

**ORIGINAL**

Sender's Address: KJF

**MID-ATLANTIC ENERGY PROJECT**

A Project of the Pace University School of Law  
Center for Environmental Legal Studies

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**DOCUMENT  
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May 25, 1995

\*\*\* By fax with mail follow-up \*\*\*

John J. Alford, Secretary  
Pa. Public Utility Commission  
Room G-23, North Office Bldg.  
Harrisburg PA 17120

**DOCKETED**  
JUN 05 1995

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783-3458 fax  
787-4095 voice

Dear Secretary Alford:

This is a Right-to-Know Law letter seeking copies of documents to be used in the Commission's decisions in the current PP&L \$261 million rate case, Docket No. R-00943271, and other Commission proceedings. We request copies of the transcripts and exhibits in the case at a reasonable cost, not to exceed the true cost of reproduction. We believe this would be between 5 cents and 10 cents per page. We also request that copies be provided within a few days of the Commission's receipt of each transcript, so that we may use the documents in preparing motions, briefs, oral argument and cross examination in Commission cases. Finally, we request expedited treatment of this request due to the tight briefing schedule in the rate case.

In the spirit of recent Commission orders and pronouncements, we hope we can resolve this matter through discussion and negotiation. But we believe that the only way to get the process going is by presenting you with this formal letter.

I am writing on behalf of the following parties to the PP&L rate case: the Sierra Club's Pennsylvania Chapter of volunteers and its named members, an organization representing environmental interests of PP&L customers; the Commission for Economic Opportunity, an organization representing the interests of low income customers of PP&L; and Eric Epstein, an individual intervenor and customer of PP&L of modest means, who has intervened to address issues in the case regarding nuclear power.

*Daniel W. Rosenblum, admitted to IL and NY Bar; Alan J. Barak, Esq., admitted to IL, MI and PA Bar; Robin O. Portnoi, admitted to MA and NJ Bar; Melanie F. Pien, admitted to NJ Bar*

We are aware of the Commission's regulation referring the public to certified court reporters to purchase copies of the Commission's case transcripts. In the spirit of that regulation we have negotiated with the court reporting firm "taking" the above-cited case, Commonwealth Reporting. The firm's position is that all parties must ordinarily purchase transcripts at the going rate. Depending on timeliness of production that rate is set by page, and turns at about \$2.45 per page, or about \$400 per day.

The firm has offered a special discounted arrangement for educational purposes -- Sierra Club, through the Widener Energy Law Clinic, would pay at least \$100 per day to secure not a hard copy, but a diskette copy, of each day's transcript. No copies could be made. But the purpose for the transcript purchase must be educational. No other party can secure this arrangement.

The Pennsylvania Right-to-Know Law, 66 P.S. § 66.1 *et seq.* ("the Law"), and the cases construing it, provide that citizens have the right to inspect and obtain (1) documents in the possession of public officials which (2) contain information regarding agency action which (3) has some effect on someone. See Lewis v Thornburgh, 68 Pa. Commw. 157, 448 A.2d 680 (1982); Hoffman v. Com., Pennsylvania Game Comm'n, 71 Pa. Commw. 99, 455 A.2d 731 (1983); Pastore v Commonwealth Ins. Dept., 125 Pa. Commw. 611, 558 A.2d 909 (1989). There is an exception for investigative documents.

The Commission is, of course, a public agency. The transcripts for the agency's cases, particularly "big" active cases, tend to come into the agency's hands within a day or two of cross examination, and the transcripts, by statute and regulation, form the basis for the Commission's decisions.

The Court Reporter's proposed terms are, in our view, unreasonably burdensome. They foreclose us from securing copies of the transcript for use in preparing for hearings and writing briefs and motions. Our immediate problem is that they foreclose us from securing transcripts to use in our offices and homes over the upcoming very tight briefing period in the case.

In fact none of the above participants can afford to purchase transcripts for this case -- there will be approximately 20 volumes to the case when the record closes. At even \$100 per day the \$2,000 tab is simply not affordable.

Even if copies were available at the Commission's presently stated rates for documents from the file room, 75¢/page, the price of these volumes would be out of the reach of any except the business interests and government agencies which typically participate in Commission proceedings.

Copying costs much less. Indeed, copies of documents may be secured at Harrisburg area copying businesses for 3¢ - 5¢ per page, depending on the number of pages ordered. We surveyed Kinkos, Office Max and ACA Copying last week to determine these prices.

We need the Commission's immediate assistance in securing working copies of the transcript for each of our efforts at briefing the case. This case is on a very tight schedule. The record is to close this week and briefs are due in mid-June. Our inability to secure copies of the transcript for use in our offices and, for Mr. Epstein, for use in his home after working hours, to write briefs in this case, is a critical impediment to our participation.

The Commonwealth firm was offered to try to make a copy of the transcript available in its Camp Hill office for the use of a party during business hours. Also, we believe that one copy of the transcript may be available in the Commission Secretary's offices in the basement of the Commission's Harrisburg North Office Building. We understand that the State does not offer copies of the transcripts.

Neither of these venues is workable, for a number of reasons. First, work on the briefs must go forward past business hours, particularly for Mr. Epstein, a citizen intervenor with a daytime job. Second, properly briefing a case requires us to have at arm's length the cartons of prefiled testimony and the exhibits as well as the transcripts, so that we would have to haul carloads of materials each day into and out of these offices in order to do our work. Third, it is unclear that there is enough room for one of us, let alone all of us, to work at these offices. Fourth, the Commission on Economic Opportunity is located in Wilkes Barre, a two-hour drive from either of these offices.

We must note that we view the Court Reporter's apparent sole control over distribution of the transcript on which this Commission would base its decision in a \$261 million rate case, or any case, as unlawful. Either:

- the transcript is a public document which will form the basis for the Commission's decision, in which case it must be available for copying at a reasonable cost under the Right to Know Act; or
- the transcript is a private document, subject to copyright protections, and not available to public under the Right to Know Act, in which case it cannot form the basis for a lawful Commission rate decision.

We request that the Commission resolve this matter as follows:

- provide copies of the transcripts in the pending PP&L \$261 million rate case to any member of the public requesting copies, at no more than the true cost of reproduction, a maximum of five cents per page, or allow such citizen to take out the transcripts to a commercial copying firm;
- provide copies of the transcripts in all transcribed cases upon the request of any member of the public requesting copies, at no more than the true cost of reproduction, a maximum of 5-10 cents per page;
- provide us with a copy or copies of the PP&L transcripts by next week, so that we can start work on our briefs and timely file the briefs. Alternatively, loan us a copy that we can take to, e.g., Kinkos and get it copied overnight next week;
- stay the PP&L rate case if the transcripts are not to be provided to us next week;
- let us know immediately if the Commission is going to deny us our requests, so that we can timely seek other relief.

We must add that we have undertaken this formal request with only the greatest reluctance, and after weeks of trying to negotiate, then negotiating with, Commonwealth Reporting. Sierra Club has dealt with this issue in that past and was able to work out an arrangement with Commonwealth. This time the negotiations failed, with one of the

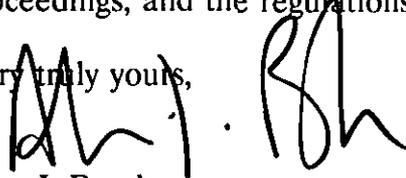
Commonwealth partners making the \$100-per-day unaffordable, and largely inapplicable, offer, and telling us that she had already called ALJ Christianson to complain about our attempts to resolve this matter.

We apologize for approaching the Commission so close to the briefing period. But, until we were presented with a different negotiating partner at Commonwealth last week, we thought we could resolve this matter.

We are sensitive to the Commission's contractual relationships regarding transcripts. But we are also aware that parties in regulatory proceedings in other states secure transcripts within days of hearings for affordable amounts, and without facing claims of copyright on the public documents.

As citizens subject to the rates, terms and conditions which the Commission sets by relying upon transcripts of its proceedings the people we represent must seek an immediate resolution of this matter that is fair to us and to others like us. Please consider this a formal demand letter affecting the PP&L rate case and other contested proceedings, and the regulations governing all transcribed Commission proceedings.

Very truly yours,

  
Alan J. Barak  
Attorney for Sierra Club

cc: DMoore, PaSC; CKuennen, EcOpComn; EEpstein; PGlass, Commonwealth Reporting

trandmnd.ltr

## MEMORANDUM

## Pennsylvania Public Utility Commission

Date: May 30, 1995

Subject: Update of Hearing Calendar  
Week of May 22, 1995

To: Aggie Brewster, Supervisor  
Docket Section

From: Norma Lewis, Supervisor  
OALJ Scheduling Unit

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JUN 26 1995

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The following is a list of hearings that were cancelled for the above-specified hearing calendar:

Docket Number	Caption	ALJ	Office	Date
C-00946429	Paduhovich v. Met Ed.	Turner	HBG	05/22/95
R-00943271 etc.	PP&L	Christianson	HBG	05/22/95
F-00242078	Horrocks v. Bell	Chestnut	PHL	05/22/95
F-00233174	Lichtenstein v. Bell	Nguyen	PHL	05/23/95
C-00946410	Scott v. Bell	Nene	PGH	05/23/95
C-00945751	Alleg. Center Assoc.	Nene	PGH	05/25/95
C099945766	PUC v. Shenkan Collegiate Express	Meehan	PGH	05/25/95
A-00107795F3AmA	Campbell t/a Heritage Tours by Greystone	Nemec	PGH	05/25/95

The following two hearings had a change in start time from 10:00 the standard 10:00 a.m. They started as follows:

C-00956716	Frantz v. Penelec	Porterfield	PGH	05/26/95
	New start time is 11:00 a.m.			
C-00946258	Quinn et al v. Lackawaxen Lovenwirth		SCR	05/25/95
	New start time of 9:45 a.m.			



DEPARTMENT OF THE ARMY  
 OFFICE OF THE JUDGE ADVOCATE GENERAL  
 901 NORTH STUART STREET  
 ARLINGTON, VA 22203-1837



REPLY TO  
 ATTENTION OF

June 9, 1995

Regulatory Law Office  
 U 3848

SUBJECT: Pennsylvania Power and Light Company, Rate Increase  
 Pa. P.U.C. Docket No. R 00943271

KJR

Hon. John G. Alford  
 Secretary  
 Pennsylvania Public Utility Commission  
 P.O. Box 3265  
 Harrisburg, PA 17108

RECEIVED  
 JUN 08 1995

SECRETARY'S OFFICE  
 Public Utility Commission

Dear Mr. Alford:

Enclosed for filing are the original and ten copies of the Brief on behalf of the consumer interest of the United States Department of Defense and other affected Executive Agencies in the above referenced proceeding. In accord with paragraph 3 of the Second Prehearing Order dated March 8, 1995, enclosed find a 5 ¼ inch floppy disk containing a copy of this brief and its Appendix A-Summary Sheet. On the floppy disk the brief is in WordPerfect 5.1 format with a file name of DODBRF.WP. The Summary Sheet is in Lotus 1-2-3 spreadsheet format with a file name of SUMMARY.WKS, again in accord with the aforementioned Second Prehearing Order.

Copies of this document are being sent in accord with the Certificate of Service. Inquiries to this office regarding this proceeding should be directed to the undersigned trial attorney at (703) 696-1646.

Sincerely,

David A. McCormick  
 General Attorney  
 Regulatory Law Office

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DOCUMENT  
 FOLDER

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission )  
et al. )

vs. )

Pennsylvania Power and Light Company, )  
Increased Rates for Electric Service )

Docket No. R 94-3271

BRIEF

-----  
Robert N. Kittel  
Chief  
Regulatory Law Office  
Office of The Judge Advocate General  
Department of the Army  
DAJA-RL 3848  
901 North Stuart Street, Room 713  
Arlington, VA 22203-1837

For

THE DEPARTMENT OF DEFENSE AND  
THE FEDERAL EXECUTIVE AGENCIES

**DOCKETED**  
**JUN 18 1995**

-----  
David A. McCormick  
Attorney

Of Counsel

Dated: 9 June 1995  
Date Due: 16 June 1995

**DOCUMENT**  
**FOLDER**

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

\_\_\_\_\_  
Pennsylvania Public Utility Commission )  
et al. )  
vs. )  
Pennsylvania Power and Light Company, )  
Increased Rates for Electric Service )  
\_\_\_\_\_

Docket No. R 94-3271

**DOCKETED**  
**JUN 12 1995**

BRIEF

**I. INTRODUCTION**

The Secretary of Defense, through duly authorized counsel, respectfully tenders this brief on behalf of the consumer interests of the United States Department of Defense and other affected Federal Executive agencies (hereinafter collectively called DOD) in the above-styled proceeding involving the request of the Pennsylvania Power and Light Company (hereinafter PP&L or Company) for general rate relief. The brief contains the DOD's recommended findings and conclusions accompanied by appropriate argument and legal citations.

**II. STATEMENT OF THE CASE**

On January 18, 1995, PP&L requested authority to increase base rates for electric service to produce additional revenues of \$261,635,000 annually. A portion of this increase reflects the

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proposed recovery in the Energy Cost Recovery (ECR) clause of plant costs related to off-system sales to Jersey Central Power & Light Company (JCP&L). The requested increase is an average increase of twelve percent in annual base rate revenues. The Pennsylvania Public Utility Commission suspended the proposed rates and instituted this proceeding to investigate the reasonableness of the proposed electric rate increases.

Several federal facilities procure electric service from the Company. On February 15, 1995, the Administrator of General Services (GSA) delegated authority under 40 U.S.C.A. §§ 481(a)(4) and 486 (d) to the Secretary of Defense to represent the consumer interest of federal civilian agencies in this proceeding (DOD Statement No. 1, Exhibit Schedule TJP-2). DOD filed a Complaint in this proceeding, to which PP&L filed an Answer. A prehearing conference was held March 7, 1995. This case was heard before the Honorable Robert Christainson, Administrative Law Judge. The ALJ issued an order dated March 8, 1995, that set forth much of the procedural schedule for the proceeding.

The major federal facilities procuring electric service from the Company, in Pennsylvania, are Carlisle Barracks, the Naval Supply Depot at Mechanicsburg, Scranton Army Ammunition Plant, Tobyhanna and New Cumberland Army Depots. In the historic test year ending September 30, 1994, the Army, alone, had total electric billings exceeding \$7,800,000.00 on Rate LP-5. The Veterans' Affairs

Hospital and other federal facilities procure a small amount of electricity on Rate LP-4 and other rates, too. Given that level of usage, the need for the participation on behalf of the consumer interest of DOD is manifest.

Numerous other parties have intervened in this case and actively participated in the proceeding. In addition to the Office of Trial Staff (OTS), the Office of the Consumer Advocate (OCA), the Office of the Small Business Advocate (OSBA), and DOD, these included: the Sierra Club; Mr. Eric Epstein, *pro se*; and a consortium of firms styled "Pennsylvania Power & Light Industrial Customer Alliance, intervenors or "PPLICA." The PPLICA group included: Air Products and Chemicals, Inc.; Alumax Mill Products, Inc.; Appleton Papers Inc.; Armstrong World Industries, Inc.; BOC Gases; CertainTeed Corporation; Chamberlain Manufacturing Corporation; Cressona Aluminum Company; ESSROC Materials, Inc.; Grinnell Corporation; Hercules Cement Company; Hershey foods Corporation; International Paper Company; Lafarge Whitehall Cement; Liquid Carbonic Industrial Gases; Magee Carpet Company; M&M/Mars, Inc.; Praxair, Inc.; R.R. Donnelly & Sons; The Stroh Brewery Company; Thomson Consumer Electronics, Inc., and the Victaulie Company of America. A separate industrial intervenor was the Bethlehem Steel Corporation. A private group styled the Commission on Economic Opportunity intervened, as did a group of firms styled the "Central Eastern Pennsylvania Fuel Oil Dealers." There was also an active intervention by

the "University/College Coalition" or "UCC." The UCC group consisted of: Muhlenberg College, Wilkes University, Kings College, Messiah College, Dickinson College, University of Scranton, Elizabethtown College, and the Keystone Junior College.

Formal hearings to take evidence in this proceeding commenced March 21, 1995. Several hearings to adduce public comment were held in the PP&L service area beginning March 30 and continuing through April 6, 1995. PP&L and others presented the testimony of witnesses and exhibits in this record. Subject to the possible receipt of certain specified late-filed exhibits, the record closed on May 26, 1995.

DOD participated in the hearings and presented one witness, Thomas J. Prisco (DOD Statement No. 1 with 14 appended exhibit schedules). On April 27, 1995, DOD Statement No. 1 with appended exhibit schedules was admitted in the record and Mr. Prisco stood cross examination. Because of funding constraints, DOD did not procure the entire transcript of the hearings. This factor is reflected in this brief. The ALJ authorized the filing of briefs, due in hand to the parties on June 16, 1995. Reply briefs, if any, are due June 27, 1995.

### **III. STATEMENT OF THE ISSUES**

WHETHER THE LEVEL OF BASE REVENUES REQUESTED BY THE COMPANY FOR JURISDICTIONAL ELECTRIC SERVICE IS JUSTIFIED, BASED ON THE RECORD?

WHETHER PP&L SHOULD BE ALLOWED TO RECOVER NON-FUEL COSTS WHICH ARISE FROM EXPIRATION OF OFF-SYSTEM SALES CONTRACTS IN THE ECR

RATE OF JURISDICTIONAL CUSTOMERS?

WHETHER THE RATE DESIGN AND RATE STRUCTURE PROPOSED BY THE PP&L IN THIS PROCEEDING IS JUST AND REASONABLE?

WHETHER THE RATES PROPOSED BY THE COMPANY IN THIS PROCEEDING ARE JUST AND REASONABLE?

#### IV. STATEMENT OF FACTS AND LAW

##### A. Cost of Capital and Capital Structure

The decision in the last general base rate increase case of PP&L may be found at: Pennsylvania Public Utility Commission vs. Pennsylvania Power & Light Co., Docket No. R 84-2651, 59 Pa. PUC 332, 67 P.U.R. 4th 30 (1986). In as much as questions regarding reasonable reserves, and excess generating capacity were raised by some parties here, it may be helpful to have citation to the decision in Pennsylvania Public Utility Commission vs. Pennsylvania Power & Light Co., Docket No. R 82-2169, 57 Pa. PUC 559, 55 P.U.R. 4th 185 (1983), also. The consumer interest represented here by DOD was an active party in both of prior proceedings. Clearly, rates were set at levels in 1986 which made it unnecessary for PP&L to seek additional rate relief for several years. Indeed, PP&L has maintained its credit and raised its dividend every year. [OCA Statement No. 2A, page 7, lines 9-12, admitted Transcript May 26, 1995].

In this proceeding, DOD Witness Prisco made a number of adjustments to PP&L's proposed overall future test year cost of service study. Collectively, those adjustments reduced the

proposed increase of \$261 million in annual revenue requirement by over \$ 177 million. [Summary Sheet in Appendix A to this brief; DOD Statement No. 1, page 3, lines 14 to 18 and Exhibit Schedule TJP-4]. Witness Prisco made additional recommendations regarding the prospective treatment of non-fuel costs of generating capacity now involved in contracts selling power off-system, which PP&L has sought to have considered for ECR cost recovery.

The Company is entitled to the opportunity to earn a return on its investment used and useful in providing electric service similar to other companies of comparable risk, sufficient to maintain its credit and discharge its public duties. This principle has been recognized by the United States Supreme Court:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

Bluefield Water works & Imp. Co. v. Public

Service Commission of West Virginia, 262 U.S. 679, 692-3 (1923).

