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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SUPPLEMENTAL TESTIMONY OF

PAUL D. REISING

PROCEEDINGS OFFICE

57 OCT 21 PM 3:53

ON BEHALF OF
PENNSYLVANIA ELECTRIC COMPETITION
COALITION

PUC DOCKET NO. R-00973953
RE: JOINT PETITION FOR PARTIAL
SETTLEMENT
OF PECO RESTRUCTURING PLAN

DOCKETED
OCT 22 1997

DOCUMENT
FOLDER

SEPTEMBER 29, 1997

Statement
PECC EXHIBIT
DATE 10-16-97 3
MARY ELLEN WOLF, REPORTER

Philadelphia
R-00973953, etc.

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. Paul D. Reising, 550 Congressional Boulevard, Suite 290, Carmel, IN 46032

3 Q. DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY IN THIS
4 PROCEEDING?

5 A. Yes, I submitted direct testimony in this proceeding on June 20, 1997.

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

7 A. The purpose of my testimony is to provide my comments and recommendations
8 to the Commission regarding the proposed partial settlement, especially as it
9 relates to the proposed transmission and distribution charges.

10 Q. WHAT CONCLUSIONS HAVE YOU REACHED AS A RESULT OF
11 YOUR REVIEW OF THE PROPOSED PARTIAL SETTLEMENT?
12

13 A. Based on my review of the proposed partial settlement, I have reached the
14 following conclusions:

15 • The revenue which PECO proposes to collect under its proposed settlement
16 rate design for transmission and distribution services will seriously exceed
17 the revenue requirements to provide such services to retail customers. This
18 will mean that end users who purchase energy from alternative energy
19 suppliers would be subsidizing PECO's energy supply affiliates and those
20 end users who elect to purchase energy from those PECO affiliates. It will
21 also mean that PECO's energy supply affiliates will have an unfair
22 advantage in the marketplace, since the PECO affiliates will be able to price

1 their energy sales artificially without regard to their full costs of doing
2 business. This will not be the case for alternative energy suppliers.

- 3 • There are certain other costs which PECO has assigned to distribution
4 charges that are energy supply related which should be removed from the
5 proposed T&D charges.
- 6 • PECO's billing determinants used in designing its proposed rates, especially
7 for the HT and GS classes, are seriously out of synch with the units used
8 for allocation of revenue requirements, with the result that the proposed
9 rates, especially for rates HT and GS, may be seriously overstated.
- 10 • The partial settlement does not yet deal with a number of important
11 questions that will have a bearing on how much a retail access customer
12 will have to pay for transmission and distribution services. These include
13 the need to identify separately and unbundle the costs of providing ancillary
14 services and the applicable transmission costs under the PJM Open Access
15 Transmission Tariff.

16 **Q. PLEASE EXPLAIN YOUR FIRST CONCLUSION REGARDING THE**
17 **OVERSTATED RATES FOR TRANSMISSION AND DISTRIBUTION**
18 **SERVICES.**

19
20 **A.** In my direct testimony, I pointed out that PECO's functional cost of service
21 study (Exhibit RAC-1) inappropriately assigned common costs only to the
22 transmission and distribution functions. Test period expense or rate base items
23 that I found to be inappropriately functionalized included administrative and

1 general expenses and general, common and intangible plant in service. I also
2 raised other issues including the functionalization of other operating revenue
3 and failure to remove costs associated with providing ancillary services.

4 **Q. DIDN'T THE COMPANY CORRECT THESE DEFICIENCIES IN ITS**
5 **REBUTTAL TESTIMONY AND EXHIBITS?**

6
7 A. No. PECO's revised cost of service study (Exhibit RAC-10) makes only
8 limited changes to the allocation of A&G expenses and general plant in service.

9 **Q. DO YOU HAVE AN EXHIBIT TO ILLUSTRATE THE CHANGES PECO**
10 **MADE TO ITS T&D CHARGES FROM ITS ORIGINAL FILING TO ITS**
11 **PROPOSED SETTLEMENT?**

12
13 A. Yes, Exhibit 3S, PDR-1 provides a summary of PECO's proposed T&D
14 charges by customer rate class in three sections: (1) as originally filed, (2) per
15 its revised cost of service and rate design, and (3) per the proposed settlement.

16 **Q. DID YOU OFFER AN ALTERNATIVE FUNCTIONAL COST OF**
17 **SERVICE STUDY IN YOUR DIRECT TESTIMONY?**

18
19 A. Yes, I did. That cost of service study was presented in summary form in
20 Exhibit 3, PDR-2. In that analysis, I computed the total functional costs
21 applicable to transmission and distribution-related services. The results of my
22 analysis revealed a much lower level of total T&D functional costs as
23 summarized below:

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	Transmission Functional Revenue Requirement	Fixed Distribution Revenue Requirement	Variable Distribution Revenue Requirement	Total T&D Revenue Requirement
EPMI Analysis per Exhibit 3, PDR-2	\$125,014,000	129,334,290	622,742,710	\$877,091,000
PECO As Filed per Direct Testimony	\$161,587,832	132,288,315	803,395,402	\$1,097,271,549
PECO as Revised per Rebuttal Testimony	\$155,528,463	132,279,564	727,248,309	\$1,015,056,336
PECO as Proposed per Settlement	\$150,720,251	129,334,290	736,369,476	\$1,016,424,017

13 Q. **WHAT IS THE DIFFERENCE BETWEEN THE APPROACH YOU**
14 **USED TO DETERMINE T&D FUNCTIONAL COSTS AND THE**
15 **APPROACH USED BY PECO?**

16
17 A. As I described in my direct testimony, the functional assignment of costs in
18 Section V of Exhibit RAC-1 and, in turn, the class functional unit costs in
19 Section VI inappropriately assigned certain common costs only to the
20 transmission and distribution functions. Examples of test period expense or
21 rate base items which fall in this category include: (1) administrative and
22 general expenses (other than property insurance and employee pensions and
23 benefits that were allocated to all functions), (2) general and common plant,
24 and (3) intangible plant.

