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PUBLIC UTILITY COMMISSION

Township of Springdale v. Duquesne Light Company and West Penn Power Company.	:	Docket No. C-00967749
Initial Hearing.	:	

Pages 26 through 160

State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222

Tuesday December 10, 1996

Met, pursuant to notice, at 10:00 a.m.

BEFORE:

JAMES D. PORTERFIELD, Administrative Law Judge

APPEARANCES:

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PROCEEDINGS

10:00 a.m.

ADMINISTRATIVE LAW JUDGE JAMES D. PORTERFIELD: Good morning. I am Administrative Law Judge James D. Porterfield and I have been assigned to hear the matter captioned Township of Springdale versus Duquesne Light Company and West Penn Power Company at Docket Number C-00967749.

It being December the 10th, 1996 at approximately 10:15 a.m. now, it is the date and time, and we are in the 11th floor hearing room of the Pittsburgh State Office Building, Pittsburgh, Pennsylvania, the place, set pursuant to notice to the parties dated July 29th, 1996, for the initial evidentiary hearing in the foregoing captioned matter.

A prehearing conference was held on July the 25th, 1996, and an interim order issued September the 9th, 1996, specifying, among other things, the dates for the exchange of testimony, briefing dates and the record closed date. So far as I can determine, those dates and items have been satisfied.

This morning Stephen Yakopek, Esquire, is entering an appearance on behalf of the Township of Springdale, and John L. Munsch, Esquire, an appearance on behalf of West Penn Power Company, and Richard S. Herskovitz, Esquire, has

entered an appearance on behalf of Duquesne Light Company.

I think it is understood among counsel that you were going to proceed with your witness since he is under some time constraints. Is that correct, Mr. Herskovitz?

MR. HERSKOVITZ: Yes, Your Honor. One of my witnesses, Richard Bower, from New Hampshire has a plane to catch back to New Hampshire this afternoon, so I would appreciate it if he could be cross examined first.

JUDGE PORTERFIELD: Off the record for a moment.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record.

I will administer the oath to any prospective witnesses.

MR. HERSKOVITZ: Your Honor, before you proceed, I have a preliminary matter I would like to address at this point.

JUDGE PORTERFIELD: Yes.

MR. HERSKOVITZ: I talked to Mr. Yakopek. I do have a motion to dismiss the Township complaint on the grounds of standing. My understanding is that reading the testimony, the Township does have street lights in the area.

I don't know, is your Municipal Building there?

MR. YAKOPEK: I checked yesterday, Rich, and what happened is right now there is the Municipal Building. Although it is in the Harwick Village plan, it is served by

West Penn Power. Apparently in late 1993 or early of 1994, Duquesne Light transferred a portion of Harwick Village to West Penn Power, and the Municipal Building went from Duquesne Light to West Penn Power, which would have been in, like I said, late 1993 or early 1994.

MR. HERSKOVITZ: If I may, that was probably one of the orders that was attached as an exhibit to Mr. Phillips' testimony.

MR. MUNSCH: It sounds like it, yes.

MR. HERSKOVITZ: The PUC approved that transfer?

MR. YAKOPEK: The Township does have properly at the present time which it has purchased and is preparing to build a new Municipal Building, which would be served then by Duquesne Light if the territory stayed as it current is.

Plus, the fact that we do have the street lights that we pay the bills for, which are attached to the back, I believe, of one of my submittals, which I believe is sufficient to establish the standing necessary for going forward at this point in time, Your Honor.

MR. HERSKOVITZ: Your Honor, I recognize that the Township does have standing as a customer now because of the street lights, but my motion is that any reference to them representing the entire area of 300 and some-odd customers, that they do not have standing to represent them. There may be two or three, there could be one, of

those 320 customers that don't want to be transferred and they should have a say.

The Township is not -- it's not like OCA. I mean, there's enough people representing enough people that we don't need 2,500 municipalities to represent groups of people as well in PUC proceedings, and there is no statutory authority for a municipality to represent...

JUDGE PORTERFIELD: In a representative capacity.

MR. HERSKOVITZ: Right. My motion -- I understand the Township, that they do have street lights there so they are a customer that would be effected, but for any of these other 325 or so customers, my motion goes that the Township now be permitted to have standing to represent them.

JUDGE PORTERFIELD: I will take your motion under advisement, but my thought is perhaps we should have Duquesne Light and West Penn Power publish something in the local newspaper and either invite comments from the public or we could have Duquesne Light advise their customers of the pendency of this proceeding and invite comments.

We can take that up if you try to remind me during the day or during the course of the hearing. We will proceed on schedule.

MR. MUNSCH: Your Honor, may I have a word?

JUDGE PORTERFIELD: You certainly may.

MR. MUNSCH: I understand Mr. Herskovitz's motion. I

would like to point out that there is a PUC decision, a recent one, in the case of the Township of Findlay versus Duquesne Light Company and West Penn Power Company in which the Commission, the ALJ and the Commission, ruled that the Township had standing to represent its residents in a very similar situation. The case has been appealed by Duquesne Light right now. It has been appealed to Commonwealth Court.

JUDGE PORTERFIELD: That's one of the Pittsburgh ALJs that did that, right?

MR. HERSKOVITZ: Yes.

MR. MUNSCH: Yes, it was Judge Meehan.

JUDGE PORTERFIELD: I will take a look at that over lunch, maybe, and see what it has to say.

Your recommendation is that the Commission adopted his decision?

MR. MUNSCH: That's my recollection, but...

JUDGE PORTERFIELD: Off the record.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record.

MR. HERSKOVITZ: The Commission, I believe, did adopt his order. They did dismiss the motion of Duquesne Light based on standing, and Mr. Munsch is correct that it is now on appeal before the Commonwealth Court.

JUDGE PORTERFIELD: As I say, I will take the motion

under advisement and look at the Findlay Township case and make a ruling today probably.

MR. HERSKOVITZ: Thank you.

JUDGE PORTERFIELD: Can we administer oaths and affirmations?

MR. HERSKOVITZ: Fine.

JUDGE PORTERFIELD: Would all prospective witnesses please rise and raise your right hands, please?

Whereupon,

RICHARD S.BOWER

JAMES LAHTINEN

JAMES N. COULTER

WILLIAM D. GARLAND

RICHARD A. PHILLIPS

and

ALEXANDER GALATIC

having been duly sworn, testified as follows:

JUDGE PORTERFIELD: Let's get the six individuals' names. If you want to come up here, Dr. Bower, while we are getting everybody's name, that's fine.

Would you identify yourself, sir, and your position?

MR. LAHTINEN: James Lahtinen, I'm General Manager of the Regulatory and Economic Analysis Unit at Duquesne Light Company.

JUDGE PORTERFIELD: And you, sir, in the back?

MR. COULTER: James Coulter, Supervisor of Distribution and Planning Engineering for Duquesne Light.

MR. GARLAND: I am William Garland, Manager of Valuation and Property Records Department, Duquesne Light Company.

JUDGE PORTERFIELD: And you, sir?

MR. PHILLIPS: Richard Phillips, Staff Assistant Operations Services at Allegheny Power.

JUDGE PORTERFIELD: And you, sir?

MR. GALATIC: Alexander Galatic, Senior Energy Consultant for Strategic Energy, Limited.

JUDGE PORTERFIELD: Would you spell your last name, please?

MR. GALATIC: Yes, G-a-l-a-t-i-c.

JUDGE PORTERFIELD: Thank you.

Mr. Herskovitz, Dr. Bower also received the oath or affirmation. Do you want to proceed?

MR. HERSKOVITZ: Yes, thank you, Your Honor.

Whereupon,

RICHARD S. BOWER

having previously been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HERSKOVITZ:

Q Would you state your full name?

A Richard S. Bower, B-o-w-e-r.

Q And, by whom are you employed?

A I am a partner in the firm of Bower Rohr and Associates.

Q Have you prepared testimony in question and answer form for this proceeding?

A Yes, I have.

Q And, do you have a copy of that testimony that is marked as Duquesne Light Company Statement Number 1S?

A That's correct.

MR. HERSKOVITZ: Your Honor, at this time, should I request that all my testimony be marked?

JUDGE PORTERFIELD: Let's do it as we go.

MR. HERSKOVITZ: All right. I would like marked for identification, the Surrebuttal Testimony of Richard S. Bower, which was previously identified by me on the cover page as Duquesne Light Company Statement Number 1S.

JUDGE PORTERFIELD: Very well, so marked.

(Whereupon, the document was marked as Duquesne Statement No. 1S for identification.)

BY MR. HERSKOVITZ:

Q Mr. Bower, what is marked as 1S, that is the testimony that you prepared for this proceeding?

A Yes, it is.

Q And, the exhibit that is attached to that, RSB-1,

is your exhibit as well?

A That is correct.

Q Are there any additions or corrections you would like to make to this statement or the exhibit?

A No.

Q If I were to ask you the identical questions that are contained in the statement, would your answers be the same as set forth therein?

A Yes, they would.

Q Are those answers true and correct to the best of your knowledge, information and belief?

A They are.

MR. HERSKOVITZ: Your Honor, at this time I would move for the admission of Statement Number 1S subject to any timely motions and cross examination.

JUDGE PORTERFIELD: Under those circumstances, you have no objection, Mr. Munsch?

MR. MUNSCH: No, Your Honor.

JUDGE PORTERFIELD: Mr. Yakopek?

MR. YAKOPEK: No.

JUDGE PORTERFIELD: That will be admitted.

(Whereupon, the document marked as Duquesne Statement No. 1 was received in evidence.)

MR. HERSKOVITZ: At this time, the witness is

available for cross examination.

JUDGE PORTERFIELD: Would you proceed, Mr. Munsch?

MR. MUNSCH: Yes.

CROSS EXAMINATION

BY MR. MUNSCH:

Q Good morning, Dr. Bower.

A Good morning.

Q I see that you were a Commissioner on the New York Commission from 1979 to 1981?

A Yes, sir.

Q Was that the unfulfilled term of someone else?

A Yes, that was to fill the term of Ed Berlin.

Q And your colleagues on that Commission were Commissioner Marr and Commissioner Jerry?

A Yes, Commissioner Marr, Commissioner Jerry, Commissioner Zelinski and several more names that escape me at the moment.

Q When were you invited or asked by Duquesne Light to consult in this proceeding?

A They have asked me questions about this for some time, probably since June. I'm not sure when, but I was asked to give testimony only a few weeks ago when Mr. Galatic's testimony came in.

Q Let's get to your testimony. Are you familiar with the geographic region known as Harwick Village?

A I have not visited Harwick Village, no.

Q Are you familiar with the situation that Harwick Village is outside of the certified service territory of Duquesne Light?

A Yes, I am.

Q And, you agree with that proposition that it is outside the service territory of Duquesne Light?

A I presume that is correct.

Q On page 3, you note at the bottom, you say "...whether a transfer occurs in a fully regulated regime, as in the case with Harwick, or after deregulation occurs." We are still at this point in a fully regulated regime in Pennsylvania.

A That's true.

Q Are you familiar with the new law that has just been passed?

A I know that a law has just been passed. I am quite familiar with, as I read with some care, the Commission statement on restructuring that came out this summer. I have not seen a copy of the legislation.

Q Are you aware whether or not the new legislation would allow customers to switch their retail distribution utility as opposed to whether it would allow them to switch their generation provider?

A I'm sorry. I'm not quite -- does the legislation

open the door to retail competition; is that the question?

Q Yes.

A It opens the door to that possibility, I understand. I haven't read the legislation, but the Commission's position would appear to be that that is the direction that is being moved in.

Q You have a statement on page 3 at about line 10 that, if I could summarize it, you believe the transfer of customers from one utility to another should occur only if the efficiency gains achieved by the transfer make it possible for all parties to gain.

My question is, where do you view the Harwick Village customers; do they gain if they are not allowed to transfer from Duquesne Light to West Penn Power in this proceeding?

A I think this is raised in the affirmative. In other words, you have stated the negative. If the decision was made properly, what I consider properly, then they would gain, from the numbers I have seen, by not being permitted to transfer.

Q Harwick Village customers would gain?

A Harwick Village customers, if it were done acknowledging that costs that are not avoidable should be not avoidable to individual customers.

Q How would the Harwick Village customers gain if by switching to West Penn Power, they would receive electric

service at substantially lower rates than Duquesne Light?

A The question is whether they would receive service at a substantially lower rate. You, I think, presume, if I have it right, that A, there would not be included in the acquisition costs, a departure cost, a payment for the costs that could not be avoided.

Q The...

A The strandable or stranded.

Q Okay.

A If that were so, if indeed you did that, then they would gain just as anyone who could bypass avoidable costs in the case of restructuring would gain.

Q Doctor, I want to make a few assumptions and run through them. I know it's early in the morning and you probably only arrived from Boston. It was Boston you came from?

A I came from Hanover, New Hampshire, but I arrived last night so I am more or less all right.

Q Let's assume that Duquesne Light long ago took the risk, or made the decision to continue serving customers in Harwick Village even though Harwick Village was outside of its service territory. Then Duquesne Light over the years invested in plant that for one reason or another was more expensive than the plant invested in by West Penn Power, and as a result, Duquesne Light's rates became higher, and

now the customers outside the service territory of Duquesne Light in Harwick Village decide they want to switch to West Penn Power.

Now, who should assume what you are calling stranded costs; should it be the customers who are switching, should it be Duquesne Light, its shareholders or its remaining customers, or should it be West Penn Power?

A Those charges should fall on the Harwick customers ultimately. That would be a non-bypassable charge.

Q It should fall solely on the Harwick Village customers?

A What you are asking them to do is to pay the costs that were incurred to serve them that Duquesne Light cannot avoid. That is what they are being asked to do.

If indeed West Penn could provide service at a lower cost in terms of avoidable costs, generation -- let's just talk about generation -- outlays than Duquesne could, then indeed the switch would be made.

In other words, it would be whatever, ten cents at Duquesne over, let's suppose seven cents was not avoidable, three cents being avoidable of course for generation or whatever, and if West Penn could provide the service to those customers for two cents of avoidable costs, then West Penn would say, "Okay, Harwick, you pay seven cents of non-avoidable costs that will ultimately go to Duquesne and two

cents for our generation, nine cents versus ten cents." Harwick is better off, West Penn is fine and so is Duquesne. No losers. That's the way it should be done.

Q I think you addressed that scenario in your hypothetical --

A I used that...

Q -- somewhere.

A Sorry, I used that illustration.

Q On page 10, I think?

A That's correct.

Q As to the timing of this matter, there is a lot of regulatory change going on the utility industry. Am I right about that?

A I think this is -- I'm not quite sure why you are asking me the question, but there is a lot of change being talked about. There are changes that are occurring in California, in New York, in Massachusetts and perhaps here and in other states. There are a much greater number of states, I believe, where the changes are not occurring, where there is no -- they are not embracing restructuring towards competition, but nonetheless, this is a time of great change and of great discussion.

Q I can't help but ask because this is an area of some interest to me, but do you have any predictions as to whether there will be widespread -- I mean nationwide

retail wheeling, or do you think it's a scheme that is not plausible?

A I think you will see retail wheeling in probably California, New York, Massachusetts, some states. I believe, this is just a position of my own in doing some analysis, that it will not pay the dividends that people believe it will pay. It will work some advantages, I believe, but there will also be some disadvantages.

I think that -- you know, sometimes these changes occur and they just go from state to state because you have a demonstration that it's terrific. I don't think that is exactly what is going to happen here. I think there will be some starts and then there may be some stops, but it won't be so wonderful that everybody will hop on the bandwagon.

It's hard for an economist not to embrace the introduction of competition, but I had enough experience in regulation to believe that there is a mix of structures in industry that makes sense. The same structure doesn't work in every industrial situation.

I am sorry, Your Honor.

JUDGE PORTERFIELD: That's quite all right. I am enjoying this. I guess maybe I shouldn't indulge myself either.

MR. MUNSCH: I'll try not to indulge myself any more.

JUDGE PORTERFIELD: That's all right.

BY MR. MUNSCH:

Q Anyway, there is some regulatory change going on. I think we have assumed that. The request that the Harwick Village customers are making to switch their retail service, their distribution service, from Duquesne to West Penn, that could have been made at any time in the past, as I understand it, correct?

A That's right.

Q It's coincidental that it is happening now. It was begun in 1994, but it is just coincidental that it is occurring with all this overlapping regulatory change?

A The setting is different today than it would have been if they had asked 12 years ago, if they had asked four years ago.

Q Do you agree that they could have asked in 1960?

A They could have asked at any time from whatever it is, 1917.

Q In other words, there's no new regulation or law out there that gives them a new right to bring this proceeding against Duquesne and West Penn?

A No, and I wonder, and that's all I can do is wonder, even if they were not in West Penn's territory, they could have made a request for territorial change.

Q Why is that, because they were being served in an

island, so to speak?

A Yes. I take it, a request -- I mean, certainly I have seen them, where an area would say, "We would like to have our service transferred," and the issue could be argued before the regulatory body.

Q You mention somewhere, I think in your Curriculum, that you wrote an article for Public Utilities Fortnightly. I dug it out. It was June 25th of 1987. It's number 52 on your long resume.

A Yes, yes.

Q Would I be right in saying that the substance of that article was that you thought that the electricity may have an unstable regulatory regime because utility managers were afraid to make risky decisions because the risky decisions, although they may be the best decisions, may not be rewarded?

A I was -- it's pertinent to the discussion we are having here. That article was written when states in the northeast were invoking used and useful criteria, Maine in particular, to disallow investments that were prudent.

What I said was, just as I would say here, that when you don't allow the recovery of prudent investments, utility management that has investors in mind, and should have investors in mind, is hard pressed, should not make investments that are capital intensive. What you are going

to do is reduce the efficiency of the industry if you follow a procedure such as that.

Q I think you concluded in that article that one of the results of the failure to reward risky decisions may be the onset of electric retail competition.

A My heavens, I didn't realize that I was -- you may be right. You have read it more recently than I have. I certainly might have expected it to, even at that time, to bring in independent power producers. Retail, if I was so -- as to talk about retail competition, then I was a much better analyst than I thought I was.

Q Let's move on to page 8 where you are talking about Mr. Galatic's argument. Number 1 there, you say, "These costs may be economic, but they are not stranded."

A Uneconomic.

Q I'm sorry, uneconomic, right. You say, "Cost can be stranded only by regulatory change." I guess my question is, what do you mean by stranded; does that mean stranded and recoverable or just stranded?

A Well, stranded is -- as I understand what this Commission has said and other commissions have said, uneconomic means that the market value of an investment is less that its book value. That would be true of demand side management investments that have been capitalized. It's true of all sorts of regulatory costs, and of course

it's true for some generation plant investments.

That would be uneconomic. We could talk about that whether you were talking about a regulatory change coming up or not. The word stranded sort of comes in when you say we expect to introduce competition at the wholesale level and perhaps at the retail level, and therefore, plants will be selling at market prices.

We are no longer going to say that we will determine revenue requirements on the basis of prudent investment and reasonable operating expenses and a fair return on capital. Therefore, since you want to get to market prices, we have to figure a way to provide for return of and a return on the book value that is above market value because it would become stranded if we just used market prices. That, I think is where stranded is.

This Commission has used stranded and has not used strandable. A number of others, Connecticut most obviously, talks abut strandable investment, meaning that investment that would become stranded when you move to a different regime, but this Commission, at least in their recommendation this summer, made it clear that what would become stranded, what is strandable, what is uneconomic, should be mitigated in this period prior to -- so, I think stranded is just the past tense. It is what would happen once you have market rates.

Q The facilities that Duquesne Light is worried about in this case, which is its generation facilities, in theory that were used to serve the 300 or so villagers at Harwick, may be stranded, but just because it's stranded doesn't mean it's recoverable. Is that right?

A Well, in my world, and you asked me about that early article, they could not be stranded if they were prudent, so they are prudent investments, therefore it would be -- it may be legally wrong. I don't know that, but it is economically unwise to disallow, to not provide companies with opportunity to have a return of and a return on prudent investment.

Q Are you familiar with the Duquesne Light situation involving something known as the CAPCO Plants, C-A-P-C-O. I'm not sure what it stands for.

VOICE: It's something like Central Area Power Coordinating Organization.

THE WITNESS: In that form, it doesn't mean anything to me.

BY MR. MUNSCH:

Q Are you familiar with the used and useful concept in Pennsylvania?

A I believe Pennsylvania did use used and useful. I also believe the Commission recommended that the legislation, I don't know what the legislation did, but

that the used and useful standard be dropped, a horrible standard in my view.

Q In any event, are you familiar or not with the situation where Duquesne Light had some $35 million of its investment in some nuclear generation known as the CAPCO Plants disallowed even though it was considered a prudent investment when made?

A I am familiar with the fact that they have had plant disallowed. That's as far as my knowledge goes.

Q About this concept of stranded costs that my not be recoverable, let's take a situation of a utility employee who is a bad employee or an unproductive employee. Do you think that there are costs stranded to the utility in maintaining the employment of a poor employee?

A I don't know. Let me see if I can particularize the case. You have a worker who has been working for the company for 25 years. He has now reached the point where his marginal product is less than his wage. Would I call a company imprudent for permitting that person to continue in employment? No, I doubt that I would.

I think that I would examine his work history and I think that I would probably accept the fact that the reason his marginal product was so much above his wage rate for the first 25 years was because he knew that the company would take him for the last five.

A company that paid its Chairman $4,850,000 when it could have gotten him for $1 million has $3,850,000 of disallowable expenses, that's for sure, if that's the sort of question you are asking.

Q No, I wasn't trying to stretch it that far. Let's take another situation where a city, a township or a borough municipalizes its electric system. Say it was formerly served by Duquesne Light and then it municipalizes and takes wholesale service from somebody else other than Duquesne Light. Does Duquesne Light suffer a stranded generation cost in that situation?

A Again, the rule -- were I judging the case, and I have had some cases like that, the question would be are there no losers? It's as simple as that.

If indeed what the transfer does is increase the burden of the remaining customers because prudent investment will be recovered from them, then I would say that is not a good basis for transfer. You want to charge the transferring entity for what it has cost to serve them and to be serving them.

Q It sounds like to me you want to look at each situation I have mentioned in the terms of overall efficiency and decide whether or not it is best that either a company keeps an unproductive employee or whether or not the utility is compensated for stranded costs when a

municipality leaves and takes wholesale service elsewhere. Am I correct?

A I want to be sure that if the community leaves and takes wholesale service elsewhere, that the nation benefits by the fact that fewer resources are being used to provide the same quantity and quality of service. That would be my base.

As I said, a no losers principle is the key to these kinds of transfers. You don't want them to be opportunistic. That would have a very adverse effect, I think, on efficiency through time.

Q Have you seen the letter of, I think, 1957 that West Penn made an exhibit in one of its...

A Yes, it is included. This is the letter, and I think I have a quote from it in my testimony, where Duquesne says that you can have them back -- forgive me, this is self-serving -- for the right price. I know it doesn't quite say that, but that's my interpretation.

Q You cite the letter on page 13.

MR. HERSKOVITZ: Could we give the witness a copy of that letter, Your Honor?

JUDGE PORTERFIELD: Yes.

(Counsel handing document to witness.)

BY MR. MUNSCH:

Q I said you cite the letter on page 13 of your

testimony and you correctly cited it, by the way. I want to ask you about the sentence here that, "West Penn Power shall have the right to purchase such facilities and take over the customers in Harwick Village at any time after mining operations are discontinued."

As I understand it, West Penn Power has offered a hundred and some thousand dollars to take over the distribution facilities in Harwick Village.

A West Penn has made an offer, yes.

Q And, Duquesne Light wants something more than that. Can you tell me what it is that Duquesne Light wants in addition to that?

A What Duquesne -- my interpretation of what Duquesne wants is they want those costs that were associated with serving Harwick that are not avoidable.

Q Just for the record, I said the figure West Penn had offered and Duquesne had offered was in excess of a hundred thousand dollars. That was $149,774. As to these generation assets, would West Penn take title to those assets if it were to pay the stranded costs associated with those assets?

A No, no, that would be the stranded costs difference. It would be uneconomic, the difference between market and book, in essence the unavoidable costs and other unavoidable costs I'm sure that Harwick is contributing to

cover. No, but what West Penn would have to do to protect its other customers would be sure that those costs fell on Harwick.

The key is that West Penn, even with those unavoidable costs -- if West Penn, even with those unavoidable costs, can offer lower rates to Harwick than Duquesne does, then there is an efficiency gain and the transfer should take place. If they can't, then there is an efficiency loss and it would be a mistake to transfer.

Q A mistake, are you saying, for the overall good of the Commonwealth of Pennsylvania?

A Yes, for everyone.

Q I want to ask you about this idea that Duquesne Light has said in their letter that as of 1957 that they will purchase the facilities. When West Penn purchases the distribution facilities for $149,000, it will take title to those facilities; is that right?

A That's right. I take it that is right.

Q But, if it paid something more for something known as stranded costs for Duquesne's generation, it does not take title to those generation facilities?

A Yes, it's exactly the same as the Commission has suggested in saying that if restructuring takes place and you have competition, that no one should be able to avoid stranded costs. That's what it is.

Q Do you know if there is any common law or obligation to pay a utility's stranded costs?

A You clearly asked me a question that an attorney might answer.

MR. HERSKOVITZ: Your Honor, I am going to object. I think that calls for a legal conclusion and Dr. Bower is not qualified as an attorney.

JUDGE PORTERFIELD: I am going to permit the question. If he doesn't know of any such law, there is no adverse inference drawn from that.

THE WITNESS: I guess my answer would have been that I would guess that if there was a common law basis for it, it would not be the subject of legislation in Massachusetts, California, New York and here.

BY MR. MUNSCH:

Q Are you familiar with the Federal Energy Regulatory Commission's Order 888?

A I am somewhat familiar with it, yes. FERC is not my -- I'm not active in FERC.

Q Are you familiar with what is known as the continuing expectation or reasonable expectation standard for recovering stranded costs?

A No, I am not.

Q The idea of stranded costs, does it have anything to do with what is known as the regulatory compact?

A Well...

Q Let me back up. Maybe I should ask you to explain what you know of the term, regulatory compact?

A Regulatory compact is an idea very popular with utilities these days who claim, in essence, there is, as many business firms would in similar circumstances, that there is an implicit contract between the regulator, between the State and the private firm that says you will have the opportunity to get a return of and a fair return on prudent investment. That is the essence of the contract.

I believe that is -- whether the courts find that there is an implicit contract, or compact, or not, I believe that is very good regulatory policy and it would be very good regulatory policy if you are going to change structure. I think most jurisdictions do too.

Q Does stranded costs have its basis in -- I'm sorry, does recovery of stranded costs have its basis in that regulatory compact?

A No, it has its basis in the desire to have the most efficient system you can have and to accommodate competition within that system. It really doesn't depend on the regulatory compact.

The utilities want to argue that it's a right. I don't see it so much as a right, the right to do this as a

matter of equity. I am much more interested in what it does to efficiency if you don't do it.

Q You are looking at it from the economist's point of view. Maybe the utilities are looking at it from their lawyers' legalistic point of view?

A I am looking at it as an economist and someone with an interest in regulation and effective regulation.

Q If Duquesne Light were to receive something called stranded costs and you recommend -- I'm not admitting that they should, but if they do, what they receive for their generation has to be mitigated by sales of that generation elsewhere?

A I think they have a plan to establish the value, the market versus book, by having an auction of it. But, if they did not, suppose that was not the way it was done, the way most other utilities would do it, I would take that that would be to the extent that that payment was associated with the difference between market and book. That would be a write-down.

In other words, that would not go to bottom line as profit. It would instead go as a reduction in the net value of the assets involved. That would be mitigation. I think that's what they are asking is mitigation.

Q Who is supposed to determine the market value of that uneconomic generation?

A I would like to think the Lord might help us, but that's not going to work. Duquesne's plan to see -- to bid the property, that seems like a reasonable way. It's going to be a problem. In New York, they have been talking about not doing it as a one-shot deal, but doing it through time so that you have the benefit of marginal costs through time for energy as a key. After all, a plant that today appears to be uneconomic in the current forecast may become quite economic, if that's the way to describe it, if prices zoom upwards, if the prices of energy sources zoom upwards.

Q Just to finish up, do you have any opinions on whether or not nuclear power will be more or less or the same economic as it is now in the future?

MR. HERSKOVITZ: Your Honor, I will object. I don't know where we are going with this type of questioning and I don't see what relevance it has to Dr. Bower's testimony.

JUDGE PORTERFIELD: I have a problem with relevancy on the -- can you hook us up somehow, Mr. Munsch?

MR. MUNSCH: Well, just in general, Duquesne is claiming that it should recover stranded costs. It may not be in evidence yet, but clearly the costs they are talking about is the uneconomic aspects of nuclear generation and the fact that they can't be sold -- or, the market value of nuclear generation is below the book value. I am asking Dr. Bower if he feels that the market value of nuclear

generation will someday exceed the book value.

MR. HERSKOVITZ: Your Honor, if it does -- I mean, whatever Dr. Bower says is purely speculative. I don't know what...

JUDGE PORTERFIELD: Well, he may have an opinion and he is here as an expert. I am going to overrule the objection. I understand where Mr. Munsch is going with the question.

Do you understand the question?

THE WITNESS: I think I do, yes. You are working with estimates today, what you are estimating, I take it -- if you sell the output of a base load nuclear plant on the market, you are going to get net cash flows of a certain amount. Those net cash flows that you are expecting, discounted to the present, certainly appear today to be less than the book value of the plant.

In other words, it's like looking at a stream of a hundred dollars and let's say forever discounted ten percent, the net is a hundred dollars discounted ten percent, and so it is going to be worth a thousand dollars and the book value is $2,000.

That's the common estimate today. There is no question that tomorrow that cash flow could turn to be $300 and it could turn to be $25. In other words, it's got a range. It's uncertain.

It could go up, but I would have said I don't disagree with the general view that right now if you discount what you expect to get from most nuclear plants, not all, that the cash flows will not have a discounted value as high as the book. I think that is correct.

Q Maybe I was asking you to try to predict the future, which is an unfair question, and you just told me you can't.

A What I said was that energy prices, fuel prices, may go up or go down, but when people forecast, they are trying to get about where they will be in the middle. I don't disagree with that. No, I don't disagree with that.

JUDGE PORTERFIELD: But, your answer is basically that you do not see the recovery, ever recovering the book value; that's not foreseeable at this time?

THE WITNESS: I would not expect that to be. One reason for doing this on a basis of not an all or one type of operation would be that you don't know what is going to happen. I think that's true here, you don't know.

JUDGE PORTERFIELD: I think you just sustained your objection.

MR. MUNSCH: That's all I have.

JUDGE PORTERFIELD: If I may, Dr. Bower, I would like to try to understand it. You don't even get to the concept of strandable costs unless you presume that the investment

was prudent?

THE WITNESS: That's correct.

JUDGE PORTERFIELD: And, once you assume that there is a so-called regulatory compact in place, it's only when you are tweaking, or moving away from, or when you are changing the regulatory scheme that -- away from the regulatory compact in some way, or outside it, that the notion of strandable costs arises?

THE WITNESS: If you stayed in the existing regulatory regime, the prudent investment would be recoverable. I would still say that as you look at the case of a transfer, I would worry about what I would consider the counterpart of that.

You are going to lose a set of customers that gave you a thousand and you are going to avoid a costs of only a hundred, so there is $900 to be made up. If you don't want to call it stranded costs -- but, there's $900 to be made up. Since it is prudent, you would have to make it up from the remaining ratepayers. I think that's not what you want.

JUDGE PORTERFIELD: You think it's inequitable that in some sense -- as a matter of fact, we are in the old regulatory compact environment.

THE WITNESS: Right.

JUDGE PORTERFIELD: Nothing has changed as of today or

probably by the time this case is decided, at least at the condition level. Therefore, you are in a sense taking an equitable position in that it's unfair to put the additional costs, the generation costs, onto Duquesne's remaining customers.

THE WITNESS: But, even more -- that's certainly -- that is my position, but I also feel there is a very, very important efficiency side of it because unless the entity taking over can take care of those unavoidable costs and still under-price the company making the transfer...

JUDGE PORTERFIELD: There's an overall economic inefficiency.

THE WITNESS: That's correct, uneconomic.

JUDGE PORTERFIELD: Uneconomic, right.

THE WITNESS: You could do it by just looking at the avoidable costs on each side. You can provide for this, the -- looking forward to the avoidable cost, for Duquesne it's three cents. Looking to the avoidable costs, for West Penn it's two cents. It really ought to go to West Penn. If it's the other way around, then it ought to stay. That would be my position. That's the efficiency side of it.

JUDGE PORTERFIELD: I don't have any other questions for Dr. Bower.

MR. HERSKOVITZ: May I have a moment, Your Honor?

JUDGE PORTERFIELD: Sure.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record.

MR. HERSKOVITZ: I don't have any redirect examination for Dr. Bower and I would request that he be excused now to catch his plane.

MR. YAKOPEK: Before you let him go, Your Honor, I would like to ask him just a couple questions.

JUDGE PORTERFIELD: Very will.

MR. HERSKOVITZ: I'm sorry.

MR. YAKOPEK: That's okay.

CROSS EXAMINATION

BY MR. YAKOPEK:

Q Dr. Bower, you had been talking about prudent investment. What does that term mean?

A A prudent investment would be -- well, maybe an imprudent investment would be...

Q Well, tell me what prudent would be first and then we can go into imprudent after that.

A A prudent investment would be an investment a reasonable manager would have made in the interest of customers given the information that was available at the time the decision was made.

You can't hindsight it. You have to say when the company decided to put a transmission line in of this -- in this area, that all of the information they had said the

area that would be served by the transmission line was growing rapidly and that the transmission line would minimize the cost of providing service to customers.

As it turned out, the area did not grow as a reasonable manager would have expected so that in fact it was not a good investment. It didn't turn out to be a good investment, but it was prudent because it was the right investment at the time it was made.

Q Are you talking about just in general or this...

A In general, that's the prudence standard.

Q Okay, and then you also said about imprudent and what that...

A Imprudent would be if indeed -- let me give you an example.

Q Sure.

A When I was a regulator in New York, when I was a Commissioner in New York, there were a number of canceled nuclear plants. That was a period of cancellation. As the standard was applied, we said -- when they began to investigate these plants and began the original investments, were they making decisions that a reasonable person would have made in the interest of ratepayers?

That was the first step, but then as time went on, did they cancel the plants when it became clear that a reasonable manager would cancel them? In other words, if

they had started the plant, but six month later the information available said that there would be overruns, it's just not going to make any sense and they failed to cancel and went on for another six months, we would have said all of those expenditures beyond the first six months were imprudent and would have been disallowed for recovery purposes.

Q Looking at this April 30, 1957, letter, is it prudent to say that okay, I am going to serve in somebody else's territory, service territory; one regulatory agency says they are going to serve in another's territory even though they know they don't have a charter; I mean knowing that you are going to have your extra distribution lines that you are going to have to run, your extra generation facilities, that in a regulatory scheme it can be transferred over at any point in time; is that prudent?

MR. HERSKOVITZ: Your Honor, may I just raise, maybe, an objection. Is Mr. Yakopek referring to this particular case, is it prudent, or was that a hypothetical, a general hypothetical?

You started out referring to the 1957 letter, and if the question is seeking a response for this situation, then I think there are some more facts that have to be thrown into the hypothetical.

JUDGE PORTERFIELD: We will let Mr. Yakopek form his

hypothetical based on this situation, the Harwick situation.

BY MR. YAKOPEK:

Q If you look at this -- well, let's do it in a general format then. If you look the April 30, 1957, letter -- do you still have that?

A Yes, it's here somewhere. Yes, I am looking at the letter.

Q Let's assume then generally that we have two competing power companies and a regulatory agency, and the two competing power companies agree that because they own a coal mine, they will serve the coal town, a small area, even though it is going to be in the other utility company's chartered, regulatory chartered, territorial service. Haven't they assumed the risk at that point in time that they are going to lose these customers?

A I would think not, or let me tell you how I would view it. Obviously the two companies have gotten the approval of the regulatory body for Company A to serve this group of customers in this area even though it is outside the territory, so that has happened to begin with.

It's true that the territory can be taken back, that, in other words, the Commission could decide, on appeal from any party, that the customers should be served by the company in whose territory they reside. That could happen,

but the existing situation certainly has the approval of the Commission.

Okay, the company who now is serving them could -- it is conceivable they might decide that they cannot go into any long-term investments because they might lose the territory. That is what you are asking.

I don't believe that it would be satisfactory to anyone, the Commission, the company, either company, if for example, the company serving outside its territory said, "We want all capital investments paid for up front. We are going to have to invest in an additional three megawatts of generation in order to assure service to you. Three megawatts of generation cost $200,000 or $800,000 or whatever it is and you people in the community will have to put that money up front." That would be a way to take care of the risk.

Or, "We will not, because we don't know that we will have this territory, we cannot make any firm commitments, therefore, what we will do is offer you service, but any time we hit peaks, we will wash you off the system, we will throw you off the system because we don't have the peaking capacity or the capacity to serve you."

I don't think that's palatable. I don't think the Commission would approve it. I don't think it's wise because it means making investments that are poorer

investments, investments that don't serve as well.

It's much better, at least I would expect it even going back in time, that the investments that were made to serve this company, would be recovered, not in the first week as you might do to avoid the risk, but over time it would be normal and that the area would be served at the same rates as other areas and would receive the same quality of service.

I think that's what the utility serving outside its territory would expect to do and would expect to be treated as doing properly. I would not call it an imprudent investment, and I don't think I would enter a decision to call it imprudent if they made those investments.

I will give you a counterpart example. When I was regulating, the Winter Olympics were in Lake Placid and it doesn't take much imagination to think of the amount of communications equipment that went into Lake Placid. New York Tel made immense investments.

That was a case where you knew that when the Olympics were over, it was done and the rates that we caused to be charged to the networks and others were rates that fully compensated New York Tel for all of the equipment that went in, recognizing whatever salvage there was and so on and so on and what might be used to serve the community subsequently.

They put everything up front because you knew it would be short-lived. That's what -- I think if you are going to talk about a risk that a company serving outside its territory is expected to avoid, then you have to expect them to do what I just described, do everything up front. I don't think that is good and I would not call it imprudent for not doing it that way.

Q Just so I understood the other part of your testimony, and correct me if I am wrong, you said that if West Penn can provide the power to the Village of Harwick cheaper than Duquesne, then it should be done?

A If the incremental cost to them and to West Penn is less, then they should be the provider.

MR. YAKOPEK: I don't have anything else.

MR. HERSKOVITZ: No questions, Your Honor.

JUDGE PORTERFIELD: Thank you, Dr. Bower. Have a safe trip back.

THE WITNESS: Thank you very much. I appreciate you taking me first.

(Witness excused.)

JUDGE PORTERFIELD: Let's go off the record.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record. We are going to have Donna Diehm testify via telephone at this time.

If I may, I would like to administer an oath or

affirmation. Would you raise your right hand, please?
Whereupon,

DONNA M. DIEHM

having been duly sworn, testified as follows:

JUDGE PORTERFIELD: Mr. Yakopek, please proceed.

DIRECT EXAMINATION

BY MR. YAKOPEK:

Q Donna, would you state your name, please, for the record?

A My name is Donna M. Diehm, D-i-e-h-m.

Q Are you employed by the Township of Springdale?

A Yes, I am.

Q In what capacity?

A As the Township Secretary.

Q How long have you held the position of Township Secretary?

A Since March of 1982.

Q Donna, does the Township of Springdale pay electric bills to Duquesne Light Company?

A Yes, they do.

Q Can you tell us for what?

A For street lighting.

Q And, is the Township presently contemplating building a new municipal building?

A Yes.

Q Who would serve that municipal building?

A Duquesne Light Company, it's in that service area where Duquesne Light would serve.

Q Previously the Township was served by Duquesne Light Company?

A Yes, we were, in the present Township building.

Q Do you recall when that was changed?

A In August of 1993, we were switched over to West Penn Power Company.

Q Do you recall who made that request?

A When Cambridge Manor, a new development, was built, there was a decision that went on for the people from Orchard Street, which is where our building is located, requesting West Penn Power also supply them, and that's when it was switched over.

Q Donna, do you attend the public meetings of the Township?

A Yes, I do.

Q Are you the official record keeper of the Township?

A Yes, I am.

Q Donna, have members of the public asked about the status of this case at the monthly public meetings?

A Yes, very frequently.

Q And, have different members of the public than

those at the meetings, who come in to pay their bills at the Municipal Building, ask about the status of this case?

A Yes, they do.

Q Do you talk to those individuals concerning the status?

A Yes, I tell them that right now we are waiting to see what happens with this hearing.

Q What is your understanding of what those individuals want done?

MR. HERSKOVITZ: Your Honor, I am going to object to that on the grounds of hearsay.

MR. YAKOPEK: I am asking what her understanding is, Your Honor, not what they said.

JUDGE PORTERFIELD: We will allow it on the understanding basis, and obviously, Mr. Herskovitz, very little weight can be given to it.

Ms. Diehm, please answer as to your understanding of the concerns.

THE WITNESS: They all would like to switch to West Penn Power Company according to what the tell me.

BY MR. YAKOPEK:

Q What is your understanding as to why they would like to switch?

A Mostly for the rates. The rates are much lower with West Penn.

Q In the Harwick Village area, is there a senior citizen population there?

A I would say at least half would be senior citizens.

Q At least half, maybe more?

A Yes.

Q And, are most of those individuals on fixed incomes?

A Yes.

Q The Township of Springdale is a political subdivision, is that true?

A Yes, it is.

Q A Township is the first class?

A Right.

Q Could you give the Township's address for the record.

A The Municipal Building is located at 1331 Pillow Avenue, Harwick, PA.

Q The zip code?

A It's 15049.

MR. YAKOPEK: I have no further questions, Your Honor.

JUDGE PORTERFIELD: Any questions for the witness, Mr. Munsch?

MR. MUNSCH: No questions.

JUDGE PORTERFIELD: Mr. Herskovitz?

MR. HERSKOVITZ: Just a couple.

CROSS EXAMINATION

BY MR. HERSKOVITZ:

Q Ms. Diehm, my name is Richard Herskovitz. I represent Duquesne Light Company. I just have a couple questions for you. Where your Municipal Building is now, you said that that was switched a couple years ago from Duquesne to West Penn?

A That's correct.

Q Do you know whether the Public Utility Commission approved that?

A I would imagine it would be. I'm not certain because it was petitioned by the Orchard Street residents -- the electricity to change.

MR. HERSKOVITZ: That's all I have. Thank you.

JUDGE PORTERFIELD: Mr. Munsch, anything else at this point?

MR. MUNSCH: No, Your Honor.

JUDGE PORTERFIELD: Any redirect, Mr. Yakopek?

MR. YAKOPEK: No, Your Honor.

JUDGE PORTERFIELD: Thank you very much, Ms. Diehm. I think we can terminate the call at this point.

(Witness excused.)

MR. YAKOPEK: The only other thing I would like to do, Your Honor, is introduce the bills.

JUDGE PORTERFIELD: Attached to your testimony.

MR. YAKOPEK: Attached to the written testimony, statement.

JUDGE PORTERFIELD: We will identify the statement as Springdale Statement Number 1 with the attachments, if that's all right.

(Whereupon, the document was marked as Springdale Exhibit No. 1 for identification.)

MR. YAKOPEK: That's fine.

JUDGE PORTERFIELD: Any objections?

MR. MUNSCH: No objection.

MR. HERSKOVITZ: No objection.

JUDGE PORTERFIELD: That is admitted.

(Whereupon, the document marked as Springdale Statement No. 1 was received in evidence.)

MR. MUNSCH: Was the list of signatures that started this off, is that in evidence anywhere?

MR. YAKOPEK: The list of signatures, I attached to the actual complaint, which I figured would then be part of the document itself.

JUDGE PORTERFIELD: We should move the complaint into the record then as Springdale Exhibit Number 1.

MR. YAKOPEK: All right.

JUDGE PORTERFIELD: We will have Statement Number 1 and Exhibit Number 1.

Any objection to that, Mr. Herskovitz?

MR. HERSKOVITZ: Yes, because that contains -- I believe that contains the exhibit of signatures which is hearsay and again it's just allegations. It's not evidence.

JUDGE PORTERFIELD: They will be admitted, but given no weight because of the hearsay and lack of opportunity to cross examine.

MR. YAKOPEK: All right. Then what I would do, Your Honor, would be to ask for permission to enter the official minutes of the Township of that meeting where the petitions were in fact presented, and being official records, they would come in as an exception to the hearsay rule.

JUDGE PORTERFIELD: You can probably get those certified and then Mr. Herskovitz, if he has an objection, can deal with that. We will cancel the complaint then and get the certified minutes of the meeting from the Township and we will designate that as Springdale Exhibit Number 1 when it comes in.

MR. HERSKOVITZ: And then I will have time to file an objection to that once I read it?

JUDGE PORTERFIELD: Yes. Who do we have next; does counsel have any suggestions on the order of witnesses?

MR. HERSKOVITZ: My suggestion would be, Your Honor, that being we started with our witness, if there is no objection by anyone else, I would like to continue with our witnesses.

Being it is almost noon and Mr. Munsch only has a few questions for two of my witnesses, maybe they could go before lunch and then we could pick up the two remaining witnesses after lunch.

MR. MUNSCH: I think I only have questions for one, Mr. Coulter.

MR. HERSKOVITZ: Okay. I would recommend that that be done at this time and then after lunch, we can get to the remaining two witnesses.

JUDGE PORTERFIELD: Very good. Who is your next witness, Mr. Herskovitz?

MR. HERSKOVITZ: You only have questions for Mr. Coulter; is that correct?

MR. MUNSCH: Yes.

MR. HERSKOVITZ: James Coulter, and that would be Statement Number 1.

JUDGE PORTERFIELD: Right. You were previously sworn, were you not, Mr. Coulter?

MR. COULTER: Yes, I was.

JUDGE PORTERFIELD: Please proceed, Mr. Herskovitz.

MR. HERSKOVITZ: Thank you.

Whereupon,

JAMES M. COULTER

having previously been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HERSKOVITZ:

Q Please state your full name.

A James M. Coulter.

Q By whom are you employed?

A Duquesne Light Company.

Q What is your title?

A Supervisor of Distribution and Planning Engineering.

Q Have you prepared testimony in question and answer form for this proceeding?

A I have.

MR. HERSKOVITZ: Your Honor, at this time I would like identified as Duquesne Statement Number 1, the Direct Testimony of James M. Coulter.

JUDGE PORTERFIELD: So identified.

(Whereupon, the document was marked as Duquesne Statement No. 1 for identification.)

BY MR. HERSKOVITZ:

Q Do you have a copy of Statement Number 1?

A I do.

Q Is that the testimony that you have prepared for this proceeding?

A It is.

Q Are there any corrections or additions you would like to make to this statement?

A No.

Q If I were to ask you the identical questions that are contained that statement, would your answers be the same as set forth in the statement?

A Yes.

Q And, are those answers true and correct to the best of your knowledge, information and belief?

A Yes.

MR. HERSKOVITZ: At this time, Your Honor, I would move for the admission of Duquesne Statement Number 1, again subject to any motions and cross examination, and the witness is available for cross examination.

JUDGE PORTERFIELD: You have no objection on that basis, Mr. Munsch?

MR. MUNSCH: No, I do not.

JUDGE PORTERFIELD: Duquesne Statement Number 1 will be admitted.

(Whereupon, the document marked as Duquesne Statement No. 1 was received in evidence.)

MR. HERSKOVITZ: Thank you. The witness is available.

CROSS EXAMINATION

BY MR. MUNSCH:

Q Good morning, Mr. Coulter. How long have you been in your job at Duquesne?

A Thirteen years.

Q That's as Supervisor of Distribution and Planning Engineering?

A Correct.

Q Is that for a particular geographical location?

A It is.

Q What location?

A Generally the North Hills of Pittsburgh, generally north of the Ohio and Allegheny Rivers although we do cross both.

Q I would like for you to describe the situation at Harwick Village and how it is actually served by Duquesne Light even though it is surrounded by West Penn territory; in other words, the configuration of the distribution lines, how it gets electricity and from where?

A The Village of Harwick is served by a 2,300 volt three-phase, three-wire, distribution system. It originates at Duquesne Light Company's Harwick substation, which is located at the site of the old Harwick Mine.

The Harwick substation is supplied by a 23,000 volt

sub-transmission circuit. That circuit terminates at the substation at the old Colfax Power Plant at our Pine Creek plant, or Pine Creek substation. I'm sorry, there's no plant there. It goes through distribution, but ends on sub-transmission lines.

Q I'm sorry. I'm afraid I don't understand. You say there is a Colfax substation and a Pine Creek substation?

A Yes.

Q And, Harwick is served by both?

A That's correct.

Q Is the Colfax substation in Duquesne Light's territory?

A No, it is not.

Q Pine Creek substation?

A Yes. The Colfax substation is part of the old Colfax power station that's been idled.

Q How far is it from the Colfax substation to Harwick Village in general?

A Without looking at a map, I would have no way to make a good educated guess.

Q It's not yards, it's miles?

A Yes.

Q Would you be able to guess if it is more than five miles?

A I'd guess less than five.

Q How far would Harwick Village be from the Pine Creek substation?

A Five to ten miles; without looking at a map, I am really guessing. The lines obviously go overland, not over normal road.

Q And, it's a 23,000 volt line?

A Yes.

Q Then that line, somewhere between the substation and Harwick Village, gets further reduced in voltage; am I right about that?

A At the Harwick substation.

Q Right at the Harwick substation?

A Yes.

Q That's in Harwick Village?

A It's in Springdale Township. Harwick Village is -- I mean, if you are talking about a recorded plan of some sort, no, but it's immediately adjacent to it.

Q Do you have any professional opinion on whether or not the Harwick Village residents could be as reliably served by West Penn Power as opposed to Duquesne Light?

MR. HERSKOVITZ: Your Honor, I am going to object to that. I'm not sure what Mr. Munsch means by professional opinion. Mr. Coulter was not introduced as an expert witness. He was introduced as a fact witness just to state

what facilities were involved in the sale portion of this transaction, this transfer.

JUDGE PORTERFIELD: Mr. Munsch, at best I think there would have to be a foundation as to the witness's acquaintance with West Penn's facilities, and that hasn't been laid. Do you have any response to Mr. Herskovitz's representation as to the nature of the witness, that he is a fact witness, not an expert?

MR. MUNSCH: I agree with that, but the nature of his expertise, as he describes as being Supervisor of Distribution and Planning Engineering for the area in question, probably leaves him as the sole person in the world that knows more about that electrical distribution than anybody else.

MR. HERSKOVITZ: Duquesne's distribution, not West Penn's.

JUDGE PORTERFIELD: I think if you lay a foundation as to his knowledge or background and acquaintance with West Penn's distribution facilities, that would be a good question.

MR. MUNSCH: Thank you, Your Honor.

BY MR. MUNSCH:

Q Are you familiar with West Penn's distribution system surrounding Harwick Village?

A How familiar is familiar? You know, I...

Q Do you know where the nearest distribution substation of West Penn Power is to Harwick Village?

A I believe, and I have this just from -- the only thing I would know about West Penn's facilities is what I picked up in idle conversation. I do believe that West Penn has a facility at the Westinghouse Cheswick plant that they call Harwick substation.

Q Okay. Have you ever experienced reliability problems in Duquesne's service to Harwick Village because of the nature of it being an island of service outside of Duquesne's other territory?

A Nothing abnormal.

Q Has there ever been any confusion among residents who are suffering service problems at Harwick Village being told when they call in to Duquesne Light's trouble center, that they are not served by Duquesne, that they are served by West Penn?

MR. HERSKOVITZ: Your Honor, I will object on the grounds that there again has been no foundation laid that this witness would even know the answer to those questions, if he would have any information to answer that question, and he was not presented as a witness to discuss if there were any problems in Harwick Village. Again, his testimony deals with what facilities are out there.

JUDGE PORTERFIELD: I will sustain the objection,

Mr. Munsch, unless you want to bring something else to my attention.

MR. MUNSCH: I will ask another question.

JUDGE PORTERFIELD: Very well.

BY MR. MUNSCH:

Q Mr. Coulter, you say on line 10 that you provide guidance for the design and construction of Duquesne's distribution facilities.

A Yes.

Q Does that include the distribution facilities in Harwick Village?

A Yes.

Q Did you supervise -- what is the nature of your supervision over Distribution and Planning Engineering; how many people do you supervise?

A I have three direct reports and 11 indirect reports.

Q Do you supervise line crews at all?

A No.

Q Who are the three direct reports?

A Michelle Antantus (ph).

Q What does she do?

A She is a substation engineer. Richard Merchak, Tom Imhoff, who are both supervisors in distribution.

Q How about the indirect reports?

A They are engineering technicians.

Q Do they report up through the direct reports?

A Yes.

Q In your experience in 13 years in your position, have there been situations where you had to discuss with West Penn Power who would serve a new customer in Harwick Village?

A Yes.

Q Was there any -- let me ask you this; suppose a new customer was building a facility in Harwick Village, would you, in your position, ask West Penn if that customer would be served by West Penn?

MR. HERSKOVITZ: Again, that is not within the scope of direct examination, Your Honor. I am going to object.

MR. MUNSCH: I think it clearly is. As Mr. Coulter said, he provides guidance for the design and construction for Duquesne's distribution facilities which would include providing service to new construction.

