STINSON
MORRISON
HECKER LLP

John E. McCaffrey
(202) 728-3013
jmccaffrey@stinsonmoheck.com
www.stinsonmoheck.com

1150 18th Street N.W., Suite 800
Washington, D.C. 20036-3816

Tel (202) 785-9100
Fax (202) 785-9163

ORIGINAL

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JAN 4 2007
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

January 4, 2007

VIA ELECTRONIC MAIL

Andrew S. Tubbs, Esq.
Post & Schell, P.C.
17 North Second Street
Twelfth Floor
Harrisburg, PA 17101-1601

Re: *Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger, et al.*, Docket Nos. A-110150F0035, *et al.*

Dear Mr. Tubbs:

Enclosed are the responses of Citizen Power, Inc. to Duquesne Light Company's Interrogatories and Requests for Production of Documents to Citizen Power – Set I in the referenced proceeding. Also enclosed is an appropriate certificate of service.

Should you have any questions or concerns regarding this matter, please do not hesitate to contact me.

Respectfully yours,

STINSON MORRISON HECKER LLP

John E. McCaffrey

An attorney for Citizen Power, Inc.

Enclosures

cc: James J. McNulty, Secretary (letter and certificate of service only for filing) (via overnight delivery)
Certificate of Service (via electronic mail)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code approving the acquisition of Duquesne Light Holding, Inc. by Merger	:	A-110150F0035
and	:	
Application of DQE Communications Network Services, LLC, for a Certificate of Public Convenience under Section 1101(a)(3) of the Public Utility Code approving the acquisition of Duquesne Light Holding, Inc. by Merger	:	A-311233F0002

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the forgoing responses of Citizen Power, Inc. to Duquesne Light Company's Interrogatories and Requests for Production of Documents to Citizen Power – Set I upon the participants listed below, in accordance with the requirements of § 1.54 (relating to service by a participant) and the Presiding Administrative Law Judge's November 29, 2006 Prehearing Order.

VIA ELECTRONIC MAIL

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
Post & Schell PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Charles Daniel Shields, Esquire
Robert V. Eckenrod, Esquire
PA Public Utility Commission
Office of Trial Staff
PO Box 3265
Harrisburg, PA 17105-3265

Darryl Lawrence, Esquire
Jennedy Santolla, Esquire
Tanya J. McCloskey, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923

Daniel G. Asmus, Esquire
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Joseph L. Vullo, Esquire
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704

Scott J. Rubin, Esquire
3 Lost Creek Drive
Selinsgrove, PA 17870

Todd S. Stewart, Esquire
Hawke McKeon Sniscak &
Kennard LLP
P.O. Box 1778
Harrisburg, PA 17105

Gary A. Jack, Esquire
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

Erin H. Creahan, Esquire
Julie Coletti, Esquire
Strategic Energy, LLC
Two Gateway Center, Ninth Floor
Pittsburgh, PA 15222

Adam L. Benshoff, Esquire
Pamela C. Polacek, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Gary A. Jeffries, Esquire
Dominion Resource Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Paul F. Forshay, Esquire
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415

Kevin J. Moody, Esquire
Daniel Clearfield, Esquire
Wolf, Block, Schorr and
Solis-Cohen LLP
213 Market Street, 9th Floor
Harrisburg, PA 17101

David B. MacGregor, Esquire
Post & Schell PC
Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

Steven S. Goldenberg, Esquire
Fox Rothschild LLP
Princeton Pike Corporate Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-2311

Theoodore H. Jobes, Esquire
Fox Rothschild LLP
2000 Market Street, Tenth Floor
Philadelphia, PA 19103-3291

Dated at Washington, D.C., this 4th day of January, 2007.

By: _____

John E. McCaffrey (D.C. Bar #457829)
STINSON MORRISON HECKER LLP
1150 18th Street, N.W.,
Suite 800
Washington, DC 20036
(202) 785-9100 (phone)
(202) 785-9163 (fax)

STINSON
MORRISON
HECKER LLP

John E. McCaffrey
(202) 728-3013
jmccaffrey@stinsonmoheck.com
www.stinsonmoheck.com

1150 18th Street N.W., Suite 800
Washington, D.C. 20036-3816

Tel (202) 785-9100
Fax (202) 785-9163

DOCUMENT FOLDER

January 11, 2007

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JAN 11 2007
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

VIA ELECTRONIC AND FIRST-CLASS MAIL

Michael W. Gang, Esq.
Andrew S. Tubbs, Esq.
Post & Schell, P.C.
17 North Second Street
Twelfth Floor
Harrisburg, PA 17101-1601

Re: *Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger, et al.*, Docket Nos. A-110150F0035, *et al.*

Dear Messrs. Gang and Tubbs:

Enclosed are the Fourth Interrogatories of Citizen Power, Inc. to Duquesne Light Company in the referenced proceeding Also enclosed is an appropriate certificate of service.

Should you have any questions or concerns regarding this matter, please do not hesitate to contact me.

Respectfully yours,

STINSON MORRISON HECKER LLP

John E. McCaffrey

An attorney for Citizen Power, Inc.

Enclosures

cc: James J. McNulty, Secretary (letter and certificate of service only for filing) (via overnight delivery)
Certificate of Service (via electronic mail)

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JAN 11 2007
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code approving the acquisition of Duquesne Light Holding, Inc. by Merger	:	A-110150F0035
and	:	
Application of DQE Communications Network Services, LLC, for a Certificate of Public Convenience under Section 1101(a)(3) of the Public Utility Code approving the acquisition of Duquesne Light Holding, Inc. by Merger	:	A-311233F0002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the forgoing Fourth Interrogatories of Citizen Power, Inc. to Duquesne Light Company upon the participants listed below, in accordance with the requirements of § 1.54 (relating to service by a participant) and the Presiding Administrative Law Judge's November 29, 2006 Prehearing Order.

VIA ELECTRONIC AND FIRST CLASS MAIL

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
Post & Schell PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

VIA ELECTRONIC MAIL

Charles Daniel Shields, Esquire
Robert V. Eckenrod, Esquire
PA Public Utility Commission
Office of Trial Staff
PO Box 3265
Harrisburg, PA 17105-3265

Darryl Lawrence, Esquire
Jennedy Santolla, Esquire
Tanya J. McCloskey, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923

Daniel G. Asmus, Esquire
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Joseph L. Vullo, Esquire
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704

Scott J. Rubin, Esquire
3 Lost Creek Drive
Selinsgrove, PA 17870

Todd S. Stewart, Esquire
Hawke McKeon Sniscak &
Kennard LLP
P.O. Box 1778
Harrisburg, PA 17105

Gary A. Jack, Esquire
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

Erin H. Creahan, Esquire
Julie Coletti, Esquire
Strategic Energy, LLC
Two Gateway Center, Ninth Floor
Pittsburgh, PA 15222

Adam L. Benshoff, Esquire
Pamela C. Polacek, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Gary A. Jeffries, Esquire
Dominion Resource Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Paul F. Forshay, Esquire
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415

Kevin J. Moody, Esquire
Daniel Clearfield, Esquire
Wolf, Block, Schorr and
Solis-Cohen LLP
213 Market Street, 9th Floor
Harrisburg, PA 17101

David B. MacGregor, Esquire
Post & Schell PC
Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

Steven S. Goldenberg, Esquire
Fox Rothschild LLP
Princeton Pike Corporate Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-2311

Theoodore H. Jobes, Esquire
Fox Rothschild LLP
2000 Market Street, Tenth Floor
Philadelphia, PA 19103-3291

Dated at Washington, D.C., this 11th day of January, 2007.

By: _____

John E. McCaffrey (D.C. Bar #457829)
STINSON MORRISON HECKER LLP
1150 18th Street, N.W.,
Suite 800
Washington, DC 20036
(202) 785-9100 (phone)
(202) 785-9163 (fax)

POST & SCHELL PC
ATTORNEYS AT LAW

17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Fax
www.postschell.com

Andrew S. Tubbs

atubbs@postschell.com
717-612-6057 Direct
File #: 2267-130298

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DOCUMENT FOLDER

January 12, 2007

VIA E-MAIL

Erin Creahan
Two Gateway Center
Pittsburgh, PA 15222-1458

RE: Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holding, Inc. by Merger - Docket No. A-110150F0035

Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holding, Inc. by Merger - Docket No. A-311233F0002

Dear Ms. Creahan:

Enclosed are the responses of Duquesne Light Company to the following Interrogatories:

STRATEGIC Set II – 1, 2, 3 and 4

As indicated on the certificate of service, copies have been served on all parties in the manner indicated.

Sincerely,

Andrew S. Tubbs

AST/jl
Enclosures
cc: James J. McNulty, Secretary (letter and certificate of service only for filing)
Certificate of Service

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2007 JAN 17 PM 1:46
PA PUC
SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST CLASS MAIL

Charles D. Shields
Robert V. Eckenrod
Office of Trial Staff
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265
chshields@state.pa.us
roeckenrod@state.pa.us

Daniel G. Asmus
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101
dasmus@state.pa.us

Tanya McCloskey
Darryl Lawrence
Jessica Horner
Jennedy E. Santolla
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
tmccloskey@paoca.org
dlawrence@paoca.org
JHorner@paoca.org
jsantolla@paoca.ord

Brian Kalcic
Excel Consulting
225 S. Meramec Avenue, Suite 720-T
St. Louis, MO 63108
(Consultant for Office of Small Business Advocate)
bkalcic@mindspring.com

Thomas S. Catlin
Matthew I. Kahal
Exeter Associates, Inc.
5565 Sterrett Place, Suite 310
Columbia, MD 21044
tcatlin@exeterassociates.com
mkahal@exeterassociates.com
(Consultants for Office of Consumer Advocate)

VIA E-MAIL

Todd S. Stewart
Hawke McKeon Sniscak & Kennard LLP
100 North Tenth Street
Harrisburg, PA 17101
tsstewart@hmsk-law.com
(Dominion Retail, Inc.)

Theodore H. Jobes
Fox Rothschild LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103-3291
tjobes@foxrothschild.com
(Pennsylvania Large Energy Users Coalition)

Daniel Clearfield
Kevin J. Moody
Wolf, Block, Schorr and Solis-Cohen LLP
213 Market Street, 9th Floor
P.O. Box 865
Harrisburg, PA 17108-0865
dclearfield@wolfblock.com
kmoody@wolfblock.com
(Strategic Energy, LLC)
(Retail Energy Supply Association)

Paul F. Forshay
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415
pforshay@sablaw.com
(Pennsylvania Large Energy Users Coalition)

Steven S. Goldenberg
Fox Rothschild LLP
Princeton Pike Corporation Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-4586
sgoldenberg@foxrothschild.com
(Pennsylvania Large Energy Users Coalition)

Scott J. Rubin
3 Lost Creek Drive
Selinsgrove, PA 17870
Scott@publicutilityhome.com
(International Brotherhood of Electrical Workers Local 29)

Harvey L. Reiter
John E. McCaffrey
Jaime S. Dibble
Stinson Morrison Hecker LLP
1150 18th Street N.W., Suite 800
Washington, DC 20036-3816
hreiter@stinsonmoheck.com
jmccaffrey@stinsonmoheck.com
jdibble@stinsonmoheck.com
(Citizen Power, Inc.)

Erin Creahan
Richard Hudson
Two Gateway Center
Pittsburgh, PA 15222-1458
jcoletti@sel.com
ecreahan@sel.com
(Strategic Energy, LLC)

David Hughes
Citizen Power, Inc.
2121 Murray Avenue
Pittsburgh, PA 15217
Hughes@citizenpower.com
(Citizen Power, Inc.)

Jay L. Kooper
One Hess Plaza
Woodbridge, NJ 07095
jkooper@hess.com
(Hess Corporation)

Michael Gruber
Kevan Deardorff
Charles T. Weakley
Timothy Wallick
Office of Trial Staff
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265
mgruber@state.pa.us
kdeardorff@state.pa.us
cweakley@state.pa.us
twallick@state.pa.us
(Consultants for Office of Trial Staff)

Pamela C. Polacek
Adam L. Benshoff
McNees Wallace & Nurick LLC
100 Pine Street
PO Box 1166
Harrisburg, PA 17108-1166
ppolacek@mwn.com
abenshoff@mwn.com
(Duquesne Industrial Intervenors)

Eugene M. Brady
Community Action Association of Pennsylvania
165 Amber Lane
PO Box 1127
Wilkes-Barre, PA 18703-1127
hebegebe@sunlink.net
(Community Action Association of Pennsylvania)

Joseph L. Vullo
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@aol.com
(Community Action Association of Pennsylvania)

Frank Lacey
Director, Government and Regulatory Affairs
Direct Energy
263 Tresser Blvd
8th Floor
Stamford, CT 06901
frank.lacey@directenergy.com
(Retail Energy Supply Association)

VIA FIRST CLASS MAIL

Barbara Alexander
15 Wedgewood Drive
Winthrop, ME 04364
barbalex@ctel.net
(Consultant for Office of Consumer Advocate)

Date: January 12, 2007

Andrew S. Tubbs

BURKE VULLO REILLY ROBERTS

ATTORNEYS AT LAW

1460 Wyoming Avenue
Forty Fort, PA 18704
Phone (570) 288-6441 ✦ Fax (570) 288-4598

Formerly Burke & Burke
Thomas F. Burke, Sr. (1932-1972)

JOSEPH L. VULLO
jlvullo@bvrrlaw.com

www.bvrrlaw.com

January 23, 2007

DOCUMENT FOLDER

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

RE: In Re: Duquesne Light Company and DQE Communication Network Services, LLC - Application for Merger
Docket Nos: A-110150F0035 and A-311233F0002

Dear Secretary McNulty:

Enclosed please find an original and two copies of a Certificate of Service indicating service of Community Action Association of Pennsylvania's Statement No. 1-S, the Surrebuttal Testimony of John A. Wilson, on the presiding officers and all parties of record.

If you need anything further in order to effect filing, please do not hesitate to contact me.

Respectfully submitted,

Joseph L. Vullo

RECEIVED
2007 JAN 25 AM 8:47
PA P.U.C.
SECRETARY'S BUREAU

JLV/jar
encls.

cc: ALJ Robert P. Meehan (w/encl.)
All Parties of Record (w/encl.)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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2007 JAN 25 AM 8:47
SECRETARY'S BUREAU

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-311233F0002

CERTIFICATE OF SERVICE

The undersigned hereby certifies that he served a copy of the Community Action Association of Pennsylvania Statement No. 1-S, Surrebuttal Testimony of John A. Wilson upon the following participants this 23rd day of January, 2007, via first-class mail and electronic mail:

Honorable Robert P. Meehan
Administrative Law Judge
PA Public Utility Commission
1103 Pittsburgh State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222

Michael W. Gang
Andrew S. Tubbs
Post & Schell
17 North Second Street
12th Floor
Harrisburg, PA 17101

Daniel G. Amus
Office of Small Business Advocate
Commerce Building
300 North Second Street
Suite 1102
Harrisburg, PA 17101

Charles D. Shields
Robert V. Eckenrod
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Tanya McCloskey
Darryl Lawrence
Jessica Horner
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Todd S. Stewart
Hawke, McKeon, Sniscak & Kennard, LLP
100 North Tenth Street
Harrisburg, PA 17101

Daniel Clearfield
Kevin Moody
Wolf, Block, Schorr and Solis-Cohen, LLP
213 Market Street, 9th Floor
P.O. Box 865
Harrisburg, PA 17108-0865

Theodore H. Jobes
Fox Rothchild, LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103-3291

Paul F. Forshay
Sutherland, Asbill & Brennan, LLP
1275 Pennsylvania Avenue NW
Washington, DC 20004-2415

Steven S. Goldenberg
Fox Rothchild, LLP
Princeton Pike Corporation Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-4586

Scott J. Rubin
3 Lost Creek Drive
Selinsgrove, PA 17870

Harvey L. Reiter
John E. McCaffrey
Jamie S. Dibble
Stinson, Morrison, Hecker LLP
1150 18th Street NW, Suite 800
Washington, DC 20036-3816

Julie Coletti
Erin Creahan
Two Gateway Center
Pittsburgh, PA 15222-1458

Barbara Alexander
15 Wedgewood Drive
Winthrop, ME 04364

Thomas S. Catlin
Matthew I. Kahal
Exeter Associates, Inc.
5565 Sterrett Place, Suite 310
Columbia, MD 21044

Brian Kalcic
Excel Consulting
225 S. Meramec Avenue
Suite 720-T
St. Louis, MO 63108

Michael Gruber
Kevan Deardorff
Charles T. Weakley
Timothy Wallick
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Pamela C. Polacek
Adam L. Benshoff
McNees, Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

David Hughes
Citizens Power, Inc.
2121 Murray Avenue
Pittsburgh, PA 15217

JOSEPH L. VULLO, ESQUIRE
I.D. No. 41279
1460 Wyoming Avenue
Forty Fort, PA 18704
(570) 288-0700
email: jlvullo@bvrrlaw.com
Attorney for Community Action Association of Pennsylvania

Wolf Block

213 Market Street, 9th Floor, P.O. Box 865, Harrisburg, PA 17108-0865
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

DOCUMENT FOLDER

Kevin J. Moody
Direct Dial: (717) 237-7187
Direct Fax: (717) 237-2767
E-mail: kmoody@wolfblock.com

January 24, 2007

RECEIVED
2007 JAN 25 AM 8:59
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

VIA HAND DELIVERY
Andrew S. Tubbs, Esquire
Post and Schell, PC
17 North Second Street, 12th Fl.
Harrisburg, PA 17101-1601

Re: Application of Duquesne Light Company and DQE Communications network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger
Docket Nos. A-110150F0035 and A-311233F3002

Dear Mr. Tubbs:

Enclosed are Strategic Energy LLC's responses to Duquesne's Set II Interrogatories in the above-referenced matter. As evidenced by the attached Certificate of Service, the parties of record have been served with a copy of the responses.