The test enunciated by Justice Douglas bears repeating:

From the investor or company point of view, it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock . . . By that standard the return on equity to the owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital . . . Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).

Chief Justice Rehnquist, speaking for the U.S. Supreme Court, affirmed these principles in Duquesne Light Company v. Barasch, 488 U.S. 299, 109 S.Ct. 609, 617 (1989).

PP&L Witness Paul R. Moul offered testimony for the Company on the required return on equity capital. [PP&L Statement No. 12 admitted Transcript of March 30, 1995]. Other expert witnesses presented conflicting evidence regarding the cost of common equity capital for PP&L. In Table I on the next page, the recommendations of expert witnesses are summarized:

TABLE I		
<u>Expert Witness</u>	<u>Sponsor</u>	<u>Recommended Return on Equity</u>
Paul R. Moul	PP&L	13.00 %
Kevan L. Deardorff	OTS	10.63 %
Mathew I. Kahal	OCA	11.10 %
Thomas J. Prisco	DOD	11.50 %
Richard A. Baudino	PPLICA	10.85 %

Each of these experts expressed rationales to support their recommended allowed return on PP&L common equity. For instance, DOD Witness Prisco responded in direct testimony saying [DOD Statement No. 1, pages 13, line 16 to page 14 line 10 admitted transcript of April 27, 1995]:

"Q. Mr. Prisco, did you make any recommendation regarding PP&L's proposed capital structure or cost of capital?

A. I have made no changes in my exhibits regarding the proposed capital structure, and I have used the figures for preferred stock and debt proposed by PP&L. I did use a different cost of equity than proposed by PP&L, [for] capital market conditions changed since the last base rate case nearly a decade ago. For purposes of calculating a revenue requirement on Exhibit TJP-4, I used the cost of equity capital found reasonable by the Pennsylvania Public Utility Commission in a recent electric utility case, decided on the day before this proceeding was filed by PP&L. In the Order entered December 29, 1994, in Pennsylvania Public Utility Commission, et al. vs. West Penn Power Company, PA PUC Docket No. R-00942986, the Commission awarded that electric utility a return on equity of 11.5 percent. For purposes of calculation of revenues, this return on equity affords PP&L a return similar to that currently available to an enterprise of similar risk in this part of the nation."

There is some general recognition that West Penn Power Company has had the lowest electric rates in Pennsylvania. [PP&L Statement No. 8R, Schedule OGK-12, 2 pages. Transcript of May 25, 1995 after 2:00 PM]. In the 1994 West Penn Power decision cited by DOD Witness Prisco the Commission said at page 99:

"--- To this return, however, we are adding .25 % to compensate the Company for its management performance. See Section 523 of the Public utility Code, 66 Pa. C.S. § 523. ---"

In light of that, it is possible that some party may accuse Witness Prisco of excessive generosity to PP&L in his equity return recommendation. However, Mr. Prisco acknowledged on further in direct examination that he had not conducted any independent study of current capital markets in making his recommendation. He went on to say that in his expert opinion that [DOD Statement No. 1 page 14 lines 18 to 21]:

" --- It is possible that such independent studies of the cost of capital and capital structure would have resulted in a lower overall recommended return. ---"

The independent studies and testimony of Witnesses Deardorff, Kahal and Baudino corroborate Witness Prisco's opinion that the allowed PP&L equity return should not exceed 11.5 percent.

In response to a question by OTS lawyer John Simms on the morning of May 23, 1995, Witness Kevan Deardorff noted that "A" rated bonds like those of PP&L showed only a 7.97 percent average return in a Federal Reserve Board report dated May 8, 1995. Witness Deardorff noted in testimony in support of a lower equity return that this was nearly a half a percentage less than the market required debt return reported in the same Federal Reserve publication in the time period of the decision in the recent West Penn Power Company, *supra*. Again, the position of DOD Witness Prisco was corroborated.

Once the Commission has determined the appropriate level of

return on equity capital, that return may be entered into calculations to determine the overall required return, considering interest on the debt and dividends for preferred stock in the PP&L capital structure. PP&L Witness Paul R. Moul testified on capital structure, also. [PP&L Statement No. 12]. DOD Witness Prisco agreed with PP&L Witness Moul regarding the capital structure proposed by PP&L in this proceeding.

The PP&L proposal called for a capital structure with 46.53 percent long term debt, 7.59 percent preferred stock and 45.88 percent common equity capital. [DOD Statement No. 1, Exhibit Schedule TJP-12 and PP&L Statement No. 12R, page 11, lines 9 to 12]. Some of the other witnesses in this proceeding did not agree with the Company's proposed capital structure. [See PPLICA Witness Richard A. Baudino's initial direct testimony]. Given the various capital structure recommendations of witnesses, the overall cost of capital recommendations are shown in Table II below:

TABLE II

<u>Expert Witness</u>	<u>Sponsor</u>	<u>Recommended Overall Cost of Capital</u>	<u>Citation to Record</u>
Ronald E. Hill	PP&L	10.23 %	PP&L Future 1 Rev. B-9
Kevan L. Deardorff	OTS	9.14 %	OTS Ex. 1, Schedule 1
Mathew I. Kahal	OCA	9.33 %	Exhibit MIK-1, page 1
Thomas J. Prisco	DOD	9.54 %	Exhibit Sched. TJP-12
Richard A. Baudino	PPLICA	9.22 %	Direct, p. 36, line 16

B. Accounting Adjustments

1. Rate Case Expenses

In PP&L's proposed overall cost of service, PP&L proposed to normalize rate case expenses in one year. [PP&L Witness Ronald J. Bernini, PP&L Statement No. 3]. DOD Witness Prisco challenged this accounting adjustment. After all, it has been over eight years since PP&L filed its last base rate case. To permit such proposed costs in this proceeding to be prospectively recovered in rates so rapidly seemed unreasonable to DOD Witness Prisco. He suggested a three year amortization period. PP&L Witness Ronald J. Bernini, attempted to rebut DOD Witness Prisco. [PP&L Statement No. 3R, page 5, line 15 to page 6, line 15]. Conceptually, OTS Witness Charles T. Weakley III corroborated the position of Witness Prisco. Witness Weakley advocated a smaller adjustment to the PP&L proposal.

Witness Prisco's recommendation resulted in an adjustment to the PP&L proposed overall cost of service of \$249,000 by Witness Prisco. [DOD Statement No. 1, page 6 line 11 to 21, and Exhibit Schedule TJP-5]. PP&L filed rebuttal testimony on this issue.

2. Interest on Customer Deposits

As originally filed PP&L's proposed overall cost of service proposed to continue paying 11 percent interest on customer deposits. This amount had been authorized in an 1981 decision by this Commission. In his prepared direct testimony DOD Witness

Thomas Prisco took exception to this in light of changing money market conditions. He suggested a lower rate of interest on customer deposits related to interest on US Savings Bonds. [DOD Statement No. 1, page 7 lines 1-18 and Exhibit Schedule TJP-6]. Witness Prisco made a \$39,000 adjustment to PP&L's proposed overall cost of service.

Prior to the formal hearings, PP&L modified its overall cost of service study future test year in a response to a data request to OTS. PP&L agreed that it would make a further adjustment to lower the interest paid on customer deposits. During his cross examination of DOD Witness Prisco, Thomas Gadsden, trial counsel for PP&L, confirmed this further PP&L modification. [Transcript, April 27, 1995].

### 3. Decommissioning Expenses for Fossil Facilities

In this proceeding PP&L sought to have the Commission authorize the establishment of a fund to handle future costs of the alleged decommissioning expenses of PP&L fossil fuel generating facilities. [Testimony of PP&L Witnesses Ronald J. Bernini, and Thomas S. LaGuardia, PP&L Statement Nos. 3 and 13, Transcript of March 1995]. DOD Witness Prisco challenged that request. He identifies a number of variable which would affect decommissioning, such as life extending upgrades. He noted the possible future use of the site as valuable for power generation by PP&L (its unregulated subsidiaries) or third parties. Mr. Prisco proposed an adjustment

reducing the PP&L future test period overall cost of service by \$52,818,000. [DOD Statement No. 1, page 9, lines 1-16, Exhibit Schedule TJP-8]. DOD Witness Prisco was corroborated by the direct testimony of PPLICCA Witness Lane Kollen, C.P.A. [Witness Kollen's direct testimony page 7 line 3 to page 11 line 12].

This same issue was discussed in the Order entered December 29, 1994, in Pennsylvania Public utility Commission, et al. vs. West Penn Power Company, PA PUC Docket No. R-00942986 where the Commission said at 63:

"Consequently, we reject the Company's claim because of its uncertain and speculative nature and because the claim is patently counter to existing precedent."

#### 4. Nuclear Plant Decommissioning Expenses

In this proceeding PP&L proposed to increase annual nuclear decommissioning expenses by \$22,916,000 to \$30,042,000 in the overall cost of service. [Testimony of PP&L Witnesses Ronald E. Hill, Ronald J. Bernini and Thomas S. LaGuardia; PP&L Statement Nos. 1,3 and 13 respectively]. DOD Witness Prisco recognized that PP&L is currently allowed to recover nuclear plant decommissioning expenses in the cost of service. He recommended that the Commission continue its current practice. That would permit (per budget) PP&L to continue to annually recover \$7,126,000 for the nuclear decommissioning fund.

The study presented by Witness LaGuardia proposes to decommission the entire site not just the nuclear facilities. Even

without considering life extension, the Nuclear Regulatory Commission (NRC) does not require funding decommissioning costs of non-nuclear facilities, i.e. switch yard, offices etc. Witness Prisco recommended disallowance of the proposed increase of \$22,916,000 in the overall cost of service. [DOD Statement No. 1, page 9 line 21 to page 10 line 8 and Exhibit Schedule TJP-9].

Again, DOD Witness Prisco was corroborated independently by both OTS Witness Joseph J. Sivulich and PPLICA Witness Lane Kollen, C.P.A. [OTS Statement Nos. 2, and SR2 page 1, line 20 to page 5, line 10 as well as PPLICA Witness Kollen's initial direct testimony, page 19, line 6, page 25 line 20].

5. PP&L's Adjustment to Depreciation Lives of Fossil Fuel Facilities.

PP&L proposed for rate case purposes to project a "deactivation date" to reduce the depreciable lives of several major fossil fuel fired generating plants. [PP&L Statement No. 5] These units were Martins Creek Units 1 & 2, Holtwood 17, Sunbury, Brunner Island and Montour. In part this PP&L action was said to relate to PP&L's perception of the action that it might take at some future time to comply with pollution control regulations. On cross by OTS lawyer Kenneth Mickens, PP&L Witness Douglas A. Krall admitted that PP&L had no immediate plan to retire, abandon or otherwise cease to

operate these valuable power plants. The total capacity subject to this proposed adjustment is 735 Mega-Watts. [DOD Statement No. 1 page 12, line 31].

The proposed "deactivation" dates in all cases accelerated the projected retirement dates for the units in PP&L's 1994 and 1995 Annual Resource Planning Report to the Commission. Thus, for rate case purposes, the depreciable lives of the plants were reduced and projected overall cost of service increased.

DOD Witness Thomas Prisco took exception to this adjustment. He has recommended disallowance of the \$28,000,000 increase in the future test period expenses that arises from PP&L's proposed use of "deactivation" dates to shorten the depreciable lives of the fossil fuel units. Quoting PP&L's responses to Interrogatory OTS-RB-23D, Witness Prisco noted the many uncertainties PP&L associates with the selected "deactivation" dates. PP&L has not met a known and measurable standard for this proposed adjustment. [DOD Statement No. 1, page 10, line 18 to page 12, line 22 and Exhibit Schedule TJP-10].

PP&L Witness Douglas Krall endeavored to rebut Witness Prisco. [PP&L Statement 5R, page 1, lines 28-30, page 6 line 1-2, page 9 line 28 to page 10, line 9]. Again, DOD Witness Prisco was independently corroborated by PPLICCA Witness Lane Kollen, C.P.A. [Lane Kollen direct testimony, page 12 line 6 to page 15, line 18].

6. Levelization of Susquehannah Sinking Fund Depreciation

In a prior rate proceeding, PP&L had proposed and was allowed to utilize a method of sinking fund depreciation for recovery of its investment in the nuclear plant called the Susquehannah Steam Electric Station (SSES). In this case, PP&L has proposed to modify this method of capital cost recovery in a manner that increases the level of expenses in the future test period. [Testimony of PP&L Witness Donald S. Hoch, PP&L Statement No. 4].

DOD Witness Prisco challenged this proposed change in sinking fund depreciation by PP&L. He recommended disallowance of the proposed increase of approximately \$33 million in future test period expenses proposed by PP&L. [DOD Statement No. 1, page 13, lines 7 to 13 and Exhibit Schedule TJP-11]. Again, DOD Witness Prisco was independently corroborated by both the direct testimony of PPLICA Witness Lane Kollen, C.P.A. and OTS Witness Joseph J. Sivulich. [Kollen initial direct testimony at page 16 line 6 to page 18, line 17 and OTS Statement No. 2 and OTS Statement No. SR2 at page 5, line 16 to page 6, line 21].

C. Recovery in the ECR of Non-Fuel Non-Energy Revenue Requirements Associated with Off System Bulk Power and Capacity Sales.

PP&L proposed modifying the ECR to purportedly give PP&L the incentive to increase system efficiency by better use of available capacity. [PP&L Statement No. 7, page 21 line 11, to page 25, line 4]. PP&L Witness Joseph M. Kleha suggested that this would happen by allowing PP&L to recover non-fuel, non-energy costs of service

associated with off system bulk power and capacity sales in the ECR. There is a question as to what incentive is being given PP&L by this proposal. Some might argue that by allowing recovery of such costs in the ECR, PP&L would effectively shift all adverse business risks attendant to the emerging off system deregulated bulk power to Pennsylvania jurisdictional rate payers. OTS Witness Paul Metro appeared to support PP&L's proposal.

DOD Witness Prisco responded suggesting a different method of sharing risk, in part, as follows in his direct testimony. [DOD Statement No. 1 page 14 line 23 to page 15 line 14]:

"Q. Mr. Prisco, do you have any recommendations regarding the PP&L proposal that the ECR be modified to permit recovery of the Pennsylvania jurisdictional portion of non-energy revenue requirements associated with off system bulk power and capacity sales?

A. This PP&L proposal was initially discussed in the direct testimony of PP&L witness Joseph M. Kleha, [PP&L Statement No. 7, page 19, line 3 to page 25, line 4]. If the Commission wants to give the incentive to PP&L to increase system efficiency by better use of available capacity, the Commission should modify the ECR by returning to a method of treating non-energy revenues and revenue requirements in the manner employed prior to the decision in PA PUC Docket Nos. M 00910273, M-00920312 and 00930406 effective April 7, 1994. --"

Base rate treatment of capacity is the appropriate regulatory treatment, not use of the ECR. If PP&L finds this results in a perceived revenue deficiency at some future time, PP&L can file a base rate case at that time. In his direct testimony, PPLICIA Wit-

ness Stephen J. Baron independently corroborated the testimony of DOD Witness Prisco. [ PPLICA Statement No. 8, page 74 line 8 to page 77 line 20].

During cross by OCA lawyer Tanya McCloskey, PP&L Witness John F. Sipics divulged that PP&L had recently entered into a 300 Mega-Watt sale of capacity to the Jersey Central Power & Light Co. (JCP&L). The sale is a fixed price (with adjustments) capacity sale, not a "slice of the system" sale. The sale is initially for 150 Mega-Watts beginning June 1, 1997, expanding to 300 Mega-Watts for the period June 1, 1999 through May 31, 2004. [Transcript of May 26, 1995]. This revelation may have affected PP&L's position, reducing the risk shifting need for ECR treatment of generating plant costs.

During his surrebuttal cross by OCA lawyer Tanya McCloskey, in the early afternoon of May 25, 1995, PP&L Witness Joseph M. Kleha appeared (to DOD counsel) to agree that the position taken by DOD Witness Prisco and PPLICA Witness Barron for treatment of non-energy sales and revenue requirements in base rates might be acceptable to PP&L. [Transcript, May 25, 1995]. Since DOD did not procure the transcript, there may be error in the undersigned lawyer's notes or perceptions. PP&L Witness Kleha did file rebuttal to DOD Witness Prisco. [Statement No. 7R, page 31, line 3 to page 35, line 25].

D. Rate Design and Class Cost Allocation

PP&L presented a class cost of service study through Company Witness Oliver G. Kasper which PP&L used in designing the rates at the proposed level of increased revenues. [PP&L Statement No. 8 and Exhibits OGK 1-4].

PP&L used the 12 monthly coincident peak (12 CP) method articulated in the NARUC Electric Utility Cost Allocation Manual to allocate class responsibility for costs of generation and transmission. The 12 CP method is the method of allocating production and transmission costs most commonly used at the F.E.R.C., which should assist PP&L in resolving disputes in the newly deregulated wholesale electric market.

The load shape of any utility can vary over time. Most will concede that PP&L is a winter peaking utility. Some may credibly argue here for a winter peak allocation of demand. Witness Kenneth Eisdorfer for UCC advocated use of the 1 CP method. [UCC STATEMENT No. 2, page 2, lines 2-5, admitted in record, Transcript of morning of May 23, 1995]. However, at off-peak times scheduled outages at major units can result in PP&L having its lowest reserve levels, in any month. To illustrate, in September 1994, PP&L had to interrupt jurisdictional interruptible customers. OTS Witness Paul R. Yarloin supported PP&L's usage of the 12 CP method, here. [OTS Statement No. 3 and OTS Statement.No. SR3, page 13 line 8 to page14

line 9]. In the spirit of compromise, DOD does not question the fairness of PP&L's use of the 12 CP method to allocate generation and production costs for rate making at this time.

OCA Witness Johnson used one of his versions of a peak and average method to allocate production and transmission costs. In theory, his peak and average method is a "capital substitution method" in which a utility supposedly allocates more capital investment to base load plant (over the cost of a peaking combustion turbine) as a trade-off to meet system demand (KW) and achieve fuel savings and net lower electricity costs. As PPLICA Witness Stephen J. Baron noted in his rebuttal direct testimony:

"The problem with this theory is that it assumes that the entire excess capital and fixed O&M costs of a baseload unit (e.g., the Susquehannah unit), over and above a combustion turbine unit, are solely related to fuel savings. The facts do not comport with this theoretical assumption. As is clearly pointed out by OCA Witness Kahal, the Susquehannah capacity is Uneconomic, implying that a portion of its high capital costs is not related to fuel savings." (emphasis supplied by Witness Baron).

While these two OCA Witnesses work for the same firm, they appear to contradict each other on the same point. PPLICA Witness Baron made the following observation in rebuttal direct testimony.

[Rebuttal of Stephen Baron, PPLICA Statement \_\_\_\_, page 6, lines 12-15]:

"If Dr. Johnson had used the NARUC peak and average approach, which he adopted ten months ago in the West Penn case, he would have allocated 3.2 % more production and transmission investment to residential cus-

tomers than PP&L's 12 CP method allocates." (emphasis supplied by Witness Baron)

Bethlehem Steel Witness Maurice E. Brubaker offered perhaps the most scholarly rebuttal of the flaws and errors in the class cost allocation approach taken by OCA Witness Johnson. [Bethlehem Steel Statement No. 2, page 5, line 5 to page 12 line 20, and his Exhibit Schedule MEB-4, admitted in Transcript of morning of May 25, 1995].

