

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SURREBUTTAL TESTIMONY OF

GAYLE MUENCH

ON BEHALF OF
ENRON POWER MARKETING INC.

DOCKETED
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DOCKET NO. R-00974104

RE: APPLICATION OF DUQUESNE LIGHT
COMPANY FOR APPROVAL OF ITS
RESTRUCTURING PLAN

DECEMBER 11, 1997

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1 **Q. PLEASE STATE YOUR NAME AND TITLE?**

2 A. My name is Gayle Muench. I am Director of Enron Energy Services, Consumer
3 Services Group, and am responsible for Enron's retail sales activities with
4 residential consumers in Pennsylvania. I have provided direct testimony in this
5 case and in the companion West Penn Power Company restructuring.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A. I will respond to Duquesne Power Company's ("Duquesne") rebuttal testimony of
8 Messrs. Allison, Hoffmann and Flynn, OCA witness Alexander and International
9 Brotherhood of Electrical Workers ("IBEW") witness Moran pertaining to the
10 following issues:

- 11 (1) The unbundling of revenue cycle services.
- 12 (2) The billing options that should be permitted, including the "Supplier
13 One-Bill Option" and the Supplier Agency Function.
- 14 (3) Application of partial payments.
- 15 (4) Duquesne's proposal for the phase-in of competition.
- 16 (5) The "Customer Education Program" required in connection with
17 Duquesne's proposed restructuring.
- 18 (6) Duquesne's Universal Service Program in a competitive
19 environment.

1 **I. UNBUNDLING REVENUE CYCLE SERVICES**

2
3 **Q. MR. ALLISON OPPOSES THE UNBUNDLING OF REVENUE CYCLE**
4 **SERVICES AT THIS TIME (DUQUESNE ST. NO. 8-R AT 5-7). WHAT**
5 **REASONS DOES HE GIVE?**

6
7 **A.** He basically seeks to delay such unbundling, claiming that issues still need to be
8 resolved so as not to compromise reliability. Since the PUC already has a
9 collaborative process in place, he believes that it should be used to resolve these
10 issues. Finally he claims that establishing a generation market should be the first
11 priority and that many details still have to be worked out in that regard. Customers
12 have to adapt to significant changes without further confusing the issues.

13 **Q. DO YOU AGREE WITH MR. ALLISON?**

14
15 **A.** No. As I stated in my direct testimony, revenue cycle services are competitive
16 functions (Enron St. No. 4.0 at 4-6). Unless these services are unbundled,
17 suppliers will be unable to attract customers, customers will see fewer benefits and
18 the market will be less competitive and efficient. The collaborative process Mr.
19 Allison refers to actually supports unbundling because there is a process in place to
20 resolve the details. Duquesne seeks to delay competition in revenue cycle services
21 for various reasons. Mr. Brown has addressed one of those reasons, relating to
22 Duquesne's attempt to entrench its new metering system, in his surrebuttal
23 testimony. I also believe that Duquesne's strategy is to delay savings and
24 opportunities for consumers by playing a game of "incrementalization."

25 **Q. WHAT DO YOU MEAN BY "INCREMENTALIZATION?"**

1 A. By allowing competition in only a small part of the market at a time, Duquesne, as
2 the incumbent, retains a competitive advantage as each part becomes competitive.
3 If only the commodity portion of the market is allowed to become competitive at
4 this time, that portion will soon be bid down toward marginal costs, thus making
5 suppliers' margins extremely thin. Suppliers must make investments far in
6 advance of return. This puts the incumbent utility at a competitive advantage by
7 allowing it to prepare for competition in the future. As described by Mr. Brown,
8 Duquesne is planning the same type of incrementalization for metering and meter
9 installation with its advanced metering system ("CARS"), which it is planning to
10 entrench and not to make competitive until a later date. Duquesne's proposal will
11 further increase the barriers to entry for new players and, once again, expand
12 Duquesne's incumbent advantage. The Commission should not permit this to
13 happen.

14 **Q. DO YOU HAVE COMMENTS ON THE TESTIMONY OF MR. MORAN**
15 **ON BEHALF OF IBEW?**

16
17 A. Yes. Mr. Moran presents virtually no facts, but simply suggests scare tactics as to
18 why the unbundling of billing, metering and customer services will be unsafe for
19 customers and employees.

20 Mr. Brown has also responded to those contentions on behalf of Enron. I
21 would however comment that Mr. Moran's concern seems to be that only the
22 employees of an EDC have the ability to deal with safety requirements. As Mr.

1 Brown has pointed out, safety is a concern, but there is no reason that employees
2 of an EGS, if properly trained and if they meet the requirements imposed by the
3 Commission, would not be able to provide the same safe services. The basic thrust
4 of Mr. Moran's testimony is that meter and billing activities should remain a
5 monopoly with the local utilities. (Surrebuttal Testimony at 8). I believe this view
6 affects and taints all of his so-called concerns about safety and other factors in the
7 proposed distribution service tariff. He simply does not wish to accept
8 competition in this area whether or not it is beneficial for the consumer. His
9 testimony should be rejected.

10 **II. SUPPLIER COMPLETE BILLING OPTION**

11 **Q. WHAT IS DUQUESNE'S POSITION ON THE SUPPLIER COMPLETE**
12 **BILL OPTION?**

13
14 A. Duquesne opposes it and only supports the retail customer receiving a single bill
15 from Duquesne for both its charges and supplier charges or receiving two bills, one
16 for services from Duquesne and one for services from the EGS (Duquesne St. No.
17 8-R at 21).

18 **Q. WHAT REASONS DOES DUQUESNE GIVE FOR OPPOSING THIS**
19 **OPTION?**

20
21 A. Its reasons are somewhat difficult to understand, but center around its experience
22 in the Customer Choice Pilot Program. It first claims that 6 of the 17 suppliers
23 participating in the pilot require their customers to adopt the two-bill option, which
24 it claims is contrary to my direct testimony at page 9. I there testified that I believe

1 that allowing this option will enable suppliers to bring to the market products and
2 services that customers desire and to provide added value. I pointed out that
3 allowing that option and allowing suppliers to be the single point of contact with
4 customers is a relatively simple and risk-free step which merely permits these
5 opportunities to be offered and does not require any customer to take them.

6 The fact that 6 of 17 suppliers require their customers to adopt the two-bill
7 billing option does not contradict my testimony. First, it actually supports my
8 testimony that allowing three options, including the supplier single-bill option,
9 gives the customer an opportunity for choice. For those customers who may not
10 care about receiving two bills, it gives the supplier the opportunity to provide some
11 other competitive service as a trade-off for receiving two bills. Second, if 6 of the
12 17 suppliers are requiring the two-bill billing option, that means that 11, or nearly
13 twice as many, are not. Finally, it is interesting to note that Duquesne has
14 provided no information about the 6 suppliers. Duquesne does not state whether
15 they serve residential customers and what their success in the pilots has been. It
16 does not state whether they have attempted to provide any counter-balancing
17 incentives. One would need to know why they required this and whether it was for
18 purposes of the pilot only or will still be a requirement when direct access begins.
19 In any event, that is what competition is all about.

20 The next reason given by Mr. Allison is that at least one supplier
21 implemented a cancellation fee to its residential customers, a clear disincentive to

1 return to Duquesne. I have no idea what this has to do with the supplier single-
2 billing option. The question of disincentives to switch is an entirely different one.

3 Finally, Duquesne claims that the exchange of information with suppliers
4 by electronic media during the pilot has been somewhat problematic. That is the
5 very reason why the General Assembly called for a pilot program — to work out
6 these types of problems. Moreover, it is my understanding that a substantial cause
7 of these problems lies with Duquesne. For example, Duquesne was late in
8 distributing its customer lists. In addition, it did not include customer account
9 numbers. This made it difficult for suppliers to clean up and use those customer
10 lists accurately and efficiently. Currently, there is a working group at the
11 Commission which is focusing on such issues.

12 In short, Duquesne provides no legitimate reason to preclude the supplier
13 single bill option.

14 **Q. DOES MR. ALLISON SAY ANYTHING ELSE ABOUT THE SINGLE**
15 **SUPPLIER BILL?**

16
17 **A.** Yes. He also claims that it has not been “endorsed” by the Commission (Duquesne
18 St. No. 8-R at 22). This statement is disingenuous. As I previously stated (Enron
19 St. No. 4.0 at 5), the Commission did recognize this option and the right of entities
20 other than EDCs to provide billing services, stating this option should be explored
21 in the context of each utility’s restructuring. This hardly leads to the connotation
22 suggested by Mr. Allison. Duquesne should be required to allow the supplier

1 single-bill option and the agency arrangement it allows. (Enron St. No. 4.0 at
2 10-15.)

3 **Q. SINCE YOU HAVE MENTIONED AGENCY, WHAT POSITION DOES**
4 **DUQUESNE TAKE REGARDING AGENCY?**

5
6 A. Mr. Allison (Duquesne St. No. 8-R at 22) claims that there are no benefits to the
7 customer from agency because only the EDC can provide metering services, can
8 physically disconnect service and can determine whether the customer is
9 requesting discontinuance of service at its current location, and the single supplier
10 bill option has not been endorsed by the Commission.

11 **Q. WHAT IS YOUR POSITION?**

12 A. I believe that Mr. Allison's reasoning is a non sequitur. First, as I have stated, he
13 is incorrect that the single bill option has not been "endorsed" by the Commission.
14 The Commission has provided that this is an option to be explored in the context
15 of the restructuring filing of each utility. Second, even if, at the present time, only
16 Duquesne, as the EDC, can provide metering services and can disconnect electric
17 service, that is not inconsistent with Enron's agency position. While Enron agrees
18 that only the EDC can physically disconnect service, we do not agree that only the
19 EDC can provide metering services, or that an agent, on behalf of the retail
20 customer, could not be authorized by the retail customer to initiate a voluntary
21 disconnection. But those issues do not refute or exclude the benefits of agency.
22 The focus of agency services is the ability of the retail customer to choose to have

1 all of its services provided through “one stop shopping” through its EGS -- if the
2 customer so chooses. There is nothing that prohibits this and there is nothing in
3 Mr. Allison’s testimony that provides any reason why it should not be allowed.

