

COMM-I-1 On the Record

*phda* 11/17/97  
*E. H*

COMM-I-1 On the Record Question:

Please provide a schedule that identifies and compares: (1) the proposed Distribution charges (both fixed and variable, expressed as a single cents/kWh charge) in the Joint Settlement; (2) the distribution charges in effect as of 12/31/96 (both fixed and variable, expressed as a single cents/kWh charge); and (3) the distribution charges for each tariff provided by PECO to Bureau of Fixed Utility Services Data Request PP-1(a), (c) and (e), in Docket P-00971170 (Pilots). Provide a response for an average usage under each tariff (please specify usage assumptions) and for Rate R, an average consumer using 500 kWh/mo. and 1000 kWh/mo. Explain all differences in the three schedules.

COMM-I-1 On the Record Answer:

COMM-I-1 Answer:

The requested figures for Distribution charges are provided in Attachment COMM-I-1(a). The Distribution charges for winter and summer bills based on the rates in the Joint Settlement and those in the bundled rates as of 12/31/96 are identical. The distribution rates provided in response to Fixed Utility Services Data Request PP-1 (a),(c) and (e), in Docket P-00911170 (Pilot), are based upon rates established by the Pennsylvania Public Utility Commission effective April 20, 1990 and are different from the Joint Settlement and 12/31/96 charges for several reasons. Among the reasons for the difference is that these charges (1) represent an initial attempt at the unbundling of costs from the Company's last electric base rate case (Docket No. R-891364) and (2) do not include any fixed charges (customer charges).

KJR

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Responsible Witness: T. P. Hill, Jr.

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# PECO ENERGY COMPANY

## COMPARISON OF VARIOUS DISTRIBUTION RATES (¢/kWh)

Rate Class	R		RH	GS	PD	HT	EP
	500 kWh	1000 kWh	1000 kWh	5 kW, 1800 kWh	250 kW, 125 MWh	500 kW, 250 MWh	22 MW, 8000 MWh
Monthly Billing Determinants							
Joint Settlement and 12/31/96 Bundled Rates							
<i>Summer</i>	5.75	5.62	5.34	3.21	1.55	1.04	1.17
<i>Winter</i>	5.75	5.24	3.95	3.07	1.55	1.04	1.17
Docket P-0971170 <sup>(a)</sup>	4.22	4.22	2.46	1.16	0.97	0.33	1.10

## NOTES:

(a) Based on rates set effective April 20, 1990

## COMM-I-2 On the Record

## COMM-I-2 On the Record Question:

Please indicate how the phase-in plan in the Joint Settlement addresses potential competitive disadvantages for customers not included in each phase-in period.

## COMM-I-2 On the Record Answer:

The Partial Settlement's phase-in plan (Paragraph 15) virtually eliminates any potential for competitive disadvantages for customers by shortening the phase-in period from two years (three phases) to only one year (two phases). In other words, two-thirds of PECO's customers will have the ability to shop on January 2, 1999, thereby effectively eliminating any potential for competitive disadvantage among customers. In addition, if by some chance subscriptions exceeded the limitations for rate classes HT and PD in 1999, the Settlement provides that each customer's subscription will be reduced pro rata, thereby ensuring that no customer in those classes is competitively disadvantaged. Moreover, the Partial Settlement grants to commercial customers—the class that is perhaps most interested in this issue—their request (as set forth in Office of Small Business Advocate's testimony) to divide the Rate GS class into two classes (large and small customers) for phase-in purposes, thereby ensuring that large commercial customers do not compete, for phase-in purposes, against small commercial customers. Finally, under the Partial Settlement, all customers, even those who have not yet enrolled in Direct Access, receive the benefit of the guaranteed, across-the-board ten percent (10%) rate reduction to become effective September 1, 1998.

Responsible Witness: T. P. Hill, Jr.

