BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF
RONALD CARRIER

On Behalf of Strategic Energy, LLC

Duquesne Light Company Base Rate Case
Docket No. R-00061346

July 7, 2006

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND BUSINESS RESPONSIBILITIES?

A. My name is Ronald Carrier. I am the Manager of Regulatory and Legislative Affairs for Strategic Energy, LLC ("Strategic" or "Strategic Energy"). My business address is 2316 Anchor Court, Holt, Michigan, 48842. My business responsibilities include managing the legislative and regulatory activities of Strategic Energy in the states of Illinois, Michigan and Pennsylvania.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND EMPLOYMENT HISTORY.

A. I received a mechanical engineering degree from the University of Michigan and an MBA from Central Michigan University. Prior to my employment at Strategic Energy, Consumers Energy/CMS Energy employed me for over 20 years. At Consumers and CMS, my responsibilities ranged from a plant engineer at a nuclear facility to the Program Manager for their Electric Customer Choice program. I have been employed by Strategic Energy for two and a half years, serving as the Manager of Regulatory Affairs for their Mid-American region.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?

A. No, but I have testified as an expert before the Michigan Public Service Commission on several cases pertaining to customer choice issues.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Strategic Energy, LLC ("Strategic Energy" or "Strategic").

Q. PLEASE DESCRIBE STRATEGIC ENERGY AND ITS ACTIVITIES IN THE DUQUESNE SERVICE AREA.

A. Strategic Energy is a licensed electric generation supplier ("EGS"), competing for the generation supply business of Duquesne Light Company ("Duquesne" or "DLC") customers along with other licensed EGSs such as Duquesne Light Energy ("DLE").

Q. WHAT ISSUES DOES STRATEGIC RAISE IN THIS CASE?

A. Strategic is raising issues of cross-subsidies to Duquesne Light Energy ("DLE") from Duquesne's distribution service and rates.

Q. WHY DOES STRATEGIC RAISE THESE ISSUES IN THIS CASE?

A. Strategic has been in business in DLC's service territory as an EGS since 1999. Strategic operates an energy management center in Pittsburgh twenty four hours a day, seven days a week, and employs approximately 200 people in its Pittsburgh office as sales representatives, traders, lawyers, regulatory staff, billing and pricing staff, and computer support technicians, among other functions. Strategic competes with DLE for DLC's large commercial and industrial ("C&I") customers. However, despite having only a few employees and limited work area (DLE occupies only a small percentage of Duquesne's headquarters),[1] and providing EGS service since January 1, 2005, DLE has been able to obtain, as far as we can determine, a substantial share of DLC's large C&I customer load, in many cases, by consistently undercutting Strategic's (and, we believe, other EGSs') prices. The question raised is how has DLE been able to do so much in such a short time with so little? While it can be said that Strategic Energy serves customers in several states, so it requires a larger staff, the disparity between the relative size of the two companies is too large to ignore. Strategic embraces retail electric competition, but it must be on a level playing field if EGSs are going to be able to deliver the benefits of competition to customers. I am also advised by counsel that a level playing field is required in the post-transition period by the Electric Competition Act requirement that the competitive activities of the incumbent utilities must be fair. One manifestation of this

[1] Strategic Energy Exh. RC-1 (DLC answer to Direct Energy Set II-7 (Revised)).

requirement is the Code of Conduct that Duquesne is required to adhere to in its dealings with its affiliate EGS as well as other EGSs operating in its service territory. Among other things, the Code of Conduct generally seeks to prevent the utility from subsidizing the activities of its affiliated EGS.[2] To the extent that DLC's distribution rates include costs that – either directly or indirectly – benefit and, therefore, should be paid for by other DLC affiliates, such as Duquesne Light Holdings ("DLH"), Duquesne Power ("DP"), the playing field is not level. The customers utilizing DLC's distribution system, both POLR and choice, should not subsidize the marketing efforts of DLE.

Q. IS THERE ANY EVIDENCE THAT THE COSTS THAT DUQUESNE IS SEEKING TO INCLUDE IN ITS DISTRIBUTION RATES MAY BE OVERSTATED BECAUSE OF DLE COSTS?

A. Yes, here is one example. Duquesne's 2005 Form 10-K states that POLR supply procurement for DLC and supply for DLE's customers is performed by DP, and that DP "has secured a substantial portion of the combined expected load obligation for its full-requirements contracts with Duquesne Light and DLE through 2007."[3] It appears therefore that power purchasing, scheduling and coordination and planning are done jointly by Duquesne Power for both DLE and Duquesne's POLR load. As Direct Energy witness Lacey explains, Duquesne's distribution revenue requirement includes all costs associated with providing POLR service other than the actual purchased power costs and

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2 "The purpose of these competitive safeguards is to . . . prevent the cross subsidization of service . . . between related electric distribution companies and electric generation suppliers . . . and to establish and maintain an effective and vibrant competitive market in the purchase and sale of retail electric energy in this Commonwealth." 52 Pa. Code § 54.121. "An electric distribution company which is related as an affiliate or division of an electric generation supplier . . .; and any electric generation supplier which is related as an affiliate or division of any electric distribution company . . . , shall insure that its employes function independently of other related companies." 52 Pa. Code § 54.122(11).

3 DLC Attachment DFR-III-F-1b, pp. 5-6, 11.

related taxes. This means that all other costs that are charged to DLC distribution from DP (or which DLC incurs directly) related to planning, scheduling and coordinating its POLR supply are being claimed in its distribution rates. So far, we have not been provided with any evidence that DP is allocating to DLE any of the costs of procuring power (other than the cost of the power itself). If these costs are being claimed in distribution rates, it would give DLE a distinct and unfair cost advantage in the competitive retail market. We agree with Direct Energy witness Lacey that all costs of providing POLR service should be removed from distribution rates and allocated to the appropriate service.

Another example of a clear potential subsidy to DLE is raised by Duquesne Holding's 2005 Form 10-K. It states that DP's supply procurements are backed by guarantees from DLH. This guarantee is sufficient because generators know that, through its utility operation, DLH has a steady and secure revenue stream that secures any liability DP might incur. Such a guarantee is tremendously valuable, as it eliminates the need for DP, and, indirectly, DLE, to post credit when it purchases power to serve its customers. I am confident that the ability of DLE to avoid having to post credit for its power purchases provides it with yet another cost advantage when it competes with companies like Strategic, who are usually required to post credit for such purchases. Yet it is not clear that DLE ever compensates any DLC affiliate, including the utility, for this guarantee. In our view, if DLE does not compensate DLC for the "avoided cost" of not having to post credit, Duquesne and its customers are subsidizing DLE's competitive operations.

Examples like this are ways that DLC may be using its regulated cost recovery mechanisms to pay for DLE procurement costs in order to subsidize its retail affiliate and keep competitive EGSs out of the market. The logical end result of this would be an unregulated monopoly serving all of the customers in the market.

Q. DOES STRATEGIC HAVE EVIDENCE THAT CROSS-SUBSIDIZATION BY DUQUESNE DISTRIBUTION CUSTOMERS IS DEFINITELY OCCURRING?

A. At this point we have only the circumstantial evidence mentioned above, because we have not received answers to all relevant discovery requests and because the timeline on which a base rate case like this is tried makes an in-depth exploration of this issue extremely difficult. We reserve the right to supplement this testimony based upon receipt of answers.

Q. DOES DLC OR DLH HAVE A REASON TO USE CROSS-SUBSIDIES TO ITS ADVANTAGE AND TO THE DETRIMENT OF RETAIL COMPETITION?

A. Yes, as disclosed in their 10-K filing. This filing lists as DLC's first Business Strategy under the "Energy Supply Opportunities" heading to "[c]ontinue to actively manage supply requirements for both Duquesne Light's residential and small commercial POLR III customers **and DLE's customers**, through Duquesne Power or our other unregulated subsidiaries . . . ."[4] DLC's second strategic priority under the "Energy Supply Opportunities" heading is to "[m]aximize large commercial and industrial customer retention through our unregulated retail electric supplier, DLE." I also note that DLC has budgeted an increase in its purchased power expense for 2006 "due to higher budgeted POLR retention for both residential and commercial customers."[5] Since DLC

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4 *Id.* (emphasis added).

5 DLC Attachment DFR-II-D-8, p. 4 of 8.

made no attempt in this case to allocate POLR costs to POLR, the same relevant costs are not going to be allocated to DLE. I conclude that DLC and DLH are going to use a cross-subsidy from regulated rate recovery to help fund both the POLR and the DLE businesses.

Q. WHAT SHOULD THE COMMISSION DO ABOUT THIS PROBLEM?

A. The Commission should fully investigate cross-subsidies that occur in any way – directly or indirectly – by requiring DLC to do a study that discloses all instances of cost or risk sharing among all the DLC affiliates and DLE. Then the Commission and interested stakeholders would be in a position to fully allocate all costs of the DLH companies' to the appropriate services. This would produce a level playing field for retail competition as envisioned by the Electric Competition Act. An example of an indirect subsidy would be if DP is providing or paying for a service (such as scheduling, or balancing and ancillary services) for both DLC and DLE, and charging only DLC. This arrangement could appear appropriate on the surface, but either DP should also charge DLE or DLE should compensate DLC for DLE's portion of the costs.

I recommend that the Commission order Duquesne to produce such a study within sixty (60) days following the issuance of the Commission's order in this case, which study should be circulated for analysis, further discovery and review in an on-the-record hearing by all interested parties. If the end result of the investigation is an identification of costs included in Duquesne's distribution rates which should either be recovered in its POLR charges or recovered in the prices charged by DLE, the Commission should order the appropriate adjustments in DLC's distribution and/or POLR rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, subject to receipt of discovery answers as stated above.

Duquesne Light Company
Docket No. R-00061346

DES-II-7 (Revised)
Clare Ott

Direct Energy Services, LLC
Interrogatories Set II

7. Please provide copies of the floor plans for the premises occupied by Duquesne Light Company and its affiliates at 411 Seventh Avenue in Pittsburgh and indicate and describe the portions of the premises occupied by Duquesne Light Company and each affiliate.

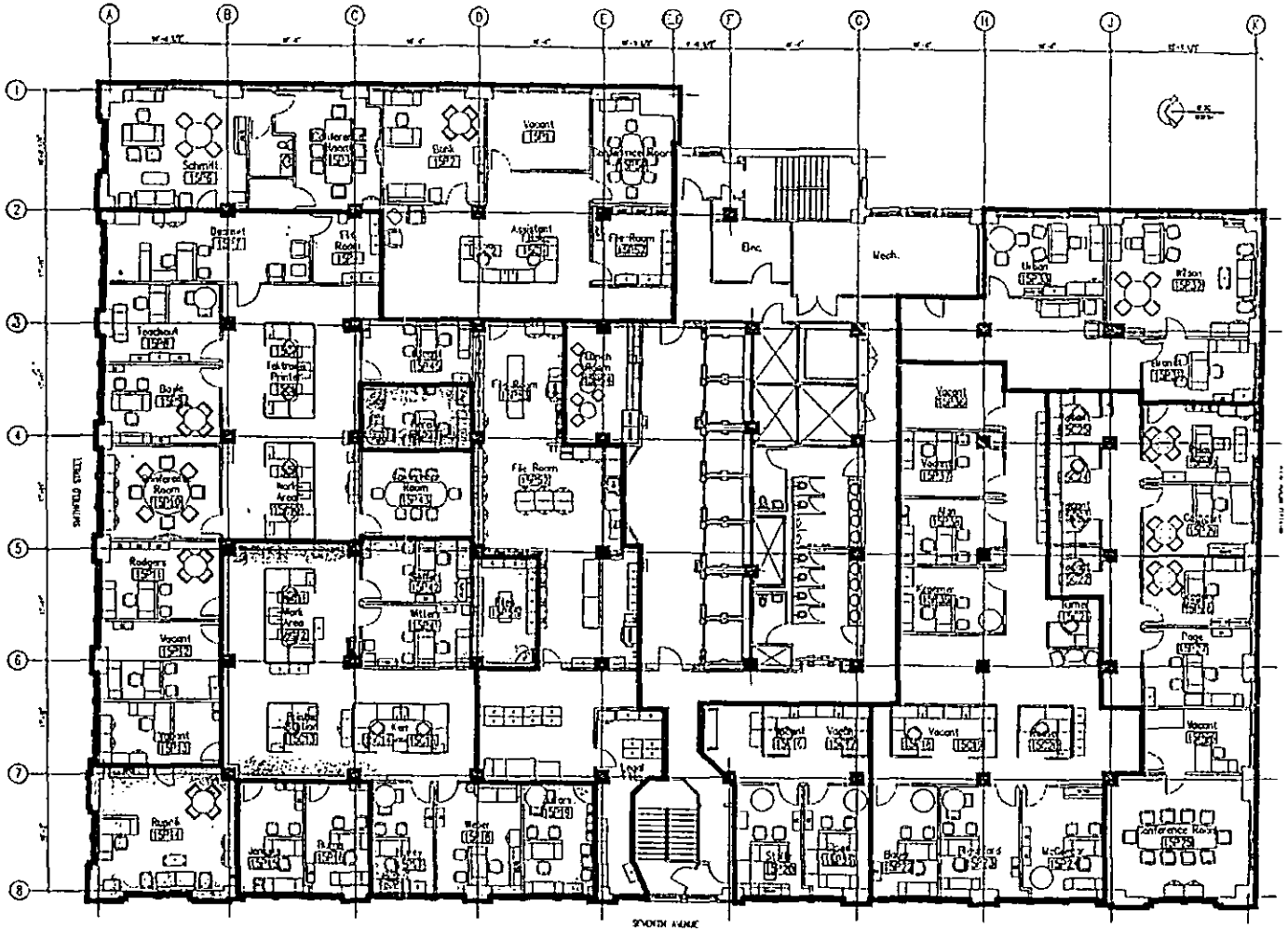
Response:

DQE Communications LLC	15th Floor, 3,720 sq. ft.
DQE Energy Solutions	15th Floor, 6,536 sq. ft.
DQE Financial Corporation	15th Floor, 3,184 sq. ft.
Duquesne Light Energy	15th Floor, 3,136 sq. ft.
Duquesne Power	15th Floor, 2,629 sq. ft.
Duquesne Light Holdings	13,029 sq. ft.

Also see DFR II-D-8f.

Also see the three attached floor plans. As a description, Duquesne Light Company occupies the remainder of the leased premises at 411 Seventh Avenue except for the space occupied by the five affiliates of Duquesne Light Company noted herein.

DQE COMMUNICATIONS	2996 SQ. FT.
DQE ENERGY SOLUTIONS	5258 SQ. FT.
DQE FINANCIAL	2545 SQ. FT.
DUQUESNE LIGHT ENERGY	2540 SQ. FT.
DUQUESNE POWER	2118 SQ. FT.
DUQUESNE LIGHT CO	2095 SQ. FT.
SHARED BASE BUILDING SPACE	4257 SQ. FT.
TOTAL FLOOR SQUARE FOOTAGE	21,810 SQ. FT.



411 SEVENTH AVE.
FIFTH FLOOR FURNITURE PLAN

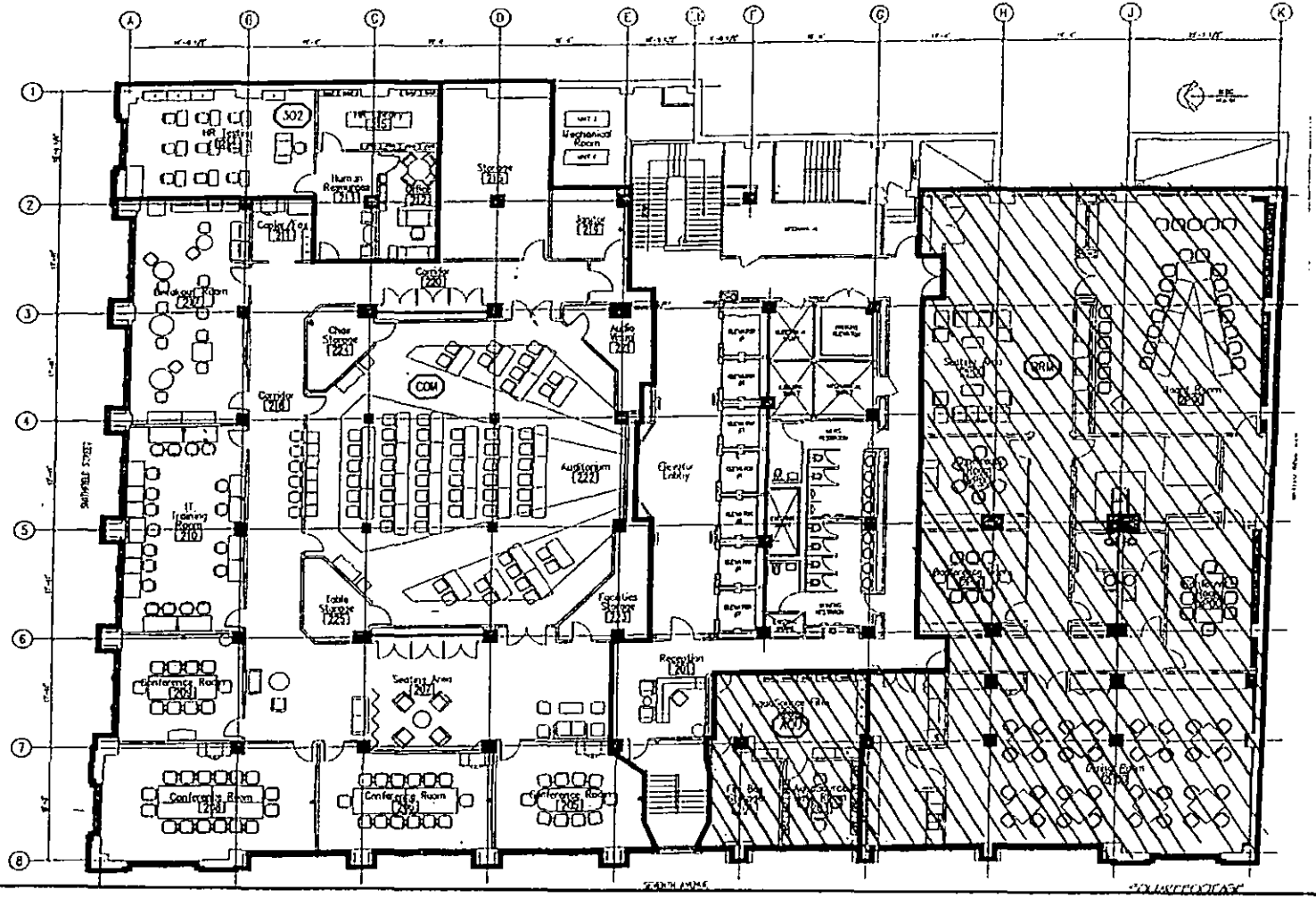


EXHIBIT B-1

(XXX) DENOTES COST CENTER

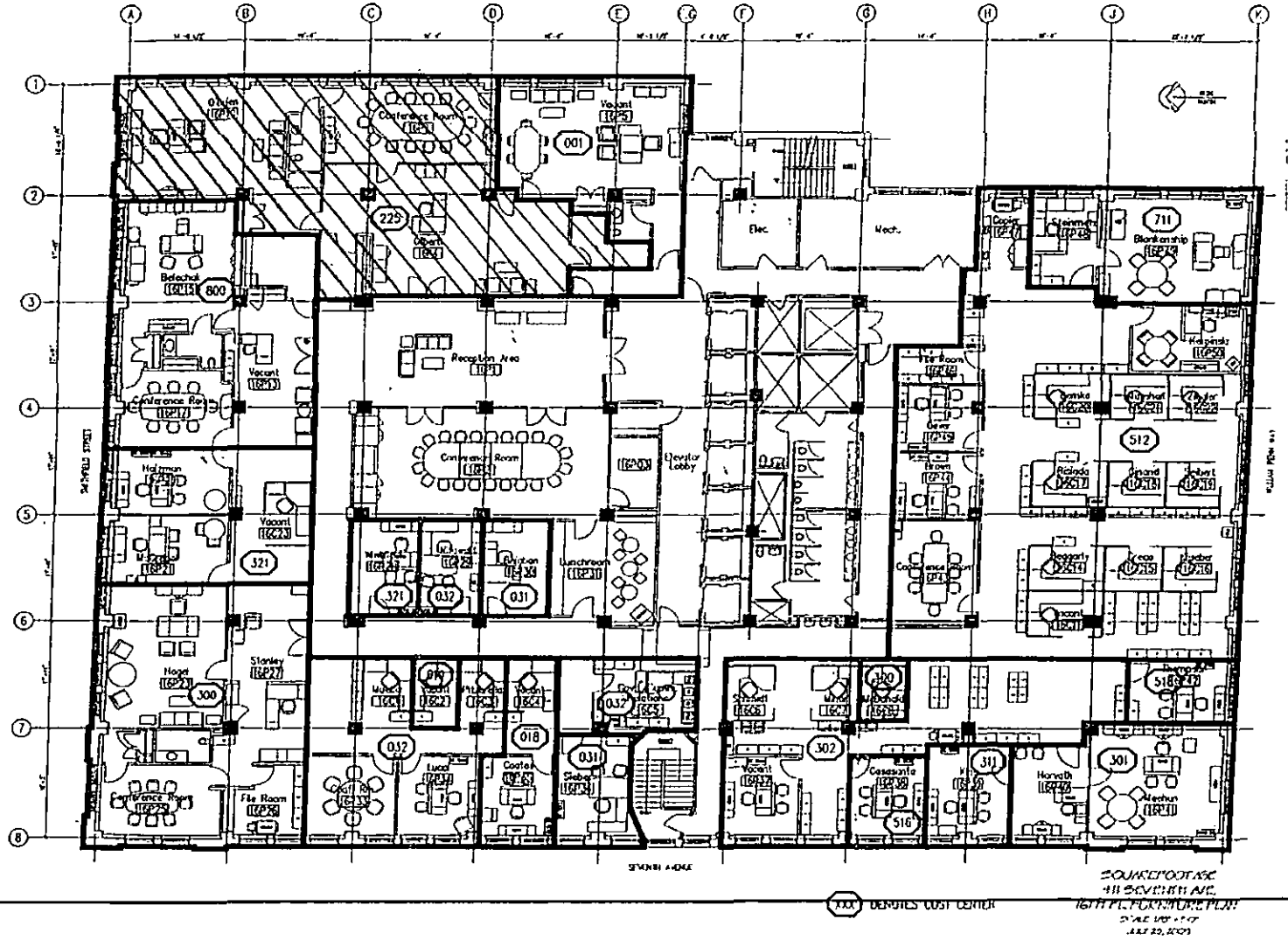


EXHIBIT B-2

XXX DENOTES COST CENTER

SQUARE FOOTAGE
411 SEVENTH AVE.
16TH FL. FURNITURE PLAN

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

RONALD CARRIER

On Behalf of Strategic Energy, LLC

Duquesne Light Company Base Rate Case
Docket No. R-00061346

August 2, 2006

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ronald Carrier. My business address is 2316 Anchor Court, Holt, Michigan, 48842.

Q. ARE YOU THE SAME RONALD CARRIER WHO SUBMITTED DIRECT TESTIMONY ON BEHALF OF STRATEGIC ENERGY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE SUBJECT OF YOUR REBUTTAL TESTIMONY?

A. I am responding to the Directed Questions presented by Pennsylvania Public Utility Vice-Chairman James Cawley. I will provide Strategic Energy's views on these issues.

Q. DO FIXED CHARGES FOR RESIDENTIAL AND SMALL OR MEDIUM COMMERCIAL CUSTOMER DISTRIBUTION SERVICES DISCOURAGE CONSERVATION OF ENERGY? IF SO, WHAT OTHER REVENUE DECOUPULING MODELS CAN BE IMPLEMENTED THAT WOULD OPTIMALLY MEET THE DUAL NEEDS OF PROVIDING INCENTIVES FOR CONSUMERS TO CONSERVE ENERGY, WHILE PROVIDING REASONABLY STABLE REVENUES FOR UTILITIES?

A. Theoretically, yes, but the real opportunity for customers to receive pricing signals that encourage conservation comes from the commodity portion of their bill. This is because the commodity, or generation, portion of the customer's bill is usually significantly higher than the distribution services portion of the bill.

Q. DO DECLINING BLOCK RATE DESIGNS REMOVE THE INCENTIVE FOR CONSUMERS, ESPECIALLY RA AND RH RESIDENTIAL CONSUMERS AND SMALL TO MEDIUM SIZED COMMERCIAL AND INDUSTRIAL CUSTOMERS ("C&I"), TO CONSERVE ENERGY? IF SO, SHOULD DECLINING BLOCK RATES FOR SUPPLY AND DISTRIBUTION SERVICES BE PHASED OUT OVER TIME?

A. Whether they are for distribution or supply services, declining block rates fundamentally do not offer incentives for conservation. Rather, they are disincentives for conservation. It is only human nature to use more of something as the price for that item declines. At the very least, the thought of using less does not have the same sense of urgency than if

the price were increasing with each unit consumed. For this reason, if conservation is a policy goal, then declining block rates should be removed over time.

Q. DO DEMAND BASED CHARGES, AND IN PARTICULAR DEMAND BASED CHARGES FOR DEFAULT SUPPLY SERVICE, REMOVE THE INCENTIVE FOR CONSUMERS, ESPECIALLY SMALL TO MEDIUM SIZED C&I CUSTOMERS, TO CONSERVE ENERGY? IF SO, SHOULD DEMAND BASED RATES FOR SUCH CUSTOMERS BE PHASED OUT OVER TIME?

A. Small to medium sized C&I customers usually don't have the means or ability to impact their demand. As such, demand charges don't provide an incentive to conserve energy use. Again, if conservation is a policy goal, then supply charges that reflect the true cost might be a better avenue for fostering reduced consumption. Mechanisms such as real-time or time-of-use energy charges are the better options.

Q. CAN AND SHOULD RATE DESIGNS VARY AMONG CUSTOMER CLASSES? FOR EXAMPLE, LARGER C&I CUSTOMERS GENERALLY HAVE A MUCH SMALLER PERCENTAGE OF THEIR REVENUES ATTRIBUTABLE TO DISTRIBUTION SERVICES. GIVEN THIS DYNAMIC, DOES THE COMMODITY DESIGN OF SUPPLY SERVICE RATES PROVIDE ADEQUATE INCENTIVE FOR LARGE C&I CUSTOMER TO CONSERVE ENERGY?

A. As a general rule, large C&I customers generally have a higher load factor; therefore they utilize the distribution system more efficiently than smaller customers. This leads to lower unit costs for distribution services and a higher ratio of commodity to distribution services on their monthly bills. Since the commodity portion of their bills is the highest, and should fluctuate more than the distribution charges over time due to the POLR proceedings and market forces, then it would make sense that larger customers would be more inclined to conserve if the largest portion of their bills (commodity) is subject to volatility.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SURREBUTTAL TESTIMONY OF RONALD CARRIER

On Behalf of Strategic Energy, LLC

Duquesne Light Company Base Rate Case
Docket No. R-00061346

August 16, 2006

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ronald Carrier. My business address is 2316 Anchor Court, Holt, Michigan, 48842.

Q. ARE YOU THE SAME RONALD CARRIER WHO SUBMITTED DIRECT AND REBUTTAL TESTIMONY ON BEHALF OF STRATEGIC ENERGY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE SUBJECT OF YOUR SURREBUTTAL TESTIMONY?

A. I am responding to Duquesne Light Company ("Duquesne" or "DLC") witness Neil Fisher's rebuttal testimony that Strategic Energy, LLC's ("Strategic") allegations of potential cross-subsidies to Duquesne's electric generation supplier ("EGS") affiliate, Duquesne Light Energy ("DLE"), are unsupported and not credible.

Q. DO YOU AGREE WITH MR. FISHER THAT THERE IS NO SUPPORT FOR STRATEGIC'S CROSS-SUBSIDY CLAIMS?

A. No. Part of the problem is that Mr. Fisher apparently misreads my testimony as claiming only cross-subsidies from Duquesne's distribution rates, when my claims also include direct and indirect cross-subsidies from Duquesne's POLR (generation) rates, Duquesne Power's ("DP") supply procurement activities and Duquesne Light Holding's ("DLH") credit or performance guarantees. This may explain why Mr. Fisher does not address my claims that DLE can receive competitive cost advantages from DLH and its subsidiaries to the extent that DLE does not pay for: 1) costs incurred on its behalf by DP, but included in DLC's POLR rates or absorbed by DP; or 2) credit guarantees provided by DLH to support DP's supply procurement activities on behalf of DLE. Mr. Fisher simply asserts that the charge for services between Duquesne's unregulated affiliates, DP and DLE, is not relevant in this proceeding and not subject to regulatory review.

Q. DO YOU AGREE WITH MR. FISHER'S ASSERTIONS?

A. No, and I note that Duquesne has not disclosed whether there are any such charges. Although I am not a lawyer it seems to me that Mr. Fisher's assertions present the "chicken and egg" dilemma. If DLE does not pay for costs DP incurs on DLE's behalf (because either DLC pays for them in its distribution or POLR rates, or DP absorbs them), or if DLE does not pay for credit guarantees provided by DLH either directly (to DLH) or indirectly (to DP), then DLE is receiving a subsidy – from DLC, DP and/or DLH. However, if the cost allocations and charges, if any, for the service arrangements between and among DP, DLE, DLC and DLH are not relevant and not subject to Commission review in this proceeding, then how can information to establish the extent and amounts of such cross-subsidies be uncovered?

Q. HOW HAS DUQUESNE'S POSITION ON THIS ISSUE AFFECTED STRATEGIC'S PROOF TO SUPPORT ITS CLAIMS?

A. As I stated in my initial testimony, the tight time frame for litigating this case has hampered Strategic's efforts to uncover this information over Duquesne's objections. Fortunately, Mr. Fisher's testimony and admissions by Duquesne actually support our claims that DLE is receiving unlawful subsidies from either DLC, DP and/or DLH, by tagging along with DLC on DP's supply procurement activities or riding the coattails of DLC's distribution or POLR service.

Q. HOW DOES MR. FISHER'S TESTIMONY SUPPORT STRATEGIC'S CLAIMS OF UNLAWFUL CROSS-SUBSIDIES?

A. Mr. Fisher does not dispute my initial testimony that DP's power purchasing, scheduling, coordination and planning are done by DP for both DLE's load and DLC's POLR load, but he asserts that DLC's full service requirements supply agreement with DP covers all DP's costs associated with DLC's POLR service but does not include DP costs related to DLE load. But Direct Energy witness Lacey's initial testimony shows that DLC's POLR

rates include only actual purchased power costs and related taxes.[1] And Duquesne's 2005 Form 10-K shows some $28.4 million in profit from DLC's "POLR/Supply" ("Electricity Supply" business segment, supposedly including the results of DLE), comprising $19 million cash earnings from POLR service to residential and small commercial customers and $9.4 million non-cash earnings from derivative energy contracts.[2] As Duquesne's 2005 Form 10-K states that DLE provides service to Duquesne's large commercial and industrial customers, this means that DLE did not contribute any earnings in 2005 to Duquesne's $19 million Electricity Supply business segment profit. In other words, DLE had no profit on its power sales in 2005. This means that DLE is selling power at or below cost – i.e., "dumping" power or engaging in predatory pricing by not pricing its power to cover all costs – because some of the costs are covered by either DLC or DP. Mr. Fisher could be considered to have admitted as much, even as he professes not to be familiar with DLE's pricing strategy, when he asserts that DLE's ability to undercut Strategic's retail prices and successfully capture market share "could be explained by a variety of factors" – but then he mentions only two: 1) as a new EGS, DLE may have "had a strategy to price low in order to capture market share;" and 2) it's possible DLE "chooses to earn lower margins than those required by Strategic's management."[3] DLE apparently had both strategies in 2005, and was able to price low because it didn't have to pay for some of its costs.

Q. DOES MR. FISHER'S TESTIMONY INCLUDE ANY OTHER EXAMPLES OF UNLAWFUL CROSS-SUBSIDIES AMONG THE DUQUESNE COMPANIES?

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1 Direct Energy St. No. 1 at 10-11.

2 Strategic Energy Exh. RC-2 (DLC response to DE III-3).

3 Duquesne St. No. 15-R (Fisher) at 28-29.

A. The most obvious one is parent company credit or performance guarantees, which Mr. Fisher admits provides competitive advantages to a retail subsidiary. Mr. Fisher quotes the Form 10-Ks of the parent companies of EGSs in this case (Strategic, Constellation NewEnergy) which disclose that these EGSs receive credit or performance guarantees from their corporate parents. These quotes readily admit that the parent company guarantees provide support for their EGS subsidiaries' operations. Strategic's parent company's 10-K states that these corporate guarantees "support or enhance the creditworthiness otherwise attributed to [Strategic] for a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish [Strategic's] intended business purposes."[4] Constellation NewEnergy's parent company's 10-K states that its corporate guarantees are given "in support of the growth of our merchant energy business."[5] Credit support from Centrica, Direct Energy's parent company, "reduces costs and gives competitive advantage" to its subsidiaries.[6] Mr. Fisher's analogy thus supports my initial testimony that DLH's credit guarantees provide DLH's subsidiaries with either direct or indirect competitive cost advantages. Mr. Fisher's assertions that "it is not at all clear who [among the EGSs and their parent companies and regulated/unregulated affiliated companies] has a competitive disadvantage with respect to credit and security costs," and that "[o]ne could easily argue DLE is at a competitive disadvantage" are completely at odds with his analogy, unsupported and counterintuitive. He does not provide any

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4 *Id.* at 27 (quoting Great Plains Energy, Inc. 2005 Form 10-K).

5 *Id.* (quoting Constellation Energy, Inc. 2005 Form 10-K).

6 *Id.* (quoting "Centrica in North America").

explanation as to how a parent company's guarantees puts its subsidiaries at a competitive disadvantage.

Q. WHY DO YOU VIEW DLH'S CREDIT SUPPORT AS AN UNLAWFUL CROSS-SUBSIDY WHEN STRATEGIC AND OTHER EGSs ALSO RECEIVE CREDIT SUPPORT FROM THEIR CORPORATE PARENTS?

