

Enron St. 3.0 + PDR-1-7

R-973954

8/19/97

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

PAUL D. REISING

ON BEHALF OF  
ENRON POWER MARKETING INC.

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

JULY 2, 1997

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**I. INTRODUCTION**

1  
2 Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Paul D. Reising, 550 Congressional Boulevard, Suite 290, Carmel, Indiana 46032.

4 Q. **WHAT IS YOUR OCCUPATION?**

5 A. I am a principal of the firm of R. W. Beck, Inc.

6 Q. **PLEASE DESCRIBE R. W. BECK, INC.**

7 A. R. W. Beck, Inc. is a corporation of engineers and consultants founded in 1942  
8 for the purpose of rendering professional engineering and consulting services in  
9 planning, financing, operating and designing facilities for publicly owned utilities.  
10 The Firm employs approximately 500 professional and support personnel to  
11 provide these services. Our general office is in Seattle, Washington, and we have  
12 offices in ten other cities including Indianapolis.

13 Q. **PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND  
14 YOUR EXPERIENCE IN THE ELECTRIC UTILITY INDUSTRY.**

15  
16 A. I have over 25 years experience in the electric utility industry with a broad range  
17 of responsibilities in such areas as planning, economic analysis, rate analysis and  
18 contract negotiations. The Attachment to this testimony is a brief summary of my  
19 educational background and my experience in the electric utility industry.

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

21 A. I am appearing on behalf of Enron Power Marketing Inc. ("EPMI").

22

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

2 A. In my testimony, I will be covering issues related to the appropriate unbundling  
3 of services and rates. I will present an alternative approach to design of  
4 unbundled rates and will offer for the Commission's consideration a Pro Forma  
5 Distribution Services Tariff.

6 **II. CONCLUSIONS AND RECOMMENDATIONS**

7 Q. **WHAT CONCLUSIONS HAVE YOU REACHED BASED ON THE**  
8 **ANALYSES YOU HAVE COMPLETED IN THIS PROCEEDING?**

9  
10 A. Based on my review of the Company's filing and responses to interrogatories, I  
11 have reached the following conclusions:

12 1) The Company's functional assignment of costs does not  
13 provide a sound basis for setting unbundled rates.

14 i) The Company's defined functions and  
15 the manner in which costs are assigned to those functions, in effect,  
16 results in the "distribution" category identified by PP&L to be a  
17 catchall for anything not otherwise classified as production or  
18 transmission. As a result, PP&L has included in the "distribution"  
19 category many costs that have nothing to do with the actual delivery  
20 of electric power and energy to the ultimate customer. PP&L's  
21 "distribution" column should be further subdivided into a minimum  
22 of three costs area. These include: (1) "wires" services, which I  
23 will refer to in my testimony and exhibits as Energy Delivery  
24 Services, (2) non-wire services, which are referred to in some

1 jurisdictions as “Revenue Cycle Services”, and (3) other costs and  
2 services.

3 ii) PP&L’s cost of service study fails to  
4 separately identify costs associated with providing FERC-regulated  
5 transmission-related ancillary services. Ancillary services should be  
6 unbundled from base rates. To the extent that customers have the  
7 ability to secure transmission-related ancillary services (defined in  
8 PDR-1) from other sources, unless charges for those services are  
9 separately identified and billed, such customers will pay twice (once  
10 in base rates and second time in the costs they directly incur).  
11 Stating the price for transmission-related ancillary services will  
12 permit the customer to analyze its options for meeting these  
13 requirements. Separately identifying charges would permit the rates  
14 for those services to be updated as the PJM ISO charges for  
15 ancillary services change.

16 iii) PP&L has not reconciled any  
17 differences between what it classifies as transmission functional  
18 costs in this proceeding with the charges that would apply under the  
19 PJM ISO Open Access Transmission Tariff. The problem is that  
20 transmission functional revenue requirements will change as a result  
21 of further action by PJM and the FERC’s review thereof. As a  
22 result, PP&L’s unbundled rates should be amended by the  
23 Commission on an expedited basis so that the transmission and  
24 related ancillary service components of PP&L’s unbundled rates are

1 adjusted in accordance with any final determinations and subsequent  
2 modifications by the FERC as to the appropriate PJM pool-wide or  
3 zonal rates applicable to PP&L transmission customers. To  
4 facilitate that process, rates applicable to transmission and  
5 distribution delivery functions, should be separately stated, and not  
6 rebundled as proposed by PP&L.

7 iv) I have completed an independent  
8 functional cost analysis for Energy Delivery Services and Revenue  
9 Cycle Services. That analysis, which corrects the deficiencies of  
10 the PP&L functional cost analysis, is presented in Exhibit 3, PDR-2  
11 through Exhibit 3, PDR-5. Those exhibits provide for the proper  
12 separation of functions that may be provided competitively by  
13 Electric Suppliers or other vendors, rather than assigning such  
14 functional costs, by default, to the monopoly "distribution" function  
15 as proposed by PP&L, and provide a reasonable basis upon which  
16 to design rates for unbundled services.

17 2) Rates should be separately computed and stated for the  
18 following unbundled services:

- 19 i) Transmission Service  
20 ii) Ancillary Services  
21 iii) Energy Delivery Services -- this is the  
22 "wires" only piece of what the Company labels as "distribution."

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iv) Revenue Cycle Services -- this is the “non-wires” piece of the Company’s “distribution” charge and includes metering, meter reading, billing and customer billing records.

3) Rates for these services should be designed so as to reflect the characteristics of the customer’s service rather than historical identification by traditional “class” of service. Exhibit 3, PDR-6, Schedule 2 provides a sample rate design calculation for Energy Delivery Services. This rate design segregates customer and demand-related revenue requirements by customer voltage level, with separately defined charges for secondary, primary and transmission voltage service. Rates for Revenue Cycle Services are developed in Exhibit 3, PDR-5, Schedule 3.

4) It is of fundamental importance that there be standardized and consistent distribution service tariffs throughout a state and between states to allow full competition. Otherwise, unjustified differences in rates, terms and conditions of service of various existing electric utilities will not provide equal treatment and the ultimate customers will be denied the benefits of full competition. There should be a full and complete dialogue by all interested parties on the Distribution Services tariff. That dialogue must begin now, not after the Commission’s Final Order is issued. Exhibit 3, PDR-7 is submitted to facilitate that process.

**Q. WHAT ARE YOUR SPECIFIC RECOMMENDATIONS TO THE COMMISSION IN THIS PROCEEDING?**

- 1 A. My recommendations include the following:
- 2 1) The Commission should require PP&L's compliance filing in this  
3 proceeding to correct the deficiencies in its functional cost analysis in a  
4 manner consistent with the methodology presented in Exhibit 3, PDR-2  
5 through Exhibit 3, PDR-5.
- 6 2) In conjunction with the previous recommendation, the Commission  
7 should adopt the pro forma Distribution Services Tariff presented in  
8 Exhibit 3, PDR-7, after giving due consideration to comments received  
9 from interested parties in this proceeding.
- 10 3) The Distribution Services Tariff should contain schedules that  
11 provide the terms and compensation provisions applicable to Energy  
12 Delivery Services and Revenue Cycle Services. The rates for such services  
13 should be voltage differentiated and computed in a manner consistent with  
14 the rate development presented in the relevant portions of Exhibit 3,  
15 PDR-6.

1

III. UNBUNDLING SERVICES AND RATES

2 Q. REGARDING THE ISSUE OF SERVICE AND RATE UNBUNDLING,  
3 WHAT GUIDELINES DID THE GENERAL ASSEMBLY PROVIDE TO  
4 THE PUBLIC UTILITY COMMISSION AND TO UTILITIES?  
5

6 A. In the Electricity Generation Customer Choice and Competition Act (the  
7 "Competition Act"), the General Assembly established the following requirements  
8 related to unbundling of services and rates:

9 The Commission shall require the unbundling of electric utility  
10 services, tariffs and customer bills to separate the charges for  
11 generation, transmission and distribution. The Commission may  
12 require the unbundling of other services. (Section 2804 (3))  
13

14 The Commission shall require that restructuring of the electric  
15 utility industry be implemented in a manner that does not  
16 unreasonably discriminate against one customer class to the benefit  
17 of another. (Section 2804 (7))  
18

19 A restructuring plan under subsection (D) must include, consistent  
20 with the determinations of the commission, unbundled prices or  
21 rates for generation, jurisdictional transmission, distribution and  
22 other services; ..." (Section 2806(E))  
23

24 Customer bills shall contain unbundled charges sufficient to  
25 enable the customer to determine the basis for those charges.  
26 (Section 2807 (C) (1))  
27

28 Q. HAS THE COMMISSION PROVIDED ANY FURTHER GUIDANCE ON  
29 THIS SUBJECT?  
30

31 A. Yes. In its Order in Docket No. M-00960890, Folder 0003 at 5, the Commission  
32 noted that:

33 Utilities filing restructuring plans must propose tariffs which  
34 remove and reallocate non-jurisdictional transmission costs which  
35 will be recovered through federally approved tariffs, determine  
36 jurisdictional cost responsibility, allocate it properly between  
37 regulated local distribution tariffs and generation tariffs.  
38

1 At 22: The major ratemaking task in these proceedings is not to  
2 determine the overall level of revenues, but how revenue  
3 responsibility is to be allocated to generation, transmission,  
4 distribution and common costs of service, and how those costs will  
5 be borne by existing and new customers and customer classes.

6

7 **Q. WHAT TESTIMONY DOES THE COMPANY PRESENT ON THE ISSUE**  
8 **OF SERVICE AND RATE UNBUNDLING?**

9 A. Company witness Kleha presented the Company's functional cost of service  
10 analysis in his exhibits JMK-1 through JMK-3. The results of Mr. Kleha's cost  
11 of service studies were used by Company witnesses Mr. Kasper and Mr. Krall to  
12 develop the unbundled rates and charges proposed by the Company in this  
13 proceeding. Mr. Krall states that his rate design is based on the economic and  
14 regulatory considerations explained by Company witness Dr. Tierney.

