X. ADDITIONAL ISSUES

There remain various other matters which do not fall easily under the various topic headings which have been used so far. The main topic remaining is the ECR or energy cost rate, a mechanism whereby a utility is reimbursed for what it spends on energy.

A. The Energy Cost Rate Itself

PP&L addresses this matter in its Main Brief, commencing at page 290. It responds to a DOD development at hearing. This PP&L discussion relates somewhat to a claim by Sierra Club at page 16 of its Main Brief. There the Sierra Club suggests that the ECR be eliminated unless the Company can show that it is maximizing benefits of wholesale market purchases for customers.

PP&L argues that the ECR is used by each Pennsylvania electric utility and is a Commission-approved mechanism allowed pursuant to Section 1307 of the Public Utility Code, 66 Pa. C.S. §1307. It traces the ECR back to 1978 and refers to substantial benefits and levelization of costs. Premised on our review of the record, we accept the position espoused by PP&L and we make no change to the ECR mechanism, within the context of this proceeding.

B. The ECR and Off-System Sales

The PP&L's discussion of this topic commences at page 291 of its Main Brief. It begins this discussion with a useful background statement, at pages 291-293, which we deem it instructive to recite hereinbelow:

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.

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) file 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 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.

At the end of the second paragraph, PP&L drops the following footnote:

> 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.

PP&L points out that this returning capacity can provide a valuable resource for meeting customer demand or to provide other valuable functions, such as making additional off-system sales. This could produce considerable revenue which would be credited to customers, under the PP&L plan.

PP&L notes opposition, by three witnesses. PPLICA, the OCA, DOD and the Sierra Club address this matter.

PP&L provides as the fundamental basis for opposition the idea that the costs are not subject to ongoing review. The Company recognizes that its proposal is innovative and novel but expresses disappointment with the responses of the other parties. PP&L points out that the costs of the returning facilities are known, that customers would immediately see the benefits from off-system capacity sales, that the proposal will tend to avoid base rate proceedings, and that monitoring can deal with overearnings. PP&L urges the Commission to examine the proposal carefully and to reject the positions of the opposition.

Starting at page 294 of its Main Brief, PP&L proposes the taking of two steps if its main proposal is not accepted. PP&L, at pages 294-295, provides a brief and coherent statement concerning these two steps, which follows:

> 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. 7, 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 would at 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).

The ALJ characterized the foregoing as fair steps which should be taken, and he recommended that we adopt them in the event that the basic proposal was not approved. In the ALJ's view, these two steps would essentially keep the capacity off the books until there is a base rate case.

The OCA discusses this matter, commencing at page 313 of its Main Brief and at page 133 of its Reply Brief. The OCA states that the main proposal has the effect of raising the total rate increase request in this case to approximately $440 million, rather than the $261 million identified by PP&L. The OCA would reject the proposal, pointing out that these capacity costs have not been in jurisdictional rates for nearly 10 years. It suggests a danger of overearnings by PP&L. It suggests that PP&L can always bring a base rate case.

The OCA suggests that the PP&L proposal would essentially circumvent the review of issues critical to the determination of rates. It gives the example of the excess capacity issue. It also discusses the possibility of what it terms "perverse incentives". It states that, if PP&L fails in its marketing efforts, then it would automatically receive full recovery of costs from ratepayers. It addresses various PP&L arguments and refers to the testimony of its own witness. It also refers to incentives for cost control. It views the PP&L proposal as one-sided.

The OCA would also reject the PP&L argument that it be permitted to retain the energy savings from this capacity, if its

proposal is denied. The OCA views this argument as not reasonable, in the context of this proceeding. It states that this alternative proposal would continue to allow PP&L to selectively pick the ratemaking treatment that is most advantageous to it, at a particular point in time. It suggests that the alternative proposal could result in ratepayers paying energy rates through the ECR which are higher than PP&L's actual cost of energy supply.

The OCA, in its Reply Brief, submits that PP&L has overlooked serious flaws in its proposal. It states that, if the PP&L load is not growing, it will be necessary to determine whether the returning capacity is excess capacity. The OCA again touches on the overearnings problem. It also again discusses what it terms perverse incentives. These relate to the possible failure of marketing efforts and the automatic recovery from ratepayers of cost, through the ECR. The OCA again suggests rejection of the primary PP&L proposal. The OCA also states that the alternative PP&L proposal, to retain the energy savings associated with this capacity, is premature and should not be adopted in this case. PP&L should retain the right to make such a proposal in an appropriate proceeding.