Distribution plant must be sized and built to meet the non-coincident peak (NCP) demands --- or unscheduled outages would occur! That is the manner in which electric distribution investment and costs are actually incurred by the utility. That said, PP&L Witness Joseph M. Kleha notes four reasons to account for a load carrying capability in any "minimum system" method of distribution plant cost allocation. [PP&L Statement No. 7R, page 23, line 2 to page 24, line 4].

PP&L Witness Kleha used the "minimum system" method of allocating the costs of service related to distribution plant. He used the method described in the NARUC Electric Utility Cost Allocation Manual. The "minimum system" approach to allocation of distribution system costs (WHEN PROPERLY DONE) is often part of a regulatory rate design compromise which seems more proximate to the NCP than the often rejected "zero-intercept" method.

OCA Witness Dr. Charles E. Johnson suggested that modification to that method of allocating distribution plant was reasonable and that some allocation of transformer or pole line costs should be

considered customer related. [OCA Statement No. 3, page 16, lines 1-3]. The fact that the cost of the minimum sized transformers now installed on a pole line or costs of the poles and conductors do not vary with demand did not seem to worry Witness Johnson. Witness Johnson's modification of the "minimum system" method appears to be similar to the "zero-intercept" method often rejected by regulators in Pennsylvania.

Among others, OSBA Witness Ronald Knecht noted this short coming in the analysis and study of OCA Witness Dr. Charles E. Johnson, Ph.D. OCA Witness Johnson refused to correct this obvious flaw or any of the other flaws noted by Witness Knecht in his proposed class cost of service study. [OCA Statement No. 3B, Surrebuttal of Dr. Charles E. Johnson, page 5 lines 4-16]. In the spirit of compromise, DOD does not question the fairness of PP&L Witness Kleha's use of the "minimum system" method to allocate distribution costs for rate making at this time.

Judge David W. Craig, speaking for the Commonwealth Court in People's Natural Gas Company v. Pennsylvania Public Utility Commission, 122 Commonwealth Ct. 445, 552 A.2d 1135 (1989) said:

"The establishment of rate structures is an administrative function peculiarly within the expertise of the Commission, so that if the Commission findings are supported by substantial evidence, we must affirm. [citation omitted]

Generally, it is the burden of a utility which seeks an increase

in rates to establish not only that it requires the overall increase, but that its proposed schedule of rates is not discriminatory, Blackstone Valley Chamber of Commerce v. PUC, 396 A.2d 102, 104 (1979). In that case the Rhode Island Supreme Court observed:

Most recently in United States v. Public Utility Commission, 393 A.2d 1092 (1978), we enunciated certain principles concerning rate design. We stated that the burden is on the utility which seeks an increase in rates to reestablish not only that it requires an overall increase, but that its proposed schedule of rates is nondiscriminatory.

In United States v. Public Utility Commission, 393 A.2d 1092, 1095 (1978), the Rhode Island Supreme Court found the rate design, which affected a Navy installation, to appear discriminatory and remanded the proceeding.

This Commission said that it "-- has historically recognized the cost of service study for what it is, a useful tool in testing for reasonableness of the proposed allocation of the revenue requirement --." Pennsylvania PUC v. West Penn Power Company, 59 Pa. PUC 552, 69 P.U.R.4th 470, 514 (1985). Rates are properly prescribed when the proposed rates accurately reflect the variations in the cost of serving the different rate classes.

This Commission has jurisdiction to determine whether a rate is unduly discriminatory, unreasonable or unlawful, East Hempfield Township v. Lancaster, et al., 441 Pa. 406, 273 A.2d 333 (1999) and Brockway Glass Company v. West Penn Power Company, Docket No.

C-80021876, 54 Pa. PUC 509 (25 September 1980). Regulators have long recognized that variations in utility rates are not unduly discriminatory unless there is no reasonable cost justification for the variation, Pennsylvania PUC v. Philadelphia Electric Company (Gas Division), R.I.D. No. 227, Slip Opinion, (13 December 1976). Electric service is properly priced on a cost of service rather than a value of service basis. Re South Carolina Generating Co., 15 P.U.R. 3d 289, 296 (1956) and Re South Carolina Generating Co., 17 P.U.R. 3d 95, 97 (1956). Regulators have stated the goal as follows:

"We find it reasonable that the return made by the company in serving each class of customers be as near as practicable to that of serving other customers, and consequently to the average of all customers. Central Vermont Public Service Corporation, 28 P.U.R. 4th 469,486 (1978)

Federal courts have suggested that class rates of return should be proximate to unity with the overall authorized rate of return. Alabama Electric Cooperative v. F.E.R.C., 684 F.2d 20 (CADC 1982).

While this Commission is not bound by precedent in other states, it has been said that the touchstone of public utility law is the rule that one class of consumers shall not be burdened with the costs created by another class. Jones v. Kansas Gas & Electric Co., 222 Kan. 398, 565 P.2d 597 (1977). Variations in utility rates are not unduly discriminatory unless there is no reasonable cost justification for the variation. Jaeger v. Alaska, 537 P.2d

1100, 1109 (1979). Non-cost considerations have been considered in designing utility rates, but rates must be substantially based on cost of service. Re Arizona Public Service Company, 91 P.U.R.4th 337, 381-2 (1988).

PP&L has proposed to offer interruptible service as a rider for several tariffs, including LP-4, LP-5 and LP-6. It is anticipated that some party may argue that interruptible service should be treated as a separate class, rather than as a option that might be subscribed to by those on a variety of tariffs. The same parties may argue for separation of the portion of load subscribed to such interruptible tariff riders in the class cost of service study. In general, absent truly compelling evidence that interruptible rates are now earning PP&L a return at unity with the overall allowed return, DOD supports the rate design suggested here by PP&L.

DOD has no position as to the differences of opinion between CEFOD Witness Kenneth Eisdorfer and OCA Witness Charles Johnson regarding the RS and RTS rate issues. However, some effort might be appropriate, as a general principal, to move all rates and groups of rates in the PP&L class cost of service study to class rates of return at unity with the overall allowed return in this proceeding.

"Gradualism" as it applies to movement of rates toward actual class costs of service is somewhat nebulous, but the Commission said in the decision in Pennsylvania PUC v. National Fuel Gas

Distribution Corp., Docket No. R 00870719, (July 28, 1988), in a case in which one rate was decreased while others were increased, that:

The revenue increase authorized in this proceeding should be allocated to the remaining rate classes so that one-half of the Company's proposed shift to system equality among class rates of return is achieved, if possible. Any remaining revenue requirement should be equally allocated to all rate classes.

That precedent of "gradualism" is one alternative which could be used in this case for guidance.

#### V. ARGUMENT

The Company is entitled to rates which afford it the opportunity to earn a reasonable return on all of its used and useful investment related to providing electric service allocable to the Pennsylvania jurisdictional service area sufficient to maintain the revenue stability and financial integrity of the Company and to enable it to attract capital. Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944); Bluefield Waterworks and Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Duquesne Light Co. v. Barasch, 488 U.S. 299 (1989). This Commission should set a revenue requirement which results in the lowest reasonable rate that is not confiscatory. Pittsburgh v. Pennsylvania Public Utility Commission, 165 Pa. Super Ct. 519, 69 A.2d 844 (1949); Pennsylvania Public Utility Commission v. Pennsylvania Gas & Water Company 19 Pa. Cmwltth 214, 341 A.2d 239

(1975); Keystone Water Company v. Pennsylvania Public Utility Commission, 19 Pa. Cmwlth. 293, 302, 330 A.2d 873,877 (1975); Riverton Consolidated Water Company v. Pennsylvania Public Utility Commission, 186 Pa. Super. Ct. 1, 140 A.2d 114 (1958); and Pa. PUC v. West Penn Power Company, Docket No. R-00850220, 77 P.U.R.4th 220, 253 (July 24, 1986), decision on rehearing at 77 P.U.R. 4th 210 (July 23, 1986).

This Commission could adopt an authorized return on common equity not exceeding 11.5 percent. DOD Witness Prisco testified that independent studies of the capital markets would likely produce results showing the cost of common equity for PP&L in the market place was less than 11.5 percent. [DOD Statement No. 1, page 14, line 18-21 and Exhibit Schedule TJP-12]. Such evidence is now, in this record. DOD does not question PP&L's proposed capital structure. In such a case, the overall cost of capital for PP&L can not exceed 9.54 percent. OTS Witness Kevan Deardorff has testified the overall cost of capital to PP&L may be only 9.14 percent. [OTS Statement No. 1, page 36 line 16].

A number of accounting adjustments need to be made to PP&L's proposed overall cost of service for the future test period. Those accounting adjustments produce a revenue requirement far less than initially sought by PP&L in this proceeding. DOD encourages the Commission to make those accounting adjustments any others that need be made to PP&L's proposed overall cost of service for the

future test period. A copy of a summary sheet of the adjustments discussed in this brief to PP&L the overall cost of service is Appendix A to this brief. Witness Prisco's adjustments recommend a reduction in from the proposed revenue increase of \$177,773,000 compared to the figures on PP&L's Exhibit Future 1. [PP&L Exhibit Future 1, revised May 12, 1995, admitted Transcript, May 23, 1995].

Initially, DOD Witness Prisco challenged the forecast and projected cost data submitted in support of PP&L's Voluntary Early Retirement Program (VERP). Witness Prisco made certain disallowances related to the VERP request in the overall cost of service. [DOD Statement No. 1 page 7 line 20 to page 8, line 22]. Some other witnesses did likewise.

During the course of the proceeding, PP&L submitted updated data and some actual cost data in support of the VERP costs. PP&L Witness Michael J. Berish mentioned this fact in rebuttal testimony. [PP&L Statement No. 2R, page 17 lines 9 to 16]. PP&L appears to have adequately justified the VERP costs at this point. While the actions of others is uncertain, DOD is not pressing that issue here.

OCA, and PPLICA have sponsored additional revenue requirement adjustments reducing the amount their experts find PP&L has justified in its overall level of revenues in the cost of service for the future test period. In at least one instance, this results in a net base rate and base revenue reduction from current levels.

Because of limited resources and time constraints on DOD trial counsel, DOD has not addressed the issues raised by these other parties. Silence should not be construed as opposition by DOD to the revenue requirement issues raised by OCA and PPLICA. There is precedent for this Commission to order a base rate reduction in a case in which a utility filed for a base rate increase. Claysville Natural Gas Company v. Pennsylvania Public Utility Commission, Docket No. R-00822238, 57 Pa. P.U.C. 541 (September 16, 1983). The record may justify such action here.

While there is always room for improvement in rate design, within the limits been noted above, DOD is generally supportive of both PP&L's class cost of service analysis and PP&L's proposed rate design. Since it is anticipated that the Commission will not award PP&L proposed increased revenues of \$261,635,000, any rate increase awarded the utility should be scaled back following PP&L's proposed rate design -- with an effort to move the return earned by PP&L on sales to all rate classes closer to unity with the overall return authorized PP&L in this proceeding.

Like all tax payer supported activities, DOD has limited resources. Dollars expended for unreasonable electric rates are not available for funding the primary missions of federal facilities. DOD has an obligation to consider costs of service in procuring electricity, Black Hills Power and Light Co. v. Weinberger, 808 F.2d 665, cert. denied, 108 Sup. Ct. 73, 484 U.S. 818 (1987), and

see West River Electric Association v. Black Hills Power and Light Co., 719 F.Supp. 1489 (1989), 107 P.U.R.4th 558 (1989), aff'd, West River Electric Association v. Black Hills Power and Light Co., 918 F.2d 713, 118 P.U.R. 4th 510 (1990).

## VI. CONCLUSION

This brief focused on nine issues. First, the PP&L has failed to justify the increase sought in electric rates to increase jurisdictional revenues by \$261,635,000. Second, DOD supports the recommendations of Witness Thomas J. Prisco:

- 1) That the allowed return on equity awarded PP&L not exceed 11.5 percent.
- 2) That PP&L's proposed capital structure is reasonable.
- 3) That PP&L's requested level of recovery of rate case expenses in the overall cost of service study is excessive.
- 4) That PP&L's proposed overall cost of service should be adjusted to reflect correct prospective interest expense levels for customer deposits.
- 5) PP&L's request for fossil fuel decommissioning expenses based upon proposed "deactivation" dates be rejected.
- 7) PP&L's request for modification of nuclear decommissioning expenses be rejected.
- 6) PP&L's proposed change in depreciation lives of fossil fuel production plant be rejected.
- 7) PP&L's request for "levelization" of Susquehannah Sinking Fund depreciation be rejected.
- 8) PP&L's request to collect non-energy costs of capacity in the ECR be rejected.
- 9) That PP&L's use of the 12 CP method to allocate production and transmission plant is reasonable for rate design purposes in this proceeding.
- 10) That PP&L's use of "minimum system" method to allocate distribution system costs is reasonable for rate design purposes in this proceeding.

Lastly, the record would support a much smaller increase in rates and revenues. In the event PP&L receives less than its sought

rate increase, this would afford the Commission an opportunity to move class rates of return toward unity with the overall authorized return within the parameters of PP&L's proposed rate design and rate structure.

By 

David A. McCormick  
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DOD ADJUSTMENTS TO OPERATING INCOME  
 PPUC JURISDICTIONAL PRO FORMA AT PRESENT AND PROPOSED RATES  
 YEAR ENDING SEPTEMBER 30, 1995  
 (Thousands of Dollars)

LINE NO.	PP&L PROPOSED RATES	DOD ADJUSTMENTS	ADJUSTED AT PRESENT RATES	ADJUSTMENT TO RATE INCREASE	DOD PROPOSED PRO FORMA RATES
	=====				
1. Operating Revenues	\$2,663,522		\$2,663,522	(\$177,773)	\$2,485,749
Operating Expenses					
2. Operation and Maintenance	1,375,408	(61,606)	1,313,802		1,313,802
3. Depreciation	320,797	(61,000)	259,797		259,797
4. Regulatory Debits/Credits	(29,208)		(29,208)		(29,208)
Provision for Taxes					
5. Taxes Other Than Income	199,880	6,253	206,133	(9,067)	197,066
Income Taxes					
6. Federal Tax	230,853	36,248	267,101	(52,558)	214,543
7. State Tax	81,378	12,787	94,165	(18,541)	75,624
8. Deferred Income Taxes	(15,424)		(15,424)		(15,424)
9. Investment Tax Credit	(8,625)		(8,625)		(8,625)
10. Total Taxes	488,062	55,288	543,350	(80,166)	463,184
11. Gain from Disposition of Emmission All	(466)	0	(466)		(\$466)
12. Total Operating Expenses	2,154,593	(67,318)	2,087,275	(80,166)	2,007,109
13. Operating Income	\$508,929	\$67,318	\$576,247	(\$97,608)	\$478,639
	=====				

\*\* SCHEDULE BASED ON PP&L's EXHIBIT FUTURE 1-revised (D1) ADMITTED IN RECORD TRANSCRIPT MAY 23, 1995.

CERTIFICATE OF SERVICE

I certify that I have caused a copy of the foregoing brief to be sent this day, by postage prepaid, first class U.S. Mail to the following addressees:

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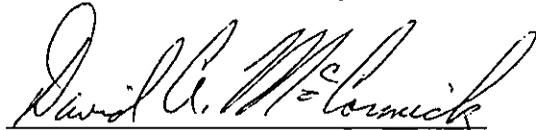
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Dated this 9th day of June 1995, at Arlington County, Virginia.

  
David C. McCormick



**Pennsylvania Power & Light Company**

Two North Ninth Street • Allentown, PA 18101-1179 • 610/774-5151

Paul E. Russell  
Associate General Counsel  
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**ORIGINAL**

June 13, 1995

OVERNIGHT MAIL

Mr. John G. Alford, Secretary  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

**Re: Pennsylvania Public Utility Commission  
v.  
Pennsylvania Power & Light Company  
Docket No. R-00943271**

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INFO. CONTROL DIV.

Dear Mr. Alford:

Attached for filing, pursuant to the Commission's regulations, 52 Pa. Code § 5.342(d), is a Certificate of Service identifying answers to On-the-Record Data Requests that Pennsylvania Power & Light Company served today on the active participants in this proceeding.

If you have any questions regarding this matter, please call.

Very truly yours,

Paul E. Russell

**DOCUMENT  
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Attachment

cc: The Honorable Robert A. Christianson

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Docket No. R-00943271

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a true copy of  
Pennsylvania Power & Light Company's answers to the following On-the-  
Record Data Requests upon the active participants listed below, in accordance  
with the requirements of § 1.54 (relating to service by a participant):

DR-OCA-10 through 13  
DR-EE-6 and 7

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Paul E. Russell

Dated: June 13, 1995  
at Allentown, Pennsylvania

Before the  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION, ET AL.

v.

PENNSYLVANIA POWER and LIGHT  
COMPANY

Docket No. R-00943271

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**CERTIFICATION OF SERVICE**

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals named below by US mail or hand delivery in accordance with the requirements of Section 1.54.

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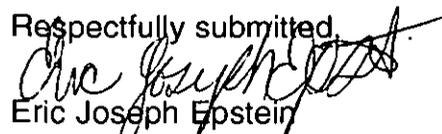
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Respectfully submitted,



Eric Joseph Epstein  
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DATE: June 14, 1995

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**Pennsylvania Power & Light Company**

KJR

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JUN 15 1995

PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

June 13, 1995

Mr. John G. Alford, Secretary  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

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Re: **Pennsylvania Public Utility Commission**  
v.  
**Pennsylvania Power & Light Company**  
Docket No. R-00943271

Dear Mr. Alford:

Enclosed for filing are an original and two (2) copies of "Request for Corrections."

Very truly yours,

Paul E. Russell

Attachment

cc: Certificate of service

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12

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

\_\_\_\_\_  
Pennsylvania Public Utility Commission :

v. :

Pennsylvania Power & Light Company :

Docket No. R-00943271

\_\_\_\_\_  
**CERTIFICATE OF SERVICE**  
\_\_\_\_\_

I hereby certify that I have this day served a true copy of  
Pennsylvania Power & Light Company's Request for Corrections upon the  
active participants listed below, in accordance with the requirements of § 1.54  
(relating to service by a participant):

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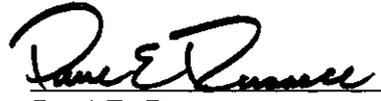
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Dated: June 13, 1995  
at Allentown, Pennsylvania

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

Pennsylvania Public Utility Commission :

v. :

Docket No. R-00943271

Pennsylvania Power & Light Company :

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JUN 27 1995

**REQUEST FOR CORRECTIONS**

Pennsylvania Power & Light Company (hereafter "PP&L"), by its attorney and pursuant to 52 Pa. Code § 5.253(b), requests that the following corrections be made to the transcript of the evidentiary hearings held in this proceeding on May 23-26, 1995:

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1845	2	having	halving
1889	3	999	1999
2250	6	cast	cask
2273	2, 3	Bryon	Byram
2308	20	regulations	restrictions
2315	23	our was	our offer was
2384	20	Mr. Sipics	Q. Mr. Sipics

WHEREFORE, PP&L respectfully requests that the Commission correct the transcript of the evidentiary hearings held in this proceeding on May 23-26, 1995, in the manner described above, and that a copy of this Request for Corrections be inserted into the Commission's official transcript of the evidentiary record for those dates.

Respectfully submitted.

PENNSYLVANIA POWER & LIGHT  
COMPANY

By:

A handwritten signature in black ink, appearing to read "Paul E. Russell", written over a horizontal line.