25 Q. **WHAT WAS THE BASIS FOR THE COMPANY'S ASSIGNMENT OF**
26 **COMMON COSTS IN ITS DIRECT TESTIMONY AND EXHIBITS?**
27

28 A. In his response to Enron interrogatory I - 36, PECO witness Clemmer stated
29 that certain of the A&G expense accounts were "allocated to the distribution

1 function because such costs would continue unchanged, and would remain with,
2 the regulated local distribution company after the functional unbundling.”

3 **Q. HOW DID YOU RECOMMEND THAT THESE COST ELEMENTS BE**
4 **FUNCTIONALIZED?**

5
6 A. I stated my opinion that these expense and rate base elements should be
7 functionalized in a manner that is consistent with the historical basis for
8 allocation on a class cost of service basis using functional labor ratios, or in the
9 absence of necessary functional labor cost breakdowns, on the basis of
10 functional O&M expenses other than fuel, purchased power, rents and
11 uncollectible accounts expense (PECO's "E1" allocation factor). I explained
12 that PECO, through Mr. Clemmer's testimony, had not established any
13 reasonable basis for his assumption that these cost elements will continue at the
14 same levels in a deregulated environment or that no portion of these costs are
15 actually associated with providing generation service (or "production").
16 Administrative personnel now oversee all operational aspects of the business,
17 and not just transmission and distribution functional activities. I stated that, in
18 the absence of any compelling evidence to support Mr. Clemmer's position,
19 these expense and rate base elements should be functionalized on the same
20 basis they have been historically allocated in class cost of service studies.

21 The point of my testimony was that, upon commencement of retail
22 competition, many of the elements of PECO's A&G expenses will continue to
23 be required to support its production business and should be assigned to that

1 business; not shifted in their entirety to the transmission and distribution
2 functions as PECO proposed in its direct testimony.

3 **Q. HOW DID THE COMPANY RESPOND TO YOUR DIRECT**
4 **TESTIMONY?**

5
6 A. PECO filed rebuttal testimony and exhibits through Mr. Clemmer. In that
7 testimony, Mr. Clemmer revised his functional cost assignment somewhat to
8 take into account the results of an analysis performed by Mr. Clemmer and his
9 colleagues. As shown in the tabulation described earlier in this testimony, the
10 incorporation of Mr. Clemmer's additional analysis of common costs resulted in
11 a modest reduction of T&D functional costs from a total of approximately
12 \$1,097,000,000 to \$1,015,000,000. As can be also be in the summary table
13 and in Exhibit 3S, PDR-1, the proposed settlement slightly increases the
14 proposed total of T&D charges to \$1,016,000,000.

15 **Q. DO YOU AGREE WITH THE COMPANY'S REVISED**
16 **DETERMINATION OF T&D CHARGES AND THE PROPOSED LEVEL**
17 **OF T&D CHARGES INCLUDED IN THE PROPOSED SETTLEMENT**
18 **RATES?**

19
20 A. No. I disagree with Mr. Clemmer's rebuttal testimony and the resulting T&D
21 charges included in the Company's rebuttal case and the proposed settlement.
22 In fact, as I will subsequently describe, Mr. Clemmer's rebuttal exhibits
23 actually support my position. Further, in his rebuttal testimony Mr. Clemmer
24 stated his belief that "when logic and reason suggest that a current A&G
25 function will still need to be performed by PECO . . . then all of the associated

1 A&G costs are distribution-related . . . or transmission-related.” I would agree
2 with that statement only to the extent that a particular A&G expense element
3 now supports only the distribution and/or transmission functions. I do not
4 believe that Mr. Clemmer’s analysis of A&G functions and costs meet that test.
5 As a result, I believe that the Company’s proposed T&D charges in the
6 proposed settlement continue to substantially exceed the revenue requirements
7 associated with providing T&D services to end use customers.

8 **Q. PLEASE EXPLAIN.**

9 A. From the description of the analysis performed by Mr. Clemmer and his
10 colleagues in Mr. Clemmer’s rebuttal testimony and Exhibits RAC-3 and RAC-
11 4, it is not clear to me that the analysis they performed is anywhere near the
12 level of detail needed in order to reach the conclusions stated by Mr. Clemmer.
13 On rebuttal, Mr. Clemmer stated that “a detailed cost specific analysis for A&G
14 is essential; only such an analysis can determine which costs PECO will
15 continue to incur when it is only an EDC.” (PECO Statement No. 12-R at 8).
16 However, Mr. Clemmer had not done the type of detailed analysis that is
17 necessary to meet his own standard. He admitted that what is needed is “a
18 time and materials study specific to each account to determine the costs
19 incurred for each function,” but that such an analysis “cannot be performed in a
20 timely manner in the context of this proceeding.” (Id. at 5-6).

