significantly increase the cost burden of the residential customer class. The Company's 12 CP method avoids extreme results, while properly reflecting cost responsibility incurred by each customer class.

b. The 1 CP Methodology Fails To Reflect Cost Responsibility

The UCC approach is simplistic and unsupported. The Company's generating and transmission plant costs are not incurred solely to meet a single peak day requirement. Instead, customers impose generating and transmission obligations on PP&L throughout the year. As Mr. Sipics explains, the PJM obligations are quite real and affect the Company's peak load planning. For example, the PJM Installed Capacity Requirement is based on 52 weekly loads, not just the winter peak, and in turn is based on a load model based on 52 weekly loads and a distribution of 5 daily peak loads about the weekly peaks (PP&L St. 9-R, p. 19). Moreover, as a practical matter, the Company experiences usage levels relative to its available capacity that place strenuous demands on the system even in the so-called "off-peak" months, due to the heavy scheduling of maintenance in off-peak periods (PP&L St. 7-R, pp. 6-7). Indeed, the Company has experienced curtailments and loss-of-load situations primarily in the months outside of the winter season (Ex. JMK-3; Tr. 2142-43).

In addition, the 1 CP approach completely ignores the existence of differences in the composition and cost of the mix

of the Company's generating units. If hypothetically, the Company were to match its generating plant to meet system demands only on a single winter peak day, it would not do so with the mix of nuclear, coal and oil units currently in service. Instead, it would rely heavily on gas turbines, with their lower capital costs and higher operating costs. In reality, the Company must plan to meet demands at all times throughout the year, and does so with a mix of plants that results in a lower cost over the course of that year. See PP&L St. 7-R, p. 16. The 1 CP approach completely ignores this reality of the Company's generating plant system, has been rejected in prior PP&L rate proceedings and should be rejected again.

c. The OCA's Peak And Average Method Should Be Rejected

OCA's "peak-and-average" approach is also fatally flawed in theory and in application, as several witnesses discuss (PP&L St. 7-R, p. 8; PPLICA St. 7-R, pp. 3-19; BSC St. 1-R, pp. 2-12; OSBA St. 1-R, pp. 3-7). Fundamentally, energy usage simply is not an appropriate measure for the allocation of fixed generating costs. The cost of generating and transmission plant and related depreciation and property taxes are fixed costs that simply do not vary with energy usage (PP&L St. 7-R, p. 9).

The peak and average method seeks to address the relative cost of baseload units and peaking units. As with the 1 CP method, however, Mr. Johnson's "peak and average" energy

component completely ignores the mix and cost of the different types of generating units used to meet the Company's needs. See PPLICA St. 7-R, p. 4; see also BSC St. 1-R, pp. 11-12. His method also ignores, or at least inaccurately oversimplifies, the generation planning process by focussing only on fuel savings, rather than on total cost and reliability of service (BSC St. 1-R, pp. 3-4).[59/]

Moreover, assuming arguendo that customers were to be assigned higher costs as a consequence of higher use of baseload plants, they also should be assigned the lower average fuel costs of these baseload plants. The OCA peak and average method fails to reallocate fuel costs and thereby produces unreliable results (PP&L St. 7-R, p. 10; BSC St. 1-R, pp. 5-8).[60/]

Finally, whatever the theoretical pros and cons of the peak and average approach, the OCA's proposal here does not properly implement the theory. The peak and average method, properly implemented would likely allocate more costs to the residential class. Mr. Baron asserts that both a NARUC-based peak and average method and a peak and average method incorporating his "break even" analysis would result the allocation of more costs to residential customers than the Company's 12 CP approach.

59/ Mr. Brubaker also discusses a "double-counting" flaw as well (BSC St. 1-R, pp. 9-11).

60/ As Mr. Baron notes, Mr. Johnson provides no basis for his proposal to allocate transmission costs as well as generating costs using his peak and average approach (PPLICA St. 1-R, pp. 19-20).

Regardless of the merits of Mr. Baron's adjustments, OCA's peak and average approach clearly has serious problems in both theory.

2. The Company's Interruptible Credit Properly Reflects The Benefits Of Customers' Election Of The Interruptible Option

The Company's cost of service study accounts for the existence of interruptible load by first allocating costs to the classes having an interruptible option (ISA, LP-4 and LP-5) according to their coincident peak demands, and then providing a credit equal to the value of interruptible load on PP&L's system. This value was properly based on the cost of a peaking unit, a natural gas fired combustion turbine, at $300/kWh (PP&L St. 9, pp. 13-14; PP&L St. 9-R, pp. 24-25) The resulting credit amount ($86 million) was then subtracted from the cost of generating facilities assigned proportionally to the classes with the interruptible option (PP&L St. 7, pp. 9-10).

Two challenges were made to this approach. Not surprisingly, the two are mutually inconsistent and diametrically opposed. On one hand, Mr. Baron argued at length for a significantly higher credit to be applied in the cost of service study (PPLICA St. 7, pp. 23-28). This adjustment would greatly increase the interruptible credit over the Company's $86 million total credit 9 (PP&L St. 7-R, p. 14). In a related vein, Mr. Brubaker proposes to entirely ignore the demands imposed by interruptible service customers and would not assign these customers any generating costs (BSC St. 1, pp. 9-13). In

contrast, Mr. Johnson, on behalf of the OCA, proposes to reduce the credit significantly (OCA St. 3, pp. 17-18).

Once again the Company's study avoids the substantial customer impact of these more extreme proposals. None of these alternatives should be adopted.

At bottom, Mr. Baron's proposal rests largely on his claim that the Company's approach creates a "mismatch" between cost allocation (which results in a credit of approximately $3.00/kWh month) and the $6.00-$8.00 credit proposed in rate design. PPLICA St. 7, pp. 24-26. This claimed inconsistency, and his criticisms of the use of a combustion turbine standard for establishing the value of interruptible load, were fully refuted by the Company.[61/]

The alleged "mismatch" arises only because Mr. Baron confuses cost allocation and rate design. The proper way to value interruptible capacity in a cost of service study is to measure its cost/benefit to the PP&L system. As explained below, for PP&L the cost avoided by interruptible load, at most, is equivalent to the cost of constructing peaking units, specifically combustion turbines, and the Company properly reflected that value as a credit in its cost of service

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61/ Mr. Brubaker's similar attack on the combustion turbine value standard are addressed here as well.

study.[62/] Rate design is a separate issue, and as explained above, cost of service is only one of several important factors which should be considered in designing rates.

For a variety of reasons, principally, economic development and gradualism, the Company has proposed an interruptible credit above the level reflected in the cost of service study. This does not create any "mismatch". It simply reflects a rate design that considers factors other than cost of service (PP&L St. 7-R, pp. 13-14).

If anything, the $300/kw value utilized by the Company may overstate the value of the interruptible capacity. Interruptible capacity assists PP&L load management in a manner analogous, at best, to peaking units, not baseload coal and nuclear units. Clearly, a "resource" that can only be called upon 20 times a year is not equivalent to baseload units which are available all year round. Market changes over the past ten years have also reduced the value of purchased power, as Mr. Johnson describes in his testimony.

Consequently, the $300/kw value utilized by the Company is far more likely to overstate the value of peaking capacity than to understate it. Further, interruptible load is simply not as reliable a resource as generating capacity controlled by the

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62/ If the existence of a "mismatch" alone were really the problem, the Company could also remedy it simply by reducing the $6.00-$8.00/kw month credits to the $3.00 reflected in the Company's cost of service study.

Company. PP&L cannot simply stop serving these customers during system emergencies -- it must request that these customers curtail. The customer may refuse and instead pay penalties. Hence, the capacity might not be available at the time of system need (PP&L St. 7-R, pp. 16-25). The Company's authority even to request interruption is limited to 20 days a year, and for no more than 10 hours a day. Interruptions also require more lead time to initiate than starting up peaking units (PP&L St. 9, pp. 13-14).

In addition, because the Company has had adequate generating capacity in the past, as a practical matter, interruptible customers have in fact received essentially firm service. Only infrequent service interruptions have occurred in recent years -- only 15 times since 1984, with no curtailments at all in 1990, 1993, or on the Company's all-time system peak demand level in February 1995 (PP&L St. 7-R, p. 16-17).

Finally, all of the Company's interruptible customers were either firm customers in 1984 or were allocated a fair share of Company generating costs at that time. Since then, the Company has not added any new capacity, nor will it do so for some time. To assign an exaggerated value to this load would simply ignore the reality of its limited value to the PP&L system.[63/]

63/ For these same reasons, Mr. Baron's attempt to use as a standard the PJM Capacity Deficiency Rate 1, PPLICA St. 1, p. 68, is incorrect. As Mr. Sipics explained, the PJM Capacity Deficiency credits do not themselves reflect the (continued...)

The Company also opposes OCA's proposal, which it failed to adequately support. Imposition of a $15/kWh value would impose a sudden and drastic increase in costs allocated to interruptible customers in violation of the principles of gradualism. The only purpose of such a step would be to arbitrarily shift costs away from the residential customers.

3. Distribution Plant Cost Allocation

The Company classified its distribution plant investment and operating expenses by means of a minimum size system method ("minimum system") calculation. See Ex. JMK-3. Under this approach, a "minimum size" system capable of providing reliable electrical service to customers is used to identify the applicable customer and demand-related cost components (PP&L St. 7, p. 11). In turn, this data was used, along with other non-cost factors, to determine an appropriate customer charge. The Company's methodology was supported by Mr. Knecht, on behalf of the OSBA. See OSBA St. 1-R, p. 16.

Two parties opposed the Company's minimum system: Central Eastern Pennsylvania Fuel Oil Dealers ("the Oil Dealers") (through Mr. Andersen) and OCA (through Mr. Johnson). Although

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63/(...continued)
true value of capacity credits. PJM members can avoid paying PJM deficiency payments by purchasing credits from another member. Recent market transactions show that installed capacity credits have been purchased and sold for as low as 15%-20% of the PJM deficiency rate (PP&L St. 9, pp. 14-15.)

they attack PP&L's study, neither witness has proposed an alternative method. Although Mr. Andersen appears to support the "zero intercept" approach, but he fails to present such a study or even list the specific parameters that would be required to produce one. Mr. Johnson proposes "adjustments" to the Company's study, but these would produce absurd results if actually adopted. Consequently, the record reflects no comprehensive study except the Company's minimum system study. The two opposing witnesses raise three broad criticisms, none are of which justified.

Alleged Theoretical Shortcomings. Mr. Andersen contends that the minimum system approach is fundamentally flawed, citing language from Bonbright's treatise on regulation (CEPFOD St. 1, pp. 30-31). This attack is completely without merit. Mr. Kleha used the minimum system guidelines provided in the NARUC Cost Allocation Manual (PP&L St. 7-R, p. 20). Although the manual does not advocate a particular methodology, Mr. Andersen cannot fairly claim that the method is without any merit. Moreover, the Bonbright work does not adopt a single method either, and rejects Mr. Andersen's solution of treating the costs as entirely demand-related (OSBA St. 1-R, p. 12). Moreover, despite the theoretical debate, Bonbright specifically notes that:

> In actual practice, the vast majority of utilities utilize some form of minimum system to classify costs, which is in line with FERC accounts.

OSBA Ex. R-1, reproduced page 492.

As Mr. Knecht also notes, and Mr. Andersen ignores, the zero-intercept method has serious shortcomings as well, and would require resource-intensive, fact-specific studies (OSBA St. 1-R, pp. 10-11).[64/] As Mr. Knecht concluded, the question of customer costs is a very difficult one and no one method may answer it with complete accuracy (OSBA St. 1-R, pp. 9-10). The Company's approach is the only adequately supported study on the record and should be adopted.

Alleged Methodological Errors. Mr. Andersen faults the Company's calculations for using the smallest sized equipment currently being installed, rather than the smallest sized equipment ever installed. This criticism is completely without merit. The Company's approach is fully supported by the minimum system guidelines of the NARUC manual and properly seeks to determine the current cost of its minimum system (PP&L St. 7-R, p. 20). He also ignores the inaccuracy and anomalies that would result from using historical rather than current equipment standards (PP&L St. 7-R, pp. 20-21). Finally, the current cost of the smallest equipment ever installed by the Company may be significantly higher than the cost of the smallest equipment currently being installed (PP&L St. 7-R, pp. 21-22). Mr.

64/ Contrary to Mr. Andersen's claim, the Company did not use a zero-intercept study in its last base rate case, but rather a modified zero-intercept study that was in essence a portion of a minimum system study. The Company considered using a similar approach in this case, but found that the necessary data was not available, and in the past had produced obviously flawed results (PP&L St. 7-R, p. 22).

Andersen's critique simply lacks credibility. It is not based on any independent study of the system, but rather on the review of a few data responses. He is not an engineer and had no engineering assistance in preparing his testimony (Tr. 1301).

Alleged "Double Count" Problem. Both Mr. Andersen and Mr. Johnson claim that the minimum system results in a "double count" because the minimum system has some load carrying ability that should be accounted for in the demand charges (CEPFOD St. 1, pp. 31 - 33; OCA St. 3, pp. 16-17). This claim should also be summarily rejected. In part, it is simply another attack on the validity of any minimum system method -- an attack invalid for the reasons discussed above. Moreover, Mr. Johnson's effort to "adjust" for the "double-count" creates an absurd result -- negative customer components and greater than 100 percent demand components for most cost categories (OSBA St. 1-R, pp. 13-16). Mr. Johnson did not and could not rebut this testimony.

4. Other Cost Allocation Adjustments Should Not Be Adopted

a. Mr. Andersen's A&G And O&M Allocations Should Be Rejected

Mr. Andersen recommends changes to the Company's allocation of certain Administrative and General (A&G) O&M costs (CEPFOD St. 1, pp. 25-27). Generally, he attacks the Company's use of a payroll ratio basis for allocating certain expenses that are not directly assigned to specific operating functions. Here again,

Mr. Andersen simply relies on a handful of data responses rather than a careful study of the cost causation involved, and simply seeks to substitute his own judgment without any real analysis of the PP&L system.