DOD discusses this topic in its Main Brief, commencing at page 16. It suggests a shifting of business risks to the ratepayers. It notes that the OTS witness appears to support PP&L. DOD then refers to testimony of its own witness suggesting a modification of the ECR, by returning to methods used before 1994. DOD also suggests that base rate treatment of capacity is the appropriate regulatory treatment, not use of the ECR. DOD further refers to a recent PP&L contract for sale of capacity to JCP&L. It suggests that this sale could be relevant. It further suggests some PP&L agreement with the DOD position.

The Sierra Club addresses this matter very briefly at page 16 of its Main Brief. It would deny the PP&L proposal until and unless the Commission can find that PP&L has complied with new competitive bidding regulations, in dedicating the capacity and energy for its customers.

PPLICA addresses this matter, starting at page 32 of its Main Brief and at page 43 of its Reply Brief. It states that PP&L wants automatic increases to its retail customers, to offset reduced future revenues associated with this JCP&L transaction. It refers to $35.5 million in revenue requirement for January 1, 1996 and corresponding increases over five years. It further states that the credit associated would be approximately $20.8 million for the test year. PPLICA argues that the proposal would amount to requiring the Commission to approve, prospectively, single issue rate increases, without consideration of other matters.

PPLICA continues with reference to the approximately $21 million offsetting ECR credit, which it discusses elsewhere in its Brief. It further states that, should the PP&L proposal relating to JCP&L be rejected, PP&L will withdraw its proposal to credit the ECR for off-system capacity revenues but credit base rates, again resulting in the net increase to base rates of $240 million. PPLICA refers to risks being transferred. PPLICA would retain this matter in base rates. In its Reply Brief, PPLICA refers to PP&L Statement No. 7-R, pages 34-35, and to PP&L's alternative proposal. While PPLICA indicates opposition to the fundamental PP&L proposal, it indicates agreement with the proposal that, if the Commission decides to exclude from the ECR any capacity costs associated with expiring wholesale contracts, then all revenues from off-system capacity-related sales should be excluded from the ECR and treated as an element of base rates only. It refers to PPLICA Statement No. 7, page 77. PPLICA

further indicates its opposition to the approach of crediting revenues to the ECR.

PP&L addresses this matter in its Reply Brief, commencing at page 134. It refers to the OCA blanket opposition to the fundamental PP&L proposal, arguing that the OCA narrowly focuses on hypothetical and ignores the very real benefits of the PP&L proposal, particularly immediate benefits of revenue credits through the ECR. PP&L disagrees with the OCA position that the PP&L alternative is not reasonable. PP&L refers to fundamental unfairness of placing the full cost of the returning facilities on PP&L, but giving the full net benefit of energy savings to ratepayers. It views the OCA rationale as lacking merit.

PP&L further views the OCA proposal that PP&L address this matter in an ECR case as inappropriate. It states that the Commission has before it all facts necessary to decide this issue now and argues that the Commission should make the requested modification. It argues that the first slice will return very shortly after the new rates go into effect and that an overearnings situation is not likely at that point.

The ALJ notes, at page 274-275 of his R.D., that the primary PP&L proposal might be a good idea but that he regards it is overly innovative and too automatic. PP&L argues that it would serve, probably, to avoid base rate proceedings. However, as expensive as they are, asserts the ALJ, base rate proceedings are a proper tool for managing utilities and setting appropriate rates. The ECR mechanism serves to avoid more frequent rate proceedings, as energy costs fluctuate. However, there is a rationale for the ECR and appropriate checks involved in the ECR mechanism.

The ALJ further notes that he does not see the necessary checks and balances in the primary PP&L proposal, and

that it appears to depart too far from traditional ratemaking. PP&L points out that complaints can be brought against its ongoing rates. However, asserts the ALJ, this can be a cumbersome and slow process.

