	28758	25867	28367	25867	25767	27567	25767	28367	328558

Although the SEF does conduct its own research into technologies and business models suitable for its early stage commercial market position, it does not provide grants for applicants' research projects.

#### **3.41** *The SEF Process for Program Related Investments (PRI's)*

All applicants financing requests are maintained on a contact data-base (ACT). Active PRI's are periodically reported to the Investment Committee, and all are provided in the Board Meeting documents.

If a funding request meets SEF criteria requirements, the staff advances it to the Investment Committee with a recommendation for approval, disapproval, further information, or a request for Board guidance. If the recommendation is for approval, the staff also includes a draft term sheet. If the Investment Committee approves a PRI funding request, it advances the request to the full Board with a recommendation to approve. This may occur at a regularly scheduled Board meeting or via a specially convened meeting via telephone or email.

Once the Board approves the commitment, the SEF staff finalizes negotiations of the term sheet. Documents are prepared and further negotiated by the Executive Director and SEF Legal Counsel. The SEF Investment Committee, and/or Board, depending on the nature and magnitude of a variance, review and approve substantial variations from the original approved term sheet. Upon their approval, the Executive Director signs on behalf of the SEF and dispenses funds.

*The Second Year plan is developed assuming a targeted PRI portfolio mix of approximately:*

- ◆ 5% grants
- ◆ 70% loans
- ◆ 25% equity/near equity

## APPENDICES

- A. GRANT GUIDELINES
- B. COMMERCIAL ENERGY LOANS PROGRAM
- C. INVESTMENT CRITERIA GUIDELINES
- D. INITIAL FINANCING REQUEST FORM
- E. LIST OF POTENTIAL PROJECTS
- F. ASSUMPTIONS USED IN DEVELOPMENT OF THE SEF 5 YEAR PRO FORMA
- G. PPL SERVICE TERRITORY BY COUNTY

*Appendix A:*

**SUSTAINABLE ENERGY FUND  
GRANT GUIDELINES**

**INTRODUCTION**

To fulfill its mission of promoting renewable energy, energy conservation and sustainable energy businesses, the Sustainable Energy Fund announces the availability of these sustainable energy grants.

**GRANT AMOUNTS**

Pursuant to the SEF's annual program plan, the sustainable energy grants are expected to range from \$10,000 to \$25,000 each over the course of the annual budget period.

**APPLICATION PROCESS**

Applicants are to apply for a grant in a typewritten proposal with numbered sections that addresses in order the following eight topics:

1. Applicant Name and Address
2. Contact Person Name, Telephone Number, Fax Number and E-mail Address
3. Type of grant being sought and amount of grant request
4. Goals, objectives and justification for proposed work
5. Proposed work tasks and deliverables of proposed work
6. Persons who will be performing proposed work (and their qualifications)
7. Schedule of Proposed Work
8. Proposed Budget, including Total Project Cost, Amount of Grant Request, Other Sources of Funding Pending and Committed, and Proposed Expenditures by Budget Category

There are no deadlines for submitting proposals; they can be submitted at any time. Proposals are to be sent to:

**Sustainable Energy Fund  
Grant Proposal  
The Sovereign Building  
609 Hamilton Street  
Allentown, PA 18101-2111**

**PROPOSAL REVIEW**

The Sustainable Energy Fund staff as well as the Board of Directors will review proposals; their decisions are final. Each proposal will be evaluated in light of the following questions:

1. Does the proposed work fit the mission of the SEF and the grant categories?
2. Is the grantee likely to successfully complete the proposed work?
3. Will the proposed work have value beyond its value to the grantee? Please include an explanation on how this value will be leveraged.

**REPORTING**

In addition to any other deliverables specifically described in the grant agreement, all grantees will be required to submit a brief written report within thirty (30) days of the completion of the project describing the results of the project and a financial accounting of all expenditures.

***All work financed by these grants must be completed within twelve (12) months of the award of the grant.***

**QUESTIONS**

For questions about the grant program, please contact Thomas J. Tuffey, Executive Director of The Sustainable Energy Fund at 610-740-3182, or at [ppltfef@aol.com](mailto:ppltfef@aol.com)

**Appendix B:**

**SUSTAINABLE ENERGY FUND  
COMMERCIAL ENERGY LOANS PROGRAM**

***Purchasing new equipment? Expanding or retrofitting your plant/office facilities?***

***Low interest financing is available for:***

Manufacturers, wholesalers/distributors, retailers and service companies located in Central Eastern Pennsylvania who want to finance equipment upgrades or electricity energy savings improvements to their plant/office facilities in order to:

- ◆ Maximize energy efficiency
- ◆ Conserve energy and reduce waste

***Why seek an energy loan from the Sustainable Energy Fund?***

- ◆ Low interest, flexible follow-on financing to implement any or all of the energy recommendations.
- ◆ Loans can be made on a subordinated basis without disturbing existing bank debt, and can be made in instances that might not be readily financed by banks.