4 **Q. OCA WITNESS ALEXANDER HAS ALSO CRITICIZED YOUR**
5 **TESTIMONY REGARDING THE SINGLE BILL OPTION AND AGENCY**
6 **(OCA ST. NO. 5-R at 6-9). DO YOU HAVE ANY COMMENTS?**
7

8 A. Yes. She criticizes our single bill option, not because she opposes the concept, but
9 because I believe she has misunderstood our point.

10 **Q. PLEASE AMPLIFY.**

11 A. She first opposes our agency approach because she believes that in such capacity, Enron
12 would have the right to have the EDC physically disconnect customers. That is not the
13 case. Only the default supplier could physically disconnect for the failure to pay its
14 charges after compliance with Chapter 56. In my direct testimony, I referred to
15 “discontinuance of service” to mean the discontinuation of generation service from Enron
16 in the event of non-payment. In such a case, the customer would revert to the default
17 supplier who could physically disconnect that customer only after complying with
18 Chapter 56. I agree with Ms. Alexander that suppliers do not have the right to order
19 physical disconnection for nonpayment of their charges and did not intend to suggest
20 otherwise.

21 Ms. Alexander also criticizes the supplier bill option because it would lead
22 customers back to “bundled” services. This is not accurate. Since there will be
23 competition, different suppliers will offer different services that will allow the customer
24 to choose the type of billing he or she wishes. Even if some of those services are

1 bundled, that is far different than the bundling that exists under the current regulated,
2 monopoly bundled environment.

3 Finally, Ms. Alexander expresses concerns that the agency relationship is the only
4 alternative offered by Enron. Enron is seeking is to have agency allowed since it is most
5 likely that those customers who select a supplier to provide a single bill will also
6 authorize that supplier to act as the single point of contact with the EDC. Many EDCs,
7 including Duquesne, have opposed agency. The Commission may require other options
8 as well, but it is important that agency be one of them for the reasons I have stated in my
9 direct testimony.

10 **Q. IN MR. MORAN'S REBUTTAL TESTIMONY (AT 7, LINES 15-21) HE**
11 **ALSO STATED HIS CONCERN WITH GIVING THE SUPPLIER THE**
12 **RIGHT TO ORDER THE DISTRIBUTION UTILITY TO TERMINATE**
13 **SERVICE TO A CUSTOMER. HE STATES, "WE WOULD HAVE NO**
14 **WAY TO DETERMINE IF THE SUPPLIER MAY HAVE MADE A**
15 **MISTAKE (FOR EXAMPLE, IF THE CUSTOMER HAS A VALID**
16 **MEDICAL WAIVER), WHICH COULD RESULT IN A LIFE-**
17 **THREATENING SITUATION." DO YOU AGREE WITH MR. MORAN'S**
18 **CHARACTERIZATION?**

19 **A.** No, I do not. As I have stated, the discontinuance of service that I discussed
20 relates only to the electric generation service from the EGS. The customer would
21 not lose a moment of electrical service from that discontinuance and the transfer
22 back to the default supplier. Therefore, any medical waiver is not relevant. Only
23 where the EDC attempts to shut off electricity for non-payment after complying
24 with Chapter 56, would a medical waiver be relevant. Enron's proposal does not
25 attempt to change the rules on that issue.

1 **III. PARTIAL PAYMENTS**

2
3 **Q. WHAT IS DUQUESNE’S POSITION ON THE APPLICATION OF PARTIAL**
4 **PAYMENTS?**

5
6 A. Duquesne proposes to apply partial payments to balances due for prior and current
7 ITC, CTC and T&D services before any payment for prior or current supplier
8 charges (Duquesne St. No. 8A at 24-25). Mr. Allison claims that by Duquesne’s
9 modifying its proposed method of application of customer payments, the issues I
10 raised in my direct testimony have been addressed.

11 **Q. DO YOU AGREE?**

12
13 A. No. For the reasons stated at pages 17 through 19 of my direct testimony (Enron
14 St. No. 4.0), I believe there is no reason why the supplier services should be
15 treated in an inferior manner to other services. As I stated, the entity that takes
16 responsibility for the billing process should bear the risk for nonpayment.

17 **IV. PHASE-IN**

18 **Q. WHAT POSITION DOES DUQUESNE TAKE ON PHASE-IN?**

19
20 A. It does not advocate the “first-come first-served” requirement in the Customer
21 Choice Act. Mr. Hoffmann (Duquesne St. No. 6-R at 7-11) claims that this
22 introduces inherent inequities among customers because it would work only if all
23 are equally informed. Duquesne believes that all its customers are not equally
24 informed, and has instead recommended a “geographical area of choice” or
25 “GAC” method.

1 **Q. DOES ENRON AGREE TO THIS METHOD?**

2
3 A. No, for the reasons set forth in my direct testimony at 20. Nothing in Mr.
4 Hoffmann's rebuttal changes our position. It is somewhat amazing that Duquesne
5 wishes to twist the law, which requires first-come first-served, to make eligibility
6 depend on where one lives, based on the percentage of individuals in that
7 geographic area that attempted to become part of the pilot program. Moreover, to
8 the extent that Mr. Hoffmann bases this on the necessity for a proper educational
9 program, he appears to be confessing a shortcoming in Duquesne's own education
10 program and contradicting his own testimony about the success of that program
11 (Duquesne St. No. 6-R at 18-19). This supports Enron's position that there should
12 be a statewide educational program which Mr. Hoffmann likewise opposes
13 (Duquesne St. No. 6-R at 13-14).

14 **Q. DOES ENRON HAVE ANY ADDITIONAL CONCERNS REGARDING**
15 **THE GAC METHOD OF SELECTION?**

16
17 A. Yes. It is not clear from Duquesne's plan that if 33% of all customers selected
18 from the first group during the first year do not elect to choose a competitive
19 supplier that any additional customers from any of the other groups will have the
20 opportunity. We think it is very clear that 33% of the total rate class must either
21 have chosen direct access or have not chosen after 100% had the opportunity to
22 choose. Under Duquesne's proposal, if the GAC method produces only, for
23 example, 25% of the total residential customer count from the first group during

1 the first year, it is not clear that anyone from the second group would have the
2 opportunity to choose during the first year until there were 33% enrolled. This is a
3 serious deficiency in Duquesne's plan and it should be rejected by the
4 Commission.

5 **V. CUSTOMER EDUCATION**

6
7 **Q. YOU HAVE ALREADY DISCUSSED CUSTOMER EDUCATION WITH**
8 **RESPECT TO CUSTOMER SELECTION. DO YOU HAVE ANY**
9 **ADDITIONAL COMMENTS REGARDING MR. HOFFMANN'S**
10 **TESTIMONY ON THIS ISSUE?**

11
12 **A.** Yes. Mr. Hoffmann further argues in favor of development and implementation of
13 Duquesne's own education plans since he claims consumers are currently being
14 exposed to decidedly biased and often inaccurate messages about competition from
15 others (Duquesne St. No. 6-R at 13). Duquesne assumes that if it unilaterally
16 provides the message, it will be unbiased. However, this is obviously a non-
17 sequenter and, as pointed out in my direct testimony, a review of Duquesne's
18 educational materials do not support this. (Enron St. No. 4.0 at 30-32). If
19 Duquesne alone is permitted to continue to prepare its own education materials,
20 there will clearly be subtle marketing references as to why Duquesne is superior to
21 alternatives. If Duquesne wishes to do so unilaterally then its shareholders should
22 pay and the cost should not be a cost of service. If education is to be a cost of
23 service, then there should be oversight and primary authority for the program
24 should be with the PUC — not Duquesne.

1 **Q. DOES DUQUESNE BELIEVE ITS NAME SHOULD BE ON**
2 **EDUCATIONAL DOCUMENTS?**

3
4 A. Yes. Duquesne does not share our view that there is no reason for Duquesne to
5 place its name on any customer education communications (Duquesne St. No. 6-R
6 at 18). If the document is educational only and not a marketing tool for Duquesne,
7 there is no reason why its name needs to be on it.

8 **Q. DO YOU HAVE ANY FURTHER COMMENT ON DUQUESNE'S**
9 **TESTIMONY REGARDING ITS EDUCATIONAL PROGRAM?**

10
11 A. Yes. Duquesne states that until the nature and design of a state-wide program are
12 complete, it does not support the blind allocation of funding to capitalize statewide
13 efforts that may prove inappropriate to local needs (Duquesne St. No. 6-R at 26).
14 If that is Duquesne's view, then I question why it should be opposed to stakeholder
15 input now for the educational materials it is currently planning and disseminating.

16 **Q. WHAT IS ENRON'S POSITION?**

17 A. As I previously testified (Enron St. No. 4.0 at 29), anything disseminated by either
18 utilities or suppliers will involve marketing. The only effective way to implement
19 the educational effort, as proved by what took place during the pilot program sign-
20 up, is for centralized administration by the Commission or an objective third party.
21 Suppliers and utilities should have an advisory role only.

1 **VI. UNIVERSAL SERVICE**

2 **Q. MR. FLYNN CONTENDS THAT UNIVERSAL SERVICE SHOULD NOT**
3 **BE PORTABLE BECAUSE THE COSTS COME FROM DUQUESNE'S**
4 **RATE PAYERS AND SHAREHOLDERS (DUQUESNE ST. NO. 14-R AT**
5 **23-24). DO YOU HAVE ANY COMMENTS?**
6

7 A. Yes. First, I question any shareholder contribution. Mr. Flynn's Exhibit JPF-1
8 shows that universal service costs were budgeted in 1996 and were presumably
9 recovered in Duquesne's bundled rates. More importantly, in the competitive
10 environment, those costs will be recovered through a non-bypassable universal
11 service charge (Exhibit JPF-1, page 6). Accordingly, these costs will be recovered
12 from generation customers of all participating EGSs and they do not belong only
13 to Duquesne for its distribution services.

14 Second, Duquesne's reference to "its" ratepayers shows that it has not
15 accepted the competitive environment. Insofar as generation is concerned, those
16 customers are not Duquesne's ratepayers, but the customers of EGSs. Therefore,
17 as I stated in my direct testimony (Enron St. 4.0 at 32-33), universal service must
18 be portable and allocated to each component of a low-income customer's bill on a
19 pro rata basis to those who participate in both the sale and delivery of electricity.