The ALJ concludes, at page 275 of his R.D. that although the PP&L primary proposal is tempting, he recommends that it be rejected. On the other hand, he finds the PP&L alternative proposal to be acceptable. Moreover, he agrees with the fundamental unfairness argument of PP&L. He concludes by recommending that the Commission accept this alternative proposal which is provided at pages 294-295 of the PP&L Main Brief and at pages 34-35 of PP&L Statement No. 7-R, of Mr. Kleha.

PP&L, the OCA, and the Sierra Club filed Exceptions to the recommendation of the ALJ on this issue. PP&L, the OCA, and PPLICA filed Reply Exceptions.

In its Exceptions, PP&L argues that the ALJ's rejection of its request to include in its ECR the cost of capacity that will become available to the Company over the next five years, is without merit. Furthermore, PP&L asserts that the ALJ's reasons for rejecting the inclusion of the costs of off-system sales in the ECR are clearly outweighed by the substantial benefits that would accrue from acceptance of this proposal. PP&L contends that the ALJ's concern that this proposal is too "innovative" and too "automatic" is without foundation, and that the benefits to be afforded by the Company's proposal clearly outweigh any drawbacks.

PP&L further asserts that it has advanced an innovative proposal to reflect the cost of each "slice" of capacity returning from JCP&L in its ECR and, at the same time, to credit all revenues from off-system capacity-related sales. PP&L states that its proposal has several substantial benefits. The ALJ's

concern that the Company's proposal lacks sufficient checks and balances is unfounded and is perhaps a result of the proposal's novel approach. PP&L concludes that the Company's proposal will produce significant benefits for customers and is in the public interest. (PP&L Exc., pp. 52-53)

In response to PP&L Exceptions on this issue, the OCA submits that the ALJ properly recognized that PP&L's proposal lacks sufficient checks and balances to assure that ratepayers are paying rates that are just and reasonable. The OCA rejoins that although the Company identifies one of the primary benefits of its proposal as being the avoidance of base rate filings, the ALJ properly found that base rate proceedings are a proper tool for managing utilities and setting appropriate rates (R.D. pp. 274-275). The OCA argues that, by including these costs in rates automatically, PP&L effectively seeks authority to increase its rates an additional $177 million by 1999. Additionally, these costs have not been included in Pennsylvania jurisdictional rates for over ten years. Therefore the OCA concludes that the Company's proposal creates perverse incentives for the Company in marketing this capacity off-system. For these reasons, argues the OCA, the ALJ correctly rejects the Company's proposal. (OCA R. Exc., pp. 28-29)

PPLICA also filed Reply Exceptions to the Exceptions of PP&L on this issue. PPLICA argues that, contrary to the assertions of PP&L, the PP&L proposal lacked the necessary checks and balances necessary to ensure a reasonable cost recovery. PPLICA observes that the PP&L proposal departs too far from traditional ratemaking and that the complaint process outlined by PP&L, as a check or balance, is too cumbersome and slow to be deemed a reasonable check on this proposal.

Additionally, PPLICA submits that this proposal is unreasonable in any event. This proposal would amount to

requiring that the Commission approve, prospectively, single issue rate increases without consideration given to any offsetting expenses, revenues, or other factors which may negate the necessity for the increases proposed by PP&L in the future. PPLICA concludes that the revenue requirement associated with the generating capacity being sold should not be an issue in this base rate proceeding as those revenue requirements are allocated to PP&L's wholesale jurisdiction. (PPLICA R. Exc., pp. 12-14)

The OCA also filed Exceptions to the ALJ's recommendation on this issue. It is the position of the OCA that, while the ALJ properly rejects the Company's initial proposal to recover the capacity costs associated with expiring off-system sales, the ALJ improperly recommends acceptance of the Company's alternative proposal. Under the Company's alternative proposal, PP&L recommended that, if ECR recovery of the capacity related costs was denied, then all revenues from off-system capacity-related sales should also be excluded from the ECR and treated as an element of base rates in this case. In addition, the Company asked that it be granted authority, in this case, to retain the energy savings related to this returning capacity, if its proposal is denied.

