R-00973953

ENVIRONMENTALISTS' STATEMENT 1-E

Phila. 11/19/97
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS RESTRUCTURING PLAN	:	DOCKET NO. R-00973953
PETITION OF ENRON ENERGY SERVICES POWER, INC. FOR APPROVAL OF AN ELECTRIC COMPETITION AND CUSTOMER CHOICE PLAN	:	DOCKET NO. P-00971265 (consolidated)

Prepared Testimony and Exhibits of
DAVID SCHOENGOLD

On Behalf of
The Environmentalists

November 7, 1997

MSB Associates
7507 Hubbard Avenue, Suite 200, Middleton, WI 53562
608-831-1127 (phone) 608-836-1290 (fax)
schoengo@msbnrg.com (e-mail)

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1. QUALIFICATIONS

Q. Please state your name and business address.

A. My name is David Schoengold. My business address is MSB Energy Associates, 7507 Hubbard Avenue, Middleton, WI 53562.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Environmentalists.

Q. Have you previously testified in the PECO Energy restructuring proceedings?

A. Yes. I submitted testimony for the first round of hearings (Environmentalists' Statement 2), and I also submitted testimony on the PECO Joint Petition for Partial Settlement (Environmentalists' Statement 1-S). I have previously submitted my qualifications and *vita*, and will not repeat those here.

2. INTRODUCTION

Q. What is the purpose of your testimony today?

A. I will present the Environmentalists' perspective on the Enron proposal. My testimony should be considered in conjunction with that of Bruce Biewald who is presenting the Environmentalists' alternative proposal for determining the default supplier(s) and with that of Roger Colton, who addresses the policy rationale and justification for the default supplier proposal.

Q. How have you organized your testimony?

A. My testimony is organized into three main sections:

Is the Enron Proposal in the public interest?

Is the Enron Proposal consistent with the Customer Choice Act?

Are the charges under the Enron Proposal just and reasonable?

Q. These are the same questions you raised in your testimony on the PECO proposed Partial Settlement. Will the answers be different with respect to the Enron Proposal?

A. Where the Enron Proposal has simply accepted and adopted provisions of the PECO Partial Settlement, my answers to these questions will be the same as in the previous round of hearings. In such cases, rather than repeat the testimony I have previously given, I will reference my previous testimony.

Q. Can you set forth your conclusions and recommendations?

A. Yes. I have reached the following conclusions:

As presented, the Enron Proposal is not in the public interest.

- It adopts the PECO calculation of retail stranded costs and overstates the level of stranded cost recovery.
- It adopts the PECO calculation of retail stranded costs and thus allocates too much of the stranded costs to retail customers.
- It utilizes the PECO interclass cost allocation approach and thus does not allocate stranded asset cost collection fairly among customer classes.
- It does not provide adequate protection for the environment.
- It relies on a monopoly default supplier for customers who do not choose a competitive supplier.

The recommendations to the Commission which were included in my testimony on the PECO Partial Settlement (Environmentalists' Statement 1-S) relating to stranded cost recovery, environmental disclosure and standards, and renewable energy resources would apply to the Enron Proposal. In place of the Enron Proposal, the Commission should adopt the Environmentalists' PECO restructuring recommendations which are set forth in my testimony and in the testimony of Bruce Biewald.

3. IS THE ENRON PROPOSAL IN THE PUBLIC INTEREST?

Q. What are the issues which the Commission should examine in determining whether the Enron Proposal is in the public interest?

A. I believe the three issues are:

- Is it good for the environment?
- Is it good for consumers? and,
- Is it good for competition?

A. IS THE ENRON PROPOSAL GOOD FOR THE ENVIRONMENT?

Q. Do you believe the Enron Proposal is good for the environment?

A. The Enron Proposal is better for the environment than the PECO Partial Settlement. The higher market price in the Enron Proposal compared to the PECO Partial Settlement will be more likely to attract new suppliers with cleaner, more efficient plants than the existing mix of PECO plants. This will help the market shift to newer, cleaner technology.

But there are still a number of problem areas:

- The Enron Proposal does not address environmental disclosure of the impacts of power generation.
- The Enron Proposal does not provide for environmental comparability between new and existing plants. The lack of environmental comparability will continue to be a barrier to bringing newer, cleaner plants into the power market.
- The Enron Proposal does little to encourage renewable resources.

Bruce Biewald and I have discussed the problems related to the lack of environmental comparability and environmental disclosure in our previous testimony and will not repeat these points, other than to say that the Enron Proposal does not address or correct these problems.

Q. You state that the Enron Proposal would do little to encourage conservation and renewable energy resources. What can the Commission do to encourage renewable resources?

A. In my previous testimony I made three suggestions:

- To create a Sustainable Development Fund to promote and finance sustainable energy technologies and services within the PECO T&D service territory that enhance economic development and improve environmental quality within the region. These sustainable energy technologies and services would include energy efficiency, energy conservation, renewable energy (solar, wind, hydro and biomass other than mass incineration of solid waste), clean distributed energy

technologies (fuel cells, advanced low-emission combustion) and similar opportunities.

- To encourage small renewable energy resource installations and clean energy technologies such as fuel cells, there should be a net metering tariff which provides retail-in/retail-out pricing.
- To further encourage small renewable and clean energy resource installations, the Commission should require that interconnection standards be made consistent with national standards such as the IEEE and Underwriter's Laboratory standards and that the administrative cost of interconnection be lowered.

My recommendations in the previous testimony also apply to the Enron Proposal.

The proposal set forth in Bruce Biewald's testimony for a market allocation of default customers (those who do not make an affirmative choice of a competitive supplier) to numerous default suppliers will also encourage conservation and renewable resources and comprise a fourth recommendation.

B. IS THE ENRON PROPOSAL GOOD FOR CONSUMERS?

Q. Is the Enron Proposal good for consumers?

A. In some ways the Enron Proposal is better for consumers than the PECO Partial Settlement, and in some ways it is worse. The Enron Proposal would require some modification in order to be considered good for consumers.