A. It's an "apples to oranges" comparison because there are fundamental differences between the two situations. First, DLE and DP are operating in DLC's service territory, and the Electric Choice and Competition Act, as well as Duquesne's Code of Conduct, require that these affiliates function independently of each other and not provide cross-subsidies. There are no such comparable limitations on the operations of Strategic (or Constellation NewEnergy and Direct Energy) and their affiliates in DLC's service territory. Second, Strategic pays its corporate parent for the credit guarantees.

Q. DOES MR. FISHER'S TESTIMONY REVEAL ANY OTHER CROSS-SUBSIDY PROBLEM?

A. Yes. He asserts that whatever costs DP incurs to fulfill its supply obligations to DLC's POLR service are reflected in the total charges paid by DLC to DP – and thus reflected in DLC's POLR rates – and that those charges were determined by the PUC to represent "prevailing market prices" for the Small Customer fixed price POLR product over the POLR III period.

Q. WHY IS THIS A CROSS-SUBSIDY PROBLEM?

A. Because rates for post-transition POLR service are to reflect the prevailing market prices for the power plus all reasonable costs. By ignoring the cost component, Mr. Fisher's analysis and conclusion that the total price paid by DLC to DP for power supply and related services reflects prevailing market prices misses the mark. By ignoring the other half of the post-transition POLR pricing standard, Mr. Fisher summarily, and

erroneously, dismisses the possibility of a cross-subsidy from DP's power procurement activities. Mr. Fisher also asserts that the failure of the DP/DLC power supply contract to break out the individual cost components is no different from the manner in which EGSs such as Strategic and their wholesale suppliers contract. However, again, this is an invalid "apples to oranges" comparison because DLC and its affiliates operating in DLC's service territory are subject to restrictions and limitations to prevent anticompetitive activities and cross-subsidies that are not applicable to unaffiliated EGSs such as Strategic.

Q. WHAT SHOULD THE COMMISSION DO TO ADDRESS THESE CROSS-SUBSIDY PROBLEMS?

A. The Commission should investigate DLC's operations vis-à-vis DLE and DP to uncover and quantify the apparent cross-subsidies among these companies and DLH. I note that the Michigan Public Service Commission's Code of Conduct specifically prohibits the types of cross-subsidies we claim are present among the DLH companies: "An electric utility's or alternative electric supplier's regulated services shall not subsidize in any manner, directly or indirectly, the unregulated business of its affiliates or other separate entities."[7] In addition, the Michigan Public Service Commission's Code of Conduct spells out how services provided from one corporate affiliate to another should be priced.[8] Once the extent and amounts of the cross-subsidies are identified, the Commission should require Duquesne to make appropriate adjustments to its distribution rates and to its POLR rates to ensure that these rates reflect all the reasonable costs of providing the respective services – and only the reasonable costs of providing the

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7 Strategic Energy Exh. RC-3 (Section II (Separation), Subsection B).

8 *Id.* (Section III (Discrimination), Subsection C).

respective services. For example, any costs incurred by DP on behalf of DLE but included in DLC's distribution or POLR rates should be returned to DLC in the form of reduced charges. This Commission should also consider amending its Code of Conduct along the lines of the Michigan PSC's Code of Conduct to more specifically address cross-subsidy issues.

Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

Direct Energy Services
Interrogatories Set III

Answer to Direct I-10: Investor Presentation "Executing on the Basics" (Feb. 14, 2006), p. 8: "Electricity Supply business earned $19M in 2005 excluding derivative gains."

3. a. Provide all calculations associated with the conclusion that the "Electric Supply business" earned $19M, including a detail of the expenses, revenues, taxes and other items allocated to "Electricity Supply" on which this calculation is based.

b. Confirm that "Electricity Supply" referenced there includes POLR service. If the service includes any other service, please specify the other services and identify the portion attributable to POLR service.

c. Explain the "adjustment" which reduced actual 2005 POLR/supply earnings from $28.4M to $19M. (p. 15)

d. Explain the main drivers for the projected increase in earnings from POLR/supply from $19M in 2005 to $33-36M in 2006.

Response:

3.a. Refer to the attached excerpts from the Duquesne Light Holdings and Duquesne Light Company combined Form 10-K for the year ended December 31, 2005 for the detail of the revenue, expenses and taxes used to calculate the earnings for the electricity supply segment for the year ended December 31, 2005. The first excerpt shows the earnings of the Duquesne Light Supply segment ($28.4 million in total) segregated between earnings from the residential and small commercial customers ($19.0 million) and non-cash earnings from derivative energy contracts ($9.4 million). The second excerpt shows the detail of the revenue, expenses and taxes used to calculate the total earnings of $28.4 million from the Electricity Supply segment. The net income effect of the derivative energy contracts is reflected on a pre-tax basis as an offset to purchased power expense.

3.b. The Electricity Supply segment includes POLR service. As disclosed in the Form 10-K referenced above, it also includes the results of Duquesne Light Holdings' unregulated retail electric generation supplier, Duquesne Light Energy. The additional information you requested is non-public information, and will not be provided.

3.c. Please refer to the response to question 3.a.

3.d. As referenced in slides 30 and 32 of this same presentation, the 2006 estimated earnings from the supply segment were to include approximately $9 million of earnings from the projected June 2006 acquisition of the Keystone and Conemaugh power stations. This is the primary reason for the projected increase in earnings from the supply segment.

CODE OF CONDUCT

This code of conduct is intended to promote fair competition by establishing measures to prevent cross-subsidization, information sharing, and preferential treatment between the regulated and unregulated operations of electric utilities, alternative electric suppliers, and their affiliates. An electric utility or alternative electric supplier is prohibited from taking punitive action against any individual (including an employee) or entity who files a complaint with the electric utility, the alternative electric supplier, or the Commission, or otherwise causes an alleged violation of this code of conduct to come to the attention of the Commission.

I. Applicability

This code applies to all electric utilities as defined by MCL 460.562 and to alternative electric suppliers, as defined by MCL 460.10g, who, together with their affiliates, provide regulated services in Michigan and unregulated services. As used in this code of conduct, a service is "regulated" if the commission has authority to set the price for the service as of the effective date of this code.

II. Separation

An electric utility or alternative electric supplier that offers, itself or through its affiliates, both regulated and unregulated services shall do so with the structural or functional separation needed to prevent cross-subsidization, information sharing, and preferential treatment between the regulated and unregulated services. This includes, but is not limited to, the following:

A. An electric utility shall not offer unregulated services or products except through one or more affiliates or through other entities within the corporate structure, such as divisions.

B. An electric utility's or alternative electric supplier's regulated services shall not subsidize in any manner, directly or indirectly, the unregulated business of its affiliates or other separate entities.

C. An electric utility or alternative electric supplier shall maintain its books and records separately from those of its affiliates or other entities within its corporate structure. An electric cooperative offering unregulated services shall maintain an accounting system that allocates costs between its regulated and unregulated ventures on a fully allocated embedded cost basis, and any transfers of services, products, or property must be in compliance with the provisions of Section III, paragraph C.

D. An electric utility or alternative electric supplier and its affiliates or other entities within its corporate structure shall not share facilities, equipment, or operating employees, but may share computer hardware and software with documented protection to prevent discriminatory access to competitively sensitive information.

E. An electric utility's or alternative electric supplier's operating employees and the operating employees of its affiliates or other entities within its corporate structure shall function independently of each other and maintain separate offices.

F. An electric utility or alternative electric supplier shall not finance or co-sign loans for affiliates.

G. An electric utility may transfer employees between the electric utility and any of its affiliates or other entities within the corporate structure as long as the electric utility documents those transfers and files semi-annually with the Commission a report of each occasion on which an employee of the electric utility became an employee of an affiliate or other entity within its corporate structure and/or an employee of an affiliate or other entity within its corporate structure became an employee of the electric utility.

H. An electric utility and its affiliates or other entities within the corporate structure and an alternative electric supplier and its affiliates or other entities within the corporate structure offering both regulated and unregulated services or products in Michigan shall not engage in joint advertising, marketing, or other promotional activities related to the provision of regulated and unregulated services, nor shall they jointly sell regulated and unregulated services.

I. An electric utility or alternative electric supplier offering regulated service in Michigan shall not suggest that it will provide any customer with preferential treatment or service by doing business with the electric utility or the alternative electric supplier, affiliates, or other entities within the corporate structure offering unregulated services or products, nor shall the electric utility or alternative electric supplier suggest that any customer will receive inferior treatment or service by doing business with an unaffiliated supplier.

J. An electric utility or alternative electric supplier offering regulated service in Michigan shall not condition or otherwise tie the provision of a regulated service or the availability of discounts, rates, other charges, fees, rebates, or waivers of terms and conditions for regulated service to the taking of any unregulated goods or services from the electric utility or alternative electric supplier, affiliates, or other entities within the corporate structure.

K. An electric utility or alternative electric supplier offering regulated service in Michigan shall not allow its affiliates to use its logo unless the affiliate includes, in a clearly visible position and easily readable by customers, the following statement:

"(Affiliate name) is not regulated by the Michigan Public Service Commission."

L. If an electric utility, its affiliate, or other entity within the corporate structure offers an unregulated service, any use of its logo shall include, in a clearly visible position and easily readable by customers, the following statement:
"(Service) is not regulated by the Michigan Public Service Commission."

M. None of the provisions of this code shall be interpreted to require a cooperative electric utility or an independent investor-owned utility with fewer than 60 employees to maintain separate facilities, operations, or personnel, used to deliver electricity to retail customers, provide retail electric service, or to be an alternative electric supplier.

III. Discrimination

An electric utility or alternative electric supplier that offers, itself or through its affiliates, both regulated and unregulated services shall not unduly discriminate in favor of or against any party, including its affiliates. This includes, but is not limited to, the following:

A. An electric utility or alternative electric supplier that offers, itself or through its affiliates, both regulated and unregulated service shall not provide any affiliate or other entity within its corporate structure, preferential treatment or any other advantages that are not offered under the same terms and conditions and contemporaneously to other suppliers offering services or products within the same service territory or to customers of those suppliers. This provision includes, but is not limited to, all aspects of the electric utility's or alternative electric supplier's service, including pricing, responsiveness to requests for service or repair, the availability of firm and interruptible service, and metering requirements.

B. If an electric utility provides to any affiliate or other separate entity, or customers of an affiliate or other separate entity within its corporate structure, a discount, rebate, fee waiver, or waiver of its regulated tariffed terms and conditions for services or products, it shall contemporaneously provide notice of and offer the same discount, rebate, fee waiver, or waiver to all alternative electric suppliers operating within the electric utility's service territory or all alternative electric suppliers' customers.

C. If an electric utility or alternative electric supplier offering regulated service in Michigan provides services, products, or property to any affiliate or other entity within the corporate structure, compensation shall be based upon the higher of fully allocated embedded cost or market price. If an affiliate or other entity within the corporate structure provides services, products, or property to an electric utility or alternative electric supplier offering regulated service in Michigan, compensation for services and supplies shall be at the lower of market price or 10% over fully allocated embedded cost and transfers of assets shall be based upon the lower of fully allocated embedded cost or market price.

D. If an electric utility provides a customer or potential customer with the names of its affiliates or other entities within the corporate structure that are alternative electric suppliers, it shall do so only by distributing their names along with the names of all licensed alternative electric suppliers.

E. An electric utility or alternative electric supplier offering regulated service in Michigan shall not provide information or consultation to an affiliate or other entity within the corporate structure offering unregulated electric service in Michigan regarding a potential business arrangement between that affiliate or other entity within the corporate structure and a potential customer.

F. An electric utility or alternative electric supplier offering regulated service in Michigan shall not refer a customer or potential customer to an affiliate or other entity within the corporate structure offering unregulated electric service in Michigan, nor steer a potential customer away from a non-affiliated entity offering unregulated electric service in Michigan, nor shall the electric utility or alternative electric supplier offering regulated service in Michigan provide a customer or potential customer with advice or assistance regarding the selection of or relationship with an affiliate, other entity within the corporate structure, or other service provider offering unregulated electric service in Michigan.

IV. Disclosure of Information

Information obtained by an electric utility or alternative electric supplier in the course of conducting its regulated business in Michigan shall not be shared directly or indirectly with its affiliates or other entities within its corporate structure unless that same information is provided to competitors operating in the state on the same terms and conditions and contemporaneously. This provision includes, but is not limited to, the following:

A. Customer specific names and addresses shall not be provided to an affiliate or other entity within the corporate structure unless the same information is offered on the same terms and conditions, and contemporaneously, to all competitors.

B. Customer specific consumption or billing data shall not be provided to any affiliate or other entity within the corporate structure or alternative electric supplier without prior written approval of the customer. Once each calendar year a request for up to 12 months of historic usage or billing data may be made at no cost.

C. If an electric utility or alternative electric supplier offering regulated service in Michigan provides non-customer specific, or aggregated, customer information to its affiliate or other entity within its corporate structure, it must offer the same information on the same terms and conditions, in the same form and manner, and contemporaneously to all competitors.

D. An electric utility shall not provide its affiliates or other entities within its corporate structure with information about the distribution system, including operation and expansion, without offering the same information under the same terms and conditions, in the same form and manner, and contemporaneously to all licensed alternative electric suppliers.

E. An electric utility or alternative electric supplier offering regulated service in Michigan shall not provide any information received from or as a result of doing business with a competitor to an affiliate or other entity within its corporate structure without the written approval of the competitor.

V. Electric Utility – Alternative Electric Supplier Relationship

Except for instances covered by Section 10a(3) of 2000 PA 141 or other instances approved by the Commission, an electric utility shall not in any way interfere in the business operations of an alternative electric supplier. This provision includes, but is not limited to, the following:

A. An electric utility shall not give the appearance in any way that it speaks on behalf of any alternative electric supplier.

B. An electric utility shall not interfere in any manner in the contractual relationship between the alternative electric supplier and its customers unless such involvement is clearly permitted in the contract between the customer and the alternative electric supplier or in tariffs approved by the Commission.

VI. Compliance Plans

Each electric utility or alternative electric supplier shall file a code of conduct compliance plan within 60 days of the order on rehearing on this code of conduct by the Commission. The compliance plan shall:

A. Designate a corporate officer of the electric utility or alternative electric supplier who will oversee compliance with the code of conduct and be available to serve as the Commission's primary contact regarding compliance with the code.

B. Include an affidavit signed by the designated corporate officer certifying that the electric utility or alternative electric supplier will comply fully with the code of conduct.

C. Include a clear organization chart of the parent or holding company showing all regulated entities and affiliates and a description of all services and products provided between the regulated entity and its affiliates.

The electric utility or alternative electric supplier shall file revisions to its compliance plan needed to keep the information contained therein current.

In the compliance filing, the electric utility or alternative electric supplier may request a waiver from one or more provisions of this code of conduct. The electric utility or alternative electric supplier carries the burden of demonstrating that such a waiver will not inhibit the development or functioning of the competitive market.

VII. Oversight, Enforcement, and Penalties

A. An electric utility or alternative electric supplier shall maintain documentation needed to investigate compliance with the code of conduct. All documentation shall be kept at a designated company office in Michigan. The electric utility or alternative electric supplier shall make this information available for review upon request by the Commission or its Staff. The designated officer will either be available or make personnel available who are knowledgeable to respond to inquiries by the Commission or its Staff regarding compliance with the provisions of the code of conduct.

B. The electric utility or alternative electric supplier shall use a documented dispute resolution process separate from any process that might be available from the Commission. This dispute resolution process shall address complaints arising from application of the code of conduct. The electric utility or alternative electric supplier shall keep a log of all complaints, including: (1) the name of the person or entity filing the complaint, (2) the date the complaint was filed, (3) a written statement of the nature of the complaint, and (4) the results of the resolution process.

C. Each electric utility or alternative electric supplier shall file an annual report with the commission summarizing the number and types of complaints received and their resolution.

D. Penalties for violations of the code of conduct will be as provided in Section 10c of the Customer Choice and Electricity Reliability Act, MCL 460.10c.

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

CAAP Statement No. 1

Direct Testimony of John A. Wilson

In Re: Application of Duquesne Light Co. for a Rate Increase

Docket Number: R-00061346

Q: Please state your name, title, and business address.

A: My name is John A. Wilson, Executive Director, Community Action Association of Pennsylvania, 222 Pine Street, Harrisburg, PA 17101.

Q: On whose behalf are you testifying?

A: The Community Action Association of Pennsylvania (CAAP), a statewide association of local Community Action Agencies in Pennsylvania.

Q: What is your relevant experience in this case before the Commission?

A: CAAP's membership covers each of the counties in the Company's service territory. CAAP has been incorporated for more than 20 years and, as an integral part of its mission, has advocated for the low-income population of Pennsylvania. I have been the Executive Director of this agency for 13 years. Prior to that, I was Executive Director of the Community Action Program Southwest for 14 years, serving Washington and Greene Counties. On a statewide level, I have served on the Department of Public Welfare Homeless Advisory Council, LIHEAP Advisory Council, and the Community Service Block Grant Task Force. I also serve on several other local and National Boards in similar capacities. On behalf of our member agencies, CAAP has intervened in numerous rate and restructuring cases before the PUC including this Company's restructuring proceeding (R-00974104).

Q. What is the purpose of your testimony?

A. My testimony will address the Company's universal service programs; specifically, I will address the Company's Smart Comfort program, which is the Company's low-income usage reduction program (LIURP) and the use of community based organizations by the Company in its universal serve programs.

Q. Can you address the Company's Smart Comfort program?

A. Yes. The Company's Smart Comfort program is a low-income usage reduction program (LIURP), a program designed to help low-income customers reduce their energy consumption through education and conservation measures. I am concerned about the funding levels for the Company's Smart Comfort Program, the amount spent per enrollee and the fact that the Company uses just one community based organization to administer the program.

Q. Can you address specifically LIURP funding?

A. Yes. The Company has historically increased funding for its other universal service programs and proposes to do so in this proceeding. However, there is no proposal to increase funding for the Smart Comfort Program. In fact, funding for the Company's LIURP program has actually decreased since its restructuring case. In the Company's restructuring proceeding, the PUC directed that the Company fund LIURP at $1,000,000 for the year 1999 and thereafter increase funding $125,000 yearly to a total of $1,750,000 in the year 2002. (See Docket No. R-00974104). In ordering those funding levels over the Company's objection, the PUC found "that Duquesne's LIURP proposal does not

meet the level of need in its service territory as required by the Act." The Commission further stated:

> "The Commission finds that LIURP has been one of the Commonwealth's most successful programs for assisting low income customers. The Commission has found that LIURP reduces bad debt by reducing customers' bills. Customers who receive LIURP services are able to pay their entire bill plus contribute to their arrearage."

(Restructuring Order p. 293). In the direct testimony submitted by Duquesne Witness Michele R. Sandoe (Duquesne Statement No. 13), the Company proposes in this proceeding to fund LIURP at $1,181,250 annually for 2006 and 2007. (Duquesne Statement No. 13, p. 10-11). This represents a reduction of nearly 33% from the LIURP funding ordered by the PUC for the year 2002, $1,750,000, and what the Company proposes going forward in this proceeding, $1,181,250.

Q. Why does this dramatic decrease in funding concern you?

A. Because I agree with what the Commission stated in the Company's restructuring case, "that LIURP has been one of the Commonwealth's most successful programs for assisting low income customers" and I believe that the energy conservation measures which result from a well funded LIURP program are an essential part of helping low income consumers deal with rising energy costs. Most troubling is the fact that this

dramatic decrease in LIURP funding has occurred during dramatic increases in energy costs. Ms. Sandoe recognized as much in her testimony for the Company by stating:

> "Energy is becoming more expensive, governmental assistance falls short of the needs of low income customers. Since electricity is so critical to everyday life and activities, I think it is important that Duquesne Light tries its best to assist its customers in paying for the energy they require. Conservation should and does play a role in reducing customers' energy bills. We are trying to increase our assistance to these customers but at the same time, keep the costs of such programs reasonable."

(Duquesne Statement No. 13, p. 11). I applaud Duquesne Light for increasing funding in other universal service programs but it is troubling that with energy costs becoming greater and greater, the Company has chosen to dramatically decrease funding for LIURP which is a necessary component in helping low income consumers reduce the energy they use and thus their energy costs.

Q. Are there any other components of the Company's Smart Comfort program that concern you?

A. Yes. I am concerned with the amount the Company spends in its LIURP program per customer. In the Bureau of Consumer Services' 2004 Report on universal service programs and collections performance (BCS Report[1]), the Bureau studied universal

[1] http://www.puc.state.pa.us/general/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2004.pdf

service programs of electric and natural gas distribution companies. That report found that Duquesne's funding for LIURP ranked in the lower half of electric distribution companies in Pennsylvania in overall funding. (BCS Report, p. 38). Not only does the Company's total LIURP funding rank low when compared with other electric distribution companies in Pennsylvania, the amount the Company spends per LIURP participant is also very low. In 2003, the Company spent $1,852,000 in its LIURP program and served 1,769 customers for an average LIURP job cost of $1,046. In 2004, the Company spent $1,021,250 and served 2,120 customers for an average LIURP job cost of $481 and in 2005, the Company spent $1,092,425 and served 3,003 customers for an average LIURP job cost of $363. (Duquesne Resp. to CAAP Interrogatories (Set I) – Q. 7 and 8). In its 2004 Universal Service and Energy Conservation Plan, the Company set LIURP funding at $1,181,250 for the years 2006 and 2007 and proposed to serve approximately 2,259 customers per year for an average LIURP job cost of $522. (Docket No. M-00041795, p. 9). Again, these cost per job averages fall below what the Commission ordered in the Company's restructuring case. The Commission ordered the following:

> "Based upon a review of the record and the contentions of the parties, we direct the Company to expand its LIURP, over the next four years to serve 1750 customers annually at a cost of $1,000 per customer.

(Restructuring Order p. 293). The $522 per job proposed for the years 2006 and 2007 is nearly a 50% reduction from the Commission's directive in the Company's restructuring case.

Q. Why does the low average LIURP job cost concern you?

A. CAAP has a long history of working with agencies that provide weatherization services on behalf of both the Federal Government and Pennsylvania utility companies and that experience has demonstrated that the greater the energy conservation investment, the greater the energy savings. Surely, an investment of $522 will yield only marginal, if any, savings.

The energy savings impact is greater, and in many cases, is only attained with more weatherization measures being provided for the customer. Although the Company's LIURP program educates consumers on energy conservation measures, the low job costs indicates that few weatherization measures are being provided to the low income consumer and thus fewer savings.

Q. Do you have any other concerns about this Company's universal service programs?

A. Yes. I am concerned with the extent to which this Company uses local community based organizations that deal with low income consumers relative to a wide range of financial difficulties faced by those low income consumers. The Company's LIURP program is administered by a single entity, Conservation Consultants, Inc. (CCI). CCI's mission is to provide energy consulting services to the consumer and is limited to basically providing energy saving education and energy audits. I have found nothing in the Company's discovery responses to indicate that CCI provides any weatherization services. And as I indicated above, the low cost per job for LIURP is an indication that few weatherization measures are being provided. Because CCI's mission is limited to energy saving education and energy audits, it does not serve low income consumers on a

broad range of issues. Utilizing more than one contractor or seeking the advice of additional weatherization providers for the LIURP Program would enhance the program by enabling greater input into program design, a wider variety of measures, improved techniques and enhanced energy savings.

We have found that when a low income consumer comes to a social service agency he or she usually has a wide range of financial difficulties; not only would a low income consumer have difficulty in paying his or her utility bills but also may have problems with other financial obligations. Because community action agencies serve low income consumers on a broad range of issues facing those consumers, they would be better able to provide resources that would address that consumer's financial difficulties and not just energy related difficulties. These organizations serve thousands of low income and disadvantaged members of the community; they have direct knowledge of the barriers and impediments to self-sufficiency, and continually innovate and evolve the service delivery system to better meet the needs of the population they serve. The focus and experience of community based organizations make them singularly suited to speak for the needs of the community.

Q. Do you have any suggestions relative to the Company's use of community based organizations?

A. Yes. I am proposing that the Company employ the community action agency network and Pennsylvania weatherization providers network in administering its universal service

programs. As indicated above, CCI serves low income consumers only relative to energy education and audits while community action agencies serve low income consumers with a broad range of services. Also, as indicated above, the low cost per job for LIURP indicates that the Company is not providing much in the way of weatherization services under its LIURP program and it is my belief that using the Pennsylvania weatherization providers network will better able the Company to provide those weatherization services.

Q. Can you please provide your recommendations relative to LIURP funding and the use of community based organizations?

A. Yes. CAAP is proposing the following:

1. That annual funding for the Company's Smart Comfort program be increased to $2,259,000 for the years 2006 and 2007. This figure is arrived at by taking the 2259 customers proposed by the Company to be served annually by LIURP at the average job cost of $1,000 as directed by the Commission in the Company's restructuring case. CAAP is not proposing a particular cost per job nor a particular number of customers served but is recommending the higher annual funding amounts to fund its recommendation that more weatherization services be provided to low income customers. Additionally, CAAP proposes that any money not spent in a year be carried over to the subsequent years.

2. That the Company be directed to consult and employ the local community action agency network and the Pennsylvania weatherization providers network in

the design and administration of its universal service programs, particulary its Smart Comfort program.

Q. Does this conclude your testimony?

A. Yes

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-00061346
	:	
Duquesne Light Company	:	

PREPARED DIRECT TESTIMONY

OF

TIMOTHY W. MERRILL
VICE PRESIDENT AND GENERAL MANAGER
NRG ENERGY CENTER PITTSBURGH LLC

NRG Statement No. 1

Q. Please state your name and business address for the record.

A. My name is Timothy W. Merrill. My business address is NRG Energy Center Pittsburgh LLC, ("NRG" or "Company") 111 South Commons, Pittsburgh, PA 15212.

Q. By whom are you employed and in what capacity?

A. I am employed by NRG as its Vice President and General Manager. In this capacity, I am responsible for all aspects of the business of producing, distributing, and selling steam, hot water, and chilled water in the greater Pittsburgh area. These responsibilities include procuring the necessary fuels at the lowest price, overseeing the operational management of the facility, maintaining customer relations, and being responsible for all regulatory affairs.

Q. How long have you been NRG's General Manager?

A. I have been General Manager for three years.

Q. Please describe NRG's business.

A. NRG Energy Center Pittsburgh is a district energy plant. It uses both natural gas and electricity as fuel sources for making steam and chilled water. Those products are then distributed to customers through a network of underground pipes. Our customers are primarily commercial accounts, from Allegheny General Hospital to PNC Park, from the Community College of Allegheny County to the Warhol Museum. Our products are delivered around the clock, seven days a week. The plant is supplied electricity from

Duquesne Light's distribution system, though at voltages that are considered sub-transmission (23,000 volts) circuits.

Q. *Please describe your educational and professional experience.*

A. I was graduated from Yale University with a BE in Metallurgy, and obtained an MBA from the University of Pittsburgh. After working in several steel mills (gaining knowledge of the industrial use of electricity by being involved with making steel in electric arc furnaces and managing the operation of an electrostatic precipitator), I began buying energy for a large steel company in 1972. In that capacity, I was involved in contributing an industrial viewpoint to the making of energy policies through a number of industrial groups, and through the submission of testimony to various state commissions and the Federal Power Commission ("FPC").

In 1976, I started one of the country's first natural gas marketing companies. That firm, Industrial Energy Services Company ("IESCO"), eventually employed 32 people and had offices in Pittsburgh, Philadelphia, and Houston. Throughout the late 1970's and 1980's, I was very involved in helping to establish and grow the competitive gas market through my participation with various advocacy groups. Additionally, I led the Independent Oil and Gas Association's efforts to have the Pennsylvania Public Utility Commission ("PUC" or "Commission") establish gas transportation guidelines for its gas utilities. Those guidelines led to the spread of competitive Commercial and Industrial ("C&I") gas markets in Pennsylvania. In addition to owning and managing IESCO's gas marketing

business, I performed energy consulting services for clients. That work kept me engaged in and familiar with the efforts to restructure the electricity industry.

After selling IESCO in 1993, I founded Competitive Energy Strategies Company ("CESCO") an energy consulting firm. I consulted for several energy marketing companies. For these clients, I represented them in the ongoing restructuring of the gas and power industries. I participated in numerous utility commission-led collaborative proceedings in New York, Massachusetts, New Jersey, Ohio, and West Virginia. In Pennsylvania, I was involved with one of the PUC generic rulemakings that implemented the 1996 Electricity Generation Customer Choice and Competition Act ("Electricity Competition Act"). I also was a part of the collaborative group that designed the 1999 Natural Gas Choice and Competition Act ("Gas Competition Act"), and I was a party in various gas utility restructuring proceedings.

Q. What is the purpose of your testimony in this proceeding?

A. I want to make three points in this testimony. First, I want to explain my concerns about the competitive market for electricity purchasing on the Duquesne Light Company system today. Second, I want to describe my recent experiences as a customer on the Duquesne Light system. Finally, I want to describe the interruptions and outages that my facility has experienced, and my conviction that Duquesne Light should place its primary focus on becoming a first class wires company.

Q. What are your concerns about the competitive retail market on Duquesne Light's system?

A. Initially, it should be noted that I have previously participated in the development of competitive energy markets in Pennsylvania. In this respect, I believe that my years of experience in running a gas marketing company are relevant. At the outset of the competitive retail gas market, I worked with all participants in the industry – including utilities – to develop a framework which would allow a competitive natural gas market to develop. Working cooperatively for the benefit of customers, we quickly made significant progress.

In contrast, for a variety of reasons (e.g., rising fuel prices, rate caps), the development of a robust retail electricity market in Duquesne has not proceeded at an adequate pace. My participation in what's going on, both as a buyer of electricity, and as one who talks with his customers about their own electricity buying experiences, continues to give me insight about the developing retail market in Duquesne. I know that buyers and marketers/Electric Generation Suppliers have different opinions about this market, stemming from their particular circumstances. Some customers, for example, as a result of an RFP and the ensuing process involving competing suppliers, see competitors competing on price in order to get the business. "Competition works" they say, as they accept the lowest price offered. Some customers are not concerned at all that the Duquesne Light marketing affiliate is often offering what appears to be the lowest price available because the utility by its actions has made it difficult for a variety of suppliers to participate in the market, and as a result no fully competitive market exists. Still others

are concerned with price volatility and the relative newness of the marketplace, and simply want to do business the old way and buy from their utility.

It is important to recognize that in any competitive marketplace, a dominant participant that is an affiliate of the incumbent utility can affect market results in many ways. When the utility gives preferential treatment to the affiliated dominant participant, the results can be devastating to the development of a robust market. That is to say, for competition to work, a fully-functioning market needs lots of buyers and an adequate number of sellers with a variety of product offerings. In an instance where a utility and its affiliate control the marketplace, it is extremely difficult for this essential dynamic to occur. Notwithstanding this obstacle, there are always limited exceptions, and to that end, I am very comfortable with the offerings of my current Electric Generation Supplier. Regardless of the market structure, however, energy markets always work best when the incumbent utility does not interfere with the development of competitive retail markets. In my opinion, those circumstances do not exist in Duquesne Light's service territory. Thus, in order to maximize the development of the Pittsburgh market, Duquesne Light's principle focus should be on the operation of a first-class wires company rather than the promotion of its own energy affiliate.

Q. Do you have any further comments with regard to Duquesne Light's actions with respect to the development of a competitive market in its service territory?

A. Yes. A primary reason that retail competition has not fully developed in the Duquesne Light service territory is that Duquesne Light's actions speak louder than its words. In

my opinion, the reason is that Duquesne Light does not want competition to develop on its system.

Q. What are the Duquesne Light actions that you see that inhibit the growth of competitive markets?

A. My answer can be summed up in two words: **commitment** and **communication.** Based upon my considerable experience in this service territory, I do not believe that Duquesne is committed to the growth of competitive retail energy markets. They see every customer who chooses a marketing company as a "lost" customer. In my opinion, Duquesne Light is not convinced that they can become a viable wires company with no merchant responsibilities. They believe that in the end, the Commission will require them to be the provider of last resort. However, rather than viewing the POLR obligation as the provision of "backstop" energy service, Duquesne Light, in my opinion, intends to use this obligation as an opportunity to be the primary provider of energy services in its territory. For instance, one need look no further than Duquesne Light's most recent POLR filing to see that the Company proposed to provide a menu of energy services that went well beyond a "backstop" service, to the detriment of the competitive energy market. This lack of commitment, in my opinion, is THE most critical challenge to the further development of a retail market for electricity in Duquesne Light's territory.

Second, with regard to communication, I have seen how Duquesne Light has inhibited communication among its customers and their potential suppliers. After the Duquesne Light POLR III decision, I repeatedly asked Duquesne Light to schedule informational

meetings that would include its customers and the marketers that would be supplying them electricity. At an initial meeting of customers, from which marketers were explicitly banned, I requested an opportunity to convey the perspective of Duquesne Light Industrial Interveners, and was denied the opportunity to participate. Subsequent attempts to arrange meetings between Duquesne, the marketers, and users were rebuffed by Duquesne.

Absent communications between the utility, marketers, and end-user customers, the full benefits of competition will be denied, resulting in harm to customers.

Q. What do you conclude as a result of your evaluation of Duquesne Light's commitment and communication with regard to competitive markets?

A. I believe that Duquesne's restricted communications program with users and marketers conveys its lack of commitment to competitive markets. Duquesne Light is simply not interested in developing competition on its system.

Q. What do you think that Duquesne Light should be doing to enhance competition on its system?

A. Duquesne Light should be communicating to its customers that its top priority is to be a transmission and distribution company, that it is committed to developing a competitive generation market, and that its role as their provider of last resort will be limited to that function, rather than conducting itself in a way that could result in its affiliate being the only provider of generation service. Communicating this policy could be accomplished

through regular meetings with its C&I customers, with bill stuffers, and media campaigns. In addition, it should be constantly meeting with marketers who are active on its system and engaging in dialogues with marketers on ways to improve their business interactions. I remember sitting in (representing a potential marketer) on the early meetings when Duquesne Light's supplier tariff was developed. It didn't seem to be a very marketer friendly instrument as it was then being developed. In order to promote the goal of competitive generation markets, Duquesne Light must support the concept that its customers will be better served by competition than by regulation.

