

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DUQUESNE LIGHT COMPANY) DOCKET NO. R-00974104
)
)

DOCUMENT
HOLDER

SURREBUTTAL TESTIMONY OF

THOMAS S. CATLIN

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ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

DECEMBER 1997

EXETER

Associates, Inc.

12510 Prosperity Drive
Suite 350
Silver Spring, MD 20904

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DUQUESNE LIGHT COMPANY)
) DOCKET NO. R-00974104
)

Surrebuttal Testimony of Thomas S. Catlin

1 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
2 ADDRESS?

3 A. My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our
4 offices are located at 12510 Prosperity Drive, Silver Spring, Maryland 20904.
5 Exeter is a firm of consulting economists specializing in issues pertaining to
6 public utilities.

7 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS
8 PROCEEDING?

9 A. Yes. I previously submitted direct testimony on behalf of the Pennsylvania Office
10 of Consumer Advocate (OCA) which has been identified as OCA Statement No.
11 3. My qualifications and experience are presented in that testimony.

12 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A. The purpose of my surrebuttal testimony is to respond to certain issues raised by
14 Duquesne Light Company (Duquesne or the Company) in its rebuttal testimony.
15 The issues which I will address include preaccrued nuclear outage costs and
16 unamortized debt costs.

1 Q. BASED ON THE COMPANY'S REBUTTAL TESTIMONY, HAVE YOU
2 MADE ANY REVISIONS TO YOUR RECOMMENDATIONS WITH
3 REGARD TO DUQUESNE'S STRANDED COSTS?

4 A. No. I am not proposing any changes to the findings and recommendations
5 presented in my direct testimony.

6 Q. WHAT COMMENTS DO YOU HAVE WITH REGARD TO
7 PREACCRUED NUCLEAR OUTAGE COSTS?

8 A. On Exhibit No. DJC-10 accompanying his rebuttal testimony, Mr. Clayton
9 indicates that the OCA has not recognized a regulatory asset for preaccrued
10 nuclear outage costs. I would like to clarify that there is no need to include
11 preaccrued nuclear outage costs as a regulatory asset under the OCA's
12 determination of stranded costs because those outage costs are recognized in Mr.
13 Kahal's margin analysis as a cash expense during the year in which they are
14 projected to be incurred. Hence, the OCA's recommendation does not deny
15 Duquesne recovery of any of its projected nuclear outage costs.

16 Q. DO YOU HAVE ANY OTHER COMMENTS WITH REGARD TO THE
17 DIFFERENCES BETWEEN THE OCA'S POSITION AND DUQUESNE'S
18 CLAIM AS DEPICTED ON EXHIBIT DJC-10?

19 A. Yes. This exhibit shows a number of differences between individual elements of
20 the OCA's recommended allowance for regulatory assets and Duquesne's claimed
21 regulatory assets in instances where I have not proposed any adjustment. This is
22 due to the fact that amounts shown as the Company's claim on Exhibit DJC-10
23 include nominal balances for some regulatory assets for which Duquesne is not
24 seeking a return during the recovery period. In comparison, the amounts shown
25 as the OCA's recommendation are net present value amounts. Some differences

1 are also caused by differences between the discount rates proposed by Duquesne
2 and by the OCA. The two regulatory assets claimed by Duquesne which I have
3 proposed to disallow are deferred coal costs and deferred caretaker costs. Both of
4 these adjustments are discussed in detail in my direct testimony.

5 Q. PLEASE EXPLAIN HOW UNAMORTIZED DEBT COSTS HAVE BEEN
6 TREATED BY THE COMPANY AND BY THE OCA IN DETERMINING
7 STRANDED COSTS.

8 A. As discussed in my direct testimony, Duquesne divided unamortized debt costs
9 into two components. The first component is the portion of those costs which
10 would be recovered through interest expense in the years 1999 through 2005 as
11 part of the Company's generation revenue requirements. The second component
12 is the portion of unamortized debt costs which would otherwise be recovered as
13 interest expense subsequent to 2005. This second component was treated as a
14 regulatory asset by Duquesne.

15 Consistent with the OCA's approach of making a determination of stranded
16 costs as of December 31, 1998, I adjusted the regulatory asset for unamortized
17 debt costs to include the full balance of those costs, not only the post-2005
18 balance. Both Duquesne and the OCA have proposed to amortize the regulatory
19 asset over the period 1998-2005 and have treated the unamortized balance as
20 eligible to earn a return.

21 Q. DO YOU HAVE ANY COMMENTS WITH RESPECT TO MR.
22 CLAYTON'S REBUTTAL TESTIMONY ON THIS ISSUE?

23 A. Yes. In his rebuttal testimony, Mr. Clayton claims that the treatment of
24 unamortized debt costs which I have recommended penalizes the Company by
25 reducing its overall cost of capital and raising the apparent leverage of the

1 Company. The argument that the Company is penalized is simply not accurate.
2 The treatment which the OCA has afforded unamortized debt costs assures the
3 Company of full recovery of those costs by amortizing the balance over the seven
4 years and providing a return on the unamortized balance. The reduction to
5 Duquesne's overall rate of return which results from excluding unamortized debt
6 costs is offset by my adjustment to increase the regulatory asset attributable to
7 unamortized debt costs by \$16.76 million compared to the Company's claim.

8 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

9 A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF DUQUESNE LIGHT :
COMPANY FOR APPROVAL OF ITS : Docket No. R-00974104
RESTRUCTURING PLAN UNDER :
SECTION 2806 OF THE PUBLIC :
UTILITY CODE :

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JAN 13 1998

DOCUMENT
FOLDER

DIRECT TESTIMONY

OF

LEE SMITH

On Behalf of:

OFFICE OF CONSUMER ADVOCATE

NOVEMBER 1997

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. I am testifying on rate design aspects of the restructuring proceeding, including the
3 functionalization of costs, the allocation of costs to rate classes, the resulting unbundling of
4 rates, and the design of an appropriate CTC.

5

6 I. Company's rate proposals

7 Q. PLEASE DESCRIBE THE COMPANY'S GENERAL APPROACH TO RATE
8 UNBUNDLING AND THE CALCULATION OF A CTC TO COLLECT STRANDED
9 COSTS.

10 A. The Company began with its current rates and unbundled them into components for
11 distribution, transmission, ancillary services, and generation. The generation component
12 is the difference between total rates and distribution, transmission, and ancillary service
13 costs. The Company proposes a formula which will set the Competitive Transition
14 Charge ("CTC") in each year as the residual between the current rates and the sum of the
15 T&D rates (including ancillary services) and market-based generation charges. However,
16 its definition of generation costs excludes the cost of line losses and a portion of generation
17 assets. This assumes that in the restructured electric industry, the Company will retain a
18 monopoly over a portion of generation services.

19

20 Q. PLEASE DESCRIBE THE COMPANY'S DERIVATION OF DISTRIBUTION AND
21 TRANSMISSION RATES IN MORE DETAIL.

1 A. The Company's witness, Mr. Lahtinen, began by functionalizing a 1996 adjusted cost
2 allocation study. However, transmission costs and ancillary service costs were separately
3 identified to reflect the transmission tariff that Duquesne has filed at FERC. The study
4 uses the same allocation factors as in earlier, adjudicated studies.

5

6 II. Revisions to Company Rate Design

7 Q. HAVE YOU IDENTIFIED ANY PROBLEMS WITH THE COMPANY'S APPROACH
8 TO RATE UNBUNDLING?

9 A. Yes. Three aspects of the Company's approach create problems. One is the inclusion of
10 all ancillary service costs with transmission, and the interaction of this functionalization
11 with the stranded cost computation. Another is the inclusion of line losses with
12 distribution costs, rather than generation. Finally, the proposed CTC methodology appears
13 inconsistent with the Act and may result in inefficient price signals. I will address each
14 of these below.

15

16 Q. PLEASE DESCRIBE HOW THE COMPANY HAS TREATED ANCILLARY SERVICE
17 COSTS.

18 A. The company has estimated the cost of the ancillary services listed by FERC: Scheduling,
19 Dispatch & Control Service, Energy Imbalance Service, Reactive Power and Voltage
20 Control Service, Regulation and Frequency Control Service, Operating Reserves-Spinning
21 and Operating Reserves - Supplemental. The cost of Scheduling, Dispatch & Control was
22 estimated to be a portion of the costs in the Company's FERC Account 556, System

1 Control & Dispatch. The cost of energy imbalance was estimated based upon marginal
2 energy costs. All other ancillary service costs were estimated as portions of the revenue
3 requirement associated with generating units estimated to be required to provide these
4 services. For instance, 43MW of fossil-fuel generating capacity was assumed to be
5 necessary to provide regulation and frequency control response for the Duquesne control
6 area, so the equivalent percentage of fossil plant was determined and this percentage of the
7 fossil plant revenue requirement was defined as the cost of this ancillary service.

8
9 Q. WHY DO YOU HAVE A PROBLEM WITH DUQUESNE'S TREATMENT OF
10 ANCILLARY SERVICES, SINCE THE FERC TARIFF DESCRIBES THESE AS
11 ANCILLARY TO TRANSMISSION SERVICE?

12 A. The problem is that these services are actually provided by generating units. As such,
13 they will result in revenues going to the owners of generation. If the Company provides
14 all ancillary services, the Company will receive these revenues as a result of its owning
15 generating assets. The Company's treatment does not attribute these revenues to the
16 generation assets that produce them, which tends to overstate stranded costs.

17
18 Q. HOW DOES MR. SMITH'S ANALYSIS REFLECT ANCILLARY SERVICE COSTS?

19 A. Since the need for capacity is determined by load plus reserves, there is a reflection of
20 reserve capacity in Mr. Smith's market price. (Total reserves include the spinning and
21 other operating reserves described as ancillary services, although total reserves would
22 normally be larger than the amount of reserves needed for spinning and operating reserves

1 to provide additional reliability.) In other words, the market price estimates result in
2 customers paying for generation capacity-related ancillary services (not including
3 scheduling and dispatch), so the Company's inclusion of ancillary service costs in
4 transmission will result in collecting these costs twice.

5

6 Q. WHAT HAVE YOU DONE WITH ANCILLARY SERVICES?

7 A. I have removed the adjustment by which the Company moved these generating costs into
8 the transmission function, so that they remain in generation.

9

10 Q. PLEASE EXPLAIN THE LINE LOSS ISSUE.

11 A. This issue arises because of the physical loss of energy that occurs during transmission.
12 If a customer needs 100 kwhs, it is necessary to generate more than 100 kwhs in order
13 to deliver this amount to the customer, since energy is lost in moving over the transmission
14 and distribution system. To use the Company's average 5% line losses, 105 kwhs must
15 be generated in order to deliver 100 kwhs. For the customer's entire load to be met, the
16 customer would need to pay a supplier to produce the amount of the customer's load plus
17 losses. The Company's proposed scheme assumes that customers would arrange with
18 suppliers to pay for 100 kwhs at the generator's location. The generator would inject 100
19 kwhs, and the Company would provide the 5 kwhs to make up for losses.

20

21 Q. PLEASE EXPLAIN WHAT THE COMPANY HAS DONE WITH LINE LOSSES.

1 A. The Company has estimated the market cost of power that is needed to satisfy line losses.
2 The Company included these costs in the T&D revenue requirements which were used as
3 the basis of the unbundled rate design.
4

5 Q. WHY DO YOU DISAGREE WITH THE COMPANY'S TREATMENT OF LINE
6 LOSSES?

7 A. I think it is unlikely that this is how the market will work. It is more likely that customers
8 will contract for their full needs with alternative suppliers. Those suppliers will provide
9 energy to make up for line losses, and will price at a level that is higher than the wholesale
10 price to reflect line losses. This is what is happening in pilot programs and retail access
11 in New Hampshire, Massachusetts, and Rhode Island. This is consistent with a world
12 where all generation is subject to competition. If the distribution utility retains the
13 responsibility to supply line losses, it must acquire generation. This would be inconsistent
14 with the possibility of full divestiture of generating units. It also would remove a part of
15 generation sales from the competitive market. It would result in a distribution company
16 purchasing line losses from a generation company and selling them to customers, rather
17 than allowing customers to acquire all their energy needs in the competitive generation
18 market. Second, line losses create revenue for generators. It is artificial and potentially
19 distorting to segregate generator revenues into those received for customer load and those
20 received to supply line losses. The costs of line losses belong with the generation
21 function.
22

1 Q. PLEASE DESCRIBE THE ADJUSTMENTS YOU MADE TO MOVE LINE LOSSES
2 COSTS INTO GENERATION.

3 A. On Exhibit JAL-1C the Company shows the functionalization of T&D costs and then
4 separately shows the amount of line losses that were added to these costs. I utilized the
5 numbers before adjustment as the basis for T&D costs in total and per kwh. (Since
6 generation costs are the residual between total costs and T&D costs, my treatment moves
7 them back into the generation function.)
8

9 Q. WHAT HAS THE COMPANY PROPOSED AS A METHOD FOR DETERMINING
10 THE CTC?

11 A. The Company proposes that the Competitive Generation Charge ("CGC") be determined
12 annually based on actual market prices, and thus the CTC cannot be predetermined but will
13 be set every year depending on current prices. The Company further proposes to create
14 a two-part CTC, with a customer-specific fixed charge and also a usage charge.
15 Additionally, since the Company has included both line losses and ancillary services with
16 transmission and/or distribution, it has understated total generation costs. These costs
17 represent dollars that will be received by generators, and as such, should be included with
18 competitive generation costs.
19

20 Q. PLEASE COMMENT ON THE COMPANY'S PROPOSED TWO-PART CTC.

21 A. The proposed CTC consists of a customer-specific fixed portion, and another usage-based
22 charge. Mr. Lahtinen argues that the two-part CTC will mitigate stranded costs because

1 the lower usage-based charge will encourage greater consumption. He also argues that the
2 lower energy charge is more efficient because it leaves the usage charge closer to the
3 market price.

4
5 The Company has not demonstrated that the lower usage charge will increase efficiency,
6 since it has not presented a marginal cost study that demonstrates that the proposed usage
7 charges are equal to the full marginal cost. The proposed design will shift stranded cost
8 responsibility from customers who increase their usage, relative to a usage-based design;
9 if usage remains the same, then there is no effective difference in the two rate designs.
10 However, if customers increase their usage, the customized rate design produces a lower
11 bill compared to the standard rate design. This customizing of the CTC is also likely to
12 give rise to a large number of disputes over the appropriate amount per customer,
13 particularly for new customers. I recommend rejection of the two-part CTC.

14
15 Q. ARE THERE ANY OTHER PROBLEMS WITH THE CALCULATION OF CLASS
16 CTCS?

17 A. The Company has proposed to determine class CTCs not on the basis of an allocation of
18 stranded cost to classes according to its production plant allocator, as specified in the Act,
19 but as a residual between adjusted 1996 revenues and T&D and market generation
20 revenues. The Company has recently signed contracts with a number of very large
21 customers that provide very significant discounts to these customers under Rule 4. The
22 Company has even agreed to some large discounted contracts since the Act was enacted.

1 (A comparison of Filing Requirement K.1 and Exhibit JAL-9 shows that actual revenues
2 to Class HVPS will be \$3.767 million less than they would have been without the
3 discounted rate treatment.) Since revenues are less, when T&D and market generation
4 revenues are subtracted, the amount remaining for the CTC is less by the same amount.
5 Most of these discounted contracts have been signed very recently. The Company's
6 allocation method provides in effect a lower CTC commitment in the future than these
7 customers would have faced had they not signed the Rule 4 contracts. The Company has
8 also received a longer term commitment from the customer to remain a generation
9 customer. Since the class CTCs are determined as the residual between revenues and the
10 cost of T&D and market generation, reducing the initial revenue automatically reduces the
11 class residual. If the Company's method were followed until CTC collection was
12 complete, the discounts to the Rule 4 customers will result in other customer classes
13 having to make up the difference in CTC contributions. This clearly results in a shift in
14 cost responsibility which has been created by the provision of additional contract discounts
15 within the last 18 months. According to the Act, CTC costs "...shall be allocated to
16 customer classes in a manner that does not shift inter-class... costs..." The Company's
17 method, which involves determining the class CTC annually as the residual, will mean that
18 the discounted classes contribute less to CTC collection.

19
20 I recommend that the Commission order the Company to allocate stranded cost
21 responsibility to each class on the basis of the production capacity allocator. If the
22 Commission accepts the Company's class residual CTC methodology, it should also order

1 the Company to impute the full amount of the discount to CTC collection within each class
2 that contains Rule 4 discounts. If it does not do so, this treatment will result in costing
3 shifting among customer classes. The Company may continue to provide the lower cost
4 service, but not at the expense of other customer classes.

5
6 III. Calculation of Avoidable Generation

7 Q. HOW HAS THE COMPANY ESTIMATED THE CURRENT WHOLESALE COST OF
8 GENERATION FOR PURPOSES OF RATE DESIGN?

9 A. The Company began with the price of power derived from its solicitation for one-year
10 contracts. This solicitation is for power at the wholesale level; the customer will also have
11 to pay for line losses between generation and the customer's meter.

12
13 Q. DO YOU AGREE WITH THE COMPANY'S METHOD OF DEVELOPING
14 CUSTOMER LEVEL GENERATION RATES FROM GENERATION LEVEL MARKET
15 PRICES?

16 A. No. First, it is not clear how the Company adjusted the wholesale market price to reflect
17 average system load shape. Second, the Company removed line losses. Since I have
18 moved losses back to the generation function, the cost of generation to the customer should
19 reflect the cost of getting power to the customer. Third, I believe that an appropriate
20 amount of administrative and general expenses should be in an avoidable generation rate
21 component which should be added to the wholesale market price to determine the
22 appropriate avoidable generation credit for retail customers.

1 Q. PLEASE DESCRIBE HOW YOU DEVELOPED THE AVOIDABLE GENERATION
2 PRICE.

3 A. I began with the market price projections at the generation level for capacity and energy as
4 presented by Mr. Smith. Rates at the customer level will be higher than Mr. Smith's values
5 because of both line losses and differences in class load shapes. An all hours market price is
6 calculated for load that would be flat over every hour of the year, which is not true of any
7 class.

8
9 Ideally, the market price should be calculated using the load shapes for every rate class. Since
10 this data was unavailable, as a proxy Mr. Smith calculated a load-following market price using
11 the combined Duquesne and Allegheny Power System load shape for 1999 through 2005.

12
13 Next, I adjusted these load following market prices for line losses, using the ratio of total
14 generation to total sales for the Company as reported in the FERC Form 1, which was 5.1%,
15 and for the gross receipts tax. These calculations are shown in Exhibit LS-2. I have used
16 the Company-average load following market price for the residential class. Class specific
17 market prices should be calculated from actual class load shapes.

18

19 Q. PLEASE DESCRIBE THE A&G EXPENSES THAT YOU HAVE INCLUDED IN THE
20 MARKET PRICE OF GENERATION.

21 A. The adjusted market price of power will understate the cost of getting generation to
22 customers by the amount of administrative and general costs that will be required to market,

1 aggregate load, reconcile load and supply, write contracts, and conduct all the activities that
2 will be required to get power to customers. These costs are all part of the avoidable cost of
3 energy for retail customers. Either the Company or alternative suppliers will provide the
4 services that these costs represent to customers purchasing generation. I have estimated these
5 costs from the Company's cost of service study, based on the assumption that pensions and
6 benefits and insurance are reflected in the on-going production costs, that the market price
7 will not have to carry any regulatory expenses, and that other A&G belongs in this avoidable
8 generation component. The total Company A&G in accounts that were expected to be borne
9 by the market generation price was allocated on the same basis as that used in Mr. Catlin's
10 testimony. The avoidable generation-related A&G is an amount that must be added to the
11 retail cost of power which removes it from the amount to be collected through the CTC.

12
13 Q. WAS THERE ANYTHING UNUSUAL ABOUT THE DUQUESNE GENERATION-
14 RELATED A&G?

15 A. Yes. The amount of avoidable generation-related A&G is higher than in other companies that
16 I have analyzed. This seems to result from a high amount of A&G salaries and Miscellaneous
17 A&G compared to the size of other A&G accounts. Since I have no basis to adjust these
18 values, however, I have calculated Duquesne's avoidable A&G from the Company values; this
19 is shown in Exhibit LS-3.

20
21 Q. MR. LAHTINEN ARGUES THAT THERE SHOULD BE NO AD HOC ADJUSTMENT
22 TO MARKET PRICE FOR "MARKETING" COSTS, BECAUSE DUQUESNE DOES

1 NOT NEED TO MARKET TO ITS CUSTOMERS. DOES THIS AFFECT YOUR
2 THOUGHTS ON THE ADJUSTMENT THAT YOU HAVE PROPOSED?

3 A. No. The adjustment that I have proposed addresses costs that are currently incurred by the
4 Company and that will be incurred by competitive suppliers. Leaving these costs in the
5 CTC¹ would give the Company an unfair competitive advantage. It could recover the costs
6 of its payroll department and management that are associated with producing generation
7 through its regulated rates, while it would receive the identical "wholesale market rate"
8 received by other suppliers that would also have to incur these same costs. While I think
9 it is quite probable that competitive suppliers will be able to deliver these services for a
10 lower amount than has been estimated from the historic experience of the regulated utility,
11 there also may be diseconomies from running a generation only company. The adjustment
12 proposed is an approximation of what competitive suppliers may need to recover in
13 addition to the pure cost of power. What is most essential is that the existing utility not
14 be allowed to subsidize its generation function through its distribution and transmission
15 rates or its stranded cost charges.

16

17 IV. Rate Design Issues and Results

18 Q. PLEASE DESCRIBE THE T&D RATES THAT YOU ARE SUPPORTING.

¹ The Company has correctly functionalized these costs as generation, but since the CTC is the generation component less the competitive generation charge, all generation-related A&G gets included in the CTC by the Company.

1 A. These rates are shown on Exhibit LS-4, which also includes the CTC discussed later. I
2 began with the Company's calculation of total T&D revenues and total revenues under the
3 existing rates from Exhibit JAL-1C, excluding ancillary services and line losses. Then,
4 I calculated T&D delivery rates for the functional revenue requirements, using the
5 Company's billing determinants. Finally, I projected the total T&D revenue for each year
6 of the transition period, assuming retail sales in each year from the Company's base
7 forecast.

8

9 Q. HAVE YOU DEVELOPED CTC CHARGES FROM MR. KAHAL'S STRANDED COST
10 VALUATION?

11 A. I have developed annual CTC revenue requirements for each component of the stranded
12 cost, namely regulatory assets, transition costs, and utility-owned generating plant. The
13 net present value of these costs are calculated (although stranded generating assets are not
14 provided any return). Exhibit LS-5 contains the calculation of a seven year levelized CTC
15 in column 1 that would collect these dollars over this period.

16

17 Q. HAVE YOU DEVELOPED A RATE DESIGN WHICH TAKES ACCOUNT OF THE
18 STRANDED COST VALUATION DEVELOPED BY MR. KAHAL?

19 A. Yes. Below I describe a rate design on a total Company basis which takes into account
20 Mr. Catlin's adjustments; the OCA's market price projection presented by Mr. Smith; and
21 the stranded cost analysis presented by Mr. Kahal. These rates consist of the T&D rates

1 described above, the avoidable generation price, and a CTC that will collect the stranded
2 cost. A summary of my proposed rate design is shown in Exhibit LS-4 .

3
4 As noted above, I began with Mr. Kahal's estimate of stranded cost for Duquesne of
5 \$1.565 billion for the Pennsylvania jurisdiction. I adjusted the revenue requirement for
6 gross receipts taxes. Exhibit LS-5 develops an annual levelized revenue requirement for
7 Duquesne, based on a 6.88% after-tax rate of return only on regulatory assets which
8 should earn a return. As noted above and as consistent with Mr. Kahal's recommendation,
9 I have excluded any return on utility-owned generation stranded costs. Exhibit LS-5 p.1
10 in column 6 also shows what the annual impact on average rates would have been if the
11 CTC were collected on a levelized basis. Column 7 contains an alternative CTC that
12 produces a levelized rate reduction. I recommend this rate design. I allocated the CTC
13 to the residential class based on the production capacity allocator.

14
15 This rate design allows for an overall rate reduction of 18 percent, based on Mr. Smith's
16 market prices. Duquesne will not need to exceed the rate cap provisions of the Act in
17 order to be granted an opportunity for recovery of its stranded costs, as determined by Mr.
18 Kahal. Additionally, if customers are able to purchase electricity from alternative
19 providers for less than the avoidable generation rate, they could achieve additional savings.

20
21 V. Other Rate Issues

22 Q. ARE THERE OTHER RATE DESIGN ISSUES OF CONCERN?

1 A. Yes. Reconciliation of the approved CTC should be performed on a class-wide basis. This
2 avoids any possibility that certain classes escape full responsibility.

3

4 VII. Summary of Results

5

6 Q. HAVE YOU CALCULATED THE IMPACT OF THE REDUCTION IN STRANDED
7 COST AND THE INCREASE IN MARKET RATES ON THE RETAIL RATES OF THE
8 COMPANY, BASED ON THE AVERAGE SYSTEM UNBUNDLED RATES WHICH
9 YOU DESCRIBED ABOVE?

10 A. Yes. The result is an average rate decrease of 18 percent for Duquesne, allowing for a
11 full collection of CTC costs, as opposed to the Company's proposal.

12

13 Q. HAVE YOU PROJECTED THE RESIDENTIAL RATE RS FOR 1999?

14 A. Yes, for the CTC rate design that produces a flat rate reduction. I have adjusted the
15 Company's proposed delivery rates in a similar fashion to the total retail rate analysis
16 described in the previous answer. The CTC amount was allocated to the class on the basis
17 of the generation capacity allocator, and rate design followed the process described for the
18 retail system as a whole. This results in a decrease for Duquesne's Rate RS of almost 27%,
19 as shown in Exhibit LS-6.

20

21 Q. PLEASE SUMMARIZE YOUR LEVELIZED RATE RS FOR DUQUESNE.

1 . A. The following table shows a comparison of the existing and proposed Rate RS for
2 Duquesne:

3	Current Rate	Proposed Rate
4		
5	Customer Charge \$6.42	Distribution Charges:
6	Energy Charge \$0.1174	Customer Charge \$6.42
7		Charge/kWh \$0.02476
8		Transmission Charge/kWh \$0.00268
9		CTC Charge/kWh \$0.02957
10		Generation Charge/kWh \$0.02540
11		
12		Total energy charges \$0.08241

13

14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15 A. Yes.

16

17 44571



LEE SMITH

LA CAPRA ASSOCIATES
Senior Economist

EDUCATION

TUFTS UNIVERSITY, all but dissertation for Ph.D., Economics

BOSTON COLLEGE, Study of Statistics

BROWN UNIVERSITY, Bachelor of Arts with Honors, International Relations and Economics

Experience

- 1984- **LA CAPRA ASSOCIATES**
Senior Economist Ms. Smith's work has encompassed all costing issues, forecasting, rate design, demand and supply planning regarding electric and gas utilities. Ms. Smith has extensive experience in testifying and negotiating.
- 1982-84 Department of Public Utilities; Director of Rates and Research
- 1981-82 Department of Public Utilities; Economist, Long-Run Planning
- 1978-79 **REGIS COLLEGE**, Lecturer in Economics
- 1974-77 **MERRIMACK COLLEGE**, Lecturer in Economics
- 1973-74 **UNIVERSITY OF MARYLAND**, Faculty Research Associate
- 1972-73 **TUFTS UNIVERSITY**, Lecturer in Economics
- 1967 **FEDERAL RESERVE BANK** of Boston, Administrative Assistant, Research Department
- 1965-66 **FEDERAL RESERVE BANK**, Research Assistant, Banking and Regional Policy

Publications:

Non-price Issues in Gas Supply Planning, **NATIONAL REGULATORY RESEARCH INSTITUTE**, Biennial Regulatory Research Conference, 1994

The Economic Impact of Hurricane Agnes on the Chesapeake Bay in Maryland, **JOHN HOPKINS PRESS**

Exhibit LS-1
Page 2 of 12

Papers:

"Development and Implementation of Restructuring in New England", Institute of Public Utilities at Michigan State University Williamsburg Conference, December 1995

"Planning for Gas and Electric Reliability", NARUC Biennial Regulatory Information Conference, Vol. II, 1994

"The Economic Impact of Hurricane Agnes on the Chesapeake Bay in Maryland", JOHN HOPKINS PRESS

Honors:

Bunting Institute Fellowship, 1970-71

Tufts University Economics Department Fellowship, 1967-68

Brown University International Relations Prize, 1965

Description of Selected Projects

- | | |
|------|---|
| 1996 | <p>New Hampshire Public Utilities Commission</p> <p>Assisted Commission staff in writing Draft Order on Restructuring; prepared discovery for utilities; prepared discovery questions for hearings on various issues, including corporate unbundling, market structure, transmission, stranded cost theory, measurement, and mitigation.</p> |
| 1996 | <p>Blackstone Gas Company</p> <p>Prepared rate case and negotiated settlement; negotiated special contracts for sales and transportation of gas.</p> |
| 1996 | <p>Massachusetts Division of Energy Resources</p> <p>Represented the DOER at NEPOOL committees engaged in developing an Independent System Operator, a revised NEPOOL Agreement, and an Open Access Transmission Tariff for New England. Assisted the DOER in other matters including development of model for Boston Edison pilot program based on proxy for competitive market real-time pricing.</p> |
| 1996 | <p>CMEEC</p> <p>Developed methodological basis for rate unbundling for the five Connecticut municipal utilities that are members of CMEEC.</p> |
| 1995 | <p>Black Hills Power and Light Company (South Dakota)</p> <p>Advised Company on development of ancillary services and open access transmission rates.</p> |
| 1995 | <p>Pennsylvania Office of the Consumer Advocate</p> <p>Assisted with preparation of comments on restructuring issues</p> |
| 1995 | <p>Maine Office of the Public Advocate</p> <p>Prepared alternative marginal cost study on Maine Public Service Company. Presented testimony advocating allocation of excess costs on the basis of generation allocators rather than EPMC.</p> |

- 1995 Massachusetts Division of Energy Resources
- Assisted DOER in all aspects of electric industry restructuring, from rate unbundling to planning and developing revised market structure for the New England Power Pool.
- 1995 Littleton Water and Light Department (N.H.)
- Developed retail wheeling rate; advised on retail wheeling policy issues
- 1995 Kansas Citizens' Utility Ratepayers Board
- Prepared testimony on cost allocation and rate design for local gas distribution utility. Assisted in settlement negotiations.
- 1995 Boston Edison Company
- Presented rate design workshop for Company personnel to assist in preparing for restructuring.
- 1995 World Bank
- Developing conditions under which State of Orissa, which is privatizing its electric distribution system, should consider revaluation; assisting with other restructuring issues.
- 1994 Division of Energy Resources
- Advised DOER on position on changes in Integrated Resource Management, including proposal to open Transmission and Distribution access to meet resource needs.
- 1994 Black Hills Power and Light Company (South Dakota)
- Advised Company on rate treatment and phase-in of major new generating unit, development of wholesale transmission rate, and response to retail wheeling.
- 1994 New Hampshire Office of the Consumer Advocate

Advised Office on retail wheeling concerns; prepared testimony on cost of service, cost allocation and marginal cost presented by an electric utility.

1994 Massachusetts Municipal Wholesale Electric Company

Testified for MMWEC on appropriate allocation of gas transition costs; assisted MMWEC in formulating response to generic docket on interruptible gas transportation; prepared comments.

1994 Town of Fort Fairfield

Prepared response of town to CMP's threat to shut down a renewable energy facility following state-financed buyout of a high-priced unit contract, resulting in settlement.

1994 Blackstone Gas Company

Formulated plan for settlement of long-term debt with Tennessee Gas Pipeline Company; gained Massachusetts DPU approval for long-term debt financing.

1993 North Attleborough Gas Company

Revised long-run econometric forecast of load, assisted Company in preparation of supply/demand forecast for DPU.

1994 Constellation Energy

Projected market price of power, advised developer on potential market.

1994 Stow Electric Energy Study Committee

Advised committee on setting up new municipal utility, based upon results of response to RFP for provision of power and operations services, negotiated with bidders.

1993 Massachusetts Department of Energy Resources;

Assisted with analysis of economic impact of retiring older generating

plants to meet Clear Air Act Targets.

1993 Eastern Energy Associates

Directed analysis and computation of avoided costs of a major electric utility.

1993 Blackstone Gas Company

Issued RFP, planned gas supply, negotiated supply contracts for small gas LDC.

1993 Maine Public Utility Commission Staff

Directed Staff's case in opposition to Central Maine Power Comp.'s request that it be allow to market power at below marginal cost rates; presented testimony on impact of CMP's proposal.

1993 Essex County Gas

Advised Company on long-run planning issues; developed innovative approach to reliability planning standards; directed full Demand and Supply Forecast which has been submitted to the Massachusetts Energy Facilities Siting Board.

1993 North Attleborough Gas Company

Directed development of long-run econometric forecast of load by type of customer.

1993 Office of the People's Counsel, Washington D.C.

Advised Office, presented testimony on appropriate recovery of deferred and present costs of ongoing Least Cost Planning program, including \$10 million in expenses of conservation programs.

1993 Plattsburgh Municipal Lighting Department

Advised utility on selection of least-cost power contracts.

1993 Wakefield Municipal Light Department

Presented testimony on gas distribution systems, transportation pricing issues in Boston Gas Company rate case.

1993 Nantucket Electric Company

Directed development of long-run end-use load forecast for tourism-based economy.

1992 Massachusetts Municipal Wholesale Electric Company

Analysis of and testimony on economic inefficiencies created by Bay State pricing of interruptible gas to Stony Brook generating unit.

1992 Woodsville Water and Light Department

Advised Department on least-cost power supply and led negotiations with potential suppliers, resulting in significant long-run savings.

1992 Stow Electric Energy Study Committee

Advised Committee on advisability of separating from municipal electric system currently serving the town; analyzed costs and benefits of different sources of supply.

1992 Boston Edison Electric Company

Assisted in analysis of customer's demand for experimental color-corrected streetlighting, resulting in settlement of long-standing dispute.

1992 Plattsburgh Municipal Light Department

Prepared rate case, including revenue needs, allocation of costs, and rate design; directed Company in reorganization of billing data.

1992 Colonial Gas Company

Directed analysis of company's new pipeline transportation contract with ANE (Iroquois); tested cost-effectiveness, analyzed non-pricing contract attributes.

1992 North Attleborough Gas Company

Presented Company rate filing, including reconciliation of actual year experience with predictions of previous settlement.

1992

Altresco

Advised on siting, fuel costs, and bidding of potential new intermediate power project.

1992

Middleton Electric Light Department

Renegotiation of contract for transmission of all power to the utility.

1992

Nantucket Electric Company

Directed revision of load research sampling (determining appropriate sample size and selection)

1991

Colonial Gas Company

Assisted in development of Conservation and Load Management Plan, including development of avoided gas supply and distribution costs.

1991

Essex County Gas

Prepared rate designs, testified in rate case on Company's marginal costs and rates; developed long-run avoided costs, including externalities, for use in screening Demand Side Measures.

1991

Massachusetts Electric Company

Prepared testimony for fuel switching case which analyzed marginal cost of Boston Gas Company, comparability of marginal cost estimation of electric and gas utilities.

1991

North Attleborough Gas Company

Assisted Company in all phases of filing rate case, including testimony and settlement negotiations, development of three new rate classes, and in developing strategy for phasing in very large (over 100%) increase in rate base.

1991

Nantucket Electric Company

Applied load research data to develop detailed (daily) demand and revenue projections.

1991 Nantucket Electric Company

Assisted in rate case, including allocating costs between customer classes, developing marginal costs, designing rates.

1991 Essex County Gas Company

Assisted Company in filing rate case, including development of labor allocator and other allocations, marginal cost analysis, rate design; prepared avoided cost for use in DSM program screening.

1991 Nantucket Electric Company

Presented testimony on externalities created by emissions from electric generation on Nantucket Island, and potential impact of inclusion of externalities on ratepayers.

1991 Blackstone Gas Company

Prepared full rate case (first filed by the Company in 9 years); presented testimony, assisted in a settlement of the case with intervenors.

1990 Wakefield Municipal Light Department

Assisted gas division of WMLD with avoiding hundreds of thousands of rate increase from Boston Gas Company; presented testimony on errors in Boston Gas filing; analyzed distribution system of both utilities.

1990 Illinois Office of Public Counsel

Provided expert advice to consumer advocate group on developing state least-cost planning guidelines for gas utilities.

1990 Berkshire Gas Company

Assisted company with development of a pilot DSM program, including directing the development of the screening tools, estimating long-run avoided costs based on daily dispatch of Company proposed supply portfolio, then in screening cost-effective measures.

- 1990 Plattsburgh Municipal Light Department
- Developed new rate for large, 46 KV service customers, directed development of value of plant serving the proposed class.
- 1990 Colonial Gas Company
- Assisted Company in developing various analyses for rate case, including converting class sales data (which includes a billing lag) to weather-adjusted, calendar data for use in revenue normalization and rate purposes. Refined La Capra Associates cost allocation model and trained company personnel in use of model.
- 1990 Blackstone Gas Company
- Resolved long-run undercollection of gas costs; assisted company in negotiations with its major lender, developed long-run plan to resolve inappropriate debt.
- 1990 Mobile Gas Service Corporation
- Assisted Company in development of strategy with regard to marketing plan in which electric company made payments to customers and appliance dealers to cause customers to switch to electric heat; directed detailed analysis of marginal costs and benefits of the electric marketing program.
- 1989 Middleton Electric Light Department
- Developed innovative cost-based rate for very large interruptible customer and negotiated with both NEPOOL and customer.
- 1989 Berkshire Gas Company
- Assisted Company in EFSC case, performing both innovative demand and supply analyses. We demonstrated that improved methodologies showed that new pipeline contract was beneficial to ratepayers.
- 1989 Littleton Water and Light Department
- Updated Company's revenue allocation and rates to reflect new marginal-

cost based wholesale power tariff.

1989 Wakefield Municipal Light Department

Advised company regarding gas supply planning; assisted in renegotiation of contract with Boston Gas Company.

1989 Essex County Gas Company

Assisted with all aspects of rate case filing, including revenue estimation, cost allocation, and rate design, introducing subsidized rates for low-income customers.

1989 Colonial Gas Company

Designed rates in rate case filing; reorganized commercial and industrial rate classes.

1989 Boston Edison Company

Assisted Company in analysis of jurisdictional cost allocations in major court dispute; developed company response to FERC order on allocation of distribution/transmission plant.

1988 Reading Municipal Light Department

Analyzed power supply options, determined least-cost options.

1987 Essex County Gas Company

Assisted with all aspects of rate case filing, including revenue estimation, cost allocation, and rate design. This case moved rates closer to seasonal marginal costs, and class revenues closer to allocated costs. Modified Company's existing dispatch model to produce additional results for rate case and planning purposes, developed model to estimate marginal distribution costs.

