

R-00973953, R00973953C0001

STATEMENT NO. 2 C0007

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Petition of Enron Energy Services Power, Inc. For Approval of an Electric Competition and Customer Choice Plan and for Authority Pursuant to Section 2807(e)(3) of the Public Utility Code to Serve as the Provider of Last Resort in the Service Territory of PECO Energy Company

Direct Testimony and Exhibits

of

Bruce R. Oliver

on behalf of

Enron Energy Services Power, Inc

concerning

Relative Benefits Under Choice Plan and Partial Settlement

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1 I. INTRODUCTION

2

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE
4 RECORD.

5 A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive
6 Fairfax Station, Virginia, 22039.

7

8 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

9 A. I am employed by Revilo Hill Associates, Inc., and serve as President of the
10 firm. I manage the firm's business and consulting activities, and I direct its
11 preparation and presentation of economic, utility planning, and policy analyses
12 for our clients.

13

14 Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

15 A. I appear on behalf of Enron Energy Services Power, Inc. ("Enron").

16

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

18 A. I have been asked by Enron to examine the relative benefits and burdens to
19 customers of PECO Energy Company ("PECO") that arise from the Partial
20 Settlement negotiated among PECO and various intervenors and the Choice
21 Plan that ENRON has filed with the Commission in this proceeding.

22

1 Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

2 A. I am an economist specializing in the areas of utility rates, energy, and regu-
3 latory policy matters. I have over 20 years experience in the analysis of energy
4 and utility policy issues. That experience includes employment in management
5 positions in the rate departments of two major utilities (the Pacific Gas and
6 Electric Company and the Potomac Electric Power Company), as well as service
7 in management and senior staff positions for three consulting firms (Revalo Hill
8 Associates, Inc., the Resource Dynamics Corporation, and ICF Incorporated).

9 As a consultant, I have served a diverse group of clients on issues
10 encompassing a wide range of utility related activities. My clients have included
11 state regulatory commissions, utilities, state-funded consumer advocacy groups,
12 municipal governments, federal agencies, commercial and industrial energy
13 users, hospitals and universities, residential consumer groups, the Electric
14 Power Research Institute (EPRI), and the World Bank. Projects for those clients
15 have included work on gas, electric, water, and waste water utility rate cases,
16 as well as analyses and forecasts of supply, demand, and prices for utility and
17 non-utility energy markets.

18 To date, I have filed more than 250 separate pieces of testimony in over
19 180 proceedings before regulatory commissions in 22 jurisdictions. The regula-
20 tory jurisdictions in which I have testified include: the states of Pennsylvania,
21 New York, New Jersey, Maryland, Delaware, Virginia, North Carolina, Rhode
22 Island, Vermont, Connecticut, Ohio, Illinois, Wisconsin, Arizona, New Mexico,

1 South Dakota, and California, Guam, the District of Columbia, the City of
2 Philadelphia, the Province of Alberta, Canada, and the U.S. Federal Energy
3 Regulatory Commission (FERC). The testimonies I have presented have ad-
4 dressed such topics as industry restructuring, utility planning, revenue require-
5 ments, costs of service, rate design, rate unbundling, incentive ratemaking,
6 capacity expansion planning, generating unit performance, demand-side man-
7 agement, energy conservation, contracts for non-tariff services provided to large
8 energy users, gas transportation service, gas processing, competitive bidding,
9 economic development rates, load research, load forecasting, weather
10 normalization, metering, fuel procurement, and fuel pricing issues. I have
11 designed rates for nearly all types and classes of utility customers, and I have
12 personally prepared, directed the preparation of, and critically reviewed
13 numerous embedded, marginal, and avoided cost-of-service studies.

14

15 **Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?**

16 **A.** Yes. I have appeared before this Commission in numerous electric, gas and
17 water utility rate proceedings, including rate proceedings for every major electric
18 utility in Pennsylvania. Prior PECO cases in which I have participated include:
19 Docket Nos. R-811626, R-850152, and R-850290.

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22

1 Q. **HAVE YOU PREVIOUSLY TESTIFIED IN ELECTRIC UTILITY PROCEEDINGS**
2 **IN OTHER JURISDICTIONS?**

3 A. Yes, I have testified in electric rate proceedings in numerous jurisdictions within
4 the US, as well as electric rate proceedings in the Province of Alberta, Canada,
5 and the Territory of Guam. This experience includes testimony in proceedings
6 involving nearly every major participant in the PJM Interconnection.

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1 **II. DISCUSSION OF ISSUES**

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3 **Q. HAVE YOU REVIEWED THE CHOICE PLAN SUBMITTED BY ENRON IN THIS**
4 **PROCEEDING?**

5 **A.** Yes. I have reviewed the details of both the Enron Choice Plan and the Partial
6 Settlement submitted by the Joint Petitioners.

7

8 **Q. PLEASE EXPLAIN THE ANALYSES THAT YOU HAVE UNDERTAKEN TO**
9 **ASSESS THE RELATIVE COSTS AND BURDENS OF THE CHOICE PLAN**
10 **AND THE PROVISIONS OF THE PARTIAL SETTLEMENT?**

11 **A.** My analysis has examined the components of the revenue requirements that
12 PECO customers would pay under each plan. That analysis has included
13 investigation of the components of the overall system revenue requirement, as
14 well as the major components of revenue requirements by rate class and
15 changes in the relative magnitudes of those components over time. The
16 revenue requirements components on which I have focused include:

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18 Costs recovered through Competitive Transition

19 Charges (CTCs);

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21 Transmission and Distribution (T&D) related

22 revenue requirements; and

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Costs which comprise or are incorporated in the
Generation Credit.

I also attempted to assess the impacts that changes in these components of the proposed charges for electric service under each plan would have on PECO, its customers, and of their likely use of competitive market alternatives.

Q. DOES THE ENRON CHOICE PLAN PROVIDE GREATER BENEFITS TO RATEPAYERS THAN THE PARTIAL SETTLEMENT SUBMITTED BY THE JOINT PETITIONERS?

A. Yes. The Enron Choice Plan provides three key advantages over the Partial Settlement. First, the Choice Plan provides significantly greater rate reductions in each of the initial years of the plan (i.e., 9/1/98 through 12/31/02). Second, the Choice Plan provides enhanced opportunities for ratepayers to achieve savings in energy costs throughout the effective period of the plan. Third, the Choice Plan provides a mechanism for reconciliation of stranded cost recoveries which ensures that any over-collection of the agreed upon level of stranded costs will be flowed back to ratepayers.

1 Q. IT HAS BEEN ASSERTED THAT THE CHOICE PLAN CREATES ILLUSORY
2 SAVINGS FOR CUSTOMERS IN THE EARLY YEARS BY INCREASING
3 RATES IN ITS LATER YEARS. DOES YOUR ANALYSIS SUPPORT SUCH A
4 FINDING?

5 A. I find no support for the assertion that savings provided to PECO customers
6 under the Choice Plan are illusory. To the contrary, my conclusion is that the
7 Choice Plan provides real dollar benefits for consumers that go substantially
8 beyond those that the Partial Settlement would convey. Furthermore, the
9 structure of charges under the Choice Plan offers consumers the opportunity for
10 substantial additional bill reductions that would not be available under the
11 Partial Settlement. These benefits arise from:

12
13 higher avoidable generation costs that magnify the potential for savings through
14 competitive market procurement of generation services; and
15
16 greater encouragement for the development of a viable competitive market that
17 will endure long after the Choice Plan is concluded.

18
19 Q. ARE THERE ADDITIONAL REASONS FOR PREFERRING THE GREATER
20 INITIAL RATE REDUCTIONS THAT THE CHOICE PLAN OFFERS?

21 A. Yes. Two additional considerations make the case for the larger initial rate
22 reductions under the Choice Plan even more compelling.

1 First, with PECO customers currently paying the highest electricity rates
2 in Pennsylvania, a case can be made for immediate rate relief in the Philadel-
3 phia area. Indeed, the Partial Settlement acknowledges this fact by also
4 granting greater rate relief in the earlier years, but it does not go as far as the
5 Choice Plan in terms of providing immediate rate reductions.

6 Second, the greater rate reductions under the Choice Plan in the initial
7 years magnify the present value of the benefits provided to customers. Using
8 8% and 10% discount rates for sensitivity, I have computed the present value
9 of rate reductions under the Choice Plan. Without any consideration of potential
10 savings from competitive market purchases of generation, those computations
11 indicate that the benefits of the Choice Plan are at least \$843 million greater
12 than those offered by the Partial Settlement. (See Exhibit A, page 1). I also find
13 that the net present value of benefits under the Choice Plan is greater than that
14 under the Partial Settlement for every major rate class. (See Exhibit A, pages
15 2-6). In absolute dollar terms, the benefits of the Choice Plan are the greatest
16 for Rate HT (High Tension Power), Rate GS (General Service) and Rate R
17 (Residential Service), but every major rate class will experience positive net
18 present valued benefits. Rate HT customers will gain roughly \$223 million in
19 incremental present valued benefits, while Rate R and Rate GS present valued
20 benefits exceed \$270 and \$190 million, respectively.

