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DIRECT TESTIMONY OF
DOCKETED

AUG 28 1997

RICHARD S. SHAPIRO

ON BEHALF OF
ENRON POWER MARKETING, INC.

DOCKET NO. R-00973954
RE: PP&L RESTRUCTURING PLAN

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TESTIMONY OF RICHARD S. SHAPIRO

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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. WHAT IS YOUR NAME AND ADDRESS?**

3 A. My name is Richard S. Shapiro and my business address is 1400 Smith Street,
4 Houston, Texas, 77002.

5 **Q. BY WHOM ARE YOU EMPLOYED?**

6 A. I am a Vice-President of Governmental Affairs for Enron Corp. ("Enron").

7 **Q. PLEASE PROVIDE A DESCRIPTION OF ENRON.**

8 A. Enron is one of the world's largest integrated natural gas and electricity companies
9 with approximately \$15 billion in assets; it operates one of the largest natural gas
10 transmission systems in the world; is the largest purchaser and marketer of natural gas
11 in North America; is a leading participant in liberalized energy markets in the United
12 Kingdom and the Nordic Countries; markets natural gas liquids worldwide; manages
13 the largest portfolio of fixed-price natural gas risk management contracts in the world;
14 is one of the leading entities arranging new capital to the energy industry; owns a
15 majority interest in Enron Oil & Gas Company, one of the largest independent (non-
16 integrated) exploration and production companies in the United States; owns and
17 manages operating power plants and natural gas pipelines around the world; is one of
18 the largest independent developers and producers of electricity in the world; and is a
19 major supplier of solar and wind renewable energy resources.

20 For the purposes of this testimony, I am representing Enron Power Marketing,
21 Inc. ("EPMI"), which is the largest marketer of electricity in North America. EPMI is
22 also a leading participant in the emerging retail electricity markets, participating in the

- 1 New Hampshire retail wheeling pilot program and the direct access experiment
2 operated by Illinois Power.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES WITH ENRON?**

4 A. I am responsible for Enron's electric retail legislative and regulatory efforts throughout
5 the United States and Canada. My primary responsibility involves trying to bring
6 competitive reform to the electric industry.

7 **Q. WHAT PRIOR EXPERIENCE DO YOU HAVE?**

8 A. Before working at Enron, I have been involved in the energy industry for over a
9 decade in various capacities with Mountaineer Gas Company in Charlestown, West
10 Virginia; and with Baltimore Gas and Electric Company in Baltimore, Maryland. At
11 Enron, I have also worked as Vice President for Regulatory Affairs for Enron Power
12 Marketing, Inc.

13 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

14 A. I graduated from James Madison University in 1980, and received my Juris Doctor
15 from the University of Connecticut Law School in 1983 with High Honors.

16 **Q. HAS ENRON PARTICIPATED IN THE RESTRUCTURING DEBATE IN**
17 **PENNSYLVANIA?**

18 A. Yes. Enron participated in negotiating and encouraging the enactment of the
19 Electricity Generation Customer Choice and Competition Act (the "Competition Act"),
20 and continues to be involved with the Commission's proceedings and working groups
21 relating to implementing direct access for electricity.

1 **II. INTRODUCTION AND SUMMARY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. In my testimony I will describe a vision for the future of retail electric services in a
4 competitive environment and the policy choices necessary to achieve that vision.

5 **Q. DESCRIBE YOUR VISION FOR A COMPETITIVE ELECTRIC SERVICES**
6 **MARKET.**

7 A. My vision centers around one primary objective: meaningful choices for all consumers
8 of electricity -- from homeowners to the largest industrial users. Ensuring that all
9 consumers have meaningful choices requires policy choices which provide numerous
10 suppliers, not just the incumbent utility, with access to consumers. In an open and
11 competitive market for retail electric services, consumers will have the ability:

- 12 • to choose a new supplier of electricity,
- 13 • to receive a single bill for those services from the supplier of their choice,
- 14 • to have access to various service alternatives from their electric suppliers,
15 including new metering which will enable suppliers to provide real time
16 pricing information,
- 17 • to provide information to aid the consumer in conservation decisions,
- 18 • to reduce the administrative costs of serving customers,
- 19 • to identify opportunities for energy efficiency investments, and
20 • more easily to aggregate customer load for scheduling purposes.

21 In this environment consumers benefit from lower costs, better service and
22 improved service offerings. Consumers will see lower costs because the availability of
23 alternative suppliers will create price competition among suppliers, as it does in every

1 open market. Suppliers will look for ways to cut costs, to find less expensive supplies
2 and increase the efficiency with which they make delivery of those supplies. Consumers
3 will see better service and improved service offerings for the same reason -- competing
4 suppliers will distinguish themselves by the reliability of their service, the quality of
5 information they provide, the accuracy of their bills, and the precision with which they
6 fill a specific customer's needs. Services will be designed for specific residential,
7 commercial and industrial customers. Opportunities to lower customers bills, not just
8 their rates, will be identified. Suppliers will distinguish themselves on their
9 responsiveness to customer inquiries and concerns.