1987 Wellesley Municipal Light Plant

Redesigned rates for municipal utility, including allocating costs,

estimating marginal costs, and designing rates, including a time-of-use rate for largest customers.

1986

Colonial Gas Company

Redesigned Company rates according to allocated cost of service study, marginal cost principles.

1985

Colonial Gas Company

Developed daily gas dispatch model to simulate actual daily dispatch, calculate marginal gas costs by season, and allocate gas costs between users.



**Duquesne Light Company
Calculation of Market Price**

	1999	2000	2001	2002	2003	2004	2005
Load Weighted Market Price	19.29	19.83	19.91	22.52	29.17	30.22	32.33
Loss Adjustment	1.051	1.051	1.051	1.051	1.051	1.051	1.051
Gross Receipts Tax Adjustment	1.046	1.046	1.046	1.046	1.046	1.046	1.046
Customer Level Market Price	21.21	21.80	21.89	24.76	32.07	33.22	35.54

Duquesne Light Company
1996 Administrative & General Expenses (\$000)

Pennsylvania Jurisdiction	Total	Production	T,D,C
920 - Salaries	\$26,320,293	\$15,828,748	\$10,491,545
921 - Office Supplies & Expenses	5,592,934	3,363,532	2,229,402
922 - Admin Expenses Transferred	(6,167,522)	(3,709,083)	(2,458,439)
923 - Outside Services Employment	8,461,191	5,088,471	3,372,720
924 - Property Insurance	5,598,900	5,150,743	448,157
925 - Injuries & Damages	3,602,236	2,166,347	1,435,889
926 - Pensions & Benefits	13,494,934	8,115,712	5,379,222
927 - Franchise Requirements	0	0	0
928 - Regulatory Commission Expense	1,788,812	1,075,773	713,039
929 - Duplicate Charges	(1,246,367)	(749,552)	(496,815)
930 - Miscellaneous General Expense	20,611,178	16,108,523	4,502,655
931 - Rents	11,490,348	6,910,377	4,579,971
925 Maintenance of General Plant	3,261,083	640,832	2,620,251
Total	\$92,808,020	\$59,990,423	\$32,817,597
Total Excl Ins, P&B, Reg Exp	\$71,925,374	\$45,648,195	\$26,277,179

Rate RS	Total	Production	T,D,C
920 - Salaries	\$8,290,180	\$4,178,453	\$4,111,727
921 - Office Supplies & Expenses	1,761,623	887,901	873,722
922 - Admin Expenses Transferred	(1,942,602)	(979,119)	(963,483)
923 - Outside Services Employment	2,665,045	1,343,248	1,321,797
924 - Property Insurance	1,620,476	1,457,214	163,262
925 - Injuries & Damages	1,134,607	571,869	562,738
926 - Pensions & Benefits	4,250,538	2,142,375	2,108,163
927 - Franchise Requirements	0	0	0
928 - Regulatory Commission Expense	563,427	283,981	279,446
929 - Duplicate Charges	(392,572)	(197,866)	(194,706)
930 - Miscellaneous General Expense	6,247,302	4,555,612	1,691,690
931 - Rents	3,669,764	1,955,038	1,714,726
925 Maintenance of General Plant	1,142,244	169,166	973,078
Total	\$29,010,032	\$16,367,872	\$12,642,160
Total Excl Ins, P&B, Reg Exp	\$22,575,591	\$12,484,302	\$10,091,289

**Duquesne Light Company
Retail Cost of Service
CTC Proposal
\$000**

Exhibit LS-4

	1996	1999	2000	2001	2002	2003	2004	2005
Total Retail MWh	12,393,680	12,519,000	12,727,000	12,936,000	13,153,000	13,378,000	13,615,000	13,858,000
OCA Proposed Rates ¢/kWh:								
T&D	2.303	2.303	2.303	2.303	2.303	2.303	2.303	2.303
Market Generation		2.121	2.180	2.189	2.476	3.207	3.322	3.554
Generation A&G	0.368	<u>0.390</u>	<u>0.393</u>	<u>0.398</u>	<u>0.403</u>	<u>0.408</u>	<u>0.414</u>	<u>0.420</u>
Avoidable Generation Component		2.510	2.574	2.587	2.879	3.615	3.736	3.975
CTC		<u>2.487</u>	<u>2.423</u>	<u>2.410</u>	<u>2.118</u>	<u>1.382</u>	<u>1.261</u>	<u>1.022</u>
Total Proposed Rate		7.300	7.300	7.300	7.300	7.300	7.300	7.300
OCA Proposed Revenue:								
T&D	285,417	288,303	293,093	297,906	302,903	308,085	313,543	319,139
Market Generation		265,489	277,456	283,150	325,640	429,015	452,332	492,551
Generation A&G	45,648	<u>48,799</u>	<u>50,077</u>	<u>51,540</u>	<u>52,998</u>	<u>54,593</u>	<u>56,373</u>	<u>58,245</u>
Avoidable Generation Component		314,288	327,533	334,689	378,638	483,608	508,705	550,796
CTC		<u>311,286</u>	<u>308,435</u>	<u>311,723</u>	<u>278,617</u>	<u>184,890</u>	<u>171,637</u>	<u>141,689</u>
Total Proposed Revenue		913,877	929,061	944,318	960,159	976,583	993,884	1,011,623
Total Revenue @ Current Rates	1,106,787	1,117,979	1,136,554	1,155,218	1,174,597	1,194,690	1,215,854	1,237,555
Total Average Revenue ¢/kWh	8.930	8.930	8.930	8.930	8.930	8.930	8.930	8.930
Difference (Proposed - Current)		(204,102)	(207,493)	(210,900)	(214,438)	(218,106)	(221,970)	(225,932)
Percent Change From Current		-18.3%	-18.3%	-18.3%	-18.3%	-18.3%	-18.3%	-18.3%

Sales and revenue per JAL-9.

T&D Revenue Requirement per JAL-1C.

Duquesne Light Company
Retail CTC (\$000)

Exhibit LS-5
Page 1

	(1) Level CTC	(2) Level CTC Incl GRT	(3) Current Rates	(4) T&D, Gen	(5) Level CTC, T&D, Gen	(6) % Change in Rates	(7) Equal %ag CTC	(8) Eq % CTC, T&D, Gen	(9) % Change in Rates
1999	241,428	252,540	1,117,979	602,591	855,130	-24%	311,286	913,877	-18%
2000	241,428	252,540	1,136,554	620,626	873,165	-23%	308,435	929,061	-18%
2001	241,428	252,540	1,155,218	632,595	885,135	-23%	311,723	944,318	-18%
2002	241,428	252,540	1,174,597	681,542	934,081	-20%	278,617	960,159	-18%
2003	241,428	252,540	1,194,690	791,693	1,044,233	-13%	184,890	976,583	-18%
2004	241,428	252,540	1,215,854	822,247	1,074,787	-12%	171,637	993,884	-18%
2005	241,428	252,540	1,237,555	869,934	1,122,474	-9%	141,689	1,011,623	-18%
6.88% NPV	1,306,585	1,366,721	6,336,264	3,812,774	5,179,495	-18.3%	1,366,721	5,179,495	-18%

Notes: PUC 99.9%
Col 5 = Col 2 + Col 4
Col 6 = (Col 5 - Col 3)/Col 3
Col 8 = Col 4 + Col 7
Col 9 = (Col 8 - Col 3)/Col 3

**Duquesne Light Company
Calculation of Levelized CTC**

Regulatory Assets & Transition Costs

Year	Balance of Assets	Base For Return	Return @ 6.88%	Annual Amort	Annual Rev Req
1999	425,844	425,844	29,298	49,388	78,686
2000	376,455	376,455	25,900	52,786	78,686
2001	323,669	323,669	22,268	56,418	78,686
2002	267,251	267,251	18,387	60,300	78,686
2003	206,952	206,952	14,238	64,448	78,686
2004	142,503	142,503	9,804	68,882	78,686
2005	73,621	73,621	5,065	73,621	78,686
NPV =					425,844

Owned Generation

Year	Balance of Assets	Base For Return	Return @ 6.88%	Annual Amort	Annual Rev Req
1999	1,139,190	0	0	162,741	162,741
2000	976,448	0	0	162,741	162,741
2001	813,707	0	0	162,741	162,741
2002	650,966	0	0	162,741	162,741
2003	488,224	0	0	162,741	162,741
2004	325,483	0	0	162,741	162,741
2005	162,741	0	0	162,741	162,741
PUC allocation is 99.9%				NPV =	880,742

**Duquesne Light Company
Unbundled Rate Design
Residential - Rate RS**

	Billing Units	Revenue	Rate
1 Customer Charges:			
2 Customer Bills	5,955,305	\$38,233,058	\$6.42
3			
4 Distribution Charges			
5 All kWh	2,977,045,069	\$73,717,102	\$0.02476
6			
7 Transmission Charges			
8 All kWh	2,977,045,069	\$7,982,100	\$0.00268
9			
10 Generation Charges (Optional)			
11 All kWh	2,977,045,069	\$75,616,945	\$0.02540
12			
13 CTC Charges			
14 All kWh	2,977,045,069	\$88,031,223	\$0.02957
15			
16 Total Proposed Energy Charges			
17 All kWh	2,977,045,069	\$245,347,369	\$0.08241
18			
19 Total Current Energy Charges			
20 All kWh	2,977,045,069	\$349,505,091	\$0.11740
21			
22			
23 Total Proposed Charges		\$283,580,427	
24 Total Current Charge		\$387,738,149	
25 Rate Change		-26.86%	
26			

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF DUQUESNE LIGHT :
COMPANY FOR APPROVAL OF ITS : Docket No. R-00974104
RESTRUCTURING PLAN UNDER :
SECTION 2806 OF THE PUBLIC :
UTILITY CODE :

DOCUMENT
FOLDER

SURREBUTTAL TESTIMONY
OF
LEE SMITH

RECEIVED
98 JAN -9 PM 1:17
PA.P.U.C.
PROTHONOTARY'S OFFICE

DOCKETED
JAN 13 1998

On Behalf of:
OFFICE OF CONSUMER ADVOCATE

DECEMBER 1997

1 Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?
2 A. My name is Lee Smith, and I work for La Capra Associates, 333 Washington St., Boston,
3 Massachusetts.
4
5 Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?
6 A. Yes. I previously submitted direct testimony on behalf of the Pennsylvania Office of
7 Consumer Advocate which had been identified as OCA Statement No. 4. My
8 qualifications and experience are presented in that testimony.
9
10 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
11 A. I intend to respond to the testimony of Mr. Lahtinen, Mr. Kalcic and Mr. Baron regarding
12 the appropriate treatment of ancillary service costs, line losses, the generation
13 Administrative and General ("A&G") adder that I have proposed, and the appropriate
14 class rates of return. In addition, I am offering some corrections to my original schedules.
15

16 Ancillary Service Costs

17 Q. WHAT IS THE COMPANY'S POSITION REGARDING ANCILLARY SERVICE
18 COSTS?
19 A. The Company continues to argue that ancillary service costs should be included in its
20 transmission costs and rates. As support for this position, Mr. Lahtinen states that the
21 purpose of the Competitive Generation Charge ("CGC") is to provide a credit for the
22 market value of generation services that can be competitively procured. He argues that
23 today only supplemental reserves can be competitively supplied. He proposes to calculate
24 a market-based credit for supplemental reserves only, and apply it to the CGC for any
25 customer that procures the service competitively.
26
27

1 Q. WHAT ARE THE ISSUES ABOUT WHICH THERE IS DISAGREEMENT?

2 A. There are two primary issues. The first issue is whether it is correct that only
3 supplemental reserves can be competitively supplied. The second issue is whether
4 generation related ancillary service costs should be considered generation or transmission,
5 as a general matter.

6
7 Q. HAS THE COMPANY PRESENTED ANY EVIDENCE THAT INDICATES THAT
8 ANCILLARY SERVICES OTHER THAN SUPPLEMENTAL RESERVES CANNOT
9 BE PURCHASED COMPETITIVELY?

10 A. No. Competitive suppliers could provide most ancillary services. The Company's own
11 testimony states that energy imbalance service and regulation and frequency control can
12 be provided by other suppliers through dynamic scheduling; essentially by running an
13 alternative control area. Currently ECAR requires that spinning reserves be provided from
14 within the control area. That rule is subject to change, and spinning reserves could be
15 provided within the control area by either purchasing existing generation or by building
16 new generation within the area. Thus, it appears that only scheduling and reactive power
17 services are unlikely to be provided through the competitive market. This is consistent
18 with FERC Order 888.

19
20 Q. WHAT IS THE RATIONALE FOR CONSIDERING THESE SERVICES
21 TRANSMISSION COSTS?

22 A. The major rationale that has been presented is that FERC Order 888 requires that the
23 transmission owner offer a tariff for such services. It is my understanding that the major
24 purpose of FERC Order 888 is opening up transmission access so that the generation
25 market will become fully competitive. It seems contradictory to the fundamental purpose
26 of FERC Order 888 for the transmission provider to include generation stranded costs in
27 ancillary service charges and then require that customers purchase these services at above-
28 market prices. Even though FERC requires that these services be offered by the
29 transmission provider, they may still be provided by another entity.

1 Q. DOES MR. LAHTINEN'S PROPOSAL TO CALCULATE A MARKET BASED
2 CREDIT FOR ANY TYPE OF ANCILLARY SERVICE DEFUSE YOUR OBJECTION
3 TO INCLUDING ANCILLARY SERVICES IN THE TRANSMISSION RATE?

4 A. No. This proposal illustrates one reason the original proposal to charge for ancillary
5 services through the transmission rate is in error. The credit would be based on market
6 prices, but the supplemental reserve costs included in transmission are based on embedded
7 costs. As a result, Mr. Lahtinen's proposal would result in the Company undercollecting
8 stranded costs if alternative suppliers provided their own supplemental reserves. The
9 Company then would have to increase the CTC to collect these missing stranded costs.
10 The entire problem can best be solved by not creating it in the first place. I continue to
11 recommend that generation-related service costs not be transferred from generation to
12 transmission.

13
14 Line Losses

15 Q. HAS THE COMPANY CHANGED ITS POSITION WITH REGARD TO PROVISION
16 OF LINE LOSSES?

17 A. Yes. The Company has agreed to remove the cost of distribution losses from its
18 distribution tariff, although it argues that most of these costs are associated with
19 embedded generation capacity and therefore will increase the CTC. It has not indicated to
20 what extent this would increase the CTC. However, the Company still plans to charge for
21 transmission losses through its transmission rate (although alternative suppliers may
22 provide for their own losses.)

23
24 Q. DO YOU AGREE WITH THE COMPANY THAT REFLECTING LINE LOSSES IN
25 GENERATION COSTS WILL INCREASE THE CTC UNDER YOUR PROPOSAL?

26 A. The fact that a significant portion of line loss costs are actually generation capacity costs
27 is one of the reasons that I originally argued that line losses belong with the generation
28 component of rates. In the Company's proposal, the CTC is simply the residual between
29 total rates, the market cost of generation, and T&D rates. The CTC is smaller than it

1 would have been if the Company had not moved line loss costs into T&D rates.
2 However, in the methodology that I have proposed, the CTC is not simply the residual,
3 but is a calculated number designed to collect the correct total amount of stranded costs.
4 The CTC that I have proposed will recover all stranded costs including any associated
5 with line losses, since I have already included line losses in the generation stranded costs
6 and not in T&D. Therefore, the CTC requires no modification.
7

8 Q. HAVE YOU MODIFIED YOUR ORIGINAL TREATMENT OF LINE LOSSES?

9 A. Yes. Originally I used the Company's actual 1996 line losses, as found in its FERC Form
10 1, of 5.1% to estimate market prices. However, the Company has used an estimate of
11 7.1% of its total losses. In the revisions that I have provided with this rebuttal testimony,
12 I utilized the Company's higher line loss estimate to estimate both market prices and
13 unbundled rates.
14

15 Q. IS THERE ANOTHER PROBLEM WITH INCLUDING EITHER LINE LOSSES OR
16 ANCILLARY SERVICES IN T&D, RATHER THAN GENERATION?

17 A. *Yes. Rate unbundling should produce results that are consistent with full unbundling of*
18 *functions. If a separate transmission company or transmission affiliate were formed, it*
19 *would not own any generation, but would have to purchase generation services from*
20 *another entity in order to provide for line losses and ancillary services. This arrangement*
21 *would require regulatory oversight to ensure that the transmission utility does not use its*
22 *monopoly in the provision of line losses to sell line loss energy at more than cost. For all*
23 *the reasons discussed above, I recommend that line losses be included with the generation*
24 *function.*
25

26 Generation A&G Adder

27 Q. WHAT DOES MR. LAHTINEN SAY ABOUT THE GENERATION A&G ADDER
28 WHICH YOU PROPOSED?

29 A. Mr. Lahtinen argues on the basis of economic theory that competitive suppliers will bid to

1 supply power on the basis of marginal costs.

2
3 Q. DOES THE ABOVE ARGUMENT DEMONSTRATE THAT IT IS INCORRECT TO
4 ADD THE GENERATION A&G COMPONENT TO MARKET PRICE?

5 A. No. First, Mr. Lahtinen does not attempt to demonstrate that some generation A&G is
6 not a component of marginal cost, either in the short-run or in the long-run. He also does
7 not argue that if most or all competitive suppliers cannot recover necessary overhead,
8 including generation A&G, that they will fail and prices will increase.

9
10 Q. IF COMPETITIVE SUPPLIERS COULD RECOVER ALL GENERATION A&G AT
11 THE WHOLESALE PRICES PROJECTED BY MR. SMITH, WOULD THAT MAKE
12 YOUR GENERATION A&G ADJUSTMENT UNNECESSARY?

13 A. If this were the case, it suggests that the wholesale market price does not need the
14 generation A&G adder. However, it would still be necessary to remove generation-
15 related A&G costs from the distribution rate. Otherwise, the utility would recover these
16 through the wholesale generation rate, and would collect these same costs again, if they
17 remained in the distribution rate.

18
19 Class rates of return and appropriate unbundled T&D rates

20 Q. WHAT IS THE ISSUE REGARDING RATES OF RETURN?

21 A. The Company has designed T&D rates that would recover the Company's claimed 9.61%
22 rate of return from each rate class, rather than the rate of return actually earned by each
23 class under current rates. In order not to overcollect, the Company adjusted the
24 generation portion of the rate. In other words, if a class had actually earned a rate of
25 return of 8% on rate base, the Company developed a rate for that class which included a
26 9.61% rate of return on distribution rate base, then reduced the generation component of
27 that class rate in order to not increase the total rate. This effectively meant that class
28 would pay even less than its average return of 8% on generation rate base.

1 Q. DID YOU RECOGNIZE THIS PROBLEM IN YOUR ORIGINAL TESTIMONY?

2 A. No. I believed, incorrectly, that the Company did utilize different earned class rates of
3 return for T&D rates. In responding to discovery by other parties, I discovered that the
4 Company had actually used its claimed rate of return to develop T&D rates.

5
6 Q. DO YOU AGREE WITH THE COMPANY THAT THIS APPROACH IS
7 CONSISTENT WITH THE ACT BECAUSE IN PAST PROCEEDINGS THE
8 COMMISSION DID NOT APPROVE RATES ON AN UNBUNDLED BASIS?

9 A. No. In the most recent rate case, the Commission approved a system rate of return and
10 also class rates of return, which applied to the Company's entire rate base. Since the rate
11 of return applies equally to all types of plant, there was no distinction in the rate of return
12 by function. Thus, for purposes of unbundled rates, return by function should be
13 determined by applying the same rate of return to all plant. This will produce appropriate
14 functional rates by class, even though they were not previously unbundled. The Act
15 clearly specifies that overall non-generation charges will be capped at "the non-generation
16 charges that have been approved by the Commission for such service..."

17
18 Q. NOW THAT YOU HAVE RECOGNIZED THAT T&D RATES WERE NOT
19 DEVELOPED USING THE APPROPRIATE RATES OF RETURN, HAVE YOU
20 MODIFIED YOUR ORIGINAL COMPUTATIONS?

21 A. Yes. I have explicitly adjusted the return on transmission and distribution rate base to
22 equal the achieved class rates of return. This required using the response to OSBA-2-24
23 as the basis for class transmission and distribution rates. This computation is shown on
24 Exhibit LS-7.

25
26 Derivation of class CTCs

27 Q. DO MR. BARON AND MR. KALCIC SUPPORT YOUR PROPOSAL TO ALLOCATE
28 STRANDED COSTS BETWEEN RATE CLASSES?

29 A. Mr. Kalcic supports the allocation of the CTC revenue requirement between classes. Mr.

1 Baron advocates treating the CTC as a residual component of rates, which produces a
2 different result.

3
4 Q. DOES THE DIFFERENCE IN EARNED CLASS RATES OF RETURN, DISCUSSED
5 ABOVE, REQUIRE MODIFICATION OF YOUR PROPOSED CTC ALLOCATION?

6 A. No. The Act specifies that the CTC should be allocated consistent with the methodology
7 for utility production plant approved in the last base rate case. Mr. Baron testifies that
8 although allocation of the CTC "conceptually" could be utilized, doing so would violate
9 the generation rate cap for several classes. It is my position, however, that if the
10 combination of the T&D rate and a fully allocated CTC would result in exceeding the rate
11 cap, then the rate cap must take priority. The generation component shall not exceed the
12 generation component "...that has been approved by the Commission for such service, as
13 of the effective date of this chapter."

14
15 Q. DOES MR. BARON IDENTIFY A REASON WHY THE RATE CAP MIGHT BE
16 VIOLATED, AND DOES THIS CHANGE YOUR CONCLUSION?

17 A. Mr. Baron notes that the production capacity allocator doesn't reflect the fact that some
18 HVPS sales are either interruptible, or entail "avoidance generation energy." Mr. Baron
19 argues that these characteristics should result in a lower responsibility for capacity, but the
20 allocator does not recognize these characteristics. He is therefore criticizing the allocator
21 as being outdated or otherwise incorrect. However, the Act does not specifically allow
22 for any corrections to previously utilized allocators. If the Commission accepts a stranded
23 cost result which would cause an allocated CTC to violate the rate cap for some classes,
24 the Company must forgo these revenues unless, for good cause shown, it requests and is
25 granted by the Commission, a longer collection period for these classes.

26
27 Q. ARE THERE ANY OTHER DISPUTES REGARDING THE DESIGN OF THE CTC?

28 A. Yes. Mr. Lahtinen continues to argue that his customer-specific, two-part CTC should be
29 allowed because it will increase economic efficiency. The basis for this claim is the further

1 claim that his proposed rates, with a lower energy charge, will continue to exceed
2 marginal costs. However, the Company has not demonstrated this to be true. They have
3 not presented a marginal cost analysis which fully reflects marginal transmission and
4 distribution costs, as well as short-run generation costs, or a long-run marginal cost
5 analysis. There is an argument that to encourage efficient behavior, rates should reflect
6 long-run marginal costs, which would clearly include marginal T&D costs as well as
7 generation capacity.

8
9 Mr. Lahtinen also argues that lower energy charges will result in increased consumption.
10 This result depends upon price elasticity of demand, and also upon customers being
11 sensitive to their marginal price rather than to their average price. Studies of energy
12 demand elasticity indicate that customers may respond to average rather than marginal
13 energy prices (Bohi, Demand for Electricity, 1981, p.35), in which case the two-part CTC
14 would have no impact on usage. This approach would, however, charge more CTC to
15 customers who reduced usage compared to an energy based CTC. I recommend that the
16 Commission reject the Company's approach.

17
18 Summary of recommended rate design

19 Q. YOU MENTIONED EARLIER THAT YOU ARE MAKING CERTAIN
20 MODIFICATIONS TO YOUR ORIGINAL EXHIBITS. PLEASE DESCRIBE THESE.

21 A. First, I modified the computation of market prices to use the Company's estimate of its
22 energy line losses.

23
24 Second, as noted above, I was mistaken in accepting the Company's allocation of T&D
25 costs. T&D costs should be based on class earned rates of return. As described above, I
26 have modified the return on T&D rate base to reflect the actual earned class rates of
27 return.

28
29 Third, in responding to a data response I identified a small error in my computation of

1 generation related A&G. The 1996 Company value (but not the residential value) was
2 escalated by three years worth of anticipated inflation. It was not my intent to escalate
3 the actual 1996 cost. The 1996 generation A&G rate should be maintained. This has
4 been corrected in the revised tables.

5
6 Finally, I have revised the CTC to reflect Mr. Catlin's and Mr. Kahal's surrebuttal
7 testimonies. This increases stranded costs from the original estimate. Accordingly, I am
8 submitting revisions to Exh. LS-4, 5, and 6, as Exhibits LS-8, 9, and 10. The
9 recommended rates include a levelized rate reduction. As is illustrated on Exh. LS-9,
10 column 6, a levelized CTC, as opposed to the levelized rate reduction, would produce a
11 23% reduction in the early years and a 9% reduction in the last year.

12
13 Q. WHAT ARE THE FINAL RESULTS IN TERMS OF RATE DESIGN?

14 A. The recommended rates will produce an average Company rate reduction of 18% for each
15 year over seven years. The resulting residential reduction is 23.8%, assuming that
16 residential customers will pay the average market price.

17
18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19 A. Yes.

20
21 44983

Duquesne Light Company
Retail Cost of Service
\$000

	1996	1999	2000	2001	2002	2003	2004	2005
Total Retail MWh	12,393,680	12,519,000	12,727,000	12,936,000	13,153,000	13,378,000	13,615,000	13,858,000
OCA Proposed Rates ¢/kWh:								
T&D	2.113	2.113	2.113	2.113	2.113	2.113	2.113	2.113
Market Generation		2.161	2.222	2.231	2.523	3.268	3.386	3.622
Generation A&G	0.368	<u>0.368</u>	<u>0.378</u>	<u>0.389</u>	<u>0.400</u>	<u>0.412</u>	<u>0.425</u>	<u>0.440</u>
Avoidable Generation Component		2.529	2.600	2.620	2.923	3.680	3.811	4.062
CTC		<u>2.683</u>	<u>2.613</u>	<u>2.593</u>	<u>2.290</u>	<u>1.533</u>	<u>1.402</u>	<u>1.151</u>
Total Proposed Rate		7.326	7.326	7.326	7.326	7.326	7.326	7.326
OCA Proposed Revenue:								
T&D	261,914	264,562	268,958	273,374	277,960	282,715	287,724	292,859
Market Generation		270,541	282,735	288,538	331,837	437,179	460,939	501,924
Generation A&G	45,648	<u>46,110</u>	<u>48,104</u>	<u>50,322</u>	<u>52,614</u>	<u>55,125</u>	<u>57,930</u>	<u>60,922</u>
Avoidable Generation Component		316,651	330,840	338,860	384,451	492,304	518,869	562,845
CTC		<u>335,937</u>	<u>332,591</u>	<u>335,465</u>	<u>301,186</u>	<u>205,062</u>	<u>190,850</u>	<u>159,541</u>
Total Proposed Revenue		917,150	932,388	947,699	963,597	980,080	997,443	1,015,246
Total Revenue @ Current Rates	1,106,787	1,117,979	1,136,554	1,155,218	1,174,597	1,194,690	1,215,854	1,237,555
Total Average Revenue ¢/kWh	8.930	8.930	8.930	8.930	8.930	8.930	8.930	8.930
Difference (Proposed - Current)		(200,829)	(204,166)	(207,519)	(211,000)	(214,609)	(218,411)	(222,309)
Percent Change From Current		-18.0%	-18.0%	-18.0%	-18.0%	-18.0%	-18.0%	-18.0%

Sales and revenue per JAL-9.

T&D Revenue Requirement per OSBA-2-24 (JAL-1C, p 5-6).

Exhibit LS-8
(Revised LS-2)

**Duquesne Light Company
Calculation of Market Price**

	1999	2000	2001	2002	2003	2004	2005
Load Weighted Market Price	19.29	19.83	19.91	22.52	29.17	30.22	32.33
Loss * Adjustment	1.071	1.071	1.071	1.071	1.071	1.071	1.071
Gross Receipts Tax Adjustment	1.046	1.046	1.046	1.046	1.046	1.046	1.046
Customer Level Market Price	21.61	22.22	22.31	25.23	32.68	33.86	36.22

* Losses per JAL-1E, Page 1

**Duquesne Light Company
Retail CTC (\$000)**

Exhibit LS-9
Page 1
(Revised LS-5)

	(1) Level CTC	(2) Level CTC Incl GRT	(3) Current Rates	(4) T&D, Gen	(5) Level CTC, T&D, Gen	(6) % Change in Rates	(7) Equal %ag CTC	(8) Eq % CTC, T&D, Gen	(9) % Change in Rates
1999	262,539	274,622	1,117,979	581,213	855,835	-23%	335,937	917,150	-18%
2000	262,539	274,622	1,136,554	599,797	874,419	-23%	332,591	932,388	-18%
2001	262,539	274,622	1,155,218	612,234	886,856	-23%	335,465	947,699	-18%
2002	262,539	274,622	1,174,597	662,411	937,033	-20%	301,186	963,597	-18%
2003	262,539	274,622	1,194,690	775,019	1,049,641	-12%	205,062	980,080	-18%
2004	262,539	274,622	1,215,854	806,593	1,081,215	-11%	190,850	997,443	-18%
2005	262,539	274,622	1,237,555	855,704	1,130,326	-9%	159,541	1,015,246	-18%
6.88%									
NPV	1,420,835	1,486,230	6,336,264	3,711,813	5,198,042	-18.0%	1,486,230	5,198,042	-18%

Notes: PUC 99.9%
Col 5 = Col 2 + Col 4
Col 6 = (Col 5 - Col 3)/Col 3
Col 8 = Col 4 + Col 7
Col 9 = (Col 8 - Col 3)/Col 3

**Duquesne Light Company
Calculation of Levelized CTC**

Regulatory Assets & Transition Costs

Year	Balance of Assets	Base For Return	Return @ 6.88%	Annual Amort	Annual Rev Req
1999	425,844	425,844	29,298	49,388	78,686
2000	376,455	376,455	25,900	52,786	78,686
2001	323,669	323,669	22,268	56,418	78,686
2002	267,251	267,251	18,387	60,300	78,686
2003	206,952	206,952	14,238	64,448	78,686
2004	142,503	142,503	9,804	68,882	78,686
2005	73,621	73,621	5,065	73,621	78,686
				NPV =	425,844

Owned Generation

Year	Balance of Assets	Base For Return	Return @ 6.88%	Annual Amort	Annual Rev Req
1999	1,286,966	0	0	183,852	183,852
2000	1,103,113	0	0	183,852	183,852
2001	919,261	0	0	183,852	183,852
2002	735,409	0	0	183,852	183,852
2003	551,557	0	0	183,852	183,852
2004	367,704	0	0	183,852	183,852
2005	183,852	0	0	183,852	183,852

PUC allocation is 99.9%
Includes \$54.889M in deferred taxes

NPV = 994,992

**Duquesne Light Company
Unbundled Rate Design
Residential - Rate RS**

	Billing Units	Revenue	Rate
1 Customer Charges:			
2 Customer Bills	5,955,305	\$38,233,058	\$6.42
3			
4 Distribution Charges			
5 All kWh	2,977,045,069	\$76,634,802	\$0.02574
6			
7 Transmission Charges			
8 All kWh	2,977,045,069	\$8,789,055	\$0.00295
9			
10 Generation Charges (Optional)			
11 All kWh	2,977,045,069	\$76,807,763	\$0.02580
12			
13 CTC Charges			
14 All kWh	2,977,045,069	\$94,997,508	\$0.03191
15			
16 Total Proposed Energy Charges			
17 All kWh	2,977,045,069	\$257,229,128	\$0.08640
18			
19 Total Current Energy Charges			
20 All kWh	2,977,045,069	\$349,505,091	\$0.11740
21			
22			
23 Total Proposed Charges		\$295,462,186	
24 Total Current Charge		\$387,738,149	
25 Rate Change		-23.80%	
26			
27			

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF DUQUESNE LIGHT :
COMPANY FOR APPROVAL OF ITS : Docket No. R-00974104
RESTRUCTURING PLAN UNDER :
SECTION 2806 OF THE PUBLIC :
UTILITY CODE :

DIRECT TESTIMONY

OF

BARBARA ALEXANDER

DOCUMENT
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On Behalf of:

OFFICE OF CONSUMER ADVOCATE

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NOVEMBER 1997

TESTIMONY OF BARBARA R. ALEXANDER
DUQUESNE LIGHT COMPANY
DOCKET NO. R-00974104

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND PROFESSIONAL AFFILIATION.

2 A. My name is Barbara R. Alexander. I am a consultant on consumer protection and
3 customer service issues associated with utility regulation. My address is 15 Wedgewood
4 Dr., Winthrop, ME 04364. I appear in this case as a consultant to the Office of Consumer
5 Advocate.

6 Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS FOR YOUR
7 TESTIMONY IN THIS PROCEEDING.

8 A. I opened my consulting practice in Winthrop, Maine in March, 1996, after nearly ten years
9 as the Director of the Consumer Assistance Division of the Maine Public Utilities
10 Commission. While there, I testified as an expert witness on consumer protection,
11 customer service and low-income issues in rate cases and other investigations before the
12 Commission. In 1991, I led the staff team that negotiated and put in place Maine's first
13 low-income bill payment assistance programs modeled on a Percentage of Income
14 Payment Plan approach. In 1995-96, my testimony resulted in the inclusion of a Service
15 Quality Index with penalties for degradation of service quality from baseline performance
16 levels for both the largest electric and telephone utilities as part of their alternative rate
17 plan.

18 Prior to my employment at the Maine PUC, I was Maine's Superintendent of the
19 Bureau of Consumer Credit Protection and served as an Assistant to Maine's first woman

1 Majority Leader in the House of Representatives, Rep. Elizabeth (Libby) Mitchell, now
2 Speaker of the Maine House.

3 I am a graduate of the University of Michigan (B.A. in Political Science, 1968) and
4 the University of Maine School of Law (J.D., 1976).

5 My current consulting practice is directed to consumer protection, customer
6 service and low-income issues associated with the move to competition in the telephone,
7 electric and gas industries. My clients include the Public Counsel in the State of
8 Washington Office of Attorney General (telecommunications regulation), Pennsylvania
9 Office of Consumer Advocate, New Jersey Division of Ratepayer Advocate (electric
10 restructuring), Illinois Citizens Utility Board (telephone service quality), Regulatory
11 Assistance Project (consumer protection issues in electric restructuring), and the U.S.
12 Department of Energy (reports and manuals on various electric restructuring issues).

13 Among my publications are: "Consumer Protection Proposals in Retail Electric
14 Competition: Model Legislation and Regulations" (Regulatory Assistance Project:
15 Gardiner, ME, October, 1996) and "How to Construct a Service Quality Index in
16 Performance Based Ratemaking, The Electricity Journal, April, 1996. The RAP
17 publication in particular is relevant to this proceeding. I identified, analyzed and proposed
18 policies for state consumer protection, consumer education, and universal service
19 regulation to accompany the move to retail electric competition. This publication has been
20 the basis for numerous workshops and training programs I have conducted on these issues
21 for Commissions and conferences on electric utility restructuring.

1 More recently, I have submitted testimony on behalf of the Office of Consumer
2 Advocate in the PECO Energy, Pennsylvania Power and Light, and GPU Energy
3 (Metropolitan Edison and Pennsylvania Power) restructuring cases on consumer
4 education, consumer protection and supplier-EDC-customer interactions.

5 My resume is attached as Exh. BA-1.

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

7 A. The purpose of my testimony in this proceeding is two-fold. First, I will respond to
8 Duquesne Light's proposed consumer education plan for electric restructuring as put forth
9 by Frank A. Hoffman. Second, I will summarize the many issues and policies that must be
10 incorporated in Duquesne Light's compliance filing to comply with the policies and
11 guidelines under development by the Commission to implement the competition and
12 consumer protection directives of the Customer Choice Act. This latter set of issues
13 responds to the direct testimony of Fred R. Allison and James A. Lahtinen, the latter with
14 respect to issues concerning the Provider of Last Resort and certain tariff provisions.

15 Q. PLEASE SUMMARIZE YOUR TESTIMONY WITH RESPECT TO DUQUESNE
16 LIGHT'S CONSUMER CHOICE EDUCATION PLAN AND YOUR
17 RECOMMENDATIONS TO IMPROVE THIS PLAN.

18 A. The Duquesne Light Consumer Education Plan is not adequate. The proposal, standing
19 by itself, is unlikely to adequately educate Duquesne Light's residential customers about
20 the significant changes that will occur with the onset of electric competition or motivate
21 customers to enter the market and choose their generation supplier. The plan could be

1 improved substantially if Duquesne Light's education efforts were coordinated with and
2 undertaken as part of a statewide consumer education plan. I describe the reasons for this
3 approach and the type of plan that should be developed under the auspices of the
4 Commission in Part I of my testimony.

5 Q. PLEASE DESCRIBE YOUR OVERALL CONCLUSIONS AND
6 RECOMMENDATIONS WITH REGARD TO CONSUMER PROTECTION POLICIES
7 AND PROGRAMS UNDER DEVELOPMENT BY THE COMMISSION TO
8 IMPLEMENT THE CUSTOMER CHOICE ACT AND HOW THEY MUST BE
9 INCORPORATED INTO THIS PROCEEDING.

10 A. Part II of my testimony highlights the many aspects of Duquesne Light's proposed policies
11 and tariffs that must be changed to conform to the Commission's orders to implement the
12 Customer Choice Act. Specifically, my testimony reviews the following proposed policies
13 and I recommend changes in many, but not all, of these areas:

14 . Consumer Information;
15 . Consumer Education;
16 . Application for service;
17 . Credit Determinations;
18 . Selecting a Supplier;
19 . Deposits;
20 . Metering; Meter Reading;
21 . Billing;
22 . Complaint Resolution;
23 . Service Interruptions and Outages;
24 . Requests to Discontinue Service;
25 . Termination/Payment Agreements;
26 . Provider of Last Resort;
27 . Restoration/Reconnection of Service;
28 . Code of Conduct; and
29 . Phase-in of customer choice.

PART I: CONSUMER EDUCATION PLAN

Q PLEASE SUMMARIZE DUQUESNE LIGHT'S CONSUMER EDUCATION PLAN.

A Duquesne Light has not proposed a plan, but has instead listed key activities and proposes to use a "multi-faceted" approach. [Hoffman at 12] The Company has not submitted a budget or a phased educational process with objective goals or strategies to attain them. Indeed, the Company states that it will put together its plan and budget for the phase in of direct access "prior to January 1, 1998" [ENV-3-179], even though the Company was required by the Customer Choice Act and the Commission's directives to submit that plan for this proceeding. We do not know about the timing, delivery vehicles, budget or objective goals for the consumer education program. Based on the materials developed to date for both educational purposes and the pilot program, I have concluded that the Company's approach primarily positions Duquesne Light as the chief source of the customer's information about electric restructuring. The following is a list of the major deficiencies in the Company's filing:

- There is no suggestion in the Company's materials or proposals that customers may need to be motivated to learn and read the materials associated with the development of a competitive market. The move to electric choice may require not only the transmittal of facts, but the development of a public education campaign on a broader scale.
- Duquesne Light has not conducted any customer research to determine what information its customers already know and what they would like to know about electric competition. The Company's research to date merely tests customer awareness of electric competition

1 in a one-question survey. Its customer focus groups only explored customer reaction to
2 Company materials and seemed more interested in exploring the customer's reaction to
3 the Company's image after reviewing the draft materials.

