



Duquesne Light

A DQE Company

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December 26, 2001

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James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2nd Floor
400 North Street
Harrisburg, PA 17120

DEC 26 2001
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

RE: Duquesne Light Company
State Tax Adjustment Surcharge

Dear Secretary McNulty:

R-00016854

In compliance with Section A of the Public Utility Commission Order of March 10, 1970 (52 Pa. Code §69.52, Exhibit A, State Tax Adjustment Procedure), and its Order of December 21, 2000 at Docket No. R-00016854, I am enclosing for filing an original and five copies of the "Summary of Revenue Requirements" to support the recalculation of the State Tax Adjustment Surcharge (STAS), to become effective on January 1, 2002.

The recalculated STAS of 1.5389% represents an increase over the current STAS of (0.6417%), due largely to the recovery of the Revenue Neutral Reconciliation Tax of 15 mills for the year 2002. This calculation also represents a departure from the requirements of Ordering Paragraph A.1. of Exhibit A of Section 69.52 of the Commission's regulations, in that the liability for Capital Stock and Franchise Tax uses the 2000 tax base rather than that contained in the last settled return, which was 1998. This change was made for the following reasons:

- Capital Stock and Franchise Tax basis reflects the Company's investment in generation assets. Given Duquesne's divestiture of its generating assets in April of 2000, the current Capital Stock and Franchise Tax base is significantly lower than in 1998. (\$382,564,090 as opposed to \$721,445,031.)
- Calculation of that portion of the Capital Stock and Franchise Tax liability to be recovered (or refunded to the customers when the tax rate is lower than that currently recovered through base rates) through the STAS under the circumstances stated above will not recover or refund accurate or appropriate revenues to accomplish a "pass-through" of state taxes to the customers.

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Summary of Revenue Requirements Submitted in Compliance with Pennsylvania Public Utility Commission Order
 Dated March 10, 1970 Re: State Tax Adjustment Procedure and Order dated December 16, 1999 at R-00994930
 State Tax Adjustment Surcharge to be effective January 1, 2002 - December 31, 2002

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1. Capital Stock and Franchise Tax

(6.26 Mill Decrease over base rate recovery)

| | | | |
|---------------|---|--------|--------------------|
| 2000 Tax Base | | | |
| 382,564,090 | X | 0.649% | = 2,482,841 |
| 382,564,090 | X | 1.275% | = <u>4,877,692</u> |

Reduction in Capital Stock and Franchise Tax Liability Tax (2,394,851)

2. PURTA Tax Increase

| | | |
|---|----------------|------------------|
| 2000 Taxable Value of T&D Property | | 43,503,700 |
| Current Tax Millage Rate | 30.6364 | |
| Tax Millage Rate selected in Base Rates | <u>42.0000</u> | |
| Net Millage Decrease | | <u>(11.3636)</u> |

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Net Decrease in PURTA Liability (494,359)

3. GRT Increase due to Impact of 15 mill RNR

| | | |
|--|------|-------------|
| Revenues subject to Gross Receipts Tax | | 882,502,154 |
| GRT effective 1/1/02 | 5.9% | |
| GRT Rate in Base Rates | 4.4% | |
| | | <u>1.5%</u> |
| | | 13,237,532 |

4. Over/Under Refund of STA Rider 1/01/01 - 12/31/01

Overrefund of STA Revenues - See Page 2 2,431,080

5. Total of Above Items 12,779,403

6. Revenue Reduction Required to Cover Gross Receipts Tax on Revenue Reduction at Item 5

\$12,779,403 / 0.9410 = \$13,580,662

8. Projected Base Revenues for Application Period

Estimated Revenues subject to STAS January 1, 2002 thru December 31, 2002 \$882,502,154

\$13,580,662

\$882,502,154 = 1.5389%

DUQUESNE LIGHT COMPANY

Calculation of Over/(Under) Refund

For the State Tax Adjustment Application Period from January 1, 2002 through December 31, 2002

Reconciliation of STA Rider 01/01/01 through 12/31/01

Capital Stock Tax

| | | | | |
|------------------------------|--------|-------------|--------------------|-------------|
| 2000 Taxable Base | = | 382,564,090 | | |
| 2001 Tax Expense @ | 0.749% | = | 2,865,405 | |
| 2001 Tax Expense @ | 1.275% | = | <u>4,877,692</u> | |
| | | | | (2,012,287) |
| Amount Refunded through STAS | | | <u>(4,279,207)</u> | |
| Over Refund | | | | 2,266,920 |

PURTA Tax

| | | | | |
|------------------------------|--|--|------------------|--------|
| PURTA Assessment for 1999 | | | (522,831) | |
| Amount Refunded through STAS | | | <u>(598,201)</u> | |
| Over Refund | | | | 75,370 |

RNR Tax

| | | | | |
|------------------------------|--|--|--------------------|--------|
| 2001 RNR Tax Liability | | | (1,032,242) | |
| Amount Refunded through STAS | | | <u>(1,121,032)</u> | |
| | | | | 88,790 |

| | | | | |
|--|--|--|--|---------------------------|
| Total Over/(Under) Refund of STA 1/1/01 through 12/31/01 | | | | <u><u>\$2,431,080</u></u> |
|--|--|--|--|---------------------------|