

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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ADMINISTRATIVE LAW JUDGES  
MARLANE R. CHESTNUT  
AND CHARLES E. RAINEY, JR.

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PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v. :

: Docket No. R-00973953

PECO ENERGY COMPANY :

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PREPARED DIRECT TESTIMONY OF  
JAMES L. CRIST, PRESIDENT, LUMEN GROUP,  
ON BEHALF OF MUNICIPAL INTERVENORS GROUP

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R 00973953, R-00973953 C0001 - C0007  
Municipal Intervenors Group Statement No. 1

*Phila*

*10/14/97*

*E. Solent*

1 Q. Please state your name and business address.

2 A. My name is James L. Crist, and my business address is Suite 101, 4226 Yarmouth  
3 Drive, Allison Park, Pennsylvania 15101.

4

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

6 A. I am the President of Lumen Group, a consulting firm that provides analyses and  
7 advice to large electric and gas utilities and unregulated energy services providers  
8 in the areas of product development, strategic planning, new business planning,  
9 marketing planning, marketing communications, sales force planning, and market  
10 intelligence.

11

12 Q. Please state your educational background and employment experience.

13 A. I graduated from Carnegie - Mellon University in 1975, with a Bachelor of  
14 Science Degree in Chemical Engineering. I received my Masters in Business  
15 Administration from the University of Pittsburgh in 1982.

16 From 1975 to 1977, I worked for Occidental Petroleum Corporation in  
17 Niagara Falls, New York, as a research engineer. In July, 1977, I joined the  
18 Consolidated Natural Gas Company system, and was assigned to its interstate  
19 pipeline affiliate, CNG Transmission Corporation. While there, I was assigned to  
20 a project in which my responsibilities included engineering activities at a coal  
21 gasification pilot plant in England. In January, 1979, I moved to another  
22 Consolidated affiliate, CNG Energy Company, in another engineering position.

1 My responsibilities included project management, planning, economic evaluation,  
2 and technical analyses for alternate energy programs.

3 From March, 1982 until July, 1985, I worked as a Market Development  
4 Specialist for East Ohio Gas Company, a local distribution company member of  
5 the Consolidated system. There, I was responsible for comprehensive market  
6 analyses, planning, and development of new large volume gas sales in East Ohio's  
7 service area. Those analyses and planning ultimately resulted in East Ohio's first  
8 three sales of natural gas for cogeneration use.

9 In July of 1985, I joined The Peoples Natural Gas Company, another  
10 Consolidated affiliate. Peoples is a local distribution company, whose service  
11 territory includes much of southwest Pennsylvania. At Peoples, I served in  
12 various capacities, and eventually was appointed Director, Residential and  
13 Commercial Marketing, in January, 1988. In that position, I was responsible for  
14 Peoples' residential and commercial consumption forecasts, and residential and  
15 commercial marketing efforts.

16 I left Peoples in 1994 to join Citizens Utilities as its Vice President of  
17 Marketing, Energy Sector. Citizens operates both gas and electric distribution  
18 utilities in five states. The electric operations are in northern Vermont, both  
19 northern and southern Arizona, and Hawaii. I was responsible for the marketing  
20 efforts of those electric distribution companies.

21 In January, 1996, I joined ERI Services, an affiliate of Equitable  
22 Resources, as Vice President, Marketing and Product Development. There, I was  
23 responsible for the development of market research, marketing communications,

1 and planning and product development for the national energy products and  
2 services subsidiary of a fully integrated energy supplier. I also directed residential  
3 pilot operations which analyzed ongoing residential deregulation opportunities.

4 In June, 1996, I left ERI and formed Lumen Group.

5  
6 Q. What other experiences with the electricity industry do you have?

7 A. I am a frequent lecturer in several electric industry topics at IGT, an energy  
8 industry research and training organization. So far in 1997, I have taught  
9 Cogeneration and Power Systems and Electric Rate Fundamentals. I am in the  
10 process of developing a comprehensive training program for the electric industry  
11 in the sales and marketing area to train sales professionals.

12  
13 Q. By whom have you been retained for purposes of this proceeding?

14 A. Lumen Group has been retained by the Municipal Intervenors Group, a group of  
15 municipalities within PECO's service territory who purchase street lighting  
16 services from PECO under its Rate SL-E. The Municipal Intervenors Group  
17 retained Lumen Group to analyze Rate SL-E to determine whether and the extent  
18 to which Rate SL-E, as it currently exists and as PECO has proposed to  
19 "unbundle" it as part of its restructuring, properly and fairly allocates revenue  
20 responsibility to municipal customers and provides a reasonable and fair  
21 opportunity for municipal customers to benefit from a competitive environment  
22 for electric generation.

1 Q. What were the results of your analyses?

2 A. Both as it currently exists and as PECO has proposed to unbundle it, Rate SL-E  
3 arguably is the worst example of the excesses of utility rate design that I possibly  
4 could imagine. Not only does Rate SL-E subsidize other PECO ratepayers and  
5 rate schedules, but the existing and proposed design of the Rate virtually insulates  
6 PECO from any risk of revenue recovery, either as a result of variations in  
7 customer consumption or, more significantly, as a result of loss of market share to  
8 competition. If one were to use a biological analogy, Rate SL-E customers are the  
9 hosts to a wide variety of parasites that include not only other PECO ratepayers,  
10 but PECO itself.

11

#### 12 BACKGROUND OF RATE SL-E

13

14 Q. When did PECO introduce Rate SL-E?

15 A. PECO introduced Rate SL-E in 1986, through a petition to the Commission to put  
16 the Rate into effect on less than statutory notice. At that time, the only street  
17 lighting service available to municipal customers outside of the Philadelphia  
18 municipal limits was Rate SL-S, a service that is based on PECO's ownership of  
19 all of the facilities used to provide street lighting. Rate SL-E was intended to give  
20 customers the option to purchase from PECO or to install themselves the lights,  
21 brackets and other facilities used to provide street lighting service and, in return,  
22 pay a lower rate than the prevailing SL-S rate.