4 ● The Company's proposal does not have any time lines or interim goals and objectives to
5 determine whether the program is achieving its objectives. There are, for example, no
6 quantifiable goals or objectives, such as a percentage of customers who have heard and
7 understood some basic messages about electric competition.

8 ● The plan fails to identify or describe the development of information targeted to particular
9 customer groups or how the Company will work with community-based organizations and
10 other grass roots efforts to target educational information to low income customers and
11 others who may have a heightened concern with the risks associated with electric
12 competition, such as the elderly.

13 ● The Company promises evaluation, but does not describe how and when this will occur.

14 ● The Company's communications with its customers and its educational materials published
15 in 1997 emphasize the role of Duquesne Light Company in the new market structure and
16 are more in the nature of image advertising.

17 ● The materials developed for the Pilot Program are confusing and not particularly useful to
18 assist customers in learning to shop for their electricity supplier.

19 ● Most importantly, the Company does not propose a budget for its educational initiatives
20 beyond 1997.

21

1 Q. HAS DUQUESNE LIGHT PROPOSED AND IMPLEMENTED A CUSTOMER
2 EDUCATION PLAN AS REQUIRED BY THE CUSTOMER CHOICE ACT AND THE
3 COMMISSION'S ORDERS?

4 A. No, there are too many important details missing. Duquesne Light has proposed a list of
5 outreach vehicles it will employ, such as bill inserts, brochures, a speaker's bureau, the use
6 of "advertorials" and other print-based materials, etc. However, there is no overall theme
7 to link these materials, no identification of key messages consumers must absorb to
8 participate effectively in the competitive market, no schedule for their development, no
9 description of how the Company's efforts will be evaluated or with what criteria, and no
10 budget to evaluate the extent of the Company's effort. Duquesne Light has primarily
11 emphasized its obligation to transmit factual information about the provisions of the
12 Customer Choice Act and the structure of the emerging new industry. The Company has
13 approached its obligation very narrowly and has not devised a consumer education plan to
14 stimulate consumer interest and involvement in choosing an electricity supplier.

15 Furthermore, the Company's consumer education materials are identified and distributed
16 under the Duquesne Light corporate banner, which may make it difficult for customers to
17 distinguish these informational materials from promotional materials from the Company's
18 future efforts to sell electricity or electricity services. Indeed, the Company compounds
19 this defect by repeatedly emphasizing in its materials the opportunity the new competitive
20 market will provide Duquesne to respond to customer needs and new lines of business.

21 Q. HAVE THE COMMISSION'S RECENT ORDERS ON PILOT PROGRAM

1 IMPLEMENTATION PROVIDED ANY GUIDANCE ABOUT THE NECESSARY
2 COMPONENTS OF AN ACCEPTABLE CONSUMER EDUCATION PLAN?

3 A. Yes, the Commission's August 21, 1997 Opinion and Order on Pilot Program
4 Implementation for Duquesne, Docket No. P-00971175, set forth the Commission's
5 criticisms of the utilities' pilot program education proposals and described the basic
6 components of an acceptable compliance filing to meet the Commission's requirements.
7 The Commission determined that the original pilot program filings for most utilities,
8 including Duquesne Light, were deficient and lacked sufficient detail. The Commission
9 found that the consumer education Pilot Plans "...must be revised to provide more specific
10 information relating to the content of the utility's education program, staffing, budget,
11 timing and distribution vehicles. Finally, it is clear that an independent, uniform evaluation
12 process must be developed by the Commission and the industry to determine the
13 effectiveness of the educational processes and to promptly suggest changes where
14 warranted." Order at 57.

15 Therefore, the Commission's review of the Company's pilot consumer education
16 proposal matches my own criticisms of the Company's restructuring consumer education
17 plan. It is important to note that the Company's filing in this proceeding lacks the same
18 details noted by the Commission in the Duquesne pilot program order.

19 Q. WHAT IS YOUR OPINION OF THE COMPANY'S RESEARCH PRIOR TO THE
20 ONSET OF ITS CONSUMER EDUCATION PLAN AND THE RELATIONSHIP
21 BETWEEN CUSTOMER NEEDS AND THE OBJECTIVES OF DUQUESNE

1 LIGHT'S PLAN?

2 A. Any acceptable education plan must start with the question, "What are our goals and
3 objectives?" This is typically determined after an assessment of needs. Duquesne Light
4 has not yet done customer surveys or conducted focus groups to determine what their
5 customers know about electric restructuring, what they want to know and how they want
6 to learn about customer choice. The research that it has conducted has been either vague
7 [See e.g., OCA-2-023] or directed narrowly to a review of the layout and presentation of
8 draft Duquesne materials [OCA-2-021]. What little research that has been conducted by
9 Duquesne suggests that most customers have heard something about electric
10 restructuring, but barely half of those customers associate this change with the ability to
11 choose their electric supplier.

12 Q. WHAT HAS THE RESEARCH IN OTHER STATES TOLD US?

13 A. Other states, such as Wisconsin and Maine, have undertaken baseline data surveys. These
14 surveys indicate the lack of customer understanding of the coming competition for
15 generation and energy management services, the strong desire to maintain a reliable
16 electric system and an interest in competition if it would lower their bills. Duquesne Light
17 should undertake its own research after an analysis of the research completed in other
18 states so as to improve its overall plan and its specific educational materials. Furthermore,
19 Duquesne Light should research what other customers have learned and what they want to
20 know based on their participation in electric competition pilot programs in other states,
21 i.e., New Hampshire and Massachusetts. Although the Company has reviewed some of

1 the customer research material conducted in other states [OCA-2-027], the results of this
2 research does not seem to be reflected in its current proposals.

3 Q. DO THE SURVEY RESULTS IN OTHER STATES TELL US ANYTHING ABOUT
4 CUSTOMER INTEREST AND UNDERSTANDING OF ELECTRIC COMPETITION?

5 A. Surveys and focus group research of pilot program participants have concluded that
6 customers want information and education about electric competition from neutral parties,
7 such as newspapers, television, and government organizations. Most importantly, these
8 customers want to learn how to become savvy shoppers for their electricity needs. They
9 want uniform price disclosures and other key environmental information presented by all
10 suppliers in a manner that will allow them to compare offers on an “apples to apples”
11 basis.

12 Customers who have participated in the New Hampshire and Massachusetts pilot
13 programs are in favor of customer choice and competition and gave strong views on their
14 preference for uniform price and environmental disclosures as part of the marketing and
15 billing information provided by all suppliers. They voiced this request because of their
16 desire for the means to compare choices and offers made by suppliers of retail generation
17 services.

18 Q. DID CUSTOMERS IN THESE OTHER SURVEYS AND FOCUS GROUPS
19 INDICATE THEIR PREFERRED SOURCE OF INFORMATION ABOUT ELECTRIC
20 COMPETITION?

21 A. Yes. Customers also voiced a clear preference for content-neutral educational information

1 and trusted government or Commission consumer education efforts more than
2 communications associated with the utility. This preference, as well as the need to
3 conduct a professional outreach campaign that uses multi-media techniques, was also
4 confirmed in recent focus group research undertaken by Pennsylvania Power and Light
5 Company. The customers who participated in that focus group wanted "catchy" materials
6 and very few of the participants had read or absorbed the information contained in the
7 utility's bill inserts over the past year. Although Duquesne's focus groups and interviews
8 with customers were not conducted to address this issue specifically, there is every reason
9 to conclude that based on the sample customer comments in reaction to the "advertorials"
10 in particular, Duquesne's customers would also benefit from a source of information about
11 electric competition other than the utility. For example, of the 17 customers who were
12 extensively interviewed, 8 or 47% did not trust the utility in its attempt to provide
13 educational messages about customer choice. [OCA-2-021 at 7]

14 Q. WHAT SHOULD HAPPEN AFTER A REASONABLE NEEDS ASSESSMENT?

15 A. Once baseline customer information is obtained and analyzed based on demographic data,
16 specific goals and objectives should be identified for a consumer education program. This
17 in turn will lead to the development of specific themes, coordinated delivery mechanisms
18 and staged or phased information flows. These overall objectives, themes and delivery
19 mechanisms should be designed with the input of key stakeholders in the service territory,
20 such as customer groups, community action organizations, representatives of low-income,
21 elderly and non-English speaking populations, business organizations, representatives of

1 suppliers, local government and community leaders. A proposed plan would then set forth
2 the initial research, the needs as identified by the community, the specific education
3 initiatives, the delivery mechanisms, the timing of the multi-year plan, a budget broken
4 down by both time and project, and the specific evaluation criteria and mechanisms.

5 Q. DID DUQUESNE LIGHT PUT TOGETHER ITS CONSUMER EDUCATION PLAN
6 AS YOU HAVE SUGGESTED?

7 A. No. The Company's plan is a top down plan. It was put together to teach customers
8 about the basics of electric restructuring, but it does not identify specific themes with
9 coordinated delivery mechanisms and it has not, to date, involved the local community in
10 either the development or implementation of the plan. Duquesne Light's plan falls short of
11 an acceptable program to prepare customers for electric competition.

12 Q. PLEASE DESCRIBE HOW THE COMPANY'S CUSTOMER EDUCATION
13 MATERIALS FAIL TO PREPARE CUSTOMERS TO BE INFORMED SHOPPERS
14 FOR ELECTRICITY AND ELECTRICITY SERVICES.

15 A The Company's education materials produced to date are of two types. First, the
16 Company has produced and published a series of ten "advertorials" which have been
17 published in the local newspapers and sent to the larger customers directly. These
18 messages are very general and provide background information on the nature of the
19 changes that are occurring in the electric industry and as a result of the Customer Choice
20 Act. The second group of materials relate to the implementation of the Company's pilot
21 program. Most of these materials are accurate and do a good job of explaining the

1 difference between the utility's historical role and its new responsibility for delivery
2 services. Furthermore, the Company's approach in using newspaper "advertorials"
3 followed by shorter 25-word messages has the potential for presenting customer choice
4 and electric competition in a phased approach. However, these preliminary products were
5 not produced as part of an overall plan and suffer from one potentially fatal defect, as I
6 describe below.

7 Duquesne Light's education campaign often provides valuable and useful
8 information, but it is too narrow in scope and fails to motivate customers to want to learn
9 about electric competition or to read the Company's brochures. There are no specific
10 plans or themes developed for multi-media materials, such as additional newspaper
11 advertisements, radio spots or television advertisements.

12 Most importantly, the major educational effort to date, the "advertorials", appear
13 to emphasize Duquesne Light's image, its role in the new industry structure and its
14 position as the main source of the customer's information. While these advertisements
15 seem to convey important information, a closer reading will confirm that they are also
16 image-building pieces for the Company. At no point in this series of advertisements is the
17 customer informed on how to shop for electricity services. Rather, customers are
18 reassured that they can escape being "overwhelmed" or frustrated by a "bewildering array
19 of choices" by trusting Duquesne Light. Of the 10 advertorials, all contain the Duquesne
20 Light name and Logo, and all contain references and background on Duquesne's history,
21 position and response to the changes in the competitive market. Two of the ten are

1 directly aimed at justifying the utility's stranded costs claims.

2 Q. WHAT IS YOUR OPINION OF THE COMPANY'S PILOT PROGRAM
3 EDUCATIONAL MATERIALS?

4 A The Company's pilot program educational materials are far too complex and fail to
5 present clearly how a customer can shop for their best deal in the pilot program. The
6 Company has mailed a 12-page brochure to those customers selected for the pilot
7 program. The brochure is too long, seeks to provide too much information and may well
8 discourage customers from shopping for electricity. Furthermore, it is not possible to
9 determine after reading this brochure how to determine a customer's savings when
10 comparing a supplier's offer to the current Duquesne charges and pilot program credits.
11 To present all these issues at once to customers who have never shopped for electricity
12 will create unnecessary barriers. It would be far more effective to concentrate on several
13 key issues in the beginning phases of the consumer education effort and then present
14 additional layers of complexity after customers have absorbed and understood the most
15 important shopping criteria.

16 On page 1 of this brochure, under the section entitled, "Money Saving
17 Opportunity", appears the following statement:

18 As an incentive offered to pilot participants, Duquesne Light will give residential
19 and commercial customers a 13% participation credit that applies toward the
20 delivery services portion of their monthly bill, and a generation credit of 3 cents
21 per kWh delivered that applies toward the cost of generation services received
22 from alternate suppliers.

23
24 This statement is confusing and not written in plain language. This statement does not

1 educate customers on how to compare their current bill to the prices offered by suppliers.
2 Furthermore, the brochure contains a chart which is designed to assist the reader in
3 determining possible savings on their bill. The chart is far too complex for most readers,
4 which is due in part to Duquesne's presentation of the Commission's decision to establish
5 the benchmark price for the pilots in the form of both participation credits applicable to
6 the delivery portion of the bill and a generation credit. However, it is not necessary for
7 the utility to present the shopping exercise to customers based on the manner used by the
8 Commission to determine the proper pilot shopping credit. Indeed, other utilities have not
9 presented the comparison shopping exercise as Duquesne has done. Since every
10 participant in the pilot will receive the "participation credit" (a term that is not familiar to
11 customers), and a generation credit (again these terms are not familiar since the bill is not
12 yet unbundled), Duquesne Light should present the potential credit as a single cents per
13 kWh number and calculate these savings for a range of typical usage patterns and rate
14 structures for its residential and small commercial customers. The actual dollar savings
15 that must be compared to a supplier's offer will of course differ, but if the calculations are
16 done for a range of reasonable options (250 kWh, 500 kwh, 1,000 kwh and 1,500 kWh),
17 most customers will see the impact of the pilot shopping credit and can readily compare
18 the calculations to their most recent bill. For example, in the sample calculation provided
19 in the brochure for a residential customer who uses 500 kWh and has a current bill of
20 \$62.76, Duquesne should show the customer that he must obtain a supplier price of less
21 than 4.24 cents per kWh to have any savings compared to current rates. In other words,

1 Duquesne's approach to showing the pilot savings separately as both a participation credit
2 and a generation credit presents the impression that customers are not getting the \$6.21
3 savings from shopping in the pilot program.

4 Customer research in other states has confirmed that customers want a simple
5 "apples-to-apples" comparison of supplier prices. Duquesne Light should respond to
6 these findings by helping customers to compare their monthly or annual usage to the cents
7 per kilowatt-hour price disclosures mandated by the Commission in its Customer
8 Information Order [Docket No. M-00960890 F0008, July 11, 1997]

9 This research has also confirmed that customers also want to know about the fuel
10 mix and environmental emissions profile of potential suppliers, but the most likely use of
11 this information will occur with uniform disclosures to allow comparisons among
12 suppliers. Duquesne Light should develop materials to assist customers in asking the right
13 questions about the supplier's fuel mix, which will appear on the supplier's contract
14 disclosures (again, as required by the Commission's Customer Information Order), and the
15 supplier's environmental claims. The Commission has not mandated a uniform method of
16 disclosing environmental criteria, such as air emissions or a pollution profile, but
17 customers may see such disclosures because of work underway in other states to develop
18 a model disclosure format for fuel mix and key environmental criteria.

19 An additional defect in the brochure is the lack of any effort to inform customers
20 to look for and compare the disclosures and procedures required by the Commission in its
21 Customer Information Order concerning the Terms of Service brochure that must be

1 provided and the customer's right to rescind the contract within three days of receiving
2 the disclosures. Duquesne Light should help customers look for the key disclosures
3 already mandated by the Commission.

4 Q. HAS DUQUESNE LIGHT INVOLVED THE LOCAL COMMUNITY IN THE
5 DESIGN AND IMPLEMENTATION OF ITS EDUCATION PROGRAM?

6 A. There is no evidence that the Company has sought the involvement of community-based
7 organizations (CBOs), representatives of vulnerable populations, or consumer
8 organizations in the design or implementation of its consumer education plan to date. The
9 Company's speakers' bureau and other printed materials take the position of a one-way
10 dialogue. There has been no dialogue about the nature of the plan itself or the materials
11 developed to date. This effort does not represent an adequate means of community
12 involvement. Duquesne Light should initiate its partnering program early on as a means of
13 obtaining insight into local information needs and methods of interaction and
14 communication that will be successful.

15 Q. WHY IS IT IMPORTANT TO INVOLVE GRASS ROOTS ORGANIZATIONS?

16 A. Consumers learn best in an interactive environment where they can ask questions and
17 evaluate the motives and self-interest of the source of information. This statement is
18 confirmed daily in our classrooms where we have all experienced the excitement about
19 learning that occurs with interactive and proactive teaching styles. We know they are
20 more successful than lectures from a podium to empower students to learn independently
21 and retain their classroom knowledge. It does not take a marketing expert to realize that

1 most Americans are quite sophisticated at discounting marketing information and the
2 "hype" of most commercial advertising. Consumers want information from someone they
3 can trust. Duquesne Light should find out, for example, the information sources that their
4 customers trust, and work with those methods and delivery mechanisms to engage
5 customers in a two-way dialogue about the coming changes and customer opportunities
6 that will be possible in the new competitive market. In particular, Duquesne Light should
7 work with community-based organizations to explore the possibilities for aggregation for
8 low use residential customers based on geographic and affinity characteristics, i.e., group
9 memberships.

10 While media advertising campaigns will be important to spread the word that
11 change is coming and to stimulate customer interest in finding out more information, local
12 community, civic and issue-oriented organizations should play a significant role at the next
13 stage of information delivery. So far, Duquesne Light has not identified local partners for
14 its consumer education effort, has not identified their role, the budget the Company
15 intends to allocate to this effort or the specific needs that will be met by this approach.
16 Furthermore, the Company has not identified the special needs of low-income, elderly or
17 non-English speaking customers or the specific communication tools or budgetary
18 resources it will allocate to these special needs.

19 Q. IF YOU CRITICIZE THE COMPANY'S PLAN FOR THE FAILURE TO INCLUDE
20 GRASS ROOTS ORGANIZATIONS IN THE DEVELOPMENT OR
21 IMPLEMENTATION OF IT EDUCATION ACTIVITIES, WHY DO YOU ALSO

1 FAULT THE COMPANY FOR THE LACK OF MULTI-MEDIA
2 COMMUNICATIONS?

3 A. An adequate consumer education program will have both multi-media (TV, radio,
4 newspaper advertisements) and community-based local efforts to reach consumers. The
5 role of multi-media educational messages is a powerful one. It is only through these tools
6 that vast numbers of consumers will be reached with a consistent message. The design of
7 a coordinated statewide campaign would present a phased presentation of the changes
8 coming to the provision of electric service, followed by a coordinated effort at the local
9 level that involves community-based organizations and direct mail pieces from a variety of
10 sources.

11 Q. DO YOU HAVE ANY PARTICULAR CONCERNS ABOUT DUQUESNE LIGHT'S
12 ABILITY TO SEPARATE ITS EDUCATIONAL AND MARKETING EFFORTS?

13 A. Yes, I do. First, all of its materials to date emphasize the Duquesne Light identity and,
14 with respect to its "advertorials", emphasize the Company's historical and future role in
15 providing energy services. This approach is particularly disturbing because the Company
16 has stated that it intends to participate in the retail sales market [Hoffman at 15], but has
17 failed to identify its corporate structure or the future corporate duties of its Sales and
18 Marketing unit within which its customer education program is currently housed.¹ This
19 approach will make it very difficult to distinguish consumer education materials from the

¹Mr. Hoffman is the General Manager of Duquesne's Marketing and Sales unit, responsible for both marketing communications and customer education programs. [OCA-2-004 and 005]

1 marketing activities of Duquesne Light, its parent and its family of affiliates.²

2 Q. DO YOUR CRITICISMS SUGGEST THAT THE COMMISSION SHOULD REJECT
3 DUQUESNE LIGHT'S CONSUMER EDUCATION PLAN?

4 A. I recommend that the Commission find that the Company's filing is not adequate at this
5 time. The Commission should require Duquesne Light to file a more specific plan with a
6 detailed budget, at least for the 1998-2000 time period that reflects the importance of this
7 obligation. In addition, the Commission should require Duquesne Light to participate in a
8 Commission-led effort, to devise and assist in the funding of a statewide Consumer
9 Education Program that coordinates the development of a unified set of themes and
10 messages for all Pennsylvania consumers over the next three years. This effort should
11 then be supplemented by the individual efforts of electric distribution companies within
12 their own service territories.

13 Q. WHY SHOULD THE COMMISSION LEAD THE EFFORT TO DEVELOP A
14 STATEWIDE CONSUMER EDUCATION PROGRAM?

15 A. It is incumbent on the Public Utility Commission -- in coordination with industry and
16 consumer representatives -- to design, or supervise the design, of a consumer education
17 program that informs customers about the nature of these changes and encourages
18 customers to participate in the competitive market. The Electric Generation Customer
19 Choice and Competition Act contemplates a joint Commission and electric distribution

²It should also be noted that if the pending merger with Allegheny Power Systems is approved, Allegheny Power has already indicated that its new retail sales affiliate, Allegheny Energy Solutions, will sell electricity and other unregulated services.

1 company (EDC) role:
2

3 Prior to the implementation of any restructuring plan under section 2806 (relating
4 to implementation, pilot program and performance-based rates), each electric
5 distribution company, in conjunction with the Commission, shall implement a
6 consumer education program informing customers of the changes in the electric
7 utility industry. The program shall provide consumers with information necessary
8 to help them make appropriate choices as to their electric service. The education
9 program shall be subject to approval by the Commission.
10

11 66 Pa. C. S. § 2807(D)(3)(emphasis added).

12 The Commission has recognized the importance and central nature of its role in its
13 recent final Orders on the utility Pilot Programs. While the Commission's Pilot Program
14 Final Orders technically address only the consumer education issues associated with the
15 Pilots, that effort for the Pilots must be coordinated with the educational efforts aimed at
16 the phase-in of customer choice beginning in 1999. The Commission's Pilot Program
17 Final Orders provide some guidance for its views and intent regarding customer education
18 in the Restructuring filings. The Pilot Orders reveal a heightened desire for an ongoing
19 leadership role for the Commission in customer education. The Commission's stated
20 intention to "serve as the objective content provider of the core education curriculum" will
21 require the development of an integrated statewide program. Furthermore, the
22 Commission has indicated that it will expect distribution companies to coordinate their
23 programs with the core curriculum developed by the Commission and that curriculum will
24 be delivered by means of a variety of vehicles, including radio and TV public
25 announcements. Duquesne Petition for Approval of Retail Access Pilot Program, Docket
26 No. P-00971175, Slip op. At 55-60 (Ordered entered August 29, 1997).

1 Q. WHY SHOULDN'T THE DISTRIBUTION COMPANIES TAKE THE PRIMARY
2 ROLE IN DEVELOPING AND IMPLEMENTING A CUSTOMER EDUCATION
3 PROGRAM?

4 A. Both distribution companies and competitive suppliers have important roles to play in
5 educating Pennsylvania consumers, but both entities will also be marketing their services
6 and products and communicating with customers for competitive purposes. The
7 Commission cannot rely solely on distribution companies to design and implement
8 separate consumer education programs for the following reasons:

- 9 a. Distribution companies will only implement education programs within their own
10 service territory, thus resulting in multiple education programs appearing in
11 statewide and regional media outlets. These multiple programs will probably cost
12 more in total than a single statewide campaign with economies of scale used to
13 develop public service announcements, radio spots and brochures. Furthermore,
14 they may be confusing to customers because each program will present different
15 media-based themes, words, and approaches. A more coordinated statewide
16 campaign will be more efficient in reaching all Pennsylvania households;
- 17 b. Because distribution companies or their affiliates will also market competitive
18 electricity products and services and stand to lose significant market share to
19 competitive providers, a completely neutral and unbiased education campaign by
20 distribution companies to encourage customers to participate in a competitive
21 market would be extremely difficult for even the most well-intentioned companies

1 to accomplish.

2 c. A reliance on separate distribution company education programs will require
3 increased supervision and oversight by the Commission to prevent the companies
4 from combining their educational and marketing functions.

5 d. Customers who have participated in pilot programs in other states want unbiased
6 and neutral education programs. Commissions in California, Massachusetts,
7 Vermont, Maine and New Hampshire have responded with orders that promise
8 significant Commission involvement in customer education in the next several
9 years.

10 Q. WHAT ROLE SHOULD THE DISTRIBUTION COMPANY PLAY IN THE
11 IMPLEMENTATION OF CUSTOMER EDUCATION?

12 A. The role of the distribution company's own program will be to provide customers with the
13 utility-specific information such as the specific nature of the pilot programs in their service
14 territory, prices for distribution services, format of the distribution company bill, how to
15 select a supplier, and how and where to contact the utility for further information (get
16 copies of brochures, handbooks, etc.). Commission oversight will be necessary to ensure
17 separate marketing from education through the enforcement of the forthcoming Code of
18 Conduct and the orders that will flow from the Competitive Safeguards Working Group.

19 Q. WHAT OVERALL APPROACH SHOULD THE COMMISSION ADOPT TO
20 DEVELOP A STATEWIDE EDUCATION PLAN?

21 A. There must be a statewide core education program developed under the auspices of the

1 Commission which will be aimed to all customers statewide. This program must inform
2 customers generally about customer choice and encourage customers to participate in the
3 new market. It should make use of uniform themes and messages with coordinated
4 delivery and timing of the educational efforts of all parties. The program will build on the
5 ongoing pilot programs to educate customers about the meaning of the changes taking
6 place in the electric industry and prepare customers for choice beginning in 1999. This
7 statewide program should be developed by a professional (experienced in community and
8 public policy education as well as public relations techniques), with advice and input from
9 key stakeholders, including utilities, consumer representatives, marketers and educators.
10 It is possible this advisory body could be derived from or sponsored by the Consumer
11 Education Working Group.

12 The product of the advisory body should be a proposed plan that identifies the key
13 themes and messages that should unify the statewide campaign, the specific vehicles for
14 educating consumers, the roles that should be played by the major stakeholders in
15 delivering these messages and themes, and the proposed detailed budget necessary to
16 carry out the plan. The plan should highlight the potential for cost-effective education by
17 means of grass-roots community organizations, particularly for customers who may need
18 targeted efforts, such as low-income, elderly and non-English speaking customers.

19 The statewide plan should also include evaluation activities. The purpose of the
20 evaluation is to make sure that the message about customer choice is understood, and
21 determine where further educational efforts are needed (i.e., where customers are

1 confused or lack key information). The results of the evaluation of the pilot education
2 programs described in the Commission's Preliminary Order on Pilot Programs will be
3 valuable input to the ultimate implementation of the Consumer Education Plan.
4 Furthermore, the overall plan itself should include pre- and post- testing of key messages
5 and consumer education materials with representative customers to determine if the
6 program has been properly designed and targeted. Any evaluation of the education
7 programs should be conducted by a neutral party chosen by the Commission, perhaps with
8 the advice and input from the Working Group. Evaluation is an ongoing process and this
9 function will be an integral part of any Consumer Education Plan.

10 It is vital that the communications with customers be educational in nature and
11 non-biased in the presentation of changes and customer choice opportunities in the
12 restructured electric industry. These educational communications must be separate from
13 marketing and other communications by competitive businesses.

14 Public agencies have an obligation to educate customers how to be smart shoppers
15 for electricity by using the disclosure tools that the Commission has or will mandate on
16 price, and other characteristics of competitive electricity suppliers, that will appear on all
17 bills and contracts.

18 The statewide campaign should be developed for implementation as soon as
19 possible and should build upon the experiences and educational efforts associated with the
20 pilot programs. However, the overall purpose of the statewide effort should be aimed for
21 full retail competition beginning in 1999 for many customers. The educational campaign

1 should use a wide variety of tools and stakeholders to deliver the informational and
2 motivational messages to Pennsylvania consumers. The campaign should tailor the
3 delivery and format of these messages to the needs of a wide variety of Pennsylvania
4 consumers, but particular outreach efforts that rely on community and educational
5 organizations should be undertaken for the elderly, low-income, and other populations at
6 risk.

7 Q. HOW SHOULD THE COMMISSION-LED STATEWIDE PLAN BE FUNDED?

8 A The statewide plan should be funded by a combination of resources from the Commission
9 itself, the distribution companies and other governmental, educational and non-profit
10 organizational funding. For the purposes of this proceeding, the Commission should
11 direct Duquesne Light to allocate some portion of its consumer education budget to a
12 statewide program designed under the auspices of the Commission. The amount of
13 funding cannot be determined at this time because the nature and design of the overall plan
14 is not yet known. Furthermore, it is perfectly appropriate for the distribution companies
15 to contribute to their portion of the funding based on their size and revenues. In other
16 words, Duquesne Light should not pay a disproportionate share.

17 Q. HOW DO YOUR RECOMMENDATIONS COMPARE WITH CONSUMER
18 EDUCATION EFFORTS BEING PLANNED IN OTHER STATES THAT ARE
19 MOVING TO RETAIL ELECTRIC COMPETITION?

20 A. Commissions in Vermont, California, Maine, New Hampshire and Massachusetts have
21 issued electric restructuring orders that call for significant public involvement in the

1 consumer education and outreach programs that will precede electric competition in their
2 states. Two states, California and Vermont, have produced specific statewide consumer
3 education plans. These documents are attached to my testimony as Exh. BA-2 (Vermont)
4 and BA-3 (California). Both documents are examples of the type of approach and
5 program that I recommend be undertaken in Pennsylvania.

6 The California Commission has ordered that the three largest distribution utilities
7 contribute to a statewide Consumer Education Program that will be developed by an
8 advisory body under the direction of the PUC. The Electric Restructuring Education
9 Group submitted its proposed plan to the California PUC on June 2, 1997 and the
10 Commission accepted the basic approach and expenditure proposals in its August 1, 1997
11 Order. The education plan will be presented to consumers in five phases over the next ten
12 months because California is moving to direct access for all customers on January 1, 1998.
13 The plan integrates the delivery of phased mass media messages, direct mail to each
14 electric customer, multi-ethnic and multi-lingual materials, and grass roots organization-
15 sponsored outreach and educational activities. The messages of the media effort and the
16 direct mail and other communication material will be coordinated and geared to educating
17 customers how to choose an electric supplier. The program will include research to
18 determine the effectiveness of ongoing communications and monitoring to make sure all
19 customer groups are being reached effectively. The budget for this program will be \$87.5
20 million, of which \$2 million is allocated to Commission outreach efforts. The proposed
21 California education budget represents .43% of the annual \$20 billion spent each year on

1 electricity in that state.

2 The Vermont Department of Public Service has published "A Consumer
3 Information and Education Plan" (February 18, 1997) as a recommendation for a
4 comprehensive education plan for electric restructuring in that state. The ultimate goal of
5 this education plan is to "empower Vermonters to make an informed choice about their
6 electricity provider" (at 8). A "core message" that will be communicated is, "[T]he more
7 you know about your electricity consumption and about restructuring, the better your
8 ability to make an informed choice" (at 8). The proposed budget for this effort is
9 \$600,000. The level of funding required for a Pennsylvania consumer education program
10 must be determined by an identification of the Commonwealth's needs and resources,
11 which of course may differ from either California or Vermont. The budget of the
12 California program, in particular, was driven by the cost of the multi-media markets there
13 and the speed with which full direct access will be implemented.

14 The goals and objectives of both the California and Vermont plans are designed to
15 motivate and stimulate customer involvement in electric competition. The approach
16 adopted in those states differs markedly from an approach which emphasizes the
17 transmittal of facts with a new vocabulary.

18
19 PART II: CONSUMER PROTECTION POLICIES AND CUSTOMER-SUPPLIER-
20 DISTRIBUTION COMPANY INTERACTIONS.

21 Q. WHAT IS THE PURPOSE OF PART II OF YOUR TESTIMONY?

1 A. Part II of my testimony identifies the consumer protection and service quality issues and
2 policies included in Duquesne Light's filing that should be changed to either conform to
3 stated Commission policy, or, if the Commission has not yet acted in some area, changed
4 to respond to my recommendations. I will identify each issue separately and my
5 recommended resolution. I suggest that the Commission identify these issues in its final
6 order in this proceeding and require Duquesne Light to incorporate these changes in its
7 compliance filing, internal procedures and tariffs. The Commission may also want to
8 consider requiring Duquesne Light to supplement its filing to make proposals in several of
9 these areas.

10 Q. WHAT IS THE COMPANY'S POSITION WITH REGARD TO THIS APPROACH?

11 A. The Company's witnesses, Frank A. Hoffman, Fred R. Allison, and the tariffs submitted
12 by James A. Lahtinen, address customer services (billing, credit, collection, metering),
13 compliance with Chapter 56, interactions with suppliers, the interaction between the
14 Company's distribution services and retail supply divisions, provision of Provider of Last
15 Resort service and changes required in the Company's current tariff to reflect the separate
16 functions of delivery and sale of electricity. Duquesne Light says that it has redrafted its
17 tariff to reflect these changes.

1 Q. IS THERE A NEED TO REVIEW ALL THESE ISSUES IN DETAIL NOW WHEN
2 THE COMMISSION COULD IMPLEMENT ITS GENERIC ORDERS IN THE FINAL
3 COMPLIANCE FILING PHASE OF THIS PROCEEDING?

4 A. There are three reasons why these issues should be reviewed in detail during the
5 evidentiary phase of this proceeding. First, the OCA is concerned that one or more of
6 these issues may be overlooked, particularly because the Commission has yet to issue final
7 guidelines in several key areas. Second, there are several key issues raised by Duquesne
8 Light's testimony that must either be reversed by the Commission or further developed by
9 the Company to complete the procedures and policies to conform to a competitive market
10 for the sale of electricity. Third, there are some aspects of the Company's filing that fail to
11 comply with recent Commission guidance issued in several orders on July 11, 1997, before
12 the Company filed its direct testimony. Therefore, my testimony will identify issues and
13 request the Commission to specify in its final order in this proceeding how Duquesne
14 Light should comply with these policies, procedures and programs to assure a competitive
15 retail market for electricity and the continuation of the current level of customer
16 protection.

17 Q. PLEASE DESCRIBE HOW THE REMAINDER OF YOUR TESTIMONY IS
18 ORGANIZED.

19 A. My testimony is organized according to the list of customer-utility-supplier interactions
20 contained in the Commission's Final Order on Guidelines for Maintaining Customer
21 Services at the Same Level of Quality Pursuant to 66 Pa. C.S. §2807(D), and Assuring

1 Conformance with 52 Pa. Code Chapter 56 Pursuant to 66 Pa. C.S. §2809 (E) and (F)

2 [Docket No. M-00960890 F0011] issued on July 11, 1997. I will then discuss Duquesne
3 Light's proposed Code of Conduct. Following that issue, I discuss Duquesne Light's
4 proposal for the phase-in of customer choice starting in 1999.

5 Q. PLEASE DISCUSS THE CUSTOMER INFORMATION ISSUES.

6 A. Duquesne Light submitted two bill formats with its filing (Filing, P 13, also Exhibit FRA-
7 1A, 1B, 2A, 2B), showing a bill for both delivery and generation and a bill for delivery
8 alone. The format and presentation of the unbundled information required by the
9 Customer Choice Act will be important and should be carefully reviewed by the
10 Commission prior to Duquesne Light's use of these various billing formats. It is vital that
11 customer bills that contain generation services, whether from Duquesne Light directly or
12 from suppliers who have contracted with Duquesne Light for billing services, incorporate
13 the following items:

14
15 1. A Duquesne Light bill that contains generation services should separately identify this
16 service in a manner that allows the customer to easily distinguish between the distribution
17 company's bill and its services and the separate price for electricity and other services
18 provided by Duquesne Light or an alternative supplier. Duquesne Light's proposed bills
19 do separate out the regulated services and those provided by suppliers and provide for
20 space to identify the customer's supplier name, address and telephone number. This is
21 appropriate. The disclosures that indicate that the supplier is Duquesne Light should

1 appear with the same format and degree of identification and presentation as that for any
2 other supplier who contracts with Duquesne Light to bill on their behalf. The distribution
3 company bill should not be used by Duquesne Light to reinforce its corporate identity, its
4 retail sales business or any other unregulated services offered by Duquesne Light. In all
5 cases, Duquesne Light's generation charges should appear in the same manner and same
6 format (i.e. separate page or separate section, space and type face presentation, etc.) as
7 the generation charges billed for any other supplier by Duquesne Light.

8
9 2. Each bill that contains generation services should contain a uniform method of
10 disclosing the price for the sale of electricity to the customer as required by the
11 Commission in its July 11, 1997, Customer Information Order. (Docket No. M-00960890
12 F0008). At a minimum, the price disclosure format for residential customers should
13 include a customer-specific calculation of the customer's cents per kWh price paid for
14 usage that month (factoring in the fixed and variable charges). This calculation should be
15 disclosed for both the regulated distribution and transmission portion of the bill and the
16 customer's supply portion of the bill, whether provided by Duquesne Light or any other
17 supplier. Duquesne Light's bill does contain the customer's historical kWh usage, but
18 only for bi-monthly usage. This will make it difficult for customers to compare bill
19 impacts which are usually expressed in monthly usage increments. Neither of the bill
20 formats provided by Duquesne Light contain any provision for the cents per kWh
21 disclosure for either the distribution or commodity portion of the bill. Duquesne's

1 assurance that it will provide unit costs for generation "...consistent with rate schedules
2 provided by the electricity suppliers" so that, "Customers can then compare this pricing
3 information with that of alternative suppliers" [OCA-2-041] misses the point. Customers
4 cannot compare pricing information when provided according to the various supplier rate
5 schedules because those rate schedules will naturally vary in their pricing components,
6 e.g., fixed and variable charges. The only way in which customers can compare prices is
7 by means of a uniform disclosure matrix, which I interpret the Commission's July 11
8 Order to require in the form of a cents per kWh disclosure. This will require any billing
9 entity to calculate the actual cents per kWh paid by the customer for that billing period by
10 dividing the total generation charges by the customer's monthly usage.

11
12 3. The terms used on the customer's bill should comply with the Commission's plain
13 language requirements. Duquesne Light's unbundled charges are confusing because there
14 are too many elements, none of which are defined. The section entitled "Duquesne Light
15 Company Billing Information, Current Charges" contains five unbundled elements, two of
16 which are stranded costs, two for distribution (fixed and variable) and one for
17 transmission. The distribution portion of the bill should be kept very simple and contain
18 only three items: distribution charges (composed of both fixed and variable elements),
19 transmission charges, and competitive transition charges (stranded costs). Furthermore,
20 this portion of the bill should clearly identify that it is from the customer's monopoly
21 distribution company. It is not my purpose here to comment on Duquesne Light's

1 proposed rate design, but rather to point out that most of the Company's proposed billing
2 terms do not assist the customer in understanding the difference between the regulated
3 delivery charges and the competitive energy services or sale of electricity function
4 provided by the supplier.