As he fails to note, the costs involved (e.g. software costs, administrative supplies, injuries and damages, shareholder reporting costs, EPRI dues) cannot be allocated directly on a cost causation basis to any specific function. Consequently, both the NARUC Cost Allocation Manual and the FERC's cost allocation procedures recognize the labor ratio, used by the Company, as the reasonable, generic allocator for these types of costs, precisely because it is based on a comprehensive ratio of all the Company's functional labor costs to total labor costs and provides a reasonable proxy for cost causation of overheads (PP&L St. 7-R, pp. 25-26). Supporting this conclusion is the fact that 45% of total non-assignable A&G expenses are labor costs associated with supervision of all functions of the Company (Tr. 2144). Mr. Andersen's approach would allocate these costs on the basis of class revenue, which is clearly unrelated to the activities creating A&G expenses and intangible plant (PP&L St. 7-R, p. 26). The Company's approach should be approved, as it has been in prior PP&L rate proceedings.

b. Allocation Of NUG Output Payments

Messrs. Baron and Brubaker propose to adjust the demand/energy basis for allocation of the NUG output payments in

the roll-in of the ECR. The Company opposes the specific proposals of those witnesses, but does recommend an adjustment in its final accounting exhibits to exclude from the ECR revenue adjustment credit on line 4 of pages 83-84 of Ex. JMK-2 the effect of the NUG output payment demand/energy allocation. This adjustment would result in a similar, and minor, change in the earned revenue requirements of the various rate classes as proposed by the two witnesses (PP&L St. 7-R, p. 19). Mr. Baron did not disagree with this adjustment (PPLICA St. 7-S, p. 2).

c. Interruptible Customers Should Not Be Treated As A Separate Class For Cost Of Service Study Or Tariff Purposes

Contrary to the request of Mr. Brubaker on behalf of Bethlehem Steel (BSC St. 1, p. 13), the LP-4, LP-5 and LP-6 customers qualifying under the interruptible service option should not be segregated into a separate rate class for cost allocation or tariff purposes.[65/] The large power customers receive essentially the same service as firm or interruptible customers (PP&L St. 7-R, p. 17). The only difference in service is the Company's right to request curtailment in a limited number (and duration) of circumstances; requests that the customers are not required to honor (PP&L St. 8-R, pp. 34-35). Interruptible customers are only a subset of the Company's large power

65/ Mr. Baron similarly urged separate treatment of Rate LP-5/LP-6 service interruptible customers as a separate rate class for rate design and allocation purposes (PPLICA St., p. 63).

customers and should remain so for both cost of service and tariff purposes.[66/]

B. Allocation Of The Rate Increase

1. The Company's Allocation Of The Rate Increase Among Customer Classes Should Be Approved

As noted above, each party has sought to minimize its own rates at the expense of other customers. This tendency is fully displayed in the sharply contrasting proposals for allocation of the rate increase among the various rate classes. The Company followed principles of gradualism in its filing, and established several sound principles to guide its allocation in the proposed rates: (1) move all classes closer to the system average return; (2) limit increases to 1.5X the system average increase; (3) allocate some rate increase to all classes; and (4) correct the overstated discount and rate design for interruptible customers (PP&L St. 8-R, p. 3-4). This approach reflects even-handed and equitable treatment to all rate classes -- not just one or two favored classes.

In contrast, the parties' proposals would shift very substantial costs to one class or another, in violation of the principles of gradualism and fairness. For example, the UCC would cap increases at 3X system average, with the goal of

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66/ As Mr. Kleha suggests, this conclusion might be changed if the Company had direct control over the customers' loads and could unilaterally reduce their service (PP&L St. 7-R, pp. 17-18). No party has proposed this change, however.

shifting responsibility for very large sums of money from the LP-4 customers (including the colleges) to the residential customers.[67/] Mr. Baron, although nominally in favor of a 1.5X system average cap, takes that position only if his adjustments to the cost of service study and his segregation of the interruptible option customers into a separate class were adopted. This would ensure a dramatically different effect on residential customers than the 1.5X approach of the Company.[68/] Mr. Knecht proposes a series of automatic rate decreases to the rates of his sponsors, the small commercial interests (OSBA St. 1, 7). Mr. Johnson, concludes in contrast, that residential customers should bear less and Mr. Knecht's sponsors should bear more than proposed by the Company. See Table I, below. OTS would single out residential customers under their proposal. The major proposals, and their varying results, are illustrated in Mr. Kasper's Table I, PP&L St. 8-R, p. 3, which is reproduced here:

67/ Tr. 1119. Underscoring the propriety of the Company's standard, Mr. Eisdorfer himself advocated a cap of 1.66X system average during the 1982 Company rate case, citing the need to follow principles of gradualism (Tr. 1120-22). Although he attempted to distinguish that case on grounds of the size of the rate increase, in fact it was of a comparable magnitude, i.e., $261 million vs. $330 million.

68/ Mr. Baron's approach would shift at least $40 million to the residential class alone. His proposal will be addressed in greater detail in connection with the LP-5 rate schedule discussion below in Section VIII.C.

TABLE I

% Rate Increase

Rate Class	PP&L	UCC Eisdorfer	PPLICA Baron	OCA Johnson
RS	15.29%	25.5%	17.55%	11.7%
GS-1	3.89%	-2.4%	0.0%	5.93%
GS-3	6.72%	0.2%	7.41%	11.00%
LP-4	10.16%	0.2%	6.32%	11.60%
LP-5	15.45%	4.9%	10.91%	15.56%

This chart illustrates why the Company's approach is in fact the most fair and equitable. Despite the other parties' insistence that their own particular cost of service theory mandates huge cost shifts, it is well settled that "there is no single correct cost methodology." Mobilfone v. Pa. P.U.C. 70 Pa. Cmwlth. 336, 467 A.2d 902, 903 (1983); City of Pittsburgh v. Pa. P.U.C. 106 Pa. Cmwlth. 437, 526 A.2d 1243, 1249 (1987). As long as each class contributes to common fixed costs, and there is no single "correct" method, the Company is certainly under no obligation to equalize rates. Given the dramatic results that proceed from each parties' preferred theory, the Commission should accept the Company's reasonable middle ground.

At the hearing, the ALJ asked several witnesses what allocation would be appropriate if the Commission were to reduce substantially the total revenue requirement reflected in the proposed rates. The Company believes that the full requested

rate increase is justified, but in the event of some disallowance, the Company generally supports a proportional scaleback as the most equitable approach, using the same principles being used for the current proposed increase (PP&L St. 8-R, pp. 4-5).

C. Rate Design

1. Rate Schedule RS

a. The Company's Proposed Customer Charge Is Fully Justified

The Company has proposed a Rate RS customer charge of $7.20/month. In contrast, the Company's cost of service study shows total residential customer costs of $17.51 per customer/month. Billing and metering costs per customer alone are $10.18/customer/month (PP&L St. 8-R, p. 6). The Company's proposed customer charge is fully supported by either figure. The Company considered various levels of customer charge, including both higher and lower levels, but determined that the charge chosen was appropriate because it did not unduly affect low or high users of energy.

In particularly, a lower customer charge would send incorrect price signals and reduce stability of revenue recovery. Despite the large percentage increase in the charge itself, a $2.40 additional charge should not impose hardships on Rate RS the customers -- particularly since any costs shifted from the

customer charge should be recovered in the first billing block of usage charges in any event. The current customer charge of $4.80 was set over ten years ago, is now seriously outdated and must be increased (See PP&L St. 8-R, pp. 7-8).

OTS proposed an increase in the RS customer charge of $1.10, to bring the customer charge to $5.90, which is approximately the median customer charge of other Pennsylvania utilities (OTS St. 3, pp. 4-5). Mr. Yarolin's concern with the "50% increase" proposed by the Company is misplaced (OTS St. 3, p. 4). The Company fully supports the principle of gradualism, but believes that it should be applied to the total customer bill and not just one component of that bill.[69/] Looking at the total bill, small usage residential customers will see an actual increase of far less than 50%, even if PP&L's total increase were approved.

The Oil Dealers oppose any increase in the RS customer charge above $5.80 (CEPFOD St. 1, pp. 42-43). Mr. Andersen admits that despite various "adjustments" he would make to the calculation of the customer costs, his proposed $5.80 charge remains well below the cost-based customer charge level of $8.00 (CEPFOD St. 1, pp. 41-42). Nonetheless, he voices vague concerns, without any empirical support, of "rationing" and

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69/ The comparison chart of other utilities should not control the result either. Different companies have different cost structures and different allocations of customer charges among their billing blocks, making a comparison of customer charges to customer charges useless without additional data.

reducing incentives to conserve energy. These concerns are nebulous at best and do not support his proposed alternative.

Finally, OCA opposes any increase, based on its adjustment to costs allocated to the customer component. This is essentially "a second bite at the apple," using the same types of adjustments made in its critique of the minimum system study. As explained above, these adjustments are without merit and should be rejected. See Section VIII.A.3. supra.

b. The Proposed Third Billing Block For Rate RS Is Appropriate

The proposed Rate RS includes a new, third billing block. The first kWh step is for usage up to 200 kWh; the second is for the next 600 kWh of usage, and the third applies for usage above 800 kWh. See Ex. OGK-4, Suppl. No. 50, Fifth Revised Page No. 20. Through this rate design, the Company has sought to ensure a more equitable recovery of both unrecovered customer-related costs and demand-related costs in the early blocks of the rate, rather than the trailing block (PP&L St. 8-R, pp. 8-9).

The Oil Dealers and OCA oppose this proposal, on different grounds. Mr. Johnson believed that the only purpose of the third block was to fully recover customer charges (OCA St. 3, pp. 24-25). As the Company's rebuttal made clear, the Company's goal was to more equitably recover both unrecovered customer costs and demand costs. Mr. Andersen also believed that the third block was unnecessary to recover customer costs and argued that the

Company has not adequately supported the third block (CEPFOD St. 1, pp. 43-44). This is not the case. The median kWh usage among RS customers is approximately 600/kWh/month. Therefore, many smaller users, including half of the entire class, will never reach the third block and would never pay any customer or demand charges included in the trailing blocks (Tr. 2163). In contrast, under the Company's proposal, 88% of all customers costs will be covered in the first 200/kWh block (Tr. 2171). Therefore, the Company's proposal to recover higher levels of fixed costs in the earlier blocks, and lesser levels in the trailing block, will remove an existing cross-subsidy flowing from larger RS users to smaller ones. The third block will address this problem; retention of the existing two blocks would not.[70/]

2. Rate Schedule RTS

a. Background And Company Proposal

(1) Background

Rate Schedule RTS is available to customers who install certain electric thermal storage systems equipped with timing devices that permit the Company to pre-set the time during which their electric heat and/or hot water heating occurs. See Ex. OGK-1, PP&L Electric Pa. P.U.C. No. 200, Supplement No. 50, Ninth

70/ As Ex. OGK-5 shows, if the Company were to retain the two block structure, in conjunction with a lower customer charge as recommended by Trial Staff, the result would be a far higher recovery of fixed costs in the first block. See Tr. 2169-71.

Revised Page No. 21. Relative to Rate Schedule RS, this rate involves a lower per/kWh usage rate in a single billing block, a higher monthly demand rate, and additional demand charges for usage in excess of 2 kWh during peak periods.

Rate Schedule RTS was developed as a load management tool during the early 1980s, when the Company sought to reduce peak load growth. The thermal storage technology offered the opportunity to shift heating load from the peak period of the day through the use of timing devices. Thermal storage provided significant advantages over other load management tools (PP&L St. 8-R, pp. 13-15). In particular, the Company's peak load growth in the mid- to late-1970s and early 1980s displayed a growing morning peak problem. Thermal storage would allow the Company to shift heating load to the evening, alleviating the morning peak (PP&L St. 6-R, pp. 10-11; Exh. JJS-10 and JJS-11; Tr. 2123).

Rate Schedule RTS was introduced in 1984 and attracted approximately 14,000 customers by early 1995. By the late 1980s, the Company became aware that a general shift in peak usage towards the evening by non-RTS customers would, over the long term (after 1995), create an evening peak on PP&L's system, which would reduce the benefits of the RTS rate (PP&L St. 6-R, pp. 3-7). Consequently, the Company began phasing out advertising promotions and grants for thermal storage customers in 1991 and by 1995 it had entirely discontinued them. As a result, fewer and fewer customers have subscribed to the RTS service in recent

years: 806 in 1993, 549 in 1994, and only 145 in the first quarter of 1995 (PP&L St. 6-R, p. 8; Ex. JJS-9).

In addition, the Company commenced a pilot program to study the effect and feasibility of installing direct dispatch controls on RTS units, permitting the Company to use real-time pricing and improve the relative revenue contribution from RTS units (Tr. 723-27; PP&L St. 8-R, pp. 17-18).

(2) Company Proposal

Given the circumstances shown above, as well as concerns expressed during the hearings by various parties, including OCA's Mr. Johnson, OCA St. 3, pp. 27-28, the Company has proposed to modify Rate Schedule RTS, as follows: (1) to accept new applications for Rate Schedule RTS only until December 31, 1995; (2) subsequently, to allow persons eligible to use an electric thermal storage system to use a new rate schedule to incorporate newer technology and appropriate terms, conditions and rates; and, (3) provide service to existing RTS locations through the life of the existing thermal storage units, and to not propose to reduce the existing 2.3 cent/kWh differential between RTS and RS customers before December 31, 1999. This proposal is broadly similar to that of the OCA, and was generally satisfactory to its witness. OCA St. 3-B, pp. 17-18.[71/]

71/ Mr. Johnson did not entirely approve of leaving open a window until the end of the year, and suggested that the Company inform all potential customers of impending changes in the RTS rate.