Paul E. Russell  
Its Attorney

Dated: June 13, 1995  
at Allentown, Pennsylvania

**SCHNADER, HARRISON, SEGAL & LEWIS**

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DIRECT DIAL NUMBER

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June 15, 1995

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PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

VIA UPS NEXT DAY AIR

Mr. John G. Alford, Secretary  
Pennsylvania Public Utility Commission  
Room B-20, North Office Building  
Commonwealth and North Avenues  
P.O. Box 3265  
Harrisburg, PA 17105-3265

BTL

**Re: Pennsylvania Public Utility Commission v. Pennsylvania Power & Light Company; Docket No. R-00943271**

Dear Secretary Alford:

Enclosed for filing with the Commission are an original and nine (9) copies of the Main Brief submitted on behalf of Bethlehem Steel Corporation concerning the above-captioned proceeding.

As evidenced by the attached Certificate of Service, all parties to this proceeding have been duly served. Please date stamp a copy of this transmittal letter and kindly return for our filing purposes.

Very truly yours,



Joan O. Brandeis

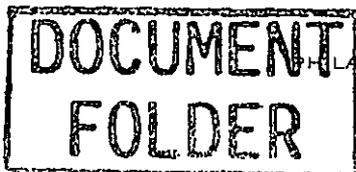
For SCHNADER, HARRISON, SEGAL & LEWIS  
Attorneys for Bethlehem Steel Corporation

Enclosures

cc: All Parties of Record  
The Honorable Robert A. Christianson

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HARRISBURG • NORRISTOWN • SCRANTON • CHERRY HILL

BTL

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC  
UTILITY COMMISSION

v.

PENNSYLVANIA POWER &  
LIGHT COMPANY

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DOCKET NO. R-00943271

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PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

---

MAIN BRIEF  
OF  
BETHLEHEM STEEL CORPORATION

---

**DOCKETED**  
JUN 16 1995

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Philadelphia, PA 19103  
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Attorneys for Bethlehem Steel Corporation

Dated: June 16, 1995

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## I. INTRODUCTION

### A. PROCEDURAL HISTORY

On December 30, 1994, Pennsylvania Power & Light Company ("PP&L" or "the Company") filed Supplement No. 50 to its Tariff Electric Pa. P.U.C. No. 200 requesting an increase in its annual base rate revenues of two hundred and sixty-one million dollars (\$261,000,000), an 11.7% increase over its existing rates. Supplement No. 50 also proposed changes to, among other things, the rate design of its Rate Schedules LP-4 and LP-5, and in particular to the way in which its large industrial customers are charged for interruptible service. The proposed supplement was to become effective on February 28, 1995.

Complaints to the Company's requested rate increase were filed by the PP&L Industrial Customer Alliance ("PPLICA"), the Office of the Consumer Advocate ("OCA"), the Central Eastern Pennsylvania Fuel Oil Dealers ("CEPFOD") and the Office of the Small Business Advocate ("OSBA"). Petitions to Intervene were filed by Bethlehem Steel Corporation ("Bethlehem"), the University\College Coalition ("UCC"), the Commission on Economic Opportunity ("CEO"), the Sierra Club, the Department of Defense and Federal Executive Agencies ("DOD"), Eric Epstein, pro se, Crown American Corporation and M&M/Mars, Inc. The Office of the Trial Staff ("OTS") participated pursuant to statute. Complaints were also filed by over 100 other individuals or organizations who did not actively participate in the case.

On January 27, 1995, the Pennsylvania Public Utility Commission ("PUC" or "the Commission") instituted a formal investigation into the lawfulness, justness and

ORIGINAL

reasonableness of PP&L's proposed rates and suspended Supplement 50 until September 28, 1995. The first Prehearing Conference was held on March 7, 1995 where a schedule was established for evidentiary and public input hearings and for the briefing of the case.

Extensive evidentiary hearings were held where the Company, the OCA, the OTS, the OSBA, Bethlehem, PPLICA, CEPFOD, UCC, the Lancaster Chamber of Commerce and Industry, the Sierra Club, the CEO and the DOD presented the written direct, rebuttal and surrebuttal testimony of expert and impact witnesses with respect to various issues in this proceeding.

On May 26, 1995, the evidentiary record in this proceeding was closed, subject to admission of late-filed exhibits, and the case now stands ready for briefing and for initial decision by the Administrative Law Judge Robert A. Christianson (the "ALJ").

B. THE INTEREST OF BETHLEHEM STEEL CORPORATION.

Bethlehem is a manufacturer of steel and steel products and is the largest retail customer on the PP&L system. TR. 1233. Bethlehem has two major facilities located in the territory served by PP&L, and at the present time, both facilities purchase all their electric requirements from the Company. Bethlehem Steel Petition to Intervene, p. 2; Tr. 1233. Bethlehem's plant located in Bethlehem, Pennsylvania receives service under Rate Schedule LP-5 and its steel-making facility located in Steelton, Pennsylvania receives service under PP&L's Rate Schedule Interruptible Service by Agreement ("ISA").

Bethlehem has focused its testimony and exhibits in this case solely on cost of service, revenue allocation and rate structure and rate design issues raised by PP&L's Supplement No. 50. However, the fact that it has elected not to present testimony on other issues, including without limitation, the Company's claimed revenues, rate base and operating and other expenses, should not be deemed to be an approval or agreement by Bethlehem with respect to the Company's position on these issues. In particular, and without limiting the generality of the forgoing, Bethlehem's utilization of PP&L's numbers with regard to the elements comprising the Company's claimed revenue requirement is only for the purpose of comparing the results of the application of appropriate cost allocation principles and should not be construed as an endorsement of the Company's claim or any component of that claim.

## **II. SUMMARY OF ARGUMENT**

In this proceeding, PP&L has submitted a flawed cost of service study which (a) erroneously allocates generation costs to interruptible loads to the same extent as if they were firm; (b) makes a only a token "credit" adjustment to the rate base allocated to interruptible classes to reflect the "value" of interruptible service; (c) misallocates the revenue differential arising from EDI and IDI credits only to customers classes participating in such programs instead of to all of PP&L's customer classes; and (d) fails to disaggregate payments to non-utility generators into the proper energy and a capacity components.

These flaws result in serious distortions to the rate of return produced by rate classes which contain interruptible customers. Based upon this flawed cost of service study, PP&L has assigned a revenue requirement to interruptible customers which results in drastically increased rates to such customers, rates which are non-competitive in an industry which is undergoing a major transition from a regulated market to one which includes increasing competition from alternate supply sources.

PP&L is also proposing to radically alter its rate structure for interruptible service by replacing the current discrete rates for firm and interruptible service with a token credit to be applied to interruptible load. The result of such change is that, even if no increase whatsoever were granted to the Company in this case, the rates charged to commercial and industrial customers for interruptible service would increase by 22%.

When PP&L's preferred 12 CP cost of service study is corrected to remove the allocation of generation-related capacity costs to interruptible load, to allocate the EDI and IDI revenue differential to all customer classes on the basis of non-fuel revenues and to classify 16% of NUG payments as demand related, the cost of service study demonstrates that Rate Schedules LP-4, LP-5 and ISA, the classes containing interruptible customers, have rates of return in excess of the system average rate of return at both present and proposed rates. Therefore, if the Commission grants any rate increase to PP&L in this proceeding, the rates for customers in LP-4 and LP-5 should be increased less than the system average.

PP&L's allocation of the rate increase to Rate Schedule ISA should be made in accordance with the terms of the currently effective contract.

PP&L's proposed rate structure for LP-5 should be rejected and the existing structure with discrete rates for firm and interruptible service retained.

### III. COST OF SERVICE, REVENUE ALLOCATION AND RATE DESIGN

#### A. INTRODUCTION

It is Bethlehem's position that the most appropriate method for allocation of capacity costs in a cost of service study for PP&L is a single coincident winter peak. However, even the Company's 12 CP method, when properly adjusted as described hereafter to correct certain flaws, evidences the fact that PP&L's industrial customer classes are producing rates of return above system average. Accordingly, the Company's proposed excessive allocation of the revenue requirement and its rate design for interruptible service which result in draconian rate increases for LP-5 interruptible customers, must be rejected.

#### B. THE COST OF SERVICE STUDY

##### 1. The Winter Coincident Peak Method Is Most Appropriate for Determining the Allocation of Capacity Costs.

In this proceeding, PP&L has submitted the results of several class cost of service studies. The primary difference among these studies is the method used to allocate capacity costs. The three cost allocation methods put forth by PP&L are the 12 monthly coincident peak ("12 CP") method, the average and excess demand method and the winter coincident peak ("Winter Peak") method. PP&L supports the use of the 12 CP allocation methodology which results in a greater allocation of generation costs to industrial customers than would result with the use of the Winter Peak method. For purposes of his testimony, Bethlehem witness Brubaker has accepted PP&L's 12 CP methodology, notwithstanding the fact that a Winter Peak method would be more appropriate in this proceeding.

PP&L is a winter peaking utility. TR. 572, 573; UCC Ex. Nos. 3 and

4. The PP&L system is highly seasonal and monthly peak loads in the winter are substantially higher than monthly peak loads in other months. Even giving consideration to scheduled maintenance, which is typically conducted during the spring and fall periods when system loads are at the lowest, reserve margins are typically lower in the peak winter months than in other months of the year. The 12 CP method is based on the incorrect premise that the peak load in each month of the year carries the same weight in determining capacity costs. Because of the winter-peaking pattern of PP&L's load, its capacity planning must be geared to meeting the winter load and not the average of the 12 month peak loads.

Bethlehem St. 1, p. 8.

Use of the Winter Peak method is supported by other parties in this case. Kenneth Eisdorfer, the expert witness appearing for the UCC, argues that because the 12 CP method incorporates nine months that have never contained the annual system peak and have virtually no chance to do so in the future, the loads for these months are not determinants of the amount of PP&L's bulk power capacity and should not be used to assign cost responsibility to customer classes. UCC Statement No. 1, pp. 7-8.

PPLICA witness Stephen J. Baron also supports the use of the Winter Peak methodology as the basis for allocating capacity costs to the various customer classes. PPLICA Statement No. 7, pp. 18-19. Mr. Baron correctly criticizes PP&L's various justifications for its use of the 12 CP method by pointing out that notwithstanding considerations of recognizing seasonal class diversities and maintenance requirements, the

driving force behind any addition of generating capacity to the PP&L system is the requirement to meet its winter peak demand.

Moreover, PP&L itself impliedly concurs with the use of the Winter Peak method. PP&L witness Sipics has stated that the most appropriate basis for assessing PP&L's reserve margins in the context of this proceeding is that which reflects reserves at the time of the peak. PP&L Statement No. 9, p. 11. As shown on Exhibit JFS-1, the "peak" used in this evaluation is the winter peak load.

In summary, because peak loads on the PP&L system are highly seasonal and the monthly peak loads in the winter are substantially higher than monthly peak loads in other months, PP&L's capacity planning must be geared to meeting the winter peak load. Accordingly, the proper method for accurately allocating capacity costs on the PP&L system is by use of the Winter Peak.

2. If the 12 CP Method is Used, Certain Flaws Must be Corrected to Avoid Serious Distortions in Capacity Cost Allocations.

If PP&L's preferred 12 CP method of allocating capacity costs among the various customer classes is accepted by the Commission in this proceeding, three major flaws in that method must be corrected in order to avoid serious distortions in the resultant rate of return for the industrial customer classes. These are: (a) treatment of interruptible load; (b) treatment of the revenue effect of EDI and IDI credits; and (c) classification of payments to non-utility generators.

a. PP&L's Treatment of Interruptible Load in the Cost of Service Study Does Not Reflect Actual Cost Causation.

In allocating investment and expenses to its customer classes in the cost of service study, PP&L has made no distinction between its interruptible service and its firm service and has treated all of its load as firm. After making cost of service allocations to its entire load, PP&L then purports to recognize a "value" to its 287 megawatts of interruptible load by assigning to that load a token investment cost equal to \$300 per kW of interruptible load (totalling \$86 million dollars). The amount of this credit is then subtracted from the total electric plant in service allocated to those classes which have interruptible load and is reallocated among all of PP&L's customer classes, including those with interruptible load. The net result of this "methodology" is to seriously distort the nature and value of interruptible service and to understate the rate of return for customer classes which elect to utilize the interruptible option.

Interruptible power is a cost-based service which is offered by PP&L to its customers and should be recognized as such. The designation "interruptible" means that the utility does not plan to supply power to the customer electing this inferior service with the same degree of regularity or reliability as it provides to its firm customers. Power is made available to interruptible customers when PP&L's system has the capacity to serve its firm load plus has the available additional capacity to provide service to customers who have elected to take interruptible service. If power that is being supplied to interruptible customers is required to supply the needs of PP&L's firm customers or is needed to maintain

system integrity, the interruptible customers are obligated to reduce their usage to provide the system with the necessary amount of power. The emergency of January 1994 provided a powerful illustration of the value and efficacy of interruptible power to the PP&L system. The reduction in power use by PP&L's interruptible customers enabled PP&L to protect the service to its firm customers.

The distinction between firm and interruptible power is confirmed by the fact that PP&L does not include interruptible load in its peak load forecast for planning purposes. In its annual Resource Planning Report for example, PP&L subtracts its forecasted interruptible load from its projected system peak load. Bethlehem Statement No. 1, p. 11. Moreover, PP&L witness Sipics testimony illustrates that in assessing PP&L's reserve margin the Company treats interruptible load as load for which it does not need to plan capacity by including an adjustment to reflect the "capacity value" of interruptible load. PP&L Exhibit JFS-1.

Because the Company does not plan generation facilities to serve its interruptible load, that load does not cause the Company to incur any generation-related capital costs. Bethlehem Statement No. 1, p 10; TR. 1242, 1243. Such costs are incurred to provide firm, not interruptible service. Accordingly, it is entirely inappropriate to assign capacity costs to the interruptible load.

b. PP&L's Capacity Credit Approach Must Be Rejected.

In this proceeding, PP&L has used a non-traditional approach to interruptible load in its cost of service study, and one that is clearly not based on accepted cost causation principles. PP&L has erroneously used a credit of \$300 per kW as the "value" of interruptible power in its cost of service study. PP&L contends that the \$300.00 per kW represents an approximation of the cost of installing a combustion turbine peaking unit ("CT"). This concept is seriously flawed in a variety of ways.

Valuing interruptible load at the cost of installing some mythical combustion turbine entirely misconstrues the true nature, value and use of interruptible load to the PP&L system. During the cold weather emergency of January 1994, PP&L's coal-fired generating units were impaired due to frozen coal piles and some combustion turbines were unavailable because of oil congealing in the lines between the storage tanks and the generating units themselves. TR. 292. In supplying needed generation capacity during such conditions, interruptible load supplemented all types of PP&Ls' generation facilities: coal-fired, nuclear as well as CT units.

The generally accepted approach for treatment of interruptible load is to exclude generation capacity cost allocations to loads which are interruptible. TR 1244. Bethlehem Steel witness Brubaker testified that in doing cost of service studies, utilities typically do not allocate generation capacity costs to loads which are interruptible. Mr. Brubaker cited generally utilities in Ohio, Delaware, South Carolina, West Virginia, Indiana and Illinois and specifically Cleveland Electric and Toledo Edison, Illinois Power and

Commonwealth Edison as examples of electric utilities who do not allocate such costs to interruptible load in cost of service studies. TR. 1244-1245. Interruptible rates charged by utilities such as Ohio Power Company and Union Electric Company are slightly more than 33 mills per kWh. Bethlehem Exhibit MEB-2 ( ).

The theoretical support for the approach taken by these utilities arises from the fact that a utility need not, and in fact does not, plan to add capacity to meet interruptible load. Capacity planning is a long-term process. Over time, a utility adds a mix of plants and/or purchases power to meet its anticipated requirements at the lowest overall expected reasonable cost. Just as a utility does not install only one kind of generation facility, interruptible power cannot be treated merely as a substitute for a CT.

In addition to these theoretical problems with the capacity credit approach taken by PP&L, the method used is incomplete in that there is no reflection of any avoidance of depreciation, taxes or operation and maintenance expenses. TR. 302. Accordingly, even if the capacity credit concept were mistakenly adopted, PP&L's value of \$300.00 per kW materially understates the cost of a CT.

PP&L erroneously views interruptible load as a "capacity equivalent" of a combustion turbine which it can "purchase" from customers that elect the interruptible service option. TR. 304. The problem with this view of interruptible service is that PP&L is the only available purchaser of the interruptible power (TR. 306) and can arbitrarily set a price where there is no competitive market to measure the price by and no alternative purchaser if the price dictated by PP&L is unreasonable. If interruptible power is viewed as a commodity that can be purchased only by PP&L, then PP&L is a monopsonist who can

control the market for this commodity in its service territory. Monopsony power in a regulated environment requires that realistic price levels be established by the regulator at levels that do not result in unduly discriminatory rates for interruptible customers.

- c. PP&L's Treatment of Interruptible Load Erroneously Suggests That Rate Schedules LP-5, LP-4 and ISA Are Earning a Return Below System Average During the Test Year.

In a properly prepared cost of service study, interruptible load should not be included in the customer class allocator for determining production capacity costs. When this adjustment is made to PP&L's 12 CP cost of service study, it becomes evident that the classes which have an interruptible power option are producing a greater than system average rate of return for the Future Test Year. See Bethlehem Exhibit MEB-3( ). As shown on this Exhibit, if interruptible load is properly removed from the calculation, the rate classes which use that option (LP-4, LP-5 and ISA) all have rates of return above system average at both present and proposed rates.

- d. The Treatment of EDI and IDI Credits in the Cost of Service Study is Incorrect and Must Be Revised.

PP&L began offering Economic Development Initiative ("EDI") credits to eligible customers in 1987. PP&L Statement No. 8, Testimony of Oliver G. Kasper, p. 16. The EDI credit program was closed by PP&L at the end of 1989, but

customers receiving such credits will continue to do so, albeit at reduced levels, until January 1, 2000 when the credits will be eliminated altogether. Id. Similarly, PP&L began offering Industrial Development Initiative ("IDI") credits to eligible industrial customers in 1992. Like the EDI credit, the credits offered under the IDI rate rider will be reduced commencing in 1998 and will terminate on January 1, 2000. PP&L Statement No. 8, p. 17.

According to PP&L witness Kasper, the purpose of the EDI and IDI programs was to induce expanded output and greater electricity use than would have occurred without such incentives. PP&L Statement No. 8, p. 18. In its 1992 filing requesting approval of Economic Development Initiatives - Phase IV, PP&L stated that the credits were intended to benefit all PP&L ratepayers through the retention of existing industrial customers and the expansion of new and existing load. TR. 633; PPLICA Cross-Examination Exhibit No. 5. PP&L witness Farber testified that the EDI/IDI programs prevented the loss of at least 300 million kWh of sales since their introduction, and have resulted in the creation of over 67,097 new jobs since 1985. PP&L Statement No. 10 --- Testimony of Gerald S. Farber, p. 3. PP&L witness Oliver Kasper also testified that the additional sales resulting from the EDI and IDI programs helped to defer the need for PP&L to file a rate case. TR. 692.

As PP&L has amply demonstrated in this proceeding, the EDI and IDI programs benefit not only those customers who are eligible to receive such credits, but also all of PP&L's non-participating customers as well. PP&L Statement No. 8, p. 18. PP&L witness Kasper explained that EDI/IDI rates are sufficient not only to cover the

marginal costs of providing the service to participating customers but also to make a contribution to fixed costs.