Q. What is your opinion of Duquesne's current rate increase request?

A. The $163.7 million increase in rates represents a significant increase to NRG and its customers (NRG's distribution charge would almost double). While not expressing a view on the appropriateness of the size of the increase requested, I consider Duquesne Light's decision to make investments to upgrade its distribution system as being a recognition of where it needs to be headed – reprioritizing itself as a wires company. Its focus ought to be on distributing electricity, not selling it. If the interruption and outage experiences of my company are in way similar to those of other C&I customers, such a focus is way overdue.

Q. What are the experiences to which you refer?

A. From the outset of my service at NRG in 2003, our distribution circuit has experienced numerous interruptions. Such interruptions can be momentary or they can last for hours. The plant has a secondary circuit feed, but the switch to it is manually operated by

Duquesne Light personnel. Because of the critical nature of our service to our customers, especially Allegheny General Hospital, I have been working with Duquesne Light to expedite their response to the interruption of our primary circuit. The two most recent outages, which occurred over the last month or so, were appropriately addressed by Duquesne Light. In other instances, however, Duquesne Light's response to outages has been unacceptable. For example, a March, 2005 Duquesne Light interruption led to some early morning (2 a.m.) phone calls between me and my largest customer, Allegheny General Hospital. In one of those calls, the hospital informed me that lest we start producing steam within the next half-hour, they would have to commence evacuating the hospital! It was not the most comfortable moment in my career.

Q. Why are Duquesne Light's distribution circuits interrupted so often?

A. I have asked that question many times. The first response to why an interruption occurred is that equipment was damaged as a result of electrical storms. As a residential consumer of Duquesne Light, I can accept that explanation, though often it seems that our power goes out when there's only a slight breeze. Many times, our plant's power has been interrupted when there are no thunderstorms in the area. The answer I am receiving lately has to do with old equipment and switches and/or transformers overheating. Such a rationale certainly supports the need for Duquesne Light to make upgrades to their system. There are many aspects to being a wires company that Duquesne Light will have to learn. Our increased dependence on electricity (from computerization of the economy to the internet to water and soap dispensers in washrooms!) is requiring a higher quality of delivery than ever before. The adequacy and accuracy of the duration and frequency

of interruption indices the industry uses will come under increased scrutiny. Being a highly functioning wires company will take a lot of work and this should be the primary focus of their efforts.

Q. Would you please summarize your testimony?

A. Duquesne Light needs to focus on becoming a wires company. Along with upgrading its distribution system, it has to organize its priorities so that its system is workable for the marketers that are currently participating, as well as those who may be awaiting the elimination of further barriers to invest in this market. I think the Commission has a role to play in helping make this transition happen.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-00061346
	:	
Duquesne Light Co.	:	

Direct Testimony Of
Martha A. Duggan

On Behalf of
Constellation NewEnergy, Inc.

Constellation Statement No. 1

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Martha A. Duggan, and my business address is Constellation NewEnergy, Inc., 111 Market Place, Suite 700, Baltimore, MD 21202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Constellation NewEnergy, Inc. ("CNE") as Vice President, Business Development.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I hold a Bachelor of Science degree from Georgetown University and a Masters in Business Administration from The George Washington University. I have approximately 25 years of professional experience in the energy industry. I have been employed by Constellation NewEnergy since November, 2003. Initially I served as Director of Regulatory Affairs for the Mid-Atlantic region of Constellation New Energy. I was promoted to Vice President, Regional Government and Regulatory Affairs in December, 2005. In that capacity I had oversight responsibility for the regulatory and legislative activities of the mid-Atlantic, Metro North (New York and New Jersey) and New England regions of the company. I assumed my present position (Vice President, Business Development) in May 2006.

Prior to joining Constellation NewEnergy, I served as Regional Manager, Regulatory Affairs for Reliant Energy. As such, I represented Reliant, a national merchant generator and retail electricity marketer to regulatory commissions in the Mid-Atlantic States. Before I joined Reliant, I served as Director, Government Affairs for The New Power Company. In this role, I represented this national retail energy marketing company serving residential and small commercial customers before regulatory bodies and legislatures in Pennsylvania, Maryland, Virginia and Georgia. From 1997 to 2001 I served as Director, Regulatory Affairs for Amerada Hess Corporation and its predecessor companies, Statoil Energy and The Eastern Group. As Director of Regulatory Affairs, I represented the company in natural gas regulatory issues that affected industrial and large commercial customers of natural gas.

In addition, I was employed by Washington Gas Light from 1988 to 1997 in a variety of positions including Director of Customer Accounts, Manager of Rates and Regulatory Affairs, Manager of Rate Accounting, and Area Manager for Public Affairs.

Prior to joining Washington Gas Light I was employed by Whitfield Russell Associates from 1980 to 1988. As a Senior Associate I worked on a variety of consulting assignments including fuels procurement, cost of service, rate of return, incentive rates, utility diversification, cogeneration, transmission line

siting, wholesale electric issues, power pooling, economic dispatch, and antitrust matters.

Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT, BUSINESS DEVELOPMENT?

A. As Vice President, Business Development, I am responsible for managing the retail energy sales activities of Constellation NewEnergy in Pennsylvania, Maryland, Delaware, and the District of Columbia. I am responsible for developing and implementing sales strategies throughout the Mid-Atlantic territory as well as setting and meeting sales goals. I review retail energy supply proposals prepared by Constellation NewEnergy Business Development Managers prior to contract award. I directly supervise 11 Business Development Managers. I report directly to the Vice President and General Manager of Constellation NewEnergy's Mid-Atlantic region.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY COMMISSION?

A. Yes. I submitted Direct, Rebuttal and Surrebuttal to this Commission in Penn Power's recent POLR case at Docket No. P-00052188. I have testified before the Maryland Public Service Commission in Case No. 8660 on cost of service issues and in Case No. 9037 regarding Standard Offer Service issues. Standard Offer Service is the term used in Maryland to describe provider of last resort ("POLR") or default service. I testified before the New Jersey Board of Public

Utilities in Docket No. EO03050394 concerning Basic Generation Service. Basic Generation Service is the term used in New Jersey to describe POLR service. In addition, I have testified before the Georgia Public Service Commission and before numerous state legislatures. I have appeared as a guest speaker and panelist at industry seminars.

Q. PLEASE DESCRIBE THE BUSINESS INTEREST OF CONSTELLATION NEWENERGY IN THIS PROCEEDING.

A. *Constellation NewEnergy is a leading national competitive energy supplier to* commercial and industrial customers, serving more than 10,000 customers in 17 states (including Pennsylvania) and 2 Canadian provinces. These 10,000 customers represent 15,000 MW of non-coincident peak demand. The Company is committed to providing customized energy-related products and services to customers in the competitive electricity marketplace.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The purpose of my testimony in this case is to comment on Duquesne Light Company's ("Duquesne Light" or "Company") transmission and distribution rate increase request in the context of the developing retail electric market in western Pennsylvania.

Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD VIEW THE INSTANT PROCEEDING IN THE CONTEXT OF THE DEVELOPING RETAIL ELECTRIC MARKET.

A. Duquesne Light has requested that the Commission grant the Company the opportunity to earn a Return on Equity (ROE) in a range of 11.25% - 11.75%.[1] However, Duquesne Light has requested that the level be 11.75% (the higher end of the range) and states that this increase should be granted "(I)n order to provide recognition of the exemplary performance of the Company's management."[2] Duquesne Light also goes on to say that, "(t)he Company requested the high end of the cost of equity range to provide recognition of the quality of its service."[3] Therefore, I recommend that the Commission carefully review all components of Duquesne Light's performance before establishing an appropriate Return on Equity.

II. RECOMMENDATIONS

Q. PLEASE DISCUSS HOW YOUR TESTIMONY IS ORGANIZED AND THE RECOMMENDATIONS THAT YOU ARE MAKING TO THE COMMISSION.

A. My testimony addresses four issues related to Duquesne Light's filing in this proceeding. If properly resolved, these issues will lead to a more competitive retail market in Duquesne Light's service territory. The issues include the development of a dispute resolution process, the need for better communication

[1] Paul R. Moul statement page 3, line 17; page 5, line 9 and page 59, line 8.
[2] Paul R. Moul statement page 6, lines 1-5.
[3] Paul R. Moul statement, page 59, line 8-10.

among all parties (Duquesne Light, customers and retail suppliers), improvements to Duquesne Light's current customer choice operations and the establishment of market development metrics.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I recommend that the Commission:

- Order Duquesne Light to hold 4 meetings per calendar with all interested EGSs. The purpose of the meetings is to improve communication between Duquesne Light and EGSs and to exchange information about the state of the retail market on Duquesne Light's system and raise issues related thereto.
- Order Duquesne Light Company to hold 2 meetings each calendar year with all interested EGSs and interested Commercial and Industrial customers to enhance the communications between market participants.
- Order Duquesne Light to initiate a Working Group process to review and improve Duquesne's Supplier Coordination tariff.
- Order Duquesne Light to develop and implement, in collaboration with EGSs, metrics to measure Duquesne's customer service levels to EGSs.
- Order Duquesne Light to host an annual meeting of its Supplier Service Center team and the operational personnel of EGSs that are serving customers in Duquesne Light's service territory.

- Order Duquesne Light to report quarterly on the status of shopping in its territory. Specifically, Duquesne Light should report on the market share of its EGS affiliate Duquesne Light Energy.
- Order Duquesne Light to establish a dispute resolution process so that issues can be expeditiously addressed and resolved.
- Carefully consider Duquesne Light's overall performance as it considers Duquesne Light's request for an appropriate return on equity.

I explain in detail below each of the recommendations and the basis therefore.

III. THE COMPETITIVE MARKET IN DUQUESNE LIGHT COMPANY'S SERVICE TERRITORY

Q. CAN YOU PLEASE DESCRIBE THE DEVELOPMENT OF THE MARKET IN THE DUQUESNE LIGHT COMPANY SERVICE TERRITORY?

A. Pursuant to the Electric Generation Customer Choice and Competition Act[4] ("Choice Act" or "Act") and the settlement in Docket No. R-00974104[5], the Commission approved Duquesne Light's plan to divest its generating assets on May 21, 1998. The Commission also approved a plan under which Duquesne Light would procure its Provide Of Last Resort ("POLR") requirements at a price equal to the then existing generation rate levels. On June 30, 2000, Duquesne Light filed its POLR II petition to address post transition POLR service. The

[4] 66 Pa.C.S. §§ 2801-2812

[5] Application of Duquesne Light Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code, PA. P.U.C. Docket No. R-00974104 (Order entered May 29, 1998).

Commission approved Duquesne Light's POLR II petition at Docket No. R-00974104 on November 30, 2000. POLR II service ended on December 31, 2004. On December 9, 2003, Duquesne Light filed a petition with the Commission requesting approval of its POLR III plan. POLR III began on January 1, 2005 and ends on December 31, 2010. POLR is the service that is taken by electric customers that do not choose an electric generation supplier ("EGS") or can not be served by an EGS. POLR service is to be a "plain vanilla" or backstop service.

Q. HOW SUCCESSFUL HAS THE COMPETITIVE RETAIL MARKET BEEN IN THE DUQUESNE LIGHT SERVICE TERRITORY?

A. Shopping statistics give one a limited view of the success of retail market development in the Duquesne Light territory. I focus here on the commercial and industrial market as that portion of the market is more developed in Duquesne than the smaller customer classes. On April 1, 2002, 27.4% of the commercial load and 12.6% of the industrial load (MW) was being supplied by EGSs. On April 1, 2004 these numbers had grown to 38.7% commercial and 29.7% industrial. As of April 1, 2006, 48.7% of the commercial load and 87.4% of the industrial load (MW) was being supplied by EGSs according to the Pennsylvania Office of Consumer Advocate. One can conclude from these statistics that the competitive market has been somewhat successful in Duquesne Light's territory.

Q. DO YOU HAVE ANY SUGGESSTIONS ON WHAT CAN BE DONE TO IMPROVE COMPETITON IN DUQUESNE LIGHT'S TERRITORY?

A. Yes. As I stated earlier in my testimony there are several issues that need to be addressed. Theses issues include: the development of a dispute resolution process, the need for better communication among all parties (Duquesne Light, customers, and EGSs), improvements to Duquesne Light's current customer choice operations and the establishment of market development metrics. Duquesne Light Company has not lived up to the spirit of the Choice Act and has at times exhibited behavior that is harmful to competitive retail markets. Duquesne Light should respect the Choice Act and assist the Commission in developing electric choice, rather than hindering the development of electric choice. To the extent that Duquesne Light is requesting a healthy return on equity, the level of that return component should be a function of (among other elements) Duquesne Light's management committing to advancing a competitive retail market.

IV. NEED FOR IMPROVED COMMUNICATIONS

Q. WHAT DO YOU PROPOSE IN THE WAY OF COMMUNICATIONS THAT WOULD IMPROVE COMPETION IN THE DUQUESNE MARKET?

A. I recommend that the Commission order Duquesne to hold 4 meetings per calendar year with any interested EGSs. This would include both those EGSs that currently serve customers in Duquesne's territory and those that are contemplating doing so. Further, to the extent that less than 2 non-affiliated

EGSs are available to attend the meeting, then Duquesne should reschedule the meeting and give notice to all licensed EGSs of the rescheduled meeting date.

Q. WHAT WOULD BE THE PURPOSE OF THESE MEETINGS?

A. The purpose of these meetings would be to exchange information about the state of the retail market on Duquesne Light's system and raise issues related thereto. Currently EGSs have no direct access to management at Duquesne Light in order to make suggestions on how Duquesne Light's electric choice program can be improved. Electric Generation Suppliers are in a unique position in that they operate in a variety of markets and can easily identify best practices. A well managed company interested in supporting the development of competitive markets would welcome and leverage that expertise to its benefit and the benefit of its customers.

Q. WHO FROM DUQUESNE LIGHT COMPANY DO YOU RECOMMEND SHOULD ATTEND THESE MEETINGS?

A. The meetings should be facilitated by a member of the Duquesne Light management team who has the authority to make decisions on how customer choice operations should be structured. That individual should be an officer of the company and committed to addressing concerns that EGSs raise. The meetings with EGSs should provide valuable input into process improvements which then should be acted upon by Duquesne Light. This is not to say that Duquesne Light must accept every suggestion made by EGSs; I am simply looking to create a forum where a discussion could take place. This seems to

me to be a simple request but one that, to date, Duquesne Light has resisted. Those issues that cannot be resolved would then be addressed using the dispute resolution process I recommend below.

Q. WHAT SHOULD HAPPEN IF DUQUESNE LIGHT DOES NOT INCORPORATE EGS SUGGESTIONS?

A. Those issues that can not be resolved would then be addressed using the dispute resolution process I recommended in Section VII of my testimony.

Q. ARE THERE OTHER ANY OTHER COMMUNICATION RELATED ISSUES THAT SHOULD BE ADDRESSED?

A. Yes. The Commission should order Duquesne Light to hold 2 meetings per calendar year with EGSs and interested Commercial & Industrial customers. The agenda for the meetings should be jointly developed by Duquesne Light, EGSs and customers. Again, the meetings should be facilitated by a member of Duquesne Light's management team who is capable of making decisions as they relate to customer choice. In these meetings, Duquesne Light would receive feedback not only from EGSs but also from commercial and industrial customers. Note that this recommendation is focused on commercial and industrial customers. This is not to exclude smaller customers but at this point in Duquesne's retail market development, Commercial and Industrial customers would benefit most from such meetings. The information gleaned from these meetings should be extremely valuable and actively sought out by Duquesne

Light Company. Again, this seems to me to be a simple request. Unfortunately, Duquesne Light has actively resisted the idea.

Q. HAVE SUCH MEETINGS OCCURRED IN THE PAST?

A. Duquesne Light has held customer meetings but has not invited the EGS community to any such meetings. For instance, on September 22, 2004 Duquesne Light held an Energy Supply Seminar shortly after the Commission's Order in the POLR III proceeding. Duquesne Light invited its large customers to the meeting, allegedly to explain the Commission's Order and to advise customers of their options. Some customers informed me of the meeting. I called Duquesne Light to inquire about attendance and was told that the meeting was only for customers and that EGSs were specifically prohibited from attending. I began an "appeal" process so that I could attend the meeting and traveled to the meeting location because I could not believe that Duquesne Light really intended to lock EGSs out of the meeting. When I arrived at the meeting, I was informed by security hired by Duquesne Light that I was expressly prohibited from attending. Regardless of what was said or not said at the meeting, I and other EGSs that were similarly denied entrance to the meeting were certainly left with several negative impressions: 1) that EGSs were not welcome on the Duquesne Light system; 2) that Duquesne Light would go to great lengths to demonstrate that customers "belong" to Duquesne Light and 3) that some competitive advantage was likely being conferred on Duquesne Light's recently formed affiliate EGS.

Q. DO YOU CONSIDER YOURSELF A CUSTOMER OF DUQUESNE LIGHT?

A. Yes. In order for Constellation NewEnergy to sell our products to our customers, we must use the regulated distribution system to deliver our product. Thus, I am a customer of the utility. I should not have been denied access to that meeting.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS CONCERNING DUQUESNE LIGHT'S COMMUNICATION WITH EGSS AND CUSTOMERS?

A. I recommend that Duquesne Light should improve its communications with both EGSs and customers. In changing markets more communication is always better. *Ordering Duquesne Light to hold the meetings I discuss above would* represent a good start towards improving communications and the development of the retail market in Duquesne Light's territory.

V. IMPROVED OPERATIONS

Q. WHAT CHANGES TO CURRENT CUSTOMER CHOICE OPERATIONS ARE YOU PROPOSING?

A. The Commission should order Duquesne Light to make a number of changes to its supplier tariff. Notably, the tariff should be revised to delete the requirement that credit challenged EGSs pre-pay to obtain customer data. This requirement *is outmoded and unnecessary. To my knowledge, no other EDC in the Mid-*Atlantic region has this kind of requirement. Not only is this requirement outmoded but Duquesne Light has been misapplying this requirement in contravention of the tariff requirements.

Q. PLEASE EXPLAIN.

A. Operations personnel inform me that they are required to prepay for customer data despite Constellation NewEnergy's excellent credit.

Q. ARE YOU RECOMMENDING OTHER CHANGES TO DUQUESNE'S SUPPLIER TARIFF?

A. I have some thoughts on additional changes to the tariffs but I am recommending that the Commission order Duquesne Light to initiate a process under which Duquesne Light and EGSs could discuss changes to the tariff. The Commission should order Duquesne Light to file a report with the Commission detailing the discussions and the changes to be made to the supplier tariff.

Q. ARE THERE ANY ADDITIONAL OPERATIONS RELATED ISSUES THAT NEED TO BE RESOLVED?

A. Yes, there are several additional issues. First, the Commission should order Duquesne Light to develop in consultation with EGSs, metrics to measure customer service to EGSs. Metrics should include such items as response time to supplier day-to-day questions and issues. Constellation NewEnergy's experience too often is that calls made to the Supplier Service Center by our operations personnel go unanswered for several days. This is not a surprise given the skeleton staff that Duquesne Light has assigned to the Supplier Service

Center and the increased number of calls the center has been receiving.[6] Electric Generation Suppliers must be provided a level of service such that issues are resolved in a timely and responsive manner. The lack of response not only makes it difficult for EGSs to operate in Duquesne Light's service territory, it denies the benefits of retail competition to customers; who pay the price for the inefficiencies of unresolved issues surrounding data, enrollment, billing, and other matters. As an example of an operational issue that has thus far eluded resolution, when a customer is not on Duquesne Light's eligibility list yet requests pricing by an EGS, Duquesne Light's process is such that the EGS must request the data twice. This does not appear to be a complicated issue to resolve and to do so would be for the benefit of customers.

Finally, the Commission should order Duquesne Light to host a meeting once per year for Duquesne Light's supplier support staff and EGSs' operational personnel. The purpose of the meeting should be to discuss improvements to Duquesne Light's supplier support. Bringing the operational personnel together in a working group environment, to exchange ideas and experiences, will benefit the individuals involved in the day-to-day functions and for the overall process.

VI. MARKET DEVELOPMENT METRICS

Q. WHAT MARKET DEVELOPMENT METRICS ARE YOU PROPOSING?

[6] See Duquesne Light's response to Constellation NewEnergy's Set I, questions 36-43

A. The Commission has expressed an interest in collecting and analyzing data regarding retail market development.[7] Constellation NewEnergy supports the Commission's access to market development data. Regardless of any final Order in that Docket, the Commission should order Duquesne Light to report now on a quarterly basis the status of shopping in its territory. In the report, Duquesne Light should report its affiliate's market share and then the market share of other suppliers without identifying the non-affiliated suppliers by name.

Q. HOW WOULD THIS INFORMATION BE USEFUL?

A. This information will be important for the Commission to monitor the progress of electric choice in Duquesne Light's territory. Electric choice cannot be considered successful if there are a limited number of participating EGSs, particularly if that EGS is an affiliate of the EDC. These reports would gauge the strength of competition and would allow the Commission to implement changes to spur competition if required. The on-going meetings that should occur between Duquesne Light, EGSs and customers could also serve as a forum to decide if the reports I recommend here are duplicative of any required by the Commission in a final Order at Docket No. M-00061939.

VII. DISPUTE RESOLUTION

[7] *Development and Production of Retail Electricity Choice Activity Reports*, Pa. P.U.C. Docket Number M-00061939.

Q. DO YOU HAVE A RECOMMENDATION REGARDING THE EFFICIENT AND EXPEDIENT RESOLUTION OF COMPETITIVE RETAIL MARKET ISSUES?

A. Yes I do.

Q. PLEASE EXPLAIN YOUR RECOMMENDATION TO ESTABLISH A DISPUTE RESOLUTION PROCESS FOR COMPETITIVE RETAIL MARKET ISSUES.

A. The Commission should order Duquesne Light to establish an informal process whereby participants in the competitive retail market can efficiently and expeditiously resolve operational and other relevant issues that could delay or impede a fully successful competitive retail market. Among the chief obstacles to the development of a successful competitive retail electric generation market are the uncertainties and the potential delays with respect to the resolution of market issues. Uncertainty and delay cause potential market participants to pause and to delay actions that would engage them in a robust market. Effective competitive markets, however, cannot wait until participants deal with uncertainty. For a competitive market to be successful, issues must be resolved with certainty in a timely manner.

Presently, there is no process for resolving issues that arise between Duquesne Light and EGSs. The formal complaint process does not lend itself to resolving issues arising from an evolving competitive retail market. A competitive retail market is dynamic and demands immediate resolution of issues. When potential market participants hesitate, due to uncertainties or impediments, competitive

opportunities will be lost. An effective dispute resolution process will give all market participants the tools with which to remove uncertainty and delay. The goal of this process is to achieve a fair and just resolution with the participating parties efficiently and expeditiously.

For this to work, all parties must be committed to the process and to the statutory goals of developing competitive retail markets. I acknowledge that the devil is in the details. However, with a cooperative approach and philosophy, this process can be implemented in a clear, succinct and effective manner. For this process to be successful, all parties must commit to the philosophy that the Commonwealth will be a better place to be if competitive retail markets are successful. A successful process will be a tribute to the Commission's dedication to the development of competitive retail markets. As an EGS, I recognize and appreciate that the Commission is dedicated to the development of a successful competitive retail market.

Q. WHAT TYPE OF COMPETITIVE MARKET ISSUES WOULD BE RAISED IN THIS PROCESS?

A. The issues expected to be raised would range from operational problems and delays, such as enrollment, to EGSs' concerns regarding Duquesne Light's level of corporate support for the development of a fully competitive retail market.

Q. PLEASE EXPLAIN HOW THE DISPUTE RESOLUTION PROCESS WOULD WORK IN DUQUESNE'S TERRITORY.

A. I envision a two-step process. The first step should be for Duquesne Light and the EGS to attempt to amicably resolve their issues. In the event the parties cannot reach a consensus, the EGS has the option to present its issues to a designated high level Duquesne Light executive, i.e., a Vice President level or higher, who serves as the Company's "Market Development Officer" ("MDO"). The MDO would *not* be an individual who has been "on the front lines" interacting with the EGS up to this point. Duquesne Light would vest the MDO with authority to resolve issues. The MDO could conceivably wear different hats. At times the MDO could act as a go-between to facilitate negotiations and to abate the inherent friction that exists between Duquesne and the EGS. At other times, when appropriate, the MDO would hear from each interested party and immediately issue a decision to govern the parties' behavior going forward.

Q. IF A PARTICIPANT IS DISSATISFIED WITH THE MDO'S DECISION, WOULD THEY HAVE ANY RECOURSE?

A. Yes. A dissatisfied participant could raise the issue with the Commission's Director of Operations ("DOO") who would timely schedule a telephone conference to permit the participants an opportunity to articulate their concerns and issues. The DOO would promptly resolve the issues and provide a brief written statement, to avoid any potential confusion or noncompliance. This would give the parties clear, concrete, distinct resolution of the issue. This enables the

parties to comply with the DOO's decision in a timely manner so as not to impede the competitive retail market. Only those issues that are critical to the development of a competitive retail market should be raised with the DOO. This process requires participants to adopt an attitude and a willingness to resolve retail market issues efficiently and expeditiously without the expense and time delay of an adjudicated proceeding. The lynchpin for the success of this proposal is that decisions are timely raised and expeditiously resolved.

Q. WHAT HAPPENS IF A PARTICIPANT IS DISSATISFIED WITH THE DOO'S DECISION?

A. A participant dissatisfied with the DOO's decision has the ability to raise the issue to a single Commissioner, subject to the Commissioner's discretion to refuse to consider it. A participant could seek review of the DOO's decision in a manner analogous to that set forth in the Commission's Regulations addressing emergency orders. The dissatisfied participant could request the DOO to submit the DOO's decision to the Commission for review. Each month the Commission would assign a different Commissioner to address these matters; the designation should not be disclosed to the participants or made public, to prevent "forum-" or "Commissioner-shopping." The designated Commissioner would have absolute discretion to refuse to consider the matter. If the Commissioner determines that it is appropriate and necessary to hear the matter, the Commissioner would issue a succinct written decision. That Commissioner would have discretion to resolve

the matter without further information, or to seek further information from any participant, if needed.

Q. DO YOU HAVE A RECOMMENDATION AS TO THE TIMELINESS OF THIS PROCESS?

A. Yes. My recommendation is that the MDO, the DOO and the designated Commissioner resolve the issue expeditiously, but in no event should the time period exceed five days. A five day time period would be appropriate unless the Parties agree to s longer period.

Q. WHY IS A SHORT TIMEFRAME CRITICAL?

A. For the competitive retail market to evolve, issues must be expeditiously resolved to remove uncertainty or to correct anticompetitive behavior.

Q. IF THESE ISSUES ARE ULTIMATELY RESOLVED BY A SINGLE COMMISSIONER AND THE DESIGNATED COMMISSIONER ROTATES EACH MONTH, ARE YOU CONCERNED ABOUT THE POSSIBILITY OF INCONSISTENT DECISIONS?

A. No. While there is a possibility that the same issue could arise twice, generally no two issues raised will be identical. No two EGSs are alike. Each EGS has different business plans, infrastructure, historical business relationships with the utility, etc. The competitive retail market recognizes and embraces those differences. Therefore, while on their face, some issues may appear very similar,

nearly every issue presented will be unique to the EGS and circumstances involved. It is unlikely that a one-size-fits-all resolution would ever be appropriate.

Q. ARE YOU AWARE OF ANY SIMILAR ALTERNATIVE DISPUTE RESOLUTION MODELS OR CONCEPTS PREVIOUSLY UTILIZED BY THE COMMISSION?

A. Yes. This process is comparable to the process used by the Commission to introduce restructuring of the electric industry. The Pilot Implementation Committee ("PIC") program, which was successfully implemented at the beginning of electric restructuring, was a process that permitted timely resolution of operational issues and concerns regarding restructuring. The PIC is no longer directly applicable in today's environment, since the competitive retail market has developed to the point that the issues that arise are more likely to be between Duquesne Light and a specific EGS. While today's issues are different, the concept of a neutral, timely resolution of discrete issues and conflicts is comparable and warranted.

Q. COULD THESE DISCRETE ISSUES AND CONFLICTS BE RESOLVED SATISFACTORILY BY THE COMMISSION'S EXISTING ALTERNATIVE DISPUTE RESOLUTION ("ADR") PROCESSES?

A. No. While the Commission has a highly effective ADR policy, the parameters of the process do not lend themselves to handling these discrete issues on such a fast-tracked timeframe. The concept behind the ADR process is to mediate

conflicts. The process I am recommending, however, requires someone at times to act as a decision maker, not a facilitator. The goal of this process must be to *get a resolution that is definitive, fair and, equally as important, fast.* A successful competitive retail market demands that issues and concerns be resolved quickly and not linger.

Q. WOULD STAKEHOLDERS HAVE ANY INPUT INTO THE DEVELOPMENT OF THIS PROCESS?

A. Yes. I recommend that the Commission adopt this proposed competitive retail *market issue resolution process on the Duquesne Light system as a pilot* program for one year. At the conclusion of one year, the Commission should convene interested stakeholders to evaluate the program's success over the previous year and to make recommendations for changes, where appropriate.

VIII. SUMMARY AND CONCLUSIONS

Q. PLEASE SUMMARIZE THE RECOMMENDATIONS CONTAINED IN YOUR TESTIMONY.

A. Duquesne Light has done a poor job of advancing retail choice. In order to remedy this fact, the Commission should order Duquesne Light to undertake the recommendations above concerning communication with EGSs and C&I customers, operational improvements and market development metrics.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

DII STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

DIRECT TESTIMONY

AND EXHIBITS

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA
JULY 2006

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
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DIRECT TESTIMONY OF STEPHEN J. BARON

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

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

A. I am the President and a Principal of Kennedy and Associates, a firm of utility rate, planning, and economic consultants in Atlanta, Georgia.

Q. Please describe briefly the nature of the consulting services provided by Kennedy and Associates.

A. Kennedy and Associates provides consulting services in the electric and gas utility industries. Our clients include state agencies and industrial electricity consumers. The firm provides expertise in system planning, load forecasting, financial analysis, cost-of-service, and rate design. Current clients include the Georgia and Louisiana Public Service Commissions, and industrial consumer groups throughout the United States.

Q. Please state your educational background.

A. I graduated from the University of Florida in 1972 with a B.A. degree with high honors in Political Science and significant coursework in Mathematics and Computer Science. In 1974, I received a Master of Arts Degree in Economics, also from the University of Florida. My areas of specialization were econometrics, statistics, and public utility economics. My thesis concerned the development of an econometric model to forecast electricity sales in the State of Florida, for which I received a grant from the Public Utility Research Center of the University of Florida. In addition, I have advanced study and coursework in time series analysis and dynamic model building.

Q. Please describe your professional experience.

A. I have more than thirty years of experience in the electric utility industry in the areas of cost and rate analysis, forecasting, planning, and economic analysis.

Following the completion of my graduate work in economics, I joined the staff of the Florida Public Service Commission in August of 1974 as a Rate Economist. My responsibilities included the analysis of rate cases for electric, telephone, and gas utilities, as well as the preparation of cross-examination material and the preparation of staff recommendations.

In December 1975, I joined the Utility Rate Consulting Division of Ebasco Services, Inc. as an Associate Consultant. In the seven years I worked for Ebasco, I received successive promotions, ultimately to the position of Vice President of Energy Management Services of Ebasco Business Consulting Company. My responsibilities included the management of a staff of consultants engaged in providing services in the areas of econometric modeling, load and energy forecasting, production cost modeling, planning, cost-of-service analysis, cogeneration, and load management.

I joined the public accounting firm of Coopers & Lybrand in 1982 as a Manager of the Atlanta Office of the Utility Regulatory and Advisory Services Group. In this capacity I was responsible for the operation and management of the Atlanta office. My duties included the technical and administrative supervision of the staff, budgeting, recruiting, and marketing as well as project management on client engagements. At Coopers &

Lybrand, I specialized in utility cost analysis, forecasting, load analysis, economic analysis, and planning.

In January 1984, I joined the consulting firm of Kennedy and Associates as a Vice President and Principal. I became President of the firm in January 1991.

During the course of my career, I have provided consulting services to more than thirty utility, industrial, and Public Service Commission clients, including three international utility clients.

I have presented numerous papers and published an article entitled "How to Rate Load Management Programs" in the March 1979 edition of "Electrical World." My article on "Standby Electric Rates" was published in the November 8, 1984 issue of "Public Utilities Fortnightly." In February of 1984, I completed a detailed analysis entitled "Load Data Transfer Techniques" on behalf of the Electric Power Research Institute, which published the study.

I have presented testimony as an expert witness in Arizona, Arkansas, Colorado, Connecticut, Florida, Georgia, Indiana, Kentucky, Louisiana, Maine, Michigan, Minnesota, Maryland, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Texas, West Virginia, Federal Energy Regulatory Commission

and in United States Bankruptcy Court. A list of my specific regulatory appearances can be found in Baron Exhibit ____ (SJB-1)

Q. Have you previously testified in Duquesne Light Company proceedings in Pennsylvania?

A. Yes. I have previously testified in a number of proceedings involving Duquesne Light Company ("Duquesne or DLC"), including the 1998 restructuring proceeding and the Company's last base rate case in 1987. Specifically, I have testified in the following Duquesne cases: R-870651 (1987), C-913424 (1992), C-00946104 (1995), R-974104 (1997) and P-00032071 (2004).

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Duquesne Industrial Intervenors ("DII"). DII represents industrial, commercial and institutional customers taking service on the Duquesne system, primarily under Rate Schedules GL, GLH, L and HVPS. The twelve DII members collectively consume over 2 billion kWhs of electricity on these rate schedules. I am also testifying on behalf of the Industrial Energy Consumers of Pennsylvania, which is a statewide organization of Large Commercial and Industrial ("Large C&I") customers.