COMM-I-3 On the Record

COMM-I-3 On the Record Question:

Please reconcile the amount of regulatory assets proposed for recovery (\$2.272 billion) and the \$373 million approved for recovery on May 22, 1997 (QRO proceeding) with the Joint Settlement proposal to write-off \$2.0 billion of regulatory assets.

COMM-I-3 On the Record Answer:

The total regulatory assets proposed for recovery was \$2.272 billion, exclusive of deferred fuel claims. The Commission previously approved \$373 million for recovery of regulatory assets in its order dated May 22, 1997 approving a QRO of \$1.1 billion. The Joint Petition's new QRO for up to \$4 billion of asset securitization incorporates the \$373 million of regulatory assets previously approved.

The Joint Petition provides for recovery of \$5.461 billion of stranded assets and costs relative to a claimed stranded cost of \$7.461 billion. PECO will not seek recovery of at least \$2.0 billion of stranded cost which shall be treated as a disallowance of regulatory assets. This level of disallowance is less than the total regulatory assets claimed by PECO.

Responsible Witness: T. P. Hill, Jr.

## COMM-I-4 On the Record:

## COMM-I-4 On the Record Question:

Please indicate how paragraph 11 of the Joint Settlement, indicating that the proposed CTC shall not be subject to reconciliation, complies with Section 2808(F) of the Act.

## COMM-I-4 On the Record Answer:

Section 2808(F) of the Competition Act references Section 1307(e) of the Public Utility Code which provides that, for good cause shown, the Commission need not adjust rates to recover under-collections or refund over-collections. Sufficient good cause is provided since any value or risk associated with reconciliation has been reflected in the settlement rate structure. Specifically, Paragraph No. 11 of the Partial Settlement states, "The Joint Petitioners expressly acknowledge that these countervailing risks and potential benefits were taken into account and have been fully reflected in the rates described in Paragraph 8-10 above."

It was the desire of consumer groups to shift the risks associated with sales variations, particularly sales declines, to PECO in exchange for rate certainty and stability. It was further recognized that sales have declined over the past several years and that the impact of weather variations on rates would be eliminated if the reconciliation were embedded in the prices established in Paragraph 9 of the Joint Petition.

Further, the Rebuttal Testimony of Richard Silkman dated October 8, 1997 provides additional justification for shifting the risk of reconciliation to the shareholders of PECO. See Attachment COMM-I-4(a).

Responsible Witness: T. P. Hill, Jr.

Rebuttal Testimony – Docket No. R-00973953

2 pages

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13 PLEASE EXPLAIN.

14 There are a number of factors that are likely to contribute to negative sales growth over the next ten  
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## Rebuttal Testimony – Docket No. R-00973953

1 existing facilities further improving industry efficiencies, a process that is likely to occur  
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10 in over a decade and will re-invigorate the market for energy conservation technologies.

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## COMM-I-5 On the Record

## COMM-I-5 On the Record Question:

Please indicate how the Joint Settlement proposal complies with Section 2804(4)(1)(A) of the Act establishing a rate cap on total charges "to any customer who purchases generation from that utility." Please indicate how the Joint Settlement proposal complies with the rate caps for charges "to customers" pursuant to Sections (4)(I)(B) and (4)(II) as well.

## COMM-I-5 On the Record Answer:

The Joint Settlement complies with and indeed, surpasses Section 2804(4)(I)(A) by designing the unbundled rates to ensure that the sum of the unbundled rates never exceeds the bundled rates in effect as of the effective date of the Act for a period of time that is actually 30 months longer than the statutorily required period of 54 months.

The Joint Settlement complies with and indeed, surpasses Section 2804(4)(I)(B) by guaranteeing that, for a period that is actually 30 months longer than the statutorily required period of 54 months, transmission and distribution charges remain at or below the level of transmission and distribution charges that have been approved by the Commission as of the effective date of this chapter.