JUDGE PORTERFIELD: I will allow the question and let the witness answer if he knows.

THE WITNESS: That question would first be directed to our right-of-way people who would determine, who would then give me guidance as to what position Duquesne Light Company would take.

If -- what circumstances -- given the present

situation, this situation has been going on for several years. Yes, I have talked to Rich Phillips about these things in an attempt to try and not complicate the issue any more than it already is.

BY MR. MUNSCH:

Q In the past, were there situations where a new customer who wanted electric service in Harwick Village would be served by West Penn as opposed to Duquesne?

MR. HERSKOVITZ: Your Honor, can I have that question repeated, please?

MR. MUNSCH: Rather than asking the reporter, I will try to repeat it myself.

BY MR. MUNSCH:

Q In the past, have there been situations, a situation or situations, where a new customer who wanted electric service would have received service from West Penn as opposed to Duquesne in Harwick Village?

MR. HERSKOVITZ: Again, I object. Even though this witness has some supervision over design and construction of facilities, that's still not the purpose of his testimony today. The purpose is just to describe those facilities that are out there that would be transferred if a transfer was made, and that's all that this witness is testifying to and therefore, any other questions are beyond the scope of the direct testimony.

JUDGE PORTERFIELD: As you know, Mr. Herskovitz, we don't always observe the scope rule very closely. If the witness knows, he can answer. If he doesn't know, he can respond accordingly.

THE WITNESS: There was a situation several years ago where the Watson Standard Company, something like that, had a facility. They had a service from West Penn and a service from Duquesne. They came to Duquesne and said, "We are increasing our load. We would like to increase Duquesne's facility with a facility to be provide by West Penn so that we can pay one power company only." Is this what you are...

BY MR. MUNSCH:

Q That may be one, yes. Is that the only one that you can think of?

A There was another situation where two people physically picked up their houses and moved them across the street.

Q I gather these are mobile homes?

A No, no, they were not mobile homes. I know the fellow that did it. The new arrangement of those two homes presented some unique construction requirements, and I talked to Rich to see if he was interested in working a deal of some sort pending, at that time, the speedy resolution of this matter.

Q How about the Cambridge Manor Town Houses?

A I am not familiar with that.

Q Mr. Yakopek asked a question of Ms. Diehm as to whether or not the transfer of residences and facilities on Pillow Street was done pursuant to a PUC order. Do you know the answer to that?

A Orchard?

MR. YAKOPEK: Orchard.

MR. MUNSCH: I thought Ms. Diehm said Pillow.

THE WITNESS: She said...

MR. YAKOPEK: She mentioned Orchard Street, which was the question that Mr. Herskovitz asked on cross examination. Pillow is what the Township Building is located on, which is the --

THE WITNESS: Corner.

MR. YAKOPEK: -- intersection of Pillow and Orchard.

THE WITNESS: The Township Building was transferred when the customers on Orchard Street were transferred, and it is my belief that a Certificate of Public Convenience was petitioned by both companies and granted by the Commission.

BY MR. MUNSCH:

Q You mentioned a company called Watson Standard. Was that a commercial customer?

A Yes, commercial/industrial, not residential, not

governmental.

MR. MUNSCH: That's all I have. Thank you.

JUDGE PORTERFIELD: Mr. Yakopek?

MR. YAKOPEK: Just one.

CROSS EXAMINATION

BY MR. YAKOPEK:

Q Mr. Coulter, when is the last time your were up in the Harwick Village area?

A I can't put a date on it within a year.

Q Okay. Do you know where Pillow Avenue is?

A Yes.

Q Let's assume you are driving down by the river and you are driving north on Pillow, do you remember where the old Boney Dump used to sit on the right-hand side?

A No, I'm sorry, I don't.

Q Do know where the Township Municipal Building is?

A At the corner of Orchard?

Q Yes.

A Yes.

Q Before you reach the Township Municipal Building, do you recall where the ball fields used to sit?

A No.

MR. YAKOPEK: Nothing else, Your Honor.

JUDGE PORTERFIELD: Anything else, Mr. Munsch:

MR. MUNSCH: No.

JUDGE PORTERFIELD: Mr. Herskovitz?

MR. HERSKOVITZ: Nothing else.

JUDGE PORTERFIELD: Thank you, Mr. Coulter.

(Witness excused.)

Do you want try to do the one other witness before lunch?

MR. HERSKOVITZ: I don't think there are any questions and I would just ask if everyone would stipulate to his testimony and his exhibit being entered into the record, and that is Duquesne Light Company Statement Number 2, the direct testimony of William D. Garland. He has one exhibit attached to that which is WDG-1.

JUDGE PORTERFIELD: You have no objection, Mr. Munsch or Mr. Yakopek, to the admission of Statement Number 2?

MR. MUNSCH: No, Your Honor.

MR. YAKOPEK: No.

JUDGE PORTERFIELD: That will be so identified and admitted.

(Whereupon, the document was marked as Duquesne Statement No. 2 for identification and received in evidence.)

MR. HERSKOVITZ: My final witness would be James Lahtinen who has direct, rebuttal and surrebuttal. If you want to do that now, I don't know how long the cross examination is for him.

MR. MUNSCH: I would guess it to be about as long as for Dr. Bower.

JUDGE PORTERFIELD: All right. Let's have lunch and get back about 1:15 and start with that witness.

(Whereupon, at 12:15 p.m., a recess was taken, to reconvene at 1:15 p.m. this same day.)

AFTERNOON SESSION

1:15 p.m.

JUDGE PORTERFIELD: We are on the record.

Mr. Herskovitz.

MR. HERSKOVITZ: Mr. Lahtinen, he has half the testimony, I think, in this proceeding. I have Statement Number 3, 1R and 2S.

JUDGE PORTERFIELD: You were previously sworn or affirmed, weren't you?

MR. LAHTINEN: Yes, sir.

JUDGE PORTERFIELD: Please proceed, Mr. Herskovitz.

Whereupon,

JAMES LAHTINEN

having previously been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HERSKOVITZ:

Q Please state your name.

A James Lahtinen.

Q By whom are you employed?

A Duquesne Light Company.

Q What is your title?

A General Manager of Regulatory and Economic Analysis.

Q Have you prepared testimony in question and answer form for this proceeding?

A Yes, I have.

MR. HERSKOVITZ: Your Honor, at this time I would like marked for identification Duquesne Light Company Statement Numbers 3, 1R and 2S.

JUDGE PORTERFIELD: So marked.

(Whereupon, the documents were marked as Duquesne Statement Nos. 3, 2R and 2S for identification.)

BY MR. HERSKOVITZ:

Q Mr. Lahtinen, do you have those three statements in front of you?

A Yes, I do.

Q Is that the testimony you prepared for this proceeding?

A Yes, it is.

Q And the exhibits that are attached to your testimony, you prepared those as well?

A Yes.

Q If I were to ask you the same questions that were contained in the testimony at this time, would your answers be the same as set forth therein?

A Yes, they would.

Q Are those answers true and correct to the best of your knowledge, information and belief?

A Yes, they are.

MR. HERSKOVITZ: Your Honor, at this time I would like admitted into the record, subject to any motions and cross examination, Duquesne Light Company Statement Number 3 with attached exhibits and Duquesne Light Company Statement 1R with attached exhibits and Duquesne Light Company Statement 2S with attached exhibits.

JUDGE PORTERFIELD: So admitted subject to those conditions.

(Whereupon, the documents marked as Duquesne Statement Nos. 3, 2R and 2S were received in evidence.)

MR. HERSKOVITZ: At this time, Mr. Lahtinen is available for cross examination.

JUDGE PORTERFIELD: Mr. Munsch.

MR. MUNSCH: Thank you, Your Honor.

CROSS EXAMINATION

BY MR. MUNSCH:

Q Good afternoon, Mr. Lahtinen.

A Good afternoon.

Q Mr. Lahtinen, do you have Duquesne's current tariff residential rate handy?

A No, I do not. You are talking about the tariff?

Q The tariff.

A No, I do not have the tariff with me.

Q Do you know what the residential rate in the

tariff is?

A For RS, regular residential customer class, yes. I believe it's -- subject to check, I believe the customer charge is about $6.42 per month. I believe the energy rate is 11.74 net of any ECR or status credits.

Q That's 11.74 cents per kilowatt hour?

A That's correct.

Q By comparison, do you know what West Penn's energy rate is for residential service?

A No, I don't. The only number I would have would be just the average numbers that I have seen. I think Mr. Galatic sites a number of about seven cents per kilowatt hour, and I will accept that subject to check.

Q With this rate differential, is the rate differential the reason the customers of Harwick Village want to switch from Duquesne's service to West Penn's service?

A I don't know specifically what the reasons are for the customers. I believe some of the pleadings that have been filed, I think, reference the rate differential. I would certainly accept that subject to check if there is a document that you would like to refer to.

Q Now, the villagers, the 304 people who signed the petition, was their petition prompted by any regulatory or legislative change that you are aware of?

A I really can't speak to that. I don't know. It's not clear to me that it was and it's not clear to me that it wasn't. It's quite possible, and again it's pure speculation on my part, that the recent activity with rate deregulation might have prompted someone to reassess whether or not they have any other avenues to be served by another company, but I do not know anything specifically.

Q Let's have a look at the exhibits in your first testimony.

A The direct testimony?

Q The direct testimony, yes, Statement Number 3, I think it is.

A Okay.

Q Do you want to get to the old 1917 stuff?

A Exhibit 1?

Q Yes. In your testimony, you referred, at paragraph 15 of that exhibit...

A Mr. Munsch, could you give me a cite where I refer to that, please?

Q No, I can't. It's...

A Hold on. I think I got it. I think it's on page 3 starting at line 10, if that is what you are referring to.

Q I am going to ask you about what gave Duquesne the right to continue serving in the area of Harwick Village

after it appeared that the area being served was an island in Duquesne's service territory.

A I'm not...

MR. HERSKOVITZ: I would object to the form of the question. I don't think there is a -- I don't think it's a complete question.

MR. MUNSCH: I will withdraw the question.

BY MR. MUNSCH:

Q Mr. Lahtinen, on what grounds do you think Duquesne had the right to serve Harwick Village in the first place?

A My understanding of the agreements and other materials that I've read is that there was a mutually agreeable exchange of territories between West Penn and Duquesne Light Company.

Q Did it have to do with coal mining operations?

A I believe there was references to the existence of coal mines in those areas.

Q Now, Duquesne had a coal mine in or around Harwick Village?

A That is my understanding as well as associated buildings and property associated with coal mine activities.

Q Do you know when the coal mine went out of operation?

A I don't know a specific date, no. I would be happy to accept a date subject to check.

Q Duquesne owned what I would call company homes in the area of the coal mine?

A That is my understanding.

Q Do you know when Duquesne sold those homes?

A I believe there were some references in my testimony. In fact, there was a reference in my testimony at page 3, lines 18 through 21, which talks about the results of a search that Duquesne Light's legal department made regarding the sale of mining properties in 1958 and subsequent sales of properties in 1958 and 1959, and also there is a statement in there that it is not clear when the last of those properties was sold, but we believe it was in or around that time frame.

Q Do you know why Duquesne sold those properties?

A No, I don't have any first-hand knowledge as to why Duquesne sold the properties.

Q Now, in the 1916 agreement between West Penn and Duquesne, --

A Yes.

Q -- Article 15, have you familiarized yourself with that?

A Let me take a look at it.

(Witness perusing document.)

I do have Article 15 and 16. Would you like me to read that?

Q No, I don't want you to read it, but in there Duquesne, if I can paraphrase, has the right to furnish electric current to coal mining properties now or hereafter owned or controlled by it.

A That's correct, or by the Philadelphia Company, which was its predecessor.

Q So, the mine was sold, or ceased operations, and the houses were sold around 1959 or so?

A I believe that's the case. There may have been subsequent sales of properties thereafter, but again, as I said, I think our search revealed that we believe most of those properties were sold by 1959 or around that date.

Q Did your search reveal why they were sold?

A No. The only things I believe that I have, which we attached in response to information, I think was some Board of Directors minutes. If you would give me a minute to take a look at that, we will see what that has to say.

(Witness perusing document.)

Yes, Attachment C to the responses to West Penn Power Company's first set of interrogatories, report...

Q What did the interrogatory questions say?

A I believe it was 19. The question asked, "Provide copies of corporate director meeting minutes or any other

document in the possession of Duquesne explaining or setting forth the reason for the sale or transfer of control or ownership of Harwick Village."

Q What was the answer if it is not too long?

A Well, as I understand it, again I am recollecting memory of having read this, it was that the company had transferred, sold, some of these properties, and in exchange for selling some of these properties, they provided some easements to the community, and there were some other things in there that I, off of the top of my head, can't recall.

The company also had agreed for the cost of paving streets and improving a water distribution company, water distribution/sewer system, and they were also going to transfer to the Township a water distribution/sewer system, which I take it to mean that Duquesne Light or the Philadelphia Company, whoever it was at the time, owned a water company as well.

Q Do you know whether or not it was in Duquesne's interests to sell the property?

A I believe it probably was. I wouldn't believe that they would have sold the property if it wasn't. Just like it was probably in the town's interest to pick the transfer of the water and sewage system and have the streets paved.

Q Do you know whether or not there was any governmental mandate that Duquesne discontinue its mining operation at Harwick Village?

A I don't know specifically. I have no reason to believe that there was. I have no reason to believe it was anything other than a business decision.

Q I want to turn to that letter of Mr. McCance attached to Mr. Phillips' testimony.

A Yes.

Q This the April 30, 1957 letter. Who was Mr. Pressly H. McCance?

A It says here that he was the President of Duquesne Light Company.

Q Do you know whether or not he was?

A I believe he was. No one has ever disabused me of thinking that he was.

Q You didn't know Mr. McCance then?

A No. Even I am not that old. I was only three or four years old at the time.

Q Do you know whether Mr. McCance has passed away by now?

A I don't know, but I believe he has. I think someone told me that a while back.

Q I want to turn to subparagraph 1 in Mr. McCance's letter where he writes that "West Penn shall have the right

to purchase such facilities and take over the customers in Harwick Village at any time after such mining operations are discontinued." Do you know what he would have meant by "such facilities?"

MR. HERSKOVITZ: Your Honor, I am going to object. I don't know how this witness could know what Mr. McCance intended. The letter is here, it speaks for itself and we have to live with it.

MR. MUNSCH: Your Honor, it is Duquesne Light's letter. Duquesne Light has, in its testimony, characterized what "to purchase" shall mean, and if it's not in Mr. Lahtinen's testimony, it is somewhere else, and I am asking Mr. Lahtinen if he has any slant on what the term "to purchase" means. I'm sorry, "such facilities" means.

JUDGE PORTERFIELD: If it is true that the testimony elsewhere characterizes the term, I don't see anything wrong with the question and having him interpret "such facilities" if he knows a common understanding in the corporate community, that is Duquesne's corporate community, of what that is understood to mean. I will overrule the objection.

THE WITNESS: Again, as I said, I believe, in my rebuttal testimony, it is impossible to determine exactly what is meant by this letter and the only thing one could

infer, I believe, would be what was meant in 1957. But, if I had to hazard a guess, I would think it would mean at least the purchase of any distribution facilities, at least the purchase of any generation facilities that might have been dedicated solely to Harwick Village.

Again, my reading of this paragraph would be that the purchase and the transfer would have to be satisfactory. What it meant in terms of the price, I don't think it speaks to that. Exactly what Mr. McCance meant by this paragraph, I'm not sure. Again, as I said, it's pure speculation on my part.

BY MUNSCH:

Q Are there any generation facilities solely dedicated to serving Harwick Village?

A No there aren't, but as I said, I don't know what the situation was in Harwick Village in 1957. I don't think there is anybody alive that does either, but there may be. I take that back, maybe Frank Nadolny.

JUDGE PORTERFIELD: Off the record.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record.

BY MR. MUNSCH:

Q Anyway, I have talked about this with Dr. Bower a little bit. If West Penn were to purchase facilities in Harwick Village, it would take title to those facilities;

isn't that the understanding?

A Certainly with regard to the distribution facilities, I think that is what is being anticipated; that is correct.

Q While we are on that, the proposed purchase of the distribution facilities is $149,000 plus a little; is that right?

A I believe that's the number that is also attached to my Exhibit 3; that's correct, yes.

Q That's Duquesne Light's number, isn't it?

A Yes. As I understand it, it was developed by Mr. Garland based on the net book of the facilities adjusted for any income tax liabilities that we would be subject to.

Q Duquesne is asking for something more than that, and that's the stranded costs that it feels it will have if the Harwick Village is sold, right?

A That's correct.

Q West Penn will not take title to any stranded cost assets that it has to pay for; is that right?

A No, I don't think they would necessarily, but if West Penn, for example, wanted to enter into a long-term purchase and sale agreement for power because they thought Duquesne's plans to offer a competitive solicitation to establish a market price would result in -- Duquesne would

be more than happy to do that.

It's a legitimate question about what the market price is going to be. Like Dr. Bower said, and I also believe, I think our plans for competitive solicitation make sense in terms of establishing a market price, but there are some reasons why West Penn would have more value for the purchase of a slice of the system, I see no reason why Duquesne would not enter into an agreement to sell them that power and whatever revenues we received from West Penn would be credited against the stranded fixed costs in order to calculate an access charge, or a CTC charge for example.

JUDGE PORTERFIELD: What is a CTC charge?

THE WITNESS: Competitive transmission charge or essentially all that I mean is that whatever investments or costs that are left stranded on the books, we have an obligation to mitigate those.

One way to mitigate those costs would be to sell the associated energy and capacity into the open market or enter into a long-term contract with West Penn or some other company.

Duquesne has an obligation to do that just like it will have an obligation to do it in the retail choice, is my reading of the litigation.

BY MR. MUNSCH:

Q That's under the new legislation, Chapter 28 of

the Public Utility Code?

A That's correct, but again, even if there were no legislation, Duquesne certainly could not assess a charge for the fixed costs and keep the energy to sell off-system and keep the profits. That clearly is not appropriate in my view, and I don't think the Commission would allow us to do it in any case.

Q Now, what kilowatt load is Harwick Village?

A Well, I did not provide a kilowatt demand number. I provided annual sales for 1995. I think it was 2.3 million kilowatt hours. Mr. Galatic, I think, estimated demand for that level of sales, assuming 50 percent load factor, of about 535 kilowatts.

I haven't done the calculations, but that number does not seem unreasonable to me. I would be willing to use that number subject to check. I think it's probably a pretty reasonable number.

Q What percentage of Duquesne entire generation load would that demand amount be?

A Oh, it's extremely small. It would be half a megawatt to about 2,500 to 2,600 megawatts.

Q What's Duquesne's generation load?

A Generation load -- in my surrebuttal testimony, I used a coincident peak for 1995 at the customer meter. I think it was 2,522 megawatts. That's distinct from

generation, the installed generation, capacity we now have on our system, but I think about 2,522 megawatts is the demand at the customer level, which is different than the demand at the generation level by virtue of the differences in losses of getting it from generators to meters.

Q Okay, so the Harwick load of a half a megawatt would be like one two-thousandth of...

A Oh, it's very small; there is no question. It's no different than a customer, one single customer, who left under retail choice and his load would be very small as well, but as Everett Dirkson said a megawatt here, a megawatt there, pretty soon we are talking about real gigawatts.

Q Just to get to what you just said there, we are not talking about retail choice in this proceeding, are we; that's not what I would characterize as retail choice, right?

A No, no we are not. I was just making a comparison to retail choice in terms of the size of the bundle of Harwick Village customers to, say, one customer or a bundle of customers who got access through retail choice where we would have to calculate a competitive transition charge or stranded costs charge.

Q Is it true that what we are talking about in this case is the transfer of a monopoly service territory now

held by Duquesne Light over to West Penn Company?

A Yes, it's a transfer of customers with the associated territory, I believe. I think that's the proper way of phrasing it.

Q If that transfer occurs in four or five or six years under that law, Section 28 of the Public Utility Code, those same customers might be able to turn and purchase energy or capacity from Duquesne Light?

A If, for example, they were transferred and West Penn allowed the customers in Harwick Village to buy their energy from -- you know, have their choice of supplier, --

Q Right.

A -- that's true, but whether or not -- given the expectations today, whether or not Duquesne would ever be able to recover the stranded generation costs associated with that sale, I don't believe we would be able to do it, but things could change. Market prices could certainly rise. It's quite possible. I don't think it's likely or expected.

Q I got ahead of myself a little bit. I meant to ask you a couple more questions about Mr. McCance's letter. Did you, or are you aware of anybody at Duquesne Light searching Duquesne Light's files for this letter?

A Yes, we did search our files and we did not come up with this letter. To be honest with you, if we had

found it, I would have attached it as an exhibit to my testimony, but we didn't. Our record keeping, obviously, with regard to this case is not as good as yours.

Q Well, if you didn't find the letter, to my next question the answer is probably no, too, but I was wondering if you came up with any associated correspondence to the letter because the letter obviously refers to other things?

A I can't speak to that. I don't know if it is appropriate to ask Rick since I think he conducted the search, but I certainly would be happy to talk about it. I know of no other correspondence.

Q There are two previous Harwick Village petitions. I attached those, or had them attached, to Mr. Phillips' testimony.

A That's correct.

Q Are you familiar with what went on in those transfers?

A I'm familiar only by virtue of the fact that I have read them. I was not involved in those transfers at the time. I did not get involved in this case until maybe the end of 1994, beginning of 1995, but I certainly read them and I do know that there was a petition for -- you know, it was a joint application of West Penn and Duquesne to transfer certain electric facilities and patrons as

these orders so state.

Q And, the joint applications recognized that the Harwick Village area is in the service territory of West Penn?

A Excuse me. Let me read to see if I can find it.

(Witness perusing document.)

It does say, for example if you look at the April 7, 1994, public meeting, the order that has a heading that says Public Meeting Held April 7, 1994, if you look down at the second paragraph from the end, it does say, second sentence down, "Said patrons are located within West Penn's chartered service area but are served by Duquesne." So, my answer to your question would be, yes.

Q And the joint application of West Penn and Duquesne made the transfer price to be the trended original cost of the distribution facilities; isn't that right?

A I believe that's the case. It is certainly the case that, or at least to my knowledge, there was no request for recovery of stranded costs in this case.

Q Now, the last order of the Commission in the Harwick Village transfers was on, I think, December 13th of 1993. Would you agree with that?

A The last order?

Q It's about the last couple pages of the exhibits of Mr. Phillips.

A There's one I see on the 15th of April 1993.

Q Maybe that's it.

A Let me just.

MR. HERSKOVITZ: December of 1993.

THE WITNESS: Okay, there's the 13th of April, the 28th of October, 1993, the 8th day of November, 1993. Are we getting warm here?

MR. HERSKOVITZ: Close.

THE WITNESS: The 15th day of December, 1993, is that the one you are referring to?

BY MR. MUNSCH:

Q Yes.

A Okay.

Q And, that was an order of the Commission approving the transfer of 19 patrons?

A I don't know the exact number, Mr. Munsch, but I certainly would accept that subject to check.

Q Anyway, Mr. Lahtinen, my point is that that was in December of 1993, correct?

A That's correct.

Q Now, in May of 1994, we have the petitioners, the Harwick residents in this case, signing the petition to seek the transfer.

A Yes.

Q There is only a couple months difference there.

A Right.

Q What transpired at Duquesne Light to make Duquesne Light decide that it wanted something called stranded costs for the transfer in this proceeding?

A Well, I don't know the precise answer. I will tell you a couple answers is on or about that time, the issues of stranded costs in the context of regulatory restructuring started coming to the fore. I think the interest in the restructuring just made everybody stop and start reassessing what reasonable practices would be going forward.

There are other people who are involved in these issues at Duquesne. For example, I got involved in it. I had not been involved in it until that time. If I had been involved in the earlier transfers, I don't know, I probably would have requested stranded costs.

I can't tell you exactly why they weren't, why we did not request stranded costs. I mean, what I can tell you is that the company's position essentially was formulated in the last year and a half to two years.

Q Had you even heard of the concept of stranded costs before, say, 1994?

A Me?

Q Yes.

A Oh, yes. I mean, yes, I was familiar with the

term stranded costs as it applied to telecommunications deregulation, bypassable and non-bypassable. I was involved in two cases involving the condemnation proceedings; one when I worked at Central Vermont Public Service and one when I was a consultant for Iowa Electric Company.

That testimony was not filed, but there clearly was a case in the condemnation proceedings where the utility felt that it had costs that could not be recovered if the condemnation went through and I -- did they use the word stranded costs? I'm not sure, but I had certainly heard the term of stranded costs well before 1994.

Whether they used stranded cost back in 1984 in Vermont, I don't know, but certainly the concept was bandied about when I was involved in those cases.

Q Are you familiar with the new Electric Competition Act in Pennsylvania?

A I know it has been passed. I have read it. I actually read it a couple of times and probably will have to read it two or three more times before I fully understand it, but yes, I am aware that it is passed.

Actually, in terms of legislation, it is pretty well written. I think whoever drafted it did a commendable job. You've got to read it very carefully because of the cross referencing sections and reading back, but I am familiar

with it.

Q Am I right that under the new Act, if a company is going to recover its stranded costs, it has to make application to the PUC?

A Certainly the legislation, my reading of the legislation, envisions that a utility will file a transition plan between April and September of next year and one component of that transition plan will include reference to stranded costs under retail choice.

Q And, that is between April of 1997 and September of 1997?

A I believe that's the case. I think those dates are explicit in the legislation.

Q Who pays the CTC, the competitive transition charge?

A I believe in the legislation, it is envisioned that the departing customer will be responsible for continuing to pay his or her fair share of the allocated fixed costs of the system.

Q Do the remaining customers also pay a portion of the approved competitive transition charge?

A They currently pay that now through their bundled tariffs. As I understand the legislation, there will be no intra or inter-class revenue reallocation, so whether you unbundle the current bundled tariffs and isolate a piece of

the current bundled rates that recover the generation costs and then call that a CTC charge or stranded costs charge, they are going to pay that, or their pro rata share, but I think the legislation is clear and the Commission was clear, at least in my mind, in their report that there should be an avoidance of reallocating costs from one group of customers to another.

Q In this Springdale Township situation, who is Duquesne Light saying should pay what it calls stranded costs; is it the customers who are leaving, West Penn Power or who?

A What Duquesne has requested, I think probably more for administrative ease than anything else and probably due to my own failure to clearly identify it, but I think we have requested that West Penn pay for these stranded costs.

By no means does Duquesne mean to suggest that West Penn should not be able to recover any associated stranded costs from Harwick Village residents. I think Dr. Bower testified today that in terms of what he considers to be the most important goal, efficiency, that if the Commission were to decide that the stranded costs were recoverable, that for efficiency reasons, they would be properly recovered from the Harwick Village residents.

On an efficiency basis, I can't say that I find anything to which to disagree with Dr. Bower, but clearly

my point is that Duquesne has invested sums of monies in fulfilling its obligation to serve these customers and that on the basis of equity, these costs should be recovered.

Whether it is from West Penn or the Harwick Village customers, you could do it either way in order to preserve equity, but in terms of efficiency, I find it hard to disagree with what Dr. Bower said, that it might be properly charged off directly to Harwick Village residents.

Q How is this CTS, competitive transition charge, going to be determined by the Commission under the new legislation?

A First of all there is going to have to be a transition plan filing. The utilities are going to have to identify measures that they are going to take to mitigate any costs that otherwise would be stranded as a result of competition in the generation market or retail wheeling.

I take it that the utilities are going to have to demonstrate, at least the legislation is clear on that point, that there will be an annual true-up between the level of the competitive transition charge and the amount of investments that are written down, so clearly that process exactly -- I mean, that's the overall process. How the numbers are actually calculated, what the Commission actually determines for each individual company, I don't know.

As I said in my testimony in doing the calculation, I did the lost revenue or revenue lost approach. Clearly if the Commission comes out with an order that suggests that we calculate stranded costs in a way that is materially different from the way I did it, I have no problem making adjustment to the stranded costs charge for purposes of this case.

I think that methodologically they should be the same and whatever the Commission decides, I think it should be consistently applied here as well as in the retail choice customers.

Q When the Commission has these transition hearings, the parties are going to be able to delve into a company's financial situation, correct?

A As I understand it, sure, they certainly will examine the cost of service. There is a rate cap in the legislation, so one could say that at least in the legislation, they are envisioning a process where there would be a rate cap for nine years. The utilities are on notice that they have to mitigate as much of their stranded costs in that nine-year period as possible.

For utilities like Duquesne and maybe PECO, I'm not quite sure that nine years with rate capped at current levels, is going to be long enough in order to fully recover our stranded costs, but it certainly is going to be

an issue of discovery, fully litigated hearings and testimony. There's no question about that.

Q One of the issues in Duquesne's situation may be its regulatory assets?

A That's correct.

Q Does Duquesne have on its books, a large amount, a large figure for regulatory assets?

A Mr. Galatic, I think, pulled out some numbers, out of our FERC Form I. I think the number is about $945 million. I'm not -- I do not know today, or in a transition plan, if that number will be $600 million or $700 million. I don't know how much has been amortized, but there certainly are several millions of dollars of regulatory assets; like, I think, probably most companies in the state have a chunk of regulatory assets.

Q Just a little bit more, in your testimony somewhere you referenced the sale of Fort Martin?

A Yes, I believe I did that in my direct.

Q What was Fort Martin that was sold?

A We sold our ownership interest, I believe it was 276 megawatt, to a subsidiary of APS, AYP. I believe that was closed November of this year. It was the sale of a base loaded generating unit, 276 megawatts, the sale of our ownership. I think we also sold any associated transmission rights.

MR. HERSKOVITZ: If I may, Your Honor, that is in Duquesne Light Company's Statement Number 2S on page 5, the bottom of page 4, top of page 5.

BY MR. MUNSCH:

Q Yes, on page 6 at line 15, you say, "In fact, this exact same treatment was proposed by Duquesne and accepted by the Commission in its request for certain rate making treatment for the sale of its interest in Ft. Martin Power Station to AYP."

A Yes, I did say that.

Q Well, was AYP under any obligation to buy Fort Martin?

A No. I believe AYP made the purchase because they thought it was in their own interest.

Q And, the Fort Martin generating unit was competitively bid?

A I believe that is the case, yes.

Q Do you know how many bidders responded to that competitive bid situation?

A I don't know specifically. I could take a guess and it may not be too bad. I think probably three or four. I may be mistaken, but I think that information was contained in our filing. Certainly we can get you the information on that.

I think there was three or four. I was not involved

in putting out the bid or personally involved in looking at the bid.

Q Okay, but AYP, as the ultimate buyer, did not have a right of first refusal on Fort Martin, did it?

A Not that I know of.

Q I asked this same question of Dr. Bower about Duquesne's investment in the CAPCO nuclear plant. Are you familiar with that case where the investment in CAPCO was disallowed?

A Are you referring to the Springcore case, which has been classified the Barasch Decision?

Q Yes.

A Yes, I actually read that. At one time I thought I was going to be interested in constitutional law, but it made me realize I wasn't. Yes, as I understand it, and again I think Dr. Bower addressed that, I think that was -- there was a -- I don't know if it was a disallowance.

What it was is an amortization without return on the investment, so there was -- there was a loss. I think that was justified, or at least the -- I think Sonny Popowski of the OCA argued that before the Supreme Court, and I think he said it was consistent with the used and useful statute that was on the books, which again I think this legislation has pretty much done away with that.

Q My point is that that investment was considered

prudent when it was made in the mid-1960s and --

A That is correct.

Q -- it was ultimately disallowed in terms of a rate of return on that investment?

A That I believe that is correct.

MR. MUNSCH: Thank you.

THE WITNESS: You are welcome.

JUDGE PORTERFIELD: Mr. Yakopek.

CROSS EXAMINATION

BY MR. YAKOPEK:

Q Mr. Lahtinen, in terms of Duquesne Light's bottom line, this case is rather insignificant, is it not?

A It may or it may not be. I mean, if the decision were confined to Duquesne Light -- I mean, just to the Harwick Village residents...

Q That's the question.

A You know, a million, two, I would consider it significant, but in terms of our total earnings, it probably isn't. That's true of a single residential customer who, for example, had retail choice and calculated stranded costs. The problem is that once you start doing that, once you start piling on a lot of these small situations, pretty soon you have a big pot of dollars.

It also, I think, has some significance in terms of I think these issues are very similar in terms of recovery of

stranded costs for retail choice customers, not only the logic of equity and efficiency, but also the methodological issues.

Again, I don't think you can just define it to this case, at least in my mind. I think it will send certain signals that the Commission will have to be cognizant of when they make a decision, which I'm sure they will be.

Q I keep getting questioned at my public meetings as to why are these companies fighting, why are they fighting here. For me to try to get into stranded costs, these folks just aren't going to understand that.

Do you have some kind of an answer that you can give me that I can tell these people as to why the fight has occurred here, why Duquesne Light picked this case to go into stranded costs recovery?

A Well, I think what you can say, and we said it in the testimony, is that Duquesne believes that it had an obligation to serve those customers since 1917. It notified West Penn that they had sold the mining properties in 1957 and we heard nothing from the Village residents or West Penn regarding the service to those customers.

We continued to serve those customers for 40 years. We made investment decisions to serve those customers, and we acted, we believe, in a prudent manner. The costs that were undertaken on their behalf, we think we are entitled

to recover from those customers.

Again, there is no question that the nuclear investments in today's environment don't look very good. If we could wish them away, we would wish them away, but I can't tell you that in 1957, 1958, 1959 and 1960 that the customers that took electric service in Harwick didn't receive a better price than they otherwise would have received from West Penn.

In fact, I'm not even sure, and I'm sure that someone could check it, I don't even know if West Penn had distribution facilities in the area in order to serve those customers.

Again, you know, there is a balance here and there is a question if we had acted in a way, I think suggested by some that we not undertake efficient long-term investments, could we have told them we were not going to serve them; we sold the properties, we don't want to serve you? Could the Commission have made West Penn serve them and would West Penn have been able to serve them quickly and efficiently? I don't know.

I know it's a tough question, but again I think the fact is that Duquesne acted to what they thought to be prudent. Those costs have been included in the rates that we asked for in 1987. We believe we provided reasonable service to those customers and we undertook our obligation

the same as we would have, and did, for any other customer that we serve.

Q The term, stranded cost recovery, does that apply in the context of serving new and existing customers or is it just existing customers?

A No, I think it will apply to new customers as well. I think, certainly as envisioned under the legislation when they talk about treating new customers no differently than you would treat customers who return to the electric utility system, say who have gone on a pilot program, I think they are envisioning a situation whereby the costs associated with facilities, investments and costs, unless there is good reason to, that they would probably be shared between the new and existing customers because there will be a CTC charge.

Q Mr. Lahtinen, would it be fair to say that when Duquesne Light purchased this Harwick Village area, they did so for the coal mine, that would be the principal reason; would that be a fair assessment?

A Well...

MR. HERSKOVITZ: Your Honor, again I object. This witness would not have any knowledge of what, back in 1917, the precise reason was for purchasing the mines.

MR. YAKOPEK: I didn't ask for a precise one. I just asked if that was a fair assessment.

JUDGE PORTERFIELD: I think that's a fair question. I think it can be argued without the witness's statement, but it is kind of an introduction.

THE WITNESS. Again I could be wrong, but as I understand it, Duquesne had a coal mine in West Penn's certified territory. West Penn had a coal mine and facilities in Duquesne's certified territory.

They probably said, "Hey, why don't we switch territories. I serve my coal mine and you serve your coal mine." I believe probably both companies thought there were some economies, some efficiencies and savings that that exchange would accomplish.

I certainly can't believe that they would have entered into an agreement like that if they didn't think they were going to benefit.

BY MR. YAKOPEK:

Q Let me back up and I will add a few more questions. Are you generally familiar with electronic power generation and costs?

A In terms of what it costs in terms of what types of facilities provide electric power?

Q And in terms of the history of electronic generation?

A I'm generally familiar with cost trends and regulatory policies. Again, my history may not go back as

far as some peoples', but I have been in the industry for 18, 19 years.

Q If a power company has a coal mine, that buys property to open a coal mine, it does so for fuel purposes, does it not, to be able to generate electric power?

A That certainly would be one reason.

Q And, in order to properly run that mine, you would run electric lines to serve it. You have pumps, lights, fans, right?

A Yes, there would have to be an electrical source. That is correct.

Q Then you have, because of that, miners who come to work in the mine. So, while you have your distribution system already existing to your coal mine, then it is simply incidental to run the streamers down to the customers?

A I will accept that subject to check. That doesn't seem illogical to me.

Q Okay, and then not only do you have that incidental that you are serving your miners, power companies typically in those days owned the houses, which would be called company houses, correct?

A I will accept that.

Q And the company store, like the old song said?

A Owe my soul?

Q Yes.

A Yes.

Q And you would have your -- they owned the railroad to run the coal down to wherever their power stations were.

A Right.

Q So, it would be fair to say, wouldn't it, that the principal focus in this situation was to acquire fuel to generate electricity; everything else was incidental to the coal?

A Well, if you are asking me whether or not Duquesne would have come to serve customers but for the existence of the coal mine, that's probable. That doesn't seem illogical to me either.

Q It is generally true, is it not, Mr. Lahtinen, that coal mines have a finite life span?

A Well, it's an exhaustible resource. Improved technology and recovery methods I'm sure could make the life a coal mine longer than people originally had thought, but yes, at some point, at some extraction rate without any improvement in productivity, yes, it is a finite resource.

Q That is in fact what happened in Harwick Village; is that a fair assessment?

A Well, again I don't know the case specifically, but I think what probably happened is the cost of mining the coal became more expensive that Duquesne could

otherwise go out and purchase the coal on the open market.

Q So, if stranded costs applies in the context of serving customers that you have in your customer base but in this scenario with Harwick Village, the principal function was fuel with the incidentals of ownership of everything else, it wouldn't be equitable to apply stranded costs in this context, would it?

A I don't see why that necessarily follows. Presumably the coal mines, if they were prudent investments, the cost of investing in, extracting and maintaining those mines were recovered through the rates that Duquesne Light or the Philadelphia Company set for electrical service.

I believe that the coal mine, ownership of the coal mine, was at some point thought to be cheaper than it was to go out on the market at buy it, so whatever benefits that arose from ownership of the coal mines were presumably passed along through setting of the retail rates.

I would seem to me to be fair that if there were any, as you call them, incidentals that gave rise to stranded costs, that those too would also be subject to recovery through rates since, after all, presumably the customers of Duquesne and the ones in Harwick Village that were served for some period of time, anyway, took advantage of the benefits of the lower costs of mining our own coal.

Q But, the stranded costs themselves, the distribution and everything, was not put out there to serve customers as much as it was principally to serve the mine and Duquesne Light's fuel source.

A I'm not so sure that follows. I'm not, for example -- I don't know if there -- whether or not there was a 123 KV line. I'm not sure what type of lower voltage distribution facilities were set in there, but clearly the fact that customers came into the area, built houses and stores were built, that required Duquesne to make investments, to make investments in generation plant to provide for more power, to make investments in transmission lines to carry more power to those customers and to invest monies and incur expenses to extend distribution facility and maintain it.

Duquesne really is not -- Duquesne is asking for recovery of a pro rata share of the costs that otherwise would not be avoidable if the Harwick Village residents leave; no more, no less.

MR. YAKOPEK: Thank you. I have no other questions at this time.

JUDGE PORTERFIELD: Anything additional, Mr. Munsch?

MR. MUNSCH: No, Your Honor.

JUDGE PORTERFIELD: Mr. Herskovitz?

MR. HERSKOVITZ: Yes.

REDIRECT EXAMINATION

BY MR. HERSKOVITZ:

Q Just one question as a follow-up to Mr. Yakopek's question, Duquesne Light still had to -- regardless of the fact that the mines were there and Duquesne owned them, it is your understanding, it would be your understanding that -- didn't Duquesne Light still have the duty to serve those residents?

A That's my understanding. Yes, we had an obligation to serve them.

Q To provide safe, adequate and reasonable service under the Public Utility laws?

A That's my understanding. In fact, I don't know how we could not have served them, as I said earlier.

MR. HERSKOVITZ: That's all I have.

JUDGE PORTERFIELD: Thank you, sir.

(Witness excused.)

MR. HERSKOVITZ: That is all I have, Your Honor.

JUDGE PORTERFIELD: What is the purchase price?

MR. HERSKOVITZ: The purchase price?

JUDGE PORTERFIELD: Duquesne's proposal.

MR. HERSKOVITZ: The purchase price of the facilities plus the stranded costs?

JUDGE PORTERFIELD: Yes, what is your proposed purchase price?

MR. HERSKOVITZ: It's $149,000 for the facilities plus $1,266,723.

MR. LAHTINEN: That's correct.

JUDGE PORTERFIELD: Okay.

You have what, two witnesses, Mr. Munsch?

MR. MUNSCH: Yes. I think for one witness, there won't be any questions.

MR. HERSKOVITZ: Correct, for Mr. Phillips. At least Duquesne Light has no questions of Mr. Phillips. I don't know about...

MR. YAKOPEK: I have no questions.

JUDGE PORTERFIELD: Let's take a very short recess and then finish up.

(Whereupon, a recess was taken.)

JUDGE PORTERFIELD: Back on the record.

MR. MUNSCH: Your Honor, I think Duquesne Light has said that it doesn't have any questions for Mr. Phillips and the Township doesn't either, so I would ask that his testimony be identified and received into evidence.

JUDGE PORTERFIELD: Okay. That will be identified as West Penn Power Company Statement Number 1. Is that okay?

MR. MUNSCH: That's fine. That's the testimony of Richard A. Phillips and the associated attached exhibits.

JUDGE PORTERFIELD: Right.

MR. MUNSCH: They are identified as RAP 1, 2, 3 and 4.

JUDGE PORTERFIELD: Very well.

(Whereupon, the document was marked as WPPC Statement No. 1 for identification and received in evidence.)

May we identify then Alexander Galatic's as WPPC Statement No. 2?

MR. MUNSCH: That's fine.

JUDGE PORTERFIELD: Very good.

(Whereupon, the document was marked as WPPC Statement No. 2 for identification and received in evidence.)

MR. MUNSCH: I would call Alexander Galatic.

JUDGE PORTERFIELD: You were previously sworn, weren't you?

Whereupon,

ALEXANDER GALATIC

having previously been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MUNSCH:

Q Mr. Galatic, do you have before you the statement that has been identified as West Penn Power Statement Number 2?

A Yes, I do.

Q Is that a copy of your written rebuttal testimony in this case?

A Yes.

Q Did you prepare this testimony yourself?

A Yes, I did.

Q Do you have any corrections to make to the testimony at this time?

A I have a couple of minor ones and one a little bit more significant that I would like to mention. First of all on page 5, line 15, as you pointed out to me, it should say, "FERC uses the reasonable expectation standard" instead of "FERC uses he reasonable expectation standard."

Q That's on page 5?

A Line 15.

Q Line 15. It should be "the" instead of "he."

A Right.

Q Secondly, on page 10 at the bottom, I said "1985" and it should be "1988."

JUDGE PORTERFIELD: Line 22?

THE WITNESS: The next page, finishing that paragraph, I meant to say, when it says, "This implies Duquesne may be over-recovering," I meant to also say, "or operating inefficiently."

BY MR. MUNSCH:

Q Where is that?

A Page 11 at the top.

Q With those changes, Mr. Galatic, is the testimony you are offering through this Statement Number 1 the same as you intend to offer at this time?

A That's true, correct.

MR. MUNSCH: I will therefore tender Mr. Galatic for cross examination.

JUDGE PORTERFIELD: Mr. Herskovitz.

MR. HERSKOVITZ: Thank you, Your Honor.

CROSS EXAMINATION

BY MR. HERSKOVITZ:

Q Good afternoon, Mr. Galatic.

A Good afternoon.

Q I would like you to refer to page 3, line 6, of your testimony.

A Okay.

Q You refer to the term uneconomic investments. Do you see that?

A Yes.

Q What do you mean by uneconomic investments?

A Capital investments where the market value is lower than the book value, the difference between book and market is the uneconomic, and that implies to generation investments and other capital investments.

The other uneconomic investments could be regulatory

assets, things that could not be recovered through market mechanisms if we were in an environment where customers were, say, free to chose their electric supplier.

Q You also refer, on page 8, line 17, to bad decisions. Is this somehow related or mean the same as your uneconomic decisions, or uneconomic investments?

A Could you help me out as to where...

Q That's on page 8, line 17.

A Line 17?

Q It says, "Duquesne's bad decisions..." When you say bad decisions, what does that mean?

A A bad decision, as I refer to it in this case, is a decision to serve customers that are not captive to Duquesne Light and therefore may not -- may be -- since Duquesne is at risk of losing these customers, then it looks like a bad decision to invest capital to serve these customers.

MR. MUNSCH: Excuse me, Mr. Herskovitz.

MR. HERSKOVITZ: Yes.

MR. MUNSCH: Excuse me, I didn't mean to interrupt you, but I should have brought this up a few minutes ago before I put Mr. Galatic on the stand.

Mr. Galatic is essentially the last witness in the case and he was rebutted by Dr. Bower, is my understanding, and I just want to know how the Court wants to proceed in

that I do have questions to ask Mr. Galatic as to his reading of Dr. Bower's testimony. I can do that after we are done or we can do it up front.

MR. HERSKOVITZ: I don't understand that. We all submitted three sets of -- or had the opportunity to submit three sets of testimony and it has to end somewhere, so if this is sur-surrebuttal, or whatever it is called, and then this is another step, why shouldn't I ask that we respond to whatever things are brought up.

JUDGE PORTERFIELD: You can do that.

MR. HERSKOVITZ: And, we can keep going.

JUDGE PORTERFIELD: You can do that today if you want to.

MR. HERSKOVITZ: If I would have known that, I would not have sent Mr. Bower home. I was under the impression that we all had three bites of the apple and then the testimony ended.

MR. MUNSCH: It's not like you can have one last written statement that is unassailable.

MR. HERSKOVITZ: But, he was rebutting the surrebuttal of Mr. Galatic, and now if you are saying that Mr. Galatic can rebut a rebuttal, then why can't we rebut the rebuttal to whatever.

MR. MUNSCH: Well, maybe rebut is the wrong term. Mr. Galatic has to be able to address the testimony of

Dr. Bower, who referred to Mr. Galatic.

MR. HERSKOVITZ: Well, Bower is in response to Galatic. He is rebutting Mr. Galatic.

JUDGE PORTERFIELD: That would be surrebuttal then that he...

MR. HERSKOVITZ: That's surrebuttal.

JUDGE PORTERFIELD: No, it's rebuttal. It's Mr. Bower responding to Mr. Galatic's testimony. Then he gets a chance to come back.

MR. HERSKOVITZ: Mr. Galatic's testimony was rebuttal, it wasn't direct. Mr. Galatic responded to Mr. Lahtinen and then we submitted Mr. Lahtinen and Mr. Bower in surrebuttal to the rebuttal of Mr. Galatic.

MR. YAKOPEK: I thought you always had the ability, no matter what comes up from a witness, to put on someone else to rebut at least that portion of it, whether it's rebuttal, surrebuttal, sur-surrebuttal.

JUDGE PORTERFIELD: It does have to end somewhere.

MR. HERSKOVITZ: It's just...

JUDGE PORTERFIELD: When was Dr. Bower's testimony filed?

MR. HERSKOVITZ: It was filed November 15th.

JUDGE PORTERFIELD: It was filed timely.

MR. HERSKOVITZ: That's the date rebuttal testimony was due. I'm sorry, November 29th, which was responding to

Mr. -- and it's clear in his testimony. "I am responding to Mr. Galatic's testimony." So, now if Mr. Galatic gets to rehabilitate himself, if that's what we want to call it, or at least gets another crack at trying to...

JUDGE PORTERFIELD: In the past, I have been pretty liberal in letting these things go back and forth. The only concern is that Dr. Bower isn't here. That does concern me.

MR. HERSKOVITZ: If this would have been raised earlier, we could have done this earlier this morning.

MR. MUNSCH: I believed that Mr. Bower's, whatever it was, his testimony was always subject to being addressed by a live witness.

JUDGE PORTERFIELD: What we can do -- I take it what you have is not lengthy.

MR. MUNSCH: That's correct.

JUDGE PORTERFIELD: I got that impression earlier in the whole presentation.

If you want, Mr. Herskovitz, you can have Dr. Bower very briefly respond and include it with your brief. I will let Mr. Galatic testify in response to Dr. Bower's testimony.

I don't know how else to do it and do it fairly. The point is we want to make as complete a record as possible.

Why don't we back up so Mr. Herskovitz has everything

in front of him going in.

I am sorry to interrupt you, Mr. Herskovitz, but it might be more efficient to have Mr. Galatic finish his testimony.

MR. MUNSCH: I do apologize for that. I should have brought it up.

JUDGE PORTERFIELD: I am a little uneasy with it, but I think if we give Mr. Herskovitz an opportunity to, strictly within the scope of whatever Mr. Galatic's response is to Dr. Bower...

MR. HERSKOVITZ: I understand that, but are we going to get another request then from West Penn after that saying to wait, they want to add a few more words?

JUDGE PORTERFIELD: I don't think so. I think that going to be it.

CONTINUED DIRECT EXAMINATION

BY MR. MUNSCH:

Q Mr. Galatic, you reviewed the testimony of Dr. Bower, which was filed under letter dated October 18th, 1996?

A Yes, I have.

Q I'm sorry, that's the wrong date; November 29th.

A Actually, I reviewed the entire surrebuttal of Dr. Bower and Mr. Lahtinen.

Q Did you want to address Dr. Bower's efficiency

questions on page 3 where he talks about the transfer of customers should only occur if it's in the interest of total efficiency?

A Yes, I would. Actually, there were a couple of points in Mr. Bower's testimony on page 3 that I didn't think were -- well, I should say I would like to address.

First of all on line 10, he states, "I believe that a transfer of customers from one utility to another should occur only if the efficiency gains achieved by the transfer make it possible for all parties involved to gain by the transfer."

First of all, as we mentioned several times today, the Pennsylvania Legislature has just passed a bill into law that allows retail customer choice, and although I don't necessarily agree with all the stranded costs provisions in the Pennsylvania legislation, it does state in Section 28.02, "Competitive market forces are more effective than economic regulation in controlling the costs of generating electricity."

I think the point is that where the regulatory regime in this case was designed to encourage efficient allocation of societal resources to provide electric service, that we learned from deregulation of many other industries, including airlines, telecommunications, natural gas, transportation, that competitive forces encourage

investment more efficiently in certain circumstances.

So, basically the argument that efficiency gains achieved by the transfer make it possible for all parties involved to gain by the transfer, well, the Legislature has just stated that they're not necessarily going to use that criterion and allow customers to choose as they see fit.

Q I would like to move over to page 5 of Dr. Bower's testimony and the question of who is responsible for Duquesne's uneconomic investments, and this is at page 5, line 16 where he says that, "It requires the customers be asked to cover the costs caused by the service they receive." Would you like to move on and address that?

Q Yes, I would. First of all there is a question in a regulatory regime we addressed earlier when we talked about the regulatory compact where the -- a lot of regulators around the country, from what I have read in the Electricity Trade Press, have considered this implied contract between the state and the regulated utilities and customers to mean that if the utility was encouraged to make investments because of an obligation to serve, that if the customer is now -- or something changes, something changes in regulations that allow a customer to leave, that that implies, you know, a breaking of the contract, and if so, then the damages are that the utility company would be allowed to recover the fixed costs that they could not

otherwise receive money for, say, by alternate sources -- or by ultimate revenue streams, alternate customers.

But, there is something that I would like to say about the efficiency in general, the efficiency argument versus fairness. I agree that this is a fairness issue because whoever is responsible for making the investments and incurring the costs should be the one who pays for them.

It's not fair to characterize it as an efficiency argument because efficiency is used for making investment decisions, deciding where should I put my money to serve the customers in this case, and Mr. Bower uses efficiency in hindsight. He basically evaluates what do we do now based on what we spent before.

The first rule of project evaluation, you know, financial project management, is that when you are evaluating an investment decision, you don't consider your sunk costs because that leads to inefficient decisions.

For example, if you have an investment opportunity where you can spend $100,000 to make $200,000 and as you get into investment and you are up to $90,000 and you are almost complete with the project, you learn that your investment recovery will only be $90,000, so you determine that it doesn't make sense to spend $100,000 to recover $90,000. Then you decide not to spend the $10,000 extra although the return on that incremental investment is

$90,000 for a $10,000 investment.

So, my point is that the efficiency criterion is used in this regulatory environment to try to encourage utilities to make the best economic investments of societal resources possible. It's not fair to argue efficiency as it would apply to an investment decision looking back at the sunk costs that really are irrelevant, but what is relevant, like I mentioned before, is the fairness issue, that whoever causes the expense to be incurred should be the one who pays for it.

Q On page 7, Dr. Bower talked about the chilling effect. It's at page 7, line 3, he talks about the "opportunity to mitigate and recover recognizes not only the appropriateness of an adequate return on prudent investment but also the chilling effect that ignoring the adequacy criterion would have on future investment..."

A Yes.

Q Would you care to address that?

A Yes. First of all, this is not about industry restructuring.

Q This case, you mean?

A This case with Duquesne Light, with Harwick Village and with West Penn Power has nothing to do with industry restructuring. The opportunity -- he says, "This opportunity to mitigate and recover" -- let me start from

page 6 at the bottom.

