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John G. Alford, Secretary
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P. O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Alford:

Enclosed please find an original and nine (9) copies of the Central Eastern Pennsylvania Fuel Oil Dealers Main Brief in the above-referenced matter. A computer disk is enclosed. Copies have been served on all parties pursuant to the attached Certificate of Service. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely yours,

Robert P. Haynes

RPH/me

Enclosures

cc: Hon. Robert A. Christianson, Administrative Law Judge (2 copies)
All parties per Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Honorable Robert A. Christianson, Presiding Administrative Law Judge

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION, et al. :

v. :

PENNSYLVANIA POWER & LIGHT :
CO., :

Respondent :

DOCKET No. R-00943271 et seq.

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MAIN BRIEF
OF
CENTRAL EASTERN PENNSYLVANIA
FUEL OIL DEALERS

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I. INTRODUCTION

The Central Eastern Pennsylvania Fuel Oil Dealers (hereinafter "CEPFOD") is an ad hoc coalition of 37 fuel oil dealers who have joined together to file a complaint against certain Pennsylvania Power & Light Company's (hereinafter "PP&L") rates¹. The basis for the complaint was two fold. First, CEPFOD members as ratepayers would be forced to bear the cost of the rate subsidy PP&L has proposed for Rate Schedule RTS, which is Residential Thermal Storage service PP&L promoted beginning in 1981 order to compete against fossil fuels. In addition, CEPFOD members, as competitors of PP&L for the residential heating market, contend that any subsidy of the RTS service is an unfair means of competition because it permits PP&L to provide heating service below cost while shifting the rate subsidy's cost to other ratepayers.

The residential heating fuel market, in which CEPFOD members compete, is an unregulated market. In contrast, PP&L, as a regulated monopoly, is able to sell RTS service below its cost to provide this service, then seek to recoup the loss from other ratepayers. CEPFOD members may not obtain relief from PP&L's monopolistic tactics under the antitrust laws since the federal court already has ruled that PP&L's rates are immune from antitrust scrutiny as a

¹A complete list of the members is set forth in Appendix A hereto.

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result of the Commission's regulatory oversight. See Yeager's Fuel, Inc. v. PP&L, 22 F.3d 1260 (3d Cir. 1994).

The antitrust lawsuit, however, enabled CEPFOD to gain access to PP&L's internal documents that otherwise would have been difficult to obtain in the time constraints of a rate case. See CEPFOD Exhibits 2 through 16. These documents clearly demonstrate that PP&L proposed Rate Schedule RTS as a method to expand its market share in the residential heating market through a massive rate subsidy, cash and financing incentives and other marketing promotions directed against fossil fuels. This quest for market share indirectly was assisted by the Commission's excess capacity adjustments for the ratemaking treatment of Susquehanna Steam Electric Station Units 1 and 2. N.T. 2196. The excess capacity adjustments provided PP&L a strong ratemaking incentive to expand its sales even at a loss to "fill up" the excess capacity. Thus, the regulatory pressures to eliminate the excess capacity with kilowatt hours of sales even at a loss caused PP&L to promote rate schedule RTS in an imprudent and unfair manner.

CEPFOD presented its direct case in the prepared direct testimony of Dr. Steven Andersen, identified as CEPFOD Statement No. 1 and accompanying CEPFOD Exhibits Nos. 1 through 16. In addition, Dr. Andersen submitted surrebuttal testimony in CEPFOD Statement No. SR1 and sponsored CEPFOD

Exhibit No. 17, which was PP&L's workpaper on the rate difference between RTS and RS service and quantified CEPFOD's primary recommendation that would require PP&L's shareholders to pay the \$8,247,887 difference between RTS rates and RS rates. N.T. 2242-43.

II. SUMMARY OF ARGUMENT

CEPFOD's evidence relies on PP&L's own documents, which clearly demonstrate that PP&L conceived and promoted RTS beginning in 1981 as a marketing tool to increase sales and gain market share in the residential heating market at the expense of fossil fuels. PP&L is unable to dispute its own documents, and offers no rebuttal other than a post hoc rationalization that RTS primarily was intended as a load management device. These internal and previously confidential documents conclusively establish that the primary purpose of RTS was a marketing weapon used against fossil fuels to promote sales growth at all cost. Indeed, as early as 1987 PP&L recognized that RTS was a failure as part of any load management strategy. In contrast, RTS service was a marketing "success" because RTS customers used more kilowatt hours than other customers. Notwithstanding the massive rate subsidy, cash incentives, and marketing promotion PP&L failed to realize its goal of serving 52,000 RTS customers by 1995. CEPFOD St. No. SR1 at 2. Nevertheless, RTS did increase sales and thereby reduced the excess capacity created by PP&L's new nuclear generating stations. Dr. Andersen concluded that PP&L's offering of rate schedule RTS was imprudent and that the rate subsidy, that is, the revenue deficiency below the overall return for RS customers, should not be recovered from PP&L's other ratepayers, but should be absorbed by PP&L's shareholders.

Dr. Andersen proposed both a primary and alternative recommendations. The primary recommendation is that the Commission should direct PP&L to withdraw rate schedule RTS and require PP&L to credit RTS customers \$50 a month for a time period of between 3 and 5 years, which is sufficient for these customers to recoup their full investment in RTS equipment through the RTS' rate discount compared to the RS rate. The credit totals \$8.2 million, and would eliminate PP&L's attempt to recoup this subsidy from its other ratepayers. The \$50 a month credit is already set forth in PP&L's tariff if PP&L voluntarily withdrew the tariff. Dr. Andersen limited the credit to between 3 and 5 years in order to allow a transition for RTS customers over a full payback period, that is, the savings associated with RTS offsetting the higher cost of the more expensive RTS heating equipment.

As shown by CEPFOD Exhibit No. 17, the \$50 monthly credit interestingly provides sufficient average compensation for the rate differential between Rate Schedule RS and Rate Schedule RTS. N.T. 2243. RTS customers who already have received the benefit of RTS' subsidy for five years would be limited to 3 years, and new RTS customers would receive the credit over 5 years. Moreover, to the extent that RTS customer may qualify for Rate Schedule RTD, then the difference between moving between Rate Schedules RTS and RTD would be less than if the customer moved to Rate Schedule RS. Thus, CEPFOD's position is that RTS customers should not be harmed for PP&L's imprudent

actions, and PP&L's other ratepayers should not pay \$8.2 million in higher costs to subsidize RTS service.

CEPFOD's alternative recommendation is to have the Commission preclude PP&L from continuing to offer the RTS rate to any new customer and to increase RTS rates for existing customers to a level closer to the cost of providing service. At the same time, the Commission should require that PP&L continue to subsidize the rate difference between the full cost of service and the revenue level provided by the increased RTS rates. In addition, the alternative recommendation includes: a) the continuation of RTS should be limited to the lesser of 8 years of cumulative service or the useful life of the customer's heating system, b) no change in the current customer charge, c) the elimination of the unbilled 2 kW demand allowance, and d) an increase in the rates by the greater of 17.4%, as proposed by PP&L, or two times the system average increase ultimately approved by the Commission.

Dr. Andersen also addressed the residential rate design and proposed that the Rate Schedule RS customer charge increase be limited and that the proposed third usage block be rejected.

III. ARGUMENT

A. PP&L's Class Cost Of Service Study Fails To Reflect Accurately The Cost Responsibility Of Rate Schedule RTS.

1. Introduction.

PP&L sponsored a class cost of service study that attempted to identify the cost responsibility of the rate classes, including Rate Schedule RTS². The cost of service study was sponsored by PP&L witness Kleha, who indicted that PP&L's ultimate ratemaking goal was to have each class be at the same overall system rate of return. N.T. 594. Mr. Kleha's class cost of service study produced for Rate Schedule RTS rates of return of negative 2.36% under present rates and negative .43% under proposed rates. N.T. 595. No other rate class had a negative return. Id. The Company proposed to increase RTS by \$3,438,666 or 17.4%, which is 150% of system average increase limitation. N.T. 721. While PP&L witness Kleha testified that PP&L never previously conducted a study to determine if RTS ever made any positive contribution to PP&L's earnings, in fact PP&L had conducted a study in April 1991 that indicated RTS' below average contribution to earnings. N.T. 597. See CEPFOD Exh. No. 11, page 196.

PP&L's class cost of service study was the subject of testimony, which all come to the same conclusion as PP&L's study, namely, RTS' return was

²This rate case is the first proceeding where RTS has been separated from the RS class in PP&L's cost of service study, although PP&L separated RTS before its internal studies. See CEPFOD Exh. No. 11, page 196.

negative. For example, OCA witness Johnson prepared a cost of service study with RTS producing a negative 2.49% return. OCA Statement No. 3, Exhibit CE-J1 Schedule 1. Bethlehem Steel Corporation witness Brubaker's cost of service study established that Rate Schedule RTS had a negative 2.90% rate of return. Bethlehem Steel Exhibit MEB-3 Schedule 1. PP&L Industrial Customer Alliance witness Barron's cost of service study identified a negative 3.10% return for RTS. PPLICA Exhibit SJB-2 at page 5. University/College Coalition witness Eisdorfer's cost of service study found a negative 4.39% rate of return for RTS. UCC Exhibit KE-1 Schedule 4. While Office of Small Business Advocate witness Knecht did not address the PP&L cost of service study in his direct testimony, but recommended that any reduction in PP&L's rate request be weighted in a manner to increase the movement to the overall system return, that would place a higher increase for rate schedule RTS than other customer classes. OSBA Exhibit 4. OTS witness Yarolin adopted PP&L's cost of service study, and recommended that RTS receive the entire proposed 17.4% rate increase even if PP&L is granted a revenue requirement less than requested. OTS Statement No. 3 at 6-7. Finally, CEPFOD witness Andersen prepared a partial cost of service study that demonstrated that Rate Schedule RTS should have a higher cost responsibility than the level proposed by PP&L's cost of service study. CEPFOD St. No. 1, Schedule A. Thus, every expert witness on cost of service rate structure issues in this proceeding recognized that Rate Schedule RTS produced a negative return.

OCA witness Johnson recommended that the Rate Schedule RTS be closed and that PP&L should be ordered to modify the tariff in order that RTS customers would not use their heating equipment during the Company's daily peak hours. OCA Statement No. 3 at 26-27.³ There is a unanimous position among the non-PP&L parties that Rate Schedule RTS, which produces no positive contribution to PP&L's earnings, is a major problem. Indeed, even PP&L's rebuttal recognizes that a problem exists. Although PP&L's internal documents have identified the same problem since 1987, PP&L has done nothing to address this problem. CEPFOD Exh. No. 11. Indeed, by this rate filing, PP&L sought to perpetuate the subsidy. Only after unanimous recognition of and opposition to the continued subsidies has PP&L addressed this problem. CEPFOD's witness Andersen, through his recommended adjustments to PP&L's cost of service study, has demonstrated that the true cost of providing RTS is some \$4 million higher so that the magnitude of this problem is greater. Such adjustments should be made to reflect accurately the true cost of RTS service.

³The OCA position assumes that RTS will never influence PP&L's peak, whereas CEPFOD witness Andersen viewed RTS as influencing PP&L's peak because of the size of the class' usage.

2. **PP&L's intangible plant cost should not be allocated based on payroll costs, but should be allocated more specifically in order to accurately track costs.**

CEPFOD witness Andersen reviewed PP&L's allocation of intangible plant costs totaling approximately \$21.9 million and determined that these costs should not be allocated based on payroll costs as PP&L has proposed. CEPFOD Statement No. 1 at 25. As shown in Dr. Andersen's testimony, the intangible plant cost reflect small amounts of organizational and franchise costs, but are predominantly computer software costs totaling \$21.3 million, or 97.3% of the total cost. In response to discovery, PP&L admitted that almost all of the software relates to engineering and the management of its production and transmission costs. See CEPFOD Exhibit No. 1, PP&L response to CEPFOD Interrogatory No. 28.

Dr. Andersen determined that it was unreasonable to allocate the intangible plant cost based on payroll and that it would be more reasonable to allocate the investment software in proportion to each customer class's responsibility for the production, transmission and distribution costs, with the remaining small balance of intangible plant to be allocated consistent with the allocation of corporate overhead. CEPFOD St. No. 1 at 26. Payroll cost, Dr. Andersen concluded, is a poor proxy for cost causation because it gives undue weight to labor intensive activities that are unrelated to PP&L's software cost. There simply is no nexus between payroll and computer software costs.

Consequently, the Commission should reject PP&L's proposed allocation based on payroll and allocate the costs more specifically as proposed by Dr. Andersen in order to accurately track cost responsibility.

3. **PP&L's proposed use of a minimum system analysis to allocate distribution system costs based on a customer component should be rejected in favor of a demand component allocation.**

Dr. Andersen's next adjustment to PP&L's cost of service study addressed the classification and allocation of secondary distribution plant costs. PP&L employed a minimum system analysis that attempted to identify a portion of the secondary distribution plant as a customer component. CEPFOD Statement No. 1 at 27. Dr. Andersen disagreed with PP&L's use of a minimum system analysis, primarily because the Company analysis did not reflect the minimum system actually used by PP&L. CEPFOD Statement No. 1 at 28. PP&L, rather than using the cost of the actual plant, used the cost of the new, larger, and more costly facilities currently being installed. The use of a minimum system larger than a true "minimum" system obviously inflates the cost responsibility of a theoretical minimum system. PP&L's "minimum plant" is significantly larger than PP&L's existing facilities, and the larger size provides more load carrying capability to satisfy customers' peak demands.

Dr. Andersen concluded that the use of the larger facilities significantly overstates the cost responsibility under a minimum system analysis that is supposed to reflect the smallest possible system that can be installed to serve a customer under a low or no load hypothetical situation. Id. The significance of PP&L overstating the minimum system cost was highlighted by Dr. Andersen in the following testimony:

- Q. Would the results of Mr. Kleha's analysis vary significantly if he based his analysis on minimum plant sizes actually in service on PP&L's system?
- A. Yes. For example, the weighted average cost of line transformers currently in service that are smaller than kva is \$200. Had Mr. Kleha based his estimate of minimum transformer cost on its average rather than the cost of 10 and 25 kva transformers, his estimate of "customer" related transformer investment would have fallen from 56% to 28%. Had he used the embedded cost of a 3 kva transformer, the minimum system share of transformer investment would have been only 13%.

CEPFOD Statement No. 1 at 29.

Dr. Andersen commented that a better form of the minimum system would have been to use the zero intercept method that eliminates the double counting for the load carrying capability of the facilities. Id. Indeed, PP&L used a variant of zero intercept method in its last rate case, but PP&L failed to explain its departure from its past practice.

In order to remedy PP&L's assignment of distribution costs based on customers, Dr. Andersen recommended an allocation based upon each class's demand responsibility because the secondary system carries a customer's demand. Dr. Andersen demonstrated that a properly applied minimum system analysis produces results that do not differ appreciably from a demand allocation method. CEPFOD Statement No. 1 at 33. The impact of this adjustment is to assign \$3.510 million in additional costs to RTS service. CEPFOD Statement No. 1 at 37.

The CEPFOD recommendation was the subject of rebuttal by PP&L and OSBA witnesses, but the rebuttal failed to challenge the fundamental problem that PP&L's "minimum system" is not a minimum system, that is, the smallest, least costly system that PP&L theoretically could install to serve a customer. Consequently, the assignment of costs based on a customer component is not appropriate when the system can carry the electricity necessary to satisfy a customer's peak load. Thus, Dr. Andersen's demand component is a more reasonable method than PP&L's flawed minimum system analysis and use of a customer allocation.

4. **PP&L's administrative and general overhead should not be allocated based on payroll, but should be based on each class' total new fuel cost responsibility.**

PP&L proposed to allocate administrative and general expenses (with the exception of property insurance expense), based upon each class's payroll

responsibility. CEPFOD Statement No. 1 at 33. Dr. Andersen examined the expenses and concluded that an allocation based on payroll was not appropriate. Instead, most of the expenses represent general overhead that are more appropriately allocated based upon each class's total cost responsibility. CEPFOD Statement No. 1 at 34.

