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NEV STATEMENT NO. DMB-2

Phila 11/17/97

B. Holler

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PECO Energy Company's Application : R-00973953  
for Approval of its Restructuring Plan :  
and Joint Petition for Partial Settlement :

Petition of Enron Energy Services Power, Inc., : P-00971265  
for Approval of an Electric Competition and :  
Choice Plan and for Authority Pursuant to :  
Section 2807(e)(c) of the Public Utility Code :  
to Serve as the Provider of Last Resort in the :  
Service Territory of PECO Energy Company :

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DIRECT TESTIMONY  
OF  
DAVID MAGNUS BOONIN

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NOV 20 1997

Regarding Strengths and Weaknesses of Enron's Choice Plan  
And Alternatives to the Pending Proposals

1 Q. Please state your name, title and business address.

2

3 A. My name is David Magnus Boonin. I am a principal of N.E.V., LLP doing  
4 business as New Energy Ventures, Mid-Atlantic. My business address is 1845  
5 Walnut Street, Suite 2525, Philadelphia, PA 19103

6

7

**PRIOR TESTIMONY**

8

9 Q. Have you previously testified in these proceedings?

10

11 A. Yes. I submitted testimony in connection with PECO's initial restructuring plan.  
12 My testimony was captioned NEV Statement No. 1. My qualifications were  
13 described in Exhibit DMB-1.

14

15 Q. Briefly summarize the central focus of your prior testimony.

16

17 A. In my prior testimony, I focused the relationship between estimates of the future  
18 market price of generation and the calculation of stranded costs and the setting  
19 of CTC's and generation credits.

20

21 I pointed out that an underestimate of the future market price of generation  
22 would lead to an overestimate of stranded costs, which would in turn lead to an  
23 inflated CTC. I described how an inflated CTC would interact with the statutory  
24 rate caps to produce (as it did in PECO's original restructuring proposal) an  
25 artificially low generation credit. Finally, I pointed out the serious problems that  
26 resulted. Under those circumstances there would be an over recovery of stranded  
27 costs, and the artificially low generation credit would stifle competition. The

1 combined impact would be devastating to the achievement of the goals of the  
2 Competition Act; customers would be forced to make an excessive payment for  
3 stranded costs and not even receive the benefits that were to be the quid pro quo  
4 for a just and reasonable level of stranded recovery.  
5

6 Q. Did you propose a solution?  
7

8 A. Yes. I pointed out that the problems described above largely result from the fact  
9 that the future price of energy is currently unknown and subject to many, many  
10 uncertainties. Because of these uncertainties, to the extent that a restructuring  
11 plan is based on predictions of the market price of electricity over a multi-year  
12 period, there is a high degree of risk of error. As noted above, if the error is in  
13 under-estimating the future market price of generation, the consequences may be  
14 disastrous.  
15

16 I went on to suggest that a restructuring plan could eliminate this risk if it  
17 contained a mechanism to "correct" inaccurate estimates of the future market  
18 price of energy. One way to accomplish this result would be through a variable  
19 CTC, that is, through a mechanism that would automatically adjust the CTC  
20 (and the generation credit) from time to time depending on the actual market  
21 price of energy.  
22

23 Q. Does your prior testimony remain relevant to the matters currently pending  
24 before the Commission?  
25

26 A. I believe that it does. The variable CTC mechanism I proposed responded to the  
27 problem by addressing its cause: the problem of "locking in" energy assumptions

1 for a multi-year period. Both the PECO Proposal and the Enron Choice Plan (the  
2 "Enron Proposal") fix the level of CTC recovery - and cap generation credits - for  
3 ten year periods. The structure adopted by each proponent necessarily risks the  
4 problems I noted in my original testimony. While the level of risk is vastly  
5 different in the two plans, there is still risk attendant to each.

6  
7 Because of the seriousness of this risk - and its irreversibility - I believe the  
8 Commission needs to very carefully probe the components of each proposal and  
9 be certain that all fixed components are thoroughly appropriate.

### 10 11 THE ENRON PROPOSAL

12  
13 Q. What is your general impression of Enron's Proposal?

14  
15 A. As a general matter, the Enron Proposal demonstrates the range of possibilities  
16 that the Commission must consider. The Proposal demonstrates, as did the  
17 testimony of Steven Mitnick, that the PECO Proposal is not the best that can be  
18 done for consumers. Indeed, Enron has vividly illustrated that the CTC income  
19 stream contemplated by the PECO proposal is far in excess of what is needed to  
20 provide PECO \$5.461 billion in stranded cost recovery.

21  
22 The Enron Proposal also demonstrates the creativity and innovation that  
23 competition brings. Enron has stepped to the plate with more than just analysis  
24 to demonstrate what can be done to improve the PECO proposal and actually  
25 offered to replace PECO as the provider of last resort.



1 electricity, \$1,000 for gas, \$600 for water and \$500 for telephone service. If that  
2 person had a taxable income of \$30,000 his state income taxes would be about  
3 \$650. Assuming that this was all wage-related, Philadelphia wage taxes would be  
4 \$1,500. If the person lived in a \$60,000 house, city real estate taxes would be  
5 about \$700. The total bite out of a household's budget for utilities in this  
6 example is about \$2,900, or just as much as his state and local taxes combined  
7 (excluding sales taxes). Utility rates are important to the regional economy.  
8

9 The Enron proposal also allows for further rate decreases through choice in the  
10 early years of its proposal through a higher generation credit.  
11

12 The Commission must keep in mind that the Act is about competition and that  
13 competition is what is to provide Pennsylvanians with innovation and savings.  
14 The Enron Proposal is marked improvement over the PECO Proposal which  
15 denies competition by setting the customer credit too low. Enron takes a large  
16 step in the right direction as it starts to produce more realistic credits to attract  
17 competition and stimulate choice.  
18

19 Q. Please discuss the issue of true-ups.  
20

21 A. The Enron Proposal, like the PECO proposal, bases its recovery of stranded costs  
22 on a no growth scenario rather than PECO's officially filed forecasts of sales.  
23 However, Enron, unlike PECO, proposes to true with customers for any  
24 differences from actual values. As Mr. Mitnick testified, there is little chance that  
25 this will cost consumers and a high probability that it will save consumers a great  
26 deal of money.  
27

1 Q. What do you mean when you state that the Enron Proposal avoids the  
2 "diverging" generation credits proposed by PECO?