1 Q. How did PECO characterize Rate SL-E when it was introduced?

2 A. PECO characterized the Rate as providing customers a choice between the “full  
3 service” available under Rate SL-S and an “energy only” street lighting service --  
4 Rate SL-E.  
5

6 Q. Was that a fair characterization?

7 A. It not only was unfair, it was ridiculous. Under the rate design that PECO  
8 proposed to introduce in 1986, the customer would pay a monthly charge of \$8.91  
9 for each “location” or street light, a capacity charge of \$.00227 per watt, and an  
10 energy charge of \$.03212 per kwh. Under that design, hardly any part of a  
11 customer’s bill was based on energy.  
12

13 Q. Please explain.

14 A. Even when introduced in 1986, almost 80% of a customer’s bill for a typical  
15 street light went towards payment of the fixed monthly location charge, a charge  
16 that is completely unaffected by the energy that the customer consumed. As an  
17 example, using a typical mercury vapor street light in use in 1986 of 8,000  
18 lumens, using 200 watts and 820 kwh of energy, a customer’s annual bill under  
19 the Rate SL-E rates proposed by PECO in 1986 would have been \$138.71, of  
20 which \$106.92, or 77%, was payment of the location charge. By way of contrast,  
21 the “energy” portion of the customer’s bill would have been \$26.33 or 19%, a  
22 portion that hardly supported PECO’s “energy only” characterization.

1 Q. Did the Commission approve Rate SL-E as filed?  
2 A. Yes. In fact, the Commission granted PECO's petition to put Rate SL-E into  
3 effect on less than statutory notice, or less than 60 days. While I did not  
4 participate in the 1986 proceeding, the Commission's expedited approval suggests  
5 to me that the Commission did not apply a great deal of scrutiny to Rate SL-E.  
6 More importantly, the Commission, in 1986, obviously did not contemplate a  
7 time -- such as today, when the electricity industry would be "unbundling" and  
8 where customers would have the opportunity to purchase at least part of their  
9 electricity service from non-traditional providers.

10

11 Q. What happened to Rate SL-E after the Commission granted PECO's petition in  
12 1986?

13 A. Because PECO filed its petition during the pendency of a general rate increase  
14 proceeding, PECO never put into effect the exact unit rates that it had proposed in  
15 its petition. Instead, PECO conformed the original rates under Rate SL-E to the  
16 results of its general rate increase proceeding, so that the initial Rate SL-E rates  
17 that PECO put into effect on July 4, 1986 were a location charge of \$8.55 per  
18 month, a capacity charge of \$.00212 per watt, and an energy charge of \$.02674  
19 per kwh. As is obvious, despite the modest changes in the unit rates, the Rate SL-  
20 E rate design introduced by PECO in 1986 was the same design that it had  
21 proposed in its petition. Also, using the typical street light in use at the time,  
22 \$102.60 or 79% of the customer's annual bill would have paid for the location

1 charge, while only \$21.93 or 17% would have paid for energy under PECO's  
2 "energy only" design.

3  
4 Q. What has happened to Rate SL-E since 1986?

5 A. From a customer's perspective, matters have only gotten worse. When PECO  
6 introduced Rate SL-E in 1986, the unit rates were based on PECO's system  
7 average rate of return. That no longer is true. On the contrary, as demonstrated  
8 by Exhibit RAC-1, that has been identified and described by PECO witness,  
9 Robert A. Clemmer, PECO's system average rate of return for the 12 months  
10 ended December 31, 1996 was 9.88%, but its rate of return under Rate SL-E was  
11 16.04%. Accordingly, customers under Rate SL-E are providing a significant  
12 subsidy to other PECO rates and ratepayers.

13 Moreover, and worse, Rate SL-E has become even less of an "energy  
14 only" charge than it was when it was introduced in 1986. The rate design under  
15 Rate SL-E has not changed, but the unit rates have. Those rates now are a  
16 location charge of \$10.01 per month, a demand charge of \$.00276 per watt, and an  
17 energy charge of \$.01741 per kwh. Using the same example I used earlier in this  
18 testimony, over 85% of the customer's annual bill now goes to the location  
19 charge, a charge over which the customer has no control through either  
20 conservation or, more importantly for purposes of this proceeding, through  
21 purchases of generation from providers other than PECO.

**RATE SL-E DESIGN**

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Q. What is your opinion of the current Rate SL-E design?

A. I can only characterize the location charge as astronomically high. It appears that PECO has misallocated a considerable amount of electric plant in service (including allocation of common elements) to the location charge for Rate SL-E. That misallocation started (and continues) under Rate SL-S, the municipal street lighting service that was in effect prior to 1986 and on which the design of Rate SL-E was based. Under both Rates, but especially SL-E, PECO has allocated a large amount of distribution costs to the location charge.

Q. What distribution costs should be allocated to the Rate SL-E location charge?

A. Only those distribution costs that are incurred specifically and exclusively for street lighting should be included within the location charge.

Q. What kinds of distribution costs should not be allocated to street lighting?

A. The costs of poles, wires, transformers, and just about everything else. Electric utility distribution systems are designed to serve residential, commercial and industrial customers. Once the system is designed, if a municipality then decides to buy and hang a 200 watt street light off of an existing pole, the municipality only should be charged for the incremental costs that are incurred by the utility. Obviously, Rate SL-E customers are paying a lot more than those incremental costs in the monthly location charge. The data provided by PECO to date is not sufficiently detailed for me to determine what the excess allocation might be. We

1 will make every effort, however, to obtain the necessary data and quantify the  
2 excessive allocation before the hearings in this proceeding.

3  
4 Q. Are there any other factors that indicate to you that something is wrong with the  
5 SL-E location charge?

6 A. Yes. I compared the monthly location charge under Rate SL-E to the monthly  
7 service charge paid by a municipal customer under PECO's Rate GS -- General  
8 Service -- electricity service available to governmental agencies, including  
9 municipalities, for uses other than street lighting.

10  
11 Q. What did that comparison show?