Sincerely,

Kevin J. Moody

Kevin J. Moody
For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

KJM/jls
Enclosure

cc: Certificate of Service (w/encs)
James J. McNulty (Cert. of Service only)

HAR:70975.1/STR163-239876

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of the foregoing Interrogatory Responses, upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

VIA E-MAIL & FIRST CLASS MAIL

David B. MacGregor, Esquire
Post and Schell, PC
Four Penn Center
1600 JFK Blvd.
Philadelphia, PA 19103-2921

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
Post and Schell, PC
17 North Second Street ,12th Floor
Harrisburg, PA 17101-1601

Tanya J. McCloskey, Esquire
Darryl Lawrence, Esquire
Office of Consumer Advocate
5th Floor, Forum Place Bldg.
555 Walnut Street
Harrisburg, PA 17101-1923

Charles Shields, Esquire
Robert V. Eckenrod, Esquire
Office of Trial Staff
Commonwealth Keystone Building
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

Paul F. Forshay, Esquire
Sutherland, Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004

Erin Creahan, Esquire
Strategic Energy, LLC
Two Gateway Center
Pittsburgh, PA 15222

Daniel G. Asmus, Esquire
Assistant Small Business Advocate
Office of Small Business Advocate
Commerce Building Suite 1102
300 North 2nd Street
Harrisburg, PA 17101

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Scott Rubin, Counsel
International Brotherhood Electric Workers
Three Lost Creek Drive
Selinsgrove, PA 17870

Steven S. Goldenberg, Esquire
Fox Rothschild, LLP
Princeton Pike Corporate Center
997 Lenox Drive, Bldg. 3
Lawrenceville, NJ 08648-2311

Todd S. Stewart, Esquire
Hawke, McKeon, Sniscak & Kennard, LLP
100 North Tenth Street
Harrisburg, PA 17101

Theodore H. Jobes, Esquire
Fox Rothschild, LLP
2000 Market Street, Tenth Floor
Philadelphia, PA 19103-3291

Gary A. Jeffries, Esquire
Senior Counsel
Dominion Resource Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Julie Coletti, Esquire
Strategic Energy, LLC
Two Gateway Center
Pittsburgh, PA 15222

Joseph L. Vullo, Esquire
Commission on Economic Opportunity
1460 Wyoming Avenue
Forty Fort, PA 18704

John E. McCaffrey, Esquire
Stinson Morrison Hecker LLP
1150 18th Street, NW
Suite 800
Washington, DC 20036-3816

Pamela C. Polacek, Esquire
Adam L. Benshoff, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 18108-1166

Date: January 24, 2006

Kevin J. Moody

Kevin J. Moody

OALJ Hearing Report

Please Check Those Blocks Which Apply

			YES	NO
Docket No.:	A-110150F0035 & A-331233F0002			
		Prehearing Held:	☐	☐
Case Name:	Application of Duquesne Light Company &	Hearing Held:	☐	☐
Application of DQE Communications Network Services LLC		Testimony Taken:	☐	☐
		Transcript Due:	☐	☐
	DOCUMENT FOLDER	Hearing Concluded:	☐	☐
Location:	HBG	Further Hearing Needed:	☐	☐
		Estimated Add'l Days:		
Date:	January 30, 2007			
		RECORD CLOSED:	☐	☐
ALJ:	~~Robert P. Meehan~~ WAYNE L. WEISMANDEL	DATE:		
		Briefs to be Filed:	☐	☐
Reporting Firm:	Commonwealth Reporting	DATE:		
CANCELED — PARTIES SETTLED.		Bench Decision:	☐	☐
		REMARKS:		

RECEIVED
JAN 31 2007
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

PLEASE PRINT CLEARLY - Incomplete Information may result in delay of processing.

Name and Telephone Number	Address			Who are you representing?
	City	State	Zip	
Telephone:	E-mail Address:			Fax Number:
	City	State	Zip	
Telephone:	E-mail Address:			Fax Number:
	City	State	Zip	
Telephone:	E-mail Address:			Fax Number:

☐ Check this box if additional parties or attendees appear on back of form.

Reporter's Signature

Note: Completion of this form does not constitute an entry of appearance, see 52 Pa. Code §§1.24 and 1.25.

#194070 rev 11/05

OALJ Hearing Report

Please Check Those Blocks Which Apply

			YES	NO
Docket No.:	A-110150F0035 & A-331233F0002			
		Prehearing Held:	☐	☐
Case Name:	Application of Duquesne Light Company &	Hearing Held:	☐	☐
Application of DQE Communications Network Services LLC		Testimony Taken:	☐	☐
		Transcript Due:	☐	☐
		Hearing Concluded:	☐	☐
Location:	HBG	Further Hearing Needed:	☐	☐
		Estimated Add'l Days:		
Date:	January 31, 2007			
		RECORD CLOSED:	☐	☐
ALJ:	Robert P. Meehan	DATE:		
		Briefs to be Filed:	☐	☐
Reporting Firm:	Commonwealth Reporting	DATE:		
		Bench Decision:	☐	☐
		REMARKS:		

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CANCELED – PARTIES SETTLED.

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Name and Telephone Number	Address			Who are you representing?
	City	State	Zip	
Telephone:	E-mail Address:			Fax Number:
	City	State	Zip	
Telephone:	E-mail Address:			Fax Number:
	City	State	Zip	
Telephone:	E-mail Address:			Fax Number:

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#194070 rev 11/05

OALJ Hearing Report

Please Check Those Blocks Which Apply

			YES	NO
Docket No.:	A-110150F0035 & A-331233F0002			
		Prehearing Held:	☐	☐
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Application of DQE Communications Network Services LLC		Testimony Taken:	☐	☐
		Transcript Due:	☐	☐
		Hearing Concluded:	☐	☐
Location:	HBG	Further Hearing Needed:	☐	☐
		Estimated Add'l Days:		
Date:	February 1, 2007			
		RECORD CLOSED:	☐	☐
ALJ:	Robert P. Meehan	DATE:		
		Briefs to be Filed:	☐	☐
Reporting Firm:	Commonwealth Reporting	DATE:		
		Bench Decision:	☐	☐
		REMARKS:		

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Name and Telephone Number	Address	Who are you representing?
	City / State / Zip	
Telephone:	E-mail Address:	Fax Number:
	City / State / Zip	
Telephone:	E-mail Address:	Fax Number:
	City / State / Zip	KJR
Telephone:	E-mail Address:	Fax Number:

☐ Check this box if additional parties or attendees appear on back of form.

Reporter's Signature

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#194070 rev 11/05

Hawke McKeon Sniscak & Kennard LLP
ATTORNEYS AT LAW

William T. Hawke
Kevin J. McKeon
Thomas J. Sniscak
Norman James Kennard
Lillian Smith Harris
Scott T. Wyland
Todd S. Stewart
Craig R. Burgraff
Steven D. Snyder
Janet L. Miller
Steven K. Haas
William E. Lehman
Rikardo J. Hull
Katherine E. Lovette
Amy A. Whitney

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.hmsk-law.com

February 9, 2007

VIA HAND DELIVERY
James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

ORIGINAL

RE: In the matter of the Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger, et al. Docket Nos. ~~A-110150F0035~~, *et seq.*; **DOMINION RETAIL, INC.'s STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT**

A-110150F0035

Dear Secretary McNulty:

Enclosed for filing with the Commission are the original and three (3) copies of a Statement in Support of Joint Petition for Settlement of Dominion Retail, Inc., in the above-captioned matter.

If you have any questions, please do not hesitate to contact me.

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Very truly yours,

Todd S. Stewart
Counsel for Dominion Retail, Inc.

TSS/bks
Enclosures
cc: Per Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In the matter of the Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger, *et al.*	:	Docket Nos. A-~~110150F0035~~, *et seq.* A-110150 F0035

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STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT OF DOMINION RETAIL, INC.

Dominion Retail, Inc. ("Dominion Retail"), by and through its counsel, in the above-captioned matter, Hawke McKeon Sniscak & Kennard LLP, hereby offers this Statement of its support for the Joint Petition for Settlement in the above-captioned matter, that was filed with the Commission on February 9, 2007, and to which Dominion Retail is a signatory.

In particular, in the Joint Petition for Settlement, Duquesne has agreed to "continue its support of the development of competitive retail electric market and its service territory." Moreover, Duquesne has agreed to certain conditions which should result in the elimination of any possible subsidies provided to Duquesne Light Energy, an EGS. This concession should help to ensure that competitors in the Duquesne service territory are able to participate in the market on an equal footing. For the purpose of the above-captioned merger proceeding, Dominion Retail believes that the terms of the Joint Petition for Settlement are a fair and equitable resolution, and adoption of the Joint Petition is in the public interest. Accordingly,

Dominion Retail supports the grant of the approvals requested in the Application according to the terms of the Joint Petition for Settlement.

Respectfully submitted,

Todd S. Stewart
Attorney ID # 75556
Hawke McKeon Sniscak & Kennard LLP
100 North Tenth Street
Harrisburg, PA 17101
717-236-1300
717-236-4841 (fax)
tsstewart@hmsk-law.com

Counsel for Dominion Retail, Inc.

Dated: February 9, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA FIRST CLASS MAIL

Daniel G. Asmus, Esquire
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Charles D. Shields, Esquire
Robert V. Eckenrod, Esquire
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Daniel Clearfield, Esquire
Kevin J. Moody, Esquire
Wolf, Block, Schorr and Solis-Cohen, LLP
213 Market Street, 9th Floor
P.O. Box 865
Harrisburg, PA 17108-0865

Theordore H. Jobes, Esquire
Fox Rothchilds, LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103-3291

Tanya J. McCloskey, Esquire
Darryl Lawrence, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Paul F. Forshay, Esquire
Sutherland Asbill & Brennan, LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415

Steven S. Goldenberg, Esquire
Fox Rothschild, LLP
Princeton Pike Corporation Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-4586

Scott J. Rubin, Esquire
3 Lost Creek Drive
Selinsgrove, PA 17870

Erin Creahan, Esquire
Strategic Energy, LLC
Two Gateway Center
Pittsburgh, PA 15222

Julie Coletti, Esquire
Erin Crehan
Two Gateway Center
Pittsburgh, PA 15222-1458

John E. McCaffrey, Esquire
Stinson Morrison Hecker LLP
1150 18th Street, NW
Suite 800
Washington, DC 20036-3816

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David B. MacGregor, Esquire
Post and Schell, PC
Four Penn Center
1600 JFK Blvd.
Philadelphia, PA 19103-2921

Gary A. Jeffries, Esquire
Senior Counsel
Dominion Resource Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
Post and Schell, PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Joseph L. Vullo, Esquire
Commission on Economic Opportunity
1460 Wyoming Avenue
Forty Fort, PA 18704

Pamela C. Polacek, Esquire
Adam L. Benshoff, Esquire
McNees, Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Todd S. Stewart

Dated this 9th day of February, 2007.

POST & SCHELL PC
ATTORNEYS AT LAW

17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Fax
www.postschell.com

Andrew S. Tubbs

atubbs@postschell.com
717-612-6057 Direct
File #: 2267-130298

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February 9, 2007

ORIGINAL

VIA HAND DELIVERY

James J. McNulty
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
PO Box 3265
Harrisburg, PA 17105-3265

RE: Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holding, Inc. by Merger - Docket No. A-110150F0035

Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holding, Inc. by Merger - Docket No. A-311233F0002

Dear Secretary McNulty:

Enclosed, for filing, are an original and three (3) copies of the executed Joint Petition for Settlement in the above-referenced proceeding.[1] In addition, attached are Statements in Support of the Joint Petition for Settlement from the following parties: Duquesne Light Company/DQE Communications Network Services LLC/DQE Holdings LLC, Office of Trial Staff, Office of Consumer Advocate, Retail Energy Supply Association, and correspondence from Direct Energy Services, LLC supporting the Joint Petition for Settlement.

As indicated on the certificate of service, copies have been served on the parties in the manner indicated.

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[1] Counsel for the International Brotherhood of Electrical Workers Local 29 will submit his signature under separate cover.

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-311233F0002

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JOINT PETITION FOR SETTLEMENT

TO ADMINISTRATIVE LAW JUDGE ROBERT P. MEEHAN:

This Joint Petition for Settlement ("Settlement") is submitted by the following parties in the above-captioned proceeding: Duquesne Light Company ("Duquesne"), DQE Communications Network Services LLC ("Network"),[1] the Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the International Brotherhood of Electrical Workers, Local 29 ("IBEW 29"), Community Action Association of Pennsylvania ("CAAP"), Dominion Retail, Inc. ("Dominion"), Duquesne Industrial Intervenors ("DII"), Retail Energy Supply Association ("RESA"),[2] Strategic Energy,

[1] DQE Communications Network Services LLC ("Network") holds a Certificate of Public Convenience to provide service as a Competitive Access Provider throughout the Commonwealth of Pennsylvania. Network and its parents are wholly owned by DLH. *Application of DQE Communications Network Services LLC for approval to offer, render, furnish or supply telecommunication services as a Competitive Access Provider to the Public in the Commonwealth of Pennsylvania*, Docket No. A-311233 (Order entered on November 23, 2004).

[2] RESA is joining in this settlement on its own behalf, and on behalf of two of its members, Direct Energy Services, LLC and Hess Corporation.

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LLC ("Strategic") and Pennsylvania Large Energy Users Coalition ("PALEUC") (hereinafter collectively referred to as "Joint Petitioners").[3]

The terms and conditions set forth in this Settlement represent a comprehensive settlement and resolve all issues pertaining to the above-captioned Application. The Joint Petitioners aver that this comprehensive Settlement is in the public interest, and therefore, request that Administrative Law Judge Robert P. Meehan (the "ALJ") and the Pennsylvania Public Utility Commission ("Commission"): (1) approve without modification the proposed Settlement as set forth herein; and (2) issue the Certificates of Public Convenience and grant all necessary approvals to carry out the transactions in a lawful manner.

In support of their request, the Joint Petitioners state as follows:

I. BACKGROUND

1. On September 6, 2006, Duquesne and Network filed, with the Commission, a joint application (the "Application") requesting all necessary approvals authorizing the transfer of control of their parent, Duquesne Light Holdings, Inc. ("DLH") to the Macquarie Consortium, a group of six investment funds, with the majority of the equity in the transaction provided by funds managed by the Macquarie Group.

2. As described in further detail in the Application, the Macquarie Consortium owns DQE Holding LLC ("DQE Holdings"), a Delaware limited liability company. DQE Holdings has created DQE Merger Sub, Inc., a Pennsylvania corporation and wholly-owned subsidiary of DQE Holdings. Under the proposed Merger, all of DLH's common stock will be purchased by DQE Holdings, and DQE Merger Sub, Inc. will merge into and with DLH. As a result, DLH will continue as the surviving corporation and as the sole wholly-owned subsidiary of DQE

[3] Citizen Power Inc. ("Citizen Power") has authorized Joint Petitioners to state that Citizen Power does not oppose this Settlement and that it will submit a letter of non-opposition to the Commission.

Holdings. Duquesne and Network will continue to be wholly-owned subsidiaries of DLH, and retain their separate corporate identities and franchises.

3. The Application was docketed at A-110150F0035 and A-311233F0002. Notice of the filing of the Application was published in the *Pennsylvania Bulletin* on September 16, 2006, 26 Pa.B. 5854. The notice specified that protests to the Application or Petitions to Intervene were to be filed on or before October 2, 2006.

4. OTS filed a Notice of Appearance. Timely protests and notices of intervention were filed by OCA and OSBA. In addition, timely Petitions to Intervene/Protests were filed by IBEW 29, CAAP, Dominion, DII, RESA, Strategic, PALEUC and Citizen Power.

5. On September 15, 2006, Duquesne and Network filed their direct testimony.

6. On November 28, 2006, a Prehearing Conference was held by the ALJ. No objections were raised to any of the Protests/Petitions to Intervene, and all were granted party status. At the Prehearing Conference, various other procedural matters were addressed, including the establishment of a litigation schedule.

7. Substantial discovery was undertaken by the parties, and direct, rebuttal and surrebuttal testimony was filed.

8. Extensive settlement negotiations and conferences were conducted among the parties, both jointly and on an individual basis.

9. Prior to the scheduled dates for hearings, the Joint Petitioners achieved a complete settlement of all issues, and hearings were canceled.

II. TERMS AND CONDITIONS

10. The Joint Petitioners agree to settle and resolve issues in the above-captioned proceeding on the following terms and conditions:

A. Support For Settlement

1. The Joint Petitioners agree to support approval of the Merger and Duquesne's and Network's Application for Certificates of Public Convenience will be approved, subject to the conditions below.

2 The Joint Petitioners agree that they will support or not oppose the Securities Certificate(s) to be filed forthwith by Duquesne with the Commission requesting approval of a new 5-year Revolving Credit Agreement as described in the Application, in order to close on the transaction without delay.[4]

B. Rate Issues

1. Duquesne will not file a proposed general increase in distribution rates under Section 1308(d) of the Public Utility Code that would become effective after full suspension prior to January 1, 2010, and Duquesne agrees that there shall be no general increase in distribution rates prior to January 1, 2010, unless there are substantial changes in regulation or federal tax rates or policy. This condition shall not affect Duquesne's ability to adjust its retail transmission rates or its Provider of Last Resort ("POLR") rates on a timely basis. This condition shall not prohibit application of the State Tax Adjustment clause to recover increases in state taxes prior to January 1, 2010. This provision also shall not prohibit Duquesne from seeking to recover universal service costs through a surcharge

[4] The Securities Certificate was filed with the Commission on February 2, 2007 and is docketed at S-00061180.

mechanism on or after January 1, 2010, or any party to this settlement from opposing such a proposal.

2. Joint Petitioners agree that all aspects of the acquisition premium and transaction costs, including third party consultants, financial advisory services and due diligence costs as set forth in the response to OCA Set III-21, attached hereto as Appendix "A," including all related tax effects, will be excluded from future distribution and transmission rates.