1 It does not take very long to examine Mr. Clemmer's exhibits and
2 identify inadequacies of his analysis. For example, the very first two line items
3 of his Exhibits RAC-3 (page 3) and RAC-4 (page 1) point out the problems
4 with his analysis. In these two items Mr. Clemmer assigned A&G salaries for
5 the "Executive Department" and the "CFO" entirely to T&D functions and
6 none to the production function. Clearly the Executive Department and the
7 CFO do not now limit their activities to oversight and financial management of
8 only the T&D parts of PECO's integrated business. Just as clearly, the
9 production function will still require executive and CFO attention after
10 deregulation. It would make sense to me that a portion of their time would
11 continue to be allocated to PECO's production business, even if that business is
12 contained in a separate business unit. Even if there were a total separation of
13 personnel managing the T&D and the generation business, it makes sense to me
14 that there would be a reassignment of executive department personnel such that
15 the amount of executive A&G salaries assigned to T&D would be less than the
16 current level assumed by Mr. Clemmer.

17 The same is also true of the salaries associated with the "Secretary's
18 Office" (fourth line of Exhibit RAC-4) and "Public Policy" activities (fifth line
19 of Exhibit RAC-4). Surely the corporate Secretary's duties and Public Policy
20 activities are not now limited to the T&D business, nor would they be so
21 limited upon the advent of competition. Here also it is absolutely clear that the

1 corporate Secretary's salary must be allocated to both businesses and that
2 public policy personnel, even if not allocated, would be reassigned so that some
3 of those personnel would continue to cover both business units.

4 Another example can be found at the sixth line of Exhibit RAC-4 --
5 "Claims Division." Again it does not seem logical to me that the company
6 now has no claims brought against it for the generation side of its business or
7 that it will not need to reassign personnel to cover these aspects of its
8 generation business unit. These same concerns arise on a great many of the
9 line items listed in Exhibit RAC-4. Clearly Mr. Clemmer's rebuttal analysis is
10 inadequate and should not be relied upon for the purpose of functionalizing
11 A&G expenses and setting rates for T&D services in this proceeding, whether
12 litigated or settled. I would also point out that Mr. Clemmer continued to
13 assign significant portions of A&G expense items to all three functions, but his
14 rebuttal testimony provided no supporting documentation to describe the
15 function or the justification for functionalizing costs in the manner he proposed.

16 **Q. WHAT ARE YOUR COMMENTS REGARDING THE**
17 **FUNCTIONALIZATION OF GENERAL AND COMMON PLANT?**

18
19 **A.** I have the same concerns with regard to General and Common Plant. Many of
20 the line items identified by Mr. Clemmer appear to involve activities or
21 facilities that would continue to house personnel and equipment applicable to
22 all three functions. Main Office (DESG #503) is one example. Clearly a
23 portion of these costs is now associated with the "power" portion of PECO's

1 retail service. Further, for many line items with substantial book cost there is
2 no explanation of the basis for the split between production and T&D
3 functions. One example is Common Plant DESG # 601 -- Computer Systems.
4 As a result, my conclusion regarding the functionalization of General and
5 Common Plant is the same as that reached with regard to A&G expenses --
6 these plant items should continue to be functionalized in the same manner
7 historically approved by the Commission -- using functional labor expenses.

8 **Q. WHAT CONCLUSION HAVE YOU REACHED WITH REGARD TO**
9 **THE FUNCTIONALIZATION OF A&G EXPENSES AND OTHER**
10 **COMMON COSTS?**

11
12 **A.** I have concluded that Mr. Clemmer's analysis does not support his effort to
13 functionalize labor-related A&G expenses in a manner different than that
14 historically approved by the Commission using functional labor expenses. As a
15 result, it is my opinion that the Company's T&D charges shown in the
16 proposed settlement should be rejected and T&D charges should be recomputed
17 in accordance with the functional cost of service proposed by Enron which was
18 summarized in Exhibit 3, PDR-2. Additional adjustments are required, as I
19 will subsequently describe.

20 **Q. ASSUMING THAT THE COMMISSION ADOPTS YOUR**
21 **RECOMMENDATION REGARDING THE DETERMINATION OF**
22 **TRANSMISSION AND DISTRIBUTION SERVICE CHARGES,**
23 **WOULDN'T THE REDUCTION IN T&D CHARGES RESULT IN AN**
24 **INCREASE IN STRANDED COSTS AND THE COMPETITIVE**
25 **TRANSITION CHARGE?**
26

1 A. Absolutely not. The common costs that should be removed from the T&D
2 charges proposed by PECO are costs that are incurred to support PECO's
3 generation business. In the proposed settlement, PECO has agreed to "transfer
4 all of its generation functions . . . from its regulated transmission and
5 distribution functions by establishing a separate corporate entity or entities."
6 Such transfer would not be limited to the physical assets, but would include all
7 of the personnel and related expenses required to operate and maintain those
8 assets. Such operating costs should include A&G expenses and other common
9 costs needed to support such operations. If the T&D charges in the proposed
10 "settlement" are allowed by the Commission and frozen for several years, end
11 users who choose to purchase their energy requirements from suppliers other
12 than PECO affiliates will be subsidizing those who elect to purchase from
13 PECO affiliates. This is because PECO will be able to price its energy supply
14 services artificially without concern for its true costs of doing business. This is
15 not the case for an alternative supplier who must compete on a price basis, but
16 can do so only to the extent that its costs of doing business are covered,
17 including its direct and overhead costs of generation operations and wholesale
18 purchases. In order to create a fair competitive market these costs must be
19 assigned to the "generation" portion of PECO's rates. This means they must be
20 reflected in the generation credit available to each customer who elects to take
21 service from PECO as the default service provider or these costs must be

1 allocated to PECO's affiliated licensed generation supply entity. There is no
2 basis for suggesting that these costs are "stranded" and to characterize them as
3 such, and to simply add them to PECO's stranded cost allowance satisfies no
4 principle of cost allocation or fairness of which I am aware.