"The capital costs of the existing base load nuclear and coal generating units are fixed, and regardless of the demand for electricity, each additional unit of energy sold from these base load units reduces the average fixed costs per unit. The additional load on the system that results from economic development rates spreads the utility's fixed costs over a broader base, thus keeping individual customer rates lower than would otherwise be the case."

Id. (Emphasis added).

Notwithstanding the evidence that the EDI and IDI were intended to, and do in fact, benefit all customers not only those who are eligible for the credits, in its cost of service study PP&L has treated these credits in an entirely inappropriate manner. PP&L has allocated the full costs of the credits associated with the EDI and IDI to the customer classes participating in the EDI and IDI programs and has then, by subtracting the credits from the otherwise applicable rate, imposed the entire effect of the difference between the regular tariff rates and the economic development rates onto the very customers receiving the credits, as well as onto other members of the rate class in which such customers are situated. Bethlehem Statement No. 1, p. 14.

The result of this method of deducting the costs of the EDI and IDI credits from revenue is to produce a lower rate of return from the customer classes eligible to receive such credits than would otherwise be the case. TR. 634. The lower rate of return which is produced is then used to support larger rate increases for these customer classes.

This approach leads to an inconsistent result that programs which are intended to, and do, benefit all customers wind up placing an unreasonable and unjustified burden on participating customers and other members of the rate class in which participating customers reside.

Bethlehem Statement No. 1, p. 14; TR. 635, 636.

PPLICA witness Baron correctly points out that the effect of this methodology on Rate Schedule Interruptible Service by Agreement which contains one customer would be to completely negate the benefit of the credit. Under PP&L's cost of service methodology, all costs associated with EDI and IDI credits received by the customer are directly assigned to Rate Schedule ISA. The test year revenues are reduced, dollar for dollar, by the amount of the credit, and operating income before taxes is also reduced by the full amount of the credit. As Mr. Baron observes, "[T]his clearly could not have been the intent of establishing the EDI program." PPLICA Statement No. 7, p. 36.

The correct treatment of the EDI and IDI credits in the cost of service study is to include the revenue contribution of the participating customers calculated at normal tariff rates without regard to discounts, and to allocate the amount of the credits to all customer classes, including of course, the customer classes in which the participating customers reside. The allocation of the credits should be made on the basis of each class's non-fuel revenue. This methodology spreads the revenue effect of the credit among all customers as is appropriate since, by PP&L's own admission, all of its customers benefit from the program. In addition, this approach avoids the built in revenue deficiency for the

classes which contain members who participate in these programs, and would correct the anomalous situation that non-participating customers who are receiving a benefit in the form of lower rates are paying no share of the costs related to this benefit.

e. Treatment of NUG Payments.

In its cost of service study, PP&L has treated the approximately \$220 million dollars in payments that it makes to non-utility generators ("NUGs") as wholly energy related and has allocated the cost of these purchases across all customer classes on the basis of class energy consumption. This treatment is inconsistent with the manner in which these costs are treated in the energy cost rate ("ECR") for revenue collection purposes and must be corrected.

In the ECR<sup>1</sup>, NUG payments are separated into proxy demand and energy components using the PJM capacity rate for the capacity component. See PP&L Exhibit Future 1, Schedule D-3, page 10. This results in approximately 16% of the NUG costs being deemed demand-related and 84% energy related in the ECR. These costs should be treated consistently in the cost of service study and accordingly 16% of the NUG costs

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1. At Docket No. M-00930406, in a settlement approved by the Commission, PP&L agreed to classify a portion of the payments to NUGs as demand-related and to allocate that designated portion to customer classes on a demand basis. PPLICA Statement No. 7, p. 29).

should be classified as demand-related and allocated to the customer classes on the basis of the demand allocation factor.

As expressed by PPLICA witness Baron

"PP&L has implicitly ignored this demand\energy classification of NUG payments in the cost-of-service study analysis by allocating 100% of the retail NUG payment costs to rate classes on an energy basis. This assigns a more than proportionate share of NUG expenses to high load factor customer classes...."

"As a result, the cost-of-service study now assigns revenues associated with NUG payments on a less than proportionate basis than the costs of the NUG payments, to Rate Schedule LP-5 and other higher load factor classes. The end result of this process is to portray a lower rate of return on rate base than is actually produced by Rate Schedule LP-5, due to the mismatch."

PPLICA Statement No. 7, p. 32.

f. Conclusion.

PP&L's 12 CP cost of service study should be adjusted for the proper treatment of interruptible load, EDI and IDI credits and NUG payments as described above. When this is done, the rates of return for LP-4, LP-5 and ISA, those customer classes containing interruptible customers, are in excess of the system average rate of return at both present and proposed rates and are in fact contributing benefits to other customer classes. Therefore, if the Commission grants any rate increase to PP&L, the interruptible customer classes should receive a rate increase which is below the system average.

3. The OCA Proposed Peak and Average Methodology Results in Serious Distortions and Must be Rejected.

Dr. Charles Johnson, the witness for the OCA, has recommended the adoption of a "Peak and Average" methodology ("P&A") for allocation of demand costs in this proceeding. This method is seriously flawed and will result in rates which are not based primarily on cost of service principles. The OCA proposal must be rejected absolutely.

The peak and average methodology is based on the theory of capital substitution where it is assumed that an electric utility will invest in more expensive types of generating capacity in order to achieve the lower fuel cost associated with that capacity as compared with the fuel costs of peaking units. Based on this erroneous assumption with respect to the substitution of capital investment for fuel cost, advocates of a peak and average methodology argue that a substantial portion of the plant-related costs associated with generating units should be classified as, and allocated relative to, annual energy usage. In this proceeding, Dr. Johnson recommends using the PP&L system load factor (calculated by the OCA at 61.05%) to define the proportion of capital costs to be allocated on energy.

As Bethlehem witness Brubaker demonstrated in his Rebuttal Testimony, there are four principal flaws inherent in a capital substitution allocation method: (a) oversimplification of the system planning process; (b) failure to appropriately recognize trade-offs between capital and operation costs - the "fuel symmetry" problem; (c) double counting of energy consumption; and (d) an erroneous assumption that capital investment decisions are related to annual kWh sales.

The capital substitution theory oversimplifies the utility planning process in that utility planners do not merely elect to construct more capital intensive capacity for the purpose of achieving reduced fuel costs. The economic choice between a base load unit and a peaking unit must consider both capital costs and operating costs, and therefore is a function of average total costs. Moreover, the decision between base load and peaking units is affected by the existing generation mix, environmental, siting and access considerations.

The capital substitution allocation method also fails to symmetrically allocate both capital and operating costs, and focuses primarily on the investment in production units. Proponents of this method fail to recognize that while base load units may have above average capital costs, they usually have below-average operating costs relative to either intermediate or peaking units. In ignoring the fuel cost differentials, Dr. Johnson has created a fundamental mismatch. Under the P&A allocation, all customer classes, regardless of load factor, are allocated the same average fuel cost per kilowatt hour. However, the effect of the P&A method is to allocate more capacity cost per kilowatt of peak load to high load factor customers than to low load factor customers. Thus, the P&A method "de-averages" capital costs for purposes of class cost allocation, but completely ignores theory and allocates fuel costs on a uniform basis to all classes, regardless of load factor.

Since the basic premise of the P&A theory is that higher load factor customers receive a disproportionate benefit from base load units, and such units have a below average fuel costs, then customers that receive an above-average allocation of the

capital costs should receive a corresponding below average allocation of fuel costs. By looking only at the capital cost side of the equation, the OCA's proposed P&A method fails to correct the resulting distortions in the allocation of fuel costs.

The P&A method also results in a "double-counting" problem because of the fact that average demand (the equivalent of year-round energy consumption divided by 8,760 -the number of hours in a year) is also a component of the coincident peak demand. By allocating some capital costs relative to average demand and some relative to coincident demand, energy is counted twice. . . once by itself and a second time as a subset of the coincident peak demand. Bethlehem Statement No. 1R, Exhibit MEB-4 ( ).

Finally, the P&A method recommended by the OCA is flawed because annual kilowatt hour sales do not affect a utilities' decision to invest in a particular type of generating capacity. Once the "break-even" point (the hours of use at which the total cost of base load and peaking units are equivalent), additional energy use - as well as the fuel cost differential resulting from such use - has no impact on the investment decision.

PPLICA witness Baron, OSBA witness Knecht and UCC witness Eisdorfer all concur that the P&A method proposed by the OCA in this case must be rejected. PP&L itself urges rejection of Dr. Johnson's proposal because, among other reasons, generation facilities are fixed capacity resources, the costs of which do not vary with the customers' energy use and are properly assigned on the basis of customers' demand imposed on those facilities and not on the basis of their energy use.

PP&L correctly points out that

"...Mr. Johnson's proposed methodology produces unreasonable results, wherein approximately 60% of the cost of the Company's generation facilities would be allocated on an energy basis. This would impose sudden and very substantial increases in cost responsibility, particularly on large, high load factor industrial customers. Indeed, Mr. Johnson's method would assign greater production cost responsibility to those customer classes who increase their load factors and use PP&L's system more efficiently. Increased load factors provide benefits to the Company and all of its customers, and should be encouraged, not discouraged.

Rebuttal Testimony of Joseph Kleha, PP&L Statement 7-R, pp. 9-10.

For all of the above reasons, the OCA proposed P&A method must be rejected in this proceeding.

C. REVENUE ALLOCATION.

1. The Revenue Allocation to LP-4 and LP5 Interruptible Rates is Unjust and Unreasonable.

PP&L has proposed an average increase of 10.17% in its rates to retail customers. Exhibit OGK - 3. However, under PP&L's proposed allocation of any increase granted by the Commission in this case, interruptible customers currently receiving service under Rate Schedules LP-4 and LP-5 would receive a far larger share of the increase than any other customer group and certainly larger than can be justified by a properly performed cost of service study or by competitive conditions existing in the electric utility industry today. Moreover, the magnitude of the increase to interruptible customers violates well-established principles of gradualism.

a. The Revenue Allocation Proposed By PP&L Is Not Supported By Any Proper Cost of Service Study.

As demonstrated in Table 1 on page 44 of PPLICA Statement No. 7, assuming the full increase requested by PP&L, interruptible rates under Rate Schedules LP-4 and LP-5 would receive increases over present rates of 34.04% and 27.01% respectively. As discussed in the cost of service section of this Brief, such a disproportionately large increase cannot be supported by any properly adjusted cost of service study presented in this case. Even using PP&L's 12 CP method of allocating capacity costs, the cost of service, when adjusted in the manner proposed by Bethlehem, indicates that at present rates LP-4 and LP-5 rate classes are earning in excess of the system average (9.95% and 9.70% respectively as compared to the system average of 7.31%). Bethlehem Exhibit MEB-3( ), Schedule 1. At proposed rates, the LP-4 and LP-5 rate classes are earning 12.95% and 14.85% respectively compared to the system average return of 10.17%. Bethlehem Exhibit MEB-3 ( ), Schedule 2. As a result, these classes should receive rate increases which are less than the system average.

The cost of service is an important guideline for determining class revenue levels. The basic reasons for using cost as the primary factor for establishing class revenue requirements include customer equity, conservation and rate stability. When rates are based on costs, each customer, to the extent practicable, pays what it costs to provide the service received. If rates are based on factors other than cost, then some customers will pay the costs properly attributable to other customers. Rates allocated in this manner are inherently unjust and will lead to a loss of sales to customers, such as large

industrial companies, which have alternatives available to them. This loss in turn will ultimately result in higher rates to remaining customers.

Moreover, when rates to the various rate classes are based on cost, customers receive correct price signals against which to make electric consumption decisions. Customers who are not paying the full cost of electric service may be induced to use electricity inefficiently and wastefully.

Cost-based rates contribute to stability in a utility's earnings. When rates closely follow cost, changes in customer use patterns will have a less pronounced impact on earnings since the rates were designed initially to track changes in the level of cost. From the perspective of the individual customer, cost-based rates provide a more reliable basis for determining future levels of cost. If rates are based on factors other than cost, it is more difficult to translate expected increases or decreases in overall revenue requirements into changes in the corresponding rates. This uncertainty chills expansion of facilities by existing customers and hinders attracting new customers because of the difficulty in estimating future utility costs.

In this case, PP&L is allocating a revenue requirement to its interruptible customers which is far in excess of the cost to serve such customers. To permit such an inequitable allocation is poor ratemaking policy and should be rejected.

b. PP&L's Proposed Allocation to Interruptible Customers Will Result in Rates Which Are Not Competitive.

As demonstrated in Bethlehem Exhibit MEB-2 ( ), PP&L's current rates for interruptible load falls in the middle range of rates charged by utilities in other industrialized states. However, at proposed rates, the cost of interruptible power would be among the highest in the state and in other industrial areas. At a time when competition is acknowledged to be the single most important trend in the electric industry, PP&L is proposing draconian increases to its customer classes who will most likely be able to take advantage of a competitive utility marketplace. As noted by Bethlehem witness Brubaker, the result of such rates will be an erosion in PP&L's competitive position. TR. 1239.

Various of PP&L's large industrial customers using interruptible service have testified as to the magnitude of the increase in rates they will have to pay for interruptible power if PP&L's rate allocation proposal is implemented. Peter Chamberlain of BOC Gases, for example, testified that if PP&L's proposed rates are put into effect BOC's costs would rise approximately 24.4% annually. PPLICA Statement No. 1, p. 5. PPLICA witness Robert Felter of Thomson Consumer Electronics testified that Thomson could experience an increase as high as 28% if PP&L were granted its entire rate increase and the increase is allocated as proposed. PPLICA Statement No. 5, p. 5. Hershey Foods Corporation, Inc.'s costs would increase by approximately \$2,000,000 per year under PP&L's rate proposal. PPLICA Statement No. 4, p. 4. James Rooney of Armstrong World Industries testified that PP&L's requested increase represents a 33% increase at its Marietta facility. PPLICA Statement No. 6, p. 2.

At the present time, electric utilities face competition from qualifying facilities and from other electric utilities who compete for new loads and for relocation of existing loads as well as for the allocation of industrial production among existing plants. Bethlehem Statement No. 1, p. 4. Some of PP&L's large industrial customers testified that product currently made in plants located in PP&L territory could be produced at other of their facilities where the cost of electricity is substantially less costly. See e.g. PPLICA Statement No. 1, pp. 7, 8; PPLICA Statement No. 6, pp. 13, 14.

With the passage of the Energy Policy Act of 1992, there is increasing potential for direct competition via access to retail customer load by other electric utilities or NUGs. Bethlehem's witness Brubaker pointed out that competitive opportunities are already increasing as evidenced by the 1994 decision of the Michigan Public Service Commission approving an experiment in retail wheeling by large customers of Consumers Power Company and the Detroit Edison Company. Similarly, the Public Utilities Commission of the State of California has instituted a rule-making and investigation regarding opportunities for competitive power supply sourcing by all customers and the industry restructuring necessary to implement this policy. Bethlehem Statement No. 1, pp. 4, 5. This Commission itself has confirmed the importance of the potential of a competitive electric industry, including the potential for retail competition, by instituting its own investigation at Docket No. I-940092.

A number of forward-looking electric utilities are moving ahead to prepare for the coming competitive market place. Examples pointed out by Bethlehem

witness Brubaker are Pacific Gas and Electric Company which has prepared a time table for implementation of direct customer access, PSI Energy, Inc. which has declared an intent to provide the opportunity for competitive sourcing to its 40 largest customers and the recently announced contract between the Detroit Edison Company and three large auto manufacturers pursuant to which a 15% reduction from tariff rates will occur over the life of the contract.

In the face of these events, all of which clearly mark the coming transition in the electric industry from a regulated to a competitive market, PP&L has proposed an allocation of its rate increase which will result in non-competitive rates to its interruptible customers, the very customers who are in the best position to take advantage of existing and potential competitive options. This is short-sighted planning and in the long run will be harmful to PP&L and all of its core customers. The ALJ should reject PP&L's proposed revenue allocation to interruptible customers and direct the Company to allocate a below system average increase to such customers.

c. PP&L's Rate Allocation Proposal Violates Principles of Gradualism with Respect to Interruptible Customers.

As noted above, if PP&L was granted the full amount of its requested revenues, LP-4 and LP-5 interruptible customers would receive increases in excess of 34% and 27% respectively over current rates. PP&L has attempted to mask this fact by lumping together firm and interruptible customers in its filing. In its presentation in this case, the Company did not disaggregate the effect of the rate increase and rate structure proposals on the different types of LP-5 customers, choosing instead to merely reflect an overall increase to LP-5 of 15.45%. This is disingenuous and dangerously misleading.

The excessive rise in interruptible rates results not only from the revenue allocation proposed by PP&L in this case (based on a flawed cost of service study as discussed previously in this Brief), but also, and equally importantly, from the change in the structure of the LP-4 and LP-5 and proposed LP-6 interruptible rates. If PP&L's rate structure proposal of applying a credit against firm rates for interruptible service were approved by the Commission in this case, then even if PP&L's revenue requirement increase were reduced to zero, interruptible customers would experience a rate increase. TR.806. Bethlehem witness Brubaker correctly characterized the proposed increase to interruptible rates as "draconian". Bethlehem Statement No. 1, p. 7; TR. 1238.

When the increase to the interruptible rates is disaggregated from the increase to firm rates, it becomes clearly evident that the proposed increase to interruptible rates under Rate Schedules LP-4 and LP-5 violates this Commission's long-established principles of gradualism.<sup>2</sup> PP&L witness Kasper admitted that the proposed increase in rates to LP-4 and LP-5 interruptible customers violates the Company's own self-imposed maximum rate class increase of 1.5 times system average. PPLICA Cross-Examination Exhibit No. 6 (PP&L Response to OTS RS-7D) and in fact violates principles of gradualism. TR. 773.

PP&L attempts to justify this unjustifiably large increase on the basis that it is merely "correcting the pricing" of its interruptible power within the LP-5 structure. TR. 762.

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2. PP&L has defined the term gradualism as "...the judgment applied to rate design when a change in rate structure or price is required." TR. 766

PP&L 's Oliver Kasper argues that the enormous increase in LP-5 interruptible rates from rates established by the Company in 1992 is somehow acceptable because the 1992 rates resulted in a rate reduction. This is mere sophistry and cannot disguise the fact that an increase in rates ranging from 28% to 34% for interruptible customers is flat out violative of the principle of gradualism.

The well-established principle of gradualism in utility rate-making in this Commonwealth requires that utility rates should not be raised too abruptly. Barasch v. Pennsylvania Public Utility Commission, 101 Pa. Commw. 76, 515 A.2d 651, 656 (1986). It has been urged that a 15.58% increase in a residential customer charge, as compared to an overall requested revenue increase of 6.78%, violates the principle of gradualism. Pennsylvania Public Utility Commission v. National Fuel Gas Distribution Corporation, Docket No. R-00942991, 1994 Pa. PUC LEXIS 134 (December 6, 1994). In Pennsylvania Public Utility Commission v. West Penn Power Company, Docket No. R-00922378, 1993 Pa. PUC LEXIS 62 (May 14, 1993) the Office of the Consumer Advocate argued that the utility's proposal to increase the residential customer charge by 20% violated principles of gradualism. In Pennsylvania Public Utility Commission v. Philadelphia electric Company, 58 Pa. PUC 743 (1985), the utility itself argued that an increase of more than 11.8% for the residential class as compared to the system average of 7.1% would violate principles of gradualism in rate design. (See also Pennsylvania Public Utility Commission v. Roaring Creek Water Company, Docket No. R-00932665, 1994 Pa. PUC LEXIS 41 (February 3, 1994).