3. Duquesne will not claim any increase in the cost of capital as a direct result of the transaction for a five (5) year period after closing.

   a. Duquesne shall not request a capital structure for ratemaking purposes which is outside of a reasonable range of that used by comparable companies. In any future base rate proceeding, Duquesne must demonstrate that its claimed common equity ratio is reasonable and in the best interests of its customers; and

   b. Duquesne shall not claim, for 5 years following the closing, any increase in its cost of capital due to any downgrading of Duquesne debt as a direct result of the Merger.

C. Corporate Headquarters

1. DQE Holdings and the Macquarie Consortium, and its investors, will continue to maintain Duquesne's corporate headquarters in Pittsburgh, Pennsylvania. All of the corporate functions will be performed and maintained at such headquarters so that Duquesne and its management team will continue to be locally based. DQE

Holdings agrees not to move Duquesne's headquarters outside Duquesne's service territory without advance approval of the Commission.

D. **Access To Books And Records**

1. Upon written request, Duquesne and its subsidiaries will provide the Commission, the OTS, the OCA and the OSBA reasonable access to the books and records, officials and staff of DLH and its subsidiaries in Pittsburgh, Pennsylvania. However, nothing set forth herein shall constitute or be interpreted as a waiver by DLH or its subsidiaries of its right to raise traditional discovery objections to any such requests, including, but not limited to, objections on the basis of relevance and privilege. In addition, before responding to any such requests, DLH and its subsidiaries shall be permitted to require the imposition of protections they deem necessary to prohibit disclosure of proprietary or confidential information.

E. **Corporate Structure Protections, Financial Conditions And Governance**

1. From and after the effective date of this Settlement, Duquesne shall not: (1) guarantee the debt or credit instruments of DLH or any affiliate not regulated by the Commission, except as approved by the Commission upon a determination that such guarantee provides net benefits to customers; (2) grant a mortgage or other lien on any property used and useful by Duquesne in providing retail utility service to the public subject to the Commission's jurisdiction, except for the financing needs of Duquesne; or (3) make any loan or otherwise extend credit to DLH or any affiliate not regulated by the Commission for a term of one year or more, except as approved by the Commission upon a determination that such loan or credit extension provides net benefits to customers.

2. DQE Holdings will not permit a change in ownership among the members of DQE Holdings without prior Commission approval if such change would result in a change in control under the then-applicable Commission standards.

3. Duquesne will seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code.

4. Duquesne shall provide the OTS, OCA and OSBA with a copy of its annual reports filed with the Securities and Exchange Commission.

5. Commencing March 31, 2008 and ending March 31, 2010, Duquesne will provide an annual report to the Commission as to the status of all commitments made in this Settlement.

6. Duquesne agrees to continue to have outstanding separately issued debt held by investors not affiliated with Duquesne or its affiliates, unless the Commission authorizes to the contrary.

7. DLH and its subsidiaries, including Duquesne, will provide, upon request, to OTS, OCA and OSBA access in connection with rate proceedings and other proceedings before the Commission, where relevant, to presentations given by DLH and its subsidiaries to common stock, bond, or rating analysts. Such material will be accorded confidential treatment.

8. Duquesne's long term debt ratio as a percent of total capitalization shall not exceed 60% absent approval from the Commission. Any request for approval will be considered on an expedited basis, if so requested.

9. Duquesne shall notify the Commission of its intention to declare a special cash dividend to DLH, at least 30 days before declaring the dividend.

10. The CEO of DLH will be a member of the board of DQE Holdings, and will also chair a management committee which will contain representatives of both the senior management team and the Macquarie Consortium.

F. **Reliability And Customer Service**

1. Duquesne commits to its current planned funding levels of its infrastructure improvement plan for years 2006 and 2007.

2. Duquesne agrees to the following Quality of Service Plan ("Service Plan") during the period from January 1, 2007 through December 31, 2009. The Service Plan establishes the following metrics and reporting requirements to allow for the monitoring of the quality of service provided by Duquesne and to identify any significant changes to Duquesne's reliability and service levels:

Quality of Service Plan	
Performance Area Index	Metrics
Reliability	
SAIFI (12 Month)	1.17
CAIDI (12 Month)	108
Customer Service	
The percent calls answered within 30 seconds	76%
The average busy out rate	0.5%
The average call abandonment rate	4%
Percent of residential bills not rendered once every billing cycle	0.01%

Duquesne will provide a report each year to the Commission, OCA, OTS and OSBA identifying its performance and the metrics in the Service Plan set forth in the above table. Duquesne will also include in its report its performance in the areas of: Number of Residential Customer disputes not issued a report within 30 days; Residential Termination Rate (terminations per 1000 residential customers); Justified Residential Payment Arrangement Request Rate; and Justified Residential Consumer Complaint Rate. However, such reported metrics are not considered as part of the Service Plan for purposes of this provision.

Duquesne agrees that, in any year during the effective period of the Service Plan, if its reliability or service levels are not equal to or better than the reporting metrics set forth in the Service Plan, Duquesne will provide the Commission, OCA, OTS and OSBA with a report that will identify the reasons for the variance and identify any management actions that Duquesne intends to undertake in response to any variation. Duquesne will then convene a collaborative with OCA, OTS and the OSBA to discuss such report. The Commission may, upon motion of any Party or upon its own motion, open a formal proceeding concerning reliability or service.

If following such a collaborative, OTS, OCA or OSBA request a proceeding before the Commission, Duquesne will not oppose the initiation of such a proceeding; however Duquesne reserves the right to oppose the proceeding if it is being initiated as a result of Duquesne exceeding one but not both of the reliability metrics set forth above.

3. Nothing contained herein is intended to limit the authority of the Commission to consider quality of service pursuant to Sections 523 and 526 of the Public Utility Code in setting Duquesne's rates, or the Bureaus of the Commission from performing their duties and making recommendations, including recommendations regarding fines for failure of Duquesne to provide safe and reliable service.

4. Duquesne will maintain operating locations and field offices in its territory, and staffing levels, as appropriate, to provide safe and reliable service, consistent with good utility practices. In addition, Duquesne acknowledges that the change in ownership resulting from this transaction is not an extraordinary circumstance under the existing Collective Bargaining Agreement.

G. **Universal Service**

1. Duquesne will continue to fund its Customer Assistance Program ("CAP") consistent with its needs analysis.

2. Duquesne will continue to coordinate with administering agencies and community based organizations ("CBOs") to administer low-income assistance programs. Duquesne will convene a collaborative ("Universal Service Collaborative") of local representatives of low income groups, CBOs and the OCA to consider universal service programs so as to enhance Duquesne's programs within current funding levels, including discussing increasing the involvement of CAAP and the PA Weatherization Task Force in referrals to and from Duquesne for its Low Income Usage Reduction Program ("LIURP" or "Smart Comfort"). The collaborative will meet no less than once per year and will include a

representative of CAAP and a representative from the Pennsylvania weatherization network providers.

3. Duquesne will continue to fund LIURP consistent with the settlement reached in Docket No. R-00061346 by agreeing to fund the $1.531 million plus any carryover from 2006 on LIURP in future program years during 2007 through 2009. Duquesne will increase the number of customers served under its Smart Comfort program from 2,250 customers per year to 3,000 customers per year for the period 2007 – 2009, except for 2008 where Duquesne will commit to serving 4,000 customers and, on approval from the Commission's Bureau of Consumer Services ("BCS"), target the additional 750 visits to customers with incomes between 150% and 200% of the federal poverty level.

4. Duquesne will agree not to transfer LIURP funds collected during the period 2007 through 2009 to other universal service programs.

5. Duquesne agrees that it will make all reasonable efforts to expend LIURP funding available each calendar year. Subject to any necessary approval by the BCS, Duquesne will agree to raise the income eligibility needs to 200%, and/or expanding outreach efforts, and/or increasing the numbers of customers served. Duquesne will advise the universal service collaborative of the status of LIURP expenditures on a quarterly basis during the period 2007 through 2009.

6. Subject to approval of its partners, Duquesne will agree to involve CAAP and the Pennsylvania Weatherization Task Force in its partnership regarding the provision of weatherization services.

7. Duquesne will continue its Stay Warm Program as needed for the winter of 2006/2007 and consistent with its needs analysis, in subsequent winter periods during the stay-out period set forth in Paragraph 10.B.1. of this Agreement.

8. Duquesne agrees to provide copies of its future Universal Service Plans to CAAP and the Pennsylvania Weatherization Task Force upon filing and will not object to CAAP's or the Pennsylvania Weatherization Task Force's submission of comments regarding such universal service plans, including the Universal Service Plan to be filed in early 2007.

H. <u>Community Commitment</u>

1. For a period of five (5) years, Duquesne will provide corporate contributions and community support in southwestern Pennsylvania at least at levels substantially comparable to the levels provided by the Company in 2006. (For 2006, that is approximately $2.9 million). In addition, Duquesne will continue to match customer contributions to the Dollar Energy Fund with shareholder dollars up to $375,000.

2. Duquesne will establish a competitively neutral Economic Development Program to attract and support expanding Pennsylvania industrial employers by offering a flat 50 MW block (7 days by 24 hours) of energy consumed at the new or expanded facility at a discount up to $3 per MWh below market for three years to commercial/industrial customers on Schedules HVPS and L that intend to add at least 10 MW of new or expanding load and create two new full time employment positions per MW of new load. Duquesne will also consider applications for funding for new or expanded load under Rate GL or, for customers on schedules

HVPS and L that do not meet the above two (2) criteria, if the applicant demonstrates that the new or expanded load, while less than 10 MW, has other significant benefits, such as increasing off-peak power that could be utilized to a greater extent than on peak power, or providing attractive or improved load factor or power factor, or offers significant new employment. The program will terminate on March 1, 2013 or earlier if the state adopts a state-wide economic development plan and will be funded solely by shareholder funds for the term of the program. To accomplish competitive neutrality, Duquesne will not condition the discount upon the customer's obtaining energy under the POLR service or purchase of energy from an affiliate of Duquesne and Duquesne will provide written notice to each grant applicant that the discount is not conditioned on the purchase of energy from Duquesne or its affiliates, and that eligible customers may obtain 100% of their generation supply from Electric Generation Suppliers ("EGSs") not affiliated with Duquesne.

I. **Corporate Cost Allocations**

1. Duquesne's corporate cost allocations will include a rent charge for the percentage of space occupied by employees who provide services to an affiliate, and a supplies charge for supplies the employee may use in providing services to affiliates.

2. Duquesne's corporate cost allocations will provide that all costs incurred by DLH, including any costs allocated from Duquesne to DLH, will be allocated, to the extent appropriate, to other Duquesne affiliates.

3. Duquesne's corporate cost allocations will include appropriate charges to all affiliates for costs incurred on their behalf by DLH for letters of credit and sureties and will allocate appropriate charges associated with the DLH revolving credit agreement.

4. Duquesne will provide a report, as part of its upcoming POLR IV filing, setting forth the specifics of these revisions to its corporate cost allocations.

J. <u>Competitive Markets</u>

1. Duquesne agrees to continue its support of the development of competitive retail electric market in its service territory consistent with all applicable Pennsylvania laws and regulations.

2. In addition to existing structural separation and cost allocation rules and procedures, DLH will provide the following:

   a. DLH at its expense, will arrange with an independent auditor/consultant with experience in cost allocations, to conduct an assessment to identify and quantify the cost of the services and business functions provided to Duquesne Light Energy ("DLE") by its affiliates and to provide for the remittance of compensation for services rendered to DLE (or any other affiliated EGS) by any other Duquesne companies. Specifically, the independent auditor/consultant assessment will include :

      (1) The identification and quantification of the cost of the services and business functions provided to DLE by Duquesne ("Duquesne Costs") or other Duquesne companies, other than Power Procurement Services, and

(2) The identification and quantification of the cost of Power Procurement Services. For the purposes of this paragraph, Power Procurement Services shall mean:

(i) The cost of any credit support provided directly to DLE, or indirectly via credit support provided to Duquesne Power ("DP") (or any other affiliate), and used for joint power procurement;

(ii) The reduced cost (if any) of purchased power (as compared to similar power procurement arrangements that might be made with a non-affiliate) realized by DLE as a result of its power procurement arrangement with DP (or any other affiliate);

(iii) The cost of power procurement support functions (such as, but not limited to, wholesale power procurement, hedging, scheduling, balancing, forecasting and RTO/ISO settlement activities) provided directly to DLE or that DLE indirectly receives due to its power procurement arrangement with DP (or any other affiliate); and

(iv) The cost of administrative support provided by other Duquesne companies directly to DLE or that DLE indirectly benefits from due to its power procurement arrangement with DP (or any other affiliate).

With respect to Power Procurement Services the independent auditor/ consultant also will quantify what the cost of such Power Procurement Services would be if they were acquired by DLE independently

(hereinafter "Independent Acquisition Cost Analysis"); provided, however, that this Independent Acquisition Cost Analysis will not be applied to : (1) credit support provided directly to DLE by DLH or Duquesne, if, for the calendar year 2006, a portion of the cost of such credit support was allocated to DLE as an intercompany transfer; and (2) any Power Procurement Service costs where the service provided by the non-regulated affiliate is obtained from independent third parties. Notwithstanding the above, in no event will the Independent Acquisition Cost Analysis include any costs incurred by Duquesne.

b. The independent auditor/consultant described in paragraph 10.J.2.a. above, shall be selected from a list of three (3) qualified consultants identified by Duquesne and provided to RESA. From this list RESA shall have the right to select the independent auditor/consultant, unless RESA reasonably determines that none of the consultants are in fact independent or qualified to conduct the required analysis, in which case the parties will prepare a list of six (6) qualified consultants, three (3) of whom shall be identified by Duquesne (and none of whom were on Duquesne's previous list) and three (3) of whom shall be identified by RESA. If the parties can agree on a consultant from this list, that auditor/consultant will perform the study. If the parties cannot agree, then each party will rank the six auditor/consultants in descending order of preference, and the auditor/consultant with the lowest overall score will be selected.

c. The independent auditor/consultant selected above will perform an audit for calendar year 2007. The results of the non-confidential portion of the third party report will be made available to RESA and Strategic. Confidential portions, including items such as contract provisions, pricing and salary information, shall not be shared with any suppliers except consistent with the Stipulated Protective Agreement executed in this proceeding including Duquesne's ability to redact information relative to pricing and load projections (subject to the supplier's right to obtain an order from the Commission requiring production because such data is required to be provided under the terms of that Stipulated Protective Agreement). In addition, the independent auditor/consultant, RESA and Strategic will not be provided with individual electric retail customer pricing and load information. The independent auditor/consultant will conduct an internal audit to evaluate compliance with the accepted recommendations from the independent auditor/consultant and provide interested RESA members with the results of the audit.

d. DLE will remit payment to appropriate other Duquesne companies for the Duquesne Costs or other Duquesne companies' costs and Power Procurement Services costs as defined above (and as determined in the independent third party report), of all services and business support functions provided by affiliate companies identified in the independent third party assessment described above and agreed to by DLH. DLH reserves the right to reject assessment recommendations made by the

independent auditor/consultant. However, except for the limitation in paragraph "e", below, nothing in this Agreement shall limit the right of any of the parties from pursuing any available legal recourse, including the filing of a complaint or other request for relief with the Commission regarding any affiliated interest, inter-company cross subsidy or competitive issue involving Duquesne or any affiliate of Duquesne. No party shall be deemed to have adopted or accepted the cost allocation principles set forth herein as fair, reasonable or sufficient to avoid uncompetitive cross subsidies for Duquesne or for any other public utility.

e. Collectively RESA and independently its members Direct Energy Services, LLC, Hess Corporation and Strategic agree that this settlement resolves all issues relating to inter company cost allocations in this proceeding and in Duquesne's filing to establish POLR IV rates effective January 1, 2008.

III. CONDITIONS OF SETTLEMENT

11. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission modifies the Settlement, then any Joint Petitioner may elect to withdraw from this Settlement and may proceed with litigation and, in such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an order modifying the Settlement. This Settlement is proposed by the Joint Petitioners to settle all issues among the Joint Petitioners in the instant proceeding. The Settlement is made without any admission against, or prejudice to, any position which any Joint Petitioner to this Settlement may adopt in

the event of any subsequent litigation of this proceeding or any other proceeding, unless that proceeding involves Duquesne or Network to the extent matters resolved by this Settlement are an issue in that proceeding. If the Commission does not approve the Settlement and the proceedings continue to further hearings, the Joint Petitioners reserve their respective rights to conduct full cross-examination and briefing.

12. The consummation and closing of the Merger shall constitute conditions precedent to the Settlement and all obligations of the Joint Petitioners hereunder, and Duquesne and the other Joint Petitioners shall not be bound by the terms hereof if Duquesne advises the Commission and the parties that the Merger will not close and requests that the Commission cancel the Certificates of Public Convenience to be issued hereunder.

13. The Joint Petitioners agree that this Settlement shall not constitute or be cited as controlling precedent in any other proceeding, including any other proceeding involving a merger or acquisition involving another Pennsylvania public utility, with the exception that the Settlement, if adopted, will bind the Joint Petitioners in any future proceeding involving Duquesne or Network to the extent matters resolved by this Settlement are an issue in such proceeding.

14. If the ALJ adopts the Settlement without modification, the Joint Petitioners waive their rights to file exceptions.

IV. PUBLIC INTEREST REASONS IN SUPPORT OF SETTLEMENT

15. The Settlement, if approved by the Commission, will provide substantial public benefits. These benefits[5] include the following:

[5] The explanations provided below include summaries of Settlement provisions and do not modify in any manner the specific provisions of the Settlement.