20 Mr. Flynn also states that the EGSs should set up their own universal
21 service program (at 24). He misconceives the fact that this would be both
22 redundant and unnecessary. The universal service charge collected by Duquesne

1 will be collected from customers of all participating EGSs. It therefore does not
2 just belong to Duquesne.

3 Duquesne's position should be rejected by the Commission.

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY.**

5 **A. Yes it does.**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

LYNN R. COLES

ON BEHALF OF

ENRON POWER MARKETING INC.

DOCKET NOS. R-00974104

RE: DUQUESNE LIGHT COMPANY

RESTRUCTURING PLAN

NOVEMBER 7, 1997

DIRECT TESTIMONY OF LYNN R. COLES

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1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** Lynn R. Coles, 550 Congressional Boulevard, Suite 290, Carmel, Indiana
4 46032.

5 **Q. WHAT IS YOUR OCCUPATION?**

6 **A.** I am an Executive Engineer in the firm of R. W. Beck, Inc.

7 **Q. PLEASE DESCRIBE R. W. BECK, INC.**

8 **A.** R. W. Beck, Inc. is a corporation of engineers and consultants founded in
9 1942 for the purpose of rendering professional engineering and consulting
10 services in planning, financing, operating and designing facilities for
11 utilities. The Firm employs approximately 400 professional and support
12 personnel to provide these services. Our general office is in Seattle,
13 Washington, and we have offices in ten other cities including
14 Indianapolis.

15 **Q. PLEASE SUMMARIZE YOUR EDUCATION BACKGROUND AND**
16 **YOUR EXPERIENCE IN THE ELECTRIC UTILITY INDUSTRY.**

17 **A.** I have over 20 years experience in the electric utility industry with a
18 broad range of responsibilities in such areas as research, planning,
19 economic analysis, rate analysis and contract negotiations. Exhibit 5,

1 LRC-1 is a brief summary of my educational background and my general
2 experience in the electric utility industry.

3 **Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS**
4 **PROCEEDING?**

5 **A.** I am appearing on behalf of Enron Power Marketing Inc. ("Enron" or
6 "EPMI").

7 **II. PURPOSE AND RECOMMENDATIONS**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 **A.** In my testimony, I will be covering issues related to direct supplier
10 procurement of transmission service, supplier obligation practices
11 including energy balancing and load reconciliation services, rules,
12 regulations and other issues impacting customer choice of alternative
13 supplier, supply planning and planning reserve issues, and procedures to
14 ensure reliability. I will present for the Commission's consideration an
15 alternative Pro Forma Electric Generation Supplier Tariff (Exhibit 5,
16 LRC-2), which is intended to define suppliers' responsibilities in relation
17 to meeting customers' loads and all necessary involvement with the
18 Electric Distribution Company ("EDC").

19 **Q. WHAT CONCLUSIONS HAVE YOU REACHED BASED ON THE**
20 **REVIEW YOU COMPLETED IN THIS PROCEEDING?**

21 **A.** Based on my review of the Company's filings I have reached the
22 following conclusions:

- 1) The Company's filings do not adequately address required operational aspects of suppliers providing reliable service to end-users. To fill this void, I have prepared and presented a "Pro Forma Supplier Tariff."
- 2) The Company's filings contain provisions that appear to be barriers to competition.
- 3) The Company's direct testimony fails to confirm the availability of firm and non-firm point-to-point service in addition to network transmission service.

10 **Q. WHAT ARE YOUR SPECIFIC RECOMMENDATIONS TO THE**
11 **COMMISSION IN THIS PROCEEDING?**

12 **A.** *My recommendations include the following:*

- 1) The "Pro Forma Supplier Tariff" (Exhibit 5, LRC-2), as modified by the Commission, should be adopted for all Pennsylvania utilities.
- 2) Alternative suppliers shall have access to point-to-point transmission service in retail access as is allowed under federal rules.
- 3) All EDC charges to any suppliers must be reasonable and strictly cost-based and minimum contract periods should

1 be reviewed and reduced (due to the restrictions they place
2 on competition).

3 4) All suppliers should be required to maintain regional
4 reliability requirements with regard to operating reserves,
5 but the Commission should not institute any requirement for
6 planning reserves.

7 **III. DIRECT SUPPLIER PROCUREMENT OF TRANSMISSION**
8 **SERVICES**

9 **Q. HOW DO YOU UNDERSTAND "DIRECT ACCESS" AS DEFINED**
10 **IN THE ELECTRICITY GENERATION CUSTOMER CHOICE**
11 **AND COMPETITION ACT?**

12 A. All Pennsylvania consumers will have the right to choose their supplier
13 of electric power and energy. To accomplish this, suppliers should have
14 comparable access to all of the EDC's transmission and distribution
15 facilities. Moreover, I understand the Electricity Generation Customer
16 Choice and Competition Act ("the Competition Act") as allowing
17 consumers to choose how and from whom they will obtain their
18 electricity service, such as generation supply and transmission services.

19 **Q. DOES DUQUESNE SUPPORT AN APPROACH WHEREBY**
20 **SUPPLIERS CAN OBTAIN TRANSMISSION SERVICE?**

21 A. Duquesne witness Mr. Robert A. Irvin describes Duquesne's proposal for
22 customer transmission service through the open access transmission tariff
23 filed by Duquesne at FERC. The tariff offers point-to-point firm and

1 non-firm service and network transmission service. Mr. Irvin further
2 describes that Duquesne's approach to implementing retail access
3 pursuant to this filed open access rate. The approach requires that
4 customers purchase the basic transmission service and that customers or
5 suppliers purchase or provide for ancillary services to maintain system
6 reliability.

7 **Q. HAS DUQUESNE PROPOSED RETAIL ACCESS THROUGH ALL**
8 **OF ITS OPEN ACCESS TARIFFS?**

9 A. It is not clear. The testimony of Robert A. Irvin, starting on page 11,
10 describes the implementation of the FERC open access tariff for retail
11 service. In this discussion, Mr. Irvin does not delineate between point-to-
12 point service and network service options. His testimony is silent as to
13 whether point-to-point service can be used by suppliers or customers.
14 Since the Duquesne open access tariff includes both point-to-point and
15 network service, and Mr. Irvin states, I conclude that both customers and
16 suppliers should have the option of using the full range of alternatives
17 under Order 888 Open Access tariffs, including Network Integration, firm
18 point-to-point, and non-firm point-to-point services. These services are
19 sufficiently different in functionality and cost that certain types of users
20 would be precluded from optimizing their power supply situation without

1 full access to all transmission services. While I would discourage
2 individual residential customers from utilizing point-to-point services due
3 to the complexity, a knowledgeable supplier or industrial customer should
4 not be precluded from use of these transmission supply options as set
5 forth in Order 888.

6 **Q. WHAT HAS DUQUESNE PROPOSED REGARDING**
7 **IMPLEMENTATION OF TRANSMISSION AND ANCILLARY**
8 **SERVICES?**

9 **A.** Mr. Irvin explains that Duquesne has determined to charge retail
10 customers with the basic transmission cost and three ancillary services,
11 reactive supply, regulation and frequency control, and spinning reserves.
12 Customers electing retail service and paying for transmission, distribution
13 and these three ancillary services will have the ability to receive power
14 from any electric supplier. Duquesne has determined that alternative
15 suppliers will be responsible for the three other ancillary services
16 (scheduling, energy imbalance, and supplemental reserves).

17 **Q. IS THIS A REASONABLE APPROACH TO OFFERING OPEN**
18 **ACCESS SERVICE FOR RETAIL ACCESS?**

19 No. There is no practical or technical reason for Duquesne to require
20 customers to purchase their own transmission service and three of the
21 ancillary services. Suppliers should be allowed to obtain all necessary
22 components of transmission for their customers. I believe that this is

1 more consistent with the concept of retail access where an alternative
2 supplier arranges for generation, transmission and distribution supply
3 from available resources and providers. Furthermore, I believe it is a less
4 complex arrangement and that more customers will understand this
5 arrangement than Duquesne's approach.

6 **Q. HOW WOULD YOUR APPROACH BE ACCOMPLISHED?**

7 **A.** Suppliers will be allowed to act as agents for customers in procuring
8 transmission service through the Duquesne open access rate or through
9 any other transmission provider such as an ISO. Customers themselves
10 ought to be able to seek transmission service including all ancillary
11 services.

12 **Q. DO YOU HAVE COMMENTS ON DUQUESNE'S PROPOSED**
13 **IMPLEMENTATION OF THE ENERGY IMBALANCE SERVICE?**

14 **A.** Yes. Duquesne witness Fred A. Allison on page 24 of his testimony
15 lines 6-17 describes the calculation of energy imbalance charges for
16 alternative suppliers. Duquesne's approach by using the open access rate
17 "deadband" of 1.5% and penalties for not meeting these tight
18 requirements is wrong for the retail access situation. This approach may
19 be appropriate for wholesale situations where real-time metering is
20 available, narrow bandwidths and cost-based penalties are employed. For

1 retail service, where monthly meter readings are more common, it is
2 unfair to hold a retail supplier to such restrictive bandwidths. Since
3 Duquesne itself has said it will provide suppliers with estimated load
4 shapes, how could it penalize suppliers if the load shapes did not
5 represent actual usage? The application of Duquesne's energy imbalance
6 approach will impede competition by penalizing suppliers unfairly. The
7 topic and a proposed alternative is discussed in the following section.

8 **IV. SUPPLIER OBLIGATIONS, ENERGY BALANCING AND LOAD**
9 **RECONCILIATION SERVICE**

10 **Q. REGARDING THE ISSUE OF ENERGY BALANCING SERVICE,**
11 **WHAT GUIDELINES DID THE GENERAL ASSEMBLY PROVIDE**
12 **TO PUBLIC UTILITIES?**

13 **A.** In the Competition Act the General Assembly does not define specific
14 rules or standards for energy balancing services, but rather sets the
15 general rules in Section 2804(b) as follows:

16 Consistent with the provision of section 2806, the
17 commission shall require that a public utility that owns or
18 operates jurisdictional transmission and distribution facilities
19 shall provide transmission and distribution service to all
20 retail customers in their service territory and to electric
21 cooperative corporations and electric generation suppliers,
22 affiliated or nonaffiliated, on rates, terms of access and
23 conditions that are comparable to the utility's own use of its
24 system.