As Mr. Kasper explained, the new RTS proposal reflects a recognition of both the changes in the Company's load patterns over the past few years, and changes in technology that make new forms of load management preferable to the early 1980s technology embodied in the current RTS service. Equally important, the proposal balances the interests of all customers. Those who invested in the thermal storage systems will be assured of continued RTS service and an extension of the current rate differential. Other rate classes providing a higher return on system costs will see no further expansion of the RTS rate, and instead the Company will focus on newer, more cost-effective approaches to load and cost management. New thermal storage customers will be eligible for new rates and services incorporating improvements in load control technology.

Again, the opposing parties attack the Company's proposal from different directions and on different grounds. The Commission should accept the Company's proposal as striking the best balance between the parties' competing interests and positions.

b. No Basis Exists For An Investigation Of Rate RTS

At public hearings and in several letters to the Company and to the Commission, a number of RTS customers expressed dissatisfaction with the rate increase, which some viewed as being inconsistent with their understanding of the benefits of

thermal storage ownership. E.g., Ex. OGK-9, letters dated April 11, April 12, and March 29, 1995. Subsequently Mr. Yarolin, on behalf of the OTS, agreed with the closing of the RTS rate, see OTS St. SR-3, p. 9, but argued that the Commission should investigate the representations made by the Company to RTS customers.[72/] A brief review of the facts shows that an investigation is entirely unnecessary and would be a misdirection of this Commission's resources.

(1) Complaints By RTS Customers At The Public Input Hearing Were Fueled By A Company Mailing That Inadvertently Overstated The Level Of The RTS Rate Increase

The RTS customer complaints in this case resulted, in substantial part, from a March 27, 1995 letter from the Company's Sales & Account Department. This letter was incomplete and led customers to conclude that the Company was seeking a much larger increase (30%-56%) than that actually proposed (16%) (Ex. OGK-9). As explained in letters sent out to each of the complaining customers late in April, the March 27 letter failed to note other rate changes, particularly an offsetting ECR reduction, that would, if reflected in the calculations, yield the 16% rate increase proposed by the Company (Ex. OGK-9). The customers' concern over the perceived high increases is understandable, but

72/ The proposed investigation would focus on the conditions under which promises were made, whether savings were promised over a specific time period, and whether the Company represented particular time periods for recovery of the thermal storage equipment investment (OTS St. SR-3).

did not reflect the facts. No party has contested the fact that the proposed increase to RTS is 16% and not the 56%, 39% or 41% that produced the customer complaints. See PP&L St. 8-R, pp. 24-25.

(2) Rate Schedule RTS Guarantees Rate Benefits From Thermal Storage Facility Ownership, But Does Not Insulate Customers From All Rate Increases

The author of the April 12 letter expressed the view that the filed RTS was a contract not to increase the rate levels. Rate schedules are not contracts, and the Company did not and indeed could not guarantee that rates would not be changed over time (PP&L St. 8-R, pp. 24-25). So long as the rate changes are reasonable, the interests of customer classes are protected. Moreover, the key interest of the RTS customers, as expressed in the April 12 letter, is in ensuring that the benefits of investment in the thermal storage facilities are recouped.

The chief concern of the April 12 letter, and of Mr. Yarolin, is that the capital cost sunk into the facilities not be lost as a result of the proposed rate changes. In both the filed proposed rates and the proposal advanced during hearing the Company would protect the RTS customers' investments. As Mr. Kasper explained, more than 90% of all RTS customers subscribed before 1993. Between their promotional payments and the RTS rate benefits, these customers will have recovered their investment, and more, by 1999 (Tr. 2160-61). The relative handful of RTS

customers added after 1992 will have mostly or entirely recovered their investment by the end of 1999, depending on the Commission's rate order in this proceeding (Tr. 2161).[73/]

Most importantly, nothing in the Company's proposal suggests that any RTS customer will not fully recover their investment over the life of the facilities. Under the Company's proposal, Rate RTS would still be in effect after 1999. The level of the differential with RS is not guaranteed at a particular level, but the Company will be exploring a successor rate that would be available, presumably at a better rate than RS. Moreover, if necessary, the Company could grandfather any remaining handful of customers that require it, or adopt some other steps at that time (Tr. 2161-62). Implicit in Mr. Yarolin's recommendation is the factual assumption that the RTS customers may fail to recover their investment because of the Company's proposal. That concern is at best entirely hypothetical, and is only a remote possibility for a tiny number of customers that will only be known in the year 2000. Under these circumstances, there is simply no reason for an investigation.

73/ For example, the two letter writers who mentioned their investments would be guaranteed full recovery of their investment. The customer who wrote the April 11 letter purchased his unit in 1986 -- 9 years ago, and 13 years before the end of the proposed RTS differential guarantee -- and in addition would have received a substantial grant from the Company. Undoubtedly, that customer was long since made whole, and more. The author of the April 12 letter purchased the unit in 1991 for $4,000; he would have received a grant, and would face at most an 8 year payback, would be fully amortized by 1999, and would have the prospect of continued future rate benefits as well.

c. The Oil Dealers' Recommendations, Based Largely On The Claim That Rate RTS Is Too Low, Are Grossly Inaccurate And Should Be Rejected

The Oil Dealers' witness recommends rate actions that would be strikingly harsh and punitive to both the RTS customers and to the Company.[74/] These extraordinary remedies are even more remarkable in light of Mr. Andersen's proffered support: a string of wildly inaccurate and easily disproved misstatements about the history, purpose and current impact of Rate Schedule RTS. These claims are grossly inaccurate and should be ignored.

As a preliminary matter, the Commission should view both the Oil Dealers' proposals and their alleged proof in context -- and with skepticism. The only interests of this party in RTS rates are (1) to artificially boost electric rates for their own competitive advantage in the home heating market; and/or (2) to attempt to bolster, in some indirect way, their civil lawsuits against the Company.

74/ Mr. Andersen recommends elimination of the RTS rate and the triggering of the tariff provision requiring the Company to compensate customers by $50/month over the balance of the first ten years of their thermal storage operation -- depriving the customers of the rate benefits and burdening the Company with absorption of up to $8 million per year for a series of years. In the alternative, he urges that: the RTS rate class be frozen; the 2 kw demand forgiveness feature be removed; the rate be raised to recover all allocated costs; the class receive a higher increase (the higher of 17.4% or twice system average); and that the Company absorb the "entire RTS revenue deficiency" existing after these draconian steps were taken. Even if, arguendo, Mr. Andersen had identified legitimate flaws in the current RTS rates, these proposals would be inappropriate and unlawful.

(1) The Oil Dealers' Portrayal Of The History Of Rate Schedule RTS Is Largely Irrelevant And Entirely Inaccurate

The Oil Dealers' testimony attempts to paint a black picture of the Company's motives in implementing and developing Rate Schedule RTS. As shown below, their version of history is transparently false. More importantly, it is barely relevant. None of the costs of developing, advertising or paying grants under Rate Schedule RTS are included in the rates in this proceeding. The sole issue is whether the proposed rate structure of the Company, including RTS, is unduly preferential or prejudicial. That question hinges primarily on the current cost allocations of the Company, the system benefits and quality of service currently experienced, the Company's proposal for future rate treatment, and similar rate design factors. The history and purpose of the rate, in broad terms, may help the Commission understand where the rate schedule has been and where it is likely to progress. A detailed exegesis of the Company's internal projections, hopes and fears from years in the past, is not necessary or even helpful. The inquiry in this case should focus on the legitimate rate challenges discussed (and dismissed) below in subsection b.

- This case is not about displacement of oil heat by RTS heat, and the Oil Dealers have not produced any evidence to support that claim.

Mr. Andersen claimed that the RTS program was aimed at displacing oil heat, and in fact harmed the Oil Dealers by

diverting business (CEPFOD St. 1, p. 4). This claim is completely unsupported by any record evidence. Oil conversions to RTS were negligible (PP&L St. 8-R, p. 19). When pressed for data on discovery, the Oil Dealers stipulated that they had no studies as to what level of such conversions existed.[75/] Mr. Andersen himself appears to have lost faith in this argument. On surrebuttal, he assumes as a fact that RTS customers would have otherwise been RS customers -- an assumption inconsistent with the claim that they converted from oil heat (CEPFOD St. SR-1 p. 5).[76/] This claim is a red herring and should be ignored.

- No question of the Company's "prudence" is at issue.

In his direct testimony (CEPFOD St. 1, p. 12) and surrebuttal, (CEPFOD St. SR-1, p. 1), Mr. Andersen claims that the prudence of the Company's promotion of Rate Schedule RTS is at issue here. This contention is patently wrong. All

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75/ See Ex. OGK-7. Compare Interrogatory No. 2 for Central Eastern Pennsylvania Fuel Oil Dealers, dated April 14, 1995, and stipulation regarding Interrogatory No. 2 in the letter from Christopher J. Barr to Wayne M. Thomas dated May 3, 1995. The Oil Dealers stipulate that they lack any data as to the number of oil heat customers converted to RTS from 1984 to 1995, except as provided by the Company in civil litigation, and have not prepared any independent analysis or study based on that information. In addition, Mr. Andersen relied solely on the set of documents supplied by his counsel, attached as his exhibits, and performed no study of the competitive status of energy sources, or competition between oil and electricity in Pennsylvania (Tr. 1274-76).

76/ Indeed, it is striking that on surrebuttal, Mr. Andersen drops nearly all arguments except those directly related to the rate reasonableness issues.

promotional expenses, and all revenue shortfalls, experienced by the Company from 1994 to 1995, were borne by the shareholders, and no recovery of those dollars is sought in this case. There are no Company RTS-related promotional expenses or plant investments in RTS at issue.[77/] There is simply no prudence issue in this case.

- The Oil Dealers completely misinterpret the history of Rate Schedule RTS.

Mr. Andersen's principal support for his recommended punitive rate actions lies in his claims that: (1) the company was guided by improper motives in establishing Rate RTS service (the desire to maximize sales volumes through cross-subsidized rates)(CEPFOD St. 1, pp. 9-10); and (2) that it blindly continued to promote the program in the face of evidence that RTS would worsen, not help, load management (CEPFOD St. 1, pp. 10-12, 16-20). Neither claim is true, and they are belied by the Company's testimony and by the very documents relied on by Mr. Andersen.

Mr. Andersen admitted that his conclusions were based on no more than his review of the Company documents attached to his testimony as exhibits and a review of the Company's data

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77/ Despite stating that the Company "has not ceased its efforts to promote RTS service, (CEPFOD St. 1, p. 13), Mr. Andersen acknowledged at the hearing that he did not even know if the Company was attempting to recovery deferred promotional costs in this case (Tr. 1301). In fact, the Company is not seeking any such cost recovery.

responses. See Tr. 1275. The problem with this blinded approach to assessing the history of the Rate Schedule is shown at the very outset of his testimony. Mr. Andersen begins with sweeping statements regarding the purpose of RTS when it was first introduced. However, he relies on a 1986 report for these statements, when in fact Rate RTS was first developed in 1982 and introduced in 1984. Mr. Andersen cites and quotes documents only from the years 1986-1992 -- a period well after the program was developed and well before the Company phased out its promotion of Rate RTS.

In contrast, Company witnesses explained on rebuttal how the RTS program was developed as a legitimate load management tool to address a then-growing morning peak problem. The Oil Dealers, despite their access to massive documentary discovery from their civil litigation, failed even to challenge those facts on surrebuttal.

In addition to relying on an incomplete set of documents, Mr. Andersen also badly misinterprets, and even misrepresents, the contents of his own key documents.[78/] To support his conclusion that the Company wilfully pursued RTS for shareholder advantage despite internal warnings of harm to other customers,

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78/ The key factual and documentary flaws in his testimony are refuted in Mr. Slivka's rebuttal testimony and exhibits. See PP&L St. 6-R and Exh. JJS-2 through JJS-12. Mr. Andersen misrepresents other documents on subsidiary points as well, but in the interests of brevity on a marginal issue, this brief will focus on his principal claims.

he selectively quotes from a 1987 document and badly distorts its conclusion (CEPFOD St. 1, p. 11). In fact, the document clearly forecasts that the RTS program will yield short-term benefits (before 1995) but would create peak load problems if pursued over the long term (post-1995). As a result, the document recommended that the Company pursue RTS in the short term (when it would produce system benefits) but de-emphasize the program over the long term to avoid the projected problems, and to study more sophisticated RTS load control strategies. This course of action -- to maintain customer and system benefits -- was in fact followed by the Company (PP&L St. 6-R, pp. 7-8). As a result of the Company's de-emphasis of the RTS program, subscription has sharply fallen in recent years, and the peak load projections of 1986-87 never materialized. In fact, the projections of long-term harm in the 1987 study were premised on RTS growth projections of up to 52,000 customers by 1995. In fact, only approximately 14,000 RTS customers exist now (PP&L St. 6-R, pp. 4-7, 8-9). In sum, nothing in Mr. Andersen's biased and incomplete analysis supports his conclusions as to the Company's motives, His testimony should be ignored.

(2) Contrary To The Oil Dealers' Claims, Rate Schedule RTS Does Contribute To Fixed Costs And Improved The Company's Peak Load Profile

The Oil Dealers do raise two challenges on relevant ratemaking issues. Both are completely without merit.

Rate Schedule RTS did not worsen, but instead improved, the Company's peak profile. Mr. Andersen argues that Rate Schedule RTS has "created" the Company's current nighttime peak. See CEPFOD St. SR-1, p. 3. His conclusion is based entirely on his interpretation of a single Company data response that does not even specifically address this issue.

Mr. Slivka, who has had responsibility to analyze the Company's load characteristics since the early 1980s, thoroughly refutes this claim using hard data. The movement of the Company's load toward an evening peak has been caused by a variety of factors, chiefly the growth and shift in usage patterns of the residential class as a whole, not RTS customers. During the three most recent nighttime peaks, in 1988, 1992 and 1993, the nighttime peak would have occurred even if the RTS service did not exist (PP&L St. 6-R, pp. 9-12). Mr. Andersen did not and could not rebut his evidence. Moreover, PP&L continues to have a significant morning peak affecting its costs, as the load curves in Exh. JJS-10 and JJS-11 demonstrate. Any role that the RTS service may have had in increasing nighttime usage has been more than compensated by its significant role in reducing the Company's morning peak by approximately 85 MW (Tr. 2123).

