

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

DOCKETED
APR 21 1995

DIRECT TESTIMONY
AND EXHIBITS
OF
LANE KOLLEN

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J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

APRIL 1995

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY**

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BEFORE THE
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DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

1 **Q. Please state your name and business address.**

2

3 **A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.**
4 **("Kennedy and Associates"), Suite 475, 35 Glenlake Parkway, Atlanta, Georgia**
5 **30328.**

6

7 **Q. What is your occupation and by whom are you employed?**

8

9 **A. I am a utility rate and planning consultant holding the position of Vice President and**
10 **Principal with the firm of Kennedy and Associates.**

11

12 **Q. Please describe your education and professional experience.**

1 A. I received my Bachelor of Business Administration in Accounting from the
2 University of Toledo. I also received a Master of Business Administration from the
3 University of Toledo. I am a Certified Management Accountant ("CMA") and a
4 Certified Public Accountant ("CPA").

5
6 Since 1986, I have held various positions with Kennedy and Associates. I specialize
7 in revenue requirements analyses, taxes, the evaluation of rate and financial impacts
8 of traditional and non-traditional ratemaking, and other utility strategic, operational,
9 financial, and accounting issues.

10
11 From 1983 to 1986, I held various positions with the consulting group at Energy
12 Management Associates. I specialized in utility finance, utility accounting issues, and
13 computer financial modeling. I also directed consulting and software projects
14 utilizing PROSCREEN II and ACUMEN proprietary software products to support
15 utility rate case filings, budgets, internal management and external reporting, and
16 strategic and financial analyses.

17
18 From 1976 to 1983, I held various positions with The Toledo Edison Company in the
19 Accounting and Corporate Planning Divisions. From 1980 to 1983, I was responsible
20 for the Company's financial modeling and financial evaluation of the Company's
21 strategic plans. In addition, I was responsible for the preparation of the capital
22 budget, various forecast filings with regulatory agencies, and assistance in rate and

1 other strategy formulation. I utilized the strategic planning model PROSCREEN II,
2 the production costing model, PROMOD III, and other software products to evaluate
3 capacity swaps, sales, sale/leasebacks, cancellations, write-offs, unit power sales, and
4 long term system sales, among other strategic options. From 1976 to 1980, I held
5 various other positions in the Budget and Accounting Reports, Property Accounting,
6 Tax Accounting, and Internal Audit sections of the Accounting Division.

7
8 I have appeared as an expert witness on accounting, finance, and planning issues
9 before regulatory commissions and courts in numerous states on nearly one hundred
10 occasions. In addition, I have developed and presented papers at various industry
11 conferences on utility rate, accounting, and tax issues. My qualifications and
12 regulatory appearances are further detailed in my Exhibit ____ (LK-1).

13
14 **Q. Please describe the firm of Kennedy and Associates.**

15
16 **A.** Kennedy and Associates provides consulting services in the electric, gas, and
17 telecommunications utilities industries. The firm provides expertise in system
18 planning, load forecasting, financial analysis, revenue requirements, cost of service,
19 and rate design. Clients include state agencies and industrial electricity and gas
20 consumers.

21
22 **Q. On whose behalf are you testifying?**

J. Kennedy and Associates, Inc.

1 A. I am testifying on behalf of the PP&L Industrial Customer Alliance ("PPLICA"), a
2 group of large industrial customers of Pennsylvania Power & Light Company
3 ("PP&L").
4

5 **Q. What is the purpose of your testimony?**
6

7 A. The purpose of my testimony is to review the components of the test year revenue
8 requirement requested by PP&L, to make recommendations with respect to the
9 recovery of certain costs, to quantify the effects on the test year revenue requirement
10 of those recommendations, and to summarize the total adjustments to the Company's
11 requested revenue requirement recommended by the PP&L Industrial Customer
12 Alliance.
13

14 **Q. Please summarize your testimony.**
15

16 A. I recommend that the Commission reject or otherwise modify numerous components
17 of the Company's requested test year revenue requirement. My recommendations as
18 well as the related reductions to the revenue requirement are as follows:
19

- 20 • **Reject current test year recovery of future fossil dismantling costs**
21 **(\$45.022 million).**
- 22
- 23 • **Reject shorter depreciation lives for certain fossil generating**
24 **facilities (\$19.222 million).**

- 1 • **Reject the "levelization" of Susquehanna 1 and 2 modified sinking**
2 **fund depreciation (\$30.626 million).**
- 3
- 4 • **Modify the nuclear decommissioning annuity accruals to reflect a**
5 **higher rate of return and to establish an earnings performance**
6 **standard (\$19.927 million).**
- 7
- 8 • **Reduce the gross deferred Voluntary Early Retirement Program**
9 **("VERP") costs to reflect nine months of savings and extend the**
10 **amortization period for the net costs to ten years (\$9.564 million).**
- 11
- 12 • **Reject the amortization of an imputed SFAS No. 106 deferral**
13 **balance (\$1.894 million).**

14

15 I have also quantified the effect of Mr. Baudino's rate of return recommendations.
16 Mr. Baudino's recommendation to utilize a 10.85% return on common equity reduces
17 the Company's requested revenue requirement by \$84.687 million. Mr. Baudino's
18 recommendation to utilize the September 30, 1994 actual capital structure reduces the
19 Company's requested revenue requirement by an additional \$5.017 million.

20

21 Finally, the effects of the preceding recommendations would be the same whether
22 applied against the Company's requested total revenue requirement or its requested
23 deficiency. However, Mr. Baron, on behalf of the PPLICA, has identified an error
24 in the Company's computation of the deficiency. Thus, if the deficiency is utilized
25 as the starting point for revenue requirement adjustments, then the Company's
26 requested \$261.635 million should first be reduced by \$21.790 million to \$239.845
27 million to correct for its error.

28

1 In the aggregate, PPLICA witnesses recommend a reduction of at least \$215.959
2 million to the Company's \$239.845 corrected revenue requirement request,
3 recognizing that there will likely be other revenue requirement issues raised by other
4 parties that may also be supported by PPLICA.

1 A. No. Mr. Bernini's testimony briefly describes only the Company's ratemaking
2 request and the Company's proposed funding treatment if its ratemaking request is
3 approved. Mr. Bernini provides no rationale in support of the Company's request.
4 Mr. LaGuardia's testimony presents only the results of the fossil dismantling studies
5 commissioned by PP&L and performed by TLG Services. There is no other
6 testimony that directly addresses the request for recovery of fossil dismantling costs.

7

8 **Q. Why should the Commission reject the Company's request for future projected**
9 **fossil dismantling costs?**

10

11 A. First, no rationale whatsoever has been offered by the Company in support of its
12 request. Thus, the Commission has been offered no reason to allow recovery of this
13 cost.

14

15 Second, this is an unnecessary and purely discretionary cost of service in the current
16 test year. The Commission is under no legal or accounting mandate to prematurely
17 recognize costs that may be incurred decades into the future.

18

19 Third, the Commission already has a mechanism in place to recover the costs of
20 fossil dismantling if and when the fossil facilities are actually removed from service.
21 Historically, the Commission has allowed recovery of the five year average of net
22 negative salvage. Fossil dismantling is simply another name for net negative salvage

1 associated with fossil generating facilities. The Company's cost of service includes
2 the cost of \$20.2 million in net negative salvage based upon the five year average
3 methodology.

4
5 Fourth, the projections are speculative. The cost is not known and measurable and
6 inherently lacks the objectivity associated with actual expenditures. The projections
7 depend upon numerous physical assumptions. One assumption is that there will be
8 no life extensions. Yet, Pennsylvania statutes require unit upgrades and life
9 extensions for coal facilities where economically feasible. Another assumption is that
10 there will be no changes to existing dismantling technology. That is highly unlikely.

11
12 To further illustrate the speculative nature of the projections, contrast the \$628.5
13 million total cost of future fossil dismantling projected by the Company to the
14 negative net \$0.064 million it has actually spent on fossil dismantling since 1951.
15 The reality is that over the 45-year period, the actual total salvage proceeds of \$1.017
16 million exceeded the actual \$0.953 million decommissioning costs. I have attached
17 as my Exhibit___(LK-2) an annual history of the Company's actual fossil dismantling
18 costs.

19
20 Fifth, there is actually a penalty and an increased cost of service resulting from the
21 Company's request. The Company's annuity accrual assumes that it will fund a fossil
22 dismantling trust fund. However, unlike contributions to the nuclear

1 decommissioning trust fund, contributions to a fossil dismantling trust fund are not
2 tax deductible until the dismantling costs are actually incurred. Assuming a federal
3 income tax rate of 35%, no more than 65% of the funds prematurely paid by
4 ratepayers could possibly earn a rate of return to apply to any future costs.

5
6 In addition, the after tax return for fossil would be lower than assumed by the
7 Company, assuming an equivalent before tax return between nuclear and fossil. The
8 Company assumed an after tax return of 5.50%, equivalent to the rate of return it
9 assumed on the nuclear decommissioning trust fund. Even if the rate of return
10 assumed by the Company were valid, the federal income rate for nuclear
11 decommissioning trust fund earnings is 20% compared to the full 35% for any fossil
12 dismantlement trust fund. Mathematically, the after tax return on a fossil
13 dismantlement fund would be lower than on the nuclear decommissioning fund.

14
15 Further, the Company's request is clearly inequitable and lacks any legitimate
16 economic rationale. The Company has requested an after tax return on its rate base
17 of 10.23% in this proceeding. The revenue requirement effect of that request is
18 15.78% after gross-up for income taxes. Contrast the 15.78% before tax return
19 sought from ratepayers by the Company on its investment with the 6.88% before tax
20 (assuming a 20% tax rate) offered by the Company to ratepayers for their investment.
21 That is a glaring differential.

22

1 Finally, the premature recovery of projected dismantlement costs has been repeatedly
2 rejected by the Commission. Instead, the Commission's practice has been to allow
3 recovery of the five year average of actual net negative salvage. Most recently, the
4 Commission considered the request of West Penn Power for current test year
5 recovery of future dismantlement costs. With respect to West Penn Power's request,
6 the Commission stated:

7
8 **"Consequently, we reject the Company's claim because of its**
9 **uncertain and speculative nature and because this claim is**
10 **patently counter to existing precedent." (West Penn Power Opinion**
11 **and Order Docket No. R-00942986, entered December 29, 1994, page**
12 **63.)**

1 **III. SHORTER FOSSIL PLANT DEPRECIABLE LIVES**

2
3 **Q. Please describe the Company's request to recover the costs of shortening the**
4 **depreciable lives of certain fossil plant.**

5
6 **A. The Company has requested an incremental revenue requirement of \$19.222 million**
7 **in order to shorten the lives for depreciation accounting purposes of certain fossil**
8 **generating units at Holtwood (Unit 17), Martins Creek (Units 1 & 2) and Sunbury**
9 **(Units 1, 2, 3 and 4) by six to twelve years. The amounts included by the Company**
10 **in its cost of service are \$20.476 million total Company and \$16.687 million PPUC**
11 **jurisdiction.**

12
13 The cost of service amounts were obtained from the Company's response to discovery
14 (PP&L Industrial Customer Alliance, Set IV, Q.1) which I have replicated as my
15 Exhibit ____ (LK-3). The computation of the incremental revenue requirement
16 amounts is also detailed on my Exhibit ____ (LK-3).

17
18 **Q. Did the Company also request to extend the depreciable lives of certain other**
19 **fossil plant?**

20
21 **A. Yes. The Company's request was to shorten the depreciable lives of certain fossil**
22 **plant and to extend the lives of certain other fossil plant. Although the Company's**

1 request was presented on a "net" basis, I recommend that the Commission separate
2 the two components. I recommend that the Commission reject the Company's
3 proposal to shorten the depreciable lives of certain fossil plant and accept its proposal
4 to lengthen the depreciable lives of certain other fossil plant.

5
6 **Q. Why should the Commission reject the Company's request to shorten the**
7 **depreciable lives of the fossil generating plant?**

8
9 A. The first and most compelling reason is that neither the Company nor the
10 Commission has any economic basis or any quantified data or analyses that
11 shortening the depreciable lives for these units is necessary or even appropriate. In
12 fact, the exact opposite may well be the optimal economic option. Although the
13 studies provided by the Company were not prepared for the purpose of comparing
14 and optimizing the economics of alternative retirement dates for these fossil
15 generating units, they conclude that continued operation of the units is both prudent
16 and economical well beyond their current depreciable lives.

17
18 Second, there is no harm to the Company if the depreciable lives are not shortened
19 in this proceeding. If indeed appropriate studies are performed by the Company in
20 the future and the Commission agrees that the optimal economic option is to retire
21 specific units on an earlier schedule, then the depreciable lives and the depreciation
22 expense can be adjusted at that time.

1 Q. Please describe in more detail the studies relied upon by the Company in its
2 request to accelerate the retirement dates of certain fossil facilities.

3

4 A. The Company was requested to provide all studies relied upon to revise its projected
5 retirement dates for the generating facilities identified on Exhibit DAK-4 (PP&L
6 Industrial Customer Alliance, Set II, Q. 13 and Office of Consumer Advocate, Set
7 IV, Q. 86). In addition, the Company was requested to provide any studies that
8 examined the cost effectiveness of life extension compared to retirement/replacement
9 (Office of Consumer Advocate, Set IV, Q. 85).

10

11 In response to these requests, the Company provided its Five-Year Upgrade Plan for
12 Coal-Fired Generation previously filed with the Commission in accordance with
13 Pennsylvania statutory requirements. That study was not prepared for the purpose of
14 optimizing the timing of retirements of generating capacity but rather to respond to
15 regulations that "require utilities to uprate their electric power production by
16 upgrading the capability to use coal in existing coal-fueled plants where economically
17 feasible and where the uprate is beneficial to ratepayers" in order to promote the use
18 of coal.

19

20 Nevertheless, that study concluded that continued operation of the Holtwood, Martins
21 Creek, and Sunbury units was both prudent and economical "through at least 2013."

1 That conclusion is in direct opposition to the Company's proposed acceleration of the
2 "deactivation dates" for these units to the year 2003.

3
4 In addition, the Company provided the Executive Summary of a report prepared in
5 1994 for the Keystone-Conemaugh Owners' Committee titled "Keystone Integrated
6 Fuel Supply and Environmental Compliance Strategy Evaluation." It also provided
7 selected pages from a report prepared in 1991 for the Keystone-Conemaugh Owners
8 Committee titled "Conemaugh Station Clean Air Act Compliance Strategy." Similar
9 to the other studies, these reports were not prepared for the purpose of optimizing the
10 timing of retirements of the Company's generating capacity. Instead, these reports
11 were prepared to address the Company's fuel selection and environmental compliance
12 at those facilities.

13
14 Finally, the Company provided selected pages from a report prepared in 1993 that
15 "supported the Company's decision to pursue modification of Martins Creek Units
16 3 and 4 to fire up to 50% with natural gas." Similar to the other studies, this report
17 was not prepared for the purpose of optimizing the timing of retirements of the
18 Company's generating capacity.

1 IV. LEVELIZATION OF SSES MSF DEPRECIATION

2
3 Q. Please describe the Company's request to "levelize" the Susquehanna modified
4 sinking fund depreciation.

5
6 A. The Company's revenue requirement includes \$30.626 million to recover in the
7 current test year the average of the post test year annualized increases under the SSES
8 MSF depreciation schedule through 1998. The amounts included by the Company
9 in its cost of service are \$30.388 million total Company and \$30.388 million PPUC
10 jurisdiction. The Company also offered to voluntarily reduce its rates effective
11 January 1, 1999 to reflect the completion of the MSF depreciation and the
12 commencement of straight line depreciation.

13
14 To derive the increase in depreciation expense, the Company simply computed the
15 average annual depreciation over the 39 months remaining between the end of the
16 current test year (September 30, 1995) and the scheduled completion of the MSF
17 depreciation (December 31, 1998). The Company's computation is detailed in its
18 response to the Office of Trial Staff Interrogatories dated January 13, 1995, Q. RB-
19 22D.

1 Q. Does the "levelization" requested by the Company include any recognition of the
2 carrying charge impact on ratepayers of accelerating the scheduled depreciation
3 recovery?

4

5 A. No. Contrary to the financial and economic connotations of the term "levelization,"
6 there is no carrying charge effect incorporated in the Company's computation. It is
7 instead a simple "average" of the scheduled post test year increases.

8

9 Q. Why should the Commission reject the Company's request to recover the
10 additional costs related to the "levelization" of the SSES MSF depreciation?

11

12 A. First, this request is clearly a lopsided attempt to reach beyond the end of the test
13 year for a projected cost increase without taking into account other potentially
14 offsetting reductions in costs or increases in revenues. Conceptually, the Company's
15 request violates the overriding purpose of utilizing a defined test year, which is to
16 ensure that revenues, expenses, investment, and cost of capital are treated in a
17 consistent manner rather than manipulated to benefit either the utility or its
18 ratepayers.

19

20 Second, the request actually will harm ratepayers. The acceleration of the
21 depreciation recovery is not accompanied by an offsetting carrying charge benefit as
22 would be required in order to actually levelize the effect on ratepayers. The

1 Company will obtain and retain the carrying charge benefit of prematurely collecting
2 these amounts from ratepayers.

3

4 **Q. If the Commission rejects the Company's request, then won't the Company**
5 **overrecover commencing January 1, 1999 when its SSES depreciation expense**
6 **is reduced to straight line levels?**

7

8 A. Not necessarily. To ensure that overrecovery does not occur, the Commission has at
9 least two options. First, it can direct in its order in this proceeding that the Company
10 reduce rates on January 1, 1999 to reflect the reduction in SSES depreciation absent
11 a showing that it has an offsetting revenue requirement deficiency. The Company
12 would be directed to make a filing prior to that date in order to allow the
13 Commission sufficient time to review the revenue requirement.

14

15 Second, the Commission could initiate on its own, or accept from another party, a
16 complaint against PP&L in 1998 sufficiently in advance of the January 1, 1999 date
17 to show cause why rates should not be reduced.

1 internal costs. Many assumptions were employed by TLG in the development of the
2 total projected decommissioning cost. Among the assumptions was that in addition
3 to its best estimate of the costs, contingency factors should be applied ranging from
4 15% to 75% for various components. Second, the Company then annuitized the total
5 projected decommissioning cost based upon an assumed after tax rate of return of
6 5.50%.

7
8 **Q. What is the basis for the Company's use of a 5.50% after tax return?**

9
10 **A.** The Company stated in response to discovery that the assumption was 1.50% over
11 the projected 4.0% annual inflation rate. A more detailed computation was provided
12 in response to other discovery including assumptions that no more than 30% of the
13 trust fund would be invested in equities with an after tax rate of return of 8.5% and
14 that 70% would be invested in debt securities including tax exempt bonds with an
15 after tax rate of return of 4.6%. The tax rates assumed were 20% on debt and 15%
16 on equities. The weighted return was projected at 5.80% after tax and 5.50% after
17 tax and after fees and transaction costs. The Company's return projections also
18 assumed that it would no longer be restricted to the so-called "Black Lung"
19 investments which are historically lower earning and in which the trust fund is
20 currently invested.

1 **Q. What is the significance of the return on the trust fund investments?**

2

3 A. It is significant for two reasons. First, the decommissioning accrual is directly
4 dependent upon the return assumption. For example, doubling the projected after tax
5 return to 11.0% from the Company's assumption of 5.50% reduces the annual accrual
6 from \$30.042 million total Company to \$11.816 million total Company.

7

8 Second, the actual return earned directly affects the balance in the trust fund. If the
9 fund earnings are higher than the assumption in the earlier years of the trust fund,
10 then the accrual and funding can be reduced in the latter years. Alternatively, if the
11 fund earnings are lower than the assumption in the earlier years, then the accrual and
12 funding would need to be increased in the latter years.

13

14 Consequently, under the current regulatory construct, both the historical actual earned
15 return and the projected return affect the annual accrual and, thus, the revenue
16 requirement. The currently effective regulatory assumption is that the ratepayers are
17 the guarantor of the Company's trust fund earnings performance.

18

19 **Q. Should the Commission adopt the Company's proposed 5.50% after tax return**
20 **assumption?**

21

1 A. No. The Company's assumption of a 5.50% rate of return on ratepayers' funds is
2 well below the return it claims is required on its own rate base investments. The
3 Company should be paid to perform at a comparable level, not paid to perform at a
4 startling assumed subpar level with the ratepayers responsible for the deficiency.

5
6 Contrast the 5.50% after tax return the Company has projected for the trust fund to
7 the 10.23% after tax return on rate base it has requested in this proceeding. Contrast
8 also the fact that the Company has assumed no risk for the return on the
9 decommissioning fund (projected by TLG Services to reach at least \$2,361.3 million
10 by the date of decommissioning) with the fact that the Company is at risk as to
11 whether it actually earns more or less than the authorized return on its rate base
12 investment. For its entire rate base investment, the Company seeks authorization to
13 collect a return before tax of 15.78% and earn after tax at 10.23%. For their
14 multibillion dollar investment, the ratepayers are projected to be paid only a 6.88%
15 before tax rate of return (5.50% grossed up to reflect a 20% tax rate) and earn after
16 tax at only 5.50%. This differential is patently inequitable since the Company
17 manages both its own rate base investments and the decommissioning trust fund
18 investments.

19
20 In addition, the Company has no direct incentive to manage the trust fund
21 aggressively on behalf of the ratepayers. This is evidenced by its suboptimal
22 investment strategy, which is poorly structured to maximize returns for ratepayers.

1 For example, the Company has proposed to invest only 30% of the funds in equities.
2 Yet equities have historically far outperformed other investments, according to data
3 specifically cited by the Company in response to discovery. Further, the Company
4 projects that it will continue to invest in tax-exempt securities. That simply does not
5 make sense on an ongoing basis, since the expected returns on those types of
6 securities are reduced to reflect the highest personal income tax rates, which are
7 double the 20% tax rate on nuclear decommissioning fund earnings on non-tax-
8 exempt securities.

9
10 **Q. What do you propose as a regulatory solution to the inequity of the returns and**
11 **the lack of any direct incentive for the Company to aggressively manage the**
12 **trust fund?**

13
14 **A.** The Commission should require the decommissioning accrual to be computed
15 utilizing the allowed overall rate of return. That return should be updated in future
16 base rate proceedings. However, this recommendation alone is insufficient if actual
17 earnings are below the allowed rate of return.

18
19 I recommend that the Commission utilize the allowed overall rate of return as an
20 earnings performance standard for the trust fund investments. To assure that
21 ratepayers are not guarantors of poor and/or passive financial management
22 performance by the Company, the Commission should impute earnings to the trust

1 fund at the allowed rate of return. Thus, the Company will bear the risk and receive
2 the benefit of its performance with ratepayers' funds just as it does with its investors'
3 funds.

4
5 **Q. Is it reasonable to expect the Company to earn its allowed after tax rate of**
6 **return on the decommissioning trust fund investments?**

7
8 **A.** Yes. There is substantial evidence presented by the Company's own cost of capital
9 witness, Mr. Moul, that it should be able to earn comparably on investor and
10 ratepayer supplied investment funds.

11
12 Mr. Moul testified that the after tax required return on common for a peer
13 (barometer) group of companies was 13.0%, with a range of 11.97% to 13.94%.
14 Thus, if its own witness is correct, then PP&L should be able to invest in the
15 common equities of its peers and earn an expected rate of return of 13.0% on
16 average.

17
18 Further, Mr. Moul testified that the after tax required return on common for the total
19 "market of equities" is 15.85%, and that this is "a reasonable investor expectation."
20 Thus, if its own witness is correct, then PP&L should be able to invest in a market
21 based equity fund and earn that expected rate of return.

1 Taxes on these returns at the trust level would depend upon the level of dividends
2 and capital gains distributions received. Assuming that 50% of the return is taxable
3 annually and that the current federal tax rate of 20% on qualified nuclear
4 decommissioning funds remains in effect, the net tax effect would be 10%. Thus, the
5 expected after tax returns would range from 11.70% for a group of peer electric
6 utilities to 14.27% for a market based equity fund, well above even the overall
7 10.23% after tax return sought by the Company.

8
9 **Q. What is the effect on the Company's cost of service and revenue requirement of**
10 **your recommendation?**

11
12 **A.** At the Company's requested rate of return of 10.23%, the annual SSES nuclear
13 decommissioning accrual would decrease from the \$30.042 million total Company
14 requested to \$5.938 million total Company, a reduction of \$24.104 million total
15 Company and \$18.911 million PPUC jurisdictional cost of service. This represents
16 a reduction of \$19.927 million in the requested revenue requirement. The
17 computations are detailed on my Exhibit ____ (LK-4), which is based upon the
18 Company's Schedule D-11. The format of the Company's Schedule D-11 can be
19 readily utilized to compute the effects of the overall rate of return actually authorized
20 by the Commission in this proceeding.

21

1 **VI. VOLUNTARY EARLY RETIREMENT PROGRAM**

2
3 **Q. Please describe the Company's request to recover the costs of its Voluntary**
4 **Early Retirement Program.**

5
6 **A. The Company requested recovery of a projected \$65.8 million in total costs amortized**
7 **over a five-year period. Since the filing, the Company has updated, through**
8 **responses to discovery, the projected cost to an actual cost of \$75.859 million. The**
9 **Company's updated cost of service for this item is \$15.172 million total Company**
10 **(\$75.859 million/5 years). The projected savings are \$38.661 million annually (total**
11 **Company, for both capital and expense) and \$27.915 million annually (total**
12 **Company, for expense only).**

13
14 **Q. Did the Company reduce the total cost of the VERP for which it seeks recovery**
15 **by the savings it projected to obtain prior to the end of the test year in this**
16 **proceeding?**

17
18 **A. No. The Company did not reduce the total cost of the VERP deferred for regulatory**
19 **recovery by the amount of the savings which it would have obtained by the end of**
20 **the test year and by the date that rates from this proceeding are implemented.**

1 Q. If the Commission allows recovery of the VERP costs, should the total cost first
2 be reduced by the amount of savings the Company would otherwise retain?

3

4 A. Yes. The Company's request is clearly inequitable. It seeks to recover the gross cost
5 of the VERP despite the fact that it was the also the direct beneficiary of nine months
6 of VERP related savings from December 31, 1994 through September 30, 1995. If
7 the Company is allowed recovery of the VERP costs, then recovery should be based
8 on the net cost, not the gross cost.

9

10 Although the Company did reduce the test year O&M expense to reflect the ongoing
11 savings, that effect is only prospective. However, the request for recovery of VERP
12 costs is based upon the historic costs incurred prior to the date of the Commission's
13 order in this proceeding. The historic costs actually incurred by the Company are not
14 the gross costs but, rather, are the net costs computed as the gross costs recognized
15 at December 31, 1994 less the savings it will have obtained prior to September 30,
16 1995.

17

18 Q. What effect does the utilization of the net cost of the VERP rather than the
19 gross cost of the VERP have on the cost of service and the revenue requirement?

20

21 A. Utilizing the net cost of the VERP reduces the Company's cost of service, assuming
22 the Company's proposed five year amortization, by \$5.799 million total Company and

1 \$5.019 million PPUC jurisdiction and reduces the revenue requirement by \$5.289
2 million. The total annual savings (total Company capital and expense) are \$38.661
3 million (provided in response to Office of Consumer Advocate, Set IV, Q. 75). The
4 savings for the nine month period December 31, 1994 through September 30, 1995
5 are \$28.996 million (annual savings of \$38.661 million x 9/12 to prorate). The
6 reduction in annual amortization expense would be the \$28.996 million savings offset
7 divided by the proposed five year amortization period.

8
9 The nine months of savings offset against the gross total VERP cost should be both
10 capital and expense savings since the gross VERP cost requested by the Company is
11 both capital and expense.

12
13 **Q. Is the five year amortization period requested by the Company appropriate and**
14 **reasonable?**

15
16 **A.** No. First, the total cost of the VERP recognized at December 31, 1994 is not a cash
17 cost. Only the lump sum payments are current cash expenditures. The Company
18 projects that it will pay the residual of the VERP costs in the form of pension
19 supplements and social security bridge payments for eleven years, from 1995 through
20 2005. Thus, under its proposal, the Company would obtain recovery of the pension
21 supplements and social security bridge payments well in advance of the average
22 payments for those items.

1 Second, as I discussed previously, the Company will have obtained and retained at
2 least nine months of cash savings from the VERP. That \$28.996 million of cash
3 savings will more than offset the Company's lump sum payments totalling \$19.000
4 million. This fact, coupled with the timing of the payments on the pension
5 supplements and the social security bridge payments suggest a substantially longer
6 amortization period than the five years proposed by the Company.

7
8 **Q. What amortization period do you recommend?**

9
10 A. I recommend that the Commission adopt a ten year straight line amortization period
11 for the net VERP costs. The ten year period is equitable since it more closely
12 parallels the actual payments under the VERP. In addition, it allows the Company
13 the upfront and continuing carrying charge benefit of the excess of the nine months
14 of savings compared to the lump sum payments.

15
16 **Q. What is the effect on the Company's proposed cost of service and revenue**
17 **requirement of extending the amortization period to ten years from five?**

18
19 A. It would reduce the cost of service by \$4.687 million total Company and \$4.057
20 million PPUC and reduce the revenue requirement by \$4.275 million, based upon the
21 net cost of the VERP. These reductions are incremental to the previously discussed
22 effects of utilizing the net, rather than the gross, cost of the VERP.

VII. SFAS NO. 106

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Q. Please describe the Company's request to recover an amortization of prior period SFAS No. 106 amounts.

A. The Company has requested an annual cost of service of \$1.797 million and a revenue requirement of \$1.894 million to recover over 17.3 years the incremental SFAS No. 106 costs it incurred from January 1, 1993 through September 30, 1995. The balance at September 30, 1995 is projected by PP&L to be \$31.095 million total Company and \$31.095 million PPUC jurisdictional.

Q. Were these amounts authorized for deferral by the PPUC?

A. Yes. However, on May 26, 1994, the Commonwealth Court reversed the PUC order which granted the Company deferral authorization. As the result of the Court's order, the Company wrote off the amounts it had previously deferred and ceased deferring additional amounts.

Q. Should the Commission grant recovery of a cost disallowed by the Commonwealth Court?

1 A. No. I recommend that the Commission defer this issue to the Company's next base
2 rate proceeding, presumably after the issue is resolved by the courts. Although the
3 recovery of these costs is ultimately a legal question to be decided by the courts, any
4 recovery of the costs through this proceeding is certainly premature and may be
5 illegal.

6

7 If the costs are ultimately deemed by the courts to be legal and entitled to recovery,
8 then the Company can seek recovery in its next base rate proceeding. Since there are
9 no carrying costs associated with SFAS No. 106 expense accruals in excess of the
10 cash pay as you go costs, the Company is not harmed by a delay in recovery if it is
11 allowed by the courts.

12

13 If the costs are ultimately deemed by the courts to be illegal and not entitled to
14 recovery, then no further action will be required by the Commission.

VIII. COST OF CAPITAL

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Q. Have you quantified the effect of Mr. Baudino's recommendation of a 10.85% return on common equity on the Company's requested revenue requirement?

A. Yes. Adoption of Mr. Baudino's return on common equity recommendation would reduce the Company's requested revenue requirement by \$84.687 million. That is the difference between the effective 12.87% return reflected in the Company's filing and Mr. Baudino's recommendation multiplied by the Company's requested common equity ratio, then multiplied by the Company's requested PPUC jurisdiction rate base and grossed-up for income taxes and other adders. Each 1.0% return in common equity translates to \$41.924 million in revenue requirements, based upon the Company's filing.

Q. Have you quantified the effect of Mr. Baudino's capital structure recommendations on the Company's requested revenue requirement?

A. Yes. Adoption of Mr. Baudino's capital structure recommendation would reduce the Company's requested revenue requirement by an additional \$5.017 million. The computations are detailed on Exhibit my ____ (LK-5).

Q. Does this complete your testimony?

A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00943271**

**EXHIBITS
OF
LANE KOLLEN**

**ON BEHALF OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

**J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA**

APRIL 1995

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

**University of Toledo, BBA
Accounting**

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Certified Management Accountants

Institute of Management Accountants

Seventeen years utility industry experience in the financial, rate, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

D. S. Hoch
J. M. Kleha

Pennsylvania Power & Light Company
Response to Interrogatories of
PP&L Industrial Customer Alliance, Set IV
Dated March 13, 1995
Docket No. R-00943271

- Q. 1. a. For each generating plant/unit and each category of general plant for which the Company is seeking longer or shorter depreciation lives, please provide the depreciation expense included in the test year budget and the proforma depreciation expense. Please provide all supporting assumptions, workpapers, and computations.
- b. For each generating plant/unit and each category of general plant reflected in your response to part (a) of this question, please provide the total Company and PA. PUC jurisdictional revenue requirement. Provide all supporting assumptions, workpapers, and computations.

- A. 1. a. Attachment 1 provides the total Company test year budget and proforma depreciation expense for each generating plant and each general plant account for which the Company is seeking longer or shorter depreciation lives. Attachment 1 also provides the PUC jurisdictional portion of the Company's test year budget and claimed proforma depreciation expense. See the response to Question OTS-RB-13D Dated January 13, 1995 and Exhibits Future 1 and JMK 2 for details.

b. PUC jurisdictional portion of claimed proforma depreciation expense - Attachment 1	\$42,126	<u>\$29,946</u>
PUC jurisdictional portion of test year budget depreciation expense - Attachment 1	<u>28,655</u>	<u>13,259</u>
Increase in expense	13,471	16,687
Change in PUC jurisdictional deferred income tax expense due to claimed increase in depreciation expense - Attachment 2	<u>(4,962)</u>	<u>(6,053)</u>
Net change in operating income	<u>\$8,509</u>	<u>\$10,634</u>
Applicable revenue requirements	<u>\$15,381</u>	<u>\$19,222</u>
	1,8076	

*Shorter Lives
Fossil
Production
Only*

D. S. Hoch

**Pennsylvania Power & Light Company
Response to Interrogatories of the
Office of Consumer Advocate, Set IV
Dated February 1, 1995
Docket No. R-00943271**

- Q. 87. Please identify each fossil fuel generating facility which PP&L has retired, the capacity of that facility, the date retired, the decommissioning cost and the amount of any salvage realized. Also state the disposition of the land subsequent to the decommissioning of the generating facility.
- A. 87. Attachment 1 provides a list of fossil-fueled generating facilities which PP&L has retired noting the capacity and the date retired. Decommissioning costs and salvage and the disposition of the land have been noted where available.