5
6 4. Duquesne Light should allow for a supplier to include their own billing page in
7 Duquesne Light's bill rather than being restricted to the small space allocated to the
8 generation portion of the overall customer bill.

9
10 Q. PLEASE DISCUSS CUSTOMER EDUCATION.

11 A. This issue is dealt with in Part I of my testimony.

12 Q. PLEASE DISCUSS APPLICATION FOR SERVICE.

13 A. Duquesne Light must establish communication protocols with suppliers to accommodate
14 the customers who will seek to apply for service by contacting both suppliers and
15 distribution companies. Most customers should not have to make two phone calls to
16 initiate services, although it is possible that customers will have to communicate with both
17 entities to establish credit when the customer does not have a prior credit history with
18 either the distribution company or the supplier. Duquesne Light's procedures should not
19 impose any unnecessary requirements for transmittal of important information between
20 suppliers and Duquesne Light and should rely on direct electronic data transmittal between
21 the supplier and Duquesne Light once the customer has selected the supplier.

1 While Duquesne Light will remain responsible for line extensions and the physical
2 connection of service, most customers will not need facilities to initiate service at existing
3 locations. Duquesne Light's procedures must be analyzed to prevent the potential for
4 joint marketing and tying arrangements when a customer calls Duquesne Light to initiate
5 distribution service.

6 The following minimum procedures should be reflected in the Company's tariffs
7 and other procedure manuals:

8 1. Duquesne Light must adopt written procedures and submit them for Commission
9 review in this proceeding to describe how it will communicate with customers about the
10 provision of service for the regulated distribution function. The filing should include a
11 copy of the standard script used by customer service representatives and the training
12 materials developed by Duquesne Light concerning the Company's obligation to
13 communicate in a neutral fashion with its customers about the difference between delivery
14 and generation services and the availability of alternative suppliers for electricity.

15
16 2. As part of that process, Duquesne Light must also educate customers about their right
17 to choose a generation supplier, provide the customer with either a complete or randomly
18 generated list of licensed suppliers, and explain the default service option upon request.

19 Duquesne Light must refrain from using this communication between a monopoly and its
20 customers to market competitive business products.

1 3. Certain practices should be prohibited by the Commission.

- 2 • For example, when providing distribution services, Duquesne Light should
3 not offer to provide the customer with any competitive products or
4 services marketed by Duquesne Light or its retail sales affiliate, including
5 an offer to transfer the customer to a sales representative without offering
6 this same service to other suppliers (who would of course pay a fee,
7 including Duquesne Light's sales affiliate, for such "hot" transferred calls);
- 8 • Duquesne Light should be prohibited from selling generation services to
9 customers with the same employees whose primary duty is to provide the
10 customer service function for the monopoly utility;
- 11 • Duquesne Light's utility customer service function should not share
12 facilities or employees with any competitive generation affiliate or other
13 sales and marketing division within the company; and
- 14 • Duquesne Light's provision of services should be subject to audit and
15 monitored to assure that initiation of service is provided promptly and
16 without undue procedural delay for customers who choose Duquesne Light
17 as their generation supplier or who choose another supplier. For example,
18 it would not be fair for Duquesne Light to offer its own competitive
19 generation services to customers any sooner than provided for another
20 supplier.

21 Q. PLEASE DISCUSS THE ISSUES RELATING TO DETERMINATION OF CREDIT

1 BY RESIDENTIAL CUSTOMERS.

2 A. Since Duquesne Light and all other suppliers remain subject to the Chapter 56 rules
3 regarding credit determinations, there is no need to alter the Company's tariffs or practices
4 in this regard for application for either distribution or generation service to Duquesne
5 Light. However, Duquesne Light's procedures should include some recognition of the
6 dual nature of the function provided by the Company. Furthermore, it should be clarified
7 whether a deposit is being requested due to the prior nonpayment of regulated or
8 unregulated charges. Of course, Duquesne Light's tariffs should make it clear that it will
9 not evaluate a customer's creditworthiness based on the customer's payment history with
10 competitive suppliers for the distribution portion of service requested by the customer.

11 Q. HOW SHOULD DUQUESNE LIGHT'S PROCEDURES RESPOND TO THE
12 CUSTOMER'S ABILITY TO CHANGE THEIR SUPPLIER?

13 A. To the extent Duquesne Light's procedures should reflect standards that govern its
14 relationship with its retail sales unit or affiliates, I have addressed those issues in
15 Application for Service, above. The procedures that should govern a customer change of
16 supplier are important not only to assure that Duquesne Light does not abuse its position
17 as a gateway to alternative suppliers, but also because of the historic problems associated
18 with "slamming", the unauthorized transfer of a customer from one supplier to another in
19 the telecommunications industry. The Commission must balance the desire and
20 demonstrated need to prevent fraud with its obligation to create market rules that
21 encourage the development of a competitive market and discourage unnecessary

1 procedural hurdles to effectuate customer choice. It is important to keep in mind that no
2 customer will have to switch or obtain authorization to retain Duquesne Light as their
3 default supplier. Only customers who want to exercise customer choice to change their
4 supplier must follow additional procedures, thus benefitting the incumbent. The OCA's
5 Comments in the Commission proposed rulemaking will address these substantive issues,
6 but the Commission's final order in this proceeding should require Duquesne Light to
7 comply with interim procedures until the final rule is promulgated.

8 Q. WHAT IS YOUR OPINION OF DUQUESNE LIGHT'S PROPOSED TARIFF RULE
9 27 WHICH ADDRESSES THE CUSTOMER'S CHANGE OF SUPPLIER?

10 A. Duquesne Light's proposal does allow for a change of supplier based on either oral or
11 written confirmation from the customer, but does not allow the supplier to contact the
12 distribution company to order a change on behalf of the customer without proof of written
13 authorization. Duquesne Light's proposed procedures would not, for example, allow a
14 customer to call the supplier directly to obtain service even if the customer's oral
15 agreement was verified by an independent third party without requiring that the customer
16 provide written authorization or make another call to Duquesne Light to affirm their
17 supplier selection. The Commission should allow customers to inform the distribution
18 company directly of the identity of their preferred supplier as proposed by Duquesne Light
19 and allow as well a supplier to notify the distribution company of the customer's selection
20 as long as the customer's selection was either confirmed in writing or verified by an
21 independent third party or, if accomplished via contact initiated by a marketer or supplier,

1 accompanied by written authorization. Since the major complaints about slamming in the
2 telephone industry have occurred as a result of supplier and marketer-initiated contacts
3 with customers, it is reasonable to require written authorization in such instances.

4 However, if the customer initiates the contact, the requirement of a signature or the
5 creation of an additional hurdle by requiring that the customer communicate directly with
6 the distribution company is not reasonable. My recommended approach will require that
7 the distribution company and the supplier maintain a record of the conversation on their
8 customer billing system, similar to the current system of maintaining records of oral
9 agreements for customer payment arrangements. The requirement that the customer
10 assent to a change of supplier in writing should be reserved for contacts initiated by
11 marketers, agents or suppliers.

12 It is important to keep in mind that the contract for the sale of electricity is
13 between the customer and the supplier; Duquesne Light does not have a right to impose
14 unreasonable procedures or burdens, but must at the same time be informed of the
15 existence and terms of the contractual arrangement. While Duquesne Light may choose to
16 inform its customers in writing of their selection of a supplier, it is the supplier's obligation
17 under the Commission's July 11, 1997 Maintaining Customer Service Quality Order to
18 notify new customers of their terms of service and provide a 3-day right of rescission
19 directly.

20 The Company's proposed tariff requires a 5-day notice to switch the customer's
21 supplier, which seems reasonable, but also requires a physical meter reading, a potential

1 delay of 20+ days. It is not necessary to obtain a meter reading prior to changing a
2 customer's supplier, if the customer assents to a prorated bill for that billing period.

3 The Company's procedures do not indicate that any fees will be charged to switch
4 suppliers and so I presume that there will not be any fees charged.

5 Q. PLEASE DISCUSS THE IMPLEMENTATION OF THE DEPOSIT RULES ON
6 ELECTRIC COMPETITION.

7 A. No further comment is necessary on this issue at this time because the Chapter 56 rules are
8 clearly applicable.

9 Q. PLEASE DISCUSS THE IMPLICATIONS OF ELECTRIC RESTRUCTURING FOR
10 DUQUESNE LIGHT'S METERING AND METER READING SERVICES.

11 A. Duquesne Light's proposed procedures and policies are not compatible with the options
12 under consideration by the Commission in its Request for Comments-Metering issued on
13 April 24, 1997, Docket No. M-00960890 F0009. While Duquesne Light acknowledges
14 that a customer can obtain an alternative meter, [OCA-2-037], the Company's witness,
15 Mr. Fred Allison, does not propose any procedures or policies that will implement this
16 option. The Company is opposed to unbundling the billing and metering function and is
17 proposing a significant upgrade of its metering capability with the CARS system to be
18 installed by Itron, Inc. This system will allow automated communications of the
19 customer's usage and power reliability data via an electronic communications link. As a
20 result of this installation, which Duquesne proposes to be paid for by current customers in
21 the distribution charges, the Company will position itself with a tremendous advantage in

1 marketing electricity and electric services should it choose to do so in the future or if the
2 merger with Allegheny Power is approved. The Company will also, of course, obtain
3 benefits for its customers in better reliability of its distribution system. However, the
4 potential benefits are not quantified or divided. Duquesne Light assumes that there will
5 be no direct access by suppliers to its meters. Duquesne Light evidently also will not seek
6 to unbundle any part of their current metering costs even when a customer seeks the
7 installation of a new meter. The Company's approach is unnecessarily narrow, even at
8 this initial stage of the exploration of the concept of increased competition for meters and
9 meter services. The Commission should order Duquesne Light to accomplish the
10 following changes in this proceeding:

11
12 1. First, it is clear that with the development of competitive metering and billing services
13 in California by 1999, in Maine by 2002, and the recent initiation of a working group to
14 explore this issue in Massachusetts, that it would not be prudent to finalize a restructuring
15 plan that simply assumes the continuation of a complete monopoly for these services in the
16 long run. Duquesne Light's short term policies should be compatible with the possibility
17 of increased competition in metering and metering services. This suggests that the
18 Commission should inform Duquesne Light in this proceeding that it undertakes
19 investment in new metering-related service options at the risk of its stockholders and not
20 its ratepayers, similar to the actions of the California Commission in its recent Direct
21 Access Decision that orders the distribution companies to unbundle metering, billing and

1 customer service functions.

2
3 2. Second, open architecture standards should be developed by the stakeholders,
4 including the developers of new metering technology, and then approved by the
5 Commission. After the development of these standards and their approval by the
6 Commission, Duquesne Light should not have the sole discretion to decide whether a
7 meter meets the open architecture standards. Rather, the standards should include a
8 methodology for certification of a meter's compliance with the standards by a neutral
9 party. Duquesne Light's concerns about maintaining the required level of customer
10 service are legitimate, but these concerns can be met with the development of performance
11 standards for meters and meter services that allow the development and installation of
12 innovative and customer-driven meter technologies.

13
14 3. Duquesne Light's filing does not propose to unbundle any aspect of billing or metering
15 services. This result may be a function of the Company's position that these services
16 should remain with the distribution company. However, the Company should be prepared
17 to unbundle the current cost of some features associated with metering and provide a
18 credit to any customer who obtains an alternative meter or whose meter is electronically
19 read by a supplier. For example, it may not be efficient or economical if Duquesne Light
20 continued to maintain the customer's existing meter even if a customer chose to have an
21 alternative meter installed.

1 4. Duquesne Light's position is that only the distribution company should install, maintain
2 and read an approved meter. This would require that a customer who elects an advanced
3 meter must obtain and pay for the meter by dealing with the distribution company. This
4 approach will not stimulate the development of advanced metering techniques or allow
5 suppliers to link the provision of electricity with other energy management services.
6 Again, this position does not allow for the development of metering competition when and
7 if the Commission determines it is in the interests of all customers to do so. Duquesne
8 Light should be prepared for installation and billing for alternate meters by suppliers. As
9 noted in the Commission's July 11 Maintaining Quality of Service Order [at 23],
10 nonphysical meter reading could be performed by other entities. Suppliers should be able
11 to offer electronic meter reading to customers, but the supplier should be required to
12 provide the metering data to Duquesne Light as well. Meters that require physical reading
13 should continue to be performed by Duquesne Light. Suppliers should then bill the
14 customer for the alternative meter and any electronic meter reading service on an itemized,
15 i.e., unbundled, basis. This option should only be pursued when the Commission
16 determines that it can occur without jeopardizing the safety and reliability of the
17 distribution system.

18
19 5. It is likely that Duquesne Light will use standard load profiles for customers without
20 hourly meters and that the Commission will require their use for low use residential and
21 small commercial customers. Assuming Duquesne Light agrees with the general approach

1 that load profiles should be used to bill customers with standard mechanical meters, these
2 load profiles should be updated frequently and approved by the Commission for all
3 customer classes at each distribution company.

4
5 6. Duquesne Light has not proposed any charges to provide usage or billing information
6 to suppliers or for access to customer-specific usage information in its Customer Data
7 Warehouse (the automated data obtained from CARS). I assume, therefore, that no such
8 charges will be imposed.

9 Q. PLEASE DISCUSS BILLING AND PAYMENT OF BILLS.

10 A. Duquesne Light's filing does not conform to the Commission's July 11, 1997 Order on
11 Maintaining Customer Service Quality (Docket No. M-00960890 F0011) with regard to
12 its proposed billing options. Duquesne Light should be required to describe how it would
13 comply with the three billing options suggested by the Commission: a unified bill issued by
14 the distribution company; dual bills from both distribution companies and suppliers; a
15 unified bill issued by the supplier. Duquesne Light's current position is that it is not
16 willing to permit other parties to bill its customers yet it offers to provide a billing service
17 for suppliers. If the distribution company is establishing a system to transfer data from the
18 supplier to the distribution company to enable the distribution company to bill and collect
19 on behalf of the supplier, it seems logical that this data transfer capability should not be
20 one-way. It seems particularly timely to direct Duquesne Light to develop this option
21 because the Company is in the process of establishing a new automated metering system

1 that would allow electronic interface with suppliers.

2 Duquesne Light does not address whether there may be limits on the types of
3 supplier charges it will be willing to include on a Duquesne Light-issued bill and should
4 specify if there are any restrictions on the type of rate design that can be handled by either
5 their current or new billing system. There should be no restriction imposed by Duquesne
6 Light in this regard because it would retard the development of the full range of customer
7 choices that will presumably be offered by retail electric competition. Pursuant to the
8 mandate of the Act, if the customer does have the option to choose a unified Duquesne
9 Light-issued bill, then Duquesne Light must develop the capability to bill according to the
10 rate design or price structure offered by the supplier. Of course, Duquesne Light should
11 be able to charge suppliers for this service based on the complexity of their price structure.
12 In addition, it is likely that suppliers will also offer customers energy management services
13 along with the sale of kWh and Duquesne Light's billing options must accommodate this
14 approach as well. Furthermore, if this is not possible, it is an even stronger reason for the
15 Commission to mandate that the distribution company offer the option of a unified
16 supplier-issued bill.

17 With regard to partial payments and allocation of payments, Duquesne Light must
18 conform its procedures to those mandated by the Commission in its July 11, 1997
19 Maintaining Customer Service Quality Order. Specifically, Duquesne Light must be
20 required to develop the capability for multiple-balance billing. This will be necessary not
21 only to implement the partial payments rule, but to assure that customers are not

1 threatened with disconnection for the failure to pay unregulated charges, including those
2 offered by the distribution company directly or through its affiliates or any charges being
3 billed on behalf of a supplier.

4 Q. PLEASE DISCUSS ISSUES RAISED BY THE CUSTOMER CHOICE ACT'S
5 REQUIREMENTS CONCERNING COMPLAINT RESOLUTION.

6 A. Duquesne Light's proposals in this regard seem satisfactory, except that the Company has
7 failed to provide the option required by the Commission's Maintaining Customer Service
8 Quality Order that allows suppliers to handle a supplier-only bill option and customer
9 disputes relating to those bills.

10 Duquesne Light probably has no obligation to handle disputes relating to supplier
11 charges when the supplier has billed the customer directly. However, the question of who
12 "owns" the complaint when the customer calls to question their meter reading or their
13 usage level must be clarified because the resolution of this type of complaint affects both
14 the distribution company and supplier charges billed to the customer. Since the
15 distribution company charges will also depend on accurate meter readings and will be
16 impacted by high usage disputes, I recommend that the distribution company "own" these
17 complaints since, at least in the near term, the distribution company has access to and
18 responsibility for the meter and can more easily determine if the reading was accurate or
19 impacted by unusual events based on a review of the historical usage and customer energy
20 use pattern.

21 Duquesne Light has not proposed any specific procedures in this filing with regard

1 to the coordination and communications necessary to handle disputes in which both the
2 distribution company and supplier will have a stake. This includes procedures for
3 appropriate notice and opportunity to participate in the complaint investigation, referral
4 and exchange of data and other information. The Company should be required to do so
5 promptly.

6 Q. HOW SHOULD SERVICE INTERRUPTIONS AND OUTAGES BE HANDLED?

7 A. The OCA has already proposed to the Commission in its Tentative Order on Quality of
8 Service Benchmarks and Standards, Docket No. M-00960890F0007 (March 13, 1997)
9 that a Service Quality Index be constructed for each distribution company that establishes
10 baseline performance levels for representative reliability and customer service indicators
11 and then tracks the distribution company's performance over the term of the rate cap.
12 This approach may require a separate filing by Duquesne Light at the completion of the
13 Commission's investigation of these issues and the issuance of the Final Order. It has not
14 been possible given the timing of this docket and the volume of work required to
15 implement customer choice in many other proceedings to devise a proposed Service
16 Quality Index specifically for Duquesne Light as part of our testimony at this time. This
17 issue will be particularly important to address with respect to Duquesne Light because of
18 the history of customer complaints about the quality of service and length of outages
19 documented both at the Commission and the OCA. This history regarding maintenance
20 and outage prevention should be taken into account in any future service quality and
21 reliability index.

1 Q. PLEASE DISCUSS REQUESTS TO DISCONTINUE SERVICE BY CUSTOMERS.

2 A. Duquesne Light's filing does not address the procedures that should be followed when a
3 customer requests that service be discontinued. The Company should be required to
4 clarify its procedures to distinguish between a customer who requests that distribution
5 services be discontinued at a certain location and a customer who seeks to cancel or
6 terminate their contract with a specific supplier (and presumably choose an alternate
7 supplier or become a Duquesne Light customer for basic utility service). Furthermore,
8 communication protocols with suppliers must be established to accommodate customers
9 who seek to discontinue their distribution, as well as supplier services, by calling the
10 supplier. All of these protocols must also include steps to ensure the proper identification
11 of the type of residential account at issue so that the proper Chapter 56 procedures are
12 followed for multi-family and landlord-ratepayer accounts.

13 Q. PLEASE DISCUSS TERMINATION AND PAYMENT AGREEMENTS.

14 A. Duquesne Light's procedures, as well as its understanding of the Commission's directives
15 on this subject, should be clarified in its tariff. The Commission adopted the OCA's
16 recommendation on this matter in its Final Order regarding Licensing Requirements for
17 Electric Generation Suppliers (Docket No. M-00960890F004, February 13, 1997) and in
18 its July 11, 1997 Order on Maintaining Customer Service Quality. That is, a distribution
19 company cannot disconnect or threaten disconnection for the failure to pay supplier
20 charges. Disconnection of service may occur only for the failure to pay regulated
21 distribution company charges or those associated with the supplier of last resort service.

1 This policy applies as well when the distribution company purchases accounts receivables
2 from a supplier. There is no indication that Duquesne Light disagrees with this policy, but
3 its tariffs are not clear in this regard and should be amended to make this rule explicit.

4 Q. PLEASE SUMMARIZE THE OBLIGATIONS OF THE DISTRIBUTION COMPANY
5 TO PROVIDE ELECTRIC ENERGY TO ITS CUSTOMERS UNDER THE
6 CUSTOMER CHOICE ACT.

7 A Section 2804 of the Customer Choice Act requires two different rate caps. The first rate
8 cap is on the total charges and is operative for 54 months or until the CTC is completed
9 and all customers have choice, whichever is shorter. The other rate cap applies to the
10 generation portion of the utility's rate and is for nine years or until the CTC is completed
11 and all customers have choice, whichever is shorter. As I noted, the first rate cap sets a
12 ceiling for all distribution company rates, both for generation services sold to customers by
13 the distribution company and for the distribution/transmission portion of the bill. The
14 second rate cap sets a ceiling only for the generation portion of a utility's charges to
15 customers who purchase generation from the utility, including the CTC and ITC, so that
16 these charges will not exceed "the generation component charged to the customers that
17 has been approved by the commission for such service, as of the effective date of this
18 chapter", i.e., January, 1997. The Act then specifically states that the capped rates will
19 not apply to "new services offered for the first time after the effective date of this
20 chapter." Section 2804(4)(VI)

21 The electric utility's general obligation to serve is restated in Section 2807(E)(1):

1 An electric distribution company has an obligation to serve, including the production or
2 acquisition of electric energy for its customers, while such utility collects a CTC or ITC or
3 until 100% of its customers have choice, whichever is longer. Section 2807(E)(2)
4 requires the Commission to establish rules that will govern the provider of last resort
5 service after the end of the phase-in period. Paragraphs 3 and 4 then provide guidance to
6 the Commission for these future rules. The operation of the capped rates in Section 2804
7 control the obligations of the distribution company during the near future with regard to
8 pricing generation services to its customers. Section 2807(E)(2)-(4) are applicable when
9 the Commission adopts its future rules. Even so, the pricing structure of those future
10 rules must still assure compliance with the rate cap provisions during the period in which
11 stranded costs are being recovered.

12 In summary, under the Customer Choice Act, the electric distribution company
13 must provide generation services to any customer who is not eligible to choose or who,
14 for any reason, seeks to obtain generation services from a distribution company. During
15 the operation of the rate caps, the price for this generation service cannot exceed the rates
16 for this service in effect on January 1, 1997. Customers who try the competitive market
17 and then return to their distribution company still receive the protections of the rate cap.
18 The only rates that are not applicable to the rate caps are for new services. The provision
19 of the generation portion of the customer's bill by the distribution company is subject to
20 the rate cap. Utilities may in fact seek to obtain this generation service from other
21 sources, but the total customer bill, in the case of the first rate cap, or the generation

1 portion of the bill (plus the stranded cost recovery charges) in the case of the second rate
2 cap, cannot exceed the rates in effect on January 1, 1997, except for a narrow set of
3 reasons not applicable here.

4 Q. PLEASE DISCUSS DUQUESNE LIGHT'S PROPOSALS WITH REGARD TO THE
5 PROVIDER OF LAST RESORT SERVICE.

6 A. Duquesne Light proposes to price the power supply portion of its unbundled bill
7 based on annual market power prices obtained from a competitive RFP process [OCA-2-
8 001]. While the operation of the various rate caps will control the price to some extent, it
9 is not at all clear how Duquesne Light or the Commission will define and monitor this
10 objective to determine if Duquesne Light's energy prices should be decreased from present
11 unbundled levels. More detail on the methodology to price this service should be
12 provided before the Commission approves any particular approach.

13 Viewed from the narrow perspective of pricing the POLR service, the Company's
14 suggestion that it will explore the use of a competitive solicitation for pricing POLR
15 Service could be a positive approach if it means that Duquesne will solicit competitive
16 energy suppliers, including its affiliate, to provide the generation services necessary for
17 POLR service. The recently enacted Maine electric restructuring legislation [PL 1997, ch.
18 316, effective May 29, 1997] requires the distribution company to use this approach to
19 provide standard offer service. Both New Hampshire and Vermont have also endorsed
20 this approach.

21 However, Duquesne Light's proposed treatment of customers who return to rate

1 cap service after entering the competitive market is problematic. The Customer Choice
2 Act requires the distribution company to serve any customer who needs electricity services
3 during the transition period and does not distinguish between customers who choose not
4 to choose and those who need temporary service for a variety of reasons, e.g., merely in-
5 between suppliers, refusal of supplier to service, cancellation of supplier contract, etc.
6 Duquesne Light proposes to impose significant hardships on such customers, the
7 combined effect of which will be to discourage customers from freely entering the
8 competitive market and increase the market share of the current utility. First, customers
9 who seek to return to POLR service must do so for a minimum 12-month period. This
10 will have the effect of discouraging participation in the competitive market. The
11 Commission should reject this approach. The Company's concerns about gaming will be
12 met by its proposal to price this service closer to market prices (subject to the rate caps
13 discussed above) or by imposing an appropriate fee when the customer makes use of this
14 service more than twice in any 12-month period.

15 Q. WHAT ABOUT RESTORATION OR RECONNECTION OF SERVICE?

16 A. Again, Duquesne Light's policies must be clarified to reflect the policy that the distribution
17 company may not condition restoration or reconnection of service to a customer based on
18 any unpaid charges owed to a supplier, except for the supplier of last resort service. In all
19 cases, Duquesne Light's policies must conform to the requirements of Chapter 56 of the
20 Commission's rules.

21 Q. PLEASE DISCUSS YOUR CONCERNS WITH THE COMPANY'S PROPOSED

1 CODE OF CONDUCT.

2 A. In addition to the service quality and consumer protection policies discussed above, I want
3 to also address the issues associated with Duquesne Light's proposed Code of Conduct
4 and matters pending before the Competitive Safeguards Working Group. Several of these
5 procedures and policies are closely intertwined with the Company's interactions with its
6 customers as I have already discussed above with regard to Customer Information and
7 Application for Service. Furthermore, the Commission's regulation of the utility's
8 conduct of both the distribution services and generation services will have a great deal to
9 do with the development of a fair and vigorous competitive market. Customers will not
10 benefit from this enormous transition from monopoly to competition if the rules of the
11 road unduly favor the incumbent. If that is the result, all we have done is create an
12 unregulated monopoly.

13 Q. WHAT SPECIFIC RECOMMENDATIONS DO YOU HAVE WITH REGARD TO
14 DUQUESNE LIGHT'S PROPOSED CODE OF CONDUCT?

15 A. I have reviewed Duquesne Light's proposed Code of Conduct and compared it with the
16 Code of Conduct adopted by the Massachusetts Department of Public Utilities in its
17 electric competition order (Electric Industry Restructuring Plan: Model Rules and
18 Legislative proposal, DPU 96-100, December 30, 1996) and that recently adopted by
19 California in its Direct Access Decision adopted on May 6, 1997 (Decision 97-05-040). I
20 have attached the Massachusetts DPU Code of Conduct as Exh. 4 to my testimony.

21 There are some gaps in Duquesne Light's proposal that should be remedied.

1 Foremost among these gaps is the Company's failure to propose its future corporate
2 structure for retail electric competition. The Company claims that it will participate in the
3 market "as a competitive supplier of electric energy, capacity and related services"
4 [Hoffman direct at 15], but the specific corporate structure has not yet been decided upon.
5 This issue is also related, of course, to the Company's pending merger application with
6 *Allegheny Power*.

7 The following proposals are intended to supplement or clarify the proposed Code
8 of Conduct for Retail Services contained in the direct testimony of Frank A. Hoffman and
9 Exh. FH-2 as well as those specific rules I suggested in my discussion of Application for
10 Service, above.

11 1. The proposed Standards distinguish between Regulated Services and Unregulated
12 Services. The Standards should instead distinguish the "transmission or distribution
13 function" (which will include reliability, but has broader customer interaction implications,
14 such as the POLR service) from the "generation function". These terms should be at least
15 coterminous with the corporate affiliate structure of Duquesne Light Company.

16
17 2. The transactions between the distribution and generation affiliates or between either
18 division and the corporate support function should be limited to the purchase of tariffed
19 items generally available to other similarly situated electric suppliers, with the exception of
20 general and administrative support services which should be strictly defined in Duquesne
21 Light's written policies and subject to review by the Commission. The purpose of this

1 review should be to ensure that prices charged by Duquesne Light's support services to its
2 competitive division fully compensate the regulated portion of the company (and that paid
3 for by ratepayers) for any services.

4
5 3. The Duquesne Light regulated utilities and the corporate marketing affiliates should not
6 conduct joint marketing. The distribution companies should not promote the competitive
7 services offered by any portion of the company, including those competitive services
8 currently offered by Duquesne Light. The distribution companies should refrain from
9 giving any appearance of speaking on behalf of the competitive services division in any
10 and all contacts or communications with customers or potential customers.

11
12 4. The Code seems to allow the transmittal of certain competitively-sensitive information
13 to employees providing Unregulated services as long as such information is made available
14 "upon request" to any nonaffiliate. However, such information should not be transmitted
15 unless the information is already available and known to be available (through an OASIS-
16 type data central system) to nonaffiliates.

17
18 5. The dispute resolution procedure to address complaints alleging violations of the Code
19 of Conduct should include, as a minimum, a procedure to designate a person to conduct
20 an investigation of the complaint and report the results of this investigation to the
21 complainant in writing within 30 days after the complaint is received, including a

1 description of any action taken in response to the complaint and the complainant's option
2 to complain to the PUC if not satisfied with the results of the investigation. Duquesne
3 Light should maintain a log of all new, resolved and pending complaints alleging violations
4 of the Code of Conduct (which violation shall be liberally construed to refer to complaints
5 about Duquesne Light's actions relating to any provision of the Code, whether or not the
6 complainant actually identifies a specific provision of the Code in the complaint). The log
7 shall be subject to review by the Commission.

8 Q. PLEASE CONCLUDE YOUR LIST OF ISSUES IN PART II WITH A DISCUSSION
9 OF THE COMPANY'S PROPOSED PROCEDURES TO PHASE-IN CUSTOMER
10 CHOICE BEGINNING IN 1999.

11 A. Duquesne Light's filing describes how the Company proposes to implement the
12 requirement of the Customer Choice Act that a maximum of 33% of the peak load of each
13 customer class "shall have the opportunity for direct access" by January 1, 1999 (Section
14 2806(B)). Duquesne proposes to implement this requirement with a geographic-based
15 phase-in and within the geographic area, on a first-come, first-serve basis. There is no
16 compelling reason to phase-in customer choice by geographic area. Suppliers will
17 typically market throughout a service territory or media market. Furthermore, the
18 Company's suggestion that this is fairer to "lower socio-economic classes" [OCA-2-029]
19 to phase in customer choice by means of zip code is unproven. If, as the Company
20 alleges, there is a greater interest in customer choice and competition by higher income
21 customers, this should cause Duquesne to devise a customer education program targeted

1 to lower income customers. This approach has not been followed as I outlined above in
2 Part I of my testimony. Furthermore, the phase in of customer choice by zip code will do
3 little to encourage customers in the selected zip codes to participate. I recommend a first-
4 come, first-served method to phase in customer choice for residential customers beginning
5 in January, 1999. Furthermore, the Company should automatically enroll those residential
6 customers who are participating in the pilot program into Phase I to avoid the need for
7 those customers to communicate their desire to participate again.

8 Q. DOES THIS COMPLETE YOUR TESTIMONY?

9 A. Yes, it does.

10 44526

EXHIBIT BA-1

Barbara R. Alexander

Consumer Affairs Consultant

15 Wedgewood Dr.
Winthrop, ME 04364

207/395-4143: voice and FAX

e-mail: balexand@mint.net or baralex@aol.com

CLIENTS

National Consumer Law Center, Boston, MA
Public Counsel, Office of Attorney General, Seattle, WA
Telecommunications Workers Union, British Columbia, Canada
Vermont Department of Public Service, Montpelier, VT
Regulatory Assistance Project, Gardiner, ME
Maine Public Utilities Commission, Augusta, ME
William A. Spratley & Associates, Columbus, OH
Fisher, Sheehan & Colton, Belmont, MA
Citizens Utility Board, Chicago, IL
Office of Consumer Advocate, Pennsylvania

EMPLOYMENT

Director, Consumer Assistance Division
MAINE PUBLIC UTILITIES COMMISSION
1986 - 3/1996
AUGUSTA, MAINE

One of five division directors appointed by a three-member Commission. Part of Commission-wide management team. Direct supervision of 10 employees; oversight of consumer complaint function; appearance as an expert witness on consumer services, service quality and low income policy issues in both adjudicatory and rulemaking proceedings; member of Staff Advocate and Advisory teams on major rate cases. Chair, NARUC Staff Subcommittee on Consumer Affairs.

Superintendent
BUREAU OF CONSUMER CREDIT PROTECTION
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
1979-1983
AUGUSTA, MAINE

Director of an independent regulatory agency charged with the implementation of the Maine Consumer Credit Code and Truth in Lending Act; investigation and enforcement of consumer credit statutes and regulations; testimony before Maine Legislature and U.S. Congress; coordinator of national association of consumer credit regulators.

Assistant to Majority Leader
HON. ELIZABETH MITCHELL,
MAINE HOUSE OF REPRESENTATIVES
1983-1984
AUGUSTA, MAINE

EDUCATION

Juris Doctor
UNIVERSITY OF MAINE SCHOOL OF LAW
1973-76
PORTLAND, MAINE

Admitted to the Bar of the State of Maine, September, 1976.

B.A. (With Distinction) in Political Science
UNIVERSITY OF MICHIGAN
1964-68
ANN ARBOR, MICHIGAN

PRESENTATIONS

"Consumer Protection Programs in an Era of Regulatory Change", NARUC Advanced Regulatory Studies Program, Annapolis, MD, January, 1996

"Telephone Service Quality from a Consumer's Perspective", Subcommittee on Communications, NARUC Winter Meetings, Washington, D.C., February, 1996

"Consumer Protection Programs in an Era of Electric Restructuring", Center for Public Utilities and NARUC, Basics of Regulation, Baltimore, MD, May, 1996

"Consumer Protection Policies At Risk in Electric Restructuring", National Low Income Energy Consortium, Baltimore, MD, June, 1996

"Consumer Protection Policies At Risk in Electric Restructuring", Consumers' Energy Conference, June, 1996, Portland, ME

"Restructuring Customer Services in a Transition to Competition", NARUC Annual Regulatory Studies Program, August, 1996, East Lansing, MI

"Regulation of Competitive Electric Suppliers", New England Electric Restructuring Consumer Advocates, October, 1996, Tewksbury, MA

"Universal Service and Consumer Protection Issues in Electric Restructuring", Texas Office of Public Counsel, October, 1996, Austin, TX

"Putting the Puzzle Together: Consumer Protection Issues in Electric Restructuring", Pennsylvania PUC, March, 1997.

"Consumer Protection Issues in Electric Restructuring", NARUC Energy Resources and Environment Committee, March, 1997

Presentations on Consumer Protection and Universal Service Issues in Electric Restructuring to the Illinois Commerce Commission and the New Jersey Board of Public Utilities as part of Regulatory Assistance Project Workshops: March-April, 1997.

RECENT PUBLICATIONS AND TESTIMONY

"How to Construct a Service Quality Index in Performance-Based Ratemaking", The Electricity Journal, April, 1996

"The Consumer Protection Agenda in the Electric Restructuring Debate", William A. Spratley & Associates, May, 1996

Direct Testimony on behalf of the Telecommunications Workers Union, Telecom Public Notice 96-8, Price Cap Regulation and Related Issues, Canadian Radio-Television and Telecommunications Commission, September, 1996

Direct Testimony on behalf of Public Counsel Section, Office of Attorney General, Docket No. UE-960195, Application by Puget Sound Power and Light Co. And Washington Natural Gas Co. For Approval of Merger), Washington Utilities and Transportation Commission, September, 1996

"Consumer Protection Proposals for Retail Electric Competition: Model Legislation and Regulations", Regulatory Assistance Project, Gardiner, ME, October, 1996

Direct Testimony on behalf of the Citizens Utility Board (IL), Docket 96-0178, Illinois Commerce Commission, CUB v. Illinois Bell Telephone Co., January 22, 1997

OTHER ACTIVITIES

- Board of Selectmen, Mt. Vernon, ME (1978-9)
- Board of Appeals, Hallowell, ME (1986-88)
- Program Committee, Samantha Smith Foundation (1993-94)
- Board of Directors, Maine Women's Lobby (1996-)
- Board of Directors, Coalition for Sensible Energy (1996-)
- Languages: Spanish; Russian (moderate)

EXHIBIT BA-2

A Consumer Information and Education Plan
Developed by the Vermont Department of Public Service for
Electric Utility Industry Restructuring

Submitted to the
Vermont Public Service Board

February 18, 1997

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I. Executive Summary

The Vermont Department of Public Service developed its Consumer Information and Education Plan at the request of the Public Service Board, assuming that the Vermont Legislature will pass a bill on electric utility restructuring in the 1997 legislative session.

To seek out suggestions for educating Vermonters on restructuring, we spoke with representatives of municipal and co-op utilities, investor-owned utilities and a range of consumer advocates, all of whom expressed an interest in participating in the consumer education process. According to representatives in seven other states, consumer education regarding restructuring in their states is in its infancy at best. The Department also commissioned Action Research to query Vermonters, discovering among other findings that approximately one-half of all respondents are aware of restructuring.

The communications objectives of the plan are to increase unaided and aided awareness of electric industry restructuring, and to assess changes in attitude among Vermonters toward restructuring with regard to choice, price, quality and the environment. The ultimate goal is to empower Vermonters to make an informed choice about their electricity provider.

The plan focuses its communications strategies on three target publics: residential electric customers, small commercial electric customers and influencers. One of the core messages to be communicated is "the more you know about your electricity consumption and about restructuring, the better your ability to make an informed choice."

The Department recommends a four-phased strategy — pre-legislation, post-legislation, pre-choice and post-choice — integrating consumer research, public outreach, public communication and continued monitoring.

Following the initial phase of public involvement and research, the theme and identity of the plan will be developed to work with all of the proposed elements. Recommended tactics to help the Department realize its communications objectives include research, public involvement, media relations, a public service advertising campaign, a partnership program with consumer and small business advocates as well as with utilities, as appropriate, and an information center housed at the Department.

A timeline is included to illustrate the progression of the activities. The Department expects that, if fully implemented, the cost of the Consumer Information and Education Plan will be approximately \$625,000.

II. Situation Analysis

A. Overview

This plan has been developed by the Department of Public Service, in collaboration with ~~KSV Communicators~~, in response to the Public Service Board's Report and Order entitled "~~The Power to Choose: A Plan to Provide Customer Choice of Electricity Suppliers~~," dated December 30, 1996.

The purpose of the plan is to articulate how the Department will help Vermonters adapt to and take full advantage of the opportunities offered in a restructured electric utility environment, and to do this in sufficient detail to establish for affected parties the intended scope and expectations of the information and education effort.

The plan has been developed with regard for both the Vermont Principles on Electric Industry Restructuring and the Department's proposed Consumer Bill of Rights, which are endorsed in the Board's report.

The Department sought the advice of numerous people and organizations in preparing this document. A list of individuals the Department spoke with or received written comment from is included in Appendix A, and a list of organizations invited to comment is included in Appendix B. The Department intends to continue to work with these individuals and others in the further refinement of the Consumer Information and Education Plan.