25 *I conclude that the guideline for energy balancing service is to*
26 *replicate Duquesne's own use of the system as much as possible.*

1 Q. **WHAT TESTIMONY DOES THE COMPANY PRESENT ON THE**
2 **SUPPLIER OBLIGATION, ENERGY BALANCING, AND LOAD**
3 **RECONCILIATION ISSUES?**

4 A. Company witness Fred Allison addresses these issues. Mr. Allison
5 proposes that Duquesne will use typical customer class load shapes and
6 estimate the hourly load obligation of each supplier. Duquesne will then
7 reconcile the estimated amounts with actual load and adjust the estimated
8 hourly consumption to actual hourly loads by summing the estimates of
9 all suppliers and then comparing to actual loads as measured by system
10 operation. Differences will be allocated based on each suppliers pro rata
11 share of total. An energy imbalance charge including penalties is then
12 applied to the difference between the load obligation and the adjusted
13 estimates of retail actual load.

14 Q. **WHAT'S WRONG WITH DUQUESNE'S PROPOSED**
15 **APPROACH?**

16 A. Since Duquesne calculates the hourly supplier obligation to serve a
17 suppliers load, is unfair to charge the supplier a penalty when the load
18 obligation total determined by Duquesne does not match the actual
19 system hourly load. In this situation, no one knows who's customers are
20 in or out of a bandwidth in a given hour. The costs brought about by the
21 mismatch between scheduled and actual load should be shared among all

1 providers and the imposition of penalties based on a narrow bandwidth is
2 simply wrong.

3 **Q. PLEASE PROVIDE MORE BACKGROUND ON THE ISSUES OF**
4 **LOAD OBLIGATION, ENERGY BALANCING AND LOAD**
5 **RECONCILIATION?**

6 A. Where hourly metering is in place for retail customers, load aggregators
7 should be able to operate in a manner similar to wholesale suppliers
8 through the Duquesne open access tariff by estimating the daily
9 obligation, monitoring the hourly loads and using scheduling, dispatch
10 and control ancillary services from the open access tariff. The difference
11 between the hourly energy delivery and the actual load of the supplier's
12 customers can be handled in the energy imbalance service, also to be
13 provided by the open access tariff. However, many retail customers do
14 not have hourly meters and it would be very expensive to install hourly
15 metering for retail access. Without hourly metering, special
16 consideration must be given to establishing a reasonable and fair method
17 of estimating loads, of balancing over-and under-deliveries, and in
18 accounting for the monthly mismatch between a supplier's monthly actual
19 deliveries and the customer's actual monthly energy metered amounts.

20 **Q. WHAT WOULD YOU SUGGEST AS A METHOD FOR**
21 **HANDLING SUPPLIER OBLIGATION, ENERGY BALANCING**
22 **AND LOAD RECONCILIATION?**

1 A. As the basis for handling supplier obligation, energy balancing and load
2 reconciliation, I propose the services be provided under the Duquesne
3 open access tariff, or a future ISO, or some other supplying entity.
4 Furthermore, FERC has explicitly provided for scheduling, dispatch and
5 control and energy imbalance services for wholesale and state-authorized
6 retail transactions as part of Open Access transmission tariffs. These
7 arrangements provide the foundation for energy imbalance service to
8 Suppliers and customers under Pennsylvania's retail access.
9 For customers served with hourly metering in place, the energy
10 imbalance service under Open Access tariffs is directly applicable and is
11 really no different from ongoing wholesale transactions. For Suppliers
12 delivering to customers with only monthly energy meters, the
13 methodology used in Open Access tariffs is not easily applied because of
14 the greater uncertainty of daily load shapes. For these customers, until
15 improved metering is installed, I would propose a load-estimating method
16 and settlement mechanism implemented in conjunction with the EDC.
17 The EDC should calculate and provide each Supplier with an Aggregate
18 Daily Load Curve ("ADLC") each month based on the EDC's knowledge
19 of the customers' load shapes of the customers that the Supplier serves.
20 The EDC should further provide each Supplier by 7:00 a.m. on the day

1 before delivery, an adjusted ADLC to account for the differences between
2 the forecasted weather and the weather-related assumptions used to
3 develop the ADLC. The weather- adjusted ADLC daily load shape then
4 becomes the Supplier's delivery obligation to these customers and the
5 Supplier would be obligated to schedule supplies to meet these delivery
6 obligations to its customers. Under such an approach, the energy
7 balancing function for these monthly-metered customers becomes much
8 simpler and there is no need to estimate actual hourly load mismatches
9 after the fact. Once a month, the EDC would use actual monthly metered
10 loads to calculate and prorate the estimated difference between delivered
11 amounts and estimated actual loads in terms of on-peak and off-peak
12 energy. The EDC would notify each Supplier of its on-peak and off-peak
13 mismatches "totals and costs," and each Supplier could seek to trade
14 over- and under - amounts with other Suppliers. Such a market
15 settlement mechanism will provide an incentive to minimize the costs of
16 these mismatches.

17 **Q. DO YOU HAVE ANY OTHER COMMENTS ON SUPPLIER**
18 **OBLIGATIONS, ENERGY BALANCING AND LOAD**
19 **RECONCILIATION?**

20 **A.** I believe the Pro Forma Supplier Tariff presented as Exhibit 5, LRC-2
21 provides a good starting point to address these issues.

22 **V. GENERAL RULES, REGULATIONS AND PRICING**

1 **IMPACTING CUSTOMER CHOICE OF SUPPLIER**

2 **Q. HAVE YOU EXAMINED DUQUESNE'S RULES AND**
3 **REGULATIONS PERTAINING TO CUSTOMER SELECTION OF**
4 **ALTERNATIVE SUPPLIERS?**

5 **A. Yes. Duquesne witness Frank Hoffman explains the details of the**
6 **proposed procedures for customer selection of generation suppliers in**
7 **Filing Requirements Item No. M-4. Under the discussion of customer**
8 **notification, Duquesne proposes to require a service agreement signature**
9 **by the customer to activate the switch in suppliers. Since many**
10 **customers are used to dealing with telephone and cable company**
11 **operations that require only voice authorization, I believe the Commission**
12 **should consider allowing a three-way telephone call among Duquesne, the**
13 **customer, and the alternative supplier to activate the switch.**

14 **Q. DO YOU HAVE ANY CONCERNS REGARDING DUQUESNE'S**
15 **CALCULATION OF MARKET GENERATION COSTS, THE**
16 **RELATED CALCULATION OF CTC AND THE RELATED**
17 **IMPACT ON CUSTOMER CHOICE?**

18 **A. Yes. According to witness James Lahtinen, Duquesne has used a**
19 **"reverse RFP" process conducted in June of 1997 to arrive at a**
20 **determination of the competitive cost of generation. The reverse RFP**
21 **proposed a sale of Duquesne power and energy and asked participants to**
22 **offer a price bid under the RFP terms and conditions. As total revenues**

1 are limited by the generation rate cap, the determination of the
2 competitive market generation costs directly reflects the magnitude of the
3 CTC. That is the generation rate cap less the market generation costs is
4 the CTC. I am concerned that the determination of market generation
5 cost is unreasonably low, the resulting CTC too high, and the incentive
6 for retail access will be reduced by this process.

7 **Q. DO YOU HAVE QUESTIONS ON THE REVERSE RFP METHOD**
8 **OF DETERMINING MARKET GENERATION COSTS THAT**
9 **WOULD REQUIRE CLOSER EXAMINATION BY THE**
10 **COMMISSION?**

11 A. Yes. I have reviewed the market clearing prices used by David J.
12 Roberts in calculation of market clearing prices for Met-Ed and Penelec
13 (Met-Ed/Penelec Exhibit DJR-8 page 4 of 4). I have attached this page
14 as Exhibit 5, LRC-3. The comparable market prices used by Duquesne
15 are summarized by witness James A. Lahtinen on page 59 lines 1-6 of his
16 direct testimony. For 1999, the Penelec price is 2.35 cents per kWh
17 while the Duquesne number is 1.8 cents per kWh. For this first year of
18 retail access in Pennsylvania, the Duquesne generation values are about
19 30% lower than that of Penelec, the neighboring utility just across the
20 ECAR-PJM interface, but still in the state. I do not understand why
21 these estimates vary so much and more specifically, why the Duquesne

1 value is so low. While I am not endorsing the Penelec estimate, I make
2 the comparison to illustrate the significant difference.

3 **Q. HAVE YOU PREPARED A MORE DETAILED ANALYSIS OF**
4 **DUQUESNE'S CALCULATION OF MARKET PRICE INCLUDING**
5 **A DISCUSSION OF ANY INHERENT PROBLEM IN THEIR**
6 **PROCEDURE?**

7 **A.** No. These calculations would be beyond the scope of my testimony. I
8 would encourage the Commission to examine this issue more closely.
9 Witness Whitfield A Russell representing the Mid-Atlantic Power Supply
10 Association has examined this issue more closely and I support Mr.
11 Russell's efforts to examine the Duquesne critique of the calculation of
12 market cost. I believe it is critically important to the success of retail
13 access to have the correct pricing of competitive generation supply in the
14 first few years of customer access. The correct pricing in the first four
15 years of customer access will allow suppliers to recover their costs.

16 **VI. SUPPLY PLANNING AND PLANNING RESERVES ISSUES**

17 **Q. PLEASE COMMENT ON DUQUESNE'S TESTIMONY ON NEED**
18 **FOR RESERVES?**

19 **A.** Duquesne witness Mark G. Karl describes the approach to be used by
20 Duquesne to maintain adequate reserve margins by meeting ECAR
21 reserve requirements through the transition period. Mr. Karl also
22 describes the post-transmission period where planning or installed

1 reserves are not appropriate in the competitive environment. I concur
2 with this assessment as discussed below.