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22

1 Q. DOES THE CHOICE PLAN RESULT IN HIGHER RATES FOR PECO
2 CUSTOMERS DUE TO HIGHER GENERATION CREDITS IN THE EARLIER
3 YEARS OF THAT PLAN THAN THE PARTIAL SETTLEMENT WOULD
4 PROVIDE IN THOSE YEARS?

5 A. No. The rate reductions that the Choice Plan offers are real. Through the year
6 2003, the Choice Plan includes higher implicit costs for generation (i.e., higher
7 generation credits), but that is more than offset by lower CTCs for the recovery
8 of stranded costs. Since the stranded costs to be recovered through CTCs are
9 primarily generation related-costs, the appropriate comparison of generation
10 costs is one which examines the sum of the generation credit and the applicable
11 CTC in each year for the Choice Plan and for the Partial Settlement.

12 It must be remembered that the higher generation credits under the
13 Choice Plan in the early years of the plan offer customers the added benefit of
14 greater opportunities for cost savings when competitive suppliers undercut the
15 generation credit to gain market share. The key is that the charge for
16 generation (i.e., the generation credit) is avoidable, CTCs are not. Thus, higher
17 generation credits and lower CTCs in the early years of the plan are a benefit
18 to customers who venture into the competitive market in search of lower cost
19 generation services. By contrast, the higher CTCs established under the Partial
20 Settlement limit customers' savings potential by increasing the component of the
21 overall charges for PECO services that is not avoidable.

22

1 Q. ARE CUSTOMERS WHO PURCHASE "PROVIDER OF LAST RESORT" (PLR)
2 SERVICE DISADVANTAGED BY THE STRUCTURE OF CHARGES, AND
3 PARTICULARLY THE HIGHER GENERATION CHARGES, UNDER THE
4 CHOICE PLAN?

5 A. No. In the years 1999 through 2003, customers using PLR service receive
6 lower bills under the Choice Plan than they would under the Partial Settlement.
7 In each of those years, savings to users of PLR service under the Choice Plan
8 are twice as large as those offered to users of PLR services under the terms of
9 the Partial Settlement. For the years 2004 through 2008, the generation credit
10 is lower in each year under the Choice Plan, and the sum of the generation
11 credit and the applicable CTCs is virtually identical for the two plans.

12

13 Q. WHAT ARE THE MECHANISMS THROUGH WHICH THE CHOICE PLAN
14 ACHIEVES REAL REDUCTIONS IN RATES FOR ELECTRIC SERVICE FOR
15 PECO CUSTOMERS?

16 A. The Choice Plan achieves real rate reductions for consumers through three
17 mechanisms. First, it provides a lower cost plan for securitization of the
18 stranded costs agreed upon by the parties to the Partial Settlement. Second,
19 the Choice plan provides greater encouragement for the development and
20 maintenance of a viable competitive market for generation services at the retail
21 level. Third, the Choice Plan provides a mechanism for a true-up of Competitive
22 Transition Charge (CTC) revenues with requirements for stranded cost

1 recovery.

2

3 **Q. DOES THE PARTIAL SETTLEMENT PROVIDE A MECHANISM FOR**
4 **ENSURING THAT ANY OVER-COLLECTION OF STRANDED COSTS IS**
5 **FLOWED BACK TO CUSTOMERS?**

6 A. No. Although the Electricity Generation Customer Choice and Competition Act
7 ("the Act") appears to require an annual reconciliation of CTC revenues with the
8 annual amortization of allowed stranded costs, no mechanism is found in the
9 Partial Settlement to effect such a reconciliation, either on an annual basis or
10 over the full period that the Partial Settlement would be operative. As a result,
11 the Partial Settlement raises the potential that PECO shareholders would derive
12 substantial unintended profits at the expense of ratepayers through
13 unreconciled CTC collections.

14

15 **Q. WHY IS A CTC RECONCILIATION MECHANISM IMPORTANT TO RATE-**
16 **PAYERS?**

17 A. That mechanism offers the potential for a faster recovery of stranded costs, not
18 found in the Partial Settlement, as well as the possibility of decreases in future
19 CTCs if a faster recovery of stranded costs is achieved.

20

21 **Q. IS IT REASONABLE TO ANTICIPATE INCREASES IN GROWTH IN CUS-**
22 **TOMERS' ENERGY USE REQUIREMENTS THAT ARE NOT RECOGNIZED**

1 **IN THE DEVELOPMENT OF CTC'S UNDER EITHER THE PARTIAL SETTLE-**
2 **MENT OR THE CHOICE PLAN?**

3 A. Yes. The CTC's proposed under both plans assume no growth in the energy
4 requirements of PECO's customers through the end of the year 2008. In the
5 context of the proposed reductions in the overall cost of energy services offered
6 in those plans, the assumption of zero growth in energy requirements is, at best,
7 highly conservative. Even modest assessments of price elasticities for electric
8 services would tend to suggest that the lower overall costs of electric service
9 proposed under those plans will stimulate increases in electricity use prior to
10 their termination. If increases in electricity use occur under the Choice Plan, the
11 true-up mechanism that Enron proposes would ensure that any excess
12 recoveries of stranded costs would be flowed back to consumers. Under the
13 terms of the Partial Settlement, however, PECO would be allowed to retain all
14 CTC revenues without true-up to the agreed upon level of stranded costs. As
15 a result, modest levels of growth in energy use could lead to substantial over-
16 recovery of stranded costs by PECO.

17

18 **Q. UNDER THE TERMS OF THE PARTIAL SETTLEMENT, WOULD IT BE**
19 **REASONABLE TO SUGGEST THAT THE RISK OF POTENTIAL OVER-**
20 **RECOVERY OF STRANDED COSTS IS BALANCED BY PECO'S RISK THAT**
21 **IT WILL UNDER-RECOVER THE AGREED UPON LEVEL OF STRANDED**
22 **COSTS (I.E., \$5.461 BILLION)?**

1 A. No. In the context of the proposed rate reductions, the potential for net
2 decreases in energy moved over the PECO system is far less than the potential
3 for increases in energy use. It is difficult to perceive rate decreases of the
4 magnitudes suggested in either the Choice Plan or the Partial Settlement having
5 no influence on customers' use of electricity. The basic principles of price
6 elasticity suggest that a decrease in the price of electricity should stimulate an
7 increase in its use. Although the strength of price elasticity responses can be
8 expected to vary by rate class, rate decreases in the range of 10% to 20%
9 should have a noticeable affect on sales growth. Studies of the relationships
10 between price and demand for electricity have generally found significant short-
11 run and long-run price elasticities. Although some responses to changes in
12 electricity prices may be lagged, a reasonably conservative short-run price
13 elasticity would be in the range of -.2 to -.4. With short-run elasticities in that
14 range, the 20% initial rate reduction offered under the Choice Plan could be
15 expected to stimulate a near term increase in electricity use of 4% or more.
16 Furthermore, as income in the Philadelphia area grows over time, as it is
17 expected to do, consumption of all goods and services, including electricity will
18 rise. This is a growth effect that adds to the price effect on demand for
19 electricity.

20

21 **Q. ARE YOU TESTIFYING IN SUPPORT OF THE OVERALL LEVEL OF**
22 **STRANDED COST RECOVERY INCORPORATED IN THE CHOICE PLAN?**

1 A. No. It is my understanding that Enron has used the \$5.461 billion stranded cost
2 figure agreed upon by the parties who were signatories to the Partial Settlement
3 as the basis for its stranded cost recovery proposal. I do not take any position
4 on the reasonableness of that figure, which appears to represent a compromise
5 among the participants in the Partial Settlement. My testimony with respect to
6 stranded costs in this proceeding focuses on the manner in which the agreed
7 upon amount of stranded cost will be recovered from ratepayers. A particular
8 concern is the burden that the recovery of stranded costs will place on
9 consumers in Philadelphia in the early years of the Partial Settlement. On
10 average over the first five years of operations under the Partial Settlement, one
11 out of every three dollars paid for PECO service (i.e., more than 33%) will go
12 toward paying off PECO's stranded costs. That is a tremendous burden for
13 ratepayers at a time when access to the competitive market is limited and
14 opportunities for obtaining lower generation costs all but eliminated by the
15 generation credits set forth in the Partial Settlement. By contrast, the recovery
16 of stranded costs during the first 3 years and four months of the of the Choice
17 Plan would average only 19.3% of customer bills.

18

19 **Q. HOW DOES THE ENCOURAGEMENT OF GREATER COMPETITIVE MARKET**
20 **ACTIVITY UNDER THE CHOICE PLAN PROVIDE INCREASED BENEFITS TO**
21 **CONSUMERS?**

22 A. The higher early year generation credits incorporated in the Choice Plan will

1 foster competition as Dr. Bohi and Mr. Slater explain. Furthermore, as
2 competition increases, opportunities increase for consumers to purchase
3 generation supplies at lower costs would than are indicated by the generation
4 credits in the Choice Plan.