II. Situation Analysis (continued)

B. Assumptions

The Department has developed this plan from the point of view of what *should* be done to give Vermonters the best possible chance to take full advantage of the power to choose their electric service provider. Since there is some uncertainty as to if and when the Vermont Legislature will act on restructuring legislation, we have assumed for purposes of developing a timeline for this plan that the Legislature will pass legislation during the 1997 session so that restructuring will begin in January 1998, the timeline put forth by a number of parties. This timeframe calls into question the ability of the Department and others to fully implement necessary activities, and will require, if enacted, some prioritization and compromises to the consumer information and education effort.

While the Department assumes some form of restructuring to be inevitable, this plan has not been prepared to advocate for restructuring; rather, it is focused on helping Vermonters make informed decisions about their energy consumption and new choices available to them.

This plan also assumes that Vermonters need to know a lot more than they currently do in order to take advantage of the potential benefits to them of a restructured electric industry. This assumption is confirmed by quantitative research. (See VermonTrends Findings section, page 16.)

II. Situation Analysis (continued)

C. Findings

1. Municipal and Co-Op Utilities

Representatives of municipal and co-op utilities expressed concern that most Vermont consumers currently don't understand electric utility restructuring, and expressed uncertainty about what to tell their customers about the unknown implications of the pending legislation. Consequently, they are looking to the Department to provide leadership in the statewide education and awareness program on a "macro" level.

Individual municipal and co-op utilities, which feel they have developed a great deal of credibility with their customers as measured through surveys and other methods, believe they can help their customers understand restructuring on a "micro" level. They are very interested in participating in the consumer education and awareness process, in part by utilizing current communications vehicles such as newsletters and bill enclosures (for those utilities that send their bills in envelopes). They are concerned about the cost of consumer education prior to a statutory funding mechanism being in place.

Municipal and co-op utilities report that post-restructuring pricing levels are a major concern for their customers who are aware of the pending legislation. The utilities currently cannot answer a common customer question: "Will I save money on my electric bill?" When the analogy of the deregulation of the telecommunications industry is employed, customers tend to understand better what restructuring means; however, the analogy also elicits negative feelings about "long-distance telephone service telemarketers."

Municipal and co-op utilities have identified the introduction of an "unbundled bill" as an important consumer education tool. They are working on the design of such a bill, and look to the Department for assistance.

C. Findings (continued)

2. Investor-Owned Utilities

Investor-owned utility representatives indicated in interviews a willingness to collaborate with the Department in consumer information and education initiatives and have common interests with the Department. Because the IOUs serve the great majority of Vermont households, their participation is critical to success. They believe they have a level of rapport with their customers as well as established channels of communications (bill messages and statement enclosures) that will help facilitate broader understanding of the choices consumers face in a restructured electric industry environment.

They also perceive themselves to have common interests with the Department in educating consumers. The IOUs realize that an informed customer is a better consumer, and that the more knowledgeable customers are about restructuring, the fewer calls the IOUs will have to field in their customer service operations.⁴ The potential customer service costs are considerable and provide a strong incentive for the IOUs to collaborate with the Department, undertake their own education effort, or do both.

In the early phases of consumer education, there is a considerable degree of alignment of interests between the Department and the IOUs. At a later point on the restructuring continuum, just before and at the point at which consumers will have to choose which electric company to buy electricity from, the interests of the Department and the IOUs — particularly the Retailco units of the IOUs — diverge.

C. Findings (continued)

3. Consumer Advocates

In both one-on-one telephone interviews and a group meeting, we spoke with a number of consumer advocates who represent low-income, disabled, elderly, environmental and general consumer interests. We also invited a number of consumer organizations and associations to comment in writing.

The consensus is that the consumers the advocates represent are, at best, marginally aware of the implications of restructuring. Many of the advocates feel that restructuring will be a good deal for large industrial customers at the expense of residential and small commercial customers. They want to educate their constituents about their rights in a restructured electric utility environment, but feel that the benefits have not yet been adequately outlined or proven. Given the evolving nature of the process, advocates would like to review and comment on the educational process on an ongoing basis.

Advocates suggest that communication regarding restructuring should not come solely from the utility companies. They feel consumers need a non-partisan voice they feel they can trust. Information should be accessible to the sensory impaired, and consistent terminology and messages — especially when dealing with billing and advertising issues — should be employed during the consumer education process. Educational materials should focus on a broader spectrum of issues than just rates and prices, public forums should be open and not veiled opportunities for “selling” restructuring, and consumer protections currently provided by the franchise system need to be preserved.

The consumer advocates agreed that a grassroots movement was essential to the success of the education process. Many expressed interest in creating partnerships to reach as many consumers as possible. Advocates mentioned television as an important high-profile medium to communicate information to a wide range of consumers.

C. Findings (continued)

4. Consumer Education in Other States

To learn about and benefit from the experiences of other states considering electric utility restructuring, we spoke with consumer education representatives from the following states: California, Connecticut, Massachusetts, New York, Pennsylvania, Rhode Island and Wisconsin. The timelines for implementing restructuring vary widely, from select residential choice among electric power providers by January 1, 1998, to full implementation of restructuring in some cases not until 2001 or 2002.

Two major themes emerged in our conversations. In general, consumers in these other states seem to be very confused about the changes and potential benefits to result from electric utility restructuring. In addition, everyone acknowledged that educating the general public — especially on such a complex issue — is a long and complicated process, and the primary messages need to be repeated over and over to have effect.

“Informed Energy Choices,” designed by the Public Service Commission in New York State, appears to have one of the most comprehensive education programs available. Targeting residential, commercial, industrial and non-English speaking constituencies, the program’s work plan employs speaking engagements, newsletters, bill inserts, exhibits at fairs and home shows, a web site and a toll-free hotline to help consumers better understand electric utility restructuring.

Massachusetts has set up an advisory task force that includes representatives from varied interests including: electric companies, consumer advocates, law firms and energy suppliers. Brochures and bill enclosures have been the primary communication methods, and the Commonwealth has promoted its two public forums via newspapers, radio and television public service advertisements. Officials are currently working on developing unbundled bills for customer review this summer.

Pennsylvania does not expect the transition to full electric utility deregulation to be complete until 2001, but they are actively handing out brochures, mailing newsletters, answering questions through an electronic bulletin board and toll-free telephone number, and surveying citizens on the most effective and trusted sources of educational information for the public.

4. **Consumer Education in Other States (continued)**

In Connecticut and Rhode Island, officials acknowledged the need for comprehensive education programs but are waiting on mandates from state legislatures before taking action.

Wisconsin is in its second year of the 4-5 year transition to full restructuring. Officials there have held numerous public hearings and meetings, and are currently making "public benefits" presentations regarding low-income, renewable source and conservation issues.

Finally, California state officials shared their experiences with a consumer education program for caller ID: most people want to speak to a live person instead of a recording; it's important to remain neutral on competitive issues; and watch out for "slamming" tactics sometimes employed by unscrupulous companies.

C. Findings (continued)

5. VermonTrends Findings

The Department commissioned Action Research to query Vermonters about electric utility restructuring during the research firm's most recent VermonTrends survey. Action Research interviewed 400 randomly selected Vermonters via telephone between January 30 and February 9, 1997. Key findings are listed below and a more detailed report is included in Appendix D.

- Approximately one-half of all respondents are aware of restructuring. Thirty-nine percent mentioned restructuring or deregulation on an unaided basis. When aided, another 18% stated that they had heard about restructuring.
- Over one-half of those surveyed (52%) state that restructuring would be a positive change. Fifteen percent think it would be negative.
- Most respondents felt that choice would be a result of restructuring, as would lower prices and comparable quality (to the current system).

II. Situation Analysis (continued)

D. Challenges and Opportunities

Electric utility restructuring is an extremely complex issue that only about half of Vermonters are aware of, and even fewer understand. This lack of awareness and understanding creates the fear, uncertainty and doubt sometimes found in the public debate about restructuring. It's also why the Public Service Board has ordered the Department to prepare this Consumer Information and Education Plan.

Bringing clarity and understanding to restructuring will not be easy. Some of the obstacles the Department will need to overcome include:

- *Lack of common understanding of why change, and why now —*

Economic models projecting Vermont's power costs to rise steeply in the coming years relative to market rates are not concepts that the average citizen typically contemplates. By the end of 1997, both GMP and CVPS are expecting to file for significant rate increases to deal with the rising costs. The opportunity to teach Vermonters about this situation and its corollary — power prices are anticipated to rise much less steeply in a restructured environment — is an educational challenge that will require the Department to take advantage of the help of all of the relevant stakeholders.

- *Skepticism about deregulation based on experiences with other industries, including telecommunications, airlines, banking —*

Skepticism creates resistance to new information. With electric utility restructuring, there is a great opportunity to avoid the mistakes other industries have made, while adopting and modifying the successful elements of those industries' efforts to the current campaign.

- *Misinformation and misperceptions —*

Given the potential for misinformation and misunderstanding, there is a need for straightforward education about restructuring. As an impartial source that works closely with both consumers and utilities, the Department is well suited to lead its many partners in this educational campaign.

D. Challenges and Opportunities (continued)

- *For residential and small commercial consumers to take full advantage of the potential benefits of restructuring, they need to be well informed —*

Without any educational outreach by the Department and others, larger customers probably would reap a disproportionate economic benefit from restructuring. There is a great opportunity for consumers to learn about and choose energy options unavailable in the fully regulated environment.

- *Limited consumer motivation to participate in electric utility restructuring —*

Consumers have not been motivated to understand and participate in electric utility restructuring because the potential benefits to small consumers and the process of restructuring have not been clearly articulated. Explaining that power prices are anticipated to rise much less steeply in a restructured environment, helping consumers make informed choices and demonstrating how to read and understand unbundled bills are all opportunities for the Department to educate Vermonters about the restructuring process.

- *Consumer inertia and fatigue —*

Perhaps the greatest challenge will be getting people's attention long enough to focus on restructuring. Consumers are bombarded with information; the restructuring message will be yet another among a sea of messages drowning consumers.

III. Communications Objectives

The objectives of the Consumer Information and Education Plan can be categorized in two ways; those that affect consumer awareness and attitude, and those that affect consumer behavior.

A. Awareness and Attitude Objectives

- Increase unaided awareness of electric industry restructuring among Vermonters to 75% by February 1998 from 39% (as measured by VermonTrends in February 1997).
- Increase combined unaided and aided awareness of electric industry restructuring among Vermonters to 90% by January 1998 from 58% (as measured by VermonTrends in February 1997).
- Assess changes in attitude among Vermonters toward restructuring across the dimensions of choice, price, quality and environment (as first measured by VermonTrends in February 1997).

B. Behavioral Objectives

- For those Vermonters who don't fully understand restructuring and the choice they have to make, empower them to learn more by:
 - reading about restructuring and choice
 - participating in a public forum
 - talking to each other about restructuring
 - calling the Department or visiting its website
 - calling their utility company
 - calling their advocate
- Persuade 75% of eligible Vermont households to make an informed choice about their electricity provider on or before January 1, 1998.

IV. Communications Strategy

A. Target Publics

1. Residential Electric Customers

There are approximately 272,500 residential electric customers in Vermont. This plan targets those people in households — both women and men — with responsibility for making energy decisions, as well as those who influence energy decisions.

The diversity among residential electric customers is enormous. There are wide variances in age, income and education. Those customers who are in any way disenfranchised, either by low income, limited education, disability or age, will receive special focus and attention by the Department.

2. Small Commercial Electric Customers

There are approximately 37,500 commercial electric customers in Vermont, ranging from larger businesses to small commercial users and from farms to offices to stores. Usually, among small commercial electric customers the energy decision maker is the owner of the enterprise.

Like residential customers, this is a widely diverse group.

Note: This plan does not cover industrial and large commercial customers because these customers have demonstrated greater knowledge and sophistication about restructuring than residential and small commercial electric customers. They are presumed to have the ability — or have access to information and other resources — to make informed choices about energy matters. Of course, nothing would preclude their access to generally available resources developed as part of this plan.

A. Target Publics (continued)

3. Influencers

Organizations that influence both residential and small commercial customers will play a vital educational role. Such organizations as the Vermont Low Income Advocacy Council, Vermont Legal Aid, Vermont Natural Resources Council, AARP, Community Action agencies, Area Agencies on Aging, the Vermont Center for Independent Living, chambers of commerce and trade associations, among many others, are influential among their constituents and have established channels of communication.

IV. Communications Strategy (continued)

B. Core Messages

Restructuring is an enormously complex subject. Successful communication and education requires that the many messages get distilled to the most essential.

1. Primary

- The lines and poles that lead to your home or business will continue to be maintained by your current electric utility and will continue to be fully regulated by the Public Service Board.
- Electric industry restructuring will require you eventually to make a choice about which company provides electric power to you through these lines.
- The more you know about your energy consumption and about how electricity is provided and billed, the better able you will be to make good choices for your household and business.

2. Secondary

- Price is just one dimension of choice; there are others, such as the source (nuclear, renewable, fossil fuel), and therefore the environmental impact, of the electricity you buy.
- Your focus should be on your total bill, not just rates.
- Electricity represents only part of your total energy consumption.
- Energy efficiency remains an important way for you to control your energy use and costs.
- Restructuring will preserve — and may even enhance — the consumer protections currently available.

IV. Communications Strategy (continued)

C. Positioning

(How do we want the communications source to be perceived in the minds of the target publics?)

The Department of Public Service is a trustworthy source of reliable, objective information about electric industry restructuring.

IV. Communications Strategy (continued)

D. Communication Effect

The desired communication effect of the Department's communication and education initiatives will vary depending upon the message, the point in time a particular message is communicated, and the knowledge of consumers. In general, the Department would like Vermonters to think:

I'm going to learn more about electric industry restructuring and how it affects me.

I know enough to make good choices about my energy consumption and my power supplier.

I will select an energy supplier based not just on rates, but on the quality of information they provide and their commitment to helping me lower my total energy bill.

IV. Communications Strategy (continued)

E. Strategy Statement

The Department recommends an integrated communications strategy that relies on a variety of channels communicating a range of messages multiple times during the restructuring transition period. The strategy also calls for a phased approach, as follows:

Phase I/"Understanding Restructuring" (Pre-Legislation — February through May 1997)

Phase II/"Getting Ready for Choice" (Post-Legislation — June through October 1997)

Phase III/"Making a Good Choice" (Pre-Choice — November and December 1997)

Phase IV/"Continuing to Make Good Choices" (Post-Choice — January 1998 and Beyond)

Note: As stated previously, should the Vermont Legislature defer action on restructuring, the dates above would change.

The Department will design materials with the needs of the sensory impaired in mind. Also, materials will be available in alternate formats. The Department will produce brochures and posters in large type, and television public service advertising spots will be closed captioned. The Department will ensure that its toll-free hotline is TTY-equipped. In addition, the Department will develop some materials with attention to low literacy levels. Where possible, the Department will use pictures and diagrams to illustrate concepts.

The Department will make outreach efforts to consumers for whom English is not the native language, including French Canadians and people of Southeast Asian descent.

V. Communications Tactics

A. Phase I/"Understanding Restructuring" (Pre-Legislation)

In the first phase of the Consumer Information and Education Plan, scheduled to run from February through May of 1997, our primary focus will be on planning and development. In addition, we will proceed with limited implementation of some of our tactical programs.

1. Consumer Information and Education Plan Refinement

The Department's first priority is to distribute this document widely across the state. We will seek review by the utilities, consumer advocates, the Public Service Board and other interested parties. In addition to requesting their feedback, we will also ask for their suggestions on how — as individuals and/or organizations — they can become active participants in the consumer information and education process. The Department expects to incorporate this feedback into the plan by April 1, 1997.

2. Consumer Research

a. Focus Groups

The Department will conduct a series of three focus groups to talk to electric power consumers across the state, seeking a better, deeper understanding of their concerns about restructuring and their needs for information.

The focus groups will meet in different regions of the state and will include residential and small business customers.

b. Quantitative Study

The focus groups will provide valuable direction for a more quantitative survey of Vermonters' opinions on restructuring.

b. **Quantitative Study (continued)**

The Department will conduct an in-depth quantitative survey (10-15 minute questionnaire) of 400-500 residential and small business consumers. The findings will help inform and shape the ongoing consumer information and education process, as well as serve as a benchmark. Finding out how people receive information — and what sources they turn to — will be an important aspect of the study.

c. **Qualitative Survey**

To provide a continual measure of changes in awareness and attitude toward restructuring, the Department will continue to participate in a qualitative survey of Vermonters. The same questions will be posed and the results will be compared to the first survey (fielded in February 1997) as well as to subsequent surveys.

3. **Develop Theme and Identity**

Developing a consistent theme and identity for the restructuring information and education initiative is essential. The theme and identity are the wellspring from which all subsequent materials will flow. A unified look and feel to the campaign will increase recognition levels and tie together the many diverse elements of the program.

In defining the theme of the campaign, we will establish its name, a logo, and a graphic look for all materials to be developed. The consistency of the campaign will allow a consumer to connect, for example, a television commercial with a bill enclosure she received in the mail, leveraging the effectiveness of both.

The Department recommends identifying a spokesperson to represent the campaign to the citizens of Vermont. The spokesperson should be a Vermonter, female, trustworthy and forthright. Women tend to control the family household budget, including paying the utility bills. Former New York consumer advocate and reporter Betty Furness is the type of personality we would like to emulate for the information and education plan in Vermont.

4. Public Involvement Program

a. Public Forums

The Department will sponsor six public meetings around the state during the course of two months, as well as organize a statewide session through Vermont Interactive Television's 12-site system. Information about restructuring will be presented to residential and small business consumers by a rotating group of interested parties.

Presenters might include the commissioner of the Department of Public Service, Public Service Board chairman or staff of the Department and Board; a representative from one of the utilities serving the county in which the public forum is held; a community leader, recruited from the legislative or business sector; and a consumer advocate.

All of the meetings will be videotaped and broadcast via local public access television whenever possible.

b. "Tell the Commissioner"

The Department's Internet website (to be discussed in more detail later in the plan) is an ideal location for consumer feedback on restructuring.

"Tell the Commissioner" will be an opportunity for anyone with computer/Internet access to share their views via e-mail with the commissioner of the Department. The click of one button will allow the user to go from the website into an e-mail message format that can be sent directly to the Department. The sender will receive an immediate automatic reply, such as "thanks for your comments," and will be asked whether they would like to be on the Department's mailing list.

For those who do not have computer/Internet access, a toll-free telephone hotline will be set up (to be discussed in more detail later in the plan) for them to register their thoughts.

5. **Media Relations and Publicity**

a. **Public Involvement Program Support**

To increase participation levels in the public involvement program, the Department will help prepare for and publicize the events. Using press releases and calendar-section listings, we will alert the public to the six public meetings. In addition, we will contact local community leaders and advocacy groups to both attend the forums and to help get the word out to others who may be interested in attending.

We will also publicize the Department's "Tell the Commissioner" function at the website, encouraging residents to contact the Department with any questions or concerns.

b. **Briefing Session for Reporters**

Electric utility restructuring is a complex subject that will have an impact on citizens across the state. To report on the issue accurately, reporters and editors need to understand the basic issues so that they can share them with their readers, listeners and viewers. This will not be a press conference on the status of restructuring; rather, it will be an opportunity for reporters based primarily at community oriented publications to learn more about what is expected to be one of the dominant news issues in Vermont for the next few years.

c. **Electricity News Bureau**

An "electricity news bureau" function will be developed to serve as the clearinghouse for all information exchanges between the Department and the media regarding restructuring. Media calls will be referred to the bureau, and all press releases and other Department information regarding restructuring will be disseminated by the bureau.

The news bureau will have its own letterhead, consistent with the theme and identity of the overall effort.

c. **Electricity News Bureau (continued)**

The bureau will be responsible for generating a monthly column, illustrated with graphics as appropriate, that will be syndicated to community newspapers across the state. Authored by the campaign spokesperson, topics for the column will be basic subjects for average residential consumers that will build knowledge over time.

6. **Collateral Materials**

a. **"Restructuring and You" Brochure (including *Consumer Bill of Rights*)**

One of the Department's first priorities is to develop a simple, informational brochure that describes the expected changes if the restructuring of the electric utility industry is approved by the Legislature. The information provided will be basic and non-partisan, not advocating restructuring but beginning to prepare Vermonters for the potential changes. The *Consumer Bill of Rights* will be an important part of this and other documents produced by the Department.

This brochure and the others to follow will be distributed at public forums, in response to consumer requests, and through consumer and small business advocacy groups.

b. **Frequently Asked Questions**

What is a kilowatt hour? Who's responsible for maintaining the utility poles and lines that bring electricity into my home? How do I know where the electricity I purchase comes from?

These and other frequently asked questions, or FAQs, will be addressed in a small pamphlet, similar in design to the "Restructuring and You" brochure, and can be distributed with it as well as with the brochure described below.

6. Collateral Materials (continued)

c. "Understanding Your Home's Energy Consumption" Brochure

This informative brochure will provide Vermont's residential consumers with a simple guide to home energy consumption, including tips on how to increase potential savings. Included with the brochure will be a glossary defining some of the terms common in the electric industry but foreign to the average person.

d. "Understanding Your Small Business' Energy Consumption" Brochure

The Department also will develop a similar brochure on energy consumption for small business consumers, including tips on how to maximize their energy efficiency options.

7. Partnership Program/Development

a. Utilities

The Department recognizes that the utilities in Vermont have well-established relationships and lines of communication with their customers. The Department wants to leverage those relationships by having the utilities act as an additional set of eyes and ears, sharing ideas on how best to communicate restructuring issues with their customers.

As a part of the Partnership Program, the Department will work with utility representatives — much in the same way it will do with consumers at public forums — to dig into the most pressing issues and pave the way for the potential of restructuring.

The Partnership Program will also be a forum to discuss logistical issues, such as how and when the utilities will send out required standard "bill enclosures" to their customers. The Department will provide the utilities with material for their newsletters and leaflets, as well as technical assistance for workshops and training sessions.

7. **Partnership Program/Development (continued)**

b. **Consumer and Small Business Advocacy Groups, and Community Organizations**

The Department recognizes that for some Vermonters, consumer advocacy groups and existing community structures are a trustworthy source of information and help. Electricity is such a crucial resource today that Vermont must ensure that every resident of the state has the opportunity to get information and assistance.

With that goal in mind, the Department will seek out consumer advocacy groups and community organizations to act as partners in disseminating information to their constituents. Consumer advocacy groups will be particularly central to the effort, working with the Department to determine the most effective ways to educate consumers about restructuring. The Department will be a technical resource for these groups, providing education tools, training for advocates, speakers and other types of support.

Groups will be segmented by mission (some are member organizations, some loose affiliations with specific objectives) to ensure that the entire spectrum of consumers requiring education is covered. The process of educating consumers about restructuring will be made much easier with the grassroots support and partnership of consumer advocacy and community organizations.

8. **"Power to Choose" Information Center/Development**

The "Power to Choose" Information Center will be developed during Phase I of the Consumer Information and Education Plan. The center will be headquartered at the Department and overseen by the Department's Director of Consumer Affairs and Public Information. (The Department is currently recruiting for this position.)

8. "Power to Choose" Information Center/Development
(continued)

A toll-free number for Vermont's residential and small business consumers to call will be the first service of the center. The phones will be answered by skilled consumer affairs staff knowledgeable about restructuring. The toll-free number will be an integral part of all materials developed — brochures, bill inserts, ads, press materials, biographies, etc. — to direct inquiries back to the Department's hotline and to provide a tool to measure the campaign's effectiveness.

Also, an increased presence on the Department's website — featuring all of the collateral materials — will represent another service. The Department's "Tell the Commissioner" function will be operated by the information center as well.

One caveat: "Power to Choose" is a working title, and the final name for the Department's information center will likely depend upon what is selected as the theme and identity for the campaign.

9. Standardized Documents

a. Unbundled Bill

In the first phase of the plan, a standard "unbundled bill" will be developed to be introduced to Vermont consumers in Phase III. The Department will work with utilities and the Public Service Board to develop this key consumer information document. (See Appendix E for proposed approach.)

b. Disclosure of Generation Source

A standardized statement for power suppliers to disclose their generation sources also will be developed. The Department will work in collaboration with interested parties and the Public Service Board to develop this key consumer information document. (See Appendix F for proposed approach.)

B. Phase II/"Getting Ready for Choice" (Post-Legislation)

The first phase of the Consumer Information and Education Plan focused on planning and development. Phase II, "Getting Ready for Choice," will feature the implementation of many of the educational concepts and materials developed during the first phase.

1. Plan and Timeline Reassessment

At the conclusion of the 1997 legislative session, the Department will reassess its Consumer Information and Education Plan in light of action taken by the Vermont Legislature. The Department will determine its next steps at this time based on the current status of electric utility restructuring legislation.

The Department will then issue an update for legislators, utilities, consumer advocates and other interested parties on progress to date and on plans for proceeding with consumer information and education. The update will serve to "close the loop" of the information-gathering process so far, as well as to map out future plans and timelines.

The update is particularly important to "influencers," one of our three target publics. Collectively they are organizations that influence both the awareness and attitude of residential and small commercial customers, and therefore play a vital role in educating their constituencies.

2. Consumer Feedback

a. Consumer Advisory Panel

To ensure that the Department's messages and communications methods are reaching their intended audiences, we will establish an ongoing consumer advisory panel, with participants recruited from focus groups conducted in Phase I, that meets at regularly scheduled intervals to act as a consumer sounding board. The panel will evaluate concepts and materials in their developmental stages.

a. **Consumer Advisory Panel (continued)**

For example, the Department will test ideas and copy for collateral materials before production to make sure the messages and presentation are effective. Concepts for the "Power to Choose" Information Center, as well as the Electricity News Bureau, also will be tested here first. In addition, the consumer advisory panel will be asked to help the Department work through the "challenges and opportunities" outlined in the situation analysis of this consumer information and education plan. Also, the panel will be asked to review the proposed standard unbundled bill formats and generation disclosure documents.

b. **Qualitative Survey**

This is the third in a series of qualitative surveys that ask Vermont residents about their awareness of, and attitude about, restructuring. The same questions will be asked and the results will be compared to the first two qualitative surveys, as well as to subsequent surveys.

The Department will add a few questions to this survey to determine the level of new knowledge regarding restructuring for consumers, and to measure anticipated competency to function in a free-market power supply system.

3. **Public Service Advertising Campaign**

The public service advertising campaign will be developed with four media in mind: television, print (community publications), transit (for Chittenden County) and radio. The three core messages we developed will be represented in the campaign: the lines and poles will continue to be maintained by your current electric utility and regulated by the Public Service Board; electric industry restructuring will require you to make a choice; and the more you know about energy consumption, sources and billing, the better your ability to make an informed choice.

The commercials will be high impact and creative using the spokeswoman in the central role, with an emphasis on straight talk. Production values will be high but the commercials will not be slick.

3. Public Service Advertising Campaign (continued)

a. Television

Initially, the Department will produce one 30-second commercial to air for four weeks in June 1997. The target gross rating points, or GRPs, will be 250 per week. (GRPs are a measure of the percentage of the population who see the commercial — 250 GRPs signifies approximately 70 percent of the population viewing the commercial at least three times per week.) In regions where network television doesn't penetrate, we will supplement the network affiliate television campaign by placing the spots on cable television and public access stations. For both network affiliate and cable, the Department will negotiate public service rates.

b. Community Publications

The print component of the public service advertising campaign will serve as a corollary to the television ads, reinforcing the broadcast messages. Community publications tend to be very closely read by local residents, so we have targeted 40 weekly newspapers across the state to run 44-inch ads for two weeks during the month of June while the television spots are airing.

c. Transit

Vermont is a rural state in which transit advertising is frequently not an available option. However, in Chittenden County it is a very efficient communications medium that can serve to reinforce messages seen on television or in print. We will contract for four large poster signs, approximately 30" x 108", to be displayed on four Chittenden County Transit Authority buses for one year.

3. Public Service Advertising Campaign (continued)

d. Radio

The concept for the radio portion of the campaign will be a little different from the television, print and transit ads. The core messages will still be the focus of these simple and educational spots, but we will have a male voice join our female spokesperson to create a dialogue about restructuring. In a Question & Answer format, we will create six 60-second spots to be aired for 20 weeks (50 GRPs per week) from July through September. The summer traditionally is a good time to advertise on radio stations, as listenership increases.

4. Partnership Program/Implementation

a. Utilities

The primary focus of the Partnership Program with utilities during the second phase will be implementing a concentrated, uniform customer communications program, focused on four bill inserts during the summer and fall. The bill inserts will concentrate on the following topics:

- July — after legislation has been enacted, inform consumers of the changes to come
- August — prepare consumers to be smart power buyers.
- September — introduce the new standardized unbundled bill
- October — disclosing existing utility generation sources in a standard format

The Department will offer training support to utility customer service representatives upon request. In addition, the Department will collaborate on the placement of standard brochures and information sheets at utility offices and payment agents.

As in Phase I of the plan, the Partnership Program will be a resource for participants to discuss logistical issues and to share experiences so that the most comprehensive and useful information is provided to customers. We will encourage our utility partners to distribute the Department's educational materials at county fairs, trade shows and other public gathering places.

4. **Partnership Program/Implementation (continued)**

b. **Consumer and Small Business Advocacy Groups, and Community Organizations**

The Department will establish a mini-grant program to encourage advocacy groups to educate their constituents about electric utility restructuring. Small grants of a thousand dollars each will be awarded for the best ideas on how to educate consumers about restructuring. Using the Department's printed materials and brochures, the concepts will then be implemented on a grassroots level by the group which made the initial proposal and shared with other consumer groups.

In addition, the Department will continue to work with its partners, both consumer and small business advocacy groups, to ensure that all Vermonters are prepared to make informed choices about power sources. General brochures and leaflets on specific topics will be made available, both in printed form and electronically so that they can be incorporated into the partners' own materials (e.g., newsletters). As with the utilities, we will encourage our consumer advocate partners to distribute the Department's educational materials at their offices, when they're "on the road" and at public gathering places.

"Train-the-trainers" sessions will be offered so that advocates and small business representatives can support their constituents in making good choices. The sessions will provide the necessary technical assistance so that advocates, such as Community Action workers, can provide small group or one-on-one consumer training.

c. **Speakers Bureau**

The Department will organize and make available a list of speakers to address the issue of electric utility restructuring. Potential speakers will include Department representatives, utility representatives, consumer advocates and small business leaders. Select speakers may be videotaped for broadcast on public and community access television stations.

c. **Speakers Bureau (continued)**

The Speakers Bureau will be publicized by the Electricity News Bureau, which will also distribute a brochure on the program that includes the list of available speakers. Civic, community and service organizations will be contacted about their interest in hosting speakers. The Speakers Bureau also will be publicized on the Department's website.

5. **Collateral Materials**

a. **Restructuring Newsletter**

The restructuring newsletter will be directed to key influencers such as town officials, legislators, community leaders, consumer advocates and small business advocates, Partnership Program participants and other interested parties.

The newsletter will be distributed widely, and recipients will be encouraged to share the information in it with as many people as possible. It will have the same look and feel as other materials created for the plan. The Department will create three issues of the newsletter, once every other month from July through November.

5. Collateral Materials (continued)

b. Information Sheets

The Department will develop a series of information sheets that describe specific energy topics and public benefits. Potential topics include:

- *It's Not Just Rates — The Importance of Evaluating Your Total Bill To Make a Good Choice*
- *The Energy Affordability Program for Low-Income Consumers*
- *"Green Power" — What Is It?*
- *Energy Efficiency Services — Where Can I Get Them?*
- *Consumer Co-ops*
- *How To Protect Yourself From a Flood of Power Supply Offers*
- *Environmental Impacts of Power Choices*
- *Consumer Protections*
- *The Consumer Bill of Rights*
- *State Certification of Power Sellers*
- *What To Expect From Your Disco*
- *What To Expect From Your Retailco*
- *What If I Don't Make a Choice — The "Basic Service Offer"*
- *The "Transition Service Offer"*

6. "Power to Choose" Information Center/Implementation

a. Call Center

The "Power to Choose" Information Center will be up and running by June 1, 1997, ready to respond to inquiries generated by the public service advertising campaign and other outreach efforts. The toll-free number's phones will be answered by skilled consumer affairs staff knowledgeable about the electric utility industry. The call center also will handle inquiries received via mail and will act as a clearinghouse for literature requested by consumers.

6. "Power to Choose" Information Center/Implementation
(continued)

b. Interactive Media

The information center staff will be responsible for managing the Department's interactive media capabilities. This includes the "Tell the Commissioner" function mentioned as part of the Public Involvement Program.

7. Media Relations and Publicity

The key media relations and publicity event during this phase will be a press conference to announce the public information campaign, preview the ads, introduce the campaign's spokeswoman and launch the "Power to Choose" Information Center.

The Electricity News Bureau will continue to field media inquiries, suggest stories to the media, provide story research assistance when applicable and disseminate the monthly column for community based newspapers. The bureau will arrange for Department of Public Service representatives and Public Service Board members to participate in in-studio and telephone interviews with radio station talk show hosts and news reporters across the state. In addition, the bureau will be responsible for writing and distributing press releases on key issues, including restructuring legislation, environmental disclosure and unbundled billing.

8. Standardized Documents

a. Power Offers

A plan for a standardized presentation of power offers to assist Vermont consumers when they are comparing power options will be developed for use in Phase III of the plan. The Department will work with interested parties and the Public Service Board to develop this important consumer information tool. (See Appendix G for proposed approach.)

C. Phase III/"Making a Good Choice" (Pre-Choice)

The third phase of the four phase plan is short — just two months — but critically important. The period covered encompasses the decision making process, immediately before choice becomes a reality.

1. Consumer Feedback

a. Consumer Advisory Panel

To continue to ensure that the Department's messages and communications methods are reaching their intended audiences, the consumer advisory panel will meet once during Phase III. The group will act as a sounding board for the concepts developed to educate Vermonters about restructuring.

The panel will evaluate the second wave of public service advertisements, review new collateral materials as they are developed and contribute to improved understanding of the Vermont consumer's perspective about the ongoing process of restructuring.

b. Qualitative Survey

This is the fourth in a series of qualitative surveys that ask Vermont residents about their awareness of, and attitude about, restructuring. We'll be checking back in with Vermonters to see how aware they are of restructuring and if they have positive or negative feelings about the process to date.

2. Public Service Advertising Campaign

A second television commercial will be aired in November 1997 to alert consumers to how they can make a good choice about their electricity provider and inform them of where they can go for assistance.

The messages will be direct. Phrases such as "it's time to make your choice . . .," "you'll soon be getting a choice form in the mail . . .," "here's what it looks like, and this is what to look for . . ." and "got questions — call this toll-free number . . ." will be presented by the same spokeswoman, who will continue to be the host of the informational campaign.

2. Public Service Advertising Campaign (continued)

Television, community newspapers and transit advertising will be the media used to distribute the information. Radio will not be used in the second wave of the public service advertising campaign because its purpose will have been served — connecting the first and second rounds of television and print commercials with detailed information about restructuring.

a. Television

The thirty second television commercial will air in November, with 250 GRPs for each of four weeks. In regions where network television doesn't penetrate, we will supplement the network affiliate television campaign by placing the commercial on cable television.

b. Community Publications

Community publications tend to be very closely read by local residents, so we again have targeted 40 weekly newspapers across the state to run 44-inch ads for two weeks during the month of November while the television spots are airing. This will serve to reinforce the broadcast messages and broaden their reach.

c. Transit

We will refresh transit advertising in Chittenden County with new, call-to-action messages.

3. Collateral Materials

a. Posters

Large, visually striking posters are an effective way to reinforce other forms of communication. Posters will be placed in a variety of settings where consumers are likely to gather, including: post offices, community centers, businesses and offices of all Partnership Program participants, utility payments centers and general/convenience stores.

The posters will be a call-to-action — it's time for you to make a choice now.

3. Collateral Materials (continued)

b. How-To Worksheets

Making a choice about a power supplier will be a new experience for consumers. To help ensure that the transition is smooth, the Department will create simple, how-to worksheets to guide consumers through the process. These worksheets will enable consumers to assess their energy situation, compare generation sources, weigh costs versus benefits and make a determination of the best overall choice for them. Worksheets will be widely available through consumer advocates, utility outlets and the Department.

4. Partnership Program

As in the first two phases of the plan, the Department will continue to support its partners with whatever materials are needed to educate their constituencies, including the brochures, posters and how-to worksheets mentioned above.

a. Utilities

The Department will work with its utility company partners in explaining what consumers need to do to make a choice. November and December bill inserts will familiarize consumers with the choice form and the standardized presentation of power offering documents.

b. Consumer and Small Business Advocacy Groups, and Community Organizations

The primary focus of the consumer and small business advocacy groups in the third phase of the plan will be supporting consumers in comparing offers and making a choice.

C. Phase III/"Making a Good Choice" (continued)

5. "Power to Choose" Information Center

The "Power to Choose" Information Center will continue to respond to inquiries generated by the public service advertising campaign and other outreach efforts. And, the call center will now be prepared to walk consumers through the choice process.

The information center staff will be responsible for managing the Department's interactive media capabilities, and the news bureau (publicity and media relations) function will operate out of the information center as well.

If necessary, the Department will begin issuing "consumer alerts" from the information center as it becomes aware of any infringements on consumers' rights.

D. Phase IV/"Continuing to Make Good Choices" (Post-Choice)

The final phase of the four phase plan provides strategies and tactics for ensuring that consumers understand and take full advantage of the restructured electric utility industry. For purposes of this plan, Phase IV extends for one year after the first opportunity to choose. However, Phase IV is envisioned to be an ongoing function of the Department. Particular emphasis will be placed initially on reaching consumers who did not actively participate in the first round of choice, having relied instead on the choice default or the transition service offer.

1. Consumer Feedback

a. Consumer Advisory Panel

As with the previous phases, the consumer advisory panel will continue to ensure that the Department's messages and communications methods are reaching their intended audiences. The group will meet early in Phase IV and will act as a sounding board for the concepts developed for continued outreach.

b. Qualitative Surveys

These are the fifth and sixth in the series of qualitative surveys that ask Vermont residents about their awareness of, and attitude about, restructuring. As we move into the "post-choice" period, we'll see how aware Vermonters are of restructuring and if they have positive or negative feelings about the process.

D. **Phase IV/"Continuing to Make Good Choices" (continued)**

2. **Partnership Program**

a. **Utilities, Consumer and Small Business Advocacy Groups, and Community Organizations**

The primary focus of the consumer and small business advocacy groups in the final phase of the plan will be to make sure consumers feel they have made sound choices and understand the mechanisms to seek guidance if necessary. In particular, emphasis will be placed on finding effective ways to educate those consumers who relied on choice default or the transition service about the choices available to them. The Department will work with utility companies to disseminate information, and will meet with consumer and small business advocacy groups on an as needed basis to address concerns and to provide continued support.