Well, actually the question was, "Are these criteria recognized in the electric utility industry restructuring that is now going on?" He says, "Utilities are to given the opportunity prior to restructuring to mitigate stranded costs, including regulatory assets that have no market value, physical assets that have book value less than market value and power purchase liabilities that have present value above market, and to recover costs remaining in years following restructuring. This opportunity to mitigate and recover recognizes not only the appropriateness of an adequate return on prudent investment but also the chilling effect that ignoring adequacy criterion would have on future investment in the still-regulated sectors of transmission and distribution."

Like I said, first of all this is not about industry restructuring in this case with Harwick Village. Second, Mr. Bower seems to state that investors in regulated businesses might fear that this case will set a precedent for restructuring issues, but it doesn't because it is not a restructuring case.

Third -- and that's my non-legal opinion, by the way. I am not an attorney. It doesn't seem related enough that it could set a precedent. Third, adequacy of return will continue to be a reliable input for those who invest in

regulated businesses.

I used to work in investor relations for Allegheny Power and I still have contacts on Wall Street. From my conversations with them, I feel very comfortable in stating that if the utilities, as they are now structured, become restructured and generation is spun off and all they have left of what is a natural monopoly in transmission and distribution, that the adequacy of a return will still be a valuable input in determining the value of investments in those kinds of companies regardless of what happens here because this is not a question of adequate return on prudent investment, but it is really, like I stated before, a question of who should pay for the expenses incurred by Duquesne Light to serve the customers of Harwick Village who were not captive customers per agreement dated back to 1917.

Q I would like to move along relative quickly, Mr. Galatic, on to page 8 where Mr. Bower characterizes a number of your statements in your previous written testimony. Has Mr. Bower correctly interpreted your statements?

A No, he has not in a number of instances, and I would like to review those. First of all point one, it should read, "Duquesne's uneconomic investments are not recoverable because they are not stranded by regulatory

change."

The second one should read, "A reasonable expectation of continued service is not the underlying rationale for recovery as claimed in Mr. Lahtinen's testimony." As a matter of fact Mr. Bower, I suspect that he didn't understand what the reasonable expectation standard was and that seemed to be confirmed this morning when he was asked if he was familiar with the FERC's rationale of reasonable expectation, or something to that effect. I suspect that's why it was mischaracterized there.

Point three should read, "If the stranding of Duquesne's uneconomic costs were caused by regulatory change and therefore could be considered for recovery, Duquesne could not satisfy the regulatory" -- I'm sorry -- "the reasonable expectation standard, and that's because of the letter from 1957 and the agreement from 1917."

Point four is essentially correct except for the reference to reasonable expectation, once again along the lines of what I stated earlier.

Then point five, he suggests, "Even if recovery is justified," and like I said earlier, I don't necessarily agree with the stranded costs recovery provisions in the new legislation, so "even if recovery is justified," as far as I am concerned, is different from stating "even if recovery is allowed."

So, I would like to change that to say that even if Duquesne met all the criterion required by the Pennsylvania Public Utility Commission, then Mr. Lahtinen's estimate of stranded costs is too high.

Q Moving on to page 9, around line 8, Dr. Bower says, "The point is that some of the costs covered by the customers who are to be transferred," it goes on, "will be avoided when the transfer occurs and some will not." Do you agree with that proposition?

A Sorry, line 8 on page 9?

JUDGE PORTERFIELD: Line 8 through 10.

THE WITNESS: Okay. I agree that some of the costs will be avoided when the transfer occurs and some will not, but the question is whether -- actually, the amount of the stranded -- or the uneconomic investment, the cost...

BY MR. MUNSCH:

Q The generation, which I think was testified was about one megawatt; was that...

A Yes, something like that, a half a megawatt possibly. Well, it is actually questionable whether the PUC even addressed it because he says in line 9 -- actually from the beginning he says, "The point is that some of the costs covered by the customers who are to be transferred," and then he states, "costs that a regulatory body found just and reasonable."

It seems questionable to me that this issue of Duquesne Light serving customers outside their service territory and making investments to serve them as a customer who could leave at any time -- it seems questionable to me that it ever came before the Commission.

If it did come before the Commission, I suspect that the Commission may not have allowed Duquesne Light to invest to serve customers -- make long-term investments to serve customers that may leave Duquesne Light's service territory.

Q On page 10, Dr. Bower's example, he has avoidable costs at 7 cents per kilowatt hour for Duquesne Light. Do you agree with that figure?

A I don't agree with the figure although I doubt that Dr. Bower would say that he was saying that that's what the figure should be. I think he was just using it to make an illustration. However, it does imply a certain ball park level of what Duquesne's unavoidable costs might be, and I wanted to make the point that that is not realistic, that it should be much lower than that.

Q On what grounds would you say that?

A Based on my analysis of the numbers, the results of which I incorporated into my original testimony, I found that the unavoidable costs of generation for Duquesne was on the order of 1.6 cents a kilowatt hour per their fixed

costs. I took that information from their FERC form 1.

Q Did you say 1.6 cents?

A Yes, 1.6 cents per kilowatt hour, and then if you add the cost of regulatory assets on top of that, the total comes to about 2.8 cents for those two items. I cannot explain the difference between the 7 and the 2.8 based on publicly available information, but I suspect that it's much closer to the 2.8 than it is the 7.

Q Could we move on to page 14 of Dr. Bower's testimony?

A Page 14.

Q We may be skipping some points, but on page 14, Dr. Bower asks a number of rhetorical questions. Could you address them?

A Yes. When I looked at those, I looked at them more pragmatically, I guess, than maybe they were intended, but my answer to the first question, "Could Duquesne have refused to serve initially or withdrawn service in 1957?" My answer to that would be that Duquesne could have let West Penn serve Harwick Village initially in 1916, but they wanted to, for some reason, serve those customers themselves.

MR. HERSKOVITZ: I would object to this, Your Honor, unless Mr. Galatic could lay a foundation for what the intent was when that agreement was entered into. The

agreement speaks for itself, and for that matter, both sides gave and took. It wasn't just a one-sided agreement, but I am objecting on the grounds that Mr. Galatic would have no idea what the intent was back in 1916 or 1917.

JUDGE PORTERFIELD: With respect to the first one, I guess yours is just a reaction to the rhetorical question anyway; it's not really an answer to the rhetorical question. I will sustain the objection on that one. Let's move along.

MR. MUNSCH: Just to respond, when a number of questions are raised open-ended in the testimony about my witness's testimony, I think he should be allowed to...

JUDGE PORTERFIELD: Yes, he can provide direct testimony. I think that's probably a fair way of approaching it.

There really is nothing substantive in Dr. Bower's to begin with, but I guess he is trying to cause me or the Commission or somebody, some body, to mull these things over. They were apparently prompted by Mr. Galatic's testimony.

What was your question again on the first one?

MR. MUNSCH: I just asked him if he had a reaction to the first one.

JUDGE PORTERFIELD: He went beyond the -- I mean, strictly it's the 1957. What was your response,

Mr. Galatic?

THE WITNESS: The point was that not only could they have let West Penn serve these customers in 1957, but he says "to serve initially" which was before 1917, before the agreement.

According to the agreement, the agreement was -- this is a non-attorney's view of reading this agreement. It appears that Duquesne Light was serving these customers initially before the agreement drawing up the boundaries between West Penn and Duquesne Light.

So, the question was could they have refused to serve them initially? I think the agreement implies that the agreement goes out of its way to say that Duquesne could continue to serve these customers, so I think the answer is Duquesne did not have to serve them initially.

JUDGE PORTERFIELD: Okay. From a layman's view, I don't see anything wrong with that testimony.

Go ahead, Mr. Munsch.

BY MR. MUNSCH:

Q I would just ask, could you respond as these questions go?

A Sure.

Q Would actions like these left all parties better off?

A Well, my impression, based on the differential in

rates between Duquesne and West Penn, the customers of Harwick Village certainly would have been better off.

Secondly, if Duquesne made investments to serve Harwick Village that turned out to be uneconomic and to the extent that these -- well, the obligation or their -- probably more appropriately, Duquesne's choice to serve these customers who were not captive customers, increased their level of uneconomic investments, that they could have avoided that decision if they allowed those customers to be transferred to West Penn in 1957, and West Penn would have increased its customer base, so I think the answer is yes on all fronts to that question of would it have left all parties better off.

Q Let's try to run through these briefly. "Would the Commission accept a refusal to serve or to continue to serve as consistent with the public interest?"

A I don't suppose to be able to guess what the Commission might do, but I think that if they did accept that, they probably would have just made West Penn -- they would have enforced West Penn's obligation to serve customers in its own territory.

Q "Could Duquesne have used the risk of losing Harwick customers as a basis for not obtaining firm generating capacity to serve Harwick?"

A It seems likely, based -- I think I already

answered that when I was answering the first question, actually the second question, would all of these actions have left all parties better off? The Commission probably would not have made them invest to serve customers that were not captive customers.

Q "Could Duquesne have interrupted Harwick's electricity in peak hours because it acted in what Mr. Galatic implies is a prudent manner by avoiding generation and transmission investment required to serve Harwick?"

A I doubt it. I stated earlier that the Harwick Village load is such a small fraction of Duquesne's total generation that it's not likely that Duquesne would have invested in the ability to shut off up to a half a megawatt of load, but I cannot say if they would have or not.

I guess my point is that the load is fairly insignificant and would not have effected, would not likely have effected, Duquesne's investment in generation whether it was classified as interruptible service or not.

Q "Could Duquesne have charged Harwick up front for its" -- I assume it means for Duquesne's share of "DSM costs?" No, I guess that means for Harwick's share of DSM costs.

A I have prepared a little bit of an answer for this. I will get through it rather quickly. I don't know

if they could have charged them up front. It seems that -- Dr. Bower says that they probably wouldn't do it that way.

It brings up an interesting correlator to this proceeding. The basic reason for implementing DSM is that it sometimes cost less to avoid demand than it does to build capacity. DSM programs are most beneficial when rates include high capacity charges because the customer might be willing to spend $10 per KW per month to avoid a demand charge of $14 per KW per month.

JUDGE PORTERFIELD: Excuse me. Is that demand side management; is that what you are referring to?

THE WITNESS: That's what DSM stands for, yes.

Of course, Duquesne might argue that they didn't anticipate the reduction in demand revenues resulting from implementation of demand side management, and according to the same logic they apply in their testimony for this proceeding, they would have required the customers to pay them the $14 per KW that they claim they deserve based on equity and adequacy arguments.

Then the customer will be faced with paying, say, $10, in my example, for demand side management plus the $14 per KW per month for Duquesne's stranded demand charge, but the Commission does not allow Duquesne to assess such a charge.

Furthermore, the efficiency -- of DSM is clear. In making investment decisions, society should consider both

the options of building capacity and avoiding demand, and the message to utilities is also clear; with high demand charges, their future investment in generation must be less than the cost of employing DSM.

Q Do you know where DSM, demand side management, is in formal proceedings in Pennsylvania; is it an ongoing proceeding or is it a dead proceeding?

A My understanding is that DSM is not an issue, especially with the move to competition. The DSM -- if competition -- if competitive forces decide whether it is more economic to build a generator or to somehow avoid using the electricity, then that takes the place of the regulations that are put in place to encourage demand side management.

Q Do you know whether or not, in your experience with Strategic Energy, Limited, whether or not there are a lot of independent demand side management organizations trying to sell demand side management techniques?

A I know that there are in utilities where the demand charge on a monthly basis if very high and I know, just being located in Pittsburgh, there are quite a few that we deal with that are based in Pittsburgh because Duquesne's demand charge is relatively high compared to industry general rates.

Q One more point, on page 16, Dr. Bower -- I think

it's in his chart. He has stranded or unavoidable costs of 1.5 cents for distribution. Do you care to respond to that?

A Yes. It's hard to imagine where the 1.5 cents comes from and that's based on -- I came up with the original -- I had 1.8 for distribution for Duquesne under the column that he would have as avoidable cost. That's based on the distribution plan in service for all of Duquesne Light divided by the number of kilowatt hours used, and for residential customers, I had to make a few assumptions, load factor and things like that.

Assuming depreciation of roughly 8 percent per year, which is in the ball park for a lot of utilities for distribution, then that's about half of that 1.8 cents, or about .9 cents per kilowatt hour.

The rest is operations and maintenance expenses arrived at the same way, and the source of that information, we generally use the Energy Information Administration provided by the Department of Energy, and that is as reported to them by Duquesne Light.

My question is, if you take away the distribution system from Duquesne Light by selling it to West Penn and you take away the operation and maintenance by West Penn taking over that responsibility, I don't know where he comes up with the 1.5 cents that is unavoidable or stranded

costs.

Q In other words, because West Penn would pay the almost $150,000 for the distribution facilities, what left is stranded?

A Right. Just buying it gets rid of about half the 1.8 cents or close to a penny per kilowatt hour. Then operating it and maintaining it would take over the rest, so I am not sure why or where he would come up with the 1.5 or why he would use that figure there. It seems unreasonable to me.

Q How about the 6.2 cents per kilowatt for what is classified as regulatory, etcetera?

A Regulatory, etcetera, includes regulatory assets, and based on the cost of stranded generation assets and the cost of regulatory assets calculations that I did that came up with my range for what the stranded costs would be if stranded costs were legitimately recoverable because of the change in regulations, the regulatory assets part of that is about 1.2 cents per kilowatt hour, so that still leaves 5 that would fall under his etcetera field, but that includes a lot of variable costs, and based on the publicly available information, as I stated earlier, it's difficult if not impossible to figure out what portion of that is avoidable and what portion is unavoidable.

MR. MUNSCH: Thank you.

JUDGE PORTERFIELD: Do you want to take a couple minutes, or do you want to proceed?

MR. HERSKOVITZ: Why don't I request a break now and that way I can get all my cross examination over with.

JUDGE PORTERFIELD: The other possibility -- let's go off the record.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record. What I will try to do is summarize what our understanding is and how the further conduct of the hearing is going to play out. We are going to conclude today's hearing session with Mr. Galatic on the stand, and Mr. Munsch indicated that he wants to elicit additional testimony having Mr. Galatic respond to Mr. Lahtinen's comments on Mr. Galatic's testimony.

What we are going to do is convene tomorrow at 12:30 at which time the further testimony of Mr. Galatic will be offered and Mr. Herskovitz and also Mr. Yakopec will also have an opportunity to cross examine.

Also, Mr. Herskovitz will have an opportunity to append to his main brief, comments or testimony, we will call it testimony, of Mr. Bower in response to whatever Mr. Galatic has testified regarding Dr. Bower's response to Mr. Galatic's testimony.

Does that fairly represent what we are going to do?

MR. HERSKOVITZ: Yes.

MR. MUNSCH: Yes.

JUDGE PORTERFIELD: Let's conclude today's hearing session. We will convene at 12:30 tomorrow.

(Whereupon, at 3:50 p.m., the hearing was adjourned, to reconvene at 12:30 p.m. on December 11th, 1996, in Pittsburgh.)

C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were reported by me and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

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BY: Barbara A. Spin
Barbara A. Spin

Duquesne Light Company Statement No. 1S
Docket No. C-00967749

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SURREBUTTAL TESTIMONY
OF
RICHARD S. BOWER
BOWER ROHR & ASSOCIATES

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November 26, 1996

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Q. Please state your name and address.

A. Richard S. Bower, South Esker, Hanover, New Hampshire.

Q. What is your occupation?

A. I am a senior partner of Bower Rohr & Associates, a research and consulting firm. I am also the Leon E. Williams Professor of Finance and Managerial Economics, Emeritus, at the Amos Tuck School of Business Administration at Dartmouth College. As a partner at Bower Rohr & Associates, I consult on economic and financial matters, primarily matters involving regulation. My clients now include or have included the New York Consumer Protection Board, Consolidated Edison Company, Central Vermont Public Service Corporation, Tennessee Valley Authority, United Illuminating Company, Morris County Utilities Control Authority, the Major Mailers Association, the Maine Public Utilities Commission, the Vermont Department of Public Service, the New York Public Service Commission, the State of Vermont Attorney General, the City of Austin Electric Department and the City of San Antonio Public Service.

Q. **Please summarize your academic background.**

A. I received a Bachelor's Degree in Economics from Kenyon College, an M.B.A. from Columbia University, and a Ph.D. in Managerial Economics from Cornell University. I taught at Vanderbilt University in the years 1959-1962, and I have been teaching at the Amos Tuck School since then.

Q. **Are you involved in research, and has any of your work been published?**

A. I have done research in connection with my course work, and the research has been published in various journals. A list of my publications is included in Exhibit RSB-1 attached to this statement.

Q. **Have you testified before with respect to regulatory matters?**

A. Yes. I have testified before the Vermont Public Service Board, the New York Public Service Commission, the California Public Utilities Commission, the Pennsylvania Public Utility Commission, the Connecticut Department of Public Utility Control, the Maine Public Utilities Commission, and the Federal Energy Regulatory Commission. A list of my prefiled testimony is included in Exhibit RSB-1 attached to this statement.

Q. **Have you any other regulatory experience?.**

A. Yes. From January 1979 to February 1981 I served as a Commissioner on the New York Public Service Commission.

Q. What is the purpose of your testimony?

A. I was asked by Duquesne Light Company ("Duquesne") to review the written rebuttal testimony on behalf of West Penn Power Company by Alexander Galatic and to evaluate and offer my view on the points made by Mr. Galatic in that testimony.

Q. Would you summarize your view?

A. Mr. Galatic argues that Duquesne should not recover "stranded cost" in the transfer of Harwick Village customers to West Penn Power and offers five reasons in support of his position. I disagree with Mr. Galatic and find no merit in the reasons for his position.

I believe that a transfer of customers from one utility to another should occur only if the efficiency gains achieved by the transfer make it possible for all parties involved to gain by the transfer. It is possible for all parties to gain and to be treated equitably only if the costs avoided by the utility that is losing the customers are greater than the increased cost of the utility that is acquiring the customers; that is, if there is a real resource saving. If this is the case, then the acquiring utility and its new customers will gain after providing the contribution covering unavoidable or stranded or uneconomic costs that must be covered if the other utility and its remaining customers are not to suffer. The "stranded cost" position taken by Duquesne and the qualification that recovery of "stranded cost" be non-bypassable are essential elements of retail competition proposals. They establish conditions that assure that everyone can gain, and that efficiency and fairness will be achieved in a customer transfer. This is so whether a transfer occurs in a fully regulated regime, as is the case with Harwick, or after deregulation occurs.

Q. How do you plan to proceed?

A. First, I will deal with the basic regulatory issues. Second, I want to provide my understanding of the points made by Mr. Galatic. Third, I will respond to Mr. Galatic's points. Finally, I offer a brief conclusion.

1. Regulatory Issues

Q. What regulatory criteria do you apply in considering a transfer of customers such as the one proposed in this case?

A. I apply the criteria James C. Bonbright develops as the basis for sound rate regulation in *Principles of Public Utility Rates*. In that classic work he describes three criteria as primary:

> General principles of public utility rates and rate differentials are necessarily based on simplified assumptions both as to the objectives of rate-making policy and as to the factual circumstances under which these objectives are sought to be attained. Attempts to make these stated principles subserve all special objectives and cover all specific conditions would be hopeless. Writers on the theory of rates are therefore at liberty to base their analyses on the acceptance of those objectives which are of wide application and the attainment of which may be aided by whatever tests or measures of sound rate structure the analyses suggest.
>
> Among these objectives, three may be called primary, not only because of their widespread acceptance but also because most of the more detailed criteria are ancillary thereto. They are (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost-apportionment objective, which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer-rationing objective, under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received. [Footnote omitted]

These three criteria are adequacy, fairness and efficiency.

Q. Could you expand a bit on these criteria?

A. The adequacy or fair-return criterion requires that a public utility providing service under rate-of-return regulation be given the opportunity to recover and receive a fair return on all of its prudent investment. It is not a criterion that applies only to investments that turn out to have a positive net present value for utility customers because of the savings they ultimately provide or the additional service they ultimately produce. It applies as well to investments that reasonable utility managers would expect to have a positive net present value for utility customers at the time the investments were evaluated. The criterion reflects the fact that some investments ultimately perform much better than was expected and some much worse, and that return will be kept to a "fair," not a "what-the-traffic-will-bear," level on the better investments and not forced below a fair level on the worse. The criterion has a very practical justification in a regulated industry: without it a utility would have no reason to choose capital-intensive alternatives that have any chance at all of not working out, even when these alternatives have very high returns to customers.

The fairness criterion is simpler and is particularly important in a regulated industry that is being restructured. It requires that customers be asked to cover the costs caused by the service they receive. This criterion not only reflects conventional morality but also has a practical origin. If this criterion were not respected, then customer departures from a utility system would occur opportunistically as conditions change, leaving the utility and its remaining customers to cover costs caused by defectors. If the fairness criterion is ignored, and the threat of this type of opportunistic behavior becomes a reality, everyone would lose.

The utility and its customers, including the ones who in the future may take opportunistic action, all will make plans and operate in ways that limit the losses if and when opportunists escape the costs they cause and pass them on to others. The fairness criterion is a barrier to opportunism and to the waste of resources involved in protecting against its effects.

Efficiency is an even more basic criterion than adequacy and fairness because both the other criteria find part of their justification in using resources as well as is possible— as efficiently, as possible. The efficiency criterion calls for producing a given mix of service using resources that have the lowest cost, or that take away from other possible applications only the resources that would produce the least value if diverted to these other applications. It also calls for creating with these resources a mix of services that have the greatest net value. Efficiency is a criterion that calls out to utility managers and their regulators not to make decisions that waste the nation's resources.

Q. Are these criteria recognized in the electric utility industry restructuring that is now going on?

A. Yes they are. The primary goal of restructuring in the jurisdictions I have worked in is efficiency. The introduction of competition both at the generation and the retail service level is intended to increase generation efficiency, remove uneconomic barriers to power exchange, and introduce value-adding innovations into the service mix. In working to achieve the efficiency goal, neither adequacy nor fairness has been ignored, however. Utilities are to be given the opportunity prior to restructuring to mitigate stranded costs,

including regulatory assets that have no market value, physical assets that have book value less than market value, and power purchase liabilities that have present value above market, and to recover cost remaining in years following restructuring. This opportunity to mitigate and recover recognizes not only the appropriateness of an adequate return on prudent investment but also the chilling effect that ignoring the adequacy criterion would have on future investment in the still-regulated sectors of transmission and distribution.

Fairness, with its important implication for efficiency, is recognized in the call for "non-bypassable" charges for the recovery of "stranded costs." Without this recovery provision, opportunistic escape would be a common occurrence, and, more important, less-efficient providers would replace more-efficient ones, and resources would be wasted.

Q. Do you believe the criteria you have discussed and that are being applied in electric utility restructuring are relevant in this case?

A. I do. I believe Duquesne, in requesting compensation for "stranded costs," costs that would not be avoided or saved if the Harwick customers are transferred, is requesting a decision consistent with the adequacy, fairness and efficiency criteria, and that Mr. Galatic's suggestion that there be no compensation for those "stranded costs" is inconsistent with those standards. It is also inconsistent with the basic idea that a transfer of customers from one utility to another should occur only if all parties can be made better off by the transfer.

2. Mr. Galatic's Argument

Q. Would you now give us your understanding of Mr. Galatic's argument?

A. I understand Mr. Galatic's position to be (p. 3) that "Duquesne should not recover the costs of uneconomic investment they [Duquesne] refer to as stranded costs" because:

1. These costs may be "uneconomic" but they are not stranded. Costs can be stranded only by regulatory change.

2. Even if the costs Duquesne seeks to recover are "stranded costs," a reasonable expectation of recovery is not a satisfactory rationale for recovery.

3. Even if reasonable expectation were a satisfactory rationale for recovery, Duquesne cannot satisfy a reasonable expectation standard.

4. Even if the costs Duquesne seeks are "stranded costs," reasonable expectation is a satisfactory rationale for recovery, and Duquesne were to establish its rational expectation, recovery should not be allowed because it is inconsistent with both fairness ("recovery is inequitable") and efficiency ("does not promote economic efficiency") criteria.

5. Even if recovery is justified in this case, Duquesne's estimate of the amount to be recovered is too high.

I disagree with each of Mr. Galatic's first four points. I do not take a position on the final point because I have not made my own estimate of incremental and unavoidable costs associated with this specific transfer. Moreover, Mr. Lahtinen addresses this final point in his surrebuttal testimony.

3. Response to Mr. Galatic

Q. Please comment on Mr. Galatic's first point: Costs can be stranded only by regulatory change.

A. My first reaction to this point is that a transfer of customers from one utility to another that is not the result of mutual agreement and does not permit all parties to gain is indeed the result of a regulatory change. But whether the transfer is defined as a regulatory change or not, and whether some unavoidable costs covered by contributions of the departing customers are labeled "stranded costs," misses the point. The point is that some of the costs covered by the customers who are to be transferred—costs that a regulatory body found just and reasonable—will be avoided when the transfer occurs, and some will not.

Energy no longer to be delivered is a cost that will be avoided. Generating capacity no longer required to meet the demand of the transferred customers can be sold at market price and can serve elsewhere. This too is a cost offset or avoided cost. Workers who would service distribution lines for the departing customers can be moved to other activities, and this represents an avoided cost.

But the work force above the distribution level is not likely to change, nor are distribution and transmission facilities likely to be transferred or sold off, or regulatory assets to disappear. These are costs which departing customers help to cover, but they are unavoidable costs. Unless the new supplier can cover these unavoidable costs and still supply service at a lower price than the former provider, the transfer is inefficient and should not be made.

A simple example should serve at this point. (Later I will use Mr. Galatic's Exhibit XI.) Suppose all costs are classified as avoidable and unavoidable and that for the Harwick customers the costs are:

Duquesne		**West Penn**	
		Good	Bad
Avoidable cost	3.0¢/KWH	2.0¢/KWH	4.0¢/KWH
Unavoidable cost			
Duquesne	7.0¢		
Paid to Duquesne by West Penn		7.0¢	7.0¢
Price	10.0¢/KWH	9.0¢/KWH	11.0¢/KWH

In this example, Duquesne charges 10.0¢/KWH to recover 3.0¢/KWH of avoidable cost and 7.0¢/KWH of cost that could not be avoided and that would fall on Duquesne and/or its remaining customers if the Harwick customers were to be transferred. West Penn "good" and "bad" are two different illustrations. In the "good" illustration, West Penn's avoidable cost or the incremental cost associated with adding the Harwick customers is 2.0¢/KWH. The illustration is "good" because transfer to West Penn results in a real resource saving of 3.0¢/KWH, what Duquesne avoids, and only a 2.0¢/KWH real resource cost, what West Penn adds on. In the transfer, West Penn can take on Duquesne's 7.0¢/KWH prudent but unavoidable or stranded or uneconomic costs, and still

provide Harwick customers electricity at 9.0¢/KWH rather than Duquesne's 10.0¢/KWH. Duquesne's customers and investors as well as West Penn's own are left no worse off than they were prior to the transfer. West Penn and Duquesne could, of course, provide Harwick only a 0.5¢/KWH advantage—electricity at 9.5¢/KWH—and the remaining 0.5¢/KWH could be split by West Penn's and Duquesne's other customers, making all parties better off. That all are better-off is the result of substituting 2.0¢/KWH of resources for 3.0¢/KWH of resources in providing electricity.

In the "bad" illustration, Duquesne still avoids 3.0¢/KWH, but West Penn incurs 4.0¢/KWH in avoidable cost if it replaces Duquesne. A transfer in this case makes no sense. It wastes resources. It costs society 1¢ for each KWH provided to Harwick. But it could happen. And it would happen if West Penn and/or Harwick were not required to pay Duquesne's unavoidable costs. Free of those unavoidable costs West Penn could charge Harwick between 4.0¢/KWH and 10.0¢/KWH for the transfer and both Harwick and West Penn would gain. They would gain as Duquesne's other customers and society lost. Charged with the unavoidable costs, West Penn's price to Harwick would be no less then 11.0¢/KWH and there would no transfer.

The illustration is simple but long. The point seems clear. Label those unavoidable costs anything you like, but they or their incremental cost counterparts cannot be ignored in making a decision on the transfer of customers.

Q. Would you go on to Mr. Galatic's second point: A reasonable expectation of recovery is not enough of a rationale to justify recovery.

A. I am not sure what Mr. Galatic means when he writes (p. 3) "reasonable expectation is not the underlying rationale for allowing recovery of legitimate stranded costs." I would say that if an outlay is prudent, then a utility's managers, investors and customers should expect to be given the opportunity to recover the outlay along with a fair return on that outlay. I'm not aware of any proposals that would deny utilities this opportunity in a restructured industry. Even in cases where not all "stranded costs" are attached to the parts of the system that remain regulated—transmission and distribution—the charges for the "stranded costs" are made "non-bypassable."

That there will be an opportunity to recover and realize a return on prudent outlays made by a utility to provide efficient service is certainly a reasonable expectation. It is a reasonable expectation that is essential if a utility is to make good investment and operating decisions. And it is an expectation that shapes proposals for industry restructuring.

Q. The third point you attribute to Mr. Galatic is that even if reasonable expectations were a satisfactory rationale for recovery, Duquesne could not satisfy that standard. Please discuss this point.

A. Mr. Galatic argues (pp. 6,7) that "Duquesne could not meet the [reasonable expectation] standard in light of long-standing agreements that the customers would be transferred to West Penn Power Company upon completion of the sale of Duquesne operations in

Harwick Village." And he cites a 1957 letter from Duquesne, "that West Penn Power Company shall have the right to purchase such facilities and take over the customers in Harwick village at anytime after such mining operations are discontinued."

His argument makes neither economic nor regulatory sense. When Duquesne took on the Harwick customers, it obviously expected to recover outlays required to serve them and a fair return on the investment involved. Duquesne makes it clear that West Penn has a "right to purchase." This "right to purchase" is consistent with an expectation that the purchase price would cover the contribution to cost and return made by Harwick less any avoidable cost. I believe this is what Duquesne is requesting—the cost "stranded" and not avoidable; a cost Harwick and West Penn should not be allowed to bypass.

Mr. Galatic seems to say that Duquesne's outlays associated with serving Harwick are imprudent, that they should not be covered by Harwick or West Penn or by Duquesne's remaining customers. He states (p. 8, 9):

> "This [that the burden of costs undertaken for Harwick would fall upon Duquesne's remaining customer] implies that the remaining customers would pay for Duquesne's bad decisions to invest capital to serve the customers of Harwick Village with full knowledge that these customers may be transferred to West Penn Power. It certainly would be unfair to burden Duquesne's customers or anyone other than Duquesne for costs stranded because of Duquesne's decisions to continue to invest money to serve customers they had no reason to expect would remain on their system. Therefore, neither Duquesne's remaining customers, the departing customers, nor West Penn should bear the burden of Duquesne's uneconomic investments.

As I noted, this makes neither economic nor regulatory sense. It presumes that Duquesne could have denied service to Harwick at any time, or could have provided Harwick degraded service, or could have charged Harwick up-front for its share of any investments associated with providing service or satisfying regulatory mandates. This presumption is unreasonable.

Could Duquesne have refused to serve initially or withdrawn service in 1957? Would actions like these have left all parties better off? Would the Commission accept a refusal to serve or to continue to serve as consistent with the public interest? Could Duquesne have used the risk of losing Harwick customers as a basis for not obtaining firm generating capacity to serve Harwick? Could Duquesne have interrupted Harwick's electricity in peak hours, because it acted in what Mr. Galatic implies is a prudent manner by avoiding generation and transmission investment required to serve Harwick? Could Duquesne have charged Harwick up-front for its share of DSM costs? I don't think Duquesne could have done any of these things. I don't think the Commission would approve any of these things.

I don't think any of these things should have been done. Duquesne makes decisions to serve all of its customers, including those in Harwick, in what it believes to be the least-cost, greatest-value way. The Commission considers what Duquesne decides, and evaluates the decisions for prudence. A reasonable expectation is that Duquesne will have the opportunity to recover its prudent outlays and that customers leaving Duquesne's system in a conventional transfer such as this, or as a result of retail competition, will not be able to "bypass" their share of unavoidable costs.

Q. Now, would you discuss Mr. Galatic's fourth point: recovery of "stranded cost" is neither fair nor efficient.

A. Mr. Galatic argues that it is unfair to collect "stranded costs" associated with serving Harwick from Harwick customers, remaining customers, or West Penn because the decisions that created those costs were "bad" or imprudent decisions. I believe I have just dealt with that issue. What is unfair is not providing Duquesne the opportunity to collect these "stranded costs" but permitting the Harwick customers to bypass them and place the burden on others.

Mr. Galatic writes (p. 9), "stranded cost recovery is irrelevant to economic efficiency." Exhibit XI is used to support his position. Mr. Galatic is correct that it is incremental or avoidable cost that is relevant and that is to be minimized. But he fails to recognize that it is the non-bypassable assessment of "stranded costs" that causes selection of the provider with the lowest incremental or avoidable cost to be selected to serve. I illustrated this earlier, but let me offer a second illustration using Exhibit XI:

	Duquesne		West Penn
	Avoidable Cost	Stranded or Unavoidable Cost	Avoidable Cost
Generation			
Capacity	1.0¢/KWH	0.6¢/KWH	1.0¢/KWH
Energy, other	1.9		2.1
Transmission	0.5		0.4
Distribution	0.3	1.5	1.0
Regulatory, etc.		6.2	
Total	3.7¢/KWH	8.3¢/KWH	4.5¢/KWH
+ Unavoidable	8.3		8.3¢
Price	12.0¢/KWH		12.8¢/KWH

These are Mr. Galatic's basic numbers, but I have made some assumptions of my own. I assume that only 0.3¢/KWH of Duquesne's distribution cost will be avoided if Harwick is transferred, and that all regulatory, etc. expenses for both Duquesne and West Penn are unavoidable.

Given these numbers, the efficiency case against the transfer is obvious. Unavoidable or incremental cost is 3.7¢/KWH if Duquesne serves these customers and 4.5¢/KWH if West Penn serves them. Resources are wasted if the customers are transferred to West Penn. If West Penn and/or the Harwick customers are permitted to bypass Duquesne's unavoidable or stranded costs, then both can gain at any price between 4.5¢/KWH and 12.0¢/KWH. The gain is at the expense of Duquesne, Duquesne's other

customers, and society. If West Penn and/or the Harwick customers are prevented from bypassing Duquesne's unavoidable or stranded costs as Duquesne proposes, then West Penn must charge 12.8¢/KWH in Harwick to protect itself and/or its other customers from being hurt.

Given these numbers, there should be no transfer. West Penn's higher incremental costs are the reason. Preventing bypass of Duquesne's unavoidable or stranded cost is the mechanism that assures the efficient outcome.

Q. Mr. Galatic has one more point: Duquesne's estimate of stranded cost is too high. Would you care to comment on that point?

A. No, I would not. I think I have addressed the key issue. That West Penn and/or Harwick should pay, not bypass, stranded costs is the point. My testimony has focused on why that must be so if the adequacy, fairness and efficiency criteria are to be satisfied. As I stated previously, Mr. Lahtinen will address Mr. Galatic's comments that Duquesne's estimate of stranded cost is too high.

3. Conclusion

Q. Do you have a concluding comment?

A. Let me simply repeat what I said at the outset.

I believe that a transfer of customers from one utility to another should occur only if the efficiency gains achieved by the transfer make it possible for all parties involved to gain by the transfer. It is possible for all parties to gain and to be treated equitably

only if the costs avoided by the utility that is losing the customers are greater than the increased cost of the utility that is acquiring the customers; that is, if there is a real resource saving. If this is the case, then the acquiring utility and its new customers will gain after providing the contribution covering unavoidable or stranded or uneconomic costs that must be covered if the other utility and its remaining customers are not to suffer. The "stranded cost" position taken by Duquesne and the qualification that recovery of "stranded cost" be non-bypassable are essential elements of retail competition proposals. They establish conditions that assure that everyone can gain, and that efficiency and fairness will be achieved in a customer transfer. This is so whether a transfer occurs in a fully regulated regime, as is the case with Harwick, or after deregulation occurs.

Q. Does this complete your testimony?

A. Yes, it does.

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(47) Direct and Rebuttal Testimony on Behalf of the Southwest Utilities Group on Southern California Edison and San Diego Gas and Electric Before the Federal Energy Regulatory Commission, Docket No. EC89-5-000, November 1989.

(48) Direct Testimony and Exhibits of Richard S. Bower on the New York Public Service Commission's Approach to Establishing the Cost of Equity Capital for Consolidated Edison Company of New York, Before the New York Public Service Commission, Docket No. PSC #90-W-0458, October 1990.

(49) "Comments of The Independent Power Producers of New York," regarding the Proceeding on the Rates of Long Island Lighting Company, with James A. Lahtinen, State of New York Public Service Commission Case #29484 and 88-E-084, September 28, 1990.

(50) Direct Testimony and Exhibits on the Orange and Rockland Utilities, Inc. Rate Proceeding, Orange and Rockland Utilities, Inc., P.S.C. Case No. (Gas) 91-G-0128, January 30, 1991.

(51) Rebuttal Testimony and Exhibits of Richard S. Bower on the New York Public Service Commission's Approach to Establishing the Cost of Equity Capital for Consolidated Edison Company of New York, Before the New York Public Service Commission, Docket No. PSC #90-W-0458, April 16, 1991.

(52) Rebuttal Testimony and Exhibits on the Proceeding on Motion of the Commission to Examine Ratemaking Practices and Incentive Mechanisms Promoting Least Cost Planning and Demand Side Management by Electric Utilities, Consolidated Edison Co. of New York, Inc., Case 89-E-176, June 21, 1991.

(53) Rebuttal Testimony of Richard S. Bower before the New York Public Service Commission to review Staff's proposal of an alternative ratemaking mechanism for Consolidated Edison Company of New York, Consolidated Edison Co. of New York, Inc., Docket No. 91-E-0462, September 20, 1991.

(54) Direct Testimony and Exhibits on the Orange and Rockland Utilities, Inc. Rate Proceeding, Orange and Rockland Utilities, Inc., P.S.C. Case No. 92-G-0050, January 16, 1992.

(55) Direct Testimony and Exhibits of Richard S. Bower on Behalf of United Illuminating Company, Rate Proceeding, State of Connecticut, DPUC Docket No. 92-06-05, June 9, 1992.

(56) Direct Testimony and Exhibits of Richard S. Bower with Louise McCarren on Behalf of Centra Gas Ontario Inc., to determine whether Integrated Recource Planning should be pursued by the Ontario Natural Gas Utilities, E.B.O. 169-III, October 1992.

(57) Direct Testimony of Richard S. Bower on Behalf of The Central Maine Power Company before the Maine Public Utilities Commission for Consideration of Issues Concerning ERAM-Per-Customer, Docket No. 90-085, January 7, 1993.

(58) Rebuttal Testimony of Richard S. Bower on Behalf of The Jamaica Water Supply Company before the New York State Public Service Commission, Proceeding on the Motion of the Commission to Investigate the Operation and Management of the Jamaica Water Supply Company and Its Rates, Charges, Rules and Regulations, Case No. 92-W-0583, May 28, 1993.

(59) Direct Testimony of Richard S. Bower on Behalf of Consolidated Edison Company of New York, New York Public Service Commission Steam Case No. 93-S-0997, November, 1993.

(60) Direct Testimony of Richard S. Bower on Behalf of Eastern Edison, in an Investigation by the Department of Public Utilities for the Purpose of Establishing Guidelines on Standards for Acquisitions and Mergers of Utilities, The Commonwealth of Massachusetts D.P.U. #93-167, January 28, 1994.

(61) Testimony of Richard S. Bower on Behalf of The Central Vermont Public Service Corporation before the Vermont Public Service Board, Investigation into Least-Cost Investments, Energy Efficiency Conservation and Management of Demand for Energy in RE: Issues Specific to Central Vermont Public Service Corporation, Docket No.'s 5270-CV-1; CV-3, April 4, 1994.

(62) Rebuttal Testimony of Richard S. Bower on Behalf of The Central Vermont Public Service Corporation before the Vermont Public Service Board, Investigation into Least-Cost Investments, Energy Efficiency Conservation and Management of Demand for Energy in RE: Issues Specific to Central Vermont Public Service Corporation, Docket No.'s 5270-CV-1; CV-3, June 1, 1994.

(63) Testimony of Richard S. Bower on Behalf of The Major Mailers Association before the Postal Rate Commission, RE: Postal Rate and Fee Changes, Docket No. R94-1, June 27, 1994.

(64) Testimony of Richard S. Bower on Behalf of The State of Vermont Department of Public Service before the State of Vermont Public Service Board, In the Matter of the Petition of Green Mountain Power Corporation for a Change in Rates, VPSB Docket No. 5744, August 1, 1994.

(65) Rebuttal Testimony of Richard S. Bower on Behalf of The Consolidated Edison Company of New York, before the New York Public Service Commission, In The Matter of the Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service, Case No. 94-E-0334, September 22, 1994.

(66) Testimony of Richard S. Bower on Behalf of The State of Vermont Department of Public Service before the State of Vermont Public Service Board, In the Matter of the Petition of Green Mountain Power Corporation for a Change in Rates, VPSB Docket No. 5857, January 12, 1996, case settled, testimony not filed.

(67) Direct Testimony and Exhibits of Richard S. Bower on Behalf of The United Illuminating Company, In The Matter of the DPUC Financial and Operational Review of The United Illuminating Company, State of Connecticut, DPUC Docket No. 96-03-29, March 1996.

(68) Prefiled Testimony of Richard S. Bower prepared for presentation at the NIMO Power Choice Meeting, in New York, July 30, 1996.

(69) Rebuttal Testimony and Exhibits of Richard S. Bower on Behalf of The United Illuminating Company, In The Matter of the DPUC Financial and Operational Review of The United Illuminating Company, State of Connecticut, DPUC Docket No. 96-03-29, July 31, 1996.

Consultant to Regulatory Bodies:

(1) Recommended Decision by Administrative Law Judge John T. Vernieu, New York State Public Service Commission, Case 27574, On-site Generation, Consolidated Edison Co., September 21, 1981.

(2) Recommended Decision by Administrative Law Judge Janet Hand Deixler, New York State Public Service Commission, Case 27353, Consolidated Edison Company of New York, Inc. Phase II - Electric Rate Structure, April 5, 1982.

(3) Examiner's Report for the State of Maine Public Utilities Commission, Regarding Central Maine Power Company's Proposed Increase in Rates and Rate Design, Docket No. 89-68, October 31, 1990.

(4) "Report for The New York Utilities by Richard S. Bower", Allowed Return on Equity at the New York Public Service Commission, Proceeding on Motion of the Commission to Consider Financial Regulatory Policies, Case #91-M-0509, October 28, 1992.

(5) "Report for the New York Department of Public Service," Evaluation of Alternative Corporate Organizational Models, with Robert J. Rohr, James K. Seward and James P. Walsh, Case No. 93-C-0103, September 27, 1993.

Duquesne Light Company Statement No. 1
Docket No. C-00967749

DOCKETED
JAN 09 1997

RECEIVED
DEC 31 1996
PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

DOCUMENT
FOLDER

DIRECT TESTIMONY
OF
JAMES N. COULTER
SUPERVISOR OF DISTRIBUTION AND PLANNING ENGINEERING
DUQUESNE LIGHT COMPANY

October 18, 1996

DLC - Stmt 1
C-00967749
12-19-96
P1+S
BAS

Q. Please state your name.

A. James N. Coulter.

Q. By whom are you employed?

A. Duquesne Light Company.

Q. What is your business address?

A. My business address is 1901 Edison Street, Glenshaw, Pennsylvania.

Q. What is your job title?

A. I am Supervisor of Distribution and Planning Engineering.

Q. Describe your duties and responsibilities in that position.

A. I provide guidance for the design and construction of Duquesne's distribution facilities.

Q. Are you familiar with Springdale Township's request to have Duquesne Light Company customers located in the Harwick Village area of the Township become customers of West Penn Power Company?

A. Yes, I am.

Q. Were you involved in identifying Duquesne Light Company facilities that would be sold to West Penn Power Company to accommodate the transfer of customers?

A. Yes.

Q. How was it determined which Duquesne Light Company facilities would be sold to West Penn Power Company to accommodate the transfer?

A. On July 27, 1994, I met with Rich Phillips, Zane Duddy and Frank Palumbo of West Penn Power Company and provided them with copies of Duquesne Light

Company's operating maps of the area. On October 12, 1994, Rich Phillips mailed to me a marked map highlighting those facilities that West Penn Power Company proposed to purchase.

Q. Would you please identify those facilities?

A. Generally, 127 wood poles, 183 crossarms, 72 guys, 41 anchors, 35 racks, 1 pole top extension, 61 insulators, 63,634 feet of conductors, 219 services and 43 luminaires.

Q. What did you do with this inventory of facilities?

A. It was sent to Duquesne Light Company's Valuation and Property Records Department for a determination of the cost of the facilities.

Q. Does this conclude your testimony?

A. Yes.

DOCKETED

JAN 09 1997

DOCUMENT FOLDER

RECEIVED

DEC 31 1996

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

DIRECT TESTIMONY
OF
WILLIAM D. GARLAND
MANAGER
VALUATION AND PROPERTY RECORDS DEPARTMENT
DUQUESNE LIGHT COMPANY

October 18, 1996

DLC-Stmt 2
C-00967749
12-10-96
PHS
BAS

Q. Please state your name.

A. William D. Garland.

Q. By whom are you employed?

A. Duquesne Light Company.

Q. What is your business address?

A. My business address is 411 Seventh Avenue, P.O. Box 1930, Pittsburgh, Pennsylvania 15230-1930.

Q. What is your job title?

A. I am Manager, Valuation and Property Records Department.

Q. Describe your duties and responsibilities in that position.

A. I am responsible for capital construction project accounting, cost accounting for book and tax basis of physical assets, and maintenance of regulatory prescribed asset records. I am also responsible for book and tax depreciation, amortization, and depletion calculations, as well as for insurable values, bondable property, acquisitions and dispositions of property, related rate case exhibits, capital asset life/mortality analysis, and other capital economic studies.

Q. Did you ever value Duquesne Light Company facilities located in Harwick Village, Springdale Township, that were intended to be sold to West Penn Power Company?

A. Yes. In late 1994 and early 1995. Duquesne Light Company's engineering department sent me a list of facilities located in Harwick Village and requested that I provide them with cost data for those facilities.

Q. Please describe the data you provided to the engineering department in response to its request, and explain how the data was determined.

A. These data included the original cost, cumulative depreciation, net plant investment, a tax gross-up adjustment, and so-called break-even price. The original cost of equipment is from the Company's plant ledgers. The cumulative depreciation is calculated reflecting both age and expected mortality curves adjusted to booked levels. The net plant investment is simply the difference between the prior two figures. The tax gross-up is derived algebraically such that a specific selling price less taxes on the related net taxable gain yields a residual just equal to net book plant.

Q. Is Duquesne Light Company Exhibit WDG-1 the data you prepared and sent to the engineering department in response to its request?

A. Yes.

Q. Explain what is shown on Duquesne Light Company Exhibit WDG-1.

A. This exhibit initially lists the quantity, detail equipment, unit cost, account, vintage year, and total original cost in columns 1 through 6, respectively. In columns 7 through 9, it proceeds to develop the accumulated book depreciation and net plant figures for each line item. The factor in column 7 is a function of the age of the equipment and the expected mortality pattern associated with that equipment account. Columns 10 through 12 provide gross tax basis, cumulative tax depreciation per the various IRS permitted tax depreciation regulations for associated investment vintages, and net remaining tax basis. Column 13 should

be titled "Unshielded Net Book Basis" since it is the residual book basis lacking a deductible tax basis. It is this column on which a tax adjustment is calculated in column 14 using the tax factor described in Footnote No. 1. This tax factor is algebraically the composite tax rate divided by the expression one minus the composite tax rate. Column 15 presents the "break-even" price as the sum of the net plant in column 9 and the tax adjustment in column 14.

Q. Explain what is meant by "Break Even Price" on Duquesne Light Company Exhibit WDG-1.

A. This phrase describes a particular possible selling price which after taxes yields no profit nor any loss to the seller.