<u>Station</u>	<u>Retirement Date</u>	<u>Capacity (MW)</u>	<u>Decommissioning Amount</u>	<u>Salvage</u>
Millersburg	1951	4.250	10,630.01	20,512.63
Locust Spring	1951	6.000	20,863.53	60,617.40
Swengel	1951	0.200	7,295.48	4,586.04
Carlisle	1951	2.000	11,608.42	10,147.40
Walnut	1951	1.750	1,377.75	981.67
Lock Haven	1952	4.500		93.15
Bennett	1952	2.000	1,461.16	8,414.98
South Milton	1953	8.000	3,008.40	44,685.63
Good Spring	1953	8.000	201.48	19,625.00
Allentown	1953	38.812	28,383.37	102,434.95
Kulpmont	1953	12.000	8,821.27	38,059.79
Lykens	1953	15.400	2,963.96	58,042.92
Williamsport	1953	20.000	138.14	22,570.54
Suburban #3 & #6	1956	14.000	66,550.12	84,919.47
Illuminating	1956	5.700	13,125.60	23,410.93
Suburban LP	1957	48.000		
Cedar	1962	27.000	7,612.16	38,891.43
Harwood	1962	41.500	937.32	71,048.65
Pine Grove	1965	55.000	5,519.93	183,680.00
Suburban #7	1967	25.000	42,104.10	12,741.30
Hauto	1969	70.000	12,647.86	34,055.56
Stanton	1972	50.000	618.71	110,020.00
Holtwood LP	1972	30.000		
Suburban	1988	29.250	707,375.89	68,259.99

953,200

1,017,700

<u>Station</u>	<u>Site Use</u>
Millersburg	Storage
Locust Spring	Sold
Swengel	Sold
Carlisle	Sold
Walnut	Sold
Lock Haven	Sold
Bennett	Sold
South Milton	Sold
Good Spring	Sold
Allentown	Sold
Kulpmont	Sold
Lykens	Sold
Williamsport	Sold
Suburban #3 & #6	SES- Demolished
Illuminating	Unknown
Suburban LP	Unknown
Cedar	Sold
Harwood	SES- Demolished
Pine Grove	Sold
Suburban #7	SES- Demolished
Hauto	SES- Demolished
Stanton	SES- Demolished
Holtwood LP	Units Removed
Suburban	SES- Demolished

Pennsylvania Power & Light Company

	Total Company FTY Budget Depreciation <u>Expense</u> (\$000)	Jurisdictional Portion of FTY Budget Depreciation <u>Expense</u> (\$000)	Total Company Proforma Depreciation <u>Expense</u> (\$000)	PUC Jurisdictional Portion of Pro Forma Depreciation <u>Expense</u> (\$000)
Steam Production				
Sunbury	\$8,492	\$6,920 ✓	\$18,737	\$15,269 ✓
Martins Creek 1 & 2	6,048	4,929 ✓	15,046	12,261 ✓
Conemaugh	5,920	5,018	4,233	3,588
Keystone	4,144	3,512	2,631	2,230
Holtwood	1,705	1,389 ✓	2,926	2,384 ✓
Hydro Production				
Wallenpaupak	274	232	255	216
Holtwood	1,191	1,010	1,629	1,381
Other Production				
Sunbury Diesel	11	9 ✓	11	9 ✓
Sunbury CT	8	7 ✓	18	16 ✓
Martins Creek Diesel	3	2	3	2
Martins Creek CT	6	5 ✓	8	7 ✓
Conemaugh Diesel	3	3	2	2
Keystone Diesel	3	3	2	2
<i>Total Fossil Production Shutter Lives (Facilities Marked with ✓)</i>			<u>13,259</u>	<u>29,946</u>
General Plant				
390.2	4,032	3,486	2,628	2,272
390.4	511	441	154	133
391.2	455	393	535	462
391.4	101	87	147	127
392.4	1	1	2	2
393.0	65	56	72	62
394.0	55	47	115	99
394.4	339	293	544	470
394.6	92	80	166	144
394.8	324	280	384	332
395.0	108	93	302	261
397.0	321	278	321	278
398.0	94	81	135	117
Total	\$34,306	\$28,655	\$51,006	\$42,126

Pennsylvania Power & Light Company
Deferred Income Tax Calculation
Due to Excess of Tax Depreciation Over
Depreciation Using Tax Basis and Book Rates
Rate Case - Future

	ACRS/MACRS Depreciation	Deprec Using Tax Basis & Book Rates	Excess Depreciation	Rate	Adjusted Deferred Taxes	Filed Amount Deferred Taxes	Adjustment- Deferred Taxes
NUCPR-SSES #1	12,199,868	51,346,415	(39,146,547)	ARAM/.35	(16,601,676)	(16,601,676)	0
NUCPR-SSES #2	7,962,529	47,729,221	(39,766,692)	ARAM/.35	(15,754,928)	(15,754,928)	0
NUCPR-COMMON	13,833,443	33,128,920	(19,295,477)	ARAM/.35	(8,284,123)	(8,284,123)	0
Total-NUCPR	(1) 33,995,840	132,204,556	(98,208,716)		(40,640,727)	(40,640,727)	0
OTHER:							
CLERT	281	15,012	(14,731)	ARAM/.35	(6,741)	(6,741)	0
CLE RD	1,332,428	382,056	950,372	ARAM/.35	325,124	325,124	0
F & F	679,014	290,948	388,066	ARAM/.35	124,768	(268,689)	(393,457)
CMPTR	1,912,790	5,709,361	(3,796,571)	ARAM/.35	(1,283,206)	(1,283,206)	0
EQUIP	47,996	61,739	(13,743)	ARAM/.35	(7,099)	(66,476)	(59,377)
TRAIL	723	283	440	ARAM/.35	152	59	(93)
STMPR	61,724,838	39,809,632	21,915,206	ARAM/.35	7,624,283	3,332,814	(4,291,469)
HYDPR	4,263,980	1,043,430	3,220,530	ARAM/.35	1,127,188	1,010,410	(116,778)
T & D	95,652,786	44,475,133	51,177,653	ARAM/.35	17,872,001	16,996,927	(875,074)
GBLDG	3,891,633	2,752,319	1,139,314	0.3500	398,762	766,965	368,203
VEHICLES & EQUIPMENT	15,730,903	7,650,634	8,080,269	ARAM/.35	2,828,380	2,828,380	0
Total-OTHER	(2) 185,237,352	102,190,547	83,046,805		29,003,612	23,635,567	(5,368,045)
LEASEHOLDS	(2) 346,981	1,264,151	(917,170)	ARAM/.35	(321,198)	(321,198)	0
TOTAL EXCLUDING NUCLEAR FUEL	219,580,173	235,659,254	(16,079,081)		(11,958,313)	(17,326,358)	(5,368,045)
NUCLEAR FUEL	(1) 34,105,399	47,234,000	(13,128,601)	0.3438	(4,513,613)	(4,513,613)	0
GRAND TOTAL	253,685,572	282,893,254	(29,207,682)		(16,471,926)	(21,839,971)	(5,368,045)
SUMMARY							
SUSQUEHANNA (1)	68,101,239	179,438,556	(111,337,317)		(45,154,340)	(45,154,340)	0
NON SUSQUEHANNA (2)	185,584,333	103,454,698	82,129,635		28,682,414	23,314,369	(5,368,045)
	253,685,572	282,893,254	(29,207,682)		(16,471,926)	(21,839,971)	(5,368,045)
PUC JURISDICTIONAL NON SUSQUEHANNA					26,512,000	21,550,000	(4,962,000)

PPUC Jur
 Increase in Fossil Depr 16,687
 Ratio of ^{Standard} Tax Depr to Book Depr (39,810/43,573)
 Tax Rate
 Incremental Def Tax Effect
 PPUC Jur (4,962/5,368)
 PPUC Jur Increase Def Tax

Total C
 20,476
 91.36%
 18,708
 35%
 6,548
 92.44%
 6.053

**REVENUE REQUIREMENT EFFECT OF
BAUDINO CAPITAL STRUCTURE RECOMMENDATION**

	<u>Common</u>	<u>Preferred</u>	<u>LTD</u>	<u>Total</u>
Company's Capital Structure	45.88%	7.59%	46.53%	100.00%
Company's Cost of Capital ⁽¹⁾	<u>10.85%</u>	<u>7.31%</u>	<u>7.97%</u>	
Company's Weighted Cost of Capital	4.98%	0.55%	3.71%	
Gross-Up Factors	<u>1.8213</u>	<u>1.8213</u>	<u>1.0537</u>	
Company's Grossed-Up Cost of Capital	9.07%	1.01%	3.91%	13.99%
Company's 9/30/94 Capital Structure	44.96%	7.91%	47.13%	100.00%
Company's Cost of Capital ⁽¹⁾	<u>10.85%</u>	<u>7.31%</u>	<u>7.97%</u>	
Recommended Weighted Cost of Capital	4.88%	0.58%	3.76%	
Gross-Up Factors	<u>1.8213</u>	<u>1.8213</u>	<u>1.0537</u>	
Baudino's Grossed-Up Cost of Capital	8.88%	1.05%	3.96%	<u>13.89%</u>
Reduction to Grossed-Up Cost of Capital				0.10%
Company's Requested Rate Base (PPUC Jur.)				5,017,178
Reduction to Company's Revenue Requirement				<u>\$5,017</u>

(1) Cost of common based on Baudino recommendation.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to
Present:

Kennedy and Associates: Vice President and Principal. Responsible for utility revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Minnesota, North Carolina, Ohio, Pennsylvania, Texas, and West Virginia Public Service Commissions and the Federal Energy Regulatory Commission.

1983 to
1986:

Energy Management Associates: Lead Consultant.
Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to
1983:

The Toledo Edison Company: Planning Supervisor.
Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.	Lehigh Valley Power Committee
Airco Industrial Gases	Maryland Industrial Group
Alcan Aluminum	Multiple Intervenors (New York)
Armco Advanced Materials Co.	National Southwire
Armco Steel	North Carolina Industrial Energy Consumers
Bethlehem Steel	Occidental Chemical Corporation
Connecticut Industrial Energy Consumers	Ohio Industrial Energy Consumers
ELCON	Ohio Manufacturers Association
Enron Gas Pipeline Company	Philadelphia Area Industrial Energy Users Group
Florida Industrial Power Users Group	PSI Industrial Group
General Electric Company	Smith Cogeneration
GPU Industrial Intervenors	Taconite Intervenors (Minnesota)
Indiana Industrial Group	West Penn Power Industrial Intervenors
Industrial Consumers for Fair Utility Rates - Indiana	West Virginia Energy Users Group
Industrial Energy Consumers - Ohio	Westvaco Corporation
Kentucky Industrial Utility Consumers	

Regulatory Commissions and Government Agencies

Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
New York State Energy Office
Office of Public Utility Counsel (Texas)

RESUME OF LANE KOLLEN, VICE PRESIDENT

Utilities

Allegheny Power System	Otter Tail Power Company
Atlantic City Electric Company	Pacific Gas & Electric Company
Carolina Power & Light Company	Public Service Electric & Gas
Cleveland Electric Illuminating Company	Public Service of Oklahoma
Delmarva Power & Light Company	Rochester Gas and Electric
Duquesne Light Company	Savannah Electric & Power Company
General Public Utilities	Seminole Electric Cooperative
Georgia Power Company	Southern California Edison
Middle South Services	Talquin Electric Cooperative
Nevada Power Company	Tampa Electric
Niagara Mohawk Power Corporation	Texas Utilities
	Toledo Edison Company

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

Date	Case	Jurisdct.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim 19th Judicial District Ct.	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR- 87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

Date	Case	Jurisdct.	Party	Utility	Subject
10/87	870220-E1	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017-1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017-2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017-1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017-2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

<u>Date</u>	<u>Case</u>	<u>Jurisdic.</u>	<u>Party</u>	<u>Utility</u>	<u>Subject</u>
10/88	88-171- EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of cancelled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

Date	Case	Jurisdct.	Party	Utility	Subject
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

Date	Case	Jurisdict.	Party	Utility	Subject
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

Date	Case	Jurisdic.	Party	Utility	Subject
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464-EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Audit and investigation into fuel clause costs.
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, guidelines for recovery.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1995**

Date	Case	Jurisdct.	Party	Utility	Subject
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post-Merger Earnings Review	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post-Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing testimony on all known parties of record to this proceeding, by Federal Express delivery, Harrisburg parties being hand delivered, properly addressed as follows:

**OFFICE OF ADMINISTRATIVE LAW
JUDGES**

Hon. Robert A. Christianson
Administrative Law Judge
PA Public Utility Commission
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Office of The Judge Advocate
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CROWN AMERICAN REALTY TRUST
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Stevens & Lee
208 North Third Street - Suite 310
P. O. Box 12090
Harrisburg, PA 17108-2090


David M. Kleppinger, Esquire

Dated this 14th day of April, 1995, in Harrisburg, Pennsylvania.

THOMAS R. DEANS
311 N. FRONT ST.
MILTON, PA 17847

April 14, 1995

RECEIVED
95 APR 24 AM 11:18
PA. P. U. C. DIV.
INFO. CONTROL DIV.

Robert A. Christianson, Law Judge
Public Utility Commission
Box 3265
Harrisburg, PA 17105-3265

R-00943271

Dear Judge Christianson:

I am writing to express my opposition—outrage is not too strong a word—to the proposed 20.7% increase in PP&L residential electrical rates.

The bills for electric heat at two apartments I own are now so high, over \$300.00 per month in winter for two one-bedroom apartments, that it imposes a real hardship on the tenants who pay the utilities. By contrast, gas and oil heating bills at comparable units, are less than \$150.00 in winter. PP&L should be considering a reduction, not an increase, in rates. They should practice cost restraint in terms of labor and management, retirement and health care and other overhead elements which are driving up costs. The rest of the business world has to exercise such restraint in these difficult times.

Thank you for your consideration of these comments.

DOCUMENT
FOLDER

Sincerely yours,



Thomas R. Deans

TRD:sb

DOCKETED
APR 26 1995

RECEIVED
APR 21 1995
OFFICE OF CLERK
PUBLIC UTILITY COMMISSION



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

ORIGINAL



REPLY TO
ATTENTION OF

April 19, 1995

Regulatory Law Office
U 3848

SUBJECT: Pennsylvania Public Utility Commission vs. Pennsyl-
vania Power and Light Company, Pennsylvania P.U.C.
Docket No. R 94-3271

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95 APR 22 11 09:38
U.C.D.M.A.
CONTROL

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

Dear Mr. Alford:

This letter is to record that the intervenor, consumer interest of the United States Department of Defense and other affected Executive Agencies in the above referenced proceeding has sent (by U.S. Mail) copies of Responses to the Applicants Second Set of Interrogatories (PPL-2-1 thru PPL-2-8) upon all active parties on the Active Party service list, in accord with the Certificate of Service appended hereto.

Inquiries to this office regarding this proceeding should be directed to the undersigned at (703) 696-1646.

Sincerely,

David A. McCormick
General Attorney
Regulatory Law Office

DOCUMENT
FOLDER



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



REPLY TO
ATTENTION OF

April 19, 1995

Regulatory Law Office
U 3848

SUBJECT: Pennsylvania Public Utility Commission vs. Pennsyl-
vania Power and Light Company, Pennsylvania P.U.C.
Docket No. R 94-3271

Thomas P. Gadsden, Esquire
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Morgan, Lewis & Bokius
2000 One Logan Square
Philadelphia, PA 19103

RECEIVED
95 APR 21 AM 9:38
PA. P. U. C.
INFO. CONTROL DIV.

Gentlemen:

Enclosed are the Responses of the intervenor, consumer interest of the United States Department of Defense and other affected Executive Agencies in the above referenced proceeding to the Second Set of Interrogatories (PPL-2-1 through PPL-2-8).

Copies have been served upon all parties on the Active Party service list, in accord with the Certificate of Service appended hereto. Inquiries to this office regarding this proceeding should be directed to the undersigned at (703) 696-1646.

Sincerely,

David A. McCormick
General Attorney
Regulatory Law Office

DOCKETED
APR 26 1995

DOCUMENT
FOLDER

ORIGINAL

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COUNSEL
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THEODORE L. BRUBAKER
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FAX (717) 299-3160

April 20, 1995

RECEIVED

APR 20 1995

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

VIA UPS

John G. Alford, Secretary
PA Public Utility Commission
B-20 North Office Building
P.O. Box 3265
Harrisburg, PA 17120

In re: Pennsylvania Public Utility Commission, et al. v.
Pennsylvania Power & Light Company
Docket No. R-00943271

Dear Secretary Alford:

I enclose an original and two copies of Supplemental Testimony of Daniel C. Witmer, President of The Lancaster Chamber of Commerce and Industry. It is my understanding that he will be the first witness to undergo cross-examination on Tuesday, April 25, 1995, at the hearing scheduled for 10:00 a.m. on that date. If this is not correct, please advise by fax or phone immediately.

Yours truly,



Christopher S. Underhill

CSU:gp
enclosure
0017931.01

cc w/enc: Certificate of Service
Mr. Daniel C. Witmer

DOCUMENT
FOLDER

RECEIVED

APR 20

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION, et al. :

vs. :

Docket No. R-00943271

PENNSYLVANIA POWER & LIGHT :
COMPANY :

SUPPLEMENTAL TESTIMONY OF DANIEL C. WITMER
President of The Lancaster Chamber of Commerce and Industry

RE: PROPOSED INCREASE IN BASE RATES BY
PENNSYLVANIA POWER & LIGHT COMPANY

Docketed
APR 25 1995

Docketed
APR 20 1995

DOCUMENT
FOLDER

Since my previous written and oral testimony, The Lancaster Chamber of Commerce and Industry (the Chamber) has conducted a second survey among its members to determine the classifications of its members with respect to PP&L's service and to solicit additional comments on the proposed rate increase. Attached hereto as Exhibits A and B respectively are a copy of the survey questionnaire and a compilation of the responses to date. The questionnaire was sent out recently to approximately 280 members and, to date, 50 have responded. The Chamber would like to reserve the right to send in additional responses when they are received.

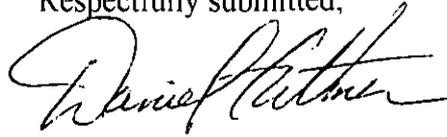
Attached as Exhibit C is a copy of an article from "Issues," a publication by the University of Pittsburgh Institute of Politics, dealing with jobs in Pennsylvania. I direct your attention particularly to pages 3, 5, and 31, which point out the importance that utility costs play in an industry's decision to relocate.

Finally, attached as Exhibit D is a copy of the Utility Section of the August, 1994, edition of "Site Selection."

All of the attached material reinforces my previous testimony that the cost of public utilities play a major role in the decisions of commercial enterprises and industries regarding location and expansion.

On behalf of The Lancaster Chamber of Commerce and Industry, I again urge that the Commission take the significant adverse impact of this proposed rate increase into consideration when making its decision.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel C. Witmer". The signature is fluid and cursive, with a large initial "D" and "W".

Daniel C. Witmer
President, The Lancaster Chamber of
Commerce and Industry

On behalf of The Lancaster Chamber of Commerce and Industry, I again urge that the Commission take the significant adverse impact of this proposed rate increase into consideration when making its decision.

Respectfully submitted,

Daniel C. Witmer
President, The Lancaster Chamber of
Commerce and Industry

Memorandum

To: Manufacturers
From: Daniel C. Witmer
Date: April 4, 1995
Re: PP&L Rate Increase

Our testimony on Friday, March 31, 1995 to the PUC was quite well received. We emphasized that we must do everything possible to improve our area's business climate. We pointed out that the proposed electric increase, especially when added to other business climate issues, would place our business community in a position where they would be less likely to invest capital and expand job opportunities in Lancaster County. Your information to us was quite helpful in taking this position.

In fact, our testimony was so well received that we have been invited to give additional testimony at a technical hearing sometime around April 25, 1995. We need some additional information. Please FAX the following information by April 13, 1995, to Betty Rose, 293-3159.

Check One

1. What is your rate schedule?

- _____ LP5 - 69,000 volts or higher
_____ LP4 - 12,470 volts or higher
_____ GS3 - large general service at secondary voltage
_____ GS1 - Small general service at secondary voltage
_____ Other or not known

Check One

2. How would you describe PP&L's delivery and quality of service?

Poor _____ Fair _____ Good _____ Very Good _____ Excellent _____

3. Any comments about PP&L's service or proposed rate increase?

Note: We will soon be sending you an executive summary of the testimony we gave on your behalf.

Rate Schedule	Delivery & Quality of Service	Comments
GS-3	Very Good	
GS-3 & GS-1	Good	
GS-3	Very Good	The increase request is much too large. To need one of such proportion would indicate how management over the recent years or is it the old ploy - ask for an astronomical raise and get beaten down to a figure we wouldn't expect to be acceptable.
GS-3	Very Good	under our re-modernization program, we will be looking at alternate methods of energy.
GH-1	Very Good	under our re-modernization program, we will be looking at alternate methods of energy.
Not Known	Fair	It's a rate increase that I can <u>not</u> pass on to my customer.
GS-1	Good	Rate increases are never welcome.
LP-4	Fair	There seems to be a high number of power outages in the Leola area. When outages occur a special number of industrial customers to contact should be available.
GS-3	Very Good	
GS-3	Poor	Power outages in the East Petersburg area have been very disruptive, not to mention costly, due to lost production time.

Rate Schedule	Delivery & Quality of Service	Comments
GS-1	Very Good	Opposed to rate increase
GS-1	Good	
GS-3	Good	We are in a very competitive market, therefore, we would have no choice but to absorb these costs.
GS-3	Very Good	Proposed increase entirely too large.
GS-3	Very Good	PP&L's service is very good, but a rate increase would significantly impact our business as well as many others.
GS-3	Very Good	
Not Known	Excellent	We need PP&L - If they didn't receive a raise for 10 years they deserve some. We need good service and it won't hurt us very much.
LP-5	Very Good	Service is good, rate increase will affect our cost of doing business in PA making us less competitive with other plants and companies.
3S-3	Very Good	
3S-3	Very Good	
LP-4 & LP-4I	Good	We realize they need an increase but what they proposed seems out of line with reality.
3S-3	Very Good	
LP-4	Fair	Rates are too high at present level.

Rate Schedule	Delivery & Quality of Service	Comments
P-4	Good	
S-3	Good	
S-1 10 bldgs S-2 12 bldgs H-1 1 bldg H-2 1 bldg	Excellent	
S-3	Very Good	The proposed increase is outrageous and will cause us to relook at our pricing structure. In order to create jobs in our industry in Lancaster County, we must look for ways of cost containment.
S-3	Very Good	PP&L was very accomodating when we moved to a new location. They have helped us with problems in the past.
S-3	Very Good	
S-3	Very Good	
P-4	Good	
P-4	Good	
Not Known	Fair	Why should PP&L raise rates? Profits down? So what, whose profits are not down, work smarter!
P-4	Very Good	
S-3	Very Good	

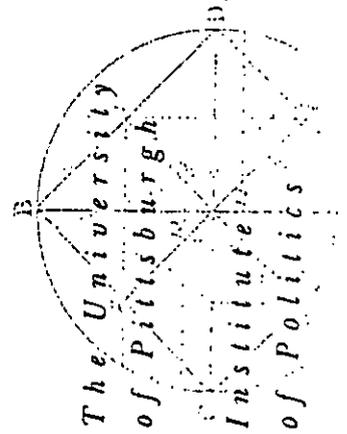
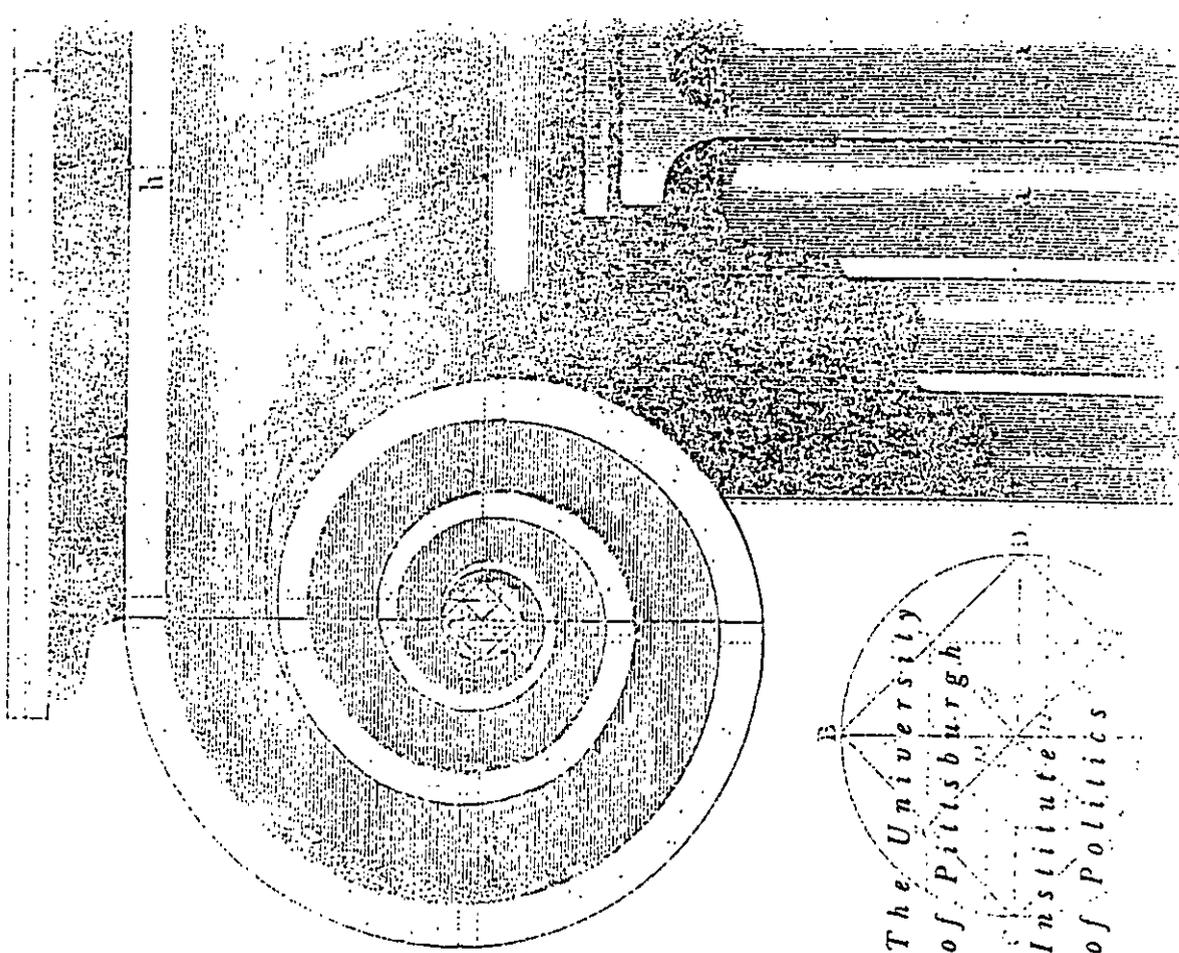
LP-4	Good	
Not Known	Fair	Why should PP&L raise rates? Profits down? So what, whose profits are not down, work smarter!
LP-4	Very Good	
3S-3	Very Good	
Rate Schedule	Delivery & Quality of Service	Comments
3S-3	Good	The proposed increase would decrease our after tax profits by 30%. Our competition would have a 25-30% advantage due to increase. Current advantage is 2-10%.
3S-1	Good	
LP-4	Very Good	
3S-3	Fair	Response/service from C. Nguyen, Marketing Engineer has been excellent. Other contacts unfortunately much less in quality.
3S-3	Good	
3S-3	Good	
3S-3	Very Good	
3S-3	Excellent	

_P-5 & LP-4	Fair	We see others around the county who are better in service. We do not consider their rate increase as being justified or fair.
_P-5, LP-4, 3S-3 & GS-1	Very Good	In the water business we need electricity to run our pumps. Without electricity we would all be out of water.
_P-5	Fair	PP&L's service is average, but now they want to charge premium prices
3S-3	Excellent	
_P-4	Very Good	
_P-4 & GS-3	Very Good	
3S-3	Very Good	
3S-3	Very Good	The service appears to be very good as noted above. If a rate adjustment is needed, it certainly should not be as high as they have requested.

ISSUES

GETTING THE 'JOBS' DONE

Clarke M. Thomas



University of Pittsburgh

Institute of Politics
4200 Fifth Avenue
Pittsburgh, PA 15260

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Getting the 'Jobs' Done

Clarke M. Thomas

"Jobs!"

That's the answer you'll get from government officials up and down the line when you ask them to name the greatest pressure on them nowadays.

"Jobs!"

And they don't so much mean jobs in the old patronage sense. What they mean is the creation of new jobs, whether by attracting new industries or business or through government outlays.

State Rep. Tom Michlovic of North Braddock, representing a Monongahela Valley district, said, "I spend 40 to 50 percent of my time on economic development." To varying degrees, that is true of officials from the Statehouse down through the borough and township level.

Particularly in an era of declining manufacturing and of large pockets of unemployment, citizens expect economic-development action, including from their local and county officials. It is the name of the game nowadays, a gauge by which officials often stand or fall at the next election. So what can a local official do? Here are some elements of practical advice gleaned from dozens of interviews, with specific tips later in this issues paper:

1. There may be little you can do by yourself. Learn what you can do and what you can't do.

2. Your best bet is to work with others

through larger entities, such as regional development groups with their more sophisticated experience.

3. Learn what help is available from the county and the state, as well as from private and public economic-development agencies. One suggestion: The Ben Franklin Technology Center in Pittsburgh has published a *Business Resource Directory*, subtitled "A Practical Guide to Financing and Business Development Services in Southwestern Pennsylvania," with 171 pages of listing, running alphabetically from "Accounting Assistance Programs" to "Westmoreland Economic Development Corporation."

4. Realize that you will need to work with different levels of government on particular issues. For example, the county in many localities for community colleges and some elements of transportation, such as mass transit; the state for major highways and other transportation connections, for state taxes and environmental concerns; and the federal government on trade issues. Some major issues, such as bringing the Software Engineering Institute to Pittsburgh, required cooperation at all levels of government, plus that of Pittsburgh's higher educational institutions.

5. For all the talk about business and taxes, levies may be the least important — or at least the last — item for consid-

eration on a corporation's list.

6. Therefore, don't lay out tax concessions the first thing as bait. As in poker, save them as your "hole card" for the end of the game. Besides, location-seeking corporations know that game far better than you do. That's yet another reason for following the advice in Item 2 above.

7. Keep in touch with local businesses and labor to learn what they want, the better to build local coalitions to improve the climate for both keeping and attracting business and industry.

8. Your local schools are highly important, too. After all, these are the entities that a wise incoming business or industry will certainly check with, especially in terms of job training. Are you certain they are on your side in the job-creation endeavor?

9. Finally, be sure about the kind of jobs you want to attract. Some municipalities have had heart-rending experiences with the costs of providing infrastructure for incoming industries; or with the environmental problems the newcomers have created; or with the fact that the new arrivals have brought their workers with them, rather than hiring local citizens; or with jeans factories or shopping malls that took advantage of concessions and then departed or closed down not too many years later.

There are larger philosophical concerns, too, in the job-creation realm. A big one: Does everyone need to go to college?

Bear in mind that despite all the hoopla about college degrees, only about 30 percent of America's jobs require a college degree. In terms of wisely using human and financial resources, societal attitudes on this factor need to be changed. (See "Making Training A Priority" later in this issues paper.)

And what about industrial parks, superhighways, and the fragmentation of local government so frequent in Pennsylvania (130 municipalities in Allegheny County alone)?

With all these caveats, you, the local official, still want more jobs in your municipality. Right? So let's elaborate on all these considerations and more.

We start with what every marketer must know: What does the customer want? For instance, consider the "customer" as an industry or business looking for a new location.

WHAT INDUSTRY WANTS

The stock saying in real estate circles is that the three important considerations are: "Location, location, location."

Location in relation to markets and to suppliers is fundamental. But seldom

is there one supremely obvious location. Too many variables come into play.

Listen to Robert Ady, president of P.H.H. Fantus of Chicago, the largest business consulting firm in the world. "A site selection process first of all is one of elimination. Whether you are talking about a worldwide, a Pennsylvania-wide, or a local search, you eliminate those with the greatest disadvantages and the fewest advantages. Frankly, if Pittsburgh is on a list of prospects and we go there, it is with the hope of rejecting it — to make the ultimate selection process easier."

Location factors are related to cost, Ady said, depending upon the company and the product. But there are five basic operating costs at stake — labor, transportation, utility, occupancy, and taxes. Ady gives a rough breakdown of the weight given, as follows:

For manufacturers, the cost of labor, 40 percent; transportation, 30 percent; utilities, 15 percent; occupancy, 10 percent; and taxes, 5 percent.

For office firms, the cost of labor, 72 percent; transportation, 0; occupancy, 15 percent; utilities, 10 percent; and taxes 3 percent.

Ady said that, aside from these operating condition factors, business and industry look at quality-of-life factors —

education, recreation, housing costs.

Highly important, the Fantus official said, is the availability of a trained or trainable work force, including the assumption of responsibility for providing that component. "It's a big problem these days; no one wants to do it," Ady said. "They want to wait and see what jobs will be there before undertaking training.

"Sure, it's a chicken and egg situation. But what I'm saying is that it is much more convincing to say, 'We have people trained already.' You can always fine tune them when the plant locates in your community," Ady explained.

Ady said that a major problem is that with so much emphasis on college education, the greatest shortage is in the vocationally and technically trained student. So, on the one hand, in the coming years, "There won't be any unskilled jobs anymore. You can't even get into the door to talk to someone." On the other hand, "You are going to see people with master's degrees working in high-tech factories as technicians, not management."

A 1990 KPMG Peat Marwick study of foreign investors found the priority list for European firms of state — location factors to run as follows: 1) proximity to key industry/suppliers; 2) air transportation; 3) personal preference/executive in place; 4) acquisition/joint ven-

ture opportunity; 5) living conditions/ climate; 6) distribution advantages; 7) quality and cost of labor.

When it came to local issues of concern, the order went like this: 1) labor quality; 2) labor availability; 3) education of employees; 4) state and local tax system.

The Peat Marwick questions on personal issues of concern to European companies came up with this priority list: 1) education of family members; 2) insurance; 3) cost of housing.

What about tax incentives and other subsidies?

Ady said they have become too important, in the sense that "they tend to interfere with the basic economics of finding the optimum location." But the truth too often is that "when it comes down to the final choice, it depends on who gives you the most."

The category includes tax abatements, cash grants, low-cost financing, reduced mortgage rates, relocation assistance, infrastructure improvements such as a highway into the property, spousal opportunities, and day care.

Interestingly, the Peat Marwick study of state concerns for foreign investors ranked taxes as 12th. (For further discussion, see "How Important Are Taxes?" later in this issues paper.)

WHAT SHOULD A COMMUNITY DO?

Suppose a prospect is coming to town? What should the community do? Fantus President Robert Ady has these suggestions:

- Have the political leadership available to meet with the prospect. If the prospect is sizeable, "the most important salesman in the state is the governor."

(I was surprised in a visit with a corporate leader in Southwestern Pennsylvania to have him say that the plant-location executive in his firm had NEVER been contacted by any official in his municipality or county about locating a plant locally. Talk about missed opportunities!)

Sometimes, of course, the prospective industry doesn't want to meet with the politicians, "looking on them as just good ol' boys." Accede accordingly.

- Be ready with your answers to all conceivable questions, such as the water rates and zoning requirements. Be sure all the prospect's questions are answered. "If you don't know the answer, say 'We'll get it for you.' If you try to bluff it out, the prospect will think you are lying," Ady said.

How about winning and dining?

A dinner can help establish the community's desire to have the industry

locate there. But the problem is that staging a dinner takes away from the prospect's time to see the community and to ask questions — especially pertinent if the prospect only plans to spend a couple of hours there. "The goal shouldn't be to sit in a restaurant but to get around the town for a firsthand look," Ady explained.