Based on these examples, there is no question that an increase in excess of 28% in the rates of LP-5 interruptible customers clearly violates the principle of gradualism. In this case, the Commission must reject both PP&L's revenue allocation proposal and its LP-4, LP-5 and LP-6 rate structure proposals which, if approved would result in substantial rate shock to PP&L's interruptible customers.

2. The Increase to Rate Schedule ISA is Governed by Contract.

Rate Schedule Interruptible Service by Agreement was filed with the Commission in 1988 together with the contracts containing the rates and terms of service for the customers being served pursuant to that Rate Schedule. After investigation and analysis of the filing and the supporting data, the Commission permitted Rate Schedule ISA and the related contracts to become effective. TR 2179.

In this proceeding, PP&L has proposed to allocate the requested revenue increase to Rate Schedule ISA in accordance with the terms of the effective contract which provides for application of the system average increase to the firm portion of the load served. TR 718.

Neither the PUC, nor PP&L or any other party in this case has suggested, or presented any evidence which would support, a modification of the ISA contract which is presently in effect pursuant to an Opinion and Order of the Commission, and accordingly, any increase in revenues granted to PP&L should be allocated to the ISA class in accordance with the terms of the currently effective contract.

D. RATE DESIGN.

In its rate design for Rate Schedules LP-5 and newly proposed LP-6, PP&L is proposing a major change from its existing rate design for interruptible service. This change would result, even without any increase in revenue whatsoever in a rate increase for LP-5 interruptible customers of approximately 22% and must be rejected.

Under PP&L's existing LP-5 Tariff, there are actually two separate rate schedules, LP-5 - for firm service and LP-5I for interruptible service. While both these rates are contained within one filed tariff, they are in fact different rates for different types of service. In its proposed rate design, PP&L has eliminated the discrete rate for interruptible service. Instead of a rate which reflects the inferior interruptible service, PP&L is proposing to charge all LP-5 (and LP-6) customers, both firm and interruptible, at the same firm rates. It would then "recognize" the value of interruptible service by applying a credit to the firm rates for the amount of interruptible service taken by the customer.

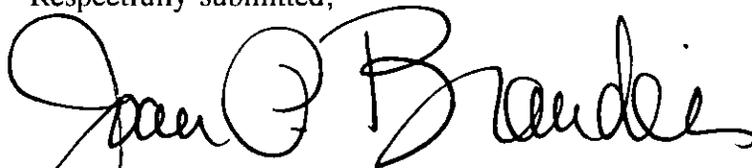
The proposed rate structure has no inherent advantage over the current structure of Rate Schedule LP-5 and should be rejected. PP&L's proposed change is a poorly masked attempt to increase rates to interruptible customers, even if no increase were granted in this proceeding. The existing rate schedule should be retained and any increase approved for Rate Schedule LP-5 should maintain the rate relationships between firm and interruptible service that are embedded in the current rate design.

Alternatively, PP&L should file a separate tariff for interruptible service which recognizes that non-firm service is an option which should be offered to eligible customers because it provides a benefit to both PP&L, the participating customers and all other rate payers.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

In Bethlehem's view, a correctly performed cost of service study demonstrates that PP&L's large industrial customers, those taking service under Rate Schedules LP-4, LP-5 and Interruptible Service by Agreement, have rates of return above system average at both present and proposed rates. Accordingly, rate increases to these classes should be below the system average, and in the case of ISA should be set in accordance with the provisions specified in the currently effective contract governing the service. The proposed change in the rate structure for interruptible service, which even if no increase were granted would result in a 22% increase in rates to interruptible customers, must be rejected and the existing rate structure retained.

Respectfully submitted,



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SCHNADER, HARRISON, SEGAL & LEWIS

Counsel for  
BETHLEHEM STEEL CORPORATION

Dated: June 16, 1995

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PUBLIC UTILITY COMMISSION  
SECRETARY BUREAU

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION, et al.

v.

PENNSYLVANIA POWER & LIGHT  
COMPANY

DOCKET NO: R-00943271

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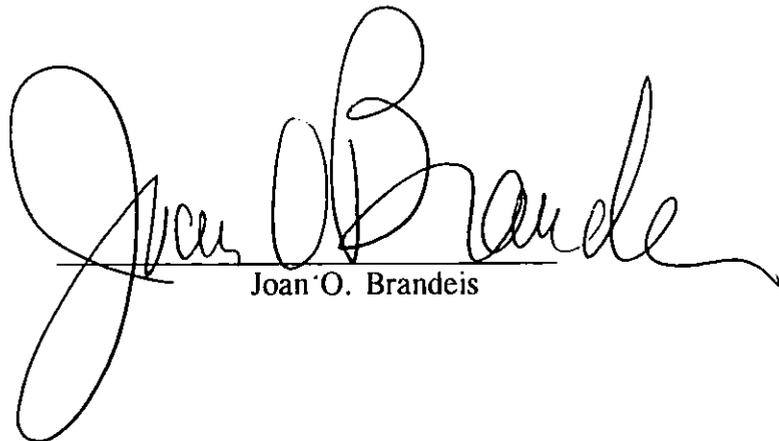
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Pennsylvania Power and Light Company,  
Docket No. R-00942371.

R-00943271

Dear Mr. Alford:

Enclosed for filing please find an original and nine (9) copies of the Main Brief of University College/Coalition. Copies of the Brief have been served upon all counsel as indicated on the attached Certificate of Service.

Thank you for your consideration in this regard.

Very truly yours,

*James P. Melia*  
James P. Melia

JPM/pkw  
Enclosure  
cc: Certificate of Service (w/encl.)  
University/College Coalition (w/encl.)

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION  
ADMINISTRATIVE LAW JUDGE ROBERT CHRISTIANSON PRESIDING

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION, et al.

v.

PENNSYLVANIA POWER AND LIGHT  
COMPANY.

Docket No. R-00942371

R-00943271

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MAIN BRIEF OF  
UNIVERSITY/COLLEGE COALITION

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### STATEMENT OF THE CASE

On December 30, 1994, Pennsylvania Power and Light Company ("PP&L") filed its Supplement No. 50 to Tariff Electric-Pa. P.U.C. No. 200, proposed to become effective February 28, 1995. In its filing, PP&L requested a \$261 million or 11.7% increase in its annual electric base rate revenues. On or about February 23, 1995, the Pennsylvania Public Utility Commission ("Commission") suspended Supplement No. 50 pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. §1308(d) and initiated an investigation into the lawfulness, justness and reasonableness of the rates, rules and regulations proposed in those tariff supplements. The investigation was assigned initially to Administrative Law Judge ("ALJ") Michael C. Schnierle and then to Robert A. Christianson as Presiding Officer.

On March 6, 1995, a Petition to Intervene was filed by the University/College Coalition ("UCC"), an ad hoc coalition of colleges and universities in the PP&L service territory. For purposes of this proceeding, the UCC consists of Muhlenberg College, Wilkes College, Kings College, Messiah College, University of Scranton, Dickinson College and Keystone Junior College. The UCC, in its Petition, averred that its members predominantly receive service under PP&L's existing Rate Schedules LP-4 and GS-3 and various riders and related tariffs. The Petition further alleged that the cost of electric utility service is a significant component in UCC members' cost of

operation and that the proposed rate increase and tariff changes may have an adverse impact on UCC members.

A Prehearing Conference in this case was held on March 7, 1995 and UCC's Petition to Intervene was granted. Approximately 15 days of hearings were conducted in this proceeding. The record closed in this matter on May 26, 1995.

UCC presented the Direct and Surrebuttal Testimony and supporting exhibits of Kenneth Eisdorfer (UCC St. Nos. 1 and 2). Mr. Eisdorfer presented testimony on the issues of cost of service and interclass subsidization. UCC also cross-examined other parties' witnesses concerning their positions on cost of service issues.

This Main Brief is offered in support of UCC's position that the rates requested by PP&L in its Supplement No. 50 are not supported by substantial evidence, are not just and reasonable and should be rejected by the ALJ and the Commission.

STATEMENT OF THE QUESTIONS PRESENTED

1. Should the Commission adopt PP&L's 12 CP methodology as the appropriate cost of service allocation methodology in this proceeding?

Suggested answer: No.

2. Should the Commission adopt UCC witness Eisdorfer's recommendation that use of the 1 CP allocation methodology for cost of service purposes is appropriate?

Suggested answer: Yes.

3. Should the Commission adopt Mr. Eisdorfer's recommendations on revenue distribution?

Suggested answer: Yes.

## ARGUMENT

### I. PP&L'S RELIANCE UPON THE 12 CP METHODOLOGY SHOULD BE REJECTED.

#### A. PP&L's Basis For Reliance Upon The 12 CP Methodology.

PP&L presented the Direct Testimony of Joseph M. Kleha in support of its utilization of the monthly peak responsibility demand allocation method ("12 coincident peak method" or "12 CP method"). (PP&L St. No. 7, pp. 5-8). This method is based on the average of the 12 monthly coincident class demands at the time of the system monthly peak load. Mr. Kleha stated that this method is "a reasonable and appropriate methodology for the allocation of demand related costs." (PP&L St. No. 7, p. 5). Further, Mr. Kleha's principal exhibits JMK-1 and JMK-2 rely on the 12 CP methodology.

Mr. Kleha justified PP&L's reliance upon the 12 CP methodology for the following reasons:

1. The 12 CP methodology is consistent with long term stability and avoids abrupt changes in cost allocation methodologies. PP&L has historically relied upon the 12 CP methodology in its state and federal filings.
2. Use of the 12 CP methodology is consistent with the determination of PP&L's installed capacity obligation ("ICO") to the Pennsylvania-New Jersey-Maryland Interconnection ("PJM"). (See PP&L's St. No. 9, Direct Testimony of John F. Sipics, pp. 5-6).
3. The 12 CP method recognizes "seasonal class diversities" which is necessary to reflect those benefits among the rate classes.

4. The 12 CP cost allocation methodology permits PP&L to schedule plant maintenance throughout the year in coordination with other PJM members.

(PP&L St. No. 7, pp. 6-8).

As will be demonstrated later, the reasons offered by Mr. Kleha for PP&L's reliance upon the 12 CP methodology are not valid.

**B. Mr. Eisdorfer's Recommended Use Of The 1 CP Methodology Should Be Adopted.**

UCC presented the Direct Testimony of Kenneth Eisdorfer on the issue of the appropriate cost allocation methodology for PP&L. (UCC St. No. 1, Exhibit KE-1). Mr. Eisdorfer testified at the hearing of April 25, 1995. (Tr. pp. 1112-1127).

Mr. Eisdorfer testified generally to the benefits conferred upon the utility and its ratepayers from utilization of cost-based ratemaking. (UCC St. No. 1, pp. 1-6). Mr. Eisdorfer listed a number of benefits which result from cost-based rates including:

1. Cost-based rates minimize the subsidization of one ratepayer by another.
2. Cost-based rates promote stability of utility earnings.
3. Cost-based rates offer appropriate price signals to customers.
4. Cost-based rates improve the competitive posture of the utility service territory and the economy of the state.

(UCC St. No. 1, pp. 2-3).

Mr. Eisdorfer further testified that cost-based rates can only be achieved through a properly constructed cost of service

study which reflects actual cost causation on the PP&L system. Mr. Eisdorfer contends that PP&L's reliance upon the 12 CP methodology does not result in the attainment of cost-based rates. (UCC St. No. 1, p. 3).

Mr. Eisdorfer began his analysis by examining when the annual system peak occurs on the PP&L system. The annual system peak dictates the amount of production and transmission capacity that a utility must have available. On the PP&L system, Mr. Eisdorfer determined that the annual system peak invariably occurs in the winter months. (UCC St. No. 1, p. 5). PP&L likewise considers the annual system peak (i.e., the winter peak) to be predominant with respect to capacity resource planning as supported by the testimony and exhibits of PP&L witness Mr. Sipics. (PP&L St. No. 9, p. 5; Ex. JFS-1). Exhibit JFS-1 compares the magnitude of future winter peak loads with the amount of capacity available to PP&L. Mr. Eisdorfer concluded from reviewing this exhibit that PP&L considers the size of its annual system peak to be the driving force with respect to the amount of capacity it must have available for its customers. (UCC St. No. 1, p. 5).

Mr. Eisdorfer then examined PP&L's load pattern to determine which specific coincident peaks should be properly utilized to allocate the classes' demand-related production and transmission costs. Mr. Eisdorfer's analysis included the examination of the five most recent calendar years with the designation of an annual system peak with a value of 100. (UCC Ex. KE-1, Schedule 1 at

Attachment A). Mr. Eisdorfer's analysis on Exhibit KE-1, Schedule 1 demonstrated that, between 1990 and 1994, PP&L's annual system peak occurred during the months of January, February and December. The coincident peaks for the remaining nine months of the year have not been close to the annual system peak and the witness could thus not conclude that they will be so in the future. Mr. Eisdorfer concluded that the coincident peak to be employed, for allocation of demand-related production and transmission costs, is the annual system peak which he designated as the "1 CP" cost allocation methodology. (UCC St. No. 1, pp. 5-6).<sup>1</sup>

Mr. Eisdorfer further critiqued PP&L's reliance on the 12 CP methodology. Mr. Eisdorfer observed that the 12 CP method incorporates nine months that have never contained the annual system peak and have virtually no chance to do so in the future. (UCC St. No. 1, p. 7). Mr. Eisdorfer observed that if one adds the monthly peak load for the 1990 to 1994 period, the resulting relative monthly aggregate system peaks reveal a dramatic

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<sup>1</sup>Furthermore, during the 1990's, PP&L's winter peaks have been growing much faster than the system peaks for the remaining nine months. Specifically, from 1990 through 1994, the average of the winter peaks have grown 71% faster than the average of the peaks for the other nine months (3.6% per year vs. 2.1% per year). Between 1991 and 1994, the winter peaks have grown 142% faster than those for the remaining nine months (2.9% per year vs. 1.2% per year). (Tr. 578; UCC Cross-Examination Ex. No. 3). These facts demonstrate the fallacy of PP&L's contention that the 12 CP methodology promotes long term stability and avoids "abrupt changes in cost allocation methodologies." The increasing predominance of PP&L's winter peaks negates the applicability of the 12 CP method which was last approved by the Commission in 1985.

difference between these nine months and the winter months. (UCC St. No. 1, p. 7 (Table 1)). Mr. Eisdorfer's Table 1 demonstrates that the winter months have relative monthly peaks that are all close to 100 with the average being 98.3. In contrast, the remaining nine month average is not close to 100 with an average of only 84.4. Thus, the loads for the remaining nine months are not determinants of the amount of PP&L's bulk power capacity and should not be relied on for assigning cost responsibility to customer classes. (UCC St. No. 1, pp. 7-8).

Mr. Eisdorfer then critiqued PP&L's position that the 12 CP methodology is consistent with a determination of PP&L's installed capacity obligation ("ICO") to PJM. Mr. Eisdorfer noted that the manner in which PJM determines PP&L's ICO does not support use of the 12 CP method for capacity cost allocations. Mr. Eisdorfer then observed that use of all 12 months of the year in the 12 CP method implies that system peaks other than the winter peak are the primary input in the determination of PP&L's ICO. In fact, the opposite is the case and PP&L's winter peaks are the overwhelming determinant of its ICO. (UCC St. No. 1, p. 8).

Mr. Eisdorfer's analysis demonstrates that the role of the remaining nine months in the determination of PP&L's ICO is insignificant. Mr. Eisdorfer first observed that PJM employs weekly system peaks for computation of its "load drop adjustment" ("LDA"). A load drop adjustment is a component of PP&L's total reserve margin. (UCC St. No. 2, p. 5). Further, with respect to

the current 1994-1995 planning period, this adjustment, based on 12 months worth of weekly system peaks, increased PP&L's ICO by only 0.15% from what it would have been otherwise.

Mr. Eisdorfer then observed that the magnitude of PP&L's summer peak is an input for the calculation of several small diversity adjustments in the ICO computation. These adjustments for the 1994-1995 planning period collectively reduced PP&L's ICO by 6.9% from what it would be have been otherwise. (UCC St. No. 2, p. 8).

On this basis, Mr. Eisdorfer concluded that PP&L's winter peaks are the major factor in the determination by PJM of the Company's ICO. The Commission should recognize this fact and reject PP&L's 12 CP cost of service study and adopt, as the appropriate cost allocation methodology, Mr. Eisdorfer's 1 CP methodology.<sup>2</sup>

In conclusion, UCC recommends rejection of PP&L's 12 CP methodology for the reasons stated.

**C. Other Parties To This Proceeding Also Criticized PP&L's Reliance Upon The 12 CP Methodology.**

Several other parties in this proceeding have expressed fundamental disagreement with PP&L's reliance on the 12 CP methodology employed by PP&L. Stephen J. Baron, testifying on behalf of the PP&L Customer Alliance ("PPLICA"), testified that

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<sup>2</sup>It should be noted that Mr. Eisdorfer's analysis further rebuts the second justification offered by Mr. Kleha at PP&L St. No. 7, pp. 6-7, which attempts to justify use of the 12 CP methodology in the determination of PP&L's ICO.

the single coincident peak methodology, based on the winter peak of PP&L during the test year, should be the basis for allocating costs to the customer classes. It should be noted that Mr. Baron, although advocating use of the 1 CP methodology, utilized the 12 CP methodology in his recommendations based on the Commission's prior adoption of this method in the last PP&L base rate case. (PPLICA St. No. 7, p. 19).

Mr. Baron offered a number of significant criticisms to PP&L's alleged justifications for reliance on the 12 CP methodology. First, Mr. Baron disagreed with Mr. Kleha's statement that use of the 12 CP methodology is consistent with the PJM's determination of PP&L's ICO. Mr. Baron observed that PP&L's primary obligation is to maintain a 12% reserve margin over its winter peak not the average of its 12 peaks. Thus, the planning criterion driving costs on the PP&L system would appear to be its requirements to meet a winter peak. (PPLICA St. No. 7, p. 18).

Mr. Baron addressed PP&L's justification that 12 CP recognizes seasonal class diversities. Mr. Baron observed that, although the 12 CP method does recognize variability in each classes' maximum monthly demands, it does not provide a rationale as to why PP&L constructs generating capacity. (PPLICA St. No. 7, p. 18).

Finally, Mr. Baron contested Mr. Kleha's contention that the 12 CP method is consistent with PP&L's selection of a 12 month schedule for generation equipment maintenance. He observed that,

although maintenance was clearly a consideration in PP&L's planning, the principal consideration behind the addition of generating capacity to the PP&L system is the requirement to meet its winter peak demand. (PPLICA St. No. 7, p. 18). Although utilizing the 12 CP method in his analysis, Mr. Baron concluded by observing that PP&L must maintain a 12% reserve margin over its winter peak demand to satisfy PJM obligations. This need to maintain reserve margins is a driving force in capacity costs incurred and thus, for cost causation purposes, it must be the customer class contributions to the PP&L winter peak that should be used in any cost of service study. (PPLICA St. No. 7, p. 19).

Bethlehem Steel witness Morris Brubaker likewise criticized PP&L's reliance on the 12 CP method. Mr. Brubaker agreed with the other intervenor witnesses that PP&L's predominantly winter peaking characteristics make a winter peak cost of service study more appropriate. Mr. Brubaker adopted PP&L's 12 CP study for purposes of his analysis although he does not view it as the most appropriate method. (Bethlehem Steel St. No. 1, p. 8).

On balance, most intervenors in this proceeding have rejected use of the 12 CP methodology. The ALJ and Commission should likewise reject it.