Q. What is the purpose of your testimony?

A. I will address a number of significant issues raised by the Company in its direct testimony. Among the issue that I will address are: the allocation of the proposed revenue increase to rate schedules; the Company's request to implement a Distribution System Improvement Charge ("DSIC"); and the Transmission Service Charge ("TSC"). I will also address some specific tariff and rule changes proposed by the Company.

With regard to the Company's cost of service study and its use to allocate the distribution related revenue increase, I will discuss the inadequacy of the Company's proposed reduction in inter-class rate subsidies. Though DII recognizes the progress that is being made by the Company to reduce subsidies in this case, the Company's proposed distribution rates continue to incorporate substantial subsidies that should be reduced or eliminated in this rate proceeding.

With regard to the Company's proposal to implement a DSIC, I will discuss why such a proposal is not warranted and should be rejected. In addition, though the Company's proposal should be rejected, if it is adopted by the Commission, it should not apply to customers taking service at transmission voltages, who do not use the Company's distribution system.

I will address the Company's proposal to implement a Transmission Service Charge to recover expenses associated with PJM Open Access Transmission Tariff ("OATT") charges. The Company has proposed a TSC recovery approach that reflects the manner in which Duquesne incurs transmission service expenses from PJM, which is primarily related to the magnitude of the Company's coincident peak demand. The Duquesne TSC reasonably reflects cost to provide transmission service for each of its rate schedules and should be approved by the Commission.

Finally, I will address some proposed rate design and tariff changes being requested by the Company, including it proposal to eliminate language in tariff Rule 4 that permits the Company to negotiate individual contracts with customers. This rule should be contained to provide the Company and its customers with the maximum amount of flexibility in developing rates. In addition, because the PUC recently decided to rebid the fixed price POLR option for Large C&I customers and that auction was successful, the language regarding the fixed price POLR option should be reinserted. Any tariff changes regarding POLR service should be accomplished through a compliance filing or the implementation filing contemplated under the proposed POLR regulations.

Q. Please summarize your findings and recommendations.

A. As discussed in detail in this testimony:

- **The Company's proposal in this case to utilize a "total bill" impact criterion to limit the movement of distribution rates towards cost of service is not appropriate for Duquesne and reflects a continuation of rate "bundling" that no longer exists. Duquesne's distribution rates should be evaluated on a standalone basis, particularly since the Company is no longer subject to rate caps.**

- **The allocation of Duquesne's proposed distribution rate increases to rate schedules are not reasonable and result in excessive and unjustified increases to Rate Schedules GL and L, in particular. Based on the Company's cost of service study, these rate schedules are paying substantial subsidies at present rates. Despite this result, Duquesne has unreasonably proposed increases for these rate schedules at twice the system average distribution percentage increase.**

- **The allocation of the Company's requested distribution revenue increase should be based on distribution cost of service. Rates should be increased in such a manner that the current distribution rate subsidies (based on the Company's cost of service study) be reduced by 50% at proposed rates. Rate HVPS should receive a rate decrease to fully eliminate subsidies paid by these customers, who do not use the Company's primary and secondary distribution system.**

- **Duquesne's proposed Distribution System Improvement Charge ("DSIC") is not justified and should be rejected by the Commission. The Company has not established that there are any changed circumstances that would support such a rider. The DSIC also should be rejected because it would result in a single-issue rate change.**

- **Duquesne's proposed Transmission Service Charge ("TSC") is a reasonable proposal to recover transmission costs, properly reflects cost causation in its rate recovery mechanism and should be approved by the Commission. Because the TSC tracks the rates and billing determinants on which Duquesne purchases service from PJM, the TSC ensure that retail electric customers are provided with transmission service on rates comparable to the Company's use of the system.**

- **The Company's proposal to eliminate Tariff Rule 4, which permits the Company to enter special contracts with its customers, should be rejected. This tariff rule should be continued because it is only applicable in the event**

that the Company, "in its sole discretion" determines that such a contract should be entered. Since there is no obligation to enter a Rule 4 contract, it would appear to be beneficial to maintain the option in the event that the Company, the affected Rule 4 customer and other Duquesne customers could benefit from such a contract. There is no reason to eliminate this tariff rule.

- **Duquesne is proposing several changes in this case to reflect the elimination of the fixed price POLR option for Large C&I customers. Because this fixed price POLR option will be available and continue through May 31, 2007, it is premature to propose changes; the Company's proposal should be rejected at this time. Duquesne can address this issue in a compliance or implementation plan filing at a later date.**

- **Duquesne's proposed untransformed service credit for transmission voltage customers on Rate Schedule L is greatly understated, unjust and unreasonable. The Company must calculate a revised credit based on the actual costs to provide distribution service to these transmission voltage customers.**

II. STANDARD FOR EVALUATING TRANSMISSION AND DISTRIBUITON RATE CHANGES

Q. Have you reviewed the principles used by Duquesne to allocate the transmission and distribution rate increases among customer classes?

A. Yes. Duquesne witness Mr. Pfrommer discusses the Company's principles and criteria in his direct testimony, beginning on page 4. The objectives cited by Mr. Pfrommer are first, to "reflect the cost of service to each rate class" and second, "to mitigate potentially extreme rate impacts. These objectives were applied to both the distribution and transmission increases at issue in this case.

Q. In light of the Company's second objective, mitigating the impact of the rate increases, how did Duquesne allocate its requested revenue increases for distribution and transmission in its proposed rates?

A. Mr. Pfrommer discusses five criteria that the Company used to allocate the increases to rate schedules. These criteria are:

1. The increase should result in no rate class having a Rate of Return ("ROR") on distribution rate base of less than 1% or more that 25%.

2. The overall increase on a "total bill" (distribution, transmission, POLR supply) should not exceed "1.4 times" the system average increase.

3. No rate class should receive a revenue decrease on a "total bill" basis.

4. Each rate class should move closer to system average ROR after increase.

5. Retail transmission rates should be set to exactly recover cost of service.

The key element of the Company's allocation methodology is that rates should be increased in a manner that limits the impact on a "total" bundled bill basis, including POLR supply, while moving rates closer to cost of service.

Q. Do you agree that the allocation of the transmission and distribution rate increases among rate schedules should be driven primarily by the desire to keep the "total bill" impact for all rate schedules below a certain level?

A. No, I am advised by counsel that Pennsylvania's Electric Generation Customer Choice and Competition Act ("Choice Act") requires each rate element to be viewed independently, rather than "rebundling" the unbundled elements in assigning responsibility for the two increases. This also subverts the reason that the rates were unbundled and sends inappropriate price signals to customers regarding their usage of the transmission and distribution system.

Q. Did the PUC use the "total bill" impact analysis in PPL's recent rate case?

A. Yes. However, it is my understanding that this determination is under appeal to the Commonwealth Court.

Q. Are there factors that justify using a different standard in this proceeding?

A. Duquesne and PPL are in different stages of the "transition" process under Pennsylvania's Choice Act. While PPL's ratepayers continue to be under rate caps, Duquesne has completed it stranded cost recovery and is no longer subject to a distribution or generation rate cap. In fact, Duquesne's generation rates have already been adjusted twice (for residential and small commercial customers) and multiple times for large commercial and industrial customers since the generation rate caps expired. During this process, the Commission has distinguished between the generation service options available to various rate schedules, with the fixed price option available to Large C&I customers returning to POLR service changing quarterly, while residential and small commercial customers have pre-established, fixed rate protection through December 31, 2007. Under the current structure, Large C&I customers will have only hourly-priced POLR service available after June 1, 2007. All PPL customers have fixed, predetermined generation rates through December 31, 2009.

Q. Does the difference in the POLR options for Large C&I customers in comparison to other Duquesne customers impact how the PUC should view this case?

A. Yes. In addition to the impact of previously sanctioning differences in the treatment of Duquesne customer classes in the POLR III case, the different POLR plans have practical impacts on the PUC's consideration of this case.

First, because most Large C&I customers' generation rates are determined by competitive negotiations, the Commission cannot definitively determine the "total bill" impact for most of Duquesne's Large C&I customers. As Duquesne recognized, if the customer's generation rate from an EGS is lower than the POLR generation rate, then that customer will experience a higher "total bill" percentage increase, all else being equal. (See DLC Response to DII II-7 (Pfrommer)).

Second, for customers purchasing hourly POLR service, any "total bill" comparison is invalid. As the Company confirmed, for hourly priced customers, the Company simply imputed generation costs based on the fixed POLR rates. (DLC Response to DII II-9 (Pfrommer)). This may not reflect the customer's actual costs. This problem will be exacerbated in the future if no fixed generation rate is available for Large C&I customers.

Third, the difference in the POLR options has already disparately impacted Large C&I customers. Mr. O'Brien testified that all of Duquesne's customers are paying rates that are lower than 1992 levels. (DLC Statement No. 1, p. 12). Duquesne confirmed in discovery that this was not accurate regarding Large C&I customers on Rate Schedules GL, GLH, L and HVPS.

4. Reference DLC Statement No. 1, p. 12, lines 10-11 which states: 'As a result, Duquesne Light's rates today are lower than they were in 1992.' Please confirm whether this applies to all rate schedules. If not, please specify the rate schedules to which this statement does not apply and provide a calculation of the rates in 1992 and 2006 for the rate schedule(s).

Response:

The above statement was made in the general context that for nearly all of Duquesne's 587,227 customers, retail tariff rates today are lower than they were in 1992. Attachment No. 1 provides a comparison of current rates to those rates that were in effect in 1992. The primary exception to the above statement is for customers on general service rates GL, GLH, L and HVPS. Retail tariff rates for these general service rate schedules were lower in 2004 than they were in 1992 as shown in Attachment 2. However, as a result of the POLR III plan that became effective January 1, 2005, the POLR III generation rates for general service rates GL, GLH, L and HVPS were the result of a request for proposal "RFP" or hourly priced service. Since these POLR III rates were based on an RFP, total retail tariff rates (i.e. transmission, distribution and generation combined) are higher than they were in 1992. (DLC Response to DII II-4 (Pfrommer), attachments omitted).

This analysis does not include the impact of the expiration of various special contracts under Rule 4 of the Company's tariff. (See DLC Response to DII II-5). In summary, Duquesne's Large C&I customers have already been subjected to rate increases in recent years that other Duquesne customers have not experienced.

These reasons are in addition to the legal, policy and economic development reasons that the distribution and transmission rates for Large C&I customers may warrant special consideration in this proceeding. DII's other witnesses and briefs will expand on these arguments.

Q. How should the Commission review the transmission and distribution proposals in this proceeding?

A. Each proposal should be analyzed separately to ensure consistency with the Choice Act and the Public Utility Code.

III. COST OF SERVICE AND ALLOCATION OF PROPOSED REVENUE INCREASE

Q. Have you reviewed the Company's filed distribution class cost of service study in this case?

A. Yes. Although I may not agree with every assumption, the Company's study is a reasonable basis for allocating distribution costs to rate classes. The relative rates of return by class at present rates and the related "dollar subsidies" produced by the Company's study should be used to allocate the Commission approved distribution revenue increase to rate schedules.

Q. Company witness Pfrommer discusses Duquesne's objective to set distribution rates consistent with cost allocation principles over time, subject to a number of constraints to "avoid sudden and disparate increases to different rate classes." Do you agree with the Company's general approach to allocate the revenue increase in this case?

A. In general, I agree with the basic objective stated by Mr. Pfrommer to move distribution rates towards cost of service and reduce subsidies. I also recognize that it may not be feasible to accomplish this objective in a single rate case, and therefore, gradualism must

be considered to some extent. As previously discussed, however, I do not agree that the impact of the combined transmission and distribution increases on the "total bill" for a customer class should be considered.

Q. Does Mr. Pfrommer provide any authoritative source for his choice of 1.4 times the system average overall increase as the ceiling on the impact of both rate changes on customer classes or his choice of 25% as the cap on rate schedule distribution return at proposed rates?

A. No.

Q. Does Duquesne's proposed allocation of the distribution rate increase among the rate schedules produce any strange results?

A. First, given that customers on Rate Schedules GL and L are already earning rates of return well in excess of the system average at present rates, it is curious that customers on theses rate schedules face over 100% increases in distribution rates, in comparison to a 51.3% overall increase.

Second, the Company is not consistent in its treatment of rate schedules that currently are below the system average rate of return. For example, Duquesne is proposing the

largest percentage increase for customers on Rate Schedule GLH (at 203%) despite the fact that two rate schedules (RH and RA) earn lower relative returns at present rates. Rate Schedule RS faces only a 38.4% increase under Duquesne's proposal, despite the fact that this will allow the rate schedule to earn a return of only 5.3% at proposed rates (based on Duquesne's calculations)[1], while rate schedule GLH would earn a return of 8.6% and the system average return would be 9.08%.

This is not a just, reasonable and nondiscriminatory result.

Q. Do you believe that the Company's proposed allocation of the distribution revenue increase in this case meets the general objectives to move class rates towards cost of service?

A. No. I believe that examining the monetary (dollar) subsidies at present and proposed rates is more indicative than examining the rates of return; however, Table 1 below shows the rate of return at present rates, the relative rate of return (a classes' rate of return compared to the system average rate of return) and the proposed revenue increases for each rate class. As can be seen from this table, the Company is proposing substantial increases on Rate Schedules GL and L, despite the fact that these classes are earning rates of return at present rates significantly in excess of the average retail rate of return.

[1]As set forth below, Duquesne's calculation of the return at proposed rates is not correct.

Table 1

Rate Class	Present Rate of Return	Relative Rate of Return	Duquesne Proposed Increase	Percent Increase
RS	-0.54%	(0.20)	56,609	38.4%
RH	11.42%	(4.17)	8,393	161.1%
RA	-9.26%	(3.38)	603	79.2%
GS/GM	12.27%	4.48	23,443	35.6%
GMH	1.49%	0.54	3,014	73.7%
GL	5.21%	1.90	34,788	110.0%
GLH	-3.77%	(1.38)	5,908	203.5%
L	4.94%	1.81	10,922	108.5%
HVPS	47.66%	17.42	(31)	-7.3%
AL	-6.25%	(2.28)	-	0.0%
SE	68.10%	24.89	17	1.1%
SM	18.91%	6.91	15	0.2%
SH	2.32%	0.85	52	73.2%
MTS	45.54%	16.64	-	0.0%
PAL	98.57%	36.02	(62)	-35.8%
TOTAL	2.74%		143,671	51.3%

Q. Have you developed an analysis that shows the dollar subsidies paid and received by each rate schedule at present distribution rates?

A. Yes. Table 2 below summarizes the subsidies for each rate schedule, based on the results of Company witness Gorman's class cost of service study. These results are derived directly from the Company's filed study and I have made no adjustments to their analysis.

Table 2

Rate Class	Present Subsidy ($1000)
RS	(21,971)
RH	(9,333)
RA	(683)
GS/GM	22,578
GMH	(328)
GL	4,492
GLH	(2,293)
L	1,296
HVPS	153
AL	(2)
SE	1,209
SM	4,340
SH	(1)
MTS	401
PAL	142

Q. What do these results (Table 2) show about the Company's current distribution rates?

A. The key conclusion from this analysis is that residential distribution rates are being subsidized by more than $30 million, while Rate Schedules GL, L and HVPS are paying subsidies of almost $5 million and GS/GM is paying subsidies of $23 million. Most other smaller rate schedules are also paying subsidies, while rate GLH is receiving a

subsidy. These results strongly suggest that the Company's distribution rates need to be realigned to meet the cost of service objectives advocated by Duquesne and which I generally support.

Q. Mr. Pfrommer, on page 8 of his testimony, states that the Company's proposed allocation of its requested distribution revenue increase has achieved its revenue allocation principles and shows class rate of return results at present and proposed distribution rates (his Table No. 2) to support his conclusion. Is the analysis shown in his Table No. 2 correct?

A. No. The rates of return at proposed rates shown in Mr. Pfrommer's Table No. 2 have not been properly calculated. These rates of return were developed by Mr. Gorman and presented in his (Gorman) Exhibit HSG-7. Rather than move distribution rates towards cost of service, Duquesne's proposed distribution rates move some classes' further away from cost of service and have resulted in an increase in the dollar subsidies paid by rates GL and L. Table 3 below shows the current and proposed subsidies paid by each rate schedule based on the Company's proposed rates.

Table 3

Rate Class	Subsidy @ Present Rates	Subsidy @ Proposed Rates	Difference	% Increase (Decrease)
RS	(21,971)	(38,879)	(16,908)	77.0%
RH	(9,333)	(8,185)	1,148	-12.3%
RA	(683)	(708)	(25)	3.6%
GS/GM	22,578	20,103	(2,476)	-11.0%
GMH	(328)	(184)	144	-43.9%
GL	4,492	19,407	14,915	332.0%
GLH	(2,293)	(248)	2,045	-89.2%
L	1,296	5,779	4,483	346.0%
HVPS	153	85	(69)	-44.7%
AL	(2)	(4)	(2)	162.1%
SE	1,209	1,028	(181)	-15.0%
SM	4,340	1,435	(2,905)	-66.9%
SH	(1)	6	7	-1041.4%
MTS	401	300	(101)	-25.3%
PAL	142	64	(77)	-54.6%

As can be seen, for rates GL and L, the amount of subsidies has increased by $15 million and $4.5 million respectively. This is not an indication that rates are moving towards cost of service; rather, customers on these rate schedules are being forced to pay even greater subsidies at proposed distribution rates than at present rates. Similarly, some rate schedules that show negative subsidies at present rates are being asked to eliminate those subsidies much faster than other rates (i.e., Rate Schedule GLH v. Rate Schedule RS).

Q. Even if the "relative rate of return" criterion supported by the Company is used to allocate the rate increase (rather than dollar subsidies), is the Duquesne analysis correct?

A. No. Table 4 below is a corrected version of Mr. Pfrommer's "Table No. 2" that was shown on page 8 of his testimony. The rates of return at present rates are the same as presented in Mr. Pfrommer's table. Rates of return at proposed rates, which have been corrected, are based on an analysis contained in Baron Exhibit__(SJB-2).

Table 4

CORRECTED PFROMMER TABLE NO. 2 DISTRIBUTION SYSTEM ROR PROGRESS TOWARD SYSTEM AVERAGE ROR											
	System	RS	RH	RA	GSGM	GMH	GL	GLH	L	HVPS	LIGHTING
At Present Rates											
Class ROR	2.74%	(0.5%)	(11.4%)	(9.3%)	12.3%	1.5%	5.2%	(3.8%)	4.9%	47.7%	22.9%
Class ROR/System Average ROR	1.00 X	(0.20 X)	(4.17 X)	(3.38 X)	4.48 X	0.54 X	1.90 X	(1.38 X)	1.81 X	17.42 X	8.37 X
At Proposed Rates											
Class ROR	9.08%	3.3%	(3.3%)	(3.3%)	17.6%	8.4%	19.8%	8.4%	18.9%	33.8%	18.4%
Class ROR/System Average ROR	1.00 X	0.36 X	(0.37 X)	(0.37 X)	1.94 X	0.92 X	2.18 X	0.92 X	2.08 X	3.72 X	2.03 X

Q. You indicated that the rates of return at proposed rates in Mr. Pfrommer's Table No. 2 are not computed correctly. Would you explain the problem that you have identified?

A. The problem in the Company's computation of rates of return at proposed rates in Mr. Pfrommer's Table No. 2, which were developed in Gorman Exhibit HSG-7, is that there is an inconsistent (and incorrect) calculation of income taxes associated with the revenue increases for each rate class. In Mr. Gorman's class cost of service study, he allocated

test year income tax expense on plant (which is effectively the same as an allocation on rate base). This is an appropriate methodology and recognizes that income tax expense is a cost of service for which each class has a responsibility, irrespective of the actual rate of return produced by the rate class. Thus, even if a rate class is earning a negative rate of return, it is still responsible for its share of the system's overall income tax expense. The method used by Mr. Gorman to compute the class rates of return at present rates correctly reflects an allocation of income taxes, while his method for computing income taxes associated with proposed rates is not.

The problem in Mr. Pfrommer's Table No. 2 analysis of rates of return at proposed distribution rates is that the additional income taxes associated with the Company's $143 million distribution revenue increase are not allocated (as is done by Mr. Gorman for test year income taxes). Instead, the incremental income taxes are "computed" for each rate schedule's specific revenue increase. The end result of this inconsistent treatment is that rate schedules that are receiving a smaller increase than is warranted by the cost of service study itself are being assigned a smaller amount of cost responsibility for the income taxes associated with the Company's distribution revenue increase of $143 million. Likewise, for rate schedules like GL and L, which are being allocated excessive rate increases (compared to the amount indicated by the cost of service study), a greater share of income tax expense is being assigned. This is like a restaurant overcharging a

customer, and then asking the customer to pay a higher "tip" on the overcharged bill. I have corrected this problem in the results that I presented in Table 4 above.

Q. Does this correction impact Duquesne's compliance with the Company's proposed principles and standards governing the allocation of the rate increases among customer classes?

A. Yes. The rate increases for Rate Schedules RH and RA no longer ensure that all rate schedules show a positive return. In addition, Rate Schedule HVPS shows a class rate of return in excess of 25% at proposed rates.

Q. In Table 3, you presented an analysis that showed the amount of subsidies that will remain in Duquesne's distribution rates, based on the Company's proposals in this case. Have you prepared an analysis that shows how these remaining subsidies "translate" into actual rate impacts?

A. Yes. Baron Exhibit__(SJB-3) shows an analysis for rates GL, GLH, L and HVPS of the impact of the remaining "subsidies" on the distribution demand charges for each of the rates. Table 5 below summarizes these subsidies for each rate schedule. For example, rate GL customers will continue to pay a $3.52 per kW "subsidy" for distribution billing demand, under the Company's proposal in this case to move rates towards cost of

service. Large subsidies also remain for rates L and HVPS. These subsidies should not continue at such high levels in proposed rates.

Table 5
Impact of Duquesne Proposed Subsidies on Distribution Rates

	Duquesne Proposed Subsidy ($/kW)
Rate GL	$3.52
Rate GLH	-$0.91
Rate L	$1.95
Rate HVPS	$0.03

Q. Have you developed a recommendation for allocating the approved distribution revenue increase in this case?

A. Yes. Baron Exhibit__(SJB-4) presents an analysis using the results of the Company's cost of service study to achieve a 50% subsidy reduction at proposed rates, for all rate schedules except HVPS. Rate HVPS customers take service at transmission voltages and do not use the Duquesne primary and secondary distribution system. Therefore, it is appropriate that these customers should not continue paying any subsidy in distribution rates. This adjustment in HVPS rates, which fully eliminates the subsidy, increases revenue for all other rates by $76,000, or about 5/100 of 1%.

A 50% subsidy reduction is a reasonable approach that moves distribution rates towards cost of service for all rate classes in a systematic fashion. As discussed previously, the Commission should evaluate the reasonableness of distribution rates on an unbundled basis. As I showed in Table 3, the Company is proposing to continue very large subsidies in its proposed rates, and in fact, is proposing to increase these subsidies for some rate schedules. Table 6 below summarizes my recommended rate schedule increases using this methodology.

Table 6
DII Proposed Revenue Allocation

Rate Class	Proposed Distribution Increase	Percent Increase
RS	84,533	57.3%
RH	11,908	228.6%
RA	970	127.5%
GS/GM	14,647	22.2%
GMH	3,035	74.2%
GL	17,642	55.8%
GLH	5,009	172.5%
L	5,795	57.6%
HVPS	(114)	-26.8%
AL	3	323.8%
SE	(403)	-27.0%
SM	768	8.4%
SH	47	65.8%
MTS	(98)	-16.7%
PAL	(55)	-31.9%
TOTAL	143,686	51.3%

Q. Have you calculated the rate of return for each rate schedule under your proposal?

A. Yes. Table 7 shows the rates of return and relative rates of return at proposed rates, based on my recommend rate schedule increases.

Table 7
Rate of Return @ DII Proposed Revenue Increases

Rate Class	Proposed Rate of Return	Relative Rate of Return
RS	7.44%	0.82
RH	1.99%	0.22
RA	3.10%	0.34
GS/GM	13.85%	1.53
GMH	8.46%	0.93
GL	10.32%	1.14
GLH	5.82%	0.64
L	10.19%	1.12
HVPS	9.42%	1.04
AL	7.92%	0.87
SE	41.90%	4.62
SM	17.23%	1.90
SH	9.30%	1.02
MTS	30.55%	3.37
PAL	56.79%	6.26
TOTAL	9.08%	

Q. Have you develop distribution rates for rate schedules GL, GLH, L and HVPS that reflect your recommended rate schedule increases shown in Table 6?

A. Yes. Baron Exhibit__(SJB-5) shows proposed rates for each of these schedules using the recommended increases shown in Table 6. The rates reflect a scale down of the Company's proposed rates for each of these schedules. Of course, these rates and the increases shown in Table 6 are based on the Company's full $143 million revenue increase.

Q. If the Company receives a distribution revenue increase less than the $143 million requested, how should it be allocated to rate schedules?

A. My recommendation is to proportionately scale back the total proposed revenue for each rate schedule that include the increases in Table 5. For example, present distribution revenues for rate RS, before any increase, are $147,575,381. From Table 5, DII is recommending an increase for rate RS of $84,533,000, assuming that the Company received its entire $143 million request. Total proposed revenues for rate RS, after the increase, would be $232,108,662. If, for example, Duquesne receives authorization from the Commission to increase its distribution rates by $100 million, the total proposed revenues for each rate schedule would be scaled back by 10.3%. Using this example, RS total revenues would be $208,108,662. The increase to rate RS would thus be $60,598,132. These calculations are shown in Baron Exhibit__(SJB-6) for all rate schedules, using the $100 million increase example.

Q. Why is it appropriate to scale back the total revenues, after the assumed $143 million increase, rather than the increases themselves (shown in Table 5)?

A. This "total revenue" scale back approach is necessary because some rate schedules are being allocated decreases in distribution revenues. If the increases and decreases shown in Table 5 are simply scaled back, those rate schedules receiving a decrease would actually pay higher distribution rates under any scenario in which Duquesne was authorized a lower overall distribution revenue increase (for example, $100 million instead of its requested $143 million). This occurs because the proposed decreases for these rate schedules would be scaled back, resulting in higher overall distribution charges. This clearly doesn't make sense. Using a "total revenue" scale back approach reasonably adjusts the proposed revenue increases for all rate schedules, including those that are being assigned rate decreases.

IV. DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

Q. Have you reviewed Duquesne's proposal to implement a Distribution System Improvement Charge ("DSIC") in this proceeding?

A. Yes. The Company's proposed DSIC is described in detail beginning on page 25 of Mr. William V. Pfrommer's Direct Testimony. The proposed DSIC is in essence an automatic adjustment clause that would recover incremental fixed distribution system costs ("depreciation and pre-tax return"). The charge would be updated quarterly and recovered from all kWh sales from all rate schedules.

Q. Should the Company's proposed DSIC be approved by the Commission?

A. No. As I will discuss below, the Company's proposed DSIC is unreasonable and I recommend that the Commission reject it.

Q. The DSIC rider (No. 20) contains a formula that produces a "DSIC" in the form of a percentage factor. Is it your understanding of the Company's proposal that this "percentage factor" would be applied to all distribution revenues as a surcharge?

A. Based on the formula contained in Rider No. 20, Mr. Pfrommer's testimony and his exhibits showing the DSIC factors for 2007 and future years, it appears that the DSIC is in the form of a "revenue percentage factor", as opposed to say, a uniform charge per kWh. However, in two portions of Rider No. 20, there is language that implies that the DSIC is in the form of a kWh charge. Specifically, on page 1 of the rider it states: "This DSIC applies to all kilowatt-hours in each Rate Schedule and applicable Riders under this Tariff and becomes effective for bills rendered on or after April 1, 2007." On page 2 of the rider, it states: "The DSIC, determined to the nearest one-thousandth of one mill per kilowatt-hour, in accordance with the formula set forth below, shall be applied to all kilowatt-hours billed for electric service during the billing month". I assume that these references to "kilowatt-hours" are in error, and that the DSIC is in the form of a percentage revenue factor. Though I am recommending that the Commission reject the proposal, if the rider is approved, it should be corrected to eliminate the references to kilowatt-hours.

Q. What is Mr. Pfrommer's rationale for requesting a DSIC?

A. On page 25, lines 17 through 19, Mr. Pfrommer's stated that the proposed DSIC "will mitigate rate impacts to customers and allow rates to increase more gradually than through the filing of much larger base rate increases."

Q. Did any of the Company witnesses identify any "changed circumstances" that would necessitate a DSIC from a financial standpoint?

A. No. None of the Company's witnesses identified any such circumstances that would justify an automatic adjustment clause for certain distribution-related investments. The Company has always made such investments without any DSIC and recovered its costs, including a fair rate of return, by filing a base rate proceeding. Duquesne has this right and can file a base rate proceeding at any time it chooses in order to collect its costs and earn a return on all of its investments.

Essentially, Duquesne's proposed DSIC would create a mechanism that would insulate the Company from regulatory lag, without providing consumers the opportunity to benefit from potential offsetting cost decreases elsewhere or sales increases that may otherwise obviate the need for an increase despite the additional distribution plant investment. Such an approach is biased in favor of the Company's shareholders and against ratepayers.

Furthermore, the DSIC would also insulate the Company from the kind of regulatory review and auditing scrutiny that are part of the normal rate case process. The Commission, its Staff, and other parties would no longer be able to review the

Company's distribution investment costs for reasonableness and for whether they are used and useful in the provisions of service to ratepayers.

Q. Did the Company provide any commitment to filing less frequent rate cases is the DSIC were approved by the Commission?

A. No. Duquesne provided no commitment to the Commission or the parties to filing less frequent rate cases if the DSIC were approved. To underscore this point, the following is the question and the Company's response to OCA-IV-75:

> **Please state whether Duquesne Light C. anticipates that the proposed DSIC will reduce the frequency of rate cases. If yes, please identify the estimated interval until the next rate case until the next rate case with and without the DSIC. If not, explain why not.**
>
> **Response:**
>
> **If a DSIC were authorized by legislation and approved by the Commission, the DSIC would mitigate attrition to return associated with increasing investment related to replacements and reliability improvements, and to that extent would reduce the frequency of rate filings. However, the decision of when the next rate case will be filed will be affected by numerous other factors, such as changes in operating costs due to inflation and changes in capital costs.** ***As a result, Duquesne cannot identify when its next rate filing would be made, with or without a DSIC.*** **(emphasis added)**

The Company's response to this data request indicates that it cannot provide any assurance that the approval and operation of a DSIC would decrease the frequency of rate filings before the Commission.

Q. Has the Company provided any mechanism in its DSIC to provide affected consumers the opportunity to benefit from distribution plant retirements or depreciation that may offset the increases associated with the DSIC?

A. No. The only provisions included in the Company's proposal are those designed to reflect cost increases. There are no provisions to reflect potential cost decreases. For example, there is nothing in the DSIC that would reflect potential productivity increases (e.g., lower maintenance expenses) due to the addition of more modern distribution facilities. Under Duquesne's proposal, customers would be charged the cost of the new investment and the Company's shareholders would receive the benefit (if any) of productivity increases. This is but one example of the potential harm to ratepayers from a single issue rate case, which the DSIC represents.

Q. Are there other concerns that you have with the proposed DSIC?

A. Yes. In addition to the potential for the Company to earn excess returns as a result of the DSIC (by failing to provide ratepayers potential offsetting cost savings or revenue

increases due to customer consumption increases), the DSIC will also lengthen the period, all else being equal, between distribution rate cases. Although Duquesne could not provide definitive dates, it follows that if Duquesne is recovering its fixed costs associated with certain of its incremental distribution investments on an automatic basis, while retaining potential offsetting savings, that the Company would file less frequent base rate cases. The problem with this, in addition to the lost opportunity for the Commission to evaluate the overall distribution revenue requirement is that it also precludes the opportunity of the Staff, OCA and other parties to evaluate the reasonableness of the underlying allocation of distribution revenue requirements to rate classes. As set forth in the previous section of my testimony, significant interclass subsidies will continue to exist after this case, even under my proposal.

Q. Do you have any concerns with Duquesne's proposal to apply the DSIC "revenue factor" to sales from each rate schedule and customer?

A. Yes. The proposed DSIC incorporates a recovery factor that essentially allocates the incremental distribution investment to all rate schedules on the basis of relative distribution revenues, rather than the cost of service allocation factors reflecting distribution related facilities. In particular, it would apply to rate HVPS distribution revenues, which primarily consists of metering costs, since these customers are

served at transmission voltages and do not use secondary or primary lines and substation facilities. There is no justification for the DSIC to apply to this rate schedule or to any customer served at transmission voltages.

Similarly, because it is based on a percentage of the customer's distribution charges, the DSIC would penalize rate schedules that are earning rates of return in excess of the system average. This is similar to my tipping analogy discussed in the prior section.

Q. Are you familiar with PPL Electronic Utilities Corporation's ("PPL") request for approval of a DSIC in its most recent base rate proceeding, Docket No. R-00049255?

A. Yes. I testified in that PPL proceeding and specifically addressed the Company's request for approval of a DSIC. In that proceeding PPL proposed a DSIC that was similar to the one that Duquesne is proposing in this case.

Q. What was the Commission's final decision regarding PPL's DSIC proposal in that case?

A. The Commission rejected PPL's proposed DSIC in that docket. Specifically, the Commission found the following:

> **We agree with the ALJ's disposition of this issue and deny the Exceptions of PPL and the OSBA. Although Section 1307 of the Code carves out exceptions to the general prohibition against single issue ratemaking, we must reject PPL's request to implement a DSIC. 66 Pa. C.S. § 1307. The Company has not demonstrated a need for the DSIC or a need to by-pass the normal ratemaking process. Although PPL asserted that a DSIC would "facilitate" making the investment necessary to upgrade or replace its aging infrastructure, the Company did not submit evidence that the repairs would not be made if the DSIC is not available. Nor did PPL demonstrate it was approaching serious reliability problems. (R.D. at 36, 46). Additionally, the Commission notes the current uncertainty associated with its authority to approve automatic adjustment mechanisms beyond our water utilities. *See Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation,* Docket No. R-00049255, Order entered Dec. 22, 2005, slip op. at 23.**

Q. Do you believe that the Commission's findings regarding PPL's request are equally valid and applicable to Duquesne's proposed DSIC?