The Fantus president has this bit of chastening advice for local officials. "The move these days is to regional economic development. There's not time for dealing with the individual municipality. There's no way a big prospect is going to come in and deal with supervisors."

Which brings us to a look at industrial and plant siting from the local viewpoint.

The major regional development agency in Southwestern Pennsylvania is Penn's Southwest, launched in 1974 by the Allegheny Conference on Community Development, the spearhead for Pittsburgh's corporate leadership. Jay Aldridge has been its president from the start, involved in helping bring into the area hundreds of firms — American, European (especially German), and Japanese.

His advice to local communities is to determine: (1) what you have to sell; (2) whom to sell it to; and (3) how to sell it.

For example, what is the nature of your work force? Do you have a high percentage of unskilled workers? Do you have systems for training them? Do you have workers with idled skills (such as former steel plant workers)? Or is your potential strength for certain industries what are called "phantom workers," people who want part-time work, such as homemakers whose children are ready for college?

For a man whose interest presumably would be real estate, Aldridge spends a lot of time talking about manpower and training. He estimates that 25 percent of the work force in this country is not ready for meaningful jobs. For example, 37 percent of black young adults are not in school or in the military or otherwise preparing themselves for productive jobs. The similar figure for white young adults is 23 percent, demonstrating it is not solely a matter of race.

The figures are especially daunting, Aldridge said, considering the demographic trends ahead that will mean a labor shortage in this country — particularly for skilled workers. (For more discussion on this topic, see "Making Training A Priority.")

Besides manpower, a plant-seeking community also needs to know exactly where it stands on such utilities as electricity, water, gas, sewage, and — Aldridge

emphasizes — “the increasingly important matter of waste removal and disposal.”

After inventorying No. 1, your best chances of answering questions 2 and 3 are to work with regional groupings, as well as state agencies (see “Where To Get Help”). That can include local or county urban redevelopment authorities, industrial development corporations, or associations such as the Mon Valley Progress Council.

That's because such matters of concern to manufacturers as transportation, human services (more than just labor cost), energy, and taxes (state as well as local) often lie beyond the ken of a local municipality.

Aldridge goes to a chalkboard in his office to draw a diagram explaining the ordinary parameters of a relocation search. Suppose a manufacturer's major suppliers are in the Central Time Zone, in Indiana, for instance. But it is finding its major markets to be in the Eastern Time Zone with its 120 million people. The corporation has determined that Greensburg is about as far east as it can settle, in terms of transportation costs from Indiana.

So the challenge is to find a location somewhere between Indiana and Greensburg that is the best pivot between suppliers and markets. It can be in

Ohio or Western Pennsylvania — Meadville, for instance, in the particular diagram that Aldridge chose as his example.

“In a sense, the real estate is the easy part. It is all the other tangibles and intangibles that we've been talking about that can make the difference,” Aldridge explains.

Another prominent actor in the job-creation scene is the Regional Industrial Development Corporation (RIDC), headquartered in Pittsburgh. Its president, Frank Brooks Robinson, said that industries particularly want trust and confidentiality, a reason that local officials often have to be kept in the dark until a deal is made.

Investors — and particularly corporations from abroad — worry about the property around them. That is a reason for the popularity of suburban campus-like industrial parks. The usual rule, therefore, is three acres of land for every acre of building.

That makes single-site development much harder. Robinson said that RIDC has drawn criticism for not doing more in the cities themselves, but a problem there often is the shortage of land for sizeable tract development.

Because of the pull and tug of demands, local governments try to spread

the butter too thin, Robinson said. What they must realize is that a rising tide lifts all boats.

Robinson in this context cites the costly, agonizingly slow process of redeveloping for economic reuse of the former USX steel plants in Duquesne and McKeesport, for which the RIDC is responsible. “We weren't naive when we got into this, but I must say the scope and cost has been a real eye-opener in dealing with everything from old buildings and transformers to asbestos and what I call ‘rainbow water.’”

Full reutilization of old industrial sites even after toxic substances are removed or neutralized, Robinson believes, will require legislation capping the liability that worries potential tenants.

Robinson said he would like to make three points with local government officials concerning such remediation projects. One is that those properties won't come to complete fruition while present officials are in office, denying them immediate political gains. “They will have to be content with being proud that they started the process,” Robinson said.

Second, officials in other municipalities also will have to be prepared for the long wait and be content with the eventual harvest of jobs for many of their citizens.

Third, as the renovated sites come

on line, they may attract industries now in obsolescent housing elsewhere in the Mon Valley or Southwestern Pennsylvania. Robinson said officials must resist the temptation to sending up the battle cry: “Don't you dare move OUR company to McKeesport.” To do this, the RIDC chief said, “would be ruling over the wreckage, rather than solving the problem.”

Robinson said that some people talk as though for its brightest future this region should turn to high tech and forget manufacturing. But the two aren't incompatible, in Robinson's view. Increasingly, certain kinds of manufacturing will migrate to places that have high technology available. To him, the renovation of the former Westinghouse turbine plant in the Turtle Creek valley into an industrial mall called Keystone Commons is an example for the future.

Another aspect in the job-creation picture is highlighted by David Epperson, dean of the University of Pittsburgh School of Social Work and vice-chairman of the City of Pittsburgh's Urban Redevelopment Authority. Dean Epperson said a problem for the minority community is that the fragmentation of economic development programs makes it hard to play a meaningful role in the entire process.

Epperson contends, "We haven't learned from the positive experiences of the past. For instance, the War on Poverty program launched in the 1960s had all the job development activity under one rubric." Epperson speaks from personal involvement, as he was director of Community Action Pittsburgh, a major anti-poverty program in that era.

The cohesiveness of the approach in those days made it possible for such minority organizations as the Urban League of Pittsburgh to have a place at the table along with local governments and the corporations. That isn't the case nowadays, said Epperson, a former chairman of the Urban League board.

The result is that many errors are made with regard to the minority community. For one, Epperson contends, not enough care has been taken to make sure that the advent of the Midfield Terminal at Greater Pittsburgh International Airport 15 miles from central Pittsburgh helps employment in the minority community, rather than further discouraging it.

Given the prospective labor shortages because of demographics, the total community has a stake in the utilization of the minority population, quite aside from the fairness issue. Economic development efforts need to include minority viewpoints from the very beginning,

Epperson contends. The plural word, "viewpoints," is important, as care must be taken never to assume there is any ONE minority viewpoint. More than one base needs to be touched.

Another job-creation idea for local government officials comes from Stanley Lowe, president of the Pittsburgh Community Reinvestment Group, which has been working with lending institutions to make mortgage and commercial business loans in low-income neighborhoods.

He argues that the potential for economic development in those neighborhoods is often overlooked by lending institutions that on a *pro forma* basis redline everyone in them, regardless of individual merit or entrepreneurial record or potential. He said studies by his group had shown there were some neighborhoods in Pittsburgh where not a single commercial or mortgage loan had been made in the past 10 years, despite the volume of deposits from those same areas.

Lowe contends that local government officials should work with banks to overcome these practices. They have both the leverage of their tax deposits, insurance and pension funds, and long-term bonded debt and also of a 1977 federal law requiring lending institutions to have equal lending practices. This doesn't

mean they have to lend to any and everyone; the requirement is that they "develop and design products to meet the needs of the community."

Thus, different plans can be developed for different communities, but none can just be ignored, Lowe explained.

Lowe said government officials too often assume that government can do the job in low-income areas when, in truth, the private sector is the answer for the long pull. Also, government officials assume that "equal lending patterns and practices" are a given, when often they aren't, unless lending institutions are sufficiently prompted. He proposes:

"Local government officials should say: 'We want to do business with you if you will do business with our constituents—your customer base, our tax base. We want you to follow the letter of the 1977 law requiring equal lending patterns and practices for all.'"

Quite aside from fairness, such financial input into less-chance neighborhoods is the best way to encourage the development there of private-sector entrepreneurs, necessary to avoid the idea that government largesse is the only hope.

Support for this concept comes from the experience of Integra Bank Pittsburgh, formerly the Union National

Bank. In June 1988, the institution became the first and only lending institution in Pittsburgh to sign a formal agreement with the Pittsburgh Community Reinvestment Group concerning lending in low- and moderate-income areas. Within a year, the bank had increased its first-mortgage lending in those neighborhoods by 2,300 percent.

From 1988 through 1991, the bank made more than \$29.3 million first-mortgage loans in the designated areas. In its latest memorandum of understanding, it has set a goal of \$101.7 million by the end of 1996. Similarly, it has set a goal of \$180.7 million in commercial loans to small, minority, female and non-profit organizations by that same date (the 1988-91 record was more than \$98.9 million.)

The grand total — in writing — of Integra's goals for all lending in designated neighborhoods is \$357,839,260, including first and second mortgages, home improvement loans, and commercial real estate loans to non-profit developers; and commercial loans to small, minority, and female businesses and non-profits.

Gayland Cook, Integra's president, was asked whether this "borrower friendly" attitude had hurt the bank in any way. He replied:

"No. It has allowed us to do business

with more narrowly defined focuses and create an atmosphere of willingness. The key is honestly to determine the ability of the borrower to repay, designing a program that works within their capacity to repay. We've had a very, very low delinquency rate as a result."

Stephanie Cipriani, assistant vice-president and manager of the bank's Community Development Department, suggested one major reason why the record of defaults on mortgages in low-income areas has been "less than minimal." She said, "Because people in a lot of cases had had no hope, when they finally got homes, they're not going to let them go. It means too much to them." The same low delinquency rate is true for commercial loans, Cipriani said.

Although other lending institutions have not signed formal agreements, they too have greatly expanded their business in low-income areas. An official in another bank said that the repayment record in his bank and others initially has been "squeaky clean," but expressed the cautionary note that — except for Integra — the experience time span is too short for a valid analysis.

In some cases now, the various Pittsburgh banks have formed public and private partnerships, including with each other.

Equally significant, the lending insu-

tutions now are beginning to compete for this business — thus giving, in Cipriani's words, "a chance for community groups to get the best deal."

Finally, on the question of plant location, it is worthwhile to hear from someone like Allen Wood of Westinghouse, who has participated in choosing sites for 65 Westinghouse facilities around the world. Wood explains:

If a unit of the company wants a new facility, Westinghouse first sets up a committee of corporate executives to make a cost analysis of the proposal before any search is made. The unit will face a 26-page questionnaire and be given two months to respond.

Wood said the four important cost variables are labor, transportation, taxes, and utilities. There is no special order, although Wood said that the latter two are not as major as the others.

Climate too, can be a factor. For instance, Florida and Alabama are poor places for sophisticated computers, Wood said.

If the proposal gets an OK, from 12 to 15 cities are selected. "We then determine the three most economical on the basis of those variables. Then we go to a state or local development agency — NOT the politicians — to help us with further research.

"In most metro areas, there is a Jay Aldridge type of person that you work with," Wood said.

Sometimes it turns out that none of the three final choices is satisfactory. If, for example, central Pennsylvania isn't quite right, Westinghouse will turn to something nearby with similar characteristics, such as Maryland or even northern Virginia.

Wood gave a small smile and said that many companies are not as sophisticated as Westinghouse. Sometimes even after a corporation has conducted a professionally organized search, the chairman of the board will step in and overrule the decision. And no matter what reasons he gives, his compatriots will suspect his selection was a good place to golf or lies near where he plans to retire.

It is noteworthy that the Peat Marwick study showed that many foreign companies were up front on this point — with the personal preference of the appropriate executive ranking No. 3 in the order of importance of state location factors.

That is one of the factors that gives pause to Tom Michlovic, the state representative who said he spends 40 to 50 percent of his time on economic development. "Sometimes you wonder whether all this effort really is worth it. Wouldn't it happen — or not happen — anyway?"

But the good news is that there are numerous resources available. Let's now turn to that topic.

WHERE TO GET HELP

For Pennsylvania communities seeking to create jobs there is one saving grace: There is no shortage of resources, both governmental and governmentally funded.

For instance, take the Pennsylvania Department of Commerce. Secretary of Commerce Andrew Greenberg notes that state government makes available each year \$200 million in business financing of various kinds — grants, low-interest loans, etc.

The state has provided \$30 million for rehabilitating the abandoned USX mill sites at Duquesne and McKeesport for industrial and commercial development. It has put \$38 million into the package to Sony to place two factories at the former Volkswagen plant in New Stanton. "No community by itself could have afforded that kind of inducement," Greenberg remarks.

"Most of what we do is to recruit outside companies," Greenberg said. The state will particularly swing into action if an incoming business promises to provide at least 100 jobs.

But the state isn't neglecting holding

onto what it has. Just this year, the Pennsylvania Industrial Development Agency (PIDA) set aside \$20 million for job-retention projects — that is, to help keep a corporation in Pennsylvania that might otherwise move its jobs somewhere else.

"This was both economically and politically the right thing to do," Greenberg comments. "Economically, because those businesses will create a big share of the new jobs in our state's economy. Politically, because it's tough being in business right now with the current recession. And this sends a message that we are not just looking for outside business to come in."

In fact, the state government has established a Governor's Response Team that includes officials from many agencies — Commerce, Community Affairs, Education, Environmental Resources, Labor and Industry. The Team's two-fold purpose: (1) to respond to any feelers from firms that might want to locate in Pennsylvania, (2) to act as an early-warning system to capture signals that a corporation might be thinking of leaving the state, in order to work with it and its community to head off that eventuality.

Its "cut-through-the-red-tape" strategy involves designating one person to handle any overture, a case-management system tied to a single individual who will

be the answer-getter from every department.

At present, state agencies are eyeing Canada, particularly Ontario, where they detect a dissatisfaction with the business climate. They are shooting for medium-sized firms, those with \$10 million to \$100 million in sales.

"We did a survey of 4,000 Canadian manufacturers in that range and got 500 responses — a phenomenal rate as anyone in the business can verify," Greenberg said. The Commerce Department and other agencies are following up with mailings, telephoning, and doing-business-in-Pennsylvania seminars.

Another state agency heavily involved in job-creation efforts is the Pennsylvania Department of Community Affairs, with \$200 million a year available for that purpose. It focuses its efforts particularly on problem-plagued communities, such as those that have lost plants or those in inner cities.

DCA Secretary Karen Miller said her agency can provide money for infrastructure, housing, planning, and intergovernmental cooperative efforts. It can help with training and technical assistance and what she engagingly calls "hand-holding" with communities and non-profit agencies.

A particular vehicle for help is the enterprise zone concept, in operation

since 1983. This is a grant program to assist financially disadvantaged communities in preparing and implementing business development strategies to increase the quantity and quality of job opportunities.

A community entering the program first receives a planning grant for preparing a business development strategy for the proposed enterprise zone area. When that process is successfully completed, a planning zone becomes eligible to compete with other planning zones for designation as an enterprise zone. Zones so designated by Secretary Miller's office receive seed-money grants to stimulate investment and business activity. The zone also is given priority consideration when requesting other state resources.

There now are 43 designated Enterprise Zones, recipients of \$43.3 million in grants since 1983. Since 1987, the DCA estimates that more than 9,800 new jobs have been created; more than \$500 million in private sector business investment attracted, resulting in approximately 1,500 business expansions and starts.

Miller, former mayor of Reading, said that DCA has made intergovernmental cooperation a top priority because it represents a much wiser user of resources than municipality-by-municipality efforts.

"I'll have to admit that this effort is like turning the Queen Mary around. We still run into turf battles and the attitude that 'this is the way we've always done things.' But we've come far enough that communities now get defensive about why they are NOT doing intergovernmental cooperation," Miller said.

The DCA secretary said, "Unfortunately, in Pennsylvania we don't allow municipalities to die. Therefore, we end up with 'welfare municipalities.'"

Another resource is the Pennsylvania Department of Labor and Industry. L & I Secretary Thomas Foley said, "Labor-management cooperation is a bottom line process. We don't suggest that people work together just because it is a nice thing to do. We encourage it because we believe it goes to the bottom line in terms of productivity and increased ability to compete with competition both inside and outside the country."

Foley said, "You hear a lot of no-union talk and go-to-Mexico talk. But when you want to get something done in a plant, it's better to have a clear organization there to work with to get things done. Any economic development effort that has its labor package together constitutes a better way to go."

The L & I secretary said he could give example after example of where "tool-

box meetings" involving workers and management had brought exchanges of ideas about injuries, lost work days, and the like that had resulted in bringing in projects on time and under budget.

Foley said L & I can help prospective companies with estimates on what workers compensation will cost and put them in touch with companies similar to theirs to obtain advice.

L & I has funds to help corporations with testing and training. One important segment is federal money for vocational rehabilitation, a funding stream that has increased yearly. Foley said this program can be especially helpful for small business. "For instance, we can provide money to train a disabled person to be an accountant for a small firm and even outfit the work site so that that person can do the job."

The Pennsylvania Department of Environmental Resources definitely is part of the job creation equation because of the effects of its permitting, enforcement, emergency, and compliance requirements.

DER Secretary Arthur Davis said that he has instituted three changes to provide better communication on the subject. First, he has appointed a full-time person to provide a link to local governments. He is John Brosius, a former

Lehigh County commissioner after being the director of planning, zoning, and development for Whitehall Township in Lehigh County (Tel. 717-783-7005).

Second, each of the six DER regional offices is in the process of designating a liaison person with local governments and the media, similar to the role Brosius has at the state level.

Third, Secretary Davis has instituted periodic dinners in the east wing of the State Capitol building with each of three different groups: (1) local government officials; (2) business and industry leaders; (3) conservation and environmental organizations.

"I'm afraid Pennsylvania has a reputation of having technocrats who were too rigid and wouldn't listen. Some of that was true, some not. But we are making a basic shift on that," Davis said.

As an industrial state, Pennsylvania historically was the site of more air and water pollution than most. That is a major reason why it began imposing stringent laws in some realms.

But Davis won't buy the idea that at this point Pennsylvania's environmental laws are any stricter than in most states. "The difference is that the laws are enforced in Pennsylvania, as against some other states," Davis said. The result is a level playing field for all concerned

throughout Pennsylvania.

Many of the laws and regulations worrisome to industry actually are the same anywhere in the country because they are federal.

The DER has problems both up and down the other levels of government. In some cases, Pennsylvania's laws are tougher than the federal, which brings pressure on the state to reduce its "regs" to the lower levels.

But Davis said that that would constitute a step backward for a state struggling to overcome the reality as well as the image of its polluted past. He contends that the quality of life as long-run asset for the state dare not be disregarded. In some cases where an incoming industry insists the rules must be bent, "We may just have to say, 'Sorry, you'll have to go elsewhere.'"

On the other end of the scale Davis is troubled by the continued stand-offs between the state and local governments on such matters vital to the state's industrial future as toxic waste disposal facilities — the NIMBY (not in my backyard) syndrome. There has to be a balance struck between industry and the communities. "In Pennsylvania, we are learning at the state level that we have not been as responsive and sensitive to communities as well as to industry," Davis said.

What advice does Davis have for local officials?

He suggests that as problems arise, the affected official contact the regional DER office first. That's a reason for the new regional liaison officers. "Have your facts straight, be businesslike, persistent, but reasonable. Don't just call up your local legislator; that seldom produces much."

The DER secretary said many localities that think of the DER in adversarial terms don't realize how important it is to have a bulwark against corporations that might run roughshod over them with "Do this or else" demands.

Davis admits it is difficult to know what to do with a community that for financial reasons says it can't, for instance, install an advanced sewage treatment plant to meet federal and state regulations. "That puts us in an immediate adversarial position. Do we complain to the feds? Do we say to the municipality, 'Tough, just boil your water?'"

But Davis insists that whether it's a local government or an industry, there usually are ways to work it out. PENNVEST, the state bond issue to provide aid for municipalities with water and sewer problems, has been a help. "We've worked with more than 160 municipalities with that program," the DER secretary said. The state has issued more

than \$800 million in grants and loans under that program, as against an estimated \$4 billion in needs.

In sum, Davis said, "We are not going to yield on environmental protection measures. But if proper compromises can be made within that framework that are of benefit to an industry or a locality, we are here to help."

Of the various nonprofit organizations that have been established in Pennsylvania to aid in job creation, none has achieved as much attention elsewhere as the Ben Franklin Partnership program established during the Dick Thornburgh administration. The private, nonprofit program was designed to link Pennsylvania's academic research facilities with business and industry, both in terms of providing advice and of transforming academic discoveries into actual products in the market arena.

At one point there was grumbling that the money mostly seemed to be lodging in the institutions of higher learning rather than going to the technology-transfer end. But that snag appears to have been straightened out.

Lawrence McGeehan, head of the Ben Franklin Technology Center of Western Pennsylvania in Pittsburgh, a regional office, said the emphasis of the \$6 million-a-year program is on "work-

ing with what we have," leaving the attracting of new industry to others.

Dr. McGeehan said that 80 percent of its funding goes into research and development — by companies, by universities, and by university/business combinations. Another 10 percent goes into training programs and the final 10 percent into supporting business entrepreneurship, with emphasis on new-product development and the international market.

One emphasis these days is to help old-line manufacturers, particularly those that have lost defense business with the end of the Cold War. The Ben Franklin program also is constantly looking for niche production facilities such as sawmills, that, with a boost, can expand Pennsylvania markets.

With the imminent coming to Southwestern Pennsylvania of the Sony manufacturing facilities at New Stanton, McGeehan said that Ben Franklin program hopes to stimulate suppliers. This may require aiding many small firms to upgrade their processes or to change them entirely. For location and businesses interested in becoming a part of the process, the dates for proposals are September 1 and December 1. Information can be obtained from the Ben Franklin Technology Center (412-681-1520).

Another resource is the Technology Development and Education Corporation. TDEC is a nonprofit, independent affiliate of the Pittsburgh High Technology Council, fostering economic growth through programs devoted to manufacturing modernization, development of the region's technology base, work force development, and international trade. Its president is Ray Christman, former state secretary of commerce.

Its activities include:

- Southwestern Pennsylvania Industrial Resource Centers (SPIRC), a \$2 million annual operation that so far has worked with 250 manufacturing companies to adopt modern manufacturing practices to improve profitability and competitiveness.
- Pittsburgh Biomedical Development Corporation, providing financial and management assistance to promising research and technology ventures emerging from the region's hospitals and universities.
- Pittsburgh Youth Apprenticeship Program, which as of September 1992 will be developing in four school districts in Allegheny and Westmoreland Counties a work-based learning program drawn from the German apprentice-

ship system (see "Making Training A Priority").

- Pittsburgh Regional Export Program, providing customized consulting assistance to smaller companies concerning export activities.

The point in all this is that local officials may do as much good as anything for the process of job creation by working with their local corporations to take advantage of the upgrading opportunities offered by such agencies as Ben Franklin, TDEC, and SPIRC.

BEYOND 'JUST ANY OLD JOB'

A discussion of job creation would be amiss if it didn't include a consideration of the caveats.

Frank Giarratani, a University of Pittsburgh economist, worries that many smaller communities "are so desperate that they'll take anything from anywhere," even if there are negative effects in terms of congestion, aesthetics, or the environment. And that often leads to a "beggar thy neighbor" attitude, rather than cooperation with adjacent municipalities.

Ralph Bangs of Pitt's University Center for Social and Urban Research (UCSUR) said the goal should be more

than just creating jobs. "We should want good jobs — above-average wage jobs, at the equivalent of the \$23,000-a-year jobs in 1980." The pay should be above average, full-time, in permanent growth industries, Bangs said. "Our goal should NOT be part-time, low wage jobs."

James DeAngelis of UCSUR interjects that this region already is 10 percent below the national wage average. The picture is complicated by the fact that while the population has not grown, labor force participation has, particularly with the addition of women. How to close that gap? Bangs and DeAngelis suggest:

1. A higher level of training. "Concentrate tax dollars on training, rather than on concessions."
2. Work to reduce health costs for firms. Chambers of commerce should form pools to negotiate with local hospitals and doctors on this score.
3. Concentrate on worker-compensation costs "so firms don't see it as a disadvantage here."
4. Nurture local businesses and encourage them to expand.

The two UCSUR academics also said that while the region has done well on short-term projects, such as developing the Greater Pittsburgh International

Airport, it is uncertain about the long-range aspects.

The decaying infrastructure is one example, something that can hamper economic growth in the long run. Also, does this region want uniform density, decentralizing through constant road building to the outer regions? What are the chances that mass transit can alleviate the pressure on the road systems?

Elam Herr of the Pennsylvania State Association of Township Supervisors has seen the pitfalls as well as the achievements of economic development. He points to two examples in Lancaster County. In one case many concessions were made to attract to Rapho Township a truck transfer station that brought in 100 jobs. But only 10 of those jobs went to local people. Then the terminal closed down.

In another case, in Lancaster County's Lampeter Township, the Rockville Square shopping center was built near the Lancaster Outlet City, leaving the latter a ghost center. Both pieces of land were zoned commercial, and the township had no way to require a different use. "Municipalities have zoning powers, yes, but no way to say that enough is enough," Herr explained.

A prime example of a shackled mu-

nicipality has arisen in Allegheny County, where Frazer Township officials balked at a proposal from the Zamias Corporation to build a shopping center, only to have Zamias go to work to carve out a new 275-acre municipality, Frazer Heights. If the move stands up legally, Frazer not only will be denied the tax revenues but inevitably will have to shoulder the burden of extra traffic on its roads, and other costs.

The precedent for fashioning new boroughs for such major developments goes back at least to 1983 when the owners of Seven Springs Mountain Resort in Somerset County seceded from Middle Creek Township to create Seven Springs Borough, enabling them to float bonds to provide sewer and other infrastructure improvements.

Herr said that what is particularly discouraging is when municipalities have implemented land-use planning and then had the rug yanked from under them.

An example came in 1991 when New Morgan Borough was created out of Caernarvon and Robeson Townships by developer Raymond Carr in the middle of pristine Amish country in Berks County. That paved the way for an \$800 million residential development, complete with Victorian village, hotel, and golf course — and a solid waste facility.

The site was the mouth of an old Bethlehem Steel underground coal mine. In this instance, Caernarvon and Robeson Townships had instituted land use and subdivision zoning as the experts advise, only to see it go for naught.

John Brosius of the Pennsylvania Department of Environmental Resources tells of the problems that arose in his home county of Lehigh with the siting there 17 years ago of a Kraft food processing plant and a Schaefer brewery (now Stroh's).

As part of the package to attract those industries, the taxpayers built a \$4.7 million sewage treatment plant. Unfortunately, it failed to do the job. That set off a long legal battle, which eventually resulted in a requirement to construct a new \$49 million sewage plant, for which the taxpayers' share came to \$40 million — many, many times the original intention. "Everyone was misled — both sides. It turned out that the sewer systems simply weren't big enough for the waste output of the plants, and the taxpayers there have been playing catch up ever since," Brosius explained.

The point is that municipalities need carefully to look any gift horse in the mouth, no matter the temptation. Brosius suggests that it will never hurt for a municipality to check first with the state Department of Environmental Re-

sources as to questions of noise, odor, waste, and the liabilities attached thereto. But another point is to question the haphazard system of planning and zoning that exists in Pennsylvania — only 53 percent of the state has any semblance of planning or zoning at all, according to Brosius.

The *Pottstown Mercury* in a notable 1990 series of editorials, "The Land: Ours to Conserve for Future Generations," carries a series of quotes from Robert Funicello of Westchester County, New York, who contends a new type of zoning is needed to protect open space.

"Traditional zoning laws were designed to rationalize the development of cities and other developed or partially developed areas. But traditional zoning laws, because they contemplate some form of development on all land, are ill-suited to protecting those values that are lost when land is developed. We are learning that one-acre, two-acre, and even four-acre zoning will not prevent development that eradicates the landscape, agricultural use, and openness values that together define these areas," the *Mercury* quoted Funicello as saying.

As the Frazer, Seven Springs, and New Morgan Borough affairs demonstrate, municipalities may think it's great to keep zoning matters in their hands and to fight any effort to widen zoning

controls, say at the county level. But this system can leave them wide open to exploitation beyond their control.

Business groups such as the Allegheny Conference on Community Development in Pittsburgh in the name of efficiency periodically call for consolidations of municipalities. That inevitably seems to arouse the cry of "metropolitanism," as if anyone still believed that some kind of supergovernment is the answer.

Yet interviews for this issues paper found almost no evidence that municipal fragmentation made any difference in site decisions, even when the location itself overlapped municipal lines. If anything, some corporations use this diffusion for leverage purposes, working one municipality against another.

That factor, of course, could argue for moves toward overcoming fragmentation as a part of the job-creation process. Moreover, there is new evidence that citizens may be readier for change than is usually assumed.

Allegheny County's government has just completed a major community effort called Allegheny County 2001 to determine what citizens want by the end of the century. Panels of community leaders tackled such subjects as education and training; criminal justice and

public safety; environmental quality; conservation and recreation and development, and then tested their proposals in public meetings.

One conclusion of the panel on development, chaired by Pittsburgh architect Donald Carter:

"In preliminary Development Panel meetings, discussion often came back to the structure of local government. Many said there was too much fragmentation in local government [130 municipalities, 42 school districts and more than 200 authorities in Allegheny County], that it hurt our growth, and that public resources were being wasted. Fragmentation, whether in public safety, zoning, or water, increases costs and results in questionable quality of service. This is wasteful. Local government is not wasteful. But the crazy quilt of local governments based on meaningless boundaries is."

A survey showed that more than 60 percent of those responding would be willing to merge their municipality with another if current public services would continue without increased costs; nearly 30 percent opposed. Even more surprising was that almost as many answered Yes as No (around 45 percent in each case) to the idea of merging their municipality if it meant better public services, even if at "a slightly higher, but fair cost to you."

Should counties as well as lower subdivisions of government decide mergers could help their job-creation potential, these data could have a bolstering effect.

MAKING TRAINING A PRIORITY

Interviews about the job creation process suggest that that phrase is becoming as much a key as the oft-expressed "location, location, location" real-estate definition. Person after person alluded to it at some point in discussions.

Robert Ady of the Fantus plant-location firm said, "The hot button for the future will be having a qualified work force available for a prospective employer." He said he wasn't talking only of blue-collar workers but of white-collar employees as well.

"In the next ten years there will be tremendous changes in office operations. They'll be paperless, just as plants are becoming paperless. There will be much less job definition; you won't come in and just work a word processor all day. There will be much more of a team concept; and we don't know how to work in teams," Ady explained.

In Pennsylvania the community colleges have taken an important role in job training. For example, the Community College of Allegheny County (CCAC)

has provided customized training programs for a wide range of clients since 1973. Since 1988 its record includes such clients as General Motors Corporation, 4,025 employees trained; USX Corporation, 1,091; Kane Hospital, 1,372; H.J. Heinz Company, 1,132; and Westinghouse Electric, 314.

Equally important in terms of job creation has been CCAC's history of working with incoming plants to train new employees ready to work when the factory opens.

CCAC also has major programs for training nurses (2,275 students since 1985) and health-care workers (2,190 since 1985). In addition, of course, it prepares large numbers of graduates to continue their education (40 percent of the CCAC class of 1991), including transfers to four-year colleges (27 percent of the class).

A CCAC official said that community colleges across the state are offering similar training programs, tailored for the particular needs of their region. Here, then, is a valuable job-creation resource for governmental officials at all levels.

Meanwhile, public school systems are being urged to revamp themselves to meet the new requirements. What is particularly interesting is a new emphasis AWAY from the college-degree route.

People in business as well as some

academics point out that, in reality, only about 30 percent of today's jobs require a college degree. Yet our society has acted on the assumption that everybody ought to go to college for four years to obtain a bachelor's degree.

Now more attention is being paid to the vocational-technical track and away from the notion that it is a dead-end good only for dum-dums. A particular innovation is the so-called 2-plus-2 system, in which eligible high school juniors are put on a path of specialized work-study programs that continues through two years of post high school education. However, this is not just the old auto mechanics shop route. The idea is to integrate with vocational training the classroom math and English skills that workers must have nowadays — in such a way that presumably “boring” subjects make sense for the non-academically inclined. Moreover, every attempt is made to provide on-the-job experience at plants and offices.

Dr. Ferman Moody of the State Department of Education explains, “A kid can be fascinated by cars and working with them but get left at the beach if he's stuck with a degree without academic skills. The way things are constantly changing, we have to teach systems technology, not just a specific skill that may become outdated.” Moody is state direc-

tor of the Bureau of Vocational-Technical Education.

The Pittsburgh Public Schools, for example, have abolished the “general education” track, which often left a high school graduate with a degree and nothing else with which to seek a job. There are now just two tracks — college preparatory and the 2-plus-2 option.

Moody, commenting on the “general education” option, said that too often its graduates, in the absence of skills for a job, try to go on to college but are doomed to fail. He said that 60 percent of high school graduates in Pennsylvania go on to post-secondary training but that only 24 percent graduate with a bachelor's degree before they are 25 years of age. (The qualification is inserted in that statement because many students later go on to get degrees; the average age of community college students, for example, is 29.) “We are trying now to take care of that forgotten half,” Moody said.

He noted that there are 530 comprehensive high schools in Pennsylvania with some sort of preparation both for jobs and for college. There are 87 vocational-technical schools offering everything from agriculture to home economics to masonry to skills necessary for working in computerized manufacturing.

Any discussion of this subject brings

to the fore the German apprentice system. That model starts a youngster on the vocational-technical track much earlier and takes him or her through a program involving the business community as well as the schools — frequently with more days at work than in the classroom.

A major advantage is that in Germany historically the quality of the apprentice system has given stature and prestige to those graduating from it. They are not looked down upon as, unfortunately, can be the case in this country concerning people in the vo-tech system. However, there is general agreement that moving to anything like the German apprentice system would take a major change in thinking in this country, with its obsession with college degrees. Many parents don't want their children tracked so early; nor do they want to relinquish the “second-chance, late-bloomer” idea of obtaining a college degree somehow sometime. (Advocates of 2-plus-2 argue that there is nothing in that system that precludes a young person from altering course at any time toward a college degree. But to be able to switch, Moody asserts, “You must have the basics,” the reason vo-tech education is being revamped.)

Beth Gill of the Workforce Excellence Commission in Pittsburgh con-

tends that even those going on to college would benefit from some vocational and technological training as part of their preparation for a society constantly being changed by technology.

Workforce Excellence itself in the past two years has adopted what its executive director, Rob Rogers, calls "a broader vision." While it continues its original emphasis on dislocated workers and the disadvantaged, it now has enlarged its mission to include the creation here of a world-class work force.

In recent months Workforce Excellence also has concentrated on what can be done to train non-degreed persons for employment in industries expected to expand greatly in coming years. The first two fields chosen for specific forums were health care and environmental services.

But what about the younger generation?

In Pittsburgh, the public schools and a unique organization called Partnerships in Education (PIE) have been working together for several years on a career system from kindergarten through high school to prepare young people for making decisions about their career paths.

PIE, located at the Greater Pittsburgh Chamber of Commerce, facilitates business involvement with the public schools through mentoring, helping with the

curriculum, and providing on-the-job intern experience for high school youngsters. At present there are approximately 80 partnerships between schools—both elementary and secondary—and businesses or community institutions. Some schools have more than one partner.

A major vehicle for PIE's collaboration with the Pittsburgh Public Schools in recent years is called the Pittsburgh Promise. The main thrust of the Pittsburgh Promise has been the establishment on a model basis of Career Centers at two high schools, Oliver and Carrick, linked with approximately 70 employers. The program provides counseling, planning, and referrals. Its job component includes a pre-employment training course and a job-placement function, including summer job opportunities.