- Duquesne has agreed to a provision that will provide customers with reasonable assurance of distribution rate stability to at least January 1, 2010.
- All aspects of the acquisition premium and transaction costs will be excluded from future distribution and transmission rates.
- Duquesne commits to provide annual reports to the Commission over the next three years regarding the status of all commitments under the Settlement.
- Duquesne agrees to adopt a Quality of Service Plan that (i) establishes metrics and reporting requirements to enable the Commission and parties to monitor Duquesne's quality of service following the Merger and (ii) provides a process to address variances from the Quality of Service Plan.
- The Merger will provide Duquesne with an opportunity to obtain more efficient access to capital.
- The Merger will establish a competitively neutral Economic Development Plan to attract new and support expanding Pennsylvania industrial employers.
- Duquesne commits to continue its substantial community commitments at least at levels substantially comparable to current levels.
- Duquesne commits to retain its headquarters and all of its corporate functions in Pittsburgh and commits not to move its headquarters outside the service territory without prior Commission approval.
- The Settlement avoids the additional expenditure of time and funds that would be required to litigate this matter before the Commission.

16. The Joint Petitioners agree that the Merger, as amended by the Settlement, meets the affirmative benefits test as set forth in *City of York v. Pa. P.U.C.*, 449 Pa. 136, 295 A.2d 825

(1972) and also satisfies the ten specific public interest findings that the Commission considered in its Order in *Application of Penn Estates Utilities, Inc, Docket No. A-210072F0003, et al., Order entered October 2, 2006,* as summarized next, and as set forth more specifically in the Settlement and record.[6]

A. <u>Capital Will Continue To Be Expended For Ongoing Operations</u>

- Duquesne commits to its current planned funding levels of its infrastructure improvement plan. (Settlement Paragraph 10.F.1.)
- Duquesne's agreement to adopt a Quality of Service plan demonstrates its commitment to continue to provide high quality service. (Settlement Paragraph 10.F.2)
- Duquesne's current collective bargaining agreement will be honored, which provides that: "No regular full-time employee hired on or before June 1, 2005 shall be laid off except under extraordinary circumstances . . . ." Duquesne further acknowledges under the Settlement that the Merger transaction is not an "extraordinary circumstance." (DLC St. No. 1, p. 16; Settlement Paragraph 10.F.4.)
- Duquesne commits to continue and expand its universal service programs. (Settlement Paragraph 10.G.1. and 10.G.3.)

B. <u>Corporate Governance Will Not Be Impaired</u>

- DQE Holdings and the current CEO of DLH have executed an employment agreement providing that the CEO will continue to lead DLH. Further, the CEO of DLH will be a member of the board of DQE Holdings. (Settlement Paragraph 10.E.10.)

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[6] To the extent the following summary is supported by testimony and exhibits of Applicants, Joint Petitioners other than Applicants do not necessarily join in such summary.

- The CEO will chair a management committee which will contain representatives of the senior management team and the Macquarie Consortium. (Settlement Paragraph 10.E.10.)
- Duquesne will provide annual reports (10-K) filed with the Securities and Exchange Commission to OTS, OCA and OSBA. (Settlement Paragraph 10.E.4.)

C. The Macquarie Consortium Anticipates A Long-Term Ownership Of DLH

- The focus of the infrastructure investment funds that make up the Macquarie Consortium is the long-term ownership, management and development of important infrastructure assets. (DLC St. No. 2, p. 3)
- Public sector and corporate pension funds are large investors in the funds that make up the Macquarie Consortium. Such investors seek investments that produce long–term cash flows to offset their long-term liabilities, and thus do not require a sale or defined exit strategy to achieve their investment goals. (DLC St. No. 2, pp. 9-10; DLC St. No. 2R, p. 2)
- The Macquarie Consortium has a global track record demonstrating its commitment to the long term investment in Duquesne. (DLC St. No. 2, p. 10)

D. The Macquarie Group Has Substantial Experience In Owning Utilities

- The Macquarie Group manages funds that comprise approximately 64.3% of the equity in the Macquarie Consortium. In the United States, Macquarie Group's investments in energy and utilities include Aquarion Company, a New England water utility (pending acquisition, subject to regulatory approval), The Gas Company, a Hawaiian full service gas company, and Thermal Chicago, district energy businesses operating in Chicago and Las Vegas. (DLC St. No. 2, p. 5)

- Worldwide, Macquarie Group investments serve over 3.4 million gas distribution households, 4 million water households, and 550,000 electric distribution households. Macquarie Group also invests in electric transmission facilities that serve over 4 million people. (DLC St. No. 2, p. 4)
- Macquarie Group also has substantial investments in other "public service" sectors such as airports, toll roads and rail systems. (DLC St. No. 2, p. 4)
- Macquarie Group's philosophy is to maintain existing management to continue existing operational excellence. This philosophy will be followed with respect to DQE Holdings. (DLC St. No. 2, p. 3)

E. <u>Duquesne's Existing Presence In The Pittsburgh Community Will Be Retained</u>

- Duquesne's corporate headquarters will remain in Pittsburgh, and will not be moved outside of Duquesne's service territory without advance approval of the Commission. (Settlement Paragraph 10.C.1.)
- Duquesne and DQE Holdings commit to maintain operating locations and field offices in its territory, and staffing levels, as appropriate, to provide safe and reliable service. (Settlement Paragraph 10.C.1.)
- Duquesne will continue to coordinate with administering agencies and CBOs to administer its low income programs and will convene a collaborative of interested parties to consider Duquesne's universal service programs. (Settlement Paragraph 10.G.2.)
- Duquesne commits to maintain corporate contributions and community support at least at levels comparable to the $2.9 million provided in 2006. (Settlement Paragraph 10.H.1.)

- Duquesne commits to match customer contributions to its hardship fund with shareholders dollars up to $375,000.
- Duquesne will establish a new Economic Development Program through March 1, 2013, to attract and expand Pennsylvania industrial employers by offering a flat 50 MW block (7x24) of energy consumed at the new or expanded facility at a discount up to $3/MWh below market. (Settlement Paragraph 10.H.2.)

F. **There Will Not Be Complex Affiliate Relationships Involved**

- The Macquarie Consortium consists of six investment funds, all with similar strategies of investing in long term infrastructure. As investment funds, the Macquarie Consortium will not be providing services other than financing for DLH and Duquesne. (DLC St. No. 2, pp. 9-10; DLC St. No. 2R, pp. 5-7)
- Funds managed by the Macquarie Group will hold 64.3% of the equity in DQE Holdings, thereby owning the majority of the equity in the investment group. (DLC St. No. 2, p. 5)

G. **Fees Paid To And Services Performed By Affiliates**

- Services provided by other utilities in which the Macquarie Consortium has an interest will be provided only after the filing and approval of an affiliated interest agreement. (Settlement Paragraph 10.E.3.) Such services are expected to be limited, and in the nature of sharing of best practices. (DLC St. No. 2R, p. 6)
- There are no current plans to add new service corporations or similar affiliates to provide day to day services to Duquesne; however, Duquesne will have access to other utilities or entities managed by the Macquarie Consortium. (DLC St. No. 2R, p. 6)

- Duquesne will revise its corporate cost allocations to include a rent charge for space occupied by affiliates, and a supplies charge for supplies used by affiliate employees. (Settlement Paragraph 10.I.1.)
- Costs incurred by DLH will be allocated, as appropriate, to other Duquesne affiliates. (Settlement Paragraph 10.I.2.)
- Duquesne's cost allocations will include appropriate charges for letters of credit, sureties and the DLH revolving credit agreement. (Settlement Paragraph 10.I.3.)
- Duquesne will provide a report detailing its recent revisions to corporate cost allocations in the POLR IV filing. (Settlement Paragraph 10.I.4.)

H. The Settlement Commits To Limits On Duquesne's Use Of Leverage And Other Capital Structure Protections

- The Settlement provides that Duquesne's long-term debt ratio will not exceed 60% of total capitalization without Commission approval. (Settlement Paragraph 10.E.8.)
- Duquesne agrees to continue to have outstanding separately issued debt held by investors not affiliated with Duquesne or its affiliates, unless the Commission authorizes to the contrary. (Settlement Paragraph 10.E.6.)
- Duquesne commits to notify the Commission in advance if it intends to declare a special cash dividend to DLH. (Settlement Paragraph 10.E.9.)
- Duquesne commits in any future base rate proceeding to demonstrate that its claimed common equity ratio is reasonable and in the best interest of consumers.

I. The Settlement Ensures Transparency On Corporate Structure Issues

- Under the Settlement DLH and its subsidiaries agree to provide the Commission and various parties reasonable access to the books and records, officials and staff of DLH and its subsidiaries. (Settlement Paragraph 10.D.1.)

- Duquesne agrees not to guarantee debt of DLH or affiliates, grant liens upon its property, or to make loans or extend credit to DLH or any affiliate, without prior Commission approval. (Settlement Paragraph 10.E.1.)
- DLH and its subsidiaries will provide upon request to OTS, OCA and OSBA access, where relevant, to presentations given to the financial community. (Settlement Paragraph 10.E.7.)

J. **The Macquarie Consortium Is Creditworthy**

- The Macquarie Group, which consists of Macquarie Bank Limited, its affiliates and investment vehicles managed by its affiliates, manages funds that own approximately 64.3% of the equity in the transaction. (DLC St. No. 2, p. 1)
- The Macquarie Group currently manages over $27 billion in equity invested in infrastructure and similar assets globally. (DLC St. No. 2, p. 4)
- The other investors not affiliated with the Macquarie Group each individually manage several billion dollars of investments. (DLC St. No. 2, p. 8)
- Over $1 billion will be invested by the Macquarie Consortium in financing the purchase. (DLC St. No. 2, p. 6)
- As managers of large pools of investment funds, consisting largely of pension funds, the members of the Macquarie Consortium have substantial access to additional equity capital under all market conditions. (DLC St. No. 2, pp. 8-9)

The Merger Does Not Harm And Will Advance Retail Competition

17. In addition to the foregoing reasons in support, the Settlement and Merger satisfy the requirements of Section 2811(e) of the Public Utility Code, which directs the Commission to consider whether the proposed Merger "is likely to result in anticompetitive or discriminatory

conduct . . . which will prevent retail electricity customers in this Commonwealth from obtaining the benefits of a properly functioning and workable retail electricity market . . . ." Under the Settlement, Duquesne has agreed to a series of conditions responsive to concerns of competitive marketers. These include:

- Corporate cost allocation provisions described previously. (Settlement Paragraph 10.I.1-4.)
- Duquesne agrees to continue its support of the development of competitive retail markets. (Settlement Paragraph 10.J.1.)
- DLH agrees to arrange for an independent consultant to conduct an assessment to identify and quantify any costs for services and functions provided to non-regulated affiliates. (Settlement Paragraph 10.J.2.)
- The Economic Development Program, described previously, is available to customers without regard to the identity of their energy provider. (Settlement Paragraph 10.H.2.)

18. In addition to the foregoing, further explanations of why the Settlement is in the public interest are provided in the Statements in Support of the Settlement by Duquesne, Network, OTS, OCA, OSBA, IBEW 29, CAAP, Dominion, RESA, Strategic, DII and PALEUC, which will be submitted forthwith.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

(a) That the Honorable Administrative Law Judge Robert P. Meehan and the Commission approve this Settlement including all terms and conditions thereof without modification.

(b) That the Commission issue certificates of public convenience evidencing approval under Section 1102(a)(3) of the Public Utility Code of the acquisition, by merger, of Duquesne Light Holdings, Inc., the parent of Duquesne Light Company and DQE Communications Network Services LLC, by Macquarie Consortium and DQE Holdings, LLC and grant all such other approvals deemed necessary.

Respectfully submitted,

Michael W. Gang, Esquire
David B. MacGregor, Esquire
Andrew S. Tubbs, Esquire
Gary Jack, Esquire
For: *Duquesne Light Company*

Charles Daniel Shields, Esquire
Robert V. Eckenrod, Esquire
For: *Office of Trial Staff*

Tanya J. McCloskey, Esquire
Darryl Lawrence, Esquire
Jennedy E. Santolla, Esquire
For: *Office of Consumer Advocate*

Date: 2/8/07

Daniel G. Asmus, Esquire
For: *Office of Small Business Advocate*

Pamela C. Polacek, Esquire
Adam L. Benshoff, Esquire
For: *Duquesne Industrial Intervenors*

Daniel Clearfield, Esquire
Kevin J. Moody, Esquire
For: *Retail Energy Supply Association*

Todd S. Stewart, Esquire
For: *Dominion Retail, Inc.*

CPH 381748v3

Scott J. Rubin, Esquire
For: *International Brotherhood of Electrical Workers Local 29*

Joseph L. Vullo, Esquire
For: *Community Action Association of Pennsylvania*

Erin Creahan, Esquire
Julie Colletti, Esquire
For: *Strategic Energy, LLC*

Theodore H. Jobes, Esquire
Steven S. Goldenberg, Esquire
Paul F. Forshay, Esquire
For: *Pennsylvania Large Energy Users Coalition*

Date: 2/09/07

Scott J. Rubin, Esquire
For: *International Brotherhood of Electrical Workers Local 29*

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For: *Community Action Association of Pennsylvania*

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Julie Colletti, Esquire
For: *Strategic Energy, LLC*

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For: *Pennsylvania Large Energy Users Coalition*

Date: 2/9/2007

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Steven S. Goldenberg, Esquire
Paul F. Forshay, Esquire
For: *Pennsylvania Large Energy Users Coalition*

Date: 2/8/07

JOINT PETITION FOR SETTLEMENT

Docket Nos. A-110150F0035 & A-311233F0002

INDEX OF ATTACHMENTS

A. Statement of Duquesne Light Company/DQE Communications Network Services LLC/DQE Holdings LLC In Support of the Joint Petition for Settlement of All Issues

B. Office of Trial Staff Statement in Support of Joint Petition for Settlement

C. Statement of the Office of Consumer Advocate in Support of the Joint Petition for Settlement

D. Statement of the Office of Small Business Advocate in Support of the Joint Petition for Settlement

E. Statement of Retail Energy Supply Association in Support of the Joint Petition for Settlement

F. Correspondence from Direct Energy Services, LLC supporting Joint Petition for Settlement

RECEIVED

FEB - 9 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-311233F0002

STATEMENT OF DUQUESNE LIGHT COMPANY/DQE COMMUNICATIONS NETWORK SERVICES LLC/DQE HOLDINGS LLC IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT OF ALL ISSUES

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE ROBERT P. MEEHAN:

This Joint Application (the "Application") requests the Commission to issue all necessary approvals authorizing the transfer of control of Duquesne Light Holdings, Inc. ("DLH"), the parent of Duquesne Light Company ("Duquesne") to the Macquarie Consortium.[1] Duquesne, DQE Communications Network LLC ("Network"),[2] DLH and DQE Holdings LLC ("DQE Holdings") believe that the Settlement achieved by the Parties[3] of all issues associated with the

[1] The Macquarie Consortium is a group of six investment funds, with the majority of the equity in the transaction provided by funds managed by the Macquarie Group.

[2] DQE Communications Network Services LLC ("Network") holds a Certificate of Public Convenience to provide service as a Competitive Access Provider throughout the Commonwealth of Pennsylvania. Network and its parents are wholly owned by DLH. *Application of DQE Communications Network Services LLC for approval to offer, render, furnish or supply telecommunication services as a Competitive Access Provider to the Public in the Commonwealth of Pennsylvania,* Docket No. A-311233 (Order entered on November 23, 2004).

[3] The Parties are the Office of Trial Staff ("OTS") of the Pennsylvania Public Utility Commission ("Commission"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), Duquesne Industrial Intervenors ("DII"), Pennsylvania Large Energy Users Coalition ("PLEUC"), International Brotherhood of Electrical Workers Local 29 ("IBEW"), Community Action Association of Pennsylvania ("CAAP"), Retail Energy Supply Association ("RESA"), Strategic Energy, LLC ("Strategic Energy"), Dominion Retail, Inc. ("Dominion"), Duquesne and Network, (collectively referred to as the "Parties"). Citizen Power has indicated that it does not oppose this Settlement and will submit a letter of non-opposition.

Application is in the best interest of Duquesne and its customers, and therefore, is in the public interest. In addition, the Merger, as amended by the Settlement, meets the affirmative benefits test as set forth in *City of York v. Pa. P.U.C.*, 449 Pa. 136, 295 A.2d 825 (1972) and also satisfies the ten specific public interest findings that the Commission considered in its Order in *Application of Penn Estates Utilities, Inc., Docket No. A-210072F0003, et al.,* Order entered October 2, 2006. In support thereof, Duquesne, Network and DQE Holdings submit this Statement in Support to explain the numerous reasons that support these conclusions.

I. THE SETTLEMENT IS CLEARLY IN THE PUBLIC INTEREST.

Duquesne and its senior management team are continually evaluating its operations to identify means by which to improve its operational and financial status and to continue to improve service to its customers and the communities in which they serve. This evaluation resulted in its successful "Back to Basics" strategy which reduced business risk and focused Duquesne's capital and management resources on its core electric business. DLC St. No. 1, p. 10. In addition, Duquesne's customers have benefited through infrastructure investments and improved reliability. However, one result of that strategy has been to narrow and sharpen Duquesne's business focus through disposal of unrelated businesses, thereby narrowing the company's ability to generate earnings per share growth, and placing pressure on the dividend and share price. While this strategy has been successful, external changes made it clear to Duquesne that proactive measures were required to maintain its position as the hometown electric distribution company of Pittsburgh and surrounding communities.

This Merger is a vital, proactive step that will result in significant benefits for Duquesne, its customers and the communities it serves. Specifically, approval of the transaction between DLH and the Macquarie Consortium will: (1) maintain Duquesne, its management and its

dedicated employees in Pittsburgh; (2) increase Duquesne's access to a capital on more reasonable terms; (3) provide Duquesne's service area with an economic development program aimed at meeting a critical regional need to attract new business and encourage the expansion of existing businesses; and (4) provide additional affirmative benefits stemming from the unopposed settlement.