Q. How is the Enron Proposal better for consumers than the PECO Partial Settlement?

A. The Enron Proposal is better for three main reasons.

- It creates, at least in the early years, a generation credit which is more realistic than the credit contained in the PECO Partial Settlement. This gives consumers a greater opportunity to reduce their costs from an alternative supplier.
- It provides customers with a larger rate discount in the early years than the PECO Partial Settlement.
- It caps CTC recovery so that increasing sales do not produce a windfall.

Q. What modifications are required for the Enron Proposal to be considered good for consumers?

A. There are several key modifications I would recommend:

- The rate cuts contained in the Enron Proposal totally disappear if the stranded cost cannot be securitized. This puts too much risk on customers and should be modified.
- Under the Enron Proposal, the ITC rises sharply late in the transition period. As a result, customer costs end up higher than they currently are. The rise in the ITC should be moderated.
- The Enron Proposal accepts and adopts PECO's calculation of stranded costs, which leads to unnecessary, unfair and excessive customer rates. Use of the PECO stranded cost calculations is the reason why the Enron Proposal pays for its higher initial savings with larger cost increases in later years. A more appropriate level of stranded cost recovery is discussed below.

C. IS THE ENRON PROPOSAL GOOD FOR COMPETITION?

Q. Why does it matter whether the Enron Proposal is good for competition?

A. The promise of real competition is greater customer choice in the costs and terms of power and other energy services. It also holds out the promise of clean and renewable energy technologies and services not currently available.

Q. Is the Enron Proposal good for competition?

A. The Enron Proposal has some points which make it good for competition. Other elements of the Proposal are not good for competition.

Q. What elements of the Enron Proposal are good for competition?

A. An important element which is pro-competition is the use of a more realistic generation credit, especially in the earlier years of the proposal, though the generation credit assumed in the later years seems low.

Q. What elements of the Enron Proposal are bad for competition?

A. There are several elements which are anti-competitive.

- The non-comparable treatment of environmental emissions between existing plants and new plants gives existing plants a competitive advantage. This discourages new market entry.
- The designation of Enron as the default supplier to customers who do not choose an alternative provider will give Enron a large pool of customers outside of the competitive market.

4. IS THE ENRON PROPOSAL CONSISTENT WITH THE ACT?

Q. What is needed for the Enron Proposal to be consistent with the Act?

A. There are four key tests for determining whether the Enron Proposal is consistent with the Act:

- Are stranded costs properly quantified?
- Is the utility undertaking adequate mitigation?
- Is there a reasonable sharing of the burdens of stranded cost?
- Is the collection of stranded costs fair and reasonable?

Q. Does the Enron Proposal properly quantify stranded costs?

A. The Enron Proposal accepts and adopts the PECO quantification of stranded costs, so all of the problems I identified with the PECO quantification in my previous testimony apply as well to the Enron Proposal. In my previous testimony (Environmentalists' Statement 1-S, pages 29-30), I determined that PECO erroneously allocated 100% of the stranded generation costs to retail. A proper accounting of the wholesale sales would have reduced the retail allocation to 96.2 percent rather than 100 percent. Enron also adopts directly the PECO determination of stranded costs relative to nuclear decommissioning, deferred fuel costs, and fossil fuel plant decommissioning.

I believe that the Enron Proposal should have been based on the Office of the Consumer Advocate's quantification of stranded cost in these categories as conveniently summarized in PECO Exhibit TPH-16.

Q. Does the Enron Proposal include adequate mitigation?

A. Again, the Enron Proposal relies on the mitigation from the PECO Proposal, so all of the problems I identified with the PECO quantification in my previous testimony (Environmentalists' Statement 1-S, pages 30-34) apply as well to the Enron Proposal.

Q. Does the Enron Proposal include reasonable sharing of the burden of stranded costs?

A. The Enron Proposal accepts the PECO Partial Settlement claimed write-off of $2.0 billion in stranded cost and uses the remaining $5.5 billion as the basis of the proposal. This approach allocates too much of the stranded costs to the customers. In my previous testimony (Environmentalists' Statement 1-S, pages 35-41) I recommended an allowance of 25.7% of generating plant stranded cost. This level of stranded cost recovery would allow PECO to pay off the debt and to provide stockholders with both a return of their investment and a reasonable return on their investment. I would recommend that the same 25.7% recovery of generating plant stranded costs be used when evaluating the Enron Proposal.

Q. Does the Enron Proposal include fair and reasonable collection of stranded costs?

A. The Enron Proposal provides an important safeguard which is not present in the PECO Partial Settlement. The Enron Proposal caps the collection of the CTC/ITC when it reaches the level determined by the Commission. Unlike the PECO proposal, the Enron proposal will not over-collect the CTC if sales increase.

It appears that the Enron Proposal follows the stranded cost collection allocation used in the PECO Partial Settlement. In my previous testimony I discussed problems with that allocation. The problems would be applicable to the Enron Proposal as well.

5. ARE THE CHARGES UNDER THE ENRON PROPOSAL JUST AND REASONABLE?

Q. The Enron Proposal sets out unbundled rates for each customer class during the transition period. Are the charges under these rates just and reasonable?

A. Some elements of the proposed rates are reasonable and some are not. Some elements which are reasonable are the following:

- If the actual market prices turn out to be higher than the assumed market prices, Enron is required to sell power to retail customers at a price no higher than the assumed price. Customers who choose to shop for competitive electricity are allowed to return and receive these capped energy/capacity rates as well.
- Enron's proposed initial rate decrease is more advantageous to the customers than PECO's.

However, other elements of the rates are not just and reasonable.

- Many of the industrial customers appear to be able to avoid large amounts of CTC payment based on their special rate status.
- The Enron Proposal calls for a sharply increasing CTC/ITC recovery during the ten year transition period. This is one of the reasons why

Enron is able to offer a larger rate decrease in the early years than PECO. The customers, however, pay for the early larger decrease with significant rate increases in the later part of the transition period.

