

OCA STATEMENT NO. 15

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

DEC 1 1997

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

APPLICATION OF PECO ENERGY FOR
APPROVAL OF ITS RESTRUCTURING
PLAN UNDER SECTION 2806 OF THE
PUBLIC UTILITY CODE

Docket No. R-00973953

SURREBUTTAL TESTIMONY

OF

RICHARD LACAPRA

DOCKETED

DEC 5 1997

DOCUMENT
FOLDED

On Behalf of:

OFFICE OF CONSUMER ADVOCATE

NOVEMBER 1997

SURREBUTTAL TESTIMONY OF RICHARD LA CAPRA

1 **Q. MR. LA CAPRA, PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2 A. My name is Richard La Capra and my business address is 333 Washington Street, Boston,
3 MA 02108.

4

5 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?**

6 A. Yes, I have previously submitted direct testimony in this proceeding.

7

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

9 A. I would like to summarize the revisions necessary to OCA's stranded cost recommendation
10 based on the surrebuttal testimony of Mr. Catlin and Mr. Smith.

11

12 **Q. PLEASE SUMMARIZE THE OCA'S FINAL POSITION.**

13 A. My total stranded cost estimate increases from \$3.529 billion to \$4.353 billion or by
14 approximately \$824 million. This reflects a \$756 million reduction in Mr. Smith's estimate
15 of the market value if PECO's generating plant and a \$68 million increase in Mr. Catlin's
16 recommended recovery for regulatory assets. Exhibit RLC-2 (Revised) presents a summary
17 of my revised estimate.

1 **Q. HAVE YOU MADE ANY OTHER CHANGES TO YOUR RECOMMENDATIONS?**

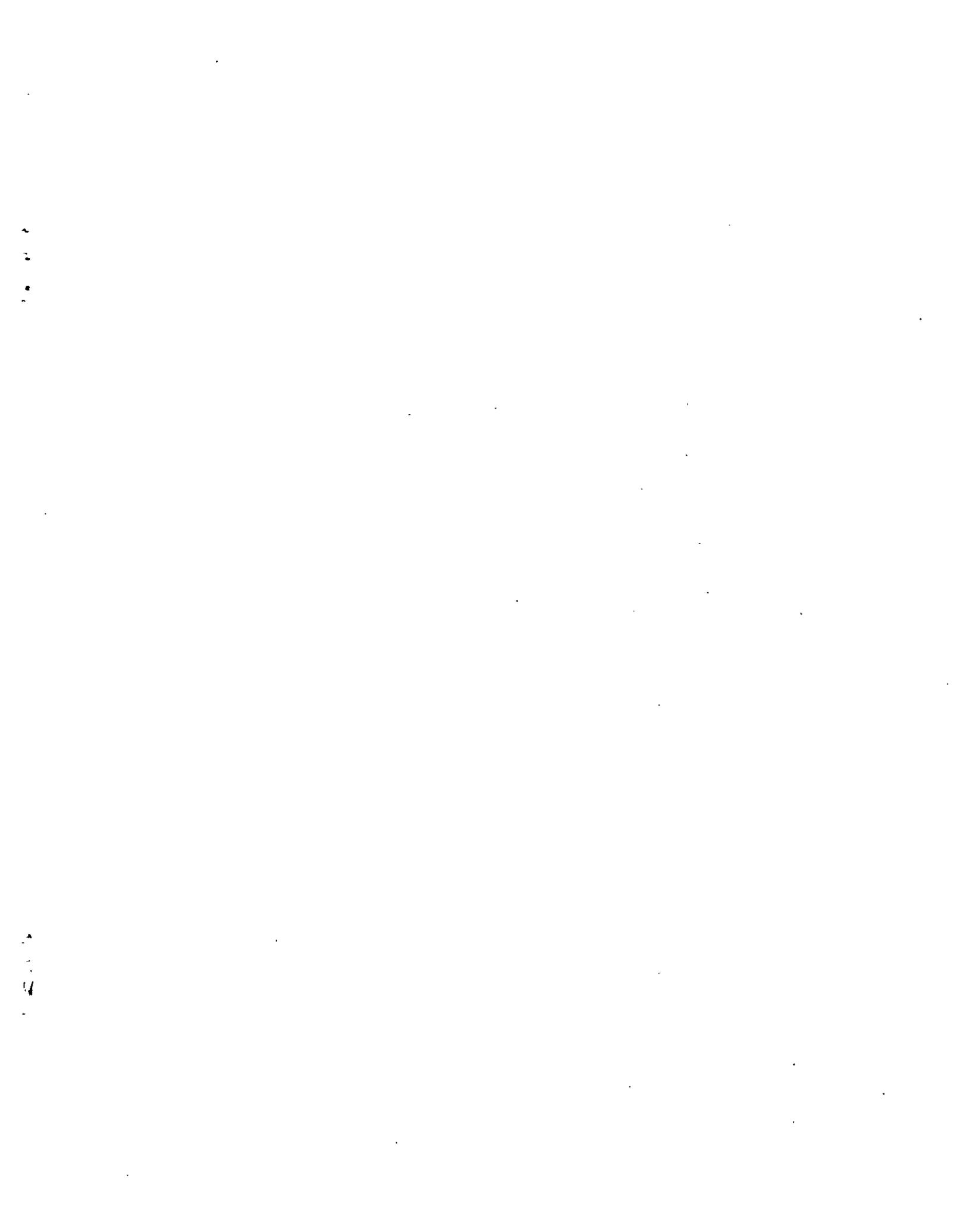
2 A. No, but I have included a revised exhibit showing the impact of my increased stranded cost
3 estimates on the Company's proposed CTC recovery in Exhibit RLC-2 (Revised).

4

5 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

6 A. Yes it does.

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PECO Energy Company

Summary of Stranded Costs

<u>\$000</u>		<u>Revised</u> <u>OCA</u>	<u>Original</u> <u>OCA</u>	<u>Difference</u>	<u>% Diff.</u>
Net Generating Plant & CWIP		\$6,627,965	\$6,627,965	\$0	0.0%
Less: Market Value	[1]	(\$3,958,843)	(\$4,714,880)	\$756,037	-16.0%
Stranded Generating Plant		\$2,669,122	\$1,913,085	\$756,037	39.5%
Regulatory Assets	[2]	\$1,656,867	\$1,588,902	\$67,965	4.3%
Regulatory Liabilities		(\$5,319)	(\$5,319)	\$0	0.0%
NUG Contracts		\$0	\$0	\$0	N/A
Nuclear Decommissioning		\$0	\$0	\$0	ERR
Fossil Decommissioning		\$0	\$0	\$0	ERR
Other Transition Cost		\$32,661	\$32,661	\$0	0.0%
Total Stranded Cost		\$4,353,331	\$3,529,329	\$824,002	23.3%
NPV Return on Stranded Gen. [3]		\$939,736	\$594,293	\$345,443	58.1%
NPV Return on Reg. Assets					
Regulatory Assets		\$86,739	\$86,739	\$0	0.0%
Unamort. Loss on Reacq. Debt		\$40,792	\$40,792	(\$0)	-0.0%
Def. Fuel		\$28,411	\$28,411	\$0	0.0%
Total NPV Return		\$155,942	\$155,942	\$0	0.0%
Disallowance of Return	[4]	(\$939,736)	(\$594,293)	(\$345,443)	N/A
Proposed Recovery		\$4,509,273	\$3,685,271	\$824,002	22.4%

Notes:

- [1] Market Value adjustment includes revisions to market price projections calculated by Mr. Doug Smith and the average change in market values calculated by PHB, EDS, and ICF related to the change to Spring 1997 DRI fuel forecast presented in Exhibit JFB-11.
- [2] Reflects revised estimate of stranded regulatory assets provided by Mr. Catlin.
- [3] Net Present Value assumes levelized CTC recovery & end-of-year payments, discounted at the after-tax weighted average cost of capital of 7.53%.
- [4] Disallowance equals return on stranded generating plant.

PECO Energy Company

Estimated Balance of Regulatory Assets as of December 31, 1998

<u>\$000</u>	<u>Revised</u> <u>OCA</u>	<u>Original</u> <u>OCA</u>	<u>Difference</u>	<u>% Diff.</u>
CC on 50% Limerick Common	\$175,812	\$175,812	\$0	0.0%
Unamortized Loss on Reacq. Debt	\$158,311	\$158,311	\$0	0.0%
Nuclear Design Basis Document	\$0	\$0	\$0	ERR
PB/Lim Water Chemistry System	\$0	\$0	\$0	ERR
Limerick 1 Declaratory Order	\$18,301	\$18,301	\$0	0.0%
Limerick 2 Declaratory Order	\$67,985	\$67,985	\$0	0.0%
SFAS No. 106	\$100,580	\$32,615	\$67,965	208.4%
SFAS No. 109 [1]	\$992,561	\$992,561	\$0	0.0%
Compensated Absences	\$16,587	\$16,587	\$0	0.0%
CC on 50% Comm PB/Sal/Eddy	\$17,400	\$17,400	\$0	0.0%
Electric Fuel Deferral 1996	\$109,330	\$109,330	\$0	0.0%
Additional Fuel Deferral	\$0	\$0	\$0	ERR
Total Regulatory Assets	\$1,656,867	\$1,588,902	\$67,965	4.3%

[1] Includes return on unamortized balance when collected over 7-year period.

PECO Energy Company

Annual CTC Revenue Requirements (\$000)

Summary

Year	Components with Return Of & On <i>Revised</i>	Unamort Loss on Reacq Debt	Components with Return Of <i>Revised</i>	Deferred Fuel	Total Annual Rev. Req. <i>Revised</i>
OCA Stranded Cost Estimate					
1999	\$695,000	\$34,442	\$175,525	\$20,663	\$925,630
2000	\$654,021	\$32,752	\$175,525	\$20,663	\$882,961
2001	\$613,042	\$31,063	\$175,525	\$20,663	\$840,292
2002	\$572,062	\$29,373	\$175,525	\$20,663	\$797,624
2003	\$531,083	\$27,684	\$175,525	\$20,663	\$754,955
2004	\$490,104	\$25,995	\$175,525	\$20,663	\$712,286
2005	\$449,124	\$24,305	\$175,525	\$20,663	\$669,617
Levelized	\$591,231	\$29,858	\$175,525	\$20,663	\$817,277
OCA Stranded Cost Estimate, excluding return on stranded gen. plant					
1999	\$433,011	\$34,442	\$175,525	\$15,619	\$658,597
2000	\$429,459	\$32,752	\$175,525	\$15,619	\$653,355
2001	\$425,907	\$31,063	\$175,525	\$15,619	\$648,113
2002	\$422,354	\$29,373	\$175,525	\$15,619	\$642,871
2003	\$418,802	\$27,684	\$175,525	\$15,619	\$637,630
2004	\$415,250	\$25,995	\$175,525	\$15,619	\$632,388
2005	\$411,697	\$24,305	\$175,525	\$15,619	\$627,146
Levelized	\$423,616	\$29,858	\$175,525	\$15,619	\$644,618

PECO Energy Company
Annual CTC Revenue Requirements (\$000)
for Components with Return Of & On

Year	Stranded Net Plant <i>Revised</i>	Regulatory Liabilities	CC on 50% Lim Common	CC on 50% PB/Sal/Eddy Common	Nuc Design Basis Doc.	Accum. Deferred Taxes	Base for Return <i>Revised</i>	Return @ <i>Revised</i>	Annual Amort. <i>Revised</i>	Annual Rev. Req. <i>Revised</i>
OCA Stranded Cost Estimate								12.87%		
1999	\$2,669,122	(\$5,319)	\$175,812	\$17,400	\$0	\$633,468	\$2,228,866	\$286,855	\$408,145	\$695,000
2000	\$2,287,819	(\$4,559)	\$150,696	\$14,914	\$0	\$542,972	\$1,910,457	\$245,876	\$408,145	\$654,021
2001	\$1,906,516	(\$3,799)	\$125,580	\$12,429	\$0	\$452,477	\$1,592,047	\$204,897	\$408,145	\$613,042
2002	\$1,525,213	(\$3,039)	\$100,464	\$9,943	\$0	\$361,982	\$1,273,638	\$163,917	\$408,145	\$572,062
2003	\$1,143,909	(\$2,280)	\$75,348	\$7,457	\$0	\$271,486	\$955,228	\$122,938	\$408,145	\$531,083
2004	\$762,606	(\$1,520)	\$50,232	\$4,971	\$0	\$180,991	\$636,819	\$81,959	\$408,145	\$490,104
2005	\$381,303	(\$760)	\$25,116	\$2,486	\$0	\$90,495	\$318,409	\$40,979	\$408,145	\$449,124
OCA Stranded Cost Estimate, excluding return								12.87%		
1999	\$2,669,122	(\$5,319)	\$175,812	\$17,400	\$0	\$633,468	\$193,212	\$24,866	\$408,145	\$433,011
2000	\$2,287,819	(\$4,559)	\$150,696	\$14,914	\$0	\$542,972	\$165,610	\$21,314	\$408,145	\$429,459
2001	\$1,906,516	(\$3,799)	\$125,580	\$12,429	\$0	\$452,477	\$138,009	\$17,762	\$408,145	\$425,907
2002	\$1,525,213	(\$3,039)	\$100,464	\$9,943	\$0	\$361,982	\$110,407	\$14,209	\$408,145	\$422,354
2003	\$1,143,909	(\$2,280)	\$75,348	\$7,457	\$0	\$271,486	\$82,805	\$10,657	\$408,145	\$418,802
2004	\$762,606	(\$1,520)	\$50,232	\$4,971	\$0	\$180,991	\$55,203	\$7,105	\$408,145	\$415,250
2005	\$381,303	(\$760)	\$25,116	\$2,486	\$0	\$90,495	\$27,602	\$3,552	\$408,145	\$411,697

PECO Energy Company

Levelized CTC Revenue Requirements (\$000) for Components with Return Of & On

Levelized Rev. Req. Net Gen. Plant <i>Revised</i>	Stranded Net Gen. Plant <i>Revised</i>	Net Gen. Plant Base for Return <i>Revised</i>	Net Gen. Plant Return @ <i>Revised</i>	Annual Amort. Net Gen. Plant <i>Revised</i>	Levelized Rev. Req. Reg. Assets	Stranded Reg. Assets	Reg. Assets Base for Return	Reg. Assets Return @	Annual Amort. Reg. Assets	Total Levelized Rev. Req.
			12.87%					12.87%		
\$548,918	\$2,669,122	\$2,035,654	\$261,989	\$286,929	\$42,313	\$187,893	\$187,893	\$24,182	\$18,131	\$591,231
\$548,918	\$2,382,193	\$1,839,221	\$236,708	\$312,210	\$42,313	\$169,762	\$169,762	\$21,848	\$20,465	\$591,231
\$548,918	\$2,069,983	\$1,617,506	\$208,173	\$340,745	\$42,313	\$149,297	\$149,297	\$19,215	\$23,098	\$591,231
\$548,918	\$1,729,238	\$1,367,256	\$175,966	\$372,952	\$42,313	\$126,199	\$126,199	\$16,242	\$26,071	\$591,231
\$548,918	\$1,356,286	\$1,084,799	\$139,614	\$409,304	\$42,313	\$100,128	\$100,128	\$12,886	\$29,426	\$591,231
\$548,918	\$946,981	\$765,991	\$98,583	\$450,335	\$42,313	\$70,702	\$70,702	\$9,099	\$33,214	\$591,231
\$548,918	\$496,646	\$406,151	\$52,272	\$496,646	\$42,313	\$37,488	\$37,488	\$4,825	\$37,488	\$591,231
		NPV @7.53% =	\$939,736				NPV @7.53% =	\$86,739		
			12.87%					12.87%		
\$381,303	\$2,669,122	\$0	\$0	\$381,303	\$42,313	\$187,893	\$187,893	\$24,182	\$18,131	\$423,616
\$381,303	\$2,287,819	\$0	\$0	\$381,303	\$42,313	\$169,762	\$169,762	\$21,848	\$20,465	\$423,616
\$381,303	\$1,906,516	\$0	\$0	\$381,303	\$42,313	\$149,297	\$149,297	\$19,215	\$23,098	\$423,616
\$381,303	\$1,525,213	\$0	\$0	\$381,303	\$42,313	\$126,199	\$126,199	\$16,242	\$26,071	\$423,616
\$381,303	\$1,143,909	\$0	\$0	\$381,303	\$42,313	\$100,128	\$100,128	\$12,886	\$29,426	\$423,616
\$381,303	\$762,606	\$0	\$0	\$381,303	\$42,313	\$70,702	\$70,702	\$9,099	\$33,214	\$423,616
\$381,303	\$381,303	\$0	\$0	\$381,303	\$42,313	\$37,488	\$37,488	\$4,825	\$37,488	\$423,616
		NPV @7.53% =	\$0				NPV @7.53% =	\$86,739		

PECO Energy Company
 Annual & Levelized CTC Revenue Requirements (\$000)
 Unamortized Loss on Reacquired Debt

Year	Balance	Return @	Annual Amort.	Annual Rev. Req.	Levelized Rev. Req.	Total Stranded Cost	Return @	Annual Amort.
OCA Stranded Cost Estimate		7.47%					7.47%	
1999	\$158,311	\$11,826	\$22,616	\$34,442	\$29,858	\$158,311	\$11,826	\$18,032
2000	\$135,695	\$10,136	\$22,616	\$32,752	\$29,858	\$140,279	\$10,479	\$19,379
2001	\$113,079	\$8,447	\$22,616	\$31,063	\$29,858	\$120,899	\$9,031	\$20,827
2002	\$90,463	\$6,758	\$22,616	\$29,373	\$29,858	\$100,072	\$7,475	\$22,383
2003	\$67,848	\$5,068	\$22,616	\$27,684	\$29,858	\$77,689	\$5,803	\$24,055
2004	\$45,232	\$3,379	\$22,616	\$25,995	\$29,858	\$53,635	\$4,007	\$25,852
2005	\$22,616	\$1,689	\$22,616	\$24,305	\$29,858	\$27,783	\$2,075	\$27,783
						NPV @7.53% =	\$40,792	

PECO Energy Company

Annual CTC Revenue Requirements (\$000)

For Components with Only a Return Of

* Includes Revised Estimate of Stranded Regulatory Assets Provided by Tom Catlin

Year	Nuclear Decom.	Fossil Decom.	PB/Lim Water Chemistry	SFAS 106 <i>Revised</i>	SFAS 109	Comp Absences	Lim 1 Decl. Order	Lim 2 Decl. Order	Other Transition Costs	Total Annual Rev. Req. <i>Revised</i>
OCA Stranded Cost Estimate										
Beg. Balance	\$0	\$0	\$0	\$100,580	\$992,561	\$16,587	\$18,301	\$67,985	\$32,661	\$1,228,675
Annual Amort.										
1999	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
2000	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
2001	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
2002	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
2003	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
2004	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
2005	\$0	\$0	\$0	\$14,369	\$141,794	\$2,370	\$2,614	\$9,712	\$4,666	\$175,525
					\$992,561					
					\$0					
					\$992,561	\$141,794	\$0	\$141,794		
					\$850,767	\$141,794	\$0	\$141,794		
					\$708,972	\$141,794	\$0	\$141,794		
					\$567,178	\$141,794	\$0	\$141,794		
					\$425,383	\$141,794	\$0	\$141,794		
					\$283,589	\$141,794	\$0	\$141,794		
					\$141,794	\$141,794	\$0	\$141,794		
					NPV @7.53%	\$750,251	\$0	\$750,251		
						\$992,561				

PECO Energy Company

Annual & Levelized CTC Revenue Requirements (\$000)

Deferred Fuel Costs

Year	Deferred Fuel Accrued thru 12/31/98	Deferred Fuel Recoverable in Future	Total Annual Rev. Req.	Levelized CTC Rev. Req.	Balance Def. Fuel w/return	Return @	Annual Amort. Def. Fuel
OCA Stranded Cost Estimate							
Beg. Balance	\$109,330	\$0					
Discount Rate	7.53%	0.00%				7.53%	
Annual Amort.							
1999	\$20,663	\$0	\$20,663	\$20,663	\$109,330	\$8,233	\$12,430
2000	\$20,663	\$0	\$20,663	\$20,663	\$96,900	\$7,297	\$13,366
2001	\$20,663	\$0	\$20,663	\$20,663	\$83,533	\$6,290	\$14,373
2002	\$20,663	\$0	\$20,663	\$20,663	\$69,160	\$5,208	\$15,455
2003	\$20,663	\$0	\$20,663	\$20,663	\$53,705	\$4,044	\$16,619
2004	\$20,663	\$0	\$20,663	\$20,663	\$37,086	\$2,793	\$17,870
2005	\$20,663	\$0	\$20,663	\$20,663	\$19,216	\$1,447	\$19,216
					NPV @7.53% =	\$28,411	
OCA Stranded Cost Estimate, excluding return							
Beg. Balance	\$109,330	\$0					
Discount Rate	0.00%	0.00%				0.00%	
Annual Amort.							
1999	\$15,619	\$0	\$15,619	\$15,619	\$109,330	\$0	\$15,619
2000	\$15,619	\$0	\$15,619	\$15,619	\$93,711	\$0	\$15,619
2001	\$15,619	\$0	\$15,619	\$15,619	\$78,093	\$0	\$15,619
2002	\$15,619	\$0	\$15,619	\$15,619	\$62,474	\$0	\$15,619
2003	\$15,619	\$0	\$15,619	\$15,619	\$46,856	\$0	\$15,619
2004	\$15,619	\$0	\$15,619	\$15,619	\$31,237	\$0	\$15,619
2005	\$15,619	\$0	\$15,619	\$15,619	\$15,619	\$0	\$15,619
					NPV @7.53% =	\$0	

OCA STATEMENT NO. 2S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

APPLICATION OF PECO ENERGY FOR
APPROVAL OF ITS RESTRUCTURING
PLAN UNDER SECTION 2806 OF THE
PUBLIC UTILITY CODE

Docket No. R-00973953

SURREBUTTAL TESTIMONY

OF

DOUGLAS C. SMITH

DOCKETED

DEC 5 1997

DOCUMENT
FOLDER

On Behalf of:

OFFICE OF CONSUMER ADVOCATE

NOVEMBER 1997

Surrebuttal Testimony of Douglas C. Smith

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

2 A. My name is Douglas C. Smith. My business address is La Capra Associates, 333
3 Washington Street, Suite 855, Boston, MA 02108.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. Yes. I submitted OCA Statement No. 2 and accompanying Exhibits DCS-1 to DCS-5.

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. I will begin by revising my projection of PJM generation market prices to reflect certain
9 corrections. I will address some aspects of the rebuttal testimony of PECO witnesses John
10 Bustard, William Hieronymus, and Judah Rose, and to the revised projections of
11 generation market prices and revenues that the Company has submitted.

12 Revision to OCA Generation Market Price Analysis

13 **Q. PLEASE EXPLAIN THE REVISIONS THAT YOU HAVE MADE TO YOUR**
14 **MARKET ANALYSIS.**

15 A. The fundamental methodology, tools, and most major input assumptions in the revised
16 analysis are unchanged from my initial testimony. I have made several revisions and
17 updates to my analysis, as follows.

18 The first revision is to adjust PJM generating capacity that was either double counted or
19 omitted in my initial market energy price analysis. The effect of this correction was to
20 increase the amount of base-load capacity in PJM, while leaving the total amount of
21 capacity virtually unchanged.

1 The second change is to revise the base fuel prices assumed for generating units within the
2 PJM Interconnection. Specifically, I have developed my revised base year 1996 fuel prices
3 from FERC Form 423 data, rather than the FERC Form 1 as used in my initial analysis.

4 My revised analysis reflects actual base year fuel prices for each major fuel type, for each
5 major utility in PJM. This change was made in part to address certain concerns raised by
6 PECO witnesses in this case; the net effect of the change on market prices was not large.

7
8 The third, more meaningful change was to utilize updated fuel price escalation rates from
9 the Spring 1997 *DRI World Energy Service U.S. Outlook*, as provided by PECO in this
10 case. The revised annual escalation rates for each major fuel type are summarized in
11 Exhibit DCS-6.