Rate Schedule RTS provides a contribution to fixed costs and is not unduly low. Mr. Andersen rails against the RTS service for providing far less than its fully-allocated costs, despite the fact that contribution of less than average costs is routine

in utility ratemaking and carries no presumption of undue preference: "We reiterate that a mere variation in rates among classes of customers does not violate the Public Utilities Code." Building Owners and Managers Ass'n. v. Pa. P.U.C., 79 Pa. Cmwlth. 598, 470 A.2d 1092, 1095 (1984). Unequal rates based on different characteristics of use, may be not only lawful, but desirable:

> Differences in rates between classes of customers based on such criteria as the quantity of [the product] used, *the nature of the use, the pattern of the use, or based on differences of conditions of service*, or cost of service are not only permissible but often are desirable and even necessary to achieve reasonable efficiency and economy of operation. (Emphasis added.)

Philadelphia Electric Co. v. Pa. P.U.C., 79 Pa. Cmwlth. 445, 470 A.2d 654, 658 (1984) (citing, Philadelphia Suburban Transportation, 3 Pa. Cmwlth. at 196-97, 281 A.2d at 186). Other services, notably Rate RS service, also are well below the average allocated costs; yet that does not render them unlawful. The Company is gradually bringing all classes closer to their allocated cost of service, and the proposed rates do so for both the RTS and RS rate schedules.

The very slightly negative return of the RTS class (on a fully-allocated basis) is a matter for concern, and the Company is actively addressing this issue. The negative class return is a recent development stemming from the advent of evening winter peaks (PP&L St. 8-R, p. 21). The proposed closing of the RTS rate will minimize any future impacts that the class will have,

as will the Company's commitment to developing additional and alternative steps that will produce better load management/real time pricing benefits for thermal storage customers. Moreover, as Mr. Andersen completely failed to acknowledge in his surrebuttal testimony, the Company is not limited to retrofitting with direct control devices to improve the class return of RTS customers. The existing timers of the thermal storage units can easily be re-set to move them away from the current peak, (PP&L St. 8-R, pp. 17-18). Moving the operational hours of the units to the early afternoon and later evening periods would improve the class rate of return to a positive 2.4%, even before direct dispatch could be implemented (Tr. 2162).[79/]

Claims that the RTS customers receive unjustifiably low rates also overlooks the difference in their quality of service relative to that of the Rate RS customers. As the courts have repeatedly held, different rates may be charged when customers are receiving a different type or grade of service, and "differences in the value of service provided to customers can also be a valid basis for rate differentiation." Barasch v. Pa. P.U.C., 111 Pa. Cmwlth. 339, 533 A.2d 1108 (1987); see also Zucker v. Pa. P.U.C., 43 Pa. Cmwlth. 207, 401 A.2d 1377 (1977). RTS customers accept inconveniences such as substantial penalties if the customer operates major appliances during the on-peak

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79/ Mr. Johnson also calculated that a shift of the RTS customers further off-peak would result in a positive return (Tr. 1370-74).

period -- a time period that is also subject to change by the Company. Tr. 2162. OCA acknowledged the significance of this value of service factor as well (OCA St. 3, p. 20, Tr. 1377-78).

Mr. Andersen also claimed that Rate Schedule RTS is so far below cost that it does not recover fuel costs (CEPFOD St. 1, p. 8), and that it does not recover any fixed costs (CEPFOD St. SR-1, p. 5). As Mr. Kasper explained, and Mr. Andersen could not deny, the average revenue from the RTS customer is 5.4 cents/kWh, compared with the Company's average and incremental fuel costs of 1.8 cents/kWh and 2.2 cents/kWh, respectively (PP&L St. 8-R, pp. 20-21). Thus, there can be no reasonable argument that they fail to contribute very significant revenues to cover fixed costs. Mr. Andersen's only response is a non-sequitur: that these customers contribute <u>less</u> fixed costs than they would if they belonged to a different class, and therefore should be considered to contribute <u>nothing</u>. As Mr. Kasper points out, this argument is completely unreasonable (Tr. 2162-63). On the same logic, parties could argue that the industrial customers contribute "nothing" in fixed costs because they could be contributing more fixed costs if they would be classed as GS-1 or GS-3 customers. Mr. Andersen's argument is simply wrong and should be rejected.

3. Rate Schedules LP-4, LP-5 And LP-6, Interruptible Option

The debate over the value and level of the interruptible rates for large customers was a significant issue in this

proceeding. Here again, the industrial customers argue based on general claims of competition, relative rate increase levels, etc.,[80] that they should pay as little as possible of the Company's fixed costs, while imposing a greater cost burden on the residential and commercial consumers. Particularly in the area of rate design, many factors affecting all customers must be balanced by the Company. The balance struck by the Company in allocating rates to the interruptible customers is reasonable and therefore should be accepted by the Commission.

a. The Claim That The Company's Interruptible Rates Are "Uncompetitive" Is Misplaced And Inaccurate

Both Bethlehem Steel (BCS St. 1, pp. 3-7) and PPLICA[81] argue that the Company's rates are "uncompetitive" or "too high" relative to other utilities and other rates, and may force the customers to shift production or even shut down. These arguments are flawed for a variety of reasons.

A threshold error in their arguments deserves note: The witnesses treat electricity as the deciding factor in whether to shift production or relocate. In fact, companies weigh a wide range of costs and siting characteristics before making a siting relocation or production decision (PP&L St. 10-R, pp. 1-4).

80/ The arguments over the value of interruptible capacity discussed above in Section VI.A.2., are simply another prong of this broader effort.

81/ E.g., Messrs. Chamberlain, Williams, Schneider, Hornung, Felter and Rooney.

Electric rates are only one factor, and often a minor factor in these decisions. The various PPLICA individual company witnesses casually referred to shifting production away from PP&L's service territory, but provided no information on labor costs, shipping costs, capital costs, other input costs, or any other siting considerations (such as plant profitability) that would in reality drive such a decision.

(1) The Company Has Both The Incentive And Tools To Prevent Competitive Load Loss

The Company's proper tool to address the threat of individual customers' reducing their consumption or leaving the Company's system is not the interruptible rate option. As Mr. Kasper explains, the Company has several tools to retain and attract businesses, including EDI/IDI credits, demand free days, real time pricing ("Price Response Service") and the Competitive Rate Rider ("CRR") (PP&L St. 8-R, pp. 26-28). Indeed, the new Rate Schedule LP-6, is a response to the competitive problems posed by very large customers that generally have competitive options as a class (PP&L St. 8, pp. 8-9). Under the Price Response Service, customers can access hourly energy prices to change production rates to reflect fluctuations in energy prices -- early results show that customers can realize substantial savings. The CRR provides for individually-calculated rates responsive to individual companies' competitive challenges.

These customer-specific competitive options are far preferable to the across-the-board lower interruptible rates urged by PPLICA and Bethlehem, for two reasons: (1) individual customer circumstances vary widely, and any attempt to respond by means of a uniform interruptible rate must fail unless it falls to the lowest level needed to meet competition for one or a few customers;[82/] and, (2) that response would ignore the Company's duty to balance the interests of all customers, industrial, commercial and residential (PP&L St. 8-R, pp. 28-29).[83/] In contrast, the Price Response Service and CRR can be tailored to

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82/ The individual PPLICA witnesses' statements illustrate this point. Their competitive circumstances vary widely, and clearly do not invite a blanket rate discount. For example, Mr. Rooney, on behalf of Armstrong World Industries, Inc., PPLICA St. 6, pp. 7-13, claimed (without any substantial support) to have the options of self-generation or municipalization to cut energy costs directly, as well as the option of shifting production. He provided no indication of the importance of electricity in his total costs. In contrast, Mr. Chamberlain of BOC Gases described a plant whose costs were 71% electricity, serving a potentially closing steel mill, and least efficient of its sister plants, with no claimed self-generation or municipalization options (PPLICA St. 1, p. 3). Clearly, any legitimate individual competitive needs of these customers cannot be met effectively with a single, blanket interruptible rate, as Mr. Baron contends.

83/ The current interruptible rate structure being revised in this filing is a good example of why broad-spectrum competitive responses are problematic. As is discussed below, the 1992 interruptible rates proved to be too generous and encouraged uneconomic actions by customers, requiring first a rate closure approved by the Commission and now a restructuring of the rate.

fit customers' needs, and will not be applied unless there is a demonstrated need.[84/]

Mr. Baron completely ignored these tools as being irrelevant to his testimony. See Tr. 1182-86. In contrast, the Commission rejected a challenge to the Company's closing of the interruptible rate earlier this year on grounds that it would harm the competitive standing of the local businesses. There, the Commission specifically adopted the ALJ's findings that tools were available to the Company other than the interruptible rate, particularly the then-new Competitive Rate Rider and real-time pricing riders. Commenting on the CRR the Commission stated:

> [t]his rider will permit PP&L to address individual customers' legitimate competitive options, retain load that might otherwise be lost, and avoid shifting a larger proportion of fixed costs to firm service, residential and commercial customers.

Pa. P.U.C. v. Pennsylvania Power & Light Co., Docket No. R-00943081, Opinion and Order issued February 9, 1995 ("Interruptible Rate Order") at 13 (quoting ALJ's order). The Commission's conclusion applies here as well.

Finally, the industrial argument of competitive harm overlooks a key point: The Company itself has a critical interest in preventing these customers from reducing their purchases of electricity. If this load is lost, the Company's

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84/ These tools are adequate under current circumstances, in which retail wheeling is not occurring. Even Mr. Brubaker acknowledged that retail competition from other sellers was not at issue in this case (Tr. 1236).

shareholders would bear the full impact of lost revenues until the next general rate case.

(2) The Company's Industrial Rates Are Not Out Of Line With Those Of Comparable Companies

Mr. Brubaker's comparative analysis of the Company's rates relative to other utilities focusses on the wrong comparison companies and should be disregarded. His sample of electric companies from the "industrialized states of Illinois, Indiana, Michigan, Minnesota, Ohio, Pennsylvania and Wisconsin," (BSC St. 1, p. 6), is overwhelmingly dominated by companies from the Midwest that operate as part of a different power pool than PJM, have far different generating profiles, and simply do not compete on any comparable footing with PP&L for industrial load (Ex. MEB-1, Sch. 1, p. 1), includes only seven Pennsylvania companies, and no New York, New Jersey or Maryland companies.

As Mr. Kasper's Exhibit OGK-12 shows, in the relevant geographic area (New York, Pennsylvania, New Jersey, Maryland and Delaware), the prices paid by PP&L's industrial customers compares favorably with the prices paid by customers of many nearby competitors.[85/] On this basis, PP&L fares better than Rochester Gas & Electric Co., New York State Gas & Electric Co., Orange & Rockland Utilities, PECO Energy, Public Service Electric

85/ Clearly the overall industrial price is more relevant than Mr. Brubaker's interruptible and carefully-selected load/rate comparisons.

& Gas Co., and the New York City and other New Jersey utilities, and is virtually equal to Metropolitan Edison and Duquesne.

Even taken at face value, Mr. Brubaker's comparison proves nothing of relevance to the question here -- whether the rates as increased are just and reasonable. All of his comparisons in this exhibit show no significant change in competitive status as a result of the proposed increase. The Company rises only two to four places at most. In no instance does its position worsen vis-á-vis other Pennsylvania utilities.

Finally, Mr. Brubaker fails to demonstrate the relevance of his comparisons. Despite the rhetoric of the imminent retail competition in his testimony, he admitted on the stand that this rate case is not about retail wheeling, and that the only competitive impact of varying industrial rates is companies' decisions to shift production or relocate (Tr. 1238-39). However, as explained above, relocation decisions are driven by many other factors than mere electricity prices (PP&L St. 10-R; Farber Reb. pp. 1-2). As noted above, any such indirect competitive problems can be addressed by targeted Company programs -- not by rate giveaways to the entire industrial class in the hope of addressing customer-specific problems.

b. The Level Of The Rate Increase To Interruptible Customers Is Just And Reasonable

The industrial customers argue strenuously and at length that the interruptible LP-5 customers receive a disproportionate share of the rate increase (PPLICA St. 7, pp. 43-47). These claims suffer from several infirmities, but even viewed most favorably, the chief problem is a complete absence of perspective and balance -- key factors in the rate design process. The only reason that Mr. Baron can calculate significant increases for the interruptible option rates is that those same interruptible customers -- and those interruptible customers alone -- received major rate decreases commencing in 1992. Relative to the 1984 base rates -- that is, using a basis comparable to base rate of every other customer -- the interruptible customers will receive a 5% rate decrease in this case (PP&L St. 8-R, pp. 30-31). They continue to enjoy far lower rates than are available to firm large power customers. The industrial customers claim nonetheless that the interruptible rates are unlawfully high and should be lowered (in part) by a shift of $40 million to residential customers. See PPLICA St. 7, p. 56. Their proposal would ignore the rate realities and sound rate design, would be inequitable to other classes and should be rejected.

The facts as to the history of the interruptible rates under LP-5 are not in question. Beginning in 1992, as a result of the Company's filing in Docket No. R-00943081, new interruptible

tariffs became effective under which the interruptible customers experienced a rate decrease of 21% in the aggregate (PP&L St. 8-R, p. 30).

Subsequently, the Company found that the new interruptible rate was seriously flawed. The then-new interruptible credit, $11.60/kWh, was set at a higher level than was justifiable on purely cost of service grounds, in the hope of encouraging economic development and preventing load loss. Instead, the new rate failed to provide commensurate benefits to the Company and its other customers. After 1992, the value of interruptible capacity fell materially and the high level of the credit encouraged many large power customers to install backup generation to qualify for interruptible status, broadening the pool of eligible customers beyond the original target group to the detriment of other large and small customers (PP&L St. 8, p. 11).