6. THE ENVIRONMENTALISTS' RECOMMENDATIONS

Q. You have identified a number of problems with the Enron Proposal. What are your recommendations?

A. The Environmentalists have evaluated the unbundled rate and stranded cost recovery evidence and proposals submitted by the various parties and they have prepared a recommended Table A which is set forth in Exhibit DS-1. Schedule 1 of Exhibit DS-1 summarizes the CTC/ITC, generation cost, rate cap, T&D cost, and percentage savings in the Environmentalists' proposal. Schedules 2 and 3 of Exhibit DS-1 provide the supporting tables. The underlying assumptions are identified in that exhibit, and are based on my testimony here and in the previous rounds of hearings.

As shown in these Exhibits, the Environmentalists' position is that PECO should be allowed to recover not more than $3.326 billion in stranded costs and that this amount be securitized and recovered over a seven year period through an Intangible Transition Charge (ITC) using the unbundled rates shown in Exhibit DS-1, Schedule 1.

Exhibit DS-2 compares the year-by-year CTC/ITC recovery under the Environmentalists' Proposal, the Enron Proposal, and the PECO Partial Settlement. Exhibit DS-3 compares the year-by-year generation credit as

recommended by the Environmentalists and as contained in the Enron Proposal and the PECO Partial Settlement.

Q. The Environmentalists recommend collecting the ITC for only seven years. Why are you using a seven year collection rather than the ten year period used in the PECO Partial Settlement and the Enron Proposal?

A. I believe it is preferable to finish up the stranded cost collection (and to achieve the full benefits of competition) sooner rather than later. It would, of course, be possible to use a longer ITC collection period. Extending the collection period to 10 years would increase the savings to the customers in the first seven years, but reduce them in years 8-10. My Exhibit DS-1 shows a rate reduction in the first year of about 16%. If the ITC collection were extended to 10 years, the first year rate reduction would be around 20%.

Q. What are the Environmentalists' other recommendations?

A. We recommend that the Commission include the following measures in its final order in this proceeding:

- The default supplier allocation as described in Mr. Biewald's testimony (Environmentalists' Statement 2-E).
- The environmental disclosure requirements we have previously supported.
- New and expanded net metering tariff (a sample tariff is included as Exhibit DS-4 to this testimony) and simplified interconnection rules for small clean and renewable generation;
- Funding of the Sustainable Development Fund by PECO and all suppliers at an annual level equal to 0.5% of their operating revenues.

7. THE SUSTAINABLE DEVELOPMENT FUND

Q. You have discussed the Environmentalists' proposal for a Sustainable Development Fund in your earlier testimony. Is there anything which you wish to add?

A. Yes. The Long Island Power Authority recently issued a draft policy statement on clean energy which explains very well the mission for such a Fund. This policy statement "recognizes that the promotion of energy efficiency and renewable energy ... will benefit the environment, reduce consumer electric bills and foster economic growth." The entire statement is reproduced in Exhibit DS-5 and I recommend that the Commission adopt it as the guiding principles of the Sustainable Development Fund.

Q. You originally recommended that the Fund receive $24 million from PECO Energy. Do you have an alternative funding proposal at this time?

A. Yes. As discussed in the Biewald testimony (Environmentalists' Statement 2-E), we recommend that the Fund be financed by contributions from PECO (and at some point the Commonwealth's other utilities) and all generation suppliers in an amount equal to 0.5% of their Pennsylvania revenues.

Q. Does this complete your testimony?

A. Yes.

Exhibit DS-1

to Environmentalists' Statement No. 1-E

The Environmentalists Version of Table A

APPLICATION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS RESTRUCTURING PLAN	:	DOCKET NO. R-00973953
PETITION OF ENRON ENERGY SERVICES POWER, INC. FOR APPROVAL OF AN ELECTRIC COMPETITION AND CUSTOMER CHOICE PLAN	:	DOCKET NO. P-00971265 (consolidated)

Environmentalists' Statement 1-E
Exhibit DS-1
Schedule 1

The Environmentalists' Version of Table A

Date	Transm	Dist[1]	ITC[2]	Energy/ Capacity[3]	Total	Generation Rate Cap	Discount
9/1/98	0.47	2.64	1.90	3.32	8.33	5.22	16.2%
1/1/99	0.47	2.64	1.88	3.35	8.34	5.23	16.1%
1/1/00	0.47	2.64	1.87	3.45	8.42	5.31	15.3%
1/1/01	0.47	2.64	1.85	3.55	8.51	5.40	14.4%
1/1/02	0.47	2.64	1.83	3.66	8.60	5.49	13.5%
1/1/03	0.47	2.64	1.82	3.77	8.69	5.58	12.5%
1/1/04	0.47	2.64	1.80	3.88	8.79	5.68	11.6%
1/1/05	0.47	2.64	1.78	4.00	8.89	5.78	10.6%
1/1/06	0.47	2.64	0.00	4.12	7.23	4.12	27.3%
1/1/07	0.47	2.64	0.00	4.24	7.35	4.24	26.1%
1/1/08	0.47	2.64	0.00	4.37	7.48	4.37	24.8%

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1 We have assumed for the purposes of calculating the total rate and the total rate discount that T&D costs remain constant throughout the entire time period. This will not necessarily be the case, since the rate cap for T&D does not run through the entire period. If there are increases in the T&D rates, the overall rate discount will be smaller.

2 From Schedule 3.

3 From the testimony of David Schoengold, Environmentalists' Statement 2, page 17. This is equivalent to a cost of 3.25 cents per kWh beginning in 1998, escalating at the inflation rate.

Environmentalists' Statement 1-E
Exhibit DS-1
Schedule 2

Stranded Cost Calculations

	($B)	Allowed	Allowed	Notes
Gen Plant	4.484	25.7%	1.152	(1)
Reg Assets	2.272	100%	2.272	(2)
Nucl Decom	0.234	0%	0.000	(3)
Def Fuel	0.311	0%	0.000	(4)
Foss Decom	0.127	0%	0.000	(5)
Other	0.033	100%	0.033	(6)
Total	7.461	46.3%	3.457	
Jurisdictional		96.2%	3.326	(7)

(1) $4.484 billion from PECO Partial Settlement;
25.7% from Environmentalists' Statement 1-S,
Testimony of David Schoengold, page 40.