10 **Q. WHAT POLICY CHOICES ARE REQUIRED TO MAKE THIS VISION**
11 **REALITY?**

12 **A.** The Commission must:

- 13 1. Provide equal, nondiscriminatory access to essential facilities to
14 competing suppliers.
- 15 2. Permit competition in all services which can be competitively provided.
- 16 3. Prevent utilities from using their control of essential facilities to advantage
17 their competitive business.

18 Equal access to essential facilities means open access transmission and
19 distribution service under unbundled tariffs which all providers, including the utility or
20 its affiliate, must use. Incumbent suppliers (and their affiliates) must be required to use
21 the same tariff options that are available to competing suppliers. Otherwise utilities will
22 have an incentive to structure tariffs which are inferior to the use the utility or its affiliate
23 makes of its own system. In the natural gas business the Federal Energy Regulatory

1 Commission required open access tariffs and required that pipelines conduct sales, if at
2 all, only through a separate affiliate which

- 3 1. was separated from the pipeline by enforceable (and enforced) standards of
4 conduct,
- 5 2. had to use the same open access transmission tariffs as its competitors, and
- 6 3. could only serve those customers who affirmatively chose its service -- i.e.
7 they had to compete for customers' favor, they didn't simply inherit
8 customers from the pipeline.

9 This approach, which I recommend to the Commission in this proceeding, had
10 several important benefits. First, it forces the affiliate to offer customers a better deal.
11 Second, it forces the utility to propose tariffs that work because the utility's own affiliate
12 will have to use the same tariff. Third, it keeps the utility from using overt and covert
13 attempts to discourage customers from switching. If the utility or its affiliate is allowed
14 to serve everyone who doesn't choose, it will have a powerful incentive to discourage
15 switching by erecting barriers to switching or suggesting that safety, reliability or service
16 quality will be threatened if the customer switches.

17 Permitting competition in all competitive services means unbundling all services
18 which the utility currently embeds in its service, and requiring that those services be
19 separately priced and offered. These services include not just transmission and
20 distribution but also metering, billing and customer information services. It also means
21 allowing competing suppliers to offer not just the commodity but also these other
22 competitive services. Metering, billing and customer information services are not

- 1 "natural monopolies". They can be competitively provided and are competitively
2 provided in other industries. Competition can lower these costs, improve them and open
3 the door to other value added services to consumers.

4 Preventing utilities from using their transmission and distribution monopolies to
5 advantage their sales and other competing business lines means putting in place standards
6 of conduct governing the relationship between the generation and distribution businesses.
7 It also means opening the interface with the customer. The competitive provider must be
8 allowed to procure the transmission and distribution service, pay the utility for it, and
9 provide the customer with a single bill. In competitive businesses, suppliers are allowed
10 to arrange for delivery with a delivery services company and provide a single bill to their
11 customer. Imagine the impediments to competition and good customer service if, for
12 example, a supplier of goods were forced to have its customers separately arrange and/or
13 pay for delivery or, worse yet, forced to receive payment or send the bill through a
14 competitor.

15 **III. PRESENTATION OF WITNESSES**

16 **Q. PLEASE DESCRIBE THE WITNESSES THAT WILL BE PRESENTING**
17 **DIRECT TESTIMONY FOR ENRON IN THIS PROCEEDING.**

18 A. Dr. John Mayo will testify on the issue of the benefits that will flow from a robust and
19 broad competitive electricity services industry. Mr. Lynn Coles from R.W. Beck
20 Consulting, along with Dr. Richard Tabors from Tabors Caramanis & Associates, will
21 discuss the necessary rules, terms, and rates for Enron's usage of Pennsylvania Power
22 and Light Company's transmission and distribution system. Mr. Paul Reising, a
23 principal with R.W. Beck, will present Enron's alternative proposal for a Distribution

1 Services tariff, and discuss the technical issues regarding the unbundling and rate
2 design of PP&L's wire and non-wire services. Mr. Malcolm Jacobson, from Enron,
3 will describe how and why the Commission should require PP&L to unbundle
4 additional competitive services beyond simply the commodity, such as metering and
5 billing. Mr. Raymond Bowen, who heads Enron's residential marketing efforts, will
6 discuss necessary consumer protections and rules so that all consumers including small
7 users can benefit from this transition. Finally, Mr. Michael Dirmeier, from
8 Georgetown Consulting Group, will provide an analysis and recommendations relating
9 to the appropriate standards of conduct for PP&L.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 **A.** Yes. Thank you.