3  
4 A. As shown in Exhibit DMB-5, under PECO's tariff the generation rates for each  
5 rate class diverge greatly over time. Although there are many good reasons for a  
6 difference in the customer credit charged for different rate classes, the diverging  
7 of these costs, inter se, over time does not seem to be justified. Enron has  
8 maintained the interclass spread at a relatively constant rate. See Exhibit  
9 DMB-6. This approach more closely reflects market realities rather than  
10 antiquated tariff provisions.

11  
12 Q. Why is the inclusion of MBIS in Enron's proposal a major improvement over the  
13 PECO proposal?

14  
15 A. As discussed by Nancy Day of NEV in her testimony (NEV/ND-2), the  
16 unbundling of MBIS is critical to the development of the competitive electricity  
17 industry. Enron's proposal unbundles the services and allows customers choice  
18 for services which are not natural monopolies.

19  
20 Q. How has Enron eliminated the problems of price discrimination present in the  
21 PECO proposal?

22  
23 A. PECO asks to be allowed to charge any price which is below the generation cap  
24 at its discretion. This allows PECO, the so-called regulated monopoly, to set  
25 prices differently (i.e. different divergence from the cap) among classes and even,  
26 apparently, for individual customers. This approach is anti-competitive. Enron  
27 limits adjustments to a market based index.

1 Q. What is your opinion about Enron's Proposal to become the default supplier?

2  
3 A. This is a move in the right direction. There is no reason why PECO must remain  
4 the default provider, particularly given the serious risk in this case of problems of  
5 market power. However, there is also no reason to limit the role of default  
6 supplier to Enron. This is discussed later.

7  
8 Q. What is your opinion about the standard of conduct Enron has included as part  
9 of its Choice Plan?

10  
11 A. Strong and meaningful standards of conduct are important to the development  
12 of this new market. Enron's explicit inclusion of standards is a positive step. The  
13 actual standards as presented are a good outline, but require significant fleshing  
14 out. The Commission should have a single standard of conduct for the  
15 Commonwealth. Enron's Proposal may be acceptable on an interim basis,  
16 pending the establishment of a final standard generically.

17  
18 **WEAKNESSES IN ENRON'S PROPOSAL**

19  
20 Q. Do you have any specific objections to the Enron Proposal?

21  
22 A. Yes. Because Enron developed its proposal based closely on PECO's Proposal,  
23 Enron has carried over some of the problems of PECO's Proposal. Thus, while on  
24 the whole Enron has succeeded in significantly improving on the PECO Proposal,  
25 it has fallen short of a plan that accomplishes the full promise of the Competition  
26 Act.

1 Q. What are the principal weaknesses?

2

3 A. They are:

4

- 5 • excessive recovery of stranded costs;
- 6 • the allocation of certain costs to T&D rather than to generation;
- 7 • low generation credits especially in later years of the proposal;
- 8 • yo-yo rates; and
- 9 • the imposition of Enron as the sole default supplier.

10

11 Q. Please elaborate on your specific problems with the Enron proposal.

12

13 A. The first problem with Enron's proposal is that like PECO's proposal the rates as  
14 established (i.e., the ITC) collect more than the targeted level of stranded costs.  
15 Proof of this problem is the fact that in reducing the ITC income stream to  
16 present value of \$5.461 billion the implicit discount rate is 9.66%. There seems  
17 to be no basis for this discount rate other than it produces the targeted amount  
18 of stranded cost recovery at a zero load growth assumption. As will be discussed  
19 in more detail, the discount rate used by Enron (like the rate proposed by PECO)  
20 is inappropriate for purposes of the analysis at hand.

21

22 Q. How is Enron's position on transmission and distribution costs inadequate?

23

24 A. It appears that for purpose of this filing, Enron has adopted PECO's position on  
25 T&D costs. As was demonstrated by the witnesses who testified for the  
26 Pennsylvania Electric Competition Coalition (the "Coalition") in earlier  
27 testimony, this figure is too high as it includes generation related costs.

1 This is important in and of itself to prevent the subsidization of generation by the  
2 entity collecting the T&D charges. It is further important as it acts as a basis for  
3 determining the "mini-cap" for generation (i.e., current rates less the T&D  
4 charge).

5  
6 It is recommended that the Commission adopt the Coalition's position of a 2.75  
7 cent/kWh T&D charge, while honoring Enron's approach for unbundling the  
8 charges associated with metering, billing and other non-wire charges.

9  
10 Q. Please discuss your concerns regarding Enron's generation credits.

11  
12 A. I believe that Enron's starting generation credit is still a bit too low. Numbers  
13 around 3.75 cents per kilowatt hour seem to better reflect current market  
14 conditions than the 3.48 proposed by Enron. This is approximately the  
15 conclusion reached by the Coalition witnesses based upon the estimates of  
16 PECO's own witnesses after adjustment to take into account all the costs related  
17 to retail delivery.

18  
19 Further, Enron's figures seem to be too low in the outer years. It is important to  
20 remember that these figures are caps. If the cap is too low, everyone becomes a  
21 de facto prisoner of the default provider who may or may not be able to serve  
22 profitably at that rate. Although Enron's arguments about the long-term cost of  
23 new sources of electricity are interesting, the addition of these resources  
24 incrementally will not immediately bring the market clearing price down to their  
25 total busbar cost. Period ending caps approaching 4.5 to 5 cents are more  
26 reasonable than Enron's 4.16 cents per kWh.