(2) $2.272 billion from PECO Partial Settlement;
100% allowed recovery from Exhibit TPH-16, OCA values.

(3) $0.234 billion from PECO Partial Settlement;
0% allowed recovery from Exhibit TPH-16, OCA values.

(4) $0.311 billion from PECO Partial Settlement;
0% allowed recovery from Exhibit TPH-16, OCA values.

(5) $0.127 billion from PECO Partial Settlement;
0% allowed recovery from Exhibit TPH-16, OCA values.

(6) $0.033 billion from PECO Partial Settlement;
100% allowed recovery from Exhibit TPH-16, OCA values.

(7) 96.2% from Environmentalists' Statement 1-S,
Testimony of David Schoengold, Ex. DS-7, Schedule 1

Environmentalists' Statement 1-E
Exhibit DS-1
Schedule 3

Annual ITC Calculations

7.42% Interest Rate[1]
3,326 Principal ($M)

	Annual ITC ($M)	Annual Sales (GWH)[2]	CTC/kWh
1999	604	33,562	1.88
2000	604	33,864	1.87
2001	604	34,169	1.85
2002	604	34,476	1.83
2003	604	34,787	1.82
2004	604	35,100	1.80
2005	604	35,416	1.78
2006	0	35,734	0.00
2007	0	36,056	0.00
2008	0	36,381	0.00

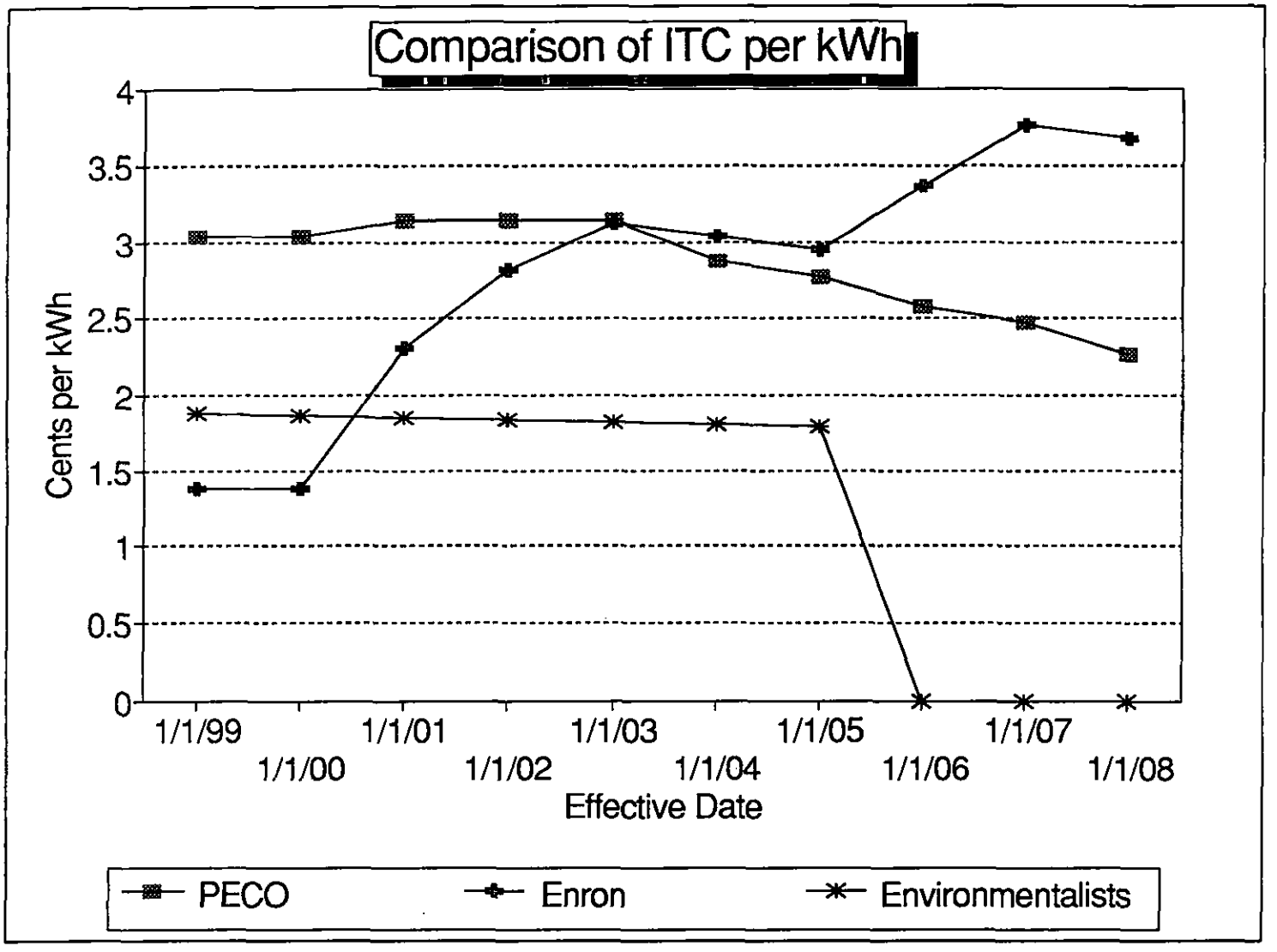
3,326 (NPV of ITC)

1 This is the assumed interest rate for securitization bonds as set forth in Exhibit ABC-10 of Alan B. Cohen in Docket R-00973877, the securitization case, filed on January 22, 1997.