12 A. The Rate GS monthly service charge for something like a maintenance shed at a  
13 municipal park is \$6.63. Assuming that PECO has designed this monthly charge  
14 using traditional rate design principles, the charge is intended to recover all of the  
15 usual distribution costs that I earlier identified, including poles, wires,  
16 transformers, and conduit. Because Rate SL-E service is unmetered, the Rate GS  
17 monthly service charge also includes a cost that street lighting customers do not  
18 even cause PECO to incur, the cost of an electric meter. For Rate GS customers,  
19 PECO incurs monthly or other regular meter reading costs, and costs to calculate  
20 bills based on those meter readings. Accordingly, notwithstanding the fact that  
21 Rate SL-E customers only should be allocated incremental distribution system  
22 costs, and notwithstanding the fact that Rate GS customers cause PECO to incur  
23 costs that Rate SL-E customers do not, Rate SL-E customers pay a monthly

1 charge of \$10.01 per location, while a Rate GS customer pays a \$6.63 monthly  
2 charge. In my view, the comparison is silly.

3  
4 Q. How silly is it?

5 A. Think of it this way. The municipal government is the same customer under Rate  
6 GS and under Rate SL-E. The same municipal government pays for the electricity  
7 it uses to operate its maintenance shed under Rate GS and for the electricity it  
8 uses to operate street lights under Rate SL-E. For the maintenance shed, the  
9 municipal government pays a fixed charge of \$6.63 a month, but, for each street  
10 light, a fixed monthly charge of \$10.01 a month. If the municipal government  
11 adds a 200 watt floor lamp at the maintenance shed, PECO does not add an extra  
12 \$6.63 or, worse, \$10.01, as a fixed monthly charge to the municipality's bill. But  
13 if the municipality adds a street light on a dark stretch of road to make it safer,  
14 then PECO adds an additional fixed charge of \$10.01 to the municipality's bill.  
15 That's pretty silly. That would be like you and me at home paying PECO \$10.01  
16 a month for each lamp in our house.

17  
18 Q. What should the Commission require PECO to do?

19 A. Assuming that the kinds of fixed monthly charges that public utilities have been  
20 allowed to justify in the name of "revenue stability" have any place at all in a  
21 competitive environment, the Commission should direct PECO to modify Rate  
22 SL-E so that each municipal street lighting customer pays a single fixed monthly  
23 charge -- even one as high as \$10.01 -- regardless of the number of street lights

1 that the customer owns and operates. That charge should cover PECO's costs to  
2 bill for an unmetered service.

3  
4 **RATE SL-E REVENUE ALLOCATION**

5 Q. Is it your opinion that PECO has allocated too high of a revenue requirement to  
6 Rate SL-E customers?

7 A. Yes. And there are two reasons for my opinion. First, PECO has allocated too  
8 much plant in service to the rate base for Rate SL-E. Second, Rate SL-E  
9 customers are paying a rate of return that is significantly higher than PECO's  
10 system average rate of return.

11  
12 Q. Are you able to quantify the excess revenue allocation to Rate SL-E?

13 A. Not all of it. As I already noted, the cost of service data supplied by PECO in  
14 support of its proposed restructuring is not sufficiently detailed for me to identify  
15 the costs that have been allocated to Rate SL-E. Without that information, I  
16 cannot identify the costs that should be allocated elsewhere. I am making every  
17 effort to obtain that information and, once I have it, I will quantify the excess  
18 allocation. Assuming PECO cooperates, I expect to have that quantification  
19 completed before the initial hearing in this proceeding.

20  
21 I am, however, able to quantify the excess revenue allocation attributable  
22 to Rate SL-E customers' paying a rate of return of 16.04% instead of the system  
23 average of 9.88%. As shown on page 5 of PECO Exhibit RAC-1, Rate SL-E

1 customers have been allocated a total annual revenue responsibility of \$9,557,000.  
2 That allocation produces a rate of return of 16.04%. In order to reduce that rate of  
3 return to the system average of 9.88%, PECO has to reduce the revenue  
4 responsibility allocated to Rate SL-E customers by \$3,673,000 annually or 38.4%.

5  
6 Q. How should the Commission address the excess revenue allocation to Rate SL-E?

7 A. The purpose of this proceeding is to place all of PECO's customers in a position  
8 where they can make informed decisions about who their electricity supplier will  
9 be, and to provide those customers with a reasonable opportunity to save money  
10 on their electricity bills as a result of those informed decisions. It would be  
11 unfair, inequitable, and contrary to the spirit of the legislation under which  
12 PECO's restructuring is taking place if a particular set of customers already were  
13 subsidizing other customers on the system. In market-driven, competitive world,  
14 there should not be subsidies across customers classes. As a result, the  
15 Commission must eliminate any subsidies, including the subsidies borne by Rate  
16 SL-E customers.

17 At the same time, the Commission, in PECO's most recent general rate  
18 increase proceeding, which I believe was in 1989, established an overall revenue  
19 level that the Commission considered fair for PECO. The Commission also  
20 approved rates for PECO that, for 1996, produced a system average rate of return  
21 of 9.88%. Neither the Municipal Intervenors Group nor I am asking the  
22 Commission to revisit the decision that produced that result. Accordingly, the  
23 Commission should eliminate the subsidy that I have identified by reallocating

1 revenue responsibility away from Rate SL-E and to other rates and rate classes  
2 that, under PECO's 1996 cost of service study, are paying less than a system  
3 average rate of return. I would defer to PECO and its expertise in developing a  
4 revenue allocation by class and the unit rates to recover those revenues.

5  
6 **COMPETITION AND RATE SL-E**

7 Q. How does the rate design under Rate SL-E affect municipal customers'  
8 opportunities in a competitive environment?

9 A. Because Rate SL-E customers pay such a disproportionate amount of their bill to  
10 PECO for the fixed location charge, those customers have no realistic opportunity  
11 to produce any savings in their electricity bills by purchasing generation from  
12 someone other than PECO.

13  
14 Q. Please explain.

15 A. On Exhibit WFS-3, PECO's witness, William F. Sundermeir, has illustrated  
16 PECO's proposed unbundling of each of the rate schedules in PECO's tariff,  
17 including Rate SL-E. Under PECO's proposed unbundling, the only portion of  
18 the SL-E customer's bill for which it will be able to shop around is a charge of  
19 \$.01442 per kwh for electric generation. Using the example that I earlier used,  
20 that proposed unbundling would give the SL-E customer an opportunity for  
21 savings through competition on only 5% of its total annual bill. That means that,  
22 even if the customer were able to save 10% on its cost of electricity generation by  
23 shopping around, the total savings that the customer would enjoy on its overall

1 electricity bill would be 10% of 5%, or .5%. If that is the best that restructuring  
2 of the electricity industry can provide to Pennsylvania citizens, then both the  
3 Pennsylvania General Assembly and this Commission are wasting their time.