In its various efforts, PIE has worked with employers and community agencies to decide just which competencies in writing, math, etc., are needed for job-seekers in today's world.

Jeanne Berdik, PIE's director, explained, "What do we want our children to look like—in skills, attitudes—for a successful functioning in our society? And, likewise, how do we get all the stakeholders in society—schools, business, community organizations, job-training agencies—to agree on these competency goals and to take their proper role

in following through?"

The career competencies that have been developed thus far through PIE's collaborative process were officially adopted by the Pittsburgh Board of Education in December 1991 and are being woven into the curriculum system-wide.

Rob Rogers said there might have been a time when educators were aloof in relation to business. But Rogers said that many superintendents and teachers admit they are floundering in seeking answers and consequently are eager to reach out to create links with business.

"Officials need to think of school systems as essential to the 'human capital formation' that is integral to economic development," Rogers said.

Other major job training entities in Pittsburgh are:

- Pittsburgh Partnership, the City of Pittsburgh's office supervising contracts for training disadvantaged adults and young people under the federal Job Training Partnership Act (JTPA).
- The Allegheny County Bureau of Federal Programs, which includes under its duties the supervision of some federally funded job-training programs. However, the county's JTPA program is directed by Workforce Excellence.

Any survey of the job-training situation highlights the pressing need for

more businesses and industries willing to provide internship opportunities for young people. It is not enough for business to engage in education-bashing in decrying the lack of preparation of persons seeking employment. It seems quite obvious to this writer that business needs to become an active part of the solution. Those hesitant should check with agencies such as PIE (412-392-4545), which can direct callers to corporations that have taken the plunge.

THE LABOR CLIMATE

The question of the labor climate inevitably comes up in any discussion of job creation. While people in business are careful not to be quoted, it is clear that some of them consider the strength of unions to be a drawback for attracting and holding industries in Pennsylvania.

Indeed, some major employers have relocated to other states, particularly in the Sun Belt, and other countries to avoid unionization.

Some labor defenders contend the picture is distorted by the number of teachers' strikes that have occurred in Pennsylvania since the passage in 1970 of Act 195, the collective-bargaining act for governmental employees, including teachers. They say this has nothing to do with industrial strikes, where

Pennsylvania's record compares favorably with other industrial states. (No help for this argument, though, were the bitter 1992 strikes by the drivers against the Port Authority Transit of Allegheny County and by the Teamsters against the *Pittsburgh Press*.)

However, the constant battles in the legislature over attempts to amend Act 195 have kept the subject fresh. Note: These efforts resulted in the 1992 legislature's passing a revision law establishing a strict timetable for bargaining and mediation, outlawing selective strikes (sporadic walkouts and work stoppages at particular schools or departments), and promoting the use of fact-finding and non-binding arbitration procedures. The legislation had the support of the Pennsylvania School Boards Association and the state's two teachers' unions.

Some groups traditionally allied politically with organized labor complain, however, about Pennsylvania's spotty record concerning minorities and women.

On the other hand, the state has created a Harrisburg-based agency, whose acronym is MILRITE, with responsibilities for establishing cooperative activities among business, labor, and government. Here is an agency whose expertise is available to local government officials.

Lynn Williams; president of the

United Steelworkers of America, disagrees that unions are a liability. He believes labor should be brought into the plant procurement process, something that almost never happens, he added. "Let's meet this question head-on by having some labor people talk to prospective employers so they won't be frightened to death. We could be quite reassuring about their coming into a labor town."

The USW leader pointed to such cooperative efforts as the no-strike agreement at the Greater Pittsburgh International Airport that has made possible maintaining a tight schedule for completing the Midfield Terminal there. Williams noted that the USW and the Building Trades Council of Pittsburgh have partnered with business in the effort to bring a magnetic levitation (Maglev) transportation experiment to Pittsburgh. And on the national scene, he termed the General Motors Saturn plant in Tennessee "a union-created project."

Williams said "If you want productivity and high quality it is best to have a union. When unions have a voice, in this age of participation, big things happen."

It is interesting in this connection that Duquesne Light in a portfolio for industrial prospects includes a chart entitled, "Work stoppages reduced in

Pennsylvania." It shows a decrease from a 700 high in 1975 to about 100 currently, with the greatest decrease coming in the private sector. The chart concludes: "In recent surveys, most business leaders in Western Pennsylvania rate the region's workforce as a tremendous asset to continued economic development."

Duquesne Light has also published a booklet containing extensive quotes from employers in the region praising the quality of their workers.

The latest "State of the Region Report" from University of Pittsburgh's Center for Social and Urban Research notes: "One measure of workforce quality is provided by the opinions of the region's employers. Our survey of October 1990 found that the region's employers are extremely satisfied with the quality of their workers. From 94 to 98 percent of the respondents rated their workers as excellent or good on attitude toward work, cooperation, productivity, ability to learn, willingness to learn, and literacy."

Note: Both union and nonunion employers are covered in such surveys.

USW's Williams noted that employers "among our successful competitors, such as Germany and Japan, work with their unions, rather than against them." For example, he said, they are not afraid of pattern bargaining — having a labor

agreement worked out with one corporation that becomes the pattern for the entire industry.

Labor has found the Japanese easy to work with in already unionized plants, even though they usually resist unionization in non-union factories, Williams said.

The question this region — and the nation — must ask itself, the USW president contends, is whether it is going to follow a low-wage, union-avoidance policy or whether it will "stop its warfare with its own workers and start working with them instead."

HOW IMPORTANT ARE TAXES?

Local taxes as an incentive or disincentive may be the most overblown element in the whole business of job creation through attracting industry and business to locate in your bailiwick.

You wouldn't know it from all the ballyhoo on the subject. But Bennett Harrison of Carnegie Mellon University, after a large-scale study, concluded that tax factors "aren't even a hill of beans in the cost of operations, compared to labor and transportation, items that corporations really watch."

There are two reasons why tax rates don't deserve the attention they attract.

• As explained in previous sections of

this issues paper, in most cases taxes come near the bottom of the list, a consideration after a locality has passed muster on numerous other factors.

Besides, as Harrison points out, corporations know good and well that when they pay a dollar additional to the state or local government, they can deduct up to a third of it from their federal tax bill.

- State taxes, usually are more of a factor than local taxes. But even there, the disadvantages in one state's tax system usually are offset by different disadvantages in its neighbor's levy structure. For instance, Jay Aldridge of Penn's Southwest cites six kinds of state levies that corporations eye closely — machinery tax, inventory tax, corporate net income (CNI) tax, capital stock tax, worker compensation, unemployment compensation. Pennsylvania, unlike some of its neighbors, doesn't have the first two — something that helps offset a CNI tax that business leaders think is overly high.

A 1990 survey of foreign-based companies by the Pittsburgh office of KPMG Peat Marwick found that for European firms lower taxes ranked 12th in importance among state location factors, far behind the lead items — proximity to key industry and market suppliers; air transportation; and the personal preference of executives. The report said:

"Contrary to accepted wisdom, state and local tax incentives are heavily outweighed by economic, environmental, and infrastructural issues in attracting foreign investment."

Many states and localities are beginning seriously to question the wisdom of lavish concessions on taxes, low-cost financing, and bond issues.

Harrison, who has made one of the most comprehensive studies of the subject, came to the CMU faculty and the university's Center for Economic Development from the Department of Urban Studies and Planning at the Massachusetts Institute of Technology (MIT). In a report on the study, he wrote:

"Nearly every state government in the country uses tax credits, subsidized loans, and other instruments to induce private investors to expand or construct new facilities within its borders. A theoretical analysis of such policies, in the context of a realistic picture of the contemporary structure of American industry, indicates no reason to expect that tax or related cost-side incentives will — by themselves — generate new investment (if any segment of the business community is likely to be responsive, it would be those firms paying the lowest wages and employing the fewest workers). Finally, a political-economical analysis of business incentive policies leads

[to the conclusion] that these costly subsidies constitute a form of 'welfare grant' to the business sector, especially in declining areas of the country," Harrison concluded.

Taking up this theme, *Newsweek* magazine in an article entitled "Can You Top This?" (February 17, 1992 issue) described how "the war between the states — for new business — rages on. But now some worry it's gone too far."

The heart of the article about the emerging beggar-thy-neighbor atmosphere: "States fighting other states over businesses has long been a blood sport. Though no one keeps figures on just how many deals are cut each year, state and local governments pay out billions to companies in cash grants, land and tax breaks to get new jobs or hold onto old ones. But the recent round of economic civil wars — from recent dog-fights over airline maintenance facilities to the struggle over which General Motors plants will close in the company's 74,000-person layoff plan — have state officials and taxpayers wondering whether the investment pays."

Many states and localities that offered major tax-abatement lures have attracted jeans-factory types of business that then blithely moved on when the forgiveness period ran out. These are called "runaways" in the trade.

Newsweek cites Indiana's win over Kentucky for locating a big United Airlines maintenance center at Indianapolis. But that city now finds it has to pay \$112 million of Indiana's \$390 million promise to United — while it faces a \$15 million budget deficit of its own in 1993. Mayor Stephen Goldsmith lamented, "You can't say no, but you can't afford to say yes."

A University of Minnesota economics professor figured that loans, loan guarantees, and outright grants promised to Northwest Airlines for bringing in two new maintenance facilities will cost Minnesota taxpayers about \$500,000 for each job.

Of course, Pennsylvania had its problems along this line at New Stanton, first with Chrysler and with Volkswagen, where massive subsidies lured companies that didn't stay for the long haul. Susan Hansen, professor of political science at Pitt, has written about the Volkswagen project: "Estimates of the total cost of the benefit package ranged as high as \$100 million, including tax abatements, direct subsidies, and construction of a highway spur." That statement comes in a chapter Hansen has written for a forthcoming book, *The Government and Politics of Pennsylvania* (University of Nebraska Press).

It can be argued, of course, that part

of that cost will be recouped with Sony's decision to place two plants on that site. But, as Hansen points out, "the deal negotiated by the state involved forgiving most of the monies the state had loaned to Volkswagen."

States and localities also find themselves whipsawed by companies threatening to move. When Chase Manhattan Bank considered moving its back-office operation and about 5,000 workers to Jersey City in 1988, the city and state of New York stepped in with a commitment of \$235 million in tax breaks and subsidies.

That's a reminder of how Pennsylvania's costly efforts to keep the Mack Truck facilities in Allentown came a cropper as the firm eventually moved almost everything to North Carolina.

Robert Gleeson of the Center for Business Entrepreneurship at Carnegie Mellon University says of the tax-incentive argument: "We say you just have to keep beating down that fire that keeps flaring up." The great danger is that a state or locality can cut seriously into its revenue base. But Gleeson added, a note of resignation is his voice, "The trouble is that people say that even if these incentives don't work, they send a pro-business signal." But if states aren't going to waste money on raiding their neighbors, what are their alternatives?

Arthur Rolnick of the Federal Re-

serve Bank of Minnesota urges states to "take your money and stick it in your roads, your sewer systems, your schools. That's the way you create a good business environment." And David Alan Aschauer, an economics professor at Bates College, estimates that spending \$100 on water and sewer systems will prompt \$250 in private-sector production, which is more efficient use of government funds than is projected for most giveaway deals.

Bennett Harrison makes a point of particular interest to a region talking of becoming a high-tech center. He said that a major reason for the success of Silicon Valley in California was that from the start the firms there made a kind of "social contract" with the local communities. Realizing the importance of the infrastructure — and particularly of educational excellence for the families of their executives as well as their employees — they made it clear they were willing to bear the necessary tax load if the communities would keep up their end of the quality bargain.

The consensus of these various experts suggests the wisdom of municipalities working through state and regional development agencies, rather than thinking they can outsmart "the big guys" by themselves.

And certainly it shows the wisdom of

not rushing forward with handfuls of concessions until the lay of the land is clear.

FINAL OBSERVATIONS

Despite some interviewees' comments to the contrary noted in this issue paper, I believe local government officials can play a role in the job-creation process. But they must do that in collaborative efforts, rather than as Lone Rangers.

Local government officials need to find out how they can work best with regional economic development groups. They need to support any economic stimulus in their area, even if it is in somebody else's bailiwick. After all, there are bound to be fallout benefits in terms of jobs for their residents.

At the same time, working with other municipalities might head off "beggar-thy-neighbor" deals where someone gets the plum, but loads the bulk of the traffic, noise, and pollution problems on surrounding municipalities.

Keeping the infrastructure — roads, bridges, sewer and water lines — in shape constitutes another role for local government. Again, this may require a banding together of municipalities to obtain needed action and aid from the county and state — particularly for the roads and bridges in their jurisdiction.

Helping build a favorable climate is something local officials can do. They need to visit their local business and industrial leaders to find what they can do to improve that climate. They also can help build better management-labor relations so that that can be a plus for their area, rather than a minus. Spotting labor leaders amenable to cooperating in economic development efforts can be most useful. The same is true of leaders from the minority community.

As this issue paper has made quite clear, job training is increasingly essential and sometimes can tip the balance in a corporation's decision to locate. School officials, therefore, definitely need to be brought into the picture. And this may mean an armistice on both sides to work out complementary tax arrangements rather than trying to make political hay by carping at the other fellow's levies.

Business and industry leaders need to be helpfully responsive to overtures by local government officials. They need to accept the fact that higher taxes may at times be necessary to keep the local infrastructure and particularly the schools at a high quality level. But they have every right and duty to push local governments to do more work together for greater efficiency.

It should be abundantly clear from this issue paper that the taxpayers of

Pennsylvania and its local governments have been most generous in providing money for economic development in many different ways. Schools and welfare obviously are not the only beneficiaries of government spending.

Business and labor also need to seek cooperative ways to enhance the labor climate. Business leaders cannot expect such cooperation if their hidden agenda is a union-free environment. There is something contradictory about, on the one hand, praising the quality of the work force in a strong-union region and, on the other hand, poor-mouthing that same region because it has unions.

Labor, on its part, must strive to demonstrate that its interest in economic development isn't just lip service.

Finally, a piece of job-creation advice by DCA Secretary Karen Miller to local government officials can be applied to all concerned:

"If you can't lend a hand, get out of the road."

Clarke Thomas is the senior editor (retired) of the Pittsburgh Post-Gazette, where during his 20 years as an editorial writer, local government was one of his prime topics.

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Utilities Helping Businesses Meet Global Challenges

by Hoyt E. Coffee

Utilities are offering services worldwide to help businesses deal with increasing global competition and environmental pressure.

Gas and electric utilities have always been a valuable resource for the corporate asset manager, whether involved in a wide site search or trying to cut operating and occupancy costs.

And judging by *Site Selection's* most recent survey of utilities worldwide, that's not about to change. In fact, utilities are actually increasing the level of economic development and other business services they offer.

According to the survey, conducted in May, nearly half of responding utilities increased their overall economic development budgets during the previous 12 months (see chart). And 28 percent of utilities plan to expand their economic development staffs during the next 12 months.

A separate study by the Edison Electric Institute (EEI) corroborates the *Site Selection* findings. According to EEI, a 1993 survey of 96 member utilities showed that they are devoting more resources to economic development. The responding utilities currently employ more than 670 economic development staff members and spend more than \$67 million a year.

"A utility isn't like other companies that can pick up and move if the economy turns sour," says E. James Ferland, chairman and

chief executive officer of New Jersey's Public Service Electric and Gas Co. (PSE&G). "We have to stay here, so it is in our best interest to make sure the economy is healthy enough to support us." That healthy self-interest isn't manifested only in efforts outside the utilities' offices, of course. Like the corporate counterparts they serve, utilities' economic development departments are under increasing pressure to be more productive. Some 86 percent of survey respondents said they have been pressured to get more "bang for the buck" in their economic development expenditures.

Other results of the *Site Selection* survey include:

- More than a third of utilities now have an international arm offering electricity or gas outside their home countries. Likewise, 35 percent offer special economic development services to help

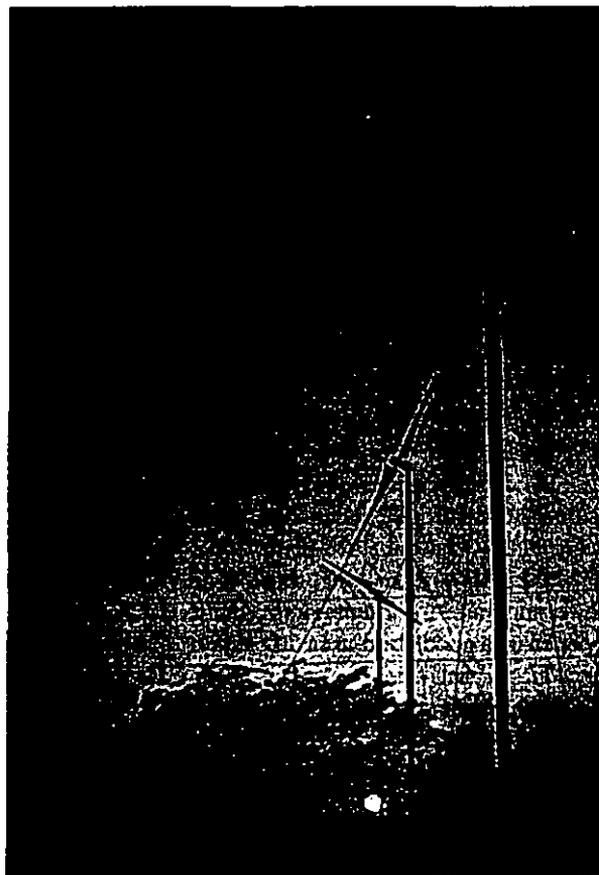
their customers expand globally.

- Energy cost analyses ranked as the most common site-selection service among utilities, offered by 64 percent of survey respondents. Comparative rate analyses were second at 63 percent.

- Among services to existing businesses, energy-conservation audits of existing facilities led the way, offered by 85 percent of utilities. Process engineering and manufacturing technical assistance to make operations more efficient was the second most common service. Almost half of utilities have increased their emphasis on services

You may obtain more information through GeoFax, Conway Data's fax-on-demand system. Call 404-453-4200 (USA) and request documents #42240, 41280 and 40670.

TU Electric's "Energy Park" explores alternative energy sources, including wind power.

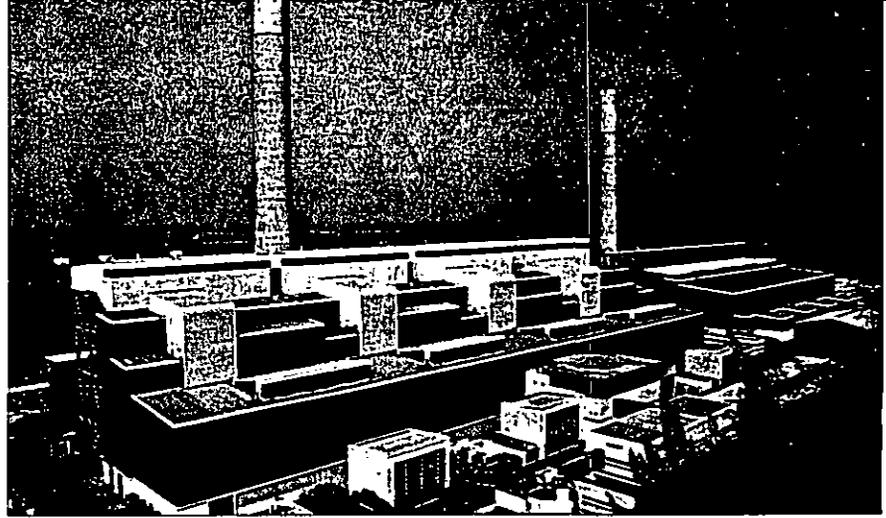


Utility Section

to existing businesses despite the improved economy.

- More than two-thirds of utilities offer incentives to industrial and commercial customers designed to encourage energy efficiency.

- Some 68 percent of electric utilities have a program to promote "electro-technologies," uses of electricity that offer environmental or efficiency improvements over other methods (usually requiring fossil fuels). And 63 percent of U.S. electric com-



This power plant in Kowloon, Hong Kong, is part of China Light & Power Co.'s new program offering special discounted rates to heavy power users.

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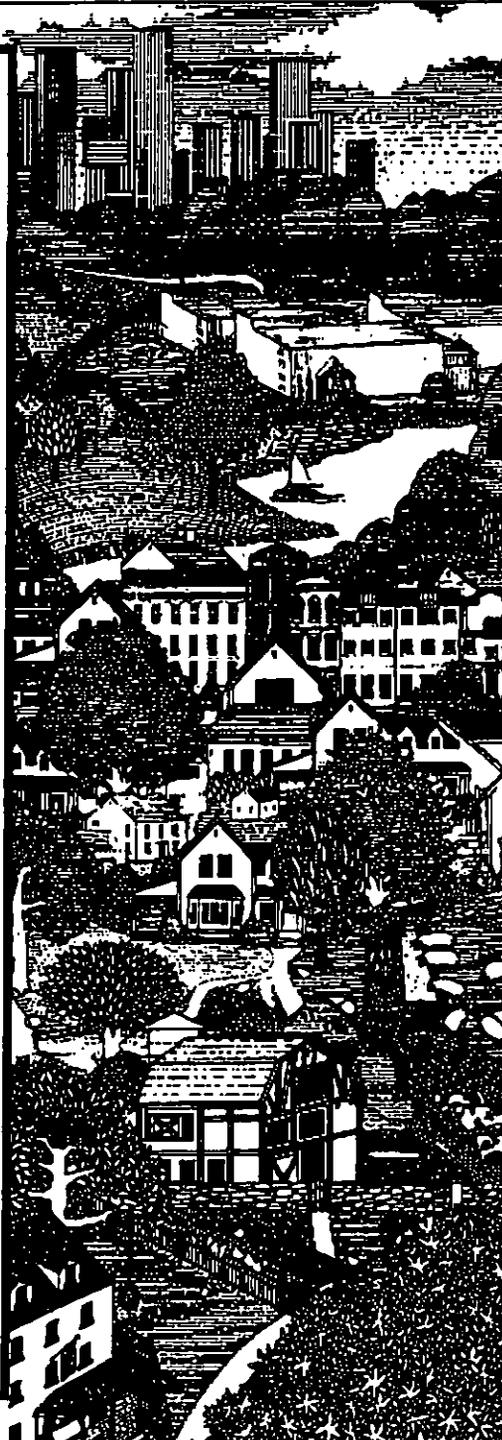
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panies have endorsed or adopted the Clinton administration's voluntary plan for reducing greenhouse emissions.

New Services for a Global Economy

More and more, utilities are offering services to help businesses in their service areas compete on a global scale, and they're employing ever-more-sophisticated tools to that end. Take PSE&G's new TradeLink-NJ Program, for example.

Launched last fall, TradeLink aims to

EXECUTIVE SUMMARY

- ✓ Utilities worldwide are upping the economic-development ante, adding more personnel and increasing budgets to better serve commercial and industrial customers.
- ✓ But they're not spending willy-nilly. Some 86 percent of utilities' economic development departments are facing the same pressures as their corporate customers to increase productivity.
- ✓ More utilities are helping customers develop export markets, providing information and direct assistance and helping establish essential overseas contacts.
- ✓ Electro-technologies — uses of electricity that provide efficiency or environmental benefits over other processes that usually require fossil fuels — are the subject of a major business-services push by electric utilities.
- ✓ Utilities are leading the way in developing cleaner and alternative fuels, as well as environmentally friendly ways to use them such as electric cars.
- ✓ More than two-thirds of U.S. utilities have adopted or endorsed President Clinton's "Global Climate Challenge."

Utility Section

help small and medium-sized companies in the state determine what export opportunities they have, especially to Europe, and then take advantage of them.

"There is no reason why New Jersey cannot become to the European Community (EC) what California has become to the Pacific Rim," former Gov. Jim Florio said at the program's debut.

According to Ferland, consultants at DRI/McGraw-Hill helped focus PSE&G's export-assistance effort, determining that

the 12 EC nations, with more than 300 million consumers, would provide the best overseas market for New Jersey goods. The consultants also identified seven industries with the greatest export potential: computers and precision instruments; non-electrical equipment; pharmaceuticals and toiletries; electrical equipment and telecommunications; chemicals and plastics; food and drinks; and business services.

"We will focus our TradeLink efforts in these business areas and these markets," Ferland says. "The TradeLink-NJ services will be offered in three stages: an initial

qualification to ensure that exporting makes sense for a particular firm; planning advice by a network of key export assistance providers throughout the region, including trade associations, local chambers of commerce, federal and state government assistance programs and financial institutions; and actual implementation.

"PSE&G will remain involved as an overseer through all three phases of the effort."

To manage the huge library of research reports, market analyses, product information and the like needed to support the export-assistance effort, PSE&G established a computer network to link the dozens of people involved in TradeLink. The system, provided by Alacrity Systems Inc. of Hackettstown, N.J., allows TradeLink to assemble research and summaries quickly and fax them to companies interested in exporting. It also provides a tracking system to keep tabs on how well the program is working.

"PSE&G believes the guidance it plans to offer will be the catalyst small- and medium-sized businesses need to undertake an international initiative," Ferland says. "The boom of the '80s is over, but perhaps this effort can help us recapture some of that in the '90s."

Trade Fair Program Provides International Opportunities

Several other utilities also are offering assistance to international-minded companies in their service areas, and some are tying that effort to other new initiatives such as promoting "electro-technologies."

A good case in point is American Electric Power (AEP) of Columbus, Ohio. In addition to its Japanese Development Program and Export Led Development Program, AEP recently implemented an International Trade Fair Assistance Program, designed to encourage the industrial customers of AEP's seven operating companies to participate in selected trade fairs in foreign markets.

AEP initiated the program in December, taking representatives from six industrial customers to the REP-COM show in Mexico City, the first Mexican trade fair after passage of the North American Free Trade Agreement. According to AEP, the six companies — representing products ranging from frozen confections to mining machinery — made valuable contacts and reported an estimated \$3.3 million in projected new sales over the next two years as

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a result of their participation.

"This program, to help small businesses such as ours penetrate the global marketplace, is invaluable," says Steven A. Cohen, sales manager of Ohio Central Steel Co. "The trade show enabled us to establish contacts with over 35 dealerships interested in representing the machinery we manufacture.

"We did not realize the vastness of this marketplace until we arrived. The overwhelming acceptance of our product line

should lead to future exports, expansion and increased employment."

AEP, which was awarded the American Economic Development Council's Best of Class award for the trade-fair program in May, is planning a mission to Canada later this year. In June it took three industrial customers to the ElectroTech '94 trade show in Birmingham, England.

"ElectroTech '94 is one of the premier shows for the electro-technologies industry," says Martin L. Walsh, manager of international development for AEP Service Corp. "We're excited that we can help

our industrial customers explore exports to the British market firsthand."

Electro-Technologies: 'Ecowatts' for the Future

Electro-technologies are the subject of a major business-services push by electric utilities. According to the *Site Selection* survey, 68 percent of electric providers have a program to promote electro-technologies in their service areas.

"Declining electricity costs and rising electricity use are beneficial both for the economy and the environment," says EEL consultant Mark Mills, who coined the term "ecowatts" to describe these new uses of electricity. During the 1980s, electricity growth paralleled growth in gross national product, but electricity prices declined 16 percent, say authors Clark Gellings of the Electric Power Research Institute (EPRI) and EEL's Thomas Morron. Meanwhile, overall energy efficiency improved 11 percent.

"Today, in fact, the [United States] uses only 7 percent more primary energy than it did in 1973, yet the GNP has increased some 46 percent," Gellings and Morron write in *Electric Perspectives*.

Mills has identified 145 emerging elec-

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tro-technologies that he thinks will have an impact in the future, from electric lawn mowers to plasma torches for treating hazardous wastes. When it comes to industrial uses, Mills say electrification advocates point to the use of electric-arc furnaces in steelmaking as a success story. That electro-technology allowed the U.S. steel industry to cut its work force 30 percent between 1982 and 1990, while production improved 45 percent. The switch away from coke-fired steelmaking also benefited the envi-

ronment.

EEl and EPRI began a collaborative effort with utilities earlier this year to promote electro-technologies, ranging from environmentally benign HVAC to electric-car batteries. Several utilities have shown interest in the project, including TU Electric, Arizona Public Service, New York State Electric & Gas, PECO Energy, Utilicorp, PSE&G, PacifiCorp, Ohio Edison and Pennsylvania Power & Light.

Alternative-Fuel Vehicles

Some utilities are getting into electro-

technology promotion in a big way. For instance, Pennsylvania Power & Light (PP&L) offers several grant programs for customers who install electrical systems for such things as drying and curing or food processing. And PECO Energy in Pennsylvania offers both electro- and gas-technology assistance.

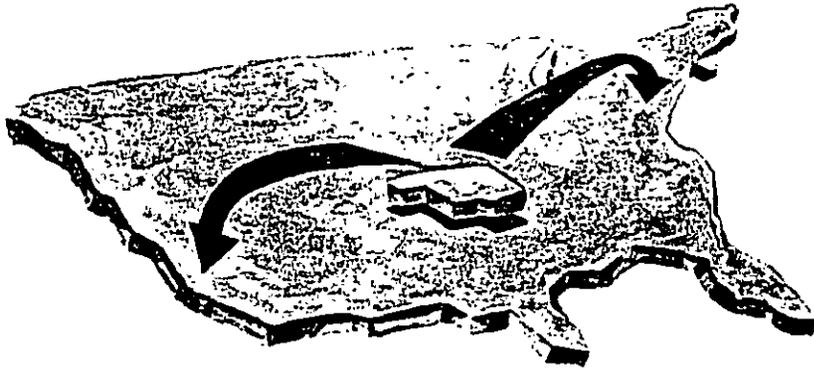
Dallas-based TU Electric has even created a special "Energy Park," a research and demonstration center for new electro-technologies — as well as renewable energy sources. The first phase of the Energy Park, launched last year, includes TU Electric's Customer Technology Application Center, which will "help customers evaluate new electro-technologies and solve customer problems," according to a company statement.

The Texas utility has erected three 300-kilowatt wind turbines, capable of powering 100 homes annually, at the Energy Park to "give TU Electric direct experience with wind generation and provide demonstration of this technology." TU Electric and 20 other electric utilities also are conducting cooperative research at the park on Dodge Caravan electric minivans.

Alternative fuel vehicles — not just electric, but natural-gas powered, too — are getting a lot of attention from utilities as they offer services to help companies meet pressures to reduce emissions. Pending federal legislation would require large fleet operators to include alternative-fuel vehicles by 1996, and California has already enacted laws requiring that 2 percent of all vehicles for sale in the state be powered by electric batteries by 1998. Other states and regions, especially in the Northeast United States, are expected to follow California's lead.

"If Detroit is building clean cars for California, Detroit can build clean cars for the rest of the country, too," the EEI's Morron told reporters after a meeting of the U.S. Ozone Transport Comsn. "With more states adopting the California standards, the cost of production will be lower, while sales will increase and air will be cleaner." The Big Three automakers inked a voluntary deal with the Clinton administration late last year in which they agreed to develop much more environment-friendly vehicles over the next 10 years. Utilities, though, are way ahead on this issue — not surprising considering their vast experience with environmental regulation.

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(continued on page 783)

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(continued from page 780)

"Stationary sources, such as electric utility generating plants, have long been subject to strict emissions controls and should not be asked to take new, even more expensive steps to further reduce . . . emissions until mobile sources have done their share," says Robert Beck, EEI's vice president of environmental affairs.

How are utilities acting to boost this

effort?

- Georgia Power Co. has established an electric-vehicle "on-loan" program to provide electric vans to key business customers.

"With this program our customers have the opportunity to use electric vehicles in a variety of real applications, just as they would use any other vehicle in their fleet," says Marie Moucher, manager of Georgia Power's Electric Vehicle Program.

- Atlanta Gas Light Co., meanwhile, is operating 500 natural-gas vehicles and has eight private refueling locations.

Utility Economic Development Efforts Paying Off

The efforts of utility economic development departments are paying off in a big way for job-hungry communities across the nation and around the world.

Generally working in concert with national, state and local governments, utilities are providing innovations and incentives that also bring much-needed investment to those communities. Some examples from the past year include:

- Indiana Michigan Power helped put together a package that secured a new, state-of-the-art steel mini-mill for northeast Indiana.

Steel Dynamics Inc. announced in February that it would locate the \$514 million facility in Butler, creating some 600 high-paying jobs. Incentives offered to ice the deal totaled \$37 million, including infrastructure and economic development grants, energy grants, work-force training, road work funds and tax abatements.

Gov. Evan Bayh says the success of the ultra-modern Nucor steel mill in Crawfordsville, Ind., which set industry productivity records, greatly influenced Steel Dynamics' decision.

- Iowa-Illinois Gas and Electric Co. played a similarly significant role in locating a \$360 million IPSCO steel mini-mill in Muscatine County, Iowa, near Montpelier.

In fact, Gov. Terry Branstad specifically lauded Iowa-Illinois' John Wetzel, director of area development, for his part in bringing the Canadian company and its 300 jobs to the area.

Incentives for the deal included tax abatements and infrastructure development, but IPSCO President Roger Phillips cited low utility costs as a major factor in the location decision.

- PECO Energy's economic development professionals were instrumental in bringing Metro Machine Corp., a shipbuilder and maintenance contractor, to Delaware Coun-

ty, Pa. Building in three phases, the company's new facility could mean a total of 2,200 new jobs when at full operation.

PECO also had a hand in keeping Cephalon Inc. in Chester County, Pa. Although several states sought to relocate Cephalon, the leading pharmaceutical company chose to keep its 210 jobs in Pennsylvania. In addition, the company's expansion is expected to mean another 1,000 new jobs over a three-year period.

- When Ansonia Copper and Brass Inc. was facing liquidation by its Canadian owners, Connecticut's United Illuminating came to the rescue. The utility helped the metal-working firm, which had been in Ansonia, Conn., since the 1800s, cut its utility costs by 40 percent.

As a result, company management was able to keep the doors open and eventually allow Ansonia's 386 employees to buy out 77 percent of the company.

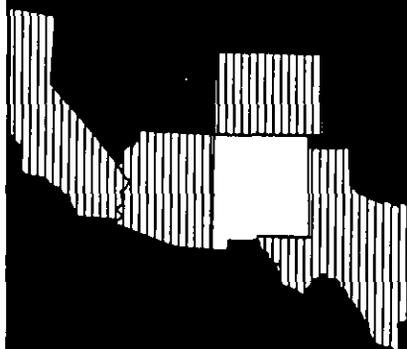
United Illuminating's energy-savings programs also helped lure paper-products maker Brooklace Inc. to Connecticut. The company had been considering a Southern United States location.

- Utilizing its energy-efficiency and process-engineering expertise, Connecticut Light & Power cut Fortune Plastics' annual power bills by \$75,000, convincing the plastic-bag maker to keep its 140 employees in Old Saybrook, Conn.

- Alabama Gas worked out a combined deal with a pipeline supplier to play a part in securing Mercedes-Benz's much-ballyhooed \$350 million auto plant to Alabama. The new plant will employ some 1,500 workers.

- Northern States Power Co. approved a 10-year contract to provide a 20-percent cut in the electric bill for John Morrell & Co. in Sioux Falls, S.D. The reduction was part of a \$30 million package to aid the long-struggling meatpacking company and save 2,800 jobs.