5 My analyses have also found that the year-to-year changes in generation
6 credits proposed under the Partial Settlement, as "Market" rates, vary widely
7 from year-to-year and among rate classes. For example, within for the
8 Residential Service class, year-to-year increases in the generation credit range
9 from a low of 3.1% to a high of more than 20%. (See Exhibit B). In addition, the
10 generation credits proposed as part of the Partial Settlement for a certain years
11 vary noticeably among rate classes. In 2001, the generation credit for Rate RH
12 (Residential Heating Service) increases by 3.4%. However, in the same year,
13 the generation credit for Residential Service under Rate R increases by 17.9%.
14 The credibility of difference between the treatment of the Residential and
15 Residential Heating classes becomes even more questionable when we
16 recognize that the Partial Settlement assumes no changes in kWh sales by
17 class over the entire period from 1999 to 2008). In the absence of identifiable
18 changes in class composition or load characteristics, representations that the
19 generation credits in the Partial Settlement reflect market pricing of generation
20 services should be closely scrutinized.

21 Those widely varying year-to-year changes in generation credits under
22 the Partial Settlement contrast sharply with the comparatively smooth patterns

1 of year-to-year change found in the generation credits under the Choice Plan.
2 Given relatively flat fuel price expectations and growing competition in
3 generation markets, the smooth, year-to-year changes in generation credits
4 under the Choice Plan appear intuitively reasonable.

5

6 **Q. ARE DEFAULT CUSTOMERS DISADVANTAGED BY THE HIGHER GEN-**
7 **ERATION CHARGES IN INITIAL YEARS OF THE CHOICE PLAN**
8 **COMPARED TO THE GENERATION CHARGES THAT WOULD APPLY IN**
9 **THE SAME YEARS UNDER THE PARTIAL SETTLEMENT?**

10 A. No. The fact is that the market price that will prevail in any future period will
11 reflect the influences of numerous factors, some of which we may not even be
12 able to identify at this time. However, what we do know is that, if the generation
13 credit is set below the market price, it will substantially discourage competition.
14 If potential competitors find that they cannot meet or beat the generation credit,
15 they will simply exit the market and look for better opportunities elsewhere. On
16 the other hand, if the generation credit is set above the market price, customers
17 will be encouraged to investigate the competitive market.

18 If we knew *a priori* the actual market prices that will prevail in future
19 periods, setting the generation credit at that level might be appropriate as an
20 interim step toward a more competitive market structure. But, that is not the
21 basis offered for the initial generation credit under the Partial Settlement.
22 Rather, that charge is simply a backed-out figure that results from the residual

1 revenue requirement that remains after adjusting total revenues for the
2 proposed rate reduction and subtracting revenue requirements associated with
3 the recovery of costs for transmission and distribution services and provisions
4 for the recovery of stranded costs.

5 Thus, recognizing (1) the uncertainties incumbent in estimates of future
6 market prices, (2) adverse market impacts of setting a below market rate for
7 generation, and (3) the fact that the level of the initial generation rate has no
8 adverse impact on customers who remain on PLR service, the Commission
9 should favor the pricing of services under the Choice Plan. Clearly, it is the
10 more beneficial and less risky alternative from a customer perspective.

11

12 **Q. WHAT WILL BE THE INITIAL IMPACT OF THE CHOICE PLAN ON A**
13 **RESIDENTIAL CUSTOMER'S BILL?**

14 **A.** For Rate R (Residential Service), I compute that a customer with average
15 summer and winter usage levels will receive an overall rate reduction of
16 approximately 25%, or about \$237 on an annual basis. Similarly, a Rate RH
17 (Residential Heating) customer with typical summer and winter usage patterns
18 would save approximately \$380 per year.

19

1
2
3 **CONCLUSION**

4 **Q. WOULD YOU PLEASE REVIEW THE KEY FINDINGS OF YOUR DIRECT**
5 **TESTIMONY?**

6 A. Viewed from either competitive market considerations or more traditional
7 regulatory criteria, the Choice Plan is better serves the interests of PECO
8 ratepayers. The Choice Plan lowers rates, the costs of the transition to
9 competition, and enhances the resulting competitive environment. Consumers
10 get greater benefits up front, and needed protection against possible over-
11 collection of stranded costs. Choice Plan also establishes the foundations for
12 competitive market structure that better serve both the current and long-term
13 needs of consumers in the Philadelphia. As explained herein, the advantages
14 of the Choice Plan are real and substantial, and they should not be treated
15 lightly.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes, it does.

PECO Energy Company

Estimated Net Present Value of Choice Plan Savings

System-Wide Savings (All Customer Classes Included)

Year	Sales (MWH)	CTC Savings (\$/kWh)	CTC Savings (\$000)	Generation Savings (\$/kWh)	Generation Savings (\$000)	T&D Savings (\$/kWh)	T&D Savings (\$000)	Total Savings (\$/kWh)	Total Savings (\$000)
9-12/98	8,395,802	\$ (0.0131)	\$ (109,985)	\$ 0.0324	\$ 271,802	\$ 0.0003	\$ 2,606	\$ 0.0196	\$ 164,546
1999	33,569,358	\$ 0.0173	\$ 580,260	\$ (0.0076)	\$ (260,522)	\$ 0.0003	\$ 10,420	\$ 0.0088	\$ 330,158
2000	33,569,358	\$ 0.0173	\$ 580,260	\$ (0.0076)	\$ (260,522)	\$ 0.0003	\$ 10,420	\$ 0.0088	\$ 330,158
2001	33,569,358	\$ 0.0091	\$ 306,267	\$ (0.0044)	\$ (146,087)	\$ 0.0003	\$ 10,420	\$ 0.0051	\$ 170,600
2002	33,569,358	\$ 0.0037	\$ 124,078	\$ (0.0019)	\$ (84,131)	\$ 0.0003	\$ 10,765	\$ 0.0021	\$ 70,711
2003	33,569,358	\$ 0.0003	\$ 9,932	\$ (0.0005)	\$ (16,592)	\$ 0.0003	\$ 11,257	\$ 0.0001	\$ 4,596
2004	33,569,358	\$ (0.0019)	\$ (62,643)	\$ 0.0017	\$ 55,806	\$ 0.0003	\$ 11,748	\$ 0.0001	\$ 4,911
2005	33,569,358	\$ (0.0023)	\$ (77,202)	\$ 0.0020	\$ 68,625	\$ 0.0004	\$ 12,241	\$ 0.0001	\$ 3,664
2006	33,569,358	\$ (0.0087)	\$ (292,181)	\$ 0.0084	\$ 283,382	\$ 0.0004	\$ 13,226	\$ 0.0001	\$ 4,437
2007	33,569,358	\$ (0.0141)	\$ (472,696)	\$ 0.0138	\$ 463,742	\$ 0.0004	\$ 13,717	\$ 0.0001	\$ 4,563
2008	33,569,358	\$ (0.0155)	\$ (520,405)	\$ 0.0152	\$ 510,165	\$ 0.0004	\$ 14,702	\$ 0.0001	\$ 4,462
Total	344,089,362		\$ 65,483		\$ 905,678		\$ 121,521		\$ 1,092,805
Net Present Value @ 8.0%			\$ 505,429		\$ 305,030		\$ 74,441		\$ 885,013
Net Present Value @ 10.0%			\$ 550,563		\$ 225,526		\$ 66,754		\$ 842,954

NOTES:

Savings calculations based on deviations from results of Partial Settlement. Savings are shown as positive numbers. Generation savings reflect only differences between the generations credits under Partial Settlement and Customer Choice Plan. No savings from participation in competitive generation markets are included in this analysis. Sources: Joint Petition for Partial Settlement, Appendix B, and Enron Customer Choice Plan Petition, Exhibit 1.

PECO Energy Company

Estimated Net Present Value of Choice Plan Savings

Savings for Rate Schedule HT Customers

Year	Sales (MWh)	CTC Savings (\$/kWh)	CTC Savings (\$000)	Generation Savings (\$/kWh)	Generation Savings (\$000)	T&D Savings (\$/kWh)	T&D Savings (\$000)	Total Savings (\$/kWh)	Total Savings (\$000)
9-12/98	3,549,678	\$ (0.0122)	\$ (43,266)	\$ 0.0253	\$ 89,846	\$ 0.0001	\$ 428	\$ 0.0132	\$ 46,979
1999	14,198,713	\$ 0.0122	\$ 172,784	\$ (0.0060)	\$ (85,076)	\$ 0.0001	\$ 1,712	\$ 0.0063	\$ 89,420
2000	14,198,713	\$ 0.0122	\$ 172,784	\$ (0.0060)	\$ (85,076)	\$ 0.0001	\$ 1,712	\$ 0.0063	\$ 89,420
2001	14,198,713	\$ 0.0062	\$ 88,235	\$ (0.0030)	\$ (42,779)	\$ 0.0001	\$ 1,712	\$ 0.0033	\$ 47,168
2002	14,198,713	\$ 0.0021	\$ 29,751	\$ (0.0009)	\$ (13,400)	\$ 0.0001	\$ 1,712	\$ 0.0013	\$ 18,063
2003	14,198,713	\$ (0.0008)	\$ (11,630)	\$ 0.0008	\$ 8,969	\$ 0.0001	\$ 1,712	\$ (0.0001)	\$ (949)
2004	14,198,713	\$ (0.0011)	\$ (15,054)	\$ 0.0009	\$ 12,393	\$ 0.0001	\$ 1,712	\$ (0.0001)	\$ (949)
2005	14,198,713	\$ (0.0012)	\$ (17,487)	\$ 0.0010	\$ 13,956	\$ 0.0001	\$ 1,712	\$ (0.0001)	\$ (1,819)
2006	14,198,713	\$ (0.0056)	\$ (78,896)	\$ 0.0053	\$ 75,365	\$ 0.0001	\$ 1,712	\$ (0.0001)	\$ (1,819)
2007	14,198,713	\$ (0.0092)	\$ (130,331)	\$ 0.0089	\$ 128,800	\$ 0.0001	\$ 1,712	\$ (0.0001)	\$ (1,819)
2008	14,198,713	\$ (0.0100)	\$ (142,244)	\$ 0.0098	\$ 138,713	\$ 0.0001	\$ 1,712	\$ (0.0001)	\$ (1,819)
Total	145,536,808		\$ 24,616		\$ 239,711		\$ 17,549		\$ 281,676
Net Present Value @ 8.0%			\$ 143,908		\$ 78,501		\$ 11,033		\$ 233,442
Net Present Value @ 10.0%			\$ 155,979		\$ 57,310		\$ 9,953		\$ 223,242