3. **"Power to Choose" Information Center**

The "Power to Choose" Information Center will continue to respond to public inquiries, with particular emphasis on consumers who have yet to actively choose their power source. It also will issue consumer alerts and be responsible for managing the Department's interactive media capabilities. The publicity and media relations news bureau will continue to operate out of the information center.

a. **Utility Performance Reports**

The Public Service Board requires Retailcos to report on their performance and other issues. The Department will collate and evaluate these filings, conduct its own research and make the relevant information about power suppliers available to consumers in report form.

These publicly available reports will serve as "report cards" on power suppliers. The Department will focus on consumer protection issues as well as environmental assessment and comparisons, collecting information over time about any violations. If necessary, the Department will issue "consumer alerts" to warn consumers of unfair practices.

D. Phase IV/“Continuing to Make Good Choices” (continued)

4. School Program

The restructured electric utility industry is expected to be complex and dynamic, requiring ongoing education. Vermont's children will be residential electricity consumers and small business owners before too long, so they need to understand how to best work within the system. Besides, one of the best ways to educate adults is to provide their children with information that is brought home when the school day is done.

The Department will sponsor development of an electric energy curriculum to be used in junior high and high school science classes across the state. The focus of the endeavor will be to teach students about the environmental impact of electric power and various sources of environmentally friendly power generation. The educational package will include a teacher's guide, posters explaining the intersection of the environment and power sources, worksheets for the students to determine what power sources they might choose and a video of the campaign spokesperson explaining how students can be environmentally responsible consumers within the newly restructured electric power industry.

This program will be coordinated with the current Department of Public Service-sponsored Vermont Energy Education Program (VEEP).

VI. **Project Timeline**

See Appendix C.

VII. Estimated Costs

The following estimated costs are based on information available at the time of preparation of this plan. These costs also assume certain specifications, which may or may not represent the final specifications. Specifications subject to change include quantities of printed materials, sizes of printed materials, printing processes (e.g. press type, number of colors), and talent required for broadcast productions.

The estimated budget is divided into four phases to conform to the structure of the Consumer Information and Education Plan.

<u>ACTIVITY</u>	<u>ESTIMATED COST</u>
Phase I/"Understanding Restructuring"	
Refine Consumer Information and Education Plan	Internal/ Project Management
Consumer Research	
Focus Groups (3 groups)	\$10,500
Quantitative Study (N=400-500)	\$10,000
Qualitative Survey (11 questions)	\$2,200
Develop Theme and Identity	\$8,000
Public Involvement Program	
Public Forums (Q=7)	\$7,000
"Tell the Commissioner"	Internal
Media Relations and Publicity (3 months)	\$9,000
Collateral Materials (Q=50,000 each)	
"Restructuring and You" Brochure	\$10,000
Frequently Asked Questions Brochure	\$10,000

VII. Estimated Costs/Phase I (continued)

"Understanding Your Home's Energy Consumption" Brochure	\$10,000
"Understanding Your Small Business' Energy Consumption" Brochure	\$8,000
Partnership Program/Development	Internal/ Project Management
"Power to Choose" Information Center/ Development	\$5,000/ Project Management
Standardized Documents	Internal/ Project Management
Project Management (Phase I)	\$15,000
Phase I Subtotal	\$104,700

VII. Estimated Costs (continued)

Phase II/"Getting Ready for Choice"

	Internal/ Project Management
Reassess Plan and Timeline	
Consumer Feedback	
Consumer Advisory Panel (2 meetings)	\$5,000
Qualitative Survey (16 questions)	\$3,200
Public Service Advertising Campaign (June)	
Television/Media	\$30,000
Television/Production	\$10,000
Community Publications/Media	\$18,000
Community Publications/Production	\$5,000
Transit/Media	\$4,500
Transit/Production	\$2,500
Radio/Media	\$60,000
Radio/Production	\$15,000

VII. Estimated Costs/Phase II (continued)

Partnership Program/Implementation

Utilities

July Bill Enclosure (Q=500,000) \$30,000

August Bill Enclosure (Q=500,000) \$30,000

September Bill Enclosure (Q=500,000) \$30,000

October Bill Enclosure (Q=500,000) \$30,000

Consumer and Small Business
Advocacy Group Training Internal/
Project Management

Mini-Grant Program \$25,000

Speakers Bureau Internal/
Project Management

Collateral Materials

Restructuring Newsletter \$15,000

"Power to Choose" Information Center/
Implementation

Call Center \$15,000

Interactive Media Internal

Information Sheets Internal

Media Relations and Publicity (5 months) \$15,000

Project Management (Phase II) \$25,000

Phase II Subtotal \$368,200

VII. Estimated Costs (continued)

Phase III/"Making a Good Choice"

Consumer Feedback

Consumer Advisory Panel (1 meeting) \$2,500

Qualitative Survey (16 questions) \$3,200

Public Service Advertising Campaign
(November Flight)

Television/Media \$40,000

Television/Production \$10,000

Community Publications/Media \$18,000

Community Publications/Production \$5,000

Transit/Production \$1,000

Collateral Materials

Poster (Q=3,000) \$8,000

How-To Worksheets (Q=50,000) \$10,000

Partnership Program

Utilities

November Bill Enclosure \$30,000

December Bill Enclosure \$30,000

Consumer and Small Business Advocacy Groups Internal/
Project Management

"Power to Choose" Information Center \$10,000

Project Management (Phase III) \$10,000

Phase III Subtotal \$177,700

VII. Estimated Costs (continued)

Phase IV/"Continuing to Make Good Choices"

Consumer Feedback

Consumer Advisory Panel \$2,500

Qualitative Surveys
(16 questions x 2) \$6,400

Partnership Program

Consumer and Small Business
Advocacy Groups Internal/
Project Management

"Power to Choose" Information Center \$60,000

School Program TBD

Project Management (Phase IV) \$15,000

Phase IV Subtotal \$83,900

Project Total \$629,800

VIII. Appendices

Appendix A: List of People Interviewed (or Providing Written Comment)

Arnold, Bob, Barton Village, Inc.
Bellavance, Joyce, Hardwick Electric Department
Burke, Gregory, Vermont Association of Planning and Development Agencies
Campbell, Jane, Vermont Businesses for Social Responsibility
Carter, Jenny, Vermont Public Interest Research Group
Cerniglia, Ron, State of New York Public Services Commission
Collins, Jack, Ludlow Electric Light Department
Cunningham, Grace, State of Pennsylvania Department of Public Utilities
Davidson, Linda, Commonwealth of Massachusetts Department of Public Utilities
Deinstein, Diane, State of California Public Utility Commission
Farr, Sandy, Hardwick Electric Department
Feldman, Judy, Morrisville Water and Light Department
Frasier, John, State of Pennsylvania Department of Public Utilities
Gagnon, Ron, Barton Village, Inc.
Gibbons, James, Vermont Public Power Supply Authority
Gil de Rubio, Ed, Northfield Electric Department
Hadd, Lois, American Association of Retired Persons
Hurcomb, Thomas, Central Vermont Public Service Corp.
Jackson, Pat, Lyndonville Electric Department
Kelpinski, Don, Small Business Administration
Korda, Nancy, State of Wisconsin Public Utility Commission
Lague, George, Swanton Village Electric Department
Lass, Jonathan, Citizens Utilities
Lyons, Beryl, State of Connecticut Public Utility Control
Machia, Bernard, Stowe Electric Department
Manosh, Wendy, Stowe Electric Department
Marans, Ann Marie, Vermont Center for Independent Living
Mason, Ken, Lyndonville Electric Department
McCullough, Jack, Vermont Legal Aid
McNeely, Larry, State of California Public Utility Commission
Mills, Susan, Lyndonville Electric Department
Necrason, Adam, Coalition of Vermont Elders
O'Reilly, Sally, Burlington Electric Department
Patt, Avram, Washington Electric Cooperative
Perkins, William, Hardwick Electric Department
Piper, William B., Esq., Primmer & Piper
Porter, William, Green Mountain Power Corp.
Rutledge, Steve, State of California Public Utility Commission
Sachs, Beth, Vermont Energy Investment Corporation
Schachter, Deborah, Governor's Office, State of New Hampshire
Schnure, Dorothy, Green Mountain Power Corp.

**Appendix A: List of People Interviewed (or Providing Written Comment)
(continued)**

Searles, Tim, Champlain Valley Office of Economic Opportunity
Southgate, Adrian, Esq., State of Rhode Island Public Utility Commission
Taylor, Stephen, Vermont Superintendents Association/School Energy
Management Plan
Tillotson, Ellen, Stowe Electric Department
Underhill, Chuck, Vermont Public Power Supply Authority
Wadds, Robert, Stowe Electric Department
Weston, Rick, Vermont Public Service Board
Yessne, Dinah, Vermont Low Income Advocacy Council
York, Maggie, Vermont Center for Independent Living
Zider, Robert, Vermont Manufacturing Extension Center

Appendix B: List of Organizations Invited to Comment

Includes those listed in Appendix A plus:

Rural Development Agency, USDA
Rural Vermont
Solar Works
Vermont Agency of Commerce and Community Development
Vermont Agency of Human Services
Vermont Apartment Owners Association
Vermont Association of Hospitals and Health Systems
Vermont Association of Realtors
Vermont Business Roundtable
Vermont Captive Insurance Association
Vermont Chamber of Commerce
Vermont Electric Consumers Coalition
Vermont Farm Bureau
Vermont League of Cities and Towns
Vermont Lodging & Restaurant Association
Vermont Manufacturing Extension Center
Vermont Milk Producers, Inc.
Vermont Retail Association
Vermont School Board Association
Vermont State Colleges

Activity Name	Start Date	Finish Date	1997												1998											
			M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		
PHASE I/UNDERSTANDING RESTRUCTURING	3/1/97	5/31/97	█																							
PHASE II/GETTING READY TO CHOOSE	6/1/97	10/31/97				█																				
PHASE III/MAKING A GOOD CHOICE	11/1/97	12/31/97												█												
PHASE IV/CONTINUING TO MAKE GOOD CHOICES	1/1/98	12/31/98														█										
Refine Plan	3/1/97	3/31/97	▲	▲																						
Reassess Plan	6/1/97	6/30/97				▲	▲																			
Focus Groups (3)	3/1/97	3/31/97	▲	▲																						
Quantitative Study of 400 Vermonters	4/1/97	4/30/97	▲	▲																						
Consumer Advisory Panel Meetings	6/1/97	12/31/98				▨																				
Quarterly Survey	4/15/97			◆																						
Quarterly Survey	7/15/97						◆																			
Quarterly Survey	10/15/97									◆																
Quarterly Survey	2/15/98																			◆						
Quarterly Survey	6/15/98																				◆					
Develop Theme & Identity	4/1/97	4/30/97	▲	▲																						
Public Forums (7)	4/1/97	5/31/97	▨																							
"Tell the Commissioner"	4/1/97	12/31/98	▨																							
Media Briefing Session	4/15/97			◆																						
			M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		

Activity Name	Start Date	Finish Date	1997												1998																							
			M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D														
Progress Update	5/21/97				◆																																	
Electricity News Bureau	4/1/97	12/31/98	▨																																			
Press Conference	5/28/97				◆																																	
"Power to Choose" Information Center/Development	4/1/97	5/31/97	▨																																			
"Power to Choose" Information Center/Implementation	6/1/97	12/31/98			▨																																	
"Power to Choose" Utility Performance Reporting	1/1/98	12/31/98																			▨																	
"Restructuring and You" Brochure	4/1/97	4/30/97	▨																																			
FAQs Brochure	4/1/97	4/30/97	▨																																			
"Understanding Your Home's Energy Consumption" Brochure	5/1/97	5/30/97		▨																																		
"Understanding Your Small Business' Energy Consumption" Brochure	5/1/97	5/30/97		▨																																		
Standardized Documents (unbundling and disclosure of generation sources)	4/1/97	6/30/97	▨																																			
Standardized Documents (power offers)	8/1/97	9/30/97					▨																															
Restructuring Newsletter (July)	7/1/97	7/31/97				▨																																
Restructuring Newsletter (September)	9/1/97	9/30/97						▨																														
Restructuring Newsletter (November)	11/1/97	11/30/97								▨																												
			M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D														

Activity Name	Start Date	Finish Date	1997												1998											
			M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		
Information Sheets	6/1/97	9/30/97				▨	▨	▨	▨	▨	▨															
Poster	10/1/97	10/30/97																								
How-To Worksheets	10/1/97	10/30/97																								
Partnership Program	3/1/97	12/31/98	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨			
Train-the-Trainers Program	6/1/97	10/31/97				▨	▨	▨	▨	▨	▨															
Grant Program	6/1/97	3/31/98				▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨			
Speakers Bureau	6/1/97	3/31/98				▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨			
Utility Bill Insert (July)	7/15/97						◆																			
Utility Bill Insert (August)	8/15/97							◆																		
Utility Bill Insert (September)	9/15/97								◆																	
Utility Bill Insert (October)	10/15/97									◆																
Utility Bill Insert (November)	11/15/97										◆															
Utility Bill Insert (December)	12/15/97											◆														
Television (June)	6/1/97	6/30/97				▨	▨																			
Television (November)	11/1/97	11/30/97																								
Community Publications (June)	6/1/97	6/30/97				▨	▨																			
Community Publications (November)	11/1/97	11/30/97																								
Transit	6/1/97	3/31/98				▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨			
Radio	7/1/97	9/30/97				▨	▨	▨	▨																	
			M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		



ACTION RESEARCH

3 Baldwin Ave.

S. Burlington, VT 05403

802-862-4370

800-545-7168

Fax: 802-862-2349

e-mail: info@actionr.com

**VermontTrends -- Wave 7
Electric Industry Study**

Prepared for:
**Vermont Department of Public Service
KSV Communicators**

Prepared by:
Action Research

February 17, 1997

Executive Summary

- On behalf of KSV Communicators and the Vermont Department of Public Service, Action Research asked eleven questions on its quarterly tracking survey VermonTrends™ pertaining to electric industry restructuring. VermonTrends is a statewide survey of 400 Vermont residents. The survey was conducted from January 30 to February 9, 1997.
- Approximately one-half of all respondents are aware of restructuring, although one-half know little beyond the term. Thirty-nine percent stated restructuring or deregulation on an unaided basis. When aided, another 18% stated that they had heard about it.
- Over one-half of those surveyed (52%) state that restructuring will be a positive change. Fifteen percent thought it would be negative.
- Most respondents felt that choice would be a result of restructuring, as well as lower prices and comparable quality (to the current system).

Overview

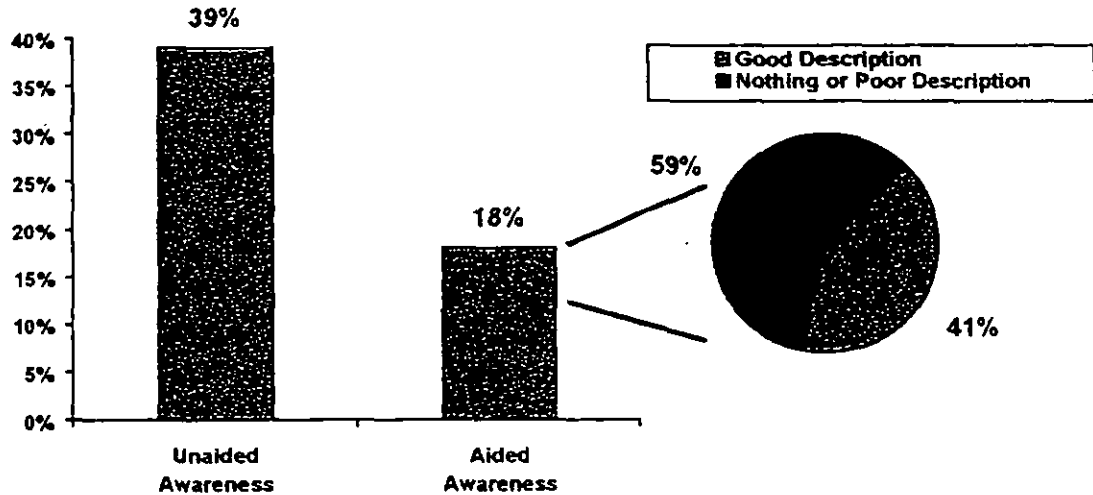
On behalf of KSV Communicators and the Vermont Department of Public Service, Action Research asked eleven questions on its quarterly tracking survey VermonTrends™ pertaining to electric industry restructuring. VermonTrends is a statewide survey of 400 Vermont residents. The survey was conducted from January 30 to February 9, 1997. The margin of error for the study is plus or minus five percent at the 95% confidence level.

Awareness of Electric Utility Restructuring

Unaided Awareness

Slightly more than one-third (39%) of all surveyed respondents are able to state some aspect of electric utility industry restructuring, deregulation, or re-regulation. There was a wide range of knowledge on the issue. Approximately one-half of this group stated that they knew very little or nothing beyond just restructuring or deregulation. The remaining half gave answers ranging from "choice," "monopolies," "competition," and "saving money."

Figure 1 - Awareness of Restructuring
(percent)



Aided Awareness

An additional 18%, when prompted, state that they have heard or seen recent stories on deregulation. Less than half of this group (41%) were able to give descriptions which may suggest actual knowledge of the situation. Many responses included "competition," "choice," "New Hampshire pilot," or "lower prices." The other half knew very little or nothing about the issue or gave answers such "restructuring Hydro-Quebec deal," "deal with AT&T," or "merging." This may suggest that there is confusion or lack of understanding.

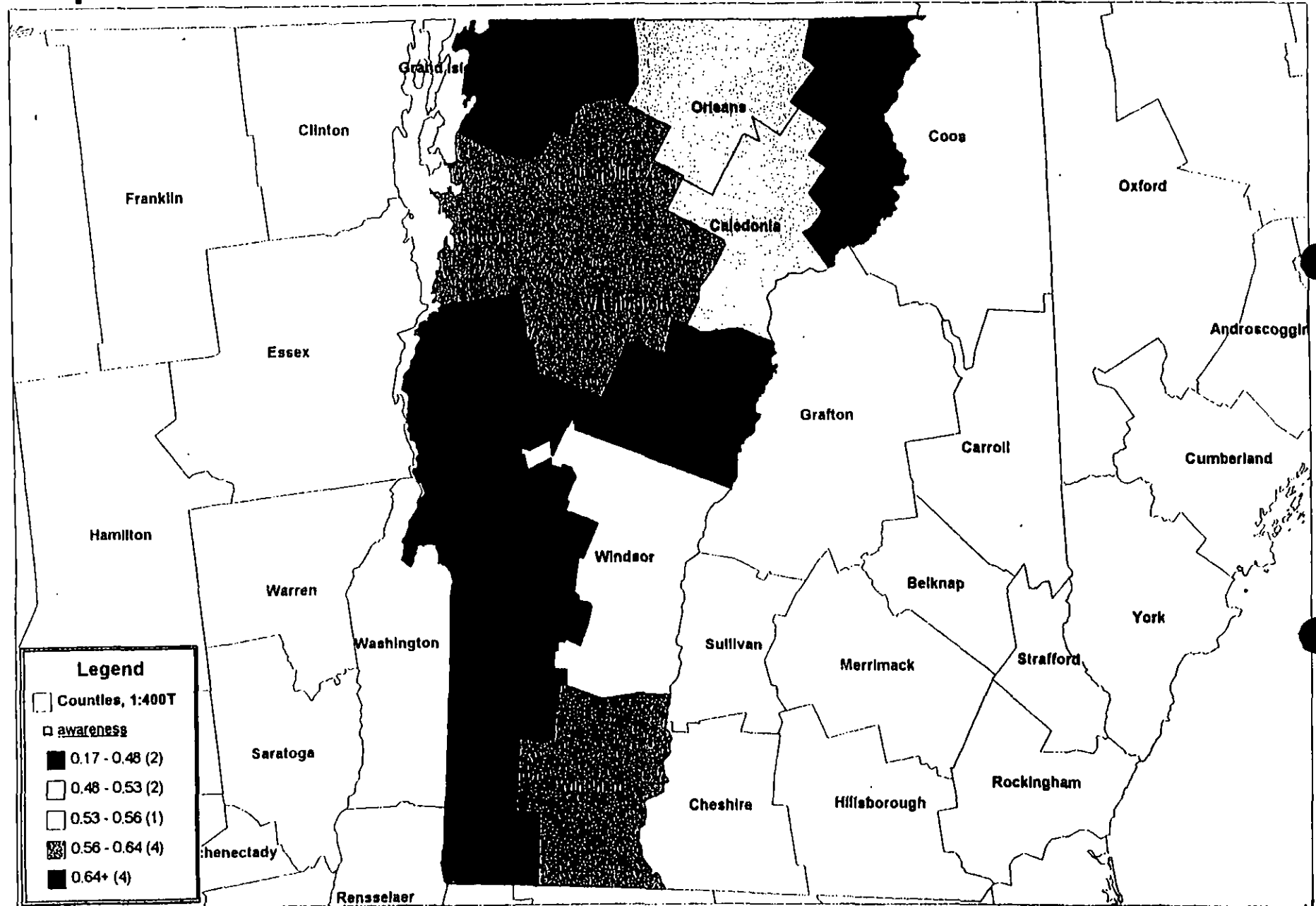
Total Awareness

In summary, it would appear that more than one-half (57%) of those surveyed are aware of electric industry restructuring. In reality, true awareness is more likely to be lower than one-half of the population. In both aided and unaided subgroups, approximately one-half or less are truly aware of restructuring beyond just the name.

Although not statistically significant, awareness of electric utility restructuring is appears highest in Franklin, Essex, Orange, and Rutland counties and lowest in Addison and Bennington counties. Map 1 shows the varying levels of awareness throughout the state.

Map 1 - Awareness of Restructuring

Action Research



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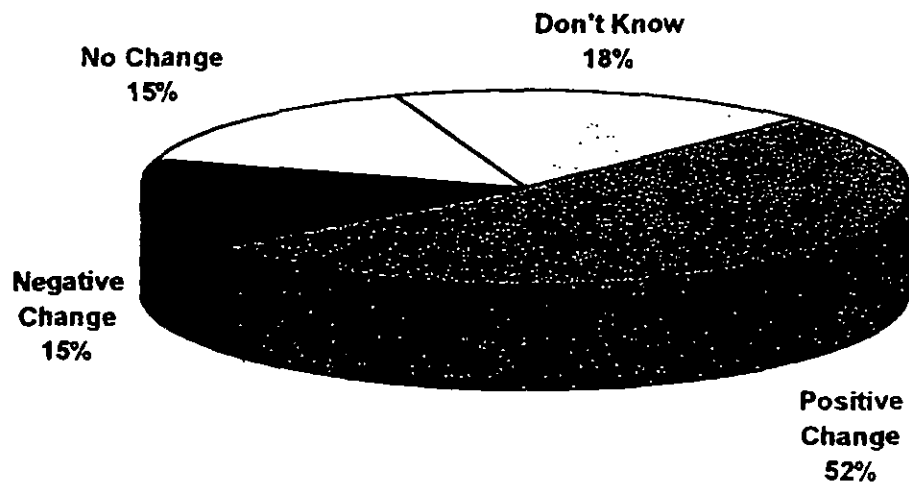
02/17/97

Percent of County Aware (Aided or Unaided)

Electric Utility Restructuring as a Positive or Negative Change

Although other studies may suggest that Vermont residents are overwhelmingly in favor of electric industry restructuring, our findings suggest that slightly over one-half (52%) of the population may feel the change is positive. Less than one-in-five (15%) feel that the change would be negative. An additional 15% feel that there would be no change. The remaining 18% are unsure. There is no significant difference on restructuring being a positive change among those who are aware and those who have just been informed through the survey question.

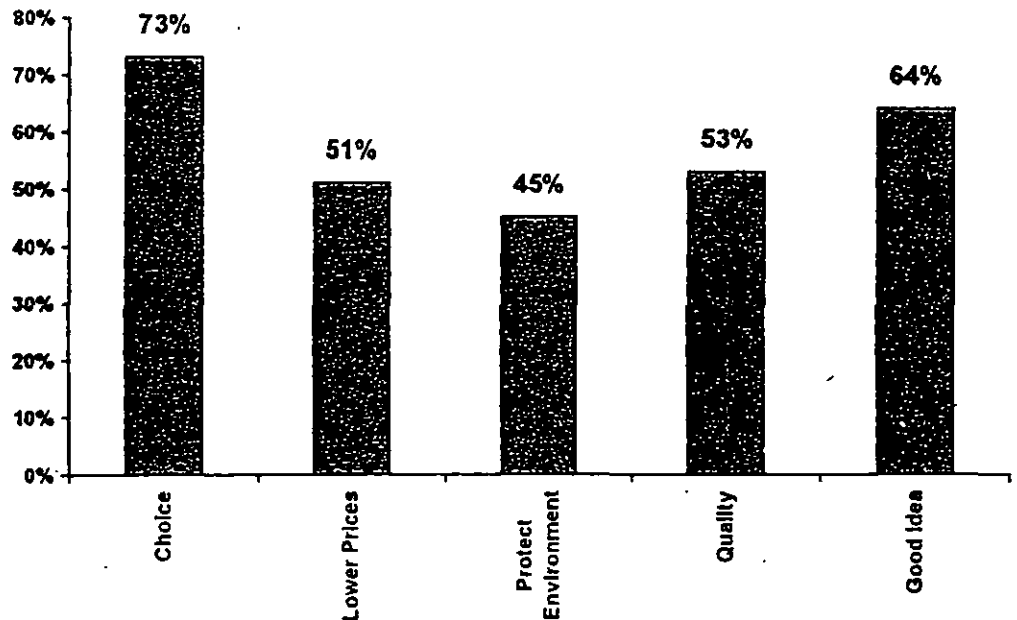
**Figure 2 - Restructuring as a Positive or Negative Change
(percent)**



Outcomes of a Restructured Electric Utility Industry

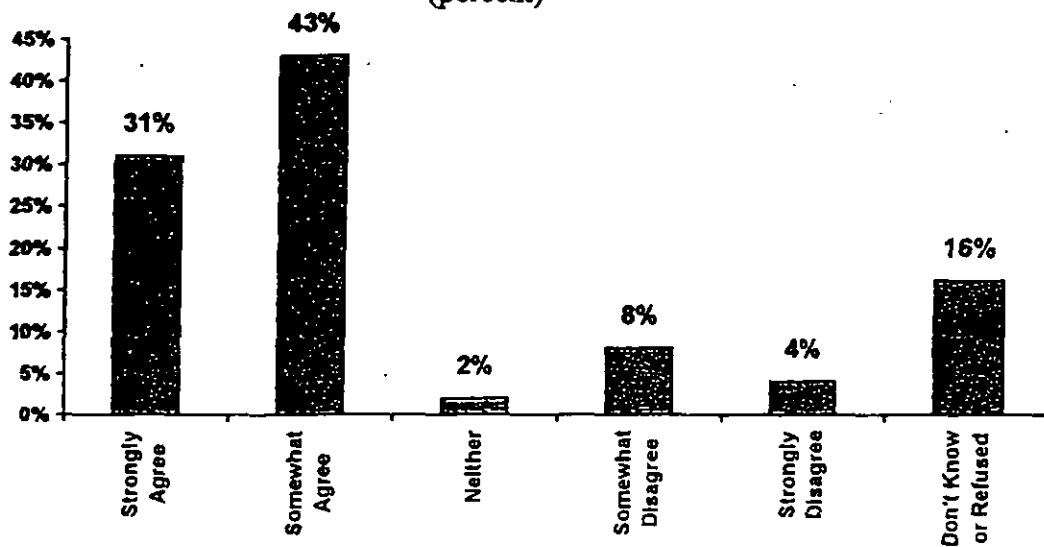
Most survey respondents feel that the most likely outcome of a restructured electric utility industry will be that consumers will have a choice (73%). However, there exists a divergence on whether lower prices are correlated with choice. Approximately one-half believe that prices could be lowered and quality will be comparable. There is less belief (45%) that the restructured system would adequately protect the environment.

Figure 3 - Expected Outcomes of a Restructured Electric Utility Industry
(percent that strongly or somewhat agree to the attribute)



Interestingly, while 52% of surveyed respondents feel that electric utility industry restructuring is positive, after being presented with a number of attributes, 64% feel that restructuring is a good idea for Vermont. This may presume that after educating the respondent on the issue or outcome, more will be receptive to restructuring. Figures 4 through 8 the individual distributions to the outcome attribute battery.

**Figure 4 - Agreement that Consumers Will Have More Choices
(percent)**



**Figure 5 - Agreement that Consumers Will Have Lower Prices
(percent)**

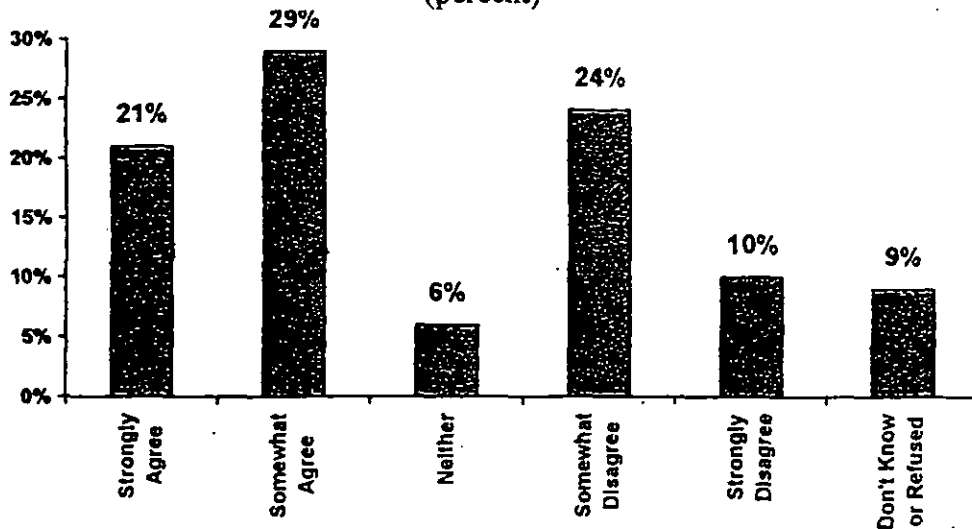


Figure 6 - Agreement that a Restructured System Will Adequately Protect Environment (percent)

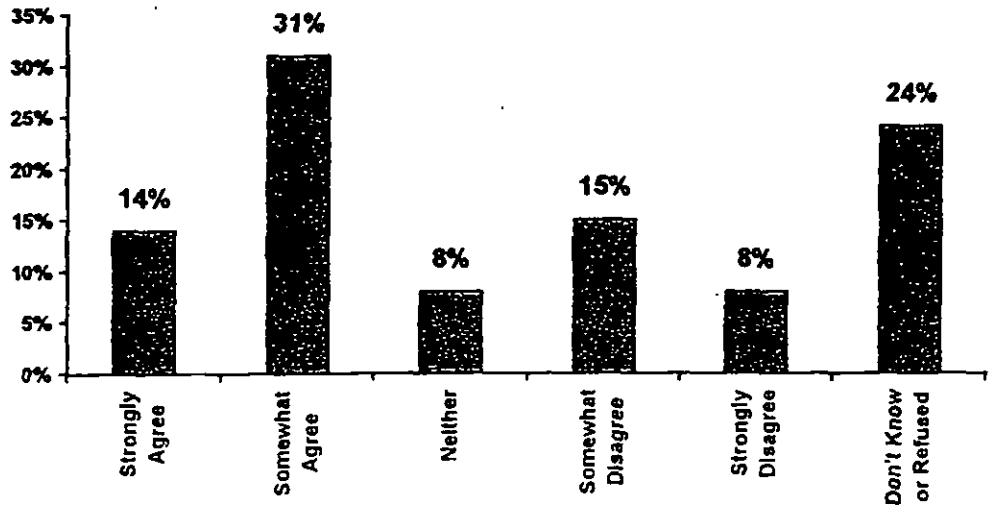


Figure 7 - Agreement that Consumers Will Have Same Quality of Service (percent)

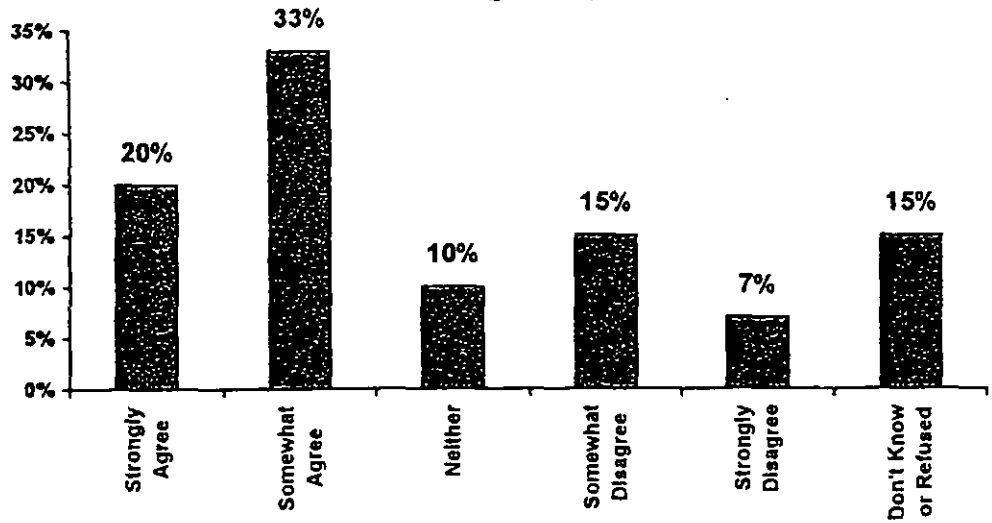
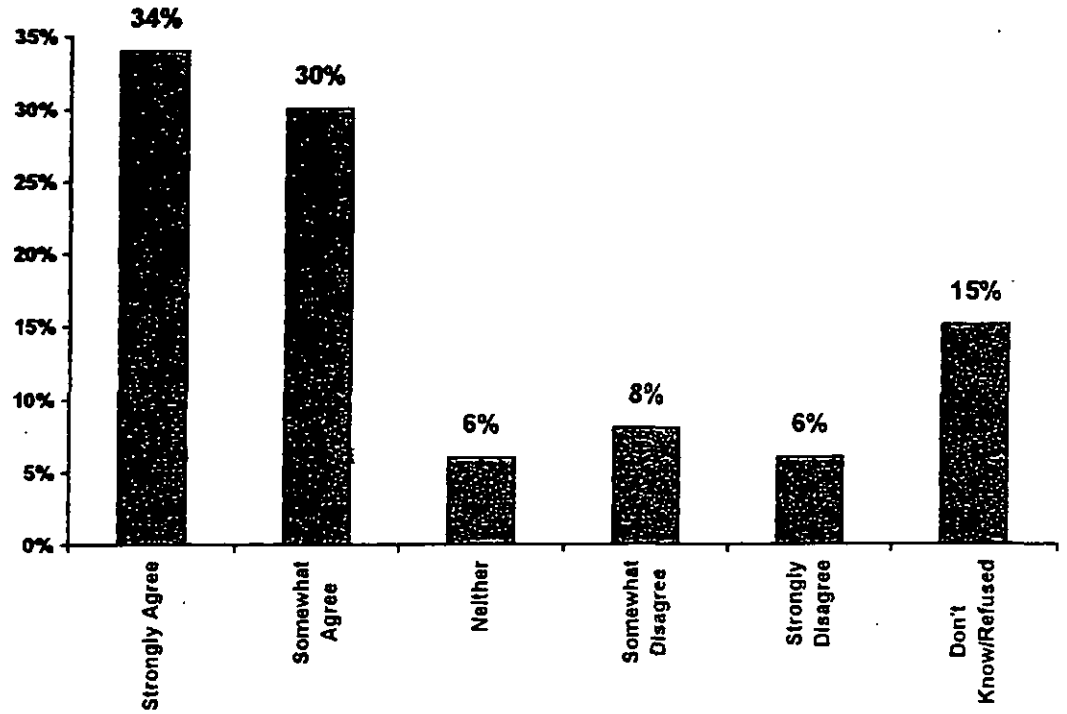


Figure 8 - Agreement that Electric Utility Restructuring is a Good Idea for Vermont (percent)



APPENDIX E

Development of the Unbundled Bill

An important theme throughout this filing is the need to adequately prepare consumers for the start of retail competition. One of the most immediate changes that will confront consumers is the format and content of the customer bill from their electric utility. Under an open market, many customers will change the arrangement for their service and could receive bills from different billing agents, reflecting different combinations of charges and different rates than are captured in today's bills. The Board and other decision makers are rightly concerned that without sufficient opportunity to familiarize customers with the essential elements of the new bill formats in advance of restructuring, the new bill could potentially cause unnecessary confusion.

To that end, the suggestion has been raised that current bills from electric utilities be modified prior to the onset of competition as a preliminary educational strategy. By adopting a breakdown on bills today that will mirror the elements that are likely to appear under competition, it is expected that consumers will have the chance to get comfortable with the appearance of the bill and better understand its contents before the market -- and several elements that will appear on the bill -- are set into motion.

The Department agrees that consumers will benefit from early introduction of unbundled bills. Unbundling the bill prior to the start of competition can accomplish a number of objectives. First, it can serve to educate consumers about what components underlie their current bill. Most consumers have never heard the terms "generation, transmission, distribution or retail service. Getting the customer base to make that translation from aggregated terms such as "Amount of Electricity" and "Cost of Electricity" will do a lot to move them forward in their understanding of restructuring. In a sense unbundling bills prior to the start of competition provides a "freeze frame" snapshot of the future state of the electric industry, when some of the components will be dynamic. Giving consumers that snapshot in advance can serve dual roles as consumer education and prior notice.

Second, early unbundling serves as a vehicle for showing customers which segments of their current service will be subject to competition under restructuring, prior to any change. Unbundled lines on a bill could be identified as currently under regulation, and then changed as the rules are relaxed. This illustration will be helpful in reassuring consumers that only portions of the industry will be affected.

Third, unbundled bills can be developed to include "place holders" for charges that will be new under restructuring, such as the system benefits charge and the stranded cost recovery charge. Prior to the start of competition, these fields could be shaded or noted with an entry of \$.00, in order to become familiar to consumers.

How to Advance the Unbundling of Customer Bills

The Department supports implementing unbundled bills well in advance of the start of

competition, for the reasons stated above. It will be best, however, to assure that this important step occurs in sync with other elements of the Consumer Information and Education Plan (CIEP). There are a number of preliminary steps that are desirable to familiarize consumers with the goals and general time frame of restructuring, as well as their responsibilities with respect to it. Once those steps are accomplished, The Department and the utilities will want to expeditiously move forward with the advance introduction of unbundled bills. By delivering a foundation set of information about restructuring, consumers will have been provided a context in which the unbundled bill fits logically and in sequence. Considering the extent of information that consumers will need to absorb during this year, staging of consumer education is vital in order to build knowledge without causing information overload.

If consumers receive unbundled bills, even if in parallel to their traditional bill, for a few months prior to the start of retail competition, they should have enough opportunity to grasp the differences and be ready for the time when the bill reflects a dynamic market transaction.