A. Yes. Referring to the Commission's finding, which I cited above, the Company failed to provide any evidence that system repairs would not be made in the absence of the DSIC. Duquesne has not presented evidence in this proceeding that it has serious reliability problems that would be remedied by the DSIC.

Q. What is your recommendation to the Commission regarding the proposed DSIC?

A. Based on the reasons that I just discussed, I recommend that the Commission reject the proposed DSIC.

V. TRANSMISSION SERVICE CHARGE ("TSC")

Q. Have you reviewed the Company's proposal to implement a Transmission Service Charge?

A. Yes. As explained in the direct testimony of Duquesne witness Mr. Pfrommer, the Company is proposing a TSC that will recover network transmission service costs incurred pursuant to the PJM OATT on a pass-through basis from customers. The Duquesne TSC is designed to recover these transmission expenses on the basis of each rate schedule's contribution to the Duquesne 1 CP demand, which is the basis on which the Company is charged for POLR transmission service. Rate schedules on which customers are normally billed on a kW demand basis will be charged a TSC using the customer's 1 CP demand as the billing determinant.

Q. Do you agree with the Company's approach to recovering its transmission expenses from POLR customers?

A. Yes. Duquesne recognizes that it is essential to have a competitively neutral transmission rate for each customer, whether the customer takes POLR service or service from an EGS. The only transmission expense recovery methodology that will produce such a competitively neutral result is the approach taken by the Company to

allocate and recover costs on a "1 CP" basis. As discussed by Mr. Pfrommer, PJM assigns the cost for network service to either Duquesne (for a POLR customer) or an EGS, based on the customer's contribution to the Duquesne transmission zone 1 CP demand. If Duquesne does not follow this same cost allocation and rate design methodology in its retail POLR transmission cost recovery rate (the proposed TSC), there will be an uneconomic subsidy (either paid or received) provided to POLR customers, relative to what that same customer would be charged if the customer selected an EGS for service.[2] In order to prevent an anti-competitive result, it is necessary and appropriate for the Company to allocate its PJM transmission expenses to rate schedules in the same manner as it is being assigned these costs by PJM. In addition, to the extent that a rate schedule includes kW demand charges, these transmission costs should also be charged on a demand basis, reflecting the customer's 1 CP demand. Duquesne's proposed TSC accomplishes this objective and should be approved by the Commission.

Q. Is the Company's TSC consistent with the Choice Act?

A. Yes. Section 2804(6) of the Choice Act states:

> **Consistent with the provision of section 2806, the Commission shall require that a public utility that owns or operates jurisdictional transmission and distribution facilities shall provide transmission and distribution service**

[2] Though the EGS may not charge the customer its actual transmission costs, the EGS will be charged for transmission service associated with the customer on the basis of the customer's 1 CP demand.

> **to all retail electric customers in their service territory and to electric cooperative corporations and electric generation suppliers, affiliated or non-affiliated, on rates, terms of access and conditions that are comparable to the utility's own use of the system. (66 Pa.C.S. § 2804(6)).**

Duquesne is a public utility that owns jurisdictional transmission and distribution facilities. Because the TSC tracks the rates and billing determinants on which Duquesne purchases service from PJM, the TSC ensures that retail electric customers are provided with transmission service on rates comparable to the Company's use of the system.

Q. Is the Company's TSC generally consistent with traditional ratemaking principles (i.e., just, reasonable and not unduly discriminatory)?

A. Yes. As I discussed, Duquesne's proposed TSC follows cost causation and cost of service principles. Therefore, it is just, reasonable and not unduly discriminatory.

VI. TARIFF ISSUES

Q. The Company is proposing to modify tariff Rule 4 to eliminate the ability of the Company to enter special contracts with customers whose load exceeds 100 kW. Do you have any concerns regarding this proposal by the Company?

A. Yes. According to the testimony of Company witness Ms. Krajovic, Duquesne is eliminating this provision of Rule 4 of its tariff because transmission and distribution charges constitute a very small portion of a large customer's bill.

Q. Does this current provision of Rule 4 require the Company to enter contracts with its qualified customers?

A. No. Rule 4 simply gives the Company a right (option) to enter such contracts "to address changing business needs or operating conditions." Even if Ms. Krajovic is correct that a Rule 4 contract would only apply to transmission and distribution charges, it is reasonable for the Company to continue to maintain this option. Since there is no obligation to enter a Rule 4 contract, it would appear to be beneficial to maintain the option in the event that the Company, the affected Rule 4 customer and other Duquesne customers could benefit from such a contract.

Q. Did the Company perform any surveys or other studies to support its proposed elimination of the Rule 4 contract option?

A. No. Baron Exhibit__(SJB-7) contains a copy of the Company's response to DII-II-15, in which it is confirmed that no such surveys or studies were performed on this issue.

Q. Do you believe that customers support continuation of this option?

A. Based on the testimony of the DII witnesses, yes.

Q. What is your recommendation regarding the elimination of the special contract provisions of tariff Rule 4?

A. This tariff rule should be continued, since it is only applicable in the event that the Company, "in its sole discretion" determines that such a contract should be entered. There is no reason to eliminate this tariff rule. In addition, any other language in the tariff that is inconsistent with this concept should be modified.

Q. Do you have any other comments regarding Duquesne's proposed tariff changes?

A. Yes. Duquesne proposes several changes to reflect the elimination of the fixed price POLR option for Large C&I customers. Because this option will continue through May 31, 2007, these changes should be rejected at this time. Duquesne can address this issue in a compliance or implementation plan filing at a later date.

Q. Do you have concerns regarding any specific rate schedule issues in this case?

A. Yes. Duquesne Rate L contains a provision to recognize that some customers taking service on this rate do so at transmission voltages exceeding 69,000 volts. Some customers on this rate take service at 138 kV. The proposed Rate L tariff includes an "Untransformed Service Credit" (voltage credit) for customers taking service at transmission voltages of $0.091 per kW. This transmission service credit is decreasing from the $0.0925 per kW in the current tariff.

Q. Has the Company provided any analysis in this case justifying a transmission service voltage credit of $0.091 per kW?

A. No.

Q. Is the magnitude of this voltage credit consistent with other evidence in this case regarding the cost of providing distribution service to transmission voltage customers?

A. No. Under the Company's proposed rates, transmission service customers on Rate L will pay $5.74 per kW for distribution demand, versus $5.83 kW for customers taking primary service.[3] This $5.74 per kW distribution rate for transmission service customers compares to the Company's proposed Rate HVPS distribution rate of $0.30 per kW.[4] Rate HVPS customers take service at 69,000 volts or higher and thus have similar characteristics to Rate L transmission service customers, at least with regard to factors that influence the cost of providing distribution service.

Q. Is the proposed Rate HVPS distribution demand charge consistent with the cost of providing distribution service to a transmission voltage customer on the Duquesne system?

A. Yes. In fact, as I discussed earlier in my testimony, even this rate ($0.30 per kW) exceeds cost of service.

[3] These demand charges reflect the pricing of demand in excess of 5,000 kW per month. The demand charge for the first 5,000 kW per month is $30,555 under the Company's proposed tariff.
[4] This is based on the cost per kW of the minimum 30,000 kW charge ($9,115 divided by 30,000).

Q. Is there any reason to believe that the cost to provide distribution service to a Rate L transmission customer is "19 times" greater than an HVPS transmission customer?

A. No. There is no reason to believe that the cost per kW to provide service to a Rate L customer taking distribution service at 138,000 volts is materially different than it is for an HVPS customer. Clearly, there is no basis to believe that it is 19 times more expensive to serve a Rate L customer than a similarly configured Rate HVPS customer.

Q. Are there any DII customers adversely impacted by this unreasonable voltage credit?

A. Yes. For example, U.S. Steel has a Rate L facility with a monthly demand of approximately 9,000 kW that takes service at 138,000 volts. The proposed Rate L distribution demand cost (including the $0.091 per kW credit) for this facility would be approximately $70,000 per month, while the cost on Rate HVPS would be $2,800, based on the unit charge per kW from the proposed HVPS minimum rate.[5] This is a difference of $806,400 in distribution charges per year. Even if the 30,000 kW HVPS minimum charge is recognized, the HVPS bill for a 9,000 kW load would

[5] The proposed HVPS distribution rate for excess kW (greater than 30,000 per month) is only $0.016 per kW.

only be $9,115 per month, the monthly minimum charge, which is a difference of $730,620 annually.

Q. Based on this comparison, do believe that the Rate L "Untransformed Service Credit" is reasonable?

A. No. This credit is not just or reasonable and appears to be unduly discriminatory. Duquesne should develop an updated credit and modify its proposed tariff in its rebuttal testimony in this case.

Q. Does that complete your testimony?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
v.	:	
	:	
Duquesne Light Company	:	

EXHIBITS

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA
JULY 2006

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-1

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
4/81	203(B)	KY	Louisville Gas & Electric Co.	Louisville Gas & Electric Co.	Cost-of-service.
4/81	ER-81-42	MO	Kansas City Power & Light Co.	Kansas City Power & Light Co.	Forecasting.
6/81	U-1933	AZ	Arizona Corporation Commission	Tucson Electric Co.	Forecasting planning.
2/84	8924	KY	Airco Carbide	Louisville Gas & Electric Co.	Revenue requirements, cost-of-service, forecasting, weather normalization.
3/84	84-038-U	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Excess capacity, cost-of-service, rate design.
5/84	830470-EI	FL	Florida Industrial Power Users' Group	Florida Power Corp.	Allocation of fixed costs, load and capacity balance, and reserve margin. Diversification of utility.
10/84	84-199-U	AR	Arkansas Electric Energy Consumers	Arkansas Power and Light Co.	Cost allocation and rate design.
11/84	R-842651	PA	Lehigh Valley Power Committee	Pennsylvania Power & Light Co.	Interruptible rates, excess capacity, and phase-in.
1/85	85-65	ME	Airco Industrial Gases	Central Maine Power Co.	Interruptible rate design.
2/85	I-840381	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	Load and energy forecast.
3/85	9243	KY	Alcan Aluminum Corp., et al.	Louisville Gas & Electric Co.	Economics of completing fossil generating unit.
3/85	3498-U	GA	Attorney General	Georgia Power Co.	Load and energy forecasting, generation planning economics.
3/85	R-842632	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Generation planning economics, prudence of a pumped storage hydro unit.
5/85	84-249	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Cost-of-service, rate design return multipliers.
5/85		City of Santa	Chamber of Commerce	Santa Clara Municipal	Cost-of-service, rate design.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
6/85	84-768-E-42T	Clara WV	West Virginia Industrial Intervenors	Monongahela Power Co.	Generation planning economics, prudence of a pumped storage hydro unit.
6/85	E-7 Sub 391	NC	Carolina Industrials (CIGFUR III)	Duke Power Co.	Cost-of-service, rate design, interruptible rate design.
7/85	29046	NY	Industrial Energy Users Association	Orange and Rockland Utilities	Cost-of-service, rate design.
10/85	85-043-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Regulatory policy, gas cost-of-service, rate design.
10/85	85-63	ME	Airco Industrial Gases	Central Maine Power Co.	Feasibility of interruptible rates, avoided cost.
2/85	ER-8507698	NJ	Air Products and Chemicals	Jersey Central Power & Light Co.	Rate design.
3/85	R-850220	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Optimal reserve, prudence, off-system sales guarantee plan.
2/86	R-850220	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Optimal reserve margins, prudence, off-system sales guarantee plan.
3/86	85-299U	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Cost-of-service, rate design, revenue distribution.
3/86	85-726-EL-AIR	OH	Industrial Electric Consumers Group	Ohio Power Co.	Cost-of-service, rate design, interruptible rates.
5/86	86-081-E-GI	WV	West Virginia Energy Users Group	Monongahela Power Co.	Generation planning economics, prudence of a pumped storage hydro unit.
8/86	E-7 Sub 408	NC	Carolina Industrial Energy Consumers	Duke Power Co.	Cost-of-service, rate design, interruptible rates.
10/86	U-17378	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Excess capacity, economic analysis of purchased power.
12/86	38063	IN	Industrial Energy Consumers	Indiana & Michigan Power Co.	Interruptible rates.

Expert Testimony Appearances
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As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
3/87	EL-86-53-001 EL-86-57-001	Federal Energy Regulatory Commission (FERC)	Louisiana Public Service Commission Staff	Gulf States Utilities, Southern Co.	Cost/benefit analysis of unit power sales contract.
4/87	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Load forecasting and imprudence damages, River Bend Nuclear unit.
5/87	87-023-E-C	WV	Airco Industrial Gases	Monongahela Power Co.	Interruptible rates.
5/87	87-072-E-G1	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Analyze Mon Power's fuel filing and examine the reasonableness of MP's claims.
5/87	86-524-E-SC	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Economic dispatching of pumped storage hydro unit.
5/87	9781	KY	*Kentucky Industrial* Energy Consumers	*Louisville Gas* & Electric Co.	*Analysis of Impact of 1986 Tax* Reform Act.
6/87	3673-U	GA	Georgia Public Service Commission	Georgia Power Co.	Economic prudence, evaluation of Vogtle nuclear unit - load forecasting, planning.
6/87	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in plan for River Bend Nuclear unit.
7/87	85-10-22	CT	*Connecticut* Industrial Energy Consumers	*Connecticut* Light & Power Co.	*Methodology for refunding* rate moderation fund.
8/87	3673-U	GA	Georgia Public Service Commission	Georgia Power Co.	Test year sales and revenue forecast.
9/87	R-850220	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Excess capacity, reliability of generating system.
10/87	R-870651	PA	*Duquesne* Industrial Intervenors	*Duquesne Light Co.*	*Interruptible rate, cost-of-*service, revenue allocation, rate design.
10/87	I-860025	PA	Pennsylvania Industrial Intervenors		Proposed rules for cogeneration, avoided cost, rate recovery.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
10/87	E-015/ GR-87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Excess capacity, power and cost-of-service, rate design.
10/87	8702-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue forecasting, weather normalization.
12/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light Power Co.	Excess capacity, nuclear plant phase-in.
3/88	10064	KY	Kentucky Industrial Energy Consumers	Louisville Gas & Electric Co.	Revenue forecast, weather normalization rate treatment of cancelled plant.
3/88	87-183-TF	AR	Arkansas Electric Consumers	Arkansas Power & Light Co.	Standby/backup electric rates.
5/88	870171C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Cogeneration deferral mechanism, modification of energy cost recovery (ECR).
6/88	870172C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Cogeneration deferral mechanism, modification of energy cost recovery (ECR).
7/88	88-171-EL-AIR 88-170-EL-AIR Interim Rate Case	OH	Industrial Energy Consumers	Cleveland Electric/ Toledo Edison	Financial analysis/need for interim rate relief.
7/88	Appeal of PSC	19th Judicial Docket U-17282	Louisiana Public Service Commission Circuit Court of Louisiana	Gulf States Utilities	Load forecasting, imprudence damages.
11/88	R-880989	PA	United States Steel	Carnegie Gas	Gas cost-of-service, rate design.
11/88	88-171-EL-AIR 88-170-EL-AIR	OH	Industrial Energy Consumers	Cleveland Electric/ Toledo Edison. General Rate Case.	Weather normalization of peak loads, excess capacity, regulatory policy.
3/89	870216/283 284/286	PA	Armco Advanced Materials Corp., Allegheny Ludlum Corp.	West Penn Power Co.	Calculated avoided capacity, recovery of capacity payments.

Expert Testimony Appearances
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As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cost-of-service, rate design.
8/89	3840-U	GA	Georgia Public Service Commission	Georgia Power Co.	Revenue forecasting, weather normalization.
9/89	2087	NM	Attorney General of New Mexico	Public Service Co. of New Mexico	Prudence - Palo Verde Nuclear Units 1, 2 and 3, load fore-casting.
10/89	2262	NM	New Mexico Industrial Energy Consumers	Public Service Co. of New Mexico	Fuel adjustment clause, off-system sales, cost-of-service, rate design, marginal cost.
11/89	38728	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Excess capacity, capacity equalization, jurisdictional cost allocation, rate design, interruptible rates.
1/90	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Jurisdictional cost allocation, O&M expense analysis.
5/90	890366	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Non-utility generator cost recovery.
6/90	R-901609	PA	Armco Advanced Materials Corp., Allegheny Ludlum Corp.	West Penn Power Co.	Allocation of QF demand charges in the fuel cost, cost-of-service, rate design.
9/90	8278	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost-of-service, rate design, revenue allocation.
12/90	U-9346 Rebuttal	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Demand-side management, environmental externalities.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, jurisdictional allocation.
12/90	90-205	ME	Airco Industrial Gases	Central Maine Power Co.	Investigation into interruptible service and rates.
1/91	90-12-03 Interim	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Interim rate relief; financial analysis, class revenue allocation.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
5/91	90-12-03 Phase II	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Revenue requirements, cost-of-service, rate design, demand-side management.
8/91	E-7, SUB SUB 487	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Revenue requirements, cost allocation, rate design, demand-side management.
8/91	8341 Phase I	MD	Westvaco Corp.	Potomac Edison Co.	Cost allocation, rate design, 1990 Clean Air Act Amendments.
8/91	91-372 EL-UNC	OH	Armco Steel Co., L.P.	Cincinnati Gas & Electric Co.	Economic analysis of cogeneration, avoid cost rate.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Economic analysis of proposed CWIP Rider for 1990 Clean Air Act Amendments expenditures.
9/91	91-231 -E-NC	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Economic analysis of proposed CWIP Rider for 1990 Clean Air Act Amendments expenditures.
10/91	8341 - Phase II	MD	Westvaco Corp.	Potomac Edison Co.	Economic analysis of proposed CWIP Rider for 1990 Clean Air Act Amendments expenditures.
10/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Results of comprehensive management audit.
Note: No testimony was prefiled on this.					
11/91	U-17949 Subdocket A	LA	Louisiana Public Service Commission Staff	South Central Bell Telephone Co. and proposed merger with Southern Bell Telephone Co.	Analysis of South Central Bell's restructuring and
12/91	91-410-EL-AIR	OH	Armco Steel Co., Air Products & Chemicals, Inc.	Cincinnati Gas & Electric Co.	Rate design, interruptible rates.
12/91	P-880286	PA	Armco Advanced Materials Corp., Allegheny Ludlum Corp.	West Penn Power Co.	Evaluation of appropriate avoided capacity costs - QF projects.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
1/92	C-913424	PA	Duquesne Interruptible Complainants	Duquesne Light Co.	Industrial interruptible rate.
6/92	92-02-19	CT	Connecticut Industrial Energy Consumers	Yankee Gas Co.	Rate design.
8/92	2437	NM	New Mexico Industrial Intervenors	Public Service Co. of New Mexico	Cost-of-service.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Cost-of-service, rate design, energy cost rate.
9/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost-of-service, rate design, energy cost rate, rate treatment.
10/92	M-00920312 C-007	PA	The GPU Industrial Intervenors	Pennsylvania Electric Co.	Cost-of-service, rate design, energy cost rate, rate treatment.
12/92	U-17949	LA	Louisiana Public Service Commission Staff	South Central Bell Co.	Management audit.
12/92	R-00922378	PA	Armco Advanced Materials Co. The WPP Industrial Intervenors	West Penn Power Co.	Cost-of-service, rate design, energy cost rate, SO_2 allowance rate treatment.
1/93	8487	MD	The Maryland Industrial Group	Baltimore Gas & Electric Co.	Electric cost-of-service and rate design, gas rate design (flexible rates).
2/93	E002/GR-92-1185	MN	North Star Steel Co. Praxair, Inc.	Northern States Power Co.	Interruptible rates.
4/93	EC92 21000 ER92-806-000 (Rebuttal)	Federal Energy Regulatory Commission	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy agreement.	Merger of GSU into Entergy System; impact on system
7/93	93-0114-E-C	WV	Airco Gases	Monongahela Power Co.	Interruptible rates.
8/93	930759-EG	FL	Florida Industrial Power Users' Group	Generic - Electric Utilities	Cost recovery and allocation of DSM costs.
9/93	M-009 30406	PA	Lehigh Valley Power Committee	Pennsylvania Power & Light Co.	Ratemaking treatment of off-system sales revenues.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
11/93	346	KY	Kentucky Industrial Utility Customers	Generic - Gas Utilities	Allocation of gas pipeline transition costs - FERC Order 636.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Nuclear plant prudence, forecasting, excess capacity.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Cost allocation, rate design, rate phase-in plan.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Analysis of least cost integrated resource plan and demand-side management program.
7/94	R-00942986	PA	Armco, Inc.; West Penn Power Industrial Intervenors	West Penn Power Co.	Cost-of-service, allocation of rate increase, rate design, emission allowance sales, and operations and maintenance expense.
7/94	94-0035-E-42T	WV	West Virginia Energy Users Group	Monongahela Power Co.	Cost-of-service, allocation of rate increase, and rate design.
8/94	EC94 13-000	Federal Energy Regulatory Commission	Louisiana Public Service Commission	Gulf States Utilities/Entergy	Analysis of extended reserve shutdown units and violation of system agreement by Entergy.
9/94	R-00943 081 R-00943 081C0001	PA	Lehigh Valley Power Committee	Pennsylvania Public Utility Commission	Analysis of interruptible rate terms and conditions, availability.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Evaluation of appropriate avoided cost rate.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Revenue requirements.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Proposals to address competition in telecommunication markets.
11/94	EC94-7-000 ER94-898-000	FERC	Louisiana Public Service Commission	El Paso Electric and Central and Southwest	Merger economics, transmission equalization hold harmless proposals.
2/95	941-430EG	CO	CF&I Steel, L.P.	Public Service Company of Colorado	Interruptible rates, cost-of-service.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Cost-of-service, allocation of rate increase, rate design, interruptible rates.
6/95	C-00913424 C-00946104	PA	Duquesne Interruptible Complainants	Duquesne Light Co.	Interruptible rates.
8/95	ER95-112 -000	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Open Access Transmission Tariffs - Wholesale.
10/95	U-21485	LA	Louisiana Public Service Commission	Gulf States Utilities Company	Nuclear decommissioning, revenue requirements, capital structure.
10/95	ER95-1042 -000	FERC	Louisiana Public Service Commission	System Energy Resources, Inc.	Nuclear decommissioning, revenue requirements.
10/95	U-21485	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear decommissioning and cost of debt capital, capital structure.
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Retail competition issues.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Revenue requirement analysis.
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Elec. Co., Potomac Elec. Power Co., Constellation Energy Co.	Ratemaking issues associated with a Merger.
8/96	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Decommissioning, weather normalization, capital structure.
2/97	R-973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Competitive restructuring policy issues, stranded cost, transition charges.
6/97	Civil Action No. 94-11474	US Bankruptcy Court Middle District of Louisiana	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Confirmation of reorganization plan; analysis of rate paths produced by competing plans.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
6/97	R-973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Retail competition issues, rate unbundling, stranded cost analysis.
6/97	8738	MD	Maryland Industrial Group	Generic	Retail competition issues
7/97	R-973954	PA	PP&L Industrial *Customer Alliance*	Pennsylvania Power *& Light Co.*	Retail competition issues, rate *unbundling, stranded cost analysis.*
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big River Electric Corp.	Analysis of cost of service issues - Big Rivers Restructuring Plan
10/97	R-974008	PA	Metropolitan Edison Industrial Users	Metropolitan Edison Co.	Retail competition issues, rate unbundling, stranded cost analysis.
10/97	R-974009	PA	Pennsylvania Electric Industrial Customer	Pennsylvania Electric Co.	Retail competition issues, rate unbundling, stranded cost analysis.
11/97	U-22491	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Decommissioning, weather normalization, capital *structure.*
11/97	P-971265	PA	Philadelphia Area Industrial Energy Users Group	Enron Energy Services Power, Inc./ PECO Energy	Analysis of Retail Restructuring Proposal.
12/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Retail competition issues, rate unbundling, stranded cost analysis.
12/97	R-974104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Retail competition issues, rate unbundling, stranded cost analysis.
3/98 (Allocated Stranded Cost Issues)	U-22092	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Retail competition, stranded cost quantification.
3/98	U-22092		Louisiana Public Service Commission	Gulf States Utilities, Inc.	Stranded cost quantification, restructuring issues.
9/98	U-17735		Louisiana Public Service Commission	Cajun Electric Power Cooperative, Inc.	Revenue requirements analysis, weather normalization.
12/98	8794	MD	Maryland Industrial Group and	Baltimore Gas and Electric Co.	Electric utility restructuring, stranded cost recovery, rate

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
			Millennium Inorganic Chemicals Inc.		unbundling.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning, weather normalization, Entergy System Agreement.
5/99 (Cross-Answering Testimony)	EC-98-40-000	FERC	Louisiana Public Service Commission	American Electric Power Co. & Central South West Corp.	Merger issues related to market power mitigation proposals.
5/99 (Response Testimony)	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co.	Performance based regulation, settlement proposal issues, cross-subsidies between electric. gas services.
6/99	98-0452	WV	West Virginia Energy Users Group	Appalachian Power, Monongahela Power, & Potomac Edison Companies	Electric utility restructuring, stranded cost recovery, rate unbundling.
7/99	99-03-35	CT	Connecticut Industrial \Energy Consumers	United Illuminating Company	Electric utility restructuring, stranded cost recovery, rate unbundling.
7/99	Adversary Proceeding No. 98-1065	U.S. Bankruptcy Court	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Motion to dissolve preliminary injunction.
7/99	99-03-06	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Electric utility restructuring, stranded cost recovery, rate unbundling.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning, weather normalization, Entergy System Agreement.
12/99	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative, Inc.	Ananlysi of Proposed Contract Rates, Market Rates.
03/00	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative, Inc.	Evaluation of Cooperative Power Contract Elections
03/00	99-1658-EL-ETP	OH	AK Steel Corporation	Cincinnati Gas & Electric Co.	Electric utility restructuring, stranded cost recovery, rate Unbundling.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
08/00	98-0452 E-GI	WVA	West Virginia Energy Users Group	Appalachian Power Co. American Electric Co.	Electric utility restructuring rate unbundling.
08/00	00-1050 E-T 00-1051-E-T	WVA	West Virginia Energy Users Group	Mon Power Co. Potomac Edison Co.	Electric utility restructuring rate unbundling.
10/00	SOAH 473-00-1020 PUC 2234	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges And Universities	TXU, Inc.	Electric utility restructuring rate unbundling.
12/00	U-24993	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning, revenue requirements.
12/00	EL00-66-000 & ER-2854-000 EL95-33-002	LA	Louisiana Public Service Commission	Entergy Services Inc.	Inter-Company System Agreement: Modifications for retail competition, interruptible load.
04/01	U-21453, U-20925, U-22092 (Subdocket B) Addressing Contested Issues	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Jurisdictional Business Separation - Texas Restructuring Plan
10/01	14000-U	GA	Georgia Public Service Commission Adversary Staff	Georgia Power Co.	Test year revenue forecast.
11/01	U-25687	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning requirements transmission revenues.
11/01	U-25965	LA	Louisiana Public Service Commission	Generic	Independent Transmission Company ("Transco"). RTO rate design.
03/02	001148-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Company	Retail cost of service, rate design, resource planning and demand side management.
06/02	U-25965	LA	Louisiana Public Service Commission	Entergy Gulf States Entergy Louisiana	RTO Issues
07/02	U-21453	LA	Louisiana Public Service Commission	SWEPCO, AEP	Jurisdictional Business Sep. - Texas Restructuring Plan.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
08/02	U-25888	LA	Louisiana Public Service Commission	Entergy Louisiana, Inc. Entergy Gulf States, Inc.	Modifications to the Inter-Company System Agreement, Production Cost Equalization.
08/02	EL01-88-000	FERC	Louisiana Public Service Commission	Entergy Services Inc. and the Entergy Operating Companies	Modifications to the Inter-Company System Agreement, Production Cost Equalization.
11/02	02S-315EG	CO	CF&I Steel & Climax Molybdenum Co.	Public Service Co. of Colorado	Fuel Adjustment Clause
01/03	U-17735	LA	Louisiana Public Service Commission	Louisiana Coops	Contract Issues
02/03	02S-594E	CO	Cripple Creek and Victor Gold Mining Co.	Aquila, Inc.	Revenue requirements, purchased power.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Weather normalization, power purchase expenses, System Agreement expenses.
11/03	ER03-753-000	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Proposed modifications to System Agreement Tariff MSS-4.
11/03	ER03-583-000 ER03-583-001 ER03-583-002 ER03-681-000, ER03-681-001 ER03-682-000, ER03-682-001 ER03-682-002	FERC	Louisiana Public Service Commission	Entergy Services, Inc., the Entergy Operating Companies, EWO Market-Ing, L.P, and Entergy Power, Inc.	Evaluation of Wholesale Purchased Power Contracts.
12/03	U-27136	LA	Louisiana Public Service Commission	Entergy Louisiana, Inc.	Evaluation of Wholesale Purchased Power Contracts.
01/04	E-01345-03-0437	AZKroger Company	Arizona Public Service Co.	Revenue allocation rate design.	
02/04	00032071	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Provider of last resort issues.
03/04	03A-436E	CO	CF&I Steel, LP and Climax Molybedenum	Public Service Company of Colorado	Purchased Power Adjustment Clause.