Dr. Andersen indicated that a payroll allocation factor placed undue emphasis on labor intensive activity such as meter reading, customer accounting, and customer service. The administrative and general expense category include costs such as accounting and tax related expenses, legal services, corporate planning expenses and audit fees, which are unrelated to payroll costs. CEPFOD Statement No. 1 at 35. Of the \$91.7 million in administrative and general expenses, only a small portion relates to payroll whereas the majority of the expenses relate to general overhead. Accordingly, Dr. Andersen proposed that A&G costs be allocated based upon the allocation factor for total costs, which includes payroll and non-fuel operating expenses, depreciation, return and taxes. CEPFOD Statement No. 1 at 35. Dr. Andersen explained the reasoning for his adjustment as follows:

Management's basic tasks is the efficient use of resources. These resources include not only labor and materials, but plant investment as well. Mr. Kleha assumes that all management overhead is related solely to payroll despite the fact that PTDC payroll accounts for less than 9% of PP&L's total PTDC revenue

requirement. An allocation of A & G overheads in proportion to direct PTDC cost is appropriate in order to recognize management's general responsibility for the efficient use of all resources required to provide the service.

CEPFOD Statement No. 1 at 36.

Dr. Andersen commented that his recommendation is consistent with the accounting practices followed in non-regulated industries. CEPFOD Statement No. 1 at 36. Finally, Dr. Andersen recommended that costs associated with the plant that is booked to accounts 389, 390 and 391 should also be treated as overhead. The result of Dr. Andersen's corrections is to allocate \$367,000 in additional administrative and general expenses to Rate Schedule RTS. CEPFOD Statement No. 1 at 37. In sum, Dr. Andersen's adjustment more accurately reflects the cost responsibility for the A & G expense category.

5. **An accurate cost of service study would support assigning \$46.2 million as the revenue responsibility necessary to eliminate the RTS rate subsidy.**

Dr. Andersen's recommendations for changes in PP&L's cost of service study resulted in a adjusted cost of service of \$46,236,000 attributable to Rate Schedule RTS, which was \$4,059,000 more than PP&L assigned. PP&L's current revenue from RTS customers is \$19,774,000, which would require a RTS increase of \$26,462,000 and not PP&L's proposed \$3,438,666 increase if the goal is to provide service at the overall system return.

The ratemaking treatment for the RTS rate subsidy is of vital importance to all of PP&L's ratepayers, and Dr. Andersen's recommendation eliminated the rate subsidy and requires PP&L to continue to absorb the subsidization based upon its imprudent actions in offering and promoting RTS service.⁴ In the alternative, Dr. Andersen proposes ratemaking changes in order to reduce the subsidization of RTS service, while continuing to prevent PP&L from shifting the cost of the RTS rate subsidy to other customers.

B. CEPFOD's Proposal To Eliminate The RTS Rate And Any Subsidization By Other Rate Payers Is Reasonable And Should Be Adopted.

- 1. CEPFOD's primary recommendation is to abolish RTS service and to require PP&L to credit RTS ratepayers is reasonable based on PP&L's imprudent conduct.**

Dr. Andersen identified the \$26.4 million revenue deficiency attributable to RTS service and recommended that there is no cost justification for RTS service, particularly when it failed to provide any benefit through load management. CEPFOD St. No. 1, Schedule A. Dr. Andersen reviewed the origins of RTS service, including PP&L's documents, which admitted that RTS' primary

⁴PP&L's last rate increase may have recovered some of Rate Schedule RTS' rate subsidy from other ratepayers, but most of the RTS customers have been added since the last rate case. See CEPFOD St. No. 1 at 9. Consequently, PP&L's shareholders have subsidized most of the RTS rate subsidy and CEPFOD proposes to continue to hold the shareholders responsible for the losses attributable to PP&L's managerial decision to offer and promote RTS at a loss solely to gain marketshare from fossil fuels.

objective was to offer a rate that would allow the Company to expand market share in the residential space heating market. The following excerpt from PP&L's internal documents highlights the blatant market expansion purpose behind RTS:

The impact of lower fossil fuel prices on saturation will depend largely on the length of time current low pricing levels remain in effect. PP&L's standard residential rate can not compete on a price only basis with gas or oil in the heating fuel market.

In order to maintain our large share of the market, we must continue to be innovative and receptive to the needs of the residential market place. Once a home owner decides to install a fossil-fuel heating system, we have lost that customer for the life of the heating system or twenty (20) years.

CEPFOD Statement No. 1 at 7-8.

PP&L considered fossil fuel as the heating fuel of choice by price, and consequently fossil fuel was a threat to PP&L's corporate goal of increasing sales (kWh) through electric heat saturation, as illustrated in the following excerpt from PP&L's internal documents:

Continued decline in fossil fuel prices will have a negative impact on our electric heat saturation. At the present, our standard residential rate can not compete on a price only basis with gas or oil in the heating market. We have already seen an increase in the number of new connects planning to use gas or oil as the heating fuel.

CEPFOD Statement No. 1 at 8.

Dr. Andersen commented that the major problem with RTS service is that all usage is priced at a discount, which magnifies the rate subsidy. RTS' load management only applies to the space and water heating and portion of RTS customers' usage, but RTS' lower subsidized rate applies to all usage. RTS customers have responded to "cheap" rates and used more electricity. The average RTS customer using about 2.6 times as much energy as an average RS customer. This significantly higher usage highlights the sales promotional purpose of RTS, particularly when a RTS customer's non-space heating usage should not receive any discount because it is not part of the "load management" system. Instead, the lower RTS rate for non-heating usage is offered by PP&L as a further enticement to unfairly compete in the space heating market.

The non space heating usage would not have been lost sales by PP&L to fossil fuels, and the subsidy for this usage merely inflates to total cost of the subsidy that PP&L proposes other customers to fund. N.T. 1283.

Dr. Andersen commented that if non-space heating RTS usage is billed at the RS rate, then an RTS customer's incremental cost for space heating would be .02¢ per kilowatt hour, which is an amount that is below the marginal cost as identified by PP&L. CEPFOD Statement No. 1 at 8, N.T. 1283, 1290-91. There is absolutely no support for RTS' non-heating requirements to receive a 68%

discount in comparison to the exact same usage by RS service customers, which are billed \$.0636 per kWh. Id. The fact that all usage is subject to the RTS discount distorts price signals and emphasizes that RTS is merely PP&L's marketing ploy to maximize sales and eliminate excess capacity. N.T. 1305, 1294.

RTS as a space heating service has been marketed to enhance all electric home service in order to maximize PP&L's sales. Indeed, Dr. Andersen identified that PP&L spent \$4.3 million between 1992 and 1994 in promoting RTS service after PP&L knew that RTS produced a negative load management result when having RTS' peak demand coincided with PP&L's system peak. In addition, PP&L spent over \$20 million between 1987 and 1991 promoting RTS after the evening peaking problem was identified by PP&L in its own study. CEPFOD Statement No. 1 at 9. PP&L's promotional costs were \$24.3 million and continued even after PP&L knew that RTS was a load management failure. PP&L paid incentives between \$250 and \$1250 towards a customer's installation cost of RTS equipment, including grants up to \$1000 and low interest rate subsidies. All of these costs reflect the massive subsidization to a service that loses money for PP&L. Now PP&L seeks to transfer the rate subsidy to other ratepayers. This Commission should not allow PP&L to harm other ratepayers in general and CEPFOD members in particular to the extent that they have been unfairly victimized by the rate subsidization through the loss of potential fuel oil customers.

The problem with RTS is that it was successful as a marketing ploy because of its rate subsidization, which PP&L now intends to shift to other customers. PP&L attempts to defend its rate subsidization through the reliance on a post hoc rationalization that RTS service is a load management tool. See PP&L St. No. 8R at 10. In fact, Dr. Andersen highlighted the total failure of RTS service as a load management device, as recognized by PP&L as early as 1987. CEPFOD St. No. SR1 at 6-7 . Indeed, RTS actually was instrumental in the shift of the daily peak to the evening hours, and RTS service is a significant contributor to the daily peak. CEPFOD St. No. SR1 at 3. PP&L in its rebuttal indicates that a remedy to this problem is in the indefinite future. PP&L St. No. 8R at 11. Unfortunately for PP&L's position is that PP&L knew about the problem since 1987 and has done nothing to remedy the problem even though it could have easily installed direct control devices, as PP&L's witness admitted. N.T. 2198. PP&L's documents in 1987 looked to 1994 as the turning point for RTS. CEPFOD Exh. No. 8, pp. 100-108. The RTS problem remains and the only logical conclusion is that the problem will continue in the future. What is real is PP&L's present proposal to continue to subsidize RTS service through shifting the cost from PP&L's shareholders to PP&L's other customers. The Commission should reject this proposal.

PP&L's attempted justification that RTS was offered as a demand side management tool is belied by PP&L's early recognition that RTS was a

demand side management failure. PP&L realized that RTS service would result in a net increase in its system peak demand, and increase the system revenue requirement. CEPFOD Statement No. 1 at 13. PP&L in 1987 conducted a study that considered various demand scenarios, and the study indicated that RTS increases a customer's maximum demand because additional electricity load required during the heating phase of the RTS equipment poses a greater demand than conventional heating equipment. In addition, PP&L recognized that because of storage losses and the tendency of customers to increase the temperature in the homes in response to cheap energy increase the demand imposed by RTS customers. CEPFOD Statement No. 1 at 14. The end result was a dramatic increase in the electric usage by RTS customers, which was the primary goal of PP&L's marketing efforts in response to the Commission's excess capacity adjustments.

Dr. Andersen analyzed the RTS contribution to the system peak in the following testimony:

- Q. Has the RTS class been a significant contributor to system peak?
- A. Yes. As indicated in Table 2, the importance of the RTS contribution to system peak depends on whether system peak occurs during the morning or evening hours.

Year	Peak Hour	Peak Demand (kW)	
		System	RTS
1991	7-8 AM	5,365,487	36,439
1992	5-6 PM	5,674,025	190,148
1993	7-8 AM	5,801,467	54,779
1994	6-7 PM	6,075,629	257,775

Although the contribution of RTS to system peak is unpredictable, PP&L's response to OTS-RS-9D indicates that future test year design day demand assumes a 265 MW RTS contribution to system peak. Thus, although the RTS contribution to actual peak demand is unpredictable, PP&L must plan based on the assumption that the peak will occur during the evening hours, and that the RTS peak will coincide with the system peak.

CEPFOD Statement No. 1 at 15.

PP&L hints that a solution to this peak day contribution is under study, but PP&L's vague references to improvements merely highlight that PP&L has known that a problem exist for many years and has taken no action. Consequently, Dr. Andersen concluded that PP&L was imprudent in its actions.

Support for PP&L's imprudence is found in the March 26, 1985 PP&L memorandum, which concluded that "since the non-participant's negative net present value is substantial, the program is a net cost to all ratepayers as a whole". CEPFOD Exhibit No. 7 at DMO46902. PP&L's "Specially Confidential" document set forth in CEPFOD Exhibit No. 8 is remarkable because PP&L realized that the RTS service provided a negative return, and that the return would continue to deteriorate between 1989 and 1994. CEPFOD Exhibit No. 8 at

DS0115986. Indeed, PP&L realized that RTS would be severely challenged in the next rate proceeding, and acknowledge that “the entire program, including the rate design, will be thoroughly challenged”. Id. Moreover, the same memo indicates that PP&L should “initiate a complete study of impact of PP&L having direct control of RTS systems for load management purposes.” Id. at DS0115989. Over 6 years later PP&L is still promising the corrections that it realized needed to be done in 1989. Clearly this is the foundation for imprudent action by a utility, namely, recognizing a problem and failing to take any action.

PP&L did reduce its annual marketing expenditures beginning in 1989 from its high of \$5.173 million to the historic test year’s level of \$.999 million. CEPFOD Statement No. 1 at 13. Nevertheless, over 50% of the RTS customers were added after PP&L knew that RTS was a problem. Despite the identification of a major problem, PP&L in 1994, spent significant money (\$999,000) on marketing RTS. CEPFOD St. No. 1 at 13.

The only reasonable answer is that when PP&L offered RTS, PP&L believed that: 1) sales would increase through the rate subsidy and 2) the losses created by the massive rate subsidy could be shifted to other customers in the next rate case. RTS did increase sales in the residential heating market at the expense of fossil fuels, and PP&L has sought to shift the cost of the subsidy to other ratepayers in order to profit from its imprudent and anti-competitive

conduct. Thus, PP&L's conduct is rational, albeit imprudent in that it created a rate subsidy and seeks to shift its cost to other ratepayers. Ironically, the Office of Consumer Advocate position seeks to protect the RTS' rate subsidy because its elimination would "harm" RTS consumers, but this position also rewards PP&L for its imprudent conduct and burdens PP&L's other customers, including RS and RTD customers, with the costs of the rate subsidy PP&L created through its imprudent and anti-competitive conduct.

Dr. Andersen's conclusion that PP&L was imprudent has not been refuted. As Dr. Andersen stated, PP&L was spending over \$2,000 per customer to switch customers from either baseboard (40 to 50% of new RTS load) or fossil systems at a time when each customer addition resulted in a present value revenue deficiency of \$5,000 to \$7,000. CEPFOD Statement No. 1 at 12. Only a utility protected from true competition can withstand the type of losses that PP&L experienced in the continued promotion and marketing of RTS service in hopes of reducing its excess capacity through unfair tactics directed against the lower cost fossil fuels.

The consequence of PP&L's unfair competition is the long-term loss of fossil fuel suppliers ever serving the 15,000 RTS customers, from whom PP&L receives approximately \$20 million in annual revenue. PP&L now seeks to shift the subsidization previously borne by its shareholders onto the shoulders of other

ratepayers. Consequently, Dr. Andersen recommended that RTS be terminated, but that RTS customers be paid a credit of \$50 per month for a 3 to 5 year transition period. More importantly, the cost of the credit is to be borne exclusively by PP&L because of its imprudent conduct in offering and promoting RTS after PP&L knew that RTS was a load management and ratemaking failure. PP&L has been willing to carry the cost of the RTS service since its inception in 1981, and Dr. Andersen's recommendation merely uses the credit in the existing tariff to allow a transition period sufficient to provide RTS' existing customers with a full payback for their additional investment in facilities.

The target of RTS service was fossil fuels, including natural gas service provided by UGI, Pennsylvania Gas and Water and Columbia Gas in addition to oil dealers. CEPFOD Exhibit No. 14 at DM0126075. PP&L conceded that less profitable market segments are valuable if they help block the competition's market development, and PP&L specifically highlighted that a multi-market electric heat strategy has been successful in limiting the expansion of gas lines, thus increasing sales in all segments. CEPFOD Exhibit No. 16 at DM055972. Thus, PP&L's use of RTS service has not only been directed at CEPFOD members, but has targeted the Commission's regulated gas utilities through the massive subsidies and promotional activities.

In sum, CEPFOD's proposal is to terminate RTS service at no cost to RTS customers on average until they have had no less than a full payback in their original investment. PP&L agrees with the 5 year time period as the payback period under the proposed rates. N.T. 2160. This is a fair and reasonable proposal that balances the ratepayer interest of RTS customers and non-RTS customers, while addressing PP&L's imprudent conduct in offering and promoting RTS. All CEPFOD seeks is to require that PP&L continue to subsidize RTS for 3 to 5 years from its earnings and not from other ratepayers. If PP&L is unwilling to accept this proposal, then PP&L has the option to voluntarily terminate RTS and continue the \$50 per month payback over ten years as specified in the tariff.