NOTES:

Savings calculations based on deviations from results of Partial Settlement. Savings are shown as positive numbers. Generation savings reflect only differences between the generations credits under Partial Settlement and Customer Choice Plan. No savings from participation in competitive generation markets are included in this analysis. Sources: Joint Petition for Partial Settlement, Appendix B, and Enron Customer Choice Plan Petition, Exhibit 1.

PECO Energy Company

Estimated Net Present Value of Choice Plan Savings

Savings for Rate Schedule R Customers

Year	Sales (MWh)	CTC Savings (\$/kWh)	CTC Savings (\$000)	Generation Savings (\$/kWh)	Generation Savings (\$000)	T&D Savings (\$/kWh)	T&D Savings (\$000)	Total Savings (\$/kWh)	Total Savings (\$000)
9-12/98	1,924,858	\$ (0.0093)	\$ (17,930)	\$ 0.0376	\$ 72,769	\$ -	\$ -	\$ 0.0285	\$ 54,838
1999	7,699,431	\$ 0.0253	\$ 194,880	\$ (0.0111)	\$ (85,208)	\$ -	\$ -	\$ 0.0142	\$ 109,652
2000	7,699,431	\$ 0.0253	\$ 194,880	\$ (0.0111)	\$ (85,208)	\$ -	\$ -	\$ 0.0142	\$ 109,652
2001	7,699,431	\$ 0.0134	\$ 103,365	\$ (0.0064)	\$ (49,025)	\$ -	\$ -	\$ 0.0071	\$ 54,340
2002	7,699,431	\$ 0.0059	\$ 45,424	\$ (0.0032)	\$ (24,308)	\$ -	\$ -	\$ 0.0027	\$ 21,116
2003	7,699,431	\$ 0.0016	\$ 12,217	\$ (0.0017)	\$ (12,857)	\$ -	\$ -	\$ (0.0001)	\$ (640)
2004	7,699,431	\$ (0.0028)	\$ (21,427)	\$ 0.0027	\$ 20,790	\$ -	\$ -	\$ (0.0001)	\$ (637)
2005	7,699,431	\$ (0.0036)	\$ (27,361)	\$ 0.0034	\$ 28,362	\$ -	\$ -	\$ (0.0001)	\$ (999)
2006	7,699,431	\$ (0.0129)	\$ (99,039)	\$ 0.0128	\$ 98,523	\$ -	\$ -	\$ (0.0001)	\$ (516)
2007	7,699,431	\$ (0.0207)	\$ (159,670)	\$ 0.0206	\$ 158,943	\$ -	\$ -	\$ (0.0001)	\$ (727)
2008	7,699,431	\$ (0.0229)	\$ (176,344)	\$ 0.0228	\$ 175,485	\$ -	\$ -	\$ (0.0001)	\$ (859)
Total	78,919,188		\$ 48,955		\$ 298,266		\$ -		\$ 345,220
Net Present Value @ 8.0%			\$ 193,317		\$ 90,548		\$ -		\$ 283,865
Net Present Value @ 10.0%			\$ 207,714		\$ 63,416		\$ -		\$ 271,129

NOTES:

Savings calculations based on deviations from results of Partial Settlement. Savings are shown as positive numbers. Generation savings reflect only differences between the generations credits under Partial Settlement and Customer Choice Plan. No savings from participation in competitive generation markets are included in this analysis. Sources: Joint Petition for Partial Settlement, Appendix B, and Enron Customer Choice Plan Petition, Exhibit 1.

PECO Energy Company

Estimated Net Present Value of Choice Plan Savings

Savings for Rate Schedule GS Customers

Year	Sales (MWh)	CTC Savings (\$/kWh)	CTC Savings (\$000)	Generation Savings (\$/kWh)	Generation Savings (\$000)	T&D Savings (\$/kWh)	T&D Savings (\$000)	Total Savings (\$/kWh)	Total Savings (\$000)
9-12/98	1,649,180	\$ (0.0244)	\$ (40,274)	\$ 0.0475	\$ 78,349	\$ 0.0000	\$ 1	\$ 0.0231	\$ 38,078
1998	6,598,721	\$ 0.0202	\$ 133,078	\$ (0.0088)	\$ (56,928)	\$ -	\$ -	\$ 0.0115	\$ 76,150
2000	6,598,721	\$ 0.0202	\$ 133,078	\$ (0.0088)	\$ (56,928)	\$ -	\$ -	\$ 0.0115	\$ 76,150
2001	6,598,721	\$ 0.0108	\$ 70,083	\$ (0.0048)	\$ (31,776)	\$ -	\$ -	\$ 0.0058	\$ 38,307
2002	6,598,721	\$ 0.0049	\$ 32,254	\$ (0.0025)	\$ (16,777)	\$ -	\$ -	\$ 0.0023	\$ 15,477
2003	6,598,721	\$ 0.0017	\$ 10,955	\$ (0.0017)	\$ (11,109)	\$ -	\$ -	\$ (0.0000)	\$ (154)
2004	6,598,721	\$ (0.0022)	\$ (14,720)	\$ 0.0022	\$ 14,719	\$ -	\$ -	\$ (0.0000)	\$ (1)
2005	6,598,721	\$ (0.0028)	\$ (18,164)	\$ 0.0028	\$ 18,163	\$ -	\$ -	\$ (0.0000)	\$ (1)
2006	6,598,721	\$ (0.0102)	\$ (87,233)	\$ 0.0102	\$ 87,231	\$ -	\$ -	\$ (0.0000)	\$ (2)
2007	6,598,721	\$ (0.0165)	\$ (108,623)	\$ 0.0165	\$ 108,622	\$ -	\$ -	\$ (0.0000)	\$ (1)
2008	6,598,721	\$ (0.0181)	\$ (119,488)	\$ 0.0181	\$ 119,487	\$ -	\$ -	\$ (0.0000)	\$ (1)
Total	67,616,390		\$ 10,946		\$ 233,053		\$ 1		\$ 244,000
Net Present Value @ 8.0%			\$ 109,216		\$ 90,365		\$ 0		\$ 189,582
Net Present Value @ 10.0%			\$ 119,132		\$ 71,313		\$ 0		\$ 180,445

NOTES:

Savings calculations based on deviations from results of Partial Settlement. Savings are shown as positive numbers. Generation savings reflect only differences between the generations credits under Partial Settlement and Customer Choice Plan. No savings from participation in competitive generation markets are included in this analysis. Sources: Joint Petition for Partial Settlement, Appendix B, and Enron Customer Choice Plan Petition, Exhibit 1.

PECO Energy Company

Estimated Net Present Value of Choice Plan Savings

Savings for Rate Schedule RH Customers

Year	Sales (MWH)	CTC Savings (\$/kWh)	CTC Savings (\$000)	Generation Savings (\$/kWh)	Generation Savings (\$000)	T&D Savings (\$/kWh)	T&D Savings (\$000)	Total Savings (\$/kWh)	Total Savings (\$000)
9-12/98	704,117	\$ (0.0063)	\$ (4,458)	\$ 0.0268	\$ 18,878	\$ -	\$ -	\$ 0.0205	\$ 14,420
1999	2,816,467	\$ 0.0158	\$ 44,491	\$ (0.0056)	\$ (15,699)	\$ -	\$ -	\$ 0.0102	\$ 28,792
2000	2,816,467	\$ 0.0158	\$ 44,491	\$ (0.0056)	\$ (15,699)	\$ -	\$ -	\$ 0.0102	\$ 28,792
2001	2,816,467	\$ 0.0102	\$ 28,821	\$ (0.0051)	\$ (14,347)	\$ -	\$ -	\$ 0.0051	\$ 14,474
2002	2,816,467	\$ 0.0049	\$ 13,797	\$ (0.0029)	\$ (8,202)	\$ -	\$ -	\$ 0.0020	\$ 5,595
2003	2,816,467	\$ 0.0019	\$ 5,239	\$ (0.0019)	\$ (5,371)	\$ -	\$ -	\$ (0.0000)	\$ (132)
2004	2,816,467	\$ (0.0011)	\$ (3,084)	\$ 0.0011	\$ 3,084	\$ -	\$ -	\$ -	\$ -
2005	2,816,467	\$ (0.0015)	\$ (4,319)	\$ 0.0015	\$ 4,319	\$ -	\$ -	\$ -	\$ -
2006	2,816,467	\$ (0.0081)	\$ (22,862)	\$ 0.0081	\$ 22,862	\$ -	\$ -	\$ -	\$ -
2007	2,816,467	\$ (0.0137)	\$ (38,489)	\$ 0.0137	\$ 38,489	\$ -	\$ -	\$ -	\$ -
2008	2,816,467	\$ (0.0151)	\$ (42,535)	\$ 0.0151	\$ 42,535	\$ -	\$ -	\$ -	\$ -
Total	28,868,787		\$ 21,092		\$ 70,849		\$ -		\$ 91,941
Net Present Value @ 8.0%			\$ 51,570		\$ 23,688		\$ -		\$ 75,258
Net Present Value @ 10.0%			\$ 54,312		\$ 17,510		\$ -		\$ 71,822

NOTES:

Savings calculations based on deviations from results of Partial Settlement. Savings are shown as positive numbers.