4 While the absolute numbers are chilling, the design and cost of PECO's  
5 street lighting service are also outrageous when compared to those of other  
6 electric utilities. Perhaps the most apt comparison is Pennsylvania Power & Light  
7 Company, the electric utility that borders PECO's service territory and that  
8 figures to be one of PECO's primary competitors. PP&L also has a rate schedule  
9 for street lighting that is characterized as "energy only." Unlike PECO's Rate SL-  
10 E, however, PP&L's energy only rate -- Rate SE -- does not have any fixed  
11 monthly charge at all. Electricity to the same street light that costs a PECO  
12 customer over \$130 a year costs a PP&L customer a little over \$35 a year. Even a  
13 customer of Duquesne Light Company, which is considered one of the most  
14 expensive electric utilities in the country, would pay less than \$65 a year for the  
15 same service. It is not clear whether and the extent to which these differences are  
16 due to the excessive allocation of costs to Rate SL-E customers, those customers'  
17 subsidization of other PECO rates and ratepayers, or PECO's absurd rate design.  
18 It is clear, however, that, PECO's Rate SL-E is completely unacceptable and  
19 indefensible in the context of a competitive market for electricity.

20  
21  
22 Q. Does the current and proposed design of Rate SL-E have any other negative  
23 effects?

1 A. As you might expect, there have been efficiency improvements in street lighting  
2 technology. A mercury vapor light that was used in 1986, when Rate SL-E was  
3 introduced, uses about twice the amount of electricity for the same lumens as a  
4 high pressure sodium lamp in use in 1997. Because of the high location charge  
5 and low energy charge under Rate SL-E, a customer's replacement of an old  
6 mercury light with a new sodium light would result in very little reduction in the  
7 customer's electric bill. Customers, therefore, have no incentive to upgrade their  
8 equipment to higher efficiency that will conserve energy.

9

10 Q. Does that conclude your testimony?

11 A. Yes.

12

13 Thank you very much.

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ADMINISTRATIVE LAW JUDGES  
MARLANE R. CHESTNUT  
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PREPARED ANSWERING TESTIMONY OF  
JAMES L. CRIST, PRESIDENT, LUMEN GROUP,  
ON BEHALF OF MUNICIPAL INTERVENORS GROUP

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DATED: September 29, 1997

Municipal Intervenor's Group Statement No. 2

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1 Q. Please state your name and business address.

2 A. My name is James L. Crist, and my business address is Suite 101, 4226 Yarmouth  
3 Drive, Allison Park, Pennsylvania 15101.

4 Q. Have you prepared and submitted other testimony in this proceeding?

5 A. Yes. I prepared and submitted direct testimony that has been marked as  
6 "Municipal Intervenor Group Statement No. 1" and it is incorporated by  
7 reference in this testimony.

8 Q. What is the purpose of your testimony?

9 A. Well the posture of the case has changed somewhat since PECO filed its rebuttal  
10 testimony. PECO Energy Company and some of the other parties in the case have  
11 filed a partial settlement with the Commission. The purpose of my testimony is to  
12 respond to that partial settlement proposal.

13 Q. To your knowledge, what testimony supports the partial settlement proposal?

14 A. The only testimony that PECO has filed in direct support of the partial settlement  
15 proposal is the Supplemental Rebuttal Testimony of Thomas P. Hill, Jr. That is  
16 PECO Statement No. 1-SR. Otherwise, PECO is relying on the direct and rebuttal  
17 testimony that it filed previous to filing the partial settlement proposal as  
18 supportive of its settlement proposal. It has designated all of the testimony  
19 identified on Appendix H of the Joint Petition for Partial Settlement as supportive  
20 of its settlement proposal. That testimony includes the direct and rebuttal  
21 testimony of William F. Sundermeir and related exhibits. PECO also relies on its  
22 Statement in Support of The Joint Petition for Partial Settlement in this docket  
23 which it filed on August 27, 1997 as support for its settlement proposal. Of these

1 items, only Mr. Sundermeir's direct and rebuttal testimony address PECO's  
2 treatment of Rate Schedule SL-E. My testimony is therefore addressed to those  
3 PECO Statements and Exhibits.

4 Q. But PECO is no longer advocating SL-E rates at the level in its original  
5 restructuring filing, is it?

6 A. No. The rates for SL-E service are slightly lower than those originally proposed  
7 by PECO in its filing, but the rate components are the same and are objectionable  
8 for the same reasons as the original proposal. PECO has not, in my opinion, made  
9 any significant changes to the Rate SL-E by its new proposal. The rate changes  
10 are minor. For example, the location charge which is now at \$10.01 per street  
11 light per month would only drop to \$7.66 per street light per month effective  
12 January 1, 1999 and ultimately to \$6.81 per street light per month effective  
13 January 1, 2008.

14 Q. Have you reviewed PECO Statement 1-SR that was filed on September 17, 1997?

15 A. Yes.

16 Q. Does that testimony address Rate SL-E issues?

17 A. No. The testimony is very general in nature. It describes the terms of the partial  
18 settlement proposal in very generic terms and does not provide any specific  
19 support or justification for the proposed Rate SL-E for the settlement period.

20 Q. Have you reviewed PECO's Statement in Support of its Joint Petition for Partial  
21 Settlement?

22 A. Yes. It likewise contains no mention of Rate SL-E.

1 Q. Have you reviewed the rebuttal testimony and accompanying exhibits served by  
2 PECO Energy Company on July 18, 1997?

3 A. Yes.

4 Q. To what extent has PECO addressed the direct testimony you have provided as  
5 Municipal Intervenors Group Statement No. 1?

6 A. The only rebuttal testimony served by PECO that has addressed my direct  
7 testimony appears on page 12 of PECO Statement No. 13-R, the rebuttal  
8 testimony of William F. Sundermeir. That testimony, which covers a total of ten  
9 lines, is supported by a two-page matrix that has been marked as "PECO Exhibit  
10 WFS-7."

11 Q. In preparing your answering testimony, have you also reviewed PECO's  
12 responses to the Municipal Intervenors Group's interrogatories in this proceeding?