The OCA continues that, while it does not object to the ALJ's approval of the Company's proposal to exclude off-system sales from the ECR and treat them as an element of base rates, the ALJ did not reflect the approximately $20.8 million of revenues from these sales in base rates in determining the Company's pro forma revenues. The OCA further excepts to the ALJ's approval, in this proceeding, of the Company's proposal to retain the energy savings associated with this capacity in any future ECR cases. The OCA is not arguing at this time that the Company be prohibited from retaining these energy savings, but is arguing that it is premature to rule on this request at this time

when the full circumstances surrounding the appropriateness of such request cannot be known.
(OCA Exc., pp. 58-59)

PP&L responds to the OCA's Exception by noting that the OCA and PPLICA have asserted that, if the Company's primary ECR proposal is rejected, the amount of the rate increase should be recalculated to reflect approximately $20 million of off-system capacity-related sales revenues included in the ECR. PP&L states that, if its primary proposal is rejected, the Company is not opposed to the transfer of these revenues into base rates.

Next, PP&L responds to the OCA's Exception discussed supra, i.e., that the ALJ erred in adopting the Company's alternative proposal to exclude from the ECR both the capacity costs and energy savings associated with the returning capacity. PP&L argues that its approach on this issue is fair, reasonable and appropriate and provides for consistent treatment of capacity costs and energy savings. The OCA has argued that the Company's proposal is premature and inappropriately seeks "blanket" approval. In fact, the Company does not seek any "blanket" approval, it simply seeks establishment of consistent ratemaking treatment of the capacity costs and energy cost savings associated with the returning capacity. PP&L also asserts that approval now will not provide the Company with any additional discretion or opportunity to increase its profits. (PP&L R. Exc., p. 38)

The Sierra Club also excepts to the recommendation of the ALJ, arguing that the ALJ should have recommended terminating the Company's ECR in order to foster the most economically efficient purchases of energy resources. (Sierra Exc., pp. 20-22)

In response to the Exception of the Sierra Club, the Company notes that the Club presented no evidence to support its proposal. In contrast, asserts the Company, the many benefits of the ECR are addressed in PP&L's Initial Brief, pp. 290-291, and fully support its continuation. (PP&L R. Exc., p. 38)

On review of this issue, we concur with the ALJ's recommendation, that the Company's primary proposal be rejected but that the Company's alternative proposal be accepted.

Although this issue is presented in the context of ECR, it is really a second "excess capacity" matter. In 1983, the Commission found 945 MW of excess capacity equivalent to the PP&L ownership of the new Susquehanna 1 plant and excluded a return on PP&L's investment in a 12.6% slice of its system. All return of investment through depreciation, as well as operation and maintenance expenses, was included in rates. In 1985, the Commission disallowed all common equity return on the 945 MW of Susquehanna 2, and PP&L sold the capacity by contract to JCP&L. As noted in our discussion supra, these contracts are now expiring, and PP&L's primary proposal on this issue was to include all costs and sales of such capacity in the ECR. As discussed supra, we reject this primary proposal.

Alternatively, the Company proposes, and the ALJ recommends, keeping all expenses and revenues derived from this capacity off-system until such time as they are included in base rates. We approve this recommendation as part of the normal ratemaking process. The capacity associated with the JCP&L contract should remain non-jurisdictional, and the Company is free to market an eventual total of 945 MW of capacity, thereby retaining revenues from the incremental off-system capacity related sales.

Therefore, the Exceptions of the Company, the OCA, and the Sierra Club are all denied, to the extent they are inconsistent with our resolution of this issue, outlined supra.

C. Exclusion of Sierra Club Testimony

The Sierra Club, starting at page 13 of its Main Brief, requests that the ALJ's exclusion of certain testimony by its witness be reversed. It provides a plan, for use if the ALJ's ruling is reversed. PPLICA responds to this request, commencing at page 45 of its Reply Brief. In addition, PP&L touches on this matter, commencing at page 128 of its Reply Brief. PP&L opposes a reversal of the ALJ's ruling.

PPLICA responded in greater detail, starting at page 45 of its Reply Brief. It observes that the original Motion to Strike was made by PPLICA. It outlined the substantial argument which was presented at that time. PPLICA referred to a one month delay before the Sierra Club asked that the ALJ certify the matter up to the Commission, which request was rejected by the ALJ. PPLICA referred to the argument at the briefing stage of this matter as well as Commission regulations. It stresses the need for timeliness of requests. It even addressed some of the merits of the Sierra Club positions.