Q. Does this conclude your testimony?

A. Yes.

HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	BOOK DEPRECIATION RSV RATIO PER BOOKS	BOOK DEPRECIATION CUM. DEPR.	BOOK DEPRECIATION NET PLANT	TAX DEPRECIATION ORIGINAL TAX BASIS	TAX DEPRECIATION CUM TAX DEPR	TAX DEPRECIATION TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)	(5)	(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
1	35 FT. WOOD POLE(S)	31.06	364.1	1927	31.06	0.9567	29.72	1.34	29.51	28.41	1.10	0.24	0.17	1.51
1	40 FT. WOOD POLE(S)	37.86	364.1	1928	37.86	0.9469	35.85	2.01	35.97	34.62	1.35	0.66	0.48	2.49
1	45 FT. WOOD POLE(S)	57.92	364.1	1931	57.92	0.9167	53.10	4.82	55.02	52.96	2.06	2.76	2.01	6.83
1	40 FT. WOOD POLE(S)	34.49	364.1	1932	34.49	0.9068	31.27	3.22	32.77	31.54	1.23	1.99	1.45	4.67
1	40 FT. WOOD POLE(S)	40.82	364.1	1933	40.82	0.8961	36.58	4.24	38.78	37.33	1.45	2.79	2.03	6.27
2	35 FT. WOOD POLE(S)	27.85	364.1	1938	55.70	0.8637	48.11	7.59	52.92	50.84	1.98	5.61	4.09	11.68
1	25 FT. WOOD POLE(S)	29.19	364.1	1940	29.19	0.8183	23.89	5.30	27.73	26.69	1.04	4.26	3.10	8.40
1	35 FT. WOOD POLE(S)	29.83	364.1	1940	29.83	0.8183	24.41	5.42	28.34	27.28	1.06	4.36	3.18	8.60
1	30 FT. WOOD POLE(S)	26.44	364.1	1942	26.44	0.7950	21.02	5.42	25.12	24.18	0.94	4.48	3.26	8.68
6	35 FT. WOOD POLE(S)	42.76	364.1	1944	256.56	0.7709	197.78	58.78	243.73	234.61	9.12	49.66	36.17	94.95
2	35 FT. WOOD POLE(S)	66.88	364.1	1948	133.76	0.7205	96.37	37.39	127.07	122.32	4.75	32.64	23.78	61.17
2	40 FT. WOOD POLE(S)	93.79	364.1	1949	187.58	0.7076	132.73	54.85	178.20	171.54	6.66	48.19	35.10	89.95
1	25 FT. WOOD POLE(S)	85.71	364.1	1951	85.71	0.6814	58.40	27.31	81.42	78.37	3.05	24.26	17.67	44.98
1	35 FT. WOOD POLE(S)	96.48	364.1	1952	96.48	0.6677	64.42	32.06	91.66	88.23	3.43	28.63	20.85	52.91
1	25 FT. WOOD POLE(S)	98.04	364.1	1954	98.04	0.6405	62.79	35.25	93.14	89.66	3.48	31.77	23.14	58.39
1	40 FT. WOOD POLE(S)	157.29	364.1	1956	157.29	0.6124	96.32	60.97	149.43	143.84	5.59	55.38	40.34	101.31
1	30 FT. WOOD POLE(S)	123.56	364.1	1958	123.56	0.5838	72.13	51.43	117.38	112.99	4.39	47.04	34.26	85.69
3	40 FT. WOOD POLE(S)	184.22	364.1	1958	552.66	0.5838	322.64	230.02	525.03	505.39	19.64	210.38	153.24	383.26
1	45 FT. WOOD POLE(S)	242.79	364.1	1958	242.79	0.5838	141.74	101.05	230.65	222.02	8.63	92.42	67.32	168.37
1	25 FT. WOOD POLE(S)	130.52	364.1	1960	130.52	0.5545	72.37	58.15	123.99	119.35	4.64	53.51	38.98	97.13
14	40 FT. WOOD POLE(S)	194.90	364.1	1960	2,728.60	0.5545	1,513.01	1,215.59	2,592.17	2,495.22	96.95	1,118.64	814.83	2,030.42
4	45 FT. WOOD POLE(S)	257.22	364.1	1960	1,028.88	0.5545	570.51	458.37	977.44	940.88	36.56	421.81	307.25	765.62
1	25 FT. WOOD POLE(S)	141.51	364.1	1963	141.51	0.5095	72.10	69.41	134.43	128.26	6.17	63.24	46.06	115.47
2	40 FT. WOOD POLE(S)	204.63	364.1	1963	409.26	0.5095	208.52	200.74	388.80	370.95	17.85	182.89	133.22	333.96
2	40 FT. WOOD POLE(S)	211.46	364.1	1964	422.92	0.4942	209.01	213.91	401.77	374.81	26.96	188.95	136.18	350.09
2	40 FT. WOOD POLE(S)	216.20	364.1	1965	432.40	0.4789	207.08	225.32	410.78	374.51	36.27	169.05	137.71	363.03
1	45 FT. WOOD POLE(S)	278.43	364.1	1965	278.43	0.4789	133.34	145.09	264.51	241.16	23.35	121.74	88.68	233.77
1	40 FT. WOOD POLE(S)	257.06	364.1	1967	257.06	0.4475	115.03	142.03	244.21	212.30	31.91	110.12	80.21	222.24
1	45 FT. WOOD POLE(S)	297.27	364.1	1967	297.27	0.4475	133.03	164.24	282.41	245.51	36.90	127.34	92.76	257.00
2	40 FT. WOOD POLE(S)	277.86	364.1	1969	555.72	0.4158	231.07	324.65	527.93	436.57	91.36	233.29	169.93	494.58
3	40 FT. WOOD POLE(S)	400.65	364.1	1971	1,201.95	0.3839	461.43	740.52	1,141.85	1,016.25	125.60	614.92	447.92	1,188.44
3	40 FT. WOOD POLE(S)	351.39	364.1	1972	1,054.17	0.3676	387.51	666.66	1,001.46	891.30	110.16	556.50	405.36	1,072.02
1	45 FT. WOOD POLE(S)	473.48	364.1	1972	473.48	0.3676	174.05	299.43	449.81	400.33	49.48	249.95	182.07	481.50
1	50 FT. WOOD POLE(S)	497.11	364.1	1972	497.11	0.3676	182.74	314.37	472.25	420.30	51.95	262.42	191.15	505.52
2	60 FT. WOOD POLE(S)	712.51	364.1	1972	1,425.02	0.3676	523.84	901.18	1,353.77	1,204.86	148.91	752.27	547.98	1,449.16
1	50 FT. WOOD POLE(S)	503.99	364.1	1973	503.99	0.3513	177.05	326.94	478.79	426.12	52.67	274.27	199.78	526.72
1	25 FT. WOOD POLE(S)	345.56	364.1	1974	345.56	0.3349	115.73	229.83	328.28	292.17	36.11	193.72	141.11	370.94
1	40 FT. WOOD POLE(S)	468.24	364.1	1974	468.24	0.3349	156.81	311.43	444.83	395.90	48.93	262.50	191.21	502.64
1	45 FT. WOOD POLE(S)	509.82	364.1	1974	509.82	0.3349	170.74	339.08	484.33	431.05	53.28	285.80	208.18	547.26
1	25 FT. WOOD POLE(S)	424.70	364.1	1976	424.70	0.3021	128.30	296.40	403.47	338.38	65.09	231.31	168.49	464.89
2	40 FT. WOOD POLE(S)	501.35	364.1	1976	1,002.70	0.3021	302.92	699.78	952.57	798.89	153.68	546.10	397.79	1,097.57
3	25 FT. WOOD POLE(S)	501.85	364.1	1979	1,505.55	0.2519	379.25	1,126.30	1,430.27	1,073.66	356.61	769.69	560.65	1,686.95
7	35 FT. WOOD POLE(S)	683.58	364.1	1979	4,785.06	0.2519	1,205.36	3,579.70	4,545.81	3,412.40	1,133.41	2,446.29	1,781.91	5,361.61
27	40 FT. WOOD POLE(S)	607.63	364.1	1979	16,406.01	0.2519	4,132.67	12,273.34	15,585.71	11,699.72	3,885.99	8,387.35	6,109.47	18,382.81
5	45 FT. WOOD POLE(S)	740.21	364.1	1979	3,701.05	0.2519	932.29	2,768.76	3,516.00	2,639.35	876.65	1,892.11	1,378.24	4,147.00
2	35 FT. WOOD POLE(S)	627.11	364.1	1980	1,254.22	0.2352	294.99	959.23	1,191.51	859.48	332.03	627.20	456.86	1,416.09
1	40 FT. WOOD POLE(S)	844.55	364.1	1982	844.55	0.2013	170.01	674.54	802.32	706.04	96.28	578.26	421.21	1,095.75
1	40 FT. WOOD POLE(S)	1,189.60	364.1	1985	1,189.60	0.2615	311.08	878.52	1,130.12	791.08	339.04	539.48	392.96	1,271.48
1	40 FT. WOOD POLE(S)	1,673.10	364.1	1986	1,673.10	0.2373	397.03	1,276.07	1,589.45	1,017.25	572.20	703.87	512.71	1,788.78
1	35 FT. WOOD POLE(S)	1,284.28	364.1	1987	1,284.28	0.2115	271.63	1,012.65	1,284.28	568.05	716.23	296.42	215.92	1,228.57
1	40 FT. WOOD POLE(S)	2,080.75	364.1	1990	2,080.75	0.1278	265.50	1,815.25	2,080.75	614.57	1,466.18	349.07	254.27	2,069.52
1	45 FT. WOOD POLE(S)	994.44	364.1	1992	994.44	0.0629	62.55	931.89	994.44	175.48	818.96	112.93	82.26	1,014.15
127	TOTAL POLES				52,585.66		16,217.82	36,367.84	50,174.38	38,195.07	11,979.31	24,388.53	17,764.93	54,132.77

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EXHIBIT
WDG-1

PAG

HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

						BOOK DEPRECIATION			TAX DEPRECIATION					
QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	RSV RATIO PER BOOKS	CUM. DEPR.	NET PLANT	ORIGINAL TAX BASIS	CUM TAX DEPR	TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)		(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
1	CROSSARMS	5.15	364.1	1928	5.15	0.9741	5.02	0.13	4.89	4.71	0.18	(0.05)	(0.04)	0.09
3	CROSSARMS	6.48	364.1	1931	19.44	0.9399	18.27	1.17	18.47	17.78	0.69	0.48	0.35	1.52
1	CROSSARMS	6.95	364.1	1932	6.95	0.9285	6.45	0.50	6.60	6.35	0.25	0.25	0.18	0.68
2	CROSSARMS	6.63	364.1	1933	13.26	0.9170	12.16	1.10	12.60	12.13	0.47	0.63	0.48	1.58
1	CROSSARMS	6.72	364.1	1936	6.72	0.8823	5.93	0.79	6.38	6.14	0.24	0.55	0.40	1.19
2	CROSSARMS	6.42	364.1	1940	16.84	0.8345	14.05	2.79	16.00	15.40	0.60	2.19	1.60	4.39
9	CROSSARMS	10.48	364.1	1944	94.32	0.7849	74.03	20.29	89.60	86.25	3.35	16.84	12.34	32.63
2	CROSSARMS	14.61	364.1	1948	29.22	0.7331	21.42	7.80	27.76	26.72	1.04	6.76	4.92	12.72
2	CROSSARMS	17.85	364.1	1949	35.70	0.7188	25.70	10.00	33.92	32.65	1.27	6.73	6.36	16.36
1	CROSSARMS	27.27	364.1	1952	27.27	0.6790	18.52	8.75	25.91	24.94	0.97	7.78	5.67	14.42
8	CROSSARMS	36.42	364.1	1958	291.36	0.5928	172.72	118.64	276.79	266.44	10.35	108.29	78.88	197.52
34	CROSSARMS	38.62	364.1	1960	1,313.88	0.5629	742.96	576.92	1,253.89	1,206.99	46.90	530.02	386.07	962.99
5	CROSSARMS	31.66	364.1	1964	158.30	0.5011	79.32	78.98	150.39	140.30	10.09	68.89	50.18	129.16
4	CROSSARMS	30.28	364.1	1965	121.12	0.4857	58.83	62.29	115.06	104.90	10.16	52.13	37.97	100.26
2	CROSSARMS	35.39	364.1	1967	70.78	0.4534	32.09	38.69	67.24	58.45	8.79	29.90	21.78	60.47
4	CROSSARMS	38.05	364.1	1969	152.20	0.4210	64.08	88.12	144.59	119.57	25.02	63.10	45.96	134.08
4	CROSSARMS	45.43	364.1	1971	181.72	0.3883	70.56	111.16	172.63	153.64	18.99	92.17	67.14	178.30
18	CROSSARMS	39.95	364.1	1972	719.10	0.3716	267.22	451.88	683.15	608.00	75.15	376.73	274.42	726.30
4	CROSSARMS	56.12	364.1	1973	224.48	0.3548	79.65	144.83	213.26	189.80	23.46	121.37	88.41	233.24
4	CROSSARMS	50.88	364.1	1974	203.52	0.3382	68.83	134.69	193.34	172.07	21.27	113.42	82.62	217.31
3	CROSSARMS	72.89	364.1	1976	218.67	0.3043	66.54	152.13	207.74	174.23	33.51	118.62	86.40	238.53
56	CROSSARMS	63.75	364.1	1979	3,570.00	0.2532	903.92	2,666.08	3,391.50	2,545.90	845.60	1,820.48	1,326.06	3,992.14
4	CROSSARMS	119.91	364.1	1982	479.64	0.2017	96.74	382.90	455.66	400.96	54.68	328.22	239.08	621.98
2	CROSSARMS	139.16	364.1	1985	278.32	0.3037	84.53	193.79	264.40	185.08	79.32	114.47	83.38	277.17
2	CROSSARMS	163.87	364.1	1986	327.74	0.2770	90.78	236.96	311.35	199.26	112.09	124.87	90.96	327.92
3	CROSSARMS	178.11	364.1	1990	534.33	0.1559	83.30	451.03	534.33	157.82	376.51	74.52	54.28	505.31
2	CROSSARMS	191.74	364.1	1992	383.48	0.0804	30.83	352.65	383.48	67.67	315.81	36.84	26.83	379.48
183	TOTAL CROSSARMS				9,489.51		3,194.45	6,295.06	9,060.93	6,984.17	2,076.76	4,218.30	3,072.66	9,367.72
1	GUYS	12.14	364.1	1931	12.14	0.9399	11.41	0.73	11.53	11.10	0.43	0.30	0.22	0.95
1	GUYS	13.33	364.1	1932	13.33	0.9285	12.38	0.95	12.66	12.19	0.47	0.48	0.35	1.30
1	GUYS	10.72	364.1	1940	10.72	0.8345	8.95	1.77	10.18	9.80	0.38	1.39	1.01	2.78
4	GUYS	18.35	364.1	1944	73.40	0.7849	57.61	15.79	69.73	67.12	2.61	13.18	9.60	25.39
1	GUYS	22.17	364.1	1949	22.17	0.7188	15.96	6.21	21.06	20.27	0.79	5.42	3.95	10.16
1	GUYS	43.60	364.1	1958	43.60	0.6222	27.13	16.47	41.42	39.87	1.55	14.92	10.87	27.34
3	GUYS	53.13	364.1	1958	159.39	0.5928	94.49	64.90	151.42	145.78	5.66	59.24	43.15	108.05
13	GUYS	58.39	364.1	1960	759.07	0.5629	427.28	331.79	721.12	694.15	26.97	304.82	222.04	553.83
2	GUYS	70.85	364.1	1967	141.70	0.4534	64.25	77.45	134.62	117.03	17.59	59.88	43.60	121.05
2	GUYS	70.32	364.1	1969	140.64	0.4210	59.21	81.43	133.61	110.49	23.12	58.31	42.47	123.96
1	GUYS	78.22	364.1	1971	78.22	0.3883	30.37	47.85	74.31	66.14	8.17	39.68	28.90	76.75
8	GUYS	63.33	364.1	1972	506.64	0.3716	188.27	318.37	481.31	428.37	52.94	265.43	193.34	511.71
1	GUYS	94.41	364.1	1973	94.41	0.3548	33.50	60.91	89.69	79.82	9.87	51.04	37.18	98.09
2	GUYS	84.70	364.1	1974	169.40	0.3382	57.29	112.11	160.93	143.23	17.70	94.41	68.77	180.88
1	GUYS	105.26	364.1	1976	105.26	0.3043	32.03	73.23	100.00	83.87	16.13	57.10	41.59	114.82
24	GUYS	103.62	364.1	1979	2,486.88	0.2532	629.68	1,857.20	2,362.54	1,773.49	589.05	1,268.15	923.74	2,780.94
1	GUYS	172.32	364.1	1982	172.32	0.2017	34.76	137.56	163.70	144.06	19.64	117.92	85.89	223.45
1	GUYS	191.22	364.1	1985	191.22	0.3037	58.07	133.15	181.66	127.18	54.50	78.65	57.29	190.44
1	GUYS	187.80	364.1	1986	187.80	0.2770	52.02	135.78	178.41	114.18	64.23	71.55	52.12	187.90
1	GUYS	244.33	364.1	1987	244.33	0.2487	60.76	183.57	244.33	108.07	136.26	47.31	34.46	218.03
1	GUYS	262.97	364.1	1990	262.97	0.1559	41.00	221.97	262.97	77.67	185.30	36.67	26.71	248.68
1	GUYS	281.77	364.1	1992	281.77	0.0804	22.65	259.12	281.77	49.72	232.05	27.07	19.72	278.84
72	TOTAL GUYS				6,157.38		2,019.07	4,138.31	5,888.97	4,423.56	1,466.41	2,672.90	1,946.97	6,085.28

HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

						BOOK DEPRECIATION			TAX DEPRECIATION					
QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	RSV RATIO PER BOOKS	CUM. DEPR.	NET PLANT	ORIGINAL TAX BASIS	CUM TAX DEPR	TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)	(5)	(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
1	ANCHORS	13.13	364.1	1940	13.13	0.8345	10.96	2.17	12.47	12.00	0.47	1.70	1.24	3.41
1	ANCHORS	17.97	364.1	1944	17.97	0.7849	14.10	3.87	17.07	16.43	0.64	3.23	2.35	6.22
1	ANCHORS	27.28	364.1	1949	27.28	0.7198	19.64	7.64	25.92	24.95	0.97	6.67	4.86	12.50
1	ANCHORS	57.38	364.1	1958	57.38	0.6222	35.70	21.68	54.51	52.47	2.04	19.64	14.31	35.99
1	ANCHORS	72.25	364.1	1958	72.25	0.5928	42.83	29.42	68.64	66.07	2.57	26.85	19.56	48.98
6	ANCHORS	74.61	364.1	1960	447.66	0.5629	251.99	195.67	425.28	409.37	15.91	179.76	130.94	326.61
2	ANCHORS	122.70	364.1	1967	245.40	0.4534	111.26	134.14	233.13	202.67	30.46	103.88	75.52	209.66
1	ANCHORS	139.76	364.1	1969	139.76	0.4210	58.84	80.92	132.77	109.79	22.98	57.94	42.20	123.12
1	ANCHORS	169.61	364.1	1971	169.61	0.3883	65.86	103.75	161.13	143.41	17.72	88.03	62.67	166.42
4	ANCHORS	146.67	364.1	1972	586.68	0.3716	218.01	368.67	557.35	495.04	61.31	307.36	223.89	592.56
1	ANCHORS	208.05	364.1	1974	208.05	0.3382	70.38	137.69	197.65	175.91	21.74	115.95	84.48	222.15
1	ANCHORS	351.66	364.1	1976	351.66	0.3043	107.01	244.65	334.08	280.18	53.90	190.75	138.95	383.60
14	ANCHORS	276.16	364.1	1979	3,864.24	0.2532	966.02	2,908.22	3,669.53	2,777.13	922.40	1,985.82	1,448.50	4,354.72
1	ANCHORS	383.32	364.1	1982	383.32	0.2017	77.32	306.00	364.15	320.45	43.70	262.30	191.06	497.06
1	ANCHORS	474.95	364.1	1985	474.95	0.3037	144.24	330.71	451.20	315.84	135.36	195.35	142.30	473.01
1	ANCHORS	507.04	364.1	1988	507.04	0.2770	140.45	366.59	481.69	308.28	173.41	193.18	140.72	507.31
1	ANCHORS	617.21	364.1	1987	617.21	0.2487	153.50	463.71	617.21	273.00	344.21	119.50	87.05	550.76
1	ANCHORS	715.37	364.1	1990	715.37	0.1559	111.53	603.84	715.37	211.29	504.08	99.76	72.67	676.51
1	ANCHORS	718.00	364.1	1992	718.00	0.0804	57.73	660.27	718.00	126.70	591.30	68.97	50.24	710.51
41	TOTAL ANCHORS				9,646.96		2,677.36	6,969.61	9,267.15	6,321.98	2,945.17	4,024.44	2,931.49	9,901.10
2	RACKS	2.86	364.1	1928	5.72	0.9741	5.57	0.15	5.43	5.23	0.20	(0.05)	(0.04)	0.11
1	RACKS	3.52	364.1	1940	3.52	0.8345	2.94	0.58	3.34	3.22	0.12	0.46	0.34	0.92
2	RACKS	6.68	364.1	1949	13.36	0.7198	9.62	3.74	12.69	12.22	0.47	3.27	2.38	6.12
2	RACKS	9.74	364.1	1952	19.48	0.6790	13.23	6.25	18.51	17.82	0.69	5.56	4.05	10.30
7	RACKS	15.68	364.1	1958	109.76	0.5928	65.07	44.69	104.27	100.37	3.90	40.79	29.71	74.40
3	RACKS	18.02	364.1	1960	54.06	0.5629	30.43	23.63	51.36	49.44	1.92	21.71	15.81	39.44
2	RACKS	15.16	364.1	1964	30.32	0.5011	15.19	15.13	28.80	26.87	1.93	13.20	9.62	24.75
2	RACKS	21.54	364.1	1972	43.08	0.3716	16.01	27.07	40.93	36.43	4.50	22.57	16.44	43.51
1	RACKS	38.23	364.1	1973	38.23	0.3548	13.56	24.67	36.32	32.32	4.00	20.67	15.06	39.73
13	RACKS	51.99	364.1	1979	675.87	0.2532	171.13	504.74	642.08	481.99	160.09	344.65	251.05	755.79
36	TOTAL RACKS				993.40		342.75	650.65	943.73	766.91	177.82	472.83	344.42	995.07
1	POLE TOP EXTENSION	56.21	364.1	1967	56.21	0.4475	25.15	31.06	53.40	45.42	8.98	24.08	17.54	48.60
	TOTAL A/C 364.1				78,929.12		24,476.59	54,452.53	75,388.56	56,737.11	18,651.45	35,801.08	26,078.01	80,530.54
3	INSULATORS	9.86	365.0	1952	29.58	0.8727	25.81	3.77	28.10	27.05	1.05	2.72	1.98	5.75
9	INSULATORS	14.00	365.0	1958	126.00	0.7786	98.10	27.90	119.70	115.22	4.48	23.42	17.06	44.96
27	INSULATORS	14.22	365.0	1960	383.94	0.7438	285.57	98.37	364.74	351.10	13.64	84.73	61.72	160.09
3	INSULATORS	19.37	365.0	1964	58.11	0.6700	38.93	19.18	55.20	51.50	3.70	15.48	11.28	30.46
2	INSULATORS	24.28	365.0	1972	48.56	0.5074	24.64	23.92	46.13	41.06	5.07	18.85	13.73	37.65
17	INSULATORS	35.21	365.0	1979	598.57	0.3511	210.16	388.41	568.64	426.86	141.78	246.63	179.65	568.06
61	TOTAL INSULATORS				1,244.76		683.21	561.55	1,182.51	1,012.79	169.72	391.83	285.42	846.97

HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	BOOK DEPRECIATION RSV RATIO PER BOOKS	BOOK DEPRECIATION CUM. DEPR.	BOOK DEPRECIATION NET PLANT	TAX DEPRECIATION ORIGINAL TAX BASIS	TAX DEPRECIATION CUM TAX DEPR	TAX DEPRECIATION TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)	(5)	(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
	CONDUCTORS													
630	#2 BARE ALUMINUM	0.1640	365.0	1958	103.32	0.7786	80.44	22.88	98.15	94.48	3.67	19.21	13.99	36.87
900	#2 BARE ALUMINUM	0.1640	365.0	1960	147.60	0.7438	109.78	37.82	140.22	134.98	5.24	32.58	23.73	61.55
300	#2 BARE ALUMINUM	0.1950	365.0	1965	58.50	0.6507	38.07	20.43	55.58	50.67	4.91	15.52	11.30	31.73
730	#2 BARE ALUMINUM	0.3480	365.0	1979	254.04	0.3511	89.19	164.85	241.34	147.89	93.45	71.40	52.01	216.86
375	#3 BARE COPPER	0.0500	365.0	1931	18.75	1.0000	18.75	0.00	17.81	17.14	0.67	0.00	0.00	0.00
300	#3 BARE COPPER	0.0470	365.0	1932	14.10	1.0000	14.10	0.00	13.40	12.90	0.50	0.00	0.00	0.00
450	#3 BARE COPPER	0.0500	365.0	1940	22.50	1.0000	22.50	0.00	21.38	20.58	0.80	0.00	0.00	0.00
300	#3 BARE COPPER	0.0680	365.0	1944	20.40	0.9701	19.79	0.61	19.38	18.66	0.72	(0.11)	(0.08)	0.53
375	#3 BARE COPPER	0.1190	365.0	1949	44.63	0.9131	40.75	3.88	42.40	40.81	1.59	2.29	1.67	5.55
387	#3 BARE COPPER	0.1530	365.0	1952	59.21	0.8727	51.67	7.54	56.25	54.15	2.10	5.44	3.96	11.50
,470	#3 BARE COPPER	0.2340	365.0	1958	343.98	0.7786	267.82	76.16	326.78	314.58	12.22	63.94	46.57	122.73
647	#3 BARE COPPER	0.2470	365.0	1960	159.81	0.7438	118.87	40.94	151.82	146.14	5.68	35.26	25.68	66.62
486	#3 BARE COPPER	0.3090	365.0	1964	150.17	0.6700	100.61	49.56	142.66	133.09	9.57	39.99	29.13	78.69
450	#3 BARE COPPER	0.3060	365.0	1967	137.70	0.6112	84.16	53.54	130.82	113.73	17.09	36.45	26.55	80.09
750	#3 BARE COPPER	0.4950	365.0	1971	371.25	0.5286	196.24	175.01	352.69	313.89	38.80	136.21	99.22	274.23
450	#3 BARE COPPER	0.9630	365.0	1973	433.35	0.4858	210.52	222.83	411.68	368.40	45.28	177.55	129.33	352.16
2,892	#3 BARE COPPER	1.1810	365.0	1979	3,415.45	0.3511	1,199.16	2,216.29	3,244.68	2,435.68	809.00	1,407.29	1,025.09	3,241.38
300	#3 BARE COPPER	2.4500	365.0	1982	735.00	0.2811	206.61	528.39	698.25	614.46	83.79	444.60	323.85	852.24
300	#3 BARE COPPER	6.0100	365.0	1990	1,803.00	0.1013	182.64	1,620.36	1,803.00	532.53	1,270.47	349.89	254.88	1,875.22
375	#6 BARE COPPER	0.0270	365.0	1931	10.13	1.0000	10.13	0.00	9.62	9.26	0.36	0.00	0.00	0.00
300	#6 BARE COPPER	0.0270	365.0	1932	8.10	1.0000	8.10	0.00	7.70	7.41	0.29	0.00	0.00	0.00
375	#6 BARE COPPER	0.0270	365.0	1933	10.13	1.0000	10.13	0.00	9.62	9.26	0.36	0.00	0.00	0.00
250	#6 BARE COPPER	0.0280	365.0	1936	7.00	1.0000	7.00	0.00	6.65	6.40	0.25	0.00	0.00	0.00
1,400	#6 BARE COPPER	0.0480	365.0	1944	64.40	0.9701	62.47	1.93	61.18	58.89	2.29	(0.36)	(0.26)	1.67
400	#6 BARE COPPER	0.0580	365.0	1948	23.20	0.9254	21.47	1.73	22.04	21.22	0.82	0.91	0.66	2.39
300	#6 BARE COPPER	0.1550	365.0	1958	46.50	0.7786	36.20	10.30	44.18	42.53	1.65	8.65	6.30	16.60
1,050	#6 BARE COPPER	0.1740	365.0	1960	182.70	0.7438	135.89	46.81	173.57	167.08	6.49	40.32	29.37	76.18
450	#6 BARE COPPER	0.1200	365.0	1967	54.00	0.6112	33.00	21.00	51.30	44.60	6.70	14.30	10.42	31.42
500	#6 BARE COPPER	0.2540	365.0	1971	127.00	0.5286	67.13	59.87	120.65	107.38	13.27	46.60	33.94	93.81
1,200	#6 BARE COPPER	0.3440	365.0	1972	412.80	0.5074	209.45	203.35	392.16	349.02	43.14	160.21	116.70	320.05
375	#6 BARE COPPER	0.8580	365.0	1978	321.75	0.4197	135.04	186.71	305.66	256.35	49.31	137.40	100.08	286.79
5,050	#6 BARE COPPER	1.8490	365.0	1979	8,327.45	0.3511	2,923.77	5,403.68	7,911.08	5,938.61	1,972.47	3,431.21	2,499.34	7,903.02
600	#6 BARE COPPER	1.9400	365.0	1982	1,164.00	0.2811	327.20	836.80	1,105.80	973.10	132.70	704.10	512.88	1,349.68
400	#6 BARE COPPER	2.9700	365.0	1986	1,188.00	0.2118	251.62	936.38	1,128.60	722.30	406.30	530.08	386.12	1,322.50
300	#6 BARE COPPER	2.1200	365.0	1990	636.00	0.1013	64.43	571.57	636.00	187.85	448.15	123.42	89.90	661.47
300	#6 BARE COPPER	1.7700	365.0	1992	531.00	0.0441	23.42	507.58	531.00	93.70	437.30	70.28	51.19	558.77
50	1/0 TPLX	0.8060	365.0	1960	40.30	0.7438	29.98	10.32	38.29	36.86	1.43	8.89	6.48	16.80
75	1/0 TPLX	0.8060	365.0	1963	60.45	0.6890	41.65	18.80	57.43	54.79	2.64	16.16	11.77	30.57
100	1/0 TPLX	1.1720	365.0	1971	117.20	0.5286	61.95	55.25	111.34	99.09	12.25	43.00	31.32	86.57
75	1/0 TPLX	1.2680	365.0	1974	95.10	0.4640	44.13	50.97	90.35	80.41	9.94	41.03	29.89	80.86
725	1/0 TPLX	2.2920	365.0	1979	1,661.70	0.3511	583.42	1,078.28	1,578.62	1,185.02	393.60	684.68	498.73	1,577.01
50	1/0 TPLX	4.5500	365.0	1985	227.50	0.2391	54.40	173.10	216.13	151.28	64.84	108.26	78.86	251.96
50	#4 TPLX	0.4280	365.0	1958	21.40	0.7786	16.66	4.74	20.33	19.57	0.76	3.98	2.90	7.64
375	1/0 WPRF ALUMINUM	0.2730	365.0	1933	102.38	1.0000	102.38	0.00	97.26	93.62	3.64	0.00	0.00	0.00
600	1/0 WPRF ALUMINUM	0.2730	365.0	1944	163.80	0.9701	158.90	4.90	155.61	149.79	5.82	(0.92)	(0.67)	4.23
4,281	1/0 WPRF ALUMINUM	0.3870	365.0	1960	1,656.75	0.7438	1,232.29	424.46	1,573.91	1,515.05	58.86	365.60	266.31	690.77
750	1/0 WPRF ALUMINUM	0.4300	365.0	1965	322.50	0.6507	209.85	112.65	306.38	279.33	27.05	85.60	62.35	175.00
200	1/0 WPRF ALUMINUM	0.5870	365.0	1969	117.40	0.5705	66.98	50.42	111.53	92.23	19.30	31.12	22.67	73.09
1,600	1/0 WPRF ALUMINUM	1.3800	365.0	1972	2,484.00	0.5074	1,260.38	1,223.62	2,359.80	2,100.22	259.58	964.04	702.22	1,925.84
720	1/0 WPRF ALUMINUM	0.7740	365.0	1974	557.28	0.4640	258.58	298.70	529.42	471.18	58.24	240.46	175.15	473.85
3,875	1/0 WPRF ALUMINUM	1.4480	365.0	1979	5,611.00	0.3511	1,970.02	3,640.98	5,330.45	4,001.41	1,329.04	2,311.94	1,684.05	5,325.03
600	1/0 WPRF ALUMINUM	3.0900	365.0	1986	1,854.00	0.2118	392.68	1,461.32	1,761.30	1,127.23	634.07	827.25	602.58	2,063.90

HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

						BOOK DEPRECIATION			TAX DEPRECIATION					
QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	RSV RATIO PER BOOKS	CUM. DEPR.	NET PLANT	ORIGINAL TAX BASIS	CUM TAX DEPR	TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)	(5)	(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
125	1/0 WPRF ALUMINUM	2.5900	365.0	1990	323.75	0.1013	32.80	290.95	323.75	95.62	228.13	62.82	45.76	336.71
300	1/0 WPRF ALUMINUM	3.3300	365.0	1992	999.00	0.0441	44.06	954.94	999.00	176.28	822.72	132.22	96.31	1,051.25
300	4/0 WPRF ALUMINUM	0.4803	365.0	1958	144.09	0.7786	112.19	31.90	136.89	131.77	5.12	26.78	19.51	51.41
300	4/0 WPRF ALUMINUM	0.5375	365.0	1965	161.25	0.6507	104.93	56.32	153.19	139.67	13.52	42.80	31.18	87.50
300	4/0 WPRF ALUMINUM	0.5351	365.0	1967	160.53	0.6112	98.12	62.41	152.50	132.57	19.93	42.48	30.94	93.35
300	4/0 WPRF ALUMINUM	0.6660	365.0	1972	199.80	0.5074	101.38	98.42	189.81	168.93	20.88	77.54	56.48	154.90
450	4/0 WPRF ALUMINUM	0.8850	365.0	1976	398.25	0.4197	167.15	231.10	378.34	317.30	61.04	170.06	123.87	354.97
750	4/0 WPRF ALUMINUM	1.4570	365.0	1979	1,092.75	0.3511	383.66	709.09	1,038.11	779.28	258.83	450.26	327.98	1,037.07
975	1/0 WPRF COPPER	0.6210	365.0	1960	605.48	0.7438	450.36	155.12	575.21	553.70	21.51	133.61	97.32	252.44
300	#3 WPRF COPPER	0.0540	365.0	1927	16.20	1.0000	16.20	0.00	15.39	14.81	0.58	0.00	0.00	0.00
630	#3 WPRF COPPER	0.0560	365.0	1928	35.28	1.0000	35.28	0.00	33.52	32.27	1.25	0.00	0.00	0.00
600	#3 WPRF COPPER	0.1520	365.0	1948	91.20	0.9254	84.40	6.80	86.64	83.40	3.24	3.56	2.59	9.39
450	#3 WPRF COPPER	0.1630	365.0	1949	73.35	0.9131	66.98	6.37	69.68	67.07	2.61	3.76	2.74	9.11
570	#3 WPRF COPPER	0.3140	365.0	1958	178.98	0.7786	139.35	39.63	170.03	163.67	6.36	33.27	24.23	63.86
150	#3 WPRF COPPER	0.3290	365.0	1960	49.35	0.7438	36.71	12.64	46.88	45.13	1.75	10.89	7.93	20.57
660	#3 WPRF COPPER	0.3770	365.0	1964	248.82	0.6700	166.71	82.11	236.38	220.52	15.86	66.25	48.26	130.37
300	#3 WPRF COPPER	0.2880	365.0	1965	86.40	0.6507	56.22	30.18	82.08	74.83	7.25	22.93	16.70	46.88
300	#3 WPRF COPPER	0.4590	365.0	1967	137.70	0.6112	84.16	53.54	130.82	113.73	17.09	36.45	26.55	80.09
300	#3 WPRF COPPER	0.7850	365.0	1971	235.50	0.5286	124.49	111.01	223.73	199.12	24.61	86.40	62.93	173.94
300	#3 WPRF COPPER	0.8140	365.0	1972	244.20	0.5074	123.91	120.29	231.99	206.47	25.52	94.77	69.03	189.32
375	#3 WPRF COPPER	1.0090	365.0	1976	378.38	0.4197	158.81	219.57	359.46	301.47	57.99	161.58	117.70	337.27
2,880	#3 WPRF COPPER	1.0710	365.0	1979	3,084.48	0.3511	1,082.98	2,001.52	2,930.26	2,199.66	730.60	1,270.92	925.76	2,927.28
450	#3 WPRF COPPER	2.2650	365.0	1982	1,019.25	0.2811	286.51	732.74	968.29	852.10	116.19	616.55	449.10	1,181.84
420	#6 WPRF COPPER	0.0350	365.0	1928	14.70	1.0000	14.70	0.00	13.97	13.45	0.52	0.00	0.00	0.00
740	#6 WPRF COPPER	0.0450	365.0	1940	33.30	1.0000	33.30	0.00	31.64	30.46	1.18	0.00	0.00	0.00
675	#6 WPRF COPPER	0.1210	365.0	1949	81.68	0.9131	74.58	7.10	77.60	74.70	2.90	4.20	3.06	10.16
387	#6 WPRF COPPER	0.1590	365.0	1952	61.53	0.8727	53.70	7.83	58.45	56.26	2.19	5.64	4.11	11.94
810	#6 WPRF COPPER	0.2400	365.0	1958	194.40	0.7786	151.36	43.04	184.68	177.77	6.91	36.13	26.32	69.36
1,428	#6 WPRF COPPER	0.2430	365.0	1960	347.00	0.7438	258.10	88.90	329.65	317.32	12.33	76.57	55.77	144.67
528	#6 WPRF COPPER	0.2080	365.0	1964	109.41	0.6700	73.30	36.11	103.94	96.97	6.97	29.14	21.23	57.34
400	#6 WPRF COPPER	0.5390	365.0	1969	215.60	0.5705	123.00	92.60	204.82	169.38	35.44	57.18	41.64	134.24
900	#6 WPRF COPPER	0.7280	365.0	1972	655.20	0.5074	332.45	322.75	622.44	553.97	68.47	254.28	185.22	507.97
300	#6 WPRF COPPER	1.0700	365.0	1973	321.00	0.4858	155.94	165.06	304.95	271.41	33.54	131.52	95.80	260.86
560	#6 WPRF COPPER	0.8920	365.0	1974	499.52	0.4640	231.76	267.74	474.54	422.34	52.20	215.54	157.00	424.74
3,605	#6 WPRF COPPER	0.9438	365.0	1979	3,402.40	0.3511	1,194.58	2,207.82	3,232.28	2,428.37	805.91	1,401.91	1,021.17	3,228.99
375	#6 WPRF COPPER	4.1200	365.0	1990	1,545.00	0.1013	156.51	1,388.49	1,545.00	456.33	1,088.67	299.82	218.39	1,606.88
63634	TOTAL CONDUCTORS				53,944.41		20,673.01	33,271.40	51,539.16	38,150.89	13,388.27	19,893.63	14,490.69	47,762.09
	TOTAL A/C 365				56,189.17		21,356.22	33,832.95	52,721.67	39,163.68	13,557.99	20,286.36	14,776.11	48,609.06

HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

						BOOK DEPRECIATION			TAX DEPRECIATION					
QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	RSV RATIO PER BOOKS	CUM. DEPR.	NET PLANT	ORIGINAL TAX BASIS	CUM TAX DEPR	TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)	(5)	(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
	SERVICES													
1	1/0 TPLX	50.98	369.1	1949	50.98	0.6902	35.19	15.79	48.43	46.62	1.81	13.98	10.18	25.97
2	1/0 TPLX	94.04	369.1	1958	188.08	0.5747	108.09	79.99	178.68	172.00	6.68	73.31	53.40	133.39
1	1/0 TPLX	91.50	369.1	1964	91.50	0.4895	44.79	46.71	86.93	81.10	5.83	40.88	29.78	76.49
4	1/0 TPLX	86.23	369.1	1965	344.92	0.4745	163.66	181.26	327.67	298.74	28.93	152.33	110.96	282.22
1	1/0 TPLX	119.93	369.1	1976	119.93	0.3015	36.16	83.77	113.93	95.55	18.38	65.39	47.63	131.40
5	1/0 TPLX	140.79	369.1	1979	703.95	0.2518	177.25	526.70	668.75	502.01	166.74	359.96	262.20	788.90
2	1/0 TPLX	373.44	369.1	1980	746.88	0.2350	175.52	571.36	709.54	511.82	197.72	373.64	272.16	843.52
1	1/0 TPLX	448.83	369.1	1986	448.83	0.2310	103.68	345.15	426.39	272.89	153.50	191.65	139.60	484.75
1	#4 TPLX	13.41	369.1	1928	13.41	0.9046	12.13	1.28	12.74	12.26	0.48	0.80	0.58	1.86
1	#4 TPLX	16.24	369.1	1931	32.48	0.8760	28.52	3.96	30.86	29.71	1.15	2.81	2.05	6.01
2	#4 TPLX	17.57	369.1	1932	17.57	0.8689	15.27	2.30	16.69	16.07	0.62	1.68	1.22	3.52
1	#4 TPLX	15.58	369.1	1938	46.74	0.8310	38.84	7.90	44.40	42.74	1.66	6.24	4.55	12.45
3	#4 TPLX	14.49	369.1	1940	28.98	0.7906	22.91	6.07	27.53	26.50	1.03	5.04	3.67	9.74
2	#4 TPLX	11.21	369.1	1942	22.42	0.7697	17.26	5.16	21.30	20.50	0.80	4.36	3.18	8.34
2	#4 TPLX	10.90	369.1	1944	65.40	0.7479	48.91	16.49	62.13	59.81	2.32	14.17	10.32	26.81
6	#4 TPLX	20.69	369.1	1948	62.07	0.7021	43.58	18.49	58.97	56.76	2.21	16.28	11.86	30.35
3	#4 TPLX	21.78	369.1	1949	130.68	0.6902	90.20	40.48	124.15	119.51	4.64	35.84	26.11	66.59
6	#4 TPLX	33.96	369.1	1952	33.96	0.6535	22.19	11.77	32.26	31.05	1.21	10.56	7.69	19.46
1	#4 TPLX	77.61	369.1	1956	155.22	0.6017	93.40	61.82	147.46	141.94	5.52	56.30	41.01	102.83
2	#4 TPLX	111.64	369.1	1958	1,228.04	0.5747	705.75	522.29	1,166.64	1,123.01	43.63	478.66	348.66	870.95
11	#4 TPLX	91.74	369.1	1960	3,394.38	0.5471	1,857.07	1,537.31	3,224.66	3,104.06	120.60	1,416.71	1,031.95	2,569.26
37	#4 TPLX	77.10	369.1	1963	154.20	0.5041	77.73	76.47	146.49	139.76	6.73	69.74	50.80	127.27
2	#4 TPLX	75.00	369.1	1964	225.00	0.4895	110.14	114.86	213.75	199.41	14.34	100.52	73.22	188.08
3	#4 TPLX	66.46	369.1	1965	332.30	0.4745	157.68	174.62	315.69	287.82	27.87	146.75	106.89	281.51
5	#4 TPLX	74.78	369.1	1967	74.78	0.4445	33.24	41.54	71.04	61.76	9.28	32.26	23.50	65.04
1	#4 TPLX	99.19	369.1	1971	495.95	0.3821	189.50	306.45	471.15	419.32	51.83	254.82	185.47	491.92
5	#4 TPLX	97.64	369.1	1972	1,074.04	0.3663	393.42	680.62	1,020.34	908.10	112.24	568.38	414.02	1,094.64
11	#4 TPLX	110.13	369.1	1973	220.26	0.3501	77.11	143.15	209.25	186.23	23.02	120.13	87.50	230.65
2	#4 TPLX	104.93	369.1	1974	314.79	0.3340	105.14	209.65	299.05	266.15	32.90	176.75	128.75	338.40
3	#4 TPLX	89.36	369.1	1976	89.36	0.3015	26.94	62.42	84.89	71.19	13.70	48.72	35.49	97.91
1	#4 TPLX	100.64	369.1	1979	4,327.52	0.2518	1,089.87	3,237.65	4,111.14	3,086.11	1,025.03	2,212.82	1,611.85	4,849.70
43	#4 TPLX	105.19	369.1	1982	210.38	0.2014	42.37	168.01	199.86	175.88	23.98	144.03	104.91	272.91
2	#4 TPLX	178.05	369.1	1985	178.05	0.2554	45.47	132.58	169.15	118.41	50.74	81.84	59.61	192.19
1	#4 TPLX	169.17	369.1	1986	169.17	0.2310	39.08	130.09	160.71	102.85	57.86	72.23	52.61	182.70
1	#4 TPLX	183.73	369.1	1987	183.73	0.2067	37.98	145.75	183.73	81.27	102.46	43.29	31.53	177.28
1	#6 WPRF COPPER	13.41	369.1	1928	13.41	0.9046	12.13	1.28	12.74	12.26	0.48	0.80	0.58	1.86
1	#6 WPRF COPPER	10.90	369.1	1944	10.90	0.7479	8.15	2.75	10.36	9.97	0.39	2.36	1.72	4.47
1	#6 WPRF COPPER	111.64	369.1	1958	111.64	0.5747	64.16	47.48	106.06	102.09	3.97	43.51	31.69	79.17
16	#6 WPRF COPPER	91.74	369.1	1960	1,467.84	0.5471	803.06	664.78	1,394.45	1,342.30	52.15	612.63	446.25	1,111.03
4	#6 WPRF COPPER	75.00	369.1	1964	300.00	0.4895	146.85	153.15	285.00	265.88	19.12	134.03	97.63	250.78
2	#6 WPRF COPPER	74.78	369.1	1967	149.56	0.4445	66.48	83.08	142.08	123.51	18.57	64.51	46.99	130.07
3	#6 WPRF COPPER	97.64	369.1	1972	292.92	0.3663	107.30	185.62	278.27	247.66	30.61	155.01	112.91	298.53
1	#6 WPRF COPPER	89.36	369.1	1976	89.36	0.3015	26.94	62.42	84.89	71.19	13.70	48.72	35.49	97.91
15	#6 WPRF COPPER	100.64	369.1	1979	1,509.60	0.2518	380.12	1,129.48	1,434.12	1,076.55	357.57	771.91	562.27	1,691.75
219	TOTAL SERVICES A/C 369.1				19,921.18		7,881.03	12,040.16	18,934.92	16,120.32	2,814.00	9,226.15	6,720.44	18,760.60
	LUMINAIRES													
17	100 W MERCURY VAPOR	168.49	373.1	1960	2,864.33	1.0000	2,864.33	0.00	2,721.11	2,619.34	101.77	0.00	0.00	0.00
1	100 W MERCURY VAPOR	158.96	373.1	1963	158.96	1.0000	158.96	0.00	151.01	144.08	6.93	0.00	0.00	0.00
1	100 W MERCURY VAPOR	151.02	373.1	1964	151.02	1.0000	151.02	0.00	143.47	133.84	9.63	0.00	0.00	0.00
1	100 W MERCURY VAPOR	105.13	373.1	1967	105.13	1.0000	105.13	0.00	99.87	86.82	13.05	0.00	0.00	0.00
3	100 W MERCURY VAPOR	88.38	373.1	1972	265.14	0.4657	123.48	141.66	251.88	224.17	27.71	113.95	83.00	224.66

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HARWICK VILLAGE - SALE OF FACILITIES TO WEST PENN POWER
NET INVESTMENT AT DECEMBER 31, 1994

						BOOK DEPRECIATION			TAX DEPRECIATION					
QTY	DESCRIPTION	UNIT COST	ACCT	VINTAGE YEAR	ORIGINAL COST	RSV RATIO PER BOOKS	CUM. DEPR.	NET PLANT	ORIGINAL TAX BASIS	CUM TAX DEPR	TAX BASIS	NET INVESTMENT	ADJUST. FOR TAX	BREAK EVEN PRICE
(1)	(2)	(3)	(4)	(5)	(6) (1)*(3)	(7)	(8) (6)*(7)	(9) (6)-(8)	(10) (6)*.95	(11)	(12) (10)-(11)	(13) (9)-(12)	(14) (13)*NOTE1	(15) (9)+(14)
1	100 W MERCURY VAPOR	83.49	373.1	1973	83.49	0.4571	38.16	45.33	79.32	70.59	8.73	36.60	26.66	71.99
1	100 W MERCURY VAPOR	94.55	373.1	1974	94.55	0.4485	42.41	52.14	89.82	79.94	9.88	42.26	30.78	82.92
1	100 W MERCURY VAPOR	108.07	373.1	1978	108.07	0.4292	46.38	61.69	102.67	86.11	16.56	45.13	32.87	94.56
1	100 W MERCURY VAPOR	93.11	373.1	1979	1,582.87	0.3885	614.94	967.93	1,503.73	1,128.80	374.93	593.00	431.95	1,399.88
17	100 W MERCURY VAPOR													
43	TOTAL LUMINAIRES A/C 373.1				6,413.66		4,174.81	1,268.75	5,142.88	4,573.69	569.19	830.94	605.26	1,874.01
	TOTAL				159,463.03		57,868.65	101,594.38	152,187.43	116,594.80	35,592.63	66,143.53	48,179.82	149,774.20

1/ GROSS REVENUE

FEDERAL TAX RATE	(FTR)	0.35	
STATE TAX RATE	(STR)	0.1099	
COMPOSITE RATE	(CR)	0.42144	FTR*(1-STR)+STR
ADJ. FOR TAX		0.72841427	CR/(1-CR)

FILE ID: W:\REVREQ\BRKEVEN\HARVIL.WK4 PREPARED BY R. G. MARSHALL 02/24/95

PAG

Duquesne Light Company Statement No. 3
Docket No. C-00967749

DOCUMENT FOLDER

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JAN 09 1997

RECEIVED
DEC 31 1996
PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

DIRECT TESTIMONY
OF
JAMES A. LAHTINEN
GENERAL MANAGER
REGULATORY AND ECONOMIC ANALYSIS UNIT
DUQUESNE LIGHT COMPANY

October 18, 1996

OCC-Stmt-3
C-00967749
12-10-96
PITTS
BAS

Q. Please state your name.

A. James A. Lahtinen.

Q. By whom are you employed?

A. Duquesne Light Company.

Q. What is your business address?

A. My business address is 411 Seventh Avenue, 10-470, P.O. Box 1930, Pittsburgh, Pennsylvania 15230-1930.

Q. What is your current title?

A. I am General Manager, Regulatory and Economic Analysis Unit.

Q. Please generally describe your duties and responsibilities in that position.

A. I am responsible for retail and wholesale tariffs, integrated least cost planning, business regulatory policy, and economic analysis studies.

Q. How long have you been employed with Duquesne Light Company?

A. I have been employed with Duquesne Light Company since January 1991.

Q. Please describe your educational background, including your major areas of study and the degrees you hold.

A. I hold BA and MA degrees in economics from the State University of New York at Plattsburgh and Albany, respectively.

Q. Have you provided expert testimony in other state and/or federal proceedings?

A. Yes. I have provided expert testimony numerous times at the FERC and before the New York State Public Service Commission, the New Hampshire Public Utilities Commission, the Vermont Public Service Board, the New Jersey Board

of Public Utilities Control, and the District of Columbia Public Service Commission.

Q. What was the nature of that testimony?

A. The nature of that testimony varied widely and included such topics as incentive ratemaking, embedded and marginal cost of service studies, rate design and cost allocation, electrical load forecasting, prudence of nuclear plant cost and in-service schedules, economic framework for evaluating demand side management programs, financial analysis of cable television franchise areas, economic analysis of nuclear plant abandonment decisions, economic analysis of power purchases from non utility generators, leasing arrangements between affiliated interests, and cost of service and pricing of wholesale transmission service.

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

A. Duquesne Light Company has agreed to transfer approximately 326 of its current electric service customers located in the Harwick Village area of Springdale Township to West Penn Power Company. Duquesne has also agreed to transfer certain of its electric facilities in that area to West Penn as part of an overall transfer. As compensation for the transfer of facilities and customers, Duquesne has requested from West Penn the depreciated cost of the distribution facilities and "stranded costs". The purpose of my testimony is to explain the reasons why Duquesne is seeking recovery of stranded costs associated with this transfer. I will also articulate why recovery of stranded costs is good public policy and consistent with the Commission's Report and Recommendation to the Governor

and General Assembly on Electric Competition. Finally, I will describe how stranded costs were calculated for the purposes of this proceeding.

Q. Before you proceed to the main subject areas of your testimony, please provide a brief description as to how Duquesne came to serve the customers now located in the Harwick Village area of Springdale Township and other significant events leading up to the present time.

A. Under Articles of Agreement dated April 16, 1917 (Exhibit JAL-1), between Duquesne and West Penn, the utilities agreed to exchange certain service territories for the purpose of consolidating the territories in which each provided public utility service. In the fifteenth paragraph of the Articles, Duquesne reserved the right to furnish electric service to coal mining properties it owned or controlled in several municipalities, including the Township of Springdale, without objection from West Penn. Although Duquesne was not able to locate the Public Service Commission's approval of the 1917 Agreement, the Commission's approval of amendments to that Agreement dated June 27, 1923, is attached to my testimony as Exhibit JAL-2. Duquesne has provided continuous electric service to the residents and businesses in the Harwick Village area of Springdale Township in accordance with the 1917 Agreement. In 1958, Duquesne began selling the mining properties it owned in Harwick Village. Duquesne has not been able to determine when it sold the last of those properties; however, it is believed that most of the properties were sold in 1958 and 1959. Duquesne has continued to provide electric service to the residents and businesses in Harwick

Village to the present date without objection by West Penn. In 1994, residents of Harwick Village requested that West Penn provide them electric service instead of Duquesne. Because Duquesne acknowledges that Harwick Village is within West Penn's service territory, it is willing to transfer its customers and facilities in Harwick Village to West Penn upon West Penn's payment of the depreciated costs of the facilities and stranded costs.

Q. What facilities are used to provide electric service to Harwick Village?

A. Duquesne uses its entire mix of generation (including purchased power sources), its bulk transmission facilities, and local area distribution facilities. The resource used to supply load to the residents of Harwick Village are the same ones used to supply the load requirements of Duquesne's other customers.

Q. What are stranded costs?

A. In general, stranded costs refer to the difference between the revenues utilities would receive, under traditional cost of service regulation, for historical investments and contractual obligations and the revenues that they would receive (market value) if generation services were sold in a competitive market.

Q. What are the bases for Duquesne's claim on stranded cost recovery in this case?

A. Equity and efficiency. Equity is involved because it is fundamentally unfair to burden Duquesne's remaining customers with costs and obligations originally undertaken on behalf of customers residing in an area Duquesne has served on a continuous basis since 1917. Duquesne has planned its generation, transmission and distribution systems under the reasonable expectation that it would continue

to serve load in this area, no different from the way it has served its other full requirement jurisdictional customers. Recovery of costs associated with premature customer departure is a legitimate charge to insure that Duquesne's other remaining customers, stockholders, or both are not adversely impacted.

Q. How do you respond to West Penn's argument that since the transfer of these customers is unrelated to the regulatory changes involving electric industry restructuring taking place in Pennsylvania and elsewhere that Duquesne has no claim for stranded cost recovery?

A. While fundamental unanticipated change in regulation is certainly one way stranded costs can come about, it is not the underlying reason for the legitimacy of its recovery. The underlying rationale concerns reasonable expectations. Duquesne's investors would not have been willing to commit capital to carry out an obligation to serve unless it believed the regulator's offer of an opportunity to earn a fair rate of return was credible. On the other hand, Pennsylvania regulators would have been unwilling to provide Duquesne the right to serve the residents of Springdale Township and authorize pricing and investment plans unless Duquesne's promises to provide service were credible. The legal and public policy process operated to provide guarantees to both Duquesne and the Commission acting as an agent for the residents located within the Harwick Village area.

Q. Do Duquesne's rates exceed the market value of the generation assets to serve Springdale Township residents?

A. Yes. My calculations show that Duquesne would receive substantially less revenues from the sale of energy at market prices than it now receives from a similar amount of electrical energy to the Harwick Village residents under current cost based tariffs.

Q. Please explain why this is the basis for Duquesne's claim for stranded costs.

A. That is because a payment equal to net stranded cost is necessary in order to insure that there are no net financial penalties to Duquesne's other customers and shareholders.

Q. How would your request change if the reverse were true?

A. If the market value of the generation used to serve Springdale Township residents exceeded the rates for serving Springdale, Duquesne would (i) transfer the distribution assets at book value to West Penn, just the same as proposed here, and (ii) sell the freed-up generation at market rates, with the associated revenue credits more than offsetting the stranded costs and the net benefits accruing to our remaining customers. In fact, this exact same treatment was proposed by Duquesne and accepted by the Commission in its request for certain ratemaking treatment for the sale of its interest in the Ft. Martin Power Station to AYP Capital, Inc. (Docket Nos. A-110150F0011; P-00951001). In that case, Duquesne sold its interest at a price that exceeded the net book value for the plant. This excess, or premium was used to write down its investment in nuclear generation, accelerate amortization on its plant, and provide a credit to customers through the ECR, among other things. These actions will ultimately redound to the benefit of

our retail customers, including those who reside in the Harwick Village area of Springdale Township, by mitigating a portion of our otherwise strandable assets.

Q. Are you saying that Duquesne's proposed treatment of stranded costs is consistent with the regulatory treatment afforded the transfer of assets in the past?

A. Yes. Historically, assets were transferred at net book values with little regard for potential stranded cost because until most recently, market values were close to or exceeded book values. As a result, stranded cost considerations were of little concern. However, regulators were, in my opinion, correct in insuring that "stranded benefits" associated with property transfers (particularly, generation plants) were passed along to the customers of the selling utility. Flowing through all or a portion of these benefits is completely consistent with the notion of allowing the utility an opportunity to earn a reasonable return on capital. Since investors expected to earn no more than a reasonable return on invested capital, a flow through of premiums over net book on sales of assets is consistent with those expectations. Conversely, where book value exceeds market levels, regulators must afford symmetrical treatment and provide for recovery of "stranded costs" if shareholders are to be given an opportunity to earn a reasonable return on invested capital. In this case, recognition is also required in order to insure that Duquesne's remaining customers do not absorb the fixed cost responsibility of the customers transferred to West Penn.

Q. Earlier you mentioned efficiency. Please discuss how stranded cost recovery is consistent with the important goal of efficiency?