***Energy loans for advanced clean energy technologies:***

SEF provides low interest business loans to end-user companies wishing to purchase advanced clean energy systems. Examples include:

- ◆ Distributed generation technologies (off-grid photovoltaic generators, micro turbines, etc.)
- ◆ Quality and assured power (back-up energy systems for critical systems, fuel cell applications)
- ◆ Energy storage systems
- ◆ Highly efficient process equipment

***Energy loans for the start-up and expansion of advanced clean energy technology companies:***

- ◆ SEF provides low interest business loans to finance the start-up and expansion of manufacturers, distributors and installers of advanced clean energy technologies (described above).

***Loan amounts:***

- ◆ \$25,000 to \$250,000 (lower or higher amounts are available under special circumstances).

***We provide financing for:***

- ◆ Purchase of machinery & equipment, related installation
- ◆ Purchase and/or renovation of owner-occupied business real estate
- ◆ Leasehold improvements
- ◆ Working capital and debt refinancing in specific cases

*Appendix B continued*

**For additional information contact:**

Thomas J. Tuffey, Executive Director  
**SUSTAINABLE ENERGY FUND**  
The Sovereign Building  
609 Hamilton Street  
Allentown, PA 18101-2111

**Appendix C:**

**Sustainable Energy Fund  
Investment Criteria Guidelines**

The SEF investment decisions are made by our Board of Directors, they seek to implement the Annual Plan. The Directors follow a hierarchy of criteria and are advised by staff in this process.

First, an investment must fit our sustainable energy mission. Second, it must be financially viable, although benefiting from more favorable than conventional financing. Third, the Board favorably considers other societal benefits.

We consider many different kinds of requests for funding. At any time we may have different kinds of requests and needs to balance our current Plan portfolio.

The SEF intends to support those aspects of the emerging new Pennsylvania Energy Policy, which are compatible with its sustainable energy mission. Staff and several Directors are commenting on The Policy. As it is finalized and implemented, the SEF will continue to partner with lead agencies like the Pennsylvania Department of Environment Protection and Pennsylvania Department of Community Development and Economic Opportunity to finance projects and companies that advance the goals of this Policy.

The following is a general listing of considerations that may enter our investment analysis. They are presented solely for illustrative purposes. The SEF reserves the right to employ any other appropriate and reasonable criteria. The SEF Board decisions are final.

- | <b>CONSIDERATIONS RELATED TO OTHER SOCIETAL BENEFITS</b> |   |
|--|---|
| ◆  | Good social/environmental record            |
| ◆  | Quality job creation                        |
| ◆  | Affordable energy for low-income families   |
| ◆  | Utilization of Brownfields or similar lands |

**Appendix C, continued**

**Considerations related to mission fit**

- ◆ Fit to current year Annual Plan allocations/targets
- ◆ Supports renewable and clean energy technologies, energy conservation, energy efficiency, and a sustainable energy enterprise mission.
- ◆ Funds available in subject category
- ◆ Funds available in financial product.... royalty, loan, grant, etc.
- ◆ Helps to achieve portfolio balance/Reward/Risk Measures
- ◆ Achieves leverage via partners, initiatives of allies, previous SEF funds committed
- ◆ MW energy generated/ saved per \$ invested
- ◆ Pollution reduced/ eliminated per \$ invested
- ◆ Results in lasting sustainable energy infrastructure
- ◆ Gives high market profile

**CONSIDERATIONS RELATED TO FINANCIAL VIABILITY**

- ◆ Management strength
- ◆ Strength of Business Plan/market opportunity
- ◆ Risk/reward profile
- ◆ Financial Rate of Return measures
- ◆ Commitment of matching funds/availability of other financing
- ◆ Financial strength/security of collateral
- ◆ Stage of development... we favor late stage and do not budget R&D
- ◆ Projects must be within PPL ratepayer's area. Companies may be outside PPL territory as long as indirect benefit to ratepayers
- ◆ Project would not get funded without us