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- Southern California Edison, working with the Los Angeles Dept. of Water and Power, has set a goal of putting 1,000 electric vehicles in their fleets or in the hands of customers.

- Pacific Gas & Electric and the Sacramento Municipal Utility District plan to put 850 electric cars, vans and trucks to work in their service area.

Taking on the 'Climate Challenge'

When it comes to the environment, greenhouse-gas emissions represent "the most serious problem our civilization faces," according to Vice President Al Gore, and the administration he shares with President Clinton is taking steps to get utilities involved in solving that problem.

In May the administration and five utility associations signed the "Global Climate Challenge Agreement," which has been endorsed or adopted by 68 percent of utilities, according to the *Site Selection* survey. Aimed at cutting greenhouse-gas emissions to 1990 levels by the year 2000, the agreement encompasses five voluntary initiatives that utilities will undertake with the Energy Dept., including:

- developing commercial electro-technologies,
- investing in better forest management and tree planting,
- promoting electric vehicles,
- encouraging foreign utilities to be more efficient, and
- increasing the market for geothermal heat pumps.

Some utilities are going much further in their environmental efforts. New England Electric System, for instance, has unveiled a plan to cut carbon-dioxide emissions to 20 percent below 1990 levels. Significant in New England's program is that the utility is not planning to rely on natural gas as a replacement for much dirtier coal and oil to generate electricity.

"For reducing [nitrogen-oxide and sulfur-dioxide] emissions, natural gas can be tremendously beneficial," says Richard P. Sergel, vice president of New England Electric. "But in terms of reducing carbon dioxide, it's not that significant in the long run. This plan realizes that natural gas won't solve the problems of carbon-dioxide emission, even if that's all we used."

New England Electric also intends to

(continued on page 787)

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Utilities Face a New World of Competition

The world is changing for electric and gas utilities, and the changes will have a dramatic effect on site seekers.

Formerly safe and content with captive customers, utilities are facing new competitive pressures as energy users are being allowed to shop around for power.

"The competitive genie is out of the bottle," Stanley Skinner, chairman of Pacific Gas & Electric, said during a June meeting of the 190 private companies that provide about three-quarters of the United States' electricity.

Congress set the stage for these changes two years ago when it required electric utilities to open their transmission lines to competitors and gave wholesale buyers the ability to shop around. Now, large electricity users are pressuring utilities to bargain on their rates, threatening to take their business elsewhere if current providers don't make concessions. Take Tosco Corp., an oil refiner in Stamford, Conn., for instance. The company recently negotiated a 23 percent reduction in rates for its Linden, N.J., plant.



"Wheeling," as shopping for rates is known, has both supporters and opponents, many of whom fear the cost of placating large users will harm individual electric consumers.

"Large industrial users are going to be able to get cheaper rates," says Ed Rothschild, an energy analyst with the consumer group Citizen Action. "But who's going to pay for that? It's going to be dumped on the residential and small business customers."

It's not only industrial users that are pushing competition; communities are getting in on the act, too. In Maine, for example, the town of Madison pulled the plug on Central Maine Power Co. in favor of Northeast Utilities, hoping for a 40 percent reduction in electricity

costs. Central Maine Power must transmit the power on its lines, but Northeast Utilities agreed to pay the company \$10 million in a compensation settlement.

Likewise, the town of Romeo, Mich., has been considering dropping Detroit Edison, and Massachusetts Electric Co. recently lost the Boston mass-transit system as a customer. Much attention has been focused on Las Cruces, N.M., as well as officials there acted to toss out El Paso Electric in favor of Southwestern Public Service Co. Another twist was added in that case when Central & South West Corp. of Dallas bought out El Paso and offered to freeze Las Cruces' rates.

El Paso Electric has also been in the spotlight on another issue stemming from deregulation; it is one of only two Chapter 11 bankruptcy cases in the electric industry in 60 years. But it won't be the last, according to a study by Fitch Investors Service Inc. The New York firm says that 38 percent of the nation's public service commissioners believe that the onslaught of competition will spark utility bankruptcies in

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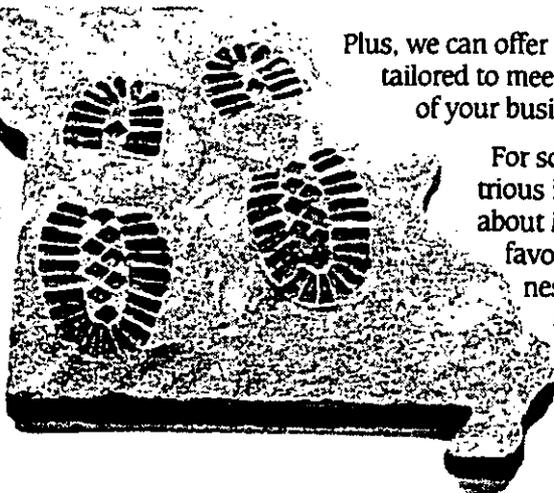
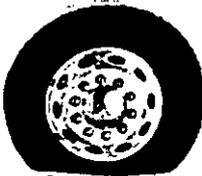
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"A lot of shareholders will take a bath," says Roger Hale, chief executive of LG&E Energy Corp. in Louisville, Ky. The water is already running for some. FPL Group Inc., the parent of Florida's largest utility, shook up the industry in May when it broke a 47-year tradition of raising dividends.

"From the investors' standpoint, this was a major wake-up call," says Kidder Peabody analyst Steve Fleischman. "This is kind of a harbinger of things to come in the industry, that we could see more dividend cuts and just an overall slowdown in dividend growth."

Deregulation Hits Gas Utilities

Natural gas utilities are experiencing a sea change amid deregulation, too, and it will mean higher rates for some customers. In fact, according to a recent *Site Selection* survey, 22 percent of gas utilities have already found it necessary to seek rate hikes to cover the costs of deregulation.

Under a Federal Energy Regulatory Comsn. order, local gas utilities may no longer rely on a regulated system to ensure an adequate supply of gas for their customers. This "unbundling" of services requires the utilities to take responsi-

bility for their own gas procurement, with pipelines reverting to common-carrier status.

As a result, many pipelines are having to cancel long-term purchase contracts, and experts predict the "transition costs" will be passed on to consumers. The Interstate Natural Gas Assn., a trade group of pipelines, estimates the costs at about \$4.4 billion over three years. The General Accounting Office puts the cost at about \$5.7 billion.

"At least initially, residential users won't do as well as they did before," says Michael German, vice president for policy analysis at the American Gas Assn. "And industrial users will fare better than they did under the regulated system because they will have more leverage to drive down their costs." Much as with electric utilities, their natural gas counterparts are offering better deals to industrial users to keep them in the fold. New York State Electric & Gas Corp. in Binghamton, N.Y., for example, had five large users threatening to leave the system last fall if rates weren't lowered.

"State regulators are heading in the right direction," says Donna Vandenberg, the utility's manager of gas supply and control. "But we need more flexibility to keep these customers."
—Hoyt E. Coffee

Utility Section

(continued from page 784)

speed up its renewable-energy efforts, including new programs in biomass and windpower. In addition, the utility is participating in a "carbon-offset" program in which it is helping manage a Malaysian forest to help offset carbon-dioxide emissions in the United States.

In the near future many experts predict a flurry of other programs designed to both cut utilities' greenhouse emissions and help businesses do the same. While the latest U.S. Environmental Protection Agency report says industrial emissions declined 6 percent from 1991 to 1992, much larger cuts are being demanded worldwide. At least 25 international organizations currently are addressing global warming, and the 50 nations that signed the climate-change treaty during the world environmental summit in Rio de Janeiro could enact legally binding measures when they meeting next March in Berlin.

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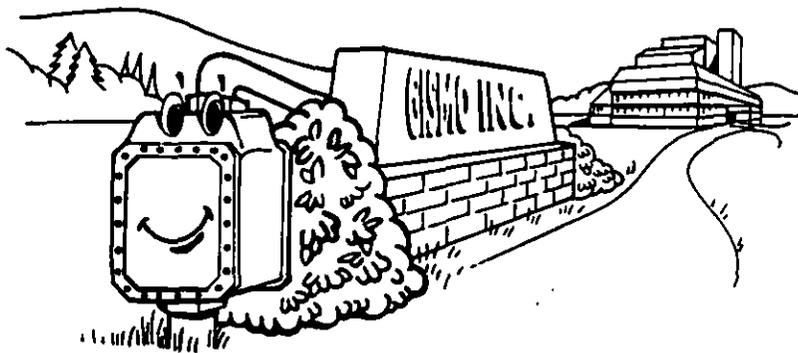
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THE GLOBAL PICTURE: INTERNATIONAL ELECTRICITY PRICE LEAGUE TABLE, 1993-1994

RANKING			1993	1994	RATE OF INFLATION	
1994	1993	COUNTRY	c/KWH	c/KWH	%Change	%
1	1	GERMANY	10.21	10.10	(1.08)	3.20
2	2	SPAIN	9.91	9.90	(0.10)	5.00
3	4	ITALY	8.43	8.80	4.39	4.20
4	3	AUSTRIA	8.45	8.45	0.00	3.60
5	5	BELGIUM	7.94	7.78	(2.02)	2.40
6	6	U.S.	7.16	7.09	(0.98)	2.50
7	9/8	NETHERLANDS	6.47	6.68	3.25	3.20
8	8	EIRE	6.67	6.67	0.00	1.70
9	7	FRANCE	6.70	6.67	(0.45)	1.80
10	10	U.K.	6.40	6.19	(3.28)	2.30
11	11	FINLAND	5.33	5.33	0.00	2.20
12	13	AUSTRALIA	4.61	4.58	(0.65)	2.20
13	12	NORWAY	4.86	4.32	(11.11)	1.80
14	14	CANADA	4.22	4.18	(0.95)	0.20
15	16	SOUTH AFRICA	3.56	3.91	9.83	9.90
16	15	SWEDEN	3.92	3.88	(1.02)	1.90

- All prices expressed in cents per kilowatt hour
- The country average percentage increases are unweighted
- Figures based on customer size of 1,000 KW, 450,000 KWH per month and customer-owned transformer, industrial and commercial users.

Source: National Utility Service Inc.



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Utility Section

according to the *Site Selection* survey) are combining environmentalism and economic development, offering businesses special incentives to increase their energy efficiency.

For instance, the Wisconsin Electric Power Co. and the Wisconsin Natural Gas Co. have created a new program called "Fast-Track Financing." The program, aimed at helping businesses finance energy-related improvements, offers assistance with:

- electric or natural-gas projects,
- electric substation installations and other service-related projects,
- environmental projects,
- comprehensive power-quality projects and
- other energy related projects.

Public Service Co. of Colorado's "Efficiency Replacement Partnership" has similar goals. The utility is offering \$7.9 million in rebates for commercial and industrial customers who replace worn-out or failed equipment with energy-efficient alternatives.

"To remain competitive in today's mar-

Cold Fusion: Fuel of the Future?

Five years ago, professors Martin Fleischmann and Stanley Pons created a huge furor in the scientific community with the claim that they had discovered cold fusion, that they had tapped the power of the stars in a test tube.

Media around the world speculated on the tremendous impact of the discovery — practically free energy from water. But the flurry of commentary quickly subsided as most scientists rejected the notion, saying cold fusion was theoretically impossible.

It didn't help Fleischmann and Pons' case when they couldn't explain how the alleged discovery worked, either.

While the brouhaha subsided, though, experiments on this controversial new energy source did not. A cadre of researchers essentially went "underground" with their work,

financed by giant multinational companies such as Toyota.

Today, they claim significant advances in cold fusion, reportedly generating thousands of watts of energy from water with no pollution and only minor nuclear wastes. Cold-fusion boosters are predicting working automobile engines by the end of this century, the demise of big oil companies and the birth of a new trillion-dollar industry.

The accuracy of such claims remains to be seen — large numbers of scientists still discount even the possibility of cold fusion and even more doubt the conclusions of pro-cold-fusion researchers.

But as Mark Twain said: "Apparently there is nothing that cannot happen today."

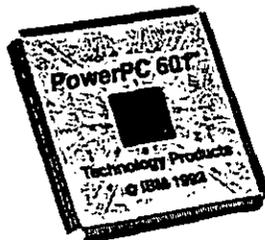
— Hoyt E. Coffee

ket, customers need to look at how energy-efficiency can pay off and contribute to the bottom line." Program Manager Tom Carter says. "Through the program we plan to help remove the cost barriers that currently limit businesses from achieving greater success through energy-efficient technologies."

And Georgia Power Co. is offering both rebates to small businesses that invest in energy-efficient equipment and 100 percent financing to larger users who install efficient lighting systems. The program also offers 100 percent financing to builders and developers to choose efficient equipment in new construction. **SS**

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responsible for site selection

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Fax-on-Demand: Utilities Use High-Tech Information Service for Site Seekers

Public utilities play a major role in economic development, and an important part of that role is providing information to corporate site seekers.

Among utilities with active programs for gathering, packaging and distributing site information, most agree that their primary goal is to provide the different kinds of information needed during the different phases of a site search, quickly and efficiently.

The level of detail site seekers need varies considerably during the selection process. In the latter phases, site seekers are generally working from a short list of possible sites selected either in-house or with a consultant's help. By this time decision-makers have already contacted local utilities, some of which employ extensive resources such as industry experts, geographic information systems and computer models on behalf of their prospects.

Central and South West, a public utility holding company that owns Central Power & Light, Public Service Co. of Oklahoma, Southwestern Electric Power Co. and West Texas Utilities, is no exception.

"We serve over 4 million people in a widely diversified area covering 152,000 square miles (393,680 sq. km.) in four states," says David Young, Central and South West's economic development director. "These companies are represented by economic development staffs professionally trained to assist businesses in the evaluation of opportunities in this region."

This can create problems during the early stages of a search, as Young explains.

"Development officials are trained and dedicated to aggressively pursue all opportunities right from the start," he says. "Early on, this can create a situation where follow-up is difficult. Both the sender and receiver of information may get uncomfortable with the appropriate next step."

The information needed at this stage typically is less detailed and broader in scope than that required in later phases of a site search. Decision-makers want to gather concise information quickly, preferably while remaining anonymous. The ideal solution would be "one-stop information shopping" for all locations under consideration — practically impossible

with traditional information-gathering methods.

But by using a new fax-on-demand information service such as GeoFax, which is geared to the development industry, Young says his company has found another method to help site seekers negotiate the preliminary information-gathering phase.

Corporate site seekers can call GeoFax and anonymously order a wide variety of real estate-related documents with a touch-tone phone. The documents are delivered immediately to the caller's fax machine.

"Information Libraries" such as GeoFax can be used in the initial stages of the screening process, providing a valuable, anonymous service," Young says. "In the early stages of the site-selection process, the Central and South West Companies want to be represented with up-to-date, factual information. Then, when interest is expressed in a particular asset of our territory, our professional staff will assist in the further evaluation of this opportunity."

An important part of Young's strategy is providing fax-on-demand descriptions of available properties within the utility's service area. Listings are regularly updated as the number and type of available properties change. Maps and floor plans are included to make the site information as useful as possible.

"Nothing will take the place of personal assistance when a prospect takes an interest in a community or region," Young adds. "The economic development business is built on relationships, trust and confidentiality, and that only takes place between professionals."

Central Power & Light, Public Service Co. of Oklahoma, Southwestern Electric Power Co. and West Texas Utilities are joining more than 130 other utilities, governments, professional and industry associations, publications, and service providers that offer information through GeoFax, making it a useful and wide-ranging source of information for the corporate executive. These sponsors pay an annual fee so that site seekers can order their information files at no charge, 24 hours a day, seven days a week.

(For more information on GeoFax, see the Guide to Electronic Services elsewhere in this issue of *Site Selection*.)

1. Site
2. Fi
3. En
4. Tr
5. La

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I am this day serving the Supplemental Testimony of Daniel C. Witmer upon the persons and in the manner indicated below.

Service by First Class Mail addressed as follows:

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Dated: April 20, 1995

HARTMAN UNDERHILL & BRUBAKER

By: 

Christopher S. Underhill

Attorneys for The Lancaster Chamber of
Commerce and Industry

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April 20, 1995

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INFO CONTROL

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

Dear Mr. Gadsden:

Enclosed are two copies of the Responses of PP&L Industrial Customer Alliance to Interrogatories and Requests for Production of Documents and Data of Pennsylvania Power & Light Company - Set II, Questions 1-18.

As indicated by the attached Certificate of Service, copies of these responses have been served upon all parties of record.

Very truly yours,

McNEES, WALLACE & NURICK

By *David M. Kleppinger / gm*
David M. Kleppinger

DOCUMENT
FOLDER

DMK:gm

Enclosures

c: ✓ John G. Alford, Secretary (w/o Enclosure)
Honorable Robert A. Christianson (w/o Enclosure)

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document on all known parties of record to this proceeding, by First Class Mail, addressed as follows:

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Certificate of Service
Docket No. R-00943271
Page 2

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Washington, DC 20036

David M. Kleppinger / gm

David M. Kleppinger, Esquire

Dated this 20th day of April, 1995, in Harrisburg, Pennsylvania.

KOHN, SWIFT & GRAF, P. C.

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April 21, 1995

BY FEDERAL EXPRESS

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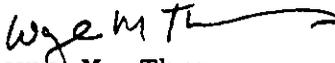
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APR 21 1995
PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

Re: PUC v. PP&L, Docket No. R-00943271

Dear Secretary Alford:

Enclosed for filing in the captioned matter are the original and two copies of the Objections of Central Eastern Pennsylvania Fuel Oil Dealers to Pennsylvania Power & Light Company's Interrogatories and Request for Production of Documents dated April 14, 1995. Would you time-stamp and return the extra copy of the Objections in the envelope provided.

Very truly yours,


Wayne M. Thomas

WMT/tjh

Enclosures

cc: The Honorable Robert A. Christianson (w/encl.)
All Parties on Certificate of Service (w/encl.)

DOCUMENT
FOLDER

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION APR 21 1995

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

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:
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PENNSYLVANIA POWER & LIGHT CO.
:
:

DOCKET NO. R-00943271 - C0094

OBJECTIONS OF CENTRAL EASTERN PENNSYLVANIA FUEL
OIL DEALERS TO PENNSYLVANIA POWER & LIGHT COMPANY'S
INTERROGATORIES AND REQUEST FOR PRODUCTION OF DOCUMENTS

The Central Eastern Pennsylvania Fuel Oil Dealers
("CEPFOD"), pursuant to 52 Pa. Code §5.342, by their attorneys,
file herewith the following objections to Pennsylvania Power &
Light Company's ("PP&L's") Interrogatories and Request for
Production of Documents addressed to CEPFOD dated April 14, 1995,
Nos. 1-6, 8-17, 21 and 26:

1. For the period 1985 through 1994: (a) Please provide
specific information on CEPFOD's members' home heating market
share statistics within PP&L's service area versus other energy
sources, specifically electric heat and gas heat. (b) Please
show the number of new home heating customers served and average
budgeted and/or actual oil deliveries per new home. (c) Please
state CEPFOD's members' market share for new: (i) single family
homes; (ii) townhouses; and (iii) mobile homes.

ANSWER: CEPFOD objects that the information requested
is neither admissible nor reasonably calculated to lead to
discovery of admissible evidence. The primary issue in this rate
proceeding is whether or not PP&L should be permitted to utilize
a rate which is not sufficient to recover the cost of providing
its service. CEPFOD objects that the time period is overly broad

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and imposes an unreasonable burden upon Complainants. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. Pennsylvania Power & Light Company, U.S. District Court, E.D. Pa., Civil Action No. 91-5176, an action under the Federal Antitrust Laws pending in Federal Court ("Yeager v. PP&L"). CEPFOD objects that the information requested constitutes confidential commercial information.

2. Please provide CEPFOD's documentation of the number of existing oil-heated homes within the Company's service area that were converted to RTS service, by year, for the period 1985 through 1994.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion. Such responsive information

that is known to CEPFOD's members has been obtained by formal discovery from PP&L in Yeager v. PP&L. CEPFOD objects that this information is more readily available from PP&L's own records; therefore, this request requires CEPFOD to make an unreasonable review of documents already in PP&L's possession. CEPFOD objects that this request is simply an unjustifiable attempt to require CEPFOD to analyze and produce to PP&L documents which PP&L has itself produced to CEPFOD members in Yeager v. PP&L.

3. Please provide all documents or other evidence possessed by CEPFOD or its members on PP&L's continued direct promotion of the RTS rate and/or electric thermal storage systems to residential customers during the historic or future test years.

ANSWER: CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. Such responsive information that is known to CEPFOD's members has been obtained by formal discovery from PP&L in Yeager v. PP&L. CEPFOD objects that this information is more readily available from PP&L's own records; therefore, this request requires CEPFOD to make an unreasonable review of documents already in PP&L's possession. CEPFOD objects that this request is simply an unjustifiable attempt to require CEPFOD to analyze and produce to PP&L documents which PP&L has itself produced to CEPFOD members in Yeager v. PP&L.

4. Please provide documentation of the number of new oil heated homes in PP&L's service area that include central air conditioning equipment, by year, for the period 1985 through 1994.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion.

5. In his direct testimony, Mr. Andersen concludes that "PP&L's marketing of RTS was so aggressive that it not only shifted usage away from the daytime hours, it also shifted the time of system peak." Please provide any studies or data supporting this claim, including documentation and calculations that shows the contribution that RTS service had to the shift in the time of the Company's system peak.

ANSWER: CEPFOD objects to this request to the extent it requires identification of studies made by PP&L and produced to CEPFOD members in the Yeager v. PP&L proceedings which are beyond the evidence already cited in Mr. Andersen's direct testimony. Such information is already available to PP&L and requirement for CEPFOD to produce it is unreasonably burdensome.

CEPFOD does not object to providing data and studies, if any, which originated at other sources.

6. Please provide any evidence that the Company has planned to continue the promotion of the RTS service beyond 1995.

ANSWER: Such responsive information that is known to CEPFOD's members has been obtained by formal discovery from PP&L in Yeager v. PP&L. CEPFOD objects that this information is more readily available from PP&L's own records; therefore, this request requires CEPFOD to make an unreasonable review of documents already in PP&L's possession. CEPFOD objects that this request is simply an unjustifiable attempt to require CEPFOD to analyze and produce to PP&L documents which PP&L has itself produced to CEPFOD members in Yeager v. PP&L.

8. Please document the change in average annual overall heating efficiency of installed residential oil-fired space heating equipment within the Company's service area for the period 1985 through 1994.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing

its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion.

9. Please provide documentation of the percentage of national market share of oil heated new homes versus other energy sources by year for the period 1985 through 1994.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants.

CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion.

10. Please provide documentation of the actual number and percentage of total new oil heated residential homes installing "high efficiency" oil-fired space heating systems and the average installed cost of these systems within the service area served by the Company for the period 1985 through 1994.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD objects that the information requested constitutes confidential commercial information. CEPFOD further objects that this request requires

expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion.

11. Please provide any studies conducted or possessed by CEPFOD that compares the cost benefit of an investment in RTS service with the value of deferred generating capacity on the Company's system.

ANSWER: CEPFOD objects to this request to the extent it requires identification of studies made by PP&L and produced to CEPFOD members in the Yeager v. PP&L proceedings. Such information is already available to PP&L and requirement for CEPFOD to produce it is unreasonably burdensome. CEPFOD does not object to providing data and studies, if any, which originated at other sources.

12. How many residential customers has CEPFOD serviced for each of the following years: 1990, 1991, 1992, 1993, 1994?

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon

Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD objects that the information requested constitutes confidential commercial information.

13. (a) What is the average CEPFOD residential price of fuel oil for the same years as requested in Question 12? (b) What has been the average fuel oil usage per customer served by CEPFOD for each of those years? (c) Also provide the data requested in (b) weather normalized for each year.

ANSWER: CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD objects that the information requested constitutes confidential commercial information. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion. CEPFOD does not object to providing approximations or estimates (which do not require actual arithmetic computations from voluminous existing

records) of fuel oil prices and consumption or usage for typical customers in selected geographic areas for the preceding three years.

14. What is the seasonal average residential fuel efficiency of the typical CEPFOD customers': (a) space heating equipment, and (b) hot water heating equipment?

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion.

15. What is the seasonal average efficiency of new oil space heating hot water heating systems being installed as of January 1, 1995, by CEPFOD customers?

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate

proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion.

16. Are existing fuel oil customers of CEPFOD replacing existing oil space heating and oil water heating systems with new oil systems? Please provide the number of system upgrades for each end-user for the same time frame as Question 12.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD objects that the

information requested constitutes confidential commercial information.

17. How many CEPFOD residential customers have replaced oil heating systems and oil hot water systems with other fuels for the same years stated in Question 12? How many have selected a gas or propane replacement? How many have selected dual fuel heat pumps? How many have selected standard heat pumps with electric resistance supplemental? Please provide this data by year from 1985 through 1994.

ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that the time period is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects that PP&L is seeking to use the discovery procedures in these proceedings to obtain information or admissions for use in Yeager v. PP&L. CEPFOD objects that the information requested constitutes confidential commercial information. CEPFOD further objects that this request requires expert analysis of data which is beyond the scope of any issue upon which CEPFOD's expert has expressed an opinion. Such responsive information that is known to CEPFOD's members has been

obtained by formal discovery from PP&L in Yeager v. PP&L. CEPFOD objects that this information is more readily available from PP&L's own records; therefore, this request requires CEPFOD to make an unreasonable review of documents already in PP&L's possession. CEPFOD objects that this request is simply an unjustifiable attempt to require CEPFOD to analyze and produce to PP&L documents which PP&L has itself produced to CEPFOD members in Yeager v. PP&L.

21. In 1986, was the use of gas as a home heating fuel and hot water fuel prohibited? What year was the use of natural gas as a home heating fuel prohibited? What year was this prohibition removed?

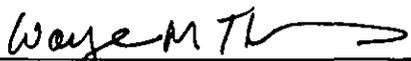
ANSWER: CEPFOD objects that the information requested is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD objects that the information sought by this request is overly broad and imposes an unreasonable burden upon Complainants. CEPFOD objects to this interrogatory to the extent the term "prohibited" refers to legal prohibition because the information is equally known by or available to PP&L.

26. In Mr. Andersen's view, what points would a heating customer consider in choosing a heating system and fuel source?

ANSWER: CEPFOD objects to this interrogatory on the grounds that it is irrelevant, overly broad and such information is neither admissible nor reasonably calculated to lead to discovery of admissible evidence. The primary issue in this rate proceeding is whether or not PP&L should be permitted to utilize a rate which is not sufficient to recover the cost of providing its service. CEPFOD further objects that the transparent purpose of this interrogatory is to obtain information which can be potentially utilized in Yeager v. PP&L.

Wherefore, for the reasons set forth above, CEPFOD's objections to PP&L's Interrogatory Nos. 1-6, 8-17, 21 and 26 should be granted and the company should not be required to respond as noted herein.

Dated: April 21, 1995



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& RENNEISEN, LTD.
Eleven Penn Center
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Attorneys for Central Eastern
Pennsylvania Fuel Oil Dealers

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the within document was served by U.S. First-Class Mail, postage prepaid, on counsel for the parties listed below on the date set forth herein:

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Dated: April 21, 1995


WAYNE M. THOMAS



KJK

OFFICE OF CONSUMER ADVOCATE
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IRWIN A. POPOWSKY
Consumer Advocate

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April 21, 1995

RECEIVED
95 APR 21 PM 3:08
U. S. DIV.
INFO. CONTROL

John G. Alford, Secretary
PA Public Utility Commission
Room G-18, North Office Bldg.
Harrisburg, PA 17105-3265

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

Dear Secretary Alford:

Enclosed for filing please find a Certificate of Service certifying that, on April 21, 1995 the Office of Consumer Advocate served upon Pennsylvania Power and Light Company, and the other parties to the above-referenced case, the responses of the Office of Consumer Advocate to Pennsylvania Power and Light Company's Interrogatories, Sets II, III & IV.

Very truly yours,

Tanya J. McCloskey
Tanya J. McCloskey
Assistant Consumer Advocate

19144
Enclosures
cc: All parties of record

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FOLDER

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95 APR 21 PM 3:08

PA. P. U. C.
INFO. CONTROL DIV.

ORIGINAL

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's Responses to Pennsylvania Power and Light Company's Interrogatories Sets II, III & IV, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 21st day of April, 1995.

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APR 26 1995

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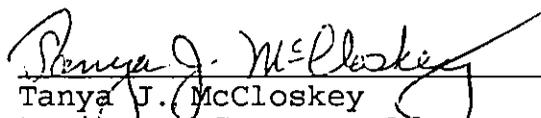
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19071



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

KJR

IN REPLY PLEASE
REFER TO OUR FILE

April 24, 1995

■ JOHN G. ALFORD, SECRETARY
PA PUBLIC UTILITY COMMISSION
P O BOX 3265
HARRISBURG PA 17105-3265
■

RECEIVED
95 APR 24 P11 3:43
PA P.U.C.
INFO. CONTROL DIV.

Re: Pa. P.U.C. v. Pennsylvania Power
and Light Company
Docket No. R-00943271

Dear Secretary Alford:

Attached for filing pursuant to the Commission's Regulations, 52 Pa. Code §5342(2), is the Certificate of Service identifying the answers to Interrogatory Set 1 and 5 that the OTS served today on the active parties in this proceeding.

If you have any question, please call.

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

DOCUMENT
FOLDER

attachment

JES:sjh

cc: Parties of Record

133

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing document(s), either personally, by facsimile, by first class and/or overnight/express mail, upon the persons addressed below:

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APR 28 1995

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Commission on Economic Opportunity
211 South Main Street
Wilkes-Barre, PA 18701-1596

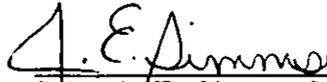
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Honorable Robert A. Christianson
Administrative Law Judge
Pa. Public Utility Commission
Post Office Box 3265
Harrisburg, PA 17105-3265



Johnnie E. Simms, Senior Prosecutor
Office of Trial Staff

Dated: April 24, 1995

R-00943271



Pennsylvania Power & Light Company

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

ORIGINAL

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Associate General Counsel
610/774-4254

FAX: 610/774-6726

KJR

April 24, 1995

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APR 24 1995

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

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

RECEIVED
APR 24 1995

SECRETARY'S OFFICE
Public Utility Commission

Dear Mr. Alford:

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

Pursuant to 52 Pa. Code §1.11, I have attached U. S. Postal Form 3817 to evidence this filing.

Very truly yours,

Paul E. Russell

Attachment

cc: Certificate of service

DOCUMENT
FOLDER

4/24/95
KJR

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKETED
APR 28 1995

Pennsylvania Public Utility Commission :

v. :

Docket No. R-00943271

Pennsylvania Power & Light Company :

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APR 24 1995

REQUEST FOR CORRECTIONS

SECRETARY'S OFFICE
Public Utility Commission

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 March 21-30, 1995:

**DOCUMENT
FOLDER**

Page	Line	Change	To Read
101	19	on	no
107	6	superilisor, plant accounting	Supervisor, Plant Accounting
119	18	through '92	through 1998
159	22	amendments	Amendments
162	11	stations, or	stations, are
163	10	five-year upgrade plan for coal-fired generation.	Five-Year Upgrade Plan for Coal Fired Generation.
163	11	five-year upgrade plan,	Five-Year Upgrade Plan,

<u>Page</u>	<u>Line</u>	<u>Change</u>	<u>To Read</u>
163	19	five-year	Five-Year
163	20	upgrade plan,	Upgrade Plan,
166	16	five-year coal upgrade plan	Five-Year Coal Upgrade Plan
166	20	May with the five-year coal upgrade plan	May when the Five-Year Coal Upgrade Plan
169	10	amendments	Amendments
173	5	five-year upgrade plan.	Five-Year Upgrade Plan.
183	14	a graph,	a draft,
185	13	five-year	Five-Year
185	14	upgrade plan for coal-fired generation	Upgrade Plan for Coal-Fired Generation
213	22	slight different	slight difference
214	20	Maybe	Maybe.
217	9	load when the	load with the
217	10	was	where
217	11	insufficient	generation was insufficient
218	15	equivalents	equivalent
225	13	Six	expensive
232	6	their's	theirs
283	10	unit	units
284	12	siting and coal?	siting of coal,
293	3	coal?	coal,
293	4	Because	because
296	4	awaken	awakened
296	15	lost	loss
307	8	purchases	purchasers
307	17	loading	load and
308	10	this loading	this load and
310	13	loading	load and
357	15	sure exactly	exactly sure of
367	14	is shown	is show
369	12	apart such	apart so
377	1	that one-third	at a one-third
378	18	Capacity,	Capacity credit,
379	25	treatment of	treatment for
384	5	\$21.9	\$20.9
384	7	5	\$21.5
401	7	of return of	of return on
415	5	deferred costs on	deferred costs or

<u>Page</u>	<u>Line</u>	<u>Change</u>	<u>To Read</u>
422	19	but	but what
422	20	really a	really is a
449	22	than and that	than that and
483	17	age 65	age 55
483	20	the 55 million	the \$55.4 million
819	23	And you	Q. And you

WHEREFORE, PP&L respectfully requests that the Commission correct the transcript of the evidentiary hearings held in this proceeding on March 21-30, 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:



Paul E. Russell
Its Attorney

Dated: April 24, 1995
at Allentown, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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APR 24 1995

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

Pennsylvania Public Utility Commission :

v. :

Docket No. R-00943271

Pennsylvania Power & Light Company :

REQUEST FOR CORRECTIONS

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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Mr. Eric Epstein
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Paul E. Russell

Dated: April 24, 1995
at Allentown, Pennsylvania



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
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April 25, 1995

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▪ JOHN G. ALFORD, SECRETARY
PA PUBLIC UTILITY COMMISSION
P O BOX 3265
HARRISBURG PA 17105-3265
▪

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95 APR 26 PM 2:14
PA. P. U. C.
INFO. CONTROL DIV.

Re: Pa. P.U.C. v. Pennsylvania Power
and Light Company
Docket No. R-00943271

Dear Secretary Alford:

Attached for filing pursuant to the Commission's Regulations, 52 Pa. Code §5342(2), is the Certificate of Service identifying the answers to Interrogatory Set III that the OTS served today on the active parties in this proceeding.

If you have any question, please call.