A. Certainly. Stranded cost recovery is necessary to insure that customer departures (through retail wheeling or customer transfers like the situation here) are consistent with efficiency and the overall public interest. In other words, regulatory standards that approve customer or asset transfers only when some ratepayers gain, no other ratepayers lose, and investors are left no worse off, will discourage transfers that serve principally to shift costs, not reduce costs. Such a policy or standard will encourage all worthwhile transfers and discourage those that aren't. If a transfer offers a real savings in resource costs or adds value, there must be a reasonable price to insure that neither remaining nor departing customers are worse off. Such a standard is entirely consistent with the Commission's goals of increased efficiency, customer choice, and allowing shareholders a reasonable opportunity to recover prudently incurred stranded costs.

Q. Before you proceed, please explain what you mean by efficiency?

A. Efficiency means the production of a given amount of goods or services at minimum cost or alternatively, the production of the maximum level of goods or services using a given level of productive inputs and existing technology. In the context of the electric utility industry, this means that efficiency is attained when a given level of electrical consumption is produced at least cost. The test is whether the least cost mix of generation plants and local area distribution costs, now and in the future, will be used to provide the necessary level of electrical consumption. In the present context, the relevant question is whether the electrical load

requirements of Harwick Village area residents are more efficiently provided by Duquesne Light or West Penn.

Q. Should the Commission be interested in the potential impact on efficiency in this case?

A. Yes. The Commission considered the impact on efficiency as well as equity in developing its recommendations to the Governor and General Assembly on electric industry restructuring in Pennsylvania. Since the issues present in this case are the same ones the Commission dealt with in its broader investigation, the Commission should consider the impact on efficiency in this case as well.

Q. Are you saying that the payment of stranded costs to Duquesne will satisfy concerns over efficiency and equity?

A. Yes. In fact, dealing properly with stranded costs will avoid cost shifting and prevent inefficient competition based on disparities in sunk cost. Failure to address the problem of stranded costs can distort economic signals and lead economic agents to pursue actions that may be privately beneficial but socially harmful. For example, assume that a customer currently buys service from its local utility at a bundled rate of 8.0¢/kWh comprised of the following components - 3.0¢/kWh in incremental energy cost and 5.0¢/kWh in fixed costs. Further assume that the customer has the ability to choose suppliers and is considering an offer to buy power from a competing supplier at an incremental cost of 4.0¢/kWh. If the switch to the alternative supplier allows the customer to evade responsibility for his share of sunk cost, he will compare his bundled rate of

8.0¢/kWh to the independent offer of 4.0¢/kWh. Clearly, in this case, the customer will have an almost irresistible incentive to leave his utility supplier since to do so will provide savings at the rate of 4.0¢/kWh (8.0¢-4.0¢). Even though this switch in supplier will provide the customer with private gain, it is inconsistent with the public interest. It is inconsistent with the public interest because such an action will reduce efficiency. Efficiency will be reduced because incremental resources costing 4.0¢/kWh will replace those valued at 3.0¢/kWh, thereby wasting resources at the rate of 1.0¢/kWh. This perverse incentive to undertake actions that are inconsistent with the efficient use of societal resources can be mitigated by requiring the departing customer or its supplier to continue paying a fair share of allocated fixed costs.

Q. Please continue.

A. With this remedy, the prospective departing customer would have the correct economic incentive to stay with his host utility supplier - the low cost producer in this example. Adding the fixed cost (5.0¢/kWh) to the competitive offer (4.0¢/kWh) would produce a total charge of 9.0¢/kWh or 1.0¢/kWh higher than his current bundled rate. The 1.0¢/kWh figure is exactly equal to the difference between the marginal cost of the competing supplier (4.0¢/kWh) and the host utility (3.0¢/kWh).

Q. Are you saying that stranded recovery does not distort competition or inhibit efficient use of societal resources?

A. That is exactly what I am saying. Sunk or embedded costs to society cannot be avoided.

Q. Before you proceed any further, please summarize what you have said so far.

A. Duquesne is willing to transfer to West Penn its rights to serve customers residing in the Harwick Village area of Springdale Township. However, Duquesne is entitled to a reasonable opportunity to recover all costs stranded (net of the market value of the stranded resources) as a consequence of the transfer, as a matter of equity, and on the basis of efficiency.

Q. What is your calculation of stranded costs for purposes of this proceeding?

A. I have calculated stranded costs of $1,266,723 as shown in Exhibit JAL-3. This value is in addition to an expected payment of $149,744 representing the net book value of distribution assets to be acquired by West Penn in the transfer.

Q. Please describe how this calculation was derived.

A. I have relied upon a revenue loss approach in calculating stranded costs for purposes of this case. Such an approach compares the utility's net revenues under regulated and competitive rates. For the present purposes, I have assumed that Duquesne would continue to receive annual revenues of $283,822 if it continued to serve the residents in the Harwick Village area of Springdale Township. In other words, my calculation is premised on no load growth or change in base rates over the analysis period. This approach is consistent with Duquesne's current plan to freeze base rates through the year 2000. I have made an additional assumption that base rates would remain frozen through 2005. This approach

seems to be consistent with the approach outlined by the Commission in its ***Report and Recommendation to the Governor and the General Assembly on Electric Competition***. To complete the revenue picture, I calculated the ECR and STAS in the following way. For 1997, the ECR credit is computed as a weighted average of Duquesne's recently approved ECR for the period April 1, 1996 - March 31, 1997 and an ECR credit based on an average fuel and purchased power cost of 1.47¢/kWh. (The 1.47¢/kWh figure is the same value the Commission approved in establishing a cap on the ECR in Duquesne's request for certain ratemaking treatment associated with the sale of its interest in the Ft. Martin Power Station.) For the remainder of the analysis period (1998 - 2005) I used the 1.47¢/kWh figure to determine the ECR. The STAS credit was held constant at the current level throughout the entire period. In developing an estimate of revenues under competition, I have used a market value of 1.9¢/kWh. This value is based on the current rate Duquesne receives for round the clock sales of firm energy into the wholesale power market. For purposes of this proceeding, I used this value as the market price of power each year of the analysis period. Currently, Duquesne is considering offering for sale capacity (approximately 5% of its peak demand) and associated energy through a competitive solicitation as part of its retail pilot program. The sale proceeds will establish a market value for power which will then be used to mitigate stranded costs on the Duquesne system. This same procedure will be used to adjust the stranded cost payment associated

with the customers in Harwick Village after winning participants in the solicitation have signed purchase and sales agreements.

Q. You have described how you computed the likely revenue levels Duquesne would see under competition and continued regulation. Please explain how you measured differences in cost in order to complete your calculation of stranded costs.

A. I have assumed that Duquesne would continue to incur the same level of production costs whether or not we continued to serve the residents in the Harwick Village area. This is because Duquesne would continue to operate its plants in essentially the same way whether it continued sales to the Harwick Village area or sold a like amount of power into the wholesale power market. However, there is likely to be a reduction in O&M expense if the customers in question are transferred to West Penn. These savings which are associated with activities like meter reading, billing and tree trimming expense were estimated to be about $7300 per year for 1997. For the years beyond 1997, I have assumed that these savings would increase at a rate of 3% per annum and have used the resulting figures in preparing my calculation of stranded costs.

Q. Please explain why you have computed stranded costs only through the year 2005.

A. I have only computed stranded costs through 2005 in order to be consistent with the process envisioned by the Commission in its report to the Governor and General Assembly. There it appears that the Commission envisions a process whereby utilities would have an opportunity to recover net, non-mitigable stranded costs only through the end of the phase-in period (2005). It is expected

that the Commission will determine the final date for full retail choice based upon the attainment of certain milestones it has identified in its report and depending upon the needs of each individual utility. Since the final date is not yet known, given that Duquesne will be required to file a transition plan sometime in 1997, and because the legislature is currently considering the recommendations of the Commission, I have chosen to use the time frame set forth in the report for purposes of calculating stranded costs in this proceeding. To the extent this time period is changed as a result of legislation or a Commission order regarding Duquesne's transition plan filing, necessary adjustments to the stranded cost calculation, if any, will be made at the appropriate time.

Q. Has the revenue loss approach been accepted in other jurisdictions?

A. Yes. The revenue loss approach has been accepted as a reasonable means to estimate stranded cost by the FERC in order Nos. 888 and 889.

Q. Do you think such an approach is a reasonable one?

A. Yes. Calculating stranded costs by comparing the difference in net revenues under continued regulation and competition properly measures the value of assets left stranded as a result of customer departures, whether through retail wheeling, or in this case, the transfer of customers. Since current rates are based on assets and costs previously determined to have been prudently incurred under established regulatory procedures, there is no need to reopen past regulatory proceedings. Moreover, it is not necessary to value costs and investments on an asset-by-asset

basis since that process was already done in previous regulatory proceedings and prudence reviews.

Q Is there anything else you would like to add before you conclude your testimony?

A. Yes. The issue of stranded cost recovery in this case cannot be decided without consideration of its potential impact on decisions the Commission may reach in future proceedings on pilot programs and transition plan filings. If the Commission fails to adequately address the fundamental issues of equity and efficiency in this case, it could have a chilling affect on actions that are necessary in order to meet the Commission's ultimate goal of full retail choice. Duquesne, like other utilities with potentially large amounts of stranded costs, would be forced to spend more of their time and limited resources pursuing legal remedies to protect the fiduciary interests of their shareholders. This is time and resources that could, alternatively, be spent on developing innovative pilot and retail choice programs. As I have tried to make clear in my testimony, an opportunity to recover stranded costs is vital to insure that the goals of equity and efficiency are met. There is no inconsistency between stranded cost recovery, choice of supplier and efficient competition. A clear statement by the Commission supporting Duquesne's right to recover stranded cost in this case could go a long way in reaching the ultimate goal of efficient competition and customer choice at the retail level.

Q. But couldn't the opposite be argued: that since a Commission-initiated retail choice program has not yet been implemented, and stranded cost recovery

mechanisms are not yet fully developed, it is inappropriate to impose a stranded cost charge in this case?

A. No. The Commission already has made the policy determination that stranded costs should be recovered to prevent cost shifts among customers. As it stated in its July 3 Report:

> All retail customers located in the utility's distribution service territory are expected to contribute to stranded costs recovery. By including these costs, which would be paid by all retail distribution customers for whom the costs were incurred, stranded costs would be removed from generation rates so that some presently uneconomic generation facilities could be competitive. Additionally, since the cost of recovering the stranded costs would not be reflected in generation prices, the recovery charge would not be a barrier to choosing alternative generating suppliers. (Pa.P.U.C. Report at 22).

Duquesne's proposal in this case treats the customers in the Harwick Village area of Springdale Township consistent with the Commission's objectives, as expressed in its Report. The only question is how the stranded cost charge should be calculated. Duquesne has made a reasonable calculation of the stranded cost charge and, if a different methodology is ultimately approved by the Commission in the restructuring proceeding, Duquesne would have no objection to updating the stranded cost charge so that these customers are treated the same as all others.

Q. Has any other state commission recently dealt with a similar issue?

A. Yes. In California, several retail customers were exploring ways in which to contract with third party suppliers prior to adoption of a formal retail choice program and thereby evade stranded cost charges. The California PUC declined to permit this, however, and imposed interim stranded cost charges on customers

that departed before commencement of the state's retail choice program. The California Commission stated in Re: Proposed Policies Governing Restructuring California's Electric Service Industry and Reforming Regulation, 168 PUR 4th 484, 488 (1996), that:

> The first principle of fairness is that the [stranded cost charge] should fall on all customers in rough proportion to the benefits they have received from the utility's system. If some customers avoid those charges, others will consequently and unjustly bear more than their fair share.

This is the same principle upon which Duquesne's request in this case based.

Q. Does that conclude your testimony?

A. Yes.

Duquesne Light Company Statement No. 1R
Docket No. C-00967749

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REBUTTAL TESTIMONY
OF
JAMES A. LAHTINEN
GENERAL MANAGER
REGULATORY AND ECONOMIC ANALYSIS UNIT
DUQUESNE LIGHT COMPANY

November 15, 1996

DLC-Stmt-1R
C-00967749
12-10-96
PHS
BAS

Q. Please state your name.

A. James A. Lahtinen.

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

A. I am the General Manager of the Regulatory and Economic Analysis Unit of Duquesne Light Company.

Q. Have you submitted testimony previously in this proceeding?

A. Yes. I submitted direct testimony identified as Duquesne Light Company Statement No. 3.

Q. Have you read the direct testimony of Richard A. Phillips filed on behalf of West Penn Power Company?

A. Yes.

Q. Mr. Phillips sponsored RAP Exhibit 1, a 1957 letter from Duquesne's then President, P. H. McCance, to West Penn's then President, P. H. Powers, and stated that the letter clearly shows Duquesne did not have a reasonable expectation of continuing to provide electric service to Harwick Village past the time it ceased mining operations. Do you agree with Mr. Phillips' statement?

A. No. Whatever one might conclude, the letter can only be relied upon to draw inferences about Duquesne's expectations in 1957. It is now almost 40 years later and it is reasonable to conclude that during this period of time Duquesne developed reasonable expectations of continuing to serve Harwick Village like it had since 1917. West Penn remained silent for almost 40 years and declined to exercise whatever rights it thought it had under the contract. Given this silence, it

seems almost incomprehensible that the management of Duquesne should have concluded that it would not continue to serve the customers in Harwick Village. West Penn's inaction for nearly four decades after the 1957 letter demonstrates that it not only acquiesced in Duquesne's continued service of Harwick Village, but lead Duquesne to reasonably conclude that it would continue to bear the obligation to serve Harwick Village indefinitely. In fact, it was the residents of Harwick Village, not West Penn, that raised this issue after all these years. West Penn never made any effort to take over the Harwick Village customers after Duquesne ceased mining operations and sold the properties there in the late 1950's. As a result, Duquesne continued to base its transmission and generation expansion plans on the assumption of serving the load in Harwick Village.

Q. Mr. Phillips states on pages 3 and 4 of his testimony that there have been several prior transfers of customers and/or facilities between Duquesne and West Penn and that the cost of the facilities transferred in those transactions were based on trended original cost minus depreciation. Did Duquesne request recovery of stranded costs in those prior transfers?

A. No. Duquesne's policy of requesting recovery for stranded costs was not established until the summer of 1994, which was subsequent to the transfers referred to by Mr. Phillips. In addition, whether or not some customer transfers took place in the past without explicit recognition of stranded costs is beside the point. Transfers that have taken place cannot be undone. What can be done is to

properly recognize stranded or non-avoidable costs in regard to current and future customer transfers.

Q. Why is Duquesne requesting stranded costs for the transfer of the Harwick Village customers at this time?

A. It is the appropriate course to follow, otherwise Duquesne's remaining customers will bear the burden of these non-avoidable or stranded costs. These non-avoidable or stranded costs represent past investments in plant and equipment Duquesne made as part of its obligation to plan for and serve the load in Harwick Village.

Q. Mr. Phillips states on page 7 of his testimony that Duquesne did not provide West Penn the price to reflect stranded costs until October 1996. Why didn't Duquesne provide this figure earlier?

A. Duquesne was awaiting guidelines from the Pennsylvania Public Utility Commission on computing stranded costs and West Penn was aware of this. As can be seen from Duquesne's letter to West Penn dated June 9, 1995, which is attached to my testimony as Exhibit JAL-1R, Duquesne wanted to negotiate this cost with West Penn, but West Penn never responded to Duquesne's proposal. Furthermore, West Penn never requested from Duquesne a specific price prior to the formal proceeding being instituted.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Duquesne Light Company
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RECEIVED
JUN 12 1995
LEGAL SERVICES

Writer's DIRECT DIAL Number:

(412) 393-6049

June 9, 1995

John L. Munsch, Esquire
West Penn Power Company
800 Cabin Hill Drive
Greensburg, Pennsylvania 15601-1689

Re: Springdale Township

Dear Mr. Munsch:

As you know, Duquesne Light Company has been in contact with you and other representatives from West Penn Power Company concerning the transfer of over 200 Duquesne customers to West Penn. In your letter of July 12, 1994, you notified our then General Counsel, Edwyna Anderson, that West Penn had received written requests (in the form of two separate petitions) from more than 250 Springdale Township residents requesting that they be served by West Penn. In your letter, you also indicated that West Penn's review of the petitions indicated that the persons shown on the petitions appeared to be located within West Penn's service territory. Finally, your letter identified Richard Phillips as the appropriate person at West Penn to contact regarding this matter.

Subsequent to your letter, Mr. Phillips transmitted a letter to Mr. James Coulter of Duquesne reciting that West Penn had received two petitions from residents of Springdale requesting service from West Penn and also outlining a proposal to purchase, at depreciated cost, certain distribution facilities identified on a map attached, thereto. Mr. Phillips indicated that West Penn was not interested in purchasing distribution transformers and associated fused disconnects, facilities associated with the Harwick substation, or any related 23kV facilities. At that time, Mr. Phillips recognized that assembling the necessary plant information would take time.

EXHIBIT
JAL-1R

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Since receipt of those letters, Duquesne has undertaken considerable effort to respond to your request. First, Duquesne has conducted a thorough review of its billing records against the 258 names and addresses appearing on the petitions. Our records indicate that 221, not 258 accounts would be involved in a transfer of customers to West Penn Power. Second, we reviewed the circuit maps identifying the distribution facilities West Penn proposes to purchase and computed the depreciated cost of those facilities. The depreciated costs are $149,774.00.

Finally, Duquesne has undertaken a review of the circumstances under which Duquesne has served customers residing in the Township of Springdale. Under the Articles of Agreement, dated April 16, 1916 between West Penn and Duquesne, the utilities agreed to transfer all operating rights lying within certain areas (Paragraphs First and Second). The described territory conveyed included the Township of Springdale. However, Duquesne retained the right to furnish electric power to other areas where certain mining properties were located in the Township (Paragraph Fifteen). The Agreement was filed with the Pennsylvania Public Service Commission which subsequently issued a certificate of Public Convenience by report and order dated June 27, 1923.

West Penn, therefore, holds a certificate of public convenience to provide electric service to the Township. Although Duquesne ceased mining operations in the Township in the 1960's, Duquesne continued to serve this area without objection for more than twenty-five years. The agreement did not require that we cease providing service when mining operations were closed. The contract is, at best, ambiguous on whether service should continue.

Nevertheless, Duquesne is willing to discuss the appropriate terms of prospectively transferring these customers to West Penn. In general, Duquesne agrees with West Penn that a utility has an obligation under current public utility law to provide service upon request from a person or persons located within its certified service area. However, in this circumstance, we do not agree that the facilities that serve these customers should be transferred to West Penn at depreciated book value. Transferring these facilities at the depreciated book value of the 24kV distribution facilities would force Duquesne shareholders and its remaining customers to bear the burden of stranded generation, transmission and other regulatory asset costs.

Duquesne believes that recovery of such costs is appropriate for several reasons. First, Duquesne has provided exclusive retail service to the customers since 1916. The Company has planned its generation, transmission and distribution systems with the expectation that it would continue to serve load in this area. Second, recovery of stranded costs resulting from retail customers switching suppliers is a legitimate charge to insure that Duquesne's shareholders and remaining customers are not adversely impacted and to insure that electric service continues to be provided on an economically efficient basis. Both Duquesne and West Penn supported recovery of

stranded costs in PaPUC Docket I-940032. Also, West Penn has recognized the importance and propriety of recovering stranded costs in its wholesale rate filing with the FERC, Docket No. ER94-1659-000.

Duquesne is undertaking an analysis of the assets and associated costs that would be stranded as a result of transferring the Springdale Township customers to West Penn. There are several computational issues that need to be resolved in order to determine an appropriate charge. Some of these involve the period of time over which stranded costs are to be recovered, how load growth is to be accounted for and the appropriate credits, if any, for mitigating stranded costs. In addition, it is expected that the PaPUC will soon issue its report on the recently concluded competition investigation at Docket I-940032, which may provide some guidance on handling these and other methodological issues.

Duquesne proposes that a meeting be arranged, at a mutually convenient time and place, between representatives from both companies to discuss the terms of the transfer price and any other related issues. We are confident that we can reach a satisfactory agreement given the similarity of views on the importance of stranded cost recovery. In the interim, Duquesne sees no reason why we should delay proceeding with the steps necessary to effectuate the physical transfer of these customers to West Penn. Please contact me at 393-6049 if you have any questions regarding this matter.

Very truly yours,

Larry R. Crayne
Chief Counsel

LRC/njp:035C

Duquesne Light Company Statement No. 2S
Docket No. C-00967749

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PA PUBLIC UTILITY COMMISSION
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SURREBUTTAL TESTIMONY
OF
JAMES A. LAHTINEN
GENERAL MANAGER
REGULATORY AND ECONOMIC ANALYSIS UNIT
DUQUESNE LIGHT COMPANY

November 29, 1996

DLC-Stmt 2S
C-00967749
12-10-96
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BAS

Q. Please state your name.

A. James A. Lahtinen.

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

A. I am the General Manager of the Regulatory and Economic Analysis Unit of Duquesne Light Company.

Q. Have you submitted testimony previously in this proceeding?

A. Yes. I submitted direct testimony identified as Duquesne Light Company Statement No. 3 and rebuttal testimony identified as Duquesne Light Company Statement No. 1R.

Q. Have you read the rebuttal testimony of Alexander Galatic filed on behalf of West Penn Power Company?

A. Yes.

Q. Please respond to Mr. Galatic's inference at page 11 lines 2-3 that Duquesne's current rates are producing excess earnings?

A. After performing some arithmetic operations in Exhibit X1, Mr. Galatic derives a residual figure of 6.2¢/kWh which he describes as representing a composite of various cost of service categories. He then compares this figure to West Penn's average residential rate and concludes that the figure seems high by comparison. This "comparative analysis" leads him to conjecture that "this implies that Duquesne may be over-recovering".

Q. Is conjecture necessary in this case?

A. No. West Penn certainly knows, and Mr. Galatic should know, that jurisdictional utilities are required to file financial reports, quarterly, with the Pennsylvania Public Utility Commission. These financial earnings reports, which are a matter of public record, enable the Commission and others to compare earned returns with allowed returns on an on-going basis in order to screen for utilities that may be over-earning.

Q. Is Duquesne currently earning more than its authorized return on equity?

A. No. Duquesne's most recent financial report filed with the Pa.P.U.C. for the twelve months ended September 30, 1996, showed a return on equity of 11.15%. Moreover, since the time of its last base rate case in 1988, Duquesne has never reported earned returns greater than its allowed return on equity.

Q. Have you reviewed the alternative estimate of stranded cost provided by Mr. Galatic in his rebuttal testimony?

A. I have.

Q. Do you care to comment?

A. Yes. Mr. Galatic provides an estimate of the Harwick Village portion of Duquesne's stranded cost. This estimate is comprised of two components - one allegedly representing stranded generation costs and another for stranded regulatory assets. Mr. Galatic states that stranded generation costs are based on uneconomic generation investments of .6¢/kWh. The .6¢/kWh figure is calculated as the difference between what he describes as Duquesne's fixed generation costs of 1.6¢/kWh and an assumed market value for generation

capacity of 1¢/kWh. There is nothing in his testimony supporting either the embedded cost or market value figure. Exactly how they were determined is not revealed. For regulatory assets, Mr. Galatic extracts figures from Duquesne's FERC Form 1 report for the year 1995. With this set of values he then proceeds to perform calculations to derive stranded costs for the Duquesne system as a whole. After a few more calculations and an additional assumption or two, he presents what he describes as stranded costs ranging between $84,749-$263,731 (depending on whether or not regulatory assets are considered) for the load associated with Harwick Village.

Q. What is your opinion of his estimate?

A. It is far too low an estimate of stranded cost for the loss of load at Harwick Village. It is an unreasonably low estimate because he fails to recognize that in this case loss of load would strand generation as well as transmission and distribution assets. This failure, as well as an extremely low assumed value for fixed generation costs, results in Mr. Galatic arguing that Duquesne could avoid all but 2¢/kWh out of the 12¢/kWh rate now being charged to residents in Harwick Village. This result is just not plausible given the relatively high proportion of fixed costs on electric utility systems.

Q. Even though Mr. Galatic provides little or no information showing the derivation of his estimate, are you able to quantify some of the differences between your estimate and his?

A. Yes. There are at least three factors in Mr. Galatic's study that help explain the difference in results:

- failure to consider stranded transmission and distribution cost, as I mentioned earlier;
- the use of installed capacity instead of load to unitize system total stranded cost; and
- the use of a higher market value of power

Q. Have you prepared an exhibit quantifying the impact each one of these factors has on the difference between Mr. Galatic's and your estimate?

A. Yes. Exhibit JAL-1S sets forth the requested information. This exhibit uses, where possible, the figures Mr. Galatic relies upon in developing his calculation. It should be pointed out that my use of these figures is intended only for the limited purpose of preparing my exhibit.

Adjustment 1 uses the figures Mr. Galatic assumes for transmission and distribution ("T&D") in Exhibit X1 of his testimony and computes the net present value of T&D costs that will become stranded after the transfer of Harwick load to West Penn. Accounting for this factor alone would increase his estimate of Harwick Village's portion of stranded costs and reduce the difference between my estimate and his by $326,687. Unlike situations of retail wheeling where departing customers leave a system for a new supplier, the transfer of load in Harwick Village will not allow Duquesne to mitigate stranded T&D costs through sales of wheeling service to Harwick. As a result, these costs, as well as generation costs, will become stranded.

Adjustment 2 shows the effect of using peak demand instead of installed capacity to unitize system wide stranded costs. (It should first be pointed out that

Mr. Galatic's capacity figure is at least 276Mw too high because it includes capacity associated with the Ft. Martin Power Station which Duquesne recently sold to AYP.) As such, I divided Mr. Galatic's figures for stranded generation and regulatory assets by customer coincident peak load for 1995, instead of installed capacity as he has done. This is clearly more appropriate because Duquesne recovers costs by charging on the basis of kWh or kW sold, not on the basis of installed capacity. Unitizing costs on the basis of installed capacity and recovering over billed load will lead to an undercovery of costs since peak load is less than installed capacity. Making this adjustment to Mr. Galatic's figures closes the difference between the two estimates of Harwick Village's portion of Duquesne's stranded costs by **$30,149.**

Adjustment 3 shows the impact of Mr. Galatic's assumption about the market value of capacity. If I had used this figure in my calculations, my estimate of stranded costs would have been about **$142,038** lower than what I reported in my direct testimony. My stranded cost estimate was based on the most recent price Duquesne receives for a round-the-clock firm energy sale. Since this figure reflects little or no capacity value, my estimate of the market value for power would be higher by about 1¢/kWh and my estimated stranded costs would be lower if I had used Mr. Galatic's estimate. I take no position on the reasonableness of Mr. Galatic's estimate. As I said in my direct testimony, Duquesne plans to solicit bids for firm energy and capacity through a competitive solicitation early next year. Once a market value has been established, I will then

use that value to determine the final net stranded cost charge associated with the transfer of Harwick Village to West Penn.

Q. Can you summarize the effect of these adjustments?

A. Yes. These adjustments are shown in the table below:

SEL estimate	T&D Adjustment	Billing Unit Adjustment	Higher Market Adjustment	Duquesne estimate	Unexplained difference
$263,731	$326,687	$30,149	$142,038	$1,266,723	$504,118

Q. What do you attribute the unexplained difference to?

A. As I indicated earlier, Mr. Galatic's use of an extremely low assumption for fixed cost is the most likely reason for the remaining unexplained difference. It is not possible to determine from his testimony whether his low fixed cost figures stem from his failure to properly account for stranded or non-avoidable overhead and O&M costs, improper recognition of income and other tax effects, or both.

Q. Does this complete your surrebuttal testimony?

A. Yes.

SCHEDULE OF ADJUSTMENTS TO MR. GALATIC'S STRANDED COST ESTIMATE

ADJUSTMENT 1

Year	Trans. & Dist. $/Kwh	Kwh sales	Annual amount
1997	0.023	2,347,071	$53,983
1998	0.023	2,347,071	$53,983
1999	0.023	2,347,071	$53,983
2000	0.023	2,347,071	$53,983
2001	0.023	2,347,071	$53,983
2002	0.023	2,347,071	$53,983
2003	0.023	2,347,071	$53,983
2004	0.023	2,347,071	$53,983
2005	0.023	2,347,071	$53,983
NPV @ 8.77%			**$326,687**

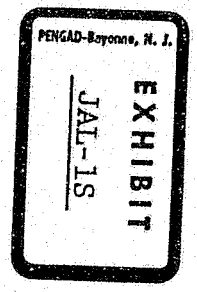
ADJUSTMENT 2

Component	SEL estimate of total stranded	Peak demand @ customer	Stranded costs $/Kw	Retail customer Kw demand	Harwick portion of total stranded	Original SEL estimate	Adjustment 2 breakdown
Generation	$451,477	2,548	177	535.861	$94,949	$84,749	$10,200
Regulatory assets	$945,911	2,548	371	535.861	$198,931	$178,982	$19,949
Total	$1,397,388	2,548	548	535.861	$293,880	$263,731	**$30,149**

ADJUSTMENT 3

Year	SEL market value of capacity - $/kwh	Kwh sales	Annual amount
1997	0.01	2,347,071	$23,471
1998	0.01	2,347,071	$23,471
1999	0.01	2,347,071	$23,471
2000	0.01	2,347,071	$23,471
2001	0.01	2,347,071	$23,471
2002	0.01	2,347,071	$23,471
2003	0.01	2,347,071	$23,471
2004	0.01	2,347,071	$23,471
2005	0.01	2,347,071	$23,471
NPV @ 8.77%			**$142,038**

File: Amort.wk4



BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCUMENT
FOLDER

RECEIVED

DEC 31 1996

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Township of Springdale, Complainant	:	
vs.	:	
Duquesne Light Company,	:	
and	:	Docket No. C-00967749
West Penn Power Company Respondent	:	

DOCKETED
JAN 09 1997

RICHARD A. PHILLIPS

WRITTEN DIRECT TESTIMONY ON BEHALF OF
WEST PENN POWER COMPANY

Allegheny Power
800 Cabin Hill Drive
Greensburg, PA 15601
(412) 837-3000

WPP-Stmt-1
C-00967749
12-10-96
P1+5
BAS

TESTIMONY OF RICHARD A. PHILLIPS

Q. Please state your name and address.

A. Richard A. Phillips. My business address is 800 Cabin Hill Drive, Greensburg, PA 15601.

Q. Describe your educational experience.

A. I was graduated from the University of Pittsburgh with a B.S. in Electrical Engineering.

Q. By whom are you employed?

A. I am employed by Allegheny Power Service Corporation, which is an affiliate of West Penn Power Company and which provides centralized services for West Penn and its other affiliates.

Q. Please describe your position with West Penn Power Company/Allegheny Power.

A. I am presently Staff Assistant, Operations Services, at the Company's Corporate Center in Greensburg, Pennsylvania. I am responsible for human resource administration and various other assignments within the Operations Services Group.

I was formerly Engineering Supervisor at the Company's Allegheny-Kiski Division, which is in Washington Township, Westmoreland County, Pennsylvania. I was responsible for supervising 11 employees whose function was to design new electric distribution facilities, upgrade and maintain existing electric distribution

facilities, and maintain distribution plant records within Allegheny-Kiski Division.

Q. Are you aware of an agreement between Duquesne Light and West Penn about the transfer of customers in Harwick Village from Duquesne Light to West Penn upon the ceasing of mining operations?

A. Yes. Attached RAP Exhibit 1 is a 1957 letter from Duquesne Light's then President R. H. McCance to P. H. Powers, then West Penn's President, about how the companies would handle the Harwick Village customers. Paragraph (1) of that letter expresses the agreement that upon Duquesne Light's cessation of its mining operations, West Penn "shall have the right to purchase such facilities and take over the customers in Harwick Village...." Of course, Duquesne Light noted that the agreement to transfer facilities and customers would be subject to regulatory approval.

Q. What is the significance of the 1957 letter of Duquesne Light?

A. It clearly shows that Duquesne Light did not have a reasonable expectation of continuing to provide electric service to Harwick Village past the time that it ceased mining operations. Any investments it made to serve the area were at its own risk. It indicates that Duquesne Light believed the area to be outside of its service territory.

Q. In your former position at A-K Division, were you aware of occasional transfers of customers and/or facilities between Duquesne Light and West Penn?

A. Yes, there were several.

On May 16, 1994, 68 customers in West Deer Township, Allegheny County, Pennsylvania, had their electric service transferred from Duquesne Light to West Penn. Distribution facilities were transferred at a cost of $31,846. which reflected the depreciated trended original cost of said facilities. The transfer was completed pursuant to PUC Order A-11250, F0057 dated April 7, 1994. The documentation of this exchange is attached as RAP Exhibit 2 (which includes both the Joint Application of Duquesne Light and West Penn, and the Commission Order).

On August 13, 1993, 19 customers in Harwick Village, Springdale Township, Allegheny County, Pennsylvania, had their electric service transferred from Duquesne Light to West Penn. Distribution facilities were transferred at a cost of $15,413.25 which reflected the depreciate trended original cost of said facilities. The transfer was completed pursuant to PUC Order A-111250, F0049 dated June 3, 1993. The documentation of this exchange is attached hereto as RAP Exhibit 3.

Other customer transfers took place during this same time period but did not involve sale of facilities. In these instances West Penn constructed new facilities to serve former Duquesne Light customers who requested transfer of service.

In March 1993, 19 customers in Harwick Village, portions located in both Harmar and Springdale Township, Allegheny County, Pennsylvania, had their electric service transferred from Duquesne Light to West Penn. The transfer was completed pursuant to PUC Order A-11250, F0054 dated December 27, 1993. The documentation for the transfer is attached hereto on RAP Exhibit 4.

Q. Are you familiar with Harwick Village?

A. Yes. Harwick Village is a small community within portions of Harmar and Springdale Township, Allegheny County, Pennsylvania. It is my understanding that the village was constructed in the early 1900's to provide housing for the employees who worked at the Harwick mine, which was owned by Duquesne Light or its predecessor or affiliates and provided coal to Duquesne Light's power stations.

Q. How did Duquesne Light come to serve Harwick Village with electricity?

A. It is my understanding that Duquesne Light served the area because in the early 1900's West Penn did not have facilities closest to the area, and even though it was in West Penn's service territory, the area was served by Duquesne Light. It is my understanding that this was a relatively common situation in the early 1900's when electrification was first occurring.

Q. Are you familiar with the request of Harwick Village residents?

A. Yes. On May 18, 1994, West Penn received a letter (dated May 16, 1994) from Stephen Yakopec, Jr., Esquire, solicitor for the Township of Springdale. Attachments to the letter included copies of petitions signed by more than 200 Harwick Village residents in Springdale Township. Mr. Yakopec's letter stated that these residents are currently served by Duquesne Light and are requesting that West Penn provide them with electric service. It is West Penn's understanding that there are now about 325 customers who want to transfer their electric accounts to West Penn.

Q. Are you familiar with Duquesne Light's electrical facilities?

A. Yes. A review of Duquesne Light's distribution facilities occurred on July 27, 1994. The review was performed jointly with Duquesne Light and West Penn engineering personnel, including myself. Duquesne Light's primary distribution voltage on the circuit is 2400 volts (delta). The substation serving this area is located off Tawney Run Road, Springdale Township, Allegheny County, Pennsylvania.

Q. Suppose that Duquesne Light were willing to undertake the transfer, could the transfer occur from an engineering point of view?

A. Yes. West Penn currently has distribution facilities within the Village of Harwick and Springdale Township. Provided Duquesne Light would transfer all poles, fixtures, hardware, and conductors, West Penn would install distribution transformers and construct the necessary overhead facilities to interconnect and transfer electric distribution service.

Q. How would electricity be provided?

A. The service to Harwick Village would be provided from West Penn's Harwick Substation located next to the Westinghouse plant adjacent to Harwick Village. The substation has ample capacity to provide service and is in very close proximity to Harwick Village. The substation service is very reliable with two 138kV lines, two 138-12kV transformer banks supporting the distribution load, and one 138-25 kV transformer supporting the 25kV subtransmission network in the area. Existing 12kV circuits, in and around Harwick Village, would be used to provide service to residents and businesses.

Q. How quickly could the transfer occur?

A. Engineering and construction for West Penn could be completed within a three-month period, provided Duquesne Light personnel coordinated their efforts to remove distribution transformers and metering facilities to minimize disruption of electric service to residents during the construction process.

Q. The residents' original request to West Penn and Duquesne Light occurred in May of 1994. It's two and one-half years later. What's taken so long?

A. Duquesne Light was unwilling to transfer the facilities at trended original cost minus depreciation, but instead wanted so-called stranded cost.

Q. Did Duquesne Light provide West Penn with its price to reflect so-called "stranded costs?"

A. No. The first explanation West Penn received from Duquesne Light of its so-called stranded costs was in response to formal interrogatories in October 1996.

Q. Would West Penn have to erect new facilities?

A. Yes. West Penn would install distribution transformers and construct the necessary overhead facilities to interconnect and transfer electric distribution service.

Q. Does the figure of $149,774 sound like a reasonable value of trended original cost for Duquesne Light's facilities which will be transferred to West Penn?

A. Yes, based on my involvement with the previous transfers , shown in Exhibits 2 and 3, which were based on trended original cost minus depreciation.

Q. Is West Penn willing to proceed with the transaction at trended original cost minus depreciation?

A. West Penn's controller department has looked at the depreciated trended original cost figure in relation to the facilities to be transferred, and West Penn is satisfied with the figure. I can say, and am authorized to say, that West Penn is willing to proceed with the transaction immediately, using the $149,774 figure.

Q. Finally, is Allegheny Power the new name of West Penn Power Company?

A. West Penn Power Company is a subsidiary of Allegheny Power System, Inc., a holding company. The other major subsidiaries of Allegheny Power System, Inc., are Monongahela Power Company and The Potomac Edison Company. Monongahela Power and Potomac Edison and West Penn have each filed fictitious name registrations in their states to do business under the trade name of "Allegheny Power." So, while West Penn's corporate identity under its by-laws is still West Penn Power Company, it does business under the name "Allegheny Power." This is also true for its sister companies in Ohio, Maryland, West Virginia and Virginia.

Q. Does this conclude your testimony?

A. Yes, it does.

EXHIBIT NO. RAP-1

DUQUESNE LIGHT COMPANY

435 SIXTH AVENUE

PITTSBURGH 19, PENNSYLVANIA

OFFICE OF THE PRESIDENT

April 30, 1957

Mr. P. H. Powers, President
West Penn Power Company
Cabin Hill
Greensburg, Penna.

Dear Phil:

A reply to your letter of December 10, 1956 has been delayed awaiting our final decision with respect to the sale of the houses in Harwick Village. This matter has recently been resolved, however, and we are now proceeding with the necessary steps looking to the sale of these houses to individuals as soon as possible.

Coincident with the above decision, we agree with your proposals concerning future electric service operations at Harwick Village and Logans Ferry Village, and we are repeating them below as a matter of record and in confirmation of our approval and future understanding:

(1) Duquesne Light Company will continue to serve its Harwick mining operation and customers in Harwick Village so long as its mining operations continue in this area, with the understanding that West Penn Power Company shall have the right to purchase such facilities and take over the customers in Harwick Village at any time after such mining operations are discontinued.

(2) West Penn Power Company will continue to serve its Logans Ferry Mine operation and customers in Logans Ferry Village so long as its mining operations continue in that area, with the understanding that Duquesne Light Company shall have the right to purchase such facilities and take over the customers in Logans Ferry Village at any time after such mining operations are discontinued.

(3) In each of the above situations, the obligation to transfer facilities and customers would be dependent upon the obtaining of any necessary regulatory agency approvals and mortgage releases.

Yours very truly,

Pressly H. McCance
President

EXHIBIT NO. RAP-2

PETER J. DAILEY
Attorney

MICHAEL D. McDOWELL
Attorney

JOHN L. MUNSCH
Attorney

DAVID L. WILLIAMS
Attorney

West Penn Power Company
Part of the Allegheny Power System

800 Cabin Hill Drive
Greensburg, PA 15601-1689
(412) 837-3000 FAX (412) 838-6177

March 14, 1994

CERTIFIED MAIL

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

Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for Approval of the Transfer of Certain Facilities and Patrons Located in the Township of West Deer, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company

Dear Secretary Alford:

Enclosed please find an original and two (2) copies of the above-captioned Joint Application of Duquesne Light Company and West Penn Power Company.

Also enclosed is a check payable to the Pennsylvania Public Utility Commission in the amount of $350.00 for the filing fee.

Very truly yours,
Original Signed By
Peter J. Dailey

Peter J. Dailey

Enclosures

cc: Stephen R. Pelcher (w/enclosures)

BEFORE

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

In Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain electric facilities and patrons located in the Township of West Deer, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company	:	Docket A. _____

To The Pennsylvania Public Utility Commission:

1. The names and addresses of Applicants are West Penn Power Company, 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601, (hereinafter referred to as "West Penn") and Duquesne Light Company, One Oxford Centre, Pittsburgh, Pennsylvania 15279 (hereinafter referred to as "Duquesne").

2. The name and address of West Penn's attorney is Peter J. Dailey, 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601. The name and address of Duquesne's attorney is Stephen R. Pelcher, One Oxford Centre, Pittsburgh, Pennsylvania 15279.

3. West Penn is a public utility, duly incorporated in Pennsylvania on March 1, 1916.

4. West Penn has the charter right to furnish electric service in portions of the Township of West Deer, Allegheny County, Pennsylvania.

5. Duquesne was formed under the laws of Pennsylvania by the consolidation and merger of three constituent companies under an agreement dated November 15, 1912, and new letters patent were issued to Duquesne on November 25, 1912. On January 20, 1969, Duquesne accepted the provisions of the Pennsylvania Business Corporation Law for government and regulation of its affairs. Under its Restated Articles, Duquesne has the corporate right, among others, to produce, generate, manufacture, transmit, transport, store, distribute or furnish electricity to or for the public.

6. Duquesne is now furnishing service in parts of the Township of West Deer, Alllegheny County, Pennsylvania.

7. Due to the location of Duquesne's electric distribution facilities, Duquesne has served certain patrons in the Township of West Deer, Allegheny County. Said patrons are located within West Penn's chartered service area, but are served by Duquesne.

8. In light of the chartered service areas, Applicants desire to transfer the aforementioned patrons and certain facilities from Duquesne to West Penn. The facilities to be transferred consist of poles, crossarms, insulators, conductors and other equipment (the "facilities"), all as more specifically described on Exhibit A, which is attached and made a part hereto.

9. The electric service accounts of sixty-eight (68) patrons currently served by Duquesne will be transferred to West Penn. All of the patrons are located in the Township of West Deer in which West Penn has charter rights to furnish service. The names and addresses of the said sixty-eight (68) patrons are attached hereto as Exhibit B and made a part hereof. Exhibit B is in the form of a Petition signed by sixty-three (63) of the sixty-eight (68) patrons requesting the transfer. five (5) of the patrons did not sign Exhibit B but have been notified of the proposed change.

10. Based on Duquesne Light's book investment in the facilities, exclusive of contribution, values were determined as follows:

Original Cost	$17,195
Original Cost Less Depreciation	$ 9,767
Trended Original Cost	$81,494
Trended Original Cost Less Depreciation	$31,846

11. The purchase price agreed to between Duquesne Light and West Penn for the facilities is $31,846, plus applicable taxes, if any, which price represents a fair and reasonable price.

12. The patrons transferred will be rendered electric service in accordance with the applicable rate schedules and rules and regulations for electric service of West Penn presently in force and as hereinafter amended or revised.

WHEREFORE, Applicants respectfully request the Commission to find and determine that the transfer of patrons from Duquesne Light Company to West Penn Power Company, as hereinabove set forth, is necessary or proper for the service, accommodation, convenience, or safety of the public and that a Certificate of Public Convenience evidencing approval of your Honorable Commission be issued.

Signed and dated this 11 day of March, 1994.

WEST PENN POWER COMPANY

By Peter J. Bailey
Peter J. Bailey, Esquire
Legal Department
West Penn Power Company
800 Cabin Hill Drive
Greensburg, PA 15601

DUQUESNE LIGHT COMPANY

By Stephen R Pelcher
Stephen R. Pelcher, Esquire
Legal Department
Duquesne Light Company
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF ALLEGHENY)

Before me, the undersigned authority, personally appeared Roger D. Beck, who, after first being duly sworn according to law, deposes and says that he is Vice President of Duquesne Light Company; that he is authorized to and does make this affidavit on its behalf; and that the facts set forth in the foregoing Joint Application are true and correct to the best of his knowledge, information, and belief.

Roger D. Beck

Sworn to and subscribed before me
this 8th day of March 1994.

Joanne E. Kirin
Notary Public

Notarial Seal
Joanne E. Kirin, Notary Public
Pittsburgh, Allegheny County
My Commission Expires March 17, 1997
Member, Pennsylvania Association of Notaries

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF WESTMORELAND)

Before me, the undersigned authority, personally appeared C. S. AULT, who, after first being duly sworn according to law, deposes and says that he is Vice President of West Penn Power Company; that he is authorized to and does make this affidavit on its behalf; and that the facts set forth in the foregoing Joint Application are true and correct to the best of his knowledge, information and belief.

C. S. Ault

Sworn to and subscribed before me
this 4th of March 1994.

Notary Public

Notarial Seal
Joyce C. Moore, Notary Public
Greensburg, Westmoreland County
My Commission Expires Jun 19, 1997

EXHIBIT A

SALE OF DUQUESNE LIGHT FACILITIES TO WEST PENN POWER

D.L.Co. Pole Number	Item(s)	Quantity	Vintage
200337	6'4" Crossarms	4	1947
	358 Brackets	2	1947
	Arm guy	1	1947
	Line guy	1	1947
200337 to 265800	#3 Bare Cu.	61'	1935
	#3 Bare Cu.	54'	1935
265800	9' Crossarm	1	1947
	358 Bracket	1	1947
265800 to 200338	#3 Bare Cu.	525'	1935
	#3 Bare Cu.	350'	1935
200338	6'4" Crossarms	2	1947
	358 Bracket	1	1947
200338 to 200341	#3 Bare Cu.	360'	1935
	#6 Bare Cu.	240'	1935
200341	6'4" Crossarm	1	1947
	358 Brackets	2	1947
200341 to 240345	#6 Bare Cu.	67'	1935
240345	358 Bracket	1	1947
200341 to 240348	1/0 WP Cu.	360'	1968
	#6 Bare Cu.	240'	1935
200348	6' Crossarm	1	1947
	358 Bracket	1	1947
200348 to 248901	#6 Bare Cu.	240'	1935
	1/0 WP Cu.	360'	1968
248901	6'4" Crossarms	2	1955
	358 Brackets	2	1955
248901 to 248902	#6 Bare Cu.	270'	1935
	1/0 WP Cu.	405'	1968
248902	6'4" Crossarms	2	1955
	358 Brackets	2	1955
248902 to 248903	#6 Bare Cu.	190'	1935
	1/0 WP Cu.	285'	1968
248903	6'4" Crossarm	1	1955
	358 Brackets	2	1955
240903 to 248904	#6 Bare Cu.	240'	1935
	1/0 WP Cu.	360'	1968
248904	6'4" Crossarms	2	1955
	358 Brackets	2	1955
	10M Anchor Guy	1	1955
248904 to 251535	#6 Bare Cu.	260'	1935
	1/0 WP Cu.	390'	1968

EXHIBIT A

SALE OF DUQUESNE LIGHT FACILITIES TO WEST PENN POWER

D.L.Co. Pole Number	Item(s)	Quantity	Vintage
251535	6'4" Crossarm	1	1955
	358 Brackets	2	1955
	3/8" Anchor Guy	1	1955
251535 to 251536	#6 Bare Cu.	145'	1935
	1/0 WP Cu.	435'	1968
251536	358 Bracket	1	1955
	10M Line Guy	1	1955
251536 to 251538	#2 Bare Alum.	135'	1968
	1/0 WP Cu.	405'	1968
251537	10M Anchor Guy	1	1955
251538	358 Bracket	1	1955
251538 to 251539	1/0 WP Cu.	105'	1968
	#2 Bare Alum.	105'	1968
251539	358 Bracket	1	1955
	10M Anchor Guy	1	1955
251539 to 350918	1/0 Tplx.	95'	1980
350918	10M Anchor Guy	1	1980
119810	358 Bracket	1	1955
200337 to 119810	#6 WP	130'	1968
	1/0 WP Alum.	130'	1968
119810 to 106873	#6 Bare Cu.	112'	1935
	#3 Bare Cu.	336'	1935
106873	40' Pole	1	1935
	358 Bracket	1	1935
	10M Line Guy	1	1935
106873 to 2616	#6 Bare Cu.	303'	1935
	#3 Bare Cu.	303'	1935
294135	25' Pole	1	1965
2616	#6 WP Cu.	215'	1935
	#1/0 WP Alum.	215'	1952
106874	35' Pole	1	1935
	#6 WP Cu.	260'	1935
	#1/0 WP Alum.	260'	1952
294134	35' Pole	1	1965
	#6 WP Cu.	259'	1965
	#1/0 WP Alum.	259'	1965
106875	40' Pole	1	1935
	358 Bracket	1	1935
	#6 WP Cu.	212'	1935
	#1/0 WP Alum.	212'	1935
298981 to 119146	#6 WP Cu.	314'	1980
	#1/0 WP Alum.	314'	1980
351921 to 119146	1/0 Tplx.	90'	1980

EXHIBIT A

SALE OF DUQUESNE LIGHT FACILITIES TO WEST PENN POWER

D.L.Co. Pole Number	Item(s)	Quantity	Vintage
119146	40' Pole	1	1980
	358 Bracket	1	1980
	10M Line Guy	1	1980
119146 to 119147	#4 Tplx.	40'	1980
119146 to 298980	#6 WP Cu.	202'	1980
	1/0 WP Cu.	202'	1980
119147	30' Pole	1	1966
	3/4" Anchor	1	1966
	10M Anchor Guy	1	1966
298980	40' Pole	1	1968
	#6 WP Cu.	190'	1968
	#1/0 WP Alum.	190'	1968
119144	65' Pole	1	1937
	#6 WP Cu.	300'	1937
	#1/0 WP Alum.	300'	1952
119142	65' Pole	1	1937
	3/4" Anchor	1	1937
	5/16" Anchor Guy	1	1937
	#6 WP Cu.	194'	1937
	#1/0 WP Alum.	194'	1952
267001	40' Pole	1	1959
	3/4" Anchor	1	1959
	5/16" Anchor Guy	1	1959
	#6 WP Cu.	135'	1959
	#1/0 WP Alum.	135'	1959
267002	45' Pole	1	1959
	3/4" Anchor	1	1959
	5/16" Anchor Guy	1	1959
	#3 Bare Cu.	345'	1959
	#3 Bare Cu.	345'	1959
267003	35' Pole	1	1959
	#3 Bare Cu.	310'	1959
	#3 Bare Cu.	310'	1959
267004	40' Pole	1	1959
	358 Bracket	1	1959
	3/4" Anchor	1	1959
	5/16" Anchor Guy	1	1959
	#4 Tplx.	140'	1961
267005	35' Pole	1	1959
	358 Bracket	1	1959
267005 to 106872	#6 WP Cu.	92'	1959
	#2 Alum.	92'	1962
	#3 Bare Cu.	276'	1962

EXHIBIT A

SALE OF DUQUESNE LIGHT FACILITIES TO WEST PENN POWER

D.L.Co. Pole Number	Item(s)	Quantity	Vintage
106872	40' Pole	1	1935
	9' Crossarms	2	1935
	358 Brackets	2	1935
	10M Anchor Guy	1	1935
	3/4" Anchor	1	1935
106872 to 2610	1/0 Tplx.	100'	1963
106872 to 257161	#2 Alum.	256'	1963
	#6 WP Cu.	256'	1935
	#3 Bare Cu.	256'	1935
257161	8' Crossarm	1	1963
	358 Bracket	1	1963
	#6 WP Cu.	194'	1935
	#3 Bare Cu.	194'	1935
	#2 Alum.	194'	1963
342547	358 Bracket	1	1980
70474 to 342547	1/0 Tplx.	125'	1968
342547 to 342546	1/0 Tplx.	115'	1968
70475 to 292682	#6 WP Cu.	150'	1930
	#6 WP Cu.	150'	1930
70487	10M Anchor Guy	1	1930
	358 Bracket	1	1930
292682	#6 WP Cu.	145'	1937
	#6A	145'	1937
70476	40' Pole	1	1931
	9' Crossarm	1	1931
	358 Bracket	1	1931
70476 to 127541	#3 WP	345'	1931
	#6 Bare Cu.	145'	1931
292683	358 Bracket	1	1931
292683 to 256198	#6 WP	300'	1976
256198	358 Bracket	1	1976
127541	40' Pole	1	1976
	8' Crossarm	1	1976
	358 Bracket	1	1976
	3/4" Anchor	1	1976
	10M Anchor Guy	1	1976
127541 to 70477	#3 WP	480'	1976
	#6 Cu.	160'	1976
292683	358 Bracket	1	1976
70477	45' Pole	1	1975
	10M Line Guy	1	1975
	358 Brackets	2	1975

EXHIBIT A

SALE OF DUQUESNE LIGHT FACILITIES TO WEST PENN POWER

D.L.Co. Pole Number	Item(s)	Quantity	Vintage
70477 to 206316	1/0 WP Alum.	190'	1975
	#6 WP Cu.	190'	1975
206316	40' Pole	1	1947
206316 to 206317	1/0 WP Alum.	135'	1975
	#6 WP Cu.	135'	1947
70478	40' Pole	1	1930
	358 Brackets	2	1930
70478 to 127542	#3 WP Cu.	390'	1930
	#6 Bare Cu.	130'	1930
173667	358 Bracket	1	1937
127542	35' Pole	1	1937
	358 Bracket	1	1937
	1/0 WP Alum.	168'	1968
	#6 WP Cu.	168'	1937
70479	40' Pole	1	1931
	10M Line Guy	1	1931
	3/4" Anchor	1	1931
	10M Anchor Guy	1	1931
70479 to 341959	#2 Alum.	105'	1968
	1/0 Tplx.	105'	1968
70479 to 70480	#2 Alum.	192'	1968
	1/0 Tplx.	192'	1968
341959	40' Pole	1	1980
	358 Bracket	1	1980
	#2 Alum.	200'	1968
	1/0 WP Alum.	200'	1968
341960	40' Pole	1	1980
	358 Bracket	1	1980
	3/4" Anchor	1	1980
	10M Anchor Guy	1	1980
70480	40' Pole	1	1980
	358 Bracket	1	1980
	3/4" Anchor	1	1980
	10M Anchor Guy	1	1980
339467	30' Pole	1	1980
	358 Bracket	1	1980

EXHIBIT B

The undersigned persons, residing in the Township of West Deer, Allegheny County, Pennsylvania, are presently provided electric service by Duquesne Light Company. The undersigned hereby request of Duquesne Light Company and of West Penn Power Company that the two electric companies transfer the applicable facilities and that West Penn Power Company serve the undersigned persons henceforth at the locations set forth below.