**INITIAL FINANCING REQUEST FORM****Sustainable Energy Fund**

The Sovereign Building  
 609 Hamilton Street  
 Allentown, PA 18101-2111

Tel: 610-740-3182  
 Fax: 610-740-9511  
 E-mail: pptsef@aol.com

Name of Person Completing this Form

Tel. No. ( )

Title of Person Completing this Form

E-mail

Signature of Person Completing this Form

Date

**BUSINESS INFORMATION**

Name of Business

Tel. No. ( )

Street Address of Business

Fax No. ( )

E-mail:

City

County

State

Zip

Year Business  
Established

Nature of Business

Legal Structure

- Corporation  
 Partnership  
 Sole Proprietorship

**PROPOSED PROJECT (WILL THE PROPOSED PROJECT HAVE VALUE BEYOND ITS VALUE TO THE GRANTEE? PLEASE EXPLAIN)**

Proposed Project Involves:

- Renewable energy  
 Advanced clean energy  
 Energy conservation / efficiency  
 Other

Brief Description of Proposed Project

Estimated Total Cost of Project

Estimated Amount of SEF request

*Fax the completed form to the SEF at 610-740-9511 or mail it to the address cited above. Upon receipt of this form, a SEF staff person will contact you to discuss your proposed project and to set up an appointment for further discussion.*

**Appendix D: Initial Financing Request Form**

**Appendix E:**

**Sustainable Energy Fund  
List of Potential Sustainable Energy Projects**

**Renewable Energy**

**Preferred Projects**

Wind  
Solar Thermal  
Solar PV  
Renewable Bio Mass  
    Switchgrass  
    Willow/Poplar  
Wood Waste  
Anaerobic Digestion  
    Plant Matter  
    STP's  
    Animal Waste (pig, fowl, cow, horse)  
Algae  
Biofuels/ethanol (liquid)  
Hydro  
    "Low Impact" (definition)

**Excluded or Lower Priority Projects**

Geothermal – No geysers, hot water springs –  
    PA  
Wave – not available in PA  
High Impact Hydro – Adverse Environmental  
    Impact  
Pumped Storage – Averse Environmental  
    Impact  
    - Losses in system  
    - Mature industry

**Clean Energy**

**Preferred Projects**

Fuel Cell  
Landfill Gas  
Low Impact Hydro  
Coal Field Methane  
Clean Coal (tabled for further discussion)  
Flywheel  
Battery Technologies  
Micro Turbines  
Distributed Generation

**Excluded or Lower Priority Projects**

*Clean Coal (tabled for further discussion)*  
Combined Cycle Gas – Mature industry  
Simple Cycle – Mature Industry  
High Impact Hydro – Adverse Environmental  
    Impact  
Wave – Mature/Subsidized Industry  
Nuclear – Adverse Environmental Impact  
Geothermal – not available in PA  
Municipal Waste – Adverse Environmental  
    Impact  
    - Mature/Subsidized Industry

**Appendix E (continued):**

**Sustainable Energy Fund  
List of Potential Sustainable Energy Projects**

**Energy Efficiencies/Conservation**

**PREFERRED PROJECTS**

Architectural Design Services  
Recycling Technology With Energy Process Improvement  
Fuel Cell  
Recycling  
Lighting  
HVAC  
Controls (enhanced)(automation system)  
Insulation  
Windows  
Switching Gear  
Negawatts – reward not using energy  
Transformers  
General Material Components  
Variable Frequency Drives – pumps/motors  
Transmission Efficiencies  
Building Codes  
Ground Source  
Systems Integration  
Software  
Industrial Process Improve  
Energy Modeling  
Audits  
Passive Solar Science and System

**EXCLUDED PROJECTS**

Recycling alone without energy process improvement  
Tire Burning – environmental reasons



## TERRITORY COVERED BY THIS TARIFF

*Appendix G:***BERKS COUNTY**

Boroughs of New Morgan, Robesonia, Shillington, Sinking Spring, Wernersville, West Lawn, Womelsdorf, Wyomissing, and Wyomissing Hills. Townships of Caernarvon, Cumru, Heidelberg, Lower Heidelberg, South Heidelberg, and Spring.

**BUCKS COUNTY**

Boroughs of Richlandtown, Sellersville, Silverdale, Telford, and Trumbauersville. Townships of East Rockhill, Haycock, Hilltown, Milford, Richland, Springfield, and West Rockhill.