The ALJ states that he is in fundamental agreement with the positions taken by PPLICA, concerning this matter, and that he would adhere to his original ruling and to his ruling denying certification. The ALJ notes that the Sierra Club did not bring the matter before the Commission itself, prior to the close of the record, or at any time before briefs were filed.

On review, we agree with the ALJ's disposition of this matter.

D. OCA Financial Impact

The OCA addressed this topic, commencing at page 321 of its Main Brief. It referred to testimony in the rebuttal phase, by PP&L's witness Berish. This witness responded to the OCA rate reduction recommendation. The OCA submitted that the Berish argument, that the OCA recommendations would unreasonably impair PP&L's financial condition, is based on incorrect assumptions and must be dismissed.

The OCA provides further arguments. Among other things, the OCA referred to rate of return. The ALJ stated that he discerned no reason to address this matter, directly, and that he brought up this matter only to point out the OCA argument and for the sake of completeness. The ALJ then observed that the OCA would reduce PP&L test year rates by $66,464,000.

We also note the OCA argument on this issue for the sake completeness. The ALJ is correct that this argument by the OCA does not require further comment.

E. PP&L Public Input Issues

PP&L, commencing at page 296 of its Main Brief, provided several pages of discussion relating to Public Input hearings. The ALJ stated that he referred to this section largely for the sake of completeness, and to point out the arguments presented by the party.

PP&L reviewed, and characterized, testimony. It grouped comments into four major categories. It provided some of its own responses. It touched on such matters as its proposal to modify its rate schedule RTS position. It also touched on impact for individual businesses and economic development in the region. It addressed the contributions of Mr. Epstein in some detail. It

viewed certain issues raised by Mr. Epstein as totally refuted by PP&L and not relevant and suggested that they be disregarded.

The ALJ states that he sees no reason to specifically rule on what PP&L presented here and that he deals with some of these matters elsewhere in his Recommended Decision.

As with the immediately preceding heading, we are noting the public input issues here for the sake of completeness. As noted by the ALJ, this topic does not require a specific ruling.

IX. CONCLUSION

Based on the foregoing, we conclude that the Company has demonstrated entitlement to file tariffs or tariff supplements affording it an opportunity to achieve additional annual revenues of $2,507,896,000 or an increase of $85,125,000 over existing rates;

THEREFORE, IT IS ORDERED:

1. That Pennsylvania Power & Light Company shall not place into effect the rates contained in Supplement No. 50 to Tariff Electric-Pa. P.U.C. No. 200, the same having been found to be unjust, unreasonable and, therefore, unlawful.

2. That Pennsylvania Power & Light Company may file tariffs or tariff supplements containing rates, provisions, rules and regulations which are consistent with this Opinion and Order and are designed to produce annual operating revenues not in excess of $2,507,896,000 on a Pennsylvania jurisdictional basis.

3. That the tariffs or tariff supplements mentioned in paragraph two, above, may be filed to become effective on one day's notice.

4. That Pennsylvania Power & Light Company shall file detailed calculations, with its tariff filing, which shall demonstrate, to the Commission's satisfaction, that the filed rates comply with the Commission's order concerning this proceeding.

5. That Pennsylvania Power & Light Company shall comply with all directives, conclusions and recommendations contained in the body of the Recommended Decision, which are not the subject of an individual directive in these ordering

paragraphs, as fully as if they were the subject of a specific ordering paragraph.

6. That the complaints filed by other parties to this base rate proceeding, docketed at R-00943271, that is, docket numbers R-00943271C0001 through R-00943271C0145, are granted or denied to the extent consistent with the Recommended Decision.

7. That, upon Commission approval of the tariffs filed in compliance with the Commission's order, these proceedings at R-00943271 shall be closed.