15 **Q. WHAT TEST PERIOD FORMED THE BASIS FOR THE COMPANY'S**  
16 **COST OF SERVICE AND RATE DESIGN?**

17 A. The Company's cost of service study was based on PP&L's allocation study in its  
18 most recent base rate proceeding which was an estimated test year for the twelve  
19 months ended September 30, 1995. PP&L did not elect to update its cost of  
20 service study to the 12 months ended December 31, 1996 because "the use of data  
21 for that period is optional." (See PP&L response to Enron interrogatory Set II,  
22 No. 1.)

23 **Q. IS IT CLEAR FROM THE COMPANY'S EXHIBITS HOW RATES WERE**  
24 **DEVELOPED FROM THE FUNCTIONAL COST OF SERVICE STUDIES?**

25 A. No. I could not successfully trace the numbers from Mr. Kleha's Exhibits JMK-1,  
26 -2 and -3 to the ultimate rate design and proof of revenues shown on Exhibit  
27 OGK-4. For example, in his Exhibit JMK-2, Section III, at page 26, PP&L's

1 revenue requirements for the transmission and distribution functions are shown to  
2 be \$118,748,000 and \$443,148,000, respectively, T&D total of \$561,896,000.  
3 However, Exhibit JMK-2, Section II, at page 4, shows the test year functional  
4 revenue requirements for transmission and distribution to be \$121,017,000 and  
5 \$423,289,000, a T&D total of \$544,306,000. I have not seen any information  
6 from the Company's filing or responses to interrogatories that help to reconcile  
7 these differences. Further, Mr. Kleha's numbers are based on the future test year  
8 ended September 30, 1995, although the rates in this proceeding are based on  
9 revenue requirements for the historic period ended December 31, 1996. Mr.  
10 Kasper provides a summary of proof of revenues on page 2 of his Exhibit OGK-4.  
11 There he shows total "Delivery Revenue" for the 12-31-96 test year of  
12 \$561,285,000. I believe that the Company should be required to reconcile these  
13 differences and provide a clear explanation of the derivation of its delivery  
14 charges, linking the resulting rate design with the functional cost of service study.  
15 Further, I believe that process would be facilitated if the Company were required  
16 to update its cost of service study for the test year actually used in this proceeding  
17 -- the 12 months ended December 31, 1996.

18 **Q. DO YOU BELIEVE THAT MR. KELHA'S FUNCTIONAL COST OF**  
19 **SERVICE STUDY IS AN APPROPRIATE BASIS FOR DEVELOPING**  
20 **UNBUNDLED RATES AND CHARGES IN THIS PROCEEDING?**

21 **A.** No. Aside from my concerns regarding the ability to reconcile among Mr.  
22 Kleha's own exhibits and his use of a stale cost of service study, I believe that  
23 additional steps are required in order to provide a sound basis for unbundling the  
24 rates and charge in this proceeding.

1 Q. PLEASE EXPLAIN.

2 A. The Company's defined functions and the manner in which costs are assigned to  
3 those functions, in effect, cause the "distribution" category identified by PP&L to  
4 be a catchall for anything not otherwise classified as production. As a result,  
5 PP&L has included in the "distribution" category many costs that have nothing to  
6 do with the actual delivery of electric power and energy to the ultimate customer.  
7 Further, PP&L's cost of service studies fail to identify separately costs associated  
8 with providing ancillary services, as that term is defined by the FERC in its pro  
9 forma open access transmission tariff.

10 Finally, PP&L has not reconciled any differences between what it classifies as  
11 transmission functional costs in this proceeding with the charges that would apply  
12 under the PJM ISO Open Access Transmission Tariff.

13 Taken together, these deficiencies mean that PP&L's proposed functional  
14 assignment of costs and resulting rate design substantially overstate the assignment  
15 of costs to the energy delivery service function.

16

1 Q. YOU INDICATED THAT PP&L HAS INCLUDED IN THE  
2 "DISTRIBUTION" CATEGORY MANY COSTS THAT HAVE NOTHING  
3 TO DO WITH PROVIDING DISTRIBUTION SERVICES. COULD YOU  
4 BE MORE SPECIFIC? WHICH COST ELEMENTS DID PP&L INCLUDE  
5 IN THE "DISTRIBUTION" COLUMN THAT HAVE NOTHING TO DO  
6 WITH DISTRIBUTION SERVICES?  
7

8 A. In my opinion, PP&L's "distribution" column needs to be further subdivided into  
9 a minimum of three functional costs area. These include: (1) "wires" services,  
10 which I will refer to in my testimony and exhibits as Energy Delivery Services,  
11 (2) non-wire services, which are referred to in some jurisdictions as "Revenue  
12 Cycle Services", and (3) other costs and services.

13 Q. WHICH COST ELEMENTS WOULD YOU INCLUDE IN THE ENERGY  
14 DELIVERY SERVICES FUNCTION?  
15

16 A. I would include all operating expenses and rate base elements associated with the  
17 facilities required for delivery of power and energy from the transmission grid to  
18 the point of measurement of service (future refinement may include removing the  
19 service drop from these costs), or in the case of service to street lighting facilities,  
20 the point at which the street light "appliance" is electrically connected to the  
21 Energy Delivery System. Facilities and related costs which fall in this category  
22 as applied to PP&L's Energy Delivery System include primary voltage substations  
23 and lines, line transformers, secondary voltage lines and service drops. I would  
24 also include an appropriate allocation of support costs such as administrative and  
25 general expenses and carrying costs for general plant.  
26

1 Q. WOULD YOUR DEFINITION OF ENERGY DELIVERY SERVICE  
2 FACILITIES INCLUDE METERS AND STREET LIGHTING?  
3

4 A. No. While utility plant and expense accounting has traditionally included meter-  
5 related plant and expenses and lighting-related plant and expenses in "distribution"  
6 plant and expense accounts, they have nothing to do with the actual delivery of  
7 energy to the customer. The provision of meters and meter reading is not a  
8 natural monopoly service in any sense. Both from an operational and a functional  
9 standpoint, this service can be separated from the actual delivery of electricity  
10 using PP&L's jurisdictional transmission and distribution system. Meters are  
11 required to measure the amount of power and energy actually delivered to the  
12 customer. Such measurement is necessary for purposes of gathering billing,  
13 system operations and system planning data applicable to all three primary  
14 functions, production, transmission and energy delivery.

15 Street light facilities, of course, are an end-use appliance and obviously have  
16 nothing to do with serving an energy delivery function. Such costs, including  
17 allocated common costs, are specifically assigned to classes of lighting customers.  
18 Lighting customers would also be charged appropriate amounts for transmission  
19 and Energy Delivery Service necessary in order to convey power and energy for  
20 energizing the street light appliance. Other witnesses on behalf of EPMI will  
21 provide further support for unbundling of Revenue Cycle Services.

22

1 Q. **WHAT SPECIFIC COST ELEMENTS WOULD YOU INCLUDE IN THE**  
2 **NON-WIRES FUNCTIONAL CATEGORY?**

3  
4 A. In addition to meters which I just described, the non-wires Revenue Cycle Service  
5 function should include customer accounts activities including meter reading,  
6 billing and customer billing records. These elements correspond to expense  
7 Accounts 901, 902, 903, and 905 as identified and defined by the Uniform System  
8 of Accounts. I do not include Account 904 -- Uncollectible Accounts for the  
9 reasons I will describe below.

10 Q. **WHAT COST ELEMENTS DO YOU INCLUDE IN THE CATEGORY**  
11 **WHICH YOU HAVE DESCRIBED AS OTHER COSTS AND SERVICES?**

12  
13 A. I include in this category expenses and allocated common costs for historical  
14 utility activities, which have nothing to do with energy delivery or revenue cycle  
15 services. Specifically, I include in this category Uncollectible Accounts (Account  
16 904), Customer Information and Assistance (Accounts (907 through 910), Sales  
17 Expenses (Accounts 911 through 916) and Social Programs.

18 Q. **AREN'T UNCOLLECTIBLE ACCOUNTS A REVENUE CYCLE SERVICE?**

19 A. In my view, no. These are reserves required to cover revenues that remain  
20 uncollected from non-paying customers. They are in essence a charge to  
21 customers currently paying bundled rates to make up for revenues not collected  
22 from non-paying customers. It is especially important to separate Uncollectible  
23 Accounts expense from production, transmission, energy delivery and revenue  
24 cycle services in a restructured utility environment in which other service  
25 providers, especially Electric Suppliers, will be providing services formerly  
26 provided by PP&L. For example, if an Electric Supplier is responsible for billing

1 all services or billing separately for the services that it provides, it will have its  
2 own Uncollectible Accounts to deal with. Treating Uncollectible Accounts as part  
3 of "distribution" functional costs and continuing to roll those costs into  
4 "unbundled" rates will mean that Electric Suppliers, and in turn their customers,  
5 will end up paying twice for Uncollectible Accounts -- once as a result of their  
6 own direct dealings with their customers and a second time in the "unbundled"  
7 rates proposed by PP&L and other EDCs.

8 **Q. WHAT ABOUT CUSTOMER INFORMATION AND ASSISTANCE AND**  
9 **SALES EXPENSES? WHY SHOULD THESE BE SEPARATELY**  
10 **IDENTIFIED?**

11  
12 A. These should be identified separately for the same reason. Electric Suppliers will  
13 incur their own sales expenses and will be required to respond to customer  
14 inquiries and requests for assistance in parallel with or in lieu of similar services  
15 provided by the EDC. These are also clearly activities that cross all functional  
16 boundaries -- production, transmission, energy delivery, and revenue cycle  
17 services. If an Electric Supplier provides a "comprehensive package" of services  
18 (including transmission and distribution services provided as agent for the  
19 customer), then these "other services" would not be charged.

20 **Q. THE THIRD ISSUE YOU IDENTIFIED HAS TO DO WITH**  
21 **RECOGNITION OF ANCILLARY SERVICE COSTS. WHAT ARE**  
22 **ANCILLARY SERVICES?**

23  
24 A. Generating plant facilities that are connected to a transmission system support the  
25 transmission of power, and there is a cost associated with the generating plants  
26 providing this transmission support function. In the past, when the majority of  
27 electric power was generated and transmitted by the same utility, all of the costs

1 of providing the power were bundled together and billed as a single charge. There  
2 was no need to separately account for the cost of using generating facilities to  
3 support the transmission of power, since all of the power sales revenues went to  
4 the same party. However, when the generation and transmission of power become  
5 two separate functions, performed by two or more different parties, the costs  
6 associated with the portion of generating plant which supports transmission service  
7 needs to be properly recognized and charged, and the revenues credited to the  
8 proper function or party.