1 Q. What are "yo-yo" rates and why is this a concern?

2  
3 A. Yo-yo rates are when rates go down and up. Under both Enron and PECO's  
4 proposals the rate decreases which are given on the front end evaporate quickly.  
5 All things being equal, the Commission should look for sustained rate decreases  
6 rather than here today gone tomorrow rate decreases.

7  
8 Q. Please discuss your concerns about having a single default supplier.

9  
10 A. There is no reason that there should be a single default supplier. This only  
11 creates potential market power problems. After the Commission awards across-  
12 the-board rate adjustments, procurement savings will be limited to how well an  
13 EGS can beat this generation credit. This may not be enough of a catalyst to  
14 promote wide-spread choice. A pool approach to the default supplier issue could  
15 provide this catalyst. I recommend that the Commission develop a generic  
16 approach where the default supplier is developed through a pool approach. Such  
17 an approach would permit Enron, PECO (and other suppliers) to participate as  
18 the default supplier. This is even more important given the opportunity that  
19 securitization gives PECO to exercise market power.

20  
21 Q. Do you have an opinion on some of the concessions included in Enron's  
22 Proposal?

23  
24 A. Enron has basically adopted the major issues that PECO has in its proposal.  
25 These are: the expansion of the CAP, the extension of LILR and EDD discounts  
26 and the acceleration of implementation of competition. These are positive and  
27 should be continued. I do have several comments on these issues.

1 First, well designed CAPs have been demonstrated to be cost-effective ways of  
2 serving low-income customers. They save money. The expansion of the CAP to  
3 additional customers should enhance the bottom line of a utility. There is no cost  
4 here from current operations. CAP benefits must be portable if low-income  
5 customers are to be able to enjoy the benefits of competition. In addition, write-  
6 offs associated with CAP customers should be funded by the universal fund. This  
7 is not made clear in PECO's or Enron's proposal.

8  
9 The law calls for a rate cap. This should apply to off tariff rates as well as  
10 standard rates. These benefits should also be portable. If the regulated monopoly  
11 has offered a discount to a customer, it should be applicable regardless of the  
12 customer's chosen energy provider.

13  
14 NEV supports acceleration of implementation. The phase-in should be  
15 completely eliminated after a shake-down operational period (e.g. the pilot).  
16 Phase-ins create more problems (who gets in and how) than they solve. They  
17 shift the responsibilities of choice from the market to the regulator, the antithesis  
18 of what should be occurring.

19  
20 **COMMISSION ACTION**

21  
22 Q. Based on your analysis, what should the Commission do at this point?

23  
24 A. As I note herein, there are strengths and weaknesses to the Enron Proposal. On  
25 balance, the Enron Proposal is substantially preferable to the PECO Proposal and,  
26 if the Commission were required to accept one or the other, the Enron Proposal  
27 should be accepted. However, that is not the choice. The Commission has the

1 power and the duty to modify the pending proposals to achieve the public  
2 interest. For this reason, I believe that the Commission should reject both of the  
3 proposals in favor of modifications which fully achieve the public interest.  
4

5 Q. What modifications do you mean?

6  
7 A. In recognition of the Commission's power to modify settlement agreements and  
8 restructuring plans, modifications have been submitted by the Pennsylvania  
9 Electric Competition Coalition and MAPSA. Exhibit DMB-7 attached hereto  
10 provides a summary of the key components of:

- 11
- 12 • PECO's Proposal
- 13 • Enron's Proposal
- 14 • Coalition's Proposed Modifications
- 15 • MAPSA's Proposed Modifications
- 16

17 Q. Which of these should the Commission select?

18  
19 A. In my view, of these four, the Coalition's proposed modifications represent an  
20 appropriate method for resolving these proceedings.  
21

22 Q. Are there other alternatives?

23  
24 A. Yes, the Commission has the tools to fine tune the proposals submitted by the  
25 parties.  
26  
27

FURTHER ALTERNATIVES

1  
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Q. Can you explain what you mean?

A. As I discussed earlier, if the Commission adopts a structure which fixes CTC and generation credits for a multi-year period (as do all the proposals on Exhibit DMB-7), it must be very careful in setting each of the specific components.

I suggest the Commission proceed as follows: First, the Commission should set reasonable T&D rates, being careful to strip out non-T&D costs to give the maximum room under the generation cap. Once the Commission has established an appropriate T&D rate, it should determine a reasonable strip of generation credits, recognizing that these are caps and that in a multi-year proposal the Commission should err to the high side of the number.

Once this has been done, the Commission can easily construct alternative structures. In this process there are a few key variables - primarily the level of sales (which should be adjustable) and the appropriate discount rate.

Q. Please discuss the variables.

A. Load growth has been discussed at length by the Coalition's witnesses and I will not repeat that discussion. I suggest that the Commission use PECO's IRP projection, subject to a sales true up as the Competition Act requires and as Enron has proposed.

Q. Please discuss the discount rate.

1 A. This has been a great source of discussion during the recent hearings. However,  
2 to date, the impact of securitization on the discount rate has not been addressed  
3 head on. Net present value is a simple concept. It can be used to compare a  
4 string of dollars paid over time to another string of payments over the same or  
5 different period, by recognizing the time-value of money. In this case one string  
6 of dollars is the revenues collected through the CTC and/or the ITC (adjusted for  
7 gross receipts tax). The other string is the stranded costs as of January 1, 1999,  
8 the start of competition. This string of CTC/ITC revenues needs to be discounted  
9 by the appropriate discount rate such that only the targeted level of stranded  
10 costs is recovered.