BY THE COMMISSION

John G. Alford
Secretary

ORDER ADOPTED: September 27, 1995

ORDER ENTERED: SEP 27 1995

TABLE I
PENNSYLVANIA POWER & LIGHT COMPANY
INCOME SUMMARY
(Thousands of Dollars)

	Pennsylvania Public Utility Commission Jurisdictional Basis						
	Pro Forma Present Rates (1)	Company Adjustments	Pro Forma Present Rates (Revised) (2)	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	2,402,255	(368)	2,401,887	0	2,401,887	106,971	2,508,858
Expenses:							
O & M Expense	1,372,927	2,481	1,375,408	(66,162)	1,309,246		1,309,246
Depreciation	320,797	0	320,797	(15,274)	305,523	0	305,523
Regulatory Debits/Credits	(29,208)	0	(29,208)	0	(29,208)	0	(29,208)
Taxes, Other	186,553	(17)	186,536	0	186,536	5,456	191,992
Income Taxes:							
State	54,478	(387)	54,091	6,200	60,291	11,156	71,447
Federal	154,601	(1,099)	153,502	15,210	168,712	31,626	200,338
Deferred Income Taxes	(15,424)	0	(15,424)	5,346	(10,078)	0	(10,078)
Investment Tax Credit	(8,625)	0	(8,625)	0	(8,625)	0	(8,625)
Emission Allowances	(466)	0	(466)	0	(466)	0	(466)
Total Expenses	2,035,633	978	2,036,611	(54,680)	1,981,931	48,238	2,030,169
Net Inc. Available for Return	366,622	(1,346)	365,276	54,680	419,956	58,733	478,689
Rate Base	5,017,178	530	5,017,708	0	5,017,708		5,017,708
Rate of Return	7.31%		7.28%				9.54%

(1) PP&L Exhibit Future 1, Schedule D-1
(2) PP&L Exhibit Future 1 (Revised), Schedule D-1

TABLE II
PENNSYLVANIA POWER & LIGHT COMPANY
SUMMARY OF ADJUSTMENTS
(Thousands of Dollars)

Adjustments	PENNSYLVANIA PUBLIC UTILITY COMMISSION JURISDICTIONAL BASIS							
	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax	Deferred Income Taxes
	$	$	$	$	$	$	$	$
RATE BASE:								
Excess Capacity								
REVENUES:								
EXPENSES:								
Benefit Savings/Employee Red.			(171)			19	53	
Susq. Unit I "Early Window" Deferral			(2,035)			224	634	
Environmental Remediation Costs			(326)			36	102	
Uncollectible Accounts:								
Regular Uncollectible Accounts			(1,234)			136	384	
On-Track Program			(130)			14	41	
Rate Case Expense			(373)			41	116	
Nuclear Decommissioning:								
Contingency Factor			(2,516)			277	784	
Post-Shutdown Earnings			(2,436)			268	759	
Trust Fund Rate			(9,157)			1,006	2,853	
Fossil Fuel Plant Decommissioning			(45,284)			4,977	14,107	
Social Programs			(2,500)			275	779	
			0			0	0	
			0			0	0	
DEPRECIATION EXPENSE:								
Fossil Fuel Plant Depreciation				(15,274)				5,346
TAXES:								
Consolidated Tax Savings						*0*	*(2,161)*	
Adjustments to Taxable Income						(851)	(2,413)	
Tax Deficiency Accruals						(213)	(804)	
Interest Synchronization (Table III)						(9)	(24)	
TOTALS	0	0	(66,162)	(15,274)	0	6,200	15,210	5,346

R-00943271

TABLE Ia
PENNSYLVANIA POWER & LIGHT COMPANY
INCOME SUMMARY
(Thousands of Dollars)

	Pennsylvania Public Utility Commission Jurisdictional Basis				
	Total Allowable Revenues	Alternative ECR Adjustment	Adjusted Allowable Revenues	Required Revenue Decrease	Net Allowable Revenues
	$	$	$	$	$
Operating Revenue	2,508,858	20,884	2,529,742	(21,846)	2,507,896
Expenses:					
O & M Expense	1,309,246		1,309,246	0	1,309,246
Depreciation	305,523	0	305,523	0	305,523
Regulatory Debits/Credits	(29,208)	0	(29,208)	0	(29,208)
Taxes, Other	191,992		191,992	(1,114)	190,878
Income Taxes:					
State	71,447	2,295	73,742	(2,278)	71,464
Federal	200,338	6,506	206,844	(6,459)	200,385
Deferred Income Taxes	(10,078)	0	(10,078)	0	(10,078)
Investment Tax Credit	(8,625)	0	(8,625)	0	(8,625)
Emission Allowances	(466)	0	(466)	0	(466)
Total Expenses	2,030,169	8,801	2,038,970	(9,851)	2,029,119
Net Inc. Available for Return	478,689	12,083	490,772	(12,083)	478,689
Rate Base	5,017,708		5,017,708		5,017,708
Rate of Return	9.54%		9.78%		9.54%