3 **Q. WHAT ARE PLANNING RESERVES AND WHAT IS THE**
4 **HISTORY AND BASIS FOR ESTABLISHING RESERVE**
5 **REQUIREMENTS?**

6 A. Planning reserves are generation amounts above expected load levels that
7 are required of each utility to provide the added capability needed for
8 unit forced outages, planned outages and derates, for load growth beyond
9 that expected, and for unforeseen weather. Regional pools such as ECAR
10 have found it economic to have shared reserve responsibility, and use a
11 percentage planning reserve requirement rather than having each utility
12 provide its own reserves. Planning reserve levels are based on a
13 statistical calculation that sheds some light on the overall reliability of the
14 region. Typically, the standard measure of reliability — the loss of load
15 probability criteria — is loss of the ability to serve load of one day in ten
16 years due to generation shortages. Thus, planning reserves have provided
17 statistically based general guidance to regions on the approximate amount
18 of generation supply needed to maintain reliability.

19 **Q. WHAT ARE OPERATING RESERVES AND WHAT ROLE DO**
20 **THEY CURRENTLY PLAY IN RELIABILITY?**

21 A. Operating reserves are different from planning reserves in that they are
22 called upon in daily operation of the system to maintain sufficient supply

1 to match loads. Power pools and other transmission providers consolidate
2 the need for operating reserves and typically provide both spinning and
3 non-spinning reserves which are called upon to replace generation units
4 that are forced out of service or for other loss of supply or increased
5 load. Spinning reserves typically consist of partially loaded generation
6 that can be quickly ramped up to meet the added requirement. These
7 spinning reserves are supplemented with non-spinning reserves, which are
8 units that can be started in 10 minutes to provide additional reserves
9 should they be needed. Different power pools calculate these types of
10 operating reserves slightly differently and use operating reserves to
11 provide the day-to-day reliability needed to serve customers. The FERC,
12 as part of its Open Access Order 888, recognized the importance of these
13 reserves by requiring transmission providers to offer, and transmission
14 customers to purchase, spinning reserves and supplemental reserves as
15 part of ancillary services associated with transmission transactions.

16 **Q. WILL RESTRUCTURING PENNSYLVANIA'S ELECTRIC**
17 **INDUSTRY REQUIRE A DIFFERENT ROLE FOR PLANNING**
18 **RESERVES? MORE SPECIFICALLY, WILL THE**
19 **IMPLEMENTATION OF PLANNING RESERVES BE AFFECTED?**

20 **A.** Planning reserves have played an important role in traditional utility
21 practice where a utility had a franchised service territory and had a

1 reasonable obligation to provide generation to serve that territory's load
2 in a reliable manner over time. Long-term forecasts of load growth were
3 conducted, and if necessary, new generation supply options were
4 evaluated both for reliability and cost. Under a restructured industry, the
5 traditional planning process will no longer be applicable. Customer
6 choice implies that service territories and loads are no longer certain
7 beyond specific contract obligations. Rather than the necessity to
8 perform extensive forecasts, the market will dictate that as available
9 generation resources are reduced, the price of generation will rise, thereby
10 creating an incentive for new plants to be planned and constructed. This
11 market-based price signal and resulting market response will replace the
12 concept of planning reserves and traditional planning.

13 I believe the marketplace will provide a better allocation of risk and
14 reward and be much more efficient than traditional planning. The
15 marketplace can respond to more than simple variations in load and
16 generation outages. For example, there will be a closer ability to meet
17 the reliability needs of specific customers who may be able to operate
18 with lower reliability at lower cost. The electricity marketplace is
19 developing new tools such as hedges and swaps which can reduce the
20 financial and supply risks to an acceptable level without use of planning
21 reserves. Finally, the three broad options for power supply remain. These

1 are (1) buying from the pool spot market, (2) gaining bilateral
2 arrangements for secure supply, or (3) owning generation. Suppliers can
3 use these options to provide the customer-driven reliability needed for
4 generation.

5 **Q. COULD YOU PROVIDE A SUMMARY DISCUSSION OF**
6 **PLANNING AND OPERATING RESERVES?**

7 A. Traditional utility planning with locked-in service territories and captive
8 customers made sense in past years, but is wrong for a restructured
9 electricity marketplace. Suppliers should not be asked to provide long-
10 term forecasts of load and supply and an allocated margin of generating
11 supply for planning reserves. Suppliers will not know their load
12 requirements with sufficient accuracy to do this. The free marketplace,
13 with appropriate price signals and financial and contractual tools will
14 substitute for the traditional planning reserves.
15 Operating reserves have always been the method that ensures reliability.
16 Methods and rules for determining and obtaining adequate operating
17 supplies are well developed and handled by pools and reliability councils.
18 These rules should cover a large area and broadly cover all Suppliers
19 with similar requirements. The implementation of special rules for

1 certain suppliers or for some local areas is counterproductive and can
2 reduce the benefits of a free marketplace.

3 **VII. PROCEDURES TO ENSURE RELIABILITY**

4 **Q. WHAT APPROACH SHOULD THE COMMISSION USE TO**
5 **ENSURE ADEQUATE RELIABILITY OF GENERATION**
6 **SUPPLY?**

7 A. I believe that the Commission should support the role of the NERC and
8 the two reliability councils in Pennsylvania, the Mid-Atlantic Area
9 Council ("MAAC") and ECAR, in assuring adequate supplies, and that as
10 a condition of being licensed in Pennsylvania, every eligible Supplier
11 should belong to at least one of these reliability councils and agree to
12 abide by the operating reliability standards established by them. This
13 will place all generation suppliers on a level playing field to compete for
14 customers under the same rules.

15 The Commission should also recognize that the traditional planning
16 activities, including the establishment of generation planning reserves,
17 long-term individual utility forecasts and other components of traditional
18 utility planning, will need to be modified. Planning reserves should not
19 be mandated and free market forces should be permitted to provide the
20 adequate supply in the marketplace. The Commission should also
21 recognize that the responsibility for maintaining generation operating
22 reserves and for operating a reliable transmission grid rests with the ISO

1 or other independent party. No planning or operating reserves beyond
2 NERC, MAAC or ECAR requirements should be mandated by the
3 Commission.

4 The Commission should play an active role in monitoring NERC, MAAC
5 and ECAR reliability rules and modifications and their applicability to
6 Suppliers' and customers' needs in Pennsylvania. All participants should
7 be given the chance to provide adequate input to the process.

8 **Q. WHAT IS AN APPROPRIATE TRANSITION PERIOD OVER**
9 **WHICH TO EXPECT CHANGES IN NERC AND RELIABILITY**
10 **COUNCIL RESERVE CRITERIA TO OCCUR?**

11 A. The length of the transition period to reflect changes in NERC and
12 regional reliability councils is difficult to forecast. A key uncertainty is
13 the length of time it will take for other states in the region to allow retail
14 access. Thus, I am not able to project the length of the transition period
15 at this time.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes.

Lynn R. Coles

Educational Background:

Bachelor of Science Degree in Electrical Engineering - University of North Dakota

Masters Degree in Electrical and Electronics Engineering - North Dakota State University

MBA - University of Saint Thomas

Professional Registration:

Registered as a Professional Engineer in the States of Minnesota and Missouri

Professional Societies:

Member - Institute of Electrical and Electronic Engineers

Experience:

1996-Present An Executive Engineer with R. W. Beck, Inc. Project Manager for studies of transmission and power supply for municipal, cooperative and other energy sector participants. Conducted reviews of Order 888 rate filings, developed a manual for design of ancillary service rates, assisted clients in rate settlement negotiations, and analyzed proposed mergers. Analyzed and compared proposals for Independent System Operators. Prepared testimony and testified and FERC hearings.

1987-1996 Principal Policy Advisor at the National Renewable Energy Laboratory. Led federal governmental research efforts on emerging technologies and related utility power systems issues. Supervised engineers and analysts in efforts to identify system impacts of renewable and other emerging energy technologies. Participated in industry-led research in the economic and technical aspects of distributed generation including impacts on utility transmission and distribution systems.

1980-1987 Associate with R. W. Beck and Associates. Conducted power supply and transmission studies, prepared engineering studies for facility financings, developed contracts for new power supply

arrangements, and represented public power clients in transmission cost-sharing negotiations.

1976-1980 Planning engineer with Northern States Power Company. Conducted power flow and stability technical studies in the upper Midwest. Developed cost-sharing approaches for ownership sharing of 345 kV transmission facilities.

1974-1976 Planning engineer with Stanley Consultants, Inc. Conducted power supply, rate, and transmission planning studies for various municipal and cooperative utility clients.

ENRON POWER MARKETING INC.

ELECTRIC GENERATION SUPPLIER TARIFF

Purpose of the Tariff

This tariff is applicable to Electric Generation Suppliers ("Suppliers") that are responsible for supplying all or a portion of the electric power and energy requirements of Customers connected to the Electric Distribution Company ("EDC") and sets forth the respective rights and obligations of the Supplier and the EDC.

1. Definitions

Commission - The Pennsylvania Public Utility Commission.

Control Area - A defined system of generation, transmission and other electric facilities and loads in which the Control Area operator is responsible for ensuring that loads and interchange transactions are served in a reliable manner. For PP&L, PJM is the control area.

Customers - end-use customers who consume electric power and energy.

EDC - Electric Distribution Company

Electric Generation Supplier - A potential or actual supplier of electric power and/or energy. An eligible electric supplier is one whom meets Commissioner criteria and is licensed to supply electric energy to Customers.

ISO - Independent System Operator

Transmission Provider - Any and all transmitting utilities from which the supplier has arranged.

Host Control Area - The EDC, or if the EDC does not act at the Control Area, the appropriate Control Area for the Customer's load.

2. Energy Delivery Service by the Electric Distribution Company ("EDC")

The EDC will transmit and distribute for Suppliers from any point of receipt available to the EDC under the EDC's Open Access Transmission Tariff, or any current or successor applicable Tariff filed with the Federal Energy Regulatory Commission ("FERC"). Suppliers will be responsible for procuring and paying for transmission service, in amounts

and to the extent any is necessary, for the transmission of electric energy from the point of generation to a point of receipt on the EDC's system.

3. Conditions

3.1 Execution of Supplier Agreement Form

The Supplier must execute a Supplier Agreement Form with the EDC, which indicates the Supplier's agreement to abide by the provisions contained in the Electric Generation Supplier Tariff. See Appendix A.

3.2 Supplier License

The Supplier must have obtained a license from the Commission to participate as a Supplier and has agreed to pay all applicable taxes.

3.3 Standards of Conduct

3.3.1 Suppliers shall be subject to penalty for falsely affirming the existence of operating capabilities and/or minimum financial strength.