13 A. Yes.

14 Q. What is your understanding of Mr. Sundermeir's response to your direct  
15 testimony?

16 A. Mr. Sundermeir's response can be broken down into two parts. The first part is a  
17 general comment that none of my criticisms of PECO's Rate SL-E -- the rate  
18 under which the members of the Municipal Intervenors Group purchase electricity  
19 from PECO for street lighting use -- "relate to PECO's method for unbundling  
20 [Rate SL-E]." As a result of that general and unexplained comment, Mr.  
21 Sundermeir graciously has absolved the Commission from having to address or  
22 resolve any of the issues raised by my direct testimony in this restructuring  
23 proceeding. The second part of Mr. Sundermeir's response is somewhat

1 inconsistent with the first part in that Mr. Sundermeir has provided what purports  
2 to be an item-by-item response to the specific contents of my testimony.

3

4 Q. How should the presiding Administrative Law Judges and the Commission treat  
5 the first part of Mr. Sundermeir's response to your direct testimony?

6 A. There is only one possible explanation for Mr. Sundermeir's conclusion that none  
7 of the criticisms contained in my direct testimony relates to PECO's method for  
8 unbundling Rate SL-E. And I say that because I intended my direct testimony to  
9 be a wholesale and unequivocal indictment of PECO's proposed unbundling of  
10 Rate SL-E. That explanation is that the phrase used by Mr. Sundermeir,  
11 "PECO's method for unbundling [Rate SL-E]," means something a lot different to  
12 him than it means to me or than it should mean to the Administrative Law Judges  
13 and the Commission.

14

15 Q. Please explain.

16 A. In my opinion, an opinion that is supported both by the letter and spirit of the  
17 Electricity Generation Customer Choice and Competition Act, the unbundling of  
18 electric utility rates that this proceeding is intended to accomplish is not simply an  
19 exercise that is to be undertaken without regard for the consequences of the  
20 unbundling on customer choice. On the contrary, the whole purpose of  
21 unbundling electric rates is to give electric utility customers a meaningful  
22 economic choice that they presently do not have. As my direct testimony makes  
23 clear, however, PECO's proposed unbundling of Rate SL-E does not give

1 customers who subscribe to that Rate any more of an economic choice than they  
2 have now.

3  
4 Q. What do you think Mr. Sundermeir means by "PECO's method for unbundling  
5 [Rate SL-E]" ?

6 A. He apparently means a myopic, mechanical process in which PECO takes its  
7 existing rates and rate design, and simply breaks them down into component parts  
8 through some kind of mathematical exercise that does not incorporate any  
9 considerations of meaningful customer choice. In the context in which PECO's  
10 unbundling is supposed to proceed, "PECO's method for unbundling [Rate SL-  
11 E]" is an insult to the General Assembly that passed the Customer Choice Act, to  
12 Governor Ridge who signed it, and to this Commission that is charged with  
13 implementing it.

14 Q. Has PECO changed its method for unbundling Rate SL-E in its settlement  
15 proposal?

16 A. No. The method is the same, the rates are just slightly, but not significantly,  
17 lower than what was originally proposed.

18 Q. How should the presiding Administrative Law Judges and the Commission treat  
19 the second part of Mr. Sundermeir's response to your direct testimony, his item-  
20 by-item comments on the contents of your direct testimony?

21 A. The presiding Administrative Law Judges and the Commission must recognize  
22 that Mr. Sundermeir's itemized comments, that are contained in Exhibit WFS-7,  
23 are more noteworthy for what's missing than for what's there. Mr. Sundermeir has

1 responded selectively to secondary or tertiary observations that are contained in  
2 my direct testimony, and virtually has ignored the primary criticisms of Rate SL-E  
3 that I presented.

4 Q. Please explain.

5 A. In my direct testimony, I identified seven different reasons why the Commission  
6 should reject PECO's proposed unbundling of Rate SL-E either because the  
7 proposed unbundling perpetuates the grossly unfair way in which Rate SL-E  
8 customers currently are billed for street lighting service or because the proposed  
9 unbundling will not give Rate SL-E customers any meaningful economic choice  
10 of electricity suppliers. Those seven reasons are the following:

- 11 1. Rate SL-E and, in particular, the monthly location charge  
12 under that Rate, recovers costs that Rate SL-E customers do  
13 not cause PECO to incur;
- 14 2. Even assuming that Rate SL-E customers cause PECO to  
15 incur all of the costs that it recovers under the Rate, Rate  
16 SL-E customers still are subsidizing other PECO ratepayers  
17 and rate schedules in the amount of \$3,673,000, per year;
- 18 3. Subsidies across classes and rate schedules like the one that  
19 Rate SL-E customers have been providing and will  
20 continue to provide under PECO's proposed unbundling  
21 have no place in a market driven, competitive world;
- 22 4. Both as it exists and as PECO has proposed to unbundle it,  
23 Rate SL-E insulates PECO from any risk of revenue

1 recovery, an insulation that also has no place in a market  
2 driven, competitive world;

3 5. PECO's proposed unbundling of Rate SL-E does not give  
4 customers any real chance to save money on their  
5 electricity bills through competition;

6 6. PECO's proposed unbundling of Rate SL-E does not give  
7 customers any real chance to save money on their  
8 electricity bills through the introduction of more efficient  
9 lighting facilities; and

10 7. Compared to what street lighting customers of other  
11 participants in the new competitive market are paying and,  
12 in particular, customers of other Pennsylvania electric  
13 utilities, PECO's Rate SL-E customers pay far too much for  
14 street lighting service and will continue to do so under  
15 PECO's proposed unbundling.

16 Of those seven reasons, Mr. Sundermeir only has included two of them in his  
17 selective matrix and, in responding to one of the two, has not challenged the  
18 reason for rejecting PECO's proposed unbundling, but only the solution that I  
19 proposed. Mr. Sundermeir has ignored completely the other five reasons.

20  
21 Q. Which two of the seven reasons has Mr. Sundermeir addressed?

22 A. Mr. Sundermeir has addressed the first of the seven reasons, that Rate SL-E  
23 recovers costs that SL-E customers do not cause PECO to incur, and the second

1 reason, that Rate SL-E customers are subsidizing other PECO ratepayers and rate  
2 schedules by almost \$3.7 million per year.