(1) PP&L Exhibit Future 1, Schedule D-1
(2) PP&L Exhibit Future 1 (Revised), Schedule D-1

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania

PENNSYLVANIA P.U.C.
ET AL.
v.
PENNSYLVANIA POWER
& LIGHT COMPANY

PUBLIC MEETING-
SEPTEMBER 27, 1995
SEP-95-OSA-219*
DOCKET NO. R-943271

STATEMENT OF COMMISSIONER JOHN HANGER

Today's majority decision provides an overall rate increase of approximately $ 107 million, averaging 4.8%. This is considerably below the $261 million requested by PP&L which would have increased base rates for the first time since 1985 by an average of 11.7%. While I support the majority position on most issues, as indicated in the polling of the issues on August 31, I would reach a different result on several issues. I am especially delighted to see that the final result concerning industrial customers who recieve interruptible service is dramatically different than as polled originally.

Not all customers receive the same percentage increase, depending primarily on their class of service and levels of usage. As originally polled, industrial customers on interruptible rates would have received a whopping increase of 22%, even if no general rate increase were granted. This is because the company proposed to eliminate interruptible service as a distinct class of service and to switch interruptible pricing entirely to a "value of service" approach. All other customer classes have their rates determined based primarily on "cost of service".

The final result today revises the result on this issue as originally polled to recognize that interruptible service is a distinct class of service that is inferior to firm service. As a result, the entire rate increase for interruptible customers will be reduced to about 5-7%, as opposed to an increase of more than 25% based on the August 31 polling.

Interruptibility remains a fact of life. It is not just a theoretical possibility. As recently as the heat wave this summer, with record-shattering usage, PP&L's interruptible customers had service curtailed from July 31 through August 4, 1995 so that other customers could continue to receive service reliably. Interruptible service remains a valuable tool for utilities to manage peak load. It also remains a desirable option for customers who can take advantage of lower prices by agreeing to be interrupted in the event that it is necessary.

Since PP&L does not take into account the need to provide service to interruptible customers in its generation planning, it is appropriate to exclude generation from cost of service allocations for interruptible customers. Thus, interruptible service is a distinct class of service that has a much lower cost

of service, and interruptible customers should receive recognition of these facts in ratemaking. The final decision today does just that.

The value of service principles proposed by the company are appropriate considerations in ratemaking as well, but should not be adopted in this case. To do so would yield exorbitant rate increases which contradict cost of service principles as well as the important principle of gradualism. The rate increase for all other classes of services has been limited to 1.5 times the system average increase, and there is no reason to impose an increase that is as much as ten times the average increase on this one class of customers. Imposing rate shock on the largest employers in Pennsylvania would be an insane result. It can only result in stifled economic development and the loss of existing jobs.

Moreover, it would be especially counterproductive since the affected customers are precisely those most able and willing to seek alternative electric service in an increasingly competitive electric industry. Forcing the largest customers off the system or giving them more and more competitive discounts only serves to impose the existing fixed costs of operating PP&L on the smaller and smaller class of core customers who do not have competitive alternatives. Permitting competition to benefit only a small group of customers leaves everyone else worse off. Consequently, it is imperative that a fair and orderly transition that gives all customers choice be started as soon as possible. Only when all customers have the power of choice can competition benefit all ratepayers.

Finally, this case and the proposed merger of PP&L and Peco Energy indicate the urgency of moving forward to address the increasing role of competition in the electric industry. In particular, the issues of excess capacity, rate of return, interruptible service, and economic development/competitive rates clearly indicate the pervasiveness of impending competition. If Pennsylvania does not address these issues now, they will not disappear. To the contrary, it is far more likely that competitive pressures will expand even further, making a reasonable transition to customer choice more difficult. We must take the reins to guide these developments. The sooner that we do so the better it will be for Pennsylvania's consumers, and the utilities and their shareholders and employees.

September 26, 1995
Dated

John Hanger
JOHN HANGER, COMMISSIONER