As a result, the Company filed its Supplement No. 40 on May 13, 1994 to close the interruptible rates for LP-4 and LP-5. Early this year the Commission approved that action and the Company's rationale:

> [W]e find substantial evidence that the interruptible rate provisions have ceased to be in the public interest as an economical alternative for those qualified customers, as such rates now operate to the detriment of PP&L and its other rate classes.

Interruptible Rate Order at 9. The Commission specifically found that the ALJ "set forth several cogent reasons supportive of his

conclusion that the competitive position of PP&L's customers will not be adversely affected by the implementation of Supplement No. 40," because new load, that is, load qualifying after the cut-off date for the closed interruptible rates, typically required the use of on-site generation. Yet, he found, and the Commission agreed, that, "[u]se of on-site generation substantially diminishes any economic benefits that might be achieved." Interruptible Rate Order at 9-10. The key, the Commission concluded, was that closing the rate was consistent with the Company's assessment that the costs to the system outweighed the benefits. Interruptible Rate Order at 14-15.

To correct the interruptible rates consistent with that order and rationale, the Company filed the proposed rates to eliminate the outsized and insupportable interruptible credit and restore interruptible rates to their prior rate design, using, as the Commission directed, an appropriate cost of service allocation.[86/] The current interruptible credit constitutes an approximately 50% reduction in the level of average annual discount between firm and interruptible service. (PP&L St. 8, p. 14).

86/ This action accounts for the fact that, as PPLICA's witness noted at the hearing, even without any rate increase being granted, the interruptible customers would receive as approximately 22% increase (Tr. 1179). Far from being singled out arbitrarily, however, the interruptible customers would merely experience a return to the status quo.

This change, or rather return to the norm, explains, in short, why the proposed rates "burden" the interruptible LP-5 customers under the snapshot approach used by Mr. Baron. In contrast, Mr. Kasper's exhibits demonstrates the absence of rate shock for the interruptible customers in the proposed rates.[87/] The proposed rates would also continue to result in costs per kWh far lower than those arising from the LP-5 rate (Tr. 2219-20).

The industrial customers simply paint a profoundly incomplete picture of the true rate impact of the proposed rate design. In fact, under the Company's cost of service and rate allocation principles, the interruptible customers will continue to enjoy appropriate rate benefits from providing the system with some relief from peak load obligations -- even as such benefits continue to dwindle. PPLICA would prefer, in effect, to freeze in place a mistaken interruptible credit as a permanent rate benefit; their request should be denied.

Mr. Baron argued that his proposal is consistent with the Commission's Interruptible Rate Order, asserting that the only action of the Commission there was to cap the amount of interruptible load (PPLICA St. 7-S, p. 8). This claim is simply wrong. The Commission found that the prior interruptible credit

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87/ Ex. OGK-10 demonstrates that the proposed LP-5 interruptible option costs per kwh are less than or nearly equal to those costs in 1986-87 and 1990-92. Ex. OGK-10 also shows the average cost per kwh for LP-4 interruptible option shippers; although proposed levels do exceed the costs for 1993-94 and 19889 and 1993, they are less than the costs for 1990-92 and 1986-87, and nearly equal to 1988.

provided too great an incentive to customers to self-generate to qualify for the rate, while providing too little cost benefit to the system, in light of the value of the interruptible load. Mr. Baron proposes a credit which, on average, is equal to $8.00/kWh, but for high load factor customers, the credit would be $11.00 -- far above the costs to build a gas turbine unit per kWh, and nearly the same level as the $12-14/kWh credits found inappropriate by the Commission (Tr. 2164). Indeed, customers with an 85% load factor would see an even higher effective credit of $15/kWh. Thus, Mr. Baron's proposal contains the very same incentive for high load-factor customers to build self-generation capability that the Commission just rejected in PP&L's Interruptible Rate Order (Tr. 2165). His proposal therefore is flatly inconsistent with that Order and should be rejected.

4. Rate Schedule SE (Street Lighting)

The Office of Trial Staff's witness Mr. Yarolin advocated an off-peak rate for Rate Schedule SE, on the grounds that: (1) the service is not used during peak hours for seven of the twelve months of the year (OTS St. 3, p. 14); (2) that the charge "can place a financial strain on a given community," citing concerns over street lighting costs by three municipal officials, OTS St. SR-3, p. 12;[88/] and (3) that street lighting is a community

88/ Initially, Mr. Yarolin argued that the hardship was shown by the 70% level of the SE increase (OTS St. 3, p. 15). Subsequently at hearing, however, he acknowledged that the 70% figure was incorrect, and that 20.49% was the correct increase (Tr. 1091).

service from which all customer classes benefit. He also suggested that the Company file a rate with higher on-peak (winter) month rates and lower off-peak (summer) month rates (OTS St. SR-3, p. 12).

Rate Schedule SE has consistently contributed to monthly system peaks since the rate was first established in 1982. OTS has shown no change in circumstances to support a change in rate design here.

Proving the likelihood, rather than the mere possibility, of financial hardship on communities requires more than three generalized statements at public hearings. More importantly, Mr. Yarolin's final proposal would not alleviate the cost impact on municipalities. Charging higher rates in the winter and lower rates in summer will redistribute, but not necessarily reduce, the costs to the communities (PP&L St. 8-R, p. 47). In addition, on-peak/off-peak pricing is generally used for customers who can shift load to off-peak periods and achieve savings. Rate SE cannot move load off-peak in response to off-peak pricing and therefore would not benefit from an off-peak rate (PP&L St. 8-R, p. 47).

Mr. Yarolin has also failed to support his claim that no significant peak costs are incurred due to street lighting. Under any of the demand cost allocation methods under review in this case -- the 12 CP method, the 1 CP method, or even OCA's "peak and average" method -- Rate SE makes a significant

contribution to winter monthly peaks. Given this fact, the request to exclude Rate SE for any rate increase would require a subsidy from other rate classes, and would violate the Company's principle of moving all classes towards cost of service (PP&L St. 8-R, pp. 46-47).

5. Rate Schedule ISA

Brief opposition is voiced to the proposed treatment of Rate Schedule ISA, on the ground that the existence of a contract should not block application of a portion of the rate increase (OCA St. 3, p. 20). The fact that the rate was embodied in a contract accepted by the Commission without protest or condition should be accorded weight. Moreover, as Mr. Kasper explained, creation of this rate class was a specifically-designed competitive response to the end-use environment and customer needs for lower rates, as demonstrated by the customer (PP&L St. 8-R, p. 41). The Commission should not discourage rates targeted to retain specific, competitive business, particularly where arbitrarily withdrawing the contract terms would likely risk loss of load.

Certainly, the OCA has failed to establish the unlawfulness of this rate schedule. The sum total of the witness' evidence on this subject is as follows:

> I see no justification for continuing to provide massive subsidies to this customer and recommend a reasonable increase in ISA charges.

This cursory reference, without any supporting analysis, falls well short of the minimum needed to support changing the Company's proposed rate.

6. Other Issues

a. The Company's Treatment Of EDI/IDI Credits Is Reasonable

The OCA opposed full recovery of EDI/IDI credits, on grounds that the Company failed to show ratepayer benefits (OCA St. 5, pp. 15-17). In addition, both OCA and PPLICA proposed that costs of the EDI/IDI credits be distributed among all of the classes, rather than the classes to which the credits applied (OCA St. 3, p. 17; PPLICA St. 7, p. 34). Mr. Biewald of the Sierra Club suggests implementing DSM audits as a precondition to EDI/IDI credits (SC St. 1, p. 29). None of these adjustment is warranted.

(1) The Company Has More Than Adequately Supported Recovery Of All EDI/IDI Credits In Its Rates

There should be no serious question regarding the Company's right to fully recover these credits in rates. Mr. Kasper fully explained the origin and nature of these credits, and provided a demonstration of system benefits (PP&L St. 8, pp. 16-21). The program provides credits of 1 cent per kWh and $2 per kWh to encourage the expansion of use by existing commercial customers, thus providing benefits to the system by spreading the Company's

fixed costs over larger volumes. Moreover, these credits were only provided to customers who were able to submit data demonstrating an intent to expand physical plant and add production capacity. Without such a showing, no EDI/IDI credits were available (PP&L St. 8-R, p. 38).

The program also clearly worked as intended and has produced substantial benefits to the Company's customers. The program provided substantial benefits to the participants and helped to retain 20 plants in the Company's service territory (PP&L St. 8-R, p. 39). From a broader prospective, the Company presented a cost/benefit analysis using the Commission's "all-ratepayers" DSM test. This test measures the difference between the change in total revenues paid to the Company and the change in the total costs resulting from the program, using marginal fuel costs, and based on retention versus potential loss of 20 industrial customers (a conservative estimate, given the participation of far more customers in the program). Over the 10-year study period, the cumulative present value of revenues exceeded the net present value of the incremental costs, thus reducing the Company's average revenue requirement (PP&L St. 8-R, pp. 39-40).

Finally, the record also shows that the program deterred a number of industrial customers from constructing substantial on-site cogeneration capacity over the past ten years, which would have resulted in major losses of the incremental sales produced by the EDI/IDI participants (PP&L St. 8-R, p. 42). OCA has not

refuted this factual showing in any way, except to claim lack of proof. The Company has clearly supported this program.

Finally, if the Commission were to find, because of changed standards, that the EDI/IDI programs were not recoverable in rates, the Company would argue strenuously that the programs, which shareholders have already funded for several years, simply be terminated without further payment of credits. Forcing shareholders to fund a project that was designed and successfully implemented to benefit ratepayers would be inappropriate and not acceptable to the Company (PP&L St. 8-R, p. 43).

(2) The Cost Of The EDI/IDI Credits Should Be Allocated To The Beneficiary Rate Classes

OCA and PPLICA also urge that any EDI/IDI credits be allocated among all rate classes. The Company disagrees. Although the entire system benefits from the program, as discussed above, there is a major difference in the degree to which they benefit. The EDI/IDI programs benefit both participants and non-participants, but provide far greater benefits to participants.[89/] Allocating the costs of these programs to all classes would fail to assign costs and benefits proportionally, and would also depart from the Commission's

89/ Ex. OGK-4 shows that absent the sample of 20 customers whose load would not have been retained without EDI/IDI, the class rate of return for the system would decline from 7.31% to -17.10%, which is fare less than the effect difference for LP-4 (8.96% to -51.56%) and LP-5 (5.34% to -109.18%).

treatment of costs in analogous circumstances (PP&L St. 8-R, p. 38).

(3) Implementation Of Customer DSM Audits Should Not Be Preconditions To EDI/IDI Program Participation

Mr. Biewald cites to requirements in a number of New York discount contracts that mandate DSM audits, and recommends similar requirements for the Company's "discount plans," apparently including EDI/IDI credit programs. The New York utility cases described in his exhibits are quite different from the programs at issue in this case, and he made no attempt to relate the theory and reasoning of the New York Commission to the issues before this Commission. Therefore, the general proposition advanced by Mr. Biewald is simply unsupported.

Nonetheless, the Company would not object to requiring companies to perform or present DSM audits as part of the EDI/IDI process, with two caveats as to Mr. Biewald's proposal: (1) there should be no rigid requirement that all of the results of the audit be implemented, because of the balancing of needs for capital projects, and (2) the customers should pay for the audits (PP&L St. 8-R, p. 43).

b. The OSBA's Recommendation Of A Rate Design Tracker Should Not Be Implemented

Mr. Knecht, on behalf of the OSBA, recommended that the Commission implement an annual, automatic rate adjustment to

ensure that the GS rate schedules be moved toward system average rate of return during any years prior to the Company's filing of a new rate case (OSBA St. 1, pp. 6-7). The Company does not believe that Mr. Knecht has sufficiently explained or justified this request.

c. The Company Has Justified The Scope Of Its DSM Programs

The CEO criticized the Company's DSM initiatives as being inadequate, and recommended that the Commission require that the Company expand them (CEO St. 2, pp. 13-14). This claim simply ignores the basic facts regarding PP&L.

First, there can be no doubt that the company operates a substantial and effective series of DSM programs. As Mr. Farber described, these include a range of programs, from the Thermal Integrity, Energy Efficient Equipment and Home Energy Analysis and Comfort Home programs for residential consumers, to a series of research projects and initiatives with manufacturers of energy efficient products, to the Efficient Energy Management, Energy Conscious Construction, Electrotechnology and Environmental programs for industrial and commercial customers, and the Area Lights Conversion program for all consumers, as well as other projects (PP&L St. 10, pp. 4-10). The only real criticism of CEO is aimed at the level of expenditures, based on a comparison with other utilities. But these are faulty, for several reasons:

(1) As a utility with adequate capacity through 2008, and as a net seller of electricity to other utilities, accelerated investment in DSM will not reduce PP&L's capital costs. PP&L St. 10-R, pp. 4-5.

(2) National/regional comparisons are not appropriate. PP&L spends more than any other major utility in Pennsylvania, despite the continued uncertainty over recovery mechanisms (PP&L St. 10-R, p. 5).

Other criticisms are also without merit. The focus of the Company's efforts is designed to maximize DSM benefits in light of the Company's specific circumstances. As a utility with a major electric heat load, the Company properly focusses on residential heating. New home-oriented programs maximize benefits more than existing home programs (which the Company also addresses), and successful DSM implementation in large industrial companies will have a greater impact than on smaller companies.

In sum, the Company's DSM programs are sufficient in scope and well-focussed on the key concerns for its own circumstances. CEO, at best, expresses a preference that the Company redirect its resources in a manner more to CEO's advantage; that is not sufficient to support the relief they request.

IX. ENERGY COST RATE ISSUES

A. The ECR Should Be Retained

As does every other Pennsylvania electric utility, PP&L has an Energy Cost Rate ("ECR") clause in its tariff, and proposes to continue to use it in the current case. GSA witness Mr. Prisco recommends that the Commission eliminate the Company's ECR. His proposal is completely unsupported and contrary to established Commission regulations and policy.