9 Ancillary Services are the generation support services that are needed along with  
10 transmission service to maintain reliability within and among the "Control Areas"  
11 affected by the transmission service. A Control Area is a defined system of  
12 generation, transmission and other electric facilities and loads in which the Control  
13 Area operator is responsible for ensuring that loads and interchange transactions  
14 are served in a reliable manner.

15 **Q. WHAT SPECIFIC SERVICES DO THESE ANCILLARY SERVICES**  
16 **ENTAIL?**

17  
18 A. The Federal Energy Regulatory Commission ("FERC") in its Orders 888 and 888-  
19 A and the appended pro-forma Open Access Transmission Tariff define six  
20 ancillary services.

21 The Transmission Provider is required to provide (or offer to arrange for), and the  
22 Transmission Customer is required to purchase, two Ancillary Services: (1)  
23 Scheduling, System Control and Dispatch, and (2) Reactive Supply and Voltage  
24 Control from Generation Sources.

1 The Transmission Provider is required to offer to provide (or offer to arrange for)  
2 the four other Ancillary Services only to the Transmission Customer serving load  
3 within the Transmission Provider's Control Area. These include: (1) Regulation  
4 and Frequency Response, (2) Energy Imbalance, (3) Operating Reserve - Spinning,  
5 and (4) Operating Reserve - Supplemental.

6 I provide a definition and description of each of the six ancillary services in  
7 Exhibit 3, PDR-1.

8 **Q. YOU STATED THAT PP&L FAILED TO SEPARATELY IDENTIFY COSTS**  
9 **ASSOCIATED WITH PROVIDING ANCILLARY SERVICES. WHY IS**  
10 **THAT A PROBLEM?**

11  
12 A. As I just described, certain of the ancillary services must be provided by the  
13 Transmission Provider, while the remaining ancillary services can be secured from  
14 other sources or vendors. In my opinion, ancillary services should be unbundled  
15 from base rates for at least two reasons. First, to the extent that customers have  
16 the ability to secure ancillary services from other sources, unless charges for those  
17 services are separately identified and billed, such customers will pay twice for  
18 ancillary services (once in base rates and a second time in the costs they directly  
19 incur). Second, stating the price for ancillary services will permit the customer  
20 to analyze its options for meeting ancillary service requirements. Third, PP&L  
21 will ultimately be providing transmission and ancillary services via the PJM ISO,  
22 which is presently in a state of flux. Separately identifying charges for ancillary  
23 services would permit the rates for those services to be updated as PJM ISO  
24 charges for ancillary services change. The concept I have in mind is consistent  
25 with the Commission's Preliminary Order and Opinion related to PP&L's Retail

1 Access Pilot Program. In that order, the Commission stated that “if PP&L  
2 provides ‘retail’ ancillary service, and charges for these services, it shall file the  
3 rates with the Commission as retail tariffed rates and include such supporting data  
4 as necessary to demonstrate that these costs are not already recovered in base  
5 rates.” Preliminary Order and Opinion at 26-27.

6 **Q. HAS THE COMPANY ACKNOWLEDGED THE NEED TO UNBUNDLE**  
7 **ANCILLARY SERVICES FOR THE RATES IT HAS PROPOSED IN THIS**  
8 **PROCEEDING?**  
9

10 A. Not entirely. At page 25 and 26 of his direct testimony, PP&L witness Mr.  
11 Whitehead acknowledges that PP&L’s ancillary services associated with  
12 transmission service as required for retail access will be provided by the PJM  
13 control area ISO and that “PP&L expects that it will simply pass through to retail  
14 customers any ISO charges for ancillary services attributable to retail customers.”  
15 He does not, however, state what steps the Company will take to remove ancillary  
16 services costs from its production functional costs.

17

1 Q. THE LAST ISSUE YOU RAISED IS RELATED TO UNBUNDLED COSTS  
2 FOR TRANSMISSION SERVICE. COULD YOU BETTER EXPLAIN THIS  
3 ISSUE AND WHAT YOU PROPOSE TO DO ABOUT IT?  
4

5 A. While Mr. Kleha's functional assignment of costs and functional component unit  
6 costs identify a "revenue requirement" for the transmission function of  
7 approximately \$118 million. PJM's pool-wide tariff filed in compliance with  
8 FERC Order 888, which was submitted on behalf of PP&L and the other PJM  
9 pool members, was accepted by the FERC, but has not been approved by that  
10 body. I would note that the FERC's collective order accepting the filings by PJM  
11 and other power pools specifically stated that "our preliminary analysis indicates  
12 that these filings have not been shown to be just and reasonable, and may be  
13 unjust, unreasonable and unduly discriminatory or preferential." As a result, I  
14 believe that PP&L's unbundled rates should be amended by the Commission on  
15 an expedited basis so that the transmission and related ancillary service  
16 components of PP&L's unbundled rates are adjusted in accordance with any final  
17 determinations and subsequent modifications by the FERC as to the appropriate  
18 PJM pool-wide or zonal rates applicable to PP&L transmission customers.

19 I would also note that PP&L's restructured rate design proposes a single  
20 "delivery" charge to cover transmission, distribution and universal service costs.  
21 I believe that transmission and distribution delivery services and rates should be  
22 separately stated, especially given the need to adjust the transmission component  
23 as the rates change under the PJM Open Access Tariff.

1 **IV. FUNCTIONAL COST OF SERVICE**

2 **Q. HAVE YOU PREPARED AN ALTERNATIVE FUNCTIONAL COST OF**  
3 **SERVICE?**

4  
5 A. Yes. I have prepared Exhibit 3, PDR-2 through Exhibit 3, PDR-5 to correct the  
6 deficiencies in the Company's functional assignment of costs and rate design.  
7 These exhibits provide a summary of the alternative functional cost analysis that  
8 I recommend to the Commission.

9 **Q. HOW DO THE REVENUE REQUIREMENTS USED IN YOUR ANALYSIS**  
10 **COMPARE TO THOSE IN MR. KLEHA'S EXHIBIT JMK-2?**

11  
12 A. For purposes of my functional cost of service study, I have relied entirely on the  
13 line-by-line elements of revenue requirements used in Mr. Kleha's 9-30-95 test  
14 year cost of service study. That does not mean that I am necessarily endorsing all  
15 elements of the Company's total jurisdictional revenue requirements. My focus  
16 in this proceeding is on functional cost assignment and rate unbundling rather than  
17 on total company revenue requirements issues.

18 **Q. WHAT ABOUT ALLOCATION FACTORS? HAVE YOU MADE ANY**  
19 **CHANGES TO THE VALUES USED BY MR. KLEHA?**

20  
21 A. No, I have adopted the same test period class allocation and billing unit data as  
22 used by Messrs. Kleha, Kasten and Krall in their respective exhibits.

23 **Q. COULD YOU PLEASE PROVIDE AN OVERVIEW OF YOUR**  
24 **FUNCTIONAL COST EXHIBITS?**

25  
26 A. My analysis of functional costs which forms the basis for my recommendations  
27 on unbundled rate design consisted of four principal steps. First, I replicated the  
28 Company's functional cost of service based on the Company's functional  
29 definitions:

- 1                   Production Energy
- 2                   Production Demand
- 3                   Transmission
- 4                   Distribution

5           A summary of my functional cost of service is provided in Exhibit 3, PDR-2. In  
6           Exhibit 3, PDR-2, PP&L's "distribution" functional category was split into two  
7           broad functional areas: (1) Distribution-Related Plant and Expenses and (2)  
8           Customer Accounts, Information and Sales Expenses.

9           In the next step, summarized in Exhibit 3, PDR-3, the total amount shown in the  
10          functional cost of service for "Distribution" was further divided into three distinct  
11          functional areas: (1) Energy Delivery Service, (2) Metering Service and (3)  
12          Lighting Service. The details of Exhibit 3, PDR-3 show that I further subdivided  
13          Energy Delivery Service into cost categories to permit identification of costs by  
14          voltage level (transmission, primary and secondary) and by cost classification  
15          (demand-related and customer-related). These cost breakdowns are applied in  
16          subsequent analysis of unbundled rates for Energy Delivery Service.

17          In the third step, shown in Exhibit 3, PDR-4, Customer Accounts, Information and  
18          Sales Expense are further subdivided in order to identify functional costs  
19          associated with Revenue Cycle Services (meter reading, billing and collections),  
20          and Other Services (Customer Information and Assistance, Uncollectible Accounts  
21          and Sales).

22   **Q.   HOW DO YOUR FUNCTIONAL COSTS COMPARE TO THOSE**  
23   **PROPOSED BY THE COMPANY IN MR. KLEHA'S EXHIBITS?**  
24

1 A. The following table provides a comparison of the functional cost breakdown I  
 2 developed in Exhibits 3, PDR-2, PDR-3 and PDR-4) with Mr. Kleha's functional  
 3 assignment of costs:

4  
 5  
 6 **Functional Revenue Requirements -- \$000**

7	8	9	10	11
12	13	14	15	16
17	18	19	20	21
22	23	24	25	26
27	28	29	30	31
32	33	34	35	36
37	38	39	40	41
Functional Description	EPMI Analysis Exhibit 3, (PDR-2 through PDR-5	PP&L Functional Assignment of Costs Exhibit JMK-2, Sec. III		
Production Demand-Related	1,152,013	1,152,018		
Production Energy-Related	595,753	595,753		
Transmission-Related	118,461	118,462		
Distribution-Related Plant and Expense				
Energy Delivery Service	300,610			
Revenue Cycle -- Meters	23,106			
Lighting Service	14,687			
Subtotal	338,403			
Customer Accounts, Information and Sales Expense				
Revenue Cycle:				
Meter Reading	13,276			
Billing	36,278			
Other Services	55,176			
Subtotal	104,730			
Total "Distribution"	443,133	443,148		
Total All Functions	2,309,360	2,309,381		

35 Q. WHY IS YOUR RECOMMENDED APPROACH SUPERIOR TO THE  
 36 COMPANY'S FUNCTIONAL BREAKDOWN?  
 37

38 A. In my opinion, Exhibit 3, PDR-2 through Exhibit 3, PDR-5 provide for the  
 39 proper separation of functions that may be provided competitively by Electric  
 40 Suppliers or other vendors, rather than assigning such functional costs, by

1 default, to the monopoly "distribution" function as proposed by PP&L. I  
2 believe they provide a reasonable basis upon which to design rates for  
3 unbundled services.