3.3.2 Suppliers shall not release confidential Customer information (related to energy usage) except to the EDC to provide reliable service, or unless released by a signed form by the Customer, or unless ordered from a legal authority.

3.4 Provision of Customer Consent Information

The Supplier will be obligated to provide to the EDC proof of the Customer's consent at least seven (7) days before delivery to those Customers may commence.

3.5 Transmission Rights Outside the Control Area

The Supplier must document and demonstrate to Host Control Area that the Supplier has obtained the right to use any necessary transmission facilities to move from any point of extend generation to a point of delivery within the Control Area.

4. Rules/Other Obligations

4.1 Duty to Cooperate

The Supplier shall be obligated to cooperate with the EDC or Host Control Area and to adhere fully to any emergency directives that the EDC Host Control Area may issue to ensure and preserve system integrity.

4.2 Supply Procedures and Obligations

The following procedures, with its attendant obligations, will be followed with respect to the supply provided by Suppliers and the transmission, distribution, and coordination of that supply by the EDC:

4.2.1 Provision of Aggregated Daily Load Curve

Each Supplier will be provided on a monthly basis an Aggregated Daily Load Curve ("ADLC") for its Customers by the EDC.

The ADLC will specify the amount of energy the Supplier will be obligated to supply in each hour of the month. The EDC will develop the ADLC as follows:

4.2.1.1 For Customers with monthly billing metering, the EDC will use standard load curves (available upon request), together with the total monthly usage from the applicable billing month provided by the EDC in the previous calendar year, to develop load profiles. The EDC will adjust the hourly totals upward by an amount necessary to cover line losses based on standard line loss percentages for the customer class to which each Customer belongs.

4.2.1.2 For all other Customers, the Supplier's monthly ADLC will contain a placeholder for the hourly delivery obligation for the Supplier's Customers with continuous hourly billing metering. The Supplier will be obligated to provide to the Host Control Area by 10:00 a.m. at least one day ahead a nominated load curve for such Customers. Such nomination should account for line losses using standard line loss percentages for the applicable deliver voltage level for the Customer.

4.2.2 Day-Ahead Weather Correction and other Adjustments to ADLC

If necessary, the EDC will provide to each Supplier by 7:00 am on the day before delivery adjustments of the portion of the ADLC applicable to the Supplier's Customers with monthly billing metering to account for differences between the forecasted weather and the weather-related assumptions used to develop the ADLC. The EDC will also, if necessary, provide to each Supplier: (1) adjustments to reflect termination of service pursuant to applicable Commission regulations of any of the Supplier's Customers with monthly billing metering, and (2) notice that service has been terminated pursuant to applicable Commission regulations of any Customers with continuous hourly metering.

4.2.2.1 The EDC shall cooperate as is necessary to ensure that a Supplier's ADLC accurately reflects specific Customer information. The EDC shall allow a Supplier to propose modifications to its applicable ADLC, and if reasonable, shall modify the ADLC.

4.2.3 Daily Supplier Identification of Source of Supply Scheduling System Control and Dispatch Service

The Supplier will inform the EDC or the Host Control Area, which ever is applicable, at least one day ahead by 10:00 am (or the time as defined in the applicable FERC Open Access Transmission Tariff, whichever is later) of the amount and point of generation of its electric energy that will originate from outside of the respective control areas, and of the amount and point of generation of its electric energy that will originate within the respective control area.

4.2.4 Supplier Supply Obligation

The Supplier will supply in each hour the amount of electric energy specified by its adjusted ADLC, and will be obligated to provide to the EDC or Host Control Area, whichever is applicable, on a monthly basis (or on a more frequent basis in accordance with, and only to the extent necessary to comply with current interchange requirements) hourly metering data or other proof sufficient to verify title to and generation and/or delivery of the amount of energy specified by the Supplier's Adjusted ADLC.

To the extent a Supplier has installed and pays for the necessary metering and telecommunications equipment for actual load following, a Supplier may follow such Customers' loads on a real-time basis.

4.2.5 Energy Imbalance Service

The EDC or Host Control Area, whichever is applicable, will supply on a real-time basis any amount of energy that is necessary due to differences between the amounts supplied and/or delivered by a Supplier and the amounts consumed by the Supplier's Customers through the applicable FERC Open Access Transmission Tariff. The EDC or Host Control Area will also absorb any amounts of electric energy that constitute oversupply by a Supplier. A Supplier will pay for undersupply, and the EDC or ISO will pay for oversupply according to the FERC Open Access Transmission Tariff.

4.2.6 Other Ancillary Services

The EDC or Host Control Area will provide to all Suppliers all necessary ancillary services for transmission service, in accordance with the applicable FERC Open Access Transmission Tariff.

4.3 Supplier/EDC Required Payments and Schedule of Rates

4.3.1 Penalty for Failure to Supply ADLC

To the extent that a Supplier's total hourly deliveries in any hour are not within 10% of the Supplier's adjusted ADLC, the Supplier shall pay to the ISO or EDC a 10% penalty per kWh above the prevailing Wholesale Hourly Market Clearing Price.

4.3.2 Payments for Energy Imbalance Service

4.3.2.1 For Customers with Monthly Billing Metering. The EDC will estimate a Supplier's electric on-peak and off-peak mismatch between delivered and actual electric energy used based on typical load curves for like customers. The service will notify Suppliers 5 days after the end of the month of the quantities of mismatch and the average monthly cost of off-peak and on-peak energy for that period based on the wholesale hourly market clearing price for energy. Suppliers will have two weeks to trade and swap under and over on-peak and off-peak quantities. After the two week period, Suppliers are responsible to pay for the remaining applicable energy charges.

4.3.4.2 For Customers with Continuous Hourly Metering.

Under delivery:

Under delivery will have been handled under the provision of the applicable FERC Open Access Transmission Tariff.

Over delivery:

Oversupply will have been handled under the provisions of the applicable FERC Open Access Transmission Tariff.

4.3.3 Definition of Wholesale Hourly Market Clearing Price

The Wholesale Hourly Market Clearing Price shall mean the Host Control Area's definition of the Market Clearing Price.

4.3.4 Payments for other Ancillary Services

The EDC or Host Control Area shall charge the Supplier for all Ancillary Services supplied according to the applicable FERC Open Access Transmission Tariff.

4.4 Customer Change of Address

If a Customer moves to another location in the EDC's service territory, the Customer may continue to receive Service from the Supplier at the Customer's new address.

4.5 Billing, Metering, and Collection

Suppliers shall be responsible for billing all services to the Customer, including the EDC's charges for Energy Delivery Service, Transmission Service, Ancillary Services and other related services, unless the Supplier elects: (1) to have the EDC bill its charges separately to the Customer or (2) to have the EDC bill all charges including all of the Supplier's charges.

In the event that Supplier elects to have the EDC act as an agent for a Supplier, and include a Supplier's charges to a Customer, the Supplier shall pay the EDC monthly billing fee pursuant to Schedule __. If the EDC bills for a Supplier, then the EDC will remit to the Supplier all charges collected from Customers for the Suppliers' services net of any amounts owed the EDC by the Supplier. If the payment made by a Customer for whom the EDC is providing billing is less than the total owed, the EDC will pro-rate the funds among the EDC and the Suppliers and distribute the funds to the Supplier.

The EDC will perform collection functions for Suppliers with respect to those Customers for whom or which the EDC is including the Supplier's charges on the EDC's bill. If a

Customer switches to another Supplier, then the EDC will not perform any collection functions with respect to any balance owed to the previous Supplier.

The EDC will not perform collection functions for Suppliers that are separately billing Customers, except that the EDC will, in appropriate circumstances, physically terminate a Customer, in accordance with the provisions set forth below.

4.6 Notice of Defaulting Customer

Upon the provision of a sworn affidavit by a Supplier that the Supplier has complied with all applicable Commission regulations and rules applicable to a defaulting customer and the Customer is still being served by the Supplier, the EDC will shift off service to the Customer as soon as possible.

4.7 Limitations on Liability

The EDC shall not be liable for any loss, cost, damage, or expense, whether direct or consequential, caused by the EDC's calculation of the ADLC. The EDC shall have no liability with respect to any electric energy before it is delivered by a Supplier to a point of delivery on the EDC's System or after is delivered to Customers.

In addition, the EDC shall have no liability or duty to a Supplier arising out of an agreement or relationship between a Supplier and a Customer.

APPENDIX A

Supplier Agreement Form

This agreement (this "Agreement") is made this _____ day of _____, 199__, by and between [Name of Electric Generation Supplier] and [Name of Electric Distribution Company] (collectively referred to as the "Parties").

WHEREAS:

- A. The EDC is the local electric distribution company which will provide delivery service; and,
- B. [Name of Electric Generation Supplier] has been licensed as a Supplier that may sell electric energy to Customers and Electric Generation Supplier has or will have entered into contracts for electric energy supply with some of those Customers.

NOW THEREFORE, in consideration of these premises and the facts and mutual promises set forth herein, and intending to be legally bound hereby, the parties hereby agree as follows:

1. [Name of EDC] will provide Electric Delivery Service to Customers served by Electric Generation Supplier.
2. Electric Generation Supplier hereby agrees to comply with all of the terms and conditions including, but not limited to, the terms and conditions set forth in the section entitled, "Supplier Rights and Obligations."

IN WITNESS WHEREOF, and intending to be legally bound, the Parties have caused this Agreement to be executed as of the day and year first above written.