2. **If RTS is not abolished, then RTS rates should be increased no lower than the amount proposed by PP&L and other ratepayers should not subsidize the remaining revenue deficiency.**

CEPFOD proposed an alternative if the Commission is unwilling to direct that PP&L should terminate RTS service and credit ratepayers \$50 a month for the next 3 to 5 years. The alternative is based upon increasing RTS rates by the greater of either PP&L's proposed 17.4% increase, or 2 times the system average increase awarded by the Commission. Assuming that PP&L's revenue level will be reduced by the Commission below the proposed 11% increase, then the CEPFOD proposal is very similar to the OTS proposal in requiring PP&L's full proposed increase for RTS no matter what the rate increase PP&L is awarded. In

addition, CEPFOD witness Andersen recommended that the availability of RTS be closed effective with the Commission's order and that a target date for termination of RTS service to existing customers be established the lesser of either 8 years of cumulative RTS service, or the useful life of the customers' RTS equipment. In addition, Dr. Andersen recommended that the RTS customer charge remain the same as present rates, and that the unbilled 2 kW demand allowance for RTS customers be eliminated, with the entire remaining RTS increase being applied to the usage blocks in order to lessen close the difference between RTS usage rates and RS usage rates. CEPFOD Statement No. 1 at 4.

In rebuttal, PP&L responded that it was willing to close the availability of RTS service effective December 31, 1995, but PP&L provided no reasoning for the selection of this date in its rebuttal testimony. In effect, PP&L recognizes the problems with RTS service consistent with its internal documents, which recognized the problems beginning in 1987. Nothing has changed since 1987 to warrant continuation of a service that fails to recover its costs and would transfer a subsidization from PP&L's shareholders to PP&L's non-RTS ratepayers. PP&L's rebuttal testimony did not address CEPFOD's proposal to increase RTS rates and recover the remaining revenue deficiency from PP&L's shareholders. Should the Commission adopt this recommendation, then it is to be expected that PP&L will embrace the termination of RTS service as quickly as possible.

PP&L's rebuttal testimony also addressed the benefits of RTS service in load management, but this testimony is directly contradicted by PP&L's internal documents. RTS service and the addition of approximately 15,000 RTS customers directly caused PP&L's evening peak problems that would not otherwise have been as great if these customers were fossil fuel customers. PP&L sought the increased sales from RTS customers and was willing to accept the evening peak problem attributable to the total increased sales from the RTS service. In the present case PP&L has proposed to shift the revenue deficiency from RTS customers over to the other customers, and this proposal requires the Commission resoundingly to reject PP&L's proposal and impose an adjustment for imprudence that will hold PP&L responsible for the RTS subsidization rather than PP&L's other ratepayers.

C. PP&L's Proposed Residential Rate Design Should Be Rejected

CEPFOD witness Andersen also reviewed PP&L's proposed rate design changes and recommended that they be rejected. PP&L proposed to increase the customer charge for rate schedule RTS and RS, and Dr. Andersen recommends that no increase in the RTS customer charge occur and a smaller increase in the RS customer charge be allowed. CEPFOD Statement No. 1 at 40-41. Dr. Andersen opposed the RS customer charge increase to \$7.20 because it is not based on cost, reflects a large increase from the existing \$4.80 customer charge, would unduly impact the bills for small RS customers, and would not

provide proper price signals for the high usage customers. CEPFOD Statement No. 1 at 42. As Dr. Andersen pointed out, residential customers have no practical alternative to take electric service from PP&L and it is meaningless to ration residential access to electric service. CEPFOD Statement No. 1 at 43. Accordingly, Dr. Andersen recommended an increase to \$5.80 and no increase in the existing RTS customer charge.

Dr. Andersen also recommended rejecting PP&L's proposed addition of a third block to the RS rate. CEPFOD Statement No. 1 at 43. The existing two block rate fully accounts for the excess of customer costs over Dr. Andersen's proposed RS customer charge and accounts for the small load factor differences between small and large RS customers. There is no evidence that supports a widening of the existing tail block differential for the introduction of a third block for RS service usage. CEPFOD Statement No. 1 at 44. Thus, Dr. Andersen recommended no change in the existing \$.0196 per kWh differential for RS usage in excess of 200 kWh per month.

IV. CONCLUSION

In summary, Central Eastern Pennsylvania Fuel Oil Dealers' recommendations are reasonable and supported by substantial record evidence. The public interest is best served by eliminating Rate Schedule RTS, which, through unjust and unreasonable rates, imposes a massive subsidization of this service by other customers. In the alternative, the Commission should increase RTS rates no less than the proposed increase, freeze the availability of RTS service, and require that PP&L not recover the remaining subsidy from other customers. By further requiring PP&L to credit customers \$50 per month, the Commission would provide an orderly transition over 3 to 5 years and permit RTS customers to receive a full payback for their investment in RTS equipment.

Other recommendations the Commission should adopt is the reduction in the proposed increase in the RS customer charge, eliminating any increase in the RTS customer charge, and eliminating PP&L's proposed third usage block for Rate Schedule RS.

Respectfully submitted,

METTE, EVANS & WOODSIDE

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DATED: June 16, 1995

Appendix A

Yeager's Fuel, Inc.,
1431 Green Street
Allentown, PA 18102

B&D Fuel Oil Company
52 Magna Drive
Coplay, PA 18037

Dries and Reichard Coal Yard
775 Furnace
Emmaus, PA 18049

Flores Air Conditioning, Inc.
259 Race Street
Catasauqua, PA 18032

Frey's Fuel Oil Service
1433 Lehigh Street
Allentown, PA 18103

Fritch Fuel Company
116 River Street
Bethlehem, PA 18015

Harharts Service Station, Inc.
21st & Main Streets
Northampton, PA 18067

Harned Durham Oil Co.
4893 Buckeye Road
Emmaus, PA 18049

R. P. Hutchinson, Inc.
33 South Lea Street
Macungie, PA 18062

Keller Coal & Oil Co.
507-11 Washington Avenue
Northampton, PA 18067

George A. Kohler & Brother
4136 South Church Street
Egypt, PA 18052

C. A. Lessign, Inc.
P. O. box 158
Wind Gap, PA 18091

Loikits Oil & Heating
4401 Spruce
Whitehall, PA 18052

Charles H. Mantz
65 2nd Street
Slatington, PA 18080

R. L. Muth Plumbing & Heating
4806 Blue Church Road
Coopersburg, PA 18036

Patterson Petroleum
2432 South Law Street
Allentown, PA 18103

Remaly Fuel, Inc.
6751 PA Route 873
Slatington, PA 18080

Szilagyi Fuel Co., Inc.
1414 East 4th Street
Bethlehem, PA 18015

The Oil Man
518 Main Street
Hellertown, PA 18055

Morris E. Wisser
1829 Pope Road
Allentown, PA 18104

Lamar E. Wolfgang, Inc.
1635 Main
Orefield, PA 18069

Whitlock & Woerth, Inc.
1220 Georgetown Road
Christiana, PA 17509

Zongora Fuel, Inc.
1545 East Susquehanna Street
Allentown, PA 18103

Dieter Brothers Fuel Company, Inc.
1226 Stefko Boulevard
Bethlehem, PA 18017

Pipeline Petroleum, Inc.
P. O. Box 159
Macungie, PA 18062

Mansfield Fuel Oil Company
1640 Clauser Street
Hallerton, PA 18055

Schwanger Brothers & Company, Inc.
P. O. Box 4186
Lancaster, PA 17604

Sico Company
P. O. Box 27
Mount Joy, PA 17552

Senick, Inc.
1603 Freemansburg Road
Bethlehem, PA 18017

Carlos R. Leffler, Inc.
P. O. Box 278
Richland, PA 17087-0278

H. John Davis, Inc.
P. O. Box 68
Mount Pocono, PA 18344

Arthur J. Ulrich, Inc.
139 Main Street
Landisville, PA 17538

Union Fuel Company
710 Bushkill Drive
Easton, PA 18042

Guy Heavener, Inc.
480 School Lane
Harleysville, PA 19438

W. C. Reichenbach & Son, Inc.
P. O. Box 869
Allentown, PA 18105

Apgar Oil Company, Inc.
639 East Congree Street
Allentown, PA 18103-1299

Freyman's Fuel Oil Company, Inc.
826 Hanover Avenue
Allentown, PA 18103

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served the document identified in cover letter upon the parties of record and in the manner indicated below which satisfies the requirements of §1.54:

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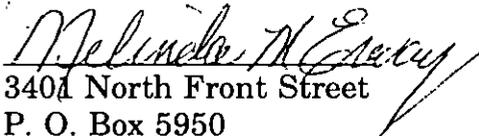
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LAW OFFICES OF
STEVENS & LEE
A PROFESSIONAL CORPORATION

KJR

PLEASE RESPOND TO HARRISBURG

June 16, 1995

John G. Alford
Secretary
PA Public Utility Commission
North Office Bldg.
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v. Pennsylvania
Power and Light Company, Docket No. ~~R-942991~~

Dear Secretary Alford:

R-943271

Please find enclosed an original and nine (9) copies of the Main Brief of Crown American Realty Trust for filing in regard to the above captioned proceeding. As indicated by the attached certificate of service, all parties of record have served a copy hereof.

Should you have any questions or comments, please do not hesitate to contact my office.

Sincerely,

STEVENS & LEE

Kenneth Zielonis

Kenneth Zielonis

KZ/aku

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PENNSYLVANIA POWER & LIGHT
COMPANY

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DOCKET NO. R-942991

R-943271

MAIN BRIEF
OF CROWN AMERICAN REALTY TRUST

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Dated: June 16, 1995

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ATTORNEYS FOR CROWN AMERICAN CORP.

DOCKETED
JUN 19 1995

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ORIGINAL

I. STATEMENT OF THE CASE

On or about December 30, 1994, Pennsylvania Power and Light Company, ("PP&L"), filed Supplement No. 50 to Tariff Electric Pa. P.U.C. No. 200. Supplement No. 50 constitutes a general rate increase as defined in Section 1308(d) of the Pennsylvania Public Utility Code ("Code"). 66 Pa. C.S. Section 1308(d). Supplement No. 50 carried a proposed effective date of February 28, 1995. The Commission's Order directed that the Office of Trial Staff participate in the proceeding.

Formal complaints were filed by several parties including the Office of Consumer Advocate, ("OCA"), the Office of Small Business Advocate, ("OSBA"), the Department of Defense (which also represented other federal installations in PP&L's service territory) the Pennsylvania Power & Light Industrial Customer Alliance ("PPLICA"), Bethlehem Steel Corporation ("Bethlehem"), the Commission on Economic Opportunity, the Eastern Pennsylvania Fuel Oil Dealers, the University/College Coalition ("UCC") and Crown American Realty Trust ("Crown American"). Crown American takes service from PP&L under Rate Schedules LP-4 and LP-5.

Formal hearings to take evidence in this proceeding commenced March 21, 1995. Several hearings were also used to adduce public input comment regarding the effect of the rate increase upon PP&L's customers. Such public input hearings begin March 30, 1995 and continued through April 6, 1995. PP&L and

other complainants presented the testimony of numerous witnesses and exhibits in this proceeding. The record was closed by the presiding Administrative Law Judge, ("ALJ"), on May 26, 1995.

The ALJ has required that Main Briefs be filed on or before June 16, 1995. Crown American submits this Main Brief in compliance with the ALJ's directive.

II. SUMMARY OF ARGUMENT

Crown American Realty Trust recommends the use of a modified 12 CP cost-of-service methodology for purposes of allocating any revenue increase granted by this Commission in this proceeding. PP&L's 12 CP cost-of-service study is flawed and must be corrected. The adjustment that must be made include the use of a proper interruptible service credit, the appropriate allocation of Non-Utility Generator purchased power costs and the appropriate reflection of the cost of providing EDI and IDI credits. Finally, Crown American Realty Trust recommends the use of PPLICA's revenue allocation proposal for assigning the appropriate level of an authorized rate increase to the various rate classes.

III. ARGUMENT

- A. Crown American Recommends that the Presiding Administrative Law Judge Utilize the Cost of Service Methodology Proposed by PPLICA Witness Baron in this Proceeding to Design Rates.

As in past proceedings, PP&L is proposing to utilize the 12 coincident peak (12 CP) cost allocation methodology in this proceeding. That is, PP&L utilizes essentially the same cost allocation principles in this proceeding as it did in its last base rate case proceeding. PP&L St. No. 7 at 5. As indicated by PP&L, this approach assigns production and transmission demand costs on the basis of the average of the 12 monthly coincident class demands occurring at the system average peak. Id. This method should be contrasted with the single coincident peak (1 CP) methodology as enunciated by UCC Witness Eisdorfer in UCC Statement No. 1. As indicated by UCC Witness Eisdorfer, the selection of the methodology to allocate to classes a utility's demand related production and transmission costs is one of the most important issues in any cost of service study for an electric utility. UCC St. No. 1 at 5. The 12 CP cost-of-service methodology is premised upon an assumption that the loads at the time of each monthly peak is equally important in determining the amount and cost of generating and delivering energy on this system. On the other hand, the 1 CP cost-of-service methodology considers the annual system peak as dictating

the amount of production and transmission capacity that a utility must have available. UCC St. No. at 5.

PP&L has cited four reasons in support of its selection of the 12 CP cost-of-service methodology. Those reasons include:

- (1) This methodology has been endorsed by the Commission in previous PP&L base rate case proceedings and use of this methodology results in stable rates.;
- (2) The use of a 12 CP methodology is consistent with PP&L's PJM capacity obligation for the Company.;
- (3) The 12 CP cost of service methodology recognizes seasonal class diversities.; and
- (4) The 12 CP cost-of-service study recognizes and takes into consideration the fact that scheduling of generation equipment maintenance and other matters occurs throughout the year and not just in any particular month.

PP&L St. No. 7 at 7.

PPLICA Witness Baron provides the rationale for utilizing a 12 CP methodology but as modified by his testimony.¹ Crown America agrees with PPLICA witness Baron's utilization of the PP&L 12 CP methodology, as modified by his testimony, as a

¹ It should be emphasized that PPLICA witness Baron recommends that the 1 CP methodology, which would be based upon PP&L's winter peak should be the basis for allocating costs to the customer classes in this proceeding. PPLICA Statement No. 1 at 19.

reasonable means for purposes of allocating costs in this proceeding and designing rates for all customer classes.

Under PP&L's 12 CP cost of service study at present rates, all the major rate classes, except the Residential, LP-5 and ISA classes, generate rates of return that are less than the system average rate of return. PP&L Ex. No. JMK-2 at 8-9. Conversely the remaining major customer classes generate rates of return in excess of the system average rate of return at present rates under this study. Id. at 10-11. As that exhibit also indicates, the GS-1, GS-3, LP-4 and LPEP Customer Classes generate rates of return in excess of the system average rate of return at both present and proposed rates.

PP&L's 12 CP cost allocation methodology, however, must be modified in order to provide a true reflection of the cost of providing service to PP&L's existing rate classes. As indicated by PPLICA witness Baron, the first adjustment that must be made to PP&L's 12 CP cost of service methodology concerns the treatment of interruptible load within the cost of service study. Interruptible load exists on rate schedules LP-4, LP-5 and ISA. PPLICA St. No. 7 at 23. PP&L witness Kleha indicates that interruptible load is recognized on these three rate schedules through application of a \$300 per KW credit to plant-in-service for these specific classes. PP&L Statement No. 7 at 9. The resulting credit amount is approximately \$86 million. Id. The resulting credit is then allocated (i.e. subtracted) to all

customer classes containing interruptible customers. The non participating portion of the affected rate schedules as well as all other classes are assigned a portion of the value of the interruptible load.

The use of this methodology results in a mismatch of revenues and "value" of this credit. As PPLICA witness Baron provides, there is a problem with this type of analysis performed by PP&L. Specifically, witness Baron indicates that PP&L's cost-of-service study in this proceeding utilizes actual revenues produced by both firm and interruptible customers. PPLICA St. No. 7 at 24-25. Such revenues reflect the current interruptible credit which is substantially in excess of the revenue requirement effect of PP&L's \$300 per KW methodology (calculated at \$3.00/KW). See, PPLICA st. NO. 7 at 25. As indicated by PPLICA witness Baron, the actual interruptible credit proposed by PP&L in this base rate case proceeding is \$6.00 per kW for two hour interruptible load and \$8.00 per kW for thirty minute notice interruptible load. Id. at 26. This creates a mismatch in PP&L's cost-of-service study. PPLICA witness Baron discussed this mismatch:

Essentially, the Company is charging back, through the cost-of-service, the difference between the \$3.00 credit contained in the cost study and the proposed credits of \$6.00 and \$8.00 directly to the affected classes.