	Name	Address
1.	Krstonich, Emilie Krstonich, Emilie	Saxonburg Blvd, Tarentum PA 15084
2.	Krstonich, Emilie Krstonich, Emilie	Saxonburg Blvd, Tarentum PA 15084
3.	William P. Payne Payne, Wm.	Box 272 KDKA Blvd, Tarentum PA 15084
4.	Walter Krstonich Krstonich, Walter	Box 272 Saxonburg Blvd, Tarentum PA 15084
5.	Ross Sweadner Sweadner, Ross	Saxonburg Blvd, Tarentum PA 15084
6.	Norbert Olzak Olzak, Norbert	Saxonburg Blvd, Tarentum PA 15084
7.	Norbert Olzak Olzak, Norbert	Saxonburg Blvd, Tarentum PA 15084
8.	Bonita Robinson Robinson, Bonita	Saxonburg Blvd, Tarentum PA 15084
9.	Linda Pavlick Scalamogna, Carol LINDA PAVLICK	Box 275 KDKA Blvd, Tarentum PA 15084
10.	[illegible] Henn, George	Box 276E Saxonburg Blvd, Tarentum PA 15084

	Name	Address
11.	Kuhns, Helen	Box 279 Saxonburg Blvd, Tarentum PA 15084
12.	Cotton, William	Saxonburg Blvd, Tarentum PA 15084
13.	Geyer, Gary	282 Saxonburg Blvd, Tarentum PA 15084
14.	Mazurek, Victor - garage	KDKA Blvd Logan Rd, Tarentum PA 15084
15.	Ellison, Jo Ann	McKrell & Saxonburg, Tarentum PA 15084
16.	Patsko, Betty J.	Box 196 KDKA Blvd, Tarentum PA 15084
17.	Mehalic, A. F. (Helen)	Box 286A Saxonburg Blvd, Tarentum PA 15084
18.	Inactive Account SEAN PARKINSON	286 Saxonburg Blvd, Tarentum PA 15084
19.	Inactive Account SEAN PARKINSON	286 Saxonburg BL RD3, Tarentum PA 15084
20.	Eaton, Robert	Saxonburg Blvd, Tarentum PA 15084
21.	Sobran, Lena	Box 281B KDKA Blvd, Tarentum PA 15084
22.	Brunner, Charles	Box 278 Saxonburg Blvd, Tarentum PA 15084
23.	Castello, Raymond	Box 281 Saxonburg Blvd, Tarentum PA 15084
24.	Fiorita, Ralph	Box 276A Saxonburg Blvd, Tarentum PA 15084
25.	Nealer, Keith	Saxonburg Blvd, Tarentum PA 15084
26.	Porter, Bonnie S.	Box ~~275~~ 2736 Saxonburg Blvd, Tarentum PA 15084
27.	Grill, Anthony	McKrell Rd, Tarentum PA 15084

	Name	Address
28.	Passavant Memorial Hms	McKrell Rd, Tarentum PA 15084
29.	Potetz, Evelyn	RR#3 McKrell Rd Box 298 ~~Logan Rd~~, Tarentum PA 15084
30.	Jones, Timothy	McKrell Rd, Tarentum PA 15084
31.	Mcharg, Sophia	Box 297 Logan Rd, Tarentum PA 15084
32.	Wetzel, Wm. EVANS, DION	McKrell Rd, Tarentum PA 15084
33.	Weton, Kathleen	2004 Marshall St, Tarentum PA 15084
34.	Posney, James	2006 Marshall St, Tarentum PA 15084
35.	Passavant Memorial Hms	2008 Marshall St, Tarentum PA 15084
36.	Wangler, Ralph	2010 Marshall St, Tarentum PA 15084
37.	Dugan, James Edw.	2012 Marshall St, Tarentum PA 15084
38.	Wadsworth, Robert	2014 Marshall St, Tarentum PA 15084
39.	Myers, Charles	2014 Marshall St, Tarentum PA 15084
40.	Penk, Gerald	2022 Marshall St, Tarentum PA 15084
41.	Pavlik, Anthony	2024 Marshall St, RD3 Tarentum PA 15084
42.	Nugent, Kevin/Dorothy	2026 Marshall St, Tarentum PA 15084
43.	Gumbosky, Anna	2028 Marshall St, Tarentum PA 15084
44.	Guerre, William	2030 Marshall St, Tarentum PA 15084

	Name	Address
45.	Johnson, George	2032 Marshall St, Tarentum PA 15084
46.	Ruskus, /Richard/Diane	2031 Marshall St, Tarentum PA 15084
47.	Ruediger, Hendery R.	2025 Marshall St, Tarentum PA 15084
48.	Martino, Mario	2023 Marshall St, Tarentum PA 15084
49.	Bowser, Dale	2021 Marshall St, Tarentum PA 15084
50.	Guerrieri, Robert	2019 Marshall St, Tarentum PA 15084
51.	Gaggini, Nello	2017 Marshall St, Tarentum PA 15084
52.	~~Zunic~~, Maureen R. SWIGART Denny	2105 Marshall St, Tarentum PA 15084
53.	Tomnay, Steve	2011 Marshall St, Tarentum PA 15084
54.	Ingold, Thomas/Marisa	2009 Marshall St, Tarentum PA 15084
55.	Ives, David	2007 Marshall St, Tarentum PA 15084
56.	~~Segriff~~, Leslie WEILAND LESLIE	2005 Marshall St, Tarentum PA 15084
57.	Kayafas, Donna	2003 Marshall St, Tarentum PA 15084
58.	Hartle, John	McKrell Rd, Tarentum PA 15084
59.	Antonelli, Carl	Box 295D McKrell Rd, Tarentum PA 15084
60.	Hall, Sandra L. OWNER	Box 295G, Tarentum PA 15084
61.	Arthur, Gary	292F McKrell Rd, Tarentum PA 15084

	Name	Address
62.	Arthur, David	294 E McKrell Rd, Tarentum PA 15084
63.	Arthur, Jack (Lester)	McKrell Rd, Tarentum PA 15084
64.	Dineff, Thomas	294 McKrell Rd, Tarentum PA 15084
64B	Morian, Anna ~~Huffman~~ HUFFMAN NEZMAN	ROBERT J. MORIAN 292 RD#3 TARENTUM MCKRELL RD
65.		McKrell Rd, Tarentum PA 15084
66.	Donatelli, Wm.	McKrell Rd, Tarentum PA 15084
67.	Sederoff, John	(widow) 297B McKrell Rd, Tarentum PA 15084
68.	Sieber, Charlotte	Logan Rd, Gibsonia PA 15044

PETER J. DAILEY
Attorney

MICHAEL D. McDOWELL
Attorney

JOHN L. MUNSCH
Attorney

DAVID L. WILLIAMS
Attorney

West Penn Power Company
Part of the Allegheny Power System

800 Cabin Hill Drive
Greensburg, PA 15601-1689
(412) 837-3000 FAX (412) 838-6177

April 12, 1994

Stephen R. Pelcher, Esquire
Duquesne Light Company
Legal Department
One Oxford Centre
Pittsburgh, PA 15279

Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain facilities and patrons located in the Township of West Deer, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company

Dear Steve:

The Pennsylvania Public Utility Commission approved the above-captioned Joint Application at the April 7, 1994 Public Meeting. Please find enclosed a copy of the Order and an original Certificate of Public Convenience issued in connection with the Joint Application.

If I may be of any further assistance or if you have questions or comments, please do not hesitate to call me at 838-6205.

Very truly yours,
Original Signed By
Peter J. Dailey

Peter J. Dailey

Enclosures

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

April 8, 1994

IN REPLY PLEASE
REFER TO OUR FILE

A-111250,F.0057

PETER J DAILEY ESQUIRE
WEST PENN POWER COMPANY
800 CABIN HILL DRIVE
GREENSBURG PA 15601-1689

Joint application of West Penn Power Company and Duquesne Light Company for approval of the transfer of certain electric facilities and patrons located in the Township of West Deer, Allegheny County, from Duquesne Light Company to West Penn Power Company.

RECEIVED
APR 11 1994
LEGAL SERVICES

To Whom It May Concern:

This is to advise you that an Order has been adopted by the Commission in Public Meeting on April 7, 1994 in the above entitled proceeding.

A copy of this Order has been enclosed for your records.

Very truly yours,

John G. Alford, Secretary

smk
encls.
cert.mail

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held April 7, 1994

Commissioners Present:

David W. Rolka, Chairman
Joseph Rhodes, Jr., Vice-Chairman
John M. Quain
Lisa Crutchfield
John Hanger

Joint application of West Penn Power Company and Duquesne Light Company for approval of the transfer of certain electric facilities and patrons located in the Township of West Deer, Allegheny County, from Duquesne Light Company to West Penn Power Company.

A-00111250
F. 0057

ORDER

BY THE COMMISSION:

By the joint application filed on March 16, 1994, West Penn Power Company ("West Penn") and Duquesne Light Company ("Duquesne"), seek a certificate of public convenience pursuant to Section 1102(a)(3) of the Public Utility code evidencing Commission approval of the transfer of certain electric facilities and patrons located in the Township of West Deer, Allegheny County, from Duquesne to West Penn.

West Penn is a public utility, duly incorporated in Pennsylvania on March 1, 1916 and it has the charter right to furnish electric service in portions of the Township of West Deer, Allegheny County. Duquesne is also a Pennsylvania public utility formed on November 25, 1912. It has the corporate right, among others, to produce, generate, manufacture, transmit, transport, store, distribute or furnish electricity to or for the public. Duquesne is now furnishing service in parts of the Township of West Deer, Allegheny County.

Due to the location of Duquesne's electric distribution facilities, Duquesne has served certain patrons in the Township of West Deer, Allegheny County. Said patrons are located within West Penn's chartered service area, but are served by Duquesne. In light of the chartered service areas, Applicants' desire to transfer the aforementioned patrons and certain facilities from Duquesne to West Penn.

The electric service accounts of sixty-eight (68) patrons currently served by Duquesne will be transferred to West Penn. All of the patrons are located in the Township of West Deer in which West Penn has

charter rights to furnish service. Attached to the application is a list of the names and addresses of the sixty-eight (68) patrons. The list is marked as Exhibit "B" and it is in the form of a petition signed by sixty-three (63) of the sixty-eight (68) patrons requesting the transfer. Five (5) of the patrons did not sign Exhibit "B" but have been notified of the proposed change. The patrons transferred will be rendered electric service in accordance with the applicable rate schedules and rules and regulations for electric service of West Penn presently in force and as hereinafter amended or revised. West Penn's rates are currently lower than Duquesne's rates.

The facilities to be transferred consist of poles, crossarms, insulators, conductors and other equipment (the "facilities"), all as more specifically described on Exhibit "A" attached to the application. The original cost of the facilities is $17,195, Depreciated Original cost is $9,767, Trended Original Cost is $81,494 and Depreciated Trended Original Cost is $31,846. The purchase price agreed to between Duquesne and West Penn for the facilities is $31,846, plus applicable taxes, if any, which price represents a fair and reasonable price.

Upon full consideration of all matters of record, we find that approval of the application is necessary and proper for the service, accommodation and convenience of the public; THEREFORE,

IT IS ORDERED:

1. That the joint application of West Penn Power Company and Duquesne Light Company is hereby approved.

2. That a certificate of public convenience be issued to the applicants authorizing the transfer of the electric facilities and sixty-eight (68) patrons located in the Township of West Deer, Allegheny County from Duquesne to West Penn.

3. That applicants serve a copy of this order by first class mail upon the patrons affected by the Order.

4. That the applicants notify the Commission when the affected patrons are transferred.

BY THE COMMISSION,

John G. Ilford
Secretary

(SEAL)

ORDER ADOPTED: April 7, 1994

ORDER ENTERED: APR 8 1994

PENNSYLVANIA

PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE APPLICATION OF: A-111250,F.0057

Joint application of West Penn Power Company and Duquesne Light Company for approval of the transfer of certain electric facilities and patrons located in the Township of West Deer, Allegheny County, from Duquesne Light Company to West Penn Power Company.

The Pennsylvania Public Utility Commission hereby certifies that after an investigation and/or hearing, it has, by its report and order made and entered,found and determined that the granting of the application is necessary or proper for the service, accomodation, convenience and safety of the public and hereby issues to the applicant this CERTIFICATE OF PUBLIC CONVENIENCE evidencing the Commission's approval

In Witness Whereof, **The PENNSYLVANIA PUBLIC UTILITY COMMISSION has caused these presents to be signed and sealed, and duly attested by its Secretary at its office in the city of Harrisburg this** 7th **day of** April **19** 94



John G. Alford

Secretary

WEST PENN COPY

BILL OF SALE

Duquesne Light Company (hereinafter called "Seller"), a Pennsylvania corporation located at One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania, 15279, in consideration of the sum of Thirty-one Thousand Eight Hundred and Forty-six Dollars ($31,846.00), and intending to be legally bound, does hereby grant, sell, assign, transfer and deliver to West Penn Power Company (hereinafter called "Buyer"), Greensburg, Pennsylvania, the personal property described in Exhibit A (containing 5 pages) attached to and incorporated in this Bill of Sale, "AS IS" in its present condition and "WHERE IS" in the Township of West Deer, Allegheny County, Pennsylvania.

To have and to hold all personal property by Buyer, its successors and assigns, forever.

It is understood that Buyer shall remove from such property the name, initials and/or marks of Seller, if any, immediately following the date of execution of this Bill of Sale.

As of the date of this Bill of Sale, Buyer shall defend, indemnify and hold Seller harmless from all claims which may result from or arise in connection with such transaction.

And, Seller covenants to Buyer that Seller is the lawful owner of such personal property and that, to the best of Seller's knowledge, such property is free from all encumbrances.

WITNESS, the due execution hereof, this 1st day of August, 1995.

ATTEST:

Secretary

DUQUESNE LIGHT COMPANY

By: _____

Roger D. Beck
Vice President
Marketing & Customer
Services Group

ATTEST:

Asst. Secretary

WEST PENN POWER COMPANY

By: _____

C. S. Ault
Vice President

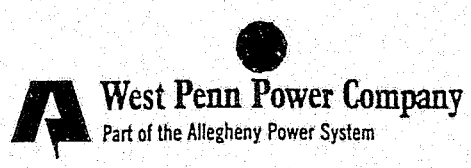
EXHIBIT NO. RAP-3

PETER J. DAILEY
Attorney

MICHAEL D. McDOWELL
Attorney

JOHN L. MUNSCH
Attorney

DAVID L. WILLIAMS
Attorney



800 Cabin Hill Drive
Greensburg, PA 15601-1689
(412) 837-3000 FAX (412) 838-6177

April 20, 1993

CERTIFIED MAIL

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

Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain facilities and patrons located in the Village of Harwick, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company

Dear Secretary Alford:

Enclosed please find an original and two (2) copies of the above-captioned application of Duquesne Light Company and West Penn Power Company.

Also enclosed is a check payable to the Pennsylvania Public Utility Commission in the amount of $350.00 for the filing fee.

Very truly yours,

Original Signed By
Peter J. Dailey
Peter J. Dailey

Enclosures

cc: C. Stephen R. Pelcher (w/enclosures)

BEFORE

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

In Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain facilities and electric service to certain patrons located in the Village of Harwick, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company	:	Docket A. _____

To The Pennsylvania Public Utility Commission:

1. The names and addresses of Applicants are West Penn Power Company, 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601, (hereinafter referred to as "West Penn") and Duquesne Light Company, One Oxford Centre, Pittsburgh, Pennsylvania 15279 (hereinafter referred to as "Duquesne").

2. The name and address of West Penn's attorney is Peter J. Dailey, 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601. The name and address of Duquesne's attorney is Stephen R. Pelcher, One Oxford Centre, Pittsburgh, Pennsylvania 15279.

3. West Penn is a public utility, duly incorporated in Pennsylvania on March 1, 1916.

4. West Penn has the charter right to furnish electric service in portions of the Village of Harwick, Allegheny County, Pennsylvania.

5. Duquesne was formed under the laws of Pennsylvania by the consolidation and merger of three constituent companies under an agreement dated November 15, 1912, and new letters patent were issued to Duquesne on November 25, 1912. On January 20, 1969, Duquesne accepted the provisions of the Pennsylvania Business Corporation Law for government and regulation of its affairs. Under its Restated Articles, Duquesne has the corporate right, among others, to produce, generate, manufacture, transmit, transport, store, distribute or furnish electricity to or for the public.

6. Duquesne is now furnishing service in part of the Village of Harwick, Allegheny County, Pennsylvania.

7. Due to the location of Duquesne's electric distribution facilities, Duquesne constructed and has maintained distribution facilities to serve certain patrons in the Village of Harwick, Allegheny County. Said patrons are located within West Penn's chartered service area, but are served by Duquesne.

8. In light of the chartered service areas, Applicants desire to transfer the aforementioned facilities and patrons from Duquesne to West Penn. The facilities to be transferred consist

of certain poles, crossarms, insulators, and conductors and other equipment (the "Facilities"), all as more specifically set forth on Exhibit A, which is attached and made a part hereto.

9. The electric service accounts of nineteen (19) customers currently served by Duquesne will be transferred to West Penn. All of the customers are located in the Village of Harwick in which West Penn has charter rights to furnish service. The names and addresses of the said nineteen (19) customers are attached hereto as Exhibit B and made a part hereof. Exhibit B is in the form of a Petition signed by 19 of the nineteen (19) patrons requesting the transfer. Zero of the patrons did not sign Exhibit B but have been notified of the proposed change.

10. The patrons transferred will be rendered electric service in accordance with the applicable rate schedules and rules and regulations for electric service of West Penn presently in force and as hereinafter amended or revised.

11. Based on Duquesne Light's book investment in the facilities, exclusive of contribution, values were determined as follows:

Original Cost	$ 6,854.00
Original Cost Less Depreciation	3,761.00
Present-Day Cost	27,136.00
Present-Day Cost Less Depreciation	15,413.25

12. The purchase price agreed to between Duquesne Light and West Penn for the Facilities is $15,413.25, plus applicable taxes, if any, which price represents a fair and reasonable price.

WHEREFORE, Applicants request the Commission to find and determine that the transfer of Facilities and patrons from Duquesne Light Company to West Penn Power Company, as hereinabove set forth, is necessary or proper for the service, accommodation, convenience, or safety of the public and that a Certificate of Public Convenience evidencing approval of your Honorable Commission be issued.

Signed and dated this 15th day of April, 1993.

WEST PENN POWER COMPANY

By Peter J. Dailey
Peter J. Dailey, Esquire
Legal Department
West Penn Power Company
800 Cabin Hill Drive
Greensburg, PA 15601

DUQUESNE LIGHT COMPANY

By Stephen R. Pelcher
Stephen R. Pelcher, Esquire
Legal Department
Duquesne Light Company
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

EXHIBIT A

Pole 152980
1-45' Pole
1-8' S x A
#1/0 WP Al.
1-8' D x D
3-358 Bkts
1-3/4" Anchor Rod
1-10m Anchor Guy
1-St. Light
Wire Bet 152980 to 83613
474' - #6 WP Cu Pri.
474' - #3 B Cu Sec.

Pole 94777
1-30' Pole

Wire Bet. 35160 to 35161
136' - #2 Al Pri.
204' - 1/0 WP Al.

Wire Bet 35161 to 35162
202' #2 Al. Pri.
303' 1/0 WP Al

Wire Bet 35162 to 177129
435' - 1/0 WP Al.

Wire Bet. 177129 to 243919
426' - 1/0 WP Al

Wire Bet 152980 to 35160
314' - #2 Al Pri
471' - #1/0 WP Al.

Pole 83613
1-40' Pole
1-8' S x A
2-10 M Line Guy
1-358 Bkt
1-St. Light

Pole 35160
1-40' Pole
1-25 KVA Transformer
1-8'
1-358 Bkt

Pole 35161
1-40' Pole
1-8' S x A
2-358 Bkts.

Pole 35162
1-40' Pole
1-8' D x A
1-25 KVA Transformer
1-10 M L.G.
2-358 Bkts.

Pole 177129
1-40' Pole
2-358 Bkts.
1-St. Light

Pole 243919
1-40' Pole
2-358 Bkts.
1-10M. Anchor Guy
1-3/4" Anchor Rod.

EXHIBIT B

The undersigned persons, residing in the Township of Springdale and Village of Harwick, Allegheny County, Pennsylvania, are presently provided electric service by Duquesne Light Company. The undersigned hereby request of Duquesne Light Company and of West Penn Power Company that the two electric companies transfer the applicable facilities and that West Penn Power Company serve the undersigned persons henceforth at the locations set forth below.

	Name	Address
1.	Springdale Township (Garage)	Box 177, Orchard St., Cheswick, PA 15049
2.	Harpster, Harry	812 Orchard St., Cheswick, PA 15049
3.	Piontek, Emil	Box 267, 820 Orchard St., Cheswick, PA 15049
4.	Prasnikar, Eleanor	Box 275, 826 Orchard St., Cheswick, PA 15049
5.	Prasnikar, Eugene	Box 575, 830 Orchard St., Cheswick, PA 15049
6.	Palchinski, Edward	834 Orchard St., Cheswick, PA 15049
7.	Lear, Susan	840 Orchard St., Cheswick, PA 15049
8.	Compnale, Joseph	846 Orchard St., Cheswick, PA 15049
9.	Stokes, Joanne	837 Orchard St., Cheswick, PA 15049

	Name	Address
10.	Henry Arch Arch, Henry	Box 427, 829 Orchard St., Cheswick, PA 15049
11.	Kenneth Winwood Winwood, Kenneth	825 Orchard St., Cheswick, PA 15049
12.	Richard Krugle Krugle, Richard	821 Orchard St., Cheswick, PA 15049
13.	Mary Duryea Duryea, Mary	817 Orchard St., Cheswick, PA 15049
14.	John Zak Zak, John	Box 38, Orchard St., Cheswick PA 15049
15.	Alexander Mester Mester, Alex	Box 176, 809 Orchard St., Cheswick PA 15049
16.	Elaine Shetler-Libert Shetler, Elaine J. (tenant) Mester, Alex (owner)	807 Orchard St., Cheswick, PA 15049
17.	LeeAnn McCormick McCormick, LeAnn (tenant) Mester, Alex (owner)	1401 Pillow Ave., Cheswick, PA 15049
18.	Donna M Dutkin Secretary Springdale Township (Office)	Cheswick Rd., Cheswick, PA 15049
19.	August Roginski Roginski, August	Box 536, 1327 Pillow Ave., Cheswick, PA 15049

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF WESTMORELAND)

Before me, the undersigned authority, personally appeared C. S. AULT, who, after first being duly sworn according to law, deposes and says that he is Vice President of West Penn Power Company; that he is authorized to and does make this affidavit on its behalf; and that the facts set forth in the foregoing Joint Application are true and correct to the best of his knowledge, information and belief.

C. S. Ault

Sworn to and subscribed before me
this 1st of APRIL 1993.

Joyce C Moore
Notary Public

NOTARIAL SEAL
JOYCE C. MOORE, Notary Public
Scottdale, Westmoreland County, PA
My Commission Expires June 19, 1993

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF ALLEGHENY)

Before me, the undersigned authority, personally appeared

~~Roger D. Beck~~, who, after first being duly sworn according to law, deposes and says that he is ~~Vice-President~~ of Duquesne Light Company; that he is authorized to and does make this affidavit on its behalf; and that the facts set forth in the foregoing Joint Application are true and correct to the best of his knowledge, information, and belief.

Roger D. Beck

Sworn to and subscribed before me
this 13th day of April 1993.

Joanne E. Kirin
Notary Public

Notarial Seal
Joanne E. Kirin, Notary Public
Pittsburgh, Allegheny County
My Commission Expires March 17, 1997
Member, Pennsylvania Association of Notaries

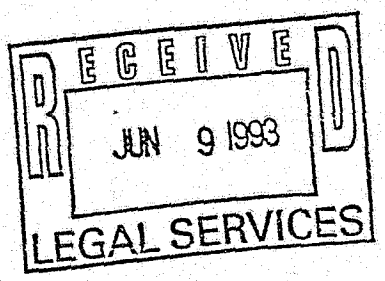
COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

June 7, 1993

IN REPLY PLEASE REFER TO OUR FILE

A.111250
F.49

PETER J DAILEY ESQUIRE
WEST PENN POWER COMPANY
800 CABIN HILL DRIVE
GREENSBURG PA 15601-1689



Joint application of West Penn Power Company and Duquesne Light Company under Section 1102(a) (2) of the Public Utility Code for approval of the transfer of certain facilities and patrons located in the village of Harwick, Allegheny County from Duquesne Light Company to West Penn Power Company.

To Whom It May Concern:

This is to advise you that an Order has been adopted by the Commission in Public Meeting on June 3, 1993 in the above entitled proceeding.

A copy of this Order has been enclosed for your records.

Very truly yours,

John G. Alford, Secretary

smk
Encls.
Cert.Mail

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held June 3, 1993

Commissioners Present:

David W. Rolka, Chairman
Joseph Rhodes, Jr., Vice-Chairman
John M. Quain
John Hanger

Joint application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain facilities and patrons located in the village of Harwick, Allegheny County from Duquesne Light Company to West Penn Power Company.

A. 111250
F. 49

ORDER

BY THE COMMISSION:

By this joint application filed on April 22, 1993 West Penn Power Company, Greensburg and Duquesne Light Company, Pittsburgh, seek certificates of public convenience pursuant to Section 1102(a)(2) and (3) of the Public Utility Code, evidencing Commission approval of the transfer of certain electric distribution facilities and customers located in the village or Harwick, Springdale Township, Allegheny County from Duquesne to West Penn.

West Penn is now furnishing electric service in major portions of Armstrong, Butler, Fayette, Greene, Washington and Westmoreland Counties and smaller portions of Allegheny, Cameron, Centre, Clarion, Clinton, Elk, Indiana, Lycoming, McKean and Potter Counties. West Penn has service rights and furnishes service in Springdale Township, Allegheny County which is the location of the facilities and customers involved in this application.

Duquesne furnishes service in major portions of Allegheny and Beaver Counties. Duquesne has service rights and now furnishes service to portions of Springdale Township, Allegheny County.

Due to the location of its distribution facilities Duquesne constructed facilities and served customers in the village of Harwick area of Springdale Township, Allegheny County which is within West Penn's service area, on a temporary basis until West Penn had distribution lines in the area. West Penn now has distribution facilities in the area and desires to acquire the facilities installed by Duquesne in order to reclaim its service area.

The facilities to be transferred consist of eight wood poles, two transformers, anchor facilities and associated distribution line. There are 19 customers being served by the facilities who will be transferred to West

Penn. All 19 customers have requested that service be furnished by West Penn instead of Duquesne.

Upon full consideration of all matters of record, we find that approval of the application is in the public interest; THEREFORE,

IT IS ORDERED:

1. That the joint application of West Penn Power Company and Duquesne Light Company is hereby approved.

2. That appropriate certificates of public convenience be issued authorizing the transfer of certain electric distribution facilities and customers located in the village of Harwick area of Springdale Township, Allegheny County from Duquesne Light Company to West Penn Power Company.

3. That applicants serve a copy of this order by first class mail upon each of the 19 customers affected by the order.

4. That applicant's notify the Commission when the affected customers are transferred.

BY THE COMMISSION,

John G. Alford
Secretary

(SEAL)

ORDER ADOPTED: June 3, 1993

ORDER ENTERED: JUN 7 1993

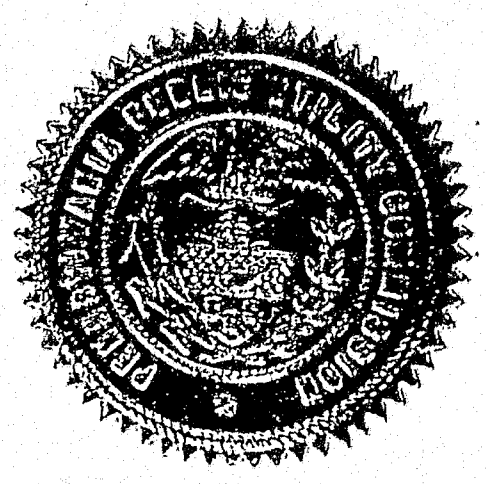
PENNSYLVANIA

PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE APPLICATION OF: A.111250,F.49
Joint application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain facilities and patrons located in the village of Harwick, Allegheny County from Duquesne Light Company to West Penn Power Company.

The Pennsylvania Public Utility Commission hereby certifies that after an investigation and/or hearing, it has, by its report and order made and entered, found and determined that the granting of the application is necessary or proper for the service, accomodation, convenience and safety of the public and hereby issues to the applicant this CERTIFICATE OF PUBLIC CONVENIENCE evidencing the Commission's approval.

In Witness Whereof, **The PENNSYLVANIA PUBLIC UTILITY COMMISSION has caused these presents to be signed and sealed, and duly attested by its Secretary at its office in the city of Harrisburg this** 3RD **day of** JUNE **19** 93.



John G. Alford

Secretary

BILL OF SALE

Duquesne Light Company (hereinafter called "Seller"), a Pennsylvania corporation located at One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania, 15279, in consideration of the sum of Fifteen Thousand Four Hundred and Thirteen Dollars and Twenty-Five Cents ($15,413.25), and intending to be legally bound, does hereby grant, sell, assign, transfer and deliver to West Penn Power Company (hereinafter called "Buyer"), Greensburg, Pennsylvania, the personal property described in Exhibit A (containing 1 page) attached to and incorporated in this Bill of Sale, "AS IS" in its present condition and "WHERE IS" in the Village of Harwick, Allegheny County, Pennsylvania.

To have and to hold all personal property by Buyer, its successors and assigns, forever.

It is understood that Buyer shall remove from such property the name, initials and/or marks of Seller, if any, immediately following the date of execution of this Bill of Sale.

As of the date of this Bill of Sale, Buyer shall defend, indemnify and hold Seller harmless from all claims which may result from or arise in connection with such transaction.

And, Seller covenants to Buyer that Seller is the lawful owner of such personal property and that, to the best of Seller's knowledge, such property is free from all encumbrances.

WITNESS, the due execution hereof, this 20th day of November, 1995.

ATTEST:

Secretary

DUQUESNE LIGHT COMPANY

By: _____
Roger D. Beck
Vice President Customer
Services Group

ATTEST:

Asst Secretary

WEST PENN POWER COMPANY

By: _____
G. S. Ault
Vice President

MEL/dhc:s001

EXHIBIT NO. RAP-4

PETER J. DAILEY
Attorney

MICHAEL D. McDOWELL
Attorney

JOHN L. MUNSCH
Attorney

DAVID L. WILLIAMS
Attorney



West Penn Power Company
Part of the Allegheny Power System

800 Cabin Hill Drive
Greensburg, PA 15601-1689
(412) 837-3000 FAX (412) 838-6177

November 12, 1993

CERTIFIED MAIL

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

Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain patrons located in the Borough of Cheswick and the Village of Harwick, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company

Dear Secretary Alford:

Enclosed please find an original and two (2) copies of the above-captioned Joint Application of Duquesne Light Company and West Penn Power Company.

Also enclosed is a check payable to the Pennsylvania Public Utility Commission in the amount of $350.00 for the filing fee.

Very truly yours,
Original Signed By
Peter J. Dailey
Peter J. Dailey

Enclosures

cc: Stephen R. Pelcher (w/enclosures)

BEFORE

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

In Re: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain electric service to certain patrons located in the Borough of Cheswick and the Village of Harwick, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company	:	Docket A. _____

To The Pennsylvania Public Utility Commission:

1. The names and addresses of Applicants are West Penn Power Company, 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601, (hereinafter referred to as "West Penn") and Duquesne Light Company, One Oxford Centre, Pittsburgh, Pennsylvania 15279 (hereinafter referred to as "Duquesne").

2. The name and address of West Penn's attorney is Peter J. Dailey, 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601. The name and address of Duquesne's attorney is Stephen R. Pelcher, One Oxford Centre, Pittsburgh, Pennsylvania 15279.

3. West Penn is a public utility, duly incorporated in Pennsylvania on March 1, 1916.

4. West Penn has the charter right to furnish electric service in portions of the Borough of Cheswick and the Village of Harwick, Allegheny County, Pennsylvania.

5. Duquesne was formed under the laws of Pennsylvania by the consolidation and merger of three constituent companies under an agreement dated November 15, 1912, and new letters patent were issued to Duquesne on November 25, 1912. On January 20, 1969, Duquesne accepted the provisions of the Pennsylvania Business Corporation Law for government and regulation of its affairs. Under its Restated Articles, Duquesne has the corporate right, among others, to produce, generate, manufacture, transmit, transport, store, distribute or furnish electricity to or for the public.

6. Duquesne is now furnishing service in parts of the Borough of Cheswick and the Village of Harwick, Allegheny County, Pennsylvania.

7. Due to the location of Duquesne's electric distribution facilities, Duquesne has served certain patrons in the Borough of Cheswick and the Village of Harwick, Allegheny County. Said patrons are located within West Penn's chartered service area, but are served by Duquesne.

8. In light of the chartered service areas, Applicants desire to transfer the aforementioned patrons from Duquesne to West Penn.

9. The electric service accounts of nineteen (19) patrons currently served by Duquesne will be transferred to West Penn. All of the patrons are located in the Borough of Cheswick and the Village of Harwick

in which West Penn has charter rights to furnish service. The names and addresses of the said nineteen (19) patrons are attached hereto as Exhibit A and made a part hereof. Exhibit A is in the form of a Petition signed by 18 of the nineteen (19) patrons requesting the transfer. One of the patrons did not sign Exhibit A but has been notified of the proposed change.

10. The patrons transferred will be rendered electric service in accordance with the applicable rate schedules and rules and regulations for electric service of West Penn presently in force and as hereinafter amended or revised.

WHEREFORE, Applicants respectfully request the Commission to find and determine that the transfer of patrons from Duquesne Light Company to West Penn Power Company, as hereinabove set forth, is necessary or proper for the service, accommodation, convenience, or safety of the public and that a Certificate of Public Convenience evidencing approval of your Honorable Commission be issued.

Signed and dated this 26th day of October, 1993.

WEST PENN POWER COMPANY

By Peter J. Bailey
Peter J. Bailey, Esquire
Legal Department
West Penn Power Company
800 Cabin Hill Drive
Greensburg, PA 15601

DUQUESNE LIGHT COMPANY

By Stephen R. Pelcher
Stephen R. Pelcher, Esquire
Legal Department
Duquesne Light Company
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

COMMONWEALTH OF PENNSYLVANIA)
) ss:
COUNTY OF WESTMORELAND)

Before me, the undersigned authority, personally appeared C. S. AULT, who, after first being duly sworn according to law, deposes and says that he is Vice President of West Penn Power Company; that he is authorized to and does make this affidavit on its behalf; and that the facts set forth in the foregoing Joint Application are true and correct to the best of his knowledge, information and belief.

C. S. Ault

Sworn to and subscribed before me
this 28TH of OCTOBER 1993.

Joyce C. Moore
Notary Public

Notarial Seal
Joyce C. Moore, Notary Public
Greensburg, Westmoreland County
My Commission Expires June 19, 1997

COMMONWEALTH OF PENNSYLVANIA)
) SS:
COUNTY OF ALLEGHENY)

Before me, the undersigned authority, personally appeared Roger D. Beck, who, after first being duly sworn according to law, deposes and says that he is Vice President-Marketing and Customer Services of Duquesne Light Company; that he is authorized to and does make this affidavit on its behalf; and that the facts set forth in the foregoing Joint Application are true and correct to the best of his knowledge, information, and belief.

Roger D. Beck

Sworn to and subscribed before me
this 8th day of November, 1993.

Joanne E. Kirin
Notary Public

Notarial Seal
Joanne E. Kirin, Notary Public
Pittsburgh, Allegheny County
My Commission Expires March 17, 1997
Member, Pennsylvania Association of Notaries

EXHIBIT A

The undersigned persons, residing in the Township of Hamar, Township of Springdale and Village of Harwick, Allegheny County, Pennsylvania, are presently provided electric service by Duquesne Light Company. The undersigned hereby request of Duquesne Light Company and of West Penn Power Company that the two electric companies transfer the applicable facilities and that West Penn Power Company serve the undersigned persons henceforth at the locations set forth below.

	Name	Address
1.	Kathleen Bassett Bassett, Kathleen	531 Low Grade Road, Cheswick, PA 15024
2.	Mary Jo B. Gray Gray, Mary Jo B.	529B Low Grade Road, Cheswick, PA 15024
3.	Lori Sheesley Sheesley, Lori	529 Low Grade Road, Cheswick, PA 15024
4.	Andrea J. Wyrick Wyrick, Andrea J.	529 Low Grade Road, Cheswick, PA 15024 (2nd Floor)
5.	Betty Geyer<br~~Wirtz, Sarah~~ Betty Geyer	527 Low Grade Road, Harwick, PA 15049
6.	Betty Hanlon Hanlon, Betty	527 Low Grade Road, Harwick, PA 15049
7.	Geneieve Bracco Bracco, Geneieve	525 Low Grade Road, Cheswick, PA 15024
8.	Mary Lou Frizza Frizza, Mary L.	525 Low Grade Road, Cheswick, PA 15024
9.	Joseph Kost Kost, Joseph	521 Low Grade Road, Cheswick, PA 15024

	Name	Address
10.	Patterson, Jay	519 Low Grade Road, Cheswick, PA 15024
11.	Koprivnikar, L.	517 Low Grade Road, Cheswick, PA 15024
12.	Koprivnikar, Louis	517 Low Grade Road, Cheswick, PA 15024
13.	Prasnikar, Carla	515 Low Grade Road, Cheswick, PA 15024
14.	Heininger, David A.	513 Low Grade Road, Harwick, PA 15049
15.	Valla, Anna G.	509 Low Grade Road, Cheswick PA 15024
16.	McKenna, Joseph	507 Low Grade Road, Cheswick, PA 15024
17.	Our Lady of Victory Church (Pastor) Farmer, Fr. Regis M.	1317 Low Grade Road, Harwick, PA 15049 (Church)
18.	Our Lady of Victory Church (Pastor) Farmer, Fr. Regis M.	1317 Low Grade Road, Harwick, PA 15049 (School)
19.	Our Lady of Victory Church (Pastor) Farmer, Fr. Regis M.	1317 Low Grade Road, Harwick, PA 15049 (Parish House)

PETER J. DAILEY
Attorney

MICHAEL D. McDOWELL
Attorney

JOHN L. MUNSCH
Attorney

DAVID L. WILLIAMS
Attorney



West Penn Power Company
Part of the Allegheny Power System

800 Cabin Hill Drive
Greensburg, PA 15601-1689
(412) 837-3000 FAX (412) 838-6177

December 30, 1993

Stephen R. Pelcher, Esquire
Duquesne Light Company
Legal Department
One Oxford Centre
Pittsburgh, PA 15279

RE: Joint Application of West Penn Power Company and Duquesne Light Company under Section 1102(a)(2) of the Public Utility Code for approval of the transfer of certain patrons located in the Borough of Cheswick and the Village of Harwick, Allegheny County, Pennsylvania, from Duquesne Light Company to West Penn Power Company

Dear Steve:

The Pennsylvania Public Utility Commission approved the above-captioned Joint Application at December 15th Public Meeting. Please find enclosed a copy of the Order and an original Certificate of Public Convenience issued in connection with the Joint Application.

If I may be of any assistance or if you have questions or comments, please do not hesitate to call me at 838-6205. Happy New Year.

Very truly yours,
Original Signed By
Peter J. Dailey
Peter J. Dailey

PJD:rt

Enclosure

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

December 27, 1993

A-111250
F-0054

PETER J DAILEY ESQUIRE
WEST PENN POWER COMPANY
800 CABIN HILL DRIVE
GREENSBURG PA 15601-6177

DEC 29 1993

Joint application of West Penn Power Company and Duquesne Light Company for approval of the transfer of certain electric service to certain patrons located in the Borough of Cheswick and the Village of Harwick, Allegheny County, from Duquesne Light Company to West Penn Power Company.

To Whom It May Concern:

This is to advise you that an Order has been adopted by the Commission in Public Meeting on December 15, 1993 in the above entitled proceeding.

A copy of this Order has been enclosed for your records.

Very truly yours,

John G. Alford, Secretary

smk
Encls.
Cert.Mail

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held December 15, 1993

Commissioners Present:

David W. Rolka, Chairman
Joseph Rhodes, Jr., Vice-Chairman
John M. Quain
Lisa Crutchfield
John Hanger

Joint application of West Penn Power Company and Duquesne Light Company for approval of the transfer of certain electric service to certain patrons located in the Borough of Cheswick and the Village of Harwick, Allegheny County, from Duquesne Light Company to West Penn Power Company.

A-111250
F-0054

O R D E R

BY THE COMMISSION:

By the joint application filed on November 15, 1993, West Penn Power Company ("West Penn") and Duquesne Light Company ("Duquesne") seek a certificate of public convenience pursuant to Section 1102 (a)(2) and (3) of the Public Utility Code, evidencing Commission approval of the transfer of certain patrons located in the Borough of Cheswick and the Village of Harwick Allegheny from Duquesne to West Penn.

West Penn is a public utility corporation duly incorporated in Pennsylvania on March 1, 1916. It has the charter right to furnish electric service in portions of the Borough of Cheswick and the Village of Harwick, Allegheny County. Duquesne was formed on November 25, 1912. It has the corporate right, among others, to produce, generate, manufacture, transmit, transport, store, distribute or furnish electricity to or for the public. Duquesne is now furnishing service in parts of the Borough of Cheswick and the Village of Harwick, Allegheny County.

Due to the location of Duquesne's electric distribution facilities, Duquesne has served certain patrons in the Borough of Cheswick and the Village of Harwick, Allegheny County. The patrons involved are located within West Penn's chartered service area, but are served by Duquesne. In light of the chartered service areas, applicants desire to transfer the electric service accounts of the aforementioned nineteen patrons currently served by Duquesne to

West Penn. Exhibit "A", attached to the application, lists the names and addresses of the nineteen (19) patrons to be transferred. Exhibit "A" is in the form of a petition signed by eighteen (18) of the nineteen (19) patrons requesting the transfer. One of the patrons did not sign Exhibit "A" but has been notified of the proposed change.

The patrons transferred will be rendered electric service in accordance with the applicable rate schedule and rules and regulations for electric service of West Penn presently in force and as hereinafter amended or revised. West Penn's rates are currently lower than Duquesne's rates.

Upon full consideration of all matters of record, we find that approval of the application is proper for the service, accommodation, convenience of the public;
THEREFORE,

IT IS ORDERED:

1. That the joint application of West Penn Power Company and Duquesne Light Company is hereby approved.

2. That a certificate of public convenience be issued to the applicants authorizing the transfer of nineteen(19) patrons located in the Borough of Cheswick and the Village of Harwick from Duquesne Light to West Penn Power.

3. That applicants serve a copy of this order by first class mail upon the patrons affected by the order.

4. That the applicants notify the Commission when the affected patrons are transferred.

BY THE COMMISSION,

John G. Alford
Secretary

(Seal)

ORDER ADOPTED: December 15, 1993

ORDER ENTERED: DEC 27 1993

PENNSYLVANIA
PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE APPLICATION OF: A-111250,F.0054

Joint application of West Penn Power Company and Duquesne Light Company for approval of the transfer of certain electric service to certain patrons located in the Borough of Cheswick and the Village of Harwick, Allegheny County, from Duquesne Light Company to West Penn Power Company.

The Pennsylvania Public Utility Commission hereby certifies that after an investigation and/or hearing, it has, by its report and order made and entered,found and determined that the granting of the application is necessary or proper for the service, accomodation, convenience and safety of the public and hereby issues to the applicant this

CERTIFICATE OF PUBLIC CONVENIENCE

evidencing the Commission's approval.

In Witness Whereof, **The PENNSYLVANIA PUBLIC UTILITY COMMISSION has caused these presents to be signed and sealed, and duly attested by its Secretary at its office in the city of Harrisburg this** 15TH **day of** DECEMBER **19** 93.

John S. Alford

Secretary

DOCUMENT
FOLDER

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

DEC 31 1996

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Township of Springdale, Complainant vs. Duquesne Light Company, and West Penn Power Company, Respondents	Docket No. C-00967749

DOCKETED

JAN 09 1997

ALEXANDER GALATIC

WRITTEN REBUTTAL TESTIMONY ON BEHALF OF
WEST PENN POWER COMPANY

West Penn Power Company,
Rebuttal Statement 1

WPP-Stmt-2
C-00967749
12-19-96
PITTS
BAS

Q. Please state your name and address.

A. Alexander Galatic. My business address is Two Gateway Center, Pittsburgh, PA 15222.

Q. What is your profession and educational background?

A. Since June of 1995, I have been a Senior Energy Consultant for Strategic Energy Ltd., an energy consulting firm that provides a wide range of services to help energy users manage supplies of natural gas and electricity. Much of our recent work has been to help end-users develop strategies to purchase power effectively when they have retail choice. These evaluations consider the future cost of power by breaking down electric service into unbundled components of power and estimating the cost of each component whether priced by markets or regulators. These components include generation capacity, energy, transmission, distribution and ancillary services. My primary responsibility is to build strategies for end-users to purchase power as effectively as possible given the constraints of regulations and the marketplace. I have studied power markets and estimated the cost of power in the future for clients across the United States.

In addition to analyzing the electricity markets for end-users, I have also analyzed the electricity market for suppliers trying to decide whether or not to build new generating capacity. These analyses

always include estimates of the future market value of capacity as well as energy, the two major revenue sources associated with building a merchant plant.

Before joining Strategic Energy Ltd., I worked for Allegheny Power Service Corporation from 1986 to 1994 beginning in System Operations, then moving to Research and Development, and finally working in the Corporate Headquarters as Investor Relations Administrator. From 1982 to 1986 I worked for an operating company subsidiary of Allegheny Power, Inc., West Penn Power Company, in Distribution Operations.

I earned a BS in electrical engineering from the Pennsylvania State University in 1986 and a MS in Industrial Administration from Carnegie Mellon University in 1993 with concentrations in finance and marketing.

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

A. The purpose of this testimony is to rebut the testimony given by James A. Lahtinen for Duquesne Light Company ("Duquesne") and to explain the reasons why Duquesne should not recover what Duquesne is calling "stranded costs" relating to the transfer of electric service

customers located in the Harwick Village area of Springdale Township to West Penn Power Company.

Q. How do you respond to Mr. Lahtinen's testimony?

A. I will explain that Duquesne should not recover the costs of uneconomic investments they refer to as stranded costs for several reasons. First, the costs are not legitimate stranded costs because they are not stranded by regulatory change. Second, reasonable expectation is not the underlying rationale for allowing recovery of legitimate stranded costs. Third, Duquesne cannot meet the continued expectation standard that they claim is the basis for stranded cost recovery. Fourth, stranded cost recovery is inequitable and does not promote economic efficiency. Fifth, and finally, if recovery in this case were legitimate, Duquesne's method of calculating stranded costs grossly overestimates the amount of their uneconomic investments.

Q. Why is recovery only legitimate when costs are stranded by regulatory change?

A. Because another cause for stranded costs is related to management decisions. Only the utility should bear the burden of its own bad decisions. In fact, in their recent rulings, the Federal Energy Regulatory Commission ("FERC") and the Pennsylvania PUC address

stranded costs only in relation to regulatory change that introduces competitive market forces to the electric industry that is not operating under market forces previously. Neither FERC nor the Pennsylvania PUC suggest recovery of costs that are stranded by any other cause than changes in regulations. Duquesne's request for recovery is clearly contrary to the policy of both agencies.

FERC cites a decision addressing the issue of stranded costs in its *Notice Of Proposed Rulemaking And Supplemental Notice Of Proposed Rulemaking on Recovery of Stranded Costs by Public Utilities and Transmitting Utilities* RM94-7-001 (March 29, 1995) ("NOPR"). In the cited case, *Associated Gas Distributors v. F.E.R.C,* 824 F.2d 981(D.C. Cir. 1987), the Court told FERC that FERC had to allow some recovery of stranded costs or explain why not. FERC stated in its stranded cost NOPR that the AGD court instructed FERC to consider the transition costs borne by regulated utilities when the Commission changes the regulatory rules of the game.

The Pennsylvania PUC alludes to FERC's rationale by stating on page 23 of the PUC Recommendation to the Legislature on July 3, 1996 that:

"Fairness to utilities must be balanced with fairness to consumers

and the public interest requirements of lower electric prices. We must accept the fact that the restructuring we recommend does change the rules of the game after utilities made decisions and investments based on then-existing rules.

The key phrase with respect to these rulings made by FERC and the Pennsylvania PUC is "change the rules of the game," not "continued expectation to serve." Therefore, Duquesne's claim that the underlying rationale for allowing recovery of stranded costs is based on reasonable expectations of continuing service is fundamentally flawed.

Q. What is the reasonable expectation standard used for if it is not the underlying rationale for allowing recovery of stranded costs?

A. FERC uses he reasonable expectation standard to eliminate from consideration costs which are not related to regulatory change, but it must first be established that the costs are stranded by changes in regulations. The rationale is that a utility could claim that costs are stranded by regulatory change even though there was already a risk that the customer could depart and leave the utility with stranded costs. FERC has not allowed for recovery of such costs. Instead of being the rationale for allowing recovery of stranded costs, the reasonable expectations standard is a tool to determine if certain costs

that appear to be stranded by regulatory change are caused by something else and are, therefore, not recoverable.

Q. Is Duquesne's assertion that stranded cost recovery is good public policy and consistent with the Commission's Report and Recommendation to the Governor and General Assembly on Electric Competition?

A. No. Not only is Duquesne's assertion inconsistent with the Commission's Report and FERC policy, it goes beyond what regulators at either level have stated by asserting that stranded cost recovery is good in general and in the public interest. Recovery would benefit only Duquesne and would harm the public by forcing the public to pay for Duquesne's uneconomic investments.

Q. Why would Duquesne be unable to meet the reasonable expectation standard even if there were regulatory change to introduce competition into the electric industry?

A. Duquesne could not meet the standard in light of long-standing agreements that the customers would be transferred to West Penn Power Company upon completion of the sale of Duquesne operations in Harwick Village. Based on the letter of April 30, 1957 from the president of Duquesne to the president of West Penn, it is clear that Duquesne expected to transfer the customers in Harwick Village to

West Penn Power. The letter states that "West Penn Power Company shall have the right to purchase such facilities and take over the customers in Harwick Village at any time after such mining operations are discontinued." In effect, Duquesne had notice that these customers could be transferred "at any time." This notice shows that Duquesne had no reasonable expectation of serving the customers in Harwick Village beyond 1959, the time when Duquesne testified that they sold the last of their mining properties in the area.

The notice is important because FERC states in its Order 888 that "We also reaffirm our determination that the existence of a notice provision in a contract creates a rebuttable presumption that the utility had no reasonable expectation of serving the customer beyond the specified period. Whether or not a contract contains an "evergreen" or other automatic renewal provision will be a factor to be considered in determining whether the presumption of no reasonable expectation is rebutted in a particular case."

Q. Can Duquesne rebut the presumption that Duquesne had no reasonable expectation to serve?

A. Mr. Lahtinen's testimony attempts to rebut this presumption by implying that Duquesne has an unwritten contract with the customers in Harwick Village, and that the unwritten contract has an implied

evergreen provision that suggests that Duquesne was reasonable in expecting to continue service. But there is no contract, no evergreen clause or automatic renewal that would support Duquesne's position. There is, however, a letter from Duquesne to West Penn Power where Duquesne clarifies "as a matter of record and in confirmation of our [Duquesne's] approval and future understanding" that West Penn Power would have the right to purchase the facilities and take over the customers in Harwick Village.