2 The sales figures are based on PECO's actual 1996 sales increased at 0.9 percent per year, the historical growth rate.

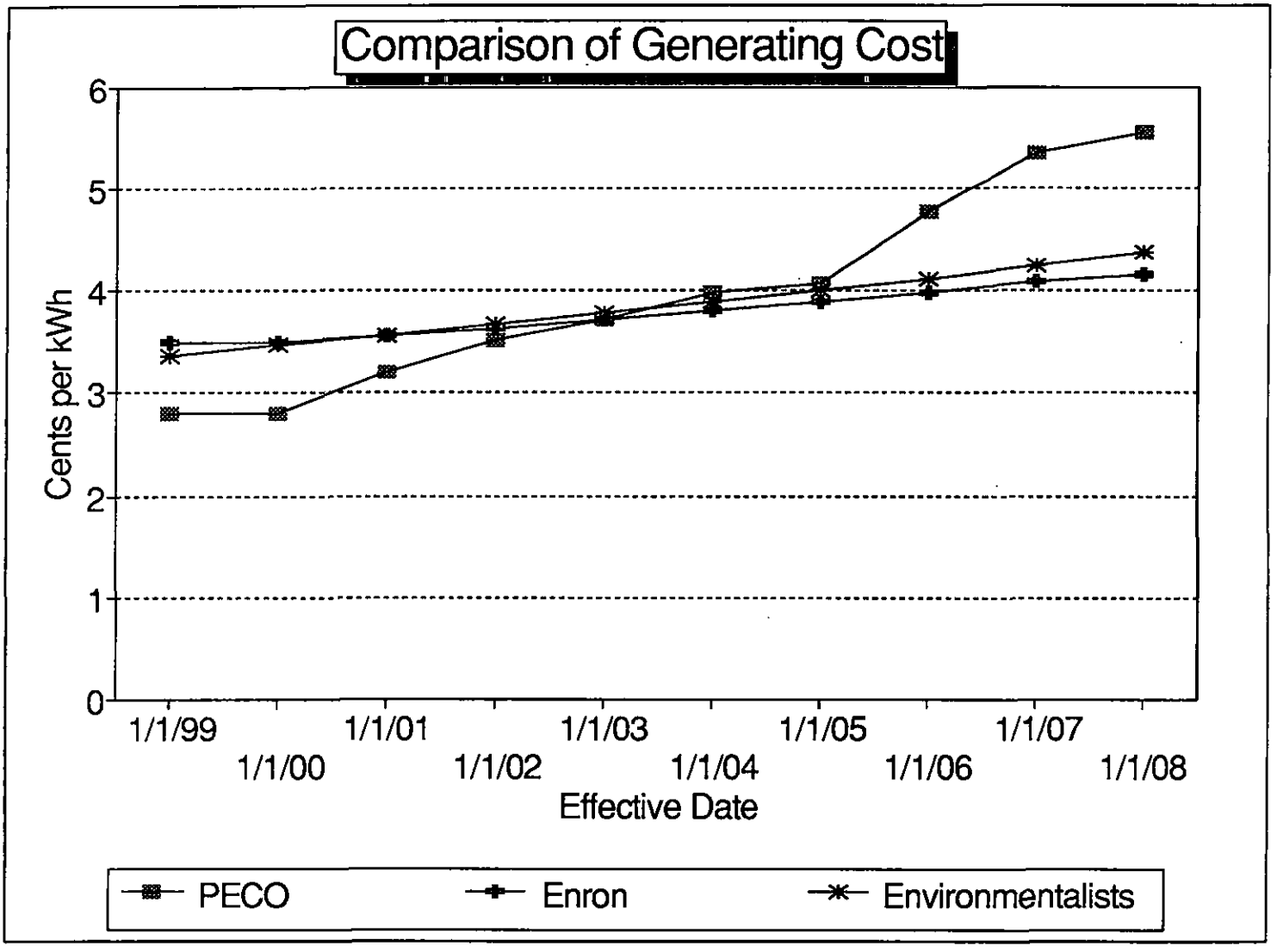
Environmentalists' Statement 1-E
Exhibit DS-2

The Unbundled CTC/ITC Levels: A Comparison of the Various Proposals


Comparison of ITC per kWh
Cents per kWh
4
3.5
3
2.5
2
1.5
1
0.5
0
1/1/99
1/1/00
1/1/01
1/1/02
1/1/03
1/1/04
1/1/05
1/1/06
1/1/07
1/1/08
Effective Date
PECO
Enron
Environmentalists

Environmentalists' Statement 1-E
Exhibit DS-3

The Unbundled Generation Credit: A Comparison of the Various Proposals


Comparison of Generating Cost
Cents per kWh
0
1
2
3
4
5
6
1/1/99
1/1/00
1/1/01
1/1/02
1/1/03
1/1/04
1/1/05
1/1/06
1/1/07
1/1/08
Effective Date
PECO
Enron
Environmentalists

Environmentalists' Statement 1-E
Exhibit DS-4

Sample Net-Metering Tariff

RATE xxx - SMALL RENEWABLE ENERGY SERVICE

AVAILABILITY

Single-phase electric service in the entire territory of the Company for a Customer served under Rate xxx[residential], Rate xxx [commercial] or Rate xxx [small industrial], that has installed a device or devices that are a bona fide technology for use in generating electricity from qualifying renewable energy installations not exceeding 10 kW, and that will be operated in parallel with the Company's system. Qualifying renewable energy installations include solar panels, wind, low head hydro, biomass, methane field or coal mine-based methane gas, and fuel cell generation. The customer's equipment must conform to the installation requirements contained in the Company's published requirements for parallel operation of non-utility generation, or similar document.

LIMITATIONS ON FEES AND CHARGES

The Company shall evaluate system interconnections according to current IEEE standards and shall absorb costs up to $1,000 for any system upgrades it finds are necessary. In addition, administrative charges for the application fee, application and/or engineering review and inspection costs shall be limited to the lesser of cost or: (1) $35 for a photovoltaic installation; or (2) $ 250 per installation for other than a photovoltaic installation. This paragraph's limitations for single charges apply to multiple installations at one site using similar equipment.

METERING/BILLING PROVISIONS

A customer may select one of the following three billing and metering options in conjunction with the Applicable Rates xxx and their charges. None of these options shall include an additional monthly meter reading charge.

(a) A non-ratcheted, bidirectional meter may be used to record net energy sales to the customer.
(b) A smart meter may be installed that measures energy delivered by the Company to the customer and also measures the energy delivered to the Company from the customer that is generated by the customer's qualified renewable energy installation.
(c) Two meters may be installed. One will measure the energy delivered by the Company that the customer uses, and the other will measure the energy delivered to the Company from the customer that is generated by the customer's qualified renewable energy installation.