The Joint Settlement complies with and indeed surpasses, Section 2804(4)(II) by guaranteeing that through December 31, 2005, the generation charges, including the CTC and ITC, remain at or below the level of generation charges that have been approved by the Commission as of the effective date of this chapter. Additionally, the Joint Settlement extends the generation charges cap for an additional three years at a slightly higher level.

Further, the Joint Settlement not only meets the statutory rate cap, it also guarantees additional savings e.g., 10% in 1999 and 2000, below the total bundled charges in existence today.

Responsible Witness: T. P. Hill, Jr.

COMM-I-6 On the Record

COMM-I-6 On the Record Question:

Please indicate what return-on-equity was used in the setting of transmission and distribution service charges. Please summarize the basis for the ROE suggested with specific record references.

COMM-I-6 On the Record Answer:

The Joint Settlement is silent on a return on equity (ROE) used in the setting of transmission and distribution rates. However, the transmission and distribution rates employed in the Joint Settlement are based upon the Company's rebuttal presentation which used an achieved ROE for proforma 1996 of 11.26%.

Responsible Witness: T. P. Hill, Jr.

## COMM-I-7 On the Record

## COMM-I-7 On the Record Question:

Please provide the following information based on Appendix B of the Joint Settlement proposal. Provide a table (table 1) showing the following information items for each and every year of the transition period:

- a. system generation price;
- b. system CTC/ITC;
- c. 500 kWh/month Rate R maximum capacity and energy charge;
- d. 500 kWh/month Rate R CTC/ITC;
- e. 500 kWh/month Rate R distribution charges (both fixed and variable, expressed as a single cents/kWh charge).
- f. 500 kWh/month Rate R transmission charge;
- g. 500 kWh/month Rate R transmission and distribution charges as of 1/1/97;
- h. Percentage rate cuts versus 1/1/97 for each and every year of the transition period for the 500kWh Rate R customer who pays the Rate R maximum energy and capacity charges (item c) as well as Rate R CTC/ITC charges (item d), Rate R 500 kWh distribution charges (item e) and Rate R transmission charges (item f).
- i. Total charges and percentage rate cuts versus 1/1/97 for each and every year of the transition period for the 500 kWh Rate R customer who pays Rate R CTC/ITC charges (item c), Rate R 500 kWh distribution charges (item d), Rate R transmission charges (item e) and purchases generation in the market for 3.2 cents/kWh in 1999, with generation prices escalating at 3% per year for each and every year of the transition period.

## COMM-I-7 On the Record Answer:

The requested information is provided in Attachment COMM-I-7(a).

Responsible Witness: T. P. Hill, Jr.

**PECO ENERGY COMPANY**  
(¢/kWh unless otherwise noted)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
a. Average System Retail Energy and Capacity Cap	2.80	2.80	3.20	3.50	3.70	3.97	4.07	4.77	5.37	5.57
b. System CTC/ITC	3.04	3.04	3.14	3.14	3.14	2.87	2.77	2.57	2.47	2.27
c. Rate R - 500 kWh - Max Market Energy	3.02	3.02	3.55	3.93	4.15	4.65	4.79	5.79	6.64	6.92
d. Rate R - 500 kWh - CTC/ITC	3.33	3.33	3.50	3.54	3.60	3.10	2.96	2.67	2.52	
e. Rate R - 500 kWh - Distribution (incl. Fixed Dist.)	5.75	5.75	5.75	5.75	5.75	(a)	(a)	(a)	(a)	(a)
f. Rate R - 500 kWh - Transmission	0.57	0.57	0.57	0.57	0.57	(a)	(a)	(a)	(a)	(a)
g. Rate R - 500 kWh - T&D	6.32 ¢/kWh as of 1/1/97									
h. Rate R - 500 kWh - Discount Compared to 1/1/97 <sup>(b)</sup>	10%	10%	5%	2%	0%	0%	0%	-5%	-10%	-10%
i. Rate R - 500 kWh - Paying Specified Market Gen Rates <sup>(b)</sup>	\$64.25	\$64.73	\$66.07	\$66.78	\$67.61	\$65.65	\$65.50	\$64.63	\$64.47	\$63.63
Discount Compared to 1/1/97	9%	8%	6%	5%	4%	7%	7%	8%	8%	10%
Specified Market Gen Rates	3.20	3.30	3.39	3.50	3.60	3.71	3.82	3.94	4.05	4.18

**NOTES:**

(a) Subject to PUC or FERC approved rates.