11  
12 Two issues are worthy of note: when to start the discounting and what discount  
13 rate to use. Discounting starts in 1999 when stranded costs start. Until there is  
14 competition there is no stranded cost. Discounting must also reflect the reality  
15 that payments of ITC or CTC occur over the course of the year and not at the  
16 end of the year (as done by PECO, causing additional overcollection).

17  
18 The other issue is setting the appropriate discount rate. There seems to be  
19 general recognition that an after-tax cost of capital is the appropriate discount  
20 rate. This creates a stream of payments which allows PECO to recover an amount  
21 equivalent to the return of the stranded costs. If the discount rate is supposed to  
22 reflect the after-tax cost of capital, then use of a discount rate of 8.72% (PECO's  
23 alleged discount rate) is incorrect. This rate is too high because it assumes a  
24 12.2% return on equity, and because it does not reflect the savings associated  
25 with securitization.  
26

1 The assumed return on equity is incorrect. In its initial securitization order, the  
2 Commission found that the appropriate return on equity was 10% rather than  
3 the 12% plus rate that PECO proposed. As a result of that change, the  
4 Commission determined that the appropriate after-tax cost of capital was 7.53%.

5  
6 In addition, the after-tax cost of capital associated with stranded cost must be  
7 reduced to reflect the value of that securitization (i.e., replacing higher cost  
8 instruments with securitized instruments). I have calculated a discount rate of  
9 6.50% based upon a \$4 billion securitization, a 10% return on equity (per the  
10 Commission's order) and PECO's proposed capitalization structure. See Exhibit  
11 DMB-8. If the full \$5.461 is securitized as Enron proposes, I calculate that  
12 PECO's after tax cost of capital is further decreased to 6.15% (even at a 12%  
13 return on equity this discount rate is only increased to 6.75%).<sup>1</sup> See Exhibit  
14 DMB-9. The capital structure and cost elements are extrapolations from PECO's  
15 numbers.

16  
17 Q. Did you adjust for gross receipts taxes?

18  
19 A. Yes. An EDU must pay a portion of every dollar it receives as gross receipts tax.  
20 This means that dollars earmarked for an ITC must also pay the gross receipts tax  
21 of 4.4%. To make this adjustment it is necessary to divide the revenues received  
22 by 1.044. (PECO did this calculation incorrectly and instead multiplied by .956,  
23 which inflates the tax impact.)

---

<sup>1</sup> A more aggressive approach to discounting would be to use the after-tax cost of capital of securitization for the 100% discount approach. This yields a discount rate of 4.35% using the 7.5% securitization rate.

1 Q. With this information, how should the Commission proceed?

2  
3 A. With these components in hand an ITC can be determined. A strength of the  
4 Enron proposal is that it maximizes the use of securitization. The Commission  
5 should allow for a QRO up to the maximum level of stranded costs as a way of  
6 minimizing rates. This should be reflected in the discount rate (e.g., the 6.15%  
7 I discuss above). The Commission has a long history of imputed capital  
8 structures which reduce a utility's cost of capital. The same thing should be done  
9 here.

10  
11 I have produced five sample cases following this process. All cases use the IRP  
12 forecasted level of sales (true-up is permitted so the risk here is shared). All use  
13 a flat T&D rate. What varies is the discount rate and the level of rate decreases.  
14 The first two cases (DMB-10 and DMB-11) assume a 10% rate decrease  
15 throughout the period and discount rates of 6.15% (my base case for \$5.416B of  
16 securitization) and 6.75% (assumes a 12% return on equity instead of the  
17 Commission approved 10%). Comparing these two cases shows a small change  
18 in the generation credit (usually less than a mil) and an offsetting change to the  
19 ITC. This indicates that this analysis is only moderately sensitive to changes in  
20 discount rates.

21  
22 The next two cases (DMB-12 and DMB-13) assume an 8% rate decrease. Case  
23 3 uses the same generation credits as Case 2, but a much higher (and wholly  
24 inappropriate) discount rate of 8.72 (the one assumed by PECO). Case 4 applies  
25 the benefits of the 6.15% discount rate to higher energy credits.  
26

1 Case 5 (DMB-14) uses MAPSA's generation credit. Assuming the same level of  
2 stranded costs, the Commission would only be able to reduce rates by about  
3 5.5%.

4  
5 Q. What is the purpose of these 5 cases?

6  
7 A. Neither the Enron plan nor the PECO plan is sufficient to fully achieve the  
8 benefits of competition and should be modified. These cases are not presented  
9 to promote a single answer but rather to illustrate a rational approach that the  
10 Commission can use in modifying the pending proposals.

11  
12 Q. Are there any other variables?

13  
14 A. All of the proposals contained in Exhibit DMB-7 are based on PECO receiving a  
15 stranded cost recovery of \$5.461 billion. While it should be obvious, it is worth  
16 pointing out that \$5.461 billion is an enormous recovery of stranded costs. The  
17 Competition Act provides that a utility is only entitled to recover a level of  
18 stranded costs which is just and reasonable under all the facts and circumstances.  
19 I believe there is a good reason for the Commission to consider whether a  
20 recovery of \$5.461 billion meets that standard.

21  
22 In my earlier filed testimony, I recommended the use of process which would  
23 periodically adjust the stranded cost calculation based upon current assessments  
24 of the value of generation. While I favor that approach as a general matter, given  
25 the direction taken in the pending proposals, the Commission may prefer to adopt  
26 an approach which fixes the components for a multi-year period.

1 There are many factors which the Commission can consider in making its just and  
2 reasonable determination. Among those factors, it would be appropriate for the  
3 Commission to reduce the \$5.461 billion amount to recognize that the parties  
4 reached that number based on underestimating the market value of energy.

5  
6 To the extent that the Commission changes the balance between the components  
7 by increasing generation credits, it would be appropriate for the Commission to  
8 decrease stranded costs from PECO's proposal.