PPLICA St. NO. 7 at 27, 4.

As a result, the use of the improper credit corresponds to a reduction in the revenues for the customer classes containing interruptible load. PPLICA St. No. 7 at 25. Thus rate classes containing interruptible load (LP-4, LP-5 and ISA) are penalized. Id. at 27.

PPLICA witness Baron provides for the proper treatment of the value and cost of interruptible load in PP&L's cost-of-service study. Crown America supports his statement that the proper treatment of interruptible load in PP&L's cost of 12 CP cost-of-service study requires that the proposed interruptible credits of \$6.00/kW and \$8.00/kW be utilized for measuring the value of interruptible load for cost-of-service analysis purposes. PPLICA St. No. 7 at 26.

The specific adjustment PPLICA Witness Baron recommends is to include a revenue credit for each class containing interruptible load which is equivalent to the revenue credit actually being proposed by the Company for interruptible load. Id. In this fashion, the \$6.00/kW and \$8.00/kW will be used instead of the \$3.00/kW credit now included in the defective 12 CP cost-of-service study. The costs of such revenue credits would then be allocated to all customer classes including those rate schedules containing interruptible service customers. PPLICA St. No. 7 at 28.

A second adjustment also must be made to PP&L's 12 CP cost-of-service study. This adjustment is necessary to reflect the

proper classification and allocation of Non-Utility Generators', ("NUG"), purchased power expenses incurred by PP&L. PP&L has allocated these purchased power expenses on a 100% energy basis to all customer classes in its 12 CP cost-of-service study. PPLICA St. No. 7 at 29. Unfortunately, this is inconsistent with the classification and allocation of such costs in PP&L's ECR. In PP&L'S ECR, a specific portion of those purchased power costs are allocated on a demand basis. The remaining portion of such purchase power costs are allocated on an energy basis. The failure to allocate such costs in a similar fashion in PP&L's cost-of-service study creates another mismatch between revenues which are generated by each class in the cost-of-service study and the expenses attributable to each customer class in the cost-of-service study. This creates a bias in the Company's 12 CP cost-of-service study towards low load factor customers. PPLICA St. No. 7 at 30. Therefore, a proper adjustment to the 12 CP cost-of-service study proposed by PP&L is to remove this mismatch by allocating purchase power expenses in the same fashion as allocated in the ECR.

The final adjustment that must be made to PP&L's 12 CP cost-of-service study concerns the treatment of revenue credits associated with PP&L's Economic Development Initiatives Rider, ("EDI") and PP&L's Industrial Development Initiatives Rider, ("IDI"). PP&L did not specifically identify, in its cost-of-service study, these credits as a separate cost-of-service

element. PPLICA St. No. 7 at 34. Rather such EDI and IDI credits were included as an offset to revenues for the rate schedules in which those customers principally reside, Rate Schedules LP-4, LP-5 and ISA. Id. This reduces the revenues for those rate schedules. Id. Unfortunately, the costs associated with those credits are assigned solely to the rate schedules under which such customers take service. PPLICA St. No. 7 at 34. As a result of this methodology, the costs, which are in the form of reduced revenues for those rate classes, are not shared among the other customers of PP&L who benefit from the application of such credits. As indicated by PPLICA witness Baron, these programs were designed to benefit all customer classes including those specific customers who have received the credit. It is simply unfair merely to assume that the nonparticipating members of the rate schedules which contain customers receiving such credits are required to pay the costs of such credits. The costs of such credits should be allocated to all customer classes and not simply to those rate schedules in which such customers are located. If a nonparticipating LP-4 customer benefits because one of its member rate schedule customers receives a credit, so do all other PP&L customers. Therefore, Crown America supports PPLICA's recommendation that the costs of such credits be allocated to all customer classes and not merely those rate schedules in which customers receiving such credits reside.

The new cost-of-service study which results from the application of these modifications have been discussed in the testimony of PPLICA. As can be seen in that modified cost-of-service study, the rates of return of the LP-4 class is 10.03% or 137.2 on an indexed basis and the rate of return for the LP-5 rate class is 7.47% or 102.2 on an indexed basis. PPLICA Exhibit SJB-2 page 5 and 6 of 6. As that Exhibit also indicates the rate of return of the Residential class RS is 5.33% or 73.0 on an indexed basis. Id. This clearly indicates that a subsidy is occurring on the PP&L system.

PPLICA witness Baron has computed the subsidies which are inherent in the modified 12 CP cost-of-service study at present rates. As can be seen, the Residential customers receive substantial subsidies which are in excess of \$100 million. PPLICA St. No. 7 at 41. Such subsidies are paid primarily by rate schedules GS-1, GS-3 and LP-4. Other rate schedules such as LP-5, LPEP and ISA neither pay subsidies nor receive significant subsidies. Id. Such subsidies must be removed in this proceeding.

The fact that a subsidy occurs indicates that commercial and industrial customers are contributing approximately \$100 million to reduce the costs of providing electricity to residential customers. PPLICA St. No. 7 at 42. This significant subsidy must be reduced to move all rate classes toward cost-of-service and to reduce, to the extent possible, such subsidies in this proceeding.

PP&L's proposed rates in this proceeding, utilizing the defective 12 CP study, does not produce a significant movement toward cost of service. Indeed, under that study, the Residential class is still significantly below the cost of providing service to that customer class and therefore a significant subsidy continues. PP&L Ex. No. JMK-2 at 10-11. Indeed, the \$100 million specific subsidy provided to the Residential class is reduced to approximately \$80 million, hardly a reduction in the subsidy. PPLICA St. No. 7 at 47. Thus, under PP&L's proposed rates, the Residential class continues to rely on substantial cross subsidies from all other major rate classes on the PP&L system.²

Crown American believes that such subsidies must be reduced in this proceeding. Either cost-of-service study selected to design rates (the 1 CP or the modified 12 CP) demand such a reduction. Therefore, Crown American supports the revenue increases, by class, proposed by PPLICA witness Baron. PPLICA St. No. 7 at 54. Such revenue allocation will reduce the significant subsidies now provided to the Residential class and produce revenue contributions which more accurately reflects the cost of providing service to the individual rate classes.

² The results of the 1 CP cost-of-service allocation methodology indicates that the subsidy to the Residential class is significantly exacerbated. Indeed, the subsidy is \$175 million under present rates and increases to \$178 million under proposed rates. UCC Ex. KE-1, Schedule 5.

IV. CONCLUSION

WHEREFORE, Crown American Realty Trust respectfully requests this Commission to adopt each and every recommendation contained herein.

Respectfully submitted,

Kenneth Zielonis

Kenneth Zielonis, Esquire
STEVENS & LEE
208 N. 3rd St., Suite 310
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Dated: June 16, 1995

ATTORNEYS FOR CROWN AMERICAN
REALTY TRUST

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET. AL.

v.

PENNSYLVANIA POWER & LIGHT
COMPANY

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* DOCKET NO. R-00942991

R-943271

CERTIFICATE OF SERVICE

I hereby certify that I have this 16th day of June, 1995, served a copy of the attached Formal Complaint upon the participants listed below by First Class Mail, postage prepaid or by hand-delivery (unless service is otherwise indicated), in accordance with 52 Pa. Code Section 1.54:

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LAW OFFICES OF
STEVENS & LEE
A PROFESSIONAL CORPORATION

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June 19, 1995

John G. Alford
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**DOCUMENT
FOLDER**

Re: Pennsylvania Public Utility Commission v. Pennsylvania
Power and Light Company, Docket No. R-943271

Dear Secretary Alford:

On Friday, June 16, 1995, the undersigned counsel filed a Main Brief on behalf of Crown American Realty Trust in the above proceedings. Unfortunately, both the cover letter as well as the brief contained the incorrect Docket No. R-942991. That docket number was incorrect, and should have been filed at the above docket number. We apologize for any inconvenience this may have caused.

DOCKETED
JUL 18 1995

Sincerely,

STEVENS & LEE

Kenneth Zielonis
Kenneth Zielonis

KZ/aku

cc: Robert A. Christianson
Administrative Law Judge

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June 19, 1995

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INFO. CONTROL DIV.

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

Dear Secretary Alford:

On June 16, 1995, Pennsylvania Power & Light Company filed its Initial Brief in the above-captioned proceeding. Upon subsequent review, it was discovered that several lines of text had been dropped inadvertently at the top of page 182 and several lines repeated at the top of page 183. It also has been brought to my attention that two references to the OCA, one on page 284 and one on page 286, should have been to Bethlehem Steel.

I have therefore enclosed ten corrected copies of the pages in question, which I request be substituted for the originals. As indicated below and on the attached Certificate of Service, copies of the enclosed corrected pages are being served on Administrative Law Judge Christianson and all active parties of record.

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JUN 26 1995
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Sincerely,

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Thomas P. Gadsden
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TPG\jta
Enclosures
cc: Honorable Robert A. Christianson
Certificate of Service

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET AL.

v.

PENNSYLVANIA POWER & LIGHT
COMPANY

DOCKET NO. R-00943271

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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).

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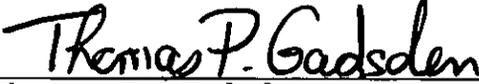
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Dated: June 19, 1995



Thomas P. Gadsden
Counsel for Pennsylvania Power
& Light Company

Implementation. Dr. Johnson has proposed two implementation changes. First, he recommends that the annual amortization be calculated on a "whole life" basis, such that the original cost of plant (without regard to vintage and without reduction for depreciation) would be divided by the amortization period (OCA St. 5A, p. 10). This recommendation should be rejected. The deficiencies inherent in the whole-life depreciation method, i.e., the potential for over or under-recovery, are well known and formed the basis for the Commission's adoption of remaining life as the most appropriate capital recovery method for ratemaking purposes. See Pa. P.U.C. v. Western Pennsylvania Water Co., 59 Pa. P.U.C. 178, 214-222 (1985). Moreover, previously discussed, both West Penn and UGI employed the remaining life method in their amortization accounting proposals, which the Commission approved.

Second, Dr. Johnson recommends that amortization accounting be implemented on a going-forward basis. That is, amortization would be used only for new vintages of property, not existing property (OCA St. 5A, p. 9: "Future vintages would be amortized and existing plant would continue to be depreciated. . ."). If adopted, this recommendation would defeat the purpose for converting to amortization accounting, namely, to reduce the time and expense of recordkeeping requirements necessary for depreciation calculations. Under the going-forward approach, PP&L would still have to maintain and update vintage retirement data for all existing general plant for the remainder of its

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depreciable life, e.g., 20 years in the case of office furniture. Applying amortization accounting to existing property on a remaining life basis, as PP&L has proposed, is reasonable, fair to the Company and its customers and consistent with the approvals granted in West Penn and UGI, supra (Tr. 1848).

Amortization Periods. As previously indicated, Dr. Johnson proposed somewhat longer amortization periods for some of PP&L's General Plant Accounts. As Mr. Hoch explained, it is not clear from Dr. Johnson's testimony or exhibits what formed the basis for his recommendation (PP&L St. 4-R, pp. 11-12):

While Dr. Johnson claims to rely upon the results of the 1980 [service life] study, his recommendations differ in several respects, presumably reflecting his judgment that a 15-year old study is not particularly relevant to determining appropriate current amortization periods. Dr. Johnson also refers to a retirement rate analysis that I prepared in 1994. This analysis applied actuarial techniques to calculate so-called "best fit" survivor curves. Mathematically determined survivor curves, while important, are but one input into the determination of appropriate service lives, as I will explain at a later point. Although Dr. Johnson refers to the results of the 1994 retirement rate analysis from time to time to support the amortization periods he proposes, in several significant respects he has departed drastically from the results of that study as well. For example, the 1994 retirement rate analysis indicated a "best fit" survivor curve for Account 395, Laboratory Equipment, based on an average service life of 19.2 years. Inexplicably, Dr. Johnson proposes a 40-year amortization period for that account. The Company has claimed a 15-year amortization period for Laboratory Equipment. Similarly, for General Computers, the 1994 retirement rate analysis indicated a "best fit" survivor curve based on an average service life of 8.5 years. As previously indicated, the "current

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 Bethlehem Steel 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 (Bethlehem Steel St. 1, p. 15; 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

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

Bethlehem Steel 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 far less than the effect difference for LP-4 (8.96% to -51.56%) and LP-5 (5.34% to -109.18%).

Commission on Economic Opportunity

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June 19, 1995

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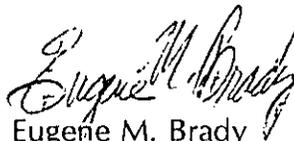
RE: Pennsylvania Public Utility Commission et al. v. Pennsylvania
Power & Light Company
Docket No. R-00943271

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INFO. CONTROL DIV.

Dear Secretary Alford:

Enclosed for filing please find the original and nine copies of the Main Brief of the Commission on Economic Opportunity in the above-docketed proceeding. As evidenced by the enclosed certificate of services, copies have been served on all active parties in this case.

Sincerely,


Eugene M. Brady
Executive Director

Enclosures
CC: ALJ Christianson
All parties of record

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

vs.

Docket No. R-00943271

Pennsylvania Power and Light Company

BRIEF

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The Commission on Economic Oppor

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Dated: 16 June 1995
Date Due: 19 June 1995

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INTRODUCTION AND SUMMARY

The Commission on Economic Opportunity is a non-profit organization serving the low income and elderly in Northeastern Pennsylvania. It is a part of CEO's mission and responsibility to advocate for the interests of this constituency. In this instance, the Pennsylvania Power & Light Company ("PP&L") seeks a \$261 million annual rate increase. Our involvement with the current proceedings stems from the concern that an increase will place a substantial financial burden on all PP&L residential ratepayers, but that burden will fall disproportionately on those residential ratepayers who are already experiencing an inability to pay at current rates. Experience has shown that one way to lessen the impact of rate increases is for utilities to provide ratepayers with energy conservation technologies and energy education programs so that they have the means to reduce their household electric use.

As part of its increase request, PP&L is proposing to develop, fund, and implement a set of Social Programs that will, among other things, have the goal of reducing household energy use for direct participants. The ultimate design and funding levels of these programs will determine whether these programs provide substantial benefits to the targeted ratepayers, i.e. whether they actually reduce household energy use. In an effort to ensure program effectiveness, PP&L proposes that these programs be designed and implemented in cooperation with various community based organizations and low income energy conservation providers because these organizations have proven experience in the requisite areas.

CEO strongly supports PP&L's commitment to the development and implementation of social programs "addressing customer and community needs, especially those of lower-income customers."¹ CEO believes that any rate increase would necessitate that funding for existing social programs to be increased, and that certain design elements must be included in any new social programs part of this proceeding if PP&L's existing and proposed to social programs are to meet their stated goals.

First, PP&L's WRAP must be increased if this program is to significantly reduce the need within PP&L's existing low income customer base. At current funding levels and completion rates, it will take 25 years to reach all income eligible WRAP households.

Second, specific design elements need to be incorporated into PP&L "Social Programs" structure and individual social programs if they are to be effective. Some people believe that these "Social Programs are only public relations tools. With the proposed changes, this image could be improved. Specifically, with respect to PP&L's proposed "Social Programs," these programs must be designed and implemented in direct cooperation with those community based organizations across PP&L's service territory that have the experience and expertise to deliver the anticipated services.

¹ PP&L Statement 11, page 3, lines 11-12.