1. Maintaining Duquesne as a Pittsburgh-based Public Utility

Duquesne has a 125-year history with the Pittsburgh region and has been an important part of the Pittsburgh economy through the rise and eventual decline of the steel industry. The importance of Duquesne and its operations to the Pittsburgh region cannot be overstated. At a time when fewer corporations are available to address the community's needs, Duquesne has stepped up its commitment. Duquesne has established itself as one of the leading companies in the region in proactively dealing with important social and human services and economic development issues. Duquesne's dollars, its people and its energy truly go to serving Pittsburgh and its surrounding communities.

Over the past several years, Duquesne has implemented a "Back to Basics" strategy to reduce business risk and to focus its capital and management resources on its core electric business. Duquesne's customers have benefited through infrastructure investments and improved reliability. However, it also limited DLH's prospects for earnings growth and put pressure on the ability to pay out future dividends, two factors that are integral to publically listed market utility valuations. At the same time, the repeal of the Public Utility Holding Company Act in 2005 has opened the door to accelerated consolidation within the electric utility industry, and equity analyst reports began identifying Duquesne as an acquisition target due to its relatively small size and projected financial performance. These events heightened Duquesne's

and its senior management's trepidation for its future as a Pittsburgh based and operated public utility. The decline in DLH's stock price over the first half of 2006 in relation to the underlying value of the shares was of particular concern, and made the company a more likely acquisition target.

The market for Duquesne's stock clearly had a very negative outlook with approximately 12.7% of DLH's stock being sold "short," as of June 30, 2006, indicating that many investors expected a further decline in the stock price. As stated by Mr. Joseph Sauvage of Lehman Brothers in his rebuttal testimony in this proceeding, the percentage of DQE's outstanding shares sold "short" substantially exceeded the utility average of 2.7%. DLC St. No. 3R, p. 6. The prospect of a dividend reduction was particularly troubling, because a DLH dividend cut would almost certainly have led to a substantial decline in the DLH stock price, which would have increased its cost of equity and could have increased its existing vulnerability as a takeover target for other regional operating companies. As referenced in the Morgan K. O'Brien's Direct Testimony, a February 14, 2006 JP Morgan analysis, which stated that DLH may be a perceived as an acquisition target, but noted that DLH's current price level of $17.51 made such an acquisition unlikely. DLC St. No. 1, pp. 11-12. However, between the time of the JP Morgan analysis and announcement of the merger, DLH's stock price had declined to $15.67/share and given the short position, looked as if it would decline further. Any additional downward movement on Duquesne's stock price would have only further increased the likelihood of Duquesne being acquired by another utility.

As a result, Duquesne concluded that it should consider aligning with a solid strategic partner like the Macquarie Consortium, to secure its financial future while at the same time preserving its position as a Pittsburgh-based public utility. While this transaction does not fit the

mold of the typical horizontal and/or strategic merger, past mergers often have presented the opportunity for significant "synergy" savings, and the parties to those proceedings have requested that significant amounts of these potential savings be allocated to customers. However, synergy savings come at a substantial cost. Specifically, in merger proceedings that involve two operating utilities, synergy savings are based on the efficiencies to be realized by the consolidation of two companies. These "efficiencies" typically result in a significant loss of jobs, the replacement and/or relocation of senior management and the acquired company being subsumed into the larger holding company corporate structure of a multi-state utility with a resulting loss of local connection to the service territory.

This Merger secures Duquesne's position as the locally operated electric distribution company for the Pittsburgh region, the value of which cannot be understated and without question provides Duquesne, its customers and the communities it serves with a substantial affirmative benefit. If Duquesne were to be acquired by another multi-state operating utility, the adverse consequences to the Pittsburgh region would likely be profound, including reduced employment opportunities at every level, from entry level (call center, administrative services) positions all the way up to senior management. Further, the loss of a locally based electric utility would likely result in reducing the leadership available to guide local non-profit organizations important to the region's quality of life as well as the loss of the company's leadership position in regional economic development. Therefore, Duquesne's unprecedented commitment in the Settlement to not move its corporate headquarters from Pittsburgh without prior Commission approval, is a substantial affirmative benefit. (Settlement Paragraph 10.C.1.)

2. Improved Access to Capital Markets

Absent approval of the proposed transaction, it is not clear that DLH and Duquesne can

continue to raise equity on reasonable terms given the business risks facing Duquesne which are detailed above. This transaction will provide DLH and Duquesne with a stable equity base provided by a group of investors who are actively looking for opportunities to invest additional equity in infrastructure. The Macquarie Consortium is comprised of a group of investment funds that seeks long term investments for their investor base, which consists largely of pension funds that have a requirement for assets that match their long-term liabilities. These investments are judged based upon their ability to produce long-term cash flows coincident with the life of the assets to be constructed, and not based primarily on quarterly or annual earnings estimates. This stable equity base coupled with the Macquarie Consortium's access to global debt markets will significantly improve Duquesne's ability to fund further capital expenditures. This is clearly an affirmative benefit from the transaction.

Duquesne has historically been able to access capital markets to finance capital projects, but this access is no longer assured. In today's consolidating utility industry, Duquesne is rapidly moving from a mid-sized regional utility to a smaller local utility. Absent action, this reality would adversely affect its ability to access capital markets on reasonable terms. Absent approval of the proposed transaction, Duquesne's cost of capital will clearly increase to the detriment of customers. As detailed in the rebuttal testimony of Joseph G. Sauvage, the cost of capital for companies the size of Duquesne clearly includes a small company premium. DLC St. No. 3R, pp. 10-12. The cost of this premium would inevitably result in higher rates to customers.

This transaction, among other things, is designed to improve Duquesne's access to capital, and the results already are apparent. As an example, following the announcement of the Merger Agreement, two members of the Macquarie Consortium invested $141 million in newly

issued DLH equity, to provide interim financing capital needs.

3. Economic Development Program

The rising cost of electricity and the volatility of the wholesale energy markets significantly impact the economic viability of Southwestern Pennsylvania. This is particularly true as Duquesne's retail competition transition period has concluded and its commercial and industrial customers need to acquire their generation in the competitive markets. While the vast majority of Pennsylvania's electric utilities remain under transition period rate caps, Duquesne's commercial and industrial customers find themselves seeking generation service in a competitive market place with escalating wholesale prices. During Pennsylvania's continued transition to competitive retail markets, it is imperative for the region that Duquesne have the ability to offer competitively priced electricity prices to encourage existing manufacturers and to attract new industries to the service area.

To this end, Duquesne, with the financial support of members of the Macquarie Consortium, will establish an economic development program to attract and support expanding Pennsylvania industrial employers. The framework of this economic development plan is as follows:

- Duquesne will establish a competitively neutral Economic Development Program to attract and support expanding Pennsylvania industrial employers by offering a flat 50 MW block (7 days by 24 hours) of energy consumed at the new or expanded facility at a discount up to $3 per MWh below market for three years to commercial/industrial customers on Schedules HVPS and L that intend to add at least 10 MW of new or expanding load and create two new full time employment positions per MW of new load.

- Duquesne will also consider applications for funding for new or expanded load under Rate GL or, for customers on schedules HVPS and L that do not meet the above two (2) criteria, if the applicant demonstrates that the new or expanded load, while less than 10 MW, has other significant benefits, such as increasing off-peak power that could be utilized to a greater extent than on peak power, or providing attractive or improved load factor or power factor, or offers significant new employment.
- The program will continue until March 1, 2013.
- To accomplish competitive neutrality, Duquesne will not condition the discount upon the customer's obtaining energy under the POLR service or purchase of energy from an affiliate of Duquesne and Duquesne will provide written notice to each grant applicant that the discount is not conditioned on the purchase of energy from Duquesne or its affiliates, and that eligible customers may obtain 100% of their generation supply from Electric Generation Suppliers ("EGSs") not affiliated with Duquesne.

Settlement Paragraph 10.G.2.

This program will serve as a competitively neutral means to provide long-term price offerings to new industrial customers and existing customers significantly expanding their load. These customers will be able to obtain price offerings for a portion of their load requirements at a discount to the prices available in the volatile wholesale market regardless of who they select as their electric generation supplier. The establishment of such a program will enable Pennsylvania to compete with neighboring states that currently are able to avail themselves of opportunities to enhance their economic competitiveness through access to economical energy

resources.

4. Rates and Service

In addition to the items detailed above, the proposed Merger, as amended by the Settlement, provides rate protection and ensures the continued provision of high quality service, as:

- Duquesne will not file a proposed general increase in distribution rates that would become effective after full suspension prior to January 1, 2010, unless there are substantial changes in regulation or federal tax rates or policy. (Settlement Paragraph 10.B.1.)
- All aspects of the acquisition premium and transaction costs will be excluded from future distribution and transmission rates. (Settlement Paragraph 10.B.2.)
- Duquesne commits to provide annual reports to the Commission over the next three years regarding the status of all commitments under the Settlement. (Settlement Paragraph 10.E.5.)
- Duquesne agrees to adopt a Quality of Service Plan that (i) establishes metrics and reporting requirements to enable the Commission and parties to monitor Duquesne's quality of service following the Merger and (ii) provides a process to address variances from the Quality of Service Plan. (Settlement Paragraph 10.F.2.)
- Duquesne commits to its current planned funding levels of its infrastructure improvement plan. (Settlement Paragraph 10.F.1.)
- Duquesne commits to continue its substantial community commitments at least at levels substantially comparable to current levels. (Settlement Paragraph 10.H.1.)
- Duquesne commits to retain its headquarters and all of its corporate functions in

Pittsburgh and commits not to move its headquarters outside the service territory without prior Commission approval. (Settlement Paragraph 10.C.1.)

- The Settlement avoids the additional expenditure of time and funds that would be required to litigate this matter before the Commission.

5. *Penn Estates* Public Interest Considerations

As specifically set forth in the Joint Petition for Settlement, the parties took into account the issues raised by the Commission in *Penn Estates* which identified specific public interest issues to be examined in transactions involving financial buyers. The Application, as supplemented by the terms of the Settlement, address all of the public interest considerations for the Commission. In particular, the record in this proceeding demonstrates that the Macquarie Consortium are investors that seek out infrastructure assets that provide stable returns over a long period of time, including stable utility systems that are managed by a locally based, highly competent, management team and are subject to reasonable and fair regulation. Duquesne fits this model and as set forth in the Application and Settlement, Duquesne will continue to be locally managed and operated, maintain the high quality of service to its customers via the Service Quality Plan and maintain the community contact and support that have come to be expected by the City of Pittsburgh and the surrounding communities. As a demonstration of this commitment, DQE and Duquesne have agreed on the Settlement to the unprecedented provision that Duquesne's corporate headquarters will not be moved out of the service territory without prior Commission approval.

The Application and Joint Petition for Settlement and Duquesne's testimony demonstrate that the Macquarie Consortium is an infrastructure investor that seeks to acquire quality well-performing businesses with strong management teams that are likely to continue to perform at

high levels for the long-term horizons over which they seek to invest. The Macquarie Consortium is a group of financially secure infrastructure fund investors, with their primary source of funds comprised of institutional pension and retirement equity investors. The Macquarie Group, which manages funds accounting for approximately 64.3% of the equity in the Macquarie Consortium, has since the inception of the its infrastructure funds in 1996, it has invested in approximately 100 infrastructure and infrastructure-like assets and of these, it has sold only 10 of these investments. This provides proof of a very different type of business model from a typical "private equity fund" that in general seeks to achieve its return by improving business processes and selling the business for profit in a short time period.

Instead, the Macquarie Consortium seeks to invest in quality well managed infrastructure businesses like Duquesne and then to support them for the long-term. The Macquarie Consortium does not intend to have its other businesses provide ongoing services to Duquesne but instead plans to rely on Duquesne's highly competent management team, and let them run the business and obtain outside services as they are needed from those persons best qualified to provide those services. If in the future employees at other utilities or entities managed by the investors in the Macquarie Consortium could provide valuable assistance to Duquesne, Duquesne's senior management team will have access to these employees and in such instances where there will be costs incurred by Duquesne, appropriate filings will be made concerning the provision of such services and costs will be properly allocated.

Finally, the Settlement provides for transparency and financial protections. Specifically, Duquesne will provide annual reports filed with the Securities and Exchange Commission and will be provided to the OTS, OCA and OSBA. (Settlement Paragraph 10.E.4.) Also, Duquesne has agreed to continue to have outstanding separately issued debt held by investors not affiliated

with Duquesne or its affiliates, unless the Commission authorizes to the contrary. (Settlement Paragraph 10.E.6.) It has agreed that its long term debt ratio as a percent of total capitalization shall not exceed 60% absent approval from the Commission and to notify the Commission of its intention to declare a special cash dividend to DLH, at least 30 days before declaring the dividend. (Settlement Paragraphs 10.E.8. and 9.)

6. Competitive Markets

The Merger and Settlement also ensure that the transaction does not adversely impact the existing successful competitive retail energy market in Duquesne's service territory. The Merger and the Settlement showcase that Duquesne will continue its market leading support of the development of competitive retail markets as further evidenced by Duquesne's agreement to conduct an assessment to identify and quantify any costs for services and functions provided to non-regulated affiliates. Also, the Merger will provide for the establishment of an Economic Development Program, described previously, which will benefit eligible industrial customers without regard to the identity of their energy provider.

II. CONCLUSION.

The Settlement was achieved after considerable investigation of Duquesne's existing and future operations and the terms of the proposed transaction, through both informal and formal discovery, and submission of direct, rebuttal and surrebuttal testimony by a number of the Parties in this proceeding. In addition, the Parties undertook numerous discussions and negotiations as to service quality, corporate governance and other matters that would be in the public interest. The Settlement, if approved by Administrative Law Judge Robert P. Meehan (the "ALJ") and the Commission will reduce the amount of expense and effort that will be required by the Parties and the Commission to bring this matter to a conclusion. The Parties and the Commission will be

able to avoid the substantial effort and expense that would be incurred in continuing to litigate this proceeding, including preparing for and participating in hearings, preparation of briefs, reply briefs, exceptions, replies to exceptions and possible appellate litigation. Duquesne, Network, DLH and DQE fully support this Settlement and respectfully request that the ALJ and the Commission expeditiously review and approve the Settlement in its entirety.

Respectfully submitted,

Michael W. Gang
Andrew S. Tubbs
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Phone: 717-612-6026
717-612-6057
Fax: 717-731-1985
E-mail: mgang@postschell.com
atubbs@postschell.com

David B. MacGregor
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Phone: 215-587-1000
Fax: 215-320-4879
E-mail: dmacgregor@postschell.com

Attorneys for
Duquesne Light Company
Duquesne Light Holdings
DQE Communications Network Services LLC
DQE Holdings LLC

Of Counsel:

Post & Schell, P.C.

Date: February 9, 2007

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-311233F0002

OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT

TO ADMINISTRATIVE LAW JUDGE ROBERT P. MEEHAN:

The Office of Trial Staff ("OTS") of the Pennsylvania Public Utility Commission, ("Commission") by and through its Senior Prosecutor Charles Daniel Shields, Prosecutor Robert V. Eckenrod and Chief Prosecutor Johnnie E. Simms, hereby respectfully submits that approval of the terms and conditions of the foregoing Joint Petition for Settlement ("Settlement") is in the public interest.

1. All the instant active parties to this proceeding participated in the settlement discussions and as result have either agreed upon the terms embodied in the

foregoing Settlement or, in the case of Citizen Power Inc., have agreed not to oppose its approval by the Commission.

2. The Office of Trial Staff's general prosecutorial authority and duties are prescribed in Section 306 of the Public Utility Code, 66 Pa.C.S. §306.[1] Consistent with such statutory grant of authority, OTS has vigorously represented the public interest at all time during this proceeding.

3. Prior to agreeing to the instant Settlement, OTS (1) conducted a thorough review of the Applications and supporting information, discovery responses, submitted testimony and exhibits of the parties; (2) contributed to the forthright discussions amongst the parties during the protracted and intricate settlement discussions, and (3) ensured that the OTS concerns regarding necessary conditions for Commission approval of the merger applications were expressly addressed in the Settlement.

4. OTS contends that this Settlement demonstrates the substantial acknowledgments made by the Applicants and other parties that the provided terms and

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[1] And specifically, 66 Pa.C.S. §306(b)(1), that provides:

(1) The Office of Trial Staff shall be responsible for and shall assist in the development of, challenge of and representation on the record of all matters in the public interest in all commission proceedings except those involving transportation, safety, eminent domain, siting, service issues having no impact on rates and ability to pay, provided that the Director of Trial Staff may petition the commission or may be directed by the commission to intervene to protect the public interest in any proceeding involving transportation, safety, eminent domain, siting, service issues having no impact on rates and ability to pay. To assist in carrying out his powers and duties under this section, the Director of Trial Staff shall supervise the activities of the Office of Trial Staff in all commission proceedings in which he participates. If the Director of Trial Staff is of the opinion that the initiation of a proceeding is necessary to protect the public interest, he shall request that the commission initiate the appropriate proceeding. When he participates in a commission proceeding, it shall be the duty and responsibility of the Director of Trial Staff to prosecute in that proceeding.

conditions should be effectuated in order to ensure that the acquisition (the subject of the instant Applications) can be determined to be in the public interest.

5. OTS produced and distributed its Prehearing Conference Memorandum and actively participated in the Prehearing Conference conducted by Administrative Law Judge Robert P. Meehan ("ALJ Meehan") on November 28, 2006. As such, OTS is a recognized active party to this application proceeding.

6. On December 21, 2006, OTS distributed the prepared Direct Testimony & Exhibit of OTS Expert Witnesses Kevan Deardorff to ALJ Meehan and the other active parties. OTS Statement No. 1 and OTS Exhibit No. 1.

7. On January 23, 2007, OTS distributed to the ALJ and active parties the Surrebuttal Testimony of OTS Expert Witnesses Kevan Deardorff, identified as OTS Statement No. 1-SR.[2] Both sets of OTS testimony have been offered into the record by stipulation without objection by any other party and are referred to herein.

8. During the course of this lengthy proceeding, numerous settlement discussions were held between and among the parties. As a result of those discussions, an agreement in principle was reached in the days preceding the scheduled evidentiary hearings. That agreement is embodied in the foregoing Settlement and attachments.