9  
10 Stranded costs should be changed by the difference in the net present value of the  
11 market value of generation. The appropriate discount rate for this analysis is the  
12 pre-securitization discount rate (e.g. the 7.53% previously established by the  
13 Commission). The value of generation should include marketing and customer  
14 related generation costs.

15  
16 If the hypothesis is that PECO's Proposal has balanced the generation caps and  
17 level of stranded costs, it can be used as a baseline. If the Commission were to  
18 decide to establish a generation strip with an underlying net present value of  
19 generation greater than that set in PECO's Proposal, it should reduce the stranded  
20 cost by the difference in the two net present values of generation.

21  
22 Q. When comparing cases, what should the Commission consider?

23  
24 A. There are many variables to consider when trying to assess which approach  
25 provides the greatest benefits to customers (while still meeting all of the  
26 objectives). Many of these variables are offsetting or subsumed by other  
27 variables. A straight forward approach is available. Once you have established

1 that each case meets certain basic criteria (e.g. allows for competition, no cross  
2 subsidization, complies with the caps), then the amount of consumer benefit may  
3 be measured by the difference in total of rate decreases and the customer credit,  
4 in net present value. Exhibit DMB-15 provides this type of an analysis first  
5 comparing the Enron proposal to the PECO proposal and then comparing the  
6 Case 1 example to the PECO proposal.

7  
8 The Enron proposal is clearly better in the early years and worse in the later years  
9 (negative numbers). In total, there is not much difference in nominal terms  
10 although the Enron proposal is better. When net present value analysis is used,  
11 the value of the Enron proposal comes forth. Even using the base discount rate  
12 of 6.15%, Enron's plan is \$574 million better than the PECO plan. If a higher  
13 "consumer" discount rate was used, Enron's superiority would only grow as its  
14 plan's benefits are front loaded.

15  
16 The clear winner is the Case 1 example. It is over \$4 billion dollars better than  
17 the PECO Proposal in nominal dollars and \$3 billion better than the PECO  
18 Proposal in net present value. These findings are consistent with the  
19 overcollection of CTC found by Mr. Mitnick in his testimony for the Coalition.  
20 (This benefit would be even higher had an adjustment been made to stranded  
21 costs to reflect the higher assumed value of generation.)

22  
23 It should be noted that these values stay consistent when rate decreases are  
24 exchanged for increases in the customer credit. This is appropriate if all  
25 generation credits are sufficient to allow competition. I should note that I have  
26 not included the approximately \$100 million of savings in PECO's proposal or the  
27 \$200 million in Enron's form rate decreases prior to January 1, 1999.

1 Q. Have you considered anything else relevant to the Commission's just and  
2 reasonable determination?

3  
4 A. I believe the Commission should condition its award of stranded costs -- at  
5 whatever level it determines appropriate -- upon PECO cooperating to achieve  
6 competition. PECO should not be simultaneously receiving a stranded cost  
7 recovery of, say, \$5.461 billion while making every conceivable effort to block  
8 competition. I believe the Commission should consider providing specific stated  
9 reductions in the allowed level of stranded recovery if PECO does not cooperate  
10 in good faith in implementing the Commission's order.

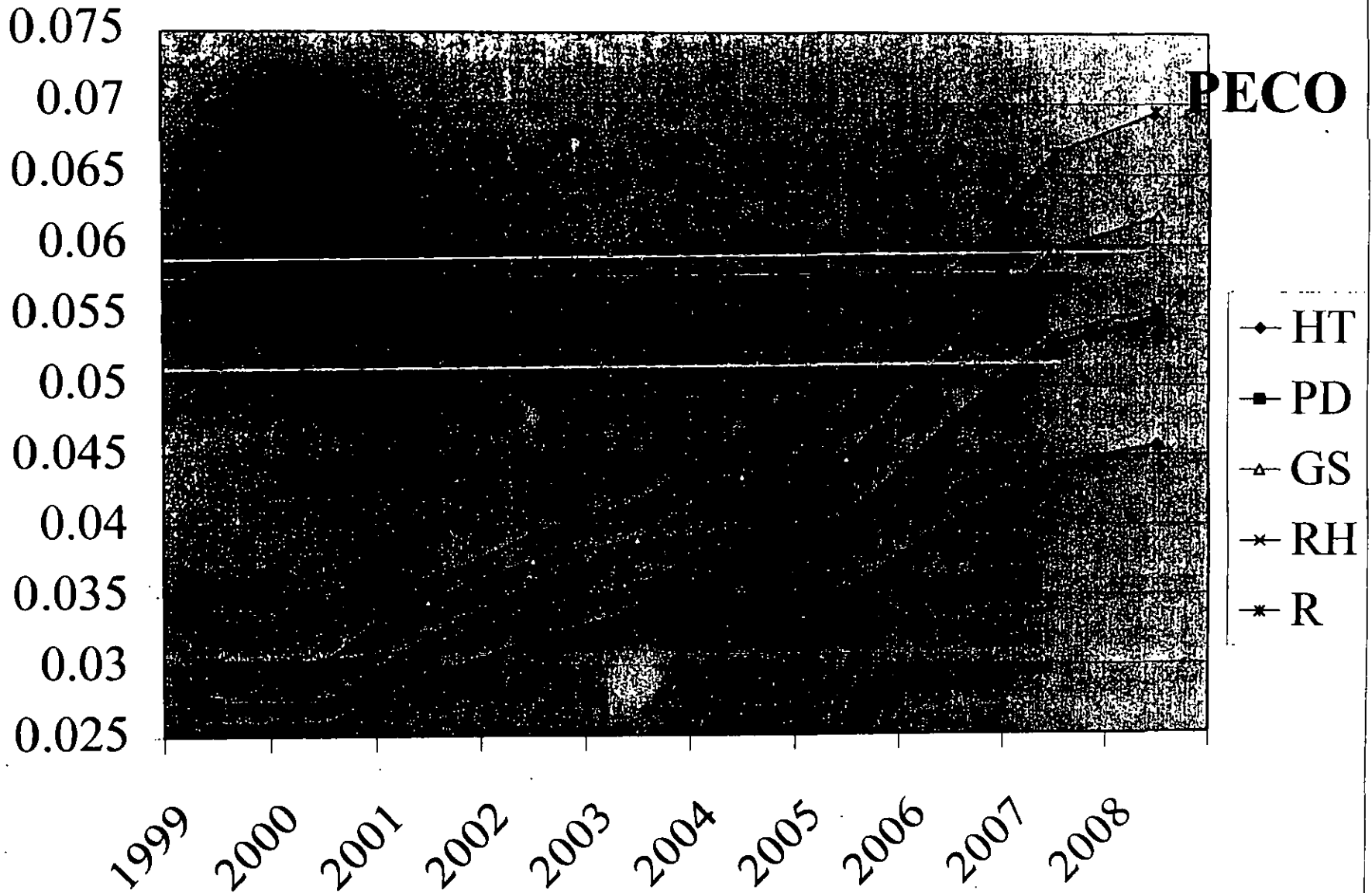
11  
12 Q. Is there anything you want to add?