Expert Testimony Appearances
of
Stephen J. Baron
As of May 2006

Date	Case	Jurisdict.	Party	Utility	Subject
04/04	2003-00433 2003-00434	PA	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co. Kentucky Utilities Co.	Cost of Service Rate Design
0-6/04	03S-539E	CO	Cripple Creek, Victor Gold Mining Co., Goodrich Corp., Holcim (U.S.,), Inc., and The Trane Co.	Aquila, Inc.	Cost of Service, Rate Design Interruptible Rates
06/04	R-00049255	PA	PP&L Industrial Customer Alliance PPLICA	PPL Electric Utilities Corp.	Cost of service, rate design, tariff issues and transmission service charge.
10/04	04S-164E	CO	CF&I Steel Company, Climax Mines	Public Service Company of Colorado	Cost of service, rate design, Interruptible Rates.
03/05	Case No. 2004-00426 Case No. 2004-00421	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Louisville Gas & Electric Co.	Environmental cost recovery.
06/05	050045-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Company	Retail cost of service, rate design
07/05	U-28155	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, Inc. Entergy Gulf States, Inc.	Independent Coordinator of Transmission – Cost/Benefit
09/05	Case Nos. 05-0402-E-CN 05-0750-E-PC	WVA	West Virginia Energy Users Group	Mon Power Co. Potomac Edison Co.	Environmental cost recovery, Securitization, Financing Order
01/06	2005-00341	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Cost of service, rate design, transmission expenses. Congestion Cost Recovery Mechanism
03/06	U-22092	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Separation of EGSI into Texas and Louisiana Companies.
04/06	U-25116	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, Inc.	Transmission Prudence Investigation

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-2

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

Duquesne Light Company
Correction of Class Rates of Return under Proposed Rates

Rate Class	Distribution Rate Base	Proposed Net Income per DUQ	Income Taxes per DUQ	Allocated Income Taxes	Corrected Net Income	Corrected ROR
RS	630,118	33,388	17,929	30,713	20,604	3.27%
RH	62,030	619	333	3,023	(2,071)	-3.34%
RA	5,369	54	29	262	(179)	-3.33%
GS/GM	222,791	32,528	17,469	10,859	39,138	17.57%
GMH	24,641	2,124	1,141	1,201	2,064	8.38%
GL	170,729	27,377	14,702	8,322	33,757	19.77%
GLH	33,138	2,856	1,534	1,615	2,775	8.37%
L	55,307	8,558	4,596	2,696	10,458	18.91%
HVPS	321	81	43	16	108	33.76%
AL	16	(1)	-	1	(2)	-11.12%
SE	1,740	787	422	85	1,124	64.61%
SM	25,244	3,170	1,702	1,230	3,642	14.43%
SH	388	39	21	19	41	10.59%
MTS	885	264	142	43	363	41.00%
PAL	140	52	28	7	73	52.27%
TOTAL	1,232,857	111,896	60,091	60,091	111,896	9.08%

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-3

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

IMPACT OF DUQUESNE PROPOSED SUBSIDIES ON DISTRIBUTION RATES

	Units	Rate As Proposed	Rate Without Subsidies	Duquesne Proposed Subsidy
Rate GL				
Distribution				
First 300 kW or less	8,944	$2,120.00	$2,120.00	
Additional kW	5,505,728	$6.45	$2.93	$3.52
All kWh	3,338,997,219	$0.003579	$0.003579	
Subtotal	3,338,997,219			
Revenue		$66,424,024	$47,017,024	$19,407,000
Rate GLH				
Total Bills	1,404	$30.00	$30.00	
Summer first 300 kW or less	474	$2,120.00	$2,120.00	
Summer additional kW	273,644	$6.45	$7.36	-$0.91
All kWh	186,123,390	$0.003579	$0.003579	
Winter first block kWh	136,426,499	$0.032939	$0.032939	
Winter additional kWh	234,318,677	$0.003579	$0.003579	
Subtotal	556,868,565			
Revenue		$8,810,946	$9,058,946	$ (248,000)
Rate L				
First 5,000 KW or less	297	$30,555.00	$20,312.00	$10,243.00
Next 10,000 KW	1,028,067	$5.83	$3.88	$1.95
Next 25,000 KW	300,847	$5.83	$3.88	$1.95
Additional KW	49,444	$5.83	$3.88	$1.95
First Block kWh	1,088,846,871	$0.002982	$0.002982	
Next 150 KWH per KW	163,452,212	$0.002982	$0.002982	
Additional KWH	21,616,836	$0.002982	$0.002982	
Untransformed Service Cr		-$48,174	-$48,174	
Rate L & Rider 16				
L Monthly Minimum	8	$1,405.00	$934.00	$471.00
L Demand Charge kW	20,000	$5.83	$3.88	$1.95
L Energy Charge kWh	3,303,478	$0.00	$0.00	
Revenue		$20,989,773	$15,210,773	$ 5,779,000
Rate HVPS				
First 30,000 KW	36	$9,115.00	$7,148.00	$1,967.00
Additional KW	420,000	$0.16	$0.12	$0.03
On-Peak KWH	400,168,800	$0.000000	$0.000000	
Off-Peak KWH	933,727,200	$0.000000	$0.000000	
Revenue		$393,967	$308,967	$ 85,000

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-4

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

Duquesne Light Company
Calculation of Distribution Rate Increases to Achieve a 50.0% Subsidy Reduction

Rate Class	Present Rate Revenues	Increase to Requested ROR	Subdsidy @ Present Rates	Proposed Subsidy*	Proposed Increase	Percent Increase
RS	147,575	95,474	(21,971)	(10,985)	84,533	57.3%
RH	5,209	16,568	(9,333)	(4,667)	11,908	228.6%
RA	761	1,311	(683)	(342)	970	127.5%
GS/GM	65,831	3,350	22,578	11,289	14,647	22.2%
GMH	4,089	3,197	(328)	(164)	3,035	74.2%
GL	31,636	15,387	4,492	2,246	17,642	55.8%
GLH	2,903	6,153	(2,293)	(1,147)	5,009	172.5%
L	10,068	5,144	1,296	648	5,795	57.6%
HVPS	425	(114)	153	0	(114)	-26.8%
AL	1	4	(2)	(1)	3	323.8%
SE	1,494	(1,007)	1,209	604	(403)	-27.0%
SM	9,129	(1,403)	4,340	2,170	768	8.4%
SH	71	47	(1)	(0)	47	65.8%
MTS	590	(299)	401	201	(98)	-16.7%
PAL	173	(126)	142	71	(55)	-31.9%
TOTAL	279,955	143,686			143,686	51.3%

* HVPS subsidy set to $0

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-5

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

DII PROPOSED DISTRIBUTION RATES
(@ Duquesne's Revenue Requirement Increase)

	Units	Rate As Proposed By Duquesne	Rate @ DII 50% Subsidy Reduction*
Rate GL			
Distribution			
First 300 kW or less	8,944	$2,120.00	$1,570.00
Additional kW	5,505,728	$6.45	$4.79
All kWh	3,338,997,219	$0.003579	$0.002655
Subtotal	3,338,997,219		
Revenue		$66,424,024	49,278,288
Rate GLH			
Total Bills	1,404	$30.00	$30.00
Summer first 300 kW or less	474	$2,120.00	$1,903.00
Summer additional kW	273,644	$6.45	$5.79
All kWh	186,123,390	$0.003579	$0.003212
Winter first block kWh	136,426,499	$0.032939	$0.029562
Winter additional kWh	234,318,677	$0.003579	$0.003212
Subtotal	556,868,565		
Revenue		$8,810,946	$7,912,081
Rate L			
First 5,000 KW or less	297	$30,555.00	$23,101.00
Next 10,000 KW	1,028,067	$5.83	$4.41
Next 25,000 KW	300,847	$5.83	$4.41
Additional KW	49,444	$5.83	$4.41
First Block kWh	1,088,846,871	$0.002982	$0.0022540
Next 150 KWH per KW	163,452,212	$0.002982	$0.0022540
Additional KWH	21,616,836	$0.002982	$0.0022540
Untransformed Service Cr		-$48,174	-$48,174
Rate L & Rider 16			
L Monthly Minimum	8	$1,405.00	$1,062.00
L Demand Charge kW	20,000	$5.83	$4.41
L Energy Charge kWh	3,303,478	$0.00	$0.00
Revenue		$20,989,773	15,863,040
Rate HVPS			
First 30,000 KW	36	$9,115.00	$7,232.00
Additional KW	420,000	$0.16	$0.12
On-Peak KWH	400,168,800	$0.000000	$0.000000
Off-Peak KWH	933,727,200	$0.000000	$0.000000
Revenue		$393,967	$311,000

* HVPS subsidy set to $0

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-6

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

Baron Exhibit__(SJB-6)

Example of Rate Schedule Distribution Revenue Allocation
Assuming a $100 Million Total Revenue Increase

Rate Class	Present Distribution Revenues	DII Proposed Increase	DII Total Revenues	Total Revenues @ $100 million Increase	DII Proposed Increase @ $100 million	Percent Increase
RS	$147,575,381	84,533,281	232,108,662	208,173,513	60,598,132	41.1%
RH	$5,208,870	11,907,726	17,116,596	15,351,525	10,142,655	194.7%
RA	$760,625	969,895	1,730,520	1,552,068	791,443	104.1%
GS/GM	$65,831,430	14,646,894	80,478,324	72,179,363	6,347,933	9.6%
GMH	$4,088,687	3,034,781	7,123,468	6,388,893	2,300,206	56.3%
GL	$31,635,576	17,642,288	49,277,864	44,196,309	12,560,732	39.7%
GLH	$2,903,096	5,009,081	7,912,177	7,096,269	4,193,174	144.4%
L	$10,067,782	5,795,040	15,862,821	14,227,040	4,159,258	41.3%
HVPS	$425,418	(114,000)	311,418	279,305	(146,114)	-34.3%
AL	$1,003	3,238	4,241	3,803	2,800	279.2%
SE	$1,493,807	(402,865)	1,090,942	978,444	(515,363)	-34.5%
SM	$9,129,115	767,534	9,896,649	8,876,102	(253,013)	-2.8%
SH	$71,242	46,696	117,938	105,776	34,535	48.5%
MTS	$589,692	(98,318)	491,374	440,703	(148,989)	-25.3%
PAL	$172,793	(55,270)	117,522	105,403	(67,389)	-39.0%
TOTAL	$279,954,517	143,686,000	423,640,517	379,954,517	100,000,000	35.7%

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT SJB-7

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

Duquesne Industrial Intervenors
Interrogatory Set II

15. Reference DLC Statement No. 14, p.4, lines 10-14. Please provide all surveys, reports, analyses or other documents supporting Duquesne Light's conclusion that Rule 4 special contracts are not "an effective offering for our customers."

Response: Duquesne began offering special contract provisions under Rule No. 4 in 1994, when the industry was still fully regulated and the Company owned generating facilities. In that operating environment, the Company had the opportunity under the provisions of Rule No. 4 which required that "rates established under special contracts will be sufficient to recover, at a minimum, all appropriate incremental costs, and an appropriate contribution to fixed costs" to negotiate prices less than stated tariff rates to address incremental customer usage or compete with alternate energy sources. This provided a benefit to the recipient of the negotiated prices, as well as to the customer base as a whole, as increased or retained kWh consumption served to positively impact the efficient use of the Company's assets overall.

No formal studies, reports, etc. exist that can be provided in response to this interrogatory. However, as a result of Company restructuring and unbundling of the rates that existed when Rule No. 4 contracts were offered, each business (transmission, distribution and generation) is now measured and considered on a stand-alone basis. Considering the services that Duquesne now provides as a fully regulated transmission and distribution company, the opportunity to provide a material discount to regulated rates has been greatly reduced. Transmission and distribution charges constitute less than 15% of the monthly average charges. POLR generation rates, most notably for those rates applicable to the majority of customers who could potentially engage in Rule No. 4 contracts, are market based and supplied through contracts between the Company and third party suppliers. As a practical matter, since the Company is not permitted to market POLR service, since nearly all of the potentially eligible Rule No. 4 customers have switched to and electric generation supplier, and since the transmission and distribution rates are a small regulated portion of the customers charges, the Company believes that Rule No. 4 is no longer an effective offering.

DII STATEMENT NO. 1R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

REBUTTAL TESTIMONY

AND EXHIBITS

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA
AUGUST 2006

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
v.	:	
	:	
Duquesne Light Company	:	

DIRECT TESTIMONY OF STEPHEN J. BARON

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Have you previously filed direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I am responding to the direct testimony of witnesses for the Office of Consumer Advocate ("OCA"), Wal-Mart Stores, Citizens for Pennsylvania's Future ("Penn Future"), Direct Energy Services and Constellation New Energy. I am also responding to the questions posed by Vice Chairman Cawley on July 12, 2006.

With regard to the OCA, I will specifically respond to witness Richard Galligan regarding distribution class cost of service and the allocation of the revenue increase to rate schedules. Mr. Galligan is proposing a distribution cost allocation study that does not incorporate the "minimum distribution system" methodology proposed by Duquesne in this case. The Company's minimum system methodology is a reasonable approach and one that is supported in the NARUC Electric Utility Cost Allocation Manual. I will also address the testimony of Mr. Galligan and OCA witness Roger Colton regarding their proposal to allocate the universal service costs to all rate classes.

I will respond to Wal-Mart Stores witness James Selecky on his proposal to allocate the revenue increase in this case on an across-the-board basis. Mr. Selecky's proposal will significantly and adversely affect customers taking service on Rate HVPS. These customers take service at transmission voltage and are currently paying distribution rates substantially in excess of cost of service. The Company has recognized this and proposed a rate decrease for Rate HVPS, while Mr. Selecky's proposal would result in

a 51.3% increase to HVPS distribution rates, even though these customers use very little distribution plant.

With regard to the testimony of Penn Future witnesses, I will respond to the proposals of John Hanger and John Plunkett to increase Duquesne's revenue requirements and increase customer rates in order to fund renewable energy programs and demand side management programs. Both of these proposals should be rejected. This case involves the determination of the appropriate level of distribution and transmission rates. These Penn Future proposals are related to generation, not transmission and distribution. In addition, Mr. Hanger's proposal is to recover the cost from ratepayers on a uniform kWh basis, which places an unreasonable and unfair burden on larger and high load factor customers.

I will also respond to the testimony of Penn Future witness Paul Chernick regarding his proposal to implement time differentiated distribution rates. Though Mr. Chernick does not recommend implementation of such rates in this case, his testimony states that distribution costs vary by time of day and also that it is inefficient to recover distribution costs on a demand basis. This is contrary to cost based ratemaking and is inconsistent with the cost allocation principles set forth in the NARUC Electric Utility Cost Allocation Manual.

With regard to the testimony of Direct Energy Services, I am responding to the testimony of Mr. Frank Lacey regarding the recovery of POLR generation related costs in Duquesne's distribution rates. While I will not respond to the specific allegation of Mr. Lacey, I will briefly discuss his proposed standard for allocating costs between the distribution function and the generation function.

Finally, I will respond to the testimony of Constellation New Energy witness Martha Duggan regarding her proposals to convene meetings to discuss customer choice issues.

OCA

Q. Do you have any comments on the direct testimony of OCA witness Richard Galligan?

A. Yes. Mr. Galligan addresses the Company's class distribution cost of service and the allocation of the approved revenue increase to rate schedules. Mr. Galligan also discusses an alternative class distribution cost of service study that he has requested be run by the Company.

Q. Do you believe that Mr. Galligan's criticism of the Company's cost of service study is reasonable?

A. No. Mr. Galligan objects to the Company's minimum system framework that Duquesne used to classify distribution plant and expenses. I have reviewed the Company's analysis and, contrary to Mr. Galligan's position, believe that a minimum system approach is reasonable and therefore I believe that the Company's study should be accepted by the Commission in this case.

Q. Would you explain the concept underlying the minimum system approach that the Company used to classify distribution plant and expenses between customer and demand components?

A. Yes. As described in the NARUC Electric Utility Cost Allocation Manual, the underlying argument in support of the minimum system approach, which includes a customer component, is that there is a minimal level of distribution investment necessary to connect a customer to the distribution system (lines, poles, transformers) that is independent of the level of demand of the customer. To the extent that this component of distribution cost is a function of the requirement to interconnect the customer, regardless of the customer's size, it is appropriate to assign the cost of these facilities to rate schedules on the basis of the number of customers, rather than on the

kW demand of the class. As stated on page 90 of the NARUC cost allocation manual:

> **When the utility installs distribution plant to provide service to a customer and to meet the individual customer's peak demand requirements, the utility must classify distribution plant data separately into demand- and customer-related costs.**

I have attached a copy of the distribution cost allocation chapter from the NARUC manual as Baron Exhibit__(SJB-1R).

Q. Is the Company's use of a minimum size methodology consistent with the accepted methods discussed in the NARUC manual?

A. Yes. There are two recognize methodologies to estimate the customer component of distribution costs. These methods, that are described in the attached excerpt from the NARUC manual, are the "zero-intercept" method and the "minimum size" method, which is the approach used by Duquesne. Each of the two methods is designed to estimate the component of distribution plant cost that is incurred by a utility to effectively interconnect a customer to the system, as opposed to providing a specific level of power (kW demand) to the customer.

A minimum system cost of service analysis is designed to reflect the costs associated with changes in both the number of distribution customers and the loads of these

customers. This is in contrast to Mr. Galligan's recommended method, which gives recognition to demand (and, inexplicably) energy growth, in explaining the need for distribution facilities. Mr. Galligan's method assumes that all distribution costs (except services and meters) vary directly with kW demand and energy use ("average demand"), without any fixed component that should be allocated on the basis of the number of customers in each class.

The conceptual basis for the minimum system method is that it reflects a classification of the distribution facilities that would be required to simply interconnect a customer to the system, irrespective of the kW load of the customer. From a cost causation standpoint, the argument supporting this approach is that all of these minimal facilities would be required simply due to the requirement to interconnect the customer, including meeting minimum safety standards set forth in the National Electric Safety Code ("NESC").

Q. What methodology is Mr. Galligan recommending to classify and allocate distribution facilities in this case?

A. He is recommending a "peak and average" method, which classifies 56% of all distribution facilities (except meters and services) as energy related, and 44% as

demand related. The 56%/44% weighting apparently is derived from the Duquesne generation system load factor.

Q. Is Mr. Galligan's proposed methodology recognized as a legitimate methodology in the NARUC Electric Utility Cost Allocation Manual?

A. No. As can be seen in reviewing the chapter on the classification and allocation of distribution facilities, there is no recognition given at all to such a methodology. In fact, there is no recognition given to any use of kWh energy (average demand) to allocation distribution facilities. Even if one were to reject a minimum system concept, which the Commission should not do in this case, the alternative is to classify all distribution plant as demand related and allocate based on each class's contribution to various measures of diversified kW demand. There is no basis to allocate any (let alone 56%) of distribution plant and expenses on the basis of energy.

This methodology cannot be supported on the basis of cost causation. Consider high load factor customers, such as some members of DII who use significant kWh energy during off-peak and weekend hours. Mr. Galligan's proposed allocation method would assign additional cost responsibility for primary and secondary lines, line transformers, poles and other structures for each additional off-peak kWh used. This is simply not plausible from a cost causation standpoint. These facilities are required to be built to

serve maximum loading expected on them. Additional energy use during off-peak hours, as long as it does not create new, localized peak demands, does not contribute to the need for these facilities. Yet, Mr. Galligan's cost of service study keeps assigning additional cost for distribution facilities every time a member of DII uses more off-peak energy.

Q. Did DII request information from Mr. Galligan regarding the PUC's prior acceptance of the peak and average methodology?

A. Yes. In his response to DII–II-2, Mr. Galligan notes the PUC's acceptance of the methodology in several natural gas cases; however, allocating electric distribution costs is not similar to allocating natural gas costs.

Q. Please explain the general differences between cost allocation for electric distribution costs and natural gas costs.

A. I have not reviewed the specific cases cited by Mr. Galligan; however, in general in the gas industry, there have been a number of methodologies to classify distribution mains and other facilities partially on the basis of commodity usage. The FERC's use of the "Seaboard formula" (50% peak demand, 50% commodity) is an example of such a methodology. All of these methods were designed to allocate some portion of the gas

distribution system to interruptible customers, who would not otherwise have paid any of the costs for distribution. This issue does not exist in electric utility cost allocation analyses since interruptible customers are always allocated 100% of their demand and customer based share of distribution costs, without any adjustments made for interruptible load. In electric utility ratemaking, interruptible customers traditionally are assigned lower costs based on their reduced demand for generation and production related facilities, not distribution facilities. There is no basis at all to classify fixed electric distribution plant on the basis of a customer class energy use, as I previously explained.

Q. Are the results of Mr. Galligan's recommended cost of service study reliable?

A. No. Because of the use of his peak and average method, these cost of service results cannot be relied on to assess the reasonableness of the Company's rates. Despite his ultimate recommendation to accept the Company's revenue increase allocation to rate schedules (which is based on the Duquesne cost of service study, not Mr. Galligan's), his cost of service study should be rejected by the Commission. As I explained in my direct testimony, Duquesne's cost of service study demonstrates significant interclass subsidization at present and proposed rates that should be addressed in this case.

Q. Have you reviewed the testimony of OCA witness Roger Colton on universal service costs?

A. Yes. Mr. Colton addresses a number of issues associated with universal service costs, including the Company's proposal to allocate universal service costs that are recovered in Rider 21 only to residential customers, consistent with the Company's treatment of these costs in its distribution class cost of service study.[1] Mr. Galligan also notes that universal service costs should be allocated to all customer classes, but did not implement this recommendation in the cost of service study he sponsored. I disagree with this proposal and support the allocation of universal service costs under Rider 21 and in the distribution class cost of service study. These costs should be borne by residential customers following normal ratemaking approaches.

Q. Why should universal service costs be allocated only to residential customers, as the Company proposes?

A. Customer assistance costs are associated with providing benefits to residential customers. Allocating these costs to all customer classes, on say a kWh basis, is essentially a form of energy tax that is applied to each kWh of usage, regardless of whether it is on-peak or off-peak. Clearly, usage by large C&I customers does not

[1] Mr. Colton also recommends that the Company's proposed Rider 21 should be rejected in its entirety.

"cause" the incurrence of these universal service costs because large C&I customers cannot obtain payments from the programs. Though these costs are not caused by all residential customers, the benefits of CAP programs are provided only to residential customers and are available to all residential customers. Allocating these costs to the residential class is the most reasonable and equitable approach to the recovery of universal service costs. Doing otherwise (for example, allocating to all customers on the basis of kWh usage) is effectively a tax and should not be imposed by the Commission. The Pennsylvania legislature would be the appropriate body to make such a determination.

Q. In the most recent PPL Electric Utilities Corporation distribution rate case in 2004, did the Commission address this issue?

A. Yes. In that case (Docket No. R-00049255) the Commission allocated universal service costs only to residential customers. The Commission Order in that case stated as follows on pages 97 and 98:

> **Universal service programs, by their nature, are narrowly tailored to the residential customers and therefore, should be funded only by the residential class. We note that neither the OCA nor Mr. Epstein have presented any concrete evidence in the form of costs studies to support their respective proposals that the universal service program cost should be more broadly allocated.**

The same rationale and conclusion applies here – Duquesne's universal service programs are, by their nature, narrowly tailored to the residential customers and, therefore, should be funded only by the residential class.

Q. If the Commission were to allocate Duquesne's universal service costs to all customer classes on a uniform kWh basis, as suggested by Mr. Colton, what is the expected impact on DII members?

A. Using the 2006 universal service cost projection of $12.6 million, the impact on DII members would be an increase in annual charges of $1.8 million. This amount would likely increase over time as universal service expenditures increase. Rate HVPS customers would pay $1.2 million annually for universal service costs, about three times the amount that Duquesne is proposing for distribution service for these customers.

Q. What is your recommendation regarding the allocation of universal service costs?

A. These costs should be allocated and collected from residential customers, for the reasons that I just discussed.

Wal-Mart Stores

Q. Have you reviewed the direct testimony of Wal-Mart Stores witness James Selecky in this case?

A. Yes. Mr. Selecky addresses class cost of service and the allocation of the approved revenue increase. While I generally agree with Mr. Selecky's testimony on class cost of service, I disagree with his recommendation to allocate the approved revenue increase to rate classes on a uniform percentage basis. While his testimony appears to strongly endorse the use of a fully allocated class cost of service study to assess the reasonableness of rates, his actual recommendation in this case is to increase all rate schedules by an equal percentage factor, regardless of the cost of service study results. This appears to be inconsistent with his support of cost based rates, since an equal percentage increase for all rate schedules does not provide a systematic method to move rates towards cost of service and reduce inter-class subsidies. As I discussed in my direct testimony, Duquesne's distribution rates currently contain substantial subsidies, which should be reduced following the implementation of a Commission authorized revenue change in this case.

Mr. Selecky's proposal would be particularly unreasonable and unfair to Rate HVPS customers, who pay current distribution rates substantially in excess of cost of service.

Duquesne is proposing to decrease distribution rates for Rate HVPS in a reasonable attempt to move this rate towards cost. As I showed in my direct testimony, even after the Company's proposed 7.4% decrease for Rate HVPS distribution rates, these customers will continue to be paying in excess of cost of service. HVPS customers take service at transmission voltages and do not use the Company's primary and secondary distribution system.

Mr. Selecky's proposal would increase distribution rates for Rate HVPS by 51.3% (assuming that the Company received its entire revenue request in this case). This proposal is unreasonable, not supported by any reasoned analysis and should be rejected by the Commission.

Penn Future

Q. Would you please respond to the testimony of Penn Future witness John Hanger?

A. Yes. Mr. Hanger is proposing an increase in Duquesne's distribution revenue requirement of $15 million over the period 2007 through 2010, which amounts to $3.75 million annually. The purpose of this additional revenue requirement is to fund a renewable energy program for Duquesne. Mr. Hanger's proposal is essentially an

implementation of a Sustainable Energy Fund ("SEF") for Duquesne, albeit one administered by the Pennsylvania Energy Development Agency ("PEDA").

Q. How does Mr. Hanger propose to collect these additional revenues from Duquesne's ratepayers?

A. His stated preference is to collect this additional revenue through a uniform charge per kWh, though he indicates that other proposals may be acceptable.

Q. Do you object to Mr. Hanger's proposal?

A. Yes. While I do not object to renewable energy programs on a voluntary basis, I do not believe that it is appropriate to impose an additional revenue requirement on each Duquesne customer to fund such a program. As noted by Mr. Hanger, Duquesne did not have an SEF in its restructuring plan, as did other utilities in Pennsylvania. Even in those plans, which were initiated as part of settlements of the restructuring process for PP&L, Met-Ed, Penelec, PECO and West Penn, the funding for the SEF was imputed from existing distribution revenue requirements and not imposed as an additional charge to ratepayers. Furthermore, those settlements provided generation rate caps for much longer periods that are applicable in other areas of Pennsylvania, with the

generation rate caps in PECO, West Penn, Penelec and Met-Ed expiring on December 31, 2010, while PPL's rate cap expires one year earlier (December 31, 2009).

I also oppose the preferred revenue recovery method suggested by Mr. Hanger, in the event that the Commission approves his request for an additional revenue increase for the Company. A uniform kWh charge per customer is particularly unreasonable because it burdens high load factor commercial and industrial customers in a very disproportionate manner. If a uniform kWh charge were implemented, large high load factor customers would be required to pay an "SEF Tax" on each additional kWh used, even if were in the off-peak or weekend period. All else being equal, such a rate recovery method would provide a disincentive for these customers to expand operations, take on new business through additional shifts. This would, all else being equal, reduce job growth in Pennsylvania. Higher generation prices have a similar effect. The difference is that the market determines the price of POLR or EGS generation prices. Imposition of a mandatory SEF charge on a per kWh basis is not a market driven cost and should be avoided by making such a charge voluntary. Each customer should be able to determine whether and how it will support renewable projects.

Q. What would be the impact of Mr. Hanger's proposal on rates?

A. Assuming a $3.75 million annual revenue requirement, the uniform kWh charge would be 0.0268 cents per kWh. For the members of DII, who consume about 2 billion kWh per year, this would amount to an additional annual cost of over $537,000. This is a material cost to DII members and to all Duquesne ratepayers. Given the fact that Duquesne's customers no longer have generation rate cap protection and are facing market prices sooner than other utilities in the State, the Commission should not impose additional costs on ratepayers to fund an SEF. Attached as Baron Exhibit__(SJB-2R) is an interrogatory response provided by Duquesne that demonstrates the significant increases to large C&I POLR rates under POLR III. PennFuture now seeks to add additional costs to Duquesne's ratepayers based on the theory that Duquesne's customers should be required to "catch-up" to the funding provided under the restructuring settlements that were applicable in other areas of the State and, under which, customers did not experience a rate increase to accommodate the creation of the SEF entities.

Q. Does the earlier expiration of Duquesne's rate caps have other impacts on renewable projects?

A. Yes. It is my understanding that Pennsylvania's Alternative Energy Portfolio Standards Act (Act 213) will also be implemented more rapidly on Duquesne, than on other distribution utilities because Duquesne does not have rate caps. Duquesne's ratepayers

will already face the added cost of purchasing renewable energy under Act 213 starting on January 1, 2008 (when Duquesne's next POLR plan takes effect). Mr. Hanger's proposal represents an additional cost associated with renewables, beyond the requirements of Act 213 that should not be imposed on the Company's ratepayers.

Q. Did the Commission require distribution ratepayers to pay for SEF expenses in the PPL distribution rate case?

A. Yes. The Commission required the funding for two years. On page 52, the Commission's Order states: "Given the breakdown of the consensus, achieved at PPL's restructuring settlement, the strong balance sheet of the SEF and the Legislature's creation of a permanent statutory funding source, now is the appropriate time to begin eliminating the use of distribution revenues to support the SEF." It is my understanding that the legality of this action is under review by the Commonwealth Court.

Q. Please summarize your conclusions regarding PennFuture's request to increase Duquesne's revenue requirement by $3.75 million to fund renewable projects.

A. PennFuture's request should be rejected. As Mr. Hanger recognized in his response to DII Interrogatory I-16, Duquesne's ratepayers will face the costs (and, according to

PennFuture, the benefits) of AEPS compliance sooner than the customers of any other major EDC in Pennsylvania. Meanwhile, the ratepayers of the other EDCs will experience extended generation rate protection, while Duquesne's large C&I customers have seen substantial increases to POLR rates in the last two years. Moreover, as evidenced by Mr. Hanger's reliance on the alleged reduction to the PJM Locational Marginal Prices to justify his proposal, the primary benefit of these projects (if any) is related to generation service. As such, these projects should be subsidized through generation rates, which Act 213 appears to do. Even for the distributed generation projects discussed by Mr. Hanger, as Mr. Hanger's response to DII-I-4 confirms, Duquesne can eliminate or avoid distribution system improvements only if the customer agrees that Duquesne will not serve as a back-up any time that the distributed generation project is off line. Based on over twenty-five years experience with customers, I do not believe that this will occur very often. PennFuture's proposal is a generation issue that should not be addressed in a distribution rate case.

Q. Have you reviewed the proposal of Penn Future witness John Plunkett to increase distribution revenue requirements by an additional $14.8 million per year to fund customer specific energy efficiency improvement projects?

A. Yes. Mr. Plunkett, like Mr. Hanger, is proposing to increase Duquesne's revenue increase to fund projects that he believes are worthy of being paid for by all of the Company's customers.

Q. Do you oppose Mr. Plunkett's proposal?

A. Yes. First, the energy efficiency projects proposed by Mr. Plunkett are designed to help individual customers. Most, if not all, of the benefits of such funding will be received by the customer and not the entire body of Duquesne ratepayers. More significantly, to the extent that only certain commercial and industrial customers receive the funding, the process proposed by Mr. Plunkett will likely create anti-competitive effects by favoring one customer over another. Depending on the particular industry, this could create significant unintended consequences by lowering the cost for one Company, while making everyone pay higher rates to do so. For example, under Mr. Plunkett's proposal, U.S. Steel might have to pay additional costs each year to fund an energy efficiency (cost reduction) project for its competitor, Allegheny Ludlum. This would not be in the public interest, in my opinion.

Larger businesses tend to evaluate cost effective energy efficiency projects on a continuing basis. This is driven by the requirement of the market to be competitive. However, since customers today must fund their own projects, the project must be cost effective in order for it to be implemented. Under Mr. Plunkett's proposal, however, some customers may receive funding for projects that would otherwise not pass their internal cost effectiveness test.

Q. Are the energy efficiency projects envisioned by Mr. Plunkett associated with distribution and transmission facilities, which are the subjects of this proceeding?

A. No. These energy efficiency projects are designed to save energy and are thus associated with generation, not transmission and distribution. While reductions in demand could, at some point, reduce transmission and distribution investment, the obvious target of Mr. Plunkett's program is generation related costs.

Q. What is the impact of Mr. Plunkett's proposed revenue increase in this case?

A. His proposal to charge ratepayers an additional $14.8 million per year in distribution costs would result in a charge of 0.106 cents per kWh, if it were recovered from all customers in the same manner as proposed by Mr. Hanger for his proposed increases.

Individual customers would not be guaranteed funding from the program equivalent to their contributions. For DII members, this would amount to an additional payment of $2.1 million for each year, with no guarantee that DII members would have access to their same level of contributions to pursue energy efficiency efforts. Of course, if this guarantee were in place and the program was designed to pursue only cost-effective projects, then the individual customer would make an independent decision, in the absence of the program, to invest the same amount in energy efficiency efforts (based on their own analysis or advice from a consultant or their EGS). The combined impact of Mr. Plunkett's proposal and Mr. Hanger's proposal would be an increase in DII rates of more than $2.6 million per year.[2]

Q. What is the impact of the PennFuture proposals on Rate HVPS customers?

A. If the combined increases proposed by Penn Future of $18.6 million were recovered on a uniform kWh basis from all distribution customers, Rate HVPS customers would pay about $1.8 million in additional annual distribution charges. This compares to Duquesne's proposed distribution revenue requirement for Rate HVPS of $0.394 million. Clearly, the Penn Future proposals are not insignificant and should not be accepted by the Commission.

[2] Mr. Plunkett, while recommending that the $14.8 million be recovered in rates, does not specify the allocation to rate schedules.

Q. Have you reviewed the direct testimony of Penn Future witness Paul Chernick?

A. Yes. Mr. Chernick's testimony discusses policies to implement real time pricing for Duquesne. Among the issues addressed by Mr. Chernick is his position that transmission and distribution costs vary by time-of-day and should be reflected in these rates. Though I do not oppose the concept of optional time-of-day generation rates, and in fact support such rates when they are cost justified, Mr. Chernick's proposals regarding distribution and transmission rates are not appropriate.

Q. What is your concern with Mr. Chernick's testimony on the transmission and distribution rate design?

A. Mr. Chernick asserts that transmission and distribution costs should be recovered (and presumably allocated) on the basis of kWh charges. While this may be appropriate for rate recovery from rate classes such as residential that do not have demand metering, it is not appropriate for allocating transmission and distribution costs to rate classes and is not appropriate for rate design for large customer classes that have demand metering.

While it is true that transmission costs are a function of peak demand and that peak demands arise in the summer months for most utilities, this observation is support for a single coincident peak demand allocation and recovery of transmission cost, not a kWh

basis. In fact, PJM charges for network transmission service on the basis of single coincident annual peaks (demand). There is no basis or evidence that would support Mr. Chernick's theory that a kWh based cost recovery approach is either cost justified or economically efficient.

Q. Please explain how distribution costs are incurred and allocated?

A. Distribution costs are incurred to meet customer demands on the distribution system, as well as minimum requirements to simply provide an interconnection to a customer (minimum system costs). As I discussed previously in response to OCA witness Galligan, the NARUC Electric Utility Cost Allocation Manual [Baron Exhibit__(SJB-1R)] discusses methodologies adopted by the industry and regulators to allocate and recover the cost of distribution facilities. All of the methodologies recognize that the cost incurred to provide distribution service is a fixed cost and should be allocated on the basis of one or more demands (for example, customer maximum demands, class diversified demand). The fact that these demands reach their maximums during on-peak periods is self-evident. However, in contrast to Mr. Chernick's conclusion, this does not mean that these costs vary by time-of-day or that they should be recovered on a kWh basis.

Q. Based on your experience, do electric utilities add additional distribution facilities because customers increase their energy usage in off-peak periods?

A. No. These facilities are sized to meet the maximum load that is imposed on them. Additional kWh usage by a customer or group of customers during the off-peak period does not result in additional investment. The only exception to this would be a case where a customer or group of customers achieves a demand during the off-peak period that exceeds the customer's (or group's) demand during the on-peak period. In this case, depending on the facility and the diversity of loads on the facility, the off-peak demand could drive the investment decision. However, in this event, the level of customer or class diversified demands (not kWh) would be the factor affecting the decision.

Q. Mr. Chernick asserts that demand charges are not effective at "reflecting costs". Do you agree with his testimony on this issue?

A. No. All of the reasons cited by Mr. Chernick in his testimony relate to the "precision" of a customers demand in correlating with the actual demands that are imposed on a particular distribution system facility. While it may be true that customer maximum demands may not perfectly correlate with the diversified demands on each distribution

facility, this observation does not support his rejection of demand charges to recover distribution costs.

Direct Energy Services

Q. Have you reviewed the testimony of Direct Energy witness Frank Lacey in this case?

A. Yes. Mr. Lacey raises concerns about the inclusion of generation- related POLR costs in Duquesne's distribution revenue requirements. While I have not performed any analysis of Mr. Lacey's claims regarding potential cross-subsidization, DII does not oppose Mr. Lacey's recommendation for a POLR Cost Allocation Study, following this proceeding. It is critical, however, that any costs allocated to the POLR function must be removed from distribution rates on a dollar-for-dollar basis.

Q. Do you have any comments on Mr. Lacey's suggested "avoided cost" standard to assess the appropriateness of the Company's distribution costs?

A. Yes. I believe that an avoided cost standard is the appropriate basis to assess the reasonableness of these costs. The standard should be that Duquesne is entitled to recover in distribution rates its costs associated with providing distribution service that

it would otherwise incur if it only had a distribution function. This is in contrast to calculating the estimated overheads and A&G cost for Electric Generation Suppliers ("EGSs") suppliers and assuming that Duquesne's cost for POLR service would be the same.

Constellation New Energy

Q. Have you reviewed the testimony of Constellation witness Martha Duggan?

A. Among other issues, Ms. Duggan discusses a proposal to require Duquesne to conduct a number of meetings with EGS suppliers and customers to discuss issues associated with the state of the retail generation market.

Q. Does DII oppose Ms. Duggan's recommendation regarding EGS supplier and customer meetings?

A. No. However, DII believes that large C&I customers should be permitted to attend the Duquesne/EGS meetings. To the extent that issues arise that affect shopping customers at the supplier meetings, it would be appropriate to for the customers themselves to offer input on possible solutions and improvements.