**CARBON COUNTY**

Boroughs of Beaver Meadows, Bowmanstown, East Side, Jim Thorpe, Lansford, Nesquehoning, Palmerton, Parryville, Summit Hill, and Weissport. Townships of Banks, East Penn, Franklin, Kidder, Lausanne, Lehigh, Lower Towamensing, Mahoning, Packer, Penn Forest, and Towamensing.

**CHESTER COUNTY**

Boroughs of Atglen, Elverson, and Honey Brook. Townships of Honey Brook, West Nantmeal, and West Sadsbury.

**CLINTON COUNTY**

City of Lock Haven. Boroughs of Avis, Flemington, Loganton, Mill Hall, Renovo, and South Renovo. Townships of Allison, Bald Eagle, Castanea, Chapman, Colebrook, Crawford, Dunnstable, Gallagher, Greene, Grugan, Logan, Noyes, Pine Creek, Wayne, and Woodward.

**COLUMBIA COUNTY**

Town of Bloomsburg. Boroughs of Ashland, Benton, Berwick, Briar Creek, Centralia, Millville, Orangeville, and Stillwater. Townships of Beaver, Benton, Briar Creek, Catawissa, Cleveland, Conyngham, Fishing Creek, Franklin, Greenwood, Hemlock, Jackson, Locust, Madison, Main, Mifflin, Montour, Mount Pleasant, North Centre, Orange, Pine, Roaring Creek, Scott, South Centre, and Sugarloaf.

**CUMBERLAND COUNTY**

Boroughs of Camp Hill, Carlisle, Lemoyne, Mechanicsburg, New Cumberland, Newville, Shiremanstown, West Fairview, and Wormleysburg. Townships of Dickinson, East Pennsboro, Hampden, Lower Allen, Middlesex, Monroe, North Middleton, North Newton, Penn, Silver Spring, South Middleton, South Newton, Upper Allen, and West Pennsboro.

**DAUPHIN COUNTY**

City of Harrisburg. Boroughs of Berrysburg, Dauphin, Elizabethville, Gratz, Halifax, Highspire, Hummelstown, Lykens, Millersburg, Paxtang, Penbrook, Pillow, Steelton, and Williamstown. Townships of Derry, East Hanover, Halifax, Jackson, Jefferson, Lower Paxton, Lower Swatara, Lykens, Middle Paxton, Mifflin, Reed, Rush, South Hanover, Susquehanna, Swatara, Upper Paxton, Washington, Wayne, West Hanover, Wiconisco, and Williams.

**JUNIATA COUNTY**

Boroughs of Mifflin, Mifflintown, Port Royal, and Thompsettown. Townships of Delaware, Fayette, Fermanagh, Greenwood, Milford, Monroe, Susquehanna, Turbett, and Walker.

**LACKAWANNA COUNTY**

Cities of Carbondale and Scranton. Boroughs of Archbald, Blakely (part), Clarks Green, Clarks Summit, Dalton, Dickson City, Dunmore, Jermyn, Jessup, Mayfield, Moosic, Moscow, Old Forge, Olyphant (part), Taylor, Throop, and Vandling. Townships of Abington, Benton, Carbondale, Clifton, Covington, Elmhurst, Fell, Glenburn, Greenfield, Jefferson, La Plume, Lehigh, Madison, Newton, North Abington, Ransom, Roaring Brook, Scott, South Abington, Spring Brook, and West Abington.

**LANCASTER COUNTY**

City of Lancaster. Boroughs of Adamstown, (part), Akron, Christiana, Columbia, Denver, East Petersburg, Elizabethtown, Ephrata (part), Lititz, Manheim, Marietta, Millersville, Mount Joy, Mountville, New Holland, Quarryville, Strasburg, and Terre Hill. Townships of Bart, Brecknock, Caernarvon, Clay, Colerain, Conestoga, Conoy, Drumore, Earl, East Cocalico, East Donegal, East Drumore, East Earl, East Hempfield, East Lampeter, Eden, Elizabeth, Ephrata, Fulton, Lancaster, Leacock, Little Britain, Manheim, Manor, Martick, Mount Joy, Paradise, Penn, Pequea, Providence, Rapho, Sadsbury, Salisbury, Strasburg, Upper Leacock, Warwick, West Cocalico, West Donegal, West Earl, West Hempfield, and West Lampeter.

**LEBANON COUNTY**

Borough of Richland. Townships of Heidelberg and Millcreek.