Generation savings reflect only differences between the generations credits under Partial Settlement and Customer Choice Plan.

No savings from participation in competitive generation markets are included in this analysis.

Sources: Joint Petition for Partial Settlement, Appendix B, and Enron Customer Choice Plan Petition, Exhibit 1.

PECO Energy Company

Estimated Net Present Value of Choice Plan Savings

Savings for Rate Schedule PD Customers

Year	Sales (MWH)	CTC Savings (\$/kWh)	CTC Savings (\$000)	Generation Savings (\$/kWh)	Generation Savings (\$000)	T&D Savings (\$/kWh)	T&D Savings (\$000)	Total Savings (\$/kWh)	Total Savings (\$000)
9-12/98	270,414	\$ (0.0175)	\$ (4,722)	\$ 0.0367	\$ 9,926	\$ (0.0000)	\$ (4)	\$ 0.0192	\$ 5,201
1999	1,081,656	\$ 0.0177	\$ 19,159	\$ (0.0081)	\$ (8,741)	\$ (0.0000)	\$ (14)	\$ 0.0098	\$ 10,404
2000	1,081,656	\$ 0.0177	\$ 19,159	\$ (0.0081)	\$ (8,741)	\$ (0.0000)	\$ (14)	\$ 0.0098	\$ 10,404
2001	1,081,656	\$ 0.0088	\$ 9,352	\$ (0.0038)	\$ (4,147)	\$ (0.0000)	\$ (14)	\$ 0.0048	\$ 5,191
2002	1,081,656	\$ 0.0028	\$ 3,058	\$ (0.0008)	\$ (913)	\$ (0.0000)	\$ (14)	\$ 0.0020	\$ 2,129
2003	1,081,656	\$ (0.0015)	\$ (1,589)	\$ 0.0015	\$ 1,582	\$ (0.0000)	\$ (14)	\$ (0.0000)	\$ (21)
2004	1,081,656	\$ (0.0018)	\$ (1,974)	\$ 0.0018	\$ 1,987	\$ (0.0000)	\$ (14)	\$ (0.0000)	\$ (1)
2005	1,081,656	\$ (0.0022)	\$ (2,369)	\$ 0.0022	\$ 2,382	\$ (0.0000)	\$ (14)	\$ (0.0000)	\$ (1)
2006	1,081,656	\$ (0.0083)	\$ (8,995)	\$ 0.0083	\$ 9,008	\$ (0.0000)	\$ (14)	\$ (0.0000)	\$ (1)
2007	1,081,656	\$ (0.0135)	\$ (14,569)	\$ 0.0135	\$ 14,582	\$ (0.0000)	\$ (14)	\$ (0.0000)	\$ (1)
2008	1,081,656	\$ (0.0148)	\$ (15,974)	\$ 0.0148	\$ 15,987	\$ (0.0000)	\$ (14)	\$ (0.0000)	\$ (1)
Total	11,086,974		\$ 534		\$ 32,912		\$ (144)		\$ 33,303
Net Present Value @ 8.0%			\$ 14,684		\$ 12,649		\$ (90)		\$ 27,243
Net Present Value @ 10.0%			\$ 16,175		\$ 8,903		\$ (81)		\$ 25,997

NOTES:

Savings calculations based on deviations from results of Partial Settlement. Savings are shown as positive numbers. Generation savings reflect only differences between the generations credits under Partial Settlement and Customer Choice Plan. No savings from participation in competitive generation markets are included in this analysis. Sources: Joint Petition for Partial Settlement, Appendix B, and Enron Customer Choice Plan Petition, Exhibit 1.

PECO Energy Company

Comparison of Generation Credits By Rate Schedule

Year	Rate HT		Rate PD		Rate GS		Rate RH		Rate R	
	Cents/ kWh	% Growth From Prior Year								
Partial Settlement										
1999	2.58		2.73		3.02		3.03		3.02	
2000	2.58	0.0%	2.73	0.0%	3.02	0.0%	3.03	0.0%	3.02	0.0%
2001	2.92	13.5%	3.21	17.6%	3.48	14.8%	3.13	3.4%	3.58	17.9%
2002	3.18	8.8%	3.57	11.1%	3.75	8.3%	3.40	8.8%	3.84	10.7%
2003	3.39	6.5%	3.88	8.1%	3.90	3.9%	3.58	4.8%	4.18	5.6%
2004	3.48	2.0%	3.95	2.5%	4.35	11.6%	3.92	10.1%	4.68	11.8%
2005	3.53	2.0%	4.05	2.4%	4.47	2.7%	4.02	2.8%	4.80	3.1%
2006	4.01	13.8%	4.72	16.8%	5.27	18.1%	4.74	17.8%	5.80	20.8%
2007	4.43	10.4%	5.30	12.2%	5.97	13.1%	5.38	13.0%	6.65	14.7%
2008	4.57	3.1%	5.49	3.6%	6.20	3.9%	5.58	3.8%	6.84	4.3%
Compound Annual Growth Rate		6.6%		8.1%		8.3%		7.0%		9.7%
Customer Choice Plan										
1999	3.18		3.54		3.88		3.58		4.13	
2000	3.18	0.0%	3.54	0.0%	3.88	0.0%	3.58	0.0%	4.13	0.0%
2001	3.22	1.5%	3.60	1.6%	3.94	1.5%	3.64	1.5%	4.20	1.7%
2002	3.27	1.5%	3.65	1.6%	4.00	1.5%	3.70	1.5%	4.26	1.4%
2003	3.32	1.5%	3.71	1.6%	4.06	1.5%	3.75	1.5%	4.33	1.6%
2004	3.37	1.4%	3.77	1.6%	4.13	1.5%	3.81	1.5%	4.39	1.4%
2005	3.43	1.7%	3.83	1.6%	4.19	1.5%	3.87	1.5%	4.46	1.6%
2006	3.48	1.5%	3.89	1.6%	4.25	1.5%	3.93	1.5%	4.52	1.3%
2007	3.53	1.6%	3.95	1.6%	4.32	1.5%	3.98	1.5%	4.58	1.6%
2008	3.59	1.6%	4.01	1.6%	4.38	1.5%	4.05	1.5%	4.68	1.5%
Compound Annual Growth Rate		1.4%		1.4%		1.4%		1.4%		1.4%

Exhibit B

PC 00973953, R00973953
C0001
Statement No. 2-R C0007
Philo 11/18/97 EAD
GJ.

Petition of Enron Energy Services Power, Inc. for Approval of an
Electric Competition and Customer Choice Plan and for Authority
Pursuant to Section 2807(e)(3) of the Public Utility Code to Serve
as the Provider of Last Resort in the Service Territory of
PECO Energy Company

Rebuttal Testimony and Exhibit

of

Bruce R. Oliver

on behalf of

Enron Energy Services Power, Inc.

Concerning
Relative Benefits Under Choice Plan
and Partial Settlement

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE
2 RECORD.

3 A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive,
4 Fairfax Station, Virginia, 22039.

5

6 Q. ARE YOU THE SAME BRUCE R. OLIVER WHO FILED DIRECT
7 TESTIMONY IN THIS PROCEEDING ON BEHALF OF ENRON
8 ENERGY SERVICES POWER, INC. (ENRON)?

9 A. Yes, I am.

10

11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN
12 THIS PROCEEDING?

13 A. I have been asked by Enron to respond to portions of the testimony of Mr.
14 Silkman, on behalf of Senator Vincent J. Fumo, et al. and Mr. Hill on behalf
15 of PECO Energy Company ("PECO").

16

17 Q. AT PAGES 6-9 OF MR. SILKMAN'S REBUTTAL TESTIMONY, HE
18 PRESENTS HIS ASSESSMENT OF THE RELATIONSHIP BETWEEN
19 THE MARKET PRICE AND GENERATION CREDITS UNDER THE
20 CHOICE PLAN. DO YOU CONCUR WITH HIS ASSESSMENT?