Third, PP&L states that it plans to operate versions of its "Social Programs" within each of its five regions and argues that program funding be distributed equally among those regions. CEO asserts that since the demographics, hence, the need, in PP&L's regions differ significantly, it would, in essence, be inequitable for PP&L to simply distribute equal amounts of "Social Program" funding to each of its five regions. Rather, equity requires that such funding be distributed according to a predetermined formula based on the extent of the need in target population within each region or county throughout PP&L's service territory. The PP&L approach of monthly monitoring and redistribution of funds could be applied with this approach appropriately.

Finally, with respect to PP&L's "Social Programs", CEO strongly asserts that since residential **baseload customers** will be hardest hit by any rate increase that may result from these proceedings, and since PP&L has no programs addressing the specific needs of baseload customers, PP&L must develop a "Social Program" that corrects this inequity to those with the highest percentage of increased rates. Such a program should not only include technical energy conservation measures, but an energy education component as well. Individual education to baseload customer ratepayers would have a tremendous impact at little cost.

In addition to energy conservation based "Social programs," PP&L operates energy conservation programs as part of its integrated resource planning process called demand side management programs or "DSM". DSM programs pay dividends in lessening the burden of rate increases and are environmentally friendly. These programs would incidentally help reduce the adverse effects of rate increases on individual ratepayers that directly participate, but most importantly would reduce the costs of production for the utility. The date of future need for increased capacity can be argued, but we must begin to set in place, now, activities to diminish the need for additional capacity generation.

It is CEO's position that PP&L should be required to spend more on DSM if it is granted a rate increase because a larger DSM portfolio will help lessen the impact of such on direct participants, as well as forestall or offset generation capacity activities. PP&L does not deny these facts. Rather, PP&L argues that its specific capacity situation, i.e. it does not expect to need new capacity until 2008, dictates that it have a "modest" DSM portfolio; hence, it cannot increase DSM funding at this time. CEO asserts PP&L's "capacity" argument is factually unsound because (1) PP&L could justify increased DSM funding based on DSM's energy benefits alone; (2) increased DSM funding can be justified on the assumption that an adequate and viable DSM portfolio is necessary if DSM is to play a substantive role in PP&L's integrated resource planning process in the future; (3) PP&L's capacity needs projections are based on the arguable assumption that a 12% reserve margin is adequate to ensure system reliability; and (4) PP&L's arguments in support of early retirement for depreciation purposes of its Holtwood 17, Martins Creek 1&2, and Sunbury 1, 2, 3, & 4 facilities strongly suggest that PP&L may need to as much as 900MW of new capacity as early as 2004.

Second, CEO asserts that PP&L is unjustifiably discriminating against exiting and

baseload ratepayer in the design and funding of its residential DSM portfolio. PP&L does not deny that its DSM portfolio discriminates against existing and baseload customers. Rather, PP&L argues that its DSM program is justified because of its lack of need for new capacity necessarily limits its DSM funding and dictates that it spend its necessarily limited DSM funding on programs that produce the most benefits for PP&L. It would appear PP&L believes marketing helps the company more than conservation. CEO asserts that PP&L's argument will not bear the weight which PP&L places upon it because: (1) PP&L's capacity needs projections are questionable; (2) PP&L's own DSM and Integrated Resource Planning Analyses show that its DSM programs targeting existing ratepayers produce equal, if not greater, benefits than its programs targeting new construction; and (3) Three, it is reasonable to assume that existing and baseload programs include the "a wide variety of industry proven programs are available to PP&L for inclusion in its DSM portfolio at costs comparable to PP&L's current 3.0¢/kWh incremental cost of energy" that CEO Witness Kuennen has testified to.²

Therefore, in exchange for any rate increase granted PP&L, the Commission should mandate that :

- (1) PP&L increase its funding for all existing energy conservation based "Social Programs" in order to offset rate increases;
- (2) PP&L develop, fund, and implement a "Social Program" that targets baseload customer and includes an energy education component;
- (3) PP&L distribute its "Social Programs" funding across its entire service territory according to a predetermined needs based formula that concentrates funding where the number of potential participants and greatest;
- (4) Community Based Organizations across PP&L's service territory be directly involved in design, development and implementation of all proposed "Social Programs;"
- (5) PP&L increase its annual demand side management program funding relative to its annual revenues;
- (6) PP&L redesign its residential demand side management portfolio such that existing and baseload ratepayers of all income groups have access to direct program benefits; as well as be in line with their representation within the ratepayer base and that each residential DSM programs include an Energy Education Component; and

²CEO Statement 2, page 6, lines 22 through page 7, lines 1-3.

- (7) Energy conservation providers across PP&L's service territory be directly involved in design, development and implementation of all new demand side management programs.

ARGUMENTS

SOCIAL PROGRAMS

WRAP Funding Must be Increased

Any rate increase will create a need for additional funding for PP&L's existing social programs. PP&L acknowledges this point by proposing increases in its Operation HELP and CARES programs as part of its "Social Programs" package. Though PP&L also includes a program modeled after its highly successful WRAP program called Keep Warm, this program will target ratepayers in the 150-200% of federal poverty. CEO applauds this new program, but would point out that any rate increase resulting from this proceeding will necessitate a similar increase in WRAP funding itself, and based on PP&L's own expert testimony on social programs, such an increase would be in the best interest of both PP&L and its low income customers.

Current WRAP funding is inadequate in terms of the existing need, and this situation will only be exacerbated if a rate increase is approved. According to PP&L Witness Stathos, funding for WRAP "is limited and the need is significant."³ To get a sense as to just how limited WRAP funding is relative to need, one can look at what WRAP has accomplished over the years relative to those PP&L customers who are income eligible for the program. With respect to low income electric heat ratepayers, PP&L estimates that it has approximately 66,000 ratepayers who are income eligible. Assuming an average 1890 WRAP completions a year during the 10 year period 1985 to 1994 (18,900 completions ÷ 10),⁴ it would take approximately 25 more years to reach every eligible electric heat ratepayer ((66,000-18,900) ÷ 1,890) at current funding levels. Therefore, it can be concluded that current funding levels are inadequate to meet existing needs.

Further, as Witness Stathos testifies, every dollar spent on "innovative programs" such as WRAP is cost-effectively spent. As he puts it, "Reducing energy bills, avoiding collection costs, improving participants' ability to pay their energy bills and the resulting benefits in urban areas in PP&L's service territory is a win/win situation for PP&L and its customers."⁵ Therefore there is no reason to conclude that WRAP would not continue to produce positive benefits for PP&L if program funding was increased.

Finally, it is a given that any rate increase resulting from this proceeding will produce an increase in the need for WRAP services from the low income customer perspective, and increase

³PP&L Statement 11-R, page 16, lines 13-14.

⁴PP&L Statement 11-R, page 20, lines 17-21.

⁵PP&L Statement 11-R, page 11, lines 16-20.

in WRAP benefits from PP&L's perspective. As more low income ratepayers begin to experience an inability to pay they will need help in lowering their bills, or bill payment habits will deteriorate, arrearages will grow, company collection costs will rise and bad debt write-offs will increase. As such, it would be in both the low income customers interest and PP&L's interest if increased funding for this program was required as part of the settlement of this rate case. The increase in funding could be a function of the increase granted.

**Programs Are More Than Public
Relations Tools And Should Not Be
Company "Jobs" Programs**

CEO asserts that PP&L's proposed social programs are more than public relations tools and should not be used as company reduction in force replacement jobs programs, they must be designed in direct cooperation with and operated by those community based organizations across PP&L's service territory that have the experience and expertise to effectively deliver the desired services.

CEO does not make this assertion lightly. Rather, it is based on direct experiences CEO has had with PP&L in the development and implementation of social programs in the past. As CEO Witness Brady has testified, CEO's

past experience with the company and its "social programs" has shown that the initial intentions and outlines presented as part of rate hearings become operational in very company centered ways. "Social programs" have been used by the company to lessen the impact of corporate reductions in force. In several instances, staff whose positions were eliminated by the company were assigned to social program sand contracts with community organizations were discontinued In-house staff who are not trained to perform these tasks and who would have, otherwise, been laid off should not be used in this manner. This approach would appear to indicate PP&L feels it can use social programs for other purposes to benefit the company, not focusing on the intention of these important programs. In developing the operational details for these programs, the company works actively with community organizations who invest a great deal of time and effort in planning, with no reimbursement, then the company pulls the program in-house. . . . The corporate commitment must be to assist local communities and their residents and secure the most cost-effective value for the funds being expended. These are "people" programs, not public relations programs, and community based organizations are best qualified and most appropriate to implement them.

Mr. Stathos in his rebuttal took strong exception to the "more than window dressing" verbiage. He took umbrage that we would imply that "proposed customer and community

programs are being done for public relation benefits". We did not state that the programs were done for only public relations benefit in our testimony. However, PP&L does protest to much. Every social service program has a nifty name: WRAP, On track, Operation Help, Extra Help, Cares, Keep Warm, etc. PP&L understandably so, takes special care to get the right public relations imagery. We want to make sure extra care is taken to design, develop, implement and continue to operate these programs as effectively as possible. We do not wish to impugn PP&L motives in regard to its proposed social programs. We agree it is not the primary reason the programs are proposed. We are concerned over what appears to be some secondary benefits. That said, it is important to note what is absent from Witness Stathos' rebuttal. Specifically, Witness Stathos does not deny Witness Brady's testimony that PP&L social programs have in the past been "used by the company to lessen the impact of corporate reductions in force" by bringing the programs in-house once community based organizations have expended considerable time and resources in the design and pilot implementation phase. By implication, CEO believes PP&L's silence on this issue is strong evidence that CEO's concerns as expressed by Witness Brady are legitimate.

If PP&L is sincere in its promise to "will work extensively with existing community organizations and coalitions to administer these programs," in its position that it "will not create new administrative structures for these programs; rather, it will use existing mechanisms in the community," and in its "intent to add value to community organizations and coalitions and not to build a cumbersome bureaucracy, then PP&L should not be opposed to reducing these promises and commitments to writing as part of the settlement of this rate case. WRAP, Energy Education or On-Track, Operation Help, Cares, Keep Warm, etc should be operated by Community Based Organizations with the background and speciality in these areas as there purpose for being.

Such a mandate would state that PP&L must work closely with existing community based organizations across its service territory in the initial design and pilot phases. Further, it would state that PP&L will not move these social programs in-house once local community based organizations have developed these programs through the difficult design and pilot phases.

Funding Must Be Distributed According to Need

PP&L states that it plans to operate its "Social Programs" within each of its five regions and argues that program funding should be distributed equally among those regions. CEO asserts that since the demographics, hence, the need, differs significantly across PP&L's service territory, it would be inequitable for PP&L to simply distribute equal funding to each of its five regions. Rather, equity requires that such funding be distributed according to a needs based formula including degree day considerations.

CEO funding concerns stem from the fact that

prior to 1993, PP&L had six divisions and all corporate funds, Operation HELP,

WRAP, etc. that went to community groups either to purchase services or to assist customers in paying energy bills appear to be divided equally among the six divisions. In 1993, the Northern (Scranton) Division and the Central (Wilkes-Barre/Hazleton) Division were merged and became the Northeast Region. The funds are now proposed to be divided equally among the five regions, with no consideration given to the fact that previously the Northern and Central Divisions had received 1/3 (2/6) of the funds, and are now receiving 1/5 as the Northeast Region.

U.S. Census and PP&L social program funding data support CEO's concern. Since 1993, PP&L's Northeast Region has received an average 22% of PP&L's total WRAP funding, or \$597,250, and an average 23% of PP&L's total Operation HELP funding, or \$145,442.⁶ Though these figures are above a straight 1/5 division of social program funding as proposed by PP&L in this case, they are well below what they would be if these funds were distributed according to low income demographics within PP&L's Regions. According to the 1990 U.S. Census, approximately 27% of PP&L's income eligible WRAP and Operation Help ratepayers, i.e. those at or below 150% of federal poverty, reside in PP&L's Northeast Region. These data show that if WRAP and Operation Help were distributed according to need, i.e. income eligibility, the Northeast Region would have received an additional \$451,838 in funding⁷ during the period 1993 to 1995. This is no small point considering that in terms of "Heating Degree Days, the Northeast Region is 1½ times colder than the PP&L's territorial average."⁸

PP&L suggestion that, in terms of Operation Help, the Northeast Region should be content in the fact that it receives more funding than a regional contribution based formula would dictate is of little consolation. Many reasons could account for the disparity between benefits and contribution. Not the least of which could be fact that PP&L's low income ratepayers are concentrated in the Northeast region, and that region is significantly colder than PP&L other regions, i.e., Northeastern ratepayers, as a group, are having a more difficult time paying their electric bills; hence, they have less disposable income to contribute.

⁶See PP&L Statement 11-R, page 17, line 9 = $(\$540,021 + \$651,730 + \$600,000)/3 = \$597,250$; line 10 = $(20.7 + 23.3 + 23.0)/3 = 22.3$; line 29 = $(\$148,361 + \$137,965 + \$150,000)/3 = \$145,442$; and line 30 = $(24.3 + 21.8 + 22.8)/3 = 23.0$. Further, it must be noted that, though Operation HELP funds primarily go to low income customers, it is not specifically limited to those customers at or below 150% of federal poverty as is the case with WRAP.

⁷See PP&L Statement 11-R, page 17, $(\text{line 21} + \text{line 38}) \times 0.27 - (\text{line 29} + \text{line 38}) = [(\$2,613,300 + \$2,799,655 + \$2,610,000 + \$610,739 + \$631,919 + \$657,000) \times 0.27] - (\$540,021 + \$651,730 + \$600,000 + \$148,361 + \$137,965 + \$150,000) = \$451,838.5$

⁸CEO Statement 1, page 11, line 1.

Further, PP&L's suggestion that a regional or geographical needs based distribution formula would hamper program flexibility is not true. According to PP&L Witness Stathos,

The fallacy with the CEO argument is one of the key strengths of both programs [i.e., WRAP and Operation HELP] is that PP&L has the flexibility to shift funds among the regions to meet needs. The Company closely monitors expenditures each month for WRAP and Operation HELP. If it is determined that a social service agency cannot spend all of its WRAP allocation, those additional funds could be shifted to agencies in other regions. PP&L uses this same approach to reallocate Operation HELP funds to other regions. This process has twin goals: 1) to ensure that all funding is used effectively; and 2), to ensure that the maximum number of customers is assisted.⁹

There is not adequate money to serve everyone eligible in a given year which is the case in each and every Region, therefore, if outreach was effective and the program operated competently, the funds would be totally expended. CEO can see no reason why a regional or geographical needs based formula would accomplish the same flexibility needs for PP&L. If, for example, after the needs based formula is adopted and a Northeast based agency cannot expend all its funds, there is no reason to believe that PP&L, given that it "closely monitors expenditures each month," would not have the same flexibility to shift those funds to other agencies within the Northeast Region or to agencies other regions. In fact, it is likely the case that a needs based formula would be more effective than PP&L's current funding method because funding would be sent to those areas where the need is concentrated initially. CEO Witness Brady made this point under cross examination.

Baseload Customers Must Not Be Neglected

PP&L's low income residential baseload customers will be hardest hit by any rate increase that may result from these proceedings, and PP&L has no existing, nor proposed programs specifically designed to address this issue. CEO Witness Brady made this point clear in his written testimony. As he put it, PP&L's proposed Social Programs

can have an impact on households that use electricity for space heating, because weatherization and energy conservation education are significant parts of several of the programs. However, these do very little to address the burden that a rate increase will impose on the low income and elderly **baseload** customer. Baseload customers will have the largest percentage increase in their bills. PP&L's projections indicate that customers utilizing 500 kWh will see a 20.7% increase.

⁹PP&L Statement 11-R, page 18, lines 11-19.

[Existing social programs such as] Winter Emergency, Payment Protection, Operation HELP Contribution and CARES Extension Programs, while they will offer some assistance in unusual circumstances, they are primarily directed toward insuring that PP&L gets paid when the circumstances occur. They do not address baseload consumption.