12 Finally, I adjusted the way purchases from outside PJM were represented in the ENPRO
13 dispatch simulation model, by increasing the hourly flexibility of energy imports from
14 ECAR. The effect of the change is to increase the amount of energy imports from ECAR
15 into PJM, lowering the projected PJM market energy price modestly in the near term, with
16 the price effect declining over time. I also replaced an abrupt drop in imports assumed in
17 my initial analysis with a smoother decline over a six-year period; the net effect of this
18 change on my market price forecast was minimal.

19 Exhibits DCS-7 and DCS-8 present my revised market price results. The net increase in
20 base-load power within PJM causes projected market energy prices to be somewhat lower
21 than my initial analysis in the near term, with a limited effect in the long term. The revised
22 market prices have been reflected in the OCA's stranded cost calculations, as set forth in
23 the surrebuttal testimony of Mr. La Capra.

1 PECO's Rebuttal Testimony and Revised Market Price Analyses

2 **Q. THE COMPANY HAS BASED ITS REVISED MARKET PRICE ANALYSIS ON**
3 **HEAT-RATES DERIVED FROM EIA FORM 860. DOES THIS CHANGE**
4 **ADDRESS YOUR CONCERNS REGARDING THE COMPANY'S**
5 **REPRESENTATION OF GENERATING UNIT BIDDING BEHAVIOR?**

6 A. No, it does not. By way of background, Form 860 presents full load average heat-rates
7 for existing generating units. Mr. Bustard states (page 6) that PECO requested its
8 consultants to "modify their data bases such that projections of heat rates are *based on*"
9 (emphasis added) the 1995 EIA Form 860 data. This is not a fundamental change; it
10 essentially represents a different source for the same information: the full load average
11 heat-rate.

12 My basic concern is not the source of Mr. Bustard's heat-rate data, but rather that the
13 PHB and EDS analyses (both initial and revised versions) have used *incremental* heat-
14 rates as the basis for the market energy price. That is, the revised PHB and EDS analyses
15 simply used the Form 860 data as a basis for developing revised incremental heat-rate
16 curves. For the reasons discussed in my initial testimony, and those outlined in further
17 detail below, this approach has understated the Company's estimates of generation prices
18 in PJM, and therefore the value that PECO has estimated for its existing generating units.

19 Differences in Market Price Results

20 **Q. MR. BUSTARD STATES (PAGE 14) THAT YOUR PROJECTION OF MARKET**
21 **VALUE FOR PECO GENERATION UNITS IS HIGHER THAN PHB'S**
22 **ESTIMATE BY \$765 MILLION, IMPLYING THAT THE DIFFERENCE IS DUE**
23 **TO "INCORRECT ASSUMPTIONS...AND LIMITATIONS IN THEIR MODELS."**
24 **IS THIS AN ACCURATE CHARACTERIZATION?**

25 A. No. First, a primary difference between the two market value projections he compares is
26 that they were developed using different fuel price forecasts -- PHB's based on the DRI
27 Spring, 1997 forecast and my initial testimony based on DRI's Fall 1996/Winter 1997

1 forecast. The Company's own analyses illustrate the large effect of this difference on
2 market value projections, and I have utilized the revised DRI fuel forecast in my updated
3 analysis. The remaining differences in market price results are not due to incorrect
4 assumptions or errors, but to factors that include:

- 5 • **Heat-rate/bid methodology.** PHB's market price analysis represents the energy
6 market price based on generating unit bids that reflect the units' incremental heat-
7 rates. I believe that this methodology systematically understates likely market
8 bidding and resulting prices;
- 9 • **Other adjustments.** I believe that some of the Company's assumptions regarding
10 the cost of new generating units are overly optimistic. My market price analysis
11 reflects higher capital cost and O&M cost assumptions than PHB's, resulting in
12 higher long term market prices.

13 I believe that these differences represent the majority of the remaining difference between
14 my estimate of net generation revenue and that presented by PHB on behalf of PECO.

15 **Q. MR. BUSTARD CRITICIZES YOUR RESULTS ON A NUMBER OF GROUNDS;
16 PLEASE RESPOND.**

17 A. My initial testimony specifically explained many of the methods and major input
18 assumptions used in my analysis. I have responded to a substantial number of data
19 requests regarding my analysis and assumptions. The ENPRO model used in my energy
20 simulation is a commercially available model used by electric utilities and other clients.
21 Mr. Bustard, along with representatives of ICF and PHB, also spent a day in our offices
22 conducting informal discovery. During that visit, we discussed a range of subjects
23 regarding the methodology and assumptions used in my analysis. Regarding the ENPRO
24 model, we discussed at a general level the major facets of the model such as the
25 representation of forced outages, planned maintenance outages, dispatch of energy-limited
26 resources, and unit commitment.

1 With respect to inputs and calculation methods, I have discussed with PECO my approach
2 to developing assumptions such as heat-rates, fuel prices, and outage rates. While my
3 initial testimony did not contain such details, I have provided most of them in detailed
4 discovery responses. Exhibits DCS-9, 10A, and 10B summarize the major input
5 assumptions used in my analysis. In summary, my analysis has been conducted using
6 reasonable tools, input assumptions, and methodology.

7 **Q. MR. BUSTARD HYPOTHESIZES (PAGE 25) THAT MUCH OF THE**
8 **DIFFERENCE BETWEEN YOUR MARKET ENERGY PRICE PROJECTIONS**
9 **AND THOSE OF THE COMPANY IS DUE TO YOUR MODELING OF FUEL**
10 **MIX FOR EXISTING AND FUTURE GENERATING UNITS. DO YOU**
11 **BELIEVE THAT THIS IS THE CASE?**

12 A. No, I expect that most of the difference is due to differences in our input assumptions,
13 such as capital costs, O&M costs, and energy price bids as discussed above. Fuel mix
14 assumptions may have some effect but, as discussed below, that effect is likely secondary.

15 The Company takes issue with the fact that I have represented multi-fuel units (such as
16 steam units that burn significant volumes of both residual oil and natural gas) using a
17 single dispatch price. Specifically I used an average price assuming a 50 percent
18 weighting for each fuel; this fraction is reasonably representative of actual fuel
19 consumption at such units. Dr. Hieronymus states (page 18) that "Winter oil and gas
20 prices are almost always higher than summer and shoulder period prices." He goes on to
21 state that representing multi-fuel units at an annual average price increases electricity
22 prices during summer months when electricity demand is high, and that my market price
23 would be "very substantially biased upwards." I believe that this assessment is incorrect,
24 and overstates the effect for several reasons.

25 First, it is not clear whether the degrees of fuel price seasonality assumed in PECO's
26 market price analyses, particularly for residual and distillate oil, are justified.

1 Second, my analysis reflects a representative price of the fuel burned at each unit. To the
2 extent that a single annual price tends to overstate the expected price somewhat during
3 summer, it will also understate the price to a similar extent during other seasons. Third,
4 the seasonality of loads in PJM is noticeable, but not extreme. Loads in the peak winter
5 months of December through February average only about 8 percent less than in the peak
6 summer months of June, July and August. When schedules of planned generator
7 maintenance are taken into account, the effective difference in seasonal loads may be less.

8 Third, seasonal fossil fuel price variations affect both the costs and revenues associated
9 with PECO's generating units. For load following oil-fired units such as Eddystone 3 and
10 4 (which Dr. Hieronymus cites as an example on page 18 of his rebuttal testimony),
11 generation revenues and costs both depend on fossil fuel prices and will therefore tend to
12 move in tandem.

13 Finally, I have at least approximated the effect of multiple fuel use. The Company has
14 essentially ignored it, by assuming that every multi-fuel unit in PJM will convert to full
15 operation on natural gas. It is questionable whether this assumption would be supported
16 by consideration of the factors--such as limited pipeline capacity or unfavorable seasonal
17 gas prices--that have historically constrained the use of gas at such units.

18 **Q. PLEASE RESPOND TO THE SECOND ISSUE RAISED BY THE COMPANY**
19 **REGARDING FUEL MIX ASSUMPTIONS.**

20 A. The Company's other issue relates to the assumed fuel mix at new simple cycle
21 combustion turbine ("CT") units. Specifically, I have represented new CT units assuming
22 a blended price of 50 percent distillate oil and 50 percent gas. Mr. Bustard states (page
23 26) that "Mr. Smith projects gas availability for new CC units. There is no valid reason to
24 believe that gas will not be available to fuel new CT's as well." While the actual fuel mix
25 for new CT units is not known, I believe that my representation using a blended price is
26 reasonable from several perspectives.

1 First, natural gas may not be available at all suitable sites for new generating capacity. If
2 gas is not presently available at a given site, it may not be cost-effective to install pipeline
3 capacity and interconnection for a new peaking generating unit intended to operate
4 relatively infrequently. The future CT capital cost in my analysis assume no such gas
5 infrastructure costs, and may therefore be understated.

6
7 Finally, assumption of a year-round natural gas fuel supply at all new CT units could
8 increase their projected utilization (i.e. hours of operation), and therefore the O&M costs
9 associated with the CT option.

10 Base Fuel Prices

11 **Q. PLEASE RESPOND TO THE COMPANY'S COMMENTS REGARDING BASE**
12 **FUEL PRICE ASSUMPTIONS.**

13 A. Dr. Hieronymus states (page 16-17) that "Power plants are dispatched based on marginal
14 fuel costs. For most plants, these are spot purchase costs, which PHB utilized." He goes
15 on to state that FERC Form 1 fuel prices (which I used as base prices for PJM units in my
16 initial market price analysis) overstates fuel price for many PJM units, and that contract
17 costs generally are above spot costs.

18 On one hand, Dr. Hieronymus is correct that generation owners will tend to consider out-
19 of-market contract costs from past commitments as "sunk" for dispatch purposes.
20 Owners will therefore tend to offer energy based on their current fuel price expectations.
21 When market expectations regarding coal prices increase (or decrease), bids for coal-fired
22 units will tend to change in the same direction. On the other hand, it does not necessarily
23 follow that future dispatch prices will be systematically lower than FERC Form 1 costs, as
24 suggested by Dr. Hieronymus. It is reasonable to expect that generators will offer their
25 output at prices that reflect their expected average fuel costs, not only the price they
26 would pay for marginal deliveries under a particular fuel contract. Consistent with this
27 assumption, my PJM market analysis reflects the projected escalation rate for the average

1 delivered price of each fuel to electric generators, which includes the effect of above-
2 market contracts expiring. For these reasons, I believe that the representation of PJM
3 generating units using their annual average fuel prices is a reasonable approximation, and
4 does not introduce a substantial upward bias.

5 Heat-Rates and Market Rules

6 **Q. PLEASE SUMMARIZE YOUR CONCERNS WITH RESPECT TO THE USE OF**
7 **INCREMENTAL HEAT-RATES IN THE COMPANY'S ANALYSIS OF**
8 **MARKET PRICES AND PECO STRANDED COSTS.**

9 A. Two of PECO's three analyses (specifically, those developed by PHB and EDS) estimate
10 the market energy price based on the *incremental* cost of changing the output of the
11 marginal generating unit(s) during a given hour or period. The marginal generating units
12 in PJM are typically coal- or oil-fired units that feature a declining heat rate curve. Their
13 thermal efficiencies at low output levels are relatively low, and at most output levels the
14 incremental rate of fuel required per incremental kWh output is less (in some cases, much
15 less) than the average rate of fuel per kWh at that output level. This means that a market
16 energy price based on the incremental heat-rate of the generating units bidding in each
17 hour (as PECO assumed) will tend to systematically understate the actual fuel costs
18 incurred by the marginal unit(s) and understate the true value of generation (including
19 PECO's existing generating units) in the PJM market.

20 **Q. HOW DOES YOUR VIEW OF ENERGY BID PRICES COMPORT WITH THE**
21 **RULES THAT HAVE BEEN PROPOSED FOR THE PJM MARKET?**

22 A. PJM initially proposed (in its June 2, 1997 FERC filing) that until concerns regarding
23 market power were addressed, bidders should be constrained to "cost-based" energy bids
24 resembling the "incremental" energy price methodology that GPU has used in this case.

25 In July 1997, the PJM Supporting Companies (including all major utilities except PECO)
26 presented analyses intended to address the market power issue, and requested FERC

1 authorization to make market-based offers for sales through the PJM Interchange Energy
2 Market. This type of market-based structure is consistent with pool concepts being
3 implemented in several other regions of the U.S. Under market-based bidding, each
4 generator will be able to choose the prices at which it is willing to provide its output. It is
5 reasonable to expect that those prices will include realistic variable costs associated with
6 startup and less efficient part load operation.

7 **Q. DR. HIERONYMUS APPEARS TO SAY THAT EVEN IF THE PJM MARKET**
8 **STRUCTURE IS MODIFIED, BIDDERS WILL OFFER THEIR OUTPUT AT**
9 **PRICES BASED ON THEIR INCREMENTAL HEAT-RATES. IS THIS**
10 **CORRECT?**

11 A. No, bidders will tend to offer their output at prices that are sufficient to cover all of their
12 expected variable operating costs, including startup and no-load costs. The minimum for
13 such bids would be the bidder's full load average costs, plus adjustment for expected
14 startup costs and lower efficiency during part load operation. I believe that Dr.
15 Hieronymus' critique of PAIEUG witness Randall Falkenberg on the issue (page 28) is not
16 convincing. In fact, his critique actually serves to reinforce my conclusions (and those of
17 Mr. Falkenberg) regarding bid prices.

18 **Q. PLEASE EXPLAIN.**

19 A. Dr. Hieronymus asserts (page 28) that even in an alternative market structure, sellers will
20 bid less than their full load cost for three reasons.

21 The first reason that Dr. Hieronymus cites is that "If the generator bids full load costs but
22 is dispatched at part load, it can lose money." This is true, and it indicates that a
23 generating unit expecting to be dispatched at less than full load would be inclined to bid a
24 price somewhat *greater* than its full load average cost, not less.

25 The second reason cited by Dr. Hieronymus is that "The strategy of bidding full load costs

1 [or greater, presumably] is not profit-maximizing. On a day when the unit owner
2 confidently expects to cover its cycle costs, it will bid its incremental costs. On a day
3 when the unit owner does not expect to cover its net cycle costs, it will bid high enough
4 not to be dispatched.” (emphasis added)

5 The first circumstance refers to a day in which market prices are expected to exceed the
6 bidder’s variable costs. This means that our bidder’s revenues will likely be determined by
7 the bids of other, more expensive generating units that are also called upon to operate
8 during that day. Bidding the full load average cost (as opposed to a lower incremental
9 cost) on such a day would not likely affect the dispatch of our bidder’s unit.

10 The second circumstance--a day in which the bidder faces the likelihood that it will be
11 unable to cover its net costs--is more illustrative. Dr. Hieronymus believes that in this
12 circumstance (i.e., when market revenues over the day appear insufficient to cover the
13 unit’s total variable costs, including startup and no-load costs), a bidder will choose to
14 essentially withdraw from the market! This is a reasonable expectation, and it confirms
15 the way in which a market-based bidding structure would produce higher market energy
16 prices.

17 **Q. HOW DOES THIS EXPECTED BIDDING BEHAVIOR COMPARE TO THE**
18 **BEHAVIOR ASSUMED IN THE COMPANY’S CURRENT MARKET PRICE**
19 **ANALYSES?**

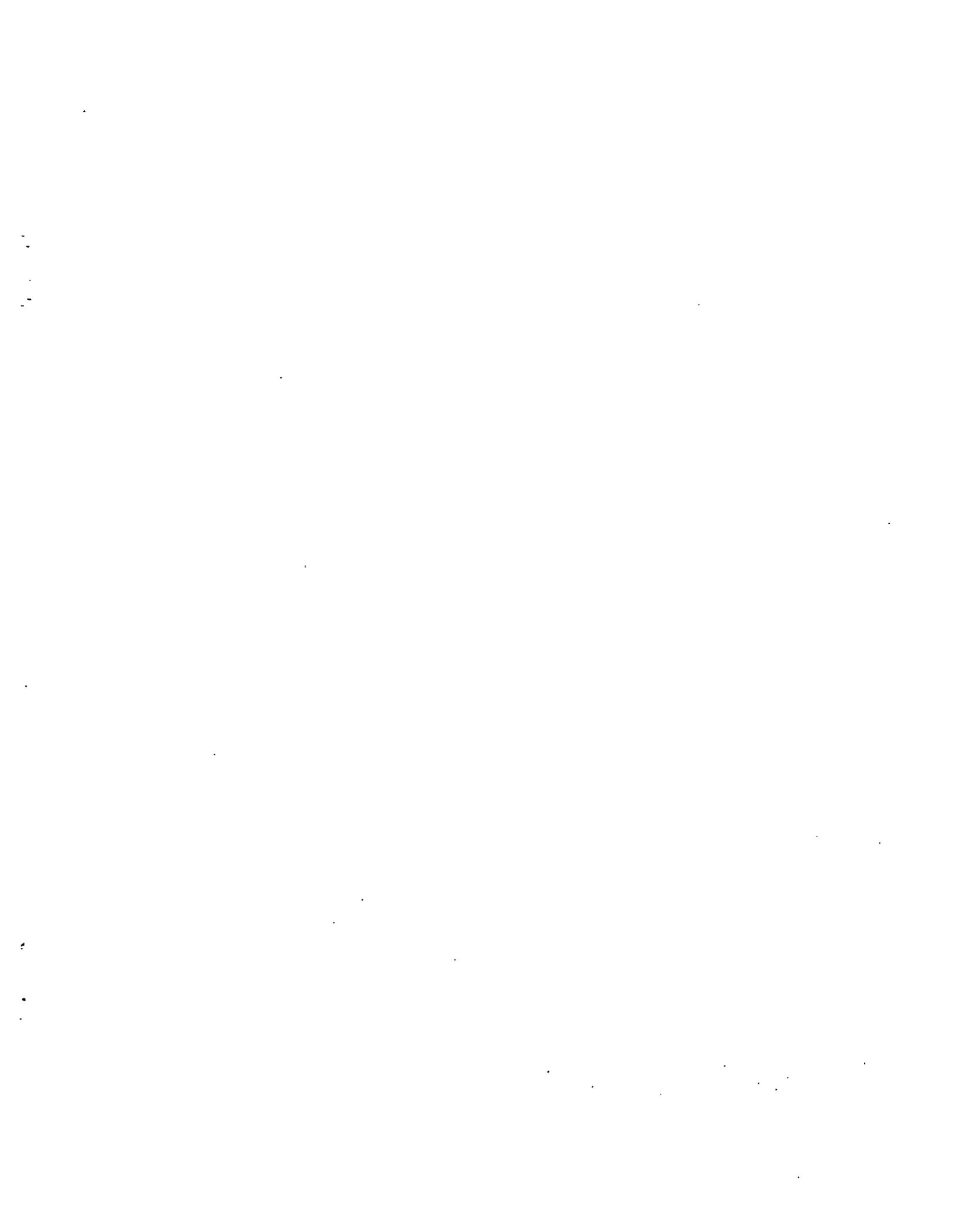
20 A. The market simulations conducted by PHB and EDS in this case assume that all PJM
21 generating units will participate in the energy market *regardless of the market energy*
22 *price*, and that any negative cycle costs will be covered through unit-specific uplift
23 payments. In contrast, Dr. Hieronymus acknowledges that when confronted with
24 potential negative cycle costs in an alternative market structure, bidders will instead bid
25 higher prices representative of their expected as-operated heat-rates, not their lower
26 incremental heat-rates. Whether the bidder in question actually is chosen by the ISO to

1 operate at its higher bid price or is bypassed for another bidder with an intermediate price,
2 the effect will be a higher market energy price. Given the same expectations regarding
3 generating units, costs, and other planning assumptions, a change from the assumed cost-
4 based PJM market structure to a more market-based structure would substantially increase
5 market energy prices and therefore the value of PECO's generating units.

6 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes.

8 44752



SPRING 1997 DRI FUEL PRICE ESCALATION RATES *

YEAR	GAS	COAL	F02	FO6
1997	-10.5%	1.9%	-7.2%	-4.9%
1998	-10.6%	1.6%	-0.8%	-2.5%
1999	-1.1%	3.2%	-0.6%	-1.9%
2000	1.7%	3.3%	2.9%	2.6%
2001	6.2%	2.2%	5.4%	5.6%
2002	5.1%	2.1%	4.7%	4.7%
2003	3.9%	1.5%	4.9%	4.8%
2004	3.7%	2.5%	4.6%	4.7%
2005	3.8%	1.1%	5.8%	6.2%
2006	4.0%	2.0%	5.3%	5.3%
2007	4.8%	1.9%	5.2%	5.2%
2008	4.9%	2.0%	5.3%	5.3%
2009	4.9%	2.0%	5.3%	5.6%
2010	5.2%	2.7%	5.2%	5.2%
2011	4.8%	0.2%	5.6%	5.8%
2012	4.4%	2.7%	5.4%	5.4%
2013	5.6%	2.7%	5.5%	5.7%
2014	5.2%	2.7%	5.5%	5.7%
2015	5.6%	2.7%	5.7%	5.7%

* Nominal escalation rates assuming a 1996 base year for fuel delivered to the Mid-Atlantic region.

PJM MARKET PRICE ESTIMATE

YEAR	ENERGY \$/MWh	CAPACITY \$/KW-YR	TOTAL \$/MWh
	ALL-HOURS		ALL-HOURS
1999	21.64	19.72	23.89
2000	22.62	30.36	26.09
2001	24.24	41.66	28.99
2002	25.51	42.84	30.40
2003	27.08	44.13	32.12
2004	28.24	45.57	33.44
2005	29.89	47.08	35.27
2006	32.18	48.74	37.75
2007	33.64	50.44	39.40
2008	35.53	52.25	41.50
2009	36.48	54.13	42.66
2010	38.33	56.04	44.73
2011	40.00	58.03	46.63
2012	41.72	60.10	48.58
2013	43.54	62.24	50.65
2014	45.32	64.45	52.68
2015	47.37	66.78	54.99

PECO WEIGHTED
GENERATION PRICE *

YEAR	\$/MWH
1999	26.61
2000	30.07
2001	34.40
2002	35.78
2003	37.76
2004	39.19
2005	41.16
2006	43.69
2007	45.48
2008	47.50
2009	48.85
2010	51.08
2011	53.00
2012	55.11
2013	57.25
2014	59.56
2015	62.19

* Prices include both Energy
and Capacity.

Summary of Key Input Assumptions

- **Generating units** and their seasonal maximum **capacities** were identified from the 1996 NERC Electricity Supply and Demand database, and the FERC Form 1;
- **Actual annual fuel prices** for PJM generating units were obtained on a station basis for calendar year 1996, from FERC Form 423. From 1997 forward, fuel prices were escalated according to major fuel type (i.e. coal, or residual oil), based on escalation rates from DRI's Spring 1997 price forecast; the annual escalation values are presented in Exhibit DCS-6;
- **Variable O&M costs** of PJM generating units were based on assumptions presented by PECO Energy and West Penn Power in their 1997 restructuring dockets before the Pennsylvania Public Utilities Commission. These values, which are presented in Exhibit DCS-7, include only direct O&M costs and do not include the additional variable costs that PJM utilities are likely to incur for emission allowances;
- **Heat-rates:** the energy bid of each thermal generating unit is represented based on its average as-operated heat-rate for 1996, as obtained from FERC Form 1. This is the bid which will, over a generating unit's dispatch cycle, approximate the unit's total actual fuel costs;
- **Generating unit availabilities** were developed for major classes of generating units, based on NERC records of 1990-1994 actual generating unit availabilities, with the following exceptions: (1) Output of PJM hydro units was based on the estimated long term average output; (2) Nuclear generating units in PJM are assumed to produce at a 75 percent annual capacity factor in each year of the analysis;
- **Non-utility generating capacity** was projected in accordance with the NERC 1996 Electric Supply and Demand Database. Unit cost and energy production assumptions were developed from the FERC Form 1.
- Projected **peak load and energy** requirements for PJM were based on data obtained from MAAC Form EIA-411.
- **Imports** were modeled as follows:
 1. All-hours firm 450 MW purchase from Ohio Edison, continuing through the end of 2005. The price in 1999 is approximately \$16/MWh.
 2. On-peak dispatchable purchase from ECAR of 2400 MW through 2003, declining to 1800 MW in 2009 and remaining constant at that level through the end of the forecast period. The price in 1999 is \$21.43/MWh.
 3. Off-peak dispatchable purchase from ECAR of 3400 MW through 2003, declining to 2000 MW in 2009 and remaining constant at that level through the end of the forecast period. The price in 1999 is \$18.22/MWh.