21 A. No. Mr. Silkman's assessment of the relative benefits to customers from the

1 Choice Plan and the Partial Settlement, stated at page 6, lines 27-30, of his
2 testimony is not supported by his quantitative analyses. Importantly, Mr.
3 Silkman's findings are distorted by three major shortcomings in his assessment
4 of the relative benefits of the Choice Plan. First, Mr. Silkman's analysis of
5 generation savings under the Choice Plan overlooks a key attribute of the
6 Choice Plan and does not evaluate the Choice Plan and the Partial Settlement
7 on equal bases. As a result, Mr. Silkman's analyses understate the value of
8 generation savings available to customers under the Choice Plan. Second, his
9 focus on generation savings distracts from the key observation that each of his
10 scenarios shows greater present-valued savings for PECO customers under
11 the Choice Plan than they would achieve under the Partial Settlement. Third,
12 although Mr. Silkman suggests that under certain conditions the Choice Plan
13 may be anti-competitive, his assessment of competitive pricing issues overlooks
14 the fact that, in all cases, the Partial Settlement serves to thwart the
15 development of a competitive retail market for generation services throughout
16 the effective period of that settlement.

17
18 **Q. PLEASE EXPLAIN YOUR CONCERNS REGARDING MR. SILKMAN'S**
19 **ASSESSMENT OF CHOICE PLAN GENERATION SAVINGS.**

20 **A.** Exhibit A attached to my direct testimony presented an assessment of the
21 relative savings available to customers under the Choice Plan and under the

1 Partial Settlement. In the preparation of Exhibit A, I made two assumptions
2 that Mr. Silkman may not have understood. First, I accepted (for purposes of
3 the comparison) PECO's representation that generation credits under the Partial
4 Settlement reflected market-based charges for generation services, and thus,
5 there would be no situation where market prices for generation would be less
6 than the generation credits set forth in the Partial Settlement. Second, as noted
7 in the footnotes in Exhibit A, generation savings that could be expected to
8 result from customers choosing alternative suppliers of generation were not
9 considered. In other words, Exhibit A provides no recognition of the fact that
10 after January 1, 1999, significant numbers of customers would be free to
11 choose alternative suppliers of generation services. I omitted consideration of
12 those potential generation savings for three reasons:

13 (1) To be conservative in my representation of the over-all savings
14 attributable to the Choice Plan,

15 (2) To avoid the need for speculation regarding the numbers of
16 customers and amount of usage for each rate class that may be served by
17 alternative suppliers of generation, and

18 (3) In consideration of the fact that my analyses show the
19 Choice Plan providing substantially greater net present-valued savings
20 without including those additional savings.

1 Mr. Silkman's analysis, however, departs from the premises of my
2 analysis in a manner that gives greater importance to those underlying
3 assumptions. First, he constructs pricing scenarios which introduce the
4 potential that the generation credits presented as part of the Partial Settlement
5 may not reflect market-based pricing determinations. Second, Mr. Silkman's
6 arguments regarding the relative benefits of the Choice Plan focus primarily on
7 measures of nominal generation savings (rather than overall net present-valued
8 benefits). In that context, recognition of elements of generation savings not
9 developed in my analysis becomes more important to a balanced portrayal of
10 the Partial Settlement and the Choice Plan.

11
12 **Q. WHAT DO THE ANALYSES PRESENTED ON THE PAGES OF**
13 **EXHIBIT SILKMAN-2 INDICATE REGARDING THE RELATIVE**
14 **BENEFITS OF THE CHOICE PLAN AND THE PARTIAL**
15 **SETTLEMENT?**

16 A. The analyses presented on the pages of SILKMAN-2 consistently find
17 substantially higher net present-valued benefits for consumers under the Choice
18 Plan than under the Partial Settlement. Thus, Mr. Silkman's assertion that "...
19 under certain circumstances, the Choice Plan actually results in higher rates for
20 ratepayers than the Partial Settlement Agreement," is not supported by a
21 complete assessment of any of the three scenarios that he presents in Exhibit

1 SILKMAN-2. As developed in SILKMAN-2, the net benefits of the Choice
 2 Plan exceed those for the Partial Settlement in present value terms by the
 3 following amounts:

		Choice Plan Savings	
		(Net Present-Value)	
		<u>Discount</u>	<u>Discount</u>
		<u>Rate 8%</u>	<u>Rate 10%</u>
11	Market		
12	Price = Choice Plan		
13	Generation Credits	\$195 Million	\$256 Million
14			
15	Market		
16	Price < Choice Plan		
17	Generation Credits	\$690 Million	\$725 Million
18			
19	Market		
20	Price > Choice Plan		
21	Generation Credits	\$909 Million	\$880 Million

24 Thus, even though the Silkman analysis does not fully reflect the
 25 generation savings that customers can expect under the Choice Plan, his
 26 scenarios show the Choice Plan providing present-valued benefits that in all
 27 cases exceed those for the Partial Settlement by at least \$195 million.
 28 Furthermore, Mr. Silkman's third scenario (i.e., the market price exceeds the
 29 Choice Plan generation credit) shows customers deriving a net present-valued
 30 benefit at a 8% discount rate that is \$909 million dollars greater than the
 31 benefits that the Partial Settlement would provide. Significantly, in no case do
 32 PECO's customers ever derive greater present-valued benefits from the Partial

1 Settlement than from the Choice Plan when the full effective period of that plan
2 is considered. Moreover, these analyses do not even consider the added
3 benefits of the Choice Plan due to (1) the return to customers of overrecoveries
4 due to load growth and (2) additional savings that are passed along to
5 customers as a result of any declines in interest rates.

6
7 **Q. HAVE YOU ESTIMATED THE ADDITIONAL GENERATION SAVINGS**
8 **THAT WOULD ACCRUE TO PECO'S CUSTOMERS UNDER THE**
9 **CHOICE PLAN IF CUSTOMER TRANSFERS TO ALTERNATIVE**
10 **GENERATION SERVICE PROVIDERS IS PERMITTED?**

11 A. Yes. For those situations where the market price for generation is less than the
12 generation credit under the Choice Plan, I have estimated the generation
13 savings attributable to customers electing an alternative supplier of generation
14 services. Those estimates assume that all customers and volumes eligible to
15 chose an alternative generation supplier exercise that option to realize the
16 benefits of the lower market price. Thus, under those assumptions, the
17 generation savings achieved by customers are a product of multiplying (1) the
18 assumed level of annual sales in kWh, (2) the percentage of customer volumes
19 eligible for choice, and (3) the difference between the Choice Plan generation
20 credit and the assumed market price in each year stated in terms of cents kWh.
21 On a system wide basis, I compute that recognition of this added element of

1 Choice Plan benefit could increase generation savings and overall savings
2 shown on page 1 of Exhibit A, attached to my Direct Testimony, by as much
3 as \$487 million. Likewise, recognition of those benefits could expand the net
4 present value benefit for customers served under the Choice Plan by \$384
5 million.

6
7 **Q. WHAT IS THE BASIS FOR YOUR ASSERTION THAT THE PARTIAL**
8 **SETTLEMENT IS IN ALL CASES ANTI-COMPETITIVE?**

9 A. Although he implicitly concedes that the Partial Settlement would choke off
10 competition at its inception, Mr. Silkman criticizes the Choice Plan, suggesting
11 that in the later years of the plan, Enron's generation credit would be below the
12 market price. Under such conditions, he reasons, customers would have no
13 incentive to use alternative suppliers because their effective generation rate for
14 service from Enron would be below the price that consumers could expect to
15 obtain through competitive market purchases. Mr. Silkman suggests,
16 therefore, that the Choice Plan would stymie competition. Mr. Silkman's
17 conclusion is premised, however, on a comparison of the Choice Plan
18 generation credits for the years 2004-2008 with PECO's assessment of market-
19 based prices for use in the Partial Settlement.

20 As explained in the Rebuttal testimony of ENRON witness Slater,
21 PECO's projections of market-based rates for electric service do not reflect the

1 likely market conditions, either in the initial years of the Partial Settlement or
2 in the later years. Nevertheless, in recognition of the extent of uncertainties
3 associated with any forecasts of future market prices for electric service and the
4 potential constraints on competition of significantly below-market pricing of
5 generation service for Provider of Last Resort (PLR) customers, Enron has
6 suggested possible changes to the Choice Plan that the Commission could
7 adopt if it wanted an additional safety factor of having higher generation credits
8 in the later years of the Choice Plan. The Rebuttal testimony of Mr. Kean
9 explains how the Commission could increase the later year generation credits,
10 thereby eliminating any possible concerns regarding the possibility of
11 constraints on competition in the later years of the Choice Plan.

12 In contrast, the Partial Settlement virtually assures that the vast majority
13 of PECO customers will remain on PLR service through the end of the year
14 2008. Because the provisions of the Partial Settlement require that PLR
15 customers always receive the lower of the market price or the generation credits
16 set forth in that plan, customers under that plan will have little or no
17 expectation of finding better rates in the competitive market than they would
18 achieve by continuing to purchase PLR service from PECO. Thus, although
19 the Partial Settlement may allow for the pass-through of some measure of the
20 benefits of competition in wholesale power markets to retail customers,
21 adoption of the Partial Settlement must be understood to produce at least a 10-

1 year postponement of any real opportunity for the development of competition
2 for retail power services in PECO's service territory.