CEO feels strongly that this oversight must be corrected. Following the same methodology used to calculate the number of low income electric ratepayers in the WRAP argument above, PP&L has an estimated 151,000 baseload customers at or below 150% of the federal poverty level.¹⁰ As CEO Witness Brady points out, unlike PP&L's electric heat conservation, "[baseload conservation, with the exception of compact florescent lamps, has been neglected thus far by PP&L." Further, he adds, the "advent of weatherization and energy conservation education has resulted in a drop in consumption for heating use, but baseload consumption continues to increase." CEO asserts that there is no reason to believe that a low income baseload conservation program that incorporates the latest technologies and energy education techniques would not result in similar reductions for PP&L's low income baseload customers. PP&L feels otherwise.

According to PP&L Witness Stathos,

Offering conservation services to customers who have neither electric heat or electric water heating provides little benefit to PP&L and its customers. Providing conservation services to customers who heat their homes and/or water with electricity helps to lower electric bills, reduce accounts receivable, and control growth of peak demand.¹¹

Following this logic, PP&L would have us assume that energy conservation measures can do nothing to lower low income baseload customer electric bills, that no low income baseload customers have trouble paying their monthly electric bills, and that a reduction in low income baseload customer demand will do nothing to reduce PP&L's growth in total peak demand. But this would be absurd on the face of it. It is CEO's position that conservation services, in particular, education, would assist baseload customers reduce their usage and lessen peak demand as a by-product. Further, it is CEO's position that PP&L has not justified its

¹⁰PP&L Exhibit OJL 1-4 shows that PP&L has 1,081,232 residential ratepayers. Assuming 70% are baseload, as testified to by CEO Witness Kuennen, page 88, line 88, and as acknowledge by PP&L Witness Farber under cross examination, then PP&L has an estimated 756, 862 baseload ratepayers. Assuming that 20% of those baseload ratepayers are at or below 150% of federal poverty as PP&L Witness Stathos does, then PP&L has an estimated 151,000 low income baseload ratepayers.

¹¹PP&L Statement 11-R, page 19, lines 19-23.

discrimination against low income baseload customers in the design and development of its existing and proposed Social Programs.

DEMAND SIDE MANAGEMENT

PP&L's DSM Funding Is Not Adequate

Demand side management programs can reduce the impact of rate increases on direct program participants. As CEO Exhibit C. 2 shows,¹² the industry average in terms of annual DSM funding relative to annual retail revenue is 1.5%. PP&L's annual DSM funding relative to retail revenues is 0.4%. Other utilities in P.M. have annual DSM budgets as high as 4.3% of retail revenues.

PP&L counters by arguing that what other utilities in the industry and surrounding area is not necessarily relevant in Pennsylvania, in general, and to PP&L, in particular. Rather, PP&L argues that what is relevant is PP&L's specific capacity needs. According to PP&L, since it will not need new capacity until 2008, it cannot justify increased spending on DSM at this time. It is CEO's position that PP&L's "capacity" argument is factually unsound.

Specifically, PP&L's "capacity" argument against increased DSM funding states that PP&L cannot substantially increase its DSM funding because (a) "A utility's DSM activities must be evaluated in the context of its particular circumstances," (b) "a utility that requires additional capacity resources should attempt to obtain more DSM than a utility that does not need additional capacity resources," (c) "PP&L projects that it will not need to add capacity to its system before 2008," (d) therefore, "A massive increase in the amount of DSM on PP&L's system, as recommended by the CEO, would not be appropriate or cost-effective at this time."¹³

CEO does not deny that the particular circumstances of a utility should be considered in evaluating the adequacy of its DSM portfolio. Rather, CEO contends two things with respect to this argument render it factually unsound; hence, it cannot lend support for PP&L claim that it cannot increase its funding of DSM. One, sizable DSM portfolios can be justified on non-capacity grounds. Two, that PP&L's claim that it will not need new capacity until 2008 is questionable.

Sizable DSM Portfolio Can Be Justified on Non-capacity Grounds

DSM programs produce both demand and energy value, and these values are not necessarily co-dependent, when a utility's incremental cost of energy is higher than the cost of

¹²Copy attached.

¹³PP&L Statement 10-R, page 4, lines 24-29 through, page 5, lines 1-5.

conserved energy provided by a DSM program, it is often economically prudent for the utility to pursue the DSM option regardless of its capacity needs.

Further, from a policy standpoint, a utility could justify a sizable DSM portfolio based on the assumption that if DSM is to be integral part of a "capacity rich" utility's integrated resource plan, it must be funded at a level that allows it to be perceived by utility personal as a legitimate demand and energy resource. This is one of the major points underpinning CEO Witness Kuennen's written testimony,¹⁴ and a point he made explicitly clear under cross examination by PP&L.

PP&L's own May 95 APR. is a case in point. Specifically this planning report describes what PP&L calls an "aggressive Demand Side Management" planning option. Labeled "Alternative Plan B," if followed, this plan would reduce PP&L's "winter peak by approximately 140MW" by the year 2008 at costs "similar to the preferred plan."¹⁵ By PP&L's own analysis, this "aggressive Demand Side Management" plan would be more cost-effective than PP&L's preferred plan through at least 2013.¹⁶ That PP&L chose not to pursue the DSM alternative, despite its superior cost-effectiveness through 2013, was clearly a non-capacity based policy decision. If PP&L wished to send a signal that it supports DSM, it could have easily justified its pursuit of Alternative Plan B.

Based on these points, it is CEO assertion that PP&L's low level of DSM funding is more a function of PP&L policy and DSM philosophy than its lack of capacity needs. This point was brought out in CEO Witness Kuennen's testimony.

Capacity Need Projections Are Questionable

The timing and amount of PP&L's capacity needs projections are based on the assumption that a 12% reserve margin is adequate to ensure long term system reliability. [give reference] If it is shown that some reserve margin above 12% is required to maintain adequate reliability, then it will follow this premise is questionable at best. Therefore, it cannot lend support to PP&L's argument that its DSM spending is adequate.

Evidence to the effect that the 12% planning reserve margin is inadequate is readily offered by PP&L's own expert witness on "Capacity Issues" in this case, Mr. Sipics, and by OTS

¹⁴CEO Statement 2, page 6, lines 22 through page 7, lines 1-3.

¹⁵May 95 APR., page 36, copy attached.

¹⁶May 95 APR., Table IRP-ELEC 11, copy attached.

expert witness on "Capacity Issues," Mr. Metro. Only OCA witness Krall supports the 12% planning reserve margin.¹⁷ In his rebuttal testimony to OTS witness Metro and OCA Witness Krall, PP&L Witness Sipics strongly suggests that a 12% reserve margin is inadequate for PP&L planning purposes for at least three reasons.

One, PP&L Witness Sipics points out that

PP&L's P.M. capacity obligation must be met both on a planning and on an 'after-the fact' accounting basis. PP&L's 12% P.M. reserve requirement is set two years in advance of the planning period, 'after the fact' accounting adjustments are made to PP&L's obligation to reflect actual unit performance and loads. In addition, available capacity is reduced for peak period maintenance. All of these adjustments must be considered in developing an accurate characterization of PP&L's total capacity obligation. Within the last two years, these adjustments have increased PP&L's reserve level required for P.M. installed capacity accounting purposes by as much as 5.3 percentage points (351 MW) above its planned obligation. (See Exhibit JFS-3). If PP&L is to avoid being penalized for having insufficient capacity in either the planned or the after-the-fact accounting used to determine PP&L's obligation to P.M. it is necessary to have reserves above the minimal 12% level.¹⁸

Based on this point, PP&L's minimum reserve margin should be set at 17.3% (12%+5.3%).

Two, PP&L Witness Sipics suggest that:

There is significant exposure to relatively high unavailability of generating units in the winter due to the same weather conditions that contribute to the winter peak period. This is of particular concern to winter peaking utilities like PP&L. It is these conditions that led to the P.M. capacity emergency that occurred on January 19, 1994. The P.M. determination of reserve requirements, which is based on a detailed analytical modeling exercise, assumes that generating unit availability and load are independent events whereas, in reality, they are not. Therefore, this factor is not reflected in PP&L's 12% minimum reserve margin obligation to P.M..¹⁹

In other words, the P.M. minimum reserve margin of 12% is determined by a model that does not

¹⁷OCA Statements No.2 and No. 2A.

¹⁸Statement 9-R, page 5, lines 1-17.

¹⁹Statement 9-R, page 5, lines 18-28.

take into account the PP&L's unique situation as a winter peaking utility in a summer peaking pool . Therefore, it is questionable whether any minimum reserve margin set by the P.M. model will be adequate to ensure system reliability.

Finally, PP&L Witness Sipics states that

[in recent times, P.M. has not been performing at a 1 in 10 reliability level even though overall planned P.M. reserves have exceeded 22%. Since 1987, P.M. has experienced 7 voltage reductions and, on January 19, 1994, rotating black-outs were necessary. This suggests that, even with reserve above the presently designated P.M. reserve requirement, there is substantial risk that emergency procedures will need to be implemented more often than indicated by the planning objective.²⁰

This suggests that the P.M. minimum reserve margin requirement of 12% is much too low to ensure system reliability, and that something higher than 12% is required. This point is significant in that each percentage point increase in the minimum reserve requirement needed to maintain system reliability potentially moves forward the date that PP&L will need to add new capacity.

OTS Witness Metro agrees with PP&L Witness Sipics that PP&L "needs capacity over and above its projected peak load" to ensure system reliability, and suggests that a "16 percent reserve is a sufficient level of reserve to provide safe, reasonable, adequate service to PP&L's customers."²¹ In rebuttal, PP&L Witness Sipics suggests a reserve margin for planning purposes should be 17.8%.²²

Assuming that a planning reserve margin of 17% is more appropriate for estimating the timing and amount of PP&L's new capacity needs, and using capacity and demand data supplied in Table IRP-ELEC B of PP&L's May 95 APR., minimally, PP&L will need 149MW of new capacity by 2004 to maintain system reliability.²³ Column (p), projects winter reserves at 1571MW in 2003 and 1441MW in 2004. After adjusting these figures to account for the capacity sales in PP&L's new contract with JCP&L of 300MW for each of these three years as described on page 1, PP&L May 1895 APR.,²⁴ PP&L's projected winter reserves are reduced to

²⁰Statement 9-R, page 5, lines 29, page 6, lines 1-7.

²¹OTS Statement No. 5, page 15, lines 1-6.

²²Statement 9-R, page 15, lines 8-11.

²³Copy attached.

²⁴Copy attached.

1271MW in 2003 and 1141MW in 2004. Column (m) of this same table shows net internal peak load to be 7455MW in 2003 and 7585MW in 2004. These data produce reserve margins of 17.0% in 2003 and 15.0% in 2004, and strongly data suggest the need for approximately 149MW of new capacity sometime during 2004 to maintain system reliability, (i.e., $[(7585 \times 1.17) - 7585] - 1141$). Maximally, PP&L may need as much as 910MW of new capacity by 2004 if it is forced to retire the 762MW²⁵ of winter capacity it is requesting early retirement of for depreciation purposes. Subtracting 762MW from the winter reserve data for year 2004 of 1141MW leaves reserves of 379MW. Assuming capacity needs for reliability purposes of 8875MW are required in 2004, (i.e., $7585\text{MW} \times 1.17$), these data strongly suggest that PP&L will have a capacity deficit for reliability purposes of 910MW by 2004, (i.e., $[(7585 \times 1.17) - 7585] - 379$).

That PP&L will be forced to retire 762MW of winter capacity during 2004 is a real possibility according to PP&L's expert witness on "Fossil Plant Lives," PP&L Witness Krall. Specifically, with regard to Martins Creek 1 & 2, Witness Krall cites a May 4, 1994 PP&L study that "indicates that [since] cumulative net benefits [for this plant] reach a maximum in 2002 and do not again reach that level until 2010. . . . a blind commitment to continued operation without recognizing the possibility of an earlier retirement is not a prudent investment strategy."²⁶ In response to OTS Witness Sivulich, Witness Mr. Krall argues that PP&L analyses show "that, for Holtwood 17, Martins Creek 1 & 2, and Sunbury 1,2,3, & 4, there are costly exposures which could render those plants economically obsolete."²⁷ Further on, he argues, "UGI's tentatively planned retirement of a somewhat new generating station is consistent with PP&L's finding of threats to the continued operation of Sunbury and Holtwood, in particular, and smaller, older generating units, in general, beyond the 2003 time frame" is further evidence that PP&L may not be able to rely on these units to meet capacity requires beyond 2003.²⁸

That PP&L may need to add between 149MW and 910MW as early as 2004 is quite relevant to CEO's assertion that PP&L should be placing more emphasis on demand side management. The lead time for adding new capacity in 130-140MW increments is three to four years assuming CT advanced (gas) and/or combined cycle (gas) are installed, and eight to nine years for increments of 300-500MW assuming pulverized coal and/or IGCC units are installed.²⁹ Given these lead times, PP&L's emphasis on demand side management, or lack thereof, over the next five years will be crucial if DSM is to ever become a legitimate resource in PP&L's system. If PP&L does not increase DSM funding immediately, then it is highly unlikely that DSM will

//PP&L May 95 APR., page 36.//

²⁶PP&L Statement 5-R, page 9, lines 1-10.

²⁷PP&L Statement 5-R, page 14, lines 6-10.

²⁸PP&L Statement 5-R, page 14, lines 4-10.

²⁹May 1995 APR., page 33, copy attached.

be able to compete with supply side options within PP&L's integrated planning process when planning decisions are made to meet these considerable capacity needs projected for 2004.

PP&L's DSM Lack of DSM Programs for Existing And Baseload Customers Is Not Justified

That the evidence shows that PP&L discriminates against exiting and baseload residential ratepayers, i.e., nearly 95% of PP&L's DSM investment goes toward programs targeting new construction over existing ratepayers, and nearly 100% of DSM funding goes toward programs that target electric heating ratepayers, is not disputed by PP&L. CEO contends that these DSM practices are not justified and should be discontinued.

It is CEO's position that the lack of diversity in PP&L's residential DSM portfolio is the direct result of PP&L's rejection of DSM as a demand and energy resource, in lieu of a philosophy that views DSM as marketing tool to increase sales. As such, PP&L unfairly asks existing and baseload customers to shoulder the burden of PP&L's attempts to market services to other customers. If PP&L viewed DSM as a legitimate demand and energy resource, its DSM portfolio would include programs that were blind to marketing concerns.

Specifically, PP&L counters CEO's claim by arguing that (a) since it does not need additional capacity at this time, it must spend its limited demand side management dollars on programs that produce the most benefits for PP&L, (b) new construction and electric heat programs produce the most benefits for PP&L, hence, (c) PP&L's disproportionate spending on new construction over existing ratepayer programs and its disproportionate spending on electric heat over baseload programs is justified.³⁰

PP&L's argument in support of its practices is unsound for at least three reasons. One, PP&L may need substantial new capacity much sooner 2008. Two, PP&L's only DSM program targeting existing ratepayers produces equal, if not greater, benefits than its programs targeting new construction. Three, as CEO Witness Kuennen pointed out, the fact that "a wide variety of industry proven programs are available to PP&L for inclusion in its DSM portfolio at costs comparable to PP&L's current 3.0¢/kWh incremental cost of energy at reported in its March 1994 DSM filing"³¹ suggests that PP&L could be doing more to equitably distribute DSM funding and direct benefits.

First, with regard to PP&L's capacity needs, CEO has shown PP&L's capacity needs projections to be questionable. This suggests that PP&L's discriminatory DSM practices toward

³⁰PP&L Statement 10-R, Page 5, lines 20-28, Page 6, lines 3-23.

³¹CEO Statement 2, page 6, lines 22 through page 7, lines 1-3.

existing ratepayers are not justified on capacity grounds.

Second, with regard to PP&L claim that it is spending its necessarily limited DSM dollars on programs that provide PP&L the most benefit, PP&L's own May 95 APR. "screening process" and PP&L's 1992 and 1994 DSM Plan analyses show that its new construction and electric heat programs do not necessarily provide the most benefits for PP&L. It is significant to note that, PP&L Witness Farber acknowledged such with respect to PP&L's 1994 DSM Plan under cross examination..