13  
14 A. The Commission should reach out to achieve the promise of the Competition Act  
15 by modifying the restructuring plans as allowed under the law. The Commission  
16 has the tools to do so. The Commission should not accept a take-it-or-leave-it  
17 proposal from either PECO or Enron.

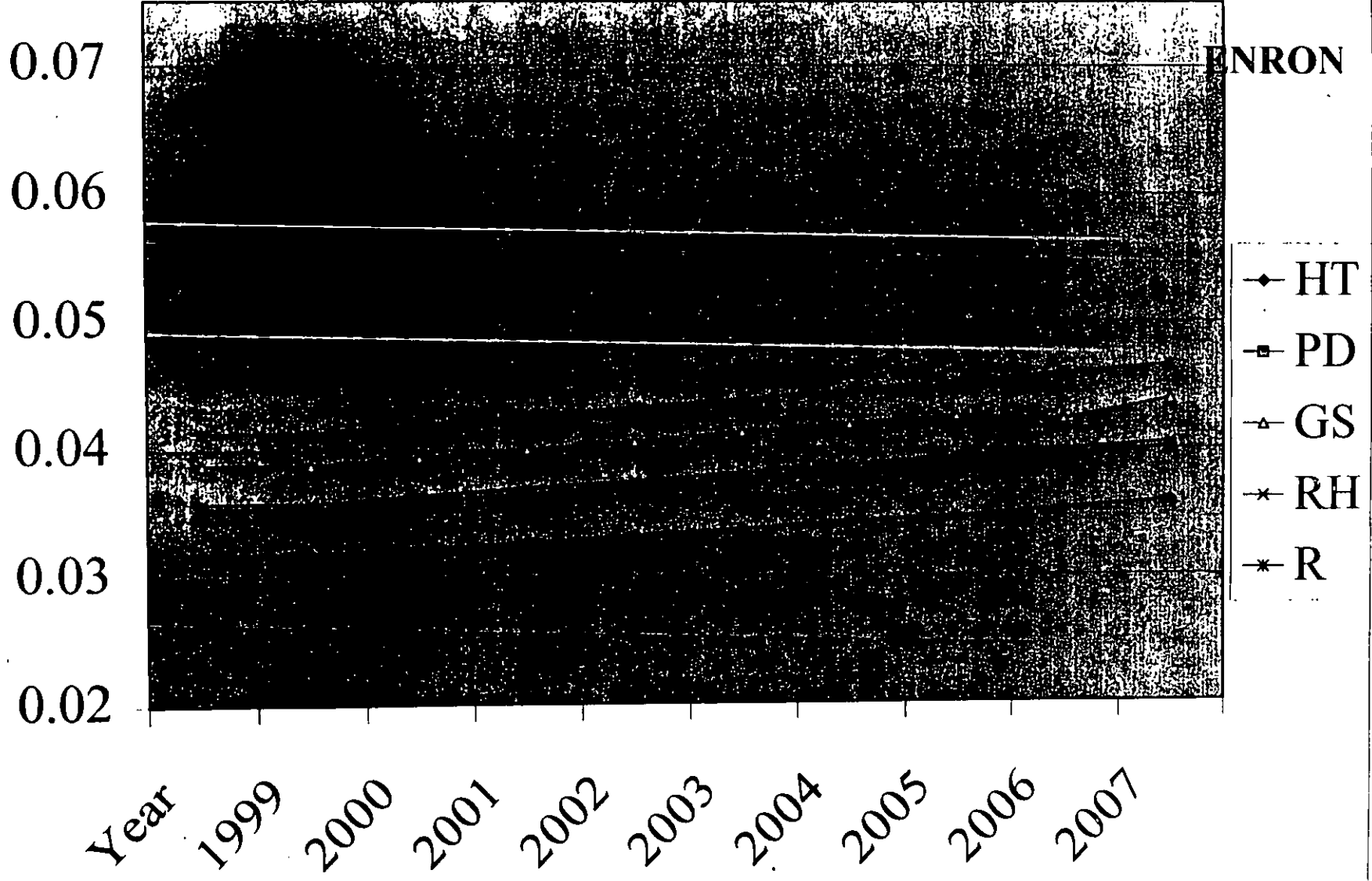
18  
19 Q. Does that conclude your testimony?

20  
21 A. Yes.