New Combined Cycle Non-Fuel Cost Assumptions

Unit Characteristics

Source

Nominal Size (MW)	500 MW	Based on data from Gas Turbine World 1996 Handbook 1993 EPRI TAG
Summer MW (90 degrees F)	450 MW	
Primary Fuel	Natural Gas	
HHV Heat Rate at ISO	6,700 Btu/kWh	Based on data from GTW 1996 Handbook

Components of Capital Cost

Source

Turnkey Capital Costs at ISO (1996\$/kW)	425 \$/kW	Low end based on data from GTW 1996 Handbook
Switchgear Cost	25 \$/kW	Obtained from GE by PHB; PECO mkt. price testimony
Gas Pipeline Cost (5 miles)	4 \$/kW	Oil and Gas Journal, 25 Nov. 1996 *
Electrical Transmission (10 miles)	4 \$/kW	Obtained from GE by PHB; PECO mkt. price testimony *
Land Cost (100 acres)	0.1 \$/kW	1993 EPRI TAG *
Infrastructure	9 \$/kW	PHB estimate; PECO mkt. price testimony *
More Complex CC Design	0 \$/kW	
SCR for NOx Control	0 \$/kW	
Decommissioning	0 \$/kW	
Plant Development / Siting	10 \$/kW	LCA estimate
Interest During Construction (5%)	19 \$/kW	LCA estimate
All-in Costs (1996\$/kW)	496 \$/kW	
All-in Costs @ Summer Rating (1996\$/kW)	550 \$/kW	

* Note that these per kW costs are based on installation at a 1125 MW station.

New Combustion Turbine Non-Fuel Cost Assumptions

Plant Characteristics

Source

Nominal Size (MW)	250 MW	Based on data from Gas Turbine World 1996 Handbook 1993 EPRI TAG
Summer MW (90 degrees F)	220 MW	
Primary Fuel	Natural Gas	
Secondary Fuel	FO2	
HHV Heat Rate at ISO	11,000 Btu/kWh	Based on data from GTW 1996 Handbook

Components of Capital Cost

Source

Turnkey Capital Costs at ISO (1996\$/kW)	185 \$/kW	Low end based on data from GTW 1996 Handbook
Delivery Charges (3%)	6 \$/kW	
Step-up Transformer & Switchgear Cost	40 \$/kW	Obtained from GE by PHB; PECO mkt. price testimony
Gas Pipeline Costs	0 \$/kW	
Distillate Tank	2 \$/kW	1995 Means Site Work and Landscape Cost data *
Electrical Transmission (10 miles)	5 \$/kW	Obtained from GE by PHB; PECO mkt. price testimony *
Land Cost (100 acres)	0.1 \$/kW	1993 EPRI TAG *
Infrastructure	5 \$/kW	PHB estimate; PECO mkt. price testimony *
Plant Development / Siting	8 \$/kW	LCA estimate
Interest During Construction (2.5%)	4 \$/kW	LCA estimate
All-in Costs (1996\$/kW)	255 \$/kW	
All-in Costs @ Summer Rating (1996\$/kW)	290 \$/kW	

* Note that these per kW costs are based on installation at a 1000 MW station.

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COMMONWEALTH OF PENNSYLVANIA

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PECO ENERGY COMPANY)

DOCKET NO. R-00973953

DOCKETED
DEC 5 1997

SURREBUTTAL TESTIMONY OF

THOMAS S. CATLIN

DOCUMENT

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

NOVEMBER 1997

EXETER

Associates, Inc.

12510 Prosperity Drive
Suite 350
Silver Spring, MD 20904

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PECO ENERGY COMPANY)
) DOCKET NO. R-00973953
)

Surrebuttal Testimony of Thomas S. Catlin

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

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

5 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS
6 PROCEEDING?

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

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

11 A. The purpose of my surrebuttal testimony is to respond to certain issues raised by PECO
12 Energy Company (PECO or the Company) in its rebuttal testimony. The primary issue
13 which I am addressing is the proper determination of the regulatory asset associated with
14 Statement of Financial Accounting Standards (SFAS) No. 109 recoverable taxes. There
15 are also two other issues which I would like to address briefly.

16 Q. WHAT COMMENTS DO YOU HAVE WITH REGARD TO ISSUES OTHER
17 THAN THE SFAS NO. 109 RELATED REGULATORY ASSET?

1 A. The first issue which I would like to address relates to the regulatory asset associated with
2 deferred postretirement benefits costs pursuant to SFAS No. 106. In rebuttal, Mr. Cohn
3 has provided a workpaper showing that the amortization of the SFAS No. 106 regulatory
4 asset has been excluded from the ongoing expenses used to calculate stranded costs.
5 Based on this, my concern that there was a double count of the VRIP/VSIP portion of the
6 SFAS No. 106 regulatory asset has been addressed. Hence, I am no longer proposing an
7 adjustment to PECO's claimed SFAS No. 106 regulatory asset.

8 The second issue which I would like to address has to do with the treatment of fossil
9 decommissioning expenses. On page 28 of his rebuttal testimony (PECO Statement 3-R),
10 Mr. Cohn indicates that I am recommending the annuity method for recovery of these
11 costs. I would first like to clarify first that I have not proposed to include fossil
12 decommissioning expenses as a stranded cost. As explained in the direct testimony of
13 OCA witness Richard La Capra, these costs should not be recognized in the
14 determination of stranded costs. I would like to further clarify that, to the extent the
15 Commission decides it is appropriate to recognize fossil decommissioning expenses, I
16 have not proposed that these costs be funded through an *annual contribution* or annuity
17 similar to nuclear decommissioning costs. As discussed on page 12 of my direct
18 testimony, if these costs are to be recognized at all, I am recommending that they be
19 treated in a manner consistent with what would occur under traditional regulation. That
20 is, the stranded costs attributable to fossil decommissioning should be calculated by
21 escalating the decommissioning costs of each station to reflect price/cost levels at the
22 time the costs are projected to be incurred. These future costs should then be discounted
23 back to a net present value at January 1, 1999 to obtain the stranded cost to be recovered
24 from ratepayers.

1 Q. HAVE YOU PREPARED A REVISED SCHEDULE SUMMARIZING YOUR
2 RECOMMENDATIONS WITH REGARD TO REGULATORY ASSETS?

3 A. Yes. I have revised Schedule TSC-1 to reflect the change in my recommendation with
4 regard to the regulatory asset for SFAS No. 106 costs. This is the only change I am
5 making to the recommendations presented in my direct testimony.

6 Q PLEASE BRIEFLY DESCRIBE WHAT IS MEANT BY SFAS NO. 109
7 RECOVERABLE TAXES.

8 A. As explained in more detail at pages 18-19 of my direct testimony (OCA Statement No.
9 3), the balance of recoverable taxes under SFAS No. 109 represents the future tax
10 obligation associated with tax book timing differences for which the benefits have been
11 flowed through to ratepayers rather than normalized. Under the actual taxes paid doctrine
12 which has traditionally been followed in Pennsylvania for ratemaking, these taxes would
13 be recovered from ratepayers in the future when the timing differences reverse.

14 Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE TREATMENT OF
15 SFAS NO. 109 RECOVERABLE TAXES PROPOSED BY THE COMPANY AND
16 THE TREATMENT WHICH YOU HAVE PROPOSED.

17 A. PECO has claimed that it should be allowed to recover the undiscounted balance of its
18 SFAS No. 109 recoverable taxes over seven years with no return on the recovered
19 balance. PECO claims that recovery over seven years is appropriate because that is the
20 period over which the Company is being allowed to recover its stranded investment in
21 generating plant. In contrast, I have proposed to recognize as a stranded cost, the net
22 present value of the revenue stream which PECO would have received for the recovery of
23 SFAS No. 109 taxes under traditional regulation. In calculating this net present value, I
24 have recognized that the recovery of the balance of SFAS No. 109 taxes would have
25 occurred over the 26.9 year remaining life of PECO's generating assets and have based

1 the present value on the recovery of those taxes at a uniform rate over 25 years. The
2 approach which I have used is the same approach adopted by Philadelphia Area Industrial
3 Energy Users Group (PAIEUG) witness Lane Kollen. The only difference is that I used a
4 somewhat conservative 25 year recovery period for the SFAS No. 109 taxes while Mr.
5 Kollen used 27 years.

6 Q. WHY DO YOU BELIEVE THE COMPANY'S PROPOSAL IS INAPPROPRIATE?

7 A. PECO's proposal to recover the balance of SFAS No. 109 taxes over seven years to
8 match the recovery of the stranded generating plant is inappropriate because it would
9 result in the Company recovering more from ratepayers than it would recover under
10 traditional regulation. That is, if PECO is allowed to recover the undiscounted balance of
11 SFAS No. 109 taxes over seven years, ratepayers will pay more in net present value terms
12 than they would have paid under traditional regulation where the balance would have
13 been recovered over 27 years. It is neither appropriate nor logical to penalize ratepayers
14 by requiring them to pay more for the recovery of SFAS No. 109 taxes on the basis that
15 PECO is being allowed to accelerate the recovery of a portion of its generating plant
16 investment.

17 Q. WHAT IS THE DIFFERENCE IN THE COST TO RATEPAYERS UNDER
18 PECO'S PROPOSAL VERSUS YOUR PROPOSAL?

19 A. As noted on page 20 of my direct testimony, the net present value of PECO's SFAS No.
20 109 recoverable taxes as of January 1, 1999 under traditional regulation is \$750.25
21 million. In comparison, PECO's proposal to recover the SFAS No. 109 balance over
22 seven years yields a net present value of \$1,275.21 million.¹ Hence, the difference in the
23 net present value of the cost to ratepayers is nearly \$525 million.

¹Both the \$750.25 million and \$1,275.21 present values were calculated using the 7.53 percent discount rate adopted by the Commission in PECO's securitization proceeding.

1 Q. HAS PECO AGREED THAT SFAS NO. 109 RECOVERABLE TAXES WOULD
2 BE RECOVERED OVER THE USEFUL LIVES OF ITS GENERATING ASSETS
3 UNDER TRADITIONAL REGULATION?

4 A. Yes. On page 4 of his rebuttal testimony, Mr. Cohn acknowledges that the SFAS No.
5 109 regulatory asset would be recovered over the useful lives of the Company's
6 generating facilities under traditional regulation. As acknowledged by PECO witness
7 James Sharpe, the average remaining useful life of PECO's generating facilities is 26.9
8 years.

9 Q. ARE THE USEFUL LIVES OF PECO'S GENERATING ASSETS CHANGED AS
10 A RESULT OF THE CHANGES BROUGHT ABOUT BY THE ELECTRICITY
11 GENERATION CUSTOMER CHOICE AND COMPETITION ACT. (THE ACT)?

12 A. No. The useful lives of PECO's generating facilities are not changed as a result of the
13 Act or the fact that recovery of the stranded portion of the cost of those assets is being
14 reduced from 27 years to seven years. Mr. Cohn acknowledges this on page 9 of his
15 rebuttal testimony where he argues that the useful lives of the Company's generating
16 assets are unchanged for purposes of determining the net present value of the Investment
17 Tax Credit (ITC) benefits owed to ratepayers. PECO also recognized that the lives of its
18 generating assets were not changed in calculating the benefits to ratepayers of the future
19 tax depreciation deductions associated with those assets. Clearly, the Company's
20 generating facilities cannot have different useful lives depending on the purpose for
21 which the life is being used.

22 Q. HAVE YOU REVIEWED THE NET PRESENT VALUE ANALYSIS
23 PRESENTED BY MR. COHN IN HIS REBUTTAL TESTIMONY?

24 A. Yes. In his direct testimony, Mr. Kollen noted that the method which he (and I) used to
25 calculate the value of the SFAS No. 109 regulatory asset is the same method which

1 Pennsylvania Power & Light Company (PP&L) used in its restructuring filing. Mr. Cohn
2 claims that this is an oversimplification because Mr. Kollen (and I) considered only one
3 aspect of the stranded costs associated with plant investment. Mr. Cohn argues that when
4 one looks at all components of the costs associated with the recovery of stranded
5 investment, PECO's method and PP&L's method yield the same results.

6 As support for his claim that the two methods produce the same results, Mr. Cohn
7 presents an analysis which compares the net present value of the revenue requirements
8 associated with the recovery of \$10,000 of plant and \$3,333 of SFAS No. 109
9 recoverable taxes over seven years and over twenty years. Mr. Cohn argues that this
10 analysis demonstrates that the net present value of PECO's procedure for calculating its
11 stranded costs is the same as the net present value of PP&L's procedure.

12 Q. DO YOU HAVE ANY COMMENTS WITH REGARD TO THE NET PRESENT
13 VALUE ANALYSIS PRESENTED BY MR. COHN?

14 A. Yes. The net present value analysis presented by Mr. Cohn is fundamentally flawed.
15 When an asset is recovered over time with no return, the longer the period over which
16 recovery is allowed, the lower the net present value. Hence, given that the balance of
17 SFAS No. 109 taxes is not eligible to earn a return, one would expect that net present
18 value of recovering the \$10,000 of plant and the associated \$3,333 of SFAS No. 109
19 taxes over 20 years would be less than the net present value of recovering those same
20 costs over seven years. In Mr. Cohn's analysis, however, the net present values are the
21 same. This is because Mr. Cohn uses one rate of return to calculate the return on the
22 unrecovered balance of plant and different rate of return to discount the future payment
23 streams to their net present value.

24 The problem with Mr. Cohn's approach can be seen by comparing the net present
25 value of the payment streams associated with recovering the \$10,000 of stranded plant

1 investment in his example. When the \$10,000 of stranded plant is recovered over seven
2 years, Mr. Cohn's analysis indicate that the present value of \$10,000 is \$11,842.² When
3 the \$10,000 of plant is recovered over 20 years, Mr. Cohn's analysis would indicate that
4 the net present value of \$10,000 is \$13,581.³ These results would suggest that recovery
5 of the stranded plant costs over the longest possible time is preferable to immediate
6 payback of those costs. This, of course, is both counter-intuitive and inconsistent with
7 the traditional ratemaking concept that providing a utility with recovery of its plant
8 investment and a return on the unrecovered plant balance only makes the utility whole for
9 the investment used to provide service.

10 If Mr. Cohn had utilized consistent rates of return in his analysis, he would have
11 determined that the net present value of the future amounts for the return of and return on
12 the \$10,000 of stranded plant were equal to \$10,000 under both the seven year and twenty
13 year scenarios. This in exactly what should be expected. The net present value of the
14 future cost recovery where a return is provided should equal the book value of the plant.

15 In contrast to the treatment of the plant itself, the unrecovered balance of SFAS No.
16 109 recoverable taxes is not eligible to earn a return. Hence, the longer the period over
17 which recovery takes place, the lower the net present value of that future payment stream,
18 regardless of the discount rate. Accordingly, the total net present value of the recovery of
19 \$10,000 of plant plus \$3,333 of recoverable taxes should be less than with a 20-year
20 recovery period then with a seven-year recovery period. This is exactly what Mr. Kollen
21 and I have recognized in our recommended treatment of PECO's SFAS No. 109
22 regulatory asset.

²This amount is calculated by adding the present value of the depreciation and return requirements shown on page 13 of Mr. Cohn's rebuttal testimony.

³Ibid.

1 Q. DO YOU HAVE ANY OTHER COMMENTS WITH REGARD TO MR. COHN'S
2 COMPARISON OF PECO'S AND PP&L'S METHODS OF TREATING
3 STRANDED PLANT INVESTMENT AND SFAS NO. 109 RECOVERABLE
4 TAXES?

5 A. Yes. I would like to note that PP&L's calculation of its stranded costs reflected the same
6 fundamental flaw with regard to the use of different discount rates which I have discussed
7 previously. As a result, PP&L's claim for the net present value of its stranded plant
8 investment was greater than the net book value of that stranded plant. In its presentation
9 in PP&L's restructuring proceeding, the OCA has proposed to correct this problem. As a
10 result, the treatment being given to both stranded plant investment and SFAS No. 109
11 recoverable taxes is the same for PECO and PP&L under the OCA's recommendations.

12 Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING PECO'S REBUTTAL
13 TESTIMONY OF SFAS NO. 109 RECOVERABLE TAXES?

14 A. Yes. In their rebuttal testimony, the various PECO witnesses addressing SFAS No. 109
15 appear to argue that Mr. Kollen and I are proposing to deny PECO recovery of some
16 portion of the SFAS No. 109 regulatory asset that the Company would be entitled to
17 under traditional regulation. This is absolutely not the case. As discussed previously,
18 PECO would be entitled to recover the \$1.687 billion of SFAS No. 109 recoverable taxes
19 over the next 26.9 years under traditional regulation. Because no return is applicable to
20 the balance, PECO has never been entitled to \$1.687 billion on a net present value basis.
21 In fact, assuming a discount rate of 7.53 percent, the net present value of the payment
22 stream to which PECO is entitled under traditional regulation is \$750,251,000. If PECO
23 is allowed to recover the \$750,251,000 as a stranded cost over seven years with a return,
24 as the OCA has proposed, PECO will receive exactly the same net present value as it
25 would have received under traditional regulation.

1 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes, it does.

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PECO ENERGY COMPANY)
) DOCKET NO. R-00973953
)

SCHEDULE ACCOMPANYING THE
SURREBUTTAL TESTIMONY OF
THOMAS S. CATLIN

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

NOVEMBER 1997

EXETER

Associates, Inc.

12510 Prosperity Drive
Suite 350
Silver Spring, MD 20904

PECO ENERGY COMPANY

Summary of Regulatory Assets
as of December 31, 1998
(\$000)

	<u>Amount Per Company (1)</u>	<u>Amount Per OCA</u>
Limerick Common Carrying Costs	\$175,812	\$175,812
Peach Bottom et.al. Common Carrying	17,400	17,400
Unamortized Loss on Reacquired Debt	158,311	158,311
Nuclear Design Basis Documentation	28,852	0
Water Chemistry System Project Costs	6,692	0
Limerick 1 Declaratory Order	18,301	18,301
Limerick 2 Declaratory Order	67,985	67,985
SFAS No. 106 Costs	100,580	100,580
SFAS No. 109 Recoverable Taxes	1,687,069	750,251
Compensated Absences	16,587	16,587
1996 Electric Fuel Deferral	109,330	109,330
1997-2005 Electric Fuel Deferrals	<u>202,138</u>	<u>0</u>
Total Regulatory Assets	\$2,589,057	\$1,414,557

Note:

(1) Per PECO Exhibit ABC-1, Schedule 6.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

DEC 1 1997

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

APPLICATION OF PECO ENERGY FOR :
APPROVAL OF ITS RESTRUCTURING :
PLAN UNDER SECTION 2806 OF THE :
PUBLIC UTILITY CODE :

Docket No. R-00973953

SURREBUTTAL TESTIMONY

OF
LEE SMITH

DOCKETED
DEC 5 1997

DOCUMENT
FOLDED

On Behalf of:

OFFICE OF CONSUMER ADVOCATE

NOVEMBER 1997

1 ADMINISTRATIVE AND GENERAL EXPENSE AND PLANT?

2 A. Yes. Mr. Clemmer has accepted the position taken by myself, Mr. Baron, Mr. Reising, Mr.
3 Phillips, and Mr. Johnstone, that some A&G expense is related to the production function.
4 In place of its initial claim that no A&G, other than in accounts 924 and 926, was related to
5 production, he has now reevaluated his A&G cost assignments through a study which
6 identified work centers that charged costs to A&G accounts. Some work centers fell within
7 production function. Others were either T&D or all 3 functions. He then allocated all work
8 centers that served more than one function on the basis of O&M less fuel.

9
10 Q. IS THIS THE FUNCTIONALIZATION METHOD RECOMMENDED BY YOURSELF?

11 A. No. Mr. Clemmer describes this as the method recommended by Mr. Reising & Ms. Smith.
12 This is not correct. I recommended functionalizing on the basis of labor, rather than all O&M
13 other than fuel. The O&M allocator is 59%, as opposed to the 66% labor allocator. Using
14 the O&M allocator would mean that if the distribution function spent more dollars on wire,
15 for instance, its allocation of corporate time would increase. I continue to support the use
16 of labor rather than O&M as an allocator, and have made a correction to Mr. Clemmer's
17 numbers to reflect this allocation.

18
19 Q. IS THIS ALLOCATION (FUNCTIONALIZATION) AN IMPROVEMENT OVER THE
20 COMPANY'S ORIGINAL POSITION.

21 A. Yes. This is the type of study which the Company should have performed originally.
22 However, the joint function work center expenses should be allocated on the basis of labor

1 rather than O&M expense.

2

3 Q. DO YOU SUPPORT THE REVISED A&G ALLOCATION PRODUCED BY MR.
4 CLEMMER IN HIS REBUTTAL TESTIMONY?

5 A. No. While the general approach is reasonable, the Company has not asked the correct
6 question, and they also appear to have made a single error that has a significant impact on the
7 results.

8

9 Q. WHAT DO YOU MEAN WHEN YOU SAY THAT THEY HAVE NOT ASKED THE
10 RIGHT QUESTION?

11 A. According to Mr. Clemmer, the various "work centers" were asked whether they would need
12 to continue operating to serve only a distribution and transmission company. The other
13 relevant questions that should have been asked were whether it would be possible to reduce
14 the size of the operation at all if it was serving a much smaller company, and whether the
15 same operation would be necessary to serve a generation only company.

16

17 Q. HOW WOULD THIS HAVE AFFECTED THE RESULTS?

18 A. There are functions which would certainly be necessary to support transmission and
19 distribution alone, but which could be reduced in size to serve a smaller company, and which
20 must also be performed for a generation only company. For instance, the general corporate
21 leadership that will be represented in some of the 920 accounts such as Office of CEO, Office
22 of VP Human Resources, and Controller's Office. If the total revenues of the Company were

1 to be reduced by more than half and the total number of employees by almost half, the total
2 expenditure on top management and its support should be reduced. Also, it is quite clear that
3 a functionally separate generating company must also have an upper echelon of management.
4 If this is not recognized, regulated distribution ratepayers will subsidize some of the expenses
5 associated with the generation function.

6
7 Q. WHAT DO YOU PROPOSE TO DO ABOUT THIS PROBLEM?

8 A. I have identified some specific subaccounts that clearly are general corporate activities that
9 would be necessary for a generation only company. These subaccounts are then allocated
10 on labor. These subaccounts are listed in Exhibit LS-7.

11
12 Q. PLEASE DESCRIBE THE SINGLE SPECIFIC ERROR THAT YOU REFERRED TO
13 EARLIER.

14 A. Under account 921, Office Supplies, there is a sizable negative value for office supplies by the
15 production function. It is totally unreasonable to suggest that the generation function is
16 giving back rather than using over one million dollars worth of office supplies. The backup
17 in Exhibit RAC-3 page 31 indicates the reason for this result. There is a single subaccount,
18 which apparently accumulates all sources of credit (correction for errors, etc.) of office
19 supplies. This is described, correctly, as related to all functions. However, it is not correct
20 to allocate it on the basis of the normal functional allocator. It makes no sense for the
21 production function to use 30% of total office supplies, but then be allocated 59% of the
22 credits for office supplies.

1 Q. HAVE YOU BEEN ABLE TO CORRECT THIS PROBLEM?

2 A. Yes. I have allocated this negative subaccount by an allocator that reflects all of the other
3 account 921 subaccounts. This implicitly makes the assumption that if a function has utilized
4 30% of supplies, whatever errors and other factors that have created credits in this account
5 have been proportional to the use of supplies.