3  
4 Q. How has Mr. Sundermeir responded to the first of your seven reasons?

5 A. It is noteworthy that Mr. Sundermeir did not disagree with the point that excessive  
6 costs have been allocated to Rate SL-E. Instead, all that Mr. Sundermeir has said  
7 is that I did not provide any basis for allocating the excessive costs to other rates.  
8 He's right, but his response is nothing more than an attempt to divert the  
9 Administrative Law Judges' and Commission's attention away from the core  
10 issue of cost allocation. It is obvious that, if certain costs do not belong under  
11 Rate SL-E, then they belong somewhere else. If I haven't identified where that  
12 "somewhere else" is, then the misallocated costs should not stay under Rate SL-E  
13 by default. Instead, PECO should make every effort to make that determination.  
14 It has the information, wherewithal and obligation to do so.

15  
16 Q. How has Mr. Sundermeir responded to the second of your seven reasons for  
17 rejecting PECO's proposed unbundling of Rate SL-E?

18 A. Mr. Sundermeir has ignored my highlighting the fact that Rate SL-E customers  
19 are subsidizing other PECO rates and rate schedules by almost \$3.7 million  
20 annually and has focused instead on my suggested remedy for that situation --  
21 namely, that the excessive revenue responsibility be reallocated to other  
22 ratepayers and rate schedules which currently are providing a revenue  
23 contribution to PECO that is less than PECO's system average rate of return.

1

2 Q. What has Mr. Sundermeir said about that suggested remedy?

3 A. First, he has said that a reallocation of revenue responsibility would violate the  
4 caps on rates contained in the Customer Choice Act. Second, he has said that a  
5 utility's rate of return from a particular customer class or rate schedule is a  
6 moving target that rarely hits the utility's system average rate of return.

7

8 Q. How do you respond to Mr. Sundermeir?

9 A. First, it is important to note that, by suggesting that PECO be allowed to  
10 reallocate almost \$3.7 million in annual revenue responsibility to other ratepayers  
11 and rate schedules, I was attempting to give PECO the benefit of the doubt that it  
12 should be allowed to recover the money at all through its existing menu of  
13 services. In point of fact, if the only options permitted by the Customer Choice  
14 Act are whether PECO suffers a revenue shortfall or Rate SL-E customers  
15 continue to pay excessive rates, then it clearly is PECO, and not Rate SL-E  
16 customers, who should take the hit. PECO, and not Rate SL-E customers, was the  
17 primary mover in the rate proceedings that produced the cross-subsidy, and  
18 PECO, and not Rate SL-E customers, was an active participant in the  
19 development of the Customer Choice Act which contains the rate caps that  
20 supposedly tie PECO's hands.

21 I do not believe, however, that those are the only options. On the contrary,  
22 the Customer Choice Act does contain exceptions to the rate caps that the Act  
23 imposes. I know that one of those exceptions is any new services that PECO

1 offers for the first time after January 1, 1997. In a competitive and less regulated  
2 marketplace, PECO may have the opportunity to introduce new revenue streams  
3 which more than offset the reduced revenue stream produced by an end to the  
4 excessive cross-subsidy that Rate SL-E customers have been providing.

5 Second, with respect to Mr. Sundermeir's observation that rate of return is  
6 a moving target, I agree. But we are not talking here about variations from the  
7 system average rate of return of plus or minus 5% or 10% that one can attribute to  
8 variations in weather or other external forces that affect consumption from year to  
9 year. Instead, we are talking about a variation of over 62% from the system  
10 average rate of return. And we are talking about that variation in the context of a  
11 service that is unaffected by year-to-year changes in weather.

12 Q. How should the presiding Administrative Law Judges and the Commission treat  
13 Mr. Sundermeir's complete silence on your other five primary reasons why  
14 PECO's proposed unbundling of Rate SL-E should be rejected?

15 A. The Administrative Law Judges and Commission can interpret Mr. Sundermeir's  
16 silence in only one of two ways -- either Mr. Sundermeir agrees with my reasons,  
17 but does not want to say so, or he disagrees with my reasons, but has no basis to  
18 support his disagreement. Either way, and as I already testified, Mr. Sundermeir  
19 really has not contested any of the seven reasons that I identified, including the  
20 existence and proposed perpetuation of a \$3.7 million annual subsidy and the  
21 inability of Rate SL-E customers to participate in the competitive marketplace  
22 under PECO's proposed unbundling.

1

2 Q. You have addressed what Mr. Sundermeir did not say in attempting to respond to  
3 your seven reasons for rejecting PECO's proposed unbundling of Rate SL-E.  
4 What did he say?

5 A. In addition to his responses to two of the seven reasons contained in my direct  
6 testimony -- both of which I addressed above -- Mr. Sundermeir selectively  
7 responded to what I already have described as "secondary" or "tertiary" points in  
8 my direct testimony. The first of those points was that, when PECO introduced  
9 Rate SL-E in 1986, it characterized the Rate as "energy only," a characterization  
10 that I described on direct as unfair and ridiculous.

11

12 Q. How has Mr. Sundermeir responded to that point from your direct testimony?

13 A. Mr. Sundermeir has attempted to defend PECO's "energy only" characterization  
14 as an effort by PECO to differentiate Rate SL-E from the rate for street lighting  
15 service that already existed in 1986, Rate SL-S.

16

17 Q. And what do you have to say to that?

18 A. If PECO in 1986 was looking for a way to differentiate its "new" Rate SL-E from  
19 its existing Rate SL-S, it could not have chosen a more misleading distinction  
20 than "energy only." But we should not get bogged down in the past. The only  
21 reason that I made this point in my direct testimony was to show that, from the  
22 time that Rate SL-E first was introduced, customers under the Rate have had little  
23 or no control over their bills through variations in the amount or cost of energy

1 that they consume. Instead, because of the high fixed monthly location charges  
2 that Rate SL-E customers are required to pay, a very insignificant portion of the  
3 customers' total electricity bills are for "energy." By referring to Rate SL-E as  
4 "energy only," PECO was suggesting that energy was the only product for which  
5 Rate SL-E customers would be billed. In fact, however, they were and have been  
6 billed for just about anything but energy.