NEV/DMB-5



NEV/DMB-6



Year	PECO PROPOSAL					COALITION PROPOSAL				
	T&D	Generation	ITC/CTC	TOTAL	Rate Change	T&D	Generation	ITC/CTC	TOTAL	Rate Chang
1998				8.95	-10%					
1999	3.11	2.8	3.04	8.95	-10%	2.75	3.8	2.01	8.56	-14%
2000	3.11	2.8	3.04	8.95	-10%	2.75	4.02	2.18	8.95	-10%
2001	3.11	3.2	3.14	9.45	-5%	2.75	4.41	2.29	9.45	-5%
2002	3.11	3.5	3.14	9.75	-2%	2.75	4.61	2.27	9.63	-3%
2003	3.11	3.7	3.14	9.95	0%	2.75	4.71	2.28	9.74	-2%
2004	3.11	3.97	2.87	9.95	0%	2.79	4.93	2.23	9.95	0%
2005	3.11	4.07	2.77	9.95	0%	2.83	5.1	2.22	10.15	2%
2006	3.11	4.77	2.57	10.45	5%	2.88	5.29	2.18	10.35	4%
2007	3.11	5.37	2.47	10.95	10%	2.92	5.48	2.15	10.55	6%
2008	3.11	5.57	2.27	10.95	10%	2.97	5.68	2.2	10.85	9%
	ENRON PROPOSAL					MAPSA PROPOSAL				
	T&D	Generation	ITC/CTC	TOTAL	Rate Change	T&D	Generation	ITC/CTC	TOTAL	Rate Chang
1998	3.11	3.48	1.37	7.96	-20%		3.89			
1999	3.11	3.48	1.37	7.96	-20%	2.75	4.01	2.19	8.95	-10%
2000	3.11	3.48	1.37	7.96	-20%	2.75	4.13	2.07	8.95	-10%
2001	3.11	3.54	2.3	8.95	-10%	2.75	4.25	2.45	9.45	-5%
2002	3.11	3.63	2.81	9.55	-4%	2.75	4.38	2.62	9.75	-2%
2003	3.11	3.72	3.12	9.95	0%	2.75	4.51	2.69	9.95	0%
2004	3.11	3.81	3.03	9.95	0%	2.75	4.64	2.61	10	1%
2005	3.11	3.89	2.95	9.95	0%	2.75	4.78	2.52	10.05	1%
2006	3.11	3.98	3.36	10.45	5%	2.75	4.93	2.41	10.09	1%
2007	3.11	4.08	3.76	10.95	10%	2.75	5.08	2.76	10.59	6%
2008	3.11	4.16	3.68	10.95	10%	2.75	5.23	2.61	10.59	6%

**CASE 1**

**6.15% DISCOUNT RATE - 10% RATE CUT**

<b>Year</b>	<b>T&amp;D</b>	<b>Generation</b>	<b>ITC</b>	<b>total</b>	<b>IRP Sales</b>	<b>GRT Adj ITC Rev</b>	<b>NPV</b>
							<b>0.0615</b>
<b>1999</b>	<b>2.75</b>	<b>3.75</b>	<b>2.45</b>	<b>8.95</b>	<b>34522000</b>	<b>\$810,143</b>	<b>\$786,324</b>
<b>2000</b>	<b>2.75</b>	<b>3.85</b>	<b>2.35</b>	<b>8.95</b>	<b>34886000</b>	<b>\$785,269</b>	<b>\$718,023</b>
<b>2001</b>	<b>2.75</b>	<b>3.95</b>	<b>2.25</b>	<b>8.95</b>	<b>35379000</b>	<b>\$762,478</b>	<b>\$656,792</b>
<b>2002</b>	<b>2.75</b>	<b>4.05</b>	<b>2.15</b>	<b>8.95</b>	<b>35750000</b>	<b>\$736,231</b>	<b>\$597,440</b>
<b>2003</b>	<b>2.75</b>	<b>4.1</b>	<b>2.1</b>	<b>8.95</b>	<b>36125000</b>	<b>\$726,652</b>	<b>\$555,503</b>
<b>2004</b>	<b>2.75</b>	<b>4.2</b>	<b>2</b>	<b>8.95</b>	<b>36499000</b>	<b>\$699,215</b>	<b>\$503,559</b>
<b>2005</b>	<b>2.75</b>	<b>4.3</b>	<b>1.9</b>	<b>8.95</b>	<b>36882000</b>	<b>\$671,224</b>	<b>\$455,394</b>
<b>2006</b>	<b>2.75</b>	<b>4.4</b>	<b>1.8</b>	<b>8.95</b>	<b>37882000</b>	<b>\$653,138</b>	<b>\$417,450</b>
<b>2007</b>	<b>2.75</b>	<b>4.5</b>	<b>1.7</b>	<b>8.95</b>	<b>37656000</b>	<b>\$613,172</b>	<b>\$369,201</b>
<b>2008</b>	<b>2.75</b>	<b>4.5</b>	<b>1.7</b>	<b>8.95</b>	<b>38049000</b>	<b>\$619,572</b>	<b>\$351,440</b>
						<b>\$7,077,094</b>	<b>\$5,411,127</b>

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**CASE 2**

**6.75% DISCOUNT RATE - 10% RATE CUT**

Year	T&D	Generation	ITC	total	irp	grt adj	NPV
					IRP Sales	GRT Adj ITC Rev	
							0.0675
1999	2.75	3.75	2.45	8.95	34522000	\$810,143	\$784,111
2000	2.75	3.75	2.45	8.95	34886000	\$818,685	\$742,275
2001	2.75	3.85	2.35	8.95	35379000	\$796,366	\$676,384
2002	2.75	3.95	2.25	8.95	35750000	\$770,474	\$613,014
2003	2.75	4.05	2.15	8.95	36125000	\$743,954	\$554,486
2004	2.75	4.15	2.05	8.95	36499000	\$716,695	\$500,393
2005	2.75	4.25	1.95	8.95	36882000	\$688,888	\$450,565
2006	2.75	4.35	1.85	8.95	37882000	\$671,281	\$411,287
2007	2.75	4.45	1.75	8.95	37656000	\$631,207	\$362,280
2008	2.75	4.5	1.7	8.95	38049000	\$619,572	\$333,117
						\$7,267,264	\$5,427,912