(b) Assumes no change to transmission and distribution rates after 12/31/03 and energy and capacity prices at the Cap.

COMM-I-8 On the Record

COMM-I-8 On the Record Question:

Please indicate the origin of the 33,569,358 Mwh sales assumption found in the "Derivation of CTC and Market Energy/Capacity Revenue Requirements" sheet in Appendix B of the Settlement proposal. Also please indicate PECO Mwh sales in 1996.

COMM-I-8 On the Record Answer:

The 33,569,358 MWh sales is derived by taking the proforma sales shown in the C2 allocator of PECO Exhibit RAC-10 (Page 44 of 83) of 33,166,070 MWh and adding a proforma sales figure of 474,548 MWh for LILR customers and subtracting 71,260 MWh for interdepartmental use.

The retail sales level for 1996 was 32,945,000 MWh.

In addition, as shown in Attachment COMM-I-13(a), retail sales averaged 32,866,000 MWh over the last ten years.

Responsible Witness: T. P. Hill, Jr.

## COMM-I-9 On the Record

## COMM-I-9 On the Record Question:

Please indicate whether the Utility Workers Union of America Lawsuit (Utility Workers Union of America Lawsuit, AFL-CIO System Local No. 102, et al, v. The Pennsylvania Public Utility Commission, and John M. Quain, Chairman, Pennsylvania Public Utility Commission; No. 0269 M.D. 1997) constitutes a "legal impediment" to the sale of securitization bonds and the rate cuts found at Table A of page 8 of the Joint Settlement proposal.

## COMM-I-9 On the Record Answer:

While the Union case is pending as a challenge to the constitutionality of the Electric Competition Act, it will not be possible to issue Transition Bonds. The Joint Settlement provides (p. 10, footnote 7) that, before PECO Energy can utilize the "legal impediment" language to reduce the rate discounts being offered to customers, it must have that opinion "confirmed by an opinion from a qualified and reputable bond counsel." While PECO Energy has not sought such a confirming opinion at this time, it intends to do so if the Union case is still pending after a Commission order in this proceeding. PECO Energy believes that it will receive from bond counsel an opinion that the pendency of the Union suit precludes issuance of the bonds and that it is thus a "legal impediment" pursuant to the terms of the Joint Settlement. If such an opinion is received, then the case will qualify as a "legal impediment" pursuant to footnote 7.

Responsible Witness: T. P. Hill, Jr.

## COMM-I-10 On the Record

## COMM-I-10 On the Record Question:

Please indicate what the implicit all-hours market price of energy and capacity is in the Joint Settlement proposal's determination of \$5.461 billion in stranded costs for PECO Energy. Also, please indicate the discount rate used in this assumption, as well as the capacity factor of PECO's nuclear generating portfolio and the projected reserve margin for the next 5 years in PJM.

## COMM-I-10 On the Record Answer:

The \$5.461 billion in stranded costs represents a negotiated value of stranded cost recovery. The Settlement does not have an all-hours price included in it. The Company's case supports a stranded cost of \$7.461 billion based on analysis contained in the Rebuttal Testimony of T. P. Hill, Jr. (PECO Statement No. 1-R) and based on market price for energy and capacity contained in the Rebuttal Testimony of William H. Hieronymus (PECO Statement No. 6-R). Mr. Hill's analysis utilized a discount rate of 8.71% which is supported by the Rebuttal Testimony of Joseph Brennan (PECO Statement No. 11-R). Dr. Hieronymus's analysis includes a nuclear capacity factor of 75% and a PJM reserve margin of 18%. The 75% capacity factor and 18% reserve margin were also supported by OCA Witness Douglas Smith and PAIEUG Witness Randall Falkenberg.