5 **Q. YOU ALSO MENTIONED THAT THERE ARE CERTAIN OTHER**
6 **COSTS WHICH PECO HAS ASSIGNED TO DISTRIBUTION WHICH**
7 **ARE REALLY ENERGY SUPPLY RELATED. PLEASE EXPLAIN.**
8

9 A. There are two revenue requirement components that PECO has assigned to its
10 distribution revenue requirements and proposed charges that are either directly
11 associated with energy supply services or should be allocated at least in part to
12 energy supply. These include Sales Expense and Uncollectible Accounts
13 Expense. Sales expenses are incurred to promote the sale of additional energy
14 to retail customers. They are clearly an energy supply marketing function, and
15 should not be included in charges for distribution services. PECO's energy
16 supply affiliates will gain an unfair advantage if PECO continues to carry out
17 marketing functions for its power supply affiliates or uses part of the proceeds
18 from its wires charges to pay the marketing costs of its energy supply affiliates.
19 As I observed with regard to the treatment of A&G expenses and other
20 common costs, if PECO is able to foist its energy supply marketing costs onto
21 its T&D customers, its affiliates will be able to artificially price their energy
22 supply services without concern for their true costs of doing business, and their
23 competitors will effectively subsidize PECO's affiliates.

1 Q. WHAT IS THE ISSUE WITH RESPECT TO UNCOLLECTIBLE
2 ACCOUNTS EXPENSE?
3
4 A. PECO's functional cost study, as revised, and the proposed settlement
5 distribution charges are based on revenue requirements which include 100% of
6 PECO's test period uncollectible accounts expense. Instead, to the extent that
7 PECO continues to be responsible for billing end users, PECO's uncollectible
8 accounts expense should be functionalized between production, transmission
9 and distribution functional revenue requirements on the basis the proportion of
10 revenue requirements for each function bears to the total company revenue
11 requirements. This approach will result in assigning a proportionate amount of
12 uncollectible accounts expense to each function and will eliminate the subsidy
13 which PECO would otherwise create. PECO as the EDC and billing agent
14 should be compensated for the production portion of any allowance for
15 uncollectible accounts by its energy supply affiliates, not by its wires service
16 customers.

17 Q. HOW WOULD YOUR RECOMMENDATIONS WITH REGARD TO
18 THE FUNCTIONALIZATION OF COMMON COSTS, SALES AND
19 UNCOLLECTIBLE ACCOUNTS EXPENSE AFFECT THE TOTAL
20 REVENUE TO BE COLLECTED FOR T&D CHARGES FROM EACH
21 RATE CLASS?
22

23 A. Exhibit 3S, PDR-2 provides a breakdown of T&D revenue requirements on a
24 customer class basis. This analysis, which shows an average charge of \$0.0258
25 per kWh -- more than half a cent less than PECO's proposed \$0.0329 per kWh

1 -- takes into account the recommended adjustments to common costs, sales
2 expense and uncollectible accounts expense.

3 Q. HOW DID YOU ARRIVE AT THE RESULTS SHOWN IN EXHIBIT 3S,
4 PDR-2?

5
6 A. There were several steps required to complete Exhibit 3S, PDR-2. In the first
7 step, I allocated T&D total revenue requirements to each class of service as
8 follows:

- 9 • I maintained the same revenues from the fixed distribution charges as
10 proposed by PECO in its rebuttal case. These are also the same fixed
11 distribution charges proposed in the partial settlement rates.
- 12 • Total transmission revenue requirements derived from Exhibit 3, PDR-2
13 (\$125,014,000), were allocated to each customer class in the same
14 proportion as the revenues produced under the proposed settlement rates.
15 This amount reflects the adjustments to the functionalized A&G
16 expenses and other common costs.
- 17 • The PECO total variable distribution charges were computed as the total
18 of distribution and customer service-related revenue requirements (from
19 Exhibit 3, PDR-2 appended to my *Direct Testimony*), less the level of
20 revenues produced via fixed distribution charges (from Exhibit 3S,
21 PDR-2) (\$549,843,000, plus \$202,234,000, less \$129,334,290).
- 22 • Finally, PECO total revenue from variable distribution charges shown
23 on Exhibit 3S, PDR-2 (\$622,742,710) was allocated to each class of

1 service in proportion to the variable distribution charge revenue
2 produced under the proposed settlement rates.