D. PP&L's Rebuttal And Rejoinder Positions With Regard To The 12 CP Methodology Are Not Convincing.

1. PP&L's Rebuttal Position On The ICO Issue.

PP&L's witness, Mr. Sipics, offered some Rebuttal Testimony to the positions taken by Mr. Eisdorfer. (PP&L St. No. 9-R, pp. 18-21). Mr. Sipics specifically disagreed with Mr. Eisdorfer's testimony regarding the impact of load changes on PP&L's ICO (or "installed capacity requirement"). Mr. Sipics' disagreement was based on two reasons:

1. The PJM reserve requirement is calculated using a 52-weekly peak load probability distribution; and
2. PP&L's ICO is increased slightly more by an increase in PP&L's summer peak than by an increase in PP&L's winter peak.

Mr. Sipics observed that the PJM installed capacity requirement is based on limiting the annual cumulative "loss of load expectation" for each of the 52 weeks to one day in ten years. Therefore, he concluded that the PJM installed capacity requirement of PP&L was based on 52 weekly loads and not just a winter peak load. (PP&L St. No. 9-R, p. 19).

On the second point, the witness testified that the PJM installed capacity requirement allocated to individual PJM companies is based on a determination of the individual company's Diversified Planning Period Peak ("DPPP"). The determination of PP&L's installed capacity requirement is based on the product of the DPPP and one plus the calculated company reserve requirement. (PP&L St. No. 9-R, pp. 19-20; PP&L Exhibit JFS-7, p. 1).

Mr. Sipics testified that the DPPP for a winter peaking company, like PP&L, is equal to the average of its winter peak loads (decreased by the summer/winter unit capacity difference) for the winters preceding and following the PJM summer peak less one-half PP&L's summer/winter peak load diversity and PP&L's share of the PJM summer load diversity. Mr. Sipics indicated that a specific increase in either the summer peak load or winter peak load will produce a virtually identical increase in PP&L's DPPP. (PP&L St. No. 9-R, p. 20; PP&L Exhibit JFS-7, pp. 2-3).

Mr. Sipics further observed that PP&L's ICO is a product of the DPPP and PP&L's reserve requirement. PP&L's reserve requirement is determined by adjusting the PJM reserve requirement by the Forced Outage Rate Adjustment ("FORA") and Load Drop Adjustment ("LDA"). PP&L's LDA, as recognized by Mr. Eisdorfer, currently increases PP&L's reserve requirement. Mr. Sipics observed that this adjustment is slightly higher for an increase in summer peak load than for an equal increase in winter peak load. As a result, Mr. Sipics concluded that the PP&L ICO will increase somewhat more for an increase in summer peak than for an equal increase in winter peak. (PP&L St. No. 9-R, p. 20).

## **2. UCC Surrebuttal On The ICO Issue.**

Mr. Eisdorfer addressed these criticisms of Mr. Sipics in this Surrebuttal Testimony. Mr. Eisdorfer mathematically demonstrated that neither the derivation methodology nor the magnitude of the reserve requirement have any relevance to his

prior conclusion that PP&L's winter peaks are the overwhelming determinant of PP&L's ICO. (UCC St. No. 2, p. 2).

Mr. Eisdorfer stated that the ICO is equal to the product of the DPPP for PP&L multiplied by one plus the reserve margin required by PJM. The primary component in the DPPP is the average of PP&L's winter peak loads for the current PJM planning period and the previous period. This average is offset by the sum of two diversity adjustments: (1) the Planning Period Adjustment (based on winter and summer peaks), and (2) the Summer Peak Adjustment. Mr. Eisdorfer observed that this offset reduced PP&L's ICO by 6.9% for the 1994-1995 planning period from what it would have been otherwise. The components of Mr. Eisdorfer's analysis of PP&L's DPPP appear at Table 1 of UCC St. No. 2, p. 3.

Mr. Eisdorfer then applied a factor representing the reserve margin to the DPPP in the ICO computation and demonstrated that such application has no impact on the relative influence of the winter and summer peaks. The irrelevance of the reserve margin factor is demonstrated at Table 2 of UCC St. No. 2, p. 4. In fact, application of the total reserve margin of 22.32 percent for the 1994-1995 planning period applied to the DPPP components has no effect on the relative influence of the winter and summer peaks on the ICO from that illustrated in Table 1. This is because Table 2 merely involves multiplication of the components of Table 1 by a numerical constant 1.2232. Mathematically, this has no impact on the result which is reached. In fact, it

demonstrates that the reserve requirement is irrelevant to an analysis of which of PP&L's peaks drive the magnitude of the ICO. (UCC St. No. 2, p. 4-5)).

Mr. Eisdorfer then addressed Mr. Sipics' second criticism that PP&L's ICO increased slightly more by an increase in summer peak than by an increase in winter peak. Mr. Eisdorfer addressed these contentions in a two step fashion. First, Mr. Eisdorfer addressed Mr. Sipics' contention that the PP&L LDA is "slightly higher for an increase in summer peak load than for an increase in winter peak load." Mr. Eisdorfer observed that the LDA load drop adjustment for the 1994-1995 planning period increased PP&L's ICO by 0.15% from what it would have been otherwise. This was equal to a 9 MW out of a DPPP of 5900 MW. Mr. Eisdorfer then postulated that an LDA due to an increase in the summer peak relative to the winter peak increased slightly from 0.15% to 0.16%. He calculated that such a "slight increase" would create no change in the megawatt value of the LDAs which would still remain at 9 MW. (UCC St. No. 2, p. 5).

Further, even if relative summer load changes produced a "huge increase" in the LDA, the impact upon the ICO would be minimal. For example, if the LDA increased by one-third to 0.20%, the megawatt value for the 1994-1995 planning period would increase by only 3 MW. (UCC St. No. 2, pp. 5-6). Thus, Mr. Eisdorfer mathematically demonstrated the fallacy of Mr. Sipics' assertion that the PP&L LDA would be slightly higher

for an increase in summer peak load than for an increase in winter peak load.

Further, Mr. Eisdorfer rebutted Mr. Sipics' second contention that "a specific increase in either the summer peak load or winter peak load would produce a virtually identical increase in PP&L's DPPP". (PP&L St. 9-R, p. 20).

In rebutting Mr. Sipics' statements, Mr. Eisdorfer observed that the examples provided by Mr. Sipics at PP&L Ex. JFS-7, pp. 2-3 assumed that the load increase occurred in isolation with no change in other seasonal peaks. Mr. Eisdorfer observed that this was unrealistic and that, generally, changes in a utility's winter peak are accompanied by changes in its summer peak. (UCC St. No. 2, p. 6). Between 1990 and 1994, PP&L's winter and summer peaks increased at an average annual rate of 3.3%

Mr. Eisdorfer further presented a mathematical example which demonstrated the overwhelming impact of winter peaks upon PP&L's ICO. This example appears at Table 3 of UCC St. No. 2, p. 7 and UCC Exhibit KE-2, Schedule 1. In those illustrations, Mr. Eisdorfer demonstrates the impact upon PP&L's DPPP which would result from a 100 MW increase in both PP&L's winter peak load and summer peak load. As shown in Column 3 of Schedule 1, page 1 of Exhibit KE-2, the winter peaks component of the DPPP would increase by 100 MW. The increase in PP&L's summer peaks would produce a negligible offset to the DPPP. Therefore, the net increase to the DPPP would be 99 MW. Thus, the overwhelming influence of PP&L's winter peak load upon its ICO is again

demonstrated clearly supporting the use of the 1 CP cost of service study and rejection of the 12 CP method.

**3. PP&L' Rebuttal Position On The Impact Of Scheduled Maintenance On Capacity Requirements.**

PP&L Witness Kleha further offered limited Rebuttal Testimony to the Direct Testimony of Mr. Eisdorfer. Mr. Kleha testified that the 1 CP demand allocation method focuses exclusively on a single monthly peak to allocate costs associated with PP&L generation facilities. This focus on a single month ignores the fact that customers impose demands on PP&L's system every month of the year and further fails to recognize that calculation of PP&L's ICO is based on provisions of levelized amounts of capacity for the entire 12 months of each year. (PP&L St. No. 7-R, p. 6).

Further, Mr. Kleha claimed, in analyzing PP&L's actual monthly peak load and scheduled generation unit maintenance data, that the Company's maximum capacity requirements (monthly peak load plus scheduled maintenance requirement) do not always occur in the three month winter period of December, January and February. Such requirements, Mr. Kleha testified, can occur in any month of the year except the summer months when PJM load requirements are expected to be most critical. (PP&L St. No. 7-R, pp. 6-7).

Mr. Eisdorfer addressed Mr. Kleha's criticisms in his Surrebuttal Testimony. (UCC St. No. 2, pp. 8-10). Mr. Eisdorfer demonstrated that the addition of monthly peak load megawatts and

scheduled maintenance megawatts is inappropriate because it implicitly equates the impact on cost causation of peak load with scheduled maintenance. Mr. Eisdorfer observed that the timing of scheduled maintenance is a function of the load characteristics of the utility and that utilities specifically schedule the bulk of their maintenance during months when there is no risk that weather extremes will create a capacity shortage problem. (UCC St. No. 1, p. 8).

Mr. Eisdorfer observed that, for the period of 1992 through 1994, more than two thirds of PP&L's capacity removed from service for scheduled maintenance occurred during the relatively "weather quiescent months" of March, April, May, October and November. These are months which have never contained the annual system peak and have no chance to do so in the future. Thus, scheduling of generation maintenance has no impact on PP&L's cost causation for production plant which is driven by annual system peaks always occurring in the winter. (UCC St. No. 2, pp. 8-9).

Mr. Eisdorfer further demonstrated the fallacy of Mr. Kleha's testimony in examining the maximum capacity requirements for each month for 1989 through 1994. Mr. Eisdorfer examined the years 1992 through 1994 and demonstrated that the maximum capacity shown by Mr. Kleha differs from those derived by Mr. Eisdorfer. (UCC St. No. 2, p. 9; UCC Ex. KE-2, Schedule 2). (See Attachment B). Mr. Eisdorfer's analysis demonstrated that, contrary to Mr. Kleha's Rebuttal Testimony, the maximum capacity

requirement occurs more in the winter peak period than it does during spring or fall months.

Thus, Mr. Kleha's Rebuttal Testimony has effectively been neutralized by Mr. Eisdorfer and does not diminish the strength of Mr. Eisdorfer's recommendation that the 1 CP methodology should be adopted.

Mr. Kleha further offered some limited Rejoinder to Mr. Eisdorfer. (Tr. 2141-2143). Mr. Kleha attempts to discredit Mr. Eisdorfer's Surrebuttal Testimony by suggesting Mr. Eisdorfer used a different winter peak period (January, February, March) as opposed to December, January, February. This observation is meaningless and fails to acknowledge Mr. Eisdorfer's recognition of the proper winter peak period of December, January, February in his determination of the propriety of the 1 CP method. (UCC St. No. 1, p. 6).

## **II. MR. EISDORFER'S POSITION REGARDING INTERCLASS SUBSIDIES SHOULD BE ADOPTED.**

### **A. PP&L's Current Class Revenue Distribution Contains Severe Interclass Subsidization.**

Mr. Eisdorfer determined that PP&L's major commercial and industrial rate classes are currently paying huge annual subsidies. A portion of this subsidy illustration is excerpted from UCC St. No. 1 by Mr. Eisdorfer at Table 2, page 9 of his Direct Testimony. (UCC St. No. 1).<sup>3</sup>

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<sup>3</sup>This table is based upon the 1 CP cost of service study.

Table 2

<u>Rate Class</u>	<u>Present Revenue (000)</u>	<u>Subsidy Provided (000)</u>	<u>Percent</u>
GS-1	\$ 162,217	\$ 46,949	28.9%
GS-3	507,172	112,339	22.2
LP-4	273,353	52,803	19.3
LP-5	<u>259,612</u>	<u>15,385</u>	5.9
Total	\$1,202,354	\$ 227,467	18.9%

Collectively, the subsidy provided by the four classes total \$227,476,000 per year. This is 88.2% of PP&L's requested jurisdictional rate increase. On average, 18.9 cents of every dollar paid by these ratepayers is used to pay the cost of providing power to a subsidized customer. A vast majority of this subsidy or approximately \$219,623,000 benefits residential customers to the detriment of the economic viability of the entire service territory. (UCC St. No. 1, pp. 9-10).

PP&L attempts to justify its proposed class revenue distribution by examining the changes in class rate of return as a percentage of the system rate of return at proposed rates as compared to those at present rates for the 12 CP cost of service study. As testified to by PP&L witness Kasper, the current level of subsidization provided by PP&L's industrial and commercial customer classes is significant. Mr. Kasper first agreed that rate classes RS, GS-1, GS-3, LP-4 and LP-5 together constitute 94.8% of the total jurisdictional revenues of the Company. Further, Mr. Kasper agreed with the calculation of interclass subsidies provided by rate classes GS-1, GS-3, LP-4 and LP-5 as illustrated in UCC Exhibit No. 6. UCC Exhibit No. 6 was derived from an examination of PP&L's cost of service study at Exhibit

JMK-2, pp. 113-114. Mr. Kasper then agreed, on cross examination, that, as a result of the current rate filing, the levels of subsidy provided by rate classes GS-1, GS-3 and LP-5 would decrease significantly. However, the subsidy provided by rate class LP-4 would increase. (Tr. 710-717). Therefore, even under PP&L's inappropriate 12 CP method, the proposed increase to rate class LP-4 is unsupported.

**B. Mr. Eisdorfer's Analysis Demonstrates The Inapplicability Of Changes In Class ROR To Justify Revenue Distribution.**

Mr. Eisdorfer, in examining Mr. Kasper's analysis, interpreted it as being identical to inspecting changes in class relative rate of return ("ROR") indices.<sup>4</sup> Mr. Eisdorfer concluded that it was inappropriate to use class ROR indices to determine whether a proposed revenue distribution would reduce existing class subsidies. This is because a change in the ROR index for a given class between present and proposed rates would purport to indicate a reduction in class subsidy values when in reality the opposite is the case. (UCC St. No. 2, p. 10).

Mr. Eisdorfer then illustrated the example of the fallacy of examining changes in class ROR as a basis to justify class revenue distributions. This is demonstrated at Schedule 2 of Exhibit KE-1. (See Attachment A). Page 1 of Schedule 2 presents the example of a class that is currently being subsidized and has

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<sup>4</sup>An ROR Index for the class is simply the class' ROR as a percentage of the system's ROR expressed as a whole number. (UCC St. No. 2, p. 10)

an ROR index of 75. The intent is to reduce the difference between this ROR index and an ROR index of 100 by 20%. The proposed ROR index for the class is therefore 80. However, under PP&L witness Kasper's proposal, the subsidy being provided in this class would increase despite the 20% movement of the ROR index to unity. Thus, this method does not produce a reduction in the subsidy now being provided to the class but would increase that subsidy by 10.9%. In Mr. Eisdorfer's example, the subsidy increase would be from \$6.6 million to \$7.3 million. (UCC St. No. 1, pp. 10-11, (Table 3); Ex. KE-1, Schedule 2, p. 1).

Further, Mr. Eisdorfer illustrated the same concept for a class that is subsidizing other customers. (UCC Ex. KE-1, Schedule 2, p. 2). At present rates, the ROR index for the class is 130. It is desired to reduce the difference between this ROR index and 100 by 20% thereby producing an ROR index at 124. However, the subsidy provided by this class would not be reduced by 20% under this proposal. It would increase by 11.4% from \$7.8 million to \$8.7 million. (UCC St. No. 1, p. 11; UCC Ex. KE-1, Schedule 2, p. 2).

Mr. Eisdorfer then provided an explanation for changes in the class subsidy figures between present and proposed rates as demonstrated by his examples. Mr. Eisdorfer explained that an ROR excess (deficiency) for a class is computed by subtracting a rate of return for the system from the class ROR. If the result is a positive number, the class has an ROR excess. A negative number indicates an ROR deficiency.

The absolute correlation between the percentage change in the ROR excess (deficiency) and the percentage change in class subsidies between present and proposed rates can be illustrated through the examples contained in Schedule 2 of UCC Exhibit KE-1. These are shown below:

	<u>Present</u>	<u>Proposed</u>	<u>Percentage Change</u>
<u>Example 1</u>			
ROR Deficiency	1.83%	2.03%	10.9%
Subsidy Received	\$6,588,000	\$7,308,000	10.9%
<u>Example 2</u>			
ROR Excess	2.19%	2.44%	11.4%
Subsidy Provided	\$7,884,000	\$8,784,000	11.4%

(UCC St. No. 1, p. 12, (Table 4)).

UCC Exhibit KE-1, Schedule 2 is appended as Attachment A to this Brief.<sup>5</sup>

**C. PP&L's Proposed Revenue Distribution Only Exacerbates The Interclass Subsidy Situation.**

Mr. Eisdorfer then demonstrated that PP&L's proposed revenue distribution only exacerbates the level of interclass subsidies. As demonstrated on Schedule 4 of UCC Exhibit KE-1, the rate of return excess or deficiency is greater at proposed rates than at present rates for 7 of 11 customer classes. This means that PP&L's proposed revenue distribution would move rates away from costs as compared to the current revenue distribution for 64% of the customer classes. (UCC St. No. 1, p. 13; Ex. KE-1, Schedule 4). PP&L's proposal therefore increases existing class subsidies

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<sup>5</sup>The foregoing correlation is also supported through a mathematical proof shown at Schedule 3 of Exhibit KE-1 which is attached.

for rate classes RS, LP-4 and LP-5. The dollar value associated with these subsidies also increases as is illustrated in UCC Exhibit KE-1, Schedule 5. (See Attachment A to this Brief).

Mr. Eisdorfer further demonstrates the degree of subsidization that would exist on the PP&L system if PP&L's proposed revenue distribution were to be implemented. The degree of subsidization is illustrated in the table which follows excerpted from his Direct Testimony:

<u>Rate Class</u>	<u>Return on Common Equity</u>
GS-1	29.97%
GS-3	27.31%
LP-4	30.60%
LP-5	24.83%

(UCC St. No. 1, p. 14 (Table 5)).

These figures show the return on common equity that would be earned on service to PP&L's major commercial and industrial classes at proposed rates.<sup>6</sup> It should be noted that these returns on equity amounts are significantly greater than PP&L's claimed cost of equity of 13%. In contrast, the return on common equity that would effectively be earned on service to the RS class is calculated by Mr. Eisdorfer to be only 4.93%, significantly below PP&L's cost of long term debt of 7.97%. (UCC St. No. 1, p. 14).

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<sup>6</sup> These figures were derived by utilizing the cost of senior capital along with PP&L's common equity ratio for the future test year as shown in PP&L Exhibit Future 1, Schedule B-9.

Mr. Eisdorfer further demonstrated that there is no corresponding relationship between proposed movements in class ROR indices and proposed subsidy changes. For example, the annual subsidy now being provided by rate LP-4 is proposed to increase by 13.8% (from \$52.8 million to \$60.1 million). The ROR excess for this class is also proposed to increase by 13.8% (from 7.15% to 8.14%). In contrast, the ROR indices for rate LP-4 would move 9.1% closer to unity at proposed rates as compared to present rates. Therefore, PP&L's presentation appears to indicate that PP&L's rate LP-4 proposal would move towards costs when, in fact, the disparity between class revenues and costs would increase. (UCC St. No. 1, pp. 14-15).

This is further evidence for the rejection of PP&L's position and adoption of Mr. Eisdorfer's recommendations.

