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Press Release

### CONSUMER GROUPS, COMPETITORS OPPOSE NEW JERSEY UTILITY'S DEREGULATION PLAN

Article from the Star-Ledger, Newark N.J. - October 5, 1997

New Jersey's largest utility has consumer groups groaning and competitors crying foul.

It's all over the way Public Service Electric & Gas Co. wants to enter the deregulated world.

If the Newark-based company has its way, its customers will be able to choose an alternate energy supplier once the state deregulates electric power.

The catch is, consumers won't be able to pick who provides power in an emergency or during high-demand periods during the summer months.

Public Service would be the sole provider of that service and it would continue to charge for

What's it worth to PSE&G? About \$400 million.

What's it worth to consumers? Critics claim it could cost two of the biggest benefits of deregulation: cheaper rates and freedom of choice.

"It's clear they do not want to compete with other companies," said Staci Berger of New Jersey Citizen Action, a citizen watchdog coalition. "If there's no genuine competition, then there will be no lower prices."

For its part, PSE&G says its proposal will guarantee customers reliable power and the ability to choose an energy supplier by January 1999—more than a year before the state intends to allow full customer choice.

"It's pro-competitive," said Colin Loxley, PSE&G's director of resource planning. "It's a way to get to 100 percent (customer choice) faster."

At issue is a controversial proposal PSE&G has submitted to state regulators that outlines how it plans to restructure customer rates to compete in the soon-to-be deregulated electricity market.

Essentially, what PSE&G wants to do is shield some of the revenue it collects for generating electricity from competitors such as Enron Corp., a Houston power marketer, and Horizon Energy Co., a Philadelphia-based power marketer.

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Exactly how much revenue it wants to protect is not clear. The amount would depend on how much the state lets it collect from the customers for the multimillion dollar investments it has made in power plants and equipment over the years.

But considering that PSE&G has 1.9 million customers and about \$4 billion in annual revenues, it appears the utility would be able to protect about 10 percent of its revenue, or some \$400 million, from competitors.

PSE&G is the only utility in the state to have made such a proposal.

The state's other three utilities have been willing to open all of their generating revenues up to competition. But they have far less generating capacity than PSE&G, which produces about 67 percent of the power generated by utilities in New Jersey.

The debate over PSE&G's proposal highlights how high the stakes have become in the effort to deregulate the state's \$7 billion electricity industry.

State and federal regulators are seeking to deregulate the industry because they believe competition will result in cheaper rates for consumers, much like the deregulation of the telephone industry has brought down long distance rates.

New Jersey has some of the highest electricity rates in the nation.

The average rate in 1996 was 10.6 cents a kilowatt hour, compared to the national average of 6.9 cents a kilowatt hour.

The move to break up the monopoly hold the utilities have had on the electricity industry for almost a century grows out of the availability of cheaper power and a 1992 federal law which required utility companies to share their power lines with competitors in the wholesale marketplace.

Businesses, residents and government leaders now are demanding some of those same savings on the retail level.

In the deregulated retail market, local utilities, such as PSE&G, will have to let outside power suppliers, such as Enron, use their transmission and distribution lines--the wire that bring power into your home.

In preparation for deregulation, the utilities were required to file plans with the state in July outlining how they would restructure their rates so that customers could choose their energy suppliers.

The utilities were told to separate out the revenues they collect from each of the services they provide--that is, generating, transmitting and distributing electricity.

In October 1998, the state plans to begin allowing some consumers to choose their energy suppliers. But the transmission and distribution of electricity will continue to be regulated and will be provided by PSE&G or one of the state's three other utilities.

PSE&G filed its proposal with the state, but added a twist.

It proposed to split the revenues it receives from customers for generating electricity into two parts: energy and capacity.

Energy primarily covers the fuel a utility uses to produce electricity. Capacity is the millions of dollars the utility spends on power plants and equipment. In effect, it is the utility's guarantee that it will provide you with electricity when and where you demand it.

Under PSE&G's proposal, you would receive a credit for energy on your monthly bill, which you could use to shop around for alternative energy suppliers.

But PSE&G would continue charging you for capacity until it is satisfied that there are systems in place that ensure outside power suppliers maintain the same capacity reserves as PSE&G.