4 Accordingly, I recommend that the Commission require PP&L to submit a  
5 compliance filing in this proceeding which corrects the deficiencies I have  
6 described, using the methodology presented in Exhibit 3, PDR-2 through  
7 Exhibit 3, PDR-5.

#### 8 V. RATE DESIGN

9 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

10 A. The purpose of this section of my testimony will be to present my  
11 recommendations for designing appropriate rates for Energy Delivery Services  
12 and Revenue Cycle Services to be set forth in separate schedules to the  
13 Distribution Services Tariff which I will describe in Section VI of my  
14 testimony.

15

1 Q. WHAT RATE DESIGN APPROACH WOULD YOU RECOMMEND BE  
2 ADOPTED IN THIS PROCEEDING FOR ENERGY DELIVERY AND  
3 REVENUE CYCLE SERVICES?  
4

5 A. There are several elements to my recommendations for the design of  
6 appropriately unbundled services and rates in this proceeding. First, rates  
7 should be separately computed and stated for the following unbundled services:

- 8 1. Transmission Service
- 9 2. Ancillary Services
- 10 3. Energy Delivery Services – this is the “wires” only piece of what  
11 the Company labels as “distribution.”
- 12 4. Revenue Cycle Services – this is the “non-wires” piece of the  
13 Company’s “distribution” charge, and includes metering, meter reading,  
14 billing and customer billing records.

15 Charges for transmission services and ancillary services will be set forth in the  
16 FERC Open Access Transmission Tariff applicable to the Electric Supplier or  
17 the EDC, if the Electric Supplier elects to have the EDC serve as agent for  
18 transmission related services. Charges for Energy Delivery Services and Revenue  
19 Cycle Services will be set forth in the Distribution Services Tariff which I will  
20 subsequently describe in Section VI.

21 Second, rates for these services should be designed so as to reflect the  
22 characteristics of the customer’s service rather than historical identification by  
23 traditional “class” of service.

24 Q. PLEASE EXPLAIN YOUR SECOND POINT REGARDING RATES  
25 BASED ON CUSTOMER SERVICE CHARACTERISTICS.  
26

1 A. Historically, electric utility customers have been charged for their electric service  
2 on the basis of service classifications – residential, general service, large high  
3 voltage, lighting, etc. I believe that in the restructured industry, the important  
4 pricing distinctions between customers will be the timing of electricity  
5 consumption, the voltage level at which customers take service and whether that  
6 service entails single-phase or poly-phase facilities. This approach has a number  
7 of advantages, including the following:

8 • This approach results in a simplification of rates which better  
9 enables the customer to determine the basis for the charges imposed on  
10 it.

11 • It results in a more direct attribution of costs to the type of  
12 facilities actually used by the customer instead of the traditional class-  
13 differentiated rates.

14 • Most of the motivation for class rates has to do with generation-  
15 related costs which will now be provided via a competitive market  
16 through which suppliers will be free to establish energy pricing  
17 mechanisms to meet specific customer needs and desires.

18

1 Q. LET'S EXAMINE EACH OF THESE SERVICES ONE AT A TIME. HOW  
2 WOULD RATES FOR TRANSMISSION SERVICE BE COMPUTED  
3 ACCORDING TO YOUR RECOMMENDED APPROACH?  
4

5 A. While transmission service rates are not a part of the Distribution Services  
6 Tariff, I have prepared an analysis of the revenue requirements and appropriate  
7 rate as would apply by customer delivery voltage level. That analysis appears  
8 in my Exhibit 3, PDR-6, Schedule 1. On the lower portion of this exhibit, I  
9 have provided a sample calculation of rates for Transmission Service. This  
10 example rate design is driven by the net revenue requirement attributable to the  
11 transmission function, an amount of approximately \$118,000,000 (net of the  
12 allocation of other operating revenue). Based on the corresponding test period  
13 annual kWh sold to customers as measured at the point of service, the average  
14 effective rate for Transmission Service would be approximately \$0.0038 per  
15 kWh. I have further computed example rates as would apply at the various  
16 voltage levels at which PP&L's customers take service -- secondary voltage,  
17 primary voltage and transmission voltage. In computing the amount of revenue  
18 requirements for Transmission Service to assign to each voltage level, I allocated  
19 the total revenue requirement of \$118,000,000 among the three principal voltage  
20 levels based on the amount of demand (using the Company's 12-CP allocation)  
21 for customers at each voltage level. I then computed an average cost per unit  
22 of energy sales for each voltage level. The resulting rates range from \$0.0027  
23 per kWh for transmission voltage customers to \$0.0042 per kWh for secondary  
24 voltage customers.

25 Q. HOW DO YOU EXPLAIN THE DIFFERENCE IN RATE BY VOLTAGE

1           LEVEL?  
2  
3    A.    The differences by voltage level can be attributed to two factors – losses at each  
4           level (losses being much greater at secondary voltage than at primary voltage or  
5           at transmission) and differences in load factor among customers taking service  
6           at each voltage level.

7    Q.    YOUR EXAMPLE RATE DESIGN DEVELOPS ONLY A RATE PER  
8           UNIT OF ENERGY SALES. WHY DID YOU NOT DESIGN RATES  
9           BASED ON A CHARGE TO BE APPLIED TO CUSTOMER DEMAND?  
10  
11   A.    The rate design I present in Exhibit 3, PDR-6 is meant to be an illustration.  
12           Presently, PP&L does not have demand metering for most secondary voltage  
13           customers, but it would be possible, and indeed desirable, to compute and state  
14           rates on the basis of monthly metered peak demands, or other measure of  
15           demand, where demand metering is in place. Due to time and data limitations,  
16           I have not done that here. I would recommend that in its compliance filing in  
17           this proceeding, PP&L design its rate for Transmission Service for primary  
18           voltage and transmission voltage customers on the basis of monthly billing  
19           demands, and that the rate for secondary voltage customers be stated both ways  
20           – on the basis of a kWh charge where only a watt-hour meter is available and  
21           on the basis of monthly per kW charge where demand metering is available.  
22           Ultimately, with the appropriate demand interval metering, it would be possible  
23           and desirable to charge a rate based on the customer’s coincident contribution  
24           to the transmission system peak demand. In that case, the only difference in  
25           rates between voltage level would be for differences in losses.

1 Q. WHAT ABOUT ANCILLARY SERVICES? HOW WOULD YOU  
2 DESIGN CHARGES FOR THESE SERVICES?

3  
4 A. As I stated earlier in my testimony, I believe it is fundamentally important that  
5 revenue requirements associated with providing Ancillary Services be separately  
6 identified. The costs of providing Ancillary Services, namely the six services I  
7 described earlier, are predominantly generation-related costs. Due to time and  
8 data limitations, I have not been able to take the additional steps required in  
9 Exhibit 3, PDR-6 to separate the costs associated with Ancillary Services from  
10 production functional demand-related revenue requirements. Nevertheless, I  
11 believe PP&L should be required to do so in this proceeding. Such a  
12 compliance requirement is consistent with this Commission's determination in  
13 its Preliminary Order and Opinion on PP&L's Retail Access Pilot Program.  
14 While it would be possible, and may be desirable, to compute separate charges  
15 for each of the Ancillary Services, at a minimum there should be separate  
16 charges for those services that the customer must purchase from the  
17 Transmission Provider (scheduling and reactive supply) and those services that  
18 the customer may elect to obtain from the Transmission Provider or by other  
19 means (regulation, operating reserves and energy imbalance).

1 Q. PLEASE EXPLAIN HOW YOU WOULD PROPOSE TO DESIGN RATES  
2 FOR ENERGY DELIVERY SERVICES?  
3

4 A. I have included a sample rate design calculation for Energy Delivery Services in  
5 Schedule 2 of my Exhibit 3, PDR-6. In preparing that schedule, I first  
6 summarized the revenue requirements attributed to Energy Delivery Services  
7 into customer- and demand-related, further segregating those costs by customer  
8 voltage level. From this data and the allocation and billing data derived from  
9 the Company's cost of service (Exhibit JKM-2), I developed sample two-part  
10 rates for each voltage level and with a further segregation of charges for  
11 secondary voltage customers between single- and poly-phase service. Note that  
12 the demand charge component for service at secondary voltage is cumulative in  
13 that it covers demand-related costs of both primary and secondary voltage  
14 facilities. The demand component of the sample rates differs substantially  
15 between customer voltage levels due to higher losses at lower voltages, the need  
16 for additional facilities at lower voltages, and differences in average load factor  
17 of customer loads served from each voltage level.

18 Q. YOUR SAMPLE RATE DESIGN INCLUDES A PER BILL CHARGE FOR  
19 CUSTOMER COSTS AND A PER KWH CHARGE FOR DEMAND  
20 COSTS. WHY DID YOU NOT INCLUDE A PER KW DEMAND  
21 CHARGE?  
22

23 A. Schedule 2 provides a sample rate design. For the same reasons as I explained  
24 for Transmission Service charges, I did not have the time nor the data to do a  
25 complete analysis of a two-part rate which would include, where demand meters  
26 are available, a per kW demand charge. I would recommend that PP&L's

1 compliance filing include development of per kW and per bill charges where  
2 demand meters are in place.

3 Q. EARLIER YOU DEFINED REVENUE CYCLE SERVICES TO INCLUDE  
4 METERING, METER READING, BILLING AND CUSTOMER BILLING  
5 RECORDS. WHY ARE YOU PROPOSING TO ASSESS A SEPARATE  
6 CHARGE FOR REVENUE CYCLE SERVICES?  
7

8 A. Metering, meter reading, billing and customer billing records have nothing to  
9 do with the actual distribution or delivery of power and energy. They  
10 constitute the activities required to measure the amount of service taken, render  
11 a bill to the customer, collect and deposit payments made by customers and to  
12 maintain applicable billing records. Further, these activities may, and are likely  
13 to, be provided in the future by the Electric Supplier or a third-party service  
14 vendor. If these Revenue Cycle Service costs continue to be bundled into rates  
15 for "distribution" service as the Company defines it, Electric Suppliers and/or  
16 their electric generation customers would be paying twice for revenue cycle  
17 activities.