6

7 Q. WHAT IS THE RESULT OF THE ADJUSTMENTS THAT YOU HAVE MADE ?

8 A. The final result is that the A&G attributed to the generation function is \$133 million, or \$39
9 million more than PECO's revised allocation. This is a reduction from the \$213 million
10 adjustment made in my original testimony on the basis of a simple allocation of most A&G
11 accounts. The three changes made, and the final result, are shown in Exhibit LS-8.

12

13 Q. WHAT IS THE IMPACT OF THESE CHANGES?

14 A. The revised A&G allocation reduces the A&G adder that must be added to market price to
15 obtain the avoidable generation price. It does not increase stranded costs, as argued by the
16 Company. It would only increase stranded cost if we accept the Company's assumption that
17 these costs must be incurred yet cannot be recovered in market revenue. The cost associated
18 with delivering power to customers is not included in the wholesale price.

19

20 Q. HAS THE FUNCTIONALIZATION OF GENERAL PLANT ALSO BEEN MODIFIED?

21 A. The Company has performed a similar analysis of general plant. I have accepted these revised
22 values.

1 Q. HAVE YOU CALCULATED THE IMPACT OF THESE CHANGES?

2 A. Yes, The unbundled rates that would result from only the changes described above are in
3 Exhibit LS-9, which is an updated version of my original Exhibit LS-4.

4 Unbundling Methodology

5

6 Q. WHAT POSITION IS MR. MILLER TAKING WITH REGARD TO UNBUNDLING
7 METHODOLOGY?

8 A. Mr. Miller provides rebuttal testimony with regard to the Company's unbundling
9 methodology. The Company's position continues to be that PECO's approach is the only one
10 that allows PECO to recover all stranded costs while complying with the seven year CTC
11 recovery & generation rate cap.

12

13 Q. DID MR. MILLER PRESENT ANY ALTERNATIVE?

14 A. Mr. Miller notes that the Act does allow for extension of the seven year period for cause.
15 He argues that if PECO were guaranteed the right to continue collecting a CTC until their
16 stranded costs were collected, then the intervenors' method would be appropriate.

17

18 Q. IS MR. MILLER'S SUGGESTION AN IMPROVEMENT OVER THE COMPANY'S
19 PROPOSED UNBUNDLING METHOD, WHERE THE AVOIDABLE GENERATION
20 PRICE IS THE RESIDUAL?

21 A. Yes. If the Company's appropriate share of allowable stranded costs could not be collected
22 within the transition period, the Commission could allow CTC collection over a longer period

1 of time, so long as there is a corresponding extension of the rate cap protections. I would
2 note, however, that with the stranded cost recommended by Mr. La Capra, utilizing the newly
3 presented DRI forecast, that problem does not arise. Stranded costs can be recovered within
4 the 7 year transition period .

5
6 Q. ARE YOU ADVOCATING AN EXTENSION OF THE PERIOD OVER WHICH A CTC
7 MAY BE COLLECTED?

8 A. No, because, as I noted above, it appears that the Company can collect the stranded cost
9 which Mr. La Capra has supported within the transition period, with the correct unbundling
10 methodology, and still remain within the rate cap.

11
12 Rate Cap and Rate Cap Adjuster

13
14 Q. THE COMPANY HAS PROPOSED A METHOD BY WHICH IT WOULD BE WILLING
15 TO ACCEPT YOUR UNBUNDLING METHOD. PLEASE COMMENT.

16 A. The Company suggests that it would be appropriate to charge the market price for the
17 avoidable generation part of the rate if it were allowed to charge a CTC for more than 7 years
18 if necessary to collect its stranded cost. The method by which it would accomplish this and
19 maintain the rate cap would be to bill for the desired levelized CTC, but to then credit bills
20 by the amount necessary to keep the total rate under the rate cap. This is called the "rate cap
21 adjuster."

1 Q. ARE THERE ANY PROBLEMS WITH THE RATE CAP ADJUSTER MECHANISM?

2 A. There are two major problems with how the Company proposes to apply this mechanism.
3 First, they would not apply the rate cap adjuster to the bills of customers who obtained
4 competitive supply. This, at first, appears to be consistent with the restructuring legislation,
5 since the generation rate cap only applies to customers who take generation service from the
6 Company. This, however, is only an appearance of consistency. The practical effect is that
7 customers who take service from alternative suppliers pay a higher CTC than customers who
8 remain with PECO. The rate cap adjuster should only be allowed if it is applied in the same
9 manner to all customers, regardless of their supplier.

10
11 Second, the Company proposes that it would remove the rate cap adjuster from any customer
12 that took supply from an alternative supplier and then returned to PECO's generation service.
13 This is not consistent with the Act, which states clearly that a generation rate cap shall apply
14 to customers who take generation service from the Company. It does not state that a
15 generation rate cap shall apply only to customers that have always taken generation service
16 from the utility. This provision cannot be allowed.

17

18 Jurisdictional Allocation

19

20 Q. WHAT IS THE COMPANY'S RESPONSE TO YOUR ALLOCATION OF STRANDED
21 COSTS TO WHOLESALE LOAD?

22 A. Mr. Cohn argues that my approach to wholesale allocation is incorrect. Mr. Cohn argues that

1 because retail sales have priority over wholesale sales, since the Company's full supply
2 portfolio is now needed to support retail, wholesale load should not be allocated any stranded
3 cost.

4
5 Q. DOES THE RELATIONSHIP BETWEEN CURRENT RETAIL PEAK LOAD AND
6 CAPACITY CHANGE YOUR POSITION?

7 A. No. The Company's argument misses the point. The Company made commitments that left
8 it with stranded generating plant based on all firm loads. The Company's approach essentially
9 leaves the wholesale load unburdened by stranded costs and able to purchase new market-
10 priced capacity to meet peaks today, while retail customers support all of the Company's
11 high cost stranded plant.

12
13 Q. DOES MR. COHN HAVE ANY OTHER COMMENTS ON YOUR WHOLESALE
14 ALLOCATION?

15 A. Yes. Mr. Cohn states that the ratio of 4CP demand and sales of COPCO is not the same as
16 in the last rate case, as I had assumed in developing my allocator. He "corrects" that allocator
17 based on COPCo peak as percent of total peak load.

18
19
20 Q. HAVE YOU ACCEPTED THIS MODIFICATION?

21 A. No. The allocator should be the 4CP allocator. Since the Company has not presented any
22 data demonstrating that the 4CP relationship has changed significantly, and since a single peak

1 allocator is not consistent with the allocation of generation capacity, I have not modified the
2 allocation to wholesale load.

3
4 Reconciliation

5
6 Q. MR. XANDER DISAGREES WITH YOUR PROPOSAL TO RECONCILE THE CTC ON
7 A CLASS-SPECIFIC BASIS. HAS HE PRESENTED ANY NEW ARGUMENTS THAT
8 HAVE CHANGED YOUR POSITION?

9 A. No. The major rationale appears to be that it will be simpler to end the CTC for all customers
10 at the same time. The CTC will be a different amount and will be charged in a different
11 manner for each rate class. The fact that one class' collection might end before another does
12 not add any insurmountable complexity. The class specific CTC reconciliation will resolve
13 our concerns that some classes may be better able to escape the CTC than others.

14
15 Alternative market prices

16
17 Q. MR. LA CAPRA HAS PRESENTED A REVISED STRANDED COST CALCULATION
18 AS A RESULT OF THE CHANGES THAT RESULT FROM THE UPDATED DRI FUEL
19 FORECAST AND THE REVISION PRESENTED BY MR. CATLIN. HAVE YOU
20 CALCULATED THE IMPACT THAT WOULD HAVE ON YOUR SUGGESTED
21 RATES?

22 A. Yes. I have calculated unbundled rates that encompass all the changes discussed above,

1 including the updated CTC and market prices, using the updated cost of service study
2 presented by Mr. Clemmer and the updated rates presented by Mr. Sundermeir. The
3 unbundled rates are in Exhibit LS-10, which is an updated version of my original Exhibit LS-
4 5. I show the development of my proposed Rate R in Exhibit LS-11, an update of Exhibit
5 LS-6. In addition, I have prepared an Exhibit that demonstrates the results of a levelized rate
6 decrease, rather than a levelized CTC. These results are shown in Exhibit LS-12.

7

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9 A. Yes it does.

10 44749

Executive & Accounting A&G

1	Acct	Sub Acct	Description	Total	
2	920	1000	Executive Department	\$1,058,148	
3		1300	Office of CEO	\$271,664	
4		17500	Office of Sr VP Human Reso	\$645,528	
5		80000	VP - Finance	\$178,815	
6		80200	Controller's Office	\$275,008	
7		82000	Taxes Division	\$910,258	
8		82500	Accounting Services	\$1,772,358	
9		82510	General Ledger	\$412,780	
10		82520	Property Records	\$472,327	
11		82530	Accounting Systems	\$352,615	
12		82600	Investor Relations	\$495,842	
13		82700	Treasury Division	\$452,865	
14		82822	Investment Section	\$274,539	
15		82900	Finance Section	\$280,622	
16		83000	Corporate Budget	\$409,078	\$8,262,446
17					
18	921	1000	Executive Department	\$736,230	
19		1001	Executive - CFO	\$615	
20		1300	Office of CFO	\$7,655,436	
21		17500	Office of Sr VP Human Reso	\$467,893	
22		80000	VP - Finance	\$157,900	
23		80200	Controller's Office	\$45,294	
24		81000	Budget & Reporting Division	\$1,419	
25		81004	External Reporting	\$61,932	
26		82000	Taxes Division	\$426,693	
27		82500	Accounting Services	\$797,411	
28		82510	General Ledger	\$1,541,537	
29		82520	Property Records	\$119,396	
30		82530	Accounting Systems	\$57,195	
31		82600	Investor Relations	\$570,494	
32		82700	Treasury Division	\$1,156,795	
33		82800	Investment Section	\$64,646	
34		82900	Finance Section	\$415,742	
35		83000	Corporate Budget	\$265,389	\$14,542,018
36					
37	923	1000	Executive Department	\$28,622	
38		82000	Taxes Division	\$1,153,199	
39		82500	Accounting Services	\$856,262	
40		82510	General Ledger	(\$93,380)	
41		83000	Corporate Budget	\$633,531	\$2,578,233
42					
43	925	82500	Accounting Services	\$1,840,000	\$1,840,000
44					
45	930	1000	Executive Department	\$648	
46		82600	Investor Relations	\$1,271,075	
47		82700	Treasury Division	\$75,705	\$1,347,428
48					
49	Total				\$28,570,125

Re-Allocation of A&G
Accounts 920, 921, 922, 923, 925, 928, 929, 930, 931, 935

	Source:	Total	Prod	T&D
1	Per PECO:			
2	Direct RAC-3 p 2	\$162,061,387	\$2,647,628	\$159,413,759
3	O&M Allocator (2)/Total (2)		58.68%	41.32%
4	Allocated (2)*(3)	\$40,829,612	\$23,960,450	\$16,869,163
5	(2)+(4)	\$202,890,999	\$26,608,077	\$176,282,921
6	Assuming Labor Allocator Per OCA:			
7	Direct (2)	\$162,061,387	\$2,647,628	\$159,413,759
8	PTD Labor Allocator Exh LS-3 Direct		66.224%	33.78%
9	Allocated (7)*(8)	\$40,829,612	\$27,039,003	\$13,790,610
10	(7)+(9)	\$202,890,999	\$29,686,630	\$173,204,369
11	Difference (10)-(5)	\$0	\$3,078,553	(\$3,078,553)
12	Executive & Accounting A&G Per PECO:			
13	Direct LS-7 line 49	\$28,570,125	\$0	\$28,570,125
14	Direct (7)-(13)	\$133,491,262	\$2,647,628	\$130,843,634
15	Allocated (9)+(13), Alloc on (8)	\$69,399,737	\$45,959,282	\$23,440,455
16	(14)+(15)	\$202,890,999	\$48,606,910	\$154,284,089
17	Difference (16)-(10)	\$0	\$18,920,280	(\$18,920,280)
18	Reallocation of Sub-Account 87704			
19	921, 84470 RAC-3 p 31, alloc on (8)	(\$46,568,505)	(\$30,839,527)	(\$15,728,978)
20	921 Excl 84470 (RAC-3 p1) - (LS-7)	\$72,737,572	\$1,137,833	\$71,599,739
21	(RAC-3) + (LS-7) - (19)	\$58,392,614	\$38,669,925	\$19,722,689
22	(20)+(21)	\$131,130,186	\$39,807,758	\$91,322,428
23	Account 921 Allocator (22)/Total (22)		30.36%	69.64%
24	Acct 84470 per OCA (19) alloc on (23)	(\$46,568,505)	(\$14,137,002)	(\$32,431,502)
25	Difference (24)-(19)	\$0	\$16,702,524	(\$16,702,524)
26	Total A&G Per PECO RAC Rebuttal p 7	\$320,886,000	\$94,335,000	\$226,551,000
27	Reallocated Per OCA (11)+(17)+(25)	\$0	\$38,701,357	(\$38,701,357)
28	Total A&G Per OCA (26)+(27)	\$320,886,000	\$133,036,357	\$187,849,643

PECO Unbundled Rates
 Total Revenues, 12 Months Ended 12/31/96

Exhibit LS-9

	Rate R	Total Retail	Total Retail (Actual \$, kWh)
1			
2			
3			
4	Per PECO (WFS-10)		
5	Total Revenue	1,096,984,000	3,323,618,418
6	Fixed Dist	69,921,244	136,573,691
7	Var Dist	369,306,756	727,570,406
8	Total Dist	439,228,000	864,144,097
9	Trans	44,585,000	155,654,137
10	Total T&D	483,813,000	1,019,798,234
11	CTC	385,803,000	1,394,383,816
12	Gen	227,368,000	909,436,368
13	CTC&Gen	613,171,000	2,303,820,184
14	kWh	7,711,912,198	30,737,744,713
15			
16	Avg Rates Per PECO		
17	Total Revenue/kWh	\$0.1422	\$0.0995
18	Fixed Dist	\$0.0091	\$0.0041
19	Var Dist	\$0.0479	\$0.0218
20	Total Dist	\$0.0570	\$0.0259
21	Trans	\$0.0058	\$0.0047
22	Total T&D	\$0.0627	\$0.0305
23	CTC	\$0.0500	\$0.0417
24	Gen	\$0.0295	\$0.0272
25	CTC&Gen	\$0.0795	\$0.0689
26			
27	Reallocation of A&G, GP PER OCA		
28	Production	14,496,754	38,701,357
29	Transmission	(2,212,673)	(5,907,077)
30	Distribution	(12,284,082)	(32,794,280)
31			
32	Unbundled Revenues with OCA Adjustment		
33	Distribution	426,943,918	819,159,964
34	Transmission	42,372,327	147,551,361
35	Generation	627,667,754	2,310,023,223
36	Total Rate	1,096,984,000	3,276,734,547
37			
38	Unbundled Rates with OCA Adjustment		
39	Total Dist	\$0.0554	\$0.0249
40	Trans	\$0.0055	\$0.0045
41	Generation	\$0.0814	\$0.0701
42	Total Rate	\$0.1422	\$0.0995
43			
44			

Estimated Recovery of Retail Stranded Costs Per OCA

		1996	1999	2000	2001	2002	2003	2004	2005	2006
Estimated Sales (MWh)	1.26%	32,945,449	33,780,905	34,206,544	34,637,547	35,073,980	35,515,912	35,963,412	36,416,551	36,875,400
OCA Proposed Rates										
T&D	Constant	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293
Market			\$0.0290	\$0.0317	\$0.0372	\$0.0390	\$0.0412	\$0.0429	\$0.0453	\$0.0485
Generation A&G			\$0.0017	\$0.0018	\$0.0018	\$0.0018	\$0.0018	\$0.0019	\$0.0019	\$0.0019
Avoidable Generation Component			\$0.0307	\$0.0334	\$0.0390	\$0.0408	\$0.0431	\$0.0448	\$0.0472	\$0.0504
CTC			\$0.0192	\$0.0189	\$0.0187	\$0.0184	\$0.0182	\$0.0180	\$0.0178	\$0.0000
Total Rate			\$0.0792	\$0.0817	\$0.0870	\$0.0886	\$0.0906	\$0.0921	\$0.0943	\$0.0797
OCA Proposed Revenue (\$000)										
T&D Per OCA		\$966,711	\$991,226	\$1,003,715	\$1,016,362	\$1,029,168	\$1,042,136	\$1,055,267	\$1,068,563	\$1,082,027
Market revenues			\$979,196	\$1,082,843	\$1,288,943	\$1,368,665	\$1,464,323	\$1,543,710	\$1,648,704	\$1,786,867
Generation A&G			\$58,779	\$60,278	\$61,772	\$63,799	\$65,279	\$67,289	\$69,288	\$71,346
Avoidable Generation Component			\$1,037,975	\$1,143,120	\$1,350,716	\$1,432,464	\$1,529,602	\$1,610,999	\$1,717,992	\$1,858,213
CTC - Retail Allocation *			\$646,962	\$646,962	\$646,962	\$646,962	\$646,962	\$646,962	\$646,962	\$0
Total Revenue			\$2,676,163	\$2,793,798	\$3,014,041	\$3,108,594	\$3,218,700	\$3,313,228	\$3,433,518	\$2,940,240
Current Average Rate	Constant	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995
Current Total Revenue		\$3,276,735	\$3,359,828	\$3,402,162	\$3,445,030	\$3,488,437	\$3,532,391	\$3,576,899	\$3,621,968	\$3,667,605
Difference (Proposed - Current)			(\$683,666)	(\$608,364)	(\$430,989)	(\$379,843)	(\$313,691)	(\$263,671)	(\$188,451)	(\$727,366)
Percent Change			-20%	-18%	-13%	-11%	-9%	-7%	-5%	-20%

* Total CTC of \$674.270 million less \$27.308 million wholesale allocation

Development of Unbundled Pricing
Rate R in 1999 Per OCA
(Revised Exhibit WFS-9)

Revenue Requirement	Per OCA*	Per PECO
Transmission	\$42,372,327	44,585,000
Distribution	\$426,943,918	439,228,000
Fixed Distribution	\$69,921,244	69,921,244
Variable Distribution	\$357,022,674	369,306,756
CTC	\$183,504,437	385,803,000
Avoidable Generation	\$245,559,961	227,368,000
Total	\$898,380,644	\$1,096,984,000

Residential Average Reduction From OCA Rates 18%

Transmission	% **	Revenue	Billing	Rate
Up to 500 kWh	0.678815	\$28,762,971	5,355,673,016	0.0054
Over 500 kWh (w)	0.157874	\$6,689,489	1,245,582,498	0.0054
Over 500 kWh (s)	0.163311	\$6,919,867	1,110,656,684	0.0062
		\$42,372,327	7,711,912,198	

Distribution	%	Revenue	Billing	Rate
Up to 500 kWh	0.678815	\$242,352,347	5,355,673,016	0.0453
Over 500 kWh (w)	0.157874	\$56,364,598	1,245,582,498	0.0453
Over 500 kWh (s)	0.163311	\$58,305,730	1,110,656,684	0.0525
		\$357,022,674	7,711,912,198	

Avoidable Generation	%	Revenue	Billing	Rate
Up to 500 kWh	0.678815	\$166,689,785	5,355,673,016	0.0311
Over 500 kWh (w)	0.157874	\$38,767,533	1,245,582,498	0.0311
Over 500 kWh (s)	0.163311	\$40,102,643	1,110,656,684	0.0361
		\$245,559,961	7,711,912,198	

CTC	%	Revenue	Billing	Rate
Up to 500 kWh	0.678815	\$124,565,564	5,355,673,016	0.0233
Over 500 kWh (w)	0.157874	\$28,970,579	1,245,582,498	0.0233
Over 500 kWh (s)	0.163311	\$29,968,293	1,110,656,684	0.0270
		\$183,504,437	7,711,912,198	

Unbundled Per OCA	Total	Trans	Dist	Avoid'bl Gen	CTC
Up to 500 kWh	0.1050	0.0054	0.0453	0.0311	0.0233
Over 500 kWh (w)	0.1050	0.0054	0.0453	0.0311	0.0233
Over 500 kWh (s)	0.1218	0.0062	0.0525	0.0361	0.0270

Unbundled Per PECO	Current	Trans	Dist	Gen	CTC
Up to 500 kWh	0.1305	0.005651	0.046808	0.029141	0.048899
Over 500 kWh (w)	0.1305	0.005651	0.046808	0.029141	0.048899
Over 500 kWh (s)	0.1491	0.006556	0.054303	0.031513	0.056729

* CTC allocated on A-1, A&G allocated on E-1

** Allocation to components per Company

**Estimated Recovery of Retail Stranded Costs Per OCA
(CTC - Equal Percentage Decrease)**

		1996	1999	2000	2001	2002	2003	2004	2005	2006
Estimated Sales (MWh)	1.26%	32,945,449	33,780,905	34,206,544	34,637,547	35,073,980	35,515,912	35,963,412	36,416,551	36,875,400
OCA Proposed Rates										
T&D	Constant	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293	\$0.0293
Market			\$0.0290	\$0.0317	\$0.0372	\$0.0390	\$0.0412	\$0.0429	\$0.0453	\$0.0485
Generation A&G			\$0.0017	\$0.0018	\$0.0018	\$0.0018	\$0.0018	\$0.0019	\$0.0019	\$0.0019
Avoidable Generation Component			\$0.0307	\$0.0334	\$0.0390	\$0.0408	\$0.0431	\$0.0448	\$0.0472	\$0.0504
CTC			\$0.0270	\$0.0243	\$0.0187	\$0.0169	\$0.0146	\$0.0129	\$0.0105	\$0.0000
Total Rate			\$0.0871	\$0.0797						
OCA Proposed Revenue (\$000)										
T&D Per OCA		\$966,711	\$991,226	\$1,003,715	\$1,016,362	\$1,029,168	\$1,042,136	\$1,055,267	\$1,068,563	\$1,082,027
Market revenues			\$979,196	\$1,082,843	\$1,288,943	\$1,368,665	\$1,464,323	\$1,543,710	\$1,648,704	\$1,786,867
Generation A&G			\$58,779	\$60,278	\$61,772	\$63,799	\$65,279	\$67,289	\$69,288	\$71,346
Avoidable Generation Component			\$1,037,975	\$1,143,120	\$1,350,716	\$1,432,464	\$1,529,602	\$1,610,999	\$1,717,992	\$1,858,213
CTC - Retail Allocation *			\$911,522	\$830,940	\$648,218	\$591,657	\$520,022	\$464,450	\$383,608	\$0
Total Revenue			\$2,940,723	\$2,977,776	\$3,015,296	\$3,053,289	\$3,091,760	\$3,130,716	\$3,170,163	\$2,940,240
Current Average Rate	Constant	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995	\$0.0995
Current Total Revenue		\$3,276,735	\$3,359,828	\$3,402,162	\$3,445,030	\$3,488,437	\$3,532,391	\$3,576,899	\$3,621,968	\$3,667,605
Difference (Proposed - Current)			(\$419,106)	(\$424,386)	(\$429,734)	(\$435,148)	(\$440,631)	(\$446,183)	(\$451,805)	(\$727,366)
Percent Change			-12%	-12%	-12%	-12%	-12%	-12%	-12%	-20%

* Total CTC of \$674.270 million less \$27.308 million wholesale allocation

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

DEC 1 1997

PA PUBLIC UTILITY COMMISS
PROTHONOTARY'S OFFICE

APPLICATION OF PECO ENERGY FOR
APPROVAL OF ITS RESTRUCTURING
PLAN UNDER SECTION 2806 OF THE
PUBLIC UTILITY CODE

Docket No. R-00973953

SURREBUTTAL TESTIMONY

OF

BARBARA ALEXANDER

DOCKETED
DEC 5 1997

On Behalf of:

OFFICE OF CONSUMER ADVOCATE

DOCUMENT
FOLDED

NOVEMBER 1997

Surrebuttal Testimony
of
Barbara R. Alexander

PECO Energy Company
Docket No. R-00973953

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Barbara R. Alexander, Consumer Affairs Consultant, 15 Wedgewood Dr.,
3 Winthrop, Maine 04364.