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

attachment

JES:sjh

cc: Parties of Record

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42

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CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing document(s) either personally, by first class mail or by Fax, upon the persons addressed below:

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Mary C. Kenney, Esquire
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Dale Bridenbaugh
MHB Technical Associates
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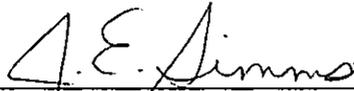
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Eric J. Epstein
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Harrisburg, PA 17110



Johnnie E. Simms, Senior Prosecutor
Office of Trial Staff
Pennsylvania Public Utility Commission

Date: April 25, 1995
Docket No: R-00943271

APPEARANCE SHEET

ALJ HEARING REPORT

Docket No. R-00943271,
R-00943271C0001-G0130-
 Case Name PA PUC v. PP&L
 Location Harrisburg
 Date April 25, 26, 27, and 28, 1995
 ALJ Christianson
 Reporting Firm Commonwealth Reporting

CHECK THOSE BLOCKS WHICH APPLY:

Prehearing held YES NO
 Hearing held YES NO
 Testimony taken YES NO
 Transcript due YES NO
 Hearing concluded YES NO
 Further hearing needed YES NO
 Estimated add'l days as scheduled
 RECORD CLOSED YES NO
 DATE _____
 Briefs to be Filed YES NO
 DATE _____
 BENCH DECISION YES NO

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OFFICE OF THE ATTORNEY GENERAL
 PUBLIC UTILITY COMMISSION

REMARKS:

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NAMES, ADDRESSES AND TELEPHONE NUMBERS OF PARTIES OR COUNSEL OF RECORD
 PLEASE PRINT CLEARLY
 INCOMPLETE INFORMATION MAY RESULT IN DELAY OF PROCESS

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CHECK THIS BOX IF ADDITIONAL PARTIES
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 Sandra M. Brown 4/26/95
 Judith A. Valencik 4/27/95
 REPORTER

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Kenneth Zielonis Stevens & Lee Telephone No. 717-234-1250	208 N. Third St Suite 310 City Hbg State Pa Zip 17105	Crown Amarcon Corp.
ERIC EPSTEIN Telephone No. 717-541-1101	2308 Brandywine Dr. City Hbg State PA Zip 17110	P P O S E

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Telephone No.	City State Zip			
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PUBLIC UTILITY COMMISSION

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JOHN S. OYLER
TIMOTHY J. PFISTER
GARY A. RITTER
EDWARD W. ROTHMAN
DANA STEVENS SCADUTO
ROBERT D. STETS
RICHARD W. STEVENSON
DIANE M. TOKARSKY
DAVID M. WATTS, JR.

April 26, 1995

John G. Alford, Secretary
Pennsylvania Public Utility Commission
Room B-20, North Office Building
P. O. Box 3265
Harrisburg, PA 17120

VIA HAND DELIVERY

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PA. P. U.
INFO. CONTROL DIV.
APR 26 PM 3:45

Re: Pennsylvania Public Utility Commission, et al. v.
Pennsylvania Power & Light Company, Docket No. R-09432-1

Dear Secretary Alford:

Enclosed for filing with the Commission are an original and two (2) copies of an Amended Appendix "A" to the Amended Complaint filed on January 30, 1995 on behalf of PP&L Industrial Customer Alliance ("PPLICA") concerning the above-captioned proceeding. The membership of PPLICA for purposes of this proceeding has been expanded to include the members as indicated in the Amended Appendix "A."

As evidenced by the attached Certificate of Service, all parties of record have been duly served.

Please date stamp a copy of this transmittal letter and kindly return for our filing purposes.

Very truly yours,

MCNEES WALLACE & NURICK

By *David M. Kleppinger/gm*
David M. Kleppinger

DMK:mas
Enclosures
c: Certificate of Service

11

**MEMBERS OF
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

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 Company
Grinnell Corporation
Hercules Cement Company
Hershey Foods Corporation
International Paper Company
Lafarge Whitehall Cement
Liquid Carbonic Industrial Gases
M&M/Mars, Inc.
Magee Carpet Company
Praxair, Inc.
R. R. Donnelley & Sons Company
The Stroh Brewery Company
Thomson Consumer Electronics, Inc.
Victaulic Company of America

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MAY 01 1995

AMENDED APPENDIX "A"

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing testimony on all known parties of record to this proceeding, by First Class Mail, properly addressed as follows:

OFFICE OF ADMINISTRATIVE LAW JUDGES

Hon. Robert A. Christianson
Administrative Law Judge
PA Public Utility Commission
G-08A North Office Building
P. O. Box 3265
Harrisburg, PA 17105-3265

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Associate General Counsel
Pennsylvania Power & Light Co.
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Anthony C. DeCusatis, Esquire
David B. MacGregor, Esquire
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Christopher J. Barr, Esquire
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Mr. Maurice Brubaker
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7730 Forsyth Boulevard, Suite 200
St. Louis, MO 63105-1819

DEPARTMENT OF DEFENSE

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

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**THE LANCASTER CHAMBER OF
COMMERCE AND INDUSTRY**

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Hartman Underhill & Brubaker
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Lancaster, PA 17602

**CENTRAL EASTERN PENNSYLVANIA
FUEL OIL DEALERS**

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Mr. Steven Andersen
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Austin, TX 78727

**MID-ATLANTIC ENERGY PROJECT
(SIERRA CLUB)**

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Mid-Atlantic Energy Project
Weidner Energy Law Clinic
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CROWN AMERICAN REALTY TRUST

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Drennan & Associates
1216 16th Street, N.W.
Washington, DC 20036

David M. Kleppinger/gm
David M. Kleppinger, Esquire

Dated this 26th day of April, 1995, in Harrisburg, Pennsylvania.



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

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April 26, 1995

▪ JOHN G. ALFORD, SECRETARY
PA PUBLIC UTILITY COMMISSION
P O BOX 3265
HARRISBURG PA 17105-3265

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PA. P. U. C.
INFO. CONTROL DIV.

Re: Pa. P.U.C. v. Pennsylvania Power
and Light Company
Docket No. R-00943271

Dear Secretary Alford:

Attached for filing pursuant to the Commission's Regulations, 52 Pa. Code §5342(2), is the Certificate of Service identifying the answers to Interrogatory Set II that the OTS served today on the active parties in this proceeding.

If you have any question, please call.

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

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attachment

JES:sjh

cc: Parties of Record

9-27
45

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CERTIFICATE OF SERVICE

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Harrisburg, PA 17110



Johnnie E. Simms, Senior Prosecutor
Office of Trial Staff
Pennsylvania Public Utility Commission

Date: April 26, 1995
Docket No: R-00943271



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
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Dear Secretary Alford:

Attached for filing pursuant to the Commission's Regulations, 52 Pa. Code §5342(2), is the Certificate of Service identifying the answers to Interrogatory Sets IV and VI that the OTS served today on the active parties in this proceeding.

If you have any question, please call.

Sincerely,

Kenneth L. Mickens
Senior Prosecutor
Office of Trial Staff

attachment

KLM:sjh

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Energy Services Manager
Commission on Economic Opportunity
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CERTIFICATE OF SERVICE

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Kenneth L. Mickens, Senior Prosecutor
Office of Trial Staff
Pennsylvania Public Utility Commission

Date: April 27, 1995
Docket No: R-00943271



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Harrisburg, Pennsylvania 17120

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Consumer Advocate

(717) 783-5048

April 28, 1995

John G. Alford, Secretary
PA Public Utility Commission
Room G-23, North Office Bldg.
Harrisburg, PA 17105

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PA. P. U. C.
INFO. CONTROL DIV.

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

Dear Secretary Alford:

Enclosed for filing please find a Certificate of Service certifying that, on April 28, 1995 the Office of Consumer Advocate served upon Pennsylvania Power and Light Company, and the other parties to the above-referenced case, the responses of the Office of Consumer Advocate to Pennsylvania Power and Light Company's Interrogatories, Set V.

Very truly yours,

Mary C Kenne
Mary C. Kenney
Assistant Consumer Advocate

19564
Enclosures
cc: All parties of record

DOCUMENT
FOLDER 1

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's Responses to Pennsylvania Power and Light Company's Interrogatories Set V upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 28th day of April, 1995.

SERVICE IN PERSON

Johnnie E. Simms, Esq.
Kenneth L. Mickens, Esq.
Stephen Gorka, Esq.
PA PUC - Office of Trial Staff
Pitnick Bldg. - 3rd. Floor
P.O. Box 3265
Harrisburg, PA 17105-3265

David B. MacGregor, Esq.
Thomas P. Gadsden, Esq.
Morgan, Lewis & Bockius
2000 One Morgan Square
Philadelphia, PA 19103

Paul E. Russell, Esq.
Pennsylvania Power &
Light Company
2 North Ninth Street
Allentown, PA 18101-1179

DOCKETED
MAY 03 1995

**DOCUMENT
FOLDER**

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

Joan O. Brandeis, Esq.
Suite 3600
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1216 16th Street, N.W.
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Energy Law Clinic
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Craig Kuennen
Commission on Economic
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211 S. Main Street
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Stephen J. Selden, Esq.
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Bethlehem, PA 18016

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Mary C. Kenney
Assistant Consumer Advocate

Counsel for
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19071

ORIGINAL



Pennsylvania Power & Light Company

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

Paul E. Russell
Associate General Counsel
610/774-4254

FAX: 610/774-6726

RECEIVED
95 MAY - 1 AM 9:09
PA. P. U. C. DIV.
INFO. CONTROL DIV.

April 28, 1995

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**

Dear Mr. Alford:

Enclosed for filing on behalf of Pennsylvania Power & Light Company (PP&L) are eight (8) copies of Exhibit MJB 7b-1 and 7b-2 in this proceeding. This exhibit provides a comparison of actual to budget for the three months ended December 31, 1994.

As indicated on the Certificate of Service, I have served copies of this filing on all active parties in this proceeding.

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

Very truly yours,

Paul E. Russell/dlw

Paul E. Russell

Attachment

cc: The Honorable Robert A. Christianson

DOCUMENT
FOLDER

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 Exhibit
7B2
MJB 7b-1 upon the active participants listed below, in accordance with the
requirements of § 1.54 (relating to service by a participant):

FIRST CLASS MAIL

Irwin A. Popowsky, Esquire
Office of Consumer Advocate
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1425 Strawberry Square
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Sarah E. Tomalty, Esquire
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3700 Vartan Way
Harrisburg, Pennsylvania 17110

Mr. Maurice Brubaker
Drazen-Brubaker & Assoc.
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St. Louis, Missouri 63105-0840

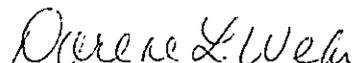
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Mr. Craig R. Kuennen
Energy Services Manager
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Robert P. Haynes, Esquire
Mette, Evans & Woodside
3401 North Front Street
Harrisburg, Pennsylvania 17110-0950

Mr. Eric Epstein
2308 Brandywine Drive
Harrisburg, Pennsylvania 17110


Dorene L. Wehr
Dorene L. Wehr

Dated: April 28, 1995
at Allentown, Pennsylvania

PENNSYLVANIA POWER & LIGHT COMPANY
 Electric Operations - Comparison of Actual to Budget
 for the Three Months Ended March 31, 1995
 (Thousands of Dollars)

	Three Months Ended 3/31/95		Variance	
	Actual	Budget	Amount	%
Operating Revenues				
PUC Customers				
Base Rates	\$530,081	\$543,715	(\$13,634)	(2.5)
Energy Cost Rate	85,494	94,168	(8,674)	(9.2)
SBRCA	(12,367)	(12,460)	93	0.7
STAS	(796)	(1,248)	452	36.2
Total PUC Customers	<u>602,412</u>	<u>624,175</u>	<u>(21,763)</u>	<u>(3.5)</u>
FERC Customers				
Base Rates	95,179	98,495	(3,316)	(3.4)
Fuel Adjustment	(437)	(50)	(387)	(774.0)
Total FERC Customers	<u>94,742</u>	<u>98,445</u>	<u>(3,703)</u>	<u>(3.8)</u>
PJM Power Sales				
Other Electric	13,345	28,889	(15,544)	(53.8)
Other Electric	16,613	15,772	841	5.3
Total Operating Revenues	<u>727,112</u>	<u>767,281</u>	<u>(40,169)</u>	<u>(5.2)</u>
Operating Expenses				
Fuel	113,904	148,154	(34,250)	(23.1)
Power Purchases	73,608	68,688	4,920	7.2
Wages & Employee Benefits	86,817	89,453	(2,636)	(2.9)
Other Operating Expenses	75,135	89,306	(14,171)	(15.9)
Voluntary Early Retirement Program (VERP)	0	0	0	0.0
Total O & M Expenses	<u>349,464</u>	<u>395,601</u>	<u>(46,137)</u>	<u>(11.7)</u>
Depreciation	77,337	77,205	132	0.2
Deferred Depreciation	9,939	9,939	0	0.0
Regulatory Debits (Credits), net	(6,689)	(7,209)	520	7.2
Income Tax Provision - Federal	70,236	66,467	3,769	5.7
- State	24,778	23,404	1,374	5.9
Deferred Income Taxes	(9,784)	(8,067)	(1,717)	(21.3)
ITC - Deferred	0	0	0	
- Amortization	(2,669)	(2,670)	1	0.0
Taxes Other Than Income	53,643	55,810	(2,167)	(3.9)
Gain from Disposition of Emission Allowances	(413)	0	(413)	NA
Total Operating Expenses	<u>565,842</u>	<u>610,480</u>	<u>(44,638)</u>	<u>(7.3)</u>
Operating Income	<u>\$161,270</u>	<u>\$156,801</u>	<u>\$4,469</u>	2.9

DOCUMENT
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MAY 10 1995

PENNSYLVANIA POWER & LIGHT COMPANY
 Electric Operations - Comparison of Actual to Budget
 for the Six Months Ended March 31, 1995
 (Thousands of Dollars)

	<u>Six Months Ended 3/31/95</u>		<u>Variance</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Amount</u>	<u>%</u>
Operating Revenues				
PUC Customers				
Base Rates	\$1,003,191	\$1,038,932	(\$35,741)	(3.4)
Energy Cost Rate	155,292	169,726	(14,434)	(8.5)
SBRCA	(23,420)	(23,915)	495	2.1
STAS	(1,509)	(1,248)	(261)	(20.9)
Total PUC Customers	<u>1,133,554</u>	<u>1,183,495</u>	<u>(49,941)</u>	<u>(4.2)</u>
FERC Customers				
Base Rates	190,067	191,219	(1,152)	(0.6)
Fuel Adjustment	(1,064)	(466)	(598)	(128.3)
Total FERC Customers	<u>189,003</u>	<u>190,753</u>	<u>(1,750)</u>	<u>(0.9)</u>
PJM Power Sales				
Other Electric	25,667	56,678	(31,011)	(54.7)
Other Electric	32,940	31,085	1,855	6.0
Total Operating Revenues	<u>1,381,164</u>	<u>1,462,011</u>	<u>(80,847)</u>	<u>(5.5)</u>
Operating Expenses				
Fuel	207,490	277,334	(69,844)	(25.2)
Power Purchases	139,008	131,910	7,098	5.4
Wages & Employee Benefits	168,308	183,035	(14,727)	(8.0)
Other Operating Expenses	165,667	169,838	(4,171)	(2.5)
Voluntary Early Retirement Program (VERP)	75,859	0	75,859	0.0
Total O & M Expenses	<u>756,332</u>	<u>762,117</u>	<u>(5,785)</u>	<u>(0.8)</u>
Depreciation	149,686	149,053	633	0.4
Deferred Depreciation	16,504	16,496	8	0.0
Regulatory Debits (Credits), net	(10,228)	(12,652)	2,424	19.2
Income Tax Provision - Federal	119,847	120,829	(982)	(0.8)
- State	43,626	45,032	(1,406)	(3.1)
Deferred Income Taxes	(42,692)	(15,793)	(26,899)	(170.3)
ITC - Deferred	0	0	0	
- Amortization	(5,698)	(5,697)	(1)	(0.0)
Taxes Other Than Income	101,513	106,733	(5,220)	(4.9)
Gain from Disposition of Emission Allowances	(413)	(486)	73	NA
Total Operating Expenses	<u>1,128,477</u>	<u>1,165,632</u>	<u>(37,155)</u>	<u>(3.2)</u>
Operating Income	<u>\$252,687</u>	<u>\$296,379</u>	<u>(\$43,692)</u>	<u>(14.7)</u>

DOCUMENT
 FOLDER **DOCKETED**
 MAY 10 1995



Pennsylvania Power & Light Company

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

Paul E. Russell
Associate General Counsel
610/774-4254

FAX: 610/774-6726

ORIGINAL

May 1, 1995

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PA. P. U. C. - D. N.
CONTROL

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

**DOCUMENT
FOLDER**

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

Dear Mr. Alford:

Attached for filing, pursuant to the Commission's regulations, 52 Pa. Code § 5.342(d), is a Certificate of Service identifying supplemented answers to interrogatories identified in the attached Certificate of Service. As indicated on the attached Certificate of Service, copies of PP&L's supplemented answers have been served on the active participants in this proceeding.

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

Very truly yours,

Paul E. Russell

Attachment

cc: The Honorable Robert A. Christianson

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Docket No. R-00943271

DOCKETED
MAY 09 1995

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of
Pennsylvania Power & Light Company's supplemented answers to the Office of
Trial Staff's Interrogatories numbered OTS-RS-10D upon the active participants
listed below, in accordance with the requirements of § 1.54 (relating to service
by a participant):

HAND DELIVERED

Irwin A. Popowsky, Esquire
Office of Consumer Advocate
Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, Pennsylvania 17120

Bernard A. Ryan, Jr., Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, Pennsylvania 17101

**DOCUMENT
FOLDER**

Johnnie E. Simms, Esquire
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Pennsylvania Public Utility Commission
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Harrisburg, Pennsylvania 17105-3265

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OVERNIGHT MAIL

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Sarah E. Tomalty, Esquire
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James Melia, Esquire
Kirkpatrick & Lockhart
The Payne Shoemaker Building
240 North Third Street
Harrisburg, Pennsylvania 17101-1507

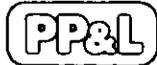
Mr. Craig R. Kuennen
Energy Services Manager
Commission on Economic Opportunity
211 South Main Street
Wilkes-Barre, Pennsylvania 18701-1596

Robert P. Haynes, Esquire
Mette, Evans & Woodside
3401 North Front Street
Harrisburg, Pennsylvania 17110-0950

Mr. Eric Epstein
2308 Brandywine Drive
Harrisburg, Pennsylvania 17110


Paul E. Russell

Dated: May 1, 1995
at Allentown, Pennsylvania



Pennsylvania Power & Light Company

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

Paul E. Russell
Associate General Counsel
610/774-4254

FAX: 610/774-6726

ORIGINAL

May 1, 1995

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INFO. CONTROL DIV.
PA. P.U.C.

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

DOCUMENT
FOLDER

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

Dear Mr. Alford:

Attached for filing, pursuant to the Commission's regulations, 52 Pa. Code § 5.342(d), is a Certificate of Service identifying supplemented answers to interrogatories identified in the attached Certificate of Service. As indicated on the attached Certificate of Service, copies of PP&L's supplemented answers have been served on the active participants in this proceeding.

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

Very truly yours,

Paul E. Russell

Attachment

cc: The Honorable Robert A. Christianson

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKETED

MAY 09 1995

Re: Docket No. R-00943271

**DOCUMENT
FOLDER**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of
Pennsylvania Power & Light Company's answers to the Office of Consumer
Advocate's Interrogatories, Set IV numbered 58 and 59, Set V numbered 1,
and On the Record Data Request (dated March 27, 1995) numbered 4 upon
the active participants listed below, in accordance with the requirements of
§ 1.54 (relating to service by a participant):

HAND DELIVERED

Irwin A. Popowsky, Esquire
Office of Consumer Advocate
Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, Pennsylvania 17120

Bernard A. Ryan, Jr., Esquire
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Harrisburg, Pennsylvania 17101

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Drazen-Brubaker & Assoc.
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Energy Services Manager
Commission on Economic Opportunity
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Robert P. Haynes, Esquire
Mette, Evans & Woodside
3401 North Front Street
Harrisburg, Pennsylvania 17110-0950

Mr. Eric Epstein
2308 Brandywine Drive
Harrisburg, Pennsylvania 17110

A handwritten signature in black ink, appearing to read "Paul E. Russell", written in a cursive style with a horizontal line underneath.

Paul E. Russell

Dated: May 1, 1995
at Allentown, Pennsylvania

MCNEES, WALLACE & NURICK

ATTORNEYS AT LAW

100 PINE STREET

P. O. BOX 1166

HARRISBURG, PA 17108-1166

TELEPHONE (717) 232-8000

Fax (717) 237-5300

OF COUNSEL

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SAMUEL A. SCHRECKENGAUST, JR.

STEVEN J. WEINGARTEN
NEAL S. WEST
NORMAN I. WHITE
LAWRENCE R. WIEDER
GARY F. YENKOWSKI
WILLIAM M. YOUNG, JR.

SCOTT A. GOULD
P. NICHOLAS GUARNESCHELLI
ROBERT G. HAAS
BRIAN F. JACKSON
DONALD B. KAUFMAN
MICHAEL R. KELLEY
PETER F. KRIETE
JAMES W. KUTZ
CAMILLE C. MARION
PATRICK J. MURPHY
SHARON R. PAXTON
CHUONG H. PHAM
JONATHAN H. RUDD
BRUCE R. SPICER
CAROL A. STEINOUR
CATHERINE E. WALTERS
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ERIC N. ATHEY
DAVID M. BAKER
JONATHAN C. BERRY
BRETT D. DAVIS
JAMES P. DEANGELO
JAMES P. DOUGHERTY
KATHLEEN A. DUNST
ROBERT J. GODUTO

BRUCE D. BAGLEY
ALAN R. BOYNTON, JR.
ERIC L. BROSSMAN
ROBERT M. CHERRY
WILLIAM A. CHESNUTT
DAVID B. DISNEY
MICHAEL A. DOCTROW
ELIZABETH A. DOUGHERTY
HARVEY FREEDENBERG
JAMES L. FRITZ
FRANCIS B. HAAS, JR.
W. JEFFRY JAMOUNEAU
MICHAEL G. JARMAN
DAVID M. KLEPPINGER
BERNARD A. LABUSKES, JR.
DELANO M. LANTZ

RICHARD R. LEFEVER
DAVID E. LEHMAN
CLYDE W. MCINTYRE
FRANKLIN A. MILES, JR.
ROBERT A. MILLS
STEPHEN A. MOORE
HERBERT R. NURICK
JOHN S. OYLER
TIMOTHY J. PFISTER
GARY A. RITTER
EDWARD W. ROTHMAN
DANA STEVENS SCADUTO
ROBERT D. STETS
RICHARD W. STEVENSON
DIANE M. TOKARSKY
DAVID M. WATTS, JR.

May 2, 1995

Thomas P. Gadsden, Esquire
Morgan, Lewis & Bockius
2000 One Logan Square
Philadelphia, PA 19103-6993

DOCUMENT
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RECEIVED
95 MAY -3 AM 9:33
PA. P. U. C. DIV.
INFO. CONTROL DIV.

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

Dear Mr. Gadsden:

Enclosed are two copies of the Response of PP&L Industrial Customer Alliance ("PPLICA") to an On-The-Record Data Request propounded by Pennsylvania Power & Light Company to PPLICA witness Richard A. Baudino at the April 28, 1995 hearing.

As indicated by the attached Certificate of Service, copies of this response have been served upon all parties of record.

Very truly yours,

MCNEES, WALLACE & NURICK

By



David M. Kleppinger

DMK:gm

Enclosures

c: John G. Alford, Secretary (w/o Enclosure)
Honorable Robert A. Christianson (w/o Enclosure)

DOCKETED

MAY 09 1995

**DOCUMENT
FOLDER**

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document on all known parties of record to this proceeding, by First Class Mail, addressed as follows:

**PENNSYLVANIA POWER & LIGHT
COMPANY**

Paul E. Russell, Esquire
Associate General Counsel
Pennsylvania Power & Light Co.
Two North Ninth Street
Allentown, PA 18101-1179

OFFICE OF TRIAL STAFF

Johnnie E. Simms, Esquire
Kenneth L. Mickens, Esquire
Stephen E. Gorka, Esquire
Office of Trial Staff
PA Public Utility Commission
P. O. Box 3265
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Mary C. Kenney, Esquire
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Assistant Consumer Advocates
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1425 Strawberry Square
Harrisburg, PA 17120

**OFFICE OF SMALL BUSINESS
ADVOCATE**

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Karen Oill Moury, Esquire
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Harrisburg, PA 17101

BETHLEHEM STEEL CORPORATION

Joan O. Brandeis, Esquire
Schnader, Harrison, Segal &
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DEPARTMENT OF DEFENSE

David A. McCormick, General
Attorney
Regulatory Law Office
Office of The Judge Advocate
General
Department of the Army,
DAJA-RL 3848
901 N. Stuart Street, Room 713
Arlington VA 22203-1837

UNIVERSITY/COLLEGE COALITION

Daniel P. Delaney, Esquire
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**THE LANCASTER CHAMBER OF COMMERCE
AND INDUSTRY**

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CROWN AMERICAN REALTY TRUST

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208 North Third Street - Suite 310
P. O. Box 12090
Harrisburg, PA 17108-2090

**MID-ATLANTIC ENERGY PROJECT
(SIERRA CLUB)**

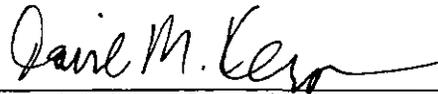
Alan J. Barak, Esquire
Mid-Atlantic Energy Project
Weidner Energy Law Clinic
3700 Vartan Way
Harrisburg, PA 17110-9450

Certificate of Service
Docket No. R-00943271
Page 2

**CENTRAL EASTERN PENNSYLVANIA
FUEL OIL DEALERS**
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1101 Market Street, 24th Floor
Philadelphia, PA 19107

D. Jane Drennan, Esquire
Drennan & Associates
1216 16th Street, N.W.
Washington, DC 20036



David M. Kleppinger, Esquire

Dated this 2nd day of May, 1995, in Harrisburg, Pennsylvania.

ORIGINAL

CERTIFICATE OF SERVICE

**DOCUMENT
FOLDER**

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

I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's Responses to the Data Requests made at the April 26, 1995 hearing upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 2nd day of May, 1995.

SERVICE IN PERSON

Johnnie E. Simms, Esq.
Kenneth L. Mickens, Esq.
Stephen Gorka, Esq.
PA PUC - Office of Trial Staff
Pitnick Bldg. - 3rd. Floor
P.O. Box 3265
Harrisburg, PA 17105-3265

David B. MacGregor, Esq.
Thomas P. Gadsden, Esq.
Morgan, Lewis & Bockius
2000 One Morgan Square
Philadelphia, PA 19103

Paul E. Russell, Esq.
Pennsylvania Power &
Light Company
2 North Ninth Street
Allentown, PA 18101-1179

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MAY 09 1995

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95 MAY -2 PM 3:03
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SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID

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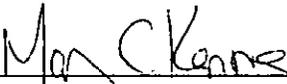
David A. McCormick, Esq.
General Attorney
Office of the Judge
Advocate General
901 N. Stuart Street
Arlington, VA 22203-1837

Craig Kuennen
Commission on Economic
Opportunity
211 S. Main Street
Wilkes Barre, PA 18701-1596

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Bethlehem Steel Corporation
Bethlehem, PA 18016

Maurice Brubaker
Brubaker & Associates
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Mary C. Kenney
Assistant Consumer Advocate
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19071

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100 PINE STREET

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BRUCE D. BAGLEY
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ERIC L. BROSSMAN
ROBERT M. CHERRY
WILLIAM A. CHESNUTT
DAVID B. DISNEY
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JONATHAN H. RUDD
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CATHERINE E. WALTERS
DERRICK P. WILLIAMSON

ERIC N. ATHEY
DAVID M. BAKER
JONATHAN C. BERRY
BRETT D. DAVIS
JAMES P. DeANGELO
JAMES P. DOUGHERTY
KATHLEEN A. DUNST
ROBERT J. GODUTO

May 3, 1995

Thomas P. Gadsden, Esquire
Morgan, Lewis & Bockius
2000 One Logan Square
Philadelphia, PA 19103-6993

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

Dear Mr. Gadsden:

Enclosed are two copies of the Response of PP&L Industrial Customer Alliance ("PPLICA") to an On-The-Record Data Request propounded by Pennsylvania Power & Light Company to PPLICA witness Stephen J. Baron at the April 26, 1995 hearing.

As indicated by the attached Certificate of Service, copies of this response have been served upon all parties of record.

Very truly yours,

MCNEES, WALLACE & NURICK

By



David M. Kleppinger

DMK:gm

Enclosures

c: John G. Alford, Secretary (w/o Enclosure)
Honorable Robert A. Christianson (w/o Enclosure)

DOCUMENT
FOLDER

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95 MAY -4 AM 9:11
PA. P. U. C.
INFO. CONTROL DIV.

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document on all known parties of record to this proceeding, by First Class Mail, addressed as follows:

PENNSYLVANIA POWER & LIGHT COMPANY

Paul E. Russell, Esquire
Associate General Counsel
Pennsylvania Power & Light Co.
Two North Ninth Street
Allentown, PA 18101-1179

OFFICE OF TRIAL STAFF

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Kenneth L. Mickens, Esquire
Stephen E. Gorka, Esquire
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Harrisburg, PA 17101

BETHLEHEM STEEL CORPORATION

Joan O. Brandeis, Esquire
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Philadelphia, PA 19103

DEPARTMENT OF DEFENSE

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

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Lancaster, PA 17602

CROWN AMERICAN REALTY TRUST

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Stevens & Lee
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MID-ATLANTIC ENERGY PROJECT (SIERRA CLUB)

Alan J. Barak, Esquire
Mid-Atlantic Energy Project
Weidner Energy Law Clinic
3700 Vartan Way
Harrisburg, PA 17110-9450

**DOCUMENT SCKETED
FOLDER**

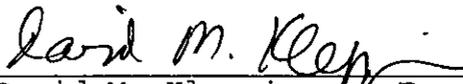
MAY 08 1995

Certificate of Service
Docket No. R-00943271
Page 2

**CENTRAL EASTERN PENNSYLVANIA
FUEL OIL DEALERS**
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1101 Market Street, 24th Floor
Philadelphia, PA 19107

D. Jane Drennan, Esquire
Drennan & Associates
1216 16th Street, N.W.
Washington, DC 20036



David M. Kleppinger, Esquire

Dated this 3rd day of May, 1995, in Harrisburg, Pennsylvania.

Commission on Economic Opportunity

ORIGINAL

KJR

211 SOUTH MAIN STREET
WILKES-BARRE, PA 18701-1596
(717) 826-0510
1-(800) 822-0359
FAX No.: (717) 829-1665

May 3, 1995

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

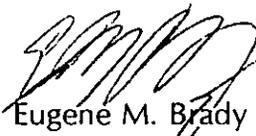
RE: Pennsylvania Public Utility Commission et al. v. Pennsylvania
Power & Light Company
Docket No. R-00943271

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95 MAY -4 AM 9:12
PA. P. U. C.
INFO. CONTROL DIV.

Dear Secretary Alford:

Enclosed for filing please find a Certificate of Service certifying that, on May 3, 1995 the Commission on Economic Opportunity served upon Pennsylvania Power and Light Company, and all parties of record who expressed an interest in receiving a copy, the Commission on Economic Opportunity's response to Pennsylvania Power and Light Company's On the Record Data Request of May 2, 1995.

Sincerely,


Eugene M. Brady
Executive Director

Enclosures
CC: ALJ Christianson

DOCUMENT
FOLDER

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, Commission on Economic Opportunity's response to Pennsylvania Power and Light Company's On the Record Data Request of May 2, 1995, upon parties of record in this proceeding who expressed an interest in receiving a copy, in accordance with the requirements of 52 Pa Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 3rd day of May 1995.

SERVICE BY FIRST CLASS MAIL, POSTAGE PREPAID:

ALJ ROBERT A. CHRISTIANSON
PA PUBLIC UTILITY COMMISSION
ROOM G-8A, NORTH OFFICE BUILDING
HARRISBURG, PA 17120

PAUL RUSSELL, ESQ.
ASSOCIATE GENERAL COUNSEL
PENNSYLVANIA POWER & LIGHT
TWO NORTH NINTH STREET
ALLENTOWN, PA 18101-1179

DAVID B. MCGREGOR, ESQ.
THOMAS P. GADSDEN, ESQ.
MORGAN, LEWIS & BOCKIUS
2000 ONE LOGAN SQUARE
PHILADELPHIA, PA 19103

NO OTHER PARTY EXPRESSED AN INTEREST IN OBTAINING A COPY OF THE COMMISSION ON ECONOMIC OPPORTUNITY'S RESPONSE.



Eugene M. Brady, Executive Director
Commission on Economic Opportunity
of Luzerne County
211 South Main Street
Wilkes-Barre, PA 18701

DOCUMENT
FOLDER

DOCKETED
MAY 08 1995

APPEARANCE SHEET

ALJ HEARING REPORT

KJR

Docket No. R-00943271,

~~R-00943271.C0001-G0138~~

Case Name PA PUC v. PP&L Co.

Location Harrisburg

Date May 2 and 3, 1995

ALJ Christianson

Reporting Firm Commonwealth

CHECK THOSE BLOCKS WHICH APPLY:

Prehearing held **RECEIVED** YES NO

Hearing held **95 MAY 11 AM 9:29** YES NO

Testimony taken YES NO

Transcript due **PA. P. U. C. INFO. CONTROL DIV.** YES NO

Hearing concluded YES NO

Further hearing needed YES NO

Estimated add'l days **5 am scheduled**

RECORD CLOSED YES NO

DATE _____

Briefs to be Filed YES NO

DATE _____

BENCH DECISION YES NO

REMARKS

DOCKETED DOCUMENT FOLDER
MAY 12 1995

RECEIVED

MAY 04 1995

OFFICE OF C.A.L.J
PUBLIC UTILITY COMMISSION

NAMES, ADDRESSES AND TELEPHONE NUMBERS OF PARTIES OR COUNSEL OF RECORD
PLEASE PRINT CLEARLY
INCOMPLETE INFORMATION MAY RESULT IN DELAY OF PROCESS

NAME and TELEPHONE NUMBER	ADDRESS	APPEARING FOR
J. Edward Simms Kenneth L. Mickens Telephone No. (717) 787-1976	P.O. Box 3265 City Hbg. State PA Zip 17120	Office of Trial Staff
David M. Kleppinger Derrick P. Williams McNees, Wallace & Nurick Telephone No. (717) 237-5214	P.O. Box 1166 City Hbg. State PA Zip 17108	PP & L Industrial Customer Alliance
TANYA J. McCLOSKEY MARY C. KENNEY Gicine P. Brignola Telephone No.	1425 Strawberry Sq. City Hbg. State PA Zip 17120	Office of Consumer Advocate

CHECK THIS BOX IF ADDITIONAL PARTIES

OR COUNSEL OF RECORD APPEAR ON BACK.

^{5/2} Sandra Miles Brown (CRC, Inc)
^{5/3} Judith A. Valenak CRC, Inc.

REPORTER

NAME and TELEPHONE NUMBER	ADDRESS	APPEARING FOR
Karen Oill Moury Telephone No. 717-783-2525	Suite 1102, Commerce Bldg 300 N. 2nd St City HPG State PA Zip 17101	Office of Small Business Advocates
PAUL E. RUSSELL Telephone No. (610) 774-4254	2 NORTH 9TH ST. City ALLENTOWN State PA Zip 18101	PP&L
David B. MacGregor Morgan, Lewis & Bockius Telephone No. 215-963-5448	2000 One Logan Square City Phila State PA Zip 19103	PP&L
THOMAS P. GADSDEN MORGAN, LEWIS & BOCKIUS Telephone No. 215-963-5234	2000 ONE LOGAN City PHILA State PA Zip 19103	PP & L
CRAIG KUENNER GENS BRADY COMMISSION ON ECOW OPP Telephone No. 717-826-0510	211 S. MAIN ST City WILKES-BARRA State PA Zip 18701	COMMISSION ON ECONOMIC OPPORTUNITIES
Telephone No.	City State Zip	
Telephone No.	City State Zip	
Telephone No.	City State Zip	
Telephone No.	City State Zip	
Telephone No.	City State Zip	
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SAMUEL A. SCHRECKENGAUST, JR.