Responsible Witnesses: T. P. Hill, Jr.

COMM-I-11 On the Record

COMM-I-11 On the Record Question:

Please identify material changes in revenue requirements for the year ending 12/31/97 for any component of distribution services since rates were established in Docket R-891364. The response should include new expenses, eliminated expenses, and expense increases and expense decreases greater than 2.5%.

COMM-I-11 On the Record Answer:

Refer to Attachment COMM-I-11(a). The requested data are not available for the year ending 12/31/97. We assume that the question is referring to the year ending 12/31/96. The attachment is based on Exhibit RAC-10 of the Rebuttal Testimony of Robert A. Clemmer and served as a starting point for the rates in the Company's Joint Petition for Partial Settlement .

Responsible Witness: T. P. Hill, Jr.

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**DISTRIBUTION RELATED REVENUE REQUIREMENTS  
EXPENSE AND CAPITAL  
R-891364 VERSUS R-00973953**

Attachment COMM-I-11(a)

<u>EXPENSES</u>	R-891364 <u>3/31/90</u>	R-00973953 <u>12/31/96</u>	<u>Reasons for Change</u>
Distribution Expenses (Accts. 580 through 590)	\$ 117,889	\$ 132,635	Inflation Net of Productivity Improvements
Customer Accounts, Service & Information, and Sales Expenses incl. Uncollectibles (Accts. 901 through 916)	\$ 117,093	\$ 153,208	Uncollectibles (\$26 million) and Inflation Net of Productivity Improvements
Administrative & General (Accts. 920 through 935)	<u>\$ 109,080</u>	<u>\$ 199,323</u>	Primarily driven by FAS 106, Inflation and Increased Information System Requirements
<b>Total Distribution Related Operating Expenses</b>	<b>\$ 344,062</b>	<b>\$ 485,166</b>	
<b>Total Distribution Related Depreciation</b>	<b>\$ 50,733</b>	<b>\$ 74,699</b>	Driven by New Plant Additions and Software Expenditures Which Have Shorter Amortization Periods
Taxes Other Than Income	<u>\$ 55,066</u>	<u>\$ 63,367</u>	Higher Tax Rates and Revenue Growth
<b>Total Distribution Related Taxes Excl. Return</b>	<b>\$ 55,066</b>	<b>\$ 63,367</b>	
<b>Total Distribution Related O and M</b>	<b>\$ 449,861</b>	<b>\$ 623,232</b>	
 <u>RATEBASE</u> Plant			
<b>Total Distribution Related Plant</b>	<b>\$2,194,173</b>	<b>\$2,976,664</b>	Plant Replacements and Additions and Includes Major Service Building Renovations and Software Expenditures
 <b>Reserve</b>			
<b>Total Distribution Related Reserve</b>	<b>\$ 652,506</b>	<b>\$ 920,689</b>	Function of Yearly Depreciation
Distribution Related Cash Working Capital	\$ 18,163	\$ 39,084	Function of Ratebase, Taxes, and O and M
Distribution Related Materials and Supplies	\$ 35,537	\$ 41,395	Inflation
Distribution Related Accum. Deferred Taxes	\$ 154,678	\$ 292,927	Function of Plant
Customer Deposits and Advances	<u>\$ 9,790</u>	<u>\$ 11,579</u>	Per Books
<b>Total Distribution Related Ratebase</b>	<b>\$ 1,430,899</b>	<b>\$1,831,940</b>	
<b>Total Revenue Requirements for Ratebase at 8.71% after tax cost of money and Tax Rate Equal to 41.494%</b>	<b>\$ 213,023</b>	<b>\$ 272,729</b>	
<b>Total Distribution Related Revenue Requirements Capital and O and M</b>	<b>\$ 662,884</b>	<b>\$ 895,961</b>	

COMM-I-12 On the Record

COMM-I-12 On the Record Question:

Please refer to Table A on page 8 of the Joint Settlement proposal. Indicate why the system CTC/ITC rises in 2001 and stays at that level until 2004.