3
4 **Q. WHY SHOULD THE COMMISSION BE CONCERNED WITH THE**
5 **DEVELOPMENT OF RETAIL COMPETITION IF, IN FACT, RETAIL**
6 **CUSTOMERS ARE ASSURED MARKET-BASED PRICING OF PLR**
7 **SERVICES UNDER THE PARTIAL SETTLEMENT?**

8 A. The benefits of retail market competition should not be viewed exclusively in
9 terms of generation rates. Competitors in retail generation markets can and
10 should be expected to offer energy service packages that serve to improve the
11 efficiency of customers' energy use as well as providing lower rates on the
12 kWh that are consumed. By adopting the Partial Settlement the Commission
13 essentially limits customers' access to efficiency-based savings.

14
15 **Q. MR. OLIVER, ARE YOU FAMILIAR WITH THE CONTENTION OF**
16 **PECO WITNESS HILL THAT YOU HAVE FOCUSED ON THE**
17 **BENEFITS THAT PECO WILL OBTAIN FROM THE PARTIAL**
18 **SETTLEMENT BUT YOU HAVE IGNORED THE COSTS OF**
19 **OBLIGATIONS THAT THE PARTIAL SETTLEMENT IMPOSES?**

20 A. Yes. Mr. Hill contends that the CTCs agreed upon under the Partial Settlement
21 are intended to fund activities which impose costs beyond the stipulated amount

1 of stranded costs set forth in that settlement. As detailed in Exhibit TPH-35,
2 those additional activities include:

- 3 (1) Industrial rate concessions,
- 4 (2) An expanded universal service program,
- 5 (3) Extension of the Transmission and Distribution rate cap through
6 1/1/2004, and
- 7 (4) A 10% rate reduction for the period from 9/1/98 to 12/31/98.

8 It appears significant, however, that none of the aforementioned items
9 are included among the costs listed in Section 2808 of the Competition Act as
10 costs which are appropriate for recovery through the CTC mechanism.
11 Therefore, if Mr. Hill is correct in his assertions regarding the additional costs
12 that must be funded through the CTC mechanism under the provisions of the
13 Partial Settlement, those provisions of the Partial Settlement may be
14 inconsistent with the requirements of the Competition Act.

15
16 **Q. MR. HILL HAS DISPUTED YOUR POSITION THAT RATE**
17 **DECREASES TO BE IMPLEMENTED UNDER THE TERMS OF THE**
18 **PARTIAL SETTLEMENT WILL STIMULATE GROWTH IN DEMAND**
19 **FOR ELECTRICITY. DO YOU AGREE WITH HIS REASONING?**

20 **A.** No. Mr. Hill suggests that, although the real (i.e., inflation adjusted) price of
21 electricity in PECO service territory declined over the past 9 years (1988-1996)

1 PECO's retail sales have remained flat. In support of his position Mr. Hill
2 offers Exhibit TPH-36. Exhibit TPH-36, however, provides only average
3 revenue data for PECO, and does not depict changes in sales over the
4 corresponding period. In addition, Mr. Hill's analysis does not address either
5 the actual rate levels for individual rate classes or the influence of the relative
6 level of PECO's rates during that period in comparison with those of
7 neighboring utilities.

8
9 **Q. DO ACTUAL CHANGES IN PECO'S SALES IN RECENT YEARS**
10 **SUPPORT MR. HILL'S CONTENTION THAT RETAIL SALES HAVE**
11 **BEEN FLAT?**

12 **A.** No. Although I will concede that PECO's actual retail sales for 1996 were at
13 a level that might lead a naive observer to accept Mr. Hill's representations,
14 comparisons of actual sales levels from year to year without adjusting for
15 variations in weather conditions can be very misleading. Although Mr. Hill's
16 Exhibit TPH-36 adjusts actual prices to eliminate the influences of inflation, he
17 fails to adjust the Company's sales data to account for the influences of
18 weather. Although the Company's overall retail sales rose in each of the three
19 prior years (1993-1995), they declined in 1996. If no adjustment is made for
20 the influences of unusually mild weather in 1996 on the Company's sales for
21 that year, then Mr. Hill's suggestion of comparative flat retail sales levels

1 would appear correct. However, that representation would be inconsistent with
2 pattern of growth foreseen by the Company in the "Base" case load growth
3 forecast that it used in its 1997 Annual Resource Planning Report. As
4 demonstrated by the retail sales data provided in Table IRP-ELEC 1A from
5 Appendix A of that May 1, 1997 report, the Company's base forecast of retail
6 sales reflects a pattern of continuous growth, not only through the year 2008,
7 but at least through the year 2015. Noting that utility sales forecasts are
8 typically prepared on the assumption of normal weather conditions, I suspect
9 that the pattern of growth in retail sales forecasted by the Company for future
10 years would also generally be observable in the recent past, but for the
11 distortions introduced by abnormal weather conditions.

12 Thus, Mr. Hill's depiction of historic, inflation adjusted changes in
13 average electricity prices for PECO, in the absence of a similar assessment of
14 weather-normalized changes in retail sales, sheds little light on the issues of
15 whether or to what degree the response of PECO customers to a 10% decrease
16 in rates will yield increases in retail demand for electricity. What I do observe,
17 however, is that the presumption of the Partial Settlement that use of electricity
18 by PECO customers will exhibit no growth through the end of the year 2008
19 is inconsistent with the base case forecast that PECO used in its 1997 Annual
20 Resource Planning Report. Without consideration of either the potential for
21 rate decreases associated with restructuring or the benefits of retail competition

1 PECO's Annual Resource Planning report foresees an overall increases in retail
2 sales of 12.7% between 1997 and 2008. Yet, despite these sales growth
3 expectations, and the potential that rate reductions and competition will
4 stimulate further growth, the Partial Settlement would allow PECO to retain all
5 excess CTC recoveries associated with sales growth between 1997 and 2008.
6 As shown in Exhibit A-R to this rebuttal testimony, substitution of the Base
7 Load Growth Forecast from PECO's 1997 Resource Planning Report for the
8 sales levels assumed in the development of the Partial Settlement would result
9 in a \$1.327 billion gain to PECO and a concomitant loss of benefits for its
10 ratepayers. In present value terms, PECO's customers could lose \$700 to \$800
11 million dollars of benefits if the Partial Settlement is approved and PECO's
12 Base Case sales growth projections are realized. Moreover, if initial rate
13 reductions and the benefits of wholesale power market competition stimulate
14 added growth in electricity use, the cost to ratepayers in the form of CTC
15 overpayments will be even greater.

16
17 **Q. HOW DO PECO'S RATES COMPARE WITH THOSE FOR NEIGH-**
18 **BORING ELECTRIC UTILITIES?**

19 A. The average rate shown in Exhibit TPH-36 of 9.95 cents per kWh is
20 approximately 26% above the 7.9 cents per kWh overall average rate for
21 electric service that the U.S. Energy Information Agency (EIA) reports for all

1 Pennsylvania electric utilities for 1996. In addition, PECO's 1996 average rate
2 is more than 40% above the 1996 average rates that EIA reports for electric
3 utilities in Maryland and Delaware. Only New Jersey and New York had
4 average electric rates in 1996 that were higher than those for PECO. I also
5 note that the EIA average rate for Pennsylvania includes PECO data, and thus
6 the actual difference between PECO's average rate and that for all other
7 Pennsylvania electric utilities is even greater than 26%.

8 Even accepting *arguendo*, that PECO's weather-normalized sales have
9 been flat over recent years, despite a modest (i.e., 1.3%) per year decline in
10 the real costs of electricity for PECO customers, that flatness in sales may be
11 attributable to the magnitude of the differences between PECO's rates and those
12 of other Pennsylvania, Maryland, and Delaware utilities. On the other hand,
13 10% or 20% reductions in those differentials could significantly alter
14 customers' perceptions of those electric rate differentials among utilities. I
15 would also note that, although he asserts that the real price of electricity fell
16 over the period he investigated, Mr. Hill fails to take into account the fact that
17 Exhibit TPH-36 actually shows that the real and nominal price of electricity
18 rose for several years before it began to decline. Therefore, one would not
19 expect to see a rise in usage as might occur in the event of a steady decline in
20 price.

1 **Q. MR. HILL CRITICIZES YOU FOR BASING YOUR ANALYSIS OF**
2 **SAVINGS ON THE ASSUMPTION THAT PECO WILL PRICE**
3 **DEFAULT SERVICES AT RATE LEVEL CAPS. WOULD YOU CARE**
4 **TO RESPOND TO THAT CRITICISM?**

5 **A.** Yes. PECO cannot have it both ways. It cannot contend that its generation
6 credits are derived from market prices and also claim that my analysis is flawed
7 because market prices will be below the generation credits established in the
8 Partial Settlement. As noted earlier in this rebuttal testimony, my analysis of
9 benefits was structured to assess the benefits of the Choice Plan, in the situation
10 where PECO's assessment of market prices prevails and the generation credits
11 under the Partial Settlement equal the prevailing market price of generation in
12 each year. As both my analysis and the analysis presented by Mr. Silkman
13 demonstrate, the Choice Plan will provide substantially greater net present-
14 valued benefits to customers even if PECO, rather than ENRON, is more
15 correct in its forecasts of future market prices for generation.