May 4, 1995

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WILLIAM A. CHESNUTT
DAVID B. DISNEY
MICHAEL A. DOCTROW
ELIZABETH A. DOUGHERTY
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CAROL A. STEINOUR
CATHERINE E. WALTERS
DERRICK P. WILLIAMSON

David M. MacGregor, Esquire
Morgan, Lewis & Bockius
2000 One Logan Square
Philadelphia, PA 19103-6993

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

Dear Mr. MacGregor:

Enclosed please find two copies of the Response of the PP&L Industrial Customer Alliance ("PPLICA") to the On-the-Record Data Request propounded by Pennsylvania Power & Light Company to PPLICA witness James H. Rooney at the April 26, 1995, hearing.

As indicated by the attached Certificate of Service, copies of PPLICA's response have been served on all active parties of record.

If you have any questions regarding this response, please contact us at your convenience.

Very truly yours,

MCNEES, WALLACE & NURICK

By

Derrick P. Williamson
David M. Kleppinger
Derrick P. Williamson

DOCUMENT
FOLDER

DPW/mts
Enclosure

cc: John G. Alford (w/o encl.)
Honorable Robert A. Christianson (w/o encl.)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document on all known parties of record to this proceeding, by First Class Mail, addressed as follows:

PENNSYLVANIA POWER & LIGHT COMPANY
Paul E. Russell, Esquire
Associate General Counsel
Pennsylvania Power & Light Co.
Two North Ninth Street
Allentown, PA 18101-1179

OFFICE OF TRIAL STAFF
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Kenneth L. Mickens, Esquire
Stephen E. Gorka, Esquire
Office of Trial Staff
PA Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

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Tanya J. McCloskey, Esquire
Assistant Consumer Advocates
Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

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Karen Oill Moury, Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101

BETHLEHEM STEEL CORPORATION
Joan O. Brandeis, Esquire
Schnader, Harrison, Segal & Lewis
1600 Market Street Suite 3600
Philadelphia, PA 19103

DEPARTMENT OF DEFENSE
David A. McCormick, General Attorney
Regulatory Law Office
Office of The Judge Advocate General
Department of the Army,
DAJA-RL 3848
901 N. Stuart Street, Room 713
Arlington VA 22203-1837

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James P. Melia, Esquire
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204 North Third Street
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Christopher S. Underhill, Esquire
Hartman Underhill & Brubaker
221 East Chestnut Street
Lancaster, PA 17602

CROWN AMERICAN REALTY TRUST
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Mid-Atlantic Energy Project
Weidner Energy Law Clinic
3700 Vartan Way
Harrisburg, PA 17110-9450

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MAY 09 1995

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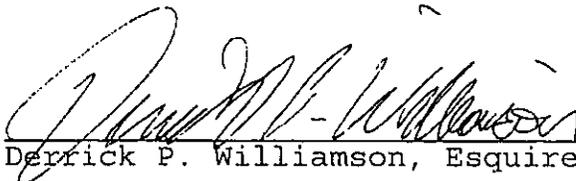
Certificate of Service
Docket No. R-00943271
Page 2

**CENTRAL EASTERN PENNSYLVANIA
FUEL OIL DEALERS**

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Philadelphia, PA 19107

D. Jane Drennan, Esquire
Drennan & Associates
1216 16th Street, N.W.
Washington, DC 20036



Derrick P. Williamson, Esquire

Dated this 4th day of May, 1995, in Harrisburg, Pennsylvania.

MEMORANDUM

COMMONWEALTH OF PENNSYLVANIA

DATE: May 5, 1995
SUBJECT: R-00943271, et seq., Pa. P.U.C., et al. v. PP&L
TO: Betty Jones
Information Control Administrator
FROM: ALJ Turner *AKT*

Attached please find an original notarized copy of a Borough Resolution opposing PP&L's proposed rate increase. It was presented at the public input hearing held in Bethlehem, PA on Thursday afternoon, April 6, 1995. (N.T. 632)

It was not marked and admitted as an exhibit. However, it should be included in the record of this case. Please include it in the document folder.

If you have any questions or comments, please contact me or Acting CALJ Christianson.

pc: Acting CALJ Christianson

DOCUMENT
FOLDER

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95 MAY - 8 AM 8:48
PA. P. U. C.
INFO. CONTROL DIV.

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MAY 10 1995

RESOLUTION #13-95

A RESOLUTION OPPOSING THE PROPOSED RATE INCREASE OF PENNSYLVANIA POWER AND LIGHT COMPANY.

WHEREAS, on December 30, 1994, the Pennsylvania Power and Light Company (PP&L) filed a rate increase request with the Pennsylvania Public Utility Commission (PUC) by which it seeks to increase rates by a net 11.7 percent; and

WHEREAS, the proposed rate increase will have a significant impact on residential customers, who may see an increase up to twenty percent (20%) in their monthly billing; and

WHEREAS, a large segment of the Borough population is elderly and living on a fixed income; and

WHEREAS, the Borough of Catasauqua as a very large user of electricity, spending over two hundred thousand dollars (\$200,000) per year for street lighting, operating a Waste Water Treatment Plant, Waterworks and swimming pool as well as for regular business operations, all for the benefit of the residents, taxpayers and customers of the Borough, would have no alternative other than to attempt to pass these increased costs on to our rate payers.

BE IT RESOLVED by the Council of the Borough of Catasauqua, County of Lehigh and Commonwealth of Pennsylvania:

SECTION 1. That based on the information available to the Borough our Municipal costs for electricity to operate our facilities would increase by up to ten thousand dollars (\$10,000) per year, and our costs for street lighting may increase up to an additional ten thousand dollars (\$10,000).

SECTION 2. That with the timing of the rate request after our Municipal budget was prepared and adopted, precludes the Borough from anticipating these costs for the current fiscal year.

SECTION 3. That in order to pay the additional electric costs in 1995 other services or programs will have to be scaled back to balance the budget.

SECTION 4. That in future years when the Borough would have the ability to budget for this increase, costs to the Borough residents and taxpayers would have to increase or other services would have to decrease to provide funding for the electric bill.

**DOCUMENT
FOLDER**

SECTION 5. That for all the foregoing reasons the Borough of Catasauqua is opposed to the rate increase proposal put forth by the Pennsylvania Power and Light Company.

ADOPTED AND APPROVED this 3rd day of April, 1995.

BOROUGH OF CATASAUQUA

BY: Alfred A. Regits
ALFRED A. REGITS
COUNCIL PRESIDENT

ATTEST: Eugene L. Goldfeder
EUGENE L. GOLDFEDER
SECRETARY

APPROVED this 3rd day of April, 1995.

BY: Robert C. Boyer
ROBERT C. BOYER
MAYOR

SCHNADER, HARRISON, SEGAL & LEWIS

ATTORNEYS AT LAW

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MAY 8 1995

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

May 8, 1995

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

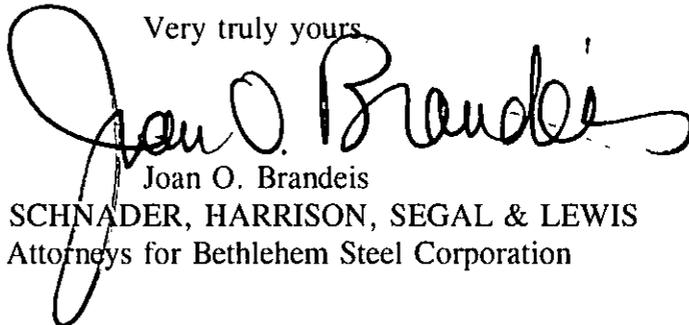
Re: Pennsylvania Public Utility Commission, et al. v. Pennsylvania Power & Light Company, Docket No. R-00943271

Dear Secretary Alford:

Enclosed please find an original and two copies of the Rebuttal Testimony of Maurice Brubaker on behalf of Bethlehem Steel Corporation in the above-captioned proceeding. As evidenced by the attached Certificate of Service, all parties of record have been served.

I am enclosing a self-addressed, stamped envelope and would request that you date-stamp the copy of the transmittal letter and return it to me for my files.

Very truly yours,



Joan O. Brandeis

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

Enclosures

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

DOCUMENT
FOLDER

Before the
Pennsylvania Public Utility Commission

Docket No. R-00943271

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PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

PENNSYLVANIA POWER & LIGHT COMPANY

Rebuttal Testimony and Exhibit

of

MAURICE BRUBAKER

On Behalf of

Bethlehem Steel Corporation

DOCKETED

MAY 11 1995

DOCUMENT
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Project 6308
May 1995

Brubaker & Associates, Inc.
St. Louis, Missouri 63105-0840

1 **PENNSYLVANIA POWER & LIGHT COMPANY**

2 **Before the**

3 **Pennsylvania Public Utility Commission**

4 **Docket No. R-00943271**

5 **Rebuttal Testimony of Maurice Brubaker**

6 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7 **A Maurice Brubaker, 7730 Forsyth Boulevard, St. Louis, Missouri.**

8 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO HAS PREVIOUSLY SUBMITTED**
9 **DIRECT TESTIMONY IN THIS PROCEEDING?**

10 **A Yes.**

11 **Q WHAT IS THE SUBJECT OF YOUR REBUTTAL TESTIMONY?**

12 **A I am addressing certain portions of the direct testimony of Dr. Charles Johnson, a**
13 **witness appearing on behalf of the Office of Consumer Advocate (OCA). In**
14 **particular, I address Dr. Johnson's proposed demand allocation methodology. The**
15 **fact that I do not address other aspects of Dr. Johnson's testimony (including his**
16 **comments concerning interruptible power) or the testimony of other witnesses,**
17 **should not be interpreted as an endorsement of opinions or recommendations**
18 **expressed elsewhere by Dr. Johnson or by the other witnesses.**

1 Q WHAT DEMAND ALLOCATION METHODOLOGY HAS DR. JOHNSON PROPOSED
2 TO USE IN THIS CASE?

3 A Dr. Johnson has proposed to use what he describes as the "peak and average"
4 (P&A) method.

5 Q DO YOU AGREE WITH DR. JOHNSON THAT THE P&A METHOD IS APPROPRIATE?

6 A No, I do not. The P&A method is seriously flawed and should not be used.

7 Q WHAT ARE THE FLAWS WITH THE P&A METHOD?

8 A The P&A method is based on the theory of capital substitution (CAPSUB). Under
9 this theory, it is assumed that an electric utility will invest in more expensive types
10 of generating capacity in order to achieve the lower fuel cost associated with that
11 capacity as compared with the fuel costs of peaking units. Given this assumed
12 substitution of capital investment for fuel cost, the proponents argue that a
13 substantial portion of the plant-related costs associated with generating units should
14 be classified and allocated relative to annual energy usage. In this case, Dr.
15 Johnson argues in favor of using the system load factor, which he calculates to be
16 61.05%, to define the proportion of capital costs to be allocated on energy.

17 CAPSUB-based allocation methods, like P&A, have four principal flaws.

18 They are:

- 19 (1) The CAPSUB postulate is an oversimplification of the
20 system planning process.
- 21 (2) CAPSUB-based allocation methods fail to appropriately
22 recognize the trade-offs between capital and operating
23 costs, a flaw which is often referred to as the "Fuel
24 Symmetry" problem.

- 1 (3) Energy consumption (or average demand) is double-
2 counted.
- 3 (4) The assumption that capital investment decisions are
4 related to annual kWh sales is unfounded.

5 **OVERSIMPLIFICATION OF THE PLANNING PROCESS**

6 **Q DO UTILITY PLANNERS CHOOSE TO CONSTRUCT MORE CAPITAL INTENSIVE**
7 **(I.E., BASE LOAD AND INTERMEDIATE) CAPACITY FOR THE PURPOSE OF**
8 **ACHIEVING REDUCED FUEL COSTS?**

9 **A No. The CAPSUB postulate is an oversimplification of the planning process. In**
10 **reality, planners are faced with the dual dimensions of (1) providing reliable service**
11 **and (2) minimizing total cost. Because electric energy cannot be stored in large**
12 **quantities for any significant length of time, providing reliable service requires**
13 **construction of generating capacity sufficient to meet the projected system peak**
14 **demands and to provide an adequate reserve margin. This will ensure that**
15 **whenever a consumer flips the switch an electric light or other appliance will**
16 **operate. Firm customers often take it for granted that electricity will be**
17 **instantaneously available whenever and at whatever rate of usage and quantity**
18 **they demand.**

19 Cost minimization is the requirement that the utility provide the service at the
20 lowest overall cost. The utility strives to install the mix of generating capacity (i.e.,
21 base, intermediate and peaking) that, along with the existing generation, yields the
22 lowest total cost. **In other words, the economic choice between a base load unit**
23 **and a peaking unit must consider both capital costs and operating costs, and**
24 **therefore is a function of average *total* costs.**

1 The capital cost of peaking units is lower than the capital cost of base load
2 units, but the operating costs of peaking units are higher than the operating costs
3 of base load units. Moreover, when the hours of use are considered, the capital
4 cost of the base load unit is usually less than the capital cost of the peaking unit,
5 when expressed on a per kilowatthour basis. Of course, since the fuel costs of
6 base load units are generally lower than the fuel costs of peaking units, the overall
7 cost per kilowatthour for base load units is also less than the overall cost per
8 kilowatthour for peaking units.

9 System planners, therefore, must consider both capital costs and operating
10 costs in light of the expected capacity factor of a new unit. **The fact that base load**
11 **units typically have lower fuel costs than peaking units does not mean that the**
12 **investment in base load units is made to achieve lower fuel costs.** Investment in
13 a base load unit would be made to achieve lower total costs, of which capital costs
14 and operating costs are the primary ingredients.

15 **Q ARE THERE ANY OTHER FACTORS, BESIDES THE ECONOMIC TRADE-OFFS, THAT**
16 **CAN AFFECT UTILITY INVESTMENT DECISIONS?**

17 **A Yes.** For example, the decision can be affected by the existing generation mix, the
18 availability of a suitable site for the unit, environmental restrictions, access to an
19 ample supply of cooling water, the ability to obtain transmission rights of way,
20 system stability, licensing, government and other regulatory restrictions, fuel
21 supply, fuel diversification, access to facilities to transport fuel to the plant, political
22 priorities, etc.

1 **FUEL SYMMETRY**

2 **Q TURNING TO YOUR SECOND CRITICISM, IN WHAT WAY DO CAPSUB**
3 **ALLOCATION METHODS FAIL TO SYMMETRICALLY ALLOCATE BOTH CAPITAL**
4 **AND OPERATING COSTS?**

5 **A** Typical CAPSUB methods focus on the allocation of the investment in production
6 units. For example, Dr. Johnson's P&A method allocates more production
7 investment costs to high load factor classes than does either a coincident peak
8 method or an average and excess method. This result is claimed to be fair by
9 CAPSUB proponents, on the theory that the high load factor customers require
10 relatively more base load capacity and because the capital costs of base load units
11 tend to be higher than either intermediate or peaking units.

12 CAPSUB advocates, however, usually make no attempt to recognize the
13 other side of the capital cost/operating cost trade-off; that is, base load units may
14 have above-average capital costs, but they usually have below-average operating
15 costs relative to either intermediate or peaking units. Dr. Johnson is no exception.
16 Ignoring the fuel cost differentials creates a fundamental mismatch between theory
17 and application.

18 **Q PLEASE ELABORATE.**

19 **A** Under the P&A allocation, all customer classes, regardless of load factor, are
20 allocated the same average fuel cost per kilowatthour. Except for line losses, there
21 is no fuel cost distinction among classes. In contrast, the effect of the P&A method
22 is to allocate more capacity cost per kilowatt of peak load to high load factor
23 customer classes than to low load factor customer classes. Thus, the P&A method

1 "de-averages" capital costs for purposes of class cost allocation, but completely
2 ignores theory and allocates fuel costs on a uniform basis to all customer classes
3 regardless of load factor.

4 Q CAN YOU DEMONSTRATE THIS LACK OF SYMMETRY IN DR. JOHNSON'S
5 ALLOCATION?

6 A Yes. I calculated the generation plant net investment per kilowatt, and the fuel
7 costs per kilowatthour, for selected classes from Dr. Johnson's workpapers. The
8 information appears in the following table:

9
10

<u>Class</u>	<u>Generation Plant Net Investment</u>		<u>Fuel Cost</u>	
	<u>Per kW</u> (1)	<u>Index</u> (2)	<u>Per kWh</u> (3)	<u>Index</u> (4)
RS	\$569	90	1.29¢	100
GS-1	618	98	1.29¢	100
LP-5	763	121	1.29¢	100
Total PA Jurisdiction	\$631	100	1.29¢	100

11
12
13
14
15
16

17 Note that while the generation plant net investment per kilowatt of demand varies
18 substantially across customer classes, the fuel cost per kilowatthour is identical
19 If Dr. Johnson were consistent in the application of his theory, customers receiving
20 an above-average allocation of generation plant investment (such as LP-5) would
21 receive a below-average fuel cost.

1 Q WHY SHOULD THE FUEL COST ALLOCATION BE DE-AVERAGED IF A P&A
2 ALLOCATION METHOD IS USED FOR CAPACITY?

3 A As discussed above, the basic premise of the P&A theory is that higher load factor
4 customers require or receive a disproportionate benefit from base load units. Since
5 base load units have below-average fuel costs, those customer classes (high load
6 factor) that receive an above-average allocation of the capital costs should
7 correspondingly receive fuel costs that are below the average. Similarly, a low load
8 factor class, that is allocated a below-average plant investment per kilowatt of
9 demand, should be allocated an above-average fuel cost. The P&A method looks
10 only at the capital cost side and completely fails to come to grips with the resulting
11 distortions in the allocation of fuel costs.

12 To use an analogy, suppose that two different customers need to rent a fleet
13 of cars and that there are two types of cars. One type has a high fixed charge per
14 day and gets many miles to the gallon (which is analogous to a base load unit),
15 while the other type has a low fixed charge per day and gets poor mileage (which
16 is analogous to a peaking unit). The P&A method argues that a customer who
17 drives a car only a few miles per day (i.e., a low load factor customer) should be
18 allocated more gas guzzlers and fewer of the more efficient cars, with the opposite
19 type of allocation for the customer that will put in many miles per day (i.e., a high
20 load factor customer). While arguing that the lower load factor customer should
21 pay a lower daily charge for the car than the higher load factor customer, the P&A
22 method fails to recognize that the lower load factor customer should accordingly
23 pay a higher mileage charge than the higher load factor customer in order to
24 recognize the higher fuel costs of the gas guzzler.

1 Q HAS THE FUEL SYMMETRY PROBLEM BEEN CITED BY ANY OTHER REGULATORY
2 COMMISSIONS AS A REASON FOR REJECTING CAPSUB-BASED ALLOCATION
3 METHODS?

4 A Yes. The fuel symmetry problem was one of the primary reasons cited by the
5 Public Utility Commission of Texas in rejecting every type of CAPSUB-based
6 allocation method proposed in rate cases throughout the 1980s and 1990s (see for
7 example Docket No. 5560; Docket No. 5700; Docket Nos. 7460 and 7172; Docket
8 No. 8032).

9 For instance, in Docket No. 7460, the Texas Commission adopted the
10 Hearing Examiner's Report, which cited the lack of "fuel symmetry" in rejecting
11 capital substitution.

12 "The Examiner's find that the most important flaw in
13 Dr. Johnson's capital substitution methodology is the
14 lack of symmetry, both as to fuel and as to operations
15 and maintenance expense. To the extent that relative
16 class energy consumption becomes the primary factor
17 in apportioning capacity costs as between customer
18 classes, as is the case with Dr. Johnson's proposal,
19 the high load factor classes, which will bear higher
20 cost responsibility for base load units will not also
21 receive the benefit of the lower operating costs and
22 lower fuel costs associated with those units." (El Paso
23 Electric Company, Examiner's Report, Docket Nos.
24 7460 and 7172, Pages 355-356; emphasis added)

25 Q THE ABOVE CITATION REFERS TO A DR. JOHNSON. IS THIS THE SAME DR.
26 JOHNSON WHO IS TESTIFYING ON BEHALF OF THE OCA IN THIS DOCKET?

27 A No, but the theory is the same.

1 **DOUBLE-COUNTING**

2 Q TURNING TO YOUR THIRD CRITICISM, WHAT IS THE DOUBLE-COUNTING
3 PROBLEM INHERENT IN A CAPSUB-BASED ALLOCATION METHOD?

4 A Double-counting occurs because average demand (which is the equivalent of year-
5 round energy consumption divided by 8,760 hours) is also a component of the
6 coincident peak demand. This is illustrated in Exhibit MEB-4 ().

7 Average demand is equivalent to the area at the bottom of each bar.
8 Coincident demand is represented by the total bar height, consisting of the yellow
9 (or black) area at the bottom plus the red (or blue) area at the top of each bar. The
10 double-counting occurs where average demand and the coincident demand used for
11 cost allocation overlap as shown in the dark (black) shaded portion of the chart for
12 the five months used in Mr. Johnson's allocation.

13 By allocating some capital costs relative to average demand and some
14 relative to coincident demand, energy is counted twice: Once by itself and a
15 second time as a subset of the coincident peak demand.

16 Q AT PAGE 10 OF HIS DIRECT TESTIMONY DR. JOHNSON ATTEMPTS TO JUSTIFY
17 HIS USE OF THE SYSTEM LOAD FACTOR IN THE P&A METHOD BY DESCRIBING
18 THE AVERAGE AND EXCESS (A&E) METHOD. ARE THE TWO METHODS
19 SIMILAR?

20 A No. They are not even close. In the P&A method, as previously discussed, the
21 average demand or energy is weighted by the system load factor, and the
22 coincident peak is weighted by the quantity one minus the system load factor.

1 Hence, the double-counting because average demand is a component of coincident
2 peak demand.

3 In the A&E method, on the other hand, while average demand is weighted
4 at the system load factor, the demand used in the second half of the equation, and
5 which receives a weight equal to the quantity one minus the system load factor, is
6 not the coincident peak demand. The demand used in this portion of the A&E
7 factor development is the excess demand, which is the difference between class
8 peak demand and the class average demand. Hence, the method avoids the double-
9 counting inherent in the P&A method.

10 **Q DOES DR. JOHNSON ADDRESS THIS CONCEPT OF DOUBLE-COUNTING AT ANY**
11 **PLACE IN HIS TESTIMONY?**

12 **A** Yes. Dr. Johnson addresses this concept at Pages 15-17 of his direct testimony,
13 when he criticizes the minimum system method which is used for the allocation of
14 distribution system facilities. He specifically points out on Line 12 of Page 16 that
15 there is a double-counting in this method because the customer portion has a load
16 carrying capability—and goes on to argue that the balance of the investment should
17 not be allocated on the total demand, but rather the total demand minus the
18 demand that can be served by the minimum system. The criticism which Dr.
19 Johnson expresses of the minimum system applies equally to his own proposed
20 P&A method.

21 **Q HAS THE DOUBLE-COUNTING PROBLEM BEEN CITED AS A CRITICAL FLAW IN**
22 **THE P&A AND OTHER CAPSUB METHODOLOGIES?**

1 A Yes. The Public Utility Commission of Texas cited the double-counting problem in
2 numerous cases. For example:

3 "As to double-counting energy, the flaw in Dr.
4 Johnson's proposal is the fact that the allocator being
5 used to allocate peak demand, and 50% of the
6 intermediate demand, includes with it an energy
7 component. Dr. Johnson has elected to use a 4CP
8 demand allocator, but such an allocator, because it
9 looks at peak usage, necessarily includes within that
10 peak usage average usage, or energy."

11 * * *

12 "A substantial portion of average demand is being
13 utilized in two different allocators, and thus "double
14 dipping" is taking place." (El Paso Electric Company,
15 Examiner's Report, Docket No. 7460, Page 352)

16 **CAPITAL INVESTMENT DECISIONS ARE**
17 **NOT RELATED TO ANNUAL KWH SALES**

18 **Q DO ANNUAL KWH SALES AFFECT THE DECISION TO INVEST IN A PARTICULAR**
19 **TYPE OF GENERATING CAPACITY?**

20 **A No. The break-even point—that is, the hours of use at which the total cost of base**
21 **load and peaking units are equivalent—will occur at an hours' use less than the total**
22 **number of hours in a year. Below the break-even point, a peaking unit would be**
23 **more economical than a base load unit. Beyond the break-even point, a base load**
24 **unit would be the more economical choice. Whether additional capacity would be**
25 **operated 1,000, 2,000, 4,000 or even 100 hours beyond the break-even point**
26 **would, therefore, be irrelevant. In other words, once the break-even threshold is**
27 **reached, additional energy use (and the fuel cost differential resulting therefrom) has**
28 **no impact on the investment decision. Therefore, load duration may influence**
29 **capital investment decisions, but only up to a point. It would be logically incorrect**

1 to jump from this conclusion to a method in which production capital costs are
2 allocated to all 8,760 hours per year—such as P&A.

3 Consider again the rental car analogy. Assuming that the fuel efficient car
4 costs \$60 per day and 30¢ per mile, while the gas guzzler costs \$30 per day and
5 60¢ per mile, a customer who would drive more than 100 miles per day would
6 always choose the more fuel efficient car (i.e., $\$60 + \$.30 \times 100 = \$90$; $\$30 +$
7 $\$.60 \times 100 = \90). In other words, the break-even point between the fuel
8 efficient car and the gas guzzler would occur at 100 miles. If one customer were
9 to drive the car 200 miles and the second were to drive it 400 miles, both
10 customers would choose the same car—the more efficient one. Thus, the total
11 distance driven would have no effect on the decision. The P&A method, however,
12 would assign about twice as much of the extra daily charge of the more fuel
13 efficient car to the 400-mile per day customer.

14 **Q HAS ANY OTHER REGULATORY AUTHORITY REJECTED A CAPSUB-BASED**
15 **METHODOLOGY BECAUSE IT WOULD EFFECTIVELY ALLOCATE THE "EXTRA"**
16 **CAPITAL COSTS TO THOSE HOURS BEYOND THE ECONOMIC BREAK-EVEN**
17 **THRESHOLD?**

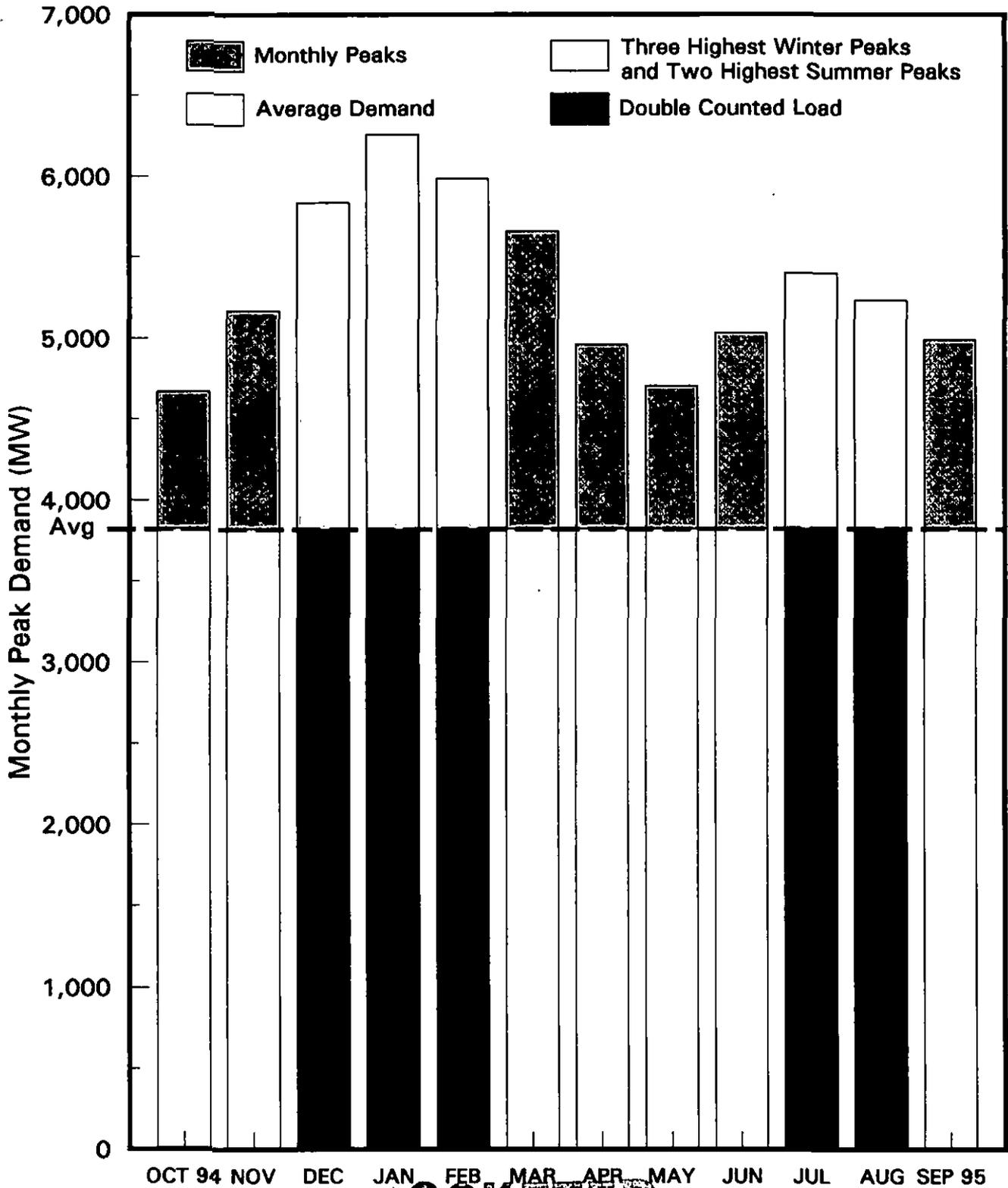
18 **A** Yes. For example, the Florida Public Service Commission agreed with this logic in
19 rejecting a CAPSUB-based methodology (Gulf Power Company, Docket No.
20 891345-EI, Order No. 23573, October 3, 1990, Page 48).

21 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 **A** Yes, it does.

PENNSYLVANIA POWER & LIGHT COMPANY

Double Counting Illustration



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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

MAY 8 1995

PUBLIC UTILITY COMMISSION
SECRETARY BUREAU

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

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DOCKET NO: R-00943271

v.

PENNSYLVANIA POWER & LIGHT
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing document by an express delivery

service upon the persons listed below:

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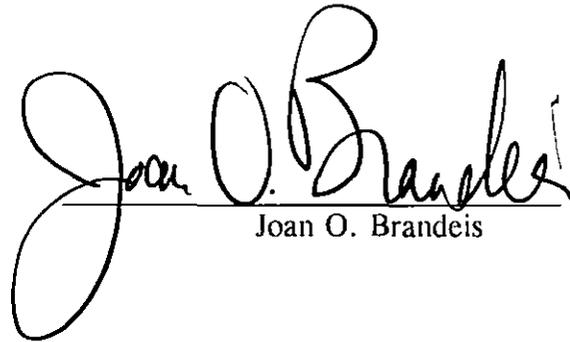
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Joan O. Brandeis

Dated this 8th day of
May, 1995



KJR

OFFICE OF SMALL BUSINESS ADVOCATE

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Bernard A. Ryan, Jr.
Small Business Advocate

May 9, 1995

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John G. Alford, Secretary
Pennsylvania Public Utility Commission
Room B-18, North Office Building
Harrisburg, PA 17105

Re: **Pennsylvania Public Utility Commission v.
Pennsylvania Power & Light Company
Docket No. R-943271**

Dear Secretary Alford:

Enclosed is a certificate of service pursuant to 52 Pa. Code §5.412(f) evidencing the service of the rebuttal testimony and exhibits of Robert D. Knecht for filing in the above docket.

Sincerely,

Karen Oill Moury
Karen Oill Moury
Assistant Small Business Advocate

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Enclosure

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PENNSYLVANIA POWER & LIGHT COMPANY :

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Docket No. R-943271

CERTIFICATE OF SERVICE

I certify that I am today serving copies of the rebuttal testimony and exhibits of Robert D. Knecht on behalf of the Office of Small Business Advocate in the manner indicated upon the persons addressed below:

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Administrative Law Judge
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May 9, 1995

DELIVERED BY HAND

Hon. Robert A. Christianson
Administrative Law Judge
Pennsylvania Public Utility Commission
North Office Building, Room G-8-A
Commonwealth and North Streets
Harrisburg, PA 17120

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

Enclosed please find the rebuttal testimony and exhibits of Joseph M. Kleha, Oliver G. Kasper and John J. Slivka, submitted on behalf of Pennsylvania Power & Light Co. in the above-referenced proceeding. As shown on the attached certificate of service, all parties are being served today.

Yours very truly,

Christopher J. Barr

Christopher J. Barr

Counsel for Pennsylvania Power
& Light Company

Enclosures

cc: John G. Alford, Secretary (w/o enclosures)
Pennsylvania Public Utility Commission

All Parties of Record

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET AL.

v.

PENNSYLVANIA POWER & LIGHT
COMPANY

DOCKET NO. R-00943271

CERTIFICATE OF SERVICE

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

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May 9, 1995

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P. U. C.

In Re: Pennsylvania Public Utility Commission, et al.
v. Pennsylvania Power & Light Company,
Docket No. R-00943271

Dear Secretary Alford:

Enclosed for filing with the Commission please find an original and two (2) copies of the Rebuttal Testimony of Stephen J. Baron on behalf of the PP&L Industrial Customer Alliance in the above-captioned proceeding.

As evidenced by the attached Certificate of Service, all parties of record have been duly served.

Please date stamp a copy of this transmittal letter and kindly return for our filing purposes.

Very truly yours,

MCNEES WALLACE & NURICK

By *David M. Kleppinger*
David M. Kleppinger

DMK/dt
Enclosures
cc: Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

REBUTTAL TESTIMONY
OF
STEPHEN J. BARON

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ON BEHALF OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

Air Products and Chemicals, Inc.
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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
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The Stroh Brewery Company
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J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

MAY 1995

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00943271

REBUTTAL TESTIMONY OF STEPHEN J. BARON

1 **Q. Please state your name and business address.**

2

3 A. My name is Stephen J. Baron, President of J. Kennedy and Associates, Inc.
4 ("Kennedy and Associates"). My business address is 35 Glenlake Parkway, Suite
5 475, Atlanta, Georgia 30328.

6

7 **Q. Have you previously submitted direct testimony in this proceeding?**

8

9 A. Yes, I have.

10

11 **Q. What is the purpose of your rebuttal testimony?**

12

13 A. I am responding to the direct testimony submitted by Dr. Charles Johnson on behalf
14 of the Office of Consumer Advocate ("OCA"). Among other issues, Dr. Johnson has
15 presented testimony regarding the appropriate cost-of-service methodology to be used
16 by the Commission in this proceeding. I will address Dr. Johnson's recommendation
17 with respect to the peak and average allocation method, as well as other aspects of
18 his proposed cost-of-service study.