If, in any billing month, the amount of energy delivered by the Company that the customer uses is greater than the amount of energy the customer delivered to the Company, the Company will bill the customer for the difference. If, in any billing month, the amount of energy delivered by the Company that the customer uses is less than the amount of energy the customer delivered to the Company, the Company will allow the customer to carry forward a credit for up to 12 months, at which point the Company will pay the customer for the excess using the monthly average net interchange billing rate for the period.

A customer may sell any excess energy to an Electric Generation Supplier other than the Company, including a broker or aggregator, and the passing of title to the power shall not affect the provisions of this tariff..

CURRENT CHARACTERISTICS.
Standard single-phase secondary service.

MONTHLY RATE TABLE FOR NET ENERGY USED BY CUSTOMER. (See Applicable Rate xxx, Rate xxx or Ratexxx for charges.).

MINIMUM CHARGE: The minimum charge per month will be the Fixed Distribution Service Charge for the applicable Rate xxx, Rate xxx, or Rate xxx Service for residential, commercial and small industrial customers.

STATE TAX ADJUSTMENT CLAUSE, COMPETITIVE, AND ANY INTANGIBLE TRANSITION CHARGES apply to customers taking service under this rate.

CONTRACT TERM.
Not less than 12 months.
PAYMENT TERMS.
Standard

RATE xxx - SMALL RENEWABLE ENERGY SERVICE

AVAILABILITY

Single-phase electric service in the entire territory of the Company for a Customer served under Rate xxx[residential], Rate xxx [commercial] or Rate xxx [small industrial], that has installed a device or devices that are a bona fide technology for use in generating electricity from qualifying renewable energy installations not exceeding 10 kW, and that will be operated in parallel with the Company's system. Qualifying renewable energy installations include solar panels, wind, low head hydro, biomass, methane field or coal mine-based methane gas, and fuel cell generation. The customer's equipment must conform to the installation requirements contained in the Company's published requirements for parallel operation of non-utility generation, or similar document.

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STATE TAX ADJUSTMENT CLAUSE, COMPETITIVE, AND ANY INTANGIBLE TRANSITION CHARGES apply to customers taking service under this rate.

CONTRACT TERM.
Not less than 12 months.
PAYMENT TERMS.
Standard

The Long Island Power Authority
Policy Statement on Clean Energy

FOR IMMEDIATE RELEASE
September 17, 1997

LIPA Issues Policy Statement On Clean Energy

Schedules Hearing And Solicits Public Comment

Uniondale, New York -- The Long Island Power Authority (LIPA) announced today that it will hold a series of workshops and public hearings to begin the process of formally implementing LIPA-developed programs on energy conservation, renewable technologies and the environment. LIPA also released a draft policy statement outlining its commitments to clean energy.

"LIPA made a commitment at the start of this process to go beyond the average 17 percent rate cut all Long Island ratepayers will receive as a result of the negotiated LIPA/LILCO/Brooklyn Union agreement," said LIPA Chairman Richard Kessel. "We said early on that competition and energy efficiency were key to making this plan viable in the years ahead. We are now prepared to move this process forward."

"We will aggressively seek ways to use new technologies and conservation techniques to sustain, and even improve, reductions in electric rates," noted Patrick Foye, LIPA vice-chairman. "System efficiency and reliability will also be improved through these initiatives."

LIPA received praise for its efforts from Ashok Gupta, senior energy economist for the Natural Resource Defense Council (NRDC). "NRDC is pleased that LIPA is moving forward with its clean energy agenda," said Gupta. "The Draft Policy Statement shows a recognition by LIPA that economic progress and environmental protection go hand-in-hand and that energy efficiency can contribute to lowering energy costs on Long Island. NRDC looks forward to working with the LIPA Board and staff on this very important initiative."

Kessel and Foye said that the policy directs LIPA staff to hold workshops and hearings on a number of policy initiatives that will be undertaken to:

- establish a $32 million LIPA *Clean Energy Fund and an Advisory Committee*, which will support energy efficiency, clean distributed generation and renewable energy technologies. The Advisory Committee will advise LIPA on the use of the funds;
- implement a planning process on *Alternatives to Distribution System Upgrades*, which will help identify for implementation cost-effective energy alternatives to conventional power generating additions and new transmission and distribution infrastructure on Long Island;
- develop reasonable *Interconnection Standards* for smaller electric generation technologies, which will allow interconnections while safeguarding the electric system;
- implement a *Power Plant Emissions* review process, which will seek to improve the emission rates for power supplies serving Long Island as part of cost-effective power resource planning and procurement;

- establish an *Environmental Disclosure* process for periodically informing customers in monthly bills regarding the power plant emission characteristic's of power supplies serving Long Island;

- establish a competitive bidding process for the *Acquisition of Energy Supply Resources*, which will promote competition among all supply and demand resources and insure cost-effective sources for Long Island;

- establish an *Economic Development Task Force*, which will target energy efficiency and renewable energy resource technologies as high priority industries to attract to Long Island.

LIPA is issuing its draft policy statement today for public comment and has scheduled a public hearing on it for Wednesday, October 15th, starting a 2:00 PM, at the OMNI Center in Uniondale.

The draft policy statement will be available on LIPA's Web site, which can be reached at http://www.lipa.state.ny.us.

DRAFT POLICY STATEMENT ON CLEAN ENERGY FOR CONSIDERATION BY THE LIPA BOARD

The Long Island Power Authority (LIPA) Board of Trustees recognizes that the promotion of energy efficiency and renewable energy on Long Island will benefit the environment, reduce consumer electric bills and foster economic growth. The LIPA Board desires to adopt policies in order to support the development of energy efficiency and renewable energy markets on Long Island. The Board directs Staff to undertake workshops, public meetings, or other means to obtain input on the following proposed policies with the assistance of broad public participation, with the goal of proposing policies for adoption by the Board.