Further, by tying the unbundling of customer bills into the overall scheme of consumer education, the Department hopes to have in place the skilled customer service representatives in the *Power to Choose Information Center* who can field calls from customers. Putting unbundled bills in front of customers must be done only when adequate coverage for customer support is available. The customer service representatives in the Information Center will augment the efforts of the individual utilities and represent important additional capacity to those resources.

The Timeline for Unbundled Bills

The new Director of Consumer Affairs and Public Information will have the responsibility within the Department for representing it in the implementation of unbundled bills. The strategy for implementing unbundled bills is luckily one of relatively more straightforward tasks in the restructuring game plan. A number of utilities and the Department have agreed to work together to finalize a common format to which the unbundled bills will conform. They expect to meet during the months of April and May to produce a final format. Their format will serve as the basis of a bill insert scheduled for September, 1997. The CIEP also provides for tie-in public service messages, and informative segments to the Department's web site about customer bills. By the time of the bill insert, utilities will have made the necessary preparations to provide unbundled bills for the remainder of the period until restructuring officially begins. The utilities will also have taken steps to train their customer service representatives to answer questions they may receive.

The Elements of an Unbundled Bill

Consumers will need to know what to expect when the retail portion of the market becomes competitive. Accordingly, the format of the unbundled bill that customers receive during the pre-transition period should contain the following information:

- ◆ separation of existing kWh and, likely, kW charges into generation, transmission and distribution, with reference to short definitions elsewhere on or with the bill

- ◆ separate detail lines for gross revenue surcharges or other taxes
- ◆ separate (and perhaps inactive before the transition) charges related to restructuring
- ◆ any additional elements of service package (e.g. equipment charges)
- ◆ explanation for which segments are subject to regulation
- ◆ effective rates per kWh and, possibly, kW for the purpose of enabling comparison with alternative fuels or other electric providers
- ◆ consumption data
- ◆ comparisons of consumption with prior year, average class customer, or other informative comparisons
- ◆ full contact information on each supplier (Disco, RetailCo, and Genco, if applicable)
- ◆ contact information to obtain fuller detailed explanation of bill elements and charge structures

Once consumers master an unbundled structure for their bills, they will be better prepared to be active participants in the new competitive market.

APPENDIX F

Development of Standard Generation Source Disclosure

The Vermont Public Service Board ("PSB," "Board"), in its December 30, 1996, *Report and Order* in Docket 5854 ("the Order"), found that an information disclosure requirement should be a part of Retailco certification. Specifically, electric generation suppliers are to be required to provide certain information about the sources of electricity sold in Vermont such as the fuel mix and air emissions. There is considerable work to be done toward putting such a system in place.

The Public Service Department ("DPS," "Department") believes that the detailed work of designing a disclosure system should proceed simultaneously on two tracks. First, a process should be initiated by and within Vermont to design a disclosure system and implementation plan to ensure that there is workable system in place in time for the start of electricity retail choice in Vermont. We outline a process and schedule for this, below.

Secondly, while we show below that a Vermont-specific tracking and disclosure process is feasible and practical, the Department also recognizes the importance of coordination with other states on this topic, and the useful role that the New England Independent System Operator could play in implementing the disclosure system. The ISO, or other entity responsible for the settlement of financial accounts for a regional bulk power market, is in a unique position to perform the tracking function for disclosure. The calculations can be done by the ISO in something close to real time, with little incremental effort or cost, while maintaining an appropriate level of confidentiality. The Department recommends that a process be initiated in parallel with the Vermont-specific process, involving communication with individuals from the New England Power Pool and from other New England states, in order to explore opportunities for a single, regional system for disclosure (or at least the tracking portion of a disclosure system) that would ideally be implemented by the ISO.

This two track approach is appropriate in order to: (1) attempt to put in place a regionally consistent system, and (2) ensure that a system is in place when needed as part of retail choice for Vermonters.

A Vermont Process

Development of a disclosure system for Vermont should start with, but not belabor, the setting of objectives. The Department identified eight design objectives in Attachment 1 to its November 20 comments in this case. Specifically, we should aim for a disclosure system that is: (1) effective, (2) accurate, (3) comprehensive, (4) flexible, (5) simple, (6) expandable, (7) inclusive, and (8) credible. We expect that the goals, at this level of abstraction, are not controversial.

On the other hand, there are likely to be many divergent views on the details of how disclosure should be done. The specific design decisions to be made can be grouped into the following seven categories:

1. Coverage
 - fuel mix
 - renewable resources
 - air emissions
 - environmental and health impacts
 - level of detail
 - value judgments or "just facts"
2. Communications
 - format and definitions
 - review issues
 - bills, promotional literature, other
3. Institutional
 - role for government, industry, other
 - voluntary or mandatory¹
4. Timing
 - when required
 - frequency of reporting
 - prospective or retrospective reporting
 - time frame for calculations
5. Related Activities
 - treatment of energy efficiency
 - treatment of offsets or tradeable credits
6. Treatment of transactions within a Retailco's mix
 - company or product
 - wholesale first, internal first, or mix
 - treatment of external purchases and sales
7. Enforcement
 - true-ups
 - auditing
 - enforcement

Essentially, this is a list of the issues that must be addressed in developing a system for environmental disclosure. The Department has some initial views on these issues, described in Attachment 1 to its November 20 Comments. Specifically, we stated that it is important for the system to "make a difference" and expressed a preference for disclosure to be on a company or

¹The Board and Department have both proposed mandatory disclosure of specific items, and the current drafts of legislation being considered by the Vermont Senate do so, as well. There may, however, be additional types of disclosure or claims that may be voluntary, but should still be subject to standards as to format, definitions, or other factors.

supplier basis rather than a product-specific basis.² The November 20 document touched upon issues of what information would be useful to consumers, and how that information might best be communicated. Finally, we presented a "wholesale transactions first" approach as the simplest, most straightforward method of tracking responsibility given the complex web of transactions in the electricity market. The Department would be interested in hearing from other parties about these views, and about their specific concerns and ideas for disclosure.

We propose that an initial workshop be held in the second half of March on this topic, and that parties file specific plans for disclosure, addressing the list of issues, above, by May 15, at the latest. It will likely be useful to conduct a series of meetings during this period, to exchange information and ideas. The goal should be to have a working system in place in Vermont by October, 1997, as called for in the Department's *Consumer Information and Education Plan* (VDPS, 1997)

A Regional Process

New entities are being created and existing entities are being modified to support evolving electric power markets. The types of new entities include regional transmission groups, power exchanges, and independent system operators. The details, and the roles of the various entities, are currently being negotiated. It seems inevitable, however, that some entity, or combination of entities, will be responsible for the "settlement process" -- making sure that all generation is accounted for and billed accordingly. Here, for simplicity, we will refer to the entity with this responsibility as the ISO. We do not mean to imply a judgment as to how the various functions should best be organized. Rather, the point is that some entity must be responsible for the settlement process, and that it would likely be beneficial and efficient if that entity were also to support tracking for environmental disclosure.

Involvement of the ISO in environmental disclosure makes sense for many reasons:

1. The ISO must, in order to fulfill its other functions, have detailed information on generation and transactions in real time.
2. The ISO must have procedures in place to handle competitively sensitive information appropriately.
3. The ISO must be set up to be independent and auditable.
4. The ISO must have appropriate technical expertise.

Masiello and Willis (1996) summarize the software development requirements for implementation of ISO functions, concluding that "the ISO's task will be an order of magnitude greater than that faced by existing utility control center operators" and that new software

² The Massachusetts Department of Public Utilities called for a supplier approach to disclosure in its December restructuring order (MDPU, 1996).

integrating the capability to "track several thousand transactions daily" with "advanced power systems analysis technologies" will be needed to ensure economical and secure operation of the system. The most challenging requirements will not be needed for the disclosure requirements envisioned by Vermont, at least not in all their complexity. However, having created an entity with the independent governance, audit procedures, engineering and software capabilities, and data flow necessary to manage the wholesale power market efficiently and reliably, why not call upon that same entity to carry out the environmental disclosure tracking function?

The ISO's systems and organization for tracking power transactions could be required to include a capability for keeping track of the original generating source, and identifying the environmental attributes of electricity at the point of retail sale. This should be built into the institutional mission of the ISO and built into the ISO's computational capabilities. The technical specifications for procurement of the ISO's computer equipment and particularly the software should allow for environmental tracking -- even as the details of how the tracking system will work are developed. It could be much more expensive to retrofit the environmental tracking system into the software after a system without the capability has been developed, installed, tested and paid for.

It is clear that other New England states are interested in environmental disclosure for electricity. The Massachusetts Department of Public Utilities made disclosure a key element in its restructuring plan (1996). A January 27, 1997, letter to the New Hampshire Public Utilities Commission from the Conservation Law Foundation, Green Mountain Energy Partners, ENRON, and Granite State Energy identified some issues in implementing environmental disclosure and recommend that Commission establish a proceeding specifically to address these issues. A recent project for the New England Governors' Conference involved a series of meetings in the six states and the development of nine specific recommendations, including a statement that "The New England states should develop and implement, as judged appropriate, a regional protocol for tracking electricity transactions to allow for verification of environmental claims" (Tellus Institute, 1997).

The Department recommends that a dialogue be conducted on a regional basis, in which the technical and policy issues of ISO implementation of tracking generation responsibility can be explored. New England meetings should begin with the New England Conference of Public Utility Commissioners and the Power Planning Committee of the New England Governors' Conference, Inc., so that all state utility regulatory commissions and energy offices can participate in the development of goals for disclosure. The specifics of implementation should be developed with the involvement of relevant participants. For example, the New England Power Pool should be involved in working out the technical aspects supporting disclosure -- software development, information collection and dissemination to suppliers and government agencies, protocols for tracking transactions. Retail electricity suppliers and distribution companies should participate with consumer representatives in developing bills that convey the environmental information concisely and in a format that is readily understandable. There would be substantial benefits in having the tracking system implemented at a regional level, and in having consumers in different states presented with similar disclosure labels.

Conclusion

In implementing an environmental disclosure system, it is important to keep in mind its limitations. Environmental disclosure will involve a set of policies intended to enable consumers to include environmental considerations in their electricity purchasing decisions. It is not public policy in the sense of setting societal goals. It does not internalize environmental externalities. It does not help much toward promoting a sustainable energy system, or one that functions at the lowest economic and environmental cost. Rather, it treats environmental protection itself as a commodity to be marketed to consumers.

In the Department's view, environmental disclosure is important mainly as a consumer information issue and to assist in monitoring the effects of restructuring. Environmental disclosure is also vital to support the implementation of various portfolio standards. Strong provisions for disclosure should be included as part of a restructuring plan. It should also be recognized that the other policies advanced by the Board -- a renewable resource portfolio standard, an emissions portfolio standard, a statewide energy efficiency utility, and support for regional and national environmental protections -- are crucial elements of restructuring that address environmental protection directly.

Environmental disclosure should be designed to supplement -- and not undermine -- these environmental policies. For example, the tracking system for transactions developed for environmental disclosure would ideally be the same as the tracking system used for an emissions portfolio standard. Also, any mandatory system for disclosure should be designed to work well with various voluntary marketing oriented environmental activities -- such as the certification of specific "green power" offerings that meet certain criteria.

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APPENDIX G

Development of a Plan for Standardized Presentation of Power Offers

Rules of Disclosure of Terms and Conditions of Customer Offers from Retail Service Providers in Restructured Market

The PSB has requested comment on the format and content of offers made by retail service providers -- Retailco's -- who solicit business from customers. The Board is naturally concerned that the transition to competitive provision of electric service involves numerous new relationships and transactions, many of which could be potential sources of confusion for customers who are accustomed to one provider, one call to secure service, one rate for electricity. In the new market, consumers possibly will face multiple offers differing in scope, contract term and rate. Some standardization of the terms and conditions of each offer is advisable to provide at least a common frame for retail offers from which consumers can compare offers and make their selection.

Desired Outcomes

The adoption by the PSB of a requirement that retail providers conform to a standard set of terms and conditions would have a positive impact not only during the transition period from monopoly to competitive market but after the market is fully functioning as well. There are three positive effects that common terms and conditions would promote. First, all providers would receive the same degree of notice as to the threshold of conduct for their marketing interactions with potential customers. By requiring all retail providers to meet the same disclosure requirements, they are also provided with an external standard by which to assess if one of their competitors is under-performing. Most likely, Retailco's will watch closely the offers of their competitors. It would certainly be to the Retailco's advantage to adhere to such standards and to self-monitor as much as possible. It would be good not only for their own interests but for good community relations as well. Clear guidelines are needed if self-monitoring is to be a successful adjunct to Board review.

Second, common terms and conditions serve to restrain some of the cloud cover that competitive marketing can create. (Given the vast confusion among competitive interexchange carrier offerings for more than ten years after the telecommunications market was opened to competition, it is easy to conceive of similar problems in the electric industry.) Of necessity, there will be many pieces of the puzzle in flux at the outset of competition. With changes in the mechanics of the market -- creating separate subsidiaries, establishing an independent system operator, opening the retail market to competitive entry -- some confusion is inevitable. For at least the transition period, the Board will want to smooth the process by controlling as many factors as possible that could cause unproductive confusion or otherwise confound the development of healthy markets. At some point in the future, once the mechanics of the market are operating smoothly, the Board may want to consider if the common terms and conditions requirements could be relaxed.

Standard terms and conditions would promote a third outcome: support of consumer choice. Requiring retail offers to present information in standardized formats will assist consumers to make straightforward comparisons across offers. For instance, the Board should not assume that consumers will know the correct calculations to make in order to transpose offers into common denominators. Nor should consumers be expected to master totally ad hoc marketing terminology that might be invented by a Retailco. While the Department has an extensive plan underway to educate consumers on the restructuring enterprise including communications to guide informed choices, those efforts are predicated on an assumption that extensive computations will not be required. Retail providers should present their offers in a clear and straightforward manner – one that reveals the inherent value in the bid in such a way as consumers can directly compare it with others.

Requiring common terms and conditions should not be construed in any way as an attempt to impede the creative construction of novel or bundled offers. Indeed one of the ultimate goals of restructuring is to promote multiple product and service packaging. A bundled offer from a retail provider, however, should be attractive because it delivers convenience, captures efficiencies of complementary products or presents a discount off the unbundled price. It will be to the providers advantage to identify clearly the benefits that bundling provide. Potential customers should still be able to understand what the offer contains, in the same format as unbundled offers. The desired outcome is the same for unbundled and bundled offers alike: namely, that consumers be able to judge similar elements of offers on an equal basis.

What Terms and Conditions to Include

Discussion of the steps needed to produce the final set of terms and conditions are discussed below. It may be useful, however, to preview for the Board the kinds of terms and conditions that will be presented by the Department as candidates for inclusion in the final requirements.

Some of the proposed terms and conditions deal with the physical presentation of offers from Retailco's. We would expect offers to be in writing, in legible print of a reasonable size and in plain language. Large print copies should be available. The text of the offer should be easily comprehended by a typical consumer. While other modes of marketing will no doubt be employed, the Department would like consumers to make commitments only after having seen a written offer that they can examine and review.

A second set of proposed terms and conditions cover the format of the offers' service and cost provisions. Offers should clearly and accurately reflect the commitments and obligations of both the buyer and seller. Items such as the effective rate per kW or kWh, the term commitment of the offer, payment obligations, rate increases, and any other potential charges should be spelled out clearly for the customer.

Finally, the required statements of terms and conditions should cover the opportunities for cancellation or changes to the commitment by either party, whether the offer is contingent on inspection of premises, credit history, installation of certain equipment, etc. The terms and

conditions that would qualify for cancellation of the commitment by the customer should be included. Contingencies should the provider fail to perform should also be in place.

Plan for Developing Final Terms and Conditions

A full proposal will be submitted to the Board for its approval by July 1. At this time, the Department expects to work with utilities and consumers in the coming months to create a final set of terms and conditions. The Department is hopeful that consensus can be achieved through collaboration and negotiation, but has not approached the parties on this matter. Thus, the final work plan has yet to be finalized. A number of avenues are available for development of the full set of terms and conditions. One possibility would be to hold a workshop for interested parties, including the utilities and consumer groups, to inform participants of the value of terms and conditions and to solicit input for later consensus building. The educational value of this approach has been demonstrated repeatedly throughout the restructuring process. A second approach would be to convene stakeholder meetings to hear each viewpoint and determine which terms and conditions are essential and which are merely desirable. Finally, if neither of these approaches is productive, the Department may wish to consult individually with utilities and others and then submits its own proposal.

The final plan approved by the Board needs to be ready for the Phase III rollout of the Consumer Education and Information Plan, currently scheduled for November of 1997.

EXHIBIT BA-3

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on
the Commission's Proposed
Policies Governing Restructuring
California's Electric Services
Industry and Reforming Regulation

R.94-04-031
(Filed April 20, 1994)

Order Instituting Investigation
on the Commission's Proposed
Policies Governing Restructuring
California's Electric Services
Industry and Reforming Regulation

I.94-04-032
(Filed April 20, 1994)

**MOTION OF INVESTOR-OWNED UTILITIES,
ON BEHALF OF THE ELECTRIC RESTRUCTURING EDUCATION GROUP,
FOR APPROVAL OF A CONSUMER EDUCATION PLAN, IN COMPLIANCE WITH
ORDERING PARAGRAPH 3(F) OF DECISION 97-03-069**

ROGER J. PETERS
ROBERT B. MCLENNAN

Law Department
Pacific Gas and Electric Company
Post Office Box 7442
San Francisco, CA 94120
Telephone: (415) 973-2069
Fax: (415) 973-0516

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

On Behalf of
PACIFIC GAS AND ELECTRIC COMPANY
SOUTHERN CALIFORNIA EDISON COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY

June 2, 1997

Respectfully submitted.

ROGER J. PETERS
ROBERT B. MCLENNAN

By *Robert B. Mc*
ROBERT B. MCLENNAN

Law Department
Pacific Gas and Electric Company
Post Office Box 7442
San Francisco, CA 94120
Telephone: (415) 973-2069
Fax: (415) 973-0516

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

on behalf of
PACIFIC GAS AND ELECTRIC COMPANY
SOUTHERN CALIFORNIA EDISON COMPANY
SAN DIEGO GAS AND ELECTRIC COMPANY
THE ELECTRIC RESTRUCTURING EDUCATION
GROUP

Dated: June 2, 1997

**Electric Restructuring Education Group (EREG)
Customer Education Program (CEP)**

Proposed Marketing Plan.

Developed by EREG
in collaboration with
DDB Needham and its
Subcontractor Agencies

May 30, 1997

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EXECUTIVE SUMMARY

California is embarking on a major Customer Education Program (CEP) to prepare consumers for the restructuring of the electric industry. This Program was specifically called for in AB 1890 and implemented in the Commissioner's Ruling D 97-03-069.

In order to provide a neutral, comprehensive and balanced integrated education program, the Commission directed that an independent board be selected by the utilities to devise and supervise the implementation of this Program. This board is the Electric Restructuring Education Group (EREG) and is composed of 19 members of the various stakeholders.

The EREG has selected DDB Needham Los Angeles as their lead agency to work with it in developing the education plan, and to then implement the plan over the life of the program.

Given the complexity of messages about restructuring, and the diverse market segments, the CEP will be presented in five phases over the next ten months. The program will include mass media to alert the consumers to the changes, and be followed with direct mail to each electric customer to explain the changes in the industry and provide the information necessary for them to make appropriate choices.

Extensive public relations and grassroots efforts through community organizations will be part of the program, as well as an expansive toll-free informational call center that will answer questions and respond by mailing out program materials.

The program will be implemented using many non-traditional methods of communication in an effort to speak to all Californians appropriately. Research will be conducted to assess the receptivity of the consumers, and their awareness levels before, during and at the end of the program. Monitoring will also be done during the program to make sure all Californians are reached effectively. This research will support and clarify the targets for the Electric Education Trust to carry forward the public education program.

Integrated within the CEP will be the Commission's Outreach Program that will utilize the unique resources of the Commission staff to support the CEP. Of the \$87.5 million budget recommended by the EREG for the total Customer Education Program, \$2 million is allocated for the Commission's outreach efforts.

The EREG will be working side by side with the DDB Neecham team during the development and refinement of the program.

The program is designated to wind down beginning in March, 1998, and to terminate by May 31, 1998. To the extent that further public education and dissemination of consumer protection information is necessary, the Electric Education Trust (EET) will carry those initiatives forward, building on the work of the EREG.

I. CEP VISION

The California Public Utilities Commission (CPUC) in Decision D. 97-03-069 authorized the state's major investor owned utilities to devise and implement a joint Customer Education Program (CEP) in conjunction with the CPUC. The joint efforts of these utilities will be accomplished by the Electric Restructuring Education Group (EREG).

As California transitions into new electric market structures, consumer education will become essential. The joint CEP will ensure that:

- Electricity customers are provided with sufficient and reliable information to be able to compare and select among products and services provided in the electricity market.
- Customers are provided with the mechanisms to protect themselves from marketing practices that are unfair or abusive.
- Customers are provided with the information necessary to help them make appropriate choices as to their electric service.
- Customers with limited English-speaking ability or other disadvantages when dealing with sophisticated marketers receive correct, reliable and easily understood information to help them make informed choices.

The efforts of the CEP will complement the efforts of the Electric Education Trust (EET). The CPUC established the EET to "ensure independent, multicultural education, advocacy, and research for small business and residential consumers" (Preferred policy Decision, p. 229). Given the educational activities that will take place in 1997 and 1998, the EET will cease to exist as of June 30, 1999 unless extended by the CPUC or statute.

As part of the coordinated CEP effort, the CPUC and its staff will develop outreach plans as well. The purpose of these outreach activities is to inform electric customers of the change taking place and to answer any questions that people might have. During these outreach activities, the materials developed as part of the joint CEP effort could be distributed to customers.

The CPUC established a Consumer Education Advisory Panel (CEAP) to assist the CPUC in the evaluation of the joint CEP and to provide input into the development of the CPUC'S own outreach plan. The CEAP has seven members of a composition similar to that of the EREG.

II. PROGRAM STRATEGIES

- **Establish EREG Credentials**
Assure customers that CEP serves as a credible, neutral government-supervised source that is providing information of the highest quality.
- **Message Simplification & Reassurance**
Provide information in a manner that will simplify the message and generate greater interest about electric restructuring while alleviating customer concerns.
- **Best Tools Approach**
Deploy a wide array of communications tools to satisfy the unique information consumption habits of each target audience (e.g., deliver the message at the time and place when the target is most receptive to the message).
- **Accountability**
Use customer research not only to monitor performance but also to develop the most effective message for our diverse target audiences.

III. SITUATIONAL ANALYSIS

Brief History Background

Deregulation is not a new concept. Over the last 20 years, we have seen the airline, long distance telephone service, local telephone service, natural gas and cable TV industries all thrown open to free-market competition.

California's approach to electric restructuring was guided by several principles and goals including the following:

- To offer consumers greater choice in their purchases of energy services.
- To reduce the price California consumers pay for electricity.
- To continue to deliver safe, reliable and environmentally sensitive energy services.
- To maintain universal, nondiscriminatory availability of electric services to all residents of this state.
- To provide utilities with a reasonable opportunity to earn a fair return on their investments and operations.
- To replace cost-of-service regulation with the discipline of market forces wherever competition exists or can be fostered.
- To move to performance-based ratemaking for remaining monopoly services.
- To continue to further the public good by improving the environment, encouraging the diversity of energy sources and maintaining a variety of important public purpose programs.

From a consumer perspective, the complexities of electric restructuring make this very different from previous deregulation efforts. For example:

- The size of the electric industry dwarfs other industries that have been deregulated (\$20 billion in California).
- The complex nature of electric restructuring (new roles for existing participants, new market providers, unbundled rate structures, the changed regulation structure, etc.) can be intimidating.
- The electric industry is a low-interest, low-involvement category. Residential customers haven't had to know a lot about the industry.

and motivating them to understand more about how the industry works will be a significant challenge.

- Electric service is a necessity. Because electric power provides several essential life/safety benefits, any change to the delivery infrastructure could be viewed by customers as a major threat.
- The intangible nature of electricity results in it having a low perceived value as a product among customers.
- The sheer number of electric competitors and variety of service options makes choice a complex decision as compared to other deregulated industries.

As this restructuring moves forward, we must do our best to ensure that California electric customers do not feel confused, threatened or exploited during the transition period to restructuring. We must do our best to empower all customers to make informed decisions to *either* enter the new market *or* to continue with their present utility. And we must provide them with a reliable, unbiased source of information when they need help.

The need for a successful customer education program has been well understood by the parties to this process. The crucial importance of such a program is recognized in several of the CPUC's decisions, in AB 1890, and in last year's reports by the Direct Access Working Group.

Now is the time to decide the details of the customer education program and to implement the program. The new market arrangements formally begin operating on the first day of 1998, just seven months from now. On November 1 of this year, less than five months from now, customers can submit a request to their utility for alternative energy services. Many of these energy providers are newcomers to the industry in this state, and many of them have marketing efforts already underway today.

In short, customer education can't wait, and it can't be a half-hearted token effort. This CEP, which reaches all customers regardless of where they happen to be in California's diverse cultural and geographic landscape, represents a full commitment and empowers customers to make good choices for themselves, their families and their businesses.

This marketing plan proposal is built upon: a) the guidance given us by the CPUC in Decision D.97-03-069 which drew upon last year's joint proposal by the three major Investor Owned Utilities and created the EREG; and, b) the Legislature through passage of AB 1890.

Learning From Similar Situations

Perhaps the starting point for learning at this time comes from the several small-scale pilots of electric restructuring that have been launched around the country.

- Most small customers do not fully understand the concept of retail access so relevant customer education is a necessity.
- Customer efforts must be of sufficient duration (this is not learned overnight) and possess sufficient depth so as to allow customers every opportunity to learn.
- Residential understanding in the restructuring pilots has been harder to stimulate. Confusion, apathy, indecisiveness, negative response to marketing—which are all functions of poor customer education—are all reasons why the Massachusetts and Orange & Rockland trials failed to initially generate significant residential customer participation.
- Because we are not measuring our success by behavioral change, we also have to let customers know it's acceptable to do nothing.

**IV. CPUC'S DESIRED MESSAGES AND THEMES
(DECISION D.97-03-069)**

This list is not meant to exclude other messages and themes that the EREG may determine are appropriate.

1. Change is coming.
2. The types of expected changes, including multiple companies selling electricity.
3. The benefits and risks of direct access.
4. That consumers will have a choice of providers, be able to use hourly pricing options based on PX price, or they can choose to remain with their existing default provider.
5. Potential marketing abuses that consumers need to be aware of.
6. The continued safety and reliability of the generation and transmission network.
7. What the CTC is and who is responsible for paying for it.
8. Be made aware of potential changes in metering technology and billing that may be required of them if they choose direct access or the hourly PX pricing option.
9. The procedures that the customers and utility must follow in order to switch to a different provider.
10. The joint CEP effort must be free of bias so that customers can make informed choices in this restructured electric industry environment.
11. To ensure that there is maximum customer outreach, the efforts of the joint CEP need to be constructed from the start as a multilingual effort.

V. PRODUCT STRATEGY FOR THE CEP

Concept and Positioning

The unique aspects of the CEP message that will make it stand out in the energy customer's mind as well as differentiate it from the communications of other energy providers.

1. To be the trusted unbiased information resource on restructuring.
2. To be uplifting, positive, safe and reassuring and provide reliable leadership.
3. To provide each energy customer in California with a base level of accurate information regarding restructuring and what they need to know to make an informed choice.
4. To make information easily accessible and available throughout the duration of the campaign.
5. To make the communication of this information straightforward and easy to understand and provide it in languages that the customers can understand.
6. To empower the customer to take charge of the learning process by giving him/her the opportunity to determine how to learn: how much to know, what to know and when they want to know it. Provide them with access to an array of resources or tools (e.g., toll-free information call center, video, booklet, town meeting, etc.) they can select.
7. The purpose of the CEP is not to promote or "sell" restructuring to California's customers but rather to educate them to the changes occurring in California's electric industry.

Rationale

For the majority of Californians this is a low involvement category. We can not expect the customer to initiate the information sharing process. By distributing a base level of information to each California household and small business, we assure each customer the opportunity to access the information they need to know about the changes in the electric industry in order to make an informed decision about their energy supplier.

By letting customers determine how much information they need and how they want to learn beyond the base level information they will receive, we are recognizing that each customer will have different levels of information needs and interests.

VI MARKETING STRATEGY

The marketing strategy sets the stage for the fundamental direction of the communications plan. It specifies to whom the message is directed, the general thrust of the message, the communications tools that will carry the message and how the effort will be measured. The marketing strategy consists of four elements: 1) the target audience strategy; 2) the overall creative strategy; 3) the media delivery strategy; and, 4) the customer research plan.

Target Audiences -- Core Constituencies

Priority targets will be Small Residential and Commercial Users and Special Needs audiences as well as Opinion Leaders, as follows:

Small Users:

- Residential: We believe this constituency wants assurances about safety, reliability and simplicity. They would like to save money on electricity. They may be negatively predisposed toward restructuring based on experiences with other industries, but may also feel that greater choice and control over their purchases has been a positive outcome of restructuring. Electricity, however, is probably a much lower interest and involvement purchase than previously restructured industries.
- Small Business: This includes small commercial and industrial users (generally defined as fewer than 100 employees and/or revenue under \$5,000,000) with load requirements up to 20 KWH of demand per hour. It includes women and minority-owned businesses, small agricultural concerns and small governmental entities. We believe this constituency wants reliability and performance confidence and an understanding of the new charges and fees that will appear on their bills. They would like to save money on their electricity and understand about unbundled rates related to new services they may never have heard of before. When their electric service is interrupted, they are out of business. This constituency is typically a busy generalist with many responsibilities. They want to run their business, not become an expert in the nuances of electric service.

Special Needs:

- Low Income: This constituency—which includes residents who are economically disadvantaged, senior citizens on fixed incomes and other California residents with financial hardships—often cannot afford even small price increases in basic services such as electricity. They need reassurance that special "lifeline" programs, for example, will not be impacted. They may feel great anxiety and fear that

restructuring will create further financial hardship and/or a service disruption.

- **Geographically Challenged:** This target includes residents who because of their rural location may not be reached by certain mass media. This segment needs to receive special consideration in terms of how best to deliver and provide access to CEP information and messages.
- **Multi-lingual:** The CEP for this core constituency will have special language needs as well as cultural sensitivity needs. We will adapt our CEP themes and messages to their languages with cultural sensitivity to create greater acceptance and usage. Non-English CEP materials will be produced in Spanish, Mandarin, Cantonese, Korean, Vietnamese and other languages as determined by our research of population and language statistics in the State.
- **Physically Challenged:** In addition to needing special purpose CEP materials, hearing-impaired, sight-impaired and immobile California residents may feel particular anxiety about the potential for marketing abuses in a restructured electric industry environment.

Opinion Leaders:

- **Local Government:** This group will be important in its role as advocate for our efforts. Separately, they could be beneficiaries of aggregation and should understand what restructuring means to them.
- **Public Officials:** We need to include public officials, legislators, other governmental opinion leaders and governmental agencies in our target audience because of their logical role as distributors of the restructuring message and their vested interest in a successful outcome to the CEP.
- **Key Influentials:** This group includes business leaders and opinion leaders within various community based organizations who could be helpful in the delivery and dissemination of the restructuring message.

Rationale

We believe these are the key target audience priorities due to their relatively low levels of knowledge and ability to access information and their vulnerability to potential marketing abuses or the roles they play in the community. We have not prioritized large commercial and industrial users and government or utility employees (excluding opinion leaders) because we believe they will be reached by the mass media portion of the CEP and they have higher levels of knowledge and information access than our core constituencies.

VII. OVERALL CREATIVE STRATEGY

This sets the overall tone and approach to message development. Examples range from using humor to a non-nonsense editorial tone. The California Milk Processors Board uses an irreverent, humorous approach in their "Got Milk" campaign. The California Department of Health Services' Anti-Smoking campaign uses a sarcastic, in-your-face approach that equates smoking with death.

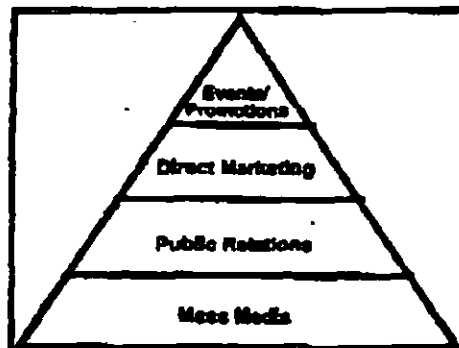
Recommended Messages

The recommended messages will be finalized with message development research among our core constituencies. We believe, however, that in communicating the CPUC themes, we should simplify the potential complexity and confusion that may surround electric utility restructuring (e.g., messages such as "5 Things You Need to Know Now"; "Questions & Answers About Electric Utility Restructuring"; "Where You Can Get More Information"; etc.). It is also our goal to make the communication interesting and intriguing so as to capture customers' attention in order to develop relevance for the learning they will need to make an informed choice. A toll-free number for additional information will also be provided as part of the message.

VIII. MEDIA DELIVERY STRATEGY

The guiding principles behind the selection of appropriate communications tools, the manner in which they will be used, at what point in time they will be used, to which audiences the specific tools will be directed, and at what level of intensity.

The CEP objective of educating all California electric customers about the changes taking place in the electric industry requires an integrated marketing approach. No single communications tool can meet the challenge of reaching California's large and diverse population with multiple in-depth messages.



INTEGRATED MARKETING APPROACH

Mass media is the base of the communications plan. The primary mass media vehicle, TV, is the only medium capable of reaching millions of "mass" and "special needs" Californians in a timely, cost-efficient manner. Its primary limitation is its inability to effectively deliver an in-depth message in 30 seconds. TV's pervasive presence adds legitimacy ("As seen on TV") to the EREG message, gets immediate attention with "sound bite" messages, increases the impact and relevance of the other communications tools, and has the intrusive power to break through the low-interest/low-involvement barrier. Mass media will be used at periods throughout the campaign to deliver key messages.

Public relations will initially build credibility for the EREG message prior to the start of the mass media campaign. Public relations will then leverage the broad awareness developed by mass media by providing in-depth information to a broad range of audiences including the media, government, opinion leaders and all "special needs" audiences. Public relations will play a key role in identifying relevant neighborhood organizations, training, providing resources and disseminating relevant information to the "street level" through joint efforts with grassroots organizations.

Direct Marketing will be used to deliver extensive, in-depth information (e.g., brochures) to every California household and small business. The nature of direct marketing allows information to be customized by appropriate language, specific needs (e.g., physically challenged, rural residents, etc.) and depth of information (as little or as much as you need to know).

Events and grassroots activities will be used throughout the plan to deliver information to where people work, live and play. These 'non-traditional' approaches are in many instances the most effective way to deliver a message to the so-called "hard to reach" audiences.

Our communications program will be divided into five phases. This phased approach reflects our understanding of the complex nature of the topic of electric restructuring as well as the communication requirements needed to achieve the desired outcome of the CEP. It allows use of a mix of communication tools that capitalize on the unique media habits and learning preferences of each target audience, and provides multiple effective opportunities for each customer to understand the information offered and be able to make an informed decision.

Phase I (June and August) - Public Relations:

Objectives

- In conjunction with the CPUC restructuring education outreach efforts, introduce and build credibility for the EREG message as the trusted, unbiased resource for electric restructuring information prior to the start of the media campaign. Provide a legacy that allows a smooth transition to the EET effort.
- Leverage natural media opportunities during the time between the date when new electricity marketers can file (July 1 for registration) and the formal start of the EREG campaign.
- Use public relations as a foundation for mass media.
- Continue to build and coordinate activities with CPUC Energy Industry Advisory Entities/Boards/Committees.

Tactics

- Launch press conference.
- Use key spokespeople to build EREG credibility and role within CPUC.
- Work with CPUC staff to coordinate outreach efforts
- Establish a customer-friendly web site.

Phase II (September) - Introduction of CEP Campaign and toll-free information call center.

Objectives

- Introduce and build credibility for our identity as the trusted, unbiased resource for electrical restructuring information.
- Generate attention and build broad awareness among the California public about the changes taking place in the electric industry.
- Introduce the toll-free information call center as the first and most accessible tool customers have for getting more information on restructuring and what the changes mean to them.
- Utilize EREG board members on an as-needed basis.
- Continue to build and coordinate activities with CPUC Energy Industry Advisory Entities/Boards/Committees.

Tactics

- Use a combination of multilingual broad based vehicles (TV, newspaper, radio) to achieve maximum reach and intrusiveness. Leverage public service communication wherever possible.
- Establish an in-bound multilingual informational call center to field customer questions and set-up opportunities for additional information sources.
- On-going implementation of public relations, media briefings, community outreach briefings and training.

Phase III (October - December) - Distribution of Base Level Information:

Objectives

- Distribute base level information on restructuring to every California household and small business.
- Build awareness among Californians for the mailing they are about to receive.
- Focus communication on changes in the electric industry and the resulting choice of energy provider customers.
- Continue to build awareness and retention of the toll-free informational call center and other points of access.

- Continue to use community outreach efforts, speaker's bureau and promotional activities.
- Continue to build and coordinate activities with CPUC Energy Industry Advisory Entities/Boards/Committees.

Tactics

- Direct mail (will drop throughout the month rather than a single day) to 12 million California households and small businesses.
- Use a combination of broad base vehicles (broadcast and outdoor) to continue to build awareness of changes/choice and toll-free information call center.
- Provide multiple layers of non-traditional vehicles and distribution points to get information to customers including grass roots and community based organizations, churches/temples, public access points (e.g., post offices), high traffic retail locations (e.g., supermarkets, self-service laundries), festivals, fairs and employee workplaces.
- On-going use of public relations including media briefings, talk shows, special events.

Phase IV (December 26 - February) - Information Dissemination and Functional Education:

Objectives:

- Continue to build awareness of change and what that change means to customers, but expanding on the more functional aspects now (e.g., new bill with CTC charge).
- Continue to build awareness for all of the information tools, particularly the toll-free informational call center available to provide customers the information they need to help them understand the changes and make an informed choice.
- Continue to build and coordinate activities with CPUC Energy Industry Advisory Entities/Boards/Committees.

Tactics:

- Sustaining levels of broad based media.
- Additional mailings to 12 million households/small businesses.
- Dissemination of collateral materials including "how to" booklets with photos/illustration.

- On-going public relations and media relations.
- Expand outreach programs to include school and library (other public locations).
- Continue CBO outreach, training and dissemination of materials.

Phase V (March through May): Final Information/Help

Objectives:

- Continue to build general and functional awareness and disseminate tools to help customers learn about change and choice.
- Final evaluation of program (did we achieve awareness goals and provide baseline of information for EET).
- Continue to build and coordinate activities with CPUC Energy Industry Advisory Entities/Boards/Committees.
- Build infrastructure to "hand off" essential elements of the program (e.g., toll-free information call center, informational materials, data tracking, etc.) to EET to ensure continuity of customer education.