A Commission-approved ECR mechanism is specifically sanctioned by Section 1307 of the Public Utility Code (66 Pa.C.S. §1307). As the courts have noted, the "central purpose" of the pass-through mechanisms authorized by § 1307 is "to permit the reflection in customer changes of charges in one component of a utility's cost of providing the public service without the necessity of the broad, costly, and time consuming inquiry required in the case of rate increases generally." National Fuel Gas Distribution Corp. v. Pa. P.U.C., 81 Pa. Cmwlth. 148, 473 A.2d 1109, 1121 (1984).

Since 1978, the Commission has approved an ECR (or predecessor fuel clause and levelized energy clause) to provide current recovery of all applicable energy-related costs and current flow through to customers of all applicable energy-related credits. The Company's ECR has been approved by the Commission in prior rate cases. Nothing has changed that would

justify eliminating this mechanism and its substantial benefits: rate stability; avoidance of repeated base rate filings; timely customer receipt of cost reductions; and levelization of costs over a 12-month period (PP&L St. 7-R, p. 32).

B. The Commission Should Approve The Company's Proposal For ECR Treatment Of Non-Energy Costs Associated With Terminated Off-System Sales

1. The Company's Proposal Is Fully Justified And Would Provide Important Benefits To The Company And Its Customers

In this proceeding, the Company has proposed an innovative modification of the ECR to reflect the expected return of capacity costs and revenues attributable to off-system capacity sales that will terminate in the near future. The Company's proposal specifically addresses the return of a 945 MW slice of system capacity and energy sold to Jersey Central Power & Light Co. ("JCP&L").

In PP&L's 1982 base rate case the Commission determined that PP&L had excess generating capacity and, as a remedy, disallowed recovery of all return on a 945 MW slice of the Company's system. After that case, PP&L sold that capacity to JCP&L. In the Company's 1984 base rate case, all of the costs and revenues associated with that 945 MW were allocated out of PUC

jurisdictional rates. The same approach was followed in this filing.[90/]

On January 1, 1996, this sale to JCP&L begins to wind down over a five-year period. One-fifth of the 945 MW, or 189 MW will return to PP&L each year. Absent an innovative solution, PP&L will have to choose among three alternatives for addressing this returning capacity: (1) find another buyer in the bulk power market, (2) fill periodic retail base rate cases, or (3) absorb the associated costs.

After analysis, PP&L concluded that none of these three options was satisfactory or in the public interest. The bulk power market is becoming increasingly competitive and prices are being driven inexorably toward marginal costs. Periodic base rate filings require the commitment of significant resources by all participants, most particularly the Commission and its staff. And, finally, the Company is not in a financial position to begin absorbing additional costs. Accordingly, PP&L developed an innovative alternative which it presented in this case.

Under its proposal in this case, the Company would reflect the full costs of each "slice" of returning capacity in the ECR, as well as credit all revenues from off-system sales. The

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90/ PP&L also has sold capacity and energy to Atlantic City Electric (125 MW slice of all coal-fired plants) and Baltimore Gas & Electric (125 MW slice of the Susquehanna Plant). The Company has followed the same ratemaking practices with these sales as it has with the JCP&L sale and would intend to follow the same ECR treatment.

capacity could serve a range of uses that would ultimately benefit customers, e.g., serving native load, or making off-system capacity-related PJM installed credit, output reservation and transmission entitlement sales.

As the Company's native load increases, this returning capacity can provide a valuable resource for meeting this additional customer demand. Alternatively, the Company may be able to make various capacity-related off-systems sales that will produce significant revenues to be credited to retail customers. Under traditional ratemaking practice, customers would not receive these credits until the Company's next base rate case and even then only if the revenue was reflected in the test year.[91/] Under PP&L's proposal customers would receive the net benefits of all such transactions automatically through the ECR (PP&L St. 7, p. 22).

This modification of the ECR is opposed by three witnesses (PPLICA St. 7, p. 75 ; OCA St. 1, p. 6; DOD St. 1, pp. 15-16). Generally, they oppose the Company's proposal on grounds that any automatic pass-through of costs not subject to review in this proceeding is inappropriate. The Company recognizes that its proposal is innovative and novel, but is disappointed in the "knee jerk" response of opposing parties who minimize or overlook

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91/ In the settlement of various complaints against its ECR, the Company agreed to reflect a portion of these revenues in the ECR until its next base rate case. This practice should not continue after the conclusion of this case.

several major advantages of the Company's proposal: (1) the costs of the returning facilities are known now and are not speculative; (2) customers would immediately receive the benefits of all revenues from off-system capacity sales; (3) the proposal would relieve all parties and the Commission of the cost and regulatory burden of periodic base rate cases which otherwise may be unnecessary; and (4) any concerns as to potential overearnings can be obviated by monitoring the Company's quarterly reports to the Commission, in conjunction with the right to institute investigations (PP&L St. 7-R, p. 33-34).

The Company urges the Commission to examine this proposal carefully and to reject the unreflective opposition of some parties to the Company's creative solution to this difficult issue. The ECR modification should be approved.

2. If The Company's Proposal Is Not Adopted, An Alternative Adjustment To The ECR Should Be Approved

Should the Commission not accept the Company's proposal, then fairness and sound ratemaking principals require that two steps be taken as to the ECR.

First, if the Commission decides to exclude from the ECR any capacity costs associated with expiring contracts, then all revenues from off-system capacity-related sales also should be excluded from the ECR and treated as an element of base rates only (PP&L St. 7-R, pp. 34-35). This is the traditional

ratemaking practice and would permit the Company to retain revenues from incremental off-system capacity-related sales to at least partially offset the cost of capacity returning under expiring agreements. Significantly, even Mr. Baron notes the propriety of this approach (PPLICA St. 70, p. 76).

Second, the Company should be entitled to retain all energy-related savings made possible by the return of this capacity to PP&L. For example, when the first increment of JCP&L capacity returns on January 1, 1996, the Company's capacity costs will increase by about $35 million and its energy costs will decrease by about $15 million. Under current regulatory practice in Pennsylvania, the Company's shareholders would absorb a $35 million cost increase and ratepayers would automatically receive a $15 million cost decrease through the ECR. Under the Company's preferred proposal, both the capacity costs and the energy savings would be reflected in the ECR, along with all of the revenues received from other off-system capacity-related sales. If the Company's preferred proposal is rejected, however, at a minimum, the Company should be permitted to retain the energy savings to offset a portion of the capacity costs that produced those savings. Although this would not be a complete solution to the problem, it at would least avoid the fundamental mismatch of costs and savings described above and could help the Company avoid the need for an immediate rate filing to reflect the returning JCP&L capacity and energy (PP&L St. 7-R, p. 35).

X. PUBLIC INPUT HEARINGS

A total of 11 public input hearings were held between March 30 and April 6, 1995, in locations throughout PP&L's service area. The ALJ, representatives from various Commissioner's offices, the PUC Bureau of Public Liaison, the OTS, the OCA, the OSBA and the Company attended each hearing.

The public input testimony did not reveal any significant concerns with the Company's service, customer relations or economic development efforts. In fact, several witnesses praised PP&L's performance in these areas. One witness testified that the Company's service would be judged as "very good, above average"; PP&L is "the most proactive company in this community for economic development"; and the Company's service is reliable (Tr. 189-90). Another witness testified that electric service is "extremely important" to his business; he gave several examples of receiving good service from PP&L and concluded that the Company's "service has been superior" (Tr. 227-29). Another witness gave examples of PP&L's assistance in economic development such as marketing available facilities, participation at trade shows and co-op advertising (Tr. 250-51). Finally, a witness involved in the administration of several PP&L customer programs testified that his experience with the Company has been "the most gratifying and the most productive" and that PP&L is "the most careful in their treatment of customers who have an inability to pay" (Tr. 635).

Critical comments presented at the public input hearings can be grouped into the following four major categories:

- The impact of the requested increase on residential customers;
- The amount of the requested increase for Rate Schedule RTS;
- The impact of the requested increase on business and economic development; and
- The performance and safety of Susquehanna.

PP&L submitted testimony that fully responded to each of these concerns. Much of that testimony is discussed throughout this brief; a summary of the Company's responses is provided below.

A number of witnesses testified that the proposed increase would adversely affect residential customers, particularly the elderly and retired. The overall magnitude of the increase to Rate Schedule RS was questioned as well as the proposed design of that rate.

The Company responded to these concerns with four principal points. First, the Company's cost allocation study supports an increase to Rate Schedule RS that is somewhat greater than the overall average system increase (Ex. JMK-2). Second, the Company's minimum system study indicates that the proposed increase in the customer charge component of Rate Schedule RS is appropriate. See Section VIII, supra. Third, the Company's proposed design of Rate Schedule RS properly reflects data from

the cost of service study, and the minimum system study and its rate design is consistent with all applicable ratemaking principles. Fourth, PP&L offers a number of existing programs for residential customers that experience difficulty in paying their bills. Examples include Operation HELP and the CARES program (PP&L St. 11). Moreover, PP&L proposed additional programs in this filing to assist these customers.

Witnesses testified that the amount of the increase proposed for Rate Schedule RTS was too high; the amount of the increase proposed for Rate Schedule RTS was compared to the amount of the increase proposed for Rate Schedule RS. Other witnesses cited the impact of the proposed increase on their projected payback period. Finally, many witnesses commented on the confusion resulting from a letter sent to them by PP&L explaining the proposed increase in Rate Schedule RTS.

The Company presented testimony responding to each of these concerns. The amount of increase proposed for Rate Schedule RTS and the relationship of that proposal to the amount of the increase proposed for Rate Schedule RS are fully supported by the Company's cost allocation study and its principles of rate design. Recognizing the concerns raised by various witnesses in this proceeding, PP&L proposed to modify Rate Schedule RTS as follows:

- Applications for service under Rate Schedule RTS will be accepted only through December 31, 1995;

- After that date, customers desiring to use an electric storage system will be eligible to do so under a new rate schedule incorporating newer technology and appropriate terms, conditions and rates;
- Customer locations served under Rate Schedule RTS will continue to receive service under that rate during the life of the currently installed thermal storage system; the Company will not propose to reduce the existing 2.3¢/KWH differential between RS and RTS customers before December 31, 1999 (PP&L St. 8-R, p. 12).

PP&L submits that this proposal will address concerns raised by customers at the public input hearing. Finally, the Company submitted testimony clarifying the intent of the letter that it sent to customers and explained that it is responding with additional clarification to any customers that contact the Company regarding these issues.

A number of witnesses testified that the proposed increase would adversely affect individual businesses or economic development in the region.

The Company presented testimony by Gerald S. Farber, PP&L's Manager - Sales and Account Management, that refuted these concerns. In his opinion, the proposed increase will not discourage industrial customers from locating in or remaining in PP&L's service area (PP&L St. 10, p. 2). He cited two reasons. First, the cost of energy often is a relatively minor

consideration when a business is deciding where to locate its operations (Id.). Quality of service may be more important and PP&L's customers believe the Company provided high quality of service. Second, the Company is pursuing numerous initiatives, both rate-related and non-rate related, to attract and retain businesses in its service area (Id.).

Several witnesses at the public input hearings questioned the appropriateness of constructing the Susquehanna plant and/or its impact on PP&L's rates. In addition, Eric Epstein testified at the Harrisburg input hearing and also submitted surrebuttal testimony in the technical phase of this case. In essence, he questioned the performance, economics and safety of Susquehanna. For the reasons discussed below, these comments should not be given any weight in this proceeding.

First, none of the witnesses were qualified on the record as experts in nuclear power plant construction, operation, safety or economics. Second, their testimony was not based on first-hand experience or knowledge. Rather, these witnesses relied primarily on hearsay sources of information such as stories in newspapers and/or articles in the trade press.

Most importantly, the Company presented expert testimony by George T. Jones, PP&L's Vice President-Nuclear Engineering, that

completely refuted these criticisms of SSES.[92/] Mr. Jones addressed Susquehanna's operating record and various safety-related issues.

At the outset, Mr. Jones explained that Susquehanna has had an outstanding operating record and has always compared favorably to the "best plants" in the United States. Since 1986 when PP&L began tracking three-year average performance, Susquehanna has been a top quality performer in the NRC Systematic Assessment of Licensee Performance (SALP) rating (PP&L St. 15, p. 3). Mr. Jones also explained that PP&L had fully addressed the concerns raised by Mr. Epstein regarding Thermolag fire protection, disposal of radioactive waste and the adequacy of fuel pool cooling (Id.).

In surrebuttal testimony, Mr. Epstein challenged Mr. Jones' statement that the NRC uses SALP ratings to determine the amount of attention to devote to a licensee. Mr. Jones cited NRC SALP Directive 8.6 as fully supporting his statement (Tr. 2246).

In addition, Mr. Epstein questioned the severity of violations of NRC regulations at the plant. Mr. Jones testified that PP&L has never received a Level I violation (the most severe) or a Level II violation (Tr. 2247).

92/ Mr. Jones has over 25 years of experience in the operation and design of nuclear power plants. At PP&L, he is responsible for the nuclear engineering function consisting of engineering design, nuclear fuels and engineering analysis (PP&L St. 15, pp. 1-2).

Mr. Epstein claimed that the number of Licensee Event Reports (LERs) increased by 30% at the plant in 1994. Mr. Jones responded that LERs at Unit 1 increased by only one; LERs at Unit 2 did not increase at all (Id.).

In his surrebuttal testimony, Mr. Epstein criticized PP&L's testing and installation of Thermolag, a fire barrier, at Susquehanna. Mr. Jones explained that the Company tested Thermolag and, with NRC approval, added an additional fiberglass barrier before installing it at the plant (Tr. 2248-49).

Mr. Epstein raised concerns regarding the storage of radioactive waste at Susquehanna. Mr. Jones explained that the plant is designed, licensed and constructed to temporarily store radioactive waste; it is not a permanent repository (Tr. 2249).