Q. Why would it be inequitable to allow Duquesne to recover its uneconomic investments?

A. On page 4 of Mr. Lahtinen's testimony, he states that "it is fundamentally unfair to burden Duquesne's remaining customers with costs and obligations originally undertaken on behalf of customers residing in an area Duquesne has served on a continuous basis since 1917." This implies that the remaining customers would pay for Duquesne's bad decisions to invest capital to serve the customers of Harwick Village with full knowledge that these customers may be transferred to West Penn Power. It certainly would be unfair to burden Duquesne's customers or anyone other than Duquesne for costs stranded because of Duquesne's decisions to continue to invest money to serve customers they had no reason to expect would remain on their system. Therefore, neither Duquesne's remaining customers,

the departing customers, nor West Penn should bear the burden of Duquesne's uneconomic investments.

Q. How do you define "economically efficient" relative to this case?

A. Economically efficient means society employs the least-cost use of resources to provide electric service.

Q. Why does stranded cost recovery fail to promote economic efficiency?

A. Stranded cost recovery is irrelevant to economic efficiency. As shown in **Exhibit X1**, I calculate that Duquesne's uneconomic investment to serve residential customers is approximately 0.6 ¢/kWh. If a customer leaves Duquesne to purchase power from West Penn, and pays for Duquesne's uneconomic investment, then the cost to society is 7.6 ¢/kWh and is borne totally by the customer. Alternatively, if the customer does not pay for Duquesne's uneconomic investments, the cost to society is still 7.6 ¢/kWh, but Duquesne bears the burden of 0.6 ¢/kWh for its uneconomic investments.

Alternatively, assume that a customer is forced to pay 9.9 ¢/kWh to Duquesne to cover Duquesne's inflated estimate of uneconomic investments as suggested by Mr. Lahtinen. The customer also pays West Penn 7.0 ¢/kWh for bundled service which includes all fixed and variable components of power service. In effect, the customer pays

16.9 ¢/kWh for power and receives power worth 7.0¢/kWh, and Duquesne receives a windfall of 9.2 ¢/kWh at the customer's expense. Duquesne provides no value for this 9.2 ¢/kWh windfall.

By not allowing Duquesne to recover, Duquesne has incentive to minimize its uneconomic investments. As the example above illustrates, it is in society's best interest to have Duquesne minimize its uneconomic investments because it eliminates the expense to society of having customers pay for a windfall without receiving value.

Q. **Exhibit X1** suggests that 5.0 ¢/kWh of Duquesne's charge to residential customers pays for overhead costs not associated with generation, transmission, or distribution as well as taxes, social programs, other variable costs and above-market power purchases. Is 5.0 ¢/kWh reasonable for these components?

A. It seems high considering that West Penn and many other utilities provide the same components as parts of rates that total 7.0 ¢/kWh. It also implies that Duquesne is either extremely inefficient or is over-recovering. Because electric service is still bundled, it is difficult to tell if Duquesne's rate is reasonable for any single component of electric service. However, Duquesne's last rate case was concluded in 1985. Since then, Duquesne has reduced their work force and presumably made other efficiency improvements that have made

Duquesne one of the most profitable utilities of the 1990s according to Electric Light & Power's annual rankings. This implies that Duquesne may be over-recovering.

Q. Does Mr. Lahtinen's method of using a lost-revenues approach to calculate stranded costs accurately reflect the amount of Duquesne's uneconomic investments?

A. No. Mr. Lahtinen's lost-revenue method is based on the faulty assumption that the only variable cost in Duquesne's rates is 1.9 ¢/kWh. If fact, it is only the cost of fuel for Duquesne's generators. Mr. Lahtinen assumes a very small amount for distribution, and his method grossly overestimates the fixed costs that would be stranded to be approximately 9.9194 ¢/kWh.

Q. What is the amount of Duquesne's uneconomic investment on a per kWh basis?

A. It ranges from 0.5780 to 1.7988 ¢/kWh for a residential customer when spread over 9 years.

Q. How do you arrive at this range?

A. As shown in **Exhibit X1**, this includes 0.6 ¢/kWh for the uneconomic investments in generation and 1.2 ¢/kWh for regulatory assets. This is a liberal estimate considering that regulators may not allow recovery

of regulatory assets because they often can be mitigated.

Q. What is the net present value of these uneconomic investments?

A. **Exhibit X2** shows that, for residents representing a load the size of the customers in Harwick village, the NPV of uneconomic investments estimate ranges from approximately $84,749 to $263,731 depending on whether or not regulatory assets are included. The top of the exhibit shows how SEL's estimates of stranded costs compare with those of Resource Data International, Inc. and Moodys Investor Service. SEL's estimate of Duquesne's uneconomic investments in generation are based on the book value of these assets versus their market value. The regulatory assets amounts for Duquesne are taken from their 1996 filing of their FERC Form 1 report for 1995.

The table at the bottom shows the uneconomic investments per kWh with varying payback periods. Year 9 shows the calculation with and without stranded costs to compare with the 9.9 ¢/kWh number presented by Duquesne.

Q. Does this conclude your testimony?

A. Yes.

Exhibit X1

Example Illustrating that Economic Efficiency is Irrelevant in Considering Recovery of Stranded Costs

1 Customer A receives bundled service from Duquesne Light and switches to West Penn
2 Duquesne's stranded costs range from 0.6¢/kWh to 1.8¢/kWh depending on whether stranded costs are limited to uneconomic generation assets, or if instead they include regulatory assets
3 Customer receives 7.0 ¢ power for 7.0¢, and Duquesne bears the burden of their uneconomic investments.
4 The total cost to society is 7.0 ¢/kWh plus Duquesne's uneconomic investments.
5 Alternatively, someone other than Duquesne can be forced to pay for Duquesne's uneconomic investments.
6 The total cost to society is 7.0 ¢/kWh plus Duquesne's uneconomic investmetns.
7 Conclusion: the cost to society is the same regardless of who pays Duquesne's uneconomic investments.
8 Result: economic efficiency is irrelevant in determining who bears the burden of Duquesne's uneconomic investments.

	Residential Electric Service		Potential Stranded Cost	
	Duquesne Light ¢/kWh	West Penn ¢/kWh	Duquesne Light ¢/kWh	West Penn ¢/kWh
Bundled Service	**12.0**	**7.0**	**1.8**	**0.0**
Components				
Generation fixed costs	1.6	1.0	0.6 *	
Generation Fuel Cost	1.9			
Generation Variable Cost				
Generation Total Variable Costs		2.1		
Transmission	0.5	0.4		
Distribution	1.8	1.0		
Regulatory Assets, taxes, social programs, overhead, other variable costs, above market power purchases	6.2	2.5	1.2 **	?

* Stranded portion is mitigated by market price of capacity assumed to be 1.0 ¢/kWh

** The uneconomic, fixed portion of these costs includes the following regulatory assets: "Other Regulatory Assets, Miscellaneous Deferred Debits, and Accumulated Deferred Income Taxes, all from Duquesne's FERC Form 1."

Exhibit X2
Duquesne Light Stranded Cost
Spread From 1 - 9 Years With Varying Load Factors

		Stranded Assets (1000 $)			Stranded Liabilities (1000 $)		Assumes 100% payback in 1996 dollars	6-year	
	Duquesne Light Capacity (MW)	Stranded Generation Assets	Deferred Taxes	Other Regulatory Assets	Above Market Power Purchases (NPV 1994-2000)	Total Stranded (1000 $)	Stranded Costs ($/kW)	Retail Customer Demand (MW)	Harwick Village portion of DLCO stranded costs
RDI	3,075	694,853	57,690	48,032	(3,580)	796,995	259.19	0.535861	$ 138,887
Moody's	2,793					1,089,000	389.90	0.535861	$ 208,934
SEL with reg. assets	2,832	451,477	296,680	649,231	(3,580)	1,393,808	492.16	0.535861	$ 263,731
SEL	2,832	451,477			(3,580)	447,897	158.16	0.535861	$ 84,749

1996 NPV of Duquesne Light's Total Uneconomic Investments = 447,897,000 without regulatory assets
to $ 1,393,808,000 with regulatory assets

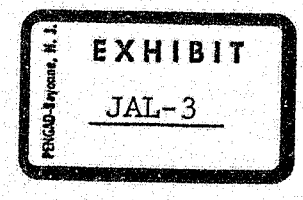
Other Regulatory Assets	618,550
Miscellaneous Deferred Debits	30,681
Accumulated Deferred Income Taxes	296,680
Total uneconomic regulatory assets	945,911

Usage projected by Duquesne 2,347,071 kWh per year
Demand assuming 50% l.f. 535.86096 kW for Harwick Village

Discount rate = 8%

Payback Period (years)	Annual Payback ($/kW)	l.f. equals 50% (¢/kWh)	l.f. equals 60% (¢/kWh)	l.f. equals 70% (¢/kWh)	l.f. equals 80% (¢/kWh)
1	541.54	12.1355	10.1130	8.6682	7.5847
2	275.99	6.3011	5.2510	4.5008	3.9382
3	190.98	4.3602	3.6335	3.1144	2.7251
4	148.59	3.3926	2.8271	2.4233	2.1204
5	123.27	2.8143	2.3452	2.0102	1.7589
6	106.46	2.4307	2.0255	1.7362	1.5192
7	94.53	2.1582	1.7985	1.5416	1.3489
8	85.64	1.9553	1.6294	1.3967	1.2221
with regulatory assets 9	78.79	1.7988	1.4990	1.2848	1.1242
without regulatory assets 9	25.32	0.5780			

	LOST REVENUES						MITIGATION		
YEAR	ANNUAL KWH	BASE REVENUES	ECR CREDITS	STAS CREDITS	ANNUAL TOTAL	NET BOOK	SALE @ MARKET	O&M SAVINGS	STRANDED COST
1997	2,347,071	$291,524	($5,352)	($2,290)	$283,882	$149,744	$44,594	$7,310	$82,234
1998	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$7,529	$232,813
1999	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$7,755	$232,587
2000	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$7,988	$232,354
2001	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$8,227	$232,115
2002	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$8,474	$231,868
2003	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$8,729	$231,614
2004	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$8,990	$231,352
2005	2,347,071	$291,524	($4,297)	($2,290)	$284,937		$44,594	$9,260	$231,082
	PV @ 8.77%				$1,723,385	$137,670	$269,872	$49,120	$1,266,723



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COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

Township of Springdale v. Duquesne Light Company and West Penn Power Company.	:	Docket No. C-00967749
Further Hearing.	:	

Pages 161 through 236

State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222

Wednesday, December 11, 1996

Met, pursuant to notice, at 12:30 p.m.

BEFORE:

JAMES D. PORTERFIELD, Administrative Law Judge

APPEARANCES:

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C O N T E N T S

WITNESSES	DIRECT	CROSS	REDIRECT	RECROSS
Alexander Galatic				---
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E X H I B I T S

NUMBERS	FOR IDENTIFICATION	IN EVIDENCE
For West Penn Power Company:		
No. X-3 (Spread Sheet)	168	168
For the Township of Springdale:		
No. 1 (Minutes)	227	227

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PROCEEDINGS

12:30 p.m.

ADMINISTRATIVE LAW JUDGE JAMES D. PORTERFIELD: Good afternoon. I am Administrative Law Judge James D. Porterfield, the presiding office in the matter captioned Township of Springdale versus Duquesne Light Company and West Penn Power Company at Docket Number C-00967749.

It being December the 11th, 1996 at approximately 12:30 p.m. in the 11th floor hearing from of the Pittsburgh State Office Building, it is the date and time, and place set by earlier notice to the parties for the initial evidentiary hearing in the foregoing captioned matter.

Yesterday, December the 10th was the initial hearing session in the evidentiary hearing and with some good luck and efforts of counsel, we will conclude the evidentiary hearing today with some late-filed submissions, Dr. Bower's rejoinder, I guess.

I believe yesterday Mr. Galatic was on the stand and Mr. Munsch was going to further examine him with respect to Duquesne's direct testimony. Is that correct?

MR. MUNSCH: That's correct, Your Honor.

JUDGE PORTERFIELD: Mr. Galatic, you are still under oath.

You may proceed, Mr. Munsch.

MR. MUNSCH: Thank you, Your Honor.

JUDGE PORTERFIELD: Excuse me, one other thing preliminarily, I did have an opportunity to look at the Commission's Opinion and Order in Township of Findlay versus Duquesne Light Company and West Penn Power Company at Docket Number C-00935374, adopted August the 8th, 1996 and entered September the 4th, 1996, on the issue of the standing of the Township in a representational capacity for the citizens.

Based on the reading of that Opinion and Order and the rationale offered therein, I don't see that the facts here are significantly different. Based thereon, I will deny Duquesne's motion.

Exceptions shall be taken. As I understand it, the matter is on appeal. Correct, Mr. Herskovitz?

MR. HERSKOVITZ: Yes.

JUDGE PORTERFIELD: Including that issue?

MR. HERSKOVITZ: Yes, that it the issue. Well, Duquesne Light appealed two issues. It's kind of a strange case. Duquesne won the case, but those were two issues that lost that didn't effect the --

JUDGE PORTERFIELD: Outcome.

MR. HERSKOVITZ: -- outcome, but every party appealed that case.

JUDGE PORTERFIELD: If you would proceed, Mr. Munsch.

MR. MUNSCH: Thank you, Judge Porterfield.

Whereupon,

ALEXANDER GALATIC

having previously been duly sworn, testified further as follows:

DIRECT EXAMINATION

BY MR. MUNSCH:

Q We were about to address Mr. Lahtinen's testimony when we broke for the day. Looking at Mr. Lahtinen's surrebuttal testimony, which Duquesne Light Company's Statement Number 2S, and on page 3, around lines 11 through 13, Mr. Lahtinen states that he believes you provide an unreasonably low estimate because you failed to recognize -- I'm sorry, wrong line.

Line 1 on page 3, there's nothing in your testimony supporting either the embedded cost of market value figures. Would you care to address that?

A Yes, first of all I would like to explain why I didn't include supporting documentation or supporting numbers, and that's because what the legislature, as recently stated, of which I had a copy of the drafts before it was actually passed, and they said, "In evaluating a transition costs recovery plan and any proposed transition charge, the Commission shall..."

MR. HERSKOVITZ: Excuse me. Can you speak a little slower so I can follow what you are saying.

THE WITNESS: I'm sorry. Yes, certainly. "In evaluating a transition costs recovery plan and any proposed competitive transition charge, the Commission shall schedule open evidentiary hearings with proper notice and opportunity for all parties to cross examine witnesses as necessary."

Therefore, although I had built a spread sheet at work to determine what my estimate, S.E.L.'s estimate if you will, of the stranded costs of generation...

BY MR. MUNSCH:

Q What is S.E.L.?

A S.E.L. is Strategic Energy Limited. We are an energy consulting firm at Two Gateway Center in Pittsburgh. In my previous work, I had estimated stranded costs for several companies and one of those was Duquesne Light Company, and that's the spread sheet that I used to calculate it based on information provided by Duquesne Light to FERC in their FERC Form I report that has reports the investments in the power station, Duquesne Light's percentage of ownership where they have jointly owned power stations, and also their investments of their wholly owned power stations. There is a number...

Q Would you stop just a second before you go on any further; you quoted the new law, do you have a section for that quotation?

A I don't have it with me. It's in the section on competitive transition charge.

(Judge handing document to witness.)

Thank you.

Q I think it starts on page 49.

(Witness perusing document.)

A That's right. On page 52, line 20, "In evaluating a recovery plan and any proposed transition charge, the Commission shall schedule open evidentiary hearing with proper notice and opportunity for all parties to cross examine witnesses as necessary.

Q And that's in House Bill 1509, Printer Number 4282?

A Yes.

Q Okay, sorry to interrupt you.

A So, considering that was pending when I prepared my testimony, it didn't seem reasonable to present, in these proceedings, all the basics for everything, but I can go through those if you want.

Q Did you say that you had prepared this form or spread sheet in your work at S.E.L. prior to this case?

A Yes, actually I made -- actually, we had done this for several clients in evaluating the market price of power and we evaluated their potential liability for stranded costs if it were so imposed by their regulatory commissions

across the United States. Several utilities -- I did this one actually to satisfy my own curiosity.

MR. MUNSCH: I will ask that this be marked as West Penn Exhibit X-3.

JUDGE PORTERFIELD: Cross Examination Exhibit 3; is that what the X stands for?

MR. MUNSCH: In Mr. Galatic's testimony, he had a number of exhibits and they were marked X-1 and X-2.

JUDGE PORTERFIELD: Okay, let's mark this X-3 then.

(Whereupon, the document was marked as WPPC Exhibit No. X-3 for identification and received in evidence.)

MR. HERSKOVITZ: What is the number on this?

JUDGE PORTERFIELD: Number X-3, following his WPPC Statement Number 2.

BY MR. MUNSCH:

Q Do you want to run through this, Mr. Galatic, and explain what it means?

A Okay. The generators on the left are all the generators reported by Duquesne Light to FERC as to Duquesne having interests, ownership interests, in these plants. It excludes Fort Martin One because it was sold to AYP Capital, Inc., so it was not part of my calculations.

For the rest of them I found -- first of all, there is a line item for total investment in power plant in the FERC

Form I report, and that is indicated in the first column as per the percentage that Duquesne Light owns if they don't own 100 percent.

The next column is the installed capacity, but that was more for reference. I didn't use it in my calculations. The more important number is net capacity because you can't sell installed capacity on an open market, only what you can actually use to generate.

The next column is the production costs per net kilowatt hour, which is a calculated field based on the total production costs including fuel, other operations costs and maintenance costs for each power station and divided by the total net output in kilowatt hours for each station.

The ones that are high in this column are either units or plants that are -- for example, Eastlake, the first line, 16.407 cents per kilowatt hour. The same thing with Brunot Island and then the one marked Sammis. Those generators are not run very much by Duquesne Light, and that's important because they are basically not very economic to run except for in very peak situations, so that drives their marketable value down a little bit in the later column.

The next column is the cost per net capacity in dollars per KW. As indicated basically in column one, you

take the dollars spent for their share of the capacity divided by the number in column three in megawatts and then do the conversion from megawatts to kilowatts, then you come up with a dollar per KW of installed capacity for each station.

Converting this to dollars per KW month, because that's the way the market right now operates in purchasing and selling capacity, it's basically on a dollars per KW month basis, and using an eight percent discount factor for a rough approximation, we come up with the next column, the dollars per KW, the installed basis, and then we can, with the next column, compare with what we projected for the market value of capacity for the plant where the market value ranges, in this example, or this calculation, from three to six, where the market value is lower if it's a high production cost plant and it's higher if it's a low production cost plant.

Then the next column is basically the megawatt weighted average of the station in years. We didn't have information on when each unit was installed, so there is some room for error in there, but as I stated, this was pretty much to satisfy my curiosity and I just took available public information, but I figured this would get me a fairly close approximation of the remaining life expectancy of these power stations, which is the next

column.

Then, if you take the difference between market value and book and assess that difference over the remaining life of the plant, then I come up with the last column, which is the stranded costs of the generating plant where a positive number indicates that that's the above-market, uneconomic, value of the generator, and the number in parentheses would be negative, meaning that the market price is higher than the book value of the plant, and those all netted together come up to $451 million for my estimate of the stranded uneconomic generation assets of Duquesne Light.

Q To tie that into your Exhibit X-2, can you do that?

A Yes, that $451 million, if you look at the third column, which would be the first column under stranded assets in thousands, that $451,477,000, is in the row where it is labeled S.E.L. in two places, S.E.L. with regulatory assets and S.E.L. without regulatory assets.

Q This doesn't say S.E.L. without regulatory assets.

A Actually, yes, it doesn't say that, but that's...

Q It just says S.E.L.

A That's right.

Q Strategic Energy, Limited.

A Right.

Q That's your employer?

A That's correct. The two above it, R.D.I. above S.E.L. in the first column -- R.D.I. is Resource Data Institute or something like that. It's a company that produced an estimate of stranded costs by utility for all utilities in the U.S., and this was their 1995 report based on the 1994 information.

The next one was Moody's Investor Service, who has also published a well know set of documents estimating stranded costs for the investor-owned utilities. I put those on to -- basically to evaluate whether my estimate seemed reasonable or in the ball park.

As we go through this exhibit, the standard generation, as I pointed out with mine, is $451 million. I didn't break it down for Moody's because they didn't break it down for their report. They just represented a total stranded costs number and they didn't explain how they arrived at that number.

R.D.I. did break it down, and you can see their stranded generation assets estimate was $695 million approximately, and deferred taxes and other regulatory assets was based on earlier information.

I did some limited checking and saw in the FERC Form I report for Duquesne Light, that their regulatory assets had increased by a fair amount, I can't remember the number exactly, from 1994 to 1995, but their estimates of deferred

taxes and other regulatory assets that R.D.I. reported are much lower than what Duquesne has in the books in the most recent reports.

So, if -- there is some question as to whether regulatory bodies will allow recovery of all of a company's claimed regulatory assets, and that's why I presented this as a range with the regulatory assets included and without regulatory assets, to get the total stranded costs numbers after the above-market power purchases, which in Duquesne's case, I just took the number for, R.D.I.'s, minus $3.5 million, and basically Duquesne's buying power for less than market value is what that number indicates.

When you total the stranded costs, I come up with a range of $448 million roughly to $1.4 million or so, and that translates to a dollar per KW number of from $158.16 per KW to $492.16 per KW.

Then the retail customer demand for Harwick Village, from earlier calculations -- actually, based on the numbers provide by Duquesne in this case that we talked about yesterday, of about .535 megawatts if you will, or 535 KW, 536 roughly, that if you take a ratio of that to their total net capacity that I had calculated as 2,600 megawatts, then apply it to that stranded costs dollars per KW, to that ratio, then the total stranded costs estimate I come up with is in a range of $85,000 to $263,000 per KW.

If you unitize that on a kilowatt hour basis over the nine years that the Commission has recommended in its -- well, actually what the legislation, the new House Bill that we just referenced recommends a nine year recovery period -- that that range translates to a .58 cents per kilowatt hour roughly to roughly 1.8 cents per kilowatt hour.

Q Just so there is no mistake, it's not West Penn's position that stranded costs in this area are recoverable at all in this case?

A Well, that's consistent with my earlier testimony that -- and that's consistent with everything that we have told all of our clients for whom we have done this type of analysis.

We are estimating the worst case scenario for them and we are urging them to do what they can to try to limit the amount of stranded costs recoverable because we don't see it as being necessarily fair, if not in their best interest as well.

Q Moving on then to Mr. Lahtinen's testimony, on page 3, line 13, he mentions that he believes you failed to recognize that in this case, loss of load would strand generation as well as transmission and distribution.

A Okay. Well, the reason I didn't include transmission assets is because FERC's Order 888 -- it ask

that utilities submit tariffs that cover their annual revenue requirements for transmission, and the suggestion, the inference that I get if it is not explicit -- and I can't remember all of that 300-plus page document, but the way I understand it is that if they are not recovering their revenue requirements, they will be able to adjust their rates so that they will recover their revenue requirements.

So it seems, based on FERC Order 888, that Duquesne is practically guaranteed that it will recover its annual transmission revenue requirements. Therefore, it cannot be stranded in this case or any other retail cases, in my opinion.

The other thing is on distribution. As I pointed out yesterday, I can't imagine, breaking it down by components, what Duquesne might be suggesting that is stranded. West Penn is proposing to pay for the plant in service and Duquesne Light no longer has to operate and maintain the system, and those are the two primary costs of distribution. Considering that O & M considers all of your overhead, it just doesn't seem reasonable.

Q On page 4 of Mr. Lahtinen's testimony, he has three -- the first one is failure to consider transmission and distribution costs. You just addressed that?

A Yes, I did. I think it should be zero.

Q Then next one is the use of installed capacity instead of load to unitize system total stranded costs.

A I used net capacity, not installed capacity, and net capacity was 2,600 megawatts. I could have made an adjustment to unitize it over their peak load rather than their net capacity, which I would have then made the ratio based on what was reported yesterday, 2,522 megawatts, instead of 2,600, which would have in a small amount effected the result of my calculation.

However, if that were the case, then I would also want to consider the expected growth, which would probably increase that number from 2,522, so it didn't seem, for my purposes, significant enough to make that adjustment.

Q Okay. Over on page 5, in the first line, the statement is that it appears that -- paraphrasing it, it appears that you included Fort Martin in your capacity figure. You may have addressed this in going through your Exhibit 3 already.

A That's correct. I never included Fort Martin One because I knew long before the closing -- I knew at the beginning of this year, or whenever it was announced -- it was fairly early this year if not late last year, that that sale was going to take place, so I never did include that 276 megawatts.

Q Okay. Going on to line 6 there, there is a

statement that "Duquesne recovers costs by charging on the basis of kilowatt hours kilowatts sold, not on the basis of installed capacity."

A Right, and I think I just addressed that, that they also recover based on -- they recover from future customers as well, so they will recover from -- based on KW, from customers that are added to the system or customers that increase their load, so using their peak load would underestimate the amount that we should use in the calculations.

Q Finally, on line 15, there is the statement that, "My stranded costs estimate was based on the most recent price Duquesne receives for a round-the-clock firm energy sale." Do you want to comment on that?

A Yes, I would. I have always been intrigued by Duquesne's selling power at 1.9 cents per kilowatt hour because when I did the calculation based on what Duquesne reported to FERC on their FERC Form I report, when you take the total production costs, including fuel and all the other variable costs associated with generation, my calculations show that Duquesne's energy production variable cost is 2.922 cents per kilowatt hour.

The 1.9 is more -- more closely reflects pretty much just the cost of fuel. Actually, it's 1.791 in 1994. I can't remember off the top of my head what it was in 1995.

So, they may be selling for 1.9. If they are, I think it's probably a mistake, but be that as it may, based on the market analysis that I had performed, we feel it's unreasonable to expect that the current prices in the wholesale market will reflect -- or, reflect what the prices will be in the future, and that's because -- and, when we do this projection of market price of power for our clients around the country, the first assumption was if you have excess capacity, then the perfect competition would drive the price of power to the marginal cost of operation, or marginal cost of generation, if you will, the variable costs.

If you take that assumption one step further, if all of the buyers in the market can purchase power from whatever suppler they wish, then they can all decide that they would like to buy at the marginal price of production. In that case, no one would get their fixed costs covered, so -- and that can't be sustained.

So, in the long run, people have to pay for fixed costs and well, and our projection for a residential customer, the price for capacity for them, if they paid $3 per KW month for capacity, which is reflective of the cost of new capacity, building new capacity, which we think is a ceiling for the capacity portion of their bill, that if you assume $3 per KW month divided by the number of hours in a

month, you come up with around four tenths of a penny for capacity, and then using our load factor of 50 percent that we suggested is fairly reasonable yesterday, it comes close to eight or nine mils, or eight or nine tenths of a penny per kilowatt hour for capacity.

So, when you throw that on top of the market price for energy, which is what the wholesale market reflects right now, then you are getting close to three cents per kilowatt hour for power -- for capacity plus energy, the two major components, in addition to transmission and distribution.

So, basically I think that that 1.9 cents does not reflect the future market price for power. It should be closer to three cents per kilowatt hour.

Q Mr. Galatic, in this spread sheet and the figures in your testimony, were you using any information that you gained while you were employed by Allegheny Power Service Corporation?

A No, only publicly available information that was already at S.E.L. or that I acquired while at S.E.L.

MR. MUNSCH: Thank you.

JUDGE PORTERFIELD: Mr. Herskovitz.

MR. HERSKOVITZ: Could I have a couple minutes, Your Honor?

JUDGE PORTERFIELD: Sure. Off the record.

(Whereupon, a recess was taken.)

JUDGE PORTERFIELD: Back on the record.

Mr. Herskovitz.

MR. HERSKOVITZ: Thank you, Your Honor.

CROSS EXAMINATION

BY MR. HERSKOVITZ:

Q Good afternoon again, Mr. Galatic.

A Good afternoon.

Q I want to go back to where I was yesterday. Let's start at the beginning, I guess. We were talking about, or I was asking you about uneconomic investments and what you mean by uneconomic investments. You used that term throughout, at least 15, 20 times, maybe more. Can you explain again what you mean by uneconomic investments?

A Yes, certainly. There are two classes of uneconomic investments, in my view. The first is when you have capital investments where the book value of the capital investment exceeds the market value and the difference is the uneconomic portion of that capital investment.

The other uneconomic investment are things like regulatory assets, intangible assets if you will, that are on the books of companies where they can collect them in a regulatory environment through their established rates, but if you move to competition and have to sell power at market value, there is no market value for such regulatory assets,

so in either case, there's uneconomic investments.

Q Are you referring to one versus the other in your use of the term or...

A Most of my use of the term refers to generation assets, the uneconomic portion of generation assets, if I can remember every place that I used it.

Q Can you just give me a factual example that describes what you mean by use uneconomic investment?

A By use of uneconomic investment?

Q Yes. When you say -- let's look at where you used it in your testimony. On page 3, lines 5 though 7, you used it in that sentence. Okay?

A Certainly.

Q What are you describing there?

A I am describing the -- like, as I stated originally, the uneconomic investments associated with capital investments where the market value of the capital investment is lower than book value for Duquesne Light, and to the extent that a regulatory body might allow recovery of other regulatory assets, it may include that.

I can't predict whether they will allow that or not, so essentially, though, it means at least the difference between market value of the capital investments and generation and the book value.

Q You are talking about the generation plants then?

A That's correct.

Q And, also you used the term, bad decisions, on page 8, line 17.

A Yes, I did.

Q What are you referring to, bad decisions?

A I am referring to Duquesne's -- if Duquesne made a decision to invest in capital resources, or otherwise to serve the customers of Harwick Village knowing that these customers could leave at any time after Duquesne ceased ownership of those facilities, as indicated in the 1917 agreement that is part of this proceeding, then, in my opinion, that was a bad decision.

Q It's your term, bad decision; you didn't get that from some authority like the PUC, or it hasn't been labeled as such somewhere, has it?

A I don't know if it has or not.

Q And, you are saying that this is based on the fact that Duquesne -- knowing that they may not be able to serve the customers, that the customers could leave at any time, that is part of the basis for your decision?

A That's correct.

Q Where in the -- you used the 1917 agreement for that. Where does it say that in the 1917 agreement, that these customers can leave at any time?

A It doesn't say that in whole.

Q It doesn't say it at all, does it?

A No, actually the 1957 letter says it.

Q But, they were serving them prior to 1957, though; isn't that correct?

A That's correct.

Q By the way, are you aware of any response to that 1957 letter from West Penn?

A No, I am not.

Q By using these terms, uneconomic investments and bad decisions, are you implying that Duquesne made imprudent investments to serve these customers?

A In use of the term, uneconomic investments, I am making no -- I'm forming no opinion on whether it's prudent or not. Uneconomic doesn't necessarily imply a bad decision. It's more in hindsight that it's determined that these costs that have already been incurred are below -- the book value is higher than market value, so it doesn't imply uneconomic investments, but rather when I use the term, bad decision, I am implying that -- I can't remember exactly how you phrased your question...

Q I can...

A I am implying that it -- could you restate your question?

Q My question is, by using the terms uneconomic investments and bad decision, are you implying that

Duquesne made imprudent investments to serve the Harwick Village customers?

A Using the term, bad decision, I am implying that they made imprudent investments to serve these customers.

Q Can you point to any PUC decision or any other decision that says that Duquesne made imprudent investments to serve these customers?

A I know of no such decision.

Q Weren't there decisions that indicated, that said, that these investments were prudent?

A I'm not aware of such decisions. My basis for that is based on the position taken by FERC recently with the Order 888 in the proceeding, Notice of Proposed Rule Making, in establishing whether a utility would be able to recover cost stranded when a wholesale customer departs, that this -- the decision of whether the utility could meet a reasonable expectation standard in a sense that the utility had a reasonable expectation that they would continue to serve that wholesale customer, as the standard for whether FERC would consider allowing the utility to recover it's stranded costs.

Just as Mr. Lahtinen indicated yesterday that Duquesne's position on recovery of stranded costs was formulated since early 1994 or somewhere between the last decision where customers were transferred in late 1993 and

the time that this filing was first initiated in 1994, the FERC's Giga-NOPR, as it is called in the industry, Notice or Proposed Rule Making, that was released on March 29th, 1994, establishes that reasonable expectation, the standard of reasonable expectation, criteria.

Even though there has been no PUC decision that I know of, no Pennsylvania PUC decision, relating to that, that's the basis for my opinion that these investments were imprudent.

Q That FERC decision has nothing to do with what is going on in this case, does it?

A It has no more to do than any of the other regulatory decisions that Dr. Bower referred to yesterday.

Q But, Dr. Bower used -- if you are referring to the legislation that was just passed, he was using that as an example; isn't that correct; he didn't use that to form the basis of his opinion?

A Example of what?

Q That that is what is going on right now, and he -- well, let me show you. Do you have his surrebuttal testimony there?

A Yes, I do.

Q If you look at the question beginning on page 6, line 15, his question and answer, and then on page 7, the next question and answer, isn't he just saying that what is

going on with the legislation is analogous, he's not basing his opinion on what the legislation actually states?

A Dr. Bower yesterday in oral testimony mentioned several other states where restructuring is taking place, and -- I'm sorry. I'm losing the point of what we are trying to get to here.

Q Well, okay. We may get back to that. I want to just go back to uneconomic and bad decisions again. When you use those terms, are you using them using 20/20 hindsight, let's say, for uneconomic investments, or are you using that term looking at the decision that was made during the time the investment -- at the time of the investment, or are you looking at what actually happened after the investment?

A As I stated earlier, when I use the term, uneconomic investment, it makes no opinion -- I form no opinion of whether that investment was prudent or not, so it definitely uses 20/20 hindsight. It doesn't make judgement at all, which 20/20 hindsight implies, it just looks at the numbers of how much has been spent versus how much could be gotten for the capital asset.

Bad decisions, however...

Q That's my next question; how about bad decisions?

A Bad decisions does not imply 20/20 hindsight. It implies a lack of foresight in that investments may have

been made to serve customers that were not captive.

Q But, you are looking at that decision now, not at the time it was made? That's the point I am getting at.

A Well, in 1957, my understanding of that letter is that West Penn can purchase the facilities at any time, and if I am considering making investments to serve customers that could leave my system at any time, I think I would consider it fair and reasonable and prudent that I might not make investments to serve those customers.

Q Why do you say they are non-captive customers?

A The way I used the term, non-captive, -- well, captive customers, that's basically a term that has been used a lot in the industry. Since the Notice of Proposed Rule Making was issued by FERC on March 29th, 1994, there has been a distinction between customers that they consider captive and non-captive, and basically it reflects the reasonable expectation standard that we talked about earlier without going into all the criterion used to establish whether someone can meet that reasonable expectation or not.

It's basically a shorthand jargon, if you will, to explain the customers that could have done something else before or customers that could leave.

Q Is that your definition of non-captive, a customer that could have left or could leave?

A Non-captive, yes, is a customer that could have left before the changes in the regulations.

Q What does that have to do with our situation; how could those customers have left?

A The customers could have petitioned the PUC, as they did in 1994 and as previous customers did before 1994, to ask that their service be transferred to West Penn Power. Therefore, they are non-captive customers, as far as I can see.

Q But, isn't that true of any customer?

A It may be true that other customers could petition, but it is unlikely that they would be successfully transferred, as in the case of Pitcarin if I remember right. I shouldn't have said that. I don't know the facts, but I do know that are other cases, one that was mentioned earlier today, Findlay Township, for example, where people petitioned to be transferred but were not allowed to transfer.

Q What makes this a more likely candidate for transfer?

A Because there is an agreement in place, and with everything that I have seen in deregulation of natural gas, for example, everything that I have read, Order 636 and Order 888, on deregulation -- I should say open access to transmission and stranded costs recovery in the wholesale

electric power market, that abrogation of contracts, abrogation of agreements, is not something that the regulators are inclined to do.

In this case, if the customers -- if West Penn were not allowed to purchase these facilities to serve these customers, I, not being any kind of expert in contract law or even an attorney for that matter -- it looks to me like that would be -- I mean, imply and abrogation of an agreement.

Q Well, you read the agreement, didn't you?

A Yes.

Q Is there anything in there that gives West Penn the right to take these customers back?

A I think that it is ambiguous. I think that it was clarified for -- by the President in that letter. If I remember, he said something like clarified for future understanding. I figure since that is the President who was part of the agreement, that their interpretation is that they could be transferred.

Q Can costs be stranded under your definition; what is your definition of stranded costs?

A Stranded cost generally could occur in any business. They are the costs of capital that cannot be recovered if your business goes away. For example, to cite a non-utility example, if a steel company invests in plant

to serve an auto maker customer and the auto maker switches steel suppliers and the steel supplier cannot find a replacement customer, then their costs, their fixed costs, their capital investment are stranded by that departing customer.

As it applies to the regulatory environment, using FERC's guidance, if you will, in what they have written in Order 888 and the previous Notice to Proposed Rule Making, I use stranded costs as -- when I say legitimate stranded costs, I think of recoverable stranded costs. The difference is that recoverable means the costs were stranded because of a change in regulations.

FERC seemed fairly clear in their writing and also in a meeting that I attended with FERC's staff a few weeks ago with counsel for Pitcarin -- Municipal Utility of Duquesne Light. FERC's staff indicated that if the customer exercises an option that was available to it before change in regulations and departs service for Duquesne Light, that Duquesne Light would be unable to recover stranded costs.

I qualify that this is just FERC's staff and they said that what they stated at that meeting was not binding, but they think it's fairly reflective of what the Commissioner's think.

Q There is no order from FERC, and you also said not from the PUC, that gives any guidance on this issue, is

there; I mean, you're just talking with people, and of course I cannot cross examine them right now, and that's just their opinion; I mean, right now there is no FERC order that says there can't be recovery of stranded costs for other than regulatory changes, is there?

A It doesn't state it in those words, but it does give you that -- it does imply that.

Q Where does it imply that?

A I would have to reference that. I don't even have the orders with me. I could look up the passages if you like. There's no PUC decision. I would like to address that question if I could.

Q One second.

JUDGE PORTERFIELD: I don't want to interrupt your cross examination, but from my understanding, may I summarize basically what I think you are saying?

THE WITNESS: Sure.

JUDGE PORTERFIELD: I understand you to be saying that in order to be consistent in your usage of these terms, this is the background source on how you formed these concepts of recoverable and strandable and stranded and so forth. Is that basically what you are saying?

THE WITNESS: That's basically correct.

JUDGE PORTERFIELD: Thank you.

THE WITNESS: Addressing the issue of no PUC order...

BY MR. HERSKOVITZ:

Q We will get back to that. Did FERC Order 888 address stranded costs associated with customers going from retail to wholesale?

A Yes, they did.

Q. Municipalization?

A Yes, they did.

Q Just so I am clear now with regard to FERC, you have a quote from Order 888 on page 7 of your testimony, starting on line 11 through 17?

A Yes.

Q You are...

A Where is the quote?

Q Line 11.

A Okay.

Q You are saying -- you are using that as a -- I guess, your precedent for, or your basis for, your next question, talking about Duquesne had no reasonable expectation to serve; is that correct?

A Actually, this uses clarification of what FERC said about and evergreen provision.

Q What is an evergreen provision?

A An evergreen provision is where a contract is automatically renewable at the end if no action is taken. Therefore, for example, in FERC's consideration of a

wholesale customer, if the customer were to have a one-year contract that was continually automatically renewed as per an evergreen provision in the contract, then the fact that it could expire at the end of one year, if it has historically been renewed for quite a number of years, then just the fact that it expires after one year, FERC has stated, is not sufficient notice as far as -- that this customer might leave at the termination of the contract.

They are basically saying that -- they are trying to determine -- in trying to determine whether the utility had an expectation of continuing service, they look at the contracts, or they propose that they would look at the contracts, and if it had a notice provision in the contract, then there is the presumption that if notice could be given that the contract was going to end, then the utility did not have the reasonable expectation that they would continue service after the contract termination.

However, if the contract would end on its own but were continually renewed, then that's basically referred to as an evergreen provision.

Q How does this case relate to ours; how does that provision relate to our situation?

A Well, it appeared to me that Duquesne was arguing that they had a reasonable expectation to continue service to the Harwick Village customers. As per Mr. Lahtinen's

testimony that -- if I can remember -- oh, he said that reasonable expectation is the underlying rationale for stranded costs recovery.

I suppose that Duquesne was arguing that -- or trying to make the point that they had a reasonable expectation to continue service of the Harwick Village customers, and that since they had been continuing service to these customers since 1959, that there is an implied evergreen provision in the implied contract, if you will, between Duquesne and the Harwick Village customers.

Q You are familiar somewhat with the recent legislation we have been referring to in Pennsylvania, are you not?

A I have read it once.

Q Do you know whether there is an affirmative obligation in there on utilities to mitigate stranded costs?

A I believe there is.

JUDGE PORTERFIELD: Excuse me. Let's go off the record for a moment.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record.

BY MR. HERSKOVITZ:

Q I believe you criticized Mr. Bower for using an efficiency argument. Do you recall that?

A I wouldn't criticize Dr. Bower although I might criticize his argument.

Q Okay, his argument then. What you said was, "It is not fair to characterize it as an efficiency argument because efficiency is used in making investment decisions, deciding where should I put my money to serve the customers in this case and Mr. Bower uses efficiency in hindsight." Do you recall making that statement?

A Yes, I do.

Q "He basically evaluates what do we do now based on what we spent before." Do you recall that?

A Is that what I said?

Q Yes.

A I don't know that that's clear out of context, but...

Q Well, that's what you said.

JUDGE PORTERFIELD: What page are we on?

MR. HERSKOVITZ: It's on the bottom of page 5 and the top of page 6 in the transcript.

JUDGE PORTERFIELD: Oh, the transcript.

MR. MUNSCH: Is that the transcript of yesterday's proceedings?

MR. HERSKOVITZ: Yes.

MR. MUNSCH: We have not had the benefit of that.

MR. HERSKOVITZ: I thought you had ordered a copy.

MR. MUNSCH: No.

THE WITNESS: At the bottom of page 5, did you say?

BY MR. HERSKOVITZ:

Q Right, and the top of page 6.

MR. MUNSCH: What line does the quote start on?

MR. HERSKOVITZ: Line 23.

(Witness perusing document.)

BY MR. HERSKOVITZ:

Q What I want to ask is that you say he is using hindsight, but didn't he compare future incremental and avoidable costs; didn't he speak about looking forward?

A Yes, he did, and I didn't think I made myself as clear as I could yesterday when I talked about efficiency in general.

Q Well, answer my question.

A Sure.

Q Well, you did answer my question. He did compare future incremental and avoidable costs, didn't he?

A Right, but like I said yesterday, trying to say that evaluating costs that were incurred in the past have anything to do with making efficient decision implies that sunk costs are meaningful when you make investment decisions, and they are not.

Efficiency is a goal when, as Dr. Bower mentioned in citing some guy named Bombright, he said classic works by

Mr. Bombright, efficiency is a goal when determining rates or structuring rates in that you structure a rate so that you -- if I can interpret that paragraph that he mentioned, the goal is to structure rates so that energy is not used wastefully, or I should have said resources, so the customers don't use resources wastefully, but yet they can use the resources when the economic benefit of its use makes sense. The economic benefit outweighs the cost of production. The idea that you can take this goal for rate design, efficiency in rate design, or rate design so that you promote efficient use of electricity in our case and apply it to sunk costs of utilities doesn't make sense except where you are going to use it to evaluate the effectiveness of your regulatory regime.

In much the same sense -- I should say a similar sense that you design the rates to encourage the efficient use of electricity by electric utility customers, you design regulatory regimes to encourage utilities to make efficient use of capital resources, or societal resources, and you can bring in sunk costs or previously incurred expenses in order to evaluate whether your regime that you had put in place most efficiently allocated resources or not.

But, to use it as Dr. Bower used it to make a decision, a forward-looking decision, of who should serve what customers turns a fairness issue into an efficiency

issue where sunk costs should not be considered.

Q You have an example on page 6 there. You talk about you want to spend a hundred thousand to make $200,000. Do you recall that?

A Yes, I do.

Q It starts on page 6, line 8 through page 6, line 16, if you want to review that.

(Witness perusing document.)

Have you read that?

A Yes.

Q Are you saying in your example, for the benefit of the Judge who now does not have a transcript -- my question is, are you stating there that you should spend or not spend the $10,000 extra?

A I'm stating that if your investment decision considers sunk costs, then you may be in a position where you are evaluating this project on total cost, what I have spent so far and what I have yet to spend, and if you do so, considering sunk costs, then you would say, would I spend $100,000 to recover $90,000?

My point is if you use the sunk costs in your criterion, your decision criterion, then you may decide not to spend the extra $10,000 to recover the $90,000 and that would be a bad decision.

Q So, the correct decision is?

A The correct decision would be to spend the $10,000 to recover the $90,000, but that implies that you are not using sunk costs in your consideration of efficient use of capital resources.

MR. HERSKOVITZ: Could I have a moment, Your Honor?

JUDGE PORTERFIELD: Certainly.

(Counsel conferring with client.)

JUDGE PORTERFIELD: Back on the record.

BY MR. HERSKOVITZ:

Q Your Exhibit X-3 that you submitted today, you said you prepared that previously. Was that before you were asked to participate in this case?

A That's correct.

Q And, why did you do that?

A We have been evaluating the potential stranded costs for several clients if their utilities were allowed to recover stranded costs in a transition to competition.

Q I see. You are not saying Duquesne was a client of yours, are you?

A That's correct. As a matter of fact, we had no client in Duquesne's territory for whom I prepared this. I did this to satisfy my own curiosity.

Q When did you do this?

A Sometime this summer.

Q Had you been contacted at that point by West Penn?

A No.

Q Okay, so you had no idea you would be here today?

A That's correct.

Q So, what you are saying to me is that Duquesne didn't ask you to prepare it and you had no client that was in Duquesne's territory that asked you to prepare that, right?

A That's correct.

Q Could you look at X-3?

A Yes.

Q Let's take one of these generation plants, and I have a question concerning -- first, do you have FERC Form I with you; you said you got your figures from Duquesne's FERC Form I, is that correct?

A That's correct. I do not have the FERC Form I report with me.

Q We have a copy. What I would like you to do is show us where you got the figures in your first column for these generation plants.

JUDGE PORTERFIELD: It's the percentage of ownership. Would that be in Duquesne FERC Form I?

THE WITNESS: The percentages -- I'm not sure if the percentages of ownership is in FERC Form I. To be more precise, my source -- I used a data base provided by the Oil Petroleum Research Institute that compiles FERC Form I

information for utilities and in that data base, one of the nice things about it is it breaks up the investment by companies based on their reported ownership in the units in a particular station.

BY MR. HERSKOVITZ:

Q So, what you are saying to me is you can't look through this form and find those figures?

A I can look through this form and find some of those figures.

Q Okay.

JUDGE PORTERFIELD: He's referring to column one exclusively.

THE WITNESS: For column one...

BY MR. HERSKOVITZ:

Q Yes.

A But, for wherever Duquesne has shared ownership, I didn't claim that I got them -- I don't remember that I claimed that I got them from the FERC Form I. I think I claimed they were as reported to Duquesne Light -- by Duquesne Light to FERC in their FERC Form I reports. My source was the data base that summarizes that information.

Q Could you show me where you got the figure for...

A Line 16, total costs.

Q Which one are you looking at now; are you looking for Eastlake?

A Eastlake, it says $73,874,012.

Q That doesn't match what is in your exhibit does it?

A That's correct.

JUDGE PORTERFIELD: What year did you use?

THE WITNESS: It's the Duquesne Light investment -- it's the costs per -- let's see. I'm pretty sure it said original cost. There's the total cost. Land and land rights, structures and improvements and equipment costs to add up to the total costs. It looks like it's not exactly what I have in, but it is very close.

BY MR. HERSKOVITZ:

Q All right. Look at Elrama.

MR. MUNSCH: I want this to be clear on the record. What are we looking at?

MR. HERSKOVITZ: What I'm asking is...

MR. MUNSCH: What did you hand Mr. Galatic?

MR. HERSKOVITZ: I'm sorry. Mr. Galatic is looking at FERC Form I filed by Duquesne Light Company for the year ending October 31, 1995.

MR. MUNSCH: You asked him to look at page...

MR. HERSKOVITZ: No, I didn't. Well, I handed him the book. I didn't know what page he would find it on. I just asked him to find -- match the figures on his Exhibit 3 with the figures in the FERC Form 1.

MR. MUNSCH: And, he turned to page 403 and found that figure in a matter of a minute or so?

MR. HERSKOVITZ: Well, we had it open to that page.

MR. MUNSCH: So...

BY MR. HERSKOVITZ:

Q All I am asking is to match up some of these Eastlake 5. Where in FERC Form I, Duquesne's FERC Form I, does it have the figure for that?

A This FERC Form I report for Elrama shows $217 million. My column one shows $211 million.

Q So, there is a difference of $6 million there, roughly?

A Yes, there is.

Q How about Beaver Valley I?

A Mine says $579 million. Yours says $580.

Q Rather than continue on this, looking at your Exhibit X-3, you have two columns there; the center, Cost of Net Capacity, Dollar per Kilowatt. Do you see that column?

A Yes, I do.

Q Then the next column is Discount Rate using eight percent?

A Yes.

Q Now, let's just take any one of these. You could take any one you want. All I want you to do is explain to

me how you got those numbers in those two columns using any one of these plants as an example.

A As I stated earlier, I took the Duquesne Light investment in the power station, divided by the net capacity of Duquesne's portion of the power station and converted from megawatts to kilowatts.

Q Then how do you get the next one, the discount rate using eight percent?

A Based on the remaining life of the plant -- based on an assumption of estimated remaining life -- this one shows a lifetime of 30 years which, just like the eight percent discount rate, is an assumption. You come up with the dollars of net installed capacity and basically amortize it over the number of months in the remaining life of the plant to come up with the dollars per KW month.

Q Did you use 30 years for each plant?

A Yes, I did. In my original estimations this summer, I played around with those numbers. I used 30, I used 35. In this one, I used 30.

MR. HERSKOVITZ: I may be finished. Could I have just a minute, Your Honor?

JUDGE PORTERFIELD: Certainly. Off the record.

(Counsel conferring with client.)

JUDGE PORTERFIELD: Back on the record.

MR. HERSKOVITZ: That's all, Your Honor.

JUDGE PORTERFIELD: Do you have any questions for the witness, Mr. Yakopec?

MR. YAKOPEC: I only have two very general questions. Do you want to go first, Jack, or do you want me to do it?

MR. MUNSCH: Why don't you go.

MR. YAKOPEC: All right.

CROSS EXAMINATION

BY MR. YAKOPEC:

Q Mr. Galatic, if you know, pertaining to the Harwick Village situation, at any time could Duquesne Light have come to West Penn, because it was their territory, and said, "It's in your territorial area, you serve it?"

A I'm not aware of the procedures that the Public Utility Commission uses in general. However, based on what I have read in prehearing testimony, it looks like such transfers have occurred before. I really don't know much about that -- like you said, the PUC procedures.

Q Secondly, are you aware of any requirement in the law that pertains to this case that would require having Duquesne Light obtain stranded costs instead of the traditional trended original costs minus depreciation?

A Actually, I'm not aware of any law. I'm not an attorney, but I know, from the July 3rd report from the Public Utility Commission to the General Assembly and Governor Ridge recommending that they pass legislation,

that they state in that document that they questioned the PUC's authority to assess the stranded costs charge related to moving to competition and that if -- it seems to me that if the PUC does not know if they have the authority to assess stranded costs recovery charges in moving to competition, that it seems unlikely that they would have the authority to do so in this case where this is no move to competition.

MR. YAKOPEC: That's all the questions I have.

REDIRECT EXAMINATION

BY MR. MUNSCH:

Q Mr. Galatic, just to clear about these three numbers from your Exhibit X-3 for the generation units for Eastlake 5, Elrama and Beaver Valley I, in general were the number discrepancies major?

A No, actually they were very minor.

Q What were they have for Eastlake 5; do you have those, the FERC Form I that Mr. Herskovitz was referring to versus the figures in your X-3?

A For Eastlake 5, the number I have in X-3 is $73,684,599. The number in the FERC Form I is $73,874,012 for a difference of around $210,000, roughly.

Q Okay, how about Elrama?

A The difference there looks to be about $6 million out of $200 million dollars. I have $211 million; the

report has $217 million.

Q How about Beaver Valley 1?

A Beaver Valley 1, the FERC Form I report says $580,208,000 and some change, and my exhibit says $579,322,000, roughly a difference of $900,000 or so.

Q Assuming, for the purposes of argument, that stranded costs are recoverable, how does one calculate the revenue stream method that Mr. Lahtinen used in his assessment of stranded costs?

A The lost revenue approach implies that...

MR. HERSKOVITZ: Your Honor, I am going to object. This is more like more direct testimony here. This is a new area we are getting into. This does not respond. This is not redirect at this point.

JUDGE PORTERFIELD: I think you already had direct, Mr. Munsch, or whatever it was.

MR. MUNSCH: That's all for me then. Thank you.

JUDGE PORTERFIELD: Any follow-up, Mr. Herskovitz?

MR. HERSKOVITZ: No.

JUDGE PORTERFIELD: Thank you.

(Witness excused.)

Let's take a brief recess.

(Whereupon, a recess was taken.)

JUDGE PORTERFIELD: Back on the record.

Are we ready to go, Mr. Herskovitz.