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[2] In this OTS Surrebuttal Testimony, Mr. Deardorff points out that Duquesne Witness Leslie's rebuttal testimony addressed the eight conditions that Mr. Deardorff recommended in his direct testimony be placed upon any granting of the certificates of public convenience in the event the Commission considers approving the present acquisition by merger applications. OTS St. 1-SR, pp. 1-2; Duquesne St. 2R, pp. 10-12 and OTS St. 1, pp. 7-9. Mr. Deardorff also referenced the fact that of those eight conditions, Mr. Leslie on behalf of Duquesne accepted six of his recommended conditions, modified one condition and outright rejected the remaining condition. OTS St. 1-SR, pp. 1-2; Duquesne St. 2R, pp. 10-12 and OTS St. 1, pp. 7-9.

9. OTS considers Commission approval of the terms and conditions of the Settlement to have the same effect as full and complete litigation and further recognizes that final resolution of this proceeding by approval of the Settlement shall represent approval of the underlying acquisitions by merger.

10. OTS agrees that the foregoing terms and conditions of the Settlement render its approval to be in the public interest for a number of reasons, including the fact that the eight conditions identified in the distributed OTS Direct and Surrebuttal Testimonies for any Commission granting of the merger applications are, with certain essentially minor negotiated modifications, embodied in the instant Settlement, as follows:[3]

a. Conditions A & E of Conditions A-H (the eight conditions) recommended in the OTS Direct Testimony that relate to OTS concerns that Duquesne not be entitled to claim or receive a higher cost of capital for ratemaking purposes as a result of a credit rating downgrade caused by the merger are addressed in the Settlement at II. Terms and Conditions, B. Rate Issues, Paragraph 3. b.

b. Condition B of Conditions A-H (the eight conditions) recommended in the OTS Direct Testimony that relate to OTS concerns that Duquesne not guarantee the debt or credit instruments of DLH or any affiliate not regulated by the Commission; mortgage utility assets on behalf of DLJ or such affiliates; or loan them money or otherwise extend credit are addressed in the Settlement at II. Terms and Conditions, E. Corporate Structure Protections, Financial Conditions and Governance, Paragraph 1.

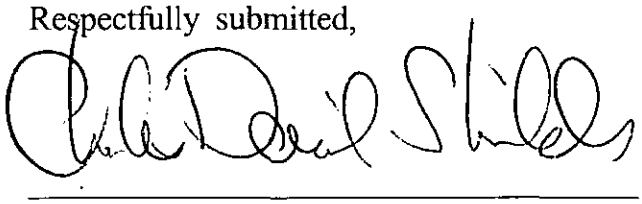
c. Conditions C, D, F, G & H of Conditions A-H (the eight conditions) recommended in the OTS Direct Testimony that relate to other "ring fencing" issues of concern to OTS such as maintaining separate debt, prior notification to

[3] Many of these conditions concern the need to ensure that adequate financial safeguards or "ring fencing" exist to insulate the credit risk of Duquesne Light from the risks of affiliate issuers within the proposed new corporate structure. Stated another way, if Duquesne Light is properly "ring fenced", the merger would have no impact on its credit rating and thus no impact on its cost of capital.

the Commission of any intention to declare any special cash dividend and allowing adequate access to corporate records are addressed at length in the Settlement at II. Terms and Conditions, E. Corporate Structure Protections, Financial Conditions and Governance, Paragraphs 2-9.[4]

The Office of Trial Staff has been thoroughly involved in the instant acquisition by merger proceeding. OTS reiterates that it fully supports the Settlement as being in the public interest and respectfully requests that Administrative Law Judge Robert P. Meehan recommend, and the Commission subsequently approve, without modification, the proposed Settlement as set forth in the foregoing Joint Petition.

Respectfully submitted,



Charles Daniel Shields
Senior Prosecutor

Robert V. Eckenrod
Prosecutor

Johnnie E. Simms
Chief Prosecutor

Office of Trial Staff
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265
(717) 787-1976

Dated: February 8, 2007

[4] The one difference being that the presently agreed upon percentage identified in the Settlement to limit Duquesne's long term debt ratio as a percent of total capitalization is 60% rather than the 55% recommended in the OTS testimony. OTS St. 1, p. 8. Settlement at II. Terms and Conditions, E. Corporate Structure Protections, Financial Conditions and Governance, Paragraph 8.

ATTACHMENT C

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc., by Merger	:	A-110150F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc., by Merger	:	A-311233F0002

STATEMENT OF THE OFFICE OF CONSUMER ADVOCATE IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT

The Office of Consumer Advocate (OCA), a signatory party to the Joint Petition for Settlement (Settlement) in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by the Administrative Law Judge and the Pennsylvania Public Utility Commission (Commission). The Settlement resolves the issues raised by the OCA regarding the proposed merger of Duquesne Light Company (Duquesne or Company). Accordingly, the OCA submits that the proposed settlement is in the public interest and in the interests of Duquesne's ratepayers.

I. INTRODUCTION

On September 6, 2006, Duquesne Light Company (Duquesne) and DQE Communications Network Services LLC (Network) collectively (Applicants) filed this Application. Applicants seek Commission approval for the transfer of control of their parent company, Duquesne Light Holdings, Inc., (DLH) to DQE Holdings LLC (DQE LLC). DQE LLC is a wholly owned subsidiary of the Macquarie Consortium (Macquarie), which is an entity comprised of six separate investment funds.

The Application provides that Macquarie, through DQE LLC, will acquire all of the outstanding stock of DLH for $20 per share. DQE LLC also owns another Pennsylvania corporation, DQE Merger Sub, Inc. DQE LLC will cause DLH and DQE Merger Sub, Inc., to merge, with DLH remaining as the surviving corporation. The effect of this transaction is that DQE LLC's members, Macquarie, will then privately control the only asset left under DQE LLC – DLH, and thereby DQE LLC will control Duquesne.

On October 2, 2006, the OCA filed its Notice of Intervention and Protest in this matter, and the Office of Small Business Advocate (OSBA) filed its Notice of Intervention and Protest. The Office of Trial Staff filed a Notice of Appearance in this matter. Numerous other parties also filed Protests and/or Petitions to Intervene in this matter, including: the International Brotherhood of Electrical Workers; the Community Action Association of Pennsylvania; the Retail Energy Supply Association; Duquesne Industrial Intervenors; Dominion Retail Inc.; Citizen Power Inc.; Strategic Energy LLC; and the Pennsylvania Large Energy Users Coalition.

Administrative Law Judge Robert P. Meehan (ALJ Meehan) was assigned to this proceeding. ALJ Meehan held a Prehearing Conference on November 28, 2006. At that time the

procedural schedule for this matter, including evidentiary hearings to be held in Harrisburg on January 30, 31 and February 1, 2007, was finalized.

Throughout the course of this proceeding, the OCA engaged in extensive formal and informal discovery to thoroughly investigate all aspects of the Company's proposed merger. Pursuant to the procedural schedule adopted in the case, the OCA submitted the Direct Testimony of its expert witnesses Barbara Alexander and Matt Kahal[1] on December 21, 2006, and submitted the Surrebuttal Testimony of Ms. Alexander and Mr. Kahal on January 23, 2007.

The Company initiated settlement discussions with the parties, and the parties continued settlement discussions through the end of December, 2006 and into the last week of January 2007, when the parties agreed to the terms and conditions reflected in the instant Settlement. Prior to the start of evidentiary hearings, the presiding ALJ was notified that the parties had reached a settlement, and the hearings were subsequently cancelled.

As noted above and discussed further below, the OCA submits that the proposed Settlement is in the public interest and in the interest of Duquesne's ratepayers. The OCA submits that the Settlement should be approved. Set forth below, the OCA will discuss several of the key provisions of the Settlement that are of particular importance to the OCA.

II. SETTLEMENT PROVISIONS

A. Rate Issues

The OCA provided testimony that certain conditions should be imposed on the Applicants, if the Commission approved this application, to ensure that this merger would provide substantial, affirmative benefits to customers. One of these conditions as testified to by

[1] Ms. Alexander is a Consumer Affairs Consultant who has been involved in the implementation of retail electric and natural gas competition for many years in numerous states. Ms. Alexander has testified as an expert witness on numerous occasions in several states, specializing in service quality, reliability and universal service issues. Mr. Kahal has testified in numerous regulatory proceedings as an independent consulting economist, specializing in energy economics, public utility regulation and financial analysis.

OCA witness Matthew Kahal, was that a distribution rate cap was needed for a reasonable period of time. OCA St. No. 1 at 26-27. The Settlement provides that Duquesne will not file for a distribution rate case that would become effective prior to January 1, 2010. See Joint Petition (J.P.) at II (B)(1). This provision ensures that Duquesne's ratepayers will enjoy a period of distribution rate stability for approximately two and a half (2 ½) years.

Mr. Kahal also testified that recovery from customers of transaction costs and other costs arising from the merger should be prohibited both in regards to FERC transmission and PAPUC distribution rates. OCA St. No. 1 at 34. The Settlement provides that acquisition premiums, transaction costs and other expenses incurred by the Company in order to consummate this merger will be excluded from future distribution and transmission rates. See J.P. at II (B)(2). This provision ensures that the new owners of Duquesne, and not its ratepayers, will be responsible for the costs incurred to achieve this merger.

Mr. Kahal further testified that, with regards to cost of capital, customers should be protected against any increase in the DLC cost of capital as a result of the merger. OCA St. No. 1 at 31-32. Mr. Kahal explained that these conditions were necessary to protect both DLC's customers and its financial integrity while avoiding cross subsidization. OCA St. No. 1 at 31, 33. The Settlement provides that for at least five (5) years after this merger closes, Duquesne will not claim any increase in its cost of capital as a result of this transaction. See J.P. at II (B)(3), (3)(b). In addition, Duquesne will maintain its capital structure in such a manner as to avoid unnecessary financial risk, and Duquesne will maintain a capital structure for ratemaking purposes that is reasonable and in the best interests of its ratepayers. See J.P. at II (B)(3)(a); II (E)(8). These provisions ensure that Duquesne's ratepayers will not be subject to higher financial costs as a result of this merger.

The OCA submits that the substantial rate issues accompanying this proposed merger as identified by its expert witness, Mr. Kahal, have been adequately addressed in the Settlement. Accordingly, the OCA submits that these provisions of the Settlement are in the public interest and in the interest of Duquesne's ratepayers.

B. Community Commitment

The OCA's investigation and analysis of this proposed merger has included the possible impacts on the Pittsburgh area if Duquesne's corporate headquarters were moved out of the region. As a result of this investigation, Mr. Kahal testified that should the Commission approve this application, a condition should be imposed that DLH maintain its corporate headquarters in Pittsburgh. OCA St. No. 1 at 35. The Settlement provides that Duquesne's corporate headquarters will remain in Pittsburgh. See J.P. at II (C)(1). The Settlement further provides that Duquesne will continue its current levels of corporate contributions to the community, including its shareholder matching funds for the Dollar Energy Fund for at least the next five (5) years. See J.P. at II (H)(1). These provisions ensure that Duquesne will remain a Pittsburgh-based company, and that its level of community involvement will continue to be robust.

The Settlement also provides that Duquesne will establish an Economic Development Program to attract and support expanding Pennsylvania industrial employers by offering discounted energy rates, for a period of three (3) years, to qualified commercial or industrial customers. See J.P. at II (H)(2). This provision is intended to stimulate the local economy by providing incentives for new and/or expanding business to increase their presence in western Pennsylvania. The OCA did not provide any testimony as to the Economic Development Program, but expects that this program will provide significant benefits for the

region. The OCA anticipates that other parties will elaborate on the benefits of this provision in their respective Statements in Support.

C. Corporate Structure, Governance and Transparency Issues

Mr. Kahal testified that as originally proposed, the Board of Directors was limited to the members of DQE LLC, and did not include the CEO of Duquesne Light Holdings (DLH). Mr. Kahal went on to testify that broadening the Board of Directors' membership could result in a Board more responsive to the interests of the Commission and the local community. OCA St. No. 1 at 29. The Settlement provides that the CEO of DLH will be a member of the Board of Directors, and the CEO will also chair a management committee which will contain representatives of both the senior management team and the Macquarie Consortium. See J.P. at II (E)(10). This provision ensures that Duquesne's local leadership and its management team will have representation on and direct input to the Board of Directors.

Mr. Kahal also testified that DLC should not serve as a source of credit for any affiliates, thereby preventing cross subsidization. OCA St. No. 1 at 31, 33. The Settlement provides that Duquesne will not guarantee, provide collateral, or otherwise loan or extend credit for periods in excess of one (1) year to any affiliates of the Company unless such an arrangement has been approved by the Commission after a finding that such an arrangement would be a benefit to ratepayers. See J.P. at II (E)(1). This provision will ensure the necessary Commission oversight of any transactions that may occur between Duquesne and its new or existing affiliated companies.

Mr. Kahal further testified that a system of progress reporting should accompany the merger given the lack of experience in the U.S. with private equity funds taking over large utility companies and the proposed changes in financial structure. OCA St. No. 1 at 34-35. The

Settlement provides that Duquesne will provide the Commission and the statutory parties (OTS, OSBA and OCA) with access to the books, records, Securities and Exchange Commission filings, staff, officers and presentations to financial analysts for the utility and its subsidiaries. See J.P. at II (D)(1); II (E)(4), (7). Beginning in March 2008 and continuing through March 2010, Duquesne will also provide an annual report to the Commission as to the status of all commitments made in this Settlement. See J.P. at II (E)(5). These provisions are intended to ensure that the Commission and the statutory parties will retain reasonable access to the books and records of Duquesne and its subsidiaries under the new corporate structure.

The OCA submits that the corporate structure, governance and transparency issues that were identified by the OCA and its expert witness have been adequately resolved through the Settlement. As such, the OCA submits that these provisions of the Settlement are in the public interest and in the interest of Duquesne's ratepayers.

D. Reliability And Customer Service

The Settlement provides that Duquesne will continue its current planned funding levels for its infrastructure improvement plan. See J.P. at II (F)(1). OCA witness Barbara Alexander testified that along with the continued infrastructure improvements, a Service Quality Assurance Plan would enhance the likelihood that promises made by the Applicants will be achieved and that customers will receive benefits from this transaction in the form of continued high service quality. OCA St. No. 2 at 20-21. The Settlement provides that Duquesne will adhere to a Quality of Service Plan, as set out in its entirety in the Settlement, during the period from January 1, 2007 through December 31, 2009, which establishes certain metrics and reporting requirements to allow for the monitoring of the quality of service provided by Duquesne and to identify any significant changes to Duquesne's reliability and service levels.

The Settlement provides that Duquesne will provide an annual report to the Commission and the statutory parties on its level of performance for the metrics contained in the Quality of Service Plan. Duquesne will provide additional information to the Commission and the statutory parties as to any metrics that fall below the agreed-to standards and will also submit the Company's plan to address such variances. In addition, the Settlement provides for a streamlined process to obtain Commission review of the Company's quality of service, should such a proceeding become necessary.

Nothing in the Settlement, however, is meant to preclude the Commission from exercising its full powers to assure that Duquesne's quality of service and reliability remains consistent with its duty to provide safe and reasonable service to its ratepayers. See J.P. at II (F)(2), (3). These provisions will ensure that Duquesne's historic reliability and customer service metrics will remain at high levels.

E. Universal Service

Ms. Alexander testified that, if the Commission approves this application, certain conditions should be imposed to ensure that low-income customers can continue to obtain and maintain essential electricity services. OCA St. No. 2 at 32-33. The Settlement provides that Duquesne will create a collaborative (Universal Service Collaborative) of local representatives of low-income groups, community-based organizations (CBOs) and the OCA to consider universal service programs so as to enhance Duquesne's programs within current funding levels, including discussing increasing the involvement of the Community Action Association of Pennsylvania (CAAP) and the PA Weatherization Task Force in referrals to and from Duquesne for its Low Income Usage Reduction Program (LIURP or Smart Comfort). The collaborative will meet no less than once per year and will include a representative of CAAP and a representative from the

Pennsylvania Weatherization Network Providers. See J.P. at II (G)(2). The Universal Service Collaborative will provide low-income advocates and other stakeholders with the opportunity to share ideas and initiatives directly with the Company personnel responsible for the planning and implementation of Duquesne's universal service programs.

The Settlement also provides that Duquesne will continue to fund its Customer Assistance Program (CAP) consistent with its need analysis, will continue to fund LIURP consistent with the settlement reached in Docket No. R-00061346, will continue its Stay Warm Program, and will expand the number of customers served under its Smart Comfort program. See J.P. at II (G)(1), (3). The Settlement further provides that Duquesne will make all reasonable efforts to completely expend the total LIURP funding that is available each calendar year. See J.P. at II (G)(5). These provisions will ensure that Duquesne's universal service programs will continue to be adequately funded, and that such programs are available to Duquesne's ratepayers.

III. CONCLUSION

The Joint Petition for Settlement resolves the issues raised and investigated by the OCA in this matter. The Settlement represents a reasonable resolution of the issues and claims arising in this proceeding, as it provides customer benefits and reduces the expense involved with continued litigation of this matter. For the foregoing reasons, the Office of Consumer Advocate submits that the proposed Joint Petition for Settlement is in the public interest and in the best interests of Duquesne's customers.

Respectfully Submitted,

Tanya J. McCloskey
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50044
E-Mail: TMcCloskey@paoca.org
Jennedy E. Santolla
PA Attorney I.D. # 203098
E-mail: JSantolla@paoca.org
Darryl Lawrence
PA Attorney I.D. # 93682
E-Mail: DLawrence@paoca.org
Assistant Consumer Advocates

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: February 8, 2007

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	**Docket No. A-110150F0035**
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	**Docket No. A-311233F0002**

STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate ("OSBA") filed a Notice of Intervention and Protest at Docket No. A-311233F0002, against the September 6, 2006, Application of Duquesne Light Company ("DLC") and DQE Communications Network Services LLC ("DQE Communications") (collectively, the "Joint Applicants"), seeking approval under Chapters 11 and 28 of the Public Utility Code, 66 Pa. C.S. Ch. 11 and 28, of the acquisition of their parent company—Duquesne Light Holdings, Inc. ("DLH")—by the Macquarie Consortium. The OSBA filed testimony; actively participated in the negotiations that

led to the Joint Petition for Settlement of the issues in this case ("Settlement"); and is a signatory to the Settlement which was filed on February 9, 2007. The OSBA submits this statement in support of the Settlement.