3 In the second step, I removed total Sales Expense and allocated common
4 overhead costs from variable distribution charges. The total revenue
5 requirement associated with Sales Expense, \$16,485,000, was taken from the
6 analysis used to produce Exhibits 3, PDR-2 through PDR-5 appended to my
7 Direct Testimony. This amount includes direct Sales Expense of \$12,269,000
8 plus allocated overheads of \$4,216,000. I allocated the total amount of Sales
9 Expense to be removed from distribution revenue requirements among the
10 various rate classes on the basis of PECO's assignment of those direct Sales
11 Expense to rate classes per PECO Exhibit RAC-10, Pages 19-20.

12 In the third and final step, I removed the production portion of Uncollectible
13 Accounts Expense from distribution revenue requirements. For the 1996 test
14 year, the total revenue requirements associated with Uncollectible Accounts
15 Expense were \$87,738,000, including \$65,400,000 of direct Uncollectible
16 Accounts Expense, plus \$22,338,000 of allocated overheads. The total amount
17 of revenue requirements for Uncollectible Accounts was derived in the cost of
18 service study summarized in Exhibits 3, PDR-2 through PDR-5. The amount
19 of Uncollectible Accounts Expense to be removed from distribution revenue
20 requirements, \$64,726,000, was derived by multiplying the total Uncollectible
21 Accounts revenue requirement (\$87,738,000) times the ratio of production

1 revenue requirements to total company revenue requirements (73.7%) as
2 derived from the summary for Exhibit 3, PDR-2, Schedule 1, Page 1. The
3 resulting total amount to be removed from the distribution revenue requirement
4 was allocated to each rate class in the same proportion used by PECO in
5 assigning direct Uncollectible Accounts Expense in PECO Exhibit RAC-10,
6 Pages 19-20.

7 The collective result of these adjustments is to reduce the PECO average
8 system T&D charge from \$0.0329 per kWh to \$0.0258 per kWh. The
9 difference can be attributed to removal of production related A&G and other
10 common costs from T&D charges (-\$0.0045 per kWh), removal of Sales
11 Expense (-\$0.0005 per kWh) and removal of production-related Uncollectible
12 Accounts Expense (-\$0.0021 per kWh).

13 **Q. IN THE INTRODUCTORY PORTION OF YOUR TESTIMONY, YOU**
14 **STATED THAT PROPOSED SETTLEMENT RATES FOR CERTAIN**
15 **CUSTOMER CLASSES ARE OVERSTATED DUE TO TEST PERIOD**
16 **BILLING DETERMINANTS BEING OUT OF SYNCH WITH UNITS**
17 **USED FOR ALLOCATION OF COSTS. PLEASE EXPLAIN.**

18
19 **A.** My review of the rate design indicates that there is a significant mismatch
20 between the energy sales units used for cost allocation purposes and the billing
21 energy amounts used for rate design purposes. While there are small
22 differences for several classes, there is a major discrepancy for rates HT and
23 GS. The following table compares PECO's allocator C2 (energy sales at the

1 customer meter level) to the billing energy amounts used to design rates for
 2 each rate class, and illustrates the problem.

3		PECO Allocator C2	PECO Energy Billing
4		Energy Sales Meters -	Determinants - MWh
5	Current Rate Class	MWh (excluding LILR)	(excluding LILR)
6	R and CAP	7,699,431	7,711,912
7	RH	2,816,467	2,876,256
8	OP	375,823	375,615
9	GS	6,596,721	6,046,915
10	PD	1,081,656	1,084,669
11	HT	13,229,869	11,705,686
12	SLE	47,017	47,952
13	EP	638,800	637,750
14	SLP	88,820	88,803
15	Total All Rate Classes	32,574,604	30,575,558

16
 17 If my review of this cost allocation and rate design data is correct, it
 18 means that PECO's total costs have been allocated on one basis and PECO's
 19 rates designed on a different basis, with the result that the proposed rates for
 20 the HT and GS classes are substantially overstated. If these discrepancies
 21 cannot be explained, then the proposed settlement rates must be recomputed to
 22 reflect the appropriate test period billing determinants. Enron requested an
 23 explanation of these differences in interrogatories, but as of the date of this
 24 testimony, no response has been received from PECO.

25 This discrepancy also affects what PECO purports to be the impact of
 26 the settlement on the average charges for transmission and distribution services.
 27 For example, in the table included as the first page of Appendix C to the Joint

1 Petition, PECO shows average transmission and distribution charges totaling
2 3.11 cents per kWh. However, this was computed on an energy sales base of
3 33,569,358 MWh. If the energy sales assumed in PECO's proof of revenues is
4 used (30,850,622 MWh), the average transmission and distribution charge
5 would instead be 3.29 cents per kWh as shown in Exhibit 3S, PDR-1.

6 **Q. DOES YOUR ANALYSIS ALSO HAVE IMPLICATIONS FOR THE**
7 **VALUE OF THE EXTENSION OF THE T&D RATE CAP IN THE**
8 **PROPOSED SETTLEMENT?**

9
10 A. Yes. The T&D rate cap would be extended from June 30, 2001 to January 1,
11 2004 under the proposed settlement. However, with the cap based on
12 \$1,016,424,017 in base year (1999) T&D revenue requirement while actual
13 base year T&D revenue requirement does not exceed \$877,091,000, the value
14 of the extension is zero or small. The T&D revenue requirement would have
15 to increase by 5% annually before *any* value exists for the extension (I assume
16 a 1% annual volume increase for purposes of this calculation). In this era of
17 higher productivity and cost cutting, a 5% annual cost increase is unlikely.
18 And even at a 5% annual cost increase, the value would be only about \$10
19 million in year 2003 dollars (with no value at all in years 2001 and 2002).