18 Q. DO YOU HAVE A SAMPLE RATE DESIGN FOR REVENUE CYCLE  
19 SERVICES?  
20

21 A. Yes, in Exhibit 3, PDR-6 , Schedule 3. The design of rates for each component  
22 — meters, meter reading and billing — are straightforward: revenue  
23 requirements attributed to each activity divided by the number of bills rendered,  
24 weighted as per PP&L's own methodology to recognize higher costs for  
25 metering and meter reading for service at higher voltages.

26 Q. WOULD IT BE NECESSARY TO POST AND ASSESS THREE  
27 DIFFERENT CHARGES?  
28

1 A. I have shown separate rate components for each of the three activities, but they  
2 could easily be combined into a single charge, in a manner similar to what I  
3 have suggested in my exhibit.

4 Q. **WHAT ABOUT THE OTHER COSTS WHICH YOU SPECIFICALLY**  
5 **NOTED ARE NOT PART OF REVENUE CYCLE SERVICES?**

6  
7 A. As I described earlier, other costs and services include:

8 customer information and assistance.

9 sales expenses and

10 uncollectible accounts.

11 For the reasons I stated in the early portion of my testimony, there is no logical  
12 reason to continue to bundle these costs into "distribution" charges as proposed  
13 by PP&L, nor in my view should they be bundled into Energy Delivery  
14 Services or Revenue Cycle Services. Further, Electric Suppliers are likely to be  
15 taking on responsibility for customer billing, in which case the Electric  
16 Suppliers will now have the problems associated with uncollectible accounts.  
17 Continuing to bundle these costs into distribution service charges will unfairly  
18 cause Electric Suppliers and their customers to pay twice for uncollectible  
19 accounts. The same is true for sales and customer assistance activities. Electric  
20 Suppliers will have their own marketing and consumer education costs and will  
21 need the infrastructure to respond to customer inquiries, such as outage  
22 reporting.

23 Q. **ARE THERE ANY EXCEPTIONS WHERE SOME OF THESE COSTS**  
24 **MIGHT APPLY TO THE ENERGY DELIVERY SERVICES FUNCTION?**

25

1 A. It is possible that a portion of an EDC's expenses for customer information and  
2 assistance might apply to the energy delivery system. An example of such  
3 expense might include advertising and other instructional activities designed to  
4 educate energy delivery service customers regarding electric line safety matters.  
5 However, my reading of the accounting instructions for the Uniform System  
6 of Accounts for accounts 908 -- customer assistance expenses and 909 --  
7 informational and instructional advertising expenses indicates that the activities  
8 covered under this functional category is much broader and includes many  
9 expense elements that should not apply in an unbundled rate setting. Examples  
10 of such activities and related expenses include advice regarding the most efficient  
11 use of electric equipment, demonstrations of the economical and efficient use of  
12 electric service and engineering and technical advice to promote efficient and  
13 economical use of a utility's service. None of the expenses associated with these  
14 activities are related to rendering of energy delivery or revenue cycle services  
15 and should not be passed on to customers taking unbundled services. If PP&L  
16 can demonstrate what portion of its customer information and assistance  
17 expense is directly attributable to energy delivery safety issues, my functional  
18 cost of service analysis can easily be amended to accommodate an appropriate  
19 assignment of such costs to energy delivery service charges.

- 1 Q. ARE THERE ANY OTHER RATE ELEMENTS THAT SHOULD BE  
2 COVERED IN THE DISTRIBUTION SERVICES TARIFF?  
3
- 4 A. Yes. In addition to rates applicable to Energy Delivery and Revenue Cycle  
5 Services, the Distribution Services Tariff will need to include a schedule to cover  
6 applicable CTC charges which an end-user must pay or that an Electric Supplier  
7 will need to pay on behalf of its customers during any applicable transition  
8 period. Further, it may be appropriate to allow for other charges under the  
9 Distribution Services Tariff to provide for services ancillary to the energy  
10 delivery function such as power factor correction or the supply of distribution  
11 losses.
- 12 Q. WHAT CTC CHARGES WOULD YOU PROPOSE TO INCLUDE IN  
13 THE DISTRIBUTION SERVICES TARIFF APPLICABLE TO PP&L?  
14
- 15 A. Exhibit 3, PDR-6, Schedule 4 illustrates how the CTC charges would be  
16 designed for inclusion in the applicable schedule to the Distribution Services  
17 Tariff. As shown in that exhibit, I computed the CTC charge applicable to  
18 each existing rate class by dividing the revenue requirement for CTC for each  
19 rate class, as determined by PP&L in Exhibit OGK-4, Page 2, by the applicable  
20 kWh energy sales for each class.
- 21 Q. WHY DID YOU COMPUTE THE CTC CHARGE ON A RATE CLASS  
22 BASIS INSTEAD OF THE VOLTAGE DIFFERENTIATED RATE  
23 STRUCTURE YOU RECOMMENDED FOR ENERGY DELIVERY AND  
24 REVENUE CYCLE SERVICES?  
25
- 26 A. A class differentiated rate computation for the CTC charge was necessary in  
27 order to comply with Section 2808(A) of the Competition Act which requires

1 that the CTC be designed in a manner that does not shift inter-class and intra-  
2 class costs.

3 VI. PRO FORMA DISTRIBUTION SERVICES TARIFF

4 Q. WHAT IS THE PURPOSE OF THIS SECTION YOUR TESTIMONY?

5 A. In this section of my testimony, I will present for the Commission's  
6 consideration a pro forma Distribution Services Tariff.

7 Q. WHY ARE YOU PROPOSING SUCH A TARIFF?

8 A. In my opinion, it is of fundamental importance that there be standardized and  
9 consistent distribution service tariffs throughout a state and between states to  
10 allow full competition. Otherwise, unjustified differences in rates, terms and  
11 conditions of service of various existing electric utilities will not provide equal  
12 treatment and the ultimate customers will be denied the benefits of full  
13 competition.

14 I believe there should be a full and complete dialogue by all interested parties  
15 on both the customer tariff and the supplier tariff. As a contribution toward  
16 starting that process, EPMI has asked that I prepare and present a pro forma  
17 Distribution Services Tariff governing the relationship between the EDC and  
18 eligible end users or Electric Suppliers using such services on a collective basis  
19 for its customers. Exhibit 3, PDR-7 is submitted for that purpose, and is  
20 intended as a working document.

21

22 Q. YOU REFER TO THIS AS A "PRO FORMA" TARIFF. WHAT DO  
23 YOU MEAN BY THAT?

24

1 A. Essentially, this tariff is intended to be a generic document that can provide the  
2 basic framework for contractual arrangements that would apply to any of the  
3 jurisdictional utilities in the state who are required to file and abide by  
4 restructuring plans. This parallels the concepts intended by the FERC in its *pro*  
5 *forma* tariff for transmission service disseminated under its Orders 888 and 888-

6 A.

7 Q. WHAT PROCESS DID YOU USE TO DEVELOP THIS PROPOSED  
8 TARIFF?

9  
10 A. I began by examining the existing rules and regulations applicable to electric  
11 service in Pennsylvania, particularly those which apply to PP&L. I also  
12 examined elements of the FERC's *pro forma* Open Access Transmission Tariff  
13 to identify matters that should be considered part of a customer tariff.

14 Q. WHAT SERVICES WOULD BE COVERED BY THE PRO FORMA  
15 DISTRIBUTION SERVICES TARIFF YOU ARE OFFERING IN  
16 EXHIBIT 3, PDR-7 ?

17  
18 A. The FERC's *pro forma* open access transmission tariff covers network  
19 integration transmission service and the transmission and generation ancillary  
20 services identified by the FERC. The *pro forma* Distribution Services Tariff  
21 must then cover the remaining services necessary to meet the requirements of  
22 Electric Suppliers taking service on an unbundled basis on behalf of their  
23 customers – retail energy users. As I previously described in the discussion of  
24 service and rate unbundling, those services fall into two principal categories:  
25 The Energy Delivery Services and Revenue Cycle Services. Charges for these  
26 services are covered in schedules appended to the Tariff. Other schedules to the

1 Tariff would cover the CTC and other services ancillary to the energy delivery  
2 function such as power factor correction and supply of distribution losses.

3 Q. PLEASE DESCRIBE WHAT YOU MEAN BY ENERGY DELIVERY  
4 SERVICES.

5  
6 A. Energy Delivery Services correspond to the “wires” end of the “distribution”  
7 cycle and include those services necessary to convey power and energy from the  
8 transmission grid (via the pro forma open access transmission tariff) to the point  
9 at which the customer’s electrical facilities are connected to the distribution (or  
10 transmission voltage) facilities of the Electric Distribution Company (EDC). In  
11 some cases the customer will take service at a voltage level that corresponds to  
12 the definition of the transmission system as defined pursuant to the pro forma  
13 transmission tariff. In that case, the Tariff will provide the mechanism to  
14 provide Revenue Cycle Services as desired or needed by the Electric Supplier or  
15 end user. Generally, Energy Delivery Services will be defined and charged on  
16 the basis of the voltage level at which the customer’s electrical facilities connect  
17 to those of the EDC and not according to the size of the customer or  
18 traditional utility service classifications (residential, general service, etc.).  
19 Schedule 1 appended to the pro forma Distribution Services Tariff provides the  
20 rate and billing mechanism for Energy Delivery Services as would be applicable  
21 to PP&L based on the rate design approach I am recommending in this  
22 proceeding, with service categorized by customer service voltage level:  
23 secondary, primary and, in the case of PP&L, transmission service. Energy  
24 Delivery Service can be provided only by the EDC. The Electric Suppliers on

1       behalf of their customers, or end-users, must purchase this service from the  
2       EDC, except in those cases where customer loads are supplied directly from the  
3       transmission system defined in the open access transmission tariff applicable to  
4       the EDC.

5       Other schedules or compensation provisions may be appropriate for service  
6       from underground distribution facilities or for facilities requested by the  
7       customer that exceed the standard service configuration offered by the EDC,  
8       including, for example, dual feed service at primary or transmission voltage.