7

8 Q. How does PECO's characterization of Rate SL-E as "energy only" in 1986 affect  
9 PECO's proposed unbundling of the Rate today?

10 A. PECO's characterization of Rate SL-E as "energy only" in 1986 does not make  
11 PECO's proposed unbundling of the Rate in 1997 any more or less reasonable  
12 than it already is. The history of the Rate does demonstrate, however, that Rate  
13 SL-E customers never have had any real control over their bills for street lighting  
14 service because anything they could have done to reduce their consumption -- like  
15 the introduction of more efficient appliances -- would have made almost no  
16 difference whatsoever in their electricity bills. That's bad enough, but what's  
17 worse is that PECO's proposed unbundling of Rate SL-E, in the context of  
18 legislation and an administrative agency proceeding that are intended to give  
19 electricity customers meaningful economic choices, will not lead to those  
20 opportunities. If one looked back, however, to PECO's original characterization  
21 of Rate SL-E as "energy only," one might not reach that conclusion.

22

1 Q. What other points from your direct testimony has Mr. Sundermeir chosen to  
2 address?

3 A. In my direct testimony, I said that the only PECO distribution costs that should be  
4 allocated to Rate SL-E are incremental costs that PECO incurred after its poles,  
5 wires, and transformers were installed to serve core customers. Mr. Sundermeir  
6 has responded to that statement by saying that Rate SL-E customers use the poles,  
7 wires, and transformers, and that they should pay their fair share of the costs that  
8 they cause.

9

10 Q. Does Mr. Sundermeir have a point?

11 A. Mr. Sundermeir and I probably could engage in a never-ending debate on cost  
12 allocation that ultimately will prove nothing more than a distraction from the  
13 critical issues at hand in this proceeding. Mr. Sundermeir is correct that Rate  
14 SL-E customers use wires, poles and transformers that PECO initially installed to  
15 serve core customers. We disagree, however, over whether Rate SL-E customers  
16 "caused" PECO to incur those costs. Mr. Sundermeir says they did, and I say  
17 they could not have because those costs would have been incurred even if there  
18 had been no street lighting customers on PECO's system. But any debate  
19 between Mr. Sundermeir and me on cost allocation need not be resolved by the  
20 Administrative Law Judges and the Commission in order for them to recognize  
21 and conclude that PECO's proposed unbundling of Rate SL-E does not provide  
22 SL-E customers with any meaningful economic choice in a competitive  
23 marketplace.

1

2 Q. What other points from your direct testimony has Mr. Sundermeir chosen to  
3 address?

4 A. In my direct testimony, I characterized the monthly location charge of \$10.01 paid  
5 by each Rate SL-E customer at each street lighting location as "astronomically  
6 high." I supported that characterization by reference to a couple of factors, one of  
7 which is what I consider to be the excessive allocation of costs to Rate SL-E and  
8 the other of which was a comparison of the monthly location charge under  
9 Rate SL-E to the monthly service charge paid by PECO customers, including  
10 municipal customers, under PECO's Rate GS.

11

12 Q. How has Mr. Sundermeir addressed that characterization?

13 A. First, Mr. Sundermeir has observed that I provided no cost justification for a  
14 lower monthly service charge. Second, Mr. Sundermeir has observed that it is  
15 inappropriate to compare the Rate SL-E monthly location charge to the Rate GS  
16 monthly service charge because the latter does not recover all of the customer  
17 costs that it could recover (and that are recovered under the monthly location  
18 charge under Rate SL-E) and that, instead, some of those customer costs are  
19 recovered by PECO through the Rate GS energy charges.

20

21 Q. How do you respond to Mr. Sundermeir?

22 A. On the cost justification issue, I did note in my direct testimony that I could not, at  
23 that time, determine what the appropriate level of costs allocated to Rate SL-E and

1 its monthly location charge should be. I also noted that the Municipal Intervenors  
2 Group and I would make every effort to obtain the necessary data to quantify the  
3 excessive allocation of costs before the hearing in this proceeding. I had hoped  
4 that PECO's answers to the Group's interrogatories would fill in the blanks. In  
5 fact, one of our interrogatories requested that PECO "identify and quantify, with  
6 the greatest possible specificity, the costs of service that PECO recovers through  
7 the monthly location charge under Rate SL-E." PECO's answer to that  
8 interrogatory cited no basis for the allocation of cost used to determine the  
9 monthly location charge. Under its settlement proposal, PECO would drop the  
10 location charge slightly in the initial settlement year and ever so slightly in the  
11 years to follow.

12 It ultimately does not matter, however, whether the monthly location  
13 charge is "astronomically high" or "unreasonably high" or just "high." What  
14 matters is that PECO's proposed unbundling of Rate SL-E, which leaves the  
15 monthly location charge per pole in place, provides Rate SL-E customers with no  
16 real opportunity to save money on their electricity bills by being able to shop  
17 around. The fact that the location drops slightly over time commencing in  
18 January, 1999, means little because it remains as the overwhelming majority of  
19 the Rate SL-E customer's bill.

20 On the comparison to the Rate GS monthly service charge, Mr.  
21 Sundermeir's response is an admission that PECO's customers under Rate GS  
22 will be better able to take advantage of competition than customers under Rate  
23 SL-E. Because more of their allocated costs of service are recovered through

1 energy charges, Rate GS customers have more of an opportunity to reduce their  
2 electricity bills through competition than do Rate SL-E customers.

3 Q. What about PECO's reduction of the location charge in its proposed settlement?

4 A. As I noted previously, it is a minimal reduction. There are very little savings from  
5 the slight reductions and because the design is basically the same with a large  
6 majority of the charges loaded in to the location charge, the Rate SL-E customers  
7 have little incentive to shop around.

8 Q. What other points from your direct testimony has Mr. Sundermeir chosen to  
9 address?

10 A. The last points addressed by Mr. Sundermeir also relate to comments that I made  
11 regarding the Rate SL-E monthly location charge of \$10.01. In my direct  
12 testimony, I did say that the Commission should direct PECO to charge each  
13 Rate SL-E customer only one location charge per month and not a charge based  
14 on the number of the customer's street lighting locations. Mr. Sundermeir has  
15 responded to that suggestion by saying that my "proposal" only would recover a  
16 small fraction of location-related costs or would result in PECO's having to divide  
17 its location-related revenue requirement by the number of Rate SL-E customers  
18 instead of by the number of street lighting locations. In Mr. Sundermeir's  
19 opinion, the latter would be unfair to smaller Rate SL-E customers.