20 **Q. YOU ALSO INDICATED A CONCERN REGARDING A NUMBER OF**
21 **QUESTIONS WHICH HAVE NOT YET BEEN ADDRESSED IN THE**
22 **PROPOSED SETTLEMENT. CAN YOU BE MORE SPECIFIC?**
23

24 A. Yes. The partial settlement does not yet deal with a number of important
25 questions that will have a bearing on the price retail access customers will have

1 to pay for transmission and distribution services. These include the need to
2 identify separately and unbundle the costs of providing ancillary services and
3 the applicable transmission costs under the PJM Open Access Transmission
4 Tariff. For example, in its Interrogatory VIII-28, EPMI asked PECO to explain
5 what happens to the rates in Table A (of the Joint Petition for Partial
6 Settlement) if the FERC approves transmission rates that are either higher or
7 lower than those assumed in Table A. In its response, PECO acknowledged
8 that "the settlement does not specifically address what happens in such
9 circumstances." If the open access transmission rates applicable to the PECO
10 direct access customers are reduced, then the transmission charges under
11 PECO's unbundled rates should be reduced accordingly. By the same token,
12 the unbundled transmission charges should be correspondingly increased to
13 match any increase in the FERC-approved open access rates applicable to
14 PECO.

15 With regard to ancillary services, I have not identified any provision in
16 the proposed partial settlement that addresses how the proposed rates will be
17 adjusted to remove charges for ancillary services. Removing these charges will
18 reduce the CTC charge. Obviously, then, this is an essential step before these
19 rates can be finalized.

20 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

21 **A.** Yes, it does.

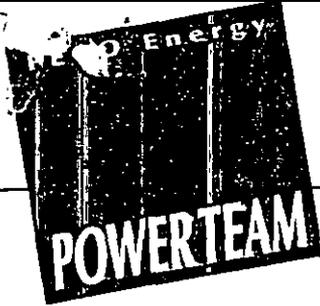
	A	B	C	D	E	F	Exhibit 36 PDR-1
1	PECO Energy Company -- 1996 Test Year						
2	Computation of Average Charge for T&D Services						
3	per PECO Rate Design as Filed -- Attachment OCA-II-9(a)						
4							
5	Current	Energy Sales	Fixed		Variable	Total T&D	Average Charge
6	Rate Class	MWH	Distribution	Transmission	Distribution	Charges	\$/kWh
7							
8	R and CAP	7,711,912	69,921,244	39,022,000	404,494,756	513,438,000	0.0666
9	RT	79,223	1,519	317	3,848	5,684	0.0001
10	RH	2,876,256	9,302,607	10,299,000	98,950,383	118,551,990	0.0412
11	OP	375,615	5,429,277	2,168,000	12,432,870	20,030,147	0.0533
12	GS	6,046,915	17,007,883	41,313,000	135,281,108	193,601,991	0.0320
13	PD	1,084,669	3,374,796	5,273,000	19,034,781	27,682,577	0.0255
14	HT	11,705,686	7,963,827	60,095,914	122,004,703	190,064,444	0.0162
15	SLE	47,952	8,515,427	269,469	189,953	8,974,849	0.1872
16	TL	39,681	-	161,055	1,958,053	2,119,108	0.0534
17	EP	637,750	575,947	2,474,000	8,071,804	11,121,751	0.0174
18	AL	17	-	77	931	1,008	0.0593
19	SLP	88,803	10,195,788	512,000	972,212	11,680,000	0.1315
20	Total all rates	30,694,479	132,288,315	161,587,832	803,395,402	1,097,271,549	0.0357
21							
22	per PECO Rate Design as Revised -- Exhibit WFS-10						
23							
24	Current	Energy Sales	Fixed		Variable	Total T&D	Average Charge
25	Rate Class	MWH	Distribution	Transmission	Distribution	Charges	\$/kWh
26							
27	R and CAP	7,711,912	69,921,244	44,585,000	369,930,756	484,437,000	0.0628
28	RT	79	1,519	361	3,562	5,442	0.0689
29	RH	2,876,256	9,302,607	11,481,000	90,479,393	111,263,000	0.0387
30	OP	375,615	5,429,277	211,000	13,531,723	19,172,000	0.0510
31	GS	6,046,915	17,007,883	39,756,000	116,545,117	173,309,000	0.0287
32	PD	1,084,669	3,374,796	5,155,000	16,853,171	25,382,967	0.0234
33	HT	11,705,686	7,963,827	51,498,000	110,262,127	169,723,954	0.0145
34	SLE	47,952	8,515,427	89,000	110,267	8,714,694	0.1817
35	TL	39,681	-	184,015	1,812,822	1,996,837	0.0503
36	EP	637,750	567,196	2,382,000	7,203,297	10,152,493	0.0159
37	AL	17	-	87	862	949	0.0558
38	SLP	88,803	10,195,788	187,000	515,212	10,898,000	0.1227
39	Total all rates	30,615,335	132,279,564	155,528,463	727,248,309	1,015,056,336	0.0332
40							
41	per PECO Proposed Settlement for 1999						
42							
43	Current	Energy Sales	Fixed		Variable	Total T&D	Average Charge
44	Rate Class	MWH	Distribution	Transmission	Distribution	Charges	\$/kWh
45							
46	R and CAP	7,711,912	69,921,244	44,987,000	373,273,756	488,182,000	0.0633
47	RT	79,223	1,519	365	3,594	5,478	0.0001
48	RH	2,876,256	9,302,607	11,600,000	91,513,393	112,416,000	0.0391
49	OP	375,615	5,429,277	211,000	9,820,723	15,461,000	0.0412
50	GS	6,172,267	17,007,883	40,653,000	119,885,117	177,546,000	0.0288
51	PD	1,084,669	3,374,796	5,265,000	17,323,731	25,963,527	0.0239
52	HT	11,705,686	7,963,827	45,106,044	113,412,453	166,482,324	0.0142
53	SLE	47,952	6,516,015	89,000	935,985	7,541,000	0.1573
54	TL	39,681	-	185,674	1,829,195	2,014,869	0.0508
55	EP	641,049	578,926	2,436,000	7,356,074	10,371,000	0.0162
56	AL	32,161	-	168	1,651	1,819	0.0001
57	SLP	84,151	9,238,196	187,000	1,013,804	10,439,000	0.1241
58	Total all rates	30,850,622	129,334,290	150,720,251	736,369,476	1,016,424,017	0.0329