9   **Q.   WHAT ARE REVENUE CYCLE SERVICES?**

10  **A.**   Revenue Cycle Services include those services related to measuring and billing  
11       actual energy consumption and peak use.  Unbundling these services from  
12       Energy Delivery Services, or “wires,” will permit alternative service vendors to  
13       compete for these business functions, will encourage product and service  
14       innovation, and open opportunities for integrated solutions to a broad range of  
15       information/communication needs of individuals and businesses.  The EDC will  
16       provide and bill Electric Suppliers for these services only where it is responsible  
17       for the metering, billing and collection functions.  These charges do not apply  
18       where the Electric Supplier is responsible for those functions.  Schedule 2  
19       appended to the Tariff further defines the services to be provided and the basis  
20       for compensation to the EDC for such service.

21  **Q.**   **WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH**  
22  **REGARD TO THE PRO FORMA DISTRIBUTION SERVICES TARIFF?**  
23

1 A. I recommend that the Commission adopt the Distribution Services Tariff  
2 presented in Exhibit 3, PDR-7 after giving due consideration to comments  
3 received from interested parties in this proceeding.

4 Q. WOULD THE CTC AS YOU HAVE DESIGNED IT CHANGE DURING  
5 THE TRANSITION PERIOD?

6 A. Yes. Schedule 4 of Exhibit 3, PDR-6 provides an illustrative calculation of the  
7 CTC as would apply only during 1999, the first year of the transition period.  
8 The CTC would be recomputed each year as PP&L's CTC revenue requirement  
9 decreases over the transition period.

10 Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE DESIGN OF  
11 RATES FOR ENERGY DELIVERY, REVENUE CYCLE SERVICES AND  
12 CTC?

13 A. Yes. The rate designs proposed in Exhibits 3, PDR-6, Schedules 2 through 4 are  
14 intended to be used in conjunction with the Distribution Services Tariff,  
15 through which Suppliers like Enron would be billed for Energy Delivery Service  
16 and the CTC. The Supplier would also be billed for Revenue Cycle Services to  
17 the extent that the Supplier elects to have PP&L perform such services. How  
18 the Supplier Enron chooses to bill its individual customers is up to Enron. As  
19 long as the Supplier compensates PP&L for these services and the CTC based  
20 on the cost of service, PP&L should be indifferent how the Supplier bills its  
21 own customers.

22 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

23 A. Yes, it does.

Educational Background:

Bachelor of Science Degree in Electrical Engineering  
Purdue University, West Lafayette, Indiana. June, 1969  
Masters Degree in Business Administration  
Butler University. Indianapolis, Indiana, June, 1974

Professional Registration:

Registered as a Professional Engineer in the States of Indiana, Ohio, Kentucky,  
Michigan and Illinois.

Professional Societies:

Senior Member - Institute of Electrical and Electronic Engineers  
Member - National Society of Professional Engineers.

Experience:

1985-Present	Principal/Partner in the firm of R. W. Beck, Inc.
1974-1985	Employed by R. W. Beck. Responsible for studies conducted for numerous clients including distribution, transmission and power supply planning studies: economic feasibility studies; contract negotiations; and retail and wholesale revenue requirements, cost of service, and rate design studies. Presented testimony on numerous occasions before the Federal Energy Regulatory Commission, the Public Service Commission of Indiana and various other regulatory commissions or courts of law.
1969-1974	Employed by Indianapolis Power & Light Company. Developed transmission and distribution systems long-range plans and prepared economic evaluations of construction and operating methods. Responsible for development of a design manual for overhead distribution facilities, development of forecasting techniques for distribution load areas, analysis of customer load characteristics and analysis of system losses.
1965-1969	Employed as a Cooperative Education Student with Indianapolis Power & Light Company. Design of overhead and underground electric distribution facilities and assisted in long-range planning related to the Company's transmission and distribution system.

Definition and Description of Ancillary Services

Scheduling, System Control and Dispatch - services provided by the Control Area operator regarding interchange and load match scheduling and the related system control and dispatch functions that are necessary to operate the Control Area in a safe and reliable manner.

Reactive Supply and Voltage Control from Generation Sources - to maintain acceptable transmission voltages on a Transmission Providers facilities, generation facilities in the Control Area where the transmission facilities are located are operated to produce or absorb reactive power. The units of reactive power are defined in terms of Volt and Amperes reactive (VARs). The Transmission Customer must purchase this service from the Transmission Provider or the Control Area operator. The basis for how much reactive supply must be applied with respect to a transaction will be determined based on the reactive power support necessary to maintain transmission voltages within limits.

Regulation and Frequency Response - is the continuous balancing of generation and interchange resources accomplished by a Transmission Provider by raising or lowering the output of on-line generation, predominantly through the use of automatic generation control (AGC) equipment, as necessary to follow the moment-by-moment changes in load under the control of the Transmission Provider, and to maintain frequency within the Transmission Provider s Control Area. If generation and load do not balance, or if the frequency is not properly maintained, the system will have an Area Control Error (ACE). Each Control Area is obligated to adhere to the standards regarding minimizing it's ACE according to the operating guides established by the North American Electric Reliability Council (NERC) and the systems regional reliability council.

This service must be purchased by a Transmission Customer when the transmission service is used to serve load within its the Transmission Provider s Control Area. This service is not required for power that is transmitted through or out of one Control Area to serve load in another Control Area. Rather than purchase this service from the Transmission Provider, the Transmission Customer may make alternative, comparable arrangements to satisfy its Regulation and Frequency Response Service obligation. However, although technically possible, providing for comparable arrangements could be an expensive undertaking.

Energy Imbalance is to correct for differences between scheduled hourly deliveries and actual hourly deliveries of energy to the load. All proposed Pro Forma Tariffs have Energy Imbalance penalties or incentives that are supposedly intended to encourage transmission users to stay within specified band widths. The Pro Forma Tariff's provisions for this service pose a number of issues for Transmission Customers that are addressed in the next section of this Guide.

Operating Reserve - Spinning - involves maintaining generating units that are on-line, but loaded at less than maximum output, and are capable of serving load immediately when disturbance conditions are experienced due to a sudden loss of generation or load. The

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Transmission Customer must purchase or provide this capability on a pro-rata basis to ensure continuation of supply.

Operating Reserve - Supplemental - is an additional amount of generating operating reserve that is sufficient to reduce ACE to zero within ten minutes following loss of generating capacity which would result from the most severe single contingency. The Transmission Customer must purchase or provide this capability on a pro-rata basis to ensure continuation of supply.

	A	B	C	D	E	F	H	I
1	Pennsylvania Power & Light							
2	Future Test Year Ending 9/30/95							
3	Summary of Functional Cost of Service							
4								
5		Total	Production	Production	Transmission		Distribution	Customer
6		Penna.	Net	All	Related		Plant and Exp.	Accts., Info.,
7		Jurisdiction	Energy	Others		Distribution	Related	and Sales
8	Description	\$000	\$000	\$000	\$000	\$000	\$000	\$000
9								
10	Revenue Required from Applicable Tariffs	2,309,361	595,753	1,152,013	118,461	443,133	338,403	104,730
11	Other Operating Revenue	165,535	124,962	17,551	4,271	18,751	17,573	1,178
12	Annualization Revenue	26,556	-	16,596	1,509	8,451	8,335	116
13	Late Pay Charges	7,341	-	4,588	417	2,336	2,304	
14	Total Operating Revenue	2,508,793	720,715	1,190,748	124,658	472,671	366,615	106,057
15								
16	Operating Expenses							
17	O&M Expenses	1,309,246	694,502	389,582	31,995	193,167	99,399	93,768
18	Depreciation and Amortization	305,523	-	223,381	17,462	64,680	62,930	1,750
19	Miscellaneous Allowable Expenses	(29,674)	-	(19,549)	(2,640)	(7,485)	(7,343)	(142)
20	Taxes Other Than Income Taxes	88,813	-	57,791	7,410	23,613	20,686	2,927
21	Deferred Income Taxes	(10,078)	-	(24,544)	3,682	10,785	10,578	206
22	Net Investment Tax Credit	(8,625)	-	(5,466)	(804)	(2,355)	(2,309)	(46)
23	Gross Receipts Tax	103,103	26,213	51,621	5,297	19,972	15,358	4,615
24	Federal Income Tax	200,345	-	159,307	11,819	29,219	28,690	529
25	State Income Tax	71,450	-	56,680	4,209	10,561	10,372	189
26	Total Operating Expenses	2,030,104	720,715	888,802	78,430	342,157	238,362	103,796
27								
28	Operating Income After Taxes	478,689	-	301,947	46,228	130,514	128,253	2,261
29								
30	Rate Base							
31	Electric Plant in Service (Incl. Alloc. Common)	8,196,706	-	5,194,218	764,117	2,238,372	2,195,519	42,852
32	Accumulated Provision for Depreciation	(2,477,122)	-	(1,457,285)	(247,047)	(772,789)	(757,778)	(15,012)
33	Depreciated Utility Plant	5,719,584	-	3,736,932	517,070	1,465,582	1,437,742	27,840
34	Accumulated Deferred Taxes	(901,916)	-	(752,663)	(37,984)	(111,269)	(109,139)	(2,130)
35	Customer Advances and Deposits	(1,146)	-	-	-	(1,146)	-	(1,146)
36	Pollution Control Projects	12,378	-	12,378	-	-	-	-
37	Working Capital	188,800	-	168,411	5,487	14,902	15,766	(864)
38	Total Rate Base	5,017,700	-	3,165,058	484,573	1,368,069	1,344,369	23,700
39								
40								
41	Rates of Return After Income Taxes	9.54%		9.54%	9.54%	9.54%		