[Name of EDC]

Attest:

By: _____

Name:

Name:

Title:

Title:

[Name of Electric Generation Supplier]

Attest:

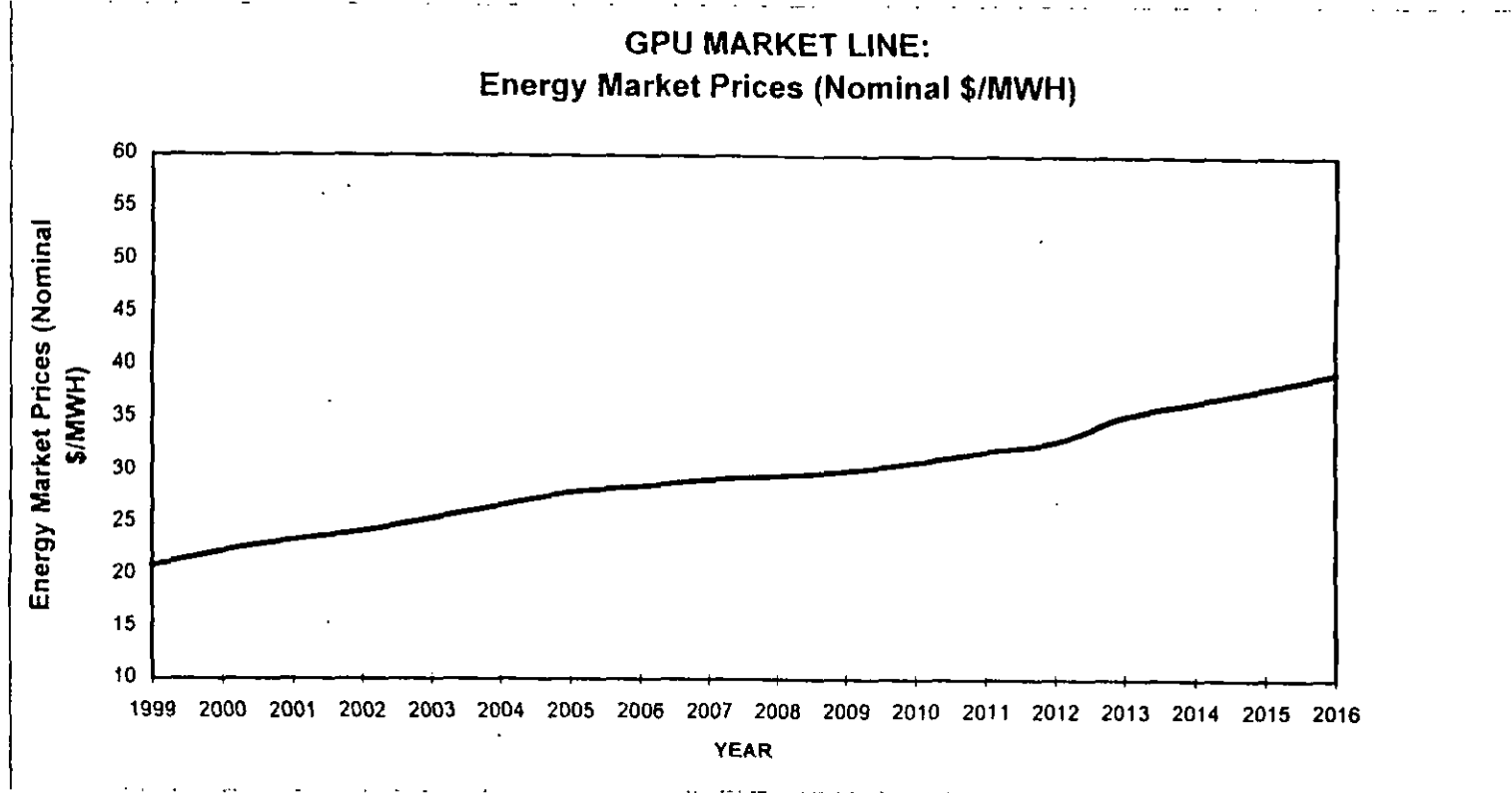
By: _____

Name:

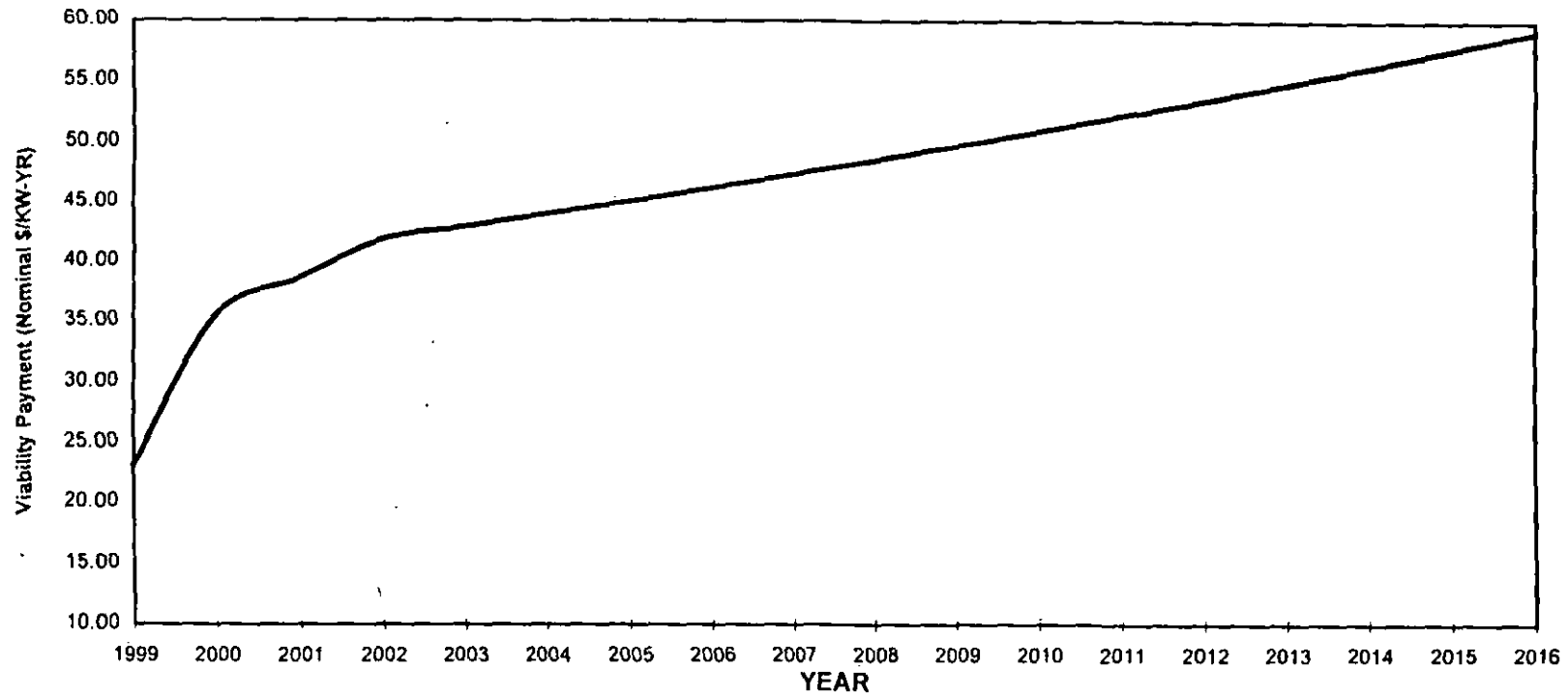
Name:

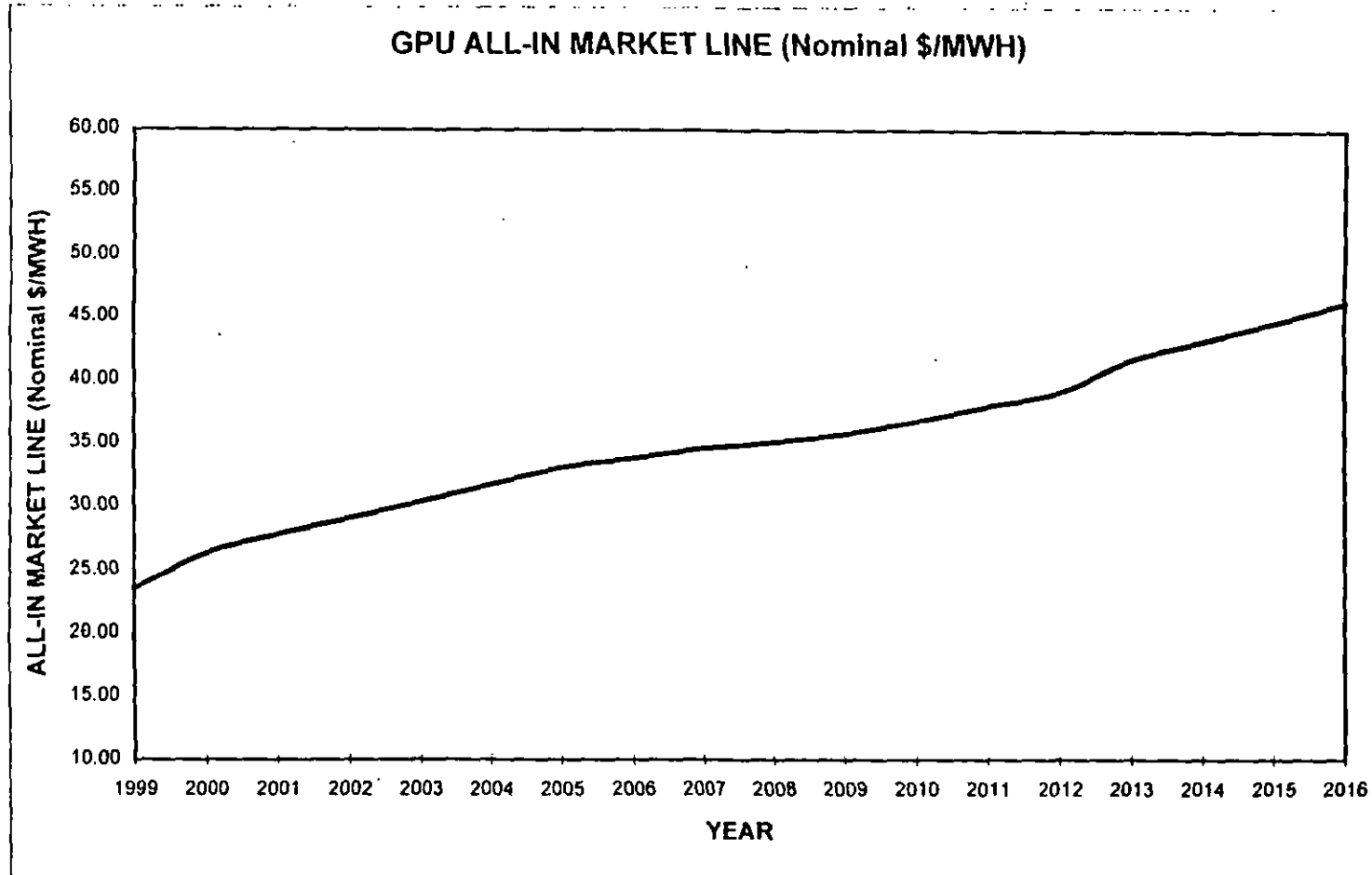
Title:

Title:



**GPU MARKET LINE:
Viability Payments (Nominal \$/KW-YR)**





**MARKET CLEARING PRICES: Met-Ed & Penelec
(NOMINAL \$)**

	ENERGY (\$/MWH)		CAPACITY (\$/KW-YR)		CAPACITY (\$/MWH)		TOTAL (\$/MWH)	
	Met-Ed	Penelec	Met-Ed	Penelec	Met-Ed	Penelec	Met-Ed	Penelec
1999	20.9	20.7	23.1	23.1	2.6	2.6	23.5	23.3
2000	22.3	22.1	35.5	35.5	4.1	4.1	26.3	26.2
2001	23.4	22.8	38.6	38.6	4.4	4.4	27.8	27.2
2002	24.2	23.5	41.9	41.9	4.8	4.8	29.0	28.3
2003	25.4	25.0	42.9	42.9	4.9	4.9	30.3	29.9
2004	26.7	25.9	44.0	44.0	5.0	5.0	31.7	31.0
2005	27.9	26.9	45.1	45.1	5.1	5.1	33.1	32.0
2006	28.5	27.6	46.2	46.2	5.3	5.3	33.8	32.9
2007	29.2	28.4	47.4	47.4	5.4	5.4	34.6	33.8
2008	29.6	29.2	48.5	48.5	5.5	5.5	35.1	34.7
2009	30.1	30.0	49.8	49.8	5.7	5.7	35.7	35.7
2010	30.9	30.9	51.0	51.0	5.8	5.8	36.7	36.7
2011	32.0	32.0	52.3	52.3	6.0	6.0	37.9	37.9
2012	32.9	32.9	53.6	53.6	6.1	6.1	39.0	39.0
2013	35.3	35.3	54.9	54.9	6.3	6.3	41.6	41.6
2014	36.6	36.6	56.3	56.3	6.4	6.4	43.0	43.0
2015	38.0	38.0	57.7	57.7	6.6	6.6	44.5	44.5
2016	39.4	39.4	59.2	59.2	6.8	6.8	46.2	46.2

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SURREBUTTAL TESTIMONY OF

LYNN R. COLES

ON BEHALF OF
ENRON POWER MARKETING INC.

RECEIVED
98 JAN -9 PM 3:46
PAP. U.C.
PROTHONOTARY'S OFFICE

DOCKET NO. R-00974104
RE: DUQUESNE LIGHT COMPANY
RESTRUCTURING PLAN

DOCKETED

JAN 15 1998

December 11, 1997

DOCUMENT
FOLDER

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2
3 A. I respond to the rebuttal testimonies of Mr. Timothy Moran and Mr. Robert A.
4 Irvin on the comments concerning my Supplier Pro Forma Tariff and related
5 issues and address (1) the need for the Supplier Pro Forma Tariff, (2) the impacts
6 of the Supplier Pro-Forma Tariff, (3) the handling of ancillary services, and (4)
7 the responsibility for estimating load shapes and the handling of planning
8 reserves. I also respond to the testimony of Mr. Mark G. Karl on planning
9 reserves.

10 **II. THE PRO FORMA SUPPLIER TARIFF**

11 **Q. IN MR. IRVIN'S REBUTTAL TESTIMONY, HE STATES THAT YOUR**
12 **PROPOSED SUPPLIER TARIFF IS UNNECESSARY ANDS**
13 **REDUNDANT. DO YOU AGREE WITH MR. BENSON'S**
14 **CHARACTERIZATION?**

15 A. No. I do not agree with Mr. Irvin's conclusion that the supplier tariff is
16 unnecessary. I believe it will be beneficial to the Commonwealth of Pennsylvania
17 to have a relatively standard and uniform tariff for suppliers. The Pro Forma
18 tariff is the candidate document to serve this purpose. While certain other
19 documents are proposed to cover selected issues, I believe that competition in the
20 Commonwealth of Pennsylvania will be enhanced through a fairly uniform
21 supplier tariff. This will be because alternative supplier efficiencies will be
22 enhanced in dealing with the many EDC's across the state.

23 **III. THE HANDLING OF ANCILLARY SERVICES**

24 **Q. ON PAGE 3, LINES 5-8, OF HIS REBUTTAL TESTIMONY, MR. IRVIN**
25 **RESPONDS TO YOUR POSITION THAT SUPPLIERS SHOULD BE**
26 **ALLOWED TO OBTAIN ALL COMPONENTS OF ANCILLARY**
27 **SERVICES FOR THEIR CUSTOMERS. WHAT IS YOUR**
28 **UNDERSTANDING OF HIS RESPONSE?**

1 A. I believe that he agrees with my position as he states that Duquesne will allow
2 suppliers to competitively procure ancillary services pursuant to the standards and
3 restrictions contained in Order 888.

4 **Q. IN MR. MORAN'S REBUTTAL TESTIMONY, HE STATES THE**
5 **ADOPTION OF THE ELECTRIC GENERATION SUPPLIER TARIFF**
6 **WILL "FAIL TO GIVE THE CUSTOMER THE RIGHT TO CHOOSE ITS**
7 **BILLING OPTION (PAGE 6, LINE 19)." DO YOU AGREE WITH MR.**
8 **MORAN'S CHARACTERIZATION?**

9 A. No. I do not. The Customer is given the right to choose the Supplier. Different
10 Suppliers may have differing arrangements with the EDC concerning the method
11 of billing. Customer choice of Supplier allows more Customer freedom than the
12 continuance of the current monopoly environment where the Customer is given
13 no choice as to whom provides the billing service.

14 **Q. IN MR. MORAN'S REBUTTAL TESTIMONY, HE STATES THE**
15 **ADOPTION OF THE ELECTRIC GENERATION SUPPLIER TARIFF**
16 **"COULD RESULT IN SERIOUS PROBLEMS WITH THE SAFETY AND**
17 **RELIABILITY OF ELECTRIC SERVICE TO DUQUESNE'S**
18 **CUSTOMERS (PAGE 6, LINE 14)." DO YOU AGREE WITH MR.**
19 **MORAN'S CHARACTERIZATION?**

20 A. No. I do not. The reliability and safety of the electric system should not be
21 impacted by the decision of whom performs the billing function. The reliability
22 of the electric system is protected by the ISO. On a customer basis, any metering,
23 billing and collections will be in accordance with Commission regulations and
24 rules and standard electrical codes so neither reliability nor safety should be
25 impacted.

26 **Q. IN MR. MORAN'S REBUTTAL TESTIMONY, HE STATES HIS**
27 **CONCERN WITH GIVING THE "SUPPLIER THE RIGHT TO ORDER**

1 **THE DISTRIBUTION UTILITY TO TERMINATE SERVICE TO A**
2 **CUSTOMER. WE WOULD HAVE NO WAY TO DETERMINE IF THE**
3 **SUPPLIER MAY HAVE MADE A MISTAKE (FOR EXAMPLE, IF THE**
4 **CUSTOMER HAS A VALID MEDICAL WAIVER), WHICH COULD**
5 **RESULT IN A LIFE-THREATENING SITUATION.(PAGE 7, LINES 15-**
6 **21).” DO YOU AGREE WITH MR. MORAN’S CHARACTERIZATION?**

7 A. No. I do not. The proposed Electric Generation Supplier Tariff clearly states in
8 section 4.6 that all applicable Commission regulations and rules applicable to a
9 defaulting customer will be followed. Enron witness Gayle Muench addressed
10 Enron’s position regarding Termination of Services.

11 **Q. DOES ANY OF THE REBUTTAL TESTIMONY BY MR. IRVIN OR MR.**
12 **MORAN CHANGE YOUR MIND WITH REGARDS TO THE NEED FOR**
13 **THE PROPOSED SUPPLIER TARIFF?**

14 A. No. I believe there is a need in Pennsylvania for the Supplier Pro Forma Tariff.

15 IV. CUSTOMER’S LOAD SHAPES

16 **Q. ON PAGES 2 AND 4 OF HIS REBUTTAL TESTIMONY, MR. IRVIN**
17 **ELABORATES ON DUQUESNE’S POSITION ON THE COMPANY**
18 **PROVIDING ONLY ESTIMATED LOAD SHAPES AND NOT LOAD**
19 **OBLIGATION TO ALTERNATIVE SUPPLIERS IN REFERENCE TO**
20 **YOUR DISCUSSION OF CUSTOMERS WITHOUT METERED LOADS.**
21 **DO YOU BELIEVE THAT HIS PROPOSED APPROACH IS WORKABLE**
22 **AND FAIR?**

23 A. No. Until hourly load metering is installed across the system and proven to work,
24 the only practical approach is to estimate load shapes by class, schedule supply to
25 meet this obligation, and settle over and under amounts as discussed in the
26 supplier tariff. This is the same aggregating process that Duquesne relies upon
27 today to serve customers without real-time metering. To require a higher burden
28 on alternative suppliers other than the EDC creates an uneven playing field for
29 competition in Pennsylvania.

1 V. PLANNING RESERVES

2 Q. MR. IRVIN ON PAGE 5, LINE 11, AND MR. KARL ON PAGE 2, LINES 1-
3 13, POINT OUT A CLARIFICATION IN YOUR TESTIMONY ON THE
4 DIFFERENCE BETWEEN PJM AND ECAR ON THE HANDLING OF
5 PLANNING RESERVES. DO YOU AGREE?

6 A. They are technically correct that the utilities do not share planning reserves on a
7 contractual percentage of load basis. However, both ECAR and NERC monitor
8 the level of reserves percentage as a measure of the reliability assessment for the
9 region. There may be a tendency for state regulators to monitor this and mandate
10 a certain level of longer term, or planning, reserves. Mr. Karl concurs with my
11 conclusion that the competitive marketplace should be allowed to set the planning
12 reserves level based on market price signals.

13 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

14 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document via facsimile and first class mail, postage pre-paid upon the participants, listed below, in accordance with the requirements of 52 Pa. Code § 1.54.

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Date: January 9, 1998