	A	B	C	D	E	F	G	H	I	J
1	PECO Energy Company -- 1996 Test Year									
2	Computation of Average Charge for T&D Services									
3	per EPMI T&D Functionalization									
4										
5		Energy	Fixed		Variable	Removal of	Remove Prod.	Adjusted	Total	Average
6	Current	Sales	Distribution	Transmission	Distribution	Sales	Portion of	Variable	T&D	Charge
7	Rate Class	MW11				Expense	Uncollectibles	Distribution	Charges	\$/kWh
8										
9	R and CAP	7,711,912	69,921,244	37,314,195	315,675,103	(9,274,159)	(46,104,463)	260,296,481	367,531,920	0.0477
10										
11	RT	79,223	1,519	303	3,039	-	-	3,039	4,861	0.0001
12										
13	RH	2,876,256	9,302,607	9,621,550	77,392,261	(1,583,853)	(11,159,414)	64,648,994	83,573,151	0.0291
14										
15	OP	375,615	5,429,277	175,013	8,305,319	(64,647)	(1,239,165)	7,001,507	12,605,797	0.0336
16										
17	GS	6,172,267	17,007,883	33,719,385	101,386,037	(2,707,096)	(1,113,467)	97,565,474	148,292,742	0.0240
18										
19	PD	1,084,669	3,374,796	4,367,022	14,650,563	(263,975)	(1,665,747)	12,720,841	20,462,659	0.0189
20										
21	HT	11,705,686	7,963,827	37,412,935	95,912,148	(2,416,184)	(3,443,335)	90,052,630	135,429,392	0.0116
22										
23	SLE	47,952	6,516,015	73,821	791,556	(24,243)	-	767,314	7,357,149	0.1534
24										
25	TL	39,681	-	154,006	1,546,938	-	-	1,546,938	1,700,944	0.0429
26										
27	EP	641,049	578,926	2,020,525	6,220,982	(117,173)	-	6,103,809	8,703,261	0.0136
28										
29	AL	32,161	-	139	1,396	-	-	1,396	1,536	0.0000
30										
31	SLP	84,151	9,238,196	155,106	857,367	(33,670)	-	823,697	10,216,999	0.1214
32										
33	Total all rates	30,850,622	129,334,290	125,014,000	622,742,710	(16,485,000)	(64,725,590)	541,532,120	795,880,410	0.0258



HISTORICAL DOCUMENTS

- | | |
|---|---|
| <input type="checkbox"/> Administrative Order | <input type="checkbox"/> Permit |
| <input type="checkbox"/> Annual Report | <input type="checkbox"/> Rate Filing |
| <input type="checkbox"/> Application | <input type="checkbox"/> Recommended Decision |
| <input type="checkbox"/> Bench Decisions | <input type="checkbox"/> Report Folder |
| <input type="checkbox"/> Certificate of Public
Convenience | <input type="checkbox"/> Secretarial Letter |
| <input type="checkbox"/> Document Folder | <input type="checkbox"/> Tariff |
| <input checked="" type="checkbox"/> Exhibits | <input type="checkbox"/> Tentative Decision |
| <input type="checkbox"/> Initial Decision | <input type="checkbox"/> Transcript (Testimony) |
| <input type="checkbox"/> Orders | |
| <input type="checkbox"/> Oversized Documents | |



CC: NHT

PECO Cross Ex No 1R

2004 Renaissance Boulevard • King of Prussia, Pennsylvania 19406 • Phone: 610-292-6600 • Fax: 610-292-6633

September 30, 1997

Nancy J. Zausner
President

Mr. Gary Stockbridge
Connectiv Energy
800 King Street
Wilmington, DE 19801

RECEIVED
OCT 15 1997
PAUL R. BONNEY

PROTHONOTARY'S OFFICE
57 OCT 21 PM 4:00

Dear Mr. Stockbridge:

PECO Energy Company's Power Team (Power Team) is pleased to announce an offering of products associated with the Pennsylvania Retail Access Pilot Program (Pilot) to participating Licensed Electric Generation Suppliers (LEGSs). Below is a description of our standard supply offer for load following energy and installed capacity for current PECO Energy load as well as a solicitation of market-based bids for other specific products associated with the pilot. It is our intention with this offering and solicitation to provide LEGSs with products needed to deliver reliable electricity to retail customers at competitive prices.