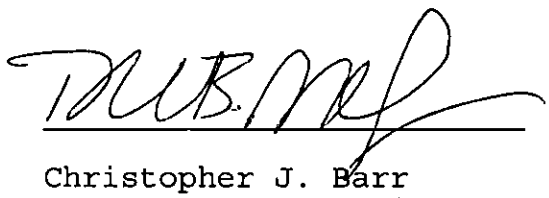
Finally, Mr. Epstein contended PP&L is double billing customers for high level radioactive waste storage. Mr. Jones disagreed; the disposal of high level radioactive waste is a multi-step process that always was designed to use the spent fuel pools (Tr. 2249-50).

The issues raised by Mr. Epstein were totally refuted by PP&l, are not relevant to this proceeding and should be disregarded.

XI. CONCLUSION

For the reasons set forth above, Pennsylvania Power & Light Company requests that the Commission terminate its investigation, dismiss all Complaints and grant the full rate increase requested in Supplement No. 14.

Respectfully submitted,



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APPENDIX A

TESTIMONY AND EXHIBIT SCHEDULE

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

TESTIMONY AND EXHIBIT SCHEDULE

Statement Number	Witness	Date Identified	Date Admitted	Subject
DIRECT TESTIMONY:				
1	Ronald E. Hill	3/27/95	3/27/95	Overall Rate Philosophy, Management Effectiveness, Financing Plans, Investment Of Nuclear Decommissioning Reserve Fund
2	Michael J. Berish	3/27/95	3/27/95	Operating Budgets, Voluntary Early Retirement Program, SFAS 106 Cost Containment
3	Ronald J. Bernini	3/27/95	3/27/95	Expense Adjustments, Taxes, Cash Working Capital, Fuel Inventories And Reserves, Decommissioning Annuities, Early Window Costs
4	Donald S. Hoch	3/21/95	3/21/95	Depreciation, Levelized Sinking Fund Depreciation
5	Douglas A. Krall	3/21/95	3/21/95	Capital Budget, Pollution Control CWIP, Fossil Plant Lives, Coal Upgrading
6	John J. Slivka	3/23/95	3/23/95	Sales And Peak Demand Forecasts, Annualization Of Sales And Revenue, Load Research

PENNSYLVANIA POWER & LIGHT COMPANY

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TESTIMONY AND EXHIBIT SCHEDULE

Statement Number	Witness	Date Identified	Date Admitted	Subject
7	Joseph M. Kleha	3/23/95	3/23/95	Cost Allocation, Energy Cost Rate, Special Base Rate Credit Adjustment, Property Held For Future Use
8	Oliver G. Kasper	3/28/95	3/28/95	Pro Forma Revenue Adjustments, Class Revenue Allocation, Rate Design, Proof Of Revenues
9	John F. Sipics	3/23/95	3/23/95	Electrical System, Capacity Planning And Reserve Margins, Value Of Interruptible Load
10	Gerald S. Farber	3/29/95	3/29/95	Economic Development, Demand-Side Management, Energy Efficiency
11	Thomas C. Stathos	3/29/95	3/29/95	Customer And Community Needs Programs
11-S	Thomas C. Stathos	3/29/95	3/29/95	Customer And Community Needs Programs
12	Paul R. Moul	3/21/95	3/21/95	Cost Of Common Equity, Fair Rate Of Return, Capital Structure, Embedded Capital Cost Rates

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

TESTIMONY AND EXHIBIT SCHEDULE

Statement Number	Witness	Date Identified	Date Admitted	Subject
13	Thomas S. LaGuardia	3/30/95	3/30/95	Nuclear And Fossil Plant Decommissioning
14	Clyde D. Beers	3/21/95	3/21/95	SFAS 106 Costs
REBUTTAL TESTIMONY:				
2R	Michael J. Berish	5/24/95	5/24/95	Environmental Remediation Expense, Uncollectible Accounts Expense, Susquehanna Refueling Costs, Pension Costs, SFAS 112 Costs, Voluntary Early Retirement Cost
3R	Robert J. Bernini	5/24/95	5/24/95	Rate Base And Operating Expense Adjustments
4R	Donald S. Hoch	5/23/95	5/23/95	Levelized Susquehanna Modified Sinking Fund Depreciation Expense, Amortization Accounting For Certain General Property Accounts, Decommissioning Expense For Fossil Generating Plants, Lives Of Older Fossil Plants

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

TESTIMONY AND EXHIBIT SCHEDULE

Statement Number	Witness	Date Identified	Date Admitted	Subject
5R	Douglas A. Krall	5/23/95	5/23/95	PP&L Proposal To Shorten The Depreciation Lives Of Holtwood 17, Martins Creek 1 & 2, And Sunbury 1, 2, 3, And 4
6R	John J. Slivka	5/25/95	5/25/95	Residential Thermal Storage
7R	Joseph M. Kleha	5/25/95	5/25/95	Cost Allocation Methodology, Interruptible Service Rate, EDI/IDI Credits, NUG Output Payments, Use Of Minimum Size System Study, A&G O&M Expenses, Electric Plant Held For Future Use, Elimination Of ECR
8R	Oliver G. Kasper	5/25/95	5/25/95	Allocation/Potential Scale Back Of Increase, Residential/Residential Thermal Rate Design, General Service Rates, EDI/IDI Riders, Interruptible Rate Levels, Competitive Pricing, Streelighting

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

TESTIMONY AND EXHIBIT SCHEDULE

Statement Number	Witness	Date Identified	Date Admitted	Subject
9R	John F. Sipics	5/26/95	5/26/95	Physical And Economic Excess Capacity, PP&L Installed Capacity Obligation, Relationship Between Interruptible Load Rate And Cost Of Service
10R	Gerald S. Farber	5/24/95	5/24/95	Competitiveness Of Commercial And Industrial Customers, Demand-Side Management Programs
11R	Thomas C. Stathos	5/24/95	5/24/95	Customer And Community Needs Programs
12R	Paul R. Moul	5/23/95	5/23/95	Fair Rate Of Return
12R-1	Paul R. Moul	5/23/95	5/23/95	Proposal To Reduce Rate Base To Reflect Deferred Incomes Taxes Related To PP&L's Call Premiums
13R	Thomas G. LaGuardia	5/25/95	5/25/95	Nuclear And Fossil Plant Decommissioning Expense
14R	Clyde D. Beers	5/23/95	5/23/95	Pension Expense And Other Post-Retirement Benefit Costs (OPEBs) Claims

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DOCKET NO. R-00943271

TESTIMONY AND EXHIBIT SCHEDULE

Statement Number	Witness	Date Identified	Date Admitted	Subject
15R	George T. Jones	5/26/95	5/26/95	Susquehanna Plant Operating Record, Strategy 2000 Report
16R	William H. Hieronymus	5/26/95	5/26/95	Excess Capacity Disallowance
17R	John M. Chappelear	5/23/95	5/23/95	Company NDT Fund

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
EXHIBIT:				
PP&L Exhibit 1		3/21/95	3/30/95	
Part 1	Various	3/21/95	3/30/95	Summary Of Filing
Part 2	Various	3/21/95	3/30/95	Primary Statements Of Rate Base And Operating Income
Part 3	Various	3/21/95	3/30/95	Rate Of Return
Part 4	Various	3/21/95	3/30/95	Rate Structure And Cost Allocation
Part 5	Various	3/21/95	3/30/95	Plant And Depreciation Supporting Data
Part 6	Various	3/21/95	3/30/95	Unadjusted Comparative Balance Sheets And Operating Income Statements
Exhibit Historic I	Various	3/21/95	3/30/95	Summary Of Measures And Value And Rate of Return
Exhibit Future I	Various	3/21/95	3/30/95	Summary Of Measures And Value And Rate Of Return
Future I Revised	Various	5/24/95	5/24/95	Summary Of Measures And Value And Rate Of Return
MJB 1	Michael J. Berish	3/27/95	3/27/95	Introduction To The Budget Manual-Chapter 110

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
MJB 2	Michael J. Berish	3/27/95	3/27/95	Specialized Data Produced For The Operating Budget
MJB 3	Michael J. Berish	3/27/95	3/27/95	Cost Areas - September 1, 1994
MJB 4	Michael J. Berish	3/27/95	3/27/95	1995 Budget Preparation Schedule
MJB 5	Michael J. Berish	3/27/95	3/27/95	Budget Item Codes
MJB 6	Michael J. Berish	3/27/95	3/27/95	Operating Budget Data 12-Months Ended September 30, 1995
MJB 7	Michael J. Berish	3/27/95	3/27/95	Electric Operating Budget Data By Quarters 12-Months Ended September 30, 1995
MJB 8	Michael J. Berish	3/27/95	3/27/95	Estimated Cost Of The Voluntary Early Retirement Program
DSH 1	Donald S. Hoch	3/21/95	3/21/95	Service Life Study
DSH 2	Donald S. Hoch	3/21/95	3/21/95	Future Plant Estimation Process
DAK 1	Douglas A. Krall	3/21/95	3/21/95	1994-95 Construction Budget
DAK 2	Douglas A. Krall	3/21/95	3/21/95	1995-96 Construction Budget

PENNSYLVANIA POWER & LIGHT COMPANY

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
DAK 3	Douglas A. Krall	3/21/95	3/21/95	Adjustment To The 1994-95 And 1995-96 Capital Construction Budget
DAK 4	Douglas A. Krall	3/21/95	3/21/95	Proposed Deactivation Dates For Fossil And Hydro Generating Plants
JJS 1	John J. Slivka	3/23/95	3/23/95	Annual Sales By Customer Class
JJS 2	John J. Slivka	3/23/95	3/23/95	Affidavit of John J. Slivka
JMK 1	Joseph M. Kleha	3/23/95	3/23/95	Cost Allocation Study Test Year Ended September 30, 1994
JMK 2	Joseph M. Kleha	3/23/95	3/23/95	Cost Allocation Study Test Year Ended September 30, 1995
JMK 3	Joseph M. Kleha	3/23/95	3/23/95	Distribution Subfunctionalization/ Classification Studies; Allocation Of Meter Costs
OGK 1	Oliver G. Kasper	3/28/95	3/28/95	Supplement No. 50 To Tariff Electric - Pa. P.U.C. No. 200

PENNSYLVANIA POWER & LIGHT COMPANY

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
OGK 2	Oliver G. Kasper	3/28/95	3/28/95	Digest Of Proposed Changes Requested In Supplement No. 50 to Tariff Electric - Pa. P.U.C. No. 200
OGK 3	Oliver G. Kasper	3/28/95	3/28/95	Allocation Of Proposed Rate Increase
OGK 4	Oliver G. Kasper	3/28/95	3/28/95	Cost Of Service Analysis Of EDI/IDI Programs
JFS 1	John F. Sipics	3/23/95	3/23/95	PP&L Load And Capacity Forecast 1994-2003
JFS 2	John F. Sipics	3/23/95	3/23/95	1993-94 Winter Forecast Conditions vs. Annual Conditions
PRM 1	Paul R. Moul	3/21/95	3/21/95	Schedules Concerning Fair Rate Of Return
TSL 1	Thomas S. LaGuardia	3/30/95	3/30/95	Dismantling Cost Study For The Holtwood, Sunbury, Martins Creek, Brunner Island and Montour Steam Electric Stations
TSL 2	Thomas S. LaGuardia	3/30/95	3/30/95	Decommissioning Cost Study For The Susquehanna Steam Electric Station, Units 1&2

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Exhibit Number	Witness	Date Identified	Date Admitted	Subject
CDB 1	Clyde D. Beers	3/21/95	3/21/95	Preliminary Actuarial Report For Fiscal Year Ending December 31, 1995 And Plan Year Beginning January 1, 1995
REBUTTAL EXHIBITS:				
MJB-9	Michael J. Berish	5/24/95	5/24/95	News Release - April 27 - DER, PP&L Sign Innovative Environmental Agreement
MJB-10	Michael J. Berish	5/24/95	5/24/95	Excerpt - Implementation Plan For The PP&L 1994 Stratified Management And Operations Audit
MJB-11	Michael J. Berish	5/24/95	5/24/95	Environmental Remediation Expense
MJB-12	Michael J. Berish	5/24/95	5/24/95	On Track Payment Program Expense Claim
MJB-13	Michael J. Berish	5/24/95	5/24/95	Calculation Of Historic Test Year And Future Test Year Amounts For Deferral And Amortization Of Refueling Outage Costs
MJB-14	Michael J. Berish	5/24/95	5/24/95	Pension Data 1987-98

PENNSYLVANIA POWER & LIGHT COMPANY

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
MJB-15	Michael J. Berish	5/24/95	5/24/95	Benefit Data - Future Test Year Expense
MJB-16	Michael J. Berish	5/24/95	5/24/95	Susquehanna Outage History
MJB-17	Michael J. Berish	5/24/95	5/24/95	Supplemental Response To OCA-IV-59
DSH-3	Donald S. Hoch	5/23/95	5/23/95	Susquehanna Depreciation
DSH-4	Donald S. Hoch	5/23/95	5/23/95	General Plant Account Amortization
DAK-5	Douglas A. Krall	5/23/95	5/23/95	Martins Creek 1&2 Continued Operation vs. Retirement (1994)
DAK-6	Douglas A. Krall	5/23/95	5/23/95	Martins Creek 1&2 Continued Operation vs. Retirement (1995)
JJS-2	John J. Slivka	5/25/95	5/25/95	1986-2006 Data - Residential Customers On Demand Management Programs
JJS-3	John J. Slivka	5/25/95	5/25/95	1985-2006 Data - Average Number Of Customers By Customer Class (Integrated Forecast)

PENNSYLVANIA POWER & LIGHT COMPANY

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
JJS-4	John J. Slivka	5/25/95	5/25/95	1985-2006 Data - Average Number Of Customers By Customer Class (Base Case Forecast)
JJS-5	John J. Slivka	5/25/95	5/25/95	1985-2006 Data - Annual Sales By Customer Class (Integrated Forecast)
JJS-6	John J. Slivka	5/25/95	5/25/95	1985-2006 Data - Annual Sales By Customer Class (Base Case Forecast)
JJS-7	John J. Slivka	5/25/95	5/25/95	1994-97 Demand Changes Due To Cogeneration, Off Peak Systems And Marketing
JJS-8	John J. Slivka	5/25/95	5/25/95	1994-97 Hourly Loads Under Scenarios And Difference From Rate Base
JJS-9	John J. Slivka	5/25/95	5/25/95	1986-94 Data - Customers With RTS Heating
JJS-10	John J. Slivka	5/25/95	5/25/95	1985-94 Customer Class Heating And Cooling Season System Peaks
JJS-11	John J. Slivka	5/25/95	5/25/95	1981-94 January/February Weekday Peaks