Specifically, PP&L's May 95 APR. shows that its Residential Direct Load Control Program, a program targeting existing, non-electric heat ratepayers, received a screening score of 7.23, the highest score of all PP&L DSM programs, however, this activity remains unfunded. Further, PP&L's Home Energy Analysis Program, a program targeting existing electric heat ratepayers, received a screening score of 5.95, the second highest rated residential DSM program is funded at \$371,000 a year through 1996. On the other hand, PP&L's Energy Efficient Equipment Programs, programs targeting new construction and receiving over \$10,000,000 in funding through 1996, were rated between 5.20 and 5.95, its Thermal Integrity Program, a new construction program receiving over \$6,500,000 in funding through 1996, received a screening score of 5.20, and its Electric Thermal Storage Program, a new construction program that may be discontinued is scheduled to receive over \$3,000,000 through 1996, received a screening score of only 4.65.³²

Similarly, PP&L's 1992 and 1994 DSM Plan Filings with the PPUC show that PP&L's Home Energy Analysis Program was the highest rated DSM program in terms of benefit-cost analysis with an average B-C ratio of 4.33 in 1992 and 3.17 in 1994 but received significantly less funding than PP&L's new construction programs in both plans. PP&L's Energy Efficient Equipment Programs averaged between 1.46 and 3.07 in 1992 and between 1.46 and 2.11 in 1994; PP&L's Thermal Integrity Program averaged 1.79 in 1992 and 1.74 in 1994; and PP&L's Electric Thermal Storage averaged 0.98 in 1992 and 0.89 in 1994. PP&L's Residential Direct Load Control Program is not analyzed in either the 1992 or 1994 DSM Plan Filings, and it is significant to note that PP&L 1992 and 1994 DSM filings contained no programs for residential baseload customers. These facts are strong evidence that PP&L's discriminatory DSM practices are not justified on economic grounds.³³

³²Screening scores are from PP&L May 95 APR., page 33, copy of page attached. Dollar figures cumulative for period 1994 to 1996 as reported in PP&L Demand Side Management March 1994 Filing, page 2.

³³Benefit-Cost "averages" for 1992 are the average of the "Participant," Non-Participant," "Utility," and "Ratepayer" Tests as reported in PP&L Demand-Side Management Programs 1992 Filing, page 3, copy attached. Benefit-Cost "averages" for 1994 are the average of the "Participant," Non-Participant," "Utility," and "Total Resource" Tests as reported in PP&L

Finally, with regard to the fact that cost effective programs targeting existing, non-electric heat ratepayers are available from the industry that PP&L chooses not to develop and pursue. PP&L's own May 95 APR. provides supporting evidence for this fact. As previously pointed out, PP&L's May 95 APR. clearly describes an "aggressive Demand Side Management" planning option that would cost effectively reduce PP&L's "winter peak by approximately 140MW" by the year 2008 at costs "similar to the preferred plan."³⁴ The fact that this existing, non-electric heat program remains unfunded though by PP&L's own analyses it is its highest rated DSM program is strong evidence that PP&L's discriminatory DSM practices are not justified on policy grounds.

Baseload DSM Programs Are Necessary

In the interests of ratepayer equity and integrated resource planning, PP&L should be required to develop and implement an income blind, baseload DSM. PP&L has an estimated 756,862 baseload customers³⁵ that currently have no direct access to DSM program and benefits even though they are paying for such in their rates.

With particular emphasis on low income and elderly baseload ratepayers, CEO Witness Brady makes this point quite clear:

In the interests of both Integrated Resources Planning and in order to provide some relief for low income customers, the Pennsylvania Power & Light Company should direct resources into baseload conservation measures as an integral component of Demand Side Management Programs. Energy efficiency improvements are an excellent way to mitigate rate impacts on all ratepayers. The PP&L resources allocated to Demand Side Management are inadequate overall, but the deficiency is most obvious when one compares the resources directed toward programs available to existing ratepayers versus the resources directed toward acquiring new ratepayers. The overwhelming proportion is clearly directed to new home building programs and other programs which require a substantial investment of capital. The elderly and the working poor, unable to acquire the capital, are effectively excluded from participating in any of these programs.³⁶

Demand-Side Management Programs March 1994 Filing, page 2, copy attached.

³⁴PP&L May 95 APR., page 36, copy attached.

³⁵See footnote 12.

³⁶CEO Statement 1, page 9, lines 2-14.

Similar, CEO Witness Kuennen has testified that the

inequalities [in PP&L DSM Portfolio] will be magnified if PP&L's rate increase goes into effect without remedy. One way to mitigate past DSM programs bias' and provide relief from any rate increase with minimal overall rate impact is to require PP&L to increase its total DSM program spending and to require that funding go toward developing programs targeting previously neglected groups³⁷.

In this instance, PP&L's baseload customers.

Other than his arguments in support of PP&L's discriminatory DSM practices, PP&L's expert witness on DSM does not provide any specific arguments as to why PP&L has not included any baseload programs in its DSM portfolio since at least 1992. The only witness that CEO is aware of that specifically testified against baseload reduction programs is PP&L Witness Stathos in his argument against the inclusion of more low income baseload ratepayers and baseload technologies in PP&L energy conservation based Social Programs and this argument simply reduces to the unsupported claim that such programs "are not the most effective use of the Company's resources."³⁸

³⁷CEO Statement 2, page 4, lines 17-22.

³⁸PP&L Statement 11-R, page 20, lines 9-10.

CONCLUSION

The Company's interests of justice and fairness would be better served if the proposed rate increase was modified to include the following concepts:

SOCIAL PROGRAMS

WRAP Program Funding Should Be Increased to Offset the Effect of Any Rate Increase

New Programs Must Involve Community Based Organizations in the Design and Ongoing Operation of these Programs. The Company's Role Should Be One of Monitoring and Evaluation.

Funding Must be Distributed According to Need

Low Income Baseload Customers Must Not Be Neglected

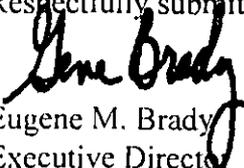
DEMAND SIDE MANAGEMENT

PP&L's DSM Investment Should be Increased.

PP&L Should Diversify its DSM Portfolio

PP&L Must Develop Baseload DSM Programs.

Respectfully submitted,


Eugene M. Brady
Executive Director

The Commission on Economic Opportunity
211 S. Main Street
Wilkes-Barre, Pennsylvania 18701

ATTACHMENT A

COMMISSION ON ECONOMIC OPPORTUNITY
EXHIBIT CRK 2
COMPARISON OF PP&L DSM RATIOS
TO INDUSTRY AVERAGE AND SELECTED PJM UTILITIES
DOCKET NO. R-00943271

RATIO	INDUSTRY ¹	PP&L ²	PEPCO ³	BG&E ⁴	JCP&L ⁵	PSE&G ⁶
DSM TO RETAIL REVENUES	1.5%	0.4%	4.3%	3.1%	1.8%	1.4%
DSM TO NEW CONSTRUCTION	14.4%	2.5%	6.0%	18.3%	NA	4.0%
DSM TO PEAK DEMAND	6.8%	3.2%	6.5%	8.9%	NA	4.0%
DSM TO ENERGY SAVINGS	1.6%	0.06%	1.6%	0.6%	NA	0.1%

¹Industry data for Retail Revenues, Peak Demand, and Energy Savings are for 1993 as reported in Hadley and Hirst, *Utility DSM Programs from 1989 Through 1998: Continuation or Cross Roads?*, Oak Ridge National Laboratory, February 1995. New Construction data are for 1991 as adapted from Pye and Nadel, *Rate Impacts of DSM Programs: Looking Past the Rhetoric*, American Council for an Energy-Efficient Economy, April 1994.

²PP&L's Ratios are based on estimated non-LIURP DSM expenditures \$10.6 million for 1993. Retail Revenue and New Construction ratios were derived using data from PP&L's 1993 Annual Report. Peak Demand and Energy Savings ratios are based on data from the PPUC's July 1993 and August 1994 *Electric Power Outlook*.

³Potomac Electric Power Company data for Retail Revenues, Peak Demand, and Energy Savings are for 1993 as reported in Hadley and Hirst. New Construction data is for 1991 as adapted from Pye and Nadel.

⁴Baltimore Gas & Electric data for Retail Revenues, Peak Demand, and Energy Savings are for 1993 as reported in Hadley and Hirst. New Construction data was derived using 1993 DSM expenditure data from Hadley and Hirst and are for 1991 as adapted from Pye and Nadel and New Construction (electric) data from BG&E's 1994 Annual Report.

⁵Jersey Central Power & Light Retail Revenue data is for 1993 and is derived from data supplied by New Jersey Bureau of Public Utilities and page F-75 of JCP&L's 1994 FORM 10-K.

⁶Public Service Electric & Gas data for Retail Revenues, Peak Demand, and Energy Savings are for 1993 as reported in Hadley and Hirst. New Construction data is for 1991 as adapted from Pye and Nadel.

ATTACHMENT B

PENNSYLVANIA POWER & LIGHT COMPANY
ANNUAL RESOURCE PLANNING REPORT

MAY 1995

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Capital Additions and Replacements -- Coal Units**

**APPENDIX B -- Section 57.143 -- Summary Tabulation of Major Generation
Capital Additions and Replacements -- Nuclear**

APPENDIX C -- Section 57.144 -- Magnetic Field Management at PP&L

APPENDIX D -- Section 57.146 -- System Cost Data Support Information

**APPENDIX E -- Section 57.143 -- Summary Tabulation of Major Generation Capital
Additions and Replacements - Keystone and Conemaugh**

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1 INTRODUCTION

This document is the Annual Resource Planning Report (ARPR) for Pennsylvania Power & Light Company (PP&L or the Company) submitted to the Pennsylvania Public Utility Commission (Pa PUC or the Commission) pursuant to The Commission's regulations at 52 Pa Code §§57.141 - 57.154. These regulations consolidate several required reports into one document. Previously, the information contained in this report was included in one or more of the following reports: Resource Planning Report, Annual Conservation Report, Five-Year Upgrade Plan for Coal Generation Report, the PURPA Section 210 Report, and the Annual Transmission Line Report.

A summary of the ARPR provides a brief description of PP&L's existing generating resources, including a territorial map showing the locations of the generation and transmission facilities; a general description of PP&L's approach to integrated resource planning; a brief description of the methods used in developing the load forecasts; a description of scenarios studied; PP&L plans for meeting customers' needs over the twenty-year period; and a two year implementation plan. In addition, the summary provides the system cost data relevant to purchases from qualifying facilities. The summary is available and suitable for public distribution.

An unanticipated change occurred in PP&L's forecast capacity situation during the latter stages of the ARPR analysis which affects the two year period 1998 to 2000. Atlantic Electric Company is purchasing approximately 125 MW of PP&L's wholly-owned coal fired capacity. This contract arrangement began in October, 1991 and was to terminate in September, 2000. However, late in the analysis of the ARPR, Atlantic Electric exercised a contract option to terminate the purchase agreement thirty months earlier than previously planned. This change involves less than 2% of PP&L's entire summer rated generating capacity, therefore the effects on avoided costs are minimal. Analysis shows that PP&L's ten year levelized value for the annual, all hours avoided cost decreased from 27.92 mills/kWh to 27.87 mills/kWh with the early contract termination, a change of less than 0.20%. Because the change in the energy values during this period is insignificant, and will have no impact on the preference for options within PP&L's resource plan, the associated data in the ARPR was not updated to reflect the change.

An additional sales agreement has been reached with JCP&L that has not been included in the ARPR analysis, as it is subject to approval by the New Jersey Board of Public Utilities and the Federal Energy Regulatory Commission. Under the terms of this new agreement, PP&L provides JCP&L with electrical generating capacity and energy from all generating units in which PP&L has an ownership or lease interest. Pending regulatory approvals, the terms of the sale are for 150 MW of capacity and associated energy beginning June 1, 1997; 200 MW beginning June 1, 1998; and 300 MW beginning June 1, 1999 through May 31, 2004.

SUMMARY OF SCREENING RESULTS FOR THE ARPR

<u>SCREEN SCORE</u>	<u>OPTION</u>	<u>SEASON</u>	<u>LEAD TIME TO FULL IMPL. (YEARS)</u>	<u>PARTIC. BENEFIT YES/NO</u>	<u>PARTIC. B/C RATIO</u>	<u>NON-PART B/C RATIO</u>	<u>UTILITY B/C RATIO</u>	<u>UTILITY NET PRESENT VALUE BENEFITS-COSTS (\$)</u>
9.65	MARTINS CREEK GAS CONVERSION	annual	2	YES	6.3	6.3	6.3	182,408,016
9.35	CONTINUE LEASED CT OPERATION	annual	0	YES	7.0	7.0	7.0	67,880,291
8.45	SSES EXTENDED UPRATES	annual	6	YES	3.2	3.2	3.2	130,461,290
7.23	RESIDENTIAL DIRECT LOAD CONTROL	annual	4	YES	10.0	1.0	1.0	1,842,421
6.80	CT ADVANCED (GAS)	annual	3	NO	1.1	1.1	1.1	8,007,900
6.40	I&C-ENERGY CONSCIOUS CONSTRUCTION-GSHP	annual	2	YES	5.7	0.7	2.6	2,220,000
6.40	I&C-EFFICIENT ENERGY MANAGEMENT-AUDITS	annual	2	YES	55.8	0.6	1.4	438,000
5.95	RES.-HOME ENERGY ANALYSIS	annual	2	YES	5.9	0.4	1.8	3,496,000
5.95	RES.-ENERGY EFFICIENT EQUIPMENT-HEHP	annual	2	YES	7.3	0.3	1.1	1,135,000
5.95	I&C-EFFICIENT ENERGY MANAGEMENT-GSHP	annual	2	YES	5.3	0.5	1.2	427,000
5.20	RES.-THERMAL INTEGRITY	annual	2	YES	3.5	0.4	1.8	6,781,000
5.20	RES.-ENERGY EFFICIENT EQUIPMENT-GSHP	annual	2	YES	2.9	0.3	1.4	3,542,000
5.08	RES.-LEASED WATER HEATER (PILOT)	annual	2	YES	0.8	0.8	1.0	(102,000)
4.65	RES.-ELECTRIC THERMAL STORAGE	annual	2	YES	2.6	0.1	0.7	(199,000)
4.55	COMBINED CYCLE, ADVANCED (GAS)	annual	4	NO	0.9	0.9	0.9	(59,450,522)
4.53	AREA LIGHTING	annual	2	YES	n/a	0.9	0.9	(417,000)
4.20	HYDRO - PUMPED STORAGE	annual	9	NO	0.5	0.5	0.5	(1,060,734,071)
3.98	FUEL CELL-PHOSPHORIC ACID	annual	3	NO	0.3	0.3	0.3	(47,015,763)
3.80	COMBINED CYCLE, ADVANCED (OIL)	annual	4	NO	0.3	0.3	0.3	(285,023,913)
3.30	AFB CIRCULATING BED-200MW	annual	8	NO	0.3	0.3	0.3	(481,887,902)
3.08	PULVERIZED COAL UNIT-300MW	annual	8	NO	0.3	0.3	0.3	(603,541,148)
2.78	IGCC-500MW	annual	9	NO	0.5	0.5	0.5	(827,188,944)

The alternative plan is based on the assumption that new environmental regulations make on-going operations of the Sunbury Units 1,2,3,&4, Martins Creek Units 1 & 2, and Holtwood Unit 17 uneconomic. For purposes of this plan, it is assumed that the retirement decision is made in the year 2000 with an effective date of 2003. The retirement of these units in 2003 would reduce system capability by 714 MW (762 MW winter). The alternative plan includes the recovery of the undepreciated balances of these assets between 1999 and 2003.