RETAIL PILOT STANDARD SUPPLY OFFER FOR PECO ENERGY LOAD

All-in Retail Supply

- **Product Definition:** the delivered product will include load-following energy and operating capacity, and installed capacity (including reserve margin obligations), and transmission and distribution losses.
- **Price:** the prices for this product will be equal to the customer credit in the Pilot rules for PJM energy and capacity. For residential and commercial load, this price is 3.0 cents per kWh. For industrial load, the price will be determined based on an individual customer's load characteristics. Note that, for billing purposes, the LEGSs will be responsible for remitting Pennsylvania Gross Receipts Taxes and Power Team will reduce its charge to the LEGSs accordingly.

Power Team reserves the right to discount the above pricing prior to the close of the offering. All LEGSs will be simultaneously notified in writing of any discount that Power Team makes to all-in retail supply pricing.

- **Delivery Point:** retail load currently served by PECO Energy.

DOCUMENT FOLDER

DOCKETED
NOV 04 1997

PECO	EXHIBIT
DATE 10-16-97	1R
MARY ELLEN WOLF, REPORTER	

Philadelphia
R-00573953, etc.

Amount Available

Power Team will offer each LEGS an amount of all-in retail supply equal on a capacity basis to the amount of existing PECO load won by that LEGS in the PECO Energy Retail Pilot Program.

Term

The term for purchasing all-in retail supply is for the entire duration of the Pilot, i.e. from November 1, 1997 through December 31, 1998.

Eligibility

Power Team will make these products available only to LEGSs that win existing PECO load in the PECO Energy Retail Pilot, and only in an amount equal to the LEGS's load that previously was PECO load. LEGSs must provide verification to Power Team that they have won previous PECO load in the PECO Energy Retail Pilot. (Reports required by the Pa. PUC will provide adequate verification. LEGSs must identify total loads, provide expected load profiles and a breakdown of aggregate residential and commercial versus industrial loads.)

Application

- **Products:** Power Team must be notified in writing of a LEGS's intention to procure the all-in retail supply product by 12:00 PM on **October 27, 1997**.
- **Tariff:** All LEGSs purchasing the all-in retail supply from Power Team must qualify as an Eligible Entity pursuant to PECO Energy Company's FERC Electric Tariff Volume No. 1 and must execute a Service Agreement under this tariff. Those customers who have not yet signed a Service Agreement with PECO and who wish to purchase supply from Power Team beginning on November 1, 1997, must provide Power Team with a contact from the LEGS that will facilitate the execution of a Tariff Service Agreement by **October 10, 1997**. The Service Agreement itself must be executed and delivered to Power Team by no later than **October 24, 1997**. Finally, LEGSs that purchase all-in retail supply will be required to execute a transaction letter by no later than **October 31, 1997**. Power Team will provide this letter upon notification of intention to procure all-in retail supply.
- **Credit:** All wholesale purchasers transacting with Power Team must comply with our Credit Policy. All credit information required to comply with the Credit Policy must be submitted to Power Team by no later than **October 10, 1997**.

For LEGSs that do not have an executed Service Agreement under PECO Energy Company's FERC Electric Tariff Volume No. 1, enclosed is a copy of the Tariff and Credit Policy.

SOLICITATION OF MARKET-BASED BIDS

In addition to the above product offerings, Power Team will accept market-based bids to procure from Power Team, individualized products for the specific purpose of supplying retail loads won within any or all of the retail pilot programs operating in Pennsylvania from November 1, 1997 to December 31, 1998. Bids should be as detailed as possible and include specific product definitions, terms, and pricing. Power Team will evaluate all bids promptly, however, notwithstanding anything contained herein to the contrary, Power Team reserves the right to reject any and all market-based bids.

GENERAL LEGS REQUIREMENT

All LEGSs wishing to purchase supply from Power Team must comply with Power Team's Tariff and Credit Policy, as set forth above. Additionally, LEGSs will be responsible for billing, collecting, reporting and remitting all applicable taxes to the appropriate authorities, and shall provide to Power Team a Pennsylvania Exempt Certificate for State or Local Sales and Use Tax.

Please submit standard supply offer notifications, market-based bids, credit information, tariff information, and tax information to:

Power Team
2004 Renaissance Boulevard
King of Prussia, PA 19406
c/o Kenneth W. Cornew - PA Retail Pilot

If you have any questions, please call Ken Cornew at (610) 292-6627 or Andy Huemmler at (610) 292-6625.

For specific credit, tariff, or tax questions, please call Mike Harrington at (610) 292-6536.

Sincerely,



Nancy J. Zausner
President, Power Team

FEDERAL EXPRESS
PRIORITY SERVICE

SENDER:
JEN DUFREN
PCCO Energy's Power Team
2004 SCHALISSAVER BLVD

KING OF PRUSSIA
PA 194063746

RECIPIENT:
Mr. Gary Gockeridge
Connectiv Energy
300 King Street

Wilmington
DE 19801

TRACKING #: 302 7101 J57
DATE: 09/30/97

SERVICE: PRIORITY LETTER
PAYMENT: BILL SENDER
WEIGHT: 1 LBS

CHARGE: \$ 0.00

POOR ORIGINAL