4
5 Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

6 A. Yes. I submitted direct testimony (OCA Statement No. 5) and various supporting exhibits
7 (BA-1, BA-2, and BA-3) on behalf of the Office of Consumer Advocate in June and
8 Surrebuttal Testimony (OCA Statement No. 5S) with a supporting exhibit (BA-4) in October.
9 The Surrebuttal Testimony addressed issues unresolved by the Partial Settlement in this
10 proceeding. A statement of my qualifications is contained in my direct testimony.

11
12 Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?

13 A. I respond to PECO Energy's rebuttal testimony of Gwendolyn S. King concerning the
14 Company's consumer education plan. As noted above, my October surrebuttal testimony
15 addressed issues unresolved by the Partial Settlement as presented in the Company's rebuttal
16 testimony of Marilyn C. Kray, specifically Exhibit MCK-7, William F. Sundermeir, Gregory
17 A. Cucchi and J. Gregory Sidak concerning consumer protections, the Company's proposed

1 Code of Conduct and certain other procedures and fees governing the Company's interactions
2 with both customers and competitive suppliers.

3
4 Q. WHAT IS YOUR RESPONSE TO THE COMPANY'S REBUTTAL TESTIMONY
5 CONCERNING ITS CONSUMER EDUCATION PROGRAM?

6 A. Since the Company agrees with the basic approach I outlined in my direct testimony, I have
7 only a few comments or concerns. Ms. King's Rebuttal expresses concern about my
8 suggestion that a purpose of the Consumer Education Program should be to "motivate
9 customers to participate in the competitive market" and "get customers excited about or
10 ready to shop for electricity." Here, however, the problem may be a matter of
11 misinterpretation. PECO, as the incumbent provider of both distribution and generation
12 services for its customers, is understandably reticent about stimulating its customers to change
13 suppliers. The Company equates the creation of "excitement" as a marketing objective and,
14 therefore, equates marketing as stimulating a customer to leave their current suppliers and
15 choose another. This was not my intent. I believe that customers need to be stimulated and
16 excited about the possibilities of consumer choice so that they will be interested in reading the
17 brochures, bill inserts and listening to the speakers and community forums that will be a part
18 of the consumer education program. In other words, customers need to be stimulated using
19 the mass media tools I described in my direct testimony to care enough to hear and
20 understand the fact-based approaches contained in Question and Answer Brochures. In fact,
21 the Company evidently understands this approach because its radio spots and newspaper

1 advertisement have to date tried to present the upcoming changes in the electric industry as
2 a subject of interest to customers in their everyday lives. It will be important to get customers
3 to pay attention to the educational message.

4
5 Q. WHY WON'T CUSTOMERS PAY ATTENTION TO THE EDUCATIONAL MESSAGES
6 CONCERNING RETAIL ELECTRIC COMPETITION WITHOUT STIMULATION OR
7 EXCITEMENT?

8 A. As described in the proposed California Education Plan (Direct Testimony, BA-3), most
9 consumers do not pay attention to their current electric bill. For many customers, the monthly
10 electric bill does not represent a significant percentage of their income. The process of
11 getting the bill and paying it is routine. Consumers are used to the cocoon of price and
12 service quality protections that are part of the current regulatory system. Many consumers
13 may not have even heard about electric competition or, if so, do not understand it.
14 Consumers will not read bill inserts or pay attention to speakers and brochures unless they are
15 interested in the topic and want to learn more.

16
17 Q. HOW DOES THE STIMULATION AND EXCITEMENT YOU ENVISION AS
18 OBJECTIVES COORDINATE WITH YOUR OVERALL PROPOSAL FOR A
19 COMMISSION-LED STATEWIDE CONSUMER EDUCATION PROGRAM?

20 A. The Commission should take a leadership role in hiring a consultant to create a coordinated
21 statewide education program. This program should be designed to occur in two phases.

1 Phase I will educate consumers about the advent of consumer choice and stimulate public
2 awareness and interest in the impending changes to their electric service. This will necessitate
3 the use of some catchy phrases or slogans to get consumers interested in the hearing more
4 about this topic. This phase will require the use of mass media (TV and radio spots,
5 coordinated newspaper advertisements, local community group newsletter inserts, etc.).
6 These phrases and slogans should be coordinated so that they are used consistently in a
7 statewide multi-media campaign. This will create customer interest and awareness of the
8 topic in general. In effect, this phase will get customers ready to read the brochures under
9 development by the Commission and other parties. Without this phase, however, customers
10 may not read or want to read about customer choice. Without creating this level of interest,
11 customers are more likely to treat the consumer education materials that appear in their bill
12 or are offered to them at public meetings or gatherings as just another bill insert and toss it.

13 Phase II should focus on educating customers about the tools they need to evaluate
14 their own electricity needs and make informed decisions about their electric supplier. This
15 Phase should transmit information about key disclosures and characteristics that will assist
16 consumers in making their electricity supplier decision, such as those mandated in the
17 Commission's recent order on Customer Information-Interim Requirements (Docket No.
18 M-00960890 F008, July 11, 1997). During this phase consumers will receive more fact-
19 oriented brochures and bill inserts. As a result of Phase I, they will be ready to read these
20 materials and hopefully interested in learning how to shop for electricity.

1 Q. DO YOU AGREE WITH PECO'S CONCERN THAT THE CONSUMER EDUCATION
2 PLAN SHOULD BE "ACCURATE, UNBIASED AND UNDERSTANDABLE, AND
3 SHOULD BE PRESENTED IN A MANNER INTENDED TO CAPTURE CONSUMERS'
4 INTEREST, SO THAT THEY WILL NOT HESITATE TO PARTICIPATE IN THE
5 RESTRUCTURED MARKET OUT OF FEAR, CONFUSION OR LACK OF
6 KNOWLEDGE"?

7 A. Yes. This is a fair description of my proposed Phase I education campaign. We may differ
8 on how to "capture consumer interest", but we both agree that consumers will need to have
9 their interest piqued. The purpose of the education program is not to sell the notion of
10 changing suppliers per se, but all utilities must understand that the ultimate objective of the
11 education plan is to increase awareness of a customer's right to choose their supplier. This
12 carries with it the obvious potential of customers changing their supplier from the incumbent
13 to a competitor. This potential outcome is exactly why the Commission must exert its
14 leadership as have the commissions in California, Vermont, Maine, Massachusetts and New
15 Hampshire, to demand a sophisticated and effective approach to consumer education.
16 Nonetheless, I fully agree that the purpose of the statewide education campaign is not to
17 market any particular supplier or to market the notion that customers should in fact change
18 their supplier. What should be marketed is the changing nature of the electric industry, the
19 customer's opportunity for different choices than in the past, and the necessary tools for
20 customers to make informed decisions. This concept should be marketed because it must be
21 presented in a manner designed to capture customer attention and interest in hearing the rest

1 of the message. In other words, I recommend that the Commission and other parties put
2 together an education program that uses the techniques of marketing to capture customer
3 interest and promote the educational vehicles that will be available through the mail or in their
4 communities.

5
6 Q. DO YOU HAVE ANY REMAINING CONCERNS WITH PECO'S REBUTTAL
7 TESTIMONY ON CONSUMER EDUCATION?

8 A. Yes, there is one additional issue that I wish to highlight. Ms. King states (at 5), "All
9 stakeholders who seek a voice in the development and design of the program should
10 contribute to its funding." While the OCA certainly supports broad-based funding of these
11 education efforts and strongly welcomes any offers to assist in the funding of the program,
12 we cannot endorse the notion that "all stakeholders" must help fund the program through
13 direct cash contributions. There are many local community organizations and low-income
14 representatives who are not able to provide direct funding. If PECO means that all
15 stakeholders must contribute time and "sweat labor" to this project, then we endorse this
16 intent. If, however, PECO means that all stakeholders must financially contribute, this would
17 eliminate some key stakeholders and we oppose this intent.

18
19 Q. HAVE THERE BEEN ANY RECENT DEVELOPMENTS WITH RESPECT TO STATE
20 INITIATIVES FOR CONSUMER EDUCATION THAT ARE RELEVANT TO THIS
21 PROCEEDING?

1 A. Yes. California has now begun to implement its Consumer Education Plan with TV and radio
2 advertisements that began in October, 1997, a toll free Call Center, and direct mailings to all
3 residential and small customers served by the three investor-owned utilities subject to retail
4 competition which will begin on January 1, 1998. I have attached three Fact Sheets released
5 by the California PUC which briefly summarize the objectives, budget and the phases for their
6 consumer education plan. (Exh. BA-5)

7 In addition, the Maine PUC has initiated a rulemaking to implement the
8 recommendations of its Consumer Education Advisory Board. The rule proposes a budget
9 of \$1.6 million or approximately \$1.60 per capita, "...which it determined was within the range
10 of funding per capita for plans in other states."¹ This funding will be provided by a special
11 assessment on all electric and transmission and distribution utilities which will be recovered
12 in rates from all ratepayers. The rule also calls for the Commission to issue a proposed
13 consumer education plan and provide an opportunity for public comment prior to its
14 adoption. The plan recommended by the Advisory Board contains several phases, starting
15 first with an Awareness Effort designed to educate customers generally that change is coming
16 by means of mass media and public service announcements, followed by an Understanding
17 phase in which more detailed information is transmitted through direct mail, an Assurance
18 phase to provide in-depth information on particular topics by means of 1-800 call centers,
19 Internet documents, and specialty topic brochures, and an Acceptance phase designed to

¹ Maine Public Utilities Commission, Re: Public Utilities Commission Rulemaking, Chapter 302, Consumer Education Program, Docket No. 97-583, November 6, 1997, at 4.

1 reach "special needs" consumers by means of outreach by community-based organizations.
2 I have attached the Recommendations of the Maine Consumer Education Advisory Board to
3 my surrebuttal testimony as Exh. BA-6. The recommendations are similar to those adopted
4 by the Vermont Department of Public Service and the California Consumer Education Plan
5 attached to my direct testimony.

6
7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8 A. Yes.

44727

EXHIBIT BA-5

FOR IMMEDIATE RELEASE

Contact: Kristina Parham x161
Patti Shin x192
Evelyn Jerome x157
Rogers & Associates
(310) 552-6922

STATE OF CALIFORNIA LAUNCHES "PLUG IN, CALIFORNIA!" TO INFORM CONSUMERS ABOUT ELECTRIC UTILITY INDUSTRY CHANGES

Three-part, Long-term Education Program
to Target Residents and Small Businesses

More Than \$13 Million Available to Community-based Organizations

SAN FRANCISCO, Sept. 25, 1997 -- The State of California Public Utilities Commission (CPUC) announced the launch of an \$89.3 million public education campaign to inform Californians about how coming changes to the state's electric utility industry will affect their energy choices. After Jan. 1, 1998, California will become the first state in the nation to introduce a competitive electric utility industry to allow consumers to choose their own electric service provider. The state's education effort will primarily target residential consumers, small businesses, and special needs populations to ensure they receive accurate, unbiased information about electric industry restructuring. The changes will only apply to customers of California's seven investor-owned utilities and to customers of the municipal utilities and special districts that choose to participate. The seven investor-owned utilities are: Pacific Gas and Electric, San Diego Gas and Electric, Southern California Edison, Southern California Water Company, Pacificorp, Kirkwood Gas and Electric, and Sierra Pacific Power Company. Pacific Gas and Electric, San Diego Gas and Electric, and Southern California Edison combined serve about 70 percent of the state.

-more-



AUTHORIZED
BY THE
CALIFORNIA
PUBLIC
UTILITIES
COMMISSION

Plug In, California!

2-2-2

The consumer education program will have three components:

- I. A \$73.5 million intensive consumer education program, which will be known as, "Plug In, California!," will include television and radio advertisements, utility bill inserts, a live-operator information call center, and a variety of community outreach efforts. This program also includes \$3.6 million which will be distributed to community-based organizations (CBOs) to conduct grassroots education about choices that will be available to consumers after Jan. 1, 1998.
- II. A \$2 million program in which the CPUC's Consumer Services Division will incorporate electric industry restructuring information into its daily contact with the press and the public.
- III. A \$13 million Electric Education Trust (EET) which will conduct long-term education starting in 1998. This education effort includes up to \$10 million which will be distributed to CBOs to conduct extended education.

A major media launch, including television advertisements, is expected to begin in mid-October. The intensive customer education and grassroots program is expected to conclude by May 31, 1998. The EET will begin to gear up its program in March 1998. One of the EET's proactive activities will include distributing funds to CBOs to help facilitate the electric utility industry transition for residential and special needs audiences, including seniors, ethnic populations, physically challenged, rural, low-income and non-English speaking consumers. The CPUC's Consumer Services program will augment these efforts by communicating relevant consumer protection measures and other policies adopted by the Commission to consumers; local, state and federal officials; and other targeted audiences.

-more-

Plug In, California!
3-3-3

Focus group studies conducted by Plug In, California! have shown that California electric customers are most interested in learning about how change in the electric utility industry will affect their rates; how to make informed choices in the new environment; whether service, reliability and safety will be maintained; and their rights as consumers.

Plug In, California! will address these issues by presenting factual, unbiased information in plain, easy-to-understand language.

The CPUC and California's stakeholder and consumer groups have played a significant role in the creation of the Plug In, California! campaign action plans, and the CPUC will have full oversight of the campaign. As the program is implemented, it will be monitored for effectiveness and adjusted as necessary.

The Plug In, California! education program is being implemented by Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison, and Southern California Water Company (which provides electric service to mountain communities in San Bernardino County). The CPUC has established a goal for measuring the effectiveness of the Plug In, California! consumer education program.

By devoting resources to community outreach, Plug In, California! will take advantage of the extensive network of CBOs throughout the state. CBOs can apply for grants from \$5,000 to \$150,000 to educate their constituents about the electric industry restructuring by conducting Town Hall events, workshops and seminars, and distributing educational materials. Applicants must be California-based, non-profit organizations with valid 501(c) (3) status. Organizations that do not have 501(c) (3) status can collaborate with others that do. Applications can be requested by calling 800-830-2001.

-more-

Plug In, California!

4-4-4

With the changes in the electric utility industry, energy customers who are currently served by investor-owned utilities will be able to buy electricity from another electric service provider, but consumers who choose to take no action will remain with their existing utility. Plug In, California! is designed so that customers have the information necessary to compare and select among current and new electric service providers and so that they can protect themselves from marketing practices that may be unfair or deceptive.

The CPUC will continue to serve in its oversight role over the electric utility industry, and will monitor and address any such abusive practices.

The CPUC is the state agency responsible for regulating the rates, safety and service of all *privately owned telecommunications, electric, water, and natural gas utilities*. Currently, the CPUC regulates more than 1,000 utilities, and its decisions affect nearly \$50 billion in utility-related economic activity.

Plug In, California! is one part of the CPUC's comprehensive approach to inform consumers about the changes in California's electric utility industry. The campaign is designed to provide Californians with accurate, unbiased, and user-friendly information, as well as resources for further information.

###

Plug In, California!

FACT SHEET

Contact: Kristina Parham x161
Patti Shin x192
Evelyn Jerome x157
Rogers & Associates
(310) 552-6922

CALIFORNIA'S COMPREHENSIVE ELECTRIC EDUCATION PROGRAM

BACKGROUND

In 1996, the California State Legislature passed a law which will allow most Californians to choose which company will provide the electric portion of their electric utility service. Consumers in areas served by investor-owned utilities will have a choice of electric service providers after Jan. 1, 1998.

Because of this new competitive system, consumers will receive information from power companies seeking to win their business. The California Public Utilities Commission (CPUC), which regulates and oversees utility industries, recognizes that consumers should have unbiased information about the new competitive energy marketplace and the choices they can make.

THE CPUC'S THREE-PART EDUCATION CAMPAIGN

The CPUC is taking a three-pronged approach to educate California consumers with a comprehensive public education plan. The plan kicks off in September 1997 and will continue through June 1999. The plan consists of these separate but integrated components:

- I. Plug In, California!
- II. The CPUC's Outreach Program, coordinated by the CPUC Consumer Services Division
- III. The Electric Education Trust (EET)

-more-



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THE BUDGET

The budget for the entire education campaign, encompassing the three elements listed above, is \$89.3 million. Funding is being provided by Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison, and Southern California Water Company (which provides electric service to mountain communities in San Bernardino County). The \$89.3 million budget includes:

- \$73.5 million for Plug In, California!
- \$2 million for the 1997 - 1998 CPUC outreach efforts
- \$13 million for the EET

I. *Plug In, California!*

Primary Goal: To provide electric consumers with unbiased easy-to-understand information about their new electricity choices. This campaign also focuses on small businesses and hard-to-reach and special needs audiences, including, seniors, persons with disabilities, rural populations, ethnic community members, and non-English-speaking individuals.

Duration: September 1997 through May 1998

Budget: \$73.5 million, including \$3.6 million available for use by non-profit community-based organizations (CBOs)

II. *The CPUC's Outreach Plan*

Primary Goal: To utilize the CPUC's consumer protection office to maximize educational communications with the public, the press, governmental entities and their constituents, which the division interacts with on a daily basis.

Duration: Ongoing, the program will continue as long as the CPUC determines that the need exists

Budget: \$2 million

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III. The Electric Education Trust

Primary Goal: To ensure that the public education and community outreach process begun by Plug In, California! and the CPUC's Consumer Services Division continues over a sustained period of time. EET will be submitting a communication plan, including a CBO outreach plan, to the CPUC for approval by Oct. 15, 1997.

Duration: April 1998 through June 1999. (State legislation may extend the duration of the EET.)

Budget: \$3 million, plus up to \$10 million available for use by non-profit CBOs

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Plug In, California!

FACT SHEET

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Rogers & Associates
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PLUG IN, CALIFORNIA!

THE EDUCATION CAMPAIGN

Plug In, California! is one part of the California Public Utilities Commission's (CPUC) comprehensive approach to inform consumers about the changes in California's electric industry. The CPUC, as well as California's stakeholder, consumer advocacy and ratepayer groups, have played an instrumental role in the creation of the campaign's action plans. The campaign will be monitored for effectiveness and adjusted as necessary.

OBJECTIVES OF THE EDUCATION CAMPAIGN

To provide California's residential and small business electric customers -- including those who may be difficult to reach, such as economically disadvantaged or limited English-speaking populations -- with accurate, unbiased and user-friendly information, as well as resources for further information, so that they are able to:

- Compare and select among products and services provided in the electricity market
- Protect themselves from marketing practices that are unfair or abusive

THE RESEARCH

Focus group research was conducted by Plug In, California! among the general population, seniors, small business persons, small and family farmers, African Americans, Chinese, Filipinos, Koreans, Latinos, and Vietnamese.

-more-



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In addition to wanting factual, unbiased information in plain language, the California electric consumers involved in the research indicated that they are most interested in learning about:

- How changes to the electric industry will affect their rates
- How to make informed choices in the new environment
- Whether service, reliability and safety will be maintained
- What their rights as consumers will be

THE DURATION

The multi-faceted education campaign will begin in September 1997 and end May 31, 1998.

THE BUDGET

The campaign's budget of \$73.5 million includes \$3.6 million which will be available to non-profit community-based organizations that want to educate their constituents about how electric industry changes will affect them.

The campaign's budget is being provided by Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison, and Southern California Water Company (which provides electric service to mountain communities in San Bernardino County).

The CPUC has established a goal for measuring the effectiveness of the Plug In, California! consumer education program.

THE COMPONENTS

The statewide campaign will employ a wide variety of activities which have proven effective in communicating to California's diverse populations, including:

- ***Advertising*** in television, radio, and print media and on billboards
- ***Direct mail*** to customers of the participating utilities
- ***Brochures*** targeted to the needs of small businesses, residential customers, non-English-speaking populations, and low-literacy audiences
- ***Public relations*** efforts, which focus on actively educating editors and reporters at local and regional newspapers, magazines, radio and television outlets so that they can accurately communicate with their readers, listeners and viewers
- ***Community outreach***, which includes providing \$3.6 million to qualified non-profit community-based organizations that will take on the responsibility of educating their own constituents at the grassroots level; and use of local and regional community, civic and cultural events to distribute literature and answer consumers' questions

- *An Internet website*
- *A toll-free multi-lingual customer call center*, operational Oct. 15, 1997, which can answer questions, forward printed materials, or direct electric consumers to other sources of information

THE AGENCIES

DDB Needham Los Angeles, a full-service advertising agency with substantial experience in developing and implementing public education programs that impact the state's varied consumer segments, has been hired to help carry out the program's objectives. DDB Needham's work in educational campaigns includes the highly successful California Department of Conservation campaign on beverage container recycling, which featured Danny DeVito and Rhea Perlman. In addition, the firm has handled educational efforts related to anti-litter, the diversion of landfill waste and the introduction of Caller ID and other next-generation calling services.

Partnering with DDB Needham on Plug In, California! are several public relations and marketing firms who provide specialized expertise in communicating to California's varied and hard-to-reach constituencies, such as seniors, the physically challenged, non-English speaking residents and economically disadvantaged families.

Rogers & Associates, a Los Angeles-based public relations agency, was selected as a key communications partner based on the firm's diverse public education experience, including work on behalf of the California Department of Health Services for the state anti-smoking and HIV/AIDS prevention campaigns.

DDB Needham and Rogers & Associates will work with several other advertising, public relations and marketing firms. The Plug In, California! team includes:

DDB Needham Los Angeles	Lead advertising and marketing firm
Rogers & Associates	Lead public relations and community outreach firm
Anita Santiago Advertising	Hispanic advertising
Carol H. Williams Advertising	African American advertising
Imada Wong Communications Group	Asian Pacific Islander advertising, public relations and community outreach
Durazo Communications	Hispanic public relations and community outreach
Young Communications Group	African American public relations and community outreach
Flair Communications	Promotions and direct marketing

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EXHIBIT BA-6

**Recommendations for Development of a
Consumer Education Program
About Electricity Retail Access**

**Submitted by the
Consumer Education Advisory Board
on Electricity Retail Access**

**to the
Maine Public Utilities Commission**

October 2, 1997

Members of the Consumer Education Advisory Board on Electricity Retail Access

Dan Allegretti, ENRON Power Marketing, Inc.

Dan Dauphinee, Northeastern Log Homes

Susan Benson, Dept. of Conservation

Ellie Bickmore, Maine Grocers Association

(Chair) Representative Donald Berry, Sr., Belmont, Maine

Eric Bryant, Public Advocate's Office

Debbie Burd, Exec. Dir., Western Mountains Alliance

Carla Dickstein, Coastal Enterprises, Inc.

Geoffrey Green, Central Maine Power Company

Pat Kosma, Mgr., KVCAP

John Knox, Readfield, Maine

Laurie LaChance, State Planning Office

John Marvin, AARP/AFL-CIO

Chet Oiler, Mgr., Kennebunk Light & Power Dist.

Matt Thayer, Dir., Consumer Assistance Division, Public Utilities Commission

I. Executive Summary

We, the Consumer Education Advisory Board on Electricity Retail Access, submit this report to the Public Utilities Commission (PUC) to fulfill the Legislature's charge in L.D. 1804, "An Act to Restructure the State's Electric Industry." L.D. 1804 restructures the electric utility industry, effective March 2000, by separating electricity generation and sales from transmission and distribution functions in many Maine utilities. As a result, Maine consumers will be able to purchase electricity from competing retail providers, a concept known as "retail access." Transmission and distribution services will continue to be provided by monopoly utilities.

The Legislature recognized the need to educate Maine consumers about the upcoming changes in the electricity industry and the new ways that consumers may purchase electricity in the future, and mandated creation of the Consumer Education Advisory Board on Electricity Retail Access. The Legislature directed the Board to advise the Commission on development of a consumer education rule, and created the Board, in part, to "investigate and recommend methods to educate the public about the implementation of retail access and its impact on consumers."

The Legislature charged the Board with making recommendations in several specific areas, some of which are summarized below. Complex or detailed recommendations follow in this report.