Response to Vice Chairman Cawley's Questions

Q. On July 12, 2006, Vice Chairman Cawley submitted four questions to the ALJ and the parties in this case concerning rate design. Have you prepared a response on behalf of DII to these questions?

A. Yes. Though some of the questions relate to residential rate design issues that DII has not addressed in this case, I have responded to each of Vice Chairman Cawley's questions below.

1. **Do fixed charges for residential and small or medium commercial customer distribution services discourage conservation of energy? If so, what other revenue decoupling models can be implemented that would optimally meet the dual needs of providing incentives for consumers to conserve energy, while providing reasonably stable revenues for utilities?**

Response:

The first principle of rate design should be that, to the extent feasible, rates should reflect cost of service. This means that residential rates should generally include a customer charge and a kWh charge. If residential customers are demand metered, it is also appropriate, based on generally accepted and reasonable cost of service methodologies, to incorporate a kW demand charge in the rate design, reflecting the maximum 15 minute demand during the month or during the on-peak period (if time differentiated pricing is implemented). If rates are set based on cost of service, customers will receive proper and efficient price signals that will guide their

consumption. Such rates do not either discourage or encourage conservation, but rather encourage efficient and economic use of energy. While it is true that, all else being equal, higher kWh rates will result in lower consumption (and thus "conservation"), it does not follow that this is an optimal outcome. If off-peak energy, for example, is lower cost than on-peak energy, efficiency is not promoted by raising the off-peak rate, simply to discourage usage. If rates are based on cost, including cost based fixed charges where justified, customers will face prices that are consistent with the costs of providing each component of electric service and make rational consumption decisions.

2. Do declining block rate designs remove the incentive for consumers, especially RA and RH residential consumers and small to medium sized commercial and industrial customers ("C&I"), to conserve energy? If so, should declining block rates for supply and distribution services be phased out over time?

Response:

The response to the previous question addressed this question to some extent. If declining block rates are cost justified, than such rate designs are appropriate and do not represent an impediment to conservation. With regard to rates for distribution services, distribution costs are fixed and should, to the extent feasible, be recovered from larger customers through a kW demand charge (please see my response earlier in this testimony to the filed testimony of Penn Future witness Paul Chernick).

3. Do demand based charges, and in particular demand based charges for default supply service, remove the incentive for consumers, especially small to medium sized C&I customers, to conserve energy? If so, should demand based rates for such customers be phased out over time?

Response:

No. As discussed in response to Question No. 1, it is appropriate to design rates based on cost of service. In the case of POLR supply service, the cost of market based power in the PJM market includes both an energy cost component and a capacity charge in the form of a kW demand charge. The PJM market structure includes demand charges to insure that adequate reliability is maintained in PJM among Load Serving Entities. It would be contrary to economic pricing principles to ignore the underlying wholesale pricing structure in the development of POLR supply rates. This means that demand charges should be reflected in POLR default service pricing.

4. Can and should rate designs vary among customer classes? For example, larger industrial and commercial ("C&I") customers generally have a much smaller percentage of their revenues attributable to distribution services. Given this dynamic, does the commodity design of supply service rates provide adequate incentive for larger C&I customers to conserve energy?

Response:

Yes, rate designs should vary by customer class. There are substantial cost differences that must be recognized in the design of rates for individual customer classes.

Customers on large power rates typically have much higher load factors than residential and small commercial customers. They also take service at primary and transmission voltages, which means that it costs less to obtain the POLR supply for these customers. It would be both economically inefficient and inequitable to ignore these cost differences among customer classes in the design of rates. Also, as discussed in a previous answer, though ideally, each rate should be comprised of customer, demand and energy charges, residential and small commercial customers do not usually have demand meters and therefore it is not feasible to include a demand charge for these rates. For larger customers with demand meters, it is appropriate to include a demand charge in the rate design, reflecting the underlying cost structure of the service. Because most large C&I customers in Duquesne's service territory currently purchase generation supply from EGSs, it cannot be determined whether the designs of the EGS rates provide incentives to conserve electricity. Presumably, EGS offers to customers are based on each customer's anticipated load shape, the costs that the EGS will incur to serve the customer and the rate design negotiated between the customer and the EGS. Duquesne's current fixed-price POLR option for large C&I customers includes on-peak and off-peak pricing.

Q. Does that complete your rebuttal testimony?

A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
v.	:	
	:	
Duquesne Light Company	:	

EXHIBITS

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT__(SJB-1R)

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

ELECTRIC UTILITY COST ALLOCATION MANUAL

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

January, 1992

PREFACE

This project was jointly assigned to the NARUC Staff Subcommittees on Electricity and Economics in February, 1985. Jack Doran, at the California PUC had led a task force in 1969 that wrote the original **Cost Allocation Manual**; the famous "Green Book". I was asked to put together a task force to revise it and include a Marginal Cost section.

I knew little about the subject and was not sure what I was getting into so I asked Jack how he had gone about drafting the first book. "Oh" he said, "There wasn't much to it. We each wrote a chapter and then exchanged them and rewrote them." What Jack did not tell me was that like most NARUC projects, the work was done after five o'clock and on weekends because the regular work always takes precedence. It is a good thing we did not realize how big a task we were tackling or we might never have started.

There was great interest in the project so when I asked for volunteers, I got plenty. We split into two working groups; embedded cost and marginal cost. Joe Jenkins from the Florida PSC headed up the Embedded Cost Working Group and Sarah Voll from the New Hampshire PUC took the Marginal Cost Working Group. We followed Jack's suggestions but, right from the beginning, we realized that once the chapters were technically correct, we would need a single editor to cast them all "into one hand" as Joe Jenkins put it. Steven Mintz from the Department of Energy volunteered for this task and has devoted tremendous effort to polishing the book into the final product you hold in your hands. Victoria Jow at the California PUC took Steven's final draft and desktop published the entire document using Ventura Publisher.

We set the following objectives for the manual:

- It should be simple enough to be used as a primer on the subject for new employees yet offer enough substance for experienced witnesses.
- It must be comprehensive yet fit in one volume.
- The writing style should be non-judgmental; not advocating any one particular method but trying to include all currently used methods with pros and cons.

It is with extreme gratitude that I acknowledge the energy and dedication contributed by the following task force members over the last five years.

Steven Mintz, Department of Energy, Editor; Joe Jenkins, Florida PSC, Leader, Embedded Cost Working Group; Sarah Voll, New Hampshire PUC, Leader, Marginal Cost Working Group; Victoria Jow, California PUC; John A. Anderson, ELCON; Jess Galura, Sacramento MUD; Chris Danforth, California PUC; Alfred Escamilla, Southern California Edison; Byron Harris, West Virginia CAD; Steve Houle, Texas Utility Electric Co.; Kevin Kelly, formally NRRI; Larry Klapow California PUC; Jim Keiter P.E., Missouri PSC; Ed Lucero, Price Waterhouse; J. Robert Malko, Utah State University; George McCluskey, New Hampshire PUC; Marge Meeter, Florida PSC; Gordon Murdock, The FERC; Dennis Nightingale, North Carolina UC; John Orecchio, The FERC; Carl Silsbee, Southern California Edison; Ben Turner, North Carolina UC; Dr. George Parkins, Colorado PUC; Warren Wendling, Colorado PUC; Schef Wright, formally Florida PSC; **IN MEMORIAL** Bob Kennedy Jr., Arkansas PSC.

Julian Ajello
California PUC

CHAPTER 6

CLASSIFICATION AND ALLOCATION OF DISTRIBUTION PLANT

Distribution plant equipment reduces high-voltage energy from the transmission system to lower voltages, delivers it to the customer and monitors the amounts of energy used by the customer.

Distribution facilities provide service at two voltage levels: primary and secondary. Primary voltages exist between the substation power transformer and smaller line transformers at the customer's points of service. These voltages vary from system to system and usually range between 480 volts to 35 KV. In the last few years, advances in equipment and cable technology have permitted the use of higher primary distribution voltages. Primary voltages are reduced to more usable secondary voltages by smaller line transformers installed at customer locations along the primary distribution circuit. However, some large industrial customers may choose to install their own line transformers and take service at primary voltages because of their large electrical requirements.

In some cases, the utility may choose to install a transformer for the exclusive use of a single commercial or industrial customer. On the other hand, in service areas with high customer density, such as housing tracts, a line transformer will be installed to serve many customers. In this case, secondary voltage lines run from pole-to-pole or from handhole-to-handhole, and each customer is served by a drop tapped off the secondary line leading directly to the customer's premise.

I. COST ACCOUNTING FOR DISTRIBUTION PLANT AND EXPENSES

The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts requires separate accounts for distribution investment and expenses. Distribution plant accounts are summarized and classified in Table 6-1. Distribution expense accounts are summarized and classified in Table 6-2. Some utilities may choose to establish subaccounts for more detailed cost reporting.

TABLE 6-1

CLASSIFICATION OF DISTRIBUTION PLANT[1]

FERC Uniform System of Accounts No.	Description	Demand Related	Customer Related
	Distribution Plant [2]		
360	Land & Land Rights	X	X
361	Structures & Improvements	X	X
362	Station Equipment	X	-
363	Storage Battery Equipment	X	-
364	Poles, Towers, & Fixtures	X	X
365	Overhead Conductors & Devices	X	X
366	Underground Conduit	X	X
367	Underground Conductors & Devices	X	X
368	Line Transformers	X	X
369	Services	-	X
370	Meters	-	X
371	Installations on Customer Premises	-	X
372	Leased Property on Customer Premises	-	X
373	Street Lighting & Signal Systems [1]	-	-

[1] Assignment or "exclusive use" costs are assigned directly to the customer class or group which exclusively uses such facilities. The remaining costs are then classified to the respective cost components.

[2] The amounts between classification may vary considerably. A study of the minimum intercept method or other appropriate methods should be made to determine the relationships between the demand and customer components.

TABLE 6-2

CLASSIFICATION OF DISTRIBUTION EXPENSES[1]

FERC Uniform System of Accounts No.	Description	Demand Related	Customer Related
	Operation [2]		
580	Operation Supervision & Engineering	X	X
581	Load Dispatching	X	-
582	Station Expenses	X	-
583	Overhead Line Expenses	X	X
584	Underground Line Expenses	X	X
585	Street Lighting & Signal System Expenses [1]	-	-
586	Meter Expenses	-	X
587	Customer Installation Expenses	-	X
588	Miscellaneous Distribution Expenses	X	X
589	Rents	X	X
	Maintenance [2]		
590	Maintenance Supervision & Engineering	X	X
591	Maintenance of Structures	X	X
592	Maintenance of Station Equipment	X	-
593	Maintenance of Overhead Lines	X	X
594	Maintenance of Underground Lines	X	X
595	Maintenance of Line Transformers	X	X
596	Maint. of Street Lighting & Signal Systems [1]	-	-
597	Maintenance of Meters	-	X
598	Maint. of Miscellaneous Distribution Plants	X	X

[1]Direct assignment or "exclusive use" costs are assigned directly to the customer class or group which exclusively uses such facilities. The remaining costs are then classified to the respective cost components.

[2]The amounts between classifications may vary considerably. A study of the minimum intercept method or other appropriate methods should be made to determine the relationships between the demand and customer components.

To ensure that costs are properly allocated, the analyst must first classify each account as demand-related, customer-related, or a combination of both. The classification depends upon the analyst's evaluation of how the costs in these accounts were incurred. In making this determination, supporting data may be more important than theoretical considerations.

Allocating costs to the appropriate groups in a cost study requires a special analysis of the nature of distribution plant and expenses. This will ensure that costs are assigned to the correct functional groups for classification and allocation. As indicated in Chapter 4, all costs of service can be identified as energy-related, demand-related, or customer-related. Because there is no energy component of distribution-related costs, we need consider only the demand and customer components.

To recognize voltage level and use of facilities in the functionalization of distribution costs, distribution line costs must be separated into overhead and underground, and primary and secondary voltage classifications. A typical functionalization and classification of distribution plant would appear as follows:

Substations:	Demand
Distribution:	Overhead Primary
	Demand
	Customer
	Overhead Secondary
	Demand
	Customer
	Underground Primary
	Demand
	Customer
	Underground Secondary
	Demand
	Customer
	Line Transformers
	Demand
	Customer
Services:	Overhead
	Demand
	Customer
	Underground
	Demand
	Customer
Meters:	Customer
Street Lighting:	Customer
Customer Accounting:	Customer
Sales:	Customer

From this breakdown it can be seen that each distribution account must be analyzed before it can be assigned to the appropriate functional category. Also, these accounts must be classified as demand-related, customer-related, or both. Some utilities assign distribution to customer-related expenses. Variations in the demands of various customer groups are used to develop the weighting factors for allocating costs to the appropriate group.

II. DEMAND AND CUSTOMER CLASSIFICATIONS 0F DISTRIBUTION PLANT ACCOUNTS

When the utility installs distribution plant to provide service to a customer and to meet the individual customer's peak demand requirements, the utility must classify distribution plant data separately into demand- and customer-related costs.

Classifying distribution plant as a demand cost assigns investment of that plant to a customer or group of customers based upon its contribution to some total peak load. The reason is that costs are incurred to serve area load, rather than a specific number of customers.

Distribution substations costs (which include Accounts 360 -Land and Land Rights, 361 - Structures and Improvements, and 362 -Station Equipment), are normally classified as demand-related. This classification is adopted because substations are normally built to serve a particular load and their size is not affected by the number of customers to be served.

Distribution plant Accounts 364 through 370 involve demand and customer costs. The customer component of distribution facilities is that portion of costs which varies with the number of customers. Thus, the number of poles, conductors, transformers, services, and meters are directly related to the number of customers on the utility's system. As shown in Table 6-1, each primary plant account can be separately classified into a demand and customer component. Two methods are used to determine the demand and customer components of distribution facilities. They are, the minimum-size-of-facilities method, and the minimum-intercept cost (zero-intercept or positive-intercept cost, as applicable) of facilities.

A. The Minimum-Size Method

Classifying distribution plant with the minimum-size method assumes that a minimum size distribution system can be built to serve the minimum loading requirements of the customer. The minimum-size method involves determining the minimum size pole, conductor, cable, transformer, and service that is currently installed by the utility. Normally, the average book cost for each piece of equipment determines

the price of all installed units. Once determined for each primary plant account, the minimum size distribution system is classified as customer-related costs. The demand-related costs for each account are the difference between the total investment in the account and customer-related costs. Comparative studies between the minimum-size and other methods show that it generally produces a larger customer component than the zero-intercept method (to be discussed). The following describes the methodologies for determining the minimum size for distribution plant Accounts 364, 365, 366, 367, 368, and 369.

1. **Account 364 - Poles, Towers, and Fixtures**

   - Determine the average installed book cost of the minimum height pole currently being installed.
   - Multiply the average book cost by the number of poles to find the customer component. Balance of plant account is the demand component.

2. **Account 365 - Overhead Conductors and Devices**

   - Determine minimum size conductor currently being installed.
   - Multiply average installed book cost per mile of minimum size conductor by the number of circuit miles to determine the customer component. Balance of plant account is demand component. (Note: two conductors in minimum system.)

3. **Accounts 366 and 367 - Underground Conduits, Conductors, and Devices**

   - Determine minimum size cable currently being installed.
   - Multiply average installed book cost per mile of minimum size cable by the circuit miles to determine the customer component. Balance of plant Account 367 is demand component. (Note: one cable with ground sheath is minimum system.) Account 366 conduit is assigned, basedon ratio of cable account.
   - Multiply average installed book cost of minimum size transformer by number of transformers in plant account to determine the customer component. Balance of plant account is demand component.

4. **Account 368 - Line Transformers**

   - Determine minimum size transformer currently being installed.

- Multiply average installed book cost of minimum size transformer by number of transformers in plant account to determine the customer component.

5. **Account 369 - Services**

   - Determine minimum size and average length of services currently being installed.
   - Estimate cost of minimum size service and multiply by number of services to get customer component.
   - If overhead and underground services are booked separately, they should be handled separately. Most companies do not book service by size. This requires an engineering estimate of the cost of the minimum size, average length service. The resultant estimate is usually higher than the average book cost. In addition, the estimate should be adjusted for the average age of service, using a trend factor.

B. The Minimum-Intercept Method

The minimum-intercept method seeks to identify that portion of plant related to a hypothetical no-load or zero-intercept situation. This requires considerably more data and calculation than the minimum-size method. In most instances, it is more accurate, although the differences may be relatively small. The technique is to relate installed cost to current carrying capacity or demand rating, create a curve for various sizes of the equipment involved, using regression techniques, and extend the curve to a no-load intercept. The cost related to the zero-intercept is the customer component. The following describes the methodologies for determining the minimum intercept for distribution-plant Accounts 364, 365, 366, 367, and 368.

1. **Account 364 - Poles, Towers, and Fixtures**

   - Determine the number, investment, and average installed book cost of distribution poles by height and class of pole. (Exclude stubs for guying.)
   - Determine minimum intercept of pole cost by creating a regression equation, relating classes and heights of poles, and using the Class 7 cost intercept for each pole of equal height weighted by the number of poles in each height category.
   - Multiply minimum intercept cost by total number of distribution poles to get customer component.

- Balance of pole investment is assigned to demand component.

- Total account dollars are assigned based on ratio of pole investment. (Transformer platforms in Account 364 are all demand-related. They should be removed before determining the account ratio of customer- and demand-related costs, and then they should be added to the demand portion of Account 364.)

2. Account 365 - Overhead Conductors and Devices

- If accounts are divided between primary and secondary voltages, develop a customer component separately for each. The total investment is assigned to primary and secondary; then the customer component is developed for each. Since conductors generally are of many types and sizes, select those sizes and types which represent the bulk of the investment in this account, if appropriate.

- When developing the customer component, consider only the investment in conductors, and not such devices as circuit breakers, insulators, switches, etc. The investment in these devices will be assigned later between the customer and demand component, based on the conductor assignment.

  - Determine the feet, investment, and average installed book cost per foot for distribution conductors by size and type.

  - Determine minimum intercept of conductor cost per foot using cost per foot by size and type of conductor weighted by feet or investment in each category, and developing a cost for the utility's minimum size conductor.

  - Multiply minimum intercept cost by the total number of circuit feet times 2. (Note that circuit feet, not conductor feet, are used to get customer component.)

  - Balance of conductor investment is assigned to demand.

  - Total primary or secondary dollars in the account, including devices, are assigned to customer and demand components based on conductor investment ratio.

3. Accounts 366 and 367 - Underground Conduits, Conductors, and Devices

- The customer demand component ratio is developed for conductors and applied to conduits. Underground conductors are generally booked by type and size of conductor for both one-conductor (1/c) cable and three-conductor (3/c) cables. If conductors are booked by voltage, as between primary and secondary, a customer component is

developed for each. If network and URD investments are segregated, a customer component must be developed for each.

- The conductor sizes and types for the customer component derivation are restricted to l/c cable. Since there are generally many types and sizes of l/c cable, select those sizes and types which represent the bulk of the investment, when appropriate.
  - Determine the feet, investment, and average installed book cost per foot for l/c cables by size and type of cable.
  - Determine minimum intercept of cable cost per foot using cost per foot by size and type of cable weighted by feet of investment in each category.
  - Multiply minimum intercept cost by the total number of circuit feet (l/c cable with sheath is considered a circuit) to get customer component.
  - Balance of cable investment is assigned to demand.
  - Total dollars in Accounts 366 and 367 are assigned to customer and demand components based on conductor investment ratio.

4. Account 368 - Line Transformers

- The line transformer account covers all sizes and voltages for single- and three-phase transformers. Only single-phase sizes up to and including 50 KVA should be used in developing the customer components. Where more than one primary distribution voltage is used, it may be appropriate to use the transformer price from one or two predominant, selected voltages.
  - Determine the number, investment, and average installed book cost per transformer by size and type (voltage).
  - Determine zero intercept of transformer cost using cost per transformer by type, weighted by number for each category.
  - Multiply zero intercept cost by total number of line transformers to get customer component.
  - Balance of transformer investment is assigned to demand component.
  - Total dollars in the account are assigned to customer and demand components based on transformer investment ratio from customer and demand components.

C. The Minimum-System vs. Minimum-Intercept Approach

When selecting a method to classify distribution costs into demand and customer costs, the analyst must consider several factors. The minimum-intercept method can sometimes produce statistically unreliable results. The extension of the regression equation beyond the boundaries of the data normally will intercept the Y axis at a positive value. In some cases, because of incorrect accounting data or some other abnormality in the data, the regression equation will intercept the Y axis at a negative value. When this happens, a review of the accounting data must be made, and suspect data deleted.

The results of the minimum-size method can be influenced by several factors. The analyst must determine the minimum size for each piece of equipment: "Should the minimum size be based upon the minimum size equipment currently installed, historically installed, or the minimum size necessary to meet safety requirements?" The manner in which the minimum size equipment is selected will directly affect the percentage of costs that are classified as demand and customer costs.

Cost analysts disagree on how much of the demand costs should be allocated to customers when the minimum-size distribution method is used to classify distribution plant. When using this distribution method, the analyst must be aware that the minimum-size distribution equipment has a certain load-carrying capability, which can be viewed as a demand-related cost.

When allocating distribution costs determined by the minimum-size method, some cost analysts will argue that some customer classes can receive a disproportionate share of demand costs. Their rationale is that customers are allocated a share of distribution costs classified as demand-related. Then those customers receive a second layer of demand costs that have been mislabeled customer costs because the minimum-size method was used to classify those costs.

Advocates of the minimum-intercept method contend that this problem does not exist when using their method. The reason is that the customer cost derived from the minimum-intercept method is based upon the zero-load intercept of the cost curve. Thus, the customer cost of a particular piece of equipment has no demand cost in it whatsoever.

D. Other Accounts

The preceding discussion of the merits of minimum-system versus the zero-intercept classification schemes will affect the major distribution-plant accounts for FERC Accounts 364 through 368. Several other plant accounts remain to be classified. While the classification of the following distribution-plant accounts is an important step,

it is not as controversial as the classification of substations, poles, transformers, and conductors.

1. Account 369 - Services

This account is generally classified as customer-related. Classification of services may also include a demand component to reflect the fact that larger customers will require more costly service drops.

2. Account 370 - Meters

Meters are generally classified on a customer basis. However, they may also be classified using a demand component to show that larger-usage customers require more expensive metering equipment.

3. Account 371 - Installations on Customer Premises

This account is generally classified as customer-related and is often directly assigned. The kind of equipment in this account often influences how this account is treated. The equipment in this account is owned by the utility, but is located on the customer's side of the meter. A utility will often include area lighting equipment in this account and assign the investment directly to the lighting customer class.

4. Account 373 - Street Lighting and Signal Systems

This account is generally customer-related and is directly assigned to the street customer class.

III. ALLOCATION OF THE DEMAND AND CUSTOMER COMPONENTS OF DISTRIBUTION PLANT

After completing the classification of distribution plant accounts, the next major step in the cost of service process is to allocate the classified costs. Generally, determining the distribution-demand allocator will require more data and analysis than determining the customer allocators. Following are procedures used to calculate the demand and customer allocation factors.

A. Development of the Distribution Demand Allocators

There are several factors to consider when allocating the demand components of distribution plant. Distribution facilities, from a design and operational perspective, are installed primarily to meet localized area loads. Distribution substations are designed to meet the maximum load from the distribution feeders emanating from the substation.

Similarly, when designing primary and secondary distribution feeders, the distribution engineer ensures that sufficient conductor and transformer capacity is available to meet the customer's loads at the primary- and secondary-distribution service levels. Local area loads are the major factors in sizing distribution equipment. Consequently, customer-class noncoincident demands (NCPs) and individual customer maximum demands are the load characteristics that are normally used to allocate the demand component of distribution facilities. The customer-class load characteristic used to allocate the demand component of distribution plant (whether customer class NCPs or the summation of individual customer maximum demands) depends on the load diversity that is present at the equipment to be allocated. The load diversity at distribution substations and primary feeders is usually high. For this reason, customer-class peaks are normally used for the allocation of these facilities. The facilities nearer the customer, such as secondary feeders and line transformers, have much lower load diversity. They are normally allocated according to the individual customer's maximum demands. Although these are the methods normally used for the allocation of distribution demand costs, some exceptions exist.

The load diversity differences for some utilities at the transmission and distribution substation levels may not be large. Consequently, some large distribution substations may be allocated using the same method as the transmission system. Before the cost analyst selects a method to allocate the different levels of distribution facilities, he must know the design and operational characteristics of the distribution system, as well as the demand losses at each level of the distribution system.

As previously indicated, the distribution system consists of several levels. The first level starts at the distribution substation, and the last level ends at the customer's meters. Power losses occur at each level and should be included in the demand allocators. Power losses are incorporated into the demand allocators by showing different demand loss factors at each predominant voltage level. The demand loss factor used to develop the primary-distribution demand allocator will be slightly larger than the demand loss factor used to develop the secondary demand allocator. When developing the distribution demand allocator, be aware that some customers take service at different voltage levels.

Cost analysts developing the allocator for distribution of substations or primary demand facilities must ensure that only the loads of those customers who benefit from these facilities are included in the allocator. For example, the loads of customers who take service at transmission level should not be reflected in the distribution substation or primary demand allocator. Similarly, when analysts develop the allocator for secondary demand facilities, the loads for customers served by the primary distribution system should not be included.

Utilities can gather load data to develop demand allocators, either through their load research program or their transformer load management program. In most cases, the load research program gathers data from meters on the customers' premises. A more complex procedure is to use the transformer load management program.

This procedure involves simulating load profiles for the various classes of equipment on the distribution system. This provides information on the nature of the load diversity between the customer and the substation, and its effect on equipment cost. Determining demand allocators through simulation provides a first-order load approximation, which represents the peak load for each type of distribution equipment.

The concept of peak load or "equipment peak" for each piece of distribution equipment can be understood by considering line transformers. If a given transformer's loading for each hour of a month can be calculated, a transformer load curve can be developed. By knowing the types of customers connected to each load management transformer, a simulated transformer load profile curve can be developed for the system. This can provide each customer's class demand at the time of the transformer's peak load. Similarly, an equipment peak can be defined for equipment at each level of the distribution system. Although the equipment peak obtained by this method may not be ideal, it will closely approximate the actual peak. Thus, this method should reflect the different load diversities among customers at each level of the distribution system. An illustration of the simulation procedure is provided in Appendix 6-A.

B. Allocation of Customer-Related Costs

When the demand-customer classification has been completed, most of the assumptions will have been made that affect the results of the completed cost of service study.

The allocation of the customer-related portion of the various plant accounts is based on the number of customers by classes of service, with appropriate weightings and adjustments. Weighting factors reflect differences in characteristics of customers within a given class, or between classes. Within a class, for instance, we may want to give more weighting of a certain plant account to rural customers, as compared to urban customers. The metering account is a clear example of an account requiring weighting for differences between classes. A metering arrangement for a single industrial customer may be 20 to 80 times as costly as the metering for one residential customer.

While customer allocation factors should be weighted to offset differences among various types of customers, highly refined weighting factors or detailed and time consuming studies may not seem worthwhile. Such factors applied in this final step of the cost study may affect the final results much less than such basic assumptions as the demand-allocation method or the technique for determining demand-customer classifications.

Expense allocations generally are based on the comparable plant allocator of the various classes. For instance, maintenance of overhead lines is generally assumed to be directly related to plant in overhead conductors and devices. Exceptions to this rule will occur in some accounts. Meter expenses, for example, are often a function of

maintenance and testing schedules related more to revenue per customer than to the cost of the meters themselves.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
v.	:	
	:	
Duquesne Light Company	:	

EXHIBIT__(SJB-2R)

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

Direct Energy Services, LLC
Interrogatories Set II

8. Please provide the history of total rate levels and rate component levels by rate schedule for the POLR I, POLR II and POLR III periods, and show the percentage increases/decreases from the previously effective total rate levels and rate component levels.

Response:

Please see the tables on Page 2 of 2.

Direct Energy Services, LLC
Interrogatories Set II

	Average Rates			
Component	G	D	T	Total
POLR I				
RS	8.15	4.37	0.25	12.77
RH	6.64	1.57	0.21	8.43
RA	7.83	1.94	0.25	10.03
GS/GM	8.07	2.22	0.33	10.62
GMH	6.67	1.42	0.24	8.34
GL	6.01	0.93	0.23	7.18
GLH	5.69	0.52	0.25	6.46
L	4.64	0.71	0.20	5.56
HVPS	4.19	0.04	0.21	4.44
AL	7.43	2.79	0.12	10.34
SE	5.45	5.32	0.06	10.83
SM	10.19	29.31	0.06	39.56
SH	11.66	8.40	0.06	20.13
MTS	8.90	5.28	0.18	14.37
PAL	6.26	16.58	0.06	22.90
POLR II				
RS	5.60	4.37	0.25	10.22
RH	3.59	1.57	0.21	5.38
RA	6.38	1.94	0.25	8.57
GS/GM	5.94	2.22	0.33	8.49
GMH	4.85	1.42	0.24	6.32
GL	5.00	0.93	0.23	6.17
GLH	4.42	0.52	0.25	5.19
L	3.76	0.71	0.20	4.67
HVPS	3.58	0.04	0.21	3.83
AL	2.33	2.79	0.12	5.25
SE	2.62	5.32	0.06	8.00
SM	4.08	29.31	0.06	33.45
SH	9.25	8.40	0.06	17.71
MTS	6.79	5.28	0.18	12.26
PAL	2.71	16.58	0.06	19.35
POLR III				
RS	6.30	4.37	0.41	11.08
RH	5.45	1.57	0.37	7.39
RA	6.40	1.94	0.41	8.75
GS/GM	6.54	2.22	0.48	9.25
GMH	5.49	1.42	0.41	7.33
GL	9.09	0.93	0.42	10.44
GLH	8.94	0.52	0.43	9.89
L	8.65	0.71	0.38	9.74
HVPS	8.05	0.04	0.39	8.49
AL	3.71	2.79	0.28	6.78
SE	3.89	5.32	0.22	9.43
SM	4.33	29.31	0.22	33.86
SH	8.72	8.40	0.22	17.34
MTS	6.82	5.28	0.35	12.46
PAL	2.90	16.58	0.22	19.70

	G	D	T	Total
POLR II over POLR I				
RS	-31.3%	0.0%	0.0%	-20.0%
RH	-46.0%	0.0%	0.0%	-36.2%
RA	-18.5%	0.0%	0.0%	-14.5%
GS/GM	-26.4%	0.0%	0.0%	-20.0%
GMH	-30.3%	0.0%	0.0%	-24.3%
GL	-16.9%	0.0%	0.0%	-14.1%
GLH	-22.3%	0.0%	0.0%	-19.7%
L	-19.0%	0.0%	0.0%	-16.9%
HVPS	-14.6%	0.0%	0.0%	-13.7%
AL	-68.6%	0.0%	0.0%	-49.3%
SE	-51.9%	0.0%	0.0%	-26.1%
SM	-60.0%	0.0%	0.0%	-15.4%
SH	-20.7%	0.0%	0.0%	-12.0%
MTS	-23.7%	0.0%	0.0%	-14.7%
PAL	-56.7%	0.0%	0.0%	-15.5%
POLR III over POLR II				
RS	12.5%	0.0%	61.3%	8.4%
RH	51.8%	0.0%	73.0%	37.5%
RA	0.3%	0.0%	63.0%	2.1%
GS/GM	10.1%	0.0%	47.9%	8.9%
GMH	18.1%	0.0%	69.7%	16.0%
GL	81.9%	0.0%	78.5%	69.4%
GLH	102.3%	0.0%	69.3%	90.5%
L	130.2%	0.0%	84.6%	108.4%
HVPS	125.2%	0.0%	84.8%	121.6%
AL	59.2%	0.0%	127.7%	29.3%
SE	48.5%	0.0%	262.5%	17.9%
SM	6.1%	0.0%	255.4%	1.2%
SH	-5.7%	0.0%	255.4%	-2.1%
MTS	0.4%	0.0%	93.0%	1.6%
PAL	7.0%	0.0%	259.5%	1.8%

POLR I Notes
1. POLR I average generation, distribution and transmission rates are from DLC's Third Compliance Filing (11/5/98) that were approved by the PA PUC. Generation rates include average CTC rate.
2. Rates are adjusted for the required roll-in of the PA GRT at 5.9% from 4.4% in effect at the time of the Third Compliance Filing.
3. Also see Exhibit WVP-4 in the Company's POLR III Filing, Docket No. P-00032071.

POLR II Notes
1. Average POLR II rates based on 2002 sales and revenue.
2. Also see Exhibit WVP-5 in the Company's POLR III Filing, Docket No. P-00032071.
3. Rates are adjusted for the required roll-in of the PA GRT at 5.9% from 4.4% in effect at the time of the POLR II rates.

POLR III Notes
1. See Exhibit WVP-4 and WVP-5 in the Company's POLR III Filing, Docket No. P-00032071.
2. T and D average rates are adjusted for the required roll-in of the PA GRT at 5.9% from 4.4% in effect at the time of the POLR III rates.
3. Average generation rates include retail tariff Rider No. 1 PJM Surcharge.
4. Average generation and transmission rates for rate GL, GLH, L and HVPS are based on the retail tariff Rider 8 Seventh Price Application Period rates effective 8/1/06.
5. Average transmission rates include retail tariff Rider No. 7 SECA Charge expected to expire in the fourth quarter of 2006.

ALL
1. All calculations exclude retail tariff Rider No. 10 STAS that was in effect at the time the rates were in effect.

DII STATEMENT NO. 1S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-00061346C0001-0005
v.	:	
	:	
Duquesne Light Company	:	

SURREBUTTAL TESTIMONY

OF

STEPHEN J. BARON

ON BEHALF OF

DUQUESNE INDUSTRIAL INTERVENORS

AND

THE INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA
AUGUST 2006

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	**Docket No. R-00061346C0001-0005**
v.	:	
	:	
Duquesne Light Company	:	

SURREBUTAL TESTIMONY OF STEPHEN J. BARON

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Have you previously filed direct and rebuttal testimony in this proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I am responding to the rebuttal testimony of witnesses for Duquesne Light Company ("Duquesne" or the "Company"), the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA").