COMM-I-12 On the Record Answer:

The CTC/ITC figures shown on Table A of the Joint Settlement were the result of negotiations among the signatories incorporating the agreed upon rate discounts and rate caps and all other terms and conditions.

Responsible Witness: T. P. Hill, Jr.

## COMM-I-13 On the Record

## COMM-I-13 On the Record Question:

Please provide an estimate of projected annual kWh sales levels for 1999-2008 and the basis for those numbers.

## COMM-I-13 On the Record Answer:

Based upon the historic trend in retail sales, the Company projects that sales will remain stable over the ten year transition period. As shown in Appendix C to the Partial Settlement, the sales level used therein was 33,569,358 MWh, which is approximately 700,000 MWh (2%) greater than our ten year historic average. Attachment COMM-I-13(a) shows that sales have been flat over the past 10 years and in fact have declined since 1995.

Additionally, the rebuttal testimony of Richard Silkman discusses how negative sales growth is a possibility. Attachment COMM-I-13(b) provides an excerpt from the Silkman rebuttal testimony.

Finally, during the period from 1988 through August 1997, annual growth for residential sales increased slightly. Small commercial and industrial customers have experienced growth during the time period. However, for the large commercial and industrial customers, which constitutes the largest retail sales class for the Company, there are declines in sales during the period of approximately one percent on an annual basis. Because of the sales decline from the large commercial and industrial customers, total retail sales have stayed at a relatively flat rate during this time period. Refer to Attachment COMM-I-13( c ).

Responsible Witness: T. P. Hill, Jr.