**LEHIGH COUNTY**

Cities of Allentown and Bethlehem. Boroughs of Alburtis, Catasauqua, Coopersburg, Coplay, Emmaus, Fountain Hill, Macungie, and Slatington. Townships of Hanover, Heidelberg, Lower Macungie, Lower Milford, Lowhill, North Whitehall, Salisbury, South Whitehall, Upper Macungie, Upper Milford, Upper Saucon, Washington, and Whitehall.

**LUZERNE COUNTY**

Cities of Hazleton, Pittston, and Wilkes-Barre. Boroughs of Ashley, Avoca, Bear Creek Village, Conyngham, Dupont, Duryea, Exeter, Freeland, Hughestown, Jeddo, Laffin, Laurel Run, Nescopeck, Nuangola, Penn Lake Park, West Hazleton, West Pittston, White Haven, and Yatesville. Townships of Bear Creek, Black Creek, Buck, Butler, Dennison, Dorrance, Exeter, Fairview, Foster, Hanover, Hazle, Hollenbach, Jenkins, Nescopeck, Pittston, Plains, Rice, Salem, Slocum, Sugarloaf, Wilkes-Barre, and Wright.

## TERRITORY COVERED BY THIS TARIFF (CONTINUED)

## LYCOMING COUNTY

City of Williamsport.  
Boroughs of Duboisstown, Hughesville, Jersey Shore, Montgomery, Montoursville, Muncy, Picture Rocks, Salladasburg, and South Williamsport.  
Townships of Anthony, Armstrong, Bastress, Brady, Clinton, Eldred, Fairfield, Franklin, Hepburn, Jordan, Limestone, Loyalsock, Lycoming, Mifflin, Mill Creek, Moreland, Muncy, Muncy Creek, Nippenose, Old Lycoming, Penn, Piatt, Porter, Shrewbury, Susquehanna, Upper Fairfield, Washington, Watson, Wolf, and Woodward.

## MONROE COUNTY

Boroughs of East Stroudsburg (part), Mount Pocono, and Stroudsburg (part).  
Townships of Barrett, Chestnut Hill, Coolbaugh, Eldred, Jackson, Paradise, Pocono, Polk, Price, Smithfield, Stroud, Tobyhanna, and Tunkhannock.

## MONTGOMERY COUNTY

Boroughs of East Greenville, Pennsburg, Red Hill, Souderton, and Telford.  
Townships of Franconia, Hatfield, and Upper Hanover.

## MONTOUR COUNTY

Boroughs of Danville and Washingtonville.  
Townships of Anthony, Cooper, Derry, Liberty, Limestone, Mahoning, Mayberry, Valley and West Hemlock.

## NORTHAMPTON COUNTY

City of Bethlehem.  
Boroughs of Freemansburg, Hellertown, Nazareth (part), North Catasauqua, Northampton, Pen Argyl (part), Stockerton, Tatamy, and Walnutport.  
Townships of Allen, Bethlehem, Bushkill, East Allen, Forks, Hanover, Lehigh, Lower Mount Bethel, Lower Nazareth, Lower Saucon, Moore, Palmer, Plainfield, Upper Nazareth, Washington, and Williams.

## NORTHUMBERLAND COUNTY

Cities of Shamokin and Sunbury.  
Boroughs of Herndon, Kulpmont, Marion Heights, McEwensville, Milton, Mount Carmel, Northumberland, Riverside, Snyderstown, and Turbotville.  
Townships of Coal, Delaware, East Cameron, East Chillisquaque, Jackson, Jordon, Lewis, Little Mahanoy, Lower Augusta, Lower Mahanoy, Mount Carmel, Point, Ralpho, Rockefeller, Rush, Shamokin, Turbot, Upper Augusta, Upper Mahanoy, Washington, West Cameron, West Chillisquaque, and Zerbe.

## PERRY COUNTY

Boroughs of New Bloomfield, Landisburg, Liverpool, Marysville, Millerstown, New Buffalo, and Newport.  
Townships of Buffalo, Carroll, Centre, Greenwood, Howe, Juniata, Liverpool, Miller, Northeast Madison, Oliver, Penn, Rye, Saville, Southwest Madison, Spring, Tuscarora, Tyrone, Watts, and Wheatfield.

## PIKE COUNTY

Townships of Blooming Grove, Greene, Lackawaxen, Palmyra, Porter, and Shohola.