Specifically, I will respond to the rebuttal testimony of Duquesne witness Howard Gorman regarding the appropriate method to allocate income taxes in the calculation of class rates of return at proposed rates. I will also respond to the rebuttal testimony of William Pfrommer regarding the allocation of the Company's distribution revenue increase to rate classes, Rule 4 contracts and Duquesne's proposed Energy Conservation and Economic Development Rider. I will also respond to Duquesne witness Neil Fisher on the same rider issue.

With regard to the OSBA testimony, I will address witness Brian Kalcic's rebuttal testimony regarding DII's proposal to retain Rule 4 contracts.

With regard to the OCA, I will respond to witness Richard Galligan regarding distribution class cost of service and the allocation of the revenue increase to rate schedules.

Duquesne

Q. Do you have you any response to the rebuttal testimony of Duquesne witness William Pfrommer?

A. Yes. Among other issues, Mr. Pfrommer has addressed DII's proposal to reduce inter-class subsidies in the allocation of the Company's proposed distribution revenue increase in this case. Mr. Pfrommer continues to support the analysis of the "impact" of the proposed distribution increase in the context of a "total bill" analysis. This means that, despite the fact that there will continue to be large subsidies in the Company's proposed distribution rates, Duquesne continues to apply the ratemaking concept of "gradualism" to the total bill effects of all of the increases in this case, rather than focusing on the ratemaking principle of "gradualism" as it applies to distribution rates.

Q. Is the Company's position with regard to evaluating the impact of its proposed rate increases (distribution and transmission) on a total bill basis consistent with recent Pennsylvania Commonwealth Court decisions?

A. No. In its August 4, 2006, opinion in its review of appeals in the 2004 PPL Electric Utilities Corporation ("PPL") rate case, the Court specifically found that the consideration of "gradualism" and rate impact should be made on an unbundled basis. This ruling is directly inapposite of the Company's position in this case. Specifically, the Court stated at page 16 of its Opinion:

> **While "gradualism" can be used to justify differences between rate classes *for each unbundled rate, the "total bill" impact standard is inconsistent* with the changes implemented by the Competition Act. To allow the principle of gradualism to be applied on a total bill basis when each service is a stand-alone rate structure would be like saying that the Commission could apply the principle of gradualism in an electric case based on a customer's total utility bill, i.e., the amount a rate payer would pay for electric, gas, water and telecommunications services.** Lloyd, et. al, v. Pennsylvania Public Utility Commission, No. 137 C.D. 2005, Opinion filed August 4, 2006.

The Company's position is inconsistent with the Competition Act and cannot be supported. It is appropriate to evaluate subsidies and the impact of reducing them on an unbundled basis, which means that the Company's distribution rate increase should be allocated based on the impacts on distribution rates, not the combined total bills that include POLR generation charges, transmission and distribution.

Q. **Mr. Pfrommer also objects to your proposal to reduce "dollar subsidies" as a means to move rates towards cost of service. Would you respond to his testimony on this issue?**

A. In general, there is a mathematical relationship between dollar subsidies and relative rate of return. If a rate class has a relative rate of return in excess of 1.0 (i.e., a rate of return greater than the retail average rate of return), then it is also the case that the rate class is paying subsidies to other rate classes. It is also true that the higher the relative rate of return, the higher the dollar subsidies. Thus, Mr. Pfrommer's point on this issue is somewhat misplaced – reducing dollar subsidies, as I proposed, reduces a classes' relative rate of return and moves rates towards cost of service.

The use of a "dollar subsidy" reduction method is a reasonable approach to accomplishing the objective of moving rates towards cost of service and provides a clear standard on which to measure progress. There is no dispute, to my knowledge, that the dollar subsidies that I identified in my direct testimony, based on Duquesne's cost of service study, exist currently and will continue to exist under the Company's proposed rates. Even under the DII proposal, subsidies will continue because the DII proposal only reduces existing dollar subsidies by 50% in this case.

Q. Does the recent Commonwealth Court Opinion in the 2004 PPL rate case that you cited previously recognize that "dollar subsidies" paid and received by rate classes is a basis to evaluate the reasonableness of utility rates?

A. Yes. The Court Opinion specifically refers to a table that shows the dollar subsidies under the Commission's Order (table contained in footnote number 13 of the Opinion).

Q. At page 15 of his rebuttal testimony, Mr. Pfrommer addresses DII's proposal to continue the current Rule 4 contract provisions in the Company's tariff. Do you have any comments on this issue?

A. Yes. The Company continues to oppose continuation of Rule 4 in its tariff because it argues that there are limited distribution charges in large customer rates and that the Company does not plan to implement this tariff provision. Furthermore, the Company argues that it cannot apply Rule 4 to POLR rates.

Continuing Rule 4 in its tariff would provide the Company flexibility in future arrangements with its large customers and should therefore be continued. To the extent that any Rule 4 contract requires agreement by the Company, there is simply no reason why this provision should not be continued. In the event that circumstances arise in which the availability of this Rule 4 provision can be utilized by the Company and its customers in a rationale manner, it makes common sense to continue its inclusion in the tariff. Flexibility can only provide benefits, it cannot produce harm since it is discretionary.

Q. **Both Mr. Pfrommer and Duquesne witness Neil Fisher discuss a Company proposal to implement a new Energy Conservation and Economic Development Rider. Do you have any response to this proposal?**

A. Yes. As I understand the Company's proposal, Duquesne will conduct meetings with interested parties and propose a rider and cost recovery mechanism within six months of the Commission decision in this case. Any future filing by the Company to seek cost recovery from ratepayers should be subject to procedures that would permit parties to conduct discovery, file testimony and conduct cross examination. This should include the opportunity to argue that a rider such as Duquesne outlines can only be implemented in a rate case.

Q. **Have you reviewed the rebuttal testimony of Duquesne witness Howard Gorman in which he addresses your analysis of the calculation of income taxes at proposed rates in the Company's cost of service analysis?**

A. Yes. Mr. Gorman disagrees with my correction to his calculations of class rates of return at proposed rates. Mr. Gorman, while allocating income taxes to rate classes in the development of class rates of return, switches methods and "computes" income taxes in the development of class rates of return at proposed rates. I continue to support the use of a consistent methodology for determining class cost responsibility for income taxes at both present and proposed rates. His rebuttal testimony does not offer any reasonable explanation for the inconsistency.

Q. Mr. Gorman states that for "Future Test Year revenue requirements", income tax expense is directly "caused by" rate class return before income taxes. Do you have any comments on this point in his testimony?

A. Arithmetically, the higher the return before taxes, the higher the computed income tax expense if one simply applies an effective tax rate to compute the taxes. However, it does not follow that this income tax expense is caused by the return. Income taxes are an operating expense related to each class's responsibility for "return". The responsibility for "return" is a function of the investment assigned to the class, not the rate increase judgmentally assigned by the Company. Some rate classes have rates of return at proposed rates substantially in excess of "cost", due to gradualism. Gradualism does not "cause" income tax expense, which is the effective result suggested by Mr. Gorman.

OSBA

Q. OSBA witness Kalcic does not oppose retaining the Rule 4 contract provisions in the Company's tariffs, but recommends that any ratepayer funded discounts be recovered from the rate class in which the Rule 4 customer resides. Do you have any comments on his testimony on this issue?

A. Yes. Any discounts that may arise from a Rule 4 contract initiated after this, or any rate case, would be borne by the Company's shareholders, because there is no tariff provision to permit recovery of any such amounts from ratepayers, absent a base rate case. In the event that the Company's files a new base rate case, following the implementation of a Rule 4 contract, the revenues produced by Rule 4 customers would be addressed in that case. Therefore, there is no need to require any modification to the provisions of Rule 4, as suggested by the OSBA.

OCA

Q. Do you have any comments on the rebuttal testimony of OCA witness Richard Galligan?

A. Yes. Mr. Galligan continues to oppose the Company's class distribution cost of service study. I have previously addressed this issue and Mr. Galligan's alternative methodology in my rebuttal testimony. Mr. Galligan also states that "the Commission is certainly entitled to consider the total cost of electricity, along with all other facts that participants in this general rate case proceeding bring to the Commission's attention in

the rate setting process." [Galligan rebuttal at page 4, line 14]. As I discussed previously, the Commonwealth Court Opinion in the PP&L rate case found that it was a violation of the Competition Act to use impact on a total bill (generation, transmission and distribution) basis to assess the reasonableness of a distribution rate increase.

Q. Does that complete your surrebuttal testimony?

A. Yes, it does.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	)	
	)	
	)	
v.	)	**Docket No. R-0061346**
	)	
DUQUESNE LIGHT COMPANY	)	

DIRECT TESTIMONY

OF

LARRY STALICA

OF

BOC GASES

ON BEHALF OF THE

DUQUESNE INDUSTRIAL INTERVENORS

July 2006

TESTIMONY BY LARRY STALICA
BOC GASES

Q. Please state your name and business address.

A. My name is Larry Stalica. My business address is 575 Mountain Avenue, Murray Hill, NJ 07974.

Q. By what company are you employed?

A. I am employed by BOC Gases ("BOC"), a subsidiary of BOC Group, plc, a worldwide industrial gases, vacuum technologies and distribution services company with operations in more than 50 countries and annual sales of $8.5 billion. BOC operates over 50 manufacturing facilities across the United States and Canada with a total electrical load of approximately 500 MW.

Q. How long have you worked for BOC?

A. I have worked for BOC for over five years.

Q. What is your current position with BOC?

A. I am currently Manager – Energy and Regulatory Affairs and Vice President – BOC Energy Services, Inc.

Q. What are your duties in your current position?

A. In my current position, I manage energy procurement and regulatory affairs for BOC's plants in the Northeast and Midwest United States. I also direct operations of BOC Energy Services, Inc., a wholly-owned subsidiary of The BOC Group, Inc., which

operates as a Load Serving Entity and Electric Generation Supplier in Pennsylvania and several other states. BOC Energy Services, Inc. was created by BOC to help it minimize rising electricity costs in deregulated markets through the direct purchase of electricity from wholesale electricity markets and its subsequent delivery to BOC's retail load.

Q. What is your educational and employment background prior to joining BOC?

I received my B.S. in Electrical Engineering from the Pennsylvania State University in 1989. I also graduated from the United States Navy's Nuclear Power School, and was a Certified Engineer in the Department of Energy's Naval Reactors Program, which operates and maintains the power plants of the Navy's nuclear fleet. Prior to joining BOC in 2001, I was Manager - Energy, Facilities, and Maintenance – Americas Tube Operations for Thomson Consumer Electronics. In this position, I managed energy procurement and facility issues for Thomson's television picture tube plants across North America. Thomson Consumer Electronics is a division of Thomson Multimedia, a worldwide consumer electronics company with annual sales of $7.2 billion. Prior to joining Thomson in 1996, I was employed for seven years by Knolls Atomic Power Laboratory in Schenectady, New York.

Q. Please describe the industry in which BOC operates.

A. BOC produces nitrogen, oxygen, argon, and other atmospheric gases through an energy-intensive air separation process. We meet the industrial gas needs of customers in such industries as metals, chemicals, glass, medical, and electronics, just to name a few.

Q. Does BOC have a facility located in the service territory of Duquesne Light Company ("Duquesne")?

A. Yes. BOC operates an air separation facility in Braddock, Pennsylvania.

Q. On what rate schedules does BOC receive service from Duquesne?

A. The plant purchases electric distribution service from Duquesne on Rate Schedule HVPS (High Voltage Power Service).

Q. What issues will you address in your testimony?

A. I will address the proposed distribution rates in Duquesne's filing.

Q. What distribution facilities does Duquesne have in place to serve BOC?

A. BOC receives service from Duquesne at transmission level voltage (i.e., 138 kV), then we convert the electricity to voltage levels usable at our facility. BOC owns the equipment that converts the electricity from 138 kV to these voltages. Duquesne owns our meter, however, as well as the short line that connects the meter to Duquesne's transmission system. This is very different from most customers, for whom Duquesne owns, installs and maintains much more distribution equipment.

Q. If all interclass subsidies are removed from Duquesne's distribution rates, what is the appropriate cost-based distribution rates for the BOC facility?

A. Based on the calculations performed by DII witness Stephen J. Baron, which are set forth in DII Exhibit ___ (SJB-5), if the Commission accepts all aspects of Duquesne's filing but modifies the distribution rates to remove all interclass subsidies, the distribution rate

for Rate Schedule HVPS will be $7,232.00 per month for the first 30,000 kW of demand and $0.12 per kW-month for all additional demand.

Because electricity consumption data is highly confidential in the air separation industry, I will use a hypothetical facility to illustrate the impact. A typical air separation facility may have a billing demand of 30,000 kW. The annual distribution charges for the hypothetical facility would be $86,784 under the cost-based rates, compared to $109,380 under Duquesne's proposed distribution rates. In other words, the continued subsidies in the proposed distribution rate greatly impacts the customer's annual distribution payment.

Q. What is your opinion of Duquesne's proposal to charge BOC (or any customer) a rate that recovers considerably more than Duquesne's actual cost to serve the account?

A. Despite Duquense's proposed reduction in distribution rates for HVPS customers, Duquesne continues to charge BOC more than the actual cost of serving BOC. Under Duquesne's proposed rates BOC continues to subsidize Duquesne's costs of serving other customers. This is inequitable and unreasonable.

Q. What is the current financial climate in the air separation industry?

A. The air separation industry is highly competitive. Electricity comprises approximately two-thirds of BOC's production costs. Because electricity is such a large portion of our costs, it is important for distribution service to be appropriately priced, even though distribution service is the smallest portion of our bill. It is critical to BOC's financial

health that it secure electric service at the lowest rates possible. Otherwise, BOC may lose business to other air separation companies with lower costs.

Q. What action would you like the Commission to take concerning Duquesne's request?

A. Ultimately, I would like the PUC to require Duquesne to further reduce the rates it applies to BOC to a level more closely related to Duquesne's actual costs of serving BOC. Duquesne proposes to remove some of the subsidization by reducing the distribution rates for Rate Schedule HVPS; however, the rate still remains higher than it should be. I would like the PUC to require Duquesne to reduce the distribution rate for Rate Schedule HVPS as proposed in testimony of Mr. Baron, which was submitted in this proceeding as DII Exhibit ____ (SJB-5).

Q. Do you have comments on any other aspects of Duquesne's filing?

A. Yes. It is my understanding that Duquesne proposes to remove language from Rule 4 of its tariff that allows the Company to enter into special rate contracts with customers.

Q. Would you like to see Duquesne continue the special contracts under Rule 4?

A. Yes. I would also like to see this apply to generation supply.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	)	
	)	
	)	
v.	)	**Docket No. R-0061346**
	)	
DUQUESNE LIGHT COMPANY	)	

DIRECT TESTIMONY

OF

RONALD CERMINARO

OF

UNITED STATES STEEL CORPORATION

ON BEHALF OF THE

DUQUESNE INDUSTRIAL INTERVENORS

July 2006

TESTIMONY BY RONALD D. CERMINARO
UNITED STATES STEEL CORPORATION

Q. Please state your name and business address.

A. My name is Ronald D. Cerminaro. My business address is 600 Grant Street, Pittsburgh, PA 15219-2800.

Q. By what company are you employed?

A. I'm employed by United States Steel Corporation ("U.S. Steel").

Q. How long have you worked for U.S. Steel?

A. I've worked for U.S. Steel for 18 years.

Q. What is your current position with U.S. Steel?

A. My current position is the Manager, Regional Procurement.

Q. What are your duties in your current position?

A. I am responsible for the supervision of the procurement function for U.S. Steel in the areas of energy and other various commodities. One of my main functions is to acquire the necessary energy for the corporation at an economical price.

Q. What is your educational and employment background prior to joining U.S. Steel?

A. The following is a brief summary of my professional background and qualifications.

BS, (Civil Engineering), University of Pittsburgh, 1975
MBA, University of Pittsburgh, 1980
Registered Professional Engineer (P.E.) 1980
Lifetime Certification as Purchasing Manager (C.P.M.) 2001

Prior to U.S. Steel, I was the Director of Purchasing for Presbyterian University Hospital of Pittsburgh for approximately 6 years. Prior to that, I was an engineer in different levels at LTV Steel for about 7 years.

Q. Does U.S. Steel have any facilities located in the service territory of Duquesne Light Company ("Duquesne")?

A. Yes, we have several facilities in Duquesne's service territory. The main ones are the Clairton Works, Edgar Thompson Works and Irvin Works.

Q: On what rate schedules does U.S. Steel receive service from Duquesne?

A. The facilities purchases electricity from Duquesne are primarily on Rate Schedule HVPS (High Voltage Power Service) and Rate Schedule L (Large Power Service). This includes one Rate Schedule L account taking service at transmission voltage (138 kV) with a demand of approximately 9,000 kW (9 MW). We also have some Rate Schedule GL accounts.

Q. What do the U.S. Steel facilities manufacture?

A. Our plants in the area manufacture coke and flat rolled steel products.

Q. Please provide some information regarding the contribution and impact of U.S. Steel in Southwestern Pennsylvania.

A. U.S. Steel is a major employer in Southwestern Pennsylvania and has a significant impact on the community.

- In the Southwestern Pennsylvania region, U.S. Steel employs 7,400 with an annual payroll of $360 million.

- In the Pittsburgh region, we contribute annually well over $1.5 billion (nearly $1.7 billion) to the area's economy. Approximately $1 billion of that total is comprised of the purchases of goods and services from local and regional companies.

- U. S. Steel annually pays over $20 million in state taxes and more than $5 million in local taxes in Southwestern Pennsylvania.

- Company-insured employees and retirees supported the Pittsburgh region medical facilities and professionals by spending $118 million on healthcare.

- U. S. Steel's support of 25,000 Pittsburgh-region pensioners and surviving spouses totaled $175 million in 2001.

Q. What issues will you address in your testimony?

A. I will address the proposed distribution rates in Duquesne's filing as well as Duquesne's proposal to eliminate special contracts.

Q. What distribution facilities does Duquesne have in place to serve U.S. Steel?

A. For our HVPS account, U.S. Steel receives service from Duquesne at transmission level voltage. Utilizing our own equipment, we convert that electricity to voltage levels usable at our facility. Duquesne owns our meter, however, as well as the short line that connects the meter to Duquesne's transmission system. The service configuration for our L account at 138 kV is similar (i.e., we take service at transmission voltage and utilize our equipment to convert the electricity to voltage levels that are appropriate for our facility).

Q. If all interclass subsidies are removed from Duquesne's distribution rates, what is the appropriate cost-based distribution rates for the U.S. Steel facility?

A. Based on the calculations performed by DII witness Stephen J. Baron, which are set forth in DII Exhibit ___ (SJB-5), if the Commission accepts all aspects of Duquesne's filing but modifies the distribution rates to remove all interclass subsidies, the distribution rate for Rate Schedule HVPS will be $7,232 per month for the first 30,000 kW of our demand and $0.12 per kW-month for additional demand. Based upon Duquesne's proposal, U.S. Steel would be paying annually $22,596 per kW (first 30,000 kW for each month) and $0.04 per kW (additional kW each month) above Duquesne's cost to serve U.S. Steel. Because we consider our demand information to be confidential, I will not provide an exact calculation of the monetary impact. Exhibit __ (SJB-5) shows the total class impact for HVPS.

Q. What is your opinion of Duquesne's proposal to charge U.S. Steel (or any customer) a rate that recovers considerably more than Duquesne's actual cost to serve the account?

A. Despite Duquesne's proposed reduction in distribution rates for HVPS customers, Duquesne continues to charge U.S. Steel more than the actual cost of serving U.S. Steel. Under Duquesne's proposed rates U.S. Steel continues to subsidize Duquesne's costs of serving other customers. This is simply unreasonable.

Q. What type of impact does U.S. Steel foresee based upon proposal as set forth by Duquesne?

A. While distribution is not the most significant portion of our bill, electricity costs in general make up a significant portion of our operating costs. We attempt to keep every aspect of that cost as low as possible. U.S. Steel must compete in a global market place

against both other domestic steel producers along with world-wide producers. Unlike U.S. Steel, many of these producers continue to operate in states where all aspects of their energy costs remain regulated. While we operate in a low margin business and find it quite difficult to pass along a cost increase, U.S. Steel simply cannot afford to subsidize Duquesne's other customers and remain competitive.

Q. What action would you like the Commission to take concerning Duquesne's request?

A. I would like the PUC to require Duquesne to reduce its distribution rates a level more closely related to Duquesne's actual costs of service. While Duquesne's proposal to remove some of the subsidization by reducing the distribution rates for Rate Schedule HVPS is appreciated, it simply does not go far enough. I would like the PUC to require Duquesne to reduce the distribution rate for Rate Schedule HVPS as proposed in testimony of Mr. Baron, which was submitted in this proceeding as DII Exhibit ____ (SJB-5).

Q. Please discuss the proposed distribution increases for your other accounts.

A. As I previously mentioned, U.S. Steel also has accounts on Rates GL and L. Duquesne proposes over 100% increases for the distribution rates on these schedules. It is unfair and unreasonable to subject our GL and L accounts to 100% rate increases when the system average distribution rate increase is approximately 50%. This is not consistent with economic development. Again, I urge the Commission to eliminate all subsidies in these rates. At a minimum, the Commission should accept Mr. Baron's proposal to remove one-half of the subsidies from the distribution rates for Rate Schedules L and GL.

Q. Do you have other concerns regarding your Rate Schedule L account?

A. Yes. As I previously mentioned, we take service under Rate Schedule L at transmission voltage (138 kV). Duquesne provides us with a credit under Rate Schedule L for this untransformed service. In the filing, Duquesne proposes to decrease this credit. Based on Mr. Baron's calculations, this will result in U.S. Steel paying over $700,000 to $800,000 more for distribution service for this Rate Schedule L account than we would if the untransformed service credit were adjusted to an appropriate level in this case. Because Duquesne maintains basically the same distribution service configuration for the Rate Schedule L account as the Company provides for our Rate Schedule HVPS account, it is illogical to me that the distribution charges for the Rate Schedule L account would vary so significantly from the Rate Schedule HVPS account. The PUC should require Duquesne to adjust the untransformed service credit to a more appropriate level to ensure that our two similar accounts are treated equitably (despite their placement on different rate schedules).

Q. Do you have comments on any other aspects of Duquesne's filing?

A. Yes. Counsel has informed me that Duquesne proposes to remove language from Rule 4 of its tariff that allows the Company to enter into special rate contracts with customers.

Q. Would you like to see Duquesne continue the special contracts under Rule 4?

A. Yes. I would also like to see this provision expanded to apply to generation supply.

Q. *Does this conclude your testimony?*

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	)	
	)	
v.	)	**Docket No. R-0061346**
	)	
DUQUESNE LIGHT COMPANY	)	

DIRECT TESTIMONY

OF

JAMES S. ANDERSON

OF

THE TECHS

ON BEHALF OF THE

DUQUESNE INDUSTRIAL INTERVENORS

RECEIVED
SEP 28 2006
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

July 2006

TESTIMONY OF JAMES S. ANDERSON
THE TECHS: NEXTECH, GALVTECH, AND METALTECH

Q. Please state your name and business address.

A. My name is James S. Anderson. My business address is 300 Mifflin Rd., Pittsburgh, PA 15207.

Q. By what company are you employed?

A. I am employed by The Techs Industries Inc. The Techs are continuous sheet steel galvanizers. We have 3 plants in the Pittsburgh region, each with unique product capabilities.

Q. How long have you worked for The Techs?

A. 20 years.

Q. What is your current position with The Techs?

A. Managing Partner.

Q. What are your duties in your current position?

A. I am responsible for material and energy procurement, inventory and logistics.

Q. What is your educational and employment background prior to joining The Techs?

A. I have a BS in Metallurgical Engineering from Grove City College and an MBA from the University Pittsburgh. I had prior work experience at US Steel as a metallurgist.

Q. Please describe the industry in which The Techs operate.

A. The Techs have almost a 10% share of the hot dipped galvanize construction market East of the Rockies in the United States. We export very small amounts to Mexico and Canada and nothing overseas.

Q. Do The Techs have facilities located in the service territory of Duquesne Light Company ("Duquesne")?

A. Yes, all three of our plants are served by Duquesne. The plants are located at 300 Mifflin Rd. Pittsburgh 15207, 2400 Second Ave. Pittsburgh 15219, and 300 Braddock Avenue, Turtle Creek 15145.

Q. On what rate schedules do these facilities receive service from Duquesne?

A. The facilities purchase electricity from Duquesne on Rate Schedule GL.

Q. Please provide some background information regarding the facilities.

A. The facilities combined employ approximately 220 workers. Our 2005 company-wide electricity consumption was approximately 36,000,000 kWh.

Q: What issues will you address in your testimony?

A. I plan to discuss the proposed distribution rate increase in Duquesne's filing.

Q. What impact do you foresee Duquesne's proposal having on The Techs?

A. Based on the calculations performed by DII witness Stephen J. Baron, which are set forth in Table 1 of his testimony, if the Commission were to approve Duquesne's proposal, The Tech's would experience a 110% increase in distribution rates.

Q. Is the distribution portion of your bill a large percentage of your total electricity costs?

A. While distribution alone is not the largest portion of our bill, any increase in the costs of electricity have a significant impact on our ability to operate our facilities profitably. We strive to keep these costs at a reasonable level in order to stay competitive in the galvanized steel industry.

Q. Who are some of The Techs competitors?

A. Our competitors are comprised of approximately ten U.S. companies (two in Pennsylvania), and at least 20 internationally. I would estimate the import penetration into our markets as 10-15% overall, but higher in some of our market niches such as light gauge.

Q. What is your opinion of Duquesne's proposal to charge The Techs (and other Rate GL customers) a rate which recovers nearly twice Duquesne's cost to serve that account?

A. It is simply unfair and unreasonable to require certain customers, such as those taking service on Rate Schedule GL, to pay such a substantial premium for distribution service above the cost to serve that rate class. Based on Mr. Baron's calculations in Exhibit ___ (SJB-3), the average Rate Schedule GL customer will pay 0.58 cents per kWh in

subsidies at Duquesne's proposed distribution rates ($19,407,000 ÷ 3,338,997,219 kWh). Based on that calculation, we would pay over $200,000 in subsidies to other customer classes on an annual basis. In order for business and industry to remain competitive in the global marketplace and to continue to support the local economy, they simply cannot be asked to continue to subsidize these other rate classes.

Q. What action would you like the Commission to take concerning Duquesne's request?

A. Personally, I would like to see the PUC require Duquesne to fix its distribution rates at a level representative of Duquesne's cost to serve each class. Recognizing the significant shock that switching immediately to a complete cost of service rate structure, I would like the PUC to require Duquesne to reduce the distribution rate for Rate Schedule GL as proposed in the testimony of Mr. Baron, which was submitted in this proceeding as DII Exhibit___ (SJB-5).

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	)	
	)	
	)	
v.	)	**Docket No. R-0061346**
	)	
DUQUESNE LIGHT COMPANY	)	

DIRECT TESTIMONY

OF

GERARD JOHNSON

OF

ALLEGHENY LUDLUM CORPORATION

ON BEHALF OF THE

DUQUESNE INDUSTRIAL INTERVENORS

RECEIVED
SEP 2 8 2006
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

July 2006

TESTIMONY BY GERARD JOHNSON
ALLEGHENY LUDLUM CORPORATION

Q. Please state your name and business address.

A. My name is Gerard Johnson. My business address is 100 River Road, Brackenridge, Pennsylvania.

Q. By what company are you employed?

A. I am employed by Allegheny Ludlum Corporation.

Q. How long have you worked for Allegheny Ludlum?

A. I have worked for Allegheny Ludlum for over twelve years.

Q. What is your current position with Allegheny Ludlum?

A. I am currently General Manager -- Engineering, Process Automation, and Environmental Affairs.

Q. What are your duties in your current position?

A. In my current position, my organization is responsible for all computer process automation systems across the Company. The Organization is responsible for management of the Capital Budget and the implementation of all capital projects across the Company. The Organization is responsible for oversight of compliance with all applicable environmental regulations across the Company.

The Organization is responsible for all Energy Management activities within the Company. This includes supporting Allegheny Ludlum energy supply activities and oversight/implementation of energy demand-side initiatives across the Company.

Q. What is your educational and employment background prior to joining Allegheny Ludlum?

A. I have a Bachelors of Science in Electrical Engineering from Rose Hulman Institute of Technology and Masters of Science in Industrial Management from Purdue University. Prior to Allegheny Ludlum, I worked at Inland Steel for 12 Years and Raytheon Engineers and Constructors for 2.5 years. I am a registered Professional Engineer in the State of Indiana.

Q. In what type of business is Allegheny Ludlum involved?

A. Allegheny Ludlum Corporation is a world leader in the technology, production and marketing of specialty materials - stainless steels, silicon electrical steels, tool steels, titanium, nickel alloys, as well as other advanced alloys. Allegheny Ludlum serves customers in diversified consumer and capital goods markets in more than 30 nations.

Q. Does Allegheny Ludlum have a facility located in the service territory of Duquesne Light Company ("Duquesne")?

A. Yes. In 2004, Allegheny Ludlum acquired most of the assets of J&L Specialty Steel, LLC, which included a melt facility in Midland, Pennsylvania.

Q. On what rate schedule does Allegheny Ludlum receive service from Duquesne?

A. The plant purchases electricity from Duquesne on Rate Schedule HVPS (High Voltage Power Service).

Q. Please provide some background information regarding the facility.

A. The Midland facility employs approximately 287 workers, not including contracted workers. Allegheny Ludlum pays over $440,000 in state and local taxes at the Midland facility.

Q. How does this facility utilize electricity?

A. The Midland facility operates two Ultra High Powered Electric furnaces to melt scrap metal. These furnaces produce heats from 120 to 130 tons. In addition, the Midland facility has various finishing and casting machines that utilize electricity.

Q. What issues will you address in your testimony?

A. I will address the proposed distribution rates in Duquesne's filing as well as the proposal to eliminate special contracts.

Q. What distribution facilities does Duquesne have in place to serve Allegheny Ludlum?

A. Allegheny Ludlum receives service from Duquesne at transmission level voltage (i.e., 138 kV), we then convert that electricity to voltage levels usable at our facility. While Duquesne does own some equipment on Allegheny Ludlum property, Allegheny Ludlum owns the equipment used to convert the electricity from 138kV to usable voltages.

Q. If all interclass subsidies are removed from Duquesne's distribution rates, what is the appropriate cost-based distribution rate for the Allegheny Ludlum's facility?

A. Based on the calculations performed by DII witness Stephen J. Baron, which are set forth in DII Exhibit ___ (SJB-5), if the Commission accepts all aspects of Duquesne's filing but modifies the distribution rates to remove all interclass subsidies, the distribution rate for Rate Schedule HVPS will be $7,232.00 per month for our first 30,000 kW of distribution demand and $0.12 per kW-month for all additional demand. This compares to $9,115.00 (first 30,000 kW) and $0.16 (additional kW) under Duquesne's proposal. Because we consider our monthly demand to be confidential, I will not calculate the exact impact on our costs. This is shown for all HVPS customers in Mr. Baron's Exhibits.

Q. What is your opinion of Duquesne's proposal to charge Allegheny Ludlum (or any customer) a rate that recovers considerably more than Duquesne's actual cost to serve the account?

A. Despite Duquesne's proposed reduction in distribution rates for HVPS customers, as shown in Mr. Baron's Exhibit__(SJB-3), Duquesne continues to charge HVPS customers more than the actual cost of serving them. Under Duquesne's proposed rates Allegheny Ludlum will continue to subsidize Duquesne's costs of serving other customers. This is unfair and unreasonable.

Q. What is the current financial climate in the stainless steel industry?

A. The stainless steel industry is highly competitive. Electricity comprises approximately 11% of our production costs. Because electricity is such a large portion of our costs, it is

important for distribution service to be appropriately priced. Considering the narrow profit margins, state-to-state variations in electricity pricing and the global marketplace, it is important that Allegheny Ludlum secure electric service at the lowest rates possible. Otherwise, Allegheny Ludlum may not be able to remain competitive and will lose business to other companies that are able to obtain electricity at lower costs.

Q. What action would you like the Commission to take concerning Duquesne's request?

A. Ultimately, I would like the PUC to require Duquesne to reduce the rates it applies to Allegheny Ludlum to a level more closely related to Duquesne's actual costs of serving HVPS customers. Duquesne proposes to remove only some of the subsidization by reducing the per unit distribution rate for Rate Schedule HVPS; however, the rate still remains higher than it should be. I would like the PUC to require Duquesne to reduce the distribution rate for Rate Schedule HVPS as proposed in testimony of Mr. Baron, which was submitted in this proceeding as DII Exhibit ____ (SJB-5).

Q. Do you have comments on any other aspects of Duquesne's filing?

A. Yes. It is my understanding that Duquesne proposes to remove language from Rule 4 of its tariff that allows the Company to enter into special rate contracts with customers.

Q. Would you like to see Duquesne continue the special contracts under Rule 4?

A. Yes. In addition, I would like to see this apply to generation supply as well.

Q. Why do you view Special Contracts as an important aspect of Duquesne's tariff?

A. Special Rate Contracts are a key tool that can be used by local utilities to facilitate and encourage economic development. Economic development helps ensure the long term viability of the rate base for utilities like Duquesne, giving them the opportunity to spread their fixed costs over a larger number of consumers and therefore potentially reducing the unit cost of electricity for all users. Lacking tools to encourage economic development, the possibility that these opportunities will move to areas of the country where economic development is encouraged is high. Ultimately, this will result in a smaller rate base for the utility that misses out on the opportunity and higher utility costs for the existing rate base. The Midland operation is an example of where a historical special rate contract resulted in substantial local investment (i.e. the DRAP Line) and the resulting longer term benefit of sustained high-paying industrial jobs, both directly within the Midland plant and indirectly through all the local businesses that provide equipment and services to the operation. Additional special contract opportunities may be necessary to continue the competitiveness of the Midland plant.

Q. Does this conclude your testimony?

A. Yes.