PECO Energy Company  
Pennsylvania Retail Electric Sales  
1988-1997

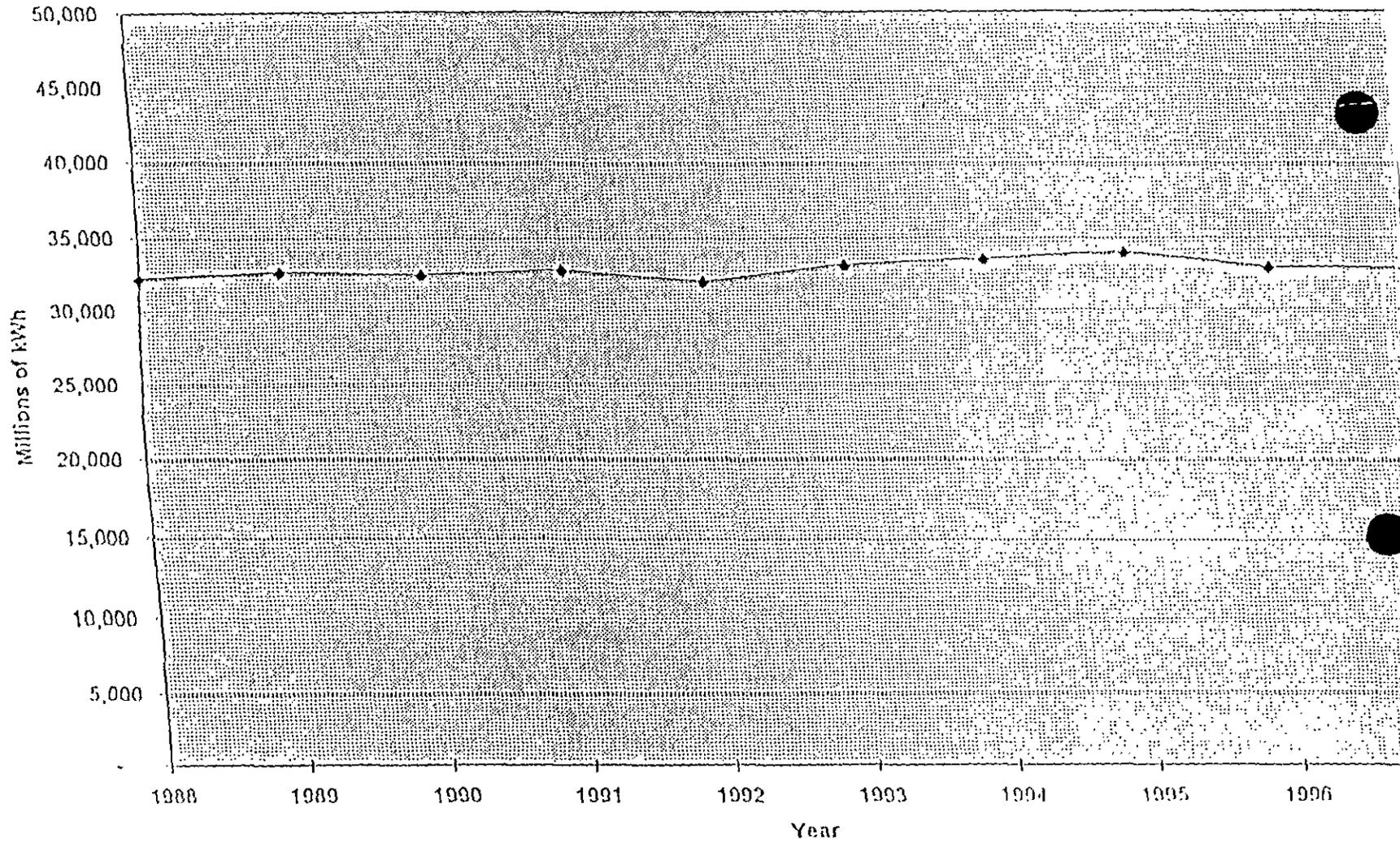
	Millions of kWh (a)
1988	32,239
1989	32,675
1990	32,445
1991	32,801
1992	31,993
1993	33,136
1994	33,563
1995	33,994
1996	32,945
1997	<u>32,865</u> (b)
AVG	32,866

NOTES:

(a) From PECO Energy Annual Report, Years 1986-1996

(b) 12 months ended 8/31/97

### PECO Energy Company Retail Electric Sales 1988-1997



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## Rebuttal Testimony – Docket No. R-00973953

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**RETAIL SALES**  
For the Period 1988 Through August 1997

	Residential Sales <u>mWh</u>	Small Comm. and Industrial Sales <u>mWh</u>	Large Comm. and Industrial Sales <u>mWh</u>	Unbilled Sales <u>mWh</u>	Total Sales <u>mWh</u>
1988	10,058	4,865	17,316	-	32,239
1989	9,974	5,123	17,578	-	32,675
1990	9,815	5,266	17,364	-	32,445
1991	10,273	5,473	16,983	72	32,801
1992	9,965	5,604	16,583	(159)	31,993
1993	10,609	5,958	16,538	31	33,136
1994	10,859	6,344	16,565	(205)	33,563
1995	10,636	6,396	16,427	535	33,994
1996	10,671	6,683	15,918	(327)	32,945
1997*	10,516	6,841	15,577	-291	32,643
Annual Growth	0.50%	3.86%	-1.17%		0.14%

\*Twelve Months Ended 8/31/97. The total for the twelve months ended 8/31/97 on Attachment COMM-I-13(a) should be adjusted to the above value.

COMM-I-14 On the Record

COMM-I-14 On the Record Question:

Please calculate the change in the CTC/ITC for each year if the sales projections indicated in response to question 13 are reflected in the proposed CTC/ITC for each year.

COMM-I-14 On the Record Answer:

There would be no change in the CTC/ITC for each year if the sales projections indicated in response to question 13 are reflected since the Company is projecting no sales increases. This represents PECO's assumptions. Other signatories to the Joint Petition have performed their own independent analyses.