Settlement

The Settlement sets forth a list of issues that were resolved through the negotiation process, including the resolution of issues which were of particular significance to the OSBA when it concluded that the Settlement was in the best interests of DLC's small business customers.

The Joint Applicants are seeking certificates of public convenience under Section 1102 of the Public Utility Code, 66 Pa.C.S. § 1102. Section 1103(a) of the Public Utility Code, 66 Pa. C.S. § 1103(a), allows the Commission to issue a certificate only upon a finding or determination that the granting of such certificate is "necessary or proper for the service, accommodation, convenience, or safety of the public." Satisfying this standard requires the Commission to find that a proposed acquisition would "affirmatively promote the 'service, accommodation, convenience, or safety of the public' in some substantial way." City of York v. Pennsylvania Public Utility Commission, 449 Pa. 136, 141, 295 A.2d 825, 828 (Pa. 1972). In addition, Section 1103(a) allows the Commission to impose upon its issuance of a certificate of public convenience "such conditions as it may deem to be just and reasonable."

The Application raised several issues of concern identified by the OSBA in its Protest, including:

a. Whether transferring ownership of a Pennsylvania electric distribution company to an overseas entity would be consistent with Commission policy;

b. Whether ratepayers would benefit from the predicted enhanced access to capital; and

c. Whether ownership by an equity fund would result in the excessive diversion of DLC revenues to investors.

These issues have been resolved to the satisfaction of the OSBA because of the following provision in the Settlement:

d. DLC has agreed that there will be no general increase in distribution rates prior to January 1, 2010 (Settlement at II.B.1.). In effect, this stayout will be financed, at least in part, by the predicted reduction in the cost of capital;

e. DLC will not claim an increase in the cost of capital as a result of the merger transaction for a period of 5 years (Settlement at II.B.3). In effect, if the merger does nor produce the predicted reduction in the cost of capital, ratepayers will be protected for at least five years;

f. DLC commits to continuing the funding levels for its current planned infrastructure improvement plan for 2006 and 2007 (Settlement at II.F.1.). This commitment will reduce the risk that funds needed to operate the DLC system will be diverted to the Macquarie Consortium; and

g. DLC has agreed to a Quality of Service Plan for the years 2007 through 2009, including specific distribution reliability metrics to be achieved, reporting requirements, and remedies for failure to achieve (Settlement at II.F.2-3.). This provision will also reduce the risk that funds needed to operate the DLC system will be diverted to the Macquarie Consortium.

The OSBA understands that Section IV. "Public Interest Reasons In Support of Settlement" includes summaries of the Settlement provisions which do not supersede or modify the specific provisions of the settlement. These public interest findings are intended to satisfy the Commission's findings which it considered in *Application of Penn Estates Utilities, Inc.*, Docket No. A-210072F0003 (Order entered October 2, 2006). To the extent that such summaries are based upon or supported by the testimony and/or exhibits filed by the Applicants or other parties, the OSBA does not necessarily join in such summaries.

Conclusion

For the reasons set forth in the Settlement, as well as the additional factors that are enumerated in this statement, the OSBA believes that the Settlement is in the public interest. Therefore, the OSBA supports the proposed Joint Petition for Settlement and respectfully requests that the ALJ and the Commission approve the Settlement in its entirety.

Respectfully submitted,

Daniel G. Asmus
Assistant Small Business Advocate
Attorney ID No. 83789

For:

William R. Lloyd, Jr.
Small Business Advocate
Attorney ID No 16452

Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101
(717) 783-2525

Date: February 9, 2007

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-311233F0002

RETAIL ENERGY SUPPLY ASSOCIATION
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT

The Retail Energy Supply Association ("RESA")[1] supports the Joint Petition for Settlement ("Settlement") in this matter and requests that it be approved as in the public interest. RESA is hopeful that the merger of the Duquesne Light companies and the Macquarie Consortium in accordance with the Settlement will advance retail competition for the benefit of the public, customers and retail suppliers in the service territory of Duquesne Light Company ("Duquesne"). RESA submits that the Settlement represents a

[1] RESA is a trade association composed of a broad range of retail energy providers, including electric suppliers licensed in Pennsylvania, that support competitive retail markets and together seek to develop a more competitive power industry. RESA's members include Consolidated Edison Solutions, Inc; Direct Energy Services, LLC; Hess Corporation; Reliant Energy Retail Services, LLC; Sempra Energy Solutions; Strategic Energy, LLC; SUEZ Energy Resources NA, Inc. and US Energy Savings Corp. The opinions expressed in this filing may not represent the view of all members of RESA.

comprehensive resolution by the full range of the parties in this proceeding of all issues pertaining to the above-captioned Application in a manner that supports issuance of the requested certificates of public convenience.

The Commission may issue a certificate of public convenience if it finds that the certificate is "necessary or proper for the service, accommodation, convenience, or safety of the public."[2] Section 1103 of the Public Utility Code requires a showing that a merger as proposed here will affirmatively benefit the public and specifically will "affirmatively promote the 'service, accommodation, convenience or safety of the public' in some substantial way."[3] When evaluating the acquisition of the assets and securities of public utilities, as proposed here, the Commission is also required to consider whether the proposed transaction is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail electricity customers in Pennsylvania from obtaining the benefits of a properly functioning and workable competitive retail electricity market.[4]

RESA submits that the comprehensive Settlement – in particular from RESA's perspective, the competitively neutral Economic Development Program, the revisions to the corporate cost allocations among Duquesne and its affiliate companies, and the identification and quantification by an independent consultant of the cost of service and business functions provided to Duquesne's electric generation supplier ("EGS") affiliate

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2 66 Pa. C.S. § 1103.

3 *City of York v. Pa. P.U.C.*, 295 A.2d 825, 828 (Pa. 1972).

4 66 Pa. C.S. § 2811(e); *Joint Application of PECO Energy Company and Public Service Electric and Gas Company for Approval of the Merger of Public Service Enterprise Group, Inc. with and into Exelon Corporation*, Docket No. A-110550F0160, Opinion and Order entered Feb. 1, 2006, at 8-10.

Duquesne Light Energy – satisfies the legal requirements for Commission approval and the issuance of the necessary certificates of public convenience. Accordingly, RESA supports approval of the Settlement.

Respectfully submitted,

Daniel Clearfield, Esq.
Kevin J. Moody, Esq.
Wolf, Block, Schorr and Solis-Cohen LLP
213 Market Street, 9th Fl.
Harrisburg, PA 17108-0865
(717) 237-7160

Dated: February 9, 2007

Attorneys for Retail Energy Supply Association

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Direct Energy.

Mike Gang, Esq.
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

February 8, 2007

RE: Joint Petition for Settlement
Docket Nos. A-110150F0035 and A-311233F3002

Dear Mr. Gang:

Direct Energy Services, LLC supports the proposed settlement and, as set forth in Section II.J.2.e. of the Joint Petition for Settlement, agrees that the settlement resolves all issues relating to inter company cost allocations in this proceeding and in Duquesne's filing to establish POLR IV rates effective January 1, 2008.

Regards,

Frank Lacey

Frank Lacey
Director, Government Regulatory Affairs
Frank.lacey@directenergy.com

263 Tresser Blvd,
One Stamford Plaza, 8th Floor
Stamford, CT 06901

tel. 724.941.2149
www.directenergy.com
A Centrica business

Respectfully submitted,

Andrew S. Tubbs

AST/jl
Enclosures

cc: Honorable Robert P. Meehan
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST CLASS MAIL

Charles D. Shields
Robert V. Eckenrod
Office of Trial Staff
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265
chshields@state.pa.us
roeckenrod@state.pa.us

Daniel G. Asmus
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101
dasmus@state.pa.us

Tanya McCloskey
Darryl Lawrence
Jessica Horner
Jennedy E. Santolla
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
tmccloskey@paoca.org
dlawrence@paoca.org
JHorner@paoca.org
jsantolla@paoca.ord

Brian Kalcic
Excel Consulting
225 S. Meramec Avenue, Suite 720-T
St. Louis, MO 63108
bkalcic@mindspring.com
(Consultant for Office of Small Business Advocate)

Thomas S. Catlin
Matthew I. Kahal
Exeter Associates, Inc.
5565 Sterrett Place, Suite 310
Columbia, MD 21044
tcatlin@exeterassociates.com
mkahal@exeterassociates.com
(Consultants for Office of Consumer Advocate)

Todd S. Stewart
Hawke McKeon Sniscak & Kennard LLP
100 North Tenth Street
Harrisburg, PA 17101
tsstewart@hmsk-law.com
(Dominion Retail, Inc.)

Theodore H. Jobes
Fox Rothschild LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103-3291
tjobes@foxrothschild.com
(Pennsylvania Large Energy Users Coalition)

Daniel Clearfield
Kevin J. Moody
Wolf, Block, Schorr and Solis-Cohen LLP
213 Market Street, 9th Floor
P.O. Box 865
Harrisburg, PA 17108-0865
dclearfield@wolfblock.com
kmoody@wolfblock.com
(Strategic Energy, LLC)
(Retail Energy Supply Association)

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PA PUC
SECRETARY'S BUREAU

Paul F. Forshay
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415
pforshay@sablaw.com
(Pennsylvania Large Energy Users Coalition)

Steven S. Goldenberg
Fox Rothschild LLP
Princeton Pike Corporation Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-4586
sgoldenberg@foxrothschild.com
(Pennsylvania Large Energy Users Coalition)

Scott J. Rubin
3 Lost Creek Drive
Selinsgrove, PA 17870
Scott@publicutilityhome.com
(International Brotherhood of Electrical Workers Local 29)

Harvey L. Reiter
John E. McCaffrey
Jaime S. Dibble
Stinson Morrison Hecker LLP
1150 18th Street N.W., Suite 800
Washington, DC 20036-3816
hreiter@stinsonmoheck.com
jmccaffrey@stinsonmoheck.com
jdibble@stinsonmoheck.com
(Citizen Power, Inc.)

Erin Creahan
Richard Hudson
Two Gateway Center
Pittsburgh, PA 15222-1458
jcoletti@sel.com
ecreahan@sel.com
(Strategic Energy, LLC)

David Hughes
Citizen Power, Inc.
2121 Murray Avenue
Pittsburgh, PA 15217
Hughes@citizenpower.com
(Citizen Power, Inc.)

Jay L. Kooper
One Hess Plaza
Woodbridge, NJ 07095
jkooper@hess.com
(Hess Corporation)

Michael Gruber
Kevan Deardorff
Charles T. Weakley
Timothy Wallick
Office of Trial Staff
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265
mgruber@state.pa.us
kdeardorff@state.pa.us
cweakley@state.pa.us
twallick@state.pa.us
(Consultants for Office of Trial Staff)

Pamela C. Polacek
Adam L. Benshoff
McNees Wallace & Nurick LLC
100 Pine Street
PO Box 1166
Harrisburg, PA 17108-1166
ppolacek@mwn.com
abenshoff@mwn.com
(Duquesne Industrial Intervenors)

Eugene M. Brady
Community Action Association of Pennsylvania
165 Amber Lane
PO Box 1127
Wilkes-Barre, PA 18703-1127
hebegebe@sunlink.net
(Community Action Association of Pennsylvania)

Joseph L. Vullo
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@aol.com
(Community Action Association of Pennsylvania)

Frank Lacey
Director, Government and Regulatory Affairs
Direct Energy
263 Tresser Blvd
8th Floor
Stamford, CT 06901
frank.lacey@directenergy.com
(Retail Energy Supply Association)

Barbara Alexander
15 Wedgewood Drive
Winthrop, ME 04364
barbalex@ctel.net
(Consultant for Office of Consumer Advocate)

Date: February 9, 2007

Andrew S. Tubbs

STINSON MORRISON HECKER LLP

John E. McCaffrey
(202) 728-3013
jmccaffrey@stinsonmoheck.com
www.stinsonmoheck.com

1150 18th Street N.W., Suite 800
Washington, D.C. 20036-3816

Tel (202) 785-9100
Fax (202) 785-9163

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February 9, 2007

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VIA OVERNIGHT MAIL

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

Re: *Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger, et al.*, Docket Nos. A-110150F0035, *et al.*

Dear Secretary McNulty:

On behalf of Citizen Power, Inc. the undersigned hereby states that Citizen Power does not oppose the February 9, 2007 Joint Petition for Settlement filed in the above-referenced proceeding.

In accordance with the Commission's rules, enclosed are three copies of this letter, as well as an original and three copies of an appropriate certificate of service.

If there are any problems with this submission, or if you should require any further information, please contact the undersigned at the number listed above.

Respectfully yours,

STINSON MORRISON HECKER LLP

John E. McCaffrey

An attorney for Citizen Power, Inc.

DOCUMENT FOLDER

KANSAS CITY
OMAHA
OVERLAND PARK
PHOENIX
ST. LOUIS
WASHINGTON, D.C.
WICHITA

cc: The Honorable Robert P. Meehan (via overnight mail)
Certificate of Service (via electronic and first-class mail)

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SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code approving the acquisition of Duquesne Light Holding, Inc. by Merger	:	A-110150F0035
and	:	
Application of DQE Communications Network Services, LLC, for a Certificate of Public Convenience under Section 1101(a)(3) of the Public Utility Code approving the acquisition of Duquesne Light Holding, Inc. by Merger	:	A-311233F0002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the forgoing Non-Opposition Letter of Citizen Power, Inc. upon the participants listed below, in accordance with the requirements of § 1.54 (relating to service by a participant) and the Presiding Administrative Law Judge's November 29, 2006 Prehearing Order.

Via Electronic & First-Class Mail

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
Post & Schell PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Charles Daniel Shields, Esquire
Robert V. Eckenrod, Esquire
PA Public Utility Commission
Office of Trial Staff
PO Box 3265
Harrisburg, PA 17105-3265

Darryl Lawrence, Esquire
Jennedy Santolla, Esquire
Tanya J. McCloskey, Esquire
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923

Daniel G. Asmus, Esquire
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Joseph L. Vullo, Esquire
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704

Scott J. Rubin, Esquire
3 Lost Creek Drive
Selinsgrove, PA 17870

Todd S. Stewart, Esquire
Hawke McKeon Sniscak &
Kennard LLP
P.O. Box 1778
Harrisburg, PA 17105

Gary A. Jack, Esquire
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

Erin H. Creahan, Esquire
Julie Coletti, Esquire
Strategic Energy, LLC
Two Gateway Center, Ninth Floor
Pittsburgh, PA 15222

Adam L. Benshoff, Esquire
Pamela C. Polacek, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Gary A. Jeffries, Esquire
Dominion Resource Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Paul F. Forshay, Esquire
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415

Kevin J. Moody, Esquire
Daniel Clearfield, Esquire
Wolf, Block, Schorr and
Solis-Cohen LLP
213 Market Street, 9th Floor
Harrisburg, PA 17101

David B. MacGregor, Esquire
Post & Schell PC
Four Penn Center
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

Steven S. Goldenberg, Esquire
Fox Rothschild LLP
Princeton Pike Corporate Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-2311

Theodore H. Jobes, Esquire
Fox Rothschild LLP
2000 Market Street, Tenth Floor
Philadelphia, PA 19103-3291

Dated at Washington, D.C., this 9th day of February, 2007.

By: _____

John E. McCaffrey (D.C. Bar #457829)
STINSON MORRISON HECKER LLP
1150 18th Street, N.W.,
Suite 800
Washington, DC 20036
(202) 785-9100 (phone)
(202) 785-9163 (fax)

Scott J. Rubin
Attorney ❖ Consultant
3 Lost Creek Drive ❖ Selinsgrove, PA 17870 ❖ (570)743-2233 ❖ Fax: (570)743-8145 ❖ scott@publicutilityhome.com

February 12, 2007

ORIGINAL

James McNulty, Secretary
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg PA 17105-3265

Re: Application of Duquesne Light Company
Docket No. A-110150F0035

Application of DQE Communications Network
Services LLC, Docket No. A-311233F0002

Dear Secretary McNulty:

Enclosed for filing please find an original and three copies of the signature page of International Brotherhood of Electrical Workers Local 29 to the Joint Petition for Settlement in the above-referenced matter.

I have served a copy of this document on all parties of record, as shown on the attached Certificate of Service, as well as on the Administrative Law Judge.

DOCUMENT FOLDER

Sincerely,

Scott J. Rubin

Enclosure

cc: Robert Meehan, Administrative Law Judge
All parties

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing upon the following parties to this proceeding by first class mail.