Here's how PSE&G's proposal might work for the average customer:

A resident who pays an average 10.6 cents a kilowatt hour for electricity might receive an energy credit of 2.2 cents for each kilowatt hour used (the actual credit would vary depending on the market price of the electricity). So, a customer using an average of 500 kilowatts of electricity would receive an \$11 credit each month.

Competitors would seek to beat the 2.2 cent credit by offering customers energy at lower prices.

While that may seem like a good deal for customers, critics say it doesn't offer as much savings as customers would receive if PSE&G was to open all of its generating revenue to competition.

Critics say the utility should put the remainder of its generating revenue, roughly 1 cent per kilowatt hour, out to competition.

Considering its huge customer base, that would risk roughly \$400 million—10 percent of PSE&G's \$4 billion in annual revenues at risk.

PSE&G officials say they're in favor of competition, but that their proposal is designed to address three major problems that could arise in the switch to a deregulated marketplace.

First, because the state is requiring that monopoly utilities backstop the deregulated electricity market, PSE&G wants to be compensated for being an energy supplier of last resort.

"We can't afford to keep the plants sitting there and backing up reliability without being paid for that backup reliability," said Tony Robinson, PSE&G's issues manager.

Second, the company says its proposal will keep it from being at a competitive disadvantage

to power marketers who can buy off the wholesale market and sell at the retail level, offering customers cheaper prices because they don't have the multimillion dollar power plant and equipment expenses of the utilities.

Third, PSE&G claims its proposal will guarantee that the state's electricity system remains reliable until a new system is established that ensures that all suppliers have the capacity to meet the customers' demands.

Government and utility officials are still working on what that system will be. One idea is to establish an independent system operator, but there are disagreements over how such an agency would work and how much control it would have.

Without a system in place, PSE&G says customers are in danger of signing up with a supplier who may not be able to supply their energy needs at crucial periods such as the hot summer months.

PSE&G's rate restructuring proposal is one in a package of measures which the utility submitted to state regulators in July for approval.

PSE&G also wants to cap customer rates for seven years, provide customers with the state mandated 5-10 percent rate reduction and pay off \$2.5 billion of debt for its power plants and equipment by floating bonds packed by customer surcharges.

The utility says if its proposed measures are approved customers will be able to choose their energy suppliers by Jan. 1, 1999, more than a year before the state intends to permit full customer choice.

But it is the company's idea of splitting its generating revenues that has alarmed many observers.

Critics contend that the energy credit is so small that they may not provide enough of a profit margin to entice competitors to offer service in New Jersey.

"It is a barrier to competition if the marketplace is not attractive to energy suppliers," said Blossom Peretz, the state's ratepayer advocate.

Energy Marketers, such as Enron, say an energy credit based on market prices would discourage competition.

"That's unrealistic and that's uncompetitive," said Lyndon Taylor, Enron's manager of government affairs.

Other energy marketers agree.

"The marketers are going to want to see a price range where they can fit," said Gregory A. Cucci, president of Horizon Energy.

Critics also say the proposal would force customers to pay PSE&G's capacity costs even if

they switch to other energy suppliers.

"This is supposed to be about lowering rates," said Berger of Citizen Action "It's not about bailing out utility companies."

Berger said it should be up to the government to decide how best to handle the capacity issue, not PSE&G.

Some observers also question whether competitors will want to enter a marketplace where the price to beat fluctuates every hour.

PSE&G plans to base its energy credit on prices published by the Pennsylvania, Jersey, Maryland power pool.

PJM, as it is known, is the world's oldest wholesale electricity power pool. It is made up of PSE&G and other utilities and power suppliers in the region.

PJM forecasts its members needs, then purchases and coordinates the generation of electricity to meet those needs. Its purchase prices are listed on the Internet and are updated every hour.

"It's impossible to beat," Enron's Taylor said of the PJM price. "This market is not PJM competition. It's Public Service competition."

But PSE&G officials contend that nimble competitors should be able to beat the PJM price. New Jersey is such a lucrative marketplace, they say, that competitors are not going to pass it up.

"For people to say that they're going to take their ball and bat and go home is ludicrous," said Loxley of PSE&G.

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