The retirement of this amount of generating capacity would result in a resource need to maintain system reliability. PP&L would expect the actual resources to be the result of a competitive resource acquisition process that would include both supply-side and demand-side options, as well as utility owned or managed versus developer provided. For purposes of this study, the resource needs were met by the following schedule of supply-side additions:

Year	Type of Unit	Added MW Summer Rating
2004	CT (2)	280
2005	CC (HRSG)	130
2006	CT	140
2007	CT	140
2008	CC (HRSG)	130
2009	CT	140
2010	CT	140
2011	CC (HRSG)	130
2012	CT	140
2013	CT	140

A second alternative plan was developed to determine the economic effects of an aggressive Demand Side Management program that provides for peak load shifting to delay the need for new generation capacity in the 2008-2010 period. This alternative plan is based upon aggressive marketing of direct load control of electric water heaters to reduce system peaks in both the winter and summer on-peak periods. The program objective is to reduce the winter peak by approximately 140 MW, delaying the need for the combustion turbine identified in year 2008 in the preferred plan by one year. This alternative plan is labelled "Alternative Plan B" on Form IRP-ELEC 11.

The utility revenue requirements and costs per kilowatt-hour sold for both alternative plans are shown on Form IRP-ELEC-11. A comparison to the preferred plan shows that the retirement of existing plants and replacement of capacity as-needed to maintain system reliability results in higher costs than the preferred option of continued operation.

The costs of the alternative plan to implement aggressive Demand Side Management are similar to the preferred plan. Similar results were obtained essentially because system capacity reinforcements would be required in the same time frame, and the capacity plan developed in the preferred plan is the same, but delayed by one year. In either case, system capacity reinforcements are not required until 2008. Resource options will continue to be evaluated during

Company Name: Pennsylvania Power & Light Co.

IRP-ELEC 2B. Estimated Winter Peak Resources, Loads and Reserves (MW)

Index Year (a)	Actual Year (b)	Resources							Peak Load				Reserve		
		Total Capability (c)	Inoperable Capability (d)	Operable Capability (e)	Non-Utility Generators (f)	Scheduled Imports (g)	Scheduled Exports (h)	Net Resources (i)	Total Internal Peak Load (j)	Interruptible Load (k)	Load Management (l)	Net Internal Peak Load (m)	Reserve Margin (n)	Scheduled Maintenance (o)	Adjusted Margin (p)
-5	1990	8468	0	8468	499	15	1070	7912	5704	0	43	5661	2251	0	2251
-4	1991	8498	0	8498	499	0	1200	7797	6001	73	27	5901	1896	0	1896
-3	1992	8498	0	8498	504	0	1200	7802	6136	107	6	6023	1779	0	1779
-2	1993	8498	0	8498	504	0	1200	7802	6408	223	3	6180	1622	0	1622
-1	1994	8543	0	8543	504	0	1203	7844	6514	290	6	6218	1626	0	1626
0	1995	8540	0	8540	474	0	1206	7808	6735	290	10	6435	1373	0	1373
1	1996	8540	0	8540	474	0	1017	7997	6804	290	14	6500	1497	0	1497
2	1997	8588	0	8588	474	0	828	8234	6933	290	18	6625	1609	0	1609
3	1998	8588	0	8588	474	0	639	8423	7074	290	24	6760	1663	0	1663
4	1999	8570	0	8570	474	0	450	8594	7214	290	29	6895	1699	0	1699
5	2000	8552	0	8552	474	0	132	8894	7359	290	29	7040	1854	0	1854
6	2001	8552	0	8552	474	0	0	9026	7494	290	29	7175	1851	0	1851
7	2002	8552	0	8552	474	0	0	9026	7629	290	29	7310	1716	0	1716
8	2003	8552	0	8552	474	0	0	9026	7774	290	29	7455	1571	0	1571
9	2004	8552	0	8552	474	0	0	9026	7904	290	29	7585	1441	0	1441
10	2005	8535	0	8535	474	0	0	9009	8039	290	29	7720	1289	0	1289
11	2006	8535	0	8535	474	0	0	9009	8174	290	29	7855	1154	0	1154
12	2007	8535	0	8535	474	0	0	9009	8309	290	29	7990	1019	0	1019
13	2008	8675	0	8675	474	0	0	9149	8444	290	29	8125	1024	0	1024
14	2009	8815	0	8815	474	0	0	9289	8575	290	25	8260	1029	0	1029
15	2010	8945	0	8945	474	0	0	9419	8718	290	23	8405	1014	0	1014
16	2011	9085	0	9085	474	0	0	9559	8851	290	21	8540	1019	0	1019
17	2012	9225	0	9225	474	0	0	9699	8984	290	19	8675	1024	0	1024
18	2013	9355	0	9355	474	0	0	9829	9127	290	17	8820	1009	0	1009
19	2014	9355	0	9355	474	0	0	9829	9270	290	15	8965	864	0	864

IRP-ELEC 11. Comparison of Costs of Preferred Resource Plan with Alternative Plans

(Constant Dollars)

Index Year (a)	Actual Year (b)	Preferred Plan		Alternative Plan A		Alternative Plan B		Alternative Plan C	
		Millions of Annual \$ (c)	Cents Per KWH Sold (d)	Millions of Annual \$ (e)	Cents Per KWH Sold (f)	Millions of Annual \$ (g)	Cents Per KWH Sold (h)	Millions of Annual \$ (i)	Cents Per KWH Sold (j)
0	1995	2,229	7.18	2,229	7.18	2,229	7.18		
1	1996	2,343	7.45	2,344	7.45	2,343	7.45		
2	1997	2,325	7.24	2,323	7.24	2,325	7.24		
3	1998	2,365	7.23	2,366	7.23	2,365	7.23		
4	1999	2,328	6.97	2,361	7.07	2,328	6.97		
5	2000	2,420	7.11	2,456	7.22	2,420	7.11		
6	2001	2,457	7.08	2,492	7.18	2,458	7.08		
7	2002	2,444	6.91	2,476	7.00	2,444	6.91		
8	2003	2,415	6.70	2,477	6.87	2,416	6.70		
9	2004	2,416	6.58	2,390	6.51	2,416	6.58		
10	2005	2,384	6.38	2,366	6.33	2,384	6.38		
11	2006	2,355	6.20	2,342	6.16	2,356	6.20		
12	2007	2,333	6.03	2,329	6.02	2,334	6.03		
13	2008	2,308	5.87	2,305	5.86	2,308	5.87		
14	2009	2,295	5.74	2,289	5.72	2,292	5.73		
15	2010	2,294	5.64	2,298	5.65	2,296	5.64		
16	2011	2,259	5.46	2,261	5.47	2,260	5.46		
17	2012	2,268	5.40	2,266	5.39	2,265	5.39		
18	2013	2,277	5.33	2,283	5.35	2,282	5.34		
19	2014	2,242	5.17	2,259	5.21	2,256	5.20		
Levelized Cents Per KWH			6.59		6.62		6.60		

ATTACHMENT C

DSM PROGRAM SUMMARY TABLE

Class	Program Name	Program Cost (\$000)			Energy and Demand Savings Summer KW/Winter KW/MVH			Benefit-Cost Analysis			
		1994	1995	1996	1994	1995	1996	Partic- ipant	Utility	Non- Partic.	Total Resrc
Residential	1. Thermal Integrity	2,512	2,044	1,969	439/2,511/5,698	486/2,780/6,308	648/3,710/8,410	2.63	2.82	0.72	1.42
	2. Electric Thermal Storage (ETS)	1,240	975	800	473/1,696/1,103	322/1,155/751	276/990/644	2.24	0.85	0.17	0.31
	3. Energy-Efficient Equipment (EEE)										
	a. Residential High-Efficiency Heat Pump (Air Source)	1,748	1,950	1,979	(198)/(961)/7,424	(261)/(1,264)/9,773	(297)/(1,439)/11,121	5.44	1.57	0.49	1.40
	b. Residential Ground-Source Heat Pump	1,208	1,346	1,832	17/1,488/4,478	20/1,750/5,270	30/2,625/7,900	1.83	2.42	0.58	1.02
	c. Residential Water Heater	89	134	178	0/0/224	0/0/447	0/0/670	2.5	2.15	0.63	1.39
	4. Home Energy Analysis	371	371	371	0/0/3,129	0/0/3,129	0/0/3,129	4.43	5.72	0.81	2.45
	5. Residential Pilots										
	a. Existing Electric Home	135	0	0	400/1,200/1,920	0	0	2.04	9.07	0.79	1.58
	b. New Home Heating Equipment Enhancements	41	0	0	50/40/656	0	0	1.94	6.30	0.56	1.08
c. Residential High IQ Audit	68	0	0	150/300/252	0	0	N/A	2.88	0.77	2.88	
Subtotal - Residential	7,412	6,820	7,129	1,331/6,274/21,535	567/4,421/25,678	657/5,886/31,874	2.74	2.23	0.56	1.21	
I&C	6. Energy Management Rates*	42	42	43	229,000	229,000	249,000	432.86	583.09	0.21	78.05
	7. Efficient Energy Management (EEM)										
	a. EEM GSHP	246	295	337	222/129/269	444/257/538	666/386/806	5.28	1.98	0.84	1.98
	b. EEM Audits	190	196	196	525/420/2,386	550/440/2,500	550/440/2,500	59.69	6.53	0.74	6.21
	c. EEM ETS	191	185	166	0/663/(78)	0/1,007/(119)	0/1,007/(119)	8.28	1.09	0.26	1.09
	d. EEM ETS Cool Storage	177	236	170	666/0/(78)	1,110/0/(130)	666/0/(78)	8.92	1.29	0.26	1.29
	8. Energy-Conscious Construction (ECC)										
	a. ECC GSHP	298	445	498	222/129/269	444/257/538	666/386/806	5.28	1.52	0.75	1.52
	b. ECC ETS	304	340	326	0/1,166/(137)	0/1,802/(212)	0/1,908/(225)	9.67	0.96	0.24	1.02
	c. ECC ETS Cool Storage	304	334	296	1,332/0/(156)	1,332/0/(156)	1,332/0/(156)	11.36	1.52	0.28	1.84
d. ECC Envelope	108	256	346	101/84/480	203/167/960	304/251/1,440	8.43	3.15	0.72	3.15	
9. Electrotechnology Applications and Environmental Services (ETA&ES)	1,642	1,700	1,675	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Subtotal - I&C*	3,502	4,029	4,063	3,068/2,591/2,955	4,083/3,930/3,919	4,184/4,378/4,974	10.08	2.04	0.49	2.05	
Other	10. School Energy Education	115	115	115	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	11. Area Light Conversion	230	782	782	0/0/816	0/0/2,774	0/0/2,774	N/A	1.62	1.62	1.62
	Subtotal - Other	345	897	897	0/0/816	0/0/2,774	0/0/2,774	N/A	1.62	1.62	1.62
TOTAL*	11,259	11,746	12,079	4,399/8,865/25,306	4,650/8,351/32,371	4,841/10,264/39,622	3.31	2.15	0.56	1.34	

* Energy Management Rates represents the average expected interruptible load availability. The interruptible load is treated as a capacity resource for PJM accounting. The demand savings and benefit/cost of the Energy Management Rates Program are not included in the totals.

ATTACHMENT D

DSM PROGRAM SUMMARY

Class	Program Name	Program Cost (\$000)			Energy and Demand Savings Summer KW/Winter KW/MWH			Benefit-Cost Analysis			
		1993	1994	1995	1993	1994	1995	Partic- ipant	Non- Partic-	Utility	Rate- payer
Residential	1. Thermal Integrity	2,550	2,520	2,030	610/1,850/4,200	920/2,780/6,310	1,220/3,710/8,410	3.58	0.52	2.25	1.27
	2. Electric Thermal Storage (ETS)	1,360	1,110	940	370/1,320/860	320/1,150/750	280/990/640	2.37	0.18	0.99	0.36
	3. Energy-Efficient Equipment (EEE)							3.58	0.46	2.46	1.44
	a. Residential High-Efficiency Heat Pump (Air Source)	2,060	1,910	1,920	230/1,090/8,430	260/1,260/9,770	300/1,440/11,120	7.22	0.45	2.70	2.31
	b. Residential Ground-Source Heat Pump	940	1,430	1,930	10/880/2,630	20/1,750/5,270	30/2,620/7,900	2.15	0.47	2.25	0.97
	c. Residential Water Heater	90	130	170	0/0/220	0/0/450	0/0/670	3.22	0.42	1.84	1.16
	4. Winter Relief Assistance Program (WRAP)	3,020	3,020	3,020	0/760/3,370	0/760/3,370	0/760/3,370	2.25	0.31	0.62	0.62
5. Home Energy Analysis	180	180	180	0/0/3,150	0/0/3,150	0/0/3,150	5.46	0.53	9.01	2.33	
Subtotal -- Residential	10,200	10,300	10,190	1,220/5,900/22,860	1,520/7,700/29,070	1,830/9,520/35,260	3.22	0.42	1.84	1.11	
I&C	6. Energy Management Rates	10	20	30	100,000/0/0	40,000/0/0	40,000/0/0	50.18	0.65	328.17	29.83
	7. Efficient Energy Management (EEM)							8.00	1.07	7.51	4.74
	a. EEM HEHP	110	160	190	0/0/550	0/0/910	0/0/1,110	2.88	0.47	2.96	1.08
	b. EEM Audits	330	350	350	4,350/4,350/2,400	4,560/4,560/2,500	4,560/4,560/2,500	275.23	1.46	13.10	12.73
	c. EEM ETS	130	180	230	0/660/0	0/1000/0	0/1,330/0	3.84	0.51	2.28	1.50
	8. Energy-Conscious Construction (ECC)							3.81	0.71	1.89	1.86
	a. ECC HEHP	350	440	510	140/0/540	180/0/680	220/0/830	8.54	0.36	0.89	0.89
b. ECC ETS	570	640	690	0/4,140/0	0/4,710/0	0/5,050/0	2.24	0.72	2.40	1.44	
c. ECC Envelope	80	140	200	220/220/480	440/440/960	650/650/1,440	11.66	0.71	5.55	4.25	
d. ECC ETS Cool Storage	250	300	200	1,330/0/(880)	1,670/0/(1,100)	2,000/0/(1,320)	4.12	1.35	1.06	2.71	
9. Electrotechnology Applications and Environmental Services	410	300	300	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Subtotal -- I&C	2,240	2,530	2,720	106,040/9,370/3,090	46,850/10,710/3,950	47,430/11,590/4,560	19.76	0.70	13.81	8.78	
Other	10. School Energy Education	80	90	100	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	11. PP&L Facilities Efficiency Upgrade	10	10	10	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	12. Area Light Conversion	490	490	490	0/0/3,470	0/0/3,470	0/0/3,470	N/A	2.60	2.60	2.60
	13. Pilot/Research	1260	1,390	1,390	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Subtotal -- Other	1,840	1,980	1,980	0/0/3470	0/0/3470	0/0/3470	N/A	N/A	N/A	N/A
TOTAL	14,280	14,810	14,890	107,260/15,270/29,420	48,370/18,410/36,490	49,260/21,110/43,290	N/A	N/A	N/A	N/A	

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, Commission on Economic Opportunity's Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 19th day of June 1995.

HAND DELIVERED ON MONDAY, JUNE 19, 1995:

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

June 20, 1995

IN REPLY PLEASE
REFER TO OUR FILE

R-00943271

Pennsylvania Public Utility Commission
v.
Pennsylvania Power & Light Company

Paul E. Russell, Associate
General Counsel
Pennsylvania Power & Light Company
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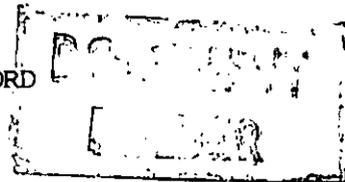
Dear Sir:

We are returning herewith the original and two copies of your letter of June 13, 1995, for the enclosure mentioned, but not included with said letter.

Upon receipt of the complete filing in connection with this matter, same will receive our consideration.

Very truly yours,

for JOHN G. ALFORD
Secretary



Enclosures
mpk

DOCKETED

JUN 20 1995