Tactics:

- On-going use of public relations including media briefings, talk shows, special events.
- Increase relevance of communications by responding to activities in the marketplace.
- Reallocate/adjust activities and resources to appropriate audience segments based on monitoring research.

IX. OVERALL COMMUNICATION OBJECTIVES

We are setting communications objectives for information availability, aided awareness and media reach and frequency.

Information availability:

Our goal is to reach every California electric utility household and small business with the CEP and make basic as well as additional information available to them.

Aided Awareness:

Because awareness is a function of reach, frequency, actual recall/memory and consumer cooperation in reporting recall, awareness will always be lower than reach. Based on our review of past awareness studies, particularly the State of California's anti-smoking campaign, we are setting a goal of 60% aided awareness of the education program for each target audience.

Image/Attitude/Learning:

These are a function of not only awareness, but of message complexity, topic interest and strength/intensity of prevailing beliefs. Accordingly, we recommend setting goals in terms of awareness, as stated above. However, we will describe or develop customer profiles as determined by attitudes or other social/psychological variables such as beliefs about information resources.

Media Reach/Frequency:

These goals will be set as part of the final media plan within the parameters of audience measurement data.

X. CUSTOMER RESEARCH

We propose four key types of research activity: Message Development research to ensure our CEP messages are as clear and impactful as possible; Copytesting Research to ensure our creative materials are clear, interesting, appealing and will capture our audience's attention; Monitoring and Adjustment research among our target audiences to measure progress toward our awareness goal and make program adjustments if needed; and Monitoring and Adjustment research among our Community Based Organizations to measure progress toward our information distribution goal and make program adjustments if needed.

The research will be conducted according to four Key Principles: it will be Inclusive, covering multiple target audiences; it will be Culturally Sensitive to the languages and needs of those audiences; it will be Actionable and directly impact the CEP in positive ways; and it will be Responsible in setting goals to be measured.

All research would be conducted throughout the state among men and women of all adult ages who would make decisions about their household's or business' utility needs.

Research Method

For the Message Development research, we propose in-person qualitative research. Our experience is that mini-groups, a form of focus groups, are the best method; however there may be some cultural audiences who are more comfortable in larger group settings. Based on additional input from our subcontractors, we will proceed accordingly among those audiences. The message development research would be done throughout the state in the language of the audience. We propose conducting six mini-groups among each audience. The following audiences would be researched:

- General population of English speaking residents
- African American
- Spanish language
- Chinese languages (Cantonese and Mandarin)
- Korean language
- Filipino languages
- Vietnamese language
- Cambodian language
- Hmong language
- Lao language
- Low income seniors (English speaking)
- Owner/operators of small/family farms (English speaking and Spanish speaking)
- Small business (Languages to be determined via population statistics)

- Geographically and physically challenged

For the Copytesting Research to ensure that our creative materials are clear, interesting, appealing and will capture our audience's attention, we will research audiences through our CBOs for in-language creative materials, as is done for the State of California DHS Anti-Smoking campaign. For audiences who are not served through CBOs or for whom this would not be effective, we will conduct qualitative in-person interviews in which audience members will be shown creative materials. Due to our fast overall timetable for CEP materials development and media placement, we will need to remain flexible in scheduling precisely when this research activity will be conducted. Additionally, although this activity was not initially budgeted for, we will work with EREG to reallocate the budget to fund this activity. The scope of the activity will be finalized based on the reallocation and the overall CEP timetable.

For the Monitoring and Adjustment research among our target audiences, we recommend telephone surveys in the language of the audience and, for populations that are difficult to reach via telephone, mini-group focus groups.

For the telephone interviews for each target audience surveyed (see below), we would conduct 200 interviews before the CEP started (to get a statistical base of awareness), 200 while the CEP is in progress (to monitor and adjust the program as needed) and 200 when the CEP is complete (to determine how well we have achieved our goals and provide helpful data for any education programs that follow the CEP). In terms of statistical significance, we can compare an audience sample of 200 to the average result for the other audiences and/or to our awareness goal at plus or minus 6% at a 90% confidence level.

For populations that are difficult to reach via telephone, we would conduct mini-group focus groups while the CEP is in progress (to monitor and adjust the program as needed) and when the CEP is complete (to help conclude how well we have achieved our goals and provide helpful data for any education programs that follow the CEP). Although focus groups are not a statistical technique, they have been used for hard to reach audiences, as we are proposing, by our subcontractors and were used as well in the Massachusetts Pilot Program.

Audiences would be as follows:

Telephone Surveys

- General population of English speaking residents
- African American

- Spanish language
- Chinese languages (Cantonese and Mandarin)
- Korean language
- Vietnamese language
- Low income seniors (English speaking)
- Owner/operators of small/family farms (English speaking and Spanish speaking)
- Small business (Languages to be determined via population statistics)

Focus Groups

- Filipino languages
- Cambodian language
- Hmong language
- Lao language

For the Monitoring and Adjustment research to measure progress toward information distribution goals among our Community Based Organizations, we propose telephone surveys. We would conduct 100 interviews while the CEP is in progress (to monitor and adjust the program as needed) and 100 when the CEP is complete (to help conclude how well we have achieved our goals and provide helpful data for any education programs that follow the CEP). The surveys would be conducted among a cross-section of CBOs.

XI. OPERATIONS STRATEGY

Organization

Implementation of the joint CEP marketing plan will be managed by the EREG board and its lead agency, DDB Needham, Los Angeles.

The EREG Board is a 19-member collaborative body of electric industry stakeholders. The Board represents a balanced view of electric restructuring. DDB Needham is the largest ad agency in the U.S and the fifth largest agency worldwide. DDB Needham Los Angeles offers complete integrated communications capabilities and has substantial CEP and public policy experience.

Overview

DDB Needham, in conjunction with its sub-contractors (partners), will be responsible for the planning, creative development and delivery of all communications materials, mass media communications, toll-free call information center management and information fulfillment, public and media relations, grass roots and community outreach identification and management and customer research required for the successful fulfillment of the EREG program. Additionally, the agency will via its research efforts, provide on-going monitoring of information penetration and fulfillment needs.

In its role as lead agency of the project management team, DDB Needham will be responsible for the on-going coordination with the CPUC's own community outreach efforts as well as coordinating with other CPUC restructuring groups.

The EREG board plans to hold bi-monthly meetings throughout the course of the EREG program for lead agency oversight and to ensure that coordination with the other CPUC restructuring efforts, as noted above, are successful. A monthly EREG report of its progress will be submitted to the CPUC every month during the program.

A detailed timeline of operational activity is included in the Appendix.

Sub-contractors to Lead Agency, DDB Needham, Los Angeles:

The subcontractor partners were selected on the basis of the following criteria:

- Successful track record of developing large, high-profile, state-wide public information campaigns.

- Experience working with economically disadvantaged, multilingual, multicultural and other special needs customers and Community Based Organizations.
- Experience in working with a large integrated marketing team.
- No conflicting energy provider/utility accounts.

DDB Needham subcontractors are as follows:

Rogers & Associates, Los Angeles	Lead Public Relations
Durazo Communications, Los Angeles	Hispanic Public Relations
Imada Wong Communications Group, San Francisco and Los Angeles	Asian Public Relations
Young Communications Group Los Angeles	African American/Low Income Public Relations
Carol H. Williams Advertising Oakland	African American Advertising
Anita Santiago Advertising, Inc. Los Angeles	Hispanic Advertising
Imada Wong Communications Group San Francisco and Los Angeles	Asian Advertising
Flair Communications Agency, Inc. San Francisco	Promotions/Direct Marketing

XII. FUNDING REQUEST (BUDGET)

Funding Requirements Rationale

The funding requirements for the CEP emerged from the professional assessment of the lead agency and the subcontractors, in conjunction with the support of the EREG board members present on May 28, 1997, when the vote was taken. It is the assessment of these professionals that the financial resources required to meet the program objectives as outlined by the legislation and the ruling will be \$87.5 million.

EREG Administrative Funding

At the first EREG meeting on April 18, 1997, it became apparent that an extraordinary effort would have to be made by the EREG to satisfy the CPUC's performance timelines. Also, given the complexity and magnitude of the project the EREG could simply not delegate tasks to outside consultants.

To promote neutrality, the EREG set up its own office. To encourage community input, the EREG opted to hold meetings in Northern and Southern California. The projects \$850,000 EREG administrative covers EREG member reimbursement and compensation, one staffperson, office and public meeting space, meeting expenses, office equipment and supplies, travel, telephone, duplication & printing, postage, fiscal agent services, contract professional services, an independent audit, legal counsel, extra insurance and an operating reserve.

EREG Program Funding

The plan was developed using a task approach: e.g., what would it take to reach the desired objectives stated by the CPUC. It is recognized that a suggested budget of \$20,000,000 had been outlined for this CEP effort as well as comparisons made between this program and the Caller I.D. campaign which had a budget of \$58,000,000.

It is the opinion of the professionals given the task of developing a marketing plan and budget for the EREG CEP effort that both these efforts fall short of the specific requirements of this CEP and that direct comparisons between our effort as outlined in this document and that of Caller I.D. are not meaningful.

There is a significant difference between the complexity of the message we must deliver in our CEP and that of the Caller I.D. program as outlined later in this rationale. Additionally, each effort has significantly different goals in terms of outcome. The CEP is charged with educating a mass and diverse population, placing great emphasis on those hard to reach customers of our State, about electric restructuring. Caller I.D. required only a yes/no response. The Caller I. D. message was delivered by the telephone companies who didn't compete with one another for local service. The CEP requires a neutral

unbiased voice. In summary, these efforts have different goals and different needs. Therefore, comparisons may be inappropriate.

It might also be helpful when considering the recommended \$ 87.5 million budget to look at its relationship to other benchmarks within the electric marketplace. Namely, this budget represents .43 percent of the annual \$20 billion spent each year in California on electricity. On a per capita basis, it represents 1 percent of the average California household's yearly electric bill (\$87.5 million divided by 12 million households/and small businesses equals \$ 7.30 per household or meter. The average yearly electric bill is approximately \$720). Finally, as a percent of the \$27 billion CTC (the cost that the State's ratepayers must pay to recover stranded costs) the CEP will be approximately .43 percent. The recommended budget is minimal in relationship to the size of this industry and the importance of achieving a successful outcome to this CEP effort.

The following points support the need for a customer education program at the \$87.5 million level:

- **More complex message.**
 - Infinitely more complex message than Caller I.D., Anti-Smoking, Teen Pregnancy. Information so complex it must be delivered in phases.
 - Need to use multiple communications tools to provide wide and deep coverage.
 - Need to first establish EREG neutral position/credentials.
 - Conflicting claims in marketplace require substantial communications effort.
 - Electric restructuring makes previous restructuring efforts pale in impact and complexity.
- **Less time to deliver the message.**
 - New Hampshire & Massachusetts trials demonstrated that the learning curve is long.
 - Restructuring occurs on 1/1/98; no chance for failure.
 - Must not overwhelm by offering too much information too soon.
 - Difficult to demonstrate long-term restructuring benefits during short-term transitional period.
- **Low interest.**
 - Low interest, low involvement category.
 - Service so reliable that there never has been a need to know more about it. However, because electric service is viewed as a birthright, any perceived change to service can be viewed as a threat.

- No inherent drama like Anti-Smoking, Drug Abuse or Teen Pregnancy.
- Negative baggage from previous deregulation efforts may cause people to turn off to message.
- **All eyes are on California.**
 - Besides being the largest market for electric power, this is the largest and most prominent restructuring effort in the U.S.
 - Cannot afford to implement a CEP that doesn't have impact.

Tactics

The proposed marketing plan is directed at California residential customers and small business customers (defined as average peak load of up to 20 KWH).

We are proposing a 5-phase approach that ties each communications phase to specific marketplace activity (e.g., ability to request new energy provider, change in electric bill, etc.).

Public relations establishes a credible foundation for the entire campaign and provides access to many difficult-to-reach audiences including government, the media, small business, ethnic groups, economically disadvantaged, geographically diverse and physically challenged audiences. Public relations also allows us to leverage existing credible sources of information like the AARP.

Mass media will communicate broad messages to a majority of the target audience, legitimize the communications ("I saw it in TV") and form the base of the communications plan for all targets. Ethnic mass media will complement the general market media and allow us to reach California's diverse population.

Direct marketing will place detailed information directly into the hands of our target markets. It is the most effective means to ensure that the vast majority of customer households and businesses receive information. Direct mail also allows customization of information specifically for each target.

Public relations and community outreach efforts allow both the CEP and CPUC staff outreach efforts to get information to the "street level". Economically disadvantaged audiences and immigrants view electricity delivery in simple terms and possess educational levels that make challenging to deliver this information in a meaningful way. Culturally relevant brochures and associated collateral material will be developed. CBO groups will receive materials and training and be compensated for the time they devote distributing information, informing and educating key targets.

CEP PROPOSED PLAN

EREG BUDGET SUMMARY (Net Dollars)

		% of Total	
Public Relations	\$5,230,000	6%	% of P.R.
General	\$1,126,000		22%
Ethnic/Multi-lingual	\$2,030,000		39%
Small Business	\$618,000		12%
Low Income	\$684,000		13%
Geographically Challenged	\$618,000		12%
Physically Challenged	\$154,000		3%
Mass Media	\$28,645,000	33%	% of Mass Media
General	\$13,745,000		48%
Ethnic/Multi-lingual	\$11,968,000		42%
Small Business	\$1,003,000		4%
Low Income	\$825,000		3%
Geographically Challenged	\$574,000		2%
Physically Challenged	\$530,000		2%
Production	\$4,895,000	6%	% of Production
General	\$1,992,000		41%
Ethnic/Multi-lingual	\$2,049,000		42%
Small Business	\$196,000		4%
Low Income	\$442,000		9%
Geographically Challenged	\$120,000		2%
Physically Challenged	\$96,000		2%
Direct Mail (All Targets)	\$12,000,000	14%	
Informational Call Center (All Targets)	\$4,000,000	5%	
Collateral/Fulfillment (Video)	\$10,500,000	12%	% of Collateral
General	\$5,535,000		53%
Ethnic/Multi-lingual	\$2,730,000		26%
Small Business	\$450,000		4%
Low Income	\$840,000		8%
Geographically Challenged	\$525,000		5%
Physically Challenged	\$420,000		4%
Website	\$100,000	0.1%	
Grassroots Communications/Promotions	\$5,000,000	6%	
Research	\$1,120,000	1%	
Budget Pool for Agency Compensation and Reimbursable Expenses (i.e. Travel & Postage)	\$12,960,000	15%	
CPUC Outreach	\$2,000,000	2%	
EREG Admin/Operations	\$850,000	1%	
CEAP Administrative Support	\$200,000	0.2	
TOTAL	\$87,300,000	100%	

Budget Narrative

The total budget of \$87.5 million breaks down into the following major categories:

- 6% (\$5.23 million) for Public Relations across all constituencies, of which roughly 2/3 represents fees to the PR agencies. The remainder represents materials costs and reimbursable expenses such as travel. It is important to note that this is the only category of the budget to include agency fees.
- 33% (\$28.6 million) for Mass Media across all constituencies. This represents the actual total cost of payment to the media companies, and does not include any fees for the advertising agencies. All agency fees have been removed from every remaining area of the budget, and are reflected as a separate line item in this budget breakdown.
- 6% (\$4.9 million) for Production. This represents the actual total cost of payment to the various vendors and acting and musical talent involved in producing the different advertising messages (e.g., production companies who film the commercials, photographers who photograph visuals for the newspaper ads or outdoor boards, recording studios where radio is produced). It also includes the cost of duplicating these commercials/ads and shipping them to the various media vendors for airing or publication. Close-captioning of video spots for the hearing-impaired, and any other adaptations for special needs audiences are also included in this budget.
- 14% (\$12 million) for Direct Mail. This represents the actual cost of lettershop, mailing lists, personalization, production, printing, and postage for roughly 24 million multi-lingual direct mail pieces (two drops of 12 million to 100% of households and small businesses in California).
- 5% (\$4 million) for Consumer Telephone Response. This represents the cost to staff, train and monitor multi-lingual operators who will be handling calls from customers on the toll-free information call center as well as the cost of the equipment for this effort, for the duration of the CEP (September '97 - May '98).
- 12% (\$10.5 million) for Collateral/Fulfillment. This represents the actual cost of production, printing, duplication and mailing of roughly 3 million multi-lingual informational videotapes and 6 million multi-lingual information booklets. These pieces will be sent to customers who: a) call the toll-free number; b) request information through the web site. These pieces will also be distributed to various retail venues for customer use, and be provided in quantities to CBO's who will be a

- key distribution mechanism to personally deliver them into customers hands. It also covers the cost of production and printing brochure holders and displays that can provide information at in-store locations.
- .1% (\$100,000) for a Web Site. This represents the actual cost of developing and implementing the site, and maintaining it and updating it throughout the year.
 - 6% (\$5 million) for Grass Roots Community Communications and Promotions. This represents contract fees which will be paid to various grass roots organizations and CBO's for their services and out-of-pocket costs to distribute our messages to their constituencies. It also includes roughly \$1 million to cover costs to develop and produce materials for localized events or retailer tie-ins to support the efforts of these CBO's.
 - 1% (\$1.1 million) for Research. This represents fees paid to various research suppliers to develop and conduct research among the various constituency groups for message development and performance tracking.
 - 15% (\$13 million) for Agency Compensation and Reimbursable Expenses. This represents the "pool" currently available to pay the advertising and promotions agencies for development and implementation of this plan, and to reimburse them for expenses like travel and postage. The actual figure will be finalized once a final contract has been negotiated with the EREG. The agencies who will be covered with these fees include DDB Needham, Imada Wong, Carol Williams, Anita Santiago, and Flair Communications.
 - 2% (\$2 million) for CPUC Staff Outreach. This represents the funds earmarked for the CPUC staff's efforts, which will be included in this budget, but not administered by any of the agencies involved.
 - 1% (\$850,000) for EREG Admin/Operations. This will cover administrative and operations costs incurred by members of the EREG board. Please see Appendix for addition details.
 - 2% (\$200,000) for CEAP Administrative Support. This will cover per diem compensation, travel and other unanticipated costs the CEAP may encounter.

XIII. CONTINGENCY PLANS

Events That Will Require Adjustment

We believe we must be prepared to respond to potentially likely events in the marketplace as well as remotely possible events. The plan recognizes these potential challenges and is prepared to respond at a prudent level, should that be necessary. However, in the event that significant change occurs, EREG and DDB Needham will seek the guidance and support of the Commission and the investor owned utilities in determining what is in the best interest of California electric customers.

Events examples:

- Scope/magnitude of electric market campaigns aimed at customers larger than anticipated.
- Need to incorporate references to misleading advertising or marketing abuses.
- Fulfillment overload of toll-free information call center.
- External events (e.g., reliability problems, power outages).
- Difficulty/delays in exercising electric company choice.
- Legislative action that may impact the principles of AB 1890.

In addition, the lead agency will be monitoring the responses of California electric customers to the CEP (see research section) and will make adjustments and modifications, reallocating resources to fill gaps—if and when—they appear based on the data collection. Call levels and material requests/needs will be monitored on a regular basis.

A note on municipally owned utilities. The plan budget is based on the CEP objectives of meeting the educational needs of all Californians including those customers in franchise areas of municipally owned utilities. There has been some discussion on this issue and the lead agency intends to be as flexible as possible to meet the needs of EREG. In the event that a policy determination is made that the customers of the municipally owned utilities will not be recipients of the program materials, some of the budget items will be reduced based on lower volumes of materials required.

EXHIBIT BA-4

APPENDIX F

220 CMR 12.00 STANDARDS OF CONDUCT FOR DISTRIBUTION COMPANIES
AND THEIR COMPETITIVE AFFILIATES
[FROM D P L' 96-44]

Section

- 12.01 Purpose and Scope
- 12.02 Definitions
- 12.03 Standards of Conduct

12.01 Purpose and Scope

- (1) Purpose. 220 C.M.R. 12.00 sets forth the Standards of Conduct governing the relationship between a Distribution Company and its unregulated Competitive Affiliate transacting business in Massachusetts.
- (2) Scope. 220 C.M.R. 12.00 applies to all Distribution Companies and their Competitive Affiliates. 220 C.M.R. 12.00 is not intended to supersede existing applicable law and regulations.

12.02 Definitions

- (1) Antitrust Laws are federal and state statutes, including the Sherman Act, 15 U.S.C. §§ 1-7, the Clayton Act, 15 U.S.C. §§ 12-27, and the Massachusetts Antitrust Act, G.L.c. 93, §§ 1-14A, which were designed to protect trade and commerce from unlawful restraints, undue price discrimination, certain forms of concerted behavior such as price fixing, and monopolization.
- (2) Competitive Affiliate refers to (i) any "affiliated company," as defined in G.L.c. 164, § 85, or (ii) any unit or division within a Distribution Company or its parent, or (iii) any separate legal entity either owned or subject to the common control of the Distribution Company or its parent, and such affiliate company, unit or division, or separate legal entity engages in the selling or marketing of natural gas, electricity, or related services on a competitive basis, including, but not limited to, natural gas or electric supply or capacity, and demand-side management.
- (3) Department refers to the Department of Public Utilities.

- (4) Distribution Company refers to a natural gas local distribution company or electric company that provides distribution services under the jurisdiction of the Department
- (5) Employee refers to an officer, director, employee or agent who has specific knowledge of, or direct access to, information not otherwise available to Non-affiliated Suppliers that could provide a Competitive Affiliate with an undue advantage
- (6) Non-affiliated Supplier refers to any entity, including aggregators, engaged in marketing, brokering or selling natural gas, electricity, or related services to retail customers where such product or service is also provided by a Competitive Affiliate

12.03 Standards of Conduct

- (1) A Distribution Company shall apply tariff provisions in the same manner to the same or similarly situated entities if there is discretion in the application of the provision.
- (2) A Distribution Company shall strictly enforce tariff provisions for which there is no discretion in the application of the provision
- (3) A Distribution Company shall not, through a tariff provision or otherwise, give its Competitive Affiliate or customers of its Competitive Affiliate preference over Non-affiliated Suppliers or customers in matters relating to any product or service
- (4) If a Distribution Company provides its Competitive Affiliate, or customer of its Competitive Affiliate, any product or service other than general and administrative support services, it shall make the same products or services available to all Non-affiliated Suppliers or customers on a non-discriminatory basis
- (5) A Distribution Company shall not offer or sell electricity or natural gas commodity or capacity to its Competitive Affiliate without simultaneously posting the offering electronically on a source generally available to the market or otherwise making a sufficient offering to the market
- (6) If a Distribution Company offers its Competitive Affiliate, or a customer of its Competitive Affiliate, a discount, rebate or fee waiver for any product or service, it shall make the same available on a non-discriminatory basis to all Non-affiliated Suppliers or customers

- (7) A Distribution Company shall process all similar requests for a product or service on a non-discriminatory basis
- (8) A Distribution Company shall not condition or tie the provision of any product, service or price agreement by the Distribution Company to the provision of any product or service by its Competitive Affiliate
- (9) A Distribution Company shall not release any proprietary customer information without the prior written authorization of the customer. Initial voice authorization will satisfy this requirement where the Distribution Company obtains subsequent written confirmation within thirty (30) days
- (10) To the extent that a Distribution Company provides a Competitive Affiliate with information *not readily available* or generally known to any other marketer or supplier, the Distribution Company shall make that information available on a non-discriminatory basis to all Non-affiliated Suppliers transacting business in its service territory. This provision does not apply to customer-specific information obtained with proper authorization, information necessary to fulfill the provisions of a contract, or information relating to the provision of general and administrative support services
- (11) A Distribution Company shall refrain from giving any appearance of speaking on behalf of its Competitive Affiliate in any and all contacts or communications with customers or potential customers. The Distribution Company shall not represent that any advantage accrues to customers or others in the use of the Distribution Company's services as a result of that customer or others dealing with the Competitive Affiliate. The Distribution Company shall not engage in joint advertising or marketing programs of any sort with its Competitive Affiliate, nor shall the Distribution Company promote or market any product or service offered by its Competitive Affiliate
- (12) If a customer requests information about Non-affiliated Suppliers, the Distribution Company shall provide a current list of all Non-affiliated Suppliers operating on the system or registered with the Department, including its Competitive Affiliate, but shall not promote its affiliate. The list of Non-affiliated Suppliers shall be in random sequence, and not in alphabetical order. The list shall be updated every sixty (60) days to allow for a change in the random sequence
- (13) Employees of a Distribution Company shall not be shared with a Competitive Affiliate, and shall be physically separated from those of the Competitive Affiliate. The Distribution Company shall fully and transparently allocate costs for any

shared facilities or general and administrative support services provided to the Competitive Affiliate

- (14) A Distribution Company and its Competitive Affiliate shall keep separate books of accounts and records which shall be subject to review by the Department in accordance with the provisions of G L c 164, § 85
- (15) The Department may approve an exemption from the separation requirements of 220 C M R 12 03(13) upon a showing by the Distribution Company that shared employees or facilities would be in the best interests of the ratepayers and have minimal anticompetitive effect, and that the costs can be fully and accurately allocated between the Distribution Company and its Competitive Affiliate. Such exemption shall be valid until such time that the Department determines that modification or removal of the exemption is necessary.
- (16) A Distribution Company shall establish and file with the Department a dispute resolution procedure to address complaints alleging violations of 220 C M R 12 00. Such procedure, at a minimum, shall designate a person to conduct an investigation of the complaint and communicate the results of the investigation to the claimant in writing within 30 days after the complaint was received, including a description of any action taken and the complainant's option to complain to the Department if not satisfied with the results of the investigation.
- (17) A Distribution Company shall maintain a log of all new, resolved and pending complaints alleging violations of 220 C M R 12 00. The log shall be subject to review by the Department and shall include, at a minimum, the written statement of the complaint and the resolution of the complaint, or the reason why the complaint is still pending.
- (18) Any wanton or willful violations of 220 C M R 12 00 shall result in a penalty that reflects the actual or potential injury to ratepayers and the gravity of the violation.
- (19) Nothing in 220 C M R 12 00 shall be construed to confer immunity from state and federal Antitrust Laws. Sanctions for violation of 220 C M R 12 00 do not affect or pre-empt antitrust liability but rather are in addition to any antitrust liability that may apply to the activity.
- (20) Notwithstanding any other provisions in 220 C M R 12 00, in emergency circumstances, a Distribution Company shall take any actions necessary to ensure public safety and system reliability. A Distribution Company shall maintain a log of all such actions, subject to review by the Department.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF DUQUESNE LIGHT :
COMPANY FOR APPROVAL OF ITS :
RESTRUCTURING PLAN UNDER :
SECTION 2806 OF THE PUBLIC :
UTILITY CODE :

Docket No. R-00974104

DOCKETED

JAN 13 1998

REBUTTAL TESTIMONY

OF

BARBARA ALEXANDER

DOCUMENT
HOLDER

On Behalf of:

OFFICE OF CONSUMER ADVOCATE

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DECEMBER 1997

1 Q. PLEASE STATE YOUR NAME AND ADDRESS

2 A. My name is Barbara R. Alexander, Consumer Affairs Consultant. My address is 15
3 Wedgewood Dr., Winthrop, Maine 04364.

4 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

5 A. Yes, I submitted direct testimony in both the West Penn and Duquesne Light proceedings
6 on behalf of the Office of Consumer Advocate.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS TIME?

8 A. I am submitting rebuttal testimony on behalf of the OCA in response to the testimony of
9 Bruce Biewald and Roger Colton (Environmentalists' Statement No. 2 and 3) and Gayle
10 Muench on behalf of Enron Power Marketing, Inc. (Enron Statement No. 4).
11 Specifically, my testimony responds to the proposal by Bruce Biewald and Roger Colton
12 to provide generation services to default customers (those who do not choose a supplier
13 with the onset of customer choice) and Ms. Muench's proposed Supplier-Only bill option.

14 Q. DOES YOUR TESTIMONY APPLY TO BOTH THE WEST PENN AND DUQUESNE
15 PROCEEDINGS?

16 A. Yes, the same proposals by all the witnesses named above were filed in both cases.

17 Q. PLEASE DESCRIBE THE PROPOSAL BY BRUCE BIEWALD AND ROGER
18 COLTON THAT YOU WILL ADDRESS.

19 A. Bruce Biewald proposes that customers who are eligible for customer choice and who do
20 not choose an alternative supplier should be assigned a competitive supplier when less
21 than a certain percentage of eligible customers do enter the competitive market.

1 Customers would be randomly assigned based on the proportion of customers that a
2 supplier obtained during an initial marketing period after the onset of customer choice.
3 Mr. Biewald then suggests a number of conditions that would govern whether a supplier
4 was eligible for assignment of such customers (West Penn at 10-11; Duquesne at 49-51).
5 Roger Colton provides the policy basis for Mr. Biewald's proposal, focusing primarily on
6 the market power impact of allowing the incumbent utility to retain all such customers.
7 Mr. Colton also clarifies that this proposal relates only to those customer who "choose not
8 to choose", the so-called default customers, and does not apply to those customers who
9 need Provider of Last Resort service after the full implementation of customer choice
10 (West Penn at 33; Duquesne at 5). Under the Biewald/Colton proposal, these latter
11 customers would continue to receive generation services by the distribution utility.

12 Q. DO YOU AGREE WITH MR. COLTON THAT ALLOWING THE DISTRIBUTION
13 UTILITY TO CONTINUE TO SERVE DEFAULT CUSTOMERS MAY DELAY OR
14 RETARD THE DEVELOPMENT OF A COMPETITIVE MARKET?

15 A. I agree that there may be significant anti-competitive effects when the incumbent utility
16 obtains all the default customers with no incremental cost. I also agree that we cannot
17 assume that these customers have deliberately chosen to remain with their distribution
18 company. Rather, it is more likely, particularly in the early days of the development of a
19 competitive electricity market, that customers will be either hesitant or confused, resulting
20 in inertia and the failure to make a choice.

1 Q THEN DO YOU AGREE WITH THE BIEWALD/COLTON PROPOSAL TO BALLOT
2 EXISTING CUSTOMERS AND SPREAD THOSE CUSTOMERS WHO DO NOT
3 CHOOSE TO COMPETITIVE GENERATION SUPPLIERS?

4 A. I agree that this is a legitimate option that the Commission should explore. However, I do
5 not think that it is a practical alternative that should be adopted for the phase-in period at
6 least. Furthermore, there is another option that should be equally considered by the
7 Commission to "solve" this problem, namely, a bid or auction approach.

8 Q. PLEASE EXPLAIN YOUR CONCERNS ABOUT THE IMPLEMENTATION OF THE
9 BALLOT AND SPREAD APPROACH AT THIS TIME.

10 A. During the phase-in period, approximately one-third of each customer class will be able to
11 choose their supplier starting on January 1, 1999, one-third on January 1, 2000, and then
12 all customers will be eligible for choice on January 1, 2001. During this 24 month period
13 (1999 and 2000), marketing efforts by suppliers will presumably be intense, customer
14 education efforts will be in full swing and customers will be solicited to enter the phase-in
15 by expressing their interest to be part of Phase I and II. Because of these significant
16 changes, this period will be confusing to customers under the best of circumstances.
17 Under the Customer Choice Act, the distribution utility clearly has the responsibility to
18 serve those customers who are not yet eligible for customer choice. Their monthly bill
19 will reflect unbundled pricing of their electric service and these prices will reflect the rate
20 caps in effect at each utility for both distribution and generation services.

21 I have the following concerns with adding a fairly complicated proposal to provide

1 generation services to default customers during this time period.

- 2 1. The Ballot and Spread approach will require significant customer education
3 efforts to prevent customers from referring to their automatic switch to a
4 competitive provider as "slamming." Although I believe it is possible to
5 sufficiently educate customers to prevent their adverse reaction to this
6 approach, the combination of the overall customer choice education effort
7 that must take place over the next 2-3 years and the adverse reaction by
8 some customers to the ballot and spread technique that was used in the
9 telecommunications area for the selection of a long distance carrier
10 suggests that the better part of valor might be to delay a decision on this
11 approach until at least after the phase-in period. Furthermore, the necessity
12 for determining when customers would be assigned, which is based on
13 whether sufficient customers have in fact affirmatively chosen an alternative
14 supplier, would complicate the implementation, explanation and customer
15 acceptance of the approach suggested by Mr. Biewald. See Exhibit BEB-
16 4.
- 17 2. The Competition and Customer Choice Act does not distinguish between
18 default customers and other customers who enter and then leave the
19 competitive market. Section 2807(E)(1)-(4) imposes an obligation to serve
20 on the distribution utility while it is collecting stranded costs or until 100%
21 of its customers have choice, whichever is longer. The Commission is

1 authorized to promulgate regulations to define how this generation service
2 will be provided after the end of the phase-in period. The Act
3 contemplates that someone other than the distribution utility can provide
4 these services. The combination of these provisions suggests that the
5 distribution utility has the obligation to provide these services until the
6 phase-in is complete and that the Commission should conduct a rulemaking
7 to determine how these services should be provided in the future.

8 3. Since the distribution utility must provide all services to customers who are
9 not eligible for customer choice during the phase-in period, it is more
10 practical and less confusing to require the utility to also provide this service
11 to those customers who are eligible for customer choice, but who do not
12 choose a supplier when they are eligible to do so.

13 4. The conditions suggested by Mr. Biewald that should accompany a
14 supplier's eligibility to be assigned default customers should be adopted, if
15 at all, as part of a rulemaking proceeding in which all interested parties can
16 comment. The proposed conditions may be reasonable, but should be
17 considered on a state-wide basis. Again, the Customer Choice Act
18 contemplates this decision as part of a rulemaking proceeding.

19 5. At the time of any rulemaking, the Biewald/Colton proposal should be
20 considered in light of the alternative adopted in the Maine and Rhode
21 Island restructuring legislation to select one or more generation providers

1 for default customers or those who temporarily need a provider of last
2 resort service by means of a bid or auction. This approach could also
3 include bid conditions that would fulfill the renewable resource concerns of
4 Mr. Biewald, as well as operational and customer service criteria that
5 would be established by the Commission and implemented by the
6 distribution company in its bid process

7 6. Finally, I am not sure that customers who are in between suppliers or who
8 want or must return to their distribution company for provider of last resort
9 service should be treated differently than those customers who choose not
10 to choose. It is certainly possible to create two different "regulated"
11 generation services, but the Commission should carefully explore the
12 implications for separating the default customers from those who have
13 entered the market and then seek to return to regulated service, even if
14 briefly. Not all the customers who will receive this latter service will be
15 low-income. All customers must have access to a service that is
16 instantaneously available for a variety of reasons even after the phase-in
17 period.

18 Q. PLEASE EXPLAIN YOUR CONCERNS WITH THE TESTIMONY OF GAYLE
19 MUENCH ON BEHALF OF ENRON POWER MARKETING, INC.

20 A. Gayle Muench proposes a Supplier Complete Bill Option which would allow the supplier
21 to act as the agent for the customer in obtaining a complete array of regulated and

1 unregulated electricity services. Under this approach, the customer would receive a single
2 bill from the supplier and the supplier would obtain on the customer's behalf all the
3 necessary distribution and transmission services that would normally be billed by the
4 distribution utility. My concern with this approach is not that it should not be explored in
5 this proceeding. Indeed, my direct testimony (at 43, West Penn; at 44, Duquesne) pointed
6 out that both West Penn and Duquesne failed to comply with the Commission's Guidelines
7 for Maintaining Customer Services Order which required utilities to explore a supplier-
8 only bill option as part of their restructuring filing. My concerns are with certain aspects
9 of Ms. Muench's proposal, namely:

- 10 1. Ms. Muench proposes that under a Supplier Complete Bill Option, only the
11 supplier would be West Penn or Duquesne's customer of record. In this
12 scenario, that supplier would be the single point of contact with the end
13 user, i.e., the supplier's customer. This would require the supplier to take
14 complete responsibility for compliance with the Commission billing and
15 consumer protection rules, including Chapter 56. According to Ms.
16 Muench, under this approach the supplier would be able to issue an order
17 to the distribution utility to physically disconnect a customer (at 13). This
18 option, if implemented as proposed, would vastly complicate the
19 Commission's ability to monitor and assure compliance with Chapter 56
20 and other consumer protection provisions. The disconnection and
21 termination rules in particular are a vital portion of this Commonwealth's

1 assurance that the health and safety of residential customers and their
2 families will be protected. I cannot agree with the notion that all
3 competitive suppliers should have the ability to order disconnection¹ option
4 without a significant increase in Commission oversight. The Commission
5 should be able to lawfully distinguish among suppliers who may or may not
6 demonstrate sufficient ability and experience to assure compliance with
7 Chapter 56 in all its applications prior to allowing a supplier to act as the
8 agent for the customer for all aspects of electric service. This in turn
9 would require a tiered approach to licensing and approval for certain
10 aspects of the retail sale of electricity, an approach that is not yet in place.

11 2. Ms. Muench's proposal does not contemplate that customers may want a
12 supplier-only bill, but may not want to select the full agency relationship for
13 all aspects of electric service. In other words, the customer may want to
14 pick and choose services, selecting the Supplier Bill Option, but retaining
15 their traditional customer relationship with the local utility for metering or
16 regulated distribution services.

17 3. The Distribution Services Tariff attached to Paul D. Reising's testimony on
18 behalf of Enron (Statement No. 2) is written to implement only the
19 Supplier Bill Option and does not contemplate the other options mandated

¹Ms. Muench's testimony does not distinguish between disconnection of service for the failure to pay for regulated distribution services and the collection remedy of contract cancellation for failure to pay for supplier services. This is an additional cause for concern.

1 by the Customer Choice Act: a Distribution Complete Bill Option and the
2 Dual Bill Option.

3 4. I am concerned that the Supplier Bill Option, if not carefully crafted, will
4 lead customers unwittingly back to "one-stop" bundled electricity services.
5 In other words, customers may not get the full story about unbundled
6 prices or be able to easily make comparisons among the various suppliers
7 and their products unless the Commission carefully regulates disclosures
8 and marketing practices that should accompany the Supplier Bill Option.
9 This concern is heightened by the lack of any specificity in the tariff
10 proposed by Enron concerning the deposit, collection or billing
11 requirements that would be applied by a supplier when dealing with their
12 own customers. Instead, the tariff only regulates the relationship between
13 the supplier and the distribution company.

14 Q. IN LIGHT OF YOUR CONCERNS, HOW DO YOU SUGGEST THE COMMISSION
15 MOVE FORWARD TO EXPLORE THE SUPPLIER-ONLY BILL OPTION?

16 A. The testimony by Enron's witnesses is helpful in moving the dialogue forward in this area.
17 The failure of both West Penn and Duquesne to put forward a proposal to implement this
18 option is troubling. I recommend that the Commission continue to fully explore this
19 option and that both utilities submit proposals in response to the Commission's July 11,
20 1997 Order and the testimony of the various parties to these proceedings that have
21 proposed good faith options that deserve further exploration.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes, it does.

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CONTINUED