16
17 **Q. MR. HILL'S REBUTTAL AT PAGES 17-18 ARGUES THAT "PECO**
18 **WILL NOT 'OVERRECOVER' THE COSTS OF THE INTEGRATED**
19 **SETTLEMENT PACKAGE" EVEN AFTER "UNLOCKING THE**
20 **'HIDDEN VALUE' OF SECURITIZATION." IS MR. HILL'S**

1 **EXPLANATION OF WHY PECO WILL NOT OVERRECOVER ITS**
2 **COSTS REASONABLE?**

3 A. No. Mr. Hill's explanation does little more than attempt to create the image of
4 a possible balance between costs and recoveries for PECO under the Partial
5 Settlement.

6 At page 17 of his testimony, Mr. Hill states that PECO will need to
7 receive between \$5.87 billion and \$6.66 billion on a present value basis
8 (exclusive of GRT) even after reflecting the projected benefit of PECO's
9 securitization. He claims, however, that PECO will recover only
10 approximately \$5.89 billion through CTC revenues under the Partial
11 Settlement. These figures, he suggests, are proof that PECO "will not
12 'overrecover' the costs of the integrated settlement package." Yet, given the
13 language of the Competition Act, I must, once again, question whether "the
14 costs of the integrated settlement package" represent the appropriate measure
15 for assessing overrecovery."

16 If it is found that costs for activities such as industrial rate concessions,
17 universal service expansion, early rate reductions, and transmission and
18 distribution rate cap extension are not appropriate for recovery through CTC
19 charges, then PECO's cost recovery requirement would be noticeably reduced.
20 After subtracting costs for the aforementioned activities and recognizing the
21 benefits of securitization, PECO's cost recovery requirement could be as low

1 as \$5.424 billion. Netting that figure against the nearly \$5.9 billion of
2 present-valued revenue that PECO projects it will receive from CTC
3 collections, could render a net benefit of nearly \$500 million for PECO
4 shareholders.¹

5 Still, the foregoing analysis represents only the first step of an
6 assessment of PECO's overrecovery potential under the terms of the Partial
7 Settlement. As I have explained earlier in this testimony, PECO's projected
8 CTC revenues are premised on highly conservative sales growth assumptions.
9 Substituting the Base Case sales growth projections upon which PECO relied
10 in the preparation of its 1997 Annual Resource Planning Report for the no
11 growth assumptions that PECO used in the development of its CTC charges for
12 the Partial Settlement, PECO is found to have the potential for another \$1.3
13 billion of overrecovery in nominal dollar terms, or more than \$700 million of
14 additional overrecovery in present value terms. See Exhibit A-R attached to
15 this testimony. In other words, PECO could easily be looking at a present
16 valued overrecovery of at least \$1.2 billion (i.e., \$500 million plus \$700
17 million). Furthermore, the sales growth assumptions used to compute this
18 additional overrecovery potential provide no consideration of the impact on
19 electricity consumption of either promised rate reductions or more

¹ Indeed the "present value" of the CTC recovery may actually be much higher as PECO witness Mitnick found in an earlier phase of this proceeding.

1 competitively priced generation supplies. If rate reductions or more
2 competitively priced services stimulate further increases in electricity
3 consumption in the PECO service territory, then the magnitude of PECO's
4 overrecoveries will grow even larger. I also note that, at \$1.2 billion or more
5 of identified overrecovery potential, the question of whether PECO is allowed
6 recovery of costs for additional (non stranded cost) related activities is not
7 likely to be the driving determinant of whether the Partial Settlement provides
8 overrecovery benefits for PECO. In other words, the key question appears to
9 be how much overrecovery will PECO achieve, rather than will an
10 overrecovery result.

11
12 **Q. DO YOU FIND ANY INCONSISTENCIES BETWEEN MR. HILL'S**
13 **REBUTTAL REGARDING THE COMPANY'S POTENTIAL FOR**
14 **OVER-RECOVERY AND HIS CHARACTERIZATION OF ENRON'S**
15 **POTENTIAL FOR GAIN THROUGH SECURITIZATION?**

16 **A.** Yes. In his rebuttal at page 8, Mr. Hill, using a calculation supplied by PECO
17 witness Hiller, charges that Enron will "skim off" a "windfall" of approximately
18 \$1.0 billion through its securitization plan despite its offering of over \$800
19 million in additional present-valued rate discounts to PECO customers. If this
20 is correct, Enron's securitization plan must yield a total of more than \$1.8
21 billion in cost savings (i.e., \$1.0 billion of alleged profit for Enron plus more

1 than \$800 million of added benefits for consumers). By contrast, Mr. Hill's
2 representation in Exhibit TPH-35 is that the maximum value to PECO of
3 securitizing \$4.0 billion of stranded costs is \$600 million. In other words,
4 PECO's position is apparently based on the presumption that Enron can
5 generate more than \$1.8 billion dollars in present-valued savings through the
6 securitization of \$5.461 billion of costs. PECO, on the other hand would
7 expect, itself, to derive no more than \$600 billion of savings through
8 securitization \$4.0 million of stranded costs.

9 These sharp differences in the magnitudes of PECO's savings
10 expectations for Enron and for itself appear almost inexplicable. Although
11 Enron would securitize an amount only 36.5% larger than that to be securitized
12 by PECO under the Partial Settlement, PECO would expect Enron to achieve
13 more than three times the maximum level of benefit that PECO would project.
14 Under the circumstances, three alternative explanations would appear plausible.
15 Either (1) PECO has overstated the value of the benefits that Enron will receive
16 from securitization; (2) PECO has underestimated the benefits that it stands to
17 receive from securitizing stranded costs; or (3) Enron has developed an
18 approach to the securitization process that produces significantly more benefits
19 than the method chosen by PECO. Acceptance of any one or more of these
20 explanations, however, argues for adoption of the Choice Plan and rejection of
21 the Partial Settlement.

1 Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING MR.
2 HILL'S REBUTTAL?

3 A. Yes. I believe that the Commission should take particular note of Mr. Hill's
4 comment at page 19, lines 4-7, where he states "under the Partial Settlement
5 default customers will always enjoy the benefits of market rates without having
6 to shop for supply." This is not a model which provides for competition, or
7 even a transition to competition. With PECO as the PLR under the Partial
8 Settlement, promising market rates to all default customers, there will be no
9 incentive for customers to leave PECO's default services, much less even
10 investigate possible alternatives. Furthermore, if creative marketers should be
11 successful in finding a means of attracting customers from default service,
12 PECO would be positioned to blunt their effective-ness by simply lowering the
13 default price to whatever level is necessary to stem such losses. Since losses
14 of customers to alternative suppliers would serve as demonstration that the
15 PECO default service price must be above the market price, PECO would be
16 compelled by the terms of the Partial Settlement to lower its prices until all
17 such losses are eliminated. Once again, with these, perhaps well-intentioned,
18 but clearly anti-competitive provisions, the Partial Settlement fails as a tool to
19 effect a transition to competition and simply continues to entrench PECO as a
20 monopoly provider of retail power services.

21

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes, it does.

**Estimated CTC Collections Under Partial Settlement Without Reconciliation
At Partial Settlement Sales Assumptions and At PECO's Forecasted Sales Levels**

Year	Partial Settlement Sales (MWH)	PECO Forecasted Sales (MWH)	Partial Settlement CTC Rate (\$/kWh)	Partial Settlement CTC Collection (\$000)	PECO Forecasted CTC Collection (\$000)	Growth-Related Increase in CTC Collection (\$000)
9/98-12/98	8,395,802	9,130,250	\$ -	\$ -	\$ -	\$ -
1999	33,589,358	36,821,000	\$ 0.0304	\$ 1,020,888	\$ 1,110,434	\$ 89,748
2000	33,589,358	36,888,000	\$ 0.0304	\$ 1,020,888	\$ 1,121,532	\$ 100,844
2001	33,589,358	37,380,000	\$ 0.0314	\$ 1,054,481	\$ 1,174,182	\$ 118,701
2002	33,589,358	37,752,000	\$ 0.0314	\$ 1,054,480	\$ 1,185,878	\$ 131,388
2003	33,589,358	38,128,000	\$ 0.0314	\$ 1,054,489	\$ 1,197,888	\$ 143,187
2004	33,589,358	38,503,000	\$ 0.0287	\$ 964,244	\$ 1,105,958	\$ 141,714
2005	33,589,358	38,897,000	\$ 0.0277	\$ 930,818	\$ 1,078,544	\$ 147,728
2006	33,589,358	39,572,000	\$ 0.0257	\$ 863,871	\$ 1,018,460	\$ 154,489
2007	33,589,358	39,663,000	\$ 0.0247	\$ 830,547	\$ 981,311	\$ 150,764
2008	33,589,358	40,057,000	\$ 0.0227	\$ 763,685	\$ 911,287	\$ 147,592
Total	335,693,680	383,359,000		\$ 9,658,121	\$ 10,885,280	\$ 1,327,159
Net Present Value @ 8.0%						\$ 797,553
Net Present Value @ 10.0%						\$ 711,116