Charles Shields / Robert Eckenrod
Office of Trial Staff
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Michael Gang
Post & Schell PC
17 N. Second St., 12th Floor
Harrisburg, PA 17101-1601

Daniel Asmus
Office of Small Business Advocate
300 North Second St., Suite 1102
Harrisburg, PA 17101

Todd Stewart
Hawke McKeon Sniscak & Kennard LLP
100 North Tenth St.
Harrisburg, PA 17101

Theodore Jobes
Fox Rothschild LLP
2000 Market St., 10th Floor
Philadelphia, PA 19103-3291

Paul Forshay
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004

Erin Creahan
Strategic Energy LLC
Two Gateway Center, 9th Floor
Pittsburgh, PA 15222

Gary Jeffries
Dominion Resources Services Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Tanya McCloskey / Darryl Lawrence
Office of Consumer Advocate
555 Walnut Street, 5th Floor Forum Place
Harrisburg, PA 17101-1923

Eugene Brady
Community Action Assoc. of PA
P.O. Box 1127
Wilkes Barre, PA 18703-1127

John McCaffrey
Stinson Morrison Hecker LLP
1150 18th Street, NW, Suite 800
Washington, DC 20036

Steven Goldenberg
Fox Rothschild LLP
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-2311

David MacGregor
Post & Schell PC
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

Pamela Polacek / Adam Benshoff
McNees Wallace & Nurick LLC
P.O. Box 1166
Harrisburg, PA 17108-1166

Kevin Moody / Daniel Clearfield
Wolf Block Schorr & Solis-Cohen LLP
P.O. Box 865
Harrisburg, PA 17108-0865

Joseph Vullo
1460 Wyoming Avenue
Forty Fort, PA 18704

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SECRETARY'S BUREAU

Scott J. Rubin
Counsel for IBEW Local 29

Dated: February 12, 2007

Scott J. Rubin, Esquire
For: *International Brotherhood of Electrical Workers Local 29*

Joseph L. Vullo, Esquire
For: *Community Action Association of Pennsylvania*

Erin Creahan, Esquire
Julie Colletti, Esquire
For: *Strategic Energy, LLC*

Theodore H. Jobes, Esquire
Steven S. Goldenberg, Esquire
Paul F. Forshay, Esquire
For: *Pennsylvania Large Energy Users Coalition*

Date: Feb. 9, 2007

Strategic Energy®

Corporate Headquarters
Two Gateway Center
Ninth Floor
Pittsburgh, PA 15222

T: 1.800.830.5923
E: sales@sel.com
W: www.sel.com

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February 12, 2007

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

RE: In the matter of the Application of Duquesne Light Company for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger, et al. Docket Nos. A-1101050F0035, *et seq;* **STRATEGIC ENERGY, L.L.C.'S STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT**

Dear Secretary McNulty:

Enclosed for filing with the Commission are the original and three (3) copies of a Statement in Support of Joint Petition for Settlement of Strategic Energy, L.L.C., in the above-captioned matter.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Erin H. Creahan
Counsel for Strategic Energy, L.L.C.

EHC:cb
Enclosures
cc: Per Certificate of Service

91

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket Nos. A-11050F0035
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	A-311233F002

STRATEGIC ENERGY, L.L.C. STATEMENT IN SUPPORT OF SETTLEMENT

Strategic Energy, L.L.C. ("Strategic") supports the proposed settlement in this matter and requests that it be approved in the public interest as set forth below:

1. Strategic intervened in this proceeding, filed testimony, and actively participated in the proceeding, as well as in the negotiations that led to the settlement in this case.

2. The settlement addresses a plethora of issues, several of which have particular interest to Strategic. The settlement avoids potentially contentious, time-consuming, and expensive litigation regarding, among other things, the potential cross-subsidization of Duquesne Light Company's ("Duquesne") retail arm, Duquesne Light Energy ("DLE"), and disputes regarding the adverse effects of the proposed merger on retail electric competition in Duquesne's service territory.

3. Strategic supports the settlement because it provides for a process for addressing these anticompetitive cross-subsidization issues that might not otherwise be available, and provides for the identification and potential mitigation of the adverse

effects of any cross-subsidization among the Duquesne companies. Throughout this proceeding, Strategic has raised the concern that DLE may have unfair competitive advantages due to direct or indirect cross-subsidies from other Duquesne companies. Strategic has been concerned that the proposed transaction could have adverse consequences for the competitive retail electric market in Duquesne's service territory due to the exacerbation or perpetuation of this improper cross-subsidization. Strategic believes that Pennsylvania utilities with affiliated competitive suppliers operating in their service territories should be subject to stricter code of conduct standards that provide for the level of functional or structural separation necessary to prevent cross subsidization and to ensure that competitive suppliers with utility affiliates operate on level playing fields in the respective utilities' service territories. In lieu of implementing stricter standards in this particular proceeding, the settlement provides another method of addressing anticompetitive cross-subsidization issues.

4. The settlement requires Duquesne Light Holdings to contract with an independent third party auditor/consultant to conduct an assessment of the services and business functions provided to DLE by its affiliates. The assessment will include an examination of the appropriate compensation for any services provided to DLE (or any other affiliated EGS) by other affiliates.

5. Upon completion of the analysis, Duquesne will compensate the appropriate Duquesne companies for the provision of these functions and services based upon the recommendations of the analysis.

6. Although Duquesne retains the ability to reject the recommendations in the analysis, Strategic and RESA reserve the right to present the independent consultant's findings to the Commission for review.

7. Strategic agrees that the proposed merger, as modified by and subject to the terms outlined in the proposed settlement – in particular Sections II.I. and II.J. – addresses and satisfies the inquiry under Section 2811(e) of the Public Utility Code that requires the Commission to consider the effects of a proposed merger on retail electric competition.

CONCLUSION

For the reasons stated above, Strategic supports the proposed settlement and requests that the Commission approve the settlement.

Respectfully submitted,

Erin H. Creahan, Esq.
Strategic Energy, L.L.C.
Two Gateway Center
Pittsburgh, PA 15222
(412) 258-2036
(412) 394-6681 (facsimile)

Dated: February 12, 2007

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SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA FIRST CLASS MAIL

Daniel G. Asmus, Esquire
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Charles D. Shields, Esquire
Robert V. Eckenrod, Esquire
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Daniel Clearfield, Esquire
Kevin J. Moody, Esquire
Wolf, Block, Schorr and Solis-Cohen, LLP
213 Market Street, 9th Floor
P. O. Box 865
Harrisburg, PA 17108-0865

Jennedy Santolla, Esquire
Tanya J. McCloskey, Esquire
Darryl Lawrence, Esq.
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Joseph L. Vullo, Esquire
Commission on Economic Opportunity
1460 Wyoming Avenue
Forty Fort, PA 18704

Paul F. Forshay, Esquire
Sutherland Asbill & Brennan, LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415

Steven S. Goldenberg, Esquire
Fox Rothschild, LLP
Princeton Pike Corporation Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-4586

Scott J. Rubin, Esquire
3 Lost Creek Drive
Selinsgrove, PA 17870

Theodore H. Jobes, Esquire
Fox Rothschild, LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103-3291

John E. McCaffrey, Esquire
Stinson Morrison Hecker LLP
1150 18th Street NW Suite 800
Washington, DC 20036-3816

David B. MacGregor, Esquire
Post and Schell, PC
Four Penn Center
1600 JFK Blvd
Philadelphia, PA 19103-2921

Gary A. Jeffries, Esquire
Senior Counsel
Dominion Resources Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
Post and Schell, PC
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Gary A. Jack, Esquire
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

Pamela C. Polacek, Esq.
Adam L. Benshoff, Esq.
McNees, Wallace & Nurick LLC
100 Pine Street, P. O. Box 1166
Harrisburg, PA 17108-1166

Todd S. Stewart, Esquire
Hawke McKeon Sniscak &
Kennard LLP
P. O. Box 1778
Harrisburg, PA 17105

Erin H. Creahan

Dated this 12th day of February, 2007.

Sutherland
Asbill & Brennan LLP
ATTORNEYS AT LAW

PAUL F. FORSHAY
DIRECT LINE: 202.383.0708
E-mail: paul.forshay@sablaw.com

ORIGINAL

1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415
202.383.0100
fax 202.637.3593
www.sablaw.com

February 12, 2007

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PA PUBLIC UTILITY COMMISSION
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VIA FEDERAL EXPRESS

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Re: Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holding, Inc. by Merger – Docket No. A-110150F0035

Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holding, Inc., by Merger – Docket No. A-311233F0002

Dear Secretary McNulty:

Enclosed for filing with the Commission are the original and three (3) copies of a Statement in Support of Joint Petition for Settlement of the Pennsylvania Large Energy Users Coalition, in the above-captioned matters.

If you have any question please do not hesitate to contact me.

Sincerely,

Paul F. Forshay
Attorney for the
Pennsylvania Large Energy Users Coalition

DOCUMENT FOLDER

Enclosures
cc: Certificate of Service

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BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	)	**Docket No. A-110150F0035**
Application of DQE Communications Network Services LLC for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	)	**Docket No. A-311233F0002**

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TO ADMINISTRATIVE LAW JUDGE ROBERT P. MEEHAN:

PENNSYLVANIA LARGE ENERGY USERS COALITION
STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT

The Pennsylvania Large Energy Users Coalition ("PALEUC"), a signatory party to the Joint Petition for Settlement ("Settlement") in this proceeding, respectfully requests that the Settlement's terms and conditions be approved by the Your Honor and the Pennsylvania Public Utility Commission ("Commission"). As discussed briefly below, the Settlement resolves PALEUC's concerns with the merger of Duquesne Light Company ("Duquesne") and DQE Holdings, LLC ("DQE Holdings")(collectively "Applicants") as originally proposed. Accordingly, PALEUC urges approval of the Settlement as in the public interest.

I. INTRODUCTION

By application dated September 6, 2006, Duquesne and DQE Communications Network Services LLC ("Network") requested that the Commission issue certificates of public

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convenience under Section 1102(a)(3) of the Public Utility Code, 66 Pa. C.S. §1102(a)(3), approving the transfer of ownership and control of Duquesne and Network to DQE Holdings. PALEUC is an association of large end use, industrial customers that are located within Duquesne's service territory and obtain electric service from Duquesne. As the Settlement notes, PALEUC filed a protest regarding the merger application originally submitted by the Applicants in this case, and questioned whether the proposed merger "will affirmatively promote the 'service, accommodation, convenience, or safety of the public' in some substantial way" as required by *York v. Pa. P.U.C.*, 449 Pa. 136, 295 A.2d 825, 828 (1972)("*York*"). PALEUC subsequently participated actively in the negotiations that produced the Settlement.

II. COMMENTS

PALEUC believes that the extensive negotiations engaged in by the parties have produced a Settlement that acceptably modifies the original merger proposal to provide benefits not only to the Applicants, but to Duquesne's ratepayers and the general public, sufficient to satisfy the *York* standard. Of particular importance to PALEUC, these benefits include DLC's agreement that there will be no general increase in distribution rates prior to January 1, 2010, and a competitively neutral economic development program aimed at large commercial and industrial customers on the Duquesne system. In addition, because the parties have reached a negotiated resolution prior to the commencement of evidentiary hearings, approval of the Settlement will permit the parties to avoid the substantial investments of time and money that evidentiary hearings and the preparation of briefs would have required.

Finally, PALEUC notes that the proposed Settlement is either supported or unopposed by all active parties to this proceeding. These parties run the gamut of regulatory, rate class and energy market interests, and the absence of opposition from such a diverse array of participants

strongly suggests that the proposed Settlement satisfies the *York* standard, serves the public interest and should be adopted.

Respectfully submitted,

By: _____

Theodore H. Jobes, Esquire
FOX ROTHSCHILD LLP
2000 Market Street
Philadelphia, PA 19103
Phone: (215) 299-2000
Fax: (215) 299-2150
tjobes@foxrothschild.com

Steven S. Goldenberg, Esquire
FOX ROTHSCHILD LLP
Princeton Pike Corporate Center
907 Lenox Drive, Building 3
Lawrenceville, NJ 08648-2311
Phone: (609) 896-4586
Fax: (609) 896-1469
sgoldenberg@foxrothschild.com

Paul F. Forshay, Esquire
SUTHERLAND ASBILL & BRENNAN LLP
1275 Pennsylvania Avenue, NW
Washington, D.C. 20004
Phone: (202) 383-0708
Fax: (202) 637-3593
paul.forshay@sablaw.com

Attorneys for the
Pennsylvania Large Energy Users Coalition

February 12, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA FIRST CLASS MAIL

Daniel G. Ausmus, Esquire
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Charles D. Shields, Esquire
Robert V. Eckenrod, Esquire
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Daniel Clearfield, Esquire
Kevin J. Moody, Esquire
Wolf, Block, Schorr and Solis-Cohen, LLP
213 Market Street, 9th Floor
P.O. Box 865
Harrisburg, PA 17108-0865

Scott J. Rubin, Esquire
3 Lost Creek Drive
Selinsgrove, PA 17870

Jennedy Santolla, Esquire
Tanya J. McCloskey, Esquire
Darryl Lawrence, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

John E. McCaffrey, Esquire
Stinson Morrison Hecker LLP
1150 18th Street, NW, Suite 800
Washington, DC 20036-3816

Joseph L. Vullo, Esquire
Commission on Economic Opportunity
1460 Wyoming Avenue
Forty Fort, PA 18704

David B. MacGregor, Esquire
Post and Schell PC
Four Penn Center
1600 JFK Blvd.
Philadelphia, PA 19103-2921

Gary A. Jeffries, Esquire
Senior Counsel
Dominion Resources Services, Inc.
1201 Pitt Street
Pittsburgh, PA 15221

Pamela C. Polacek, Esquire
Adam L. Benshoff, Esquire
McNees, Wallace & Nurick LLC
100 Pine Street, P.O. Box 1166
Harrisburg, PA 17108-1166

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Michael W. Gang, Esquire
Andrew S. Tubbs, Esquire
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Gary A. Jack, Esquire
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

Todd S. Stewart, Esquire
Hawke McKeon Sniscak & Kennard LLP
P.O. Box 1778
Harrisburg, PA 17105
Erin H. Crehan
Strategic Energy, L.L.C.
Two Gateway Center
Ninth Floor
Pittsburgh, PA 15222

Paul F. Forshay

February 12, 2007

BURKE VULLO REILLY ROBERTS

ATTORNEYS AT LAW

1460 Wyoming Avenue
Forty Fort, PA 18704
Phone (570) 288-6441 ✦ Fax (570) 288-4598

Formerly Burke & Burke
Thomas F. Burke, Sr. (1932-1972)

JOSEPH L. VULLO
jlvullo@bvrrlaw.com

www.bvrrlaw.com

February 15, 2007

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

ORIGINAL

RE: In Re: Duquesne Light Company and DQE Communication Network Services, LLC - Application for Merger
Docket Nos: A-110150F0035 and A-311233F0002

Dear Secretary McNulty:

Enclosed please find an original and three (3) copies of Community Action Association of Pennsylvania's Statement in Support of Settlement.

As indicated by the Certificate of Service, I have provided copies of the same to the parties by electronic mail.

If you need anything further, please do not hesitate to contact me.

Respectfully submitted,

Joseph L. Vullo

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
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COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA'S STATEMENT IN SUPPORT OF SETTLEMENT

The Community Action Association of Pennsylvania (CAAP) supports the Joint Petition for Settlement.

CAAP intervened in this proceeding to address the resulting Company's universal service programs; specifically, to address funding levels for those universal service programs and to address the need to employ local community-based organizations in the development and implementation of those programs. The settlement reached by the parties addresses those concerns by ensuring continued funding for those programs and the involvement of local community-based organizations in those programs.

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The settlement represents a comprehensive agreement reached by parties with various interests and will serve to demonstrate in future matters that similar parties can work together to reach a fair and just resolution.

Respectfully submitted,

JOSEPH L. VULLO, ESQUIRE
I.D. No. 41279
1460 Wyoming Avenue
Forty Fort, PA 18704
(570) 288-0700
email: jlvullo@bvrrlaw.com
Attorney for Community Action Association of Pennsylvania

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2007 FEB 20 AM 9:22
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc. by Merger	:	Docket No. A-110150F0035
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that he served a copy of the Community Action Association of Pennsylvania's Statement in Support of Settlement upon the following participants this 15th day of February, 2007, via electronic mail:

Honorable Robert P. Meehan
Administrative Law Judge
PA Public Utility Commission
1103 Pittsburgh State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222

Michael W. Gang
Andrew S. Tubbs
Post & Schell
17 North Second Street
12th Floor
Harrisburg, PA 17101

Daniel G. Amus
Office of Small Business Advocate
Commerce Building
300 North Second Street
Suite 1102
Harrisburg, PA 17101

Charles D. Shields
Robert V. Eckenrod
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Tanya McCloskey
Darryl Lawrence
Jessica Horner
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Todd S. Stewart
Hawke, McKeon, Sniscak & Kennard, LLP
100 North Tenth Street
Harrisburg, PA 17101

Daniel Clearfield
Kevin Moody
Wolf, Block, Schorr and Solis-Cohen, LLP
213 Market Street, 9th Floor
P.O. Box 865
Harrisburg, PA 17108-0865

Theodore H. Jobes
Fox Rothchild, LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103-3291

Paul F. Forshay
Sutherland, Asbill & Brennan, LLP
1275 Pennsylvania Avenue NW
Washington, DC 20004-2415

Steven S. Goldenberg
Fox Rothchild, LLP
Princeton Pike Corporation Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-4586

Scott J. Rubin
3 Lost Creek Drive
Selinsgrove, PA 17870

Harvey L. Reiter
John E. McCaffrey
Jamie S. Dibble
Stinson, Morrison, Hecker LLP
1150 18th Street NW, Suite 800
Washington, DC 20036-3816

Julie Coletti
Erin Creahan
Two Gateway Center
Pittsburgh, PA 15222-1458

Barbara Alexander
15 Wedgewood Drive
Winthrop, ME 04364
Thomas S. Catlin
Matthew I. Kahal
Exeter Associates, Inc.
5565 Sterrett Place, Suite 310
Columbia, MD 21044

Brian Kalcic
Excel Consulting
225 S. Meramec Avenue
Suite 720-T
St. Louis, MO 63108

Michael Gruber
Kevan Deardorff
Charles T. Weakley
Timothy Wallick
Office of Trial Staff
P.O. Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

Pamela C. Polacek
Adam L. Benshoff
McNees, Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

David Hughes
Citizens Power, Inc.
2121 Murray Avenue
Pittsburgh, PA 15217

JOSEPH L. VULLO, ESQUIRE
I.D. No. 41279
1460 Wyoming Avenue
Forty Fort, PA 18704
(570) 288-0700
email: jlvullo@bvrrlaw.com
Attorney for Community Action Association of Pennsylvania