- **Program Goals:**
 - Increase consumer awareness of retail access and related issues
 - Facilitate informed consumer decision-making
 - Provide an objective and credible source of information for consumers
- **Core Messages:** see "*Core Messages for Education*," beginning on p. 3.
- **Target Audience:**
 - residential consumers, including "hard to reach" consumers such as low income, elderly, lesser educated, and rural consumers;
 - commercial consumers, including municipal consumers;
- **Program Objectives:** develop measurable objectives against which program performance can be assessed, and to assist with program implementation and evaluation;
- **Means of Education:** use complementary educational methods in an integrated fashion;
- **Administrator:** the PUC, with assistance from a communications contractor;
- **Timeframe:** at various levels of intensity, from September 1998 to January 2001;
- **Authorized Funding Level:** \$1.6 million (this sum takes into account the complexities of the process by which, and timing when, authorized funding can be adjusted to respond to conditions that may require an increase in program intensity or duration);
- **Funding Source:** be funded by fees assessed on competitive electricity providers, and, to the extent that this funding source is not workable or adequate, funded by customers of transmission and distribution companies through a separate charge on customer bills.

We also recommend the PUC begin the contractor Request for Proposal process in February 1998, and hold a public proceeding to approve the education program *plan* in mid-1998.

II. Goals of Educational Effort

We recommend that the consumer education program (CEP) have at least the following goals:

- **Increase consumer awareness of retail access and related issues**
- **Facilitate informed consumer decision-making thereby achieving customer-preferred outcomes**

The definition of “informed” should be left to individual consumers as they consider whether they feel they have made informed decisions, and is envisioned as a neutral and inclusive term. “Informed” may include securing better electric rates, buying “greener” power, knowing about and contracting with aggregators, etc.

- **Provide an objective and credible source of information for consumers**

III. Core Messages for Education

As requested by the Legislature, we identify below the aspects of retail access about which consumers need education. We then recommend six core messages for the consumer education program (CEP) based on the list of aspects of retail access, messages that we believe consumers will want and need to know. We strongly recommend that the CEP deliver information on the core messages, not just on particular aspects of retail access or the mechanics of buying power in a restructured market. It is equally important for consumers to understand why these changes are happening and why they should care, as it is for them to know how to participate most effectively in a competitive market.

A. Aspects of Restructuring

Consumers will need education on at least the following *aspects* of restructuring: competitive generation and choice; regulated distribution; system reliability;¹ aggregation; standard offer service; itemized billing (referred to in L.D. 1804 as “unbundling”); stranded costs; uniform information disclosure; low income bill payment assistance programs; renewable/alternative energy; energy efficiency; the “Do-Not-Call” List; and the timeline for competition.

B. Core Messages

We propose *core messages* for the education effort, which at this point weave in many, but not all, aspects of restructuring about which consumers need education, as indicated below:

1. Why is Restructuring Occurring?

- What’s in it for me?
 - Choice of suppliers
 - Aggregation
- Potential benefits
 - Choice in energy supply (“green” energy)
 - Lower prices
 - Less reliance on regulation

2. Structure of the Industry

¹ Education about system reliability is important; reliability is the most important issue for Maine consumers, just ahead of low rates, according to the PUC’s 1996 electric restructuring consumer survey.

- **Flow of Electrons (could use a “swimming pool” analogy as suggested below)**
- Separation of generation from transmission and distribution services

3. Choice/Change is Coming

- Generation price
(This message could be in part: “Generation prices may change. The market will determine the prices available to you; you will determine the price you pay”)
- Marketing is coming -- Inform yourself, know your choices.
Uniform information disclosure would help, if adopted.
Working with telemarketers / “Do-Not-Call” List
- Standard offer -- There will be a change *even* if you do nothing.²
- Reduced/alternative regulation of suppliers
- How to purchase power in a competitive marketplace³

4. Reliability

- System reliability will be maintained at the distribution end by local transmission and distribution companies and their poles and wires and bucket trucks, under continued state regulation of these utilities.

5. Timeline for Retail Access

- *Itemized billing (in-statute referred to as “Unbundling”)*
- Choice day (the first day of retail access, March 1, 2000)

6. Who to Call for More Information

- The PUC

² All customers who do not select a competitive provider will be placed on the Standard Offer.

³ This message addresses the process for purchasing power from competitive providers and the standard offer (and should address aggregation), how to purchase power wisely (how to compare offers and what to consider when you do), how to read your bill, and basic consumer rights.

C. Other Recommendations about Messages

The “Price” Message. The message on electricity “price” must be handled very carefully. We should avoid a core message about the overall price under restructuring because at this point no one can determine whether the price will be lower for consumers than it is today. While lower electricity prices are a potential benefit, they are not guaranteed. Another challenge with the “price” message is that it may be difficult to determine unit costs for electricity in a way that is useful for consumer decision making. Any core message about price should focus strictly on the energy component and should advise consumers to follow methods recommended in the CEP to obtain the lowest cost electricity provider for their needs. Itemized billing (referred to in the statute as bill “unbundling”) and uniform information disclosure, if adopted, will help with education on price.

“Flow of Electrons” Message. Consumers will need understandable information on how the electric system actually works to understand their new role in purchasing generation. We believe a “swimming pool” analogy may be the best foundation for communication about system basics.⁴

“Itemized billing” Message. In order to help minimize consumer confusion, we recommend that bill “unbundling” be referred to as “itemized billing.” The term “itemized billing” will be more easily understood by consumers.

Bumps in the Road. We recommend that consumers be made aware that if initial bumps are anticipated in the road as retail access is implemented, they not interpret what can be determined to be only implementation hiccups as permanent conditions of retail access.

We recommend these core messages with the recognition that developing core messages is a large undertaking that will require additional attention by the communications professionals who help to design and implement the CEP. Consumer-based research methods including focus groups should

⁴ The “swimming pool” analogy is as follows:

The electric power grid is like a swimming pool. The poles and wires are analogous to the pool. Suppliers of electricity can be thought of as pumps pouring water into the pool, and each customer has a tap to draw water out. The poles and wires will remain a natural monopoly because it is too expensive to build a new grid. But you can pay the supplier of your choice to put power into the pool for you, even though the power you use may not physically come from that supplier. You can choose, in your selection of energy provider, which pump you want turned up, and can send signals (e.g., regarding the importance to you of “green” power, or of your desire to buy Maine products) to the marketplace by your selection of a provider.

be used to ensure that these proposed messages are those that will be most helpful for consumers, and to fine-tune the messages.

D. Message Development and Delivery

Tailor the messages. The core messages, aspects of retail competition about which consumers need education, and delivery media should be tailored to the various customer classes, so that residential, small business, low income consumers, and others, get the information they need to make a choice that meets their specific needs.

Raising expectations. In general, we recommend that any core messages, especially for topics as important to consumers as price, avoid raising expectations at the outset, in order to avoid disappointing consumers.

Deliver in progression. We recommend that messages be delivered in a progression. Because we recommend a CEP lasting about two years, starting a year and a half prior to retail access, there is time to provide information in a progression so that consumers can absorb it and gain an increased understanding of retail choice. We recommend, however, that the bulk of the activity take place just before, and when, the consumer is actually presented with a supplier choice.

IV. Target Audiences

The Legislature charged us with making recommendations for an “adequate” consumer education program. To meet our charge, we must first define “adequate.” We define an “adequate” program ideally as one designed to reach *every* Maine consumer in the target audiences identified below. While it is not practicable to reach *every* consumer, we recommend that the PUC design the CEP to aim to reach all consumers, including those who may not be easily reached through traditional channels.

Residential consumers, including “hard to reach” and “special needs” consumers. We recommend that the CEP target residential consumers including “hard to reach” consumers, such as low-income consumers, senior citizens, disabled consumers, the illiterate or functionally illiterate, and residents who do not speak English or for whom English is not their first language. These consumers have educational needs different than those of other residential consumers and which should be accommodated in design of the CEP. Some of these consumers also spend a much greater portion of their limited household income on energy costs.

Small commercial consumers, including municipal consumers. We recommend that the CEP target small commercial consumers, including municipal consumers. We do not have a specific recommendation on how “*small* commercial” should be defined. We believe that all commercial customers should be targeted that are *not* apt to see the clear financial incentive or have the wherewithal to, on their own initiative, research the changes in the market necessary to make informed decisions. Some Board members feel this may mean that all but major industrial consumers should be targeted, since only these large customers clearly have the economic incentive and financial resources to research their options. To the extent a “bright line” is meaningful and needs to be drawn between commercial customers based on size to better define the target audience, we suggest that it may be appropriate for this purpose to define “*small* commercial” based on the number of employees.

While some residential consumers may be very effectively reached by the CEP through their education as commercial customers, the opposite may not be true, and a specific component for educating commercial consumers should be developed. In fact, we believe that residential consumers who make energy purchasing decisions for their commercial accounts may be more effectively reached through education aimed at them as commercial consumers because the potential savings on their commercial bills may be large enough to lead these consumers to want to learn about retail access issues. These consumers may then apply what they learn in energy shopping decision for their businesses to their residential purchasing decisions.

V. Challenges and Opportunities

Retail access is a complex subject and may be what is known as a “low-interest, low involvement” issue. “Low-interest, low involvement” issues are the most challenging type of issues to raise public awareness of and interest in, and around which to encourage active decision-making. The experience or skepticism of some consumers with deregulation in other industries, including banking, airlines, and telecommunications, will also make the educational effort more challenging.

The extent of consumer education on retail access will affect how well implementation of retail access goes, and the extent to which consumers feel enfranchised. Through the CEP, consumers will have a greater opportunity to become informed before implementation of retail access, and a real opportunity for access to unbiased information during implementation. We may therefore avoid the consumer experience (and disenfranchisement) that occurred during the deregulation of the “phone” industry in the 1980s, which had no similar consumer education effort.

VI. Communications Objectives

Establish measurable communications objectives for aided and/or unaided awareness. We recommend the PUC establish communications objectives to measure program effectiveness and provide a basis for increasing, decreasing or redirecting resources during implementation, as necessary. Establishment of objectives is important especially given the challenge of educating the public about a “low interest, low involvement” issue; messages and strategies may need modification during program delivery, but it is only with monitored results that CEP implementors will know what needs to be refined.

Objectives should be set for either, or both, achievement of aided and/or unaided awareness. Aided awareness is the level of awareness consumers display when asked by an interviewer about their knowledge of an issue and when provided some assistance through the use of lead-in questions. Unaided awareness is the level of awareness consumers display when *not* asked any lead-in questions that provide specific information.

We recommend that the PUC attempt to establish other measurable objectives for monitoring the CEP’s success, modifying the program, and assessing ultimate program success.

Evaluate CEP effectiveness by monitoring attainment of communications objectives. The PUC should evaluate CEP effectiveness using periodic surveys of awareness levels, and any other communications objectives, so the program’s messages, level of intensity, and target audiences can be refined during program implementation. Meaningful refinement is possible based on results of initial and periodic follow-up surveys. A final survey should be done to assess overall program effectiveness.

We recommend that the PUC set target levels with reference to results in other education efforts in other industries or areas of the country, to the extent such results are available and relevant for this education program. Other such programs include the California retail access CEP, and the California Caller ID consumer education program.

VII. Most Effective Methods of Education

A. General Recommendation

Implement a CEP that uses complementary educational tools in an integrated fashion. We recommend that a variety of consumer educational tools be used. Our review of educational techniques suggests that many means of education are complementary, and that when used in an integrated fashion as recommended below, can be very effective. We recommend that the program include, but not be limited to, the following means of consumer education in an integrated fashion:

- media coverage (free) as a result of press releases, other press outreach, etc.
- advertisements and reduced-rate public service announcements on TV, radio, newspaper, and possibly other media
 - education delivered by Community-based Organizations (CBOs)
 - informational brochures, fact sheets (including effective distribution)
 - restructuring newsletter⁵
 - direct mail and perhaps bill inserts
 - information clearinghouse at PUC
 - Internet / World Wide Web Homepage
 - speakers' bureau
 - outreach to (and by) opinion leaders
 - outreach through large employers
 - public meetings
 - workshops for consumers, or particular groups of consumers
 - toll-free 800 hotline for questions
 - New England uniform information disclosure (if all New England states adopt it)

We provide more detail on the recommended techniques and their components in our discussion of the funding level necessary for the educational program.

Complementary nature of techniques. We believe that many of these educational techniques are complementary because they reinforce one another in reaching consumers and increasing consumer understanding. Some techniques raise general awareness, other techniques promote the deeper understanding and assurance about processes and tools for making choices that is necessary for informed decision-making, while others raise awareness among and provide detailed information to "harder to reach" consumers. The integrated approach also allows for delivery of

⁵ The newsletter could be directed to key community influencers such as legislators, town and county officials, other community leaders, residential and business consumer advocates, etc., and issued one or more times before and during implementation of retail access.

messages in a “multimedia” fashion, which we believe many people find improves their level of understanding. We therefore believe these techniques are especially effective when used in an integrated and simultaneous fashion.

The California and Vermont CEPs are based on a similar concept of consumer outreach in which progressively deeper levels of understanding are achieved through simultaneous use of complementary methods in an integrated approach. The California PUC's approach, as articulated by their CEP communications contractor,⁶ is as follows:

<u>Level of Education</u>	<u>Method of Education</u>
Awareness -- widespread knowledge that some changes are coming	Mass Media (news coverage and public service announcements)
Understanding -- knowledge of some of the substance and details of changes	Brochures, Direct Mail
Assurance -- the even greater depth of knowledge and assurance regarding particular concerns that comes from interactive communication	800 number, Internet / e-mail
Acceptance -- helps to reach consumers generally, and especially "hard to reach" and "special needs" consumers who either have not heard or not paid attention to the changes, to understand and accept the changes, and provides them with tools they need to make informed decisions	Community-based Organizations

B. Selected Core Elements

Adopt Advertising and Public Service Announcements as a core component. Advertising is an important means for raising widespread consumer awareness that retail access is coming and that additional information on the changes is available. We believe advertising is an important component of an integrated CEP. Some education on specifics and "how to's" of retail access may be done through advertising and public service announcements, but a significant focus of advertising should be on raising basic awareness that changes and choice are coming.

We note that there is an important distinction between advertising that is for marketing as

⁶ DDB Needham Worldwide Communications Group, Inc.

opposed to educational purposes. Advertising by competitive providers (marketing) should not be considered a substitute for CEP-sponsored educational advertising. Marketing is designed to elicit particular responses from consumers, whereas education is designed to provide consumers with neutral or unbiased information. We are concerned that, as New Hampshire consumers found, marketing may be unfair or deceptive,⁷ and believe that educational advertising is an important component of the CEP.

Maintain a Toll-free 800 Consumer Hotline. A toll-free 800 consumer hotline should be another core aspect of the CEP. Many consumers will both want and need an opportunity to receive information from and interact with a neutral information provider. The Board recommends that the toll-free hotline be housed at and staffed by the PUC.

Adopt education by Community-based Organizations (CBOS) as a core component. We recommend that a core component of the CEP be direct education of individual consumers by community-based organizations (CBOs). CBO's are membership-based or service-oriented organizations such as Rotary Clubs, Chambers of Commerce, and Community Action Associations. Adult basic education and similar programs should also be considered CBOs for the purpose of providing consumer education under the CEP.

We believe that CBOs are often seen as highly credible by those in their service areas and often have ready access to their members and/or the communities they serve, important characteristics that CBOs can bring to the consumer education effort. California, Pennsylvania, Colorado and possibly other states have previously used CBOs in utility-related consumer education efforts. California and Vermont both include outreach by CBOs as important components of retail access consumer education. This approach makes sense, and we recommend that the Commission design a strong CBO outreach component into the program. We emphasize the importance of compensating CBOs for their work for the CEP; many CBOs have limited financial resources and are not in a position to conduct pro-bono outreach and education for the CEP. As part of development and implementation of the CEP, the PUC will need to determine the appropriate level of compensation for individual CBOs.

We recommend that the PUC pay careful attention to the process for soliciting the interest and involvement of CBOs. Some Board members who have experience working with CBOs note that "Request for Proposal" based funding mechanisms may be administratively burdensome for many smaller non-profits. Proposals in response to RFPs can be sufficiently time consuming and

⁷ One-third of New Hampshire residents who participated in a recent survey of their experience with electric competition reported that competitor-sponsored advertising was unfair or deceptive. Middle-aged and higher income respondents were more likely to express concern about unfair advertising. (Source: New Hampshire PUC Electric Competition Pilot Program Survey Report.)

difficult to prepare that a process that is administratively manageable for smaller nonprofit CBOs should be developed to ensure interest by these organizations. Direct grants are one way to administer support. The Commission should develop a method when contracting with CBOs that ensures deliverables are produced and that CBOs are held accountable for their work. The ability to assist in this effort should be a criterion in contractor selection.

Adopt uniform information disclosure, on a New England-wide basis, as a method of consumer education. We recommend that the Commission continue to explore development of New England-wide uniform bill disclosure standards and formats. The New England states have expressed interest in adopting a uniform billing disclosure for bills issued by all generation providers. The uniform disclosures could cover generation price, consumption, contract commitments, fuel mix, and associated air emissions.

We feel that disclosures would serve as an important source of consumer information. Uniform billing disclosures could facilitate the comparison of purchases made from various generators. We recommend that, if a format is agreed upon by the New England states, the Commission adopt this standard for Maine. We expect that uniform billing disclosures can be one of the most cost-effective methods for educating consumers, and if a New England-wide disclosure format is adopted, that CEP funding might be able to be reduced, as determined appropriate by the PUC.

Include Program Research, Monitoring and Evaluation. We recommend that the CEP have a strong research component to ensure the program is based on sound information about its target audiences and that messages have been fine-tuned through consumer-based research techniques such as focus groups. Monitoring and evaluation should be done during implementation, perhaps every 3-4 months, to ensure that the program is meeting its objectives and to allow for informed refinement of messages or possible resource reallocation amongst educational methods. Program evaluation should be done at the end of the program to assess its overall effectiveness, and to provide a basis to inform the design of any future consumer or social education programs the State may wish to undertake. Surveys conducted as part of this research and evaluation effort might be done in omnibus surveys if it would be more cost-effective. Program research, monitoring and evaluation should be one of the issues raised in the Request for Proposals.⁸

We provide additional recommendations on the CEP in Section XI, on page 24.

⁸ Responses to the RFP should include the names and qualifications of any subcontractors that will be involved in the project, e.g. advertising agencies and marketing research firms.

VIII. Entities to Conduct the CEP

We recommend that the Commission conduct the education effort, and that it hire a professional communications contractor to assist it in design and implementation of the CEP. Consumer education is a communications project that would benefit from the involvement of a communications contractor.

The Commission should seek the advice of experts, if a proposal by a contractor involves areas in which the Commission does not have expertise on staff, to aid the Commission in evaluation of competing proposals.

We also recommend the Commission consider forming an advisory board to assist it in implementing the CEP. The group should have broad-based representation including from CBO's, media, opinion leaders, and consumers. The proposed board should also include communications managers from transmission and distribution utilities to promote uniform messages and coordinated delivery should any of these utilities conduct independent outreach in their service territories while the CEP is in operation.

IX. CEP Timeline

A. Program Phases

We recommend four phases to the consumer education program:

Phase I	Program Research and Development	May '98 - Aug '99
Phase II	Implementation for Itemized Billing	Oct '98 - Mar '99
Phase III	Implementation for Retail Access	Sept '99 - Sept '00
Phase IV	Post-program Follow-up	Oct '00 - Mar '01

Phase I is the research and development necessary ensure the program is based on sound information about its target audiences and that messages have been fine-tuned through consumer-based research techniques such as focus groups. Phase II will educate consumers about upcoming changes with the implementation of competition and will use the introduction of itemized billing as a vehicle for raising consumer attention. Phase III will continue the effort begun in Phase II, starting six months before implementation of retail access, and will address special issues as competition begins, such as confusion in the event of misleading marketing. Phase IV involves responding to telephone inquiries by consumers and working with the media.

The program will be monitored against predetermined objectives during phases II, III and IV to determine degree of success and help inform decisions about needed refinements. The RFP should require recommendations from potential contractors about the number, timing, and sample size of surveys. A benchmark survey should be conducted during Phase I.

B. Getting the Program Going

The Commission-approved CEP Plan should be in place by early August 1998 to allow project implementation to begin in Autumn 1998. With the need to select the contractor, develop a proposed CEP Plan, and possibly have a proceeding to receive public comment on the proposed CEP Plan, all by early August 1998, the Commission needs to initiate the RFP process in February 1998.

X. Funding Level and Appropriate Funding Sources

A. Recommended Funding Level

To our knowledge, the Maine Commission is the only commission that will likely establish a cap on funding for the CEP in an agency rule that requires approval by, and more importantly may only *be amended* with approval from the Legislature, rather than simply in an Order by the Commission.⁹ This situation influences our recommendations. The Legislature will be out of session for much of the period of implementation of the CEP, including a period when a crucial decision must be made on whether current market circumstances and marketing developments, or other factors, warrant program extension. This unusual circumstance directly affects our recommendation on the level of the funding cap that the Commission should include in the consumer education rule it submits to the Legislature, provided of course that the rule will include a funding cap.

Authorize \$1,600,000 for the CEP in the consumer education Rule. We recommend that the Public Utilities Commission authorize itself to invest up to \$1,600,000 in the Consumer Education Program, provided that the Commission includes a funding cap in the rule. Our estimated funding level for an adequate educational program is \$1,565,000; this estimate includes two contingency funds totaling \$400,000 to ensure program success in the event of unanticipated developments that may occur while the Legislature is out of session

At least three factors could affect the funding level actually necessary for the CEP. First, our estimate is based on our recommended program, as develop over the past two months. This is *not* a consumer education program *plan*; a detailed budget will be developed during development of the CEP *plan* next year; and could vary from our estimate. Second, inflation alone in the time between this estimate, and the beginning of implementation of the most active and expensive phase of the program, could add \$95,000 to the program cost.¹⁰ Third, the extent to which "unfair and deceptive" marketing practices such as those reported by New Hampshire consumers in their electric retail access pilot program are experienced in Maine, and generate confusion that the CEP should educate for or respond to, will affect program cost.

As mentioned above, the Maine PUC is the only Commission of which we are aware that is likely to establish a **cap** on program costs in a rule that may only be amended by approval from the

⁹ This type of rule, known as a major substantive rule, requires approval by the Legislature before becoming effective or being amended.

¹⁰ This estimate assumes a 3% inflation rate for two years on potential program costs of \$1.6 million; the largest expenses for the CEP will be incurred two to three years from now.

Legislature, rather than simply in an Order by the Commission.¹¹ Because the Legislature will be out of session for much of the period of the CEP, including time when key decisions about program supplementation and extension must be made, the Board recommends that the Commission seek authority in the rule for contingency funding to allow it to respond to consumer needs based on results of our monitoring while the Legislature is out of session. Without this authority, the Commission may not be able to ensure that program goals and objectives are satisfied in the face of unexpected changes in consumer understanding or other important factors. While we hope that the Commission will not need to use the two contingency funds, in the amount of \$200,000 each, we recommend that the Commission reserve the authority to tap the contingency reserves to respond to unexpected but potentially high monitored levels of consumer confusion or other unexpected problems caused by misleading marketing or other developments that can not be predicted with certainty at this point.

The first contingency fund provides for supplementing the proposed CEP, if necessary, prior to the CEP's anticipated end-date of September 2000. The second contingency fund provides for extension of the CEP past the anticipated end-date, if monitoring data suggests and/or the Commission determines that an extension is warranted, and until January 2001 when the Legislature is back in session and the Commission could submit an amended rule for approval. Without the second contingency reserve, the PUC might not be able to extend the CEP, even in the face of evidence of the importance of continued education.

If a funding cap that does *not* include the contingency reserves is established in the consumer education rule approved by the Legislature, the CEP would not have funding to be extended until the Legislature returned in January 2001. This could result in a significant loss of momentum, and ground gained in terms of consumer understanding, possibly making total CEP costs higher than that if the Commission were able to continue the program uninterrupted. If program supplementation or extension is necessary, for example because of "unfair or deceptive" marketing practices such as those experienced by New Hampshire consumers in their pilot program, there might be a direct financial cost to Maine consumers for not having the necessary consumer education resources available to them during the period between when program funding runs out and when the Legislature reconvenes to consider program extension.