1 Finally, I will also respond to the proposal of Sierra Club of Pennsylvania witness
2 Bruce Biewald regarding his proposal to require energy audits of customers receiving
3 "discounts."

4
5 **Q. Would you please briefly describe OCA witness Johnson's proposed peak and**
6 **average cost-of-service methodology ?**

7
8 A. As in the most recent West Penn Power Company rate case, Dr. Johnson is
9 recommending a peak and average production demand allocation methodology in this
10 case. The peak and average methodology relies predominantly on the annual energy
11 use of each customer class (both on-peak and off-peak energy use) to compute the
12 demand allocation factor used to assign the cost of fixed generating station investment
13 to customer classes.

14
15 Dr. Johnson bases his recommendation for the use of a peak and average method to
16 allocate production demand costs on his opinion that the type of capacity installed on
17 the PP&L system is determined by energy use.

18
19 **Q. What specific computations has OCA witness Johnson made to implement his**
20 **proposed peak and average methodology?**

1 A. Based on his testimony, Dr. Johnson has assigned 61% of PP&L's production
2 investment on the basis of annual energy use (average demand) by each customer
3 class and 39% on the basis of class demands during the three winter and two summer
4 months system peaks.

5

6 **Q. Do you believe that Dr. Johnson's recommended peak and average method is a**
7 **reasonable approach to assign production demand costs to PP&L's retail rate**
8 **classes?**

9

10 A. No. As I indicated in my direct testimony, I have utilized PP&L's 12 CP
11 methodology in this proceeding to assign production demand costs to rate classes.
12 Dr. Johnson's recommendation to shift away from demand responsibility by customer
13 class and towards energy responsibility is a radical change from the methodology
14 recommended by PP&L and previously adopted by the Commission for the Company.
15 I do not believe that the Commission should adopt the energy-oriented peak and
16 average methodology recommended by Dr. Johnson.

17

18 **Q. What are some of the concerns you have with Dr. Johnson's proposal?**

19

20 A. There are a number of problems with the proposed peak and average methodology
21 recommended by Dr. Johnson.

22

1 First, it is premised on a simplistic notion that the system load factor determines the
2 amount of PP&L investment which is due to energy use by PP&L's customers, with
3 the remainder due to peak demand usage.

4
5 Under Dr. Johnson's proposed cost allocation methodology, there is no factor
6 implicit in his approach that considers, in any manner, the actual composition (e.g.,
7 peaking, baseload) of generating plants on the PP&L system. Dr. Johnson's method
8 would produce the same allocation results if all of PP&L's generating capacity were
9 comprised of 20-year-old simple cycle combustion turbines or were all 10-year-old
10 nuclear units identical to Susquehanna. Despite his "theoretical" underpinning on
11 generation planning economics, there is nothing in his method that actually considers
12 such economic tradeoffs, or even considers the actual system in place.

13
14 **Q. Is Dr. Johnson's proposed peak and average methodology in this case consistent**
15 **with the peak and average methodology that he proposed in the recent West**
16 **Penn Power Company case (Docket No. R-00942986, July 1994)?**

17
18 A. No. In testimony filed on behalf of the OCA in the West Penn case (ten months
19 ago), Dr. Johnson also proposed a peak and average method. However, in that case,
20 he utilized an equal weighting between the peak and energy (average demand)
21 components of the allocator, following the approach in the NARUC Electric Utility
22 Cost Allocation Manual. In his 1994 West Penn testimony, he stated as follows:

1 Q. How do you calculate the peak and average demand
2 allocator?
3

4 A. I have based the peak and average demand allocator on the
5 weighted average of the six months demand and the
6 average annual demand. This is arithmetically equivalent
7 to the calculations used for the single CP and average and
8 the 12 CP and average in the NARUC manual. (Direct
9 Testimony of Dr. Charles E. Johnson, page 45, lines 9-14,
10 emphasis added)

11
12 In this PP&L case, Dr. Johnson makes no mention of the NARUC Manual, nor does
13 he utilize the "average of the two numbers: class CP (however measured) and class
14 average demand."¹

15
16 Q. What would be the impact of using the NARUC peak and average method
17 (which Dr. Johnson used in West Penn) in this case?
18

19 A. For the residential class, the production demand allocator would be calculated as
20 follows:

¹ 1992 NARUC Electric Utility Cost Allocation Manual, page 57.

TABLE 1

**Calculation of Peak and Average Factor
Using NARUC Method**

<u>Residential:</u>	
a) Avg. 5 CP Demands	2,430,189
b) Avg. Annual Demand	<u>1,356,891</u>
c) Sum (1)	3,787,080
<u>Total PPUC:</u>	
a) Avg. 5 CP Demands	5,743,161
b) Avg. Annual Demand	<u>3,820,155</u>
c) Sum (2)	9,563,316
<u>Residential P&A Factor:</u>	
[sum (1)/sum (2)]	39.60%
<u>Residential 12 CP Factor:</u>	
(per PP&L cost study)	38.39%

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 customers than PP&L's 12 CP method allocates.

Q. Could you discuss some of the additional problems inherent in a peak and average methodology?

A. The peak and average methodology is essentially a production demand allocation approach that relies on the capital substitution concept, which argues that costs should be allocated to a customer class in recognition of the fact that baseload units cost

1 more in terms of capital but provide lower lifetime operating costs. The general
2 theory advocated by capital substitution or energy allocation proponents such as Dr.
3 Johnson is that this economic trade-off dictates that a substantial part of production
4 investment and associated expenses should be assigned to customer classes based on
5 annual energy use. This energy use, under the peak and average methodology
6 advocated by Dr. Johnson, includes energy use during peak periods as well as energy
7 use during the lowest load periods on the system (off-peak periods).

8
9 The method is premised on the assumption that utilities expend additional capital
10 costs over and above the costs of a simple cycle combustion turbine (or other peaking
11 capacity) in order to achieve fuel savings, i.e., lower fuel costs relative to the fuel
12 costs associated with the combustion turbine. The problem with this theory is that
13 it assumes that the entire excess capital and fixed O&M costs of a baseload unit (e.g.,
14 the Susquehanna unit), over and above a combustion turbine unit, are solely related
15 to fuel savings. The facts do not comport with this theoretical assumption. As is
16 clearly pointed out by OCA witness Kahal, the Susquehanna capacity is uneconomic,
17 implying that a portion of its high capital cost is not related to fuel savings.

18
19 Under Dr. Johnson's methodology, these uneconomic Susquehanna costs are assigned
20 to customer classes on the basis of energy under the erroneous assumption that they
21 provide energy-related fuel savings. There is no justification for allocating "mistakes"
22 on the basis of energy, which assumes that customer classes with higher off-peak

1 usage (relative to on-peak usage) are more responsible for these mistakes. There is
2 simply no basis for arguing, as Dr. Johnson does, that 61% of the production
3 demands costs on the PP&L system are related to annual energy use (average demand
4 over all hours).

5
6 **Q. What does the peak and average allocation methodology imply with respect to**
7 **the cost of off-peak energy on the PP&L system?**

8
9 A. Since the peak and average methodology allocates increasing amounts of production
10 demand costs (e.g., Susquehanna investment) to customer classes that consume more
11 off-peak energy, Dr. Johnson's methodology has the perverse effect of providing a
12 price signal to customers to refrain from increased off-peak energy usage on the
13 PP&L system.

14
15 Dr. Johnson would presumably argue that increased off-peak usage by industrial
16 customers (due to instituting a third shift in its production process, for example)
17 imposes costs on the PP&L system by increasing the amount of baseload capacity.
18 This is simply an incorrect price signal for current PP&L rates and is inefficient for
19 cost allocation purposes. With excess baseload capacity on the PP&L system, this
20 price signal makes no sense. Customers should not be irrationally penalized for
21 increasing consumption in PP&L's off-peak periods.

1 Q. Does Dr. Johnson address the economic trade-offs between baseload and peaking
2 capacity in his testimony?

3

4 A. Yes. Though he does not actually recognize the economic trade-offs in his
5 methodology, he relies on economics as a foundation for his method. On page 8, at
6 lines 11 to 22 of his testimony, he states:

7

8 **If it were only necessary to meet the maximum demand**
9 **(even the 12 monthly maximum demands) for a short**
10 **duration, PP&L could do so at lowest cost by installing**
11 **combustion turbine peaking units and would not need to**
12 **install baseload generating capacity. In order to supply**
13 **energy year around and meet the maximum demands, the**
14 **Company installs a mix of generation facilities -- baseload,**
15 **intermediate and peaking. The baseload units have**
16 **relatively higher fixed costs and relatively lower variable**
17 **costs so that if they run a large number of hours of the**
18 **year, the total cost is lower than for the other two types.**
19 **The peaking units have relatively lower fixed costs and**
20 **relatively higher variable costs, enabling loads of short**
21 **duration to be met at the lowest total cost. Intermediate**
22 **units have both fixed costs and variable costs between those**
23 **of baseload and peaking units.**

24

25 Dr. Johnson is actually identifying a generation planning "break-even" analysis. The
26 break-even point is simply the number of hours at which the cost of serving the load
27 is the same for both baseload and peaking capacity.

28

29 In fact, as I will show subsequently, based on the current embedded cost of peaking
30 and baseload capacity on the PP&L system (including Susquehanna), the break-even

1 capacity factor on the PP&L system is 29%. Above this level, which equates to
2 2,531 hours during the year, PP&L baseload capacity, in the aggregate, has a lower
3 total cost. During the first 2,531 hours of highest demand on the PP&L system,
4 peaking capacity has the lowest total cost (capital, O&M, fuel). Most significantly,
5 hours-use of demand in excess of 2,531 hours does not affect the economic trade-off
6 between a peaking unit and a baseload unit. As such, kWh use in the first 2,531
7 hours of highest PP&L load is the only appropriate measure of class responsibility
8 associated with the economic choice between peaking and baseload capacity.
9 Kilowatt-hour use in the remaining 6,229 hours during the year do not impact the
10 economic choice between baseload capacity and peaking capacity. Dr. Johnson's
11 overly-simplified assertion as to the premises underlying the PP&L system provides
12 an incorrect basis to allocate costs.

13
14 **Q. Would you please briefly describe the "break-even" economic analysis that you**
15 **previously referenced?**

16
17 **A.** Yes. Using the current embedded cost of PP&L peaking and baseload capacity, and
18 expected fuel costs on the PP&L system, I developed a screening curve analysis
19 which shows the economic trade-off between peaking and baseload plant on the
20 PP&L system, using the investment costs which are at issue in this case, i.e.,
21 embedded costs of plant.

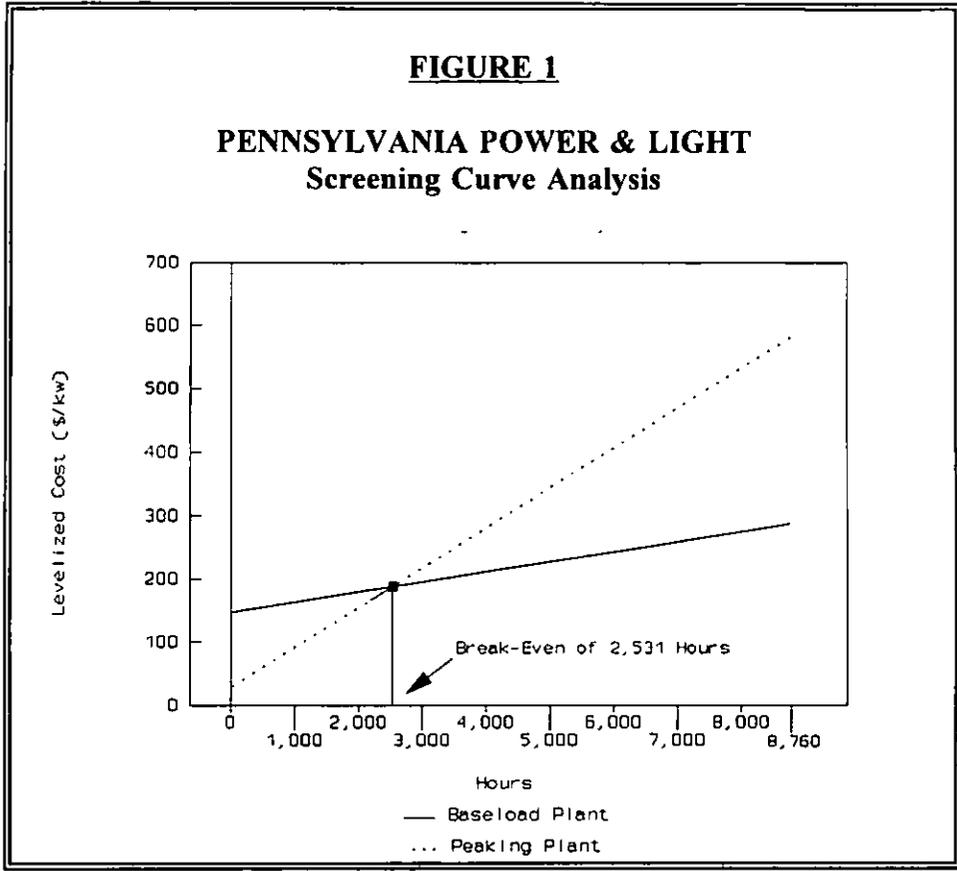
22

1 Figure 1 shows the results of this analysis. The "dotted line" shows the total cost
2 curve associated with PP&L peaking plant, while the solid line shows the cost curve
3 associated with baseload plant.² These two cost curves cross at 2,531 hours, which
4 means that at this point, a kW of either peaking or baseload plant has the same total
5 cost. For hours-use of a kW of capacity in excess of 2,531 hours, a baseload plant
6 is cheaper (again using PP&L's current embedded cost of baseload facilities,
7 including Susquehanna), while for usage below 2,531 hours, peaking facilities are the
8 least cost.

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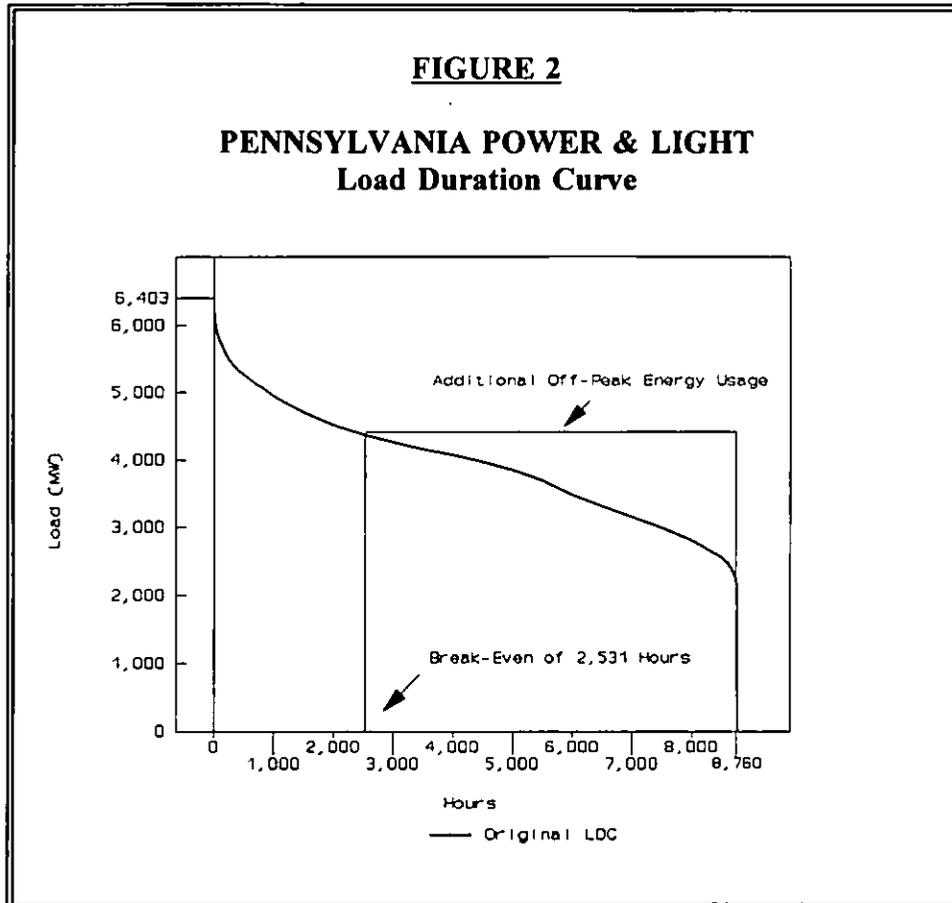
² These cost curves represent the total cost (capital, O&M, fuel) associated with 1 kW of each type of capacity at various hours of operation.

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Once it is determined that a kW of demand will be "used" for 2,531 hours during the year, a baseload unit is less expensive than a peaking unit. Figures 2 and 3 illustrate this point. Figure 2 is a graph of PP&L's 1994 load duration curve ("LDC"), showing the "break-even" point of 2,531 hours. Once the break-even point is reached, the higher capital cost of PP&L's baseload capacity has already been recovered via fuel savings. Thus, the break-even point does not change, even if the LDC is changed (the rectangular portion of the LDC representing additional off-peak kWh) by adding kWh during the off-peak period. These additional off-peak kWh are

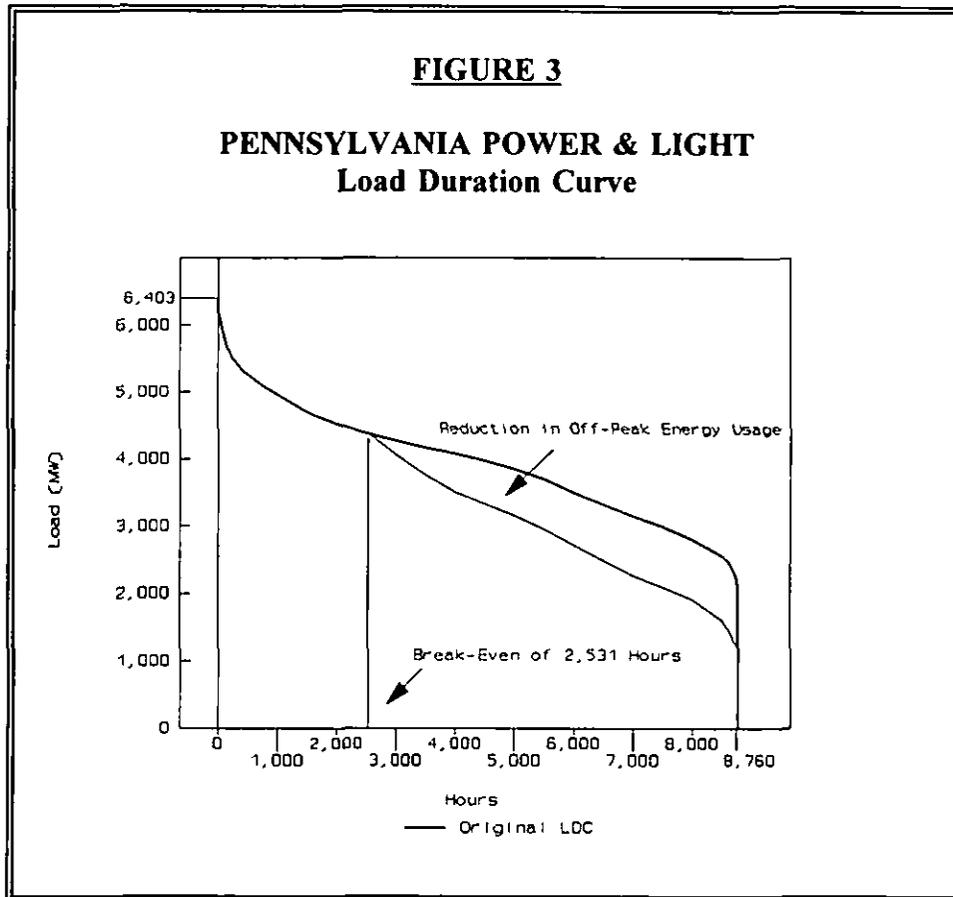
1 not responsible for the choice of baseload capacity over the less expensive peaking
2 capacity. It is the kWh usage in the top 2,531 hours that influences the economic
3 decision.



17

18 Figure 3 is a similar graphic depiction except that the LDC is changed by reducing
19 kWh use in the off-peak period. Again, this reduction in off-peak kWh does not
20 affect the break-even analysis and thus does not impact the economic choice between
21 peaking and baseload capacity. Dr. Johnson's use of annual total energy in his
22 analysis is inappropriate, since it allocates cost based on off-peak kWh usage, which

1 is not responsible for the economic choice between peaking plant and baseload
2 plant.³



16

17

18 As a result, even if one were to accept Dr. Johnson's general capital substitution

19 theory for cost allocation, the energy which is relevant to the economic choice

20 between peaking capacity and baseload capacity occurs in the first 2,531 hours on the

³ In this context, off-peak is defined as the hours during the year when system load is below the top 2,531 hours of load.

1 load duration curve, not the entire 8,760 hours (annual energy) utilized by Dr.
2 Johnson. The energy component of Dr. Johnson's peak and average analysis should
3 reflect the class contribution to energy in the first 2,531 highest demand hours on the
4 PP&L system.

5
6 **Q. Have you calculated such an allocation factor?**

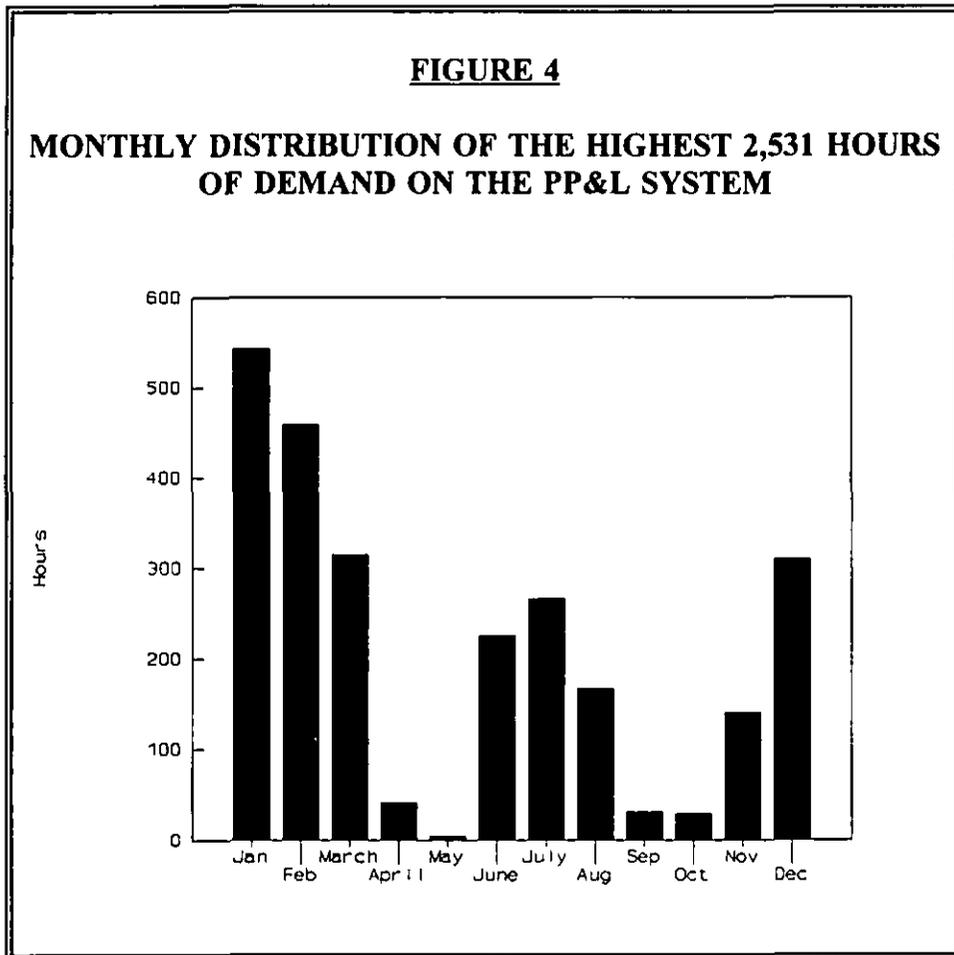
7
8 A. I have not been able to calculate such a factor, since this would require hourly class
9 load research data for the entire year to develop class energy use during the "highest"
10 2,531 hours of system load. This would be the proper "energy" to use in a peak and
11 average allocation. However, I have developed a proxy allocator by using the system
12 load duration curve.

13
14 **Q. Would you please explain your approach in developing a proxy for class**
15 **contribution to energy during the highest 2,531 hours of demand on the PP&L**
16 **system?**

17
18 A. To estimate class contributions to the highest 2,531 hours of demand, I examined the
19 distribution of these hours by month for each month of 1994.⁴ Figure 4 shows the
20 number of hours each month associated with the first 2,531 highest hours on the
21 PP&L load duration curve. As can be seen, most of the 2,531 hours are concentrated

⁴ A 1994 system load duration curve was used for this purpose.

1 in January, February, March, June, July, August, and December, while the remaining
2 months have very few hours. This means that kWh usage in these seven months is
3 the primary determinant as to the optimal mix of baseload capacity and peaking
4 capacity for PP&L, using current embedded costs.



1 I then used the relative share of these hours in each month to weight the monthly
2 energy, by customer class, to arrive at an overall weighted average demand allocation
3 factor for use in a corrected "average" factor in the peak and average analysis.
4

5 **Q. What are the results of this analysis?**

6
7 **A.** Table 2 below compares, for each rate class, the annual energy allocation factor
8 (utilized by Dr. Johnson in his analysis), to the "weighted average demand allocation
9 factor" that I previously described.
10

11

12 **TABLE 2**

13 **Comparison of "Annual Average Demand" Factor**

14 **to "2,531 Hour Average Demand" Factor**

15 <u>Rate</u> <u>Schedule</u>	16 <u>Dr. Johnson's</u> <u>"Annual Avg. Demand"</u> <u>Factor</u>	17 <u>"Top 2,531 Hours</u> <u>Avg. Demand"</u> <u>Factor</u>
18 RS	35.52%	38.81%
RTS	1.27%	1.48%
19 GS-1	4.96%	4.88%
GS-3	21.90%	21.00%
LP-4	14.51%	13.47%
LP-5	17.58%	15.92%
LPEP	0.46%	0.03%
ISA	1.66%	0.43%
GH	1.76%	1.60%
SL/AL	0.34%	2.04%
Standby	0.04%	0.35%

20

21

1 Q. Have you calculated the residential class "P&A" allocation factor with a
2 corrected "average" component, using the results of the weighted average
3 demand analysis that you previously described?

4
5 A. Yes. Though I believe that the peak and average methodology Dr. Johnson
6 recommends, regardless of the refinements which I am discussing, should be rejected
7 by the Commission as inappropriate, if one were to accept this methodology, it is
8 clear that the energy component should reflect the actual contribution of each class
9 to demand during the highest 2,531 load hours on the system, which, conservatively,
10 can be represented by the weighted average demand factor that I previously
11 discussed.⁵

12
13 Utilizing this weighted average demand factor, together with all of the other
14 assumptions made by Dr. Johnson (e.g., 61%/39% energy/demand weighting),
15 produces a production demand allocation factor for the residential class of 40.17%,
16 which allocates 5% more investment to residential customers than the 12 CP method
17 recommended by PP&L and utilized in my own analysis. Though I have not
18 developed a cost-of-service analysis based on this methodology, it should be clear

⁵ Since the weighted average demand factor, which I used as a proxy for the average demand in the highest 2,531 hours, continues to include off-peak energy use in its computation, it understates cost responsibility for low load factor classes (e.g., residential) and overstates cost responsibility for higher load factor classes, though not as severely as Dr. Johnson's method.

1 that residential customers would be worse off (compared to 12 CP) under the peak
2 and average theory, if it is applied properly.

3
4 **Additional Cost-of-Service Issues**

5
6 **Q. Do you have any additional comments on Dr. Johnson's proposed cost-of-service**
7 **methodology?**

8 A. Yes. The final comment I have concerns Dr. Johnson's proposed use of his peak and
9 average allocation factor to assign the cost responsibility associated with transmission
10 facilities on the PP&L system. Essentially, Dr. Johnson's methodology assumes that
11 the same capital substitution economics, which he asserts applies to production
12 facilities, also applies to transmission facilities. There is simply no basis for making
13 this assumption. Even if one were to accept the underlying rationale behind Dr.
14 Johnson's allocation of 61% of production demand costs on an energy basis, and 39%
15 on a demand basis (due to his alleged economic trade-offs between peaking capacity
16 and baseload generation), there is no such rationale to support the use of the same
17 assignment factors to transmission plant.

18
19 Nonetheless, Dr. Johnson's cost-of-service analysis allocates transmission plant on the
20 same basis as generation plant. Dr. Johnson's methodology is thus flawed, since it
21 inappropriately assigns transmission costs, which are demand-related, on an energy
22 basis. Dr. Johnson has not performed any capital substitution analysis to support his

1 allocation factors for transmission plant, nor does he even reveal in his direct
2 testimony that he has made such an allocation.

3
4 **Treatment of Interruptible Load in Dr. Johnson's Cost-of-Service Analysis**

5
6 **Q. Would you please discuss the concerns you have with the treatment of**
7 **interruptible load in Dr. Johnson's analysis?**

8
9 **A.** Dr. Johnson has adopted the Company's basic framework for the treatment of
10 interruptible load within the cost-of-service study. In this regard, he accepts the
11 "resource value" approach, which the Company attempted to model in its study,
12 except that Dr. Johnson moves much further than the Company by incorporating a
13 "market-based" adjustment to the resource value associated with interruptible load.
14 As I discussed in my direct testimony, I think it is entirely inappropriate to use such
15 a resource value approach. I have recommended that a cost-of-service based
16 methodology be employed to develop an appropriate interruptible rate.

17
18 In my analysis, I rejected the Company's use of a \$300 per kW credit to plant-in-
19 service, and substituted the actual revenue credits associated with the Company's
20 proposed interruptible rates. As I discussed in my direct testimony, this is a more
21 equitable and consistent methodology to treat interruptible load, if one adopts the
22 Company's resource value framework (which I do not).

1 Dr. Johnson has moved in the opposite direction. He has accepted the Company's
2 basic framework but has argued, in his direct testimony, that the value of interruptible
3 load should be based on the market value, rather than the cost of a combustion
4 turbine (the approach taken by PP&L) or based on the interruptible credits being
5 provided to customers under the Company's proposed rates (the approach that I
6 employed in my cost-of-service analysis), which approximately equates to the PJM
7 capacity deficiency rate.

8
9 For comparative purposes, the Company's \$300 per kW plant-in-service (rate base)
10 credit equates, in terms of revenue requirements at present rates, to approximately
11 \$3.00 per kW per month of interruptible load under contract.⁶

12
13 Dr. Johnson, on the other hand, has moved to what I consider to be an extreme
14 position and is basing his analysis, supposedly, on an interruptible credit of \$1.25 per
15 kW month for the purposes of cost-of-service analysis. This is based on his
16 assessment of the current "market value" of peaking capacity on the PJM system. Dr.
17 Johnson cites the Company's testimony that certain capacity credit sales have been

⁶ In PP&L's cost-of-service study, at present rates, \$1.00 of rate base is approximately equivalent to \$0.12 of revenue requirements for LP-5. This includes the return component, taxes, and indirect costs associated with rate base. Thus, a \$300 per kW rate base credit produces an annual revenue requirement of \$36 per KW, or \$3.00 per kW per month.

1 made for as low as 10% to 15% of the official PJM capacity deficiency rate.⁷ Dr.
2 Johnson has utilized this information to arrive at his proposed \$15.00 per kW value
3 credit, which he then states that he used to calculate "the equivalent rate base offset"
4 (page 18, line 11 of his testimony).

5
6 **Q. Has Dr. Johnson, in fact, utilized an "equivalent rate base offset" to his**
7 **recommended \$15.00 per kW year (\$1.25 per kW month) estimate of the**
8 **"current value" of interruptible load in his cost-of-service study?**

9
10 **A. No.** As shown in Dr. Johnson's workpapers, he has used a "rate base offset" of
11 \$61.64 per kW to value interruptible load in terms of investment or rate base. In his
12 cost study, this equates to an annual revenue requirement effect (at present rates) of
13 \$7.40 per kW year, or \$0.62 per KW month. This \$0.62 per kW credit is only one-
14 half the "value" which Dr. Johnson says is appropriate for use in the cost-of-service
15 study. As a result, the reported cost-of-service results shown in Dr. Johnson's
16 testimony are not correct, even based on his own misguided market-based "value"
17 method.

18
19 **Q. Do you think that it is reasonable to rely on a market-based valuation for**
20 **interruptible rates on the PP&L system?**

⁷ The mere fact that some transactions have occurred at rates this low is a far cry from asserting that all transactions occur at this price, which they do not.

1 A. Absolutely not. Dr. Johnson's approach is totally unreasonable and violates what I
2 consider to be a basic tenet of regulation: protecting customers from monopoly or,
3 in this case, monopsony power. Since interruptible customers, under both the
4 Company's and Dr. Johnson's resource value framework, are required to sell their
5 peaking capacity to PP&L and only to PP&L, the Company is a monopsonist with
6 respect to this type of transaction. It is the only purchaser of peaking capacity from
7 interruptible customers. No market exists other than PP&L's purchase of such
8 capacity. It is entirely unreasonable for Dr. Johnson to impute a market-based
9 valuation for peaking capacity, when interruptible customers are not permitted to sell
10 their peaking capacity (in the form of interruptible load under the resource value
11 framework) to all PJM or other utilities.

12
13 If a competitive market did exist for the sale of "interruptible load" peaking resources
14 to PJM and other utilities, a market-based approach might be a reasonable
15 methodology. No such recommendations have been made by either the Company or
16 Dr. Johnson in this case, and I therefore strongly oppose the use of such a market-
17 based valuation methodology. It is simply unfair and violates the basic protections
18 that regulatory commissions provide to captive customers.

19
20 As I discussed in my direct testimony, I believe that interruptible customers should
21 be afforded the same rights as other retail customers on the PP&L system. These
22 customers are, in reality, purchasing low-quality power, for which they should receive

1 a lower price, in recognition of the cost of such low-quality power. To force these
2 customers to sell capacity to PP&L at an assumed "market" price where no such
3 market exists for their capacity is simply unreasonable. Dr. Johnson's methodology
4 should be rejected.

5
6 **Response to Sierra Club of Pennsylvania Witness Biewald**

7
8 **Q. Have you reviewed Mr. Biewald's recommendation to require a "certified**
9 **comprehensive energy audit" of a large business customer prior to receiving a**
10 **discount?**

11
12 **A. Yes. Mr. Biewald is recommending such audits for all customers "before they are**
13 **given a discount rate" (Biewald direct, page 29, line 20). I believe that it is**
14 **inappropriate to single out such customers for energy audits. There is no more**
15 **rationale to require energy audits for these industrial customers than for any other**
16 **customers. This recommendation should be rejected and, at the most, be considered**
17 **in a case related to DSM issues, not a rate case.**

18
19 **Q. Does that complete your testimony?**

20
21 **A. Yes.**

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing rebuttal testimony on all known parties of record to this proceeding, by Federal Express delivery, Harrisburg parties being hand delivered, properly addressed as follows:

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