**D. Mr. Eisdorfer's Proposal To Reduce The Interclass Subsidization Problem Should Be Adopted.**

Mr. Eisdorfer then recommends a number of steps which the Commission should take to reduce the interclass subsidy situation on the PP&L system. These recommendations are as follows:

1. Reduce the subsidies that are currently being received by the subsidized classes by one-half with the constraint that no class incur an increase that is more than three times the overall percentage increase requested by PP&L for the jurisdiction of 11.7%.
2. Reduce the subsidies that are currently being paid by the subsidizing classes by a uniform percentage.

3. The rate case increase to rate ISA is limited by a special contract. Therefore, the revenue level for this class would be as proposed by PP&L.

(UCC St. No. 1, pp. 15-16).

Mr. Eisdorfer's proposes to cap the rate increase for any given class at a level of 35.1% or three times 11.7% representing the full percentage increase requested by PP&L in this case. However, Mr. Eisdorfer does not consider this increase to be excessive given this is the first base rate proceeding since 1985 for PP&L. Further, during the 10-year span since the last base rate increase, the Consumer Price Index ("CPI") has increased by more than 40%. (UCC St. No. 1, p. 16).

Mr. Eisdorfer then further illustrates his recommended class revenue distribution at Schedule 6 of Exhibit KE-1. (See Attachment A). The resulting class rates of return and corresponding subsidy figures are then shown in Schedules 7 and 8 of Exhibit KE-1. (See Attachment A). When compared with the corresponding data at present rates shown on those schedules, Mr. Eisdorfer made the following observations:

1. Each class that is currently providing a subsidy would move approximately 38% closer to cost.
2. The subsidized RS, GH and Lighting classes would have their current deviations from costs reduced by one-half.

(UCC St. No. 1, p. 16).

The foregoing observations and Ex. KE-1, Schedules 6 through 8, reflect Mr. Eisdorfer's revenue distribution proposal that would move each of PP&L's major customer classes significantly closer towards cost and dramatically decrease the overall interclass

subsidization that currently exists on PP&L's system. It should be noted that even though the figures in Schedule 6 reflect PP&L's requested jurisdictional revenue increase, Mr. Eisdorfer is not endorsing the level of that request. A smaller overall increase would, under his proposal, have to be distributed among the customer classes by reducing proportionately the figures contained in Column 2 of Schedule 6.

UCC contends that, if its position is adopted, the recommended class revenue distribution that should be adopted is the one depicted at UCC Ex. KE-1, Schedule 6.

**E. Other Intervenor Witnesses Similarly Concur In The Interclass Subsidization Position.**

Mr. Eisdorfer's observations regarding the degree of interclass subsidization under both PP&L's current and proposed rates were echoed by other intervenor witnesses.

PPLICCA witness Baron testified that the subsidies paid by each of the major rate classes utilizing rates of PPLICCA's 12 CP cost of service study demonstrated residential customers were receiving subsidies at present rates of almost \$100 million. These subsidies are paid principally by rate classes GS-1, GS-3 and LP-4. Rate classes LP-5, LP-EP and ISA are neither paying nor receiving significant subsidies.

Mr. Baron further observed that PP&L's small and medium commercial and industrial customers are paying this \$100 million in subsidies to residential customers so as to reduce the cost of electricity to those customers. Mr. Baron recommended that the

subsidization effect should be reduced to the extent feasible in this case in a systematic manner so as to move all classes toward cost of service, taking into account both gradualism and rate shock in the process. (PPLICA St. No. 7, pp. 41-42).

Mr. Baron further demonstrated that PP&L's proposal in this case does not produce a systematic movement toward cost of service. In particular, the residential class has been increased in a fashion such that the rate of return index still remains substantially below cost of service while PP&L has increased Rate Schedule LP-5 so the proposed rates exceed cost of service. (PPLICA St. No. 7, p. 46, Fig. 5). Mr. Baron noted that PP&L's proposed increase continues to produce rates which are below cost of service for the residential class and continues to rely on substantial cross-subsidies from other rate schedules. Mr. Baron concluded that PP&L has only corrected slightly the cross-subsidy situation currently inherent in its present rates. (PPLICA St. No. 7, p. 47, Fig. 6).

Office of Small Business Advocate ("OSBA") witness Knecht further illustrated the existence of rate subsidies being provided by GS-1 and GS-3 customers to the RS class. Mr. Knecht calculated that, under present rates, GS-1 customers provide an indexed rate of return of 197%, the highest of any major rate class. Further, GS-3 customers currently provide an indexed rate of return of 136%, the second highest of any major rate class. (OSBA St. No. 1, pp. 3-5).

III. CONCLUSION

WHEREFORE, for all the foregoing reasons, the University/ College Coalition respectfully requests the Presiding Officer reject the rates proposed in PP&L's Supplement No. 50 as unjust and unreasonable and adopt the recommendations identified in this Brief in his Recommended Decision in this matter.

Respectfully submitted,

  
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Dated: June 15, 1995

PENNSYLVANIA POWER & LIGHT COMPANY

Relative Monthly System Peaks  
(Annual System Peak = 100)

<u>Line</u>	<u>Month</u>	<u>1990</u> (1)	<u>1991</u> (2)	<u>1992</u> (3)	<u>1993</u> (4)	<u>1994</u> (5)
1	January	88	99	100	90	100
2	February	100	93	96	100	97
3	March	94	86	89	95	89
4	April	80	77	80	76	74
5	May	73	85	70	72	69
6	June	82	85	76	81	86
7	July	88	94	85	88	88
8	August	87	90	84	88	83
9	September	79	86	80	85	70
10	October	77	76	80	76	73
11	November	84	87	83	83	79
12	December	93	100	92	98	88

Source: PP&L's response to interrogatories of the PP&L Industrial Customer Alliance, Set I, Question 32.

PENNSYLVANIA POWER & LIGHT COMPANY  
ROR Indices and Class Subsidization

<u>Line Description</u>	<u>Present Rates</u> (1)	<u>Proposed Rates</u> (2)
1 Jurisdictional ROR	7.31%	10.17%
<p>Example 1: It is Proposed            that a Subsidized Class have the            Difference between its Present  <u>ROR Index and 100 Reduced by 20%</u></p>		
2 ROR Index	75	80
3 ROR (Line 2 applied to Line 1)	5.48%	8.14%
4 ROR Deficiency (Line 3 - Line 1)	1.83%	2.03%
5 Rate Base	\$200,000,000	\$200,000,000
6 Operating Income Deficiency (Line 4 x Line 5)	\$3,660,000	\$4,060,000
7 Gross Revenue Conversion Factor	1.8	1.8
8 Subsidy Received (Line 6 x Line 7)	\$6,588,000	\$7,308,000

PENNSYLVANIA POWER & LIGHT COMPANY

ROR Indices and Class Subsidization (cont'd)

<u>Line</u>	<u>Description</u>	<u>Present Rates</u> (1)	<u>Proposed Rates</u> (2)
1	Jurisdictional ROR	7.31%	10.17%
	Example 2: It is Proposed that a Class that is Providing a Subsidy have the Difference between its Present <u>ROR Index and 100 Reduced by 20%</u>		
2	ROR Index	130	124
3	ROR (Line 2 applied to Line 1)	9.50%	12.61%
4	ROR Excess (Line 3 - Line 1)	2.19%	2.44%
5	Rate Base	\$200,000,000	\$200,000,000
6	Operating Income Excess (Line 4 x Line 5)	\$4,380,000	\$4,880,000
7	Gross Revenue Conversion Factor	1.8	1.8
8	Subsidy Provided (Line 6 x Line 7)	\$7,884,000	\$8,784,000

PENNSYLVANIA POWER & LIGHT COMPANY

Demonstration of the Equivalency Between  
the Percentage Change in the ROR Excess (Deficiency)  
for a Class and the Subsidy Provided by (to) that Class

Let: CPres = Class Present ROR  
CProp = Class Proposed ROR  
SPres = System Present ROR  
SProp = System Proposed ROR  
RB = Rate Base  
GRCF = Gross Revenue Conversion Factor.

The present class ROR excess (deficiency) is:

$$CPres - SPres.$$

The proposed class ROR excess (deficiency) is:

$$CProp - SProp.$$

The percentage change in the ROR excess (deficiency) between present and proposed rates is:

$$(1) \quad \left(1 - \frac{CProp - SProp}{CPres - SPres}\right) \times 100.$$

The present class subsidy is:

$$(CPres - SPres) \times RB \times GRCF.$$

The proposed class subsidy is:

$$(CProp - SProp) \times RB \times GRCF.$$

The percentage change in the class subsidy between present and proposed rates is:

$$\left(1 - \frac{(CProp - SProp) \times RB \times GRCF}{(CPres - SPres) \times RB \times GRCF}\right) \times 100$$

or

$$(2) \quad \left(1 - \frac{CProp - SProp}{CPres - SPres}\right) \times 100.$$

Expression (2) is equivalent to Expression (1).

PENNSYLVANIA POWER & LIGHT COMPANY

Rate of Return Data for the Winter Peak Cost-of-Service Study  
at Present Rates and Under PP&L's Proposed Rates  
(Year Ending September 30, 1995)

<u>Line</u>	<u>Cost-of-Service Study Rate Class</u>	<u>Present Rates</u>		<u>PP&amp;L's Proposed Rates</u>	
		<u>Rate of Return (1)</u>	<u>ROR Excess (Deficiency) (2)</u>	<u>Rate of Return (3)</u>	<u>ROR Excess (Deficiency) (4)</u>
1	RS	3.72%	(3.59)%	6.53%	(3.64)%
2	RTS	(5.36)	(12.67)	(4.39)	(14.56)
3	GS-1	16.67	9.36	18.02	7.85
4	GS-3	14.56	7.25	16.80	6.63
5	LP-4	14.46	7.15	18.31	8.14
6	LP-5	9.59	2.28	15.66	5.49
7	LPEP	11.55	4.24	13.43	3.26
8	ISA	2.94	(4.37)	2.98	(7.19)
9	GH	5.44	(1.87)	8.63	(1.54)
10	Lighting	4.90	(2.41)	6.86	(3.31)
11	Standby	782.36	775.05	789.50	779.33
12	Total Jurisdiction	7.31%	0.00%	10.17%	0.00%

PENNSYLVANIA POWER & LIGHT COMPANY  
Class Subsidy Data at Present Rates  
and Under PP&L's Proposed Rates  
Year Ending September 30, 1995

<u>Line</u>	<u>Cost-of-Service Study Rate Class</u>	<u>Present Subsidy (000)</u> (1)	<u>PP&amp;L's Proposed Subsidy (000)</u> (2)
1	RS	\$(174,847)	\$(177,664)
2	RTS	(44,806)	(51,495)
3	GS-1	46,949	39,373
4	GS-3	112,339	102,786
5	LP-4	52,803	60,083
6	LP-5	15,385	36,943
7	LPEP	1,045	801
8	ISA	(2,022)	(3,322)
9	GH	(4,065)	(3,362)
10	Lighting	(3,655)	(5,025)
11	Standby	<u>874</u>	<u>882</u>
12	Total Jurisdiction	\$0	\$0

Note: A positive subsidy figure denotes that a class is providing a subsidy to other classes. A negative subsidy figure denotes that a class is receiving a subsidy from other classes.

PENNSYLVANIA POWER & LIGHT COMPANY

Recommended Class Revenue Distribution  
(Year Ending September 30, 1995)

Line	Cost-of-Service Study Rate Class	Present	Recommended	Increase	
		Revenue (000) (1)	Revenue (000) (2)	Amount (000) (3)	Percent (4)
1	RS	\$887,112	\$1,112,973	\$225,861	25.5%
2	RTS	19,774	26,715	6,941	35.1
3	GS-1	162,217	158,333	(3,884)	(2.4)
4	GS-3	507,172	508,318	1,146	0.2
5	LP-4	273,353	273,879	526	0.2
6	LP-5	259,612	272,343	12,731	4.9
7	LPEP	8,405	8,717	312	3.7
8	ISA	20,449	20,480	31	0.2
9	GH	43,628	51,998	8,370	19.2
10	Lighting	21,161	27,384	6,223	29.4
11	Standby	<u>1,148</u>	<u>817</u>	<u>(331)</u>	(28.8)
12	Total Jurisdiction	\$2,204,031	\$2,461,957	\$257,926	11.7%

PENNSYLVANIA POWER & LIGHT COMPANY

Rate of Return Data for the Winter Peak Cost-of-Service Study at  
Present Rates and Under Recommended Class Revenue Distribution  
(Year Ending September 30, 1995)

Line	Cost-of-Service Study Rate Class	Present Rates		Recommended	
		Rate of Return (1)	ROR Excess (Deficiency) (2)	Rate of Return (3)	ROR Excess (Deficiency) (4)
1	RS	3.72%	(3.59)%	8.38%	(1.79)%
2	RTS	(5.36)	(12.67)	(3.40)	(13.57)
3	GS-1	16.67	9.36	15.99	5.82
4	GS-3	14.56	7.25	14.68	4.51
5	LP-4	14.46	7.15	14.62	4.45
6	LP-5	9.59	2.28	11.59	1.42
7	LPEP	11.55	4.24	12.82	2.65
8	ISA	2.94	(4.37)	2.98	(7.19)
9	GH	5.44	(1.87)	9.24	0.93
10	Lighting	4.90	(2.41)	8.97	(1.20)
11	Standby	782.36	775.05	490.11	479.94
12	Total Jurisdiction	7.31%	0.00%	10.17%	0.00%

PENNSYLVANIA POWER & LIGHT COMPANY

Class Subsidy Data at Present Rates and Under  
Recommended Class Revenue Distribution  
Year Ending September 30, 1995

<u>Line</u>	<u>Cost-of-Service Study Rate Class</u>	<u>Present Subsidy (000) (1)</u>	<u>Recommended Distribution (000) (2)</u>
1	RS	\$(174,847)	\$(87,424)
2	RTS	(44,806)	(47,992)
3	GS-1	46,949	29,185
4	GS-3	112,339	69,833
5	LP-4	52,803	32,824
6	LP-5	15,385	9,564
7	LPEP	1,045	650
8	ISA	(2,022)	(3,322)
9	GH	(4,065)	(2,033)
10	Lighting	(3,655)	(1,828)
11	Standby	<u>874</u>	<u>543</u>
12	Total Jurisdiction	\$0	\$0

Note: A positive subsidy figure denotes that a class is providing a subsidy to other classes. A negative subsidy figure denotes that a class is receiving a subsidy from other classes.

PENNSYLVANIA POWER & LIGHT COMPANY

Derivation of PP&L's Diversified Planning Peak for PJM's 1994-1995 Planning Period  
-Actual vs. 100 Megawatt Increases in Both Summer & Winter Peak Loads

Line	Description	Actual (MW) (1)	100 MW Increase in Both Winter & Summer Peak Loads	
			Amount (MW) (2)	Change (MW) (3)
	<u>Reduced* Winter Peaks</u>			
1	This Planning Period	6,419	6,519	100
2	Last Planning Period	6,620	6,360	100
3	Average of Lines 1 and 2	6,340	6,440	100
	<u>Diversity Adjustments (Page 2)</u>			
4	Planning Period Adjustment	385	385	0
5	Summer Peak Adjustment	55	56	1
6	Total	440	441	1
7	Diversified Planning Peak (Line 3-Line 6)	5,900	5,999	99

\*Reduced for the difference between winter and summer installed capacity.

Source for Column 1: PP&L's response to Interrogatory OTS-RB-28D.

PENNSYLVANIA POWER & LIGHT COMPANY

Derivation of 1994-1995 Planning Period Diversity Adjustments for PP&L  
 -Actual vs. 100 Megawatt Increases in Both Summer & Winter Peaks Loads

<u>Line</u>	<u>Description</u>	<u>Actual (MW) (1)</u>	<u>100 MW Increase in Both Winter &amp; Summer Peak Loads</u>	
			<u>Amount (MW) (2)</u>	<u>Change (MW) (3)</u>
	<u>Derivation of Planning Period Diversity Adjustment</u>			
1	Average of Reduced* Winter Peaks (From page 1, line 3)	6,340	6,440	100
2	Forecasted Summer Peak	5,570	5,670	100
3	Difference (Line 1-Line 2)	770	770	0
4	Planning Period Diversity Adjustment (One-half of Line 3)	385	385	0
	<u>Derivation of Summer Peak Diversity Adjustment</u>			
5	Forecasted Summer Peak	5,570	5,670	100
6	PJM Forecasted Summer Peak	46,669	46,769	100
7	Line 5 as a Percentage of Line	11.9%	12.1%	
8	Total PJM Summer Peak Diversity Adjustment	462	462	
9	PP&L's Summer Peak Diversity Adjustment (Line 7 Percentages applied to Line 8)	55	56	1

\*Reduced for the difference between winter and summer installed capacity.

Source for Column 1: PP&L's response to Interrogatory OTS-RB-28D.

PENNSYLVANIA POWER & LIGHT COMPANY  
 Monthly System Peaks and Scheduled Maintenance  
 (Megawatts)

<u>Line</u>	<u>Month</u>	<u>System Peak</u> (1)	<u>Scheduled Maintenance</u> (2)	<u>"Maximum Capacity Requirement"</u> (1)+(2) (3)
	<u>1994</u>			
1	January	6,403	950	7,353
2	February	6,193	163	6,356
3	March	5,681	829	6,510
4	April	4,742	1,849	6,591
5	May	4,404	1,763	6,167
6	June	5,521	644	6,165
7	July	5,638	128	5,766
8	August	5,329	128	5,457
9	September	4,477	780	5,257
10	October	4,661	652	5,313
11	November	5,083	1,364	6,447
12	December	5,646	728	6,374
	<u>1993</u>			
1	January	5,507	77	5,584
2	February	6,130	77	6,207
3	March	5,826	1,477	7,303
4	April	4,685	1,477	6,162
5	May	4,443	706	5,149
6	June	4,947	317	5,264
7	July	5,409	61	5,470
8	August	5,388	61	5,449
9	September	5,241	61	5,302
10	October	4,639	803	5,442
11	November	5,064	1,072	6,136
12	December	6,001	787	6,788

Source: PP&L's Response to OCA Interrogatory, Set III, Question 28.

PENNSYLVANIA POWER & LIGHT COMPANY

Monthly System Peaks and Scheduled Maintenance (con't)  
(Megawatts)

<u>Line</u>	<u>Month</u>	<u>System Peak</u> (1)	<u>Scheduled Maintenance</u> (2)	"Maximum Capacity Requirement" (1)+(2) (3)
	<u>1992</u>			
1	January	5,974	61	6,035
2	February	5,706	727	6,433
3	March	5,345	846	6,191
4	April	4,795	846	5,641
5	May	4,183	1,114	5,297
6	June	4,567	327	4,894
7	July	5,104	346	5,450
8	August	5,029	426	5,455
9	September	4,797	426	5,223
10	October	4,756	936	5,692
11	November	4,930	644	5,574
12	December	5,490	644	6,134

Source: PP&L's Response to OCA Interrogatory, Set III, Question 28.

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION  
ADMINISTRATIVE LAW JUDGE ROBERT CHRISTIANSON PRESIDING

PENNSYLVANIA PUBLIC UTILITY :  
COMMISSION, et al. :  
 :  
v. :  
 :  
PENNSYLVANIA POWER AND LIGHT :  
COMPANY. :

Docket No. R-009423-1

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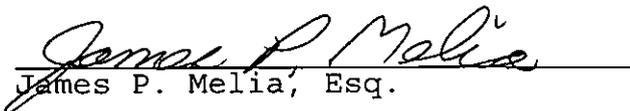
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