	A	C	D	E	F	G	H	I	J	K	L	M	N	O
1	Pennsylvania Power & Light													
2	Summary of Cost of Service - Distribution-Related Plan Expenses													
3														
4		Distribution Plant and Exp. Related \$000	Energy Delivery Services								Total Energy Delivery \$000	Meters \$000	Lighting \$000	
5			Primary	Secondary	Primary	Secondary	Secondary	Line Trfs	Line Trfs	Services				Services
6			Subs	Subs	Line - Dmd	Line - Dmd	Line - Cust	Demand	Customer	Demand	Customer			
7	Description	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
8														
9	Revenue Required from Applicable Tariffs	338,403	38,645	818	44,701	56,521	77,475	17,170	22,834	3,176	39,270	300,610	23,106	14,687
10	Other Operating Revenue	17,573	2,083	44	2,356	2,961	3,936	1,050	1,361	205	2,208	16,203	678	691
11	Annualization Revenue	8,335	1,227	26	1,404	1,821	1,570	572	479	91	635	7,824	270	241
12	Late Pay Charges	2,304	339	7	388	503	434	158	132	25	175	2,163	75	67
13	Total Operating Revenue	366,615	42,295	895	48,849	61,806	83,414	18,949	24,806	3,497	42,288	326,800	24,129	15,686
14														
15	Operating Expenses													
16	O&M Expenses	99,399	13,043	276	12,513	15,116	19,537	3,974	5,147	785	12,518	82,910	11,719	4,743
17	Depreciation and Amortization	62,930	4,729	102	8,288	10,450	14,685	3,525	4,570	839	9,049	56,237	3,516	3,111
18	Miscellaneous Allowable Expenses	(7,343)	(892)	(19)	(1,019)	(1,320)	(1,761)	(417)	(541)	(68)	(729)	(6,766)	(304)	(273)
19	Taxes Other Than Income Taxes	20,686	2,507	53	2,861	3,689	4,915	1,185	1,534	197	2,124	19,065	848	774
20	Deferred Income Taxes	10,578	1,254	27	1,418	1,782	2,369	632	819	123	1,329	9,754	408	416
21	Net Investment Tax Credit	(2,309)	(273)	(6)	(312)	(404)	(569)	(128)	(175)	(21)	(235)	(2,123)	(98)	(88)
22	Gross Receipts Tax	15,358	1,769	37	2,046	2,589	3,497	788	1,032	145	1,764	13,666	1,032	660
23	Federal Income Tax	28,690	3,333	70	3,812	4,944	7,240	1,553	2,207	247	2,927	26,334	1,245	1,111
24	State Income Tax	10,372	1,220	26	1,395	1,810	2,586	568	788	91	1,046	9,530	445	397
25	Total Operating Expenses	238,362	26,691	566	31,001	38,657	52,500	11,680	15,382	2,339	29,792	208,607	18,812	10,943
26														
27	Operating Income After Taxes	128,253	15,605	329	17,848	23,149	30,914	7,269	9,424	1,158	12,497	118,193	5,317	4,743
28														
29	Rate Base													
30	Electric Plant in Service (Incl. Alloc. Common)	2,195,519	260,293	5,506	294,368	369,956	491,716	131,176	170,031	25,556	275,817	2,024,419	84,748	86,352
31	Accumulated Provision for Depreciation	(757,778)	(85,607)	(1,820)	(94,762)	(111,579)	(146,840)	(49,430)	(64,072)	(12,334)	(133,112)	(699,555)	(25,268)	(32,954)
32	Depreciated Utility Plant	1,437,742	174,686	3,686	199,606	258,377	344,876	81,746	105,960	13,222	142,705	1,324,864	59,480	53,398
33	Accumulated Deferred Taxes	(109,139)	(12,939)	(274)	(14,633)	(18,390)	(24,443)	(6,521)	(8,452)	(1,270)	(13,711)	(100,634)	(4,213)	(4,293)
34	Customer Advances and Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
35	Pollution Control Projects	-	-	-	-	-	-	-	-	-	-	-	-	-
36	Working Capital	15,766	1,823	39	2,109	2,664	3,612	974	1,278	189	1,998	14,685	471	610
37	Total Rate Base	1,344,369	163,570	3,451	187,082	242,650	324,044	76,199	98,785	12,142	130,992	1,238,915	55,738	49,711
38														
39														
40	Rates of Return After Income Taxes	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%
41														

	A	C	D	E	F	G	H	I
1	Pennsylvania Power & Light							
2	Summary of Customer Accounts, Info. & Sales							
3								
4		Customer	Meter	Customer	Customer		Uncoll-	Social
5		Accts., Info.,	Reading	Accounts	Svc & Info	Sales	ectibles	Program
6		and Sales						
7	Description	\$000	\$000	\$000	\$000	\$000	\$000	\$000
8								
9	Revenue Required from Applicable Tariffs	104,730	13,276	36,278	25,720	5,839	22,549	1,069
10	Other Operating Revenue	1,178	153	419	301	29	276	(0)
11	Annualization Revenue	116	16	38	31	4	28	(1)
12	Late Pay Charges	32	4	10	9	1	8	(0)
13	Total Operating Revenue	106,057	13,449	36,744	26,060	5,873	22,861	1,068
14		-						
15	Operating Expenses	-						
16	O&M Expenses	93,768	11,847	32,504	22,925	5,432	20,030	1,030
17	Depreciation and Amortization	1,750	227	622	447	43	410	(0)
18	Miscellaneous Allowable Expenses	(142)	(18)	(51)	(36)	(4)	(33)	-
19	Taxes Other Than Income Taxes	2,927	380	1,041	747	73	686	(0)
20	Deferred Income Taxes	206	27	73	53	5	48	(0)
21	Net Investment Tax Credit	(46)	(6)	(16)	(12)	(1)	(11)	(0)
22	Gross Receipts Tax	4,615	585	1,598	1,133	257	994	47
23	Federal Income Tax	529	72	173	143	11	131	(2)
24	State Income Tax	189	26	62	51	4	47	(1)
25	Total Operating Expenses	103,796	13,140	36,006	25,451	5,821	22,303	1,075
26		-						
27	Operating Income After Taxes	2,261	310	738	609	52	559	(7)
28		-						
29	Rate Base	-						
30	Electric Plant in Service (Incl. Alloc. Common)	42,852	5,564	15,236	10,940	1,065	10,048	(0)
31	Accumulated Provision for Depreciation	(15,012)	(1,949)	(5,337)	(3,832)	(373)	(3,520)	0
32	Depreciated Utility Plant	27,840	3,615	9,898	7,108	692	6,528	(0)
33	Accumulated Deferred Taxes	(2,130)	(277)	(757)	(544)	(53)	(499)	0
34	Customer Advances and Deposits	(1,146)	-	(1,146)	-	-	-	-
35	Pollution Control Projects	-	-	-	-	-	-	-
36	Working Capital	(864)	(94)	(258)	(177)	(92)	(169)	(75)
37	Total Rate Base	23,700	3,245	7,737	6,386	547	5,859	(75)
38								
39								
40	Rates of Return After Income Taxes							
41								

	A	C	D	E	F
1	<b>Pennsylvania Power &amp; Light</b>				
2	<b>Summary Cost of Service - Revenue Cycle Services</b>				
3					
4					
5		<b>Revenue</b>		<b>Meter</b>	<b>Customer</b>
6		<b>Cycle</b>	<b>Meter</b>	<b>Reading</b>	<b>Accounts</b>
7	<b>Description</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
8					
9	Revenue Required from Applicable Tariffs	72,660	23,106	13,276	36,278
10	Other Operating Revenue	1,250	678	153	419
11	Annualization Revenue	323	270	16	38
12	Late Pay Charges	89	75	4	10
13	<b>Total Operating Revenue</b>	<b>74,323</b>	<b>24,129</b>	<b>13,449</b>	<b>36,744</b>
14					
15	Operating Expenses				
16	O&M Expenses	56,070	11,719	11,847	32,504
17	Depreciation and Amortization	4,366	3,516	227	622
18	Miscellaneous Allowable Expenses	(373)	(304)	(18)	(51)
19	Taxes Other Than Income Taxes	2,268	848	380	1,041
20	Deferred Income Taxes	509	408	27	73
21	Net Investment Tax Credit	(120)	(98)	(6)	(16)
22	Gross Receipts Tax	3,215	1,032	585	1,598
23	Federal Income Tax	1,491	1,245	72	173
24	State Income Tax	533	445	26	62
25	<b>Total Operating Expenses</b>	<b>67,958</b>	<b>18,812</b>	<b>13,140</b>	<b>36,006</b>
26					
27	Operating Income After Taxes	6,365	5,317	310	738
28					
29	Rate Base				
30	Electric Plant in Service (Incl. Alloc. Common)	105,548	84,748	5,564	15,236
31	Accumulated Provision for Depreciation	(32,555)	(25,268)	(1,949)	(5,337)
32	Depreciated Utility Plant	72,993	59,480	3,615	9,898
33	Accumulated Deferred Taxes	(5,247)	(4,213)	(277)	(757)
34	Customer Advances and Deposits	(1,146)	-	-	(1,146)
35	Pollution Control Projects	-	-	-	-
36	Working Capital	120	471	(94)	(258)
37	<b>Total Rate Base</b>	<b>66,720</b>	<b>55,738</b>	<b>3,245</b>	<b>7,737</b>
38					
39					
40	Rates of Return After Income Taxes	9.54%	9.54%	9.54%	9.54%
41					

	A	B	C	D	E
1	<b>Pennsylvania Power &amp; Light Company</b>				
2	<b>Transmission Service Rate Design</b>				
3					
4		<b>Demand Related</b>	<b>Energy Related</b>	<b>Total</b>	
5		<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	
6		<b>Requirements</b>	<b>Requirements</b>	<b>Requirements</b>	
7					
8	<b>Summary of Revenue Requirements:</b>				
9	Production-Related Costs - \$000	1,152,013	595,753	1,747,766	
10	Transmission-Related Costs - \$000	118,461		118,461	
11	<b>Total</b>	<b>1,270,474</b>	<b>595,753</b>	<b>1,866,227</b>	
12					
13			<b>Secondary</b>	<b>Primary</b>	<b>Transmission</b>
14			<b>Voltage</b>	<b>Voltage</b>	<b>Voltage</b>
15		<b>Total</b>	<b>Customers</b>	<b>Customers</b>	<b>Customers</b>
16					
17	Production Demand-Related Costs - \$000	1,152,013	830,029	152,583	169,400
18	Average Class 12CP kW Demands	5,235,871	3,772,464	693,487	769,920
19	Annual MWh at Meters	31,406,086	20,367,242	4,608,804	6,430,040
20	Equivalent Rate -- \$/kWh		0.04075	0.03311	0.02635
21					
22	Production Energy-Related Costs - \$000	595,753	393,560	86,847	115,346
23	Annual MWh at Generation	33,311,632	22,005,976	4,856,058	6,449,598
24	Annual MWh at Meters	31,406,086	20,367,242	4,608,804	6,430,040
25	Equivalent Rate -- \$/kWh		0.01932	0.01884	0.01794
26					
27	<b>Total Equivalent Rate for Production -- \$/ kWh</b>		<b>0.06007</b>	<b>0.05195</b>	<b>0.04429</b>
28					
29					
30	Transmission-Related Costs - \$000	118,461	85,352	15,690	17,419
31	Average Class 12CP kW Demands	5,235,871	3,772,464	693,487	769,920
32	Annual MWh at Meters	31,406,086	20,367,242	4,608,804	6,430,040
33	Equivalent Rate -- \$/kWh	0.0038	0.0042	0.0034	0.0027