20 Q. How do you respond to Mr. Sundermeir?

21 A. Mr. Sundermeir's comments are an attempt both to transform a competition and  
22 restructuring issue to a mechanical ratemaking issue and to deflect attention away  
23 from PECO through the threat of class warfare between larger and smaller SL-E

1 customers. Rather than limit PECO to the recovery of only a small fraction of the  
2 location-related costs, my suggestion that Rate SL-E customers only pay the  
3 \$10.01 (or the \$7.71 location charge as of January 1, 1999) once would put an end  
4 to PECO's use of myopic ratemaking dogma to frustrate any opportunity for  
5 Rate SL-E customers to participate meaningfully in the competitive marketplace  
6 for electricity. Whether or not there was any justification for PECO to recover  
7 "location-related costs" -- whatever that term means -- through a fixed monthly  
8 location charge (or what PECO calls a "fixed distribution service charge"  
9 effective January 1, 1997) in a monopolistic environment, there clearly is no  
10 justification when the consequence is the frustration of a legislative initiative to  
11 end the monopoly and to introduce competition. The critical question presented is  
12 not whether the monthly location charge that currently exists and that would  
13 continue to exist under PECO's proposed partial settlement is grossly unfair to  
14 larger Rate SL-E customers or whether Mr. Sundermeir's gloom and doom  
15 portrayal of my proposal would be grossly unfair to smaller Rate SL-E customers.  
16 The question is whether a monthly location charge that now represents over 90%  
17 of the Rate SL-E customer's electricity bill and which would still represent 78%  
18 of the Rate SL-E customer's bill in the year 2008 when electric competition is  
19 supposed to be in full swing is even remotely defensible in the economic  
20 environment that the Customer Choice Act is intended to create. And the answer  
21 to that question is clear -- it is not.

22 Q. Does that conclude your testimony?

1 A. Yes.

2

3 Thank you very much.

4

5

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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ADMINISTRATIVE LAW JUDGES  
MARLANE R. CHESTNUT  
AND CHARLES E. RAINEY, JR.

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PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v. :

: Docket No. R-00973953

PECO ENERGY COMPANY :

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PREPARED ANSWERING TESTIMONY OF  
CORNELL HOPKINS, TOWNSHIP MANAGER,  
NEWTOWN TOWNSHIP, BUCKS COUNTY  
ON BEHALF OF MUNICIPAL INTERVENORS GROUP

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DATED: September 29, 1997

Municipal Intervenor's Group Statement No. 3

DOCKETED  
OCT 22 1997

- 1 Q. Please state your name and business address.
- 2 A. My name is Cornell Hopkins, and my business address is 100 Municipal Drive,  
3 Newtown, Pennsylvania 18940.
- 4 Q. By whom are you employed and by what capacity?
- 5 A. I am employed as the Township Manager for Newtown Township, Bucks County,  
6 Pennsylvania.
- 7 Q. What is the scope of your responsibilities as Township Manager for Newtown Township?
- 8 A. I am the Chief Administrative Officer in a local government with the Council-Manager  
9 form of governance. I am responsible for all the business operations and services of the  
10 Township including the Township's acquisition of and payments for utility services. In  
11 addition, I serve as the lead professional government manager for the municipal  
12 intervenor's group, the twenty-seven local governments who have joined in this action  
13 before the PUC.
- 14 Q. What entity provides electric service for street lighting Newtown Township?
- 15 A. PECO Energy Company.
- 16 Q. Under what rate schedules does Newtown Township receive street lighting service from  
17 PECO?
- 18 A. The Township receives street lighting service under PECO's Rate Schedule SL-E.
- 19 Q. How many street lights does Newtown Township have which are billed under PECO's  
20 Rate Schedule SL-E?
- 21 A. As of August 31, 1997, the Township had 1,205 dedicated street lights that were served  
22 by PECO. Street lights are added periodically as subdivisions are dedicated or road

1 projects are completed. Accordingly, it is likely that there are more lights on our system  
2 today, than as of August 31, 1997.

3 Q. What were the total charges paid by Newtown Township to PECO for Rate Schedule  
4 SL-E services in calendar year 1996?

5 A. \$134,241.36.

6 Q. What portion of that amount was location charges?

7 A. I reviewed the bills from PECO and according to my calculations, the location charges  
8 were \$118,077.96 for 1996 which is approximately 88% of the total charges paid by  
9 Newtown for street lights. Only 12% of the bill is for the amount of electricity.

10 Q. Are you familiar with the settlement proposal that PECO and some other parties filed  
11 with the Pennsylvania Public Utility Commission on August 27, 1997?

12 A. Yes, as it relates to Rate Schedule SL-E. I have reviewed the proposed tariff pages that  
13 contain the proposed SL-E rates.

14 Q. What location charges are proposed for SL-E service in PECO's settlement proposal?

15 A. The proposal calls for a phased reduction in the location charge from the existing level of  
16 \$10.01 per street light per month to \$6.81 in the year 2008. As I understand, the first  
17 reduction of the location charge does not occur until January 1, 1999, and it only drops to  
18 \$7.66 per street light.

19 Q. Assuming the same number of street lights exist in Newtown Township throughout  
20 calendar year 1999, what amount of location charges would Newtown Township pay  
21 under PECO's settlement proposal?

22 A. Newtown Township would pay \$110,763.60 in location charges alone during 1999. In  
23 my opinion, it is unfair for PECO to continue to load most of the charges in the fixed

1 location charge. As a Township, we will have little incentive to shop around for electric  
2 generation, given that the majority of our bill is paid to PECO for location charges.

3 Q. How about for the year 2008?

4 A. Well, based upon the 1,205 street lights that the Township had as of August 31, 1997,  
5 Newtown Township would pay \$98,472.60 in location charges during 2008. But I would  
6 note that the Township most likely will have a substantial number of additional street  
7 lights by the year 2008 based upon the pace of development and the dedication of new  
8 public streets. My calculation obviously does not include the location charges associated  
9 with new street lights.

10 Q. Does that conclude your testimony?

11 A. Yes.