Responsible Witness: T. P. Hill, Jr.

## COMM-I-15 On the Record

## COMM-I-15 On the Record Question:

The Petition states that several parties to the action have stated a "non-objection." That list includes Enron, MAPSA, and IPALCO. That status may not be accurate or may have changed. Please provide, as of the date of the response, the status of each party in the proceeding vis a vis the proposed Settlement; signatory, objector, non-signatory/non-objector, evaluating.

## COMM-I-15 On the Record Answer:

As of October 29 the status of the active parties is as follows:

Signatory	Evaluating	Objectors	Non Signatory /Non Objectors
PECO Energy	Noram Energy	Enron	Indianapolis Power & Light <sup>1</sup>
Sentator Fumo	Duke Energy	NEV	PP&L
CEPA		Connectiv	Allegheny
ACORN		MAPSA	GPU
TAG		Municipals	Pennsylvania Petroleum
Lance Haver		Environmentalists <sup>2</sup>	Vastar Power Marketing
OCA		Electric Clearinghouse	Pennsylvania Retailers
OTS			QST Energy
OSBA			
PAIEUG			
AARP			
Navy			

Responsible Witness: T. P. Hill, Jr.

<sup>1</sup> IP&L and PECO have entered into a stipulation, to which no party has objected, that the resolution of the Commerce Clause issue IP&L has raised on appeal from the PECO Securitization proceeding will be dispositive of that same issue in this proceeding.

<sup>2</sup> The Environmentalists have filed testimony opposing the Partial Settlement. However, settlement discussions have not concluded.

## COMM-I-16 On the Record

## COMM-I-16 On the Record Question:

The proposed Settlement indicates a decrease in the percentage rate cut in the event of a legal impediment. Please define what is meant by "legal impediment" and explain the basis for the decreased rate cut.

## COMM-I-16 On the Record Answer:

The term "legal impediment" is defined at p. 10, footnote 7 of the Joint Settlement as follows:

For purposes of this settlement, legal impediments shall include only those events which would render PECO unable to issue any transition bonds. Such legal impediments shall include statutory changes and state or federal court actions or decisions that preclude securitization. Such preclusion shall be confirmed by an opinion from a qualified and reputable bond counsel. Such legal impediments do not include approvals, if any, required by the Securities and Exchange Commission ("SEC") or the Internal Revenue Service ("IRS") in connection with PECO's securitization. As such, PECO will bear the risk of obtaining any required approvals from the SEC or IRS and will bear the risk that market conditions permit it to securitize its stranded assets and costs on reasonable terms.

At this time, legal impediments to securitization would be created by, at a minimum, the Union case referred to in Commission Interrogatory No. 9 (COMM-I-9), and the appeal of its securitization order by IPALCO and the Environmentalists. (The appeals of its securitization order filed by Senator Fumo, the Office of Consumer Advocate and others, as well as the original jurisdiction case challenging the passage of the Electric Competition Act filed by Senator Fumo and others, would also constitute legal impediments in the event those cases are re-activated.) The terms of the Joint Settlement require that PECO Energy must have that opinion confirmed by qualified and reputable bond counsel before this clause would reduce customer discounts.

The decreased rate cut associated with the existence of a legal impediment is a negotiated number that reflects the varying parties' evaluation of, among other things, the likely savings, net of issuance and buy back costs, to be generated by securitizing various amounts of stranded investment up to \$4 billion; the likelihood that PECO Energy will issue varying amounts of Transition Bonds up to \$4 billion; the risk that a legal impediment to securitization will exist; the risk that IRS approval for securitization will not be forthcoming and the value of shifting that risk from customers to PECO Energy; the risk that SEC approval for securitization will not be forthcoming and the value of shifting that risk from customers to PECO Energy; and the

COMM-I-16 On the Record  
(continued)

risk that a market impediment to securitization will exist and the value of shifting that risk from customers to PECO Energy.

Responsible Witness: T. P. Hill, Jr.