If the contingency funds ultimately do not need to be spent, we estimate that the level of funding for an adequate educational campaign will be \$1,165,000, at 1997 price levels.¹² We, however,

¹¹ This type of rule, known as a major substantive rule, requires approval by the Legislature before becoming effective or being amended.

¹² As mentioned earlier, inflation in the period between development of our estimate and expenditure of the bulk of program funding (between two to three years) could increase nominal program costs by about \$95,000, based on the \$1.6 million funding cap and assuming a 3%

recommend that for the above reasons both contingency funds be approved as recommended.

Level of Funding in Other States. The estimated level of funding in other states that have proposed or approved retail access CEPs is about \$1/resident, with the exception of California. Approved funding for the California Public Utilities Commission CEP is about \$3/resident. Based on a direct per-capita application of these estimates to Maine, the cost of the Maine CEP would be between \$1.2 million to \$3.6 million. The Board believes that for several reasons the per-capita funding for the California plan is more than that needed in Maine. The Board's own estimated funding level of up to \$1,600,000, or approximately \$1.30 per capita, is at the lower end of this range. While many factors influence the funding necessary for the Maine CEP, the Board found in its review of other states' plans that its own proposal is in the same "ballpark" as plans in other states.

We believe that our recommended funding level of \$1.6 million is reasonable especially considering the potential savings and other benefits that we expect an educated consumer may realize over a consumer who is less-well informed about available options and changes in the marketplace.

Flexibility for the Commission. We recommend that the Commission retain the authority to reallocate resources amongst individual educational techniques as appropriate, in design of the detailed CEP plan. The recommended funding level is for the overall, integrated CEP. In calculating the overall funding, we identified estimated funding levels for individual educational techniques. We note that while the recommended techniques and the level of funding associated with individual techniques certainly reflects our view of the relative emphasis that should be placed on individual techniques, our intent is not to suggest that the Commission's hands be tied with respect to the funding of individual techniques.

We note that we have recommended that interested consumers have the opportunity to comment on the Commission's CEP in a proceeding to adopt a CEP Plan next year, which will provide the public with an opportunity to comment on resource reallocation.

Other Funding Issues. We recommend that a toll-free consumer information hotline be a core component of the integrated CEP, and recommend that the hotline be housed at and staffed by the PUC. Funding for PUC hotline staff is not included in the CEP budget. The PUC will need to ensure that adequate staffing is provided to ensure live call answering for callers to the retail access hotline.

inflation rate for only two of the three years of the intervening period.

**Summary Recommendation -- Level of Funding
Electric Competition Consumer Education Program**

<u>Preprogram Implementation</u>	<u>Feb '98-Sept '98</u>	<u>PUC funded</u>
Seek Legislative Approval of Consumer Education Rule		
Prepare RFP		
Select contractor		
Conduct proceeding to approve detailed Plan		
 <u>Phase I: Design</u>	 <u>May '98-Aug '99</u>	 <u>\$86,000</u>
Planning	May '98-Dec '98	\$5,000
Research; Establishment of Benchmarks	Jan '99-Mar '99	\$31,000
Comprehensive Program Design and Feedback	April '99-Aug '99	\$50,000
 <u>Phase II: Implementation of Itemized Billing</u>	 <u>Oct '98-Mar '99</u>	 <u>\$22,000</u>
Media Relations	Oct '99-Mar '00	\$12,000
Opinion Leader Communications	Oct '99-Mar '00	\$10,000
 <u>Phase III: Implementation of Retail Access</u>	 <u>Sept '99-Sept '00</u>	 <u>\$1,257,000</u>
Media Relations	Sept '99-Sept '00	\$36,000
Advertising	Feb '00-May '00	\$424,000
Opinion Leader Communication	Jan '00-Sept '00	\$20,000
Community Relations	Jan '00-Sept '00	\$277,000
Outreach by Community Organizations -- including grants to community groups	Jan '00-Sept '00	\$250,000
Monitoring and Program Changes	Sept '99-Sept '00	\$50,000
Program contingency --for unexpected issues during planned program period such as extensive misleading marketing --correct consumer confusion / additional advertising?	Sept '98-Sept '00	\$200,000
 <u>Phase IV: Post Program Follow-up</u>	 <u>Sept '00-Mar '01</u>	 <u>PUC funded</u>
-Manage telephone inquiries		
-Respond to field impressions		
-Work with marketers/media relations		
 Post-program contingency --for extension of active program if necessary	 Oct '00-Jan '01	 <u>\$200,000</u>
<u>TOTAL</u>		<u>\$1,565,000</u>

B. Communications Mechanisms and Associated Funding Levels

PROGRAM PLANNING (\$5,000)

- Work with participating utilities to develop program parameters
- Develop standardized procedures and documents
- Plan for coordinated educational roll-out

PRE-PROGRAM RESEARCH; ESTABLISHMENT OF BENCHMARKS (\$31,000)

Research is vital to developing a message the public will understand and accept. It is the tool which can lead to the most effective overall program.

- Focus groups - with business people, homeowners, policy makers and others who could help inform program and message development (\$10,000)
- Surveys - a telephone survey of 500 households (\$15,000) to determine pre-program levels for program objectives
- Analysis - of the information gained and implications for the development of a public education program (\$3,000)
- Determination - of program phases and timing (\$1,000)
- Development - of program messages (\$2,000)

COMPREHENSIVE PROGRAM DESIGN AND FEEDBACK (\$50,000)

- Identify community organizations to assist in program implementation
- Plan for the development of all outreach mechanisms
- Prepare a media and advertising plan
- Conduct periodic evaluative survey research

MEDIA RELATIONS (for Phases II and III) (\$48,000)

The media must be educated in a proactive manner prior to any campaign. Relationship building with this group is critical to good media coverage. A primary objective should be to maximize free media wherever possible. The media relations programs include many/all of the following:

- Press kits with key background informational materials / regular press releases
- Informational editorial board meetings (include TV stations)
- Public affairs programs - features on policy issues
- Local radio talk shows
- Public Service Announcements - often in conjunction with media buys

- Letters to the editor - a useful tool which requires some management
- Op-ed pieces - the voice of non-media experts written and placed in key newspapers

ADVERTISING / PUBLIC SERVICE ANNOUNCEMENTS (\$424,000)

- All-inclusive media buys with 10, 30 and 60 second spots for television and radio¹³
- Educational newspaper ads, with emphasis on weeklies
- Video Public Service Announcements - coordinated with media buys
- Adds on transit vehicles

OPINION LEADER COMMUNICATION (for Phases II and III) (\$30,000)

Communication with Legislators and Other Opinion Leaders

- Breakfast/lunch meetings with presentations
- Development of resource materials
- Regular correspondence/communications to keep this group informed

COMMUNITY RELATIONS AND OUTREACH BY COMMUNITY-BASED ORGANIZATIONS (\$527,000)

- Toll free information line (\$36,000)
 - staffed Monday - Friday, 8:00 - 5:00
 - monitored for accuracy and objectivity
- Informational clearinghouse at PUC (consider identification of a spokesperson) (\$35,000)
- Internet Communication (\$1 0,000)
 - design clear and useful home page
 - include Internet address on all materials
 - ensure adequate response to queries
- Informational brochures, fact sheets and other handout materials (\$20,000)
 - success of printed material is dependent on effective distribution (i.e. community groups, libraries, banks, mortgage companies, bill inserts, grocery stores, fairs, trade shows, etc.)
- Partnerships with key communicators (\$5,000)
- Statewide steering committee (\$25,000)
- Community breakfasts with opinion leaders to assemble a statewide committee with representatives from each community to assist with relationship building and communications

¹³ This public service announcement budget is calculated based on bulk-rate purchase of advertising time and includes contribution of "in-kind" advertising time that it is reasonable to expect will be available as part of a public education project like the CEP. Information provided to us indicates that this budget should reach 75% of consumers 3+ times over three months. A general guideline is that an ad needs to be seen three times to "sink in" for consumers.

efforts throughout the state (\$18,000)
- held throughout the state

- resource materials might include articles for reprint in employee and organization newsletters
- Develop a complete Speakers Bureau of all service/business clubs (\$5,000)
 - schedule
 - slide show presentation
 - resource material handouts
- Hands-on community outreach and program delivery through or by the Chambers of Commerce, Community Action Program agencies, adult education programs, Community Development Services Agencies, SCORE, SBA, and other community-based organizations (\$303,000)
 - presentations to members at all possible forums
 - train key individuals in organizations
 - serve as local, credible source of information and answers
 - writing and publishing articles in newsletters
 - providing members with resource materials such as videos, handouts, overheads, slides and worksheets
 - holding public meetings co-hosted by statewide committee
 - includes up to \$250,000 as grants to community-based organizations for outreach by these local organizations (measurable objectives to be developed)
- Communicate inside largest employers (\$25,000)
 - write articles for employee newsletters
 - hold informational meetings
 - distribution of literature with paychecks
- Targeted direct mail with proper follow-up (\$25,000)
- Attend town meetings with prepared speakers (\$5,000)
 - scheduling and presentation
- Display for use at trade shows, malls, fairs and festivals (\$15,000)

MONITORING AND PROGRAM CHANGES (\$50,000)

Once the program is underway:

- Monitor the program success (via surveys and other tools), to allow for program refinement
- Keep a statewide committee operational as a link to grassroots feedback
- Develop an interactive mechanism for communicating the public's response to utilities doing business in Maine

PROGRAM CONTINGENCY for during proposed program (\$175,000)

- For possible use to address unexpected developments through program end-date of Sept '00
- Additional resources to respond to, for example, consumer confusion from high levels of misleading marketing

PROGRAM CONTINGENCY for extension of portions of proposed program (\$175,000)

- For possible program extension beyond proposed end-date of Sept '00, and until beginning of next Legislative session (when approval for additional investment could be sought if monitoring suggested it's necessary).

C. Recommended Source of Funding

We believe that the CEP should be funded from a fee paid by electricity competitive providers; customers of distribution utilities should be charged for any unrecovered balance to the extent that assessment of fees on generation providers appears impracticable or the fees are inadequate to fully recover the costs of the CEP, over a proposed several year recovery period. The need for the several year recovery period is discussed in more detail below.

The fee on competitive providers to support the CEP should come either from a portion of licensing fees dedicated for the CEP, or from a separate dedicated fee. The amount of the "consumer education program" fee required of each competitor could be a portion of a standard licensing fee, or could be determined based on the number of customers that each provider has as of a date certain, or at particular intervals during the initial years of retail access in Maine.

We believe that a funding mechanism that places the costs of the CEP on competitive providers and/or their customers, the companies and individuals that will benefit from retail access, is the most appropriate mechanism provided that the Commission determines that it is workable and that it would not be a "barrier to entry" into the market for competitive providers. The Commission should determine an equitable method for funding from competitive providers that will avoid the creation of incentives for competitive providers to influence the size of their customer base near the time of assessment of the fee to support consumer education.

If a portion or all of program costs are charged directly to consumers of distribution utilities, we recommend that these costs be billed through a charge on customer bills that is identified either as a charge for consumer education or at least as part of a "public goods" charge.

One challenge in our recommended method is that many CEP costs may be incurred before many competitive providers are licensed in Maine. Our recommended mechanism to bridge the gap between program expenditure and cost recovery is to receive an up-front payment of program costs by transmission and distribution utilities, who would be reimbursed from fees that we recommended the Commission assess on competitive providers. If the PUC or other state agency can borrow funding for initial program costs at a more favorable rate than that which the distribution utilities would have to pay to provide up-front funding, the Commission should use public funding.

We considered other funding sources, including assessments on transmission and distribution utility revenues, and tax-based funding.

XI. Additional Recommendations

We make the following additional recommendations regarding the CEP:

- Have a logo, color scheme and “slogan” to help consumers “link” individual informational materials and messages together and to associate them with the CEP;
- Consider having a Spokesperson for the campaign;
- Deliver messages in a “multimedia” fashion. Focus on how people learn, and recognize the importance of graphics; and incorporate graphics into education materials;
- Focus on “sound bites” in delivering some messages, and especially messages to make consumers aware that change is coming. Use television and radio for awareness raising;
- Consider literacy levels when developing materials, and target messages at a 3rd-4th grade reading level;
- Meet the needs of rural residents, who some Board members have indicated—feel left out of most educational efforts. Have educators speak in rural areas and meet with rural residents. The CEP should partner with rural groups to get the word out in rural areas.
- Consider having the advertisements in Phase III say “You’re hearing from marketers; pay attention, and if you have questions, then call 800... for the information you need to make the right decision.” Prepare the market; marketers should not be relied on to deliver the message.
- Require competitors to provide rates for publication to PUC;
- Have the Commission approve all CEP messages to ensure consistency of messages.

Public proceeding to adopt CEP Plan. Finally, we recommend that the Commission hold a proceeding to seek input on the detailed CEP plan, which should be developed next spring or summer, to allow interested citizens to comment on the Plan before approval by the Commission.

XII. Summary

In summary, we recommend that the PUC establish and conduct a consumer education program that uses complementary educational techniques in an integrated fashion. The techniques should include advertising and public service announcements, outreach by community-based organizations, and other techniques as identified in this report. The program should target both residential and small business consumers. We recommend that the PUC be authorized to invest up to \$1.6 million in this program, and that it assess competitive electric providers for program costs, or as an alternative assess some or all CEP costs to transmission and distribution utility customers. We recommend that a communications contractor be selected to advise the PUC on detailed program development and to implement the program.

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PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY FOR
APPROVAL OF ITS RESTRUCTURING
PLAN UNDER SECTION 2806 OF THE
PUBLIC UTILITY CODE

:
: Docket No. R-00973953
:
:

DOCKETED
DEC 5 1997

SURREBUTTAL TESTIMONY OF NANCY BROCKWAY

DOCUMENT
FOLDED

On behalf of

OFFICE OF CONSUMER ADVOCATE

November 1997

1 Q. ARE YOU THE SAME NANCY BROCKWAY WHO HAS PREVIOUSLY FILED
2 TESTIMONY IN THIS DOCKET ON BEHALF OF THE OFFICE OF
3 CONSUMER ADVOCATE?

4
5 A. Yes.

6
7 Q. PLEASE STATE THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY.

8
9 A. The purpose of my surrebuttal testimony is to respond to the following rebuttal testimony:

- 10 1. PECO witness Kray concerning universal service program design,
11 implementation and costs.
- 12 2. PECO witnesses Kray and Xander concerning the company's revised
13 proposed universal service cost recovery method, and the associated
14 definition and level of universal service costs.
- 15 3. PAIEUG witness Baron, OSBA witness Kalcic, and PECO witness
16 Xander concerning allocation of universal service costs between classes.
- 17 4. PECO witness Xander concerning application of universal service benefits
18 between the distribution utility and other suppliers.

1 Q. PECO WITNESS KRAY STATES THAT YOU RECOMMEND A PERCENTAGE
2 OF INCOME PAYMENT METHOD FOR DETERMINING THE CAP
3 CUSTOMER'S BILL (PECO STATEMENT 16-R AT 8FF), AND THAT ONE
4 ADVERSE RESULT IS THAT CUSTOMERS WILL HAVE NO INCENTIVE TO
5 CONSERVE. PLEASE COMMENT.

6
7 A. Ms. Kray misunderstands my testimony. I do not recommend that the so-called "straight
8 PIPPP" be used to design the CAP program for PECO or any utility. The "straight PIPP"
9 is the prototype or original percentage of income payment program. It does have the
10 characteristic about which Ms. Kray complains: no matter what the customer's usage, the
11 bill does not change so long as the income does not change. However, PIPP program
12 design has matured since that first model was introduced.

13
14 It is not only possible, it is desirable to design a CAP program in which the objective is to
15 render bills that are affordable when measured in terms of the percentage burden they
16 place on a household income, while at the same time providing the proper usage signals
17 to the customers.

18
19 The two PIPP methods that achieve this goal are (a) the fixed credit PIPP, and (b) the
20 Percentage of Bill method. They contain strong links between the bill and an affordable

1 burden, but in each case, increased usage produces a higher bill. Under the fixed credit
2 PIPP, the percentage of income limit on the affordable bill is translated into a fixed dollar
3 credit that is set off against the actual bill each month. If usage goes up, the bill goes up -
4 the credit is only adjusted annually. In the percentage of bill PIPP method, the affordable
5 bill is compared to the non-discounted bill, the ratio is determined, and this ratio is
6 applied each month to the actual bill. Again, if usage goes up, the bill goes up, although
7 not on a one-for-one basis as with the fixed credit approach.

8
9 **Q. WHAT IS THE DIFFERENCE BETWEEN PECO'S TWO-TIERED CAP RATE**
10 **OR CAP II PILOT AND A PERCENTAGE OF INCOME PAYMENT (OR**
11 **"BURDEN-BASED) APPROACH TO DETERMINING THE CUSTOMER'S**
12 **BILL?**

13
14 A. The essential difference between the benefit design in the pilot CAP-Rate (commonly
15 called CAP II) program and a burden-based program is that CAP II uses only two
16 discount tiers (one discount rate for customers with incomes at 0-100% of the Federal
17 Poverty Level, and one for customers with incomes between 101% and 150% of the
18 FPL). In this way, CAP II achieves some general matching of the size of the bills to the
19 affordable burdens customers can bear. However, the match is less than precise.

1 **Q. WHY IS IT IMPORTANT TO MATCH THE BILL AND THE BURDEN?**

2

3 A. Especially if priorities for participation and expenditure must be made, it is important that
4 the bill be tailored to the affordable burden. The less precise the matching of bill and
5 burden, the less likely it is that bills will be affordable, and that payment patterns will
6 improve.

7

8 It would be possible to improve the match between income and affordable burden in the
9 CAP-II tiered discount model if the Company were to institute more tiers, for example
10 one for each 25% range of the Federal Poverty Level under 150%. The evaluation the
11 Company is now conducting of its CAP program and CAP-II pilot should shed light on
12 whether the two-tiered CAP-II model achieves universal service goals notwithstanding its
13 limitations.

1 Q. MS. KRAY STATES IN HER REBUTTAL THAT THE CAP II APPROACH
2 SHOULD BE ADOPTED BECAUSE IT SAVES THE ADMINISTRATIVE COSTS
3 OF DETERMINING ACTUAL INCOME (PECO STATEMENT 16-R, AT 9-10).
4 IS THIS A VALID ARGUMENT FOR ABANDONING A BURDEN-BASED
5 METHOD AND MOVING TO A TIERED DISCOUNT APPROACH?
6

7 A. I agree that reducing administrative costs is important, and Ms. Kray is correct that it is
8 more costly to determine the affordable burden on a customer-by-customer basis than to
9 apply a fixed percentage discount to existing rates. However, by making a more precise
10 match between bill and burden through a more tailored percentage of income burden and
11 copayment calculation, the benefits to the customer **and** to the distribution company (and
12 its customers) are fully realized. Also, as I discussed in my direct testimony, there are
13 opportunities for improving communication with the customer, and understanding of the
14 program, during a face-to-face intake interview in a more tailored program.
15

16 Thus, the cost of the increased interaction with the customer necessary to process a
17 burden-based bill determination should be offset by (a) matching of bill to affordable
18 burden, (b) associated improvement in ability to afford and maintain service, (c)
19 improvement in customer perception of distribution utility, (d) improvement in customer
20 understanding of usage reduction options, (e) improvement in customer understanding of

1 program rules and requirements, (f) associated improvement in payment patterns, and (g)
2 associated reductions in credit and collection costs. Again, the evaluation now underway
3 of CAP and CAP-II should shed light on how well CAP-II functions without these
4 features.

5
6 **Q. MS. KRAY STATES THAT THE COMPANY WILL SEEK TO PARTNER WITH**
7 **HUMAN SERVICES ORGANIZATIONS THAT PROVIDE A HOLISTIC**
8 **APPROACH TO MEETING CUSTOMER NEEDS (PECO STATEMENT 16-R AT**
9 **10-11). DOES THIS PROPOSAL MEET THE CONCERNS YOU RAISED IN**
10 **YOUR DIRECT TESTIMONY CONCERNING THE COMPANY'S DECISION**
11 **TO STOP USING COMMUNITY BASED ORGANIZATIONS IN**
12 **ADMINISTERING CAP?**

13
14 **A.** I welcome PECO's willingness to reconsider the use of CBOs. The General Assembly
15 made it clear that CBOs were to be involved in program delivery (see Section 2804(9)),
16 rather than be limited to the role of leveraging other social service benefits, as described
17 by Ms. Kray. This determination by the General Assembly was wise, because CBOs,
18 particularly community action agencies and other agencies with experience in energy
19 programs for low-income households, have valuable expertise and strong ties to the
20 community that PECO can use to help provide appropriate and quality service to low-

1 income families.

2
3 For this reason, I recommend that PECO be required to include the use of CBOs with a
4 background in low-income energy issues, to bring them in as subcontractors in
5 conducting outreach, intake, counseling and other service delivery in connection with
6 implementing CAP.

7
8 **Q. MS. KRAY STATES THAT PECO WILL CONSIDER A NUMBER OF THE**
9 **RECOMMENDATIONS YOU MAKE CONCERNING THE LIURP PROGRAM**
10 **DESIGN (PECO STATEMENT 16-R, PP. 12-13). IS PECO'S WILLINGNESS TO**
11 **CONSIDER THESE CHANGES SUFFICIENT?**

12
13 A. I am glad that PECO has taken an open position towards the changes I recommended in
14 my testimony, concerning (a) the 800 kWh per month usage threshold for participation,
15 (b) the list of baseload measures, (c) the renewables option, and (d) addressing the high
16 customer non-participation rate. At the same time, however, the Company has not
17 committed itself to any specific action on these points (except to note that it has expanded
18 the refrigerator replacement pilot into a permanent aspect of its LIURP baseload program,
19 a welcome development).

1 The answers to data requests made of the Company tend to confirm my concern in three
2 of these areas: the usage floor for LIURP eligibility, the list of baseload measures, and the
3 high non-participation rate in LIURP.

4
5 First, with respect to the usage floor for eligibility, the Company's LIURP contractor
6 training materials show that as many as 45% of heating or hot water LIURP applicants,
7 and almost 60% of baseload applicants are denied LIURP services (OCA-XV-11). The
8 materials further show that over 70% of the customers whose application for LIURP
9 assistance is rejected are denied on the basis of usage (presumably usage too low to
10 qualify, as that is the only usage barrier). Thus, between about 30% and 50% of the
11 LIURP applicants are denied on the grounds their usage is not high enough.

12
13 This represents foregone energy and capacity savings, as well as foregone bill reductions
14 and payment pattern improvements. According to the Company's answer to OCA-XV-1,
15 baseload jobs save more in percentage terms than electric heat jobs, and almost as much
16 in percentage terms as electric water jobs. Non-heat, non-water accounts still will have
17 lighting and refrigeration, as well as other miscellaneous types of electricity use. Other
18 utilities around the country have obtained demonstrated savings in such customers'
19 homes.

1 To require usage to be as much as 40% above the average in order to qualify for treatment
2 (even before prioritization is done), is to eliminate too large a group of customers and
3 unnecessarily forego the savings that could be achieved. The threshold usage should be
4 lowered to the average usage, or a figure much closer to it than 800 kWh.

5
6 Second, with respect to the list of baseload measures, I note that the Company's training
7 materials do not yet include refrigerator replacement (OCA-XV-11). These materials
8 should be updated to correspond to the Company's program measure changes as
9 announced in Ms. Kray's testimony.

10
11 Third, with respect to non-participation because of lack of contact with customers, these
12 same training materials show that in every month for which the materials present the data,
13 fewer audits were completed than were scheduled. Also, post-treatment follow-up calls
14 were completed in only about 50% of the cases shown in the materials. These data
15 confirm that greater efforts are required to address the issues I raise in my direct
16 testimony.

17
18 The Company budgets over 25% of its LIURP funds on administration. Only 8% goes to
19 field support, and 51% to measures. If these priorities were altered, it might be possible
20 to put more funding into program services, and achieve better results than have been

1 achieved to date.