MR. HERSKOVITZ: Mr. Lahtinen.

JUDGE PORTERFIELD: All right.

Whereupon,

JAMES A. LAHTINEN

having previously been duly sworn, testified further as follows:

DIRECT EXAMINATION

BY MR. HERSKOVITZ:

Q Mr. Lahtinen, you just heard the further direct or surrebuttal, I don't know what we call it, but further testimony of Mr. Galatic.

JUDGE PORTERFIELD: Off the record.

(Discussion off the record.)

JUDGE PORTERFIELD: Back on the record.

BY MR. HERSKOVITZ:

Q Mr. Lahtinen, you were here for the additional testimony of Mr. Galatic and his comments he made concerning your surrebuttal testimony?

A Yes, I was.

Q Basically there's three or four different areas he touched upon and I would like you to respond to his comments he made about your surrebuttal testimony. The first area that I would like you to respond to is his comments to your transmission and distribution adjustments.

A Yes, I will do that now. As I understand his

rejoinder testimony, he did not make an adjustment for strandable transmission and distribution costs because he doesn't believe there will be any strandable transmission and distribution costs.

Let me deal first with distribution costs and why there will be strandable distribution costs. As I understand his testimony, his basic question is West Penn will be paying the net book of the distribution facilities in the Harwick Village area, therefore why are there any costs associated with transmission left over to be recovered through a strandable charge?

There are a couple reasons for that. One, the number that Mr. Garland provided for the net book for our distribution facilities only includes the facilities that West Penn requested a net book number on. They explicitly do not include transformers nor do they include meters.

Second of all, the numbers do not include an allocated share of the overheads on the Duquesne system. For example, there are no allocations for administrative and general costs, fixed, you know, A and G investments, A and G fixed operating costs, so there is a difference there.

My methodology which takes the rates that were approved by the Commission includes everything that they found to be prudent and includes all the associated overheads in the rates that were ultimately judged to be

reasonable and charged to the residential customer.

I have taken out a piece, the net distribution piece that West Penn has agreed to pay, out of my numbers. I have made an estimate of what I believe to be avoidable O and M on the distribution. As I state in my testimony, certainly we won't have to read meters, certainly we won't have to trim trees on the distribution circuits. Those certainly should come out, and lastly, I took out the market value of the generation capacity and energy to get my net stranded costs number.

I think the answers are that the numbers -- there's a difference between the numbers that Mr. Galatic believes should totally cover us for strandable distribution costs and what really are the strandable distribution costs.

The second issue he raises, and I think I am characterizing this correctly, is there will be no strandable transmission costs because under Order 888, we are able to collect those costs through transmission wheeling rates.

First of all, I have absolutely no idea what Order 888 has to do with this issue. The fact of the matter is, as I said in my testimony, if these costs are not recovered from the Harwick Village customers, they will be recovered either from Duquesne's retail customers or Duquesne's wholesale customers, a combination of the two or Duquesne's

shareholders at the end.

The fact of the matter is, I would think FERC would look very adverse on something whereby there was pattern being established which states that we are shifting costs out of the retail jurisdictional allocation to the FERC. I think FERC would certainly come back to Duquesne and tell us, "Have you done all you can to mitigate those stranded transmission costs by attaching those charges to the departing Harwick customers?"

In point of fact, FERC, in Order 888, where I do believe it is somewhat relevant, they do explicitly address strandable costs for retail to wholesale customer shifting. They are very explicit in there. They say that they are going to leave it up to the states to deal with the strandable costs charges for customers who municipalize and change from retail customers to wholesale customers, that they want the states to deal with that problem.

In the extreme case where the states, by matter of law, are unable to deal with strandable costs, they will deal with those costs, but clearly I don't want the impression to be left that Duquesne is unable to collect the stranded transmission costs from the departing customers, those pro rata share of those costs.

There is absolutely nothing in the FERC Order 888 which would guarantee Duquesne that they could pass those

along through wholesale rates. As a point of fact, at a minimum they would only be allowed to pass through a portion of those costs attributable to the load ratio share of the trans -- of the wholesale load to a total load. I'm done with that point.

Q The next area that was covered were comments to your peak load adjustments. Would you like to respond to those now?

A Yes, I would. It was helpful to have the spread sheet, but frankly, I have a couple of questions on it. I don't want to get into it. I would ask these more as rhetorical questions.

Frankly, I do not see why his Exhibit X-2 reports an installed capacity number, 2,832, when in point of fact, he says he uses 2,600 megawatts. All he appears to be doing on this exhibit is taking a total pot of dollars and unitizing it using installed capacity.

In point of fact, if you take his total stranded costs number and divide it by the installed capacity he reports on this exhibit, you get his number of either $492.16 or $158.16. Be that as it may, if this supports it, this supports it. I really don't care, but the fact of the matter is that the load is what you recover the costs over.

Mr. Galatic raised the question, well, it really doesn't make much difference because then one reasonably

would have to consider future load growth. Well, in point of fact, I don't know if the Commission will make us consider future load growth or not.

The fact of the matter is that the methodology that I used follows pretty closely the FERC methodology which uses an average of the previous three years of load growth to calculate the stranded costs charge. Excuse me, the previous three years of billing sales, billed sales, to calculate the stranded costs charge. They do not deal with future load growth.

Second of all, the legislation and the Commission said in their report that they were going to use rate caps as a way in which utilities would be allowed to recover their strandable costs, which suggests to me that there are not going to be any adjustments for load growth.

Aside from that, if the Commission determines in our transmission filing that we should make some adjustment for load growth, we certainly will make the adjustment for load growth and we will make an appropriate adjustment in this case.

The third point that Mr. Galatic raised was the point about the market value that I used in estimating stranded costs. As I said, I used the number of 1.9 cents per kilowatt hour, which is representative of a round-the-clock firm sale of energy, the most recent round-the-clock firm

sale of energy.

Mr. Galatic, I think, raises two points, one of which I think I can respond to is I hope he's right. The second point he brings up, he is dead, absolutely wrong. Point number one is if the market value is 2.9 cents a kilowatt hour, if it is five cents a kilowatt hour, we hope to determine that through a competitive solicitation.

If S.E.L. would care to act as a broker or marketer and sign a contract with Duquesne to pay four cents a kilowatt hour, if they believe the price is four cents a kilowatt hour, we can sign a deal today.

My point is I believe the best way of estimating the market price of power is going through a competitive solicitation. I pray to God that the market price of power is as high as S.E.L., or maybe even West Penn, believes it will be because we wouldn't be going through these stranded costs cases.

Second of all, his issue about -- he made a comment concerning -- he expressed some shock and surprise that Duquesne would sell power at 1.9 cents per kilowatt hour given his analysis that our costs of running our generating plants are 2.9 cents a kilowatt hour.

There are a couple mistakes with that. One, he fails to recognize that the wholesale market, short-term sales and even long-term firm sales round-the-clock for a year,

are based upon covering your incremental costs. That's the incremental costs of fuel an incremental variable costs.

In point of fact, it is very easy to prove. The current bulk power price of power on a spot market basis for up to a years sales is about $17, $18, $19 a megawatt hour. Everybody's FERC Form I, you could calculate an attributable costs of service to the generation portion by throwing in fixed costs. The fact of that matter is, as Mr. Galatic criticizes Mr. Bower, you don't want to do that precisely because it will lead to incorrect economic decisions.

West Penn, Duquesne, Penn Power all exchange power on a short-term economy-wide basis. The only criteria is on an incremental basis, can Duquesne supply power to its own load cheaper than it can buy from the market. If the answer to that is yes, we supply it. If the answer is no, we buy it; no different than West Penn, Penn Power.

PJM, New York Power Pool, NEPOOL, all run through economic dispatch. What do they compare; incremental running costs including incremental fuel, variable O and M. That's the economic decision criteria. It has nothing to do with fixed costs, no overheads; incremental.

You have to have incremental costs in order to -- you have to use incremental costs if you want correct decisions to be made. This is exactly the point I make in my

testimony, exactly the point Dr. Bower makes in his testimony.

If you don't recover stranded costs in the case of Harwick Village, retail choice; if customers are going to bear stranded costs depending on which supplier they elect to choose to supply their power, you are going to get inefficient decisions, screwed up decisions. The reason why, very simple; if a Duquesne customer stays with Duquesne and has to pay fixed costs, they are going to compare Duquesne's variable incremental costs to serve them with the fixed costs we attribute to them. If they have the option of going to West Penn Power and paying incremental costs, what are they going to do?

There is no doubt in my mind what they are going to do. They will go from Duquesne to West Penn, but the problem comes in when what if Duquesne's incremental costs are a penny and our fixed costs are seven cents; what do we charge them, eight?

West Penn has incremental cost of a nickel. Do we really want to encourage customers to leave our system where we supply their load on the margin for a penny and have West Penn run units of a nickel? I don't think so. There is a rate of resources at a rate of four cents per kilowatt for every kilowatt hour transferred.

That, in nutshell, I think, summarizes very clearly

the differences, in my view, the confusion between this incremental and fixed costs. You don't consider the fixed costs in running on the basis of economic dispatch and you have to treat the fixed costs in terms of retail wheeling in order to insure that customers only compare generation resources on the margin.

That's the essence of the efficiency argument. It's an argument that was recognized by the Commission very well. If you turn to page 16 of my testimony, direct testimony, their July 3rd report, they say, and I will quote; "All retail customers located in a utility's distribution service territory are expected to contribute to stranded costs recovery. By including these costs that will be paid by all retail distribution customers for whom the costs were incurred, stranded costs would be removed from generation rates so that some presently uneconomic generation facilities could be competitive.

"Additionally, since the cost of recovering the stranded costs would not be reflected in generation prices, the recovery charge would not be a barrier to choosing alternative generating suppliers." End of quote.

That, in a nutshell, is our case. That concludes that. Do you have another question?

Q There was some comments by Mr. Galatic concerning a situation going on in Pitcarin right now.

A Yes.

Q Are you familiar with that situation?

A Yes, I am.

Q Can you explain what is going on there?

A I just want to make the record clear. Duquesne and Pitcarin currently are talking about negotiating over a cancellation date in their contract. There's nothing been decided. That case may be settled. That case may not be settled. That case may end up at FERC. They case may not end up at FERC.

JUDGE PORTERFIELD: Are they municipalized, or whatever that word is?

THE WITNESS: No, they are a full requirement customer at Duquesne. There is an issue now as to what exactly the cancellation date means in that contract. They would like to make sure that they can get out of the contract after a year. Duquesne is talking to them about that.

Whether or not we settle, it's possible that that issue could end up at the FERC. It's very possible that there could be a stranded costs recovery issue. That issue will be decided by the FERC.

BY MR. HERSKOVITZ:

Q What also came up during this additional testimony, the question was asked by Mr. Yakopec concerning whether or not there is any law that requires that stranded

costs be paid in a situation like this, and I believe he said other than stranded original costs.

Let me just ask -- and I'm not sure what Mr. Galatic's answer was. Is trended original costs -- you have been involved with -- you are familiar with some of these transfers?

A Well, I am familiar with trended original costs. I'm not -- again, the previous transfers, I have not been involved in this issue per se until recently. I am certainly familiar with trended original costs, certainly understand the basis. If you would like to ask me that question, I would be happy to answer it.

Q Do you know if there is any type of requirement that when a transfer is made, that trended original costs be the basis for the, if you want to call it the purchase price or the transfer price?

A Not to my knowledge. Transfers in Pennsylvania as well as other jurisdictions that I am aware of have -- some transactions have occurred at trended original costs, some have occurred at net book, which is exactly the figure which Mr. Garland arrived at.

Generally, as I had said yesterday and I've said today and I've said in my testimony, those things are generally done by mutual consent where all parties benefitted.

Q On Exhibit X-3.

A Yes.

Q Do you have any response to Mr. Galatic's Exhibit X-3 and his calculations?

A Yes. I would just like to make a couple observations. I did talk about this exhibit with regard to the installed cost versus peak demand. I think I said enough about that issue.

Second of all, with regard to the calculation of these numbers, as I understand them, which support or allege to support his testimony that Duquesne's fixed generation costs are 1.6 cents per kilowatt hour, I would like to make a few observations.

One, there is absolutely no recognition in here of income taxes associated with the return. There is absolutely nothing in here that I can see that would show any allocated overheads to the generation plant. The eight percent, obviously, does not properly reflect Duquesne overall rate of return, and...

Q When you say the eight percent, are you talking about the discount rate?

A Discount, correct. For example, if I had -- first of all, if I had an investment of $10 million and I had load of a million, if I wanted a unit cost, I would take the $10 million of costs I have and divide by a million. I got it. I don't need to convert anything into present

values or revenue requirement streams.

But, if you are going to do that, and why some people do it is because the revenue requirement stream is going to be based on a higher carrying charge than your discount rate. So, if you got a thousand dollars of investment and you want to calculate revenue streams, you have to consider the depreciation of the plant. You have to consider return on the rate base, which would be your interest, your preferred dividends, return on equity as well as your income taxes, as well as all the overheads associated.

You could take a thousand dollar investment and you bring it out at 20 percent carrying charge rate, you get 200 bucks a year, for example. You discount the 200 bucks a year by your appropriate discount rate, which is your weighted after tax cost of capital. Eight percent is not exactly Duquesne's after tax cost of capital, reasonably close for these purposes.

The fact is that if you take a thousand dollars, you bring it out into a revenue stream using a carrying charge of close to 20 percent and bring it back at eight percent, you are going to end up more than the thousand dollars.

This doesn't do it. This is another reason why you have to be very careful when you do these calculations. If you are going to report stranded costs numbers, you better report stranded revenue requirements because the revenue

requirement numbers are what the utility needs to support its after tax investment because they are going to be liable for income tax on that revenue stream. If you don't do it, you are going to generate stranded income tax liability. That's all I have.

MR. HERSKOVITZ: Thank you. The witness is available for cross examination.

JUDGE PORTERFIELD: Mr. Munsch.

MR. MUNSCH: Thank you, Your Honor.

CROSS EXAMINATION

BY MR. MUNSCH:

Q Mr. Lahtinen, you acknowledge, do you not, that Harwick Village is in West Penn's service territory?

A Well, we exchanged service territories. Back in 1916, Duquesne and West Penn exchanged service territories. They exchanged the territories with the customers.

I think the contract is ambiguous, or at least I don't know whether these customers are in West Penn's territory. I think Duquesne's transmittal letter to them at one time said that they did acknowledge the fact that customers who are located in one's service area should be served by the customer.

The question is...

MR. YAKOPEC: Is that letter in evidence?

THE WITNESS: I believe so. It's attached...

JUDGE PORTERFIELD: We are talking about the 1957 letter?

THE WITNESS: No. I'm talking about the transmittal letter that Larry Crane sent, I believe to Mr. Munsch, which is attached to my rebuttal testimony.

BY MR. MUNSCH:

Q Could you look at page 4 of your direct testimony?

A Yes.

Q Beginning on line 3, you say, "Because Duquesne acknowledges that Harwick Village is within West Penn's service territory, it is willing to transfer its customers and facilities."

A Right, based upon receipt of payment for depreciated cost of facilities and stranded costs. Physically, yes; the only question that we also have been discussing with regard to the contract is what the contract says when those properties were sold.

Duquesne, again is adamant with the principle that if the Commission determines that these customers now are West Penn territory customers, the distribution utility in whose territory they reside should be the supplier.

Q In this...

MR. YAKOPEC: Excuse me. All I want to state, if I can, in the initial pleadings and the answers and new matters and everything, one of the -- it was in my letter

that I submitted at July 25th, 1996 hearing here. There were various admissions made that I brought forth that basically said that Duquesne admitted that it was in West Penn's territory. I don't think we need to get into all the various specifics since it's there.

THE WITNESS: Yes. I don't want to quibble or quarrel. I'm just saying that if the transfer is effectuated, we believe we are entitled to depreciated cost of the facilities and stranded costs. We have no problem with the transfer under those circumstances.

BY MR. MUNSCH:

Q The transfer of the customers to West Penn, is that something that is being brought on by the move in Pennsylvania to a competitive generation market?

A Do you mean our request?

Q The customers' request; is the customers' request as a result of the transition in Pennsylvania to a competitive generation market?

A I don't know. I really don't know the reason why the customers are requesting it. I presume they -- they have stated that it has been -- they would like West Penn's rates instead of Duquesne's rates.

Whether this talk about deregulation precipitated it, I just don't know. I really don't know. I think you could just ask the Township residents.

Q But, in your opinion, is the request something that can be made as a result of new legislation or new regulation?

A No, that request could have been made any time, as I understand it, back -- well, it probably could have been made any time since 1917 if they had a legitimate complaint about the quality of service, so I think that's absolutely right.

Again, I think that's the point, since 1957 or 1959 when we sold the facilities, we heard from neither the Township residents nor West Penn. I am led to believe, and I think the company is led to believe, that there was a reasonable expectation to continue to serve them.

MR. MUNSCH: Thank you, Mr. Lahtinen.

JUDGE PORTERFIELD: Thank you, sir.

THE WITNESS: You are welcome.

JUDGE PORTERFIELD: One thing before I forget, the certified minutes from the meeting, do you wish to submit those?

MR. YAKOPEC: Yes.

JUDGE PORTERFIELD: We have the statement that was identified.

MR. HERSKOVITZ: We have the bills.

MR. YAKOPEC: I have it right here, Your Honor.

JUDGE PORTERFIELD: Okay.

MR. YAKOPEC: Those are the original. All the minutes have been sealed with the Township seal. They are the minutes of March 17, 1994, May 19, 1994, and November 16, 1995. The front document is a certification from Donna Diehm, the Township Secretary, pursuant to the official records statutes, certifying that these are copies of the official minutes and records of the Township for the dates in question. They are open to public inspection.

Also enclosed is a May 16, 1994 letter of mine which went to Thomas K. Henderson at West Penn Power Company with the petitions of over 200 residents, the residents' petitions, as well as a copy that Steve Pelcher, Esquire, who I believe is with Duquesne Light...

JUDGE PORTERFIELD: Formerly was with Duquesne Light.

MR. YAKOPEC: Okay, to John G. Alford, the Secretary of the PUC, as well as to Donna Diehm, the Secretary of the Township.

I believe that these are all admissible as well as the petitions which Mr. Herskovitz previously objected to. I would ask that they all be admitted, including the petitions themselves.

JUDGE PORTERFIELD: As adjuncts or appendices to the exhibits -- that was attached to your complaint originally?

MR. YAKOPEC: Yes.

MR. HERSKOVITZ: Are you saying that those petitions

were attached to these minutes?

JUDGE PORTERFIELD: No. We will attach it to the minutes in support. The petitions themselves have no evidentiary value but in support of the minutes. There is an Exhibit Number 1 attached to the statement, so this will be Springdale Exhibit 2.

(Whereupon, the document was marked as Springdale Exhibit No. 2 for identification and received in evidence.)

MR. YAKOPEC: Can I ask a couple questions of Mr. Lahtinen?

JUDGE PORTERFIELD: Sure.

CROSS EXAMINATION

BY MR. YAKOPEC:

Q Mr. Lahtinen, to your knowledge, at any time could Duquesne Light have told West Penn Power, "Because this is your certified service area under the PUC, we want you to take over the service of the residents of Harwick Village?"

A I presume we could have told them. Whether or not we would have been able to discontinue service to those customers, I think, would have been a matter the PUC would have decided. We certainly -- well, that may be. Again, it's subject to the interpretation of that contractual language, that we may have been able to do that after 1959.

I'm not an attorney and I think it's an interesting

question for attorneys to look at. I don't know if we would have been able to do that between 1916 and 1959. In my view, that was our certified territory. That was an approved transfer of customers, facilities and territories between West Penn and Duquesne.

I don't know the answer to that, and another question is -- I mean, I would also like to add that it was not clear to me yesterday whether or not West Penn had facilities in the area that would have been able to pick those customers up and serve them.

It just seems logical to me that if they didn't, the PUC would not have allowed us to cut those customers loose because they wouldn't have had any supply.

Q Do you recall the testimony of the Township Secretary where she said that the Municipal Building as well as Orchard Street had, in 1993, been turned over to the service of West Penn, which was in Harwick Village, as well as the various PUC certificates and agreements that were attached as exhibits in this case; do you recall those?

A I did hear her say that. I am not clear. There were some other things that she said which was unclear to me whether or not they -- she did talk about they built a new town facility.

Q She said they were contemplating that.

A Okay. I did hear her say there was a transfer of service for that facility. Yes, I did.

Q So, it would be fair to assume then that West Penn does have the distribution facilities in the Harwick Village area?

A Oh, there's no doubt that they have them now.

Q Okay.

A My only question was...

Q I'm sorry, you were going back to 1957?

MR. MUNSCH: To 1916.

THE WITNESS: Yes, that's the whole point. I'm talking 1916 to 1957. That's all I'm talking about.

BY MR. YAKOPEC:

Q I thought at some point in time -- when you came up with your total costs figure that the Judge asked what was your price, and I thought it was something like $149,000 for facilities and $1,266,723 for stranded costs.

A Yes.

Q That came up to something like $1.4 million?

A Subject to check, yes.

Q The $149,000-something for facilities is essentially the same number that West Penn has?

A When you say the same number West Penn has, I think we are in agreement. We provided that number to them.

Q Okay, and that's what West Penn is proposing to purchase, the...

A That's correct.

Q Now, I think you also testified just recently that FERC would ask you whether or not you tried to mitigate stranded costs.

A Sure.

Q So, if you received an adverse decision here, you would be able to tell FERC, "We tried and we lost."

A We could. We could, but let me also point out to you it's still not clear to me — I mean, it is absolutely clear to me that if there is a million-five that is unrecoverable — let's just assume the stranded transmission associated with Harwick Village residents is a million dollars, even if we could put that into our rate base, there is a jurisdictional separation between retailing and transmission.

If we only have five percent transmission customers, we are only going to collect five percent of that million dollars in the transmission rate. There is no way we are going to be able to collect a hundred percent of those dollars through our transmission rates. That's the whole point of this comparable service. We can't take dollars out of here and dump them over here.

I will tell you, the battles are coming to the states

and the FERC on these jurisdictional issues and they both are going to protect their turfs. You are going to have to demonstrate to get all you could and you are going to have to have cost allocation procedures that provide for consistent treatment of wholesale and retail customers. You are not going to get away with anything. It's going to be very difficult.

My major point was that if you lose a million dollars of transmission due to departures, even if FERC allowed us, or said that we could collect some of that, we wouldn't collect anywhere near the million dollars. The only thing we would be able to collect would be the pro rata share as represented by wholesale versus our total load.

Q Sir, getting back to my original question, if FERC asked you that question but you received an adverse decision, you would have the ability to say you tried and you got an adverse decision?

A We could.

Q Okay.

A That's exactly right.

Q And, if...

A It doesn't mean they would allow it or...

Q There is nothing at this point in time that requires stranded costs to be applied for the transfer of the Harwick Village area. Is that a correct statement?

A I have seen no transfers where stranded costs were included in this state.

Q Okay.

A That doesn't mean they couldn't be allowed, but I will also say that the transfers that I have seen have all been by mutual consent.

Q And, that stranded costs analysis is going to come some time in the future. I mean there is a law that says -- or some law somewhere that...

JUDGE PORTERFIELD: I think we always have to make it clear and keep in mind that the law has to do with competitive restructuring. We may or may not be there in this instance.

MR. YAKOPEC: That's not in existence right now, the competitive restructuring.

JUDGE PORTERFIELD: Right.

MR. YAKOPEC: Just as long as I understand that.

BY MR. YAKOPEC:

Q So, this isn't your typical competitive stranded costs analysis?

A No, I believe it is consistent with sound regulatory policy, the recovery of stranded costs.

Q In Pennsylvania, have you ever seen stranded costs given?

A For transferred customers?

Q Yes, in a magnitude of 325 customers, or 300 customers or less?

A Again, my experience with this stuff has been in the last three years. I am not -- no, I could not state a case. I do not know of any.

MR. YAKOPEC: No further questions, Your Honor.

JUDGE PORTERFIELD: Any other questions for the witness from anyone?

MR. HERSKOVITZ: No.

MR. MUNSCH: No.

JUDGE PORTERFIELD: Thank you, sir.

THE WITNESS: Thank you.

(Witness excused.)

JUDGE PORTERFIELD: Anything else before we talk about briefs?

MR. HERSKOVITZ: No.

MR. MUNSCH: No.

JUDGE PORTERFIELD: I will send out a briefing letter, but I would remind counsel that to the extent that there are references to the record, your briefs become much more persuasive and useful when tying it into the record.

The argument on the stranded costs issue, obviously, is at the heart of the whole matter. In the proposed findings of fact, counsel may elect to do that. I will have to think about that when I draft the briefing letter,

precisely what I would request in the brief.

Anything else today?

MR. MUNSCH: Your Honor, one minor matter relating to the attachment to the brief of Duquesne Light Company that Dr. Bower may make. I am concerned about that and I would like to reserve a right to respond to it upon -- I would request of the Court a right to respond at that time if I feel it necessary.

JUDGE PORTERFIELD: And, what I would grant you on that would be a motion to strike or whatever. You know enough to do that, but I would entertain such a motion. I will have to look at this the way it came down.

Anything else?

MR. YAKOPEC: I would just like to say one thing for the record if I could.

JUDGE PORTERFIELD: Sure.

MR. YAKOPEC: From the Township's prospective, as both West Penn, now Allegheny Power, and Duquesne Light have both been in the Township, the Township has traditionally had good relationships with both power companies. This isn't a vendetta against one or the other, just to make that clear so everyone is aware of that.

This is something that when you have over 200 voting residents come to you and say to do something, the politicians, governing fathers, say, okay, we have to do

something. That's why we are here today.

JUDGE PORTERFIELD: Thank you all, and we will conclude the evidentiary hearing.

(Whereupon, at 3:20 p.m., the hearing was adjourned.)

C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were reported by me and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

KEENAN REPORTING COMPANY

BY: Barbara A. Spin
Barbara A. Spin

RECEIVED
JAN 2 1997
PA PUBLIC UTILITY COMMISSION
SECRETARY'S OFFICE

Estimate of Stranded Cost of Generation
for
Duquesne Light Company

Generation

	DLCO Investment in Power Station $	Installed Cap (MW)	Net Capacity (MW)	Production cost ¢ per net kWh	Cost of net capacity $ per kW	discount rate using 8% ($/kW-month)	Stranded cost is based on capacity Market price of ($/kW-month)	MW-Weighted age of station (years)	Estimated Remaining life based on planning lifetime years 30	Stranded Cost of Generating Plant $
EASTLAKE	4,417,908	83.32	29	16.407	152.34	$1.12	3	24	6	(3,113,113)
EASTLAKE #5	73,684,599	212.16	186	1.993	396.15	$2.91	6	24	6	(32,813,587)
PERRY	755,146,320	172.1	164	3.674	4,604.55	$33.79	4	9	21	595,420,492
BRUNOT ISLAND	14,993,434	83.67	66	65.730	227.17	$1.67	3	22	8	(6,223,774)
ELRAMA	211,274,297	510.28	487	2.764	433.83	$3.18	5	40	-10	(161,860,417)
BEAVER VALLEY #1	579,332,983	438.62	385	2.786	1,504.76	$11.04	5	20	10	191,707,435
BEAVER VALLEY #2	66,722,173	126.88	113	2.346	590.46	$4.33	5	9	21	(9,192,316)
CHESWICK	197,544,485	565.25	570	1.841	346.57	$2.54	6	26	4	(80,714,981)
SAMMIS	1,566,580	12.5	12.85	23.000	121.91	$0.89	3	25	5	(1,334,310)
SAMMIS #7	86,227,704	212.16	187	1.740	461.11	$3.38	6	25	5	(24,131,098)
MANSFIELD	247,259,018	466.38	400	2.624	618.15	$4.54	5	19	11	(16,267,512)
	2,238,169,501	2,832	2,600		790.31	5.79904481				$ 451,476,820

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JAN 10 1997

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WPP - EX 3
C-00967749
12-11-96
PITTS
BAS

Springdale Ext No. 2 w/ Appendix petitions in complaint

TOWNSHIP OF SPRINGDALE

I, Donna M. Diehm, duly appointed Secretary of the Township of Springdale, a political subdivision of the Commonwealth of Pennsylvania, hereby certify and attest to the following:

1. The Township is required by law to keep official minutes of its proceedings and records pursuant to the First Class Township Code, §1503, 53 P.S. §56590 of which I am the official keeper. Section 901-903; 53 P.S. §55901-55903.

2. The attached documents are copies of the official minutes and records of the Township of Springdale for the dates in question and are open to public inspection.

RECEIVED
JAN 2 1997
PA PUBLIC UTILITY COMMISSION
SECRETARY'S OFFICE

I make this certification pursuant to the official records statutes, 42 Pa. C.S.A. §6103, §6104 and §6106.

WITNESS my hand this 11th day of December, 1996.

Donna M. Diehm
Donna M. Diehm,
Township Secretary

DOCUMENT
FOLDER

DOCKETED
JAN 10 1997

DOCKETED
JAN 10 1997

SPRINGDALE EXT 2
C-00967799
12-11-96
P/H 5
B-5

P.O. Box 177 • Harwick, Pennsylvania 15049 • (412) 274-4034 • Fax (412) 274-4487

MINUTES

March 17, 1994

The Springdale Township Board of Commissioners met in regular session on Thursday, March 17, 1994. The meeting commenced at 7:00 P.M. and in attendance were the following:

John P. Retort, Jr., President
Alphonse Manchini, Vice President
Henrietta James, Commissioner
Dennis DeGiglio, Commissioner
Stephen Yakopec, Jr., Solicitor
Richard Knapek, Senate Engineer
Donna M. Diehm, Secretary
Absent: Kenneth J. Igo, Commissioner

Mr. Retort, President, opened the meeting and all present rose and pledged allegiance to the flag of the United States.

Motion by DeGiglio, second by Manchini, that the minutes of the February 17, 1994 regular meeting be approved as presented. . Carried Unanimously.

REPORT OF OFFICERS & COMMITTEES

Mr. DeGiglio reported on the following:

-problems found with master meter. Met with Harmar Township and manufacturer of meter to do testing. Meters have been repaired.

-Watson Standard tap-in completed. They now need a 3" meter

-County did inspection on sewer pump stations. Riser in the Carson St. pump station that had been removed, has been re-installed.

-in full swing with the copper & lead testing.

-talked to Harmar about selling them our water system. Will keep residents posted.

-township's water loss increasing, feels Aqua Tech should be called in.

Mr. Colwes questioned where the overflow from the Carson St. pump station drains. Mr. Knapek explained that the Township has done smoke testing to establish where the large amount of surface water is coming from.

Mr. Retort reported that he was unable to attend the last COG meeting, but that the main issue is still the Hydro plant.

Mrs. James reported on the following:

-board met with union to discuss personnel issues. She stated that the Union President said that the township has every right to expect 8 hours work for 8 hours pay. She then explained that the union contract was signed before she was put in office, and that the union employees receive many benefits at the expense

of the taxpayers. She then stated that the board is against one of our employees moving out of the township, but that they can't do anything about it. She then stated that your tax dollars are paying his salary, and that he will be paying taxes somewhere else. She further disclosed that the Township Foreman receives 30 days vacation per year, 12 Holidays, 3 Personal Days, and 16 Sick Days. She also explained that the part-time clerk receives paid benefits, paid Holidays, 1 Personal Day, 8 Vacation days, and 2 Sick days. A lengthy discussion followed concerning the employees and the union contract.

Mr. Manchini reported on the following:

-snow expected again tomorrow
-patching to be done
-7 roads scheduled for chipping this year

Mr. Retort announced that the Easter Egg Hunt will be held on March 26, with a rain date of April 2. The hunt will take place at the High School practice field.

Mr. Colwes asked who was in charge of the hunt. Mrs. James stated that the fire department was coordinating, and that Sharon Cervice is in charge. Mr. Colwes stated that Mrs. Cervice should not be in charge. Mr. Retort explained that there was no one else to take it.

Mr. Ray Arch, Sewage Authority Representative, reported on the following:

-operation is normal and well under the DER permit.

Mr. Richard Knapek, Senate Engineer, reported on the following:

-Cambridge Manor bond estimate is finished. Will be meeting with Developer to discuss public improvement acceptance

-sewage facilities permit for Phase II has not been received from DER. No building permits should be issued until approved permit has been received.

-checking into options for fire protection for Shrader St.

-Watson Standard tap-in complete. They will be responsible to supply the new meter.

-bids for the Carson St. and McKinley Ave. pump stations to be opened at 2:00 P.M., March 18th.

-sent the preliminary subdivision of Williams St. Park to Mr. Malone of Duquesne Light. Should be reviewed by Commissioners.

-Community Facilities application for McKinley Ave sewers due by April 15th.

Mr. Jack Colwes, Building Inspector, reported on the following:

-no permits issued past two months. Has appointment on Saturday to discuss garage to be put on Shrader St.

Mr. Klebine asked what was going on at Orris Fuel Service. Mr. Colwes to check.

The Treasurer's Report was read. Motion by DeGiglio, second by James to accept the report. . . Carried Unanimously.

The Delinquent Tax Report was read. Motion by DeGiglio, second by Manchini to accept the report. . . Carried Unanimously.

The Wage Tax Report was read. Motion by James, second by DeGiglio to accept the report. . . Carried Unanimously.

OLD BUSINESS

Mr. Stephen Yakopec, Jr., Solicitor, reported on the following:
-talked with West Penn Power Attorney. They suggest that petitions be circulated asking West Penn Power to supply service to the area. If they receive the petition, they have to take action if the area is within their territory. Drafted a petition to be circulated.

Mrs. James announced that effective April 1st, two new policies will be adopted for the office. First, the office will become non-smoking, second, a dress code will be put into effect.

ACTION ON BILLS

Motion by James, second by Manchini, that the bills be paid and the Secretary be given authorization to pay utility bills and discounted invoices as received.

Mr. Retort reported that the Board is researching the possibility of erecting a new municipal building. It was suggested that the old building be repaired. After a brief discussion, Mr. Retort stated that costs for both will be checked and that the Board will use good judgement before proceeding.

NEW BUSINESS

Mr. Retort asked for comments concerning the Community Facilities grant application for the McKinley Ave. sewer project. There were no comments.

Motion by DeGiglio, second by James that Resolution No. 2-94, requesting a Community Facilities grant be accepted. . . Carried Unanimously.

Motion by DeGiglio, second by Manchini that Resolution No. 3-94, urging Allegheny County to create the Allegheny Regional Asset District, be accepted. . . Carried Unanimously.

VISITORS COMMENTS

Mr. Hince asked how the board feels about the recent tax assessments, and asked if any action would be taken to lower millage. Mr. Retort stated that if this can be done, it will be researched. A lengthy discussion followed concerning the tax assessments. Mr. Retort explained that any resident can visit the Municipal Office to look at our budget and/or financial statements if they so wish. Mr. Klebine suggested that residents attend school board meetings to complain of high school taxes.

A discussion ensued about snow removal, with residents complaining that taking over Rt. 28 has hindered getting our own roads done. Mr. Retort explained that Rt. 28 was taken with the idea that it could be dropped if it was found not cost effective.

Mr. Klebine complained that during snow removal, the roads in Harwick are kept up better than those in Orrville.

Mr. Mariani asked who is responsible to have cars removed that do not have current plates. It was explained that if the vehicles are on the street, the police have jurisdiction, and if they are on private property, the building inspector has jurisdiction.

Mr. Roydes complained about cat problems on Main St. He was told to pick up cat traps at the Municipal Office.

There being no further business, the meeting was adjourned.

TOWNSHIP OF SPRINGDALE

John P. Retort, Jr.
President
Board of Commissioners

ATTEST

Donna M. Diehm
Secretary

MINUTES

May 19, 1994

The Springdale Township Board of Commissioners met in regular session on Thursday, May 19, 1994. The meeting commenced at 7:00 P.M. and in attendance were the following:

John P. Retort, Jr., President
Kenneth J. Igo, Commissioner
Henrietta James, Commissioner
Dennis DeGiglio, Commissioner
Stephen Yakopec, Jr., Solicitor
Thomas Taylor, Senate Engineer
Donna M. Diehm, Secretary
Absent: Alphonse Manchini, Vice President

Mr. Retort, President, opened the meeting and all present rose and pledged allegiance to the flag of the United States.

ACTION ON MINUTES

Motion by James, second by DeGiglio, that the minutes of the April 21, 1994 regular meeting, the May 4, 1994 special meeting and the May 16, 1994 agenda meeting be approved as presented. Carried Unanimously.

REPORT OF OFFICERS & COMMITTEES

Mr. DeGiglio reported on the following:
-McKinley Ave & Carson St pump station repairs to begin within 30 days
-approval of Community Facilities grant for McKinley Ave sewer not expected until after June 30th.
-waiting to hear from Acme Electrical on alternatives for pump station upgrade for fire protection on Shrader St.
-Sewer vactor should be operational by next week.
-Fire hydrant inspections to begin
-researching possibility of installing a bunker type device on water line at corner of Center & Hamilton.

Mr. Retort reported the following on COG:
-no change in Hydro-electric plant
-CDBG projects include Williams St. resurfacing and McKinley Ave sewer. Another community backed out of a project, and the Township will receive a $19,000 grant to resurface Spring St. Engineer working on specifications.
-Vactor operator has been hired and is currently receiving training.

Mrs. James reported the following on personnel:
-One employee off injured. Will be off all summer. Two part-time employees have been hired at $5.00 per hour, and will alternate work schedules.

-was informed that Mrs. Betty Valla was appointed as Deputy Tax Collector, but no records could be found.

Motion by James, second by DeGiglio that Mrs. Valla be appointed as Deputy Tax Collector. . . Carried Unanimously.

Mrs. James reported the following on roads:

-employees picking up rubbish and cutting brush on State Rds.

-Patching to be done

-Spring St. to be resurfaced with the help of CDBG Grant.

-Chipping of Bucknell, Adeline, Valley View, High, and Maple St. scheduled to be done with help from Harmar and Frazer Townships.

-Drainage work to be done on Thompson Run Rd. and Kelly Alley.

-Asking residents help reporting anyone who is seen dumping in the Township.

Mr. DeGiglio reported the following on recreation:

-setting up meeting with Cheswick to discuss joint projects.

-applications for Recreation Board being accepted until June 15.

Mr. Ray Arch, Sewage Authority Representative, reported on the following:

-Water audit complete. Shows a decrease in township's percentage of water usage, resulting in a decrease of $4,950 in our service fee.

Mr. Thomas Taylor, Senate Engineer, reported on the following:

-received letter from Watson Standard requesting permission to discharge water/foam fire protection test materials into the Township's sanitary system. He stated that AVJSA has given approval, and that Senate has no objection. Mr. Retort reported that authorization has been given.

-research shows that there is not enough room for set back requirements for Mr. Gagliardi to put the mobile home on Thompson Run Rd. Letter was handed to Mr. Retort stating so. Mr. Colwes requested a copy of the letter. Mr. Taylor further stated that if Mr. Gagliardi disagrees, he should hire a professional to do survey and provide the Township with a drawing.

-Cambridge Manor is requesting that the Township take over the water & sewer lines for Phase I.

Mr. Yakopec explained that they are requesting that we accept the water & sewer lines as public improvements so that they can receive financial relief from Phase I lines to begin Phase II. A lengthy discussion followed, after which, Mr. Yakopec and Mr. Taylor stated that they see no problem with the request as long as they: (1) provide as-built drawings (2) supply geotechnical reports from Wright Engineering (3) grant

right of entry for maintenance of lines (4) receive certification from Township's Engineer and Solicitor.

Motion by James, second by Igo that Resolution No. 5-94, accepting the sewer and water lines for public use and maintenance, contingent upon the developer providing the township with the above mentioned, be accepted. . . Carried Unanimously.

Mr. Jack Colwes, Building Inspector, reported on the following:

-visited home on Isobel St. and instructed resident to clean up property

-visited paint office on Pittsburgh St. and told owner to clean up area within one week

-was asked to check out apartment, but feels he should not go into the apartment for inspection because the Ordinance governing same was never adopted. Mr. Yakopec stated that he should not go into apartment for inspection.

-problem with down spout on English Lane. Since this is an ongoing feud between neighbors feels he should not get involved.

-will issue grading permit for Lot 11 on Sycamore Ridge

-home on Melzina St. looking half decent. Will send a letter to speed up cleaning the area.

The Treasurer's Report was read. Motion by James, second by DeGiglio to accept the report. . . Carried Unanimously

The Delinquent Real Estate Report was read. Motion by James, second by DeGiglio to accept the report. . . Carried Unanimously.

The Wage Tax Report was read. Motion by Igo, second by James to accept the report. . . Carried Unanimously.

Mr. Phil Moretti gave the following report for the Fire Department:

-2 brush fires last month, one at Agan Park, and one they assisted Cheswick Borough on Highland Ave.

-results from Watson Standard fire protection test to be forwarded to him

-Watson Rhenania should be occupied by the end of June

-Fire truck to be checked.

Mr. Taylor stated that the fire on Highland Ave was on his property, and thanked the Fire Department for their response.

Mrs. James announced that the Secretary received a call from an angry resident. She further stated that if any resident calls and they can't talk normally, she's instructed the Secretary to hang up.

Mr. Colwes stated that about 3 months ago, he made a complaint of motorcycles sitting on Carson St. without current

plates and/or inspection stickers. Mr. Retort to inform police department to check into situation.

OLD BUSINESS

Mr. Stephen Yakopec, Jr., Solicitor, reported on the following:
-petitions forwarded to him by the Secretary were forwarded to West Penn Power, with copies going to Duquesne Light Co. and the Secretary of PUC. Waiting to hear from them.

ACTION ON BILLS

Motion by James, second by Igo that the bills be paid and the Secretary be given authorization to pay utility bills and discounted invoices as received. . . Carried Unanimously.

Mr. Retort announced that he met with the Police Chief to go over a 6 month contract, which would be effective June 1st, if the Chief signs. Should know more by next meeting.

VISITORS COMMENTS

Mrs. Haas asked whether the Board had considered lowering millage? Mr. Yakopec stated that the County's new sales tax would become effective in January of 1995, and that we would be required to lower taxes at that time.

Mr. Yakopec further explained that while the County has a gentrification program, very few municipalities do. A brief discussion on tax assessments followed.

Mrs. Gentile questioned the article in today's newspaper about the communities getting aid for winter disaster, and asked why the Township was not mentioned. The Secretary to check tomorrow.

Mr. Andriscin stated that he wants to put an in ground pool on his lot on Sycamore Ridge, but that there is a 25' Sanitary easement, and asked if the easement could be waived as it is not being used. To be researched.

There being no further business, the meeting was adjourned.

ATTEST

Donna M. Diehm
Secretary

TOWNSHIP OF SPRINGDALE

John P. Retort, Jr.
President
Board of Commissioners

MINUTES

November 16, 1995

The Springdale Township Board of Commissioners met in regular session on Thursday, November 16, 1995. The meeting commenced at 7:00 P.M. and in attendance were the following:

Carl Plate, President
Michael F. Kossick, Commissioner
Henrietta James, Commissioner
Dennis DeGiglio, Commissioner
Stephen Yakopec, Jr., Solicitor
Richard Knapek, Senate Engineer
Donna M. Diehm, Secretary
Absent: Alphonse Manchini, Vice President

Mr. Plate, President, opened the meeting and all present rose and pledged allegiance to the flag of the United States.

Mr. Plate announced that Mr. Manchini was absent from the meeting due to illness, and wished him a speedy recovery.

Motion by James, second by Kossick that the minutes of the October 19, 1995 regular meeting and the November 13, 1995 Agenda meeting be approved as presented. . . Carried Unanimously.

REPORT OF FINANCES & BILLS

The Treasurer's Report was read. Motion by DeGiglio, second by Kossick, to accept the report. . . Carried Unanimously.

The Delinquent Real Estate Tax Report was read. Motion by James, second by DeGiglio, to accept the report. . . Carried Unanimously.

The Wage Tax Report was read. Motion by James, second by DeGiglio, to accept the report. . . Carried Unanimously.

Motion by James, second by Kossick, that the bills be paid and the secretary be given authorization to pay utility bills and discounted invoices as received. . . Carried Unanimously.

REPORT OF OFFICERS & COMMITTEES

Mr. Richard Knapek, Senate Engineer, reported on the following:
Cambridge Manor: - received call from paving company. They will seal the gutters, weather permitting. - letter received from Attorney Dillman. At present, is researching options on the take over of the roads to present to the Board.

Mr. Yakopec explained that Mr. Dillman's believes we have taken over the roads, but it is his belief that we have not, conditioned upon them meeting the punch list items. He further

explained that he informed Mr. Dillman that if we plow the roadways, we will keep track of our expenses and draw down on their bond for reimbursement. Will send letter to Mr. Dillman stating that if Cambridge Manor doesn't take care of the punch list items, we will, with monies for the work coming from their bond. He will also ask for copies of the bonds.

-submitted correspondence on 1995 Paving Project. Board should take action to either accept or re-bid in the Spring.

After a brief discussion, a motion was made by Kossick, second by James to award Contract No. 2 (Orchard St paving) to Norwin Construction for $30,946.50. . . Carried Unanimously. Norwin to be notified of action, with work to be done in the Spring.

-reviewed Williams St. Park subdivision and sent draft to Duquesne Light for review. After their review and approval, to be submitting to the Planning Commission.

-recommends release of retainage for Thompson Run Rd paving as contractor has corrected all punch list items.

Motion by Kossick, second by James to release the retainage for Thompson Run Rd paving. . . Carried Unanimously.

-Regionalization Grant application was not approved. Discussion with representative indicated possibly revising scope of work. Sent correspondence to John Schombert, Allegheny County Health Department. Waiting for reply.

Mr. DeGiglio asked the status of the Spring St. Waterline loop? Mr. Knapek explained that correspondence was forwarded to Duquesne Light. Awaiting for response from their Legal Department. The contractor to begin construction the first part of December.

Mr. DeGiglio stated that supplemental power is needed at the sewage pump stations. Mr. Knapek to research options.

Mr. Stephen Yakopec, Jr., Solicitor, reported on the following:

-read letter from Alexander Mester questioning the minutes of the October 19, 1995 meeting on: 1. who permitted the fence at 813 Orchard St. Mr. Yakopec stated that Mr. Barr said at last meeting that no one permitted it, and: 2. Why Ordinance 317 (Dogs) was not previously submitted to the Solicitor for clarification. Mr. Yakopec explained that he looked into the Ordinance which has a section permitting the Police or Animal Control Officer to file action, but that the complainants have to show up at hearings, and: 3. he was to receive a written report from the Solicitor clarifying Ordinance 210. Mr. Yakopec stated that he had reported on the issue, instructing the Board to set policy. He further stated that he does not work for Mr. Mester, and that unless he has authorization from the Board, will not send letter.

-McFarland's of Hamilton Ave. were stopped from putting in

concrete driveway until curb box was located and raised. The are now asking for reimbursement for the cost of the concrete truck. Possibility of further action now looming before the Board.

-sent letter to property owners on Pillow Ave regarding their hedges. One resident (Mr. VanHorn) does not want to cut down his hedges. If accident would occur the liability falls on; 1. the owner; 2. PennDot, and; 3. the Township. We have the ability to issue citations through the Police Department.

-received letter from Rene Wanamaker threatening to take legal action on drainage problem as we have not taken any measures to correct the problem. A motion was made at last meeting to snake the property to see where the blockage is. Mr. Kossick explained that as soon as time permits, the employees are to do the work. After a brief discussion, it was decided that a release of liability be drafted and sent to Mr. Wanamaker as well as Mr. & Mrs. Negrich, property owners, for their signatures. Mr. Yakopec then stated that either he, or the Board should respond to Mr. Wanamaker. Mr. Plate stated that any contact should be made by the Solicitor.

-spoke with Attorney for West Penn Power Co. Duquesne Light is taking the position that when they built their nuclear plants, they factored into the equation a certain number of customers, and if these customers are no longer in their service area, they should receive numeration. Township may have to file support forms to PUC to help with issue. Needs authorization from the Township to file forms.

Motion by Kossick, second by James authorizing Mr. Yakopec to file necessary forms with PUC. . . Carried Unanimously.

-Senate Engineering sent correspondence to Cambridge Manor concerning the horseshoe area of Cambridge Manor. Since no response has been received from the Developer, did not draft resolution accepting same. A brief discussion followed concerning the responsibility for the punch list items, and if the developer intends to provide additional bonding for this area. Mr. Yakopec further stated that he wants to know the exact position the developer is taking with all punch list items.

Mr. Yakopec then asked the Board if there is anything he is to do about Mr. VanHorn? After a brief discussion, it was decided that, due to the dangerous condition, Mr. Yakopec send follow up letter to PennDot.

Mr. Yakopec then stated that Mr. Mester, in his letter of November 6, 1995 is requesting a written report from him clarifying Ordinance No. 210, and asked what the Board wants him to do with this request. It was decided that rather than send a letter directly to Mr. Mester, it be sent to the Board, and if necessary, a copy to be given to Mr. Mester.

Mr. Yakopec then asked what he should do about McFarland's? Mr. Plate reported that although we stopped the work, they did not have a building permit to begin with. Mr. DeGiglio then suggested that we have the Building Inspector cite them for not having a permit. Mr. Yakopec stated that this would precipitate a law suit as their contractor told them no permit was needed. After a brief discussion on our Ordinance, it was decided that Mr. Yakopec write a letter to Mr. & Mrs. McFarland explaining that after review, we feel we are not liable.

Mr. Plate reported the following on COG:
-Federal & County Budgets not out yet. Funding for grants will be lowered by 25 to 30%.

Mrs. James reported on the following:
-answered 1 grievance this past month
-met in executive session preceding the last budget meeting to discuss personnel issues.
-Gary Carroll working with Ken Lexell developing an Emergency Disaster Plan.

Mr. DeGiglio reported on the following:
-Trick or treat night went well. Police played active role with only minor disturbances reported.
-the Fire Department to have Santa visit Township Children on December 16 using the fire truck.

Mr. Kossick reported on the following:
-1st snow removal went well
-new truck should be ready either tomorrow or Monday.

Mr. DeGiglio reported on the following:
-Aqua Tech found leak on Bucknell Dr.
-Watson Standard to have camera check storm sewers for possible water leak.
-waiting for reply from Mrs. McGee of Duquesne Light for broken manholes on their property.
-back up power is needed at pump stations to eliminate problems during power outages.

UNFINISHED BUSINESS

After a brief discussion, a motion was made by DeGiglio, second by Kossick to continue Agenda Meetings for the duration of the year. . . Carried Unanimously.

NEW BUSINESS

Motion by Kossick, second by James that Ordinance No. 347, fixing the compensation of Township Commissioners, be adopted. The vote was as follows: AYE: Kossick, James, Plate. NAY: DeGiglio. Motion Carried

Mr. Plate announced that the Board had worked long and hard on the proposed budget with quite a few projects slated for next year. Mr. Kremer asked if money has been budgeted for a new municipal building. It was explained that money has been budgeted to match the 2% loan we have for the project.

Mr. DeGiglio asked Mr. Kremer what his ideas are on a new building? Mr. Kremer replied that he feels a new building is needed and that since taxes are coming in from Cambridge Manor with little expenses going out, now is the time to build, while monies are available.

A lengthy discussion followed with Mr. Kossick reporting that each member of the Board submitted a wish list prior to the budget meetings and that many of the items have been incorporated into this budget.

A motion was then made by Kossick, second by James that the 1996 Proposed Budget be adopted. The vote was as follows: AYE: Kossick, James, Plate. NAY: DeGiglio. Motion Carried

Mrs. James asked Mr. DeGiglio why he agreed to the budget at budget meetings, but is not accepting it now. Mr. DeGiglio stated that he is against: 1. the increase in salaries of the Commissioners, and; 2. a new building is not a benefit to anyone in the Township. A heated discussion followed.

VISITORS COMMENTS

Mr. Kremer stated that the FOP is soliciting for funds, and asked why we no not belong. Chief Polcsak explained that the Lodge that services our area does not accept part-time officers, and as the only full time officer in the Township, he has the option of joining. He further stated that at this time, he has elected not become an active member.

Mr. Strelac commended the Board for not voting themselves a raise at midnight like the State Legislatures did. He further stated that he wouldn't do their job for three times as much. He said he does not begrudge their raise, but he detects a degree of animosity concerning the Board, and he feels it should not be that way, and that there should be more cooperation.

There being no further business, the meeting was adjourned.

ATTEST

Donna M. Diehm
Secretary

TOWNSHIP OF SPRINGDALE

Carl Plate, President
Board of Commissioners

STEPHEN YAKOPEC, JR.
ATTORNEY AT LAW

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May 16, 1994

Thomas K. Henderson, Esquire
West Penn Power Company
800 Cabin Hill Drive
Greensburg, PA 15601

RE: Township of Springdale

Dear Mr. Henderson:

Please be advised that I am the solicitor for the Township of Springdale.

Enclosed please find petitions signed by over 200 residents of the Township of Springdale requesting electric service from West Penn Power Company. Currently these people are served by Duquesne Light.

It is the belief of the residents that they live within the service territory of West Penn Power Company. These township residents are requesting that you provide them with service.

If you have any questions, please feel free to call.

Very truly yours,

Stephen Yakopec, Jr.

SY/bb

cc: Steve Pelcher, Esquire (w/encl.)
John G. Alford, Secretary (w/encl.)
Donna M. Diehm, Secretary (w/encl.)