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Exhibit Number	Witness	Date Identified	Date Admitted	Subject
JJS-12	John J. Slivka	5/25/95	5/25/95	1991-94 Winter Peak Hour Demands By Class
JMK-4	Joseph M. Kleha	5/25/95	5/25/95	Curtailment Summary
OGK-5	Oliver G. Kasper	5/25/95	5/25/95	RS Rate Design Using OTS Customer's Charge And Two Energy Steps
OGK-6	Oliver G. Kasper	5/25/95	5/25/95	Losch Boiler Sales & Service Company v. PP&L - Opinion Letter Of The PUC Staff
OGK-7	Oliver G. Kasper	5/25/95	5/25/95	CEPFOD's Responses To PP&L's Data Requests
OGK-8	Oliver G. Kasper	5/25/95	5/25/95	Single RTS Customer Comparison (Example)
OGK-9	Oliver G. Kasper	5/25/95	5/25/95	Rate Schedule RTS-Letters And Supporting Documents
OGK-10	Oliver G. Kasper	5/25/95	5/25/95	Interruptible Customers Historic And Proposed Average Cents Per KWH
OGK-11	Oliver G. Kasper	5/25/95	5/25/95	Interruptible Bill Calculation

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
OGK-12	Oliver G. Kasper	5/25/95	5/25/95	Months Ended December 1994 Average Price For Industrial And Commercial Customers
OGK-13	Oliver G. Kasper	5/25/95	5/25/95	Demand-Side Management (DSM) All Ratepayers Analysis Of EDI/IDI Programs
JFS-3	John F. Sipics	5/26/95	5/26/95	1991-95 PP&L Planned And Actual Winter Reserve Requirement
JFS-4	John F. Sipics	5/26/95	5/26/95	Excess Capacity Calculations
JFS-5	John F. Sipics	5/26/95	5/26/95	Limitations On Availability Of Capacity Resources Represented By Interruptible Load Customers
JFS-6	John F. Sipics	5/26/95	5/26/95	Excess Capacity Calculations
JFS-7	John F. Sipics	5/26/95	5/26/95	Determination Of PJM Forecast Diversified Planning Period Peaks
PRM-2	Paul R. Moul	5/23/95	5/23/95	Fair Rate Of Return

PENNSYLVANIA POWER & LIGHT COMPANY

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TESTIMONY AND EXHIBIT SCHEDULE

Exhibit Number	Witness	Date Identified	Date Admitted	Subject
PRM-3	Paul R. Moul	5/23/95	5/23/95	Fair Rate Of Return
PRM-4	Paul R. Moul	5/23/95	5/23/95	Fair Rate Of Return
WHH-1	William H. Hieronymus	5/26/95	5/26/95	Calculation Of Reserve Margins
WHH-2	William H. Hieronymus	5/26/95	5/26/95	Major Data Inputs And Sources For SSES 2 - Revenue Requirements Analysis
WHH-3	William H. Hieronymus	5/26/95	5/26/95	Major Data Inputs And Sources For Alternative - Coal Plant Revenue Requirements Analysis
WHH-4	William H. Hieronymus	5/26/95	5/26/95	Net Benefits To PP&L Ratepayers From SSES 2
PP&L Cross Examination Exhibit				
1		6/7/95	6/7/95	Excerpt Of Direct Testimony of Matthew I. Kahal and MIK 5 And 7 Regarding Avoided Cost/Contract Cost-Effectiveness

APPENDIX B

SUMMARY STATEMENTS OF RATE BASE AND INCOME

PENNSYLVANIA POWER & LIGHT COMPANY

Measures of Value and Rates of Return
As of September 30, 1995
(Thousands of Dollars)

Line No.	Description	Original Cost Total Company	Original Cost PPUC Jurisdictional (Exhibit JMK 2)
	Electric Plant		
1	Electric plant in service (C-2)	$9,607,472	$8,196,706
2	Reserve for depreciation (C-2)	2,860,571	2,477,122
3	Net Electric Plant in Service	6,746,901	5,719,584
	Additions and Deductions		
4	Pollution control projects (C-3)	15,274	12,723
5	Retirements associated with pollution control projects (C-3)	(414)	(345)
6	Net Additions and Deductions	14,860	12,378
7	Total Electric Plant (net)	6,761,761	5,731,962
	Working Capital		
8	Cash working capital (C-4)	-	-
9	Fuel stock and materials and operating supplies (C-5)	226,697	188,808
10	Total Working Capital	226,697	188,808
	Deductions		
11	Accumulated deferred taxes on income (C-6)	1,107,512	901,916
12	Customer advances for construction (B-1)	40	40
13	Customer deposits (B-1)	1,106	1,106
14	Total Deductions	1,108,658	903,062
15	Measures of Value (net)	$5,879,800	$5,017,708
	Pro forma return at present rates		
16	Amount (D-1, col. 4)		$ 365,276
17	Percent		7.28%
	Pro forma return at proposed rates		
18	Amount (D-1, col. 6)		$ 508,929
19	Percent		10.14%

PENNSYLVANIA POWER & LIGHT COMPANY

Cash Working Capital
As of September 30, 1995
(Thousands of Dollars)

Line No.	Description	Amount
1	Operation and maintenance expense (C-4, pg. 2)	$ 17,683
2	Average prepayments (C-4, pg. 3)	14,416
3	Accrued taxes (C-4, pg. 4)	(190)
4	Interest payments (C-4, pg. 5)	(31,072) (a)
5	Preferred dividend payments (C-4, pg. 6)	(837)
6	Total cash working capital requirement	$ -

(a) Interest offset adjusted to get working capital to zero.

PENNSYLVANIA POWER & LIGHT COMPANY

Working Capital Required for Operation and Maintenance Expenses
As of September 30, 1995
(Thousands of Dollars)

The Company bills its customers every month. On this basis, there is a considerable span of days between the time electricity is furnished to a customer and the time the customer pays for such electricity.

In many instances the Company must pay its bills for payroll, fuel and other operating expenses prior to the time it is able to collect the amount due for the service producing such expenses. Thus, the Company has examined its records to determine, as to the major categories of expense, the average span of days which exists between the time an expense is incurred and the time it must be paid. Schedule C-4, page 2, of Exhibit Historic 1 sets forth the individual components which result in the days lag between payment of expenses and receipt of the related revenues employed in the determination of the working capital required for pro forma operating and maintenance expense for the test year ended September 30, 1995.

Line No.	Description	Amount
1	Pro forma operation and maintenance expense (a)	$ 1,574,289
2	Operating expense per day (line 1 - 365 days)	$4,313
3	Average lag in days between payment of operating expenses and receipt of revenue (b)	4.1
4	Working capital requirement (line 2 x line 3)	$ 17,683

(a) Pro forma operation and maintenance expense (D-1) $ 1,591,221

Less: Non-cash items
Uncollectible accounts expense per budget (B-4) 16,932

Total pro forma O&M expense $ 1,574,289

(b) See Exhibit Historic 1, Schedule C-4, page 2.

PENNSYLVANIA POWER & LIGHT COMPANY

Average Prepayments
As of September 30, 1995
(Thousands of Dollars)

Line No.	Month	Insurance Nuclear	Insurance Other	NRC Annual Fee	PUC Annual Assessment	Postage	Other	Total
1	September 1994	$2,245	$1,641	$0	$2,321	$242	$2,043	$8,492
2	October	1,937	1,244	0	2,063	184	2,756	$8,184
3	November	2,889	802	462	1,805	87	1,829	$7,874
4	December	2,306	2,753	0	1,547	191	1,518	$8,315
5	January 1995	3,297	5,697	0	1,290	112	2,231	$12,627
6	February	2,714	5,266	444	1,032	74	1,292	$10,822
7	March	2,693	4,857	0	774	156	68,114	$76,594
8	April	2,391	4,476	907	516	163	2,034	$10,487
9	May	2,089	4,033	426	258	185	1,121	$8,112
10	June	1,827	3,633	0	3,309	173	209	$9,151
11	July	1,519	3,194	0	3,033	132	1,135	$9,013
12	August	1,210	2,748	0	2,758	157	2,143	$9,016
13	September	2,321	2,338	0	2,461	178	1,428	$8,726
14	Total Prepayments	$29,438	$42,682	$2,239	$23,167	$2,034	$87,853	$187,413
15	Monthly Average	$2,264	$3,283	$172	$1,782	$156	$6,758	$14,416

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Page 3
R. J. Bernini
(Revised 5/12/95)

PENNSYLVANIA POWER & LIGHT COMPANY

Accrued Taxes
As of September 30, 1995
(Thousands of Dollars)

Line No.	Description	Amount	12-Month Accrued Factor (c)	Accrued Taxes
1	Federal income tax (D-1, line 6, col. 3 + col. 5)	$256,992	-6.72%	$(17,270)
2	PA income tax (D-1, line 7, col. 3 + col. 5)	90,588	-11.72%	(10,617)
3	PA gross receipts tax (a)	111,452	22.87%	25,489
4	PA capital stock tax (b)	37,873	-11.72%	(4,439)
5	PA public utility realty tax (D-18, pg. 4)	45,750	14.53%	6,647
6	Total Accrued Taxes			$(190)

(a) PA gross receipts tax

Amount per D-18, pg. 3	$99,940
Amount due to proposed increase (D-19, pg. 5)	11,512
TOTAL	$111,452

(b) PA capital stock tax

Amount applicable to electric operations (D-18, pg. 2)	$36,041
Amount applicable to proposed increase (D-19, pg. 5)	1,832
TOTAL	$37,873

(c) The 12 month average factor represents, in the case of Federal and State income tax and public utility realty tax, the portion of the tax liability which is available to the Company for the payment of other costs. This situation exists since revenue is available from customers prior to payment dates of the tax. The factors for the other Pennsylvania taxes represent the portions of those tax liabilities which must be provided by the Company due to payment of the taxes before the revenue is available from customers. Exhibit Historic 1, Schedule C-4, pages 7 through 12 reflect the computation of such factors.

PENNSYLVANIA POWER & LIGHT COMPANY

Interest Payments
As of September 30, 1995
(Thousands of Dollars)

Line No.	Description		Amount
1	Measures of value at September 30, 1995 (C-1)		$ 5,879,800
2	Long-term debt ratio (B-9)		46.53%
3	Embedded cost of long-term debt (B-9)		7.97%
4	Pro forma interest (line 1 x line 2 x line 3)		$ 218,049
5	Daily amount (line 4 : 365)		$ 597
6	Days to mid-point of interest payments	90	
7	Less: Revenue lag days	35.6	
8	Interest payments lag days (line 6 - line 7)		54.4
9	Total interest payments (line 5 x line 8)		$ 32,477

PENNSYLVANIA POWER & LIGHT COMPANY

Preferred Dividend Payments
As of September 30, 1995
(Thousands of Dollars)

Line No.	Description		Amount
1	Measures of value at September 30, 1995 (C-1)		$ 5,879,800
2	Preferred stock ratio (B-9)		7.59%
3	Embedded cost of preferred stock (B-9)		7.31%
4	Pro forma dividends (line 1 x line 2 x line 3)		$32,623
5	Daily amount (line 4 : 365)		$89
6	Days to midpoint of dividend payments	45	
7	Less: Revenue lag days	35.6	
8	Dividend payments lag days (line 6 - line 7)		9.4
9	Total preferred dividend payments (line 5 x line 8)		$837

PENNSYLVANIA POWER & LIGHT COMPANY

Operating Income
Pro Forma at Present and Proposed Rates
Year Ended September 30, 1995
(Thousands of Dollars)

Line No.		(1) Per Budget	(2) Adjustments (D-2)	(3) Pro Forma at Present Rates	(4) PPUC Jurisdictional Pro Forma at Present Rates (Exhibit JMK 2)	(5) PPUC Jurisdictional Rate Increase (D-19, Pg 5)	(6) PPUC Jurisdictional Pro Forma at Proposed Rates
1	Operating Revenues	$2,757,934	$ 8,739	$ 2,766,673	$ 2,401,887	$ 261,635	$ 2,663,522
	Operating Expenses						
2	Operation and Maintenance	1,511,326	79,895	1,591,221	1,375,408	-	$ 1,375,408
3	Depreciation	339,837	43,550	383,387	320,797	-	320,797
4	Regulatory Debits/Credits	(36,348)	-	(36,348)	(29,208)	-	(29,208)
	Provision for Taxes						
5	Taxes Other Than Income	204,772	(1,413)	203,359	186,536	13,344	199,880
	Income Taxes						
6	Federal	193,011	(13,370)	179,641	153,502	77,351	230,853
7	State	70,411	(7,110)	63,301	54,091	27,287	81,378
8	Deferred Income Taxes	(24,096)	646	(23,450)	(15,424)	-	(15,424)
9	Investment Tax Credit	(11,037)	928	(10,109)	(8,625)	-	(8,625)
10	Total Taxes	433,061	(20,319)	412,742	370,080	117,982	488,062
11	Gain from Disposition of Emission Allowances	(486)	0	(486)	(466)	-	(466)
12	Total Operating Expenses	2,247,390	103,126	2,350,516	2,036,611	117,982	2,154,593
13	Operating Income	$ 510,544	(94,387)	$ 416,157	$ 365,276	$ 143,653	$ 508,929

D-1
Various
(Revised 5/12/95)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION, ET AL.	:	
v.	:	DOCKET NO. R-00943271
PENNSYLVANIA POWER & LIGHT COMPANY	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document upon the participants listed below, in accordance with the requirements of Section 1.54 (relating to service by a participant).

BY HAND DELIVERY

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