Clean Energy Fund and Advisory Committee - Some energy efficiency and renewable energy sources will require a measure of support until market barriers are removed and customer awareness is increased. LIPA will establish a Clean Energy Fund of $32 million to support energy efficiency, clean distributed generation and renewable technologies. At least ten percent of this fund will be targeted to low-income households, and some level will be targeted to economic development projects that promote clean energy. LIPA will establish, fund, and work with an Advisory Committee of citizens, including environmental, consumer, and business representatives, to establish a long-term funding mechanism for the Fund at the $32 million per year level and design specific programs to support energy efficiency and clean generation technologies.

Alternatives to Distribution System Upgrades - Distributed utility planning encourages the use of cost-effective energy efficiency and small distributed generating technologies as alternatives to conventional power generation additions and new transmission and distribution infrastructure. Distributed utility planning can, in the long-term, contribute to both an improved environment and a least-cost electric system. LIPA will determine whether there are identifiable high-cost service areas within the Long Island distribution system which LIPA should specifically target for implementation of cost-effective alternatives--including energy efficiency, fuel cells, photovoltaic cells, or other technologies--to distribution upgrades.

Interconnection Standards - The requirements for interconnection of smaller, dispersed generation technologies can impact their cost-effectiveness in competing with traditional supply options. Consistent with statewide efforts, LIPA will develop reasonable interconnection standards, which will protect public health and safety and maintain the electric system reliability and do not unduly burden any power resource.

Power Plant Emissions - The oil and gas-fired power generating plants on Long Island are already among the lowest emitting plants in the nation, compared to other electric utilities. LIPA pledges to periodically review the status of emissions from power supplies serving Long Island, and to seek to improve the emission rates of such power supplies as part of cost-effective power resource planning and procurement.

Environmental Disclosure - To enable customers to be aware of the environmental effects of electricity consumption, LIPA will periodically summarize and distribute to its customers in monthly statements the fuel mix and emission characteristics of the power supplies which produce energy distributed by LIPA to its retail customers.

Acquisition of Energy Supply Resources - LIPA is committed to competitively bidding all new power resource requirements, including demand side management/energy efficiency, to bring the benefits of competition to Long Island. Prior to financial closing of the LIPA/Long Island Lighting Co. (LILCO)/Brooklyn Union Gas (BU) transaction, LIPA will establish a process for competitively bidding new power supply resources, providing opportunities for conventional, energy efficient, and renewable power supply alternatives and load management and energy conservation measures to compete in an open market.

Economic Development - With a skilled workforce and ready access to global markets, Long Island is well positioned to be a leader in the development and manufacture of energy efficient and renewable energy products. To take advantage of this potential, LIPA will establish and direct an Economic Development Task Force which would include in its objectives targeting energy efficiency and renewable energy resource technologies as high priority industries to attract to Long Island.

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R-00973258

ENVIRONMENTALIST STATEMENT NO. 3-E

Pkt. a. 11/18/97
M. Wolf

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS RESTRUCTURING PLAN	:	DOCKET NO. R-00973953
PETITION OF ENRON ENERGY SERVICES POWER, INC. FOR APPROVAL OF AN ELECTRIC COMPETITION AND CUSTOMER CHOICE PLAN	:	DOCKET NO. P-00971265 (consolidated)

Prepared Testimony of
Roger D. Colton

On Behalf of
The Environmentalists

November 7, 1997

Fisher, Sheehan and Colton
34 Warwick Road, Belmont, MA 02178
617-484-0597 (voice) 617-484-0594 (fax)
rcolton101@aol.com (e-mail)

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02178.

Q. ARE YOU THE SAME ROGER COLTON WHO HAS PREVIOUSLY TESTIFIED IN THE PECO RESTRUCTURING PROCEEDING?

A. Yes. My earlier testimony was Environmentalists' Statement 1 (June 20, 1967). My resume was included as Exhibit RDC-1 in that testimony.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY TODAY.

A. The purpose of my testimony today is to provide the policy rationale and justification for the market allocation proposal advanced by Mr. Bruce Biewald in Environmentalists' Statement 2-E in this proceeding. I will address the consumer research that explains why Mr. Biewald's proposal is not only reasonable, but necessary.

In brief, the failure to adopt the proposal advanced by Mr. Biewald will result in an unfair competitive advantage to either PECO (if the Commission accepts the Joint Petition) or to Enron (if the Commission accepts the Enron proposal) as a consequence of being allocated all of the default customers in the service territory. By default customers, we mean those customers that do not make an affirmative choice to purchase electricity from PECO or another generation supplier. As Mr. Biewald states, the allocation of default customers should advance the overall public interest purpose of the Electricity Generation Customer Choice and Competition Act (the Act): to create a robust, competitive electricity market that provides all customers with meaningful choices of electricity suppliers while maintaining an affordable, safe and reliable electric system for all parties.

Q. HOW WOULD YOU CHARACTERIZE THE ACTIONS OF CUSTOMERS WHO "CHOOSE NOT TO CHOOSE"?

A. The phrase "choose not to choose" that has entered the parlance of electric industry restructuring is a misuse of terminology. Talking about a "choose not to choose" population implies the exercise of discretion on the part of the consumer. Allocating those consumers to one default provider would thus protect "consumer sovereignty" in exercising their "right" to elect not to choose. Consumer choice implies that given an opportunity, a consumer will use his or her knowledge of available alternatives to translate wants into satisfaction.

In fact, however, considerable consumer research finds that there is no conscious exercise of discretion in the failure of consumers to choose an alternative supplier of service when an industry moves from a regulated monopoly to a competitive model. Indeed, "staying put" is the antithesis of exercising discretion. It is the failure to choose.

Q. WHY MIGHT A CONSUMER "FAIL TO ACT" IN SELECTING AN ALTERNATIVE CARRIER?

A. One of the primary reasons why consumers fail to act is because of their lack of knowledge. A failure to be able to rely on clear objective standards of comparison will often lead to a failure to act at all.[1] Consumer research has found that shopping based on a lack of adequate information promotes "shopping" based on habit.