2
3 I am concerned that unless the Company makes a more firm commitment to these
4 improvements, there will be no basis for ensuring results once this proceeding is
5 completed. I set out in my testimony the reasons for my recommendations, and the
6 Company has not disputed them. Accordingly, I renew my suggestion that the Company
7 be required as part of its initial Universal Service plan to include the recommended
8 improvements to its LIURP program, and the renewables pilot, contemplated by the
9 General Assembly.

10
11 **Q. ALSO ON THE QUESTION OF LIURP, MS. KRAY REJECTS YOUR**
12 **RECOMMENDATION CONCERNING THE PROPER WAY TO DETERMINE**
13 **EFFICIENCY OPPORTUNITIES (PECO STATEMENT 16-R, AT 12). CAN YOU**
14 **CLARIFY YOUR TESTIMONY ON THIS POINT?**

15
16 **A.** Yes. Evidently Ms. Kray understood me to be recommending that PECO conduct audits
17 of non-electricity saving opportunities when it is conducting its LIURP audits. My short
18 discussion of this point in my direct testimony (OCA Statement 6 at 27) was not
19 sufficiently clear about the issue. I am *not* recommending in this docket that PECO audit
20 for gas-saving measures (although in an ideal world exactly such an integrated approach

1 would be possible, through a joint gas-electric program).

2
3 Rather, I am recommending that the audit level be determined by the anticipated types of
4 *electricity end uses in the home*, as opposed to strictly by the PECO rate classification of
5 the customer. The rate classification gives some information on the likely extent of
6 electricity end uses, and the level of sophistication of the technician who should be
7 dispatched to conduct the audit. However, rate classifications can be over- and under-
8 inclusive about end uses. Opportunities to save energy should not be overlooked because
9 the type of audit followed the rate classification too rigidly.

10
11 **Q. PLEASE DISCUSS THE COMPANY'S PLANS TO USE THE CAP ADVISORY**
12 **COMMITTEE TO REVIEW LIURP AS WELL AS THE COMPANY'S OTHER**
13 **UNIVERSAL SERVICE PROGRAMS.**

14
15 A. It is likely that many representatives on the CAP Advisory Committee have expertise in
16 the area of energy efficiency. On the other hand, it is also possible that some have none,
17 and that there are experienced and dedicated low-income energy efficiency advocates in
18 the community who are not represented on the CAP Advisory Committee. The Company
19 should have a committee of community advisors for LIURP whose focus is energy
20 efficiency, and not leave this specialized topic solely in the hands of a committee that was

1 developed for a different focus. The Commission in its Final Order on Universal Service
2 and Energy Conservation Programs made it clear that an EDC may use an existing panel
3 “when the membership of the panel can reasonably be expected to provide effective
4 consultation and advice regarding universal service programs.” It is not clear that the
5 CAP Advisory Committee meets those guidelines.

6
7 **Q. PLEASE DISCUSS THE COMPANY'S ARGUMENTS THAT SPENDING**
8 **LEVELS FOR UNIVERSAL SERVICE PROGRAMS CANNOT INCREASE**
9 **WITHOUT INCREASING THE BURDEN ON OTHER RATEPAYERS (PECO**
10 **STATEMENTS 16-R, AT 13-14, AND 14-R, AT 4-5).**

11
12 A. Both Ms. Kray and Mr. Xander confuse the program costs for CAP and LIURP with the
13 burden borne by other customers. That is, neither nets out of the program costs (CAP
14 billing deficiency, LIURP measure delivery costs, and administration) the savings from
15 re-targeting credit and collection costs. For this reason, they associate increased program
16 benefits (higher benefits per participant or greater numbers of participants) with a greater
17 cost to the Company and by extension its ratepayers generally.

18
19 As the Commission noted in its Final Order on Universal Service programs, two impact
20 evaluations on CAP programs completed to date show them to be cost-effective (p. 18).

1 The Commission has also endorsed the "top-down" method for identifying those dollars
2 now going into credit and collection activities that might be better spent bringing bills to
3 affordable levels and usage to efficient levels (p. 13). Thus, the Commission is well
4 aware that the gross billing deficiencies for CAPs or the program costs for LIURP show
5 only part of the impacts on net income of the utilities.

6
7 Indeed, to the extent that either program is cost-effective from a credit and collection
8 standpoint, then increased program expenditures will actually *reduce* net costs for the
9 Company.

10
11 **Q. WHAT DO YOU CONCLUDE ABOUT THE PROGRAM LEVELS PROPOSED**
12 **BY THE COMPANY IN THIS DOCKET?**

13
14 A. I have recommended an increase in the LIURP program spending, and I recommend that
15 the Company consider expanding its CAP program. If the CAP impact evaluation is
16 positive, then the failure to spend at or above the program levels I have recommended
17 will represent lost opportunities to save overall on credit and collection costs.

18
19 **Q. MS. KRAY AND MR. XANDER PROPOSE TO REVISE THE METHOD PECO**
20 **RECOMMENDS FOR COLLECTING UNIVERSAL SERVICE COSTS, AS SET**

1 **OUT IN MR. XANDER'S REBUTTAL (PECO STATEMENT 14-R, AT 4-5 AND**
2 **EXH. SRX-6). PLEASE EXPLAIN PECO'S PROPOSAL.**

3
4 A. Mr. Xander's proposal is essentially to include various collection costs associated with all
5 residential customers in the amounts to be collected through the reconciling universal
6 service fund. He also proposes to include some program administration costs in the
7 reconciling fund that he had earlier proposed be recovered through distribution base rates.

8
9 As shown in SRX-6, the Company's new proposal for its reconciling USFC would collect
10 the following:

- 11 a. CAP participant gross billing deficiencies ("rate discounts"), and CAP
12 participant uncollectibles and 48-month agreements (\$33 million).
13 b. CAP administrative costs, LIHEAP Outreach Costs, and MEAF
14 administrative costs (\$3 million).
15 c. Collection costs allocated to residential classes (\$12 million).
16 d. Excess or reduction in residential class 90-day arrearages over the
17 estimated \$28.5 million included in the Company's pro forma in this
18 proceeding.

19
20 First, I note that the Company originally planned to collect CAP administrative costs,

1 LIHEAP Outreach costs and MEAF administrative costs via base distribution rates.
2 Together, they represent a small portion of the total costs at issue (about \$4 million
3 altogether, out of total costs ranging between \$35 million and \$60 million depending on
4 the total universal service budget, with likely variances correspondingly small). As these
5 amounts are relatively stable, and do not increase or decrease one for one with the number
6 of CAP participants or the size of the benefits, it was sound accounting to recover these
7 costs in non-reconciling base rates, as the Company originally proposed. However,
8 including them in a reconciling charge will not likely produce great anomalies from year
9 to year, and I do not object to their inclusion here.

10
11 However, residential collection and the overage and underage of residential uncollectible
12 costs do represent a large portion of the funds at issue. The amount for residential
13 collection costs alone is \$12 million. And a 5% swing in the \$28.5 million residential 90-
14 day arrearage level from one year to the next could produce a movement of \$1.4 million
15 either way. These are significant variances and the inclusion of these accounts in a
16 reconciling fund should be carefully examined.

17

1 Q. MR. XANDER SAYS HIS PROPOSAL TO INCLUDE RESIDENTIAL
2 UNCOLLECTIBLES AND THE VARIANCES IN RESIDENTIAL
3 ARREARAGES IN THE PROPOSED RECONCILING UNIVERSAL SERVICE
4 FUND IS IN RESPONSE TO YOUR STATED CONCERN THAT A
5 RECONCILING CHARGE SHOULD NOT BE USED FOR UNIVERSAL
6 SERVICE PROGRAM COSTS UNLESS THE COST SAVINGS ATTRIBUTABLE
7 TO UNIVERSAL SERVICE PROGRAMS WERE INCLUDED AS WELL. DOES
8 HIS PROPOSAL MEET YOUR CONCERN?

9
10 A. No. In fact, it creates new problems. Mr. Xander's proposal should be rejected.

11
12 Adding residential uncollectible amounts to the USFC balances to be collected through
13 this charge would increase the size of the universal service charge. And it would
14 presumably decrease the size of the accounts from which these sums were moved.

15 However, as proposed by Mr. Xander, this booking switch would not increase the size of
16 the benefits to low-income ratepayers.

17
18 It is not sufficient merely to move certain costs from the base rate uncollectible column to
19 the USFC column. Instead, to retarget these funds it is necessary to change the way the
20 Company uses those dollars, by increasing the level of program services. Based on the

1 positive results from other CAP evaluations, there is good reason to expect that increasing
2 program services would reduce the uncollectible amounts, so that more low-income
3 customers could afford their bills without worsening the Company's net position.
4

5 Ms. Kray and Mr. Xander do not propose expanding the program by the amount of these
6 uncollectible amounts, in an effort to avoid the uncollectible expenditure. Rather, they
7 propose to continue rendering unaffordable bills to many low-income customers, but at
8 the same time they propose to load up the Universal Service fund with unrelated costs
9 attributable to the residential class as a whole.
10

11 Thus PECO's proposal would not result in providing services to any additional CAP or
12 LIURP participants. It would not expand the benefits for any existing participant. As a
13 result, it would not improve the payment pattern or bill affordability of any low-income
14 customer. All it would do is move certain residential uncollectible costs from base rates
15 to a reconciling factor, and inflate the apparent level of PECO universal service funding.
16

17 Further, this proposal does not meet the concern I raised about reflecting offsetting
18 improvements in credit and collection costs in a reconciling universal service cost
19 recovery method. It is true that to the extent the Company ramps up its universal service
20 efforts (whether to its proposed levels or the higher levels that may be appropriate once

1 the impact evaluation is completed), the uncollectible amounts Mr. Xander proposes to
2 include in the reconciling universal service factor should recede to that extent. However,
3 Mr. Xander proposes to include uncollectibles from **all** residential customers, not just
4 low-income customers, or CAP participants. As a result, the impact of the CAP or
5 LIURP program expansions will be masked. Improvements associated with CAP or
6 LIURP expansion may be overcome by greater uncollectibles among other residential
7 customers. The latter should not be reflected in a universal service fund.

8
9 For all these reasons, Mr. Xander's proposal should be rejected.

10
11 **Q. MR. XANDER PROPOSES TO PRORATE THE CAP BENEFIT BETWEEN**
12 **PECO AND COMPETITIVE SUPPLIERS IN THE CASE WHERE A**
13 **PARTICIPANT IS TAKING ENERGY SERVICE FROM A FIRM OTHER THAN**
14 **PECO (PECO STATEMENT 24-R, EXH. SRX 4). IN YOUR DIRECT**
15 **TESTIMONY, YOU RECOMMENDED THAT THE ENTIRE DISCOUNT BE**
16 **APPLIED TO THE DISTRIBUTION PORTION OF THE BILL. DO YOU HAVE**
17 **AN OPINION CONCERNING THE COMPANY'S PROPOSAL?**

18
19 **A.** Yes. I support a proration of benefits where it is administratively feasible. The
20 Company's discussion of the issue in Mr. Xander's rebuttal suggests that the Company

1 sees no great difficulty with administering such proration.

2
3 I agree with Mr. Xander that competitive neutrality is crucial, and that CAP customers
4 should not be locked into taking service from one supplier. While I do not believe that
5 proration is essential to competitive neutrality, I agree that it could be helpful in that
6 regard.

7
8 However, Mr. Xander's proposal may be incomplete in its estimate of the proper level for
9 sharing with the supplier. It presupposes the adoption by the Commission of the discount
10 approach to CAP favored by the Company.

11
12 Mr. Colton and Mr. Bowen provided the Commission with two other ways to prorate
13 universal service benefits. Mr. Colton recommended that the share of customer's benefit
14 going to the supplier be equivalent to the share of the total electricity charges (energy and
15 T&D) billed by the energy supplier. As Mr. Xander pointed out, this would reward
16 suppliers with relatively high energy charges. Mr. Bowen also recommends that the
17 benefit be prorated, but suggests that the ratio be derived in proportion to average levels,
18 not individual levels, of the respective energy and other charges. The trick with this
19 approach is to get the data upon which to compute the averages, in a world where prices
20 fluctuate, and there are numerous prices offered to consumers at any one time.

1 In my direct testimony, I argue that providing all the benefit against the distribution
2 component of the bill will result in a competitively neutral outcome. It is difficult to
3 predict how the market will actually behave, making it impossible to state unequivocally
4 that a distribution-only bill reduction will not stifle CAP customers' abilities to switch to
5 competitive supply. Messrs. Xander, Colton and Bowen are persuasive that proration is
6 possible. Given that the Company is willing to prorate, and raises no cost concerns about
7 the accounting, then one or more method of proration should be used, and the results
8 followed closely.

9
10 **Q. PECO WITNESS XANDER, PAIEUG WITNESS BARON, OSBA WITNESS**
11 **KALCIC STATE THAT UNIVERSAL SERVICE COSTS IN THIS DOCKET**
12 **SHOULD BE RECOVERED ONLY FROM THE RESIDENTIAL CLASSES. DO**
13 **YOU AGREE WITH THEIR ANALYSES?**

14
15 **A.** No. The Commission in its Final Order on universal service guidelines noted that "[a]ll
16 customer classes should share in providing funding of universal service..." The statute
17 provides for a non-bypassable charge for universal service and energy conservation
18 programs. Sections 2804(9) and 2802(17) use this term.

1 In the jargon of restructuring, the term "non-bypassable" has usually been used in a case
2 where some customer classes (particularly those made up of larger customers with greater
3 competitive options) are in a position to secure competitive supplies, and by leaving the
4 bundled electric utility's service, by-pass any public benefits obligations such as universal
5 service. Thus, use of the term "non-bypassable" by the General Assembly should be
6 understood in this light as implying that all customers share in the costs.

7
8 Also, contrary to Mr. Baron's suggestion, the use of the word "permitted" in Section
9 2802(17) should be understood in its ordinary sense to modify cost recovery, not non-
10 bypassability. Thus, Section 2802(17) reads in plain language that the EDCs must be
11 permitted to recover their universal service costs, and that the costs shall be recovered
12 from all customers via a non-bypassable charge. The statute provides:

13
14 The public purpose is to be promoted by continuing universal service and
15 energy conservation policies, protections and services; and full recovery of
16 such costs is to be permitted through a non-bypassable rate mechanism.

17 Section 2802(17).
18

19 **Q. HOW ARE OTHER STATES HANDLING UNIVERSAL SERVICE COST**
20 **ALLOCATION?**

1 Other states have determined that universal service costs should be allocated to all
2 classes, for example California (a kWh charge), Massachusetts (class allocation by
3 relative rate base), New Hampshire (kWh charge), New Jersey (non-bypassable charge to
4 all customers), Oklahoma (fund through rates charged to "consumers receiving electric
5 service in Oklahoma"), Montana (all classes, with offsets allowed to largest customers),
6 and Rhode Island (per kWh charge for energy efficiency and renewables).

7
8 **Q. MESSRS. XANDER, KALCIC AND BARON ARGUE THAT THE ACT'S RATE**
9 **CAP AND RATEMAKING PRINCIPLE REQUIRE ASSIGNMENT OF COSTS**
10 **TO CLASSES USING THE SAME ALLOCATORS AS IN THE LAST RATE**
11 **CASE. DO YOU AGREE?**

12
13 **A.** No. The rate cap provisions of Section 2804(4) do not imply that all allocation schedules
14 used in the last rate case must be followed in this docket, or for that matter throughout the
15 rate cap period. The Act is clear that the generation rates and the non-generation rates for
16 each class cannot exceed present rates during the period of the cap. That is quite different
17 from saying each allocator must be the same as it was whenever the Commission last
18 looked at a Company's rates.

19
20 The statute is intended to limit the rates for each class. So long as rates for each class

1 (broken out separately into generation and non-generation) do not exceed the cap, the
2 Commission is free to apply sound ratemaking principles, and to follow the statutory
3 mandate that all classes contribute to a non-bypassable universal service cost recovery.
4

5 **Q. DO SOUND RATEMAKING PRINCIPLES, AS INCORPORATED IN THE**
6 **COMPETITION ACT, REQUIRE ALLOCATION OF ALL UNIVERSAL**
7 **SERVICE COSTS TO THE RESIDENTIAL CLASSES?**

8
9 A. No.

10 **Q. PLEASE EXPLAIN.**

11 Allocation beyond the residential class is resisted on the grounds of two ratemaking
12 concepts, cost-causation and costs following benefits. Using cost-causation would lead to
13 illogical results, as explained below. And while costs should follow benefits, benefits
14 should be understood comprehensively, and not in the narrow way these witnesses portray
15 them.

16
17 Mr. Baron argues that sound ratemaking would not permit a kWh allocation, on the
18 grounds that there is no cost-causation relation between energy use of customers/classes
19 and the incurrence of USF costs by PECO. Taking this argument to its logical
20 conclusion, Mr. Baron would have the Commission directly assign all universal service

1 costs to universal service recipients. This would eliminate the bill reductions associated
2 with CAP and LIURP, as well as the benefits of any other universal service program.

3
4 Such a result negates the purpose of universal service programs, and the argument that
5 leads to this result cannot be correct. Also, cost-causation would not lead to assignment
6 to non-low-income residential customers any more than it would lead to assignment to
7 non-residential customers, under the ratemaking theory of Messrs. Baron, Xander and
8 Kalcic.

9
10 Messrs. Baron, Xander and Kalcic also argue that all costs should be assigned to
11 residential classes because only residential customers, that is low-income customers,
12 benefit.

13
14 First, the argument proves too much, even accepting for purposes of argument the
15 premise that only low-income customers benefit. Again, if we assume that only low-
16 income customers benefit, and we follow the rule that costs in this case should be
17 allocated only to those who directly benefit, we are brought again to the conclusion that
18 universal service costs should be directly assigned to CAP and LIURP participants, pro
19 rata. However, again this would produce an absurd result, and one that could not
20 logically have been intended by the legislature.

1 Second, there is again no more reason to allocate costs to non-low-income residential
2 customers under this reasoning than there is to allocate them to non-residential customers.
3 Non-low-income residential customers benefit, as they do, exactly and only in the ways
4 and to the extent that non-residential customers benefit.

5
6 Third, and perhaps most importantly, all customers of all classes benefit from the
7 provision of universal service and energy conservation programs to low-income
8 customers. The General Assembly's requirement of universal services funded with non-
9 bypassable charges reflects the legislature's determination that ensuring essential electric
10 service for all households in Pennsylvania serves the "public purpose" (Section
11 2802(17)). Benefits that all enjoy when no family goes without electricity include (a)
12 economic stability, (b) secure and stable neighborhoods, and (c) better public health and
13 safety. These benefits inure to all customers. As the Commission determined in its
14 universal service final order, all customer classes should share in providing the funding
15 for universal service.

16
17 **Q. DO YOU CONCLUDE THAT A KWH ALLOCATOR IS THE ONLY PROPER**
18 **ALLOCATION OF UNIVERSAL SERVICE COSTS?**

19
20 **A.** While a kWh allocator would be a sound basis for allocating universal service costs, it is

1 not the only proper basis. The Commission was clear in its Final Order on Universal
2 Service and Energy Conservation Programs that it did not consider a kWh allocator to be
3 appropriate. The Commission was equally clear that universal service costs should be
4 allocated to all classes. There are other allocators that will fit these parameters and
5 provide a sound basis for allocating such costs.

6
7 **Q. HAVE YOU DEVELOPED ANOTHER ALLOCATOR THAT YOU WOULD**
8 **RECOMMEND FOR ALLOCATION OF UNIVERSAL SERVICE COSTS?**

9
10 A. Yes. I have developed an allocator based on each class' relative non-production revenues.

11
12 **Q. PLEASE EXPLAIN THE BASIS OF YOUR NON-PRODUCTION REVENUE**
13 **ALLOCATOR.**

14
15 A. My non-production revenue allocator takes the revenues to be collected from each class,
16 exclusive of that part of the revenue requirement that has been functionalized as
17 production-related. Thus, the allocator is based on each class' relative combined
18 transmission and distribution revenue requirement.

19
20 I use a revenue allocator, because such a general allocator is appropriate for costs, such as

1 universal service costs, that are associated with generalized benefits and should not be
2 directly assigned. I exclude production-related costs in deference to the statutory
3 requirement that the recovery of universal service costs be competitively-neutral. Thus,
4 only monopoly and jurisdictional costs are included in the allocator.

5
6 **Q. HAVE YOU PREPARED AN EXAMPLE OF HOW SUCH A NON-**
7 **PRODUCTION REVENUE ALLOCATOR WOULD WORK?**

8
9 A. Yes. Exhibit NB-Surrebuttal-1 shows the development of such an allocator based on the
10 Company's unbundling of revenue requirements by function and by class as shown in
11 Exhibit WFS-10. I did not have a cost of service study available for all classes using all
12 the assumptions recommended by La Capra witness Smith, but in principle such a study
13 could easily be prepared by the Company in the compliance phase of this proceeding if
14 the Commission adopts this universal service cost allocator and Ms. Smith's
15 recommended revisions to the Company's cost of service study.

16
17 **Q. WHAT DOES YOUR NON-PRODUCTION REVENUE ALLOCATOR SHOW?**

18
19 A. As can be seen in Exhibit NB-Surrebuttal-1, a non-production revenue allocation
20 produces an allocation to the residential classes of almost 60% of the universal service

1 costs. This is in comparison to an allocation of approximately one third such costs under
2 a kWh allocation, as shown on Exhibit NB-Surrebuttal-2. The allocation to the non-
3 residential classes is correspondingly lower under the non-production revenue allocator.
4

5 **Q. WHAT DO YOU RECOMMEND CONCERNING ALLOCATION OF**
6 **UNIVERSAL SERVICE COSTS?**
7

8 A. First, costs should be allocated to all classes. Second, a kWh allocator should be used,
9 but in the event such an allocator is rejected, following the Final Order, I recommend that
10 the Commission adopt a non-production revenue allocator for such costs, as shown in my
11 Exhibit NB-Surrebuttal-1.
12

13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**
14

15 A. Yes.
16

17 44750
18

Exhibit NB-PECO-SUR-1

PECO

Docket No. 00973953

Development of Non-Production Revenue Allocator
 Universal Service Costs

Source: PECO Exhibit WFS-10

Cost of Service and Unbundled Rate Design

PECO Cost of Service Study For Test Year Ending 12/31/96

(\$1000)

FUNCTION	PA JURIS TOTAL	R	RT	RH	OP	GS	PD
TRANSMISSION	155654.448	44585	0.361	11481	211	39756	5155
DELIVERY SERV	864139.862	439228	5	99782	18961	147969	20281
TOT.NON-PROD.	1019794.31	483813	5.361	111263	19172	187725	25436
Relative %	100%	47.4%	0.0%	10.9%	1.9%	18.4%	2.5%

FUNCTION	HT	HT adj	SLE	TL	EP	AL
TRANSMISSION	51498	313	89	184	2382	0.087
DISTRIBUTION	118747	667	8924	1805	7770	0.862
TOT.NON-PROD.	170245	980	9013	1989	10152	0.949
Relative %	16.7%	0.1%	0.9%	0.2%	1.0%	0.0%

Rate R: Residential Service

Rate RT: Residential Time-of-Use Service

Rate RH: Residential Heating Service

Rate OP: Off-Peak Service

Exhibit NB-PECO-SUR-2

PECO

Docket No. 00973953

PECO Restructuring

Per kWh Allocator

Universal Service Costs

Source: PECO Exhibit WFS-10

Cost of Service Study For Test Year Ending 12/31/96

12 months ending December 31, 1996

ITEM	PA JURIS TOTAL	Total Residential (R+RT+RH)	R	RT	RH	OP	GS	PD
kWh SALES	30737744713	10588247135	7711912198	79223	2876255714	375615396	6172267155	1.1E+09
Relative %	100%	34.4%	25.1%	0.0%	9.4%	1.2%	20.1%	3.5%

ITEM	HT	HT Adj	SLE	TL	EP	AL
kWh SALES	11705685635	82541761	47951811	39680750	641049217	16930
Relative %	38.1%	0.3%	0.2%	0.1%	2.1%	0.0%

Rate R: Residential Service

Rate RT: Residential Time-of-Use Service

Rate RH: Residential Heating Service

Rate OP: Off-Peak Service