## SCHUYLKILL COUNTY

City of Pottsville.  
Boroughs of Ashland, Auburn, Coaldale, Cressona, Deer Lake, Frackville, Gilberton, Girardville, Gordon, Landingville, Mahanoy City, McAdoo, Mechanicsville, Middleport, Minersville, Mount Carbon, New Philadelphia, New Ringgold, Orwigsburg, Palo Alto, Pine Grove, Port Carbon, Port Clinton, Ringtown, Shenandoah, Tamaqua, Tower City, and Tremont.  
Townships of Barry, Blythe, Branch, Butler, Cass, Delano, East Brunswick, East Norwegian, East Union, Eldred, Foster, Frailey, Hegins, Hubley, Kline, Mahanoy, New Castle, North Manheim, North Union, Norwegian, Pine Grove, Porter, Reilly, Rush, Ryan, Schuylkill, South Manheim, Tremont, Union, Upper Mahantongo, Walker, Washington, Wayne, West Brunswick, West Mahanoy, and West Penn.

## SNYDER COUNTY

Boroughs of Beavertown, Freeburg, McClure, Middleburg, Selinsgrove, and Shamokin Dam.  
Townships of Adams, Beaver, Centre, Chapman, Franklin, Jackson, Middlecreek, Monroe, Penn, Perry, Spring, Union, Washington, West Beaver, and West Perry.

TERRITORY COVERED BY THIS TARIFF (CONTINUED)

SUSQUEHANNA COUNTY

Boroughs of Forest City and Union Dale.  
Townships of Clifford and Herrick.

UNION COUNTY

Boroughs of Hartleton and New Berlin.  
Townships of Gregg, Hartley, Kelly, Lewis, Limestone,  
Union, West Buffalo and White Deer.

WAYNE COUNTY

Boroughs of Bethany, Hawley, Honesdale, Prompton, and  
Waymart.  
Townships of Berlin, Canaan, Cherry Ridge, Clinton,  
Damascus, Dreher, Dyberry, Lake, Lebanon, Lehigh,  
Mount Pleasant, Oregon, Palmyra, Paupack, Salem,  
South Canaan, Sterling, and Texas.

WYOMING COUNTY

Borough of Factoryville.  
Townships of Clinton, Nicholson, Overfield, and  
Tunkhannock.

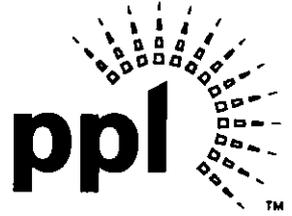
YORK COUNTY

Boroughs of East Prospect and Wrightsville.  
Townships of Fairview, Hellam and Lower Windsor.

DOCUMENT  
FOLDER

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**FEDERAL EXPRESS**

October 22, 2001

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

RECEIVED

OCT 22 2001  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Re: **Competitive Default Service**

Dear Mr. McNulty:

R-00973954

By letter dated September 17, 2001, PPL Electric Utilities Corporation ("PPL Electric") informed the Pennsylvania Public Utility Commission (the "Commission") of its plans to implement Competitive Default Service ("CDS") in its service territory for calendar year 2002, including a detailed schedule for issuing a Request for Proposal ("RFP") and negotiation of a CDS Agreement. Pursuant to that schedule, PPL Electric issued an RFP requesting bids for CDS on or before October 12, 2002.

The purpose of this letter is to inform the Commission that, although several entities expressed interest in providing CDS and requested copies of the RFP, no bids were submitted. As a result, PPL Electric will not offer CDS for calendar year 2002. In accordance with the requirements of its electric restructuring plan settlement, PPL Electric will conduct an RFP for calendar year 2003, and will keep the Commission informed as to the status of its future efforts to implement CDS.

DOCKETED

OCT 26 2001

Very truly yours,

*Paul E. Russell/gmc*  
Paul E. Russell

cc: Certificate of Service  
The Hon. Glen R. Thomas, Chairman  
The Hon. Robert K. Bloom, Vice Chairman  
The Hon. Aaron Wilson, Jr., Commissioner  
The Hon. Terrance J. Fitzpatrick, Commissioner

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

---

Application of PP&L, Inc. For Approval :  
of Its Restructuring Plan Under Section : Docket No. R-00973954  
2806 of the Public Utility Code :

**RECEIVED**

OCT 22 2001  
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

---

**CERTIFICATION OF SERVICE**

---

I hereby certify that I have this day served a true copy of the foregoing documents upon the participant(s), listed below, in accordance with the requirements of §1.54 (relating to service by a participant):

**Via Federal Express**

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Dated: October 22, 2001

  
Paul E. Russell