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**CASE 3**

**8.72% DISCOUNT RATE - 8% RATE CUT**

Year	T&D	Generation	ITC	total	irp	grt adj	NPV
					IRP Sales	GRT Adj ITC Rev	
							0.0872
1999	2.75	3.75	2.65	9.15	34522000	\$876,277	\$840,401
2000	2.75	3.75	2.65	9.15	34886000	\$885,516	\$781,146
2001	2.75	3.85	2.55	9.15	35379000	\$864,142	\$701,151
2002	2.75	3.95	2.45	9.15	35750000	\$838,961	\$626,121
2003	2.75	4.05	2.35	9.15	36125000	\$813,159	\$558,191
2004	2.75	4.15	2.25	9.15	36499000	\$786,616	\$496,662
2005	2.75	4.25	2.15	9.15	36882000	\$759,543	\$441,104
2006	2.75	4.35	2.05	9.15	37882000	\$743,852	\$397,343
2007	2.75	4.45	1.95	9.15	37656000	\$703,345	\$345,572
2008	2.75	4.5	1.9	9.15	38049000	\$692,463	\$312,937
						\$7,963,873	\$5,500,628

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**CASE 4**

**6.15% DISCOUNT RATE - 8% RATE CUT**

Year	T&D	Generation	ITC	irp		grt adj		NPV
				total	IRP Sales	GRT Adj ITC Rev		
								0.0615
1999	2.75	3.95	2.45	9.15	34522000	\$810,143		\$786,324
2000	2.75	4.05	2.35	9.15	34886000	\$785,269		\$718,023
2001	2.75	4.15	2.25	9.15	35379000	\$762,478		\$656,792
2002	2.75	4.25	2.15	9.15	35750000	\$736,231		\$597,440
2003	2.75	4.3	2.1	9.15	36125000	\$726,652		\$555,503
2004	2.75	4.4	2	9.15	36499000	\$699,215		\$503,559
2005	2.75	4.5	1.9	9.15	36882000	\$671,224		\$455,394
2006	2.75	4.6	1.8	9.15	37882000	\$653,138		\$417,450
2007	2.75	4.7	1.7	9.15	37656000	\$613,172		\$369,201
2008	2.75	4.7	1.7	9.15	38049000	\$619,572		\$351,440
						\$7,077,094		\$5,411,127

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**CASE 5****6.15% DISCOUNT RATE - MAPSA GEN CREDIT - 5.5% RATE CUT**

<b>Year</b>	<b>T&amp;D</b>	<b>Generation</b>	<b>ITC</b>	<b>total</b>	<b>IRP Sales</b>	<b>GRT Adj ITC Rev</b>	<b>NPV</b>
							0.0615
1999	2.75	4.01	2.64	9.4	34522000	\$872,970	\$847,304
2000	2.75	4.13	2.52	9.4	34886000	\$842,076	\$769,965
2001	2.75	4.25	2.4	9.4	35379000	\$813,310	\$700,578
2002	2.75	4.38	2.27	9.4	35750000	\$777,323	\$630,785
2003	2.75	4.51	2.14	9.4	36125000	\$740,493	\$566,084
2004	2.75	4.64	2.01	9.4	36499000	\$702,711	\$506,077
2005	2.75	4.78	1.87	9.4	36882000	\$660,626	\$448,204
2006	2.75	4.93	1.72	9.4	37882000	\$624,110	\$398,897
2007	2.75	5.08	1.57	9.4	37656000	\$566,283	\$340,968
2008	2.75	5.23	1.42	9.4	38049000	\$517,525	\$293,556
						\$7,117,426	\$5,502,419

**COMPARATIVE ANALYSIS**

Year	IRP Sales	PECO RATES	ENRON RATES	CASE 1 RATES	PECO Generation	ENRON Generation	CASE 1 Generation	ENRON vs Generation	NPV 0.0615	CASE 1 vs PECO	NPV 0.0615
1999	34522000	8.95	7.96	8.95	2.8	3.48	3.75	\$576,517	\$559,567	\$327,959	\$318,317
2000	34886000	8.95	7.96	8.95	2.8	3.48	3.85	\$582,596	\$532,706	\$366,303	\$334,935
2001	35379000	9.45	8.95	8.95	3.2	3.54	3.95	\$297,184	\$255,991	\$442,238	\$380,939
2002	35750000	9.75	9.55	8.95	3.5	3.63	4.05	\$117,975	\$95,735	\$482,625	\$391,643
2003	36125000	9.95	9.95	8.95	3.7	3.72	4.1	\$7,225	\$5,523	\$505,750	\$386,630
2004	36499000	9.95	9.95	8.95	3.97	3.81	4.2	(\$58,398)	(\$42,057)	\$448,938	\$323,315
2005	36882000	9.95	9.95	8.95	4.07	3.89	4.3	(\$66,388)	(\$45,041)	\$453,649	\$307,779
2006	37882000	10.45	10.45	8.95	4.77	3.98	4.4	(\$299,268)	(\$191,276)	\$428,067	\$273,597
2007	37656000	10.95	10.95	8.95	5.37	4.08	4.5	(\$485,762)	(\$292,485)	\$425,513	\$256,208
2008	38049000	10.95	10.95	8.95	5.57	4.16	4.5	(\$536,491)	(\$304,314)	\$353,856	\$200,718
								\$135,190	\$574,349	\$4,234,896	\$3,174,081

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