	A	B	C	D	E	F
1	<b>Pennsylvania Power &amp; Light Company</b>					
2	<b>Energy Delivery Service Rate Design</b>					
3						
4		<b>Customer Related</b>	<b>Demand Related</b>	<b>Total</b>		
5		<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>		
6	<b>Description</b>	<b>Requirements</b>	<b>Requirements</b>	<b>Requirements</b>		
7						
8	<b>Summary of Revenue Requirements:</b>					
9						
10	Secondary System Costs	139,579	77,684	217,264		
11	Lines and Subs	77,475	57,338	134,813		
12	Line Transformers	22,834	17,170	40,004		
13	Services	39,270	3,176	42,447		
14	Primary System Costs		83,346	83,346		
15	Total	279,159	238,715	517,873		
16						
17			<b>Single-Phase</b>	<b>Two-Phase</b>	<b>Three-Phase</b>	<b>Poly-Phase</b>
18			<b>Secondary</b>	<b>Secondary</b>	<b>Secondary</b>	<b>Secondary</b>
19		<b>Total</b>	<b>Customers</b>	<b>Customers</b>	<b>Customers</b>	<b>Customers</b>
20						
21	<b>Customer Charge Components:</b>					
22	Customer Related Lines -- \$000	77,475	74,424	959	2,092	3,051
23	Total Secondary Voltage Customers	1,383,382	1,328,908	17,116	37,358	54,474
24	Total Secondary Voltage Customers	1,383,382	1,328,908	17,116	37,358	54,474
25	Average Rate -- \$/Month	4.67	4.67	4.67	4.67	4.67
26						
27	Customer Related Line Transformers -- \$000	22,834	20,570	530	1,735	2,265
28	Secondary Customers Weighted per PP&L CW8	1,475,214	1,328,908	34,232	112,074	146,306
29	Total Secondary Voltage Customers	1,383,382	1,328,908	17,116	37,358	54,474
30	Average Rate -- \$/Month	1.38	1.29	2.58	3.87	3.46
31						
32	Customer Related Services -- \$000	39,270	36,917	739	1,614	2,353
33	Secondary Customers Weighted per PP&L CW9	1,413,615	1,328,908	26,615	58,092	84,707
34	Total Secondary Voltage Customers	1,383,382	1,328,908	17,116	37,358	54,474
35	Average Rate -- \$/Month	2.37	2.32	3.60	3.60	3.60
36						
37	Cumulative Equivalent Customer Charge -- \$/Month	8.42	8.28	10.85	12.14	11.73
38						

	A	B	C	D	E	F
1	Pennsylvania Power & Light Company					
2	Energy Delivery Service Rate Design					
3						
39						
40				Secondary	Primary	
41				Voltage	Voltage	
42		Total		Customers	Customers	
43						
44	<b>Demand Charge Components:</b>					
45	Primary System Demand Related Revenue Requirements - \$ 000	83,346		72,513	10,833	
46	Sum of Maximum Demands at Primary	6,863,000		5,971,000	892,000	
47	Annual MWh at Meters	24,976,046		20,367,242	4,608,804	
48	Equivalent Rate -- \$/kWh			0.00356	0.00235	
49						
50	Secondary System Demand Related Revenue Requirements -- \$ 000	77,684		77,684		
51	Sum of Maximum Demands at Secondary	5,971,000		5,971,000		
52	Annual MWh at Meters (C2)	20,367,242		20,367,242		
53	Equivalent Rate -- \$/kWh			0.00381		
54						
55	Cumulative Equivalent Demand Rate for Energy Delivery Services -- \$/kWh			0.00737	0.00235	

	A	B	C	D	E
1	<b>Pennsylvania Power &amp; Light Company</b>				
2	<b>Rate Design for Revenue Cycle Services</b>				
3					
4					
5	Total Revenue Requirements -- \$000	72,660			
6	Metering	23,106			
7	Meter Reading	13,276			
8	Customer Billing and Records	36,278			
9					
10					
11			<b>Secondary</b>	<b>Primary</b>	<b>Transmission</b>
12			<b>Voltage</b>	<b>Voltage</b>	<b>Voltage</b>
13		<b>Total</b>	<b>Customers</b>	<b>Customers</b>	<b>Customers</b>
14					
15	<b>Customer Charge Components:</b>				
16	Meter Related Costs -- \$000	23,106	21,244	1,005	857
17	Meter Investment per PP&L CW1	82,998	76,311	3,609	3,078
18	Total Customers	1,227,989	1,227,074	812	103
19	Average Rate -- \$/Month	1.57	1.44	103.11	693.28
20					
21	Meter Reading Related Costs -- \$000	13,276	13,126	122	28
22	Meter Reading Expense per PP&L CW2	9,375	9,269	86	20
23	Total Customers	1,227,989	1,227,074	812	103
24	Average Rate -- \$/Month	0.90	0.89	12.50	22.92
25					
26	Customer Billing Related Costs -- \$000	36,278	36,251	24	3
27	Total Customers	1,227,989	1,227,074	812	103
28	Total Customers	1,227,989	1,227,074	812	103
29	Average Rate -- \$/Month	2.46	2.46	2.46	2.46
30					
31	Cumulative Equivalent Customer Charge -- \$/Month	4.93	4.79	118.07	718.66

	A	B	C	D
1	<b>Pennsylvania Power &amp; Light Company</b>			
2	<b>Class Rate Design for Competitive Transition Charge</b>			
3				
4		<b>Competitive</b>		
5		<b>Transition</b>		<b>CTC</b>
6		<b>Charge</b>	<b>Sales</b>	<b>Charge</b>
7	<b>Rate Class</b>	<b>Revenue</b>	<b>kWh</b>	<b>\$/MWh</b>
8				
9	RT	333,718,400	11,471,662,409	0.02909
10	RTS	5,488,490	426,659,446	0.01286
11	RTD	126,695	5,333,400	0.02376
12	GS-1	61,322,832	1,451,259,374	0.04225
13	GS-3	245,144,331	7,218,323,046	0.03396
14	LP-4	132,018,732	4,314,697,840	0.03060
15	IS-P	7,137,843	433,036,223	0.01648
16	LP-5	73,622,410	2,558,598,821	0.02877
17	IS-5	28,418,704	2,246,169,237	0.01265
18	LP06	13,688,489	555,861,730	0.02463
19	LPEP	2,687,648	67,986,000	0.03953
20	ISM	7,230,012	550,689,000	0.01313
21	PR-1 *		103,326,344	0.00000
22	PR-2 *		84,116,737	0.00000
23	IS-1	27,632	4,484,253	0.00616
24	BL	147,580	4,751,439	0.03106
25	SA	381,799	26,815,080	0.01424
26	SM	120,182	7,065,903	0.01701
27	SHS	2,470,108	61,384,710	0.04024
28	SE	(182,000)	10,675,203	-0.01705
29	TS(R)	704	503,644	0.00140
30	SI-1	4,330	189,759	0.02282
31	GH-1	14,096,310	398,577,858	0.03537
32	GH-2	3,493,583	87,190,577	0.04007
33	STANDBY	(434,078)	12,101,668	-0.03587
34	<b>Total</b>	930,730,736	32,101,459,701	
35				
36	* Represents the incremental energy used under the schedule.			

ENRON POWER MARKETING INC.

DISTRIBUTION SERVICES TARIFF

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1. Definitions:

1.1 AC - alternating current

1.2 Bad Credit - A customer has bad credit if the customer has been delinquent on two consecutive bills or three or more bills in the last twelve billing cycles. Commercial and Industrial customers shall have bad credit if the customer is insolvent or tendered two or more checks which the drawee returns as unpaid within the past twelve billing cycles.

1.3 Billing Demand - The calculated or measured demand after correction, if any, for power factor; except that the billing demand may be limited to a minimum figure.

1.4 Capacity Charge - A charge based on demand, wither with or without power factor correction.

1.5 Commissions - The respective regulatory body in the state handling jurisdictional electric utilities.

1.6 Continuous Service - Service which the EDC endeavors to keep available at all times

1.7 Creditworthy - A creditworthy customer pays the EDC's charges as and when due and otherwise complies with the rules and regulations.

1.8 Customer - An eligible electric generation supplier acting on behalf of an end-user(s) pursuant to a contractual arrangement between the end-user(s) and the electric generation supplier which expressly authorizes the supplier to purchase service from this tariff on the end-user(s)' behalf.

1.9 Demand - The maximum rate-of-use of energy during a specified time interval, expressed in kilowatts.

1.10 Energy Charge - A charge based upon kilowatt-hours of use.

1.11 Electric Generation Supplier (or "Supplier") - a potential or actual supplier of electric power and/or energy. An eligible Supplier is one who meets Commission criteria to offer and is licensed to supply electric energy to customers.

1.12 EDC - The local Electric Distribution Company, "the wire company" that provides electric distribution service.

1.13 End-User - Any person, partnership, association or corporation, lawfully receiving electric power and/or energy at a single meter location.

1.14 Good Utility Practice - Any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period.

1.15 Host Control Area - The EDC, or if the EDC does not act at the Control Area, the appropriate Control Area for the Customer's load.

1.16 kV - kilovolts - 1000 volts.

1.17 kVA, kilovoltampere - Unit of measurement of rate-of -use which determines electrical capacity required.

1.18 kW, kilowatt - Unit of measurement of useful power.

1.19 kWh, kilowatt-hour - Unit of measurement of energy.

1.20 MS - meter service provider, "the provider of the meter for measuring energy and power use".

1.21 Month - A month means 1/12