High information costs also lead to a failure to act. When a consumer is given the "choice" to enter into a new marketplace, the consumer must obtain and digest sufficient information upon which to base a decision. The process of

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[1] Ferguson, "Consumer Ignorance as a Source of Monopoly Power: FTC Staff Report on Self-Regulation, Standardization, and Product Differentiation," 5 ***Antitrust Law and Economics Review*** 2-79, 93 (1971 - 1972).

acquiring such information, however, "costs" the consumer in time and money. If the information is difficult to obtain or difficult to understand, the costs are even higher and consumers often do nothing at all. Moreover, if highly conflicting information is presented, consumers may fail to act to sort out the competing claims. Particularly during the initial transition to a competitive market, the high search costs for consumers will lead to a failure to act at all.

A third factor which leads consumers to a failure to act involves the perceived risk that the savings identified by the consumer will, in fact, not occur. This perceived risk may arise because the consumer is confused on how to engage in the price and service shopping. Research finds that the more complex a product and service, the more likely that such confusion will lead to inaction. Similarly, the perceived risk of a "bad" decision (such as the fear of electric service interruptions) also increases the likelihood of inaction. The risk may be attributable, as well, to a skepticism that the investment the consumer makes in a change of service providers will be rewarded with stable rates over some period of time sufficient to justify the investment in time and money.

Each of these circumstances leads not to the exercise of consumer choice, but instead to consumer paralysis in decision-making. In each of these cases, describing these consumers as "failing to act" is a much more accurate description than describing them as "choosing not to choose."

Q. HOW DOES THE "BETTER CHOICE PLAN" PROPOSED BY MR. BIEWALD ADDRESS THESE ISSUES?

A. In each case, jump-starting the competitive electric market will help address the factors that led to the consumer paralysis in decision-making. Allocating the non-choosing consumers among alternative suppliers will help generate consumer experience that will overcome confusion and skepticism. Allocating consumers among alternative suppliers will help generate experience in seeking

out and understanding information. Allocating consumers will help overcome the simple consumer inertia that leads to a consumer failure to act. The allocation of consumers for these purposes recognizes that these consumer characteristics may be temporary and, therefore, that they may be treated through a transitional market mechanism, as proposed by Mr. Biewald.

Q. WILL THE FAILURE TO ADOPT THE "BETTER CHOICE PLAN" YIELD SUBSTANTIVE HARMS?

A. Yes. We know from substantial consumer research that when customers are confused and/or uninformed, they tend to engage in "index shopping." Index shopping involves consumers relying on "indexes of quality" such as trade marks, brand names, and company reputation. Allowing the entire default market to be served by a single supplier, whether it be Enron or the incumbent utility, will allow that supplier to gain a competitive advantage in developing a consumer perception of their "indexes of quality." As one analyst points out, "the importance of this advantage is measured by the high price that is sometimes asked and paid for the mere use of a name or trademark. In fact, the price for which established goodwill is bought and sold may be regarded as a measure of the value of oligopoly power that is due to buyers' ignorance."[2]

In addition, we know from substantial consumer research that it is much less expensive for a company to retain than to acquire a customer. That is one reason cited by AT&T and MCI when recently announcing their decision to substantially scale back their marketing to obtain small user telecommunications customers. Allowing the entire default pool to be served by one supplier, whether it be Enron or the incumbent utility, confers upon that supplier a competitive advantage in seeking to keep those customers over the long-term.

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[2] Scitovsky, "Ignorance as a Source of Oligopoly Power," 40 ***American Economic Review*** 49, 52 (May 1950).

Aside from the cost advantages of retaining customers (as opposed to acquiring customers), there is a marketing advantage as well. Consumers tend to engage in habit buying. Once they select (or are assigned) a service provider, they tend to remain with that provider. This has been true in the telecommunications industry. A similar situation arises in the market for open-ended credit cards: even though interest rates may be higher than other available cards, consumers tend to remain with the first-selected card. Renewal occurs automatically. Allowing the entire default pool to be served by one supplier, whether it be Enron or the incumbent utility, confers upon that supplier a competitive advantage in retaining those customers when the time for selection comes again.

Finally, in my research with respect to the commencement of telecommunications competition, I found that it is generally reported that advertising tends to yield economies of scale. Since new entrants to the market will be of insufficient size to obtain these economies of scale, those entrants will always face difficulties in gaining any substantial market foothold. Allowing the entire default pool to be served by one supplier, whether it be Enron or the incumbent utility, confers upon that supplier a competitive advantage by conferring upon them a certain size and thus the economies of scale which accompany being bigger.

Q. YOUR EARLIER TESTIMONY ADDRESSED A NUMBER OF UNIVERSAL SERVICE ISSUES. WILL THE "BETTER CHOICE PLAN" TAKE AWAY SOME OF THE PROVIDER OF LAST RESORT PROTECTIONS FROM LOW INCOME CONSUMERS?

A. Not at all. It is important to understand the distinction between the default supplier and the provider of last resort. We are not suggesting any changes to the concept of provider of last resort. PECO would remain the provider of last resort and all of the consumer protections the concept entails would continue. We are only suggesting a change in the default supplier.

Additional low income protections are included in our proposal. As explained in more detail by Bruce Biewald, suppliers which choose to serve default customers would agree to charge no more than the unbundled price for energy and capacity and to comply with the applicable protections and service standards contained in Chapter 56.

Q. DO YOU HAVE ANY FINAL OBSERVATIONS?

A. Yes. The alternative to the Better Choice Plan, allowing a mechanism that assigns the entire default pool to one supplier would be inherently anti-competitive. Such a mechanism would limit the service providers who are "eligible" to be assigned this pool only to those providers who are currently capable of serving the pool on an all-or-nothing scale. As a result, the currently dominant suppliers would be the only entities capable of serving the pool. For all of the reasons I outline above, allowing them to be the exclusive supplier for all default customers would not only given them an immediate advantage, but would give them a long term advantage as well, thus impeding the public interest goal of robust competition in the electric market which the Act intended. In contrast to this result, the "Better Choice Plan" will redound to both the short-term and long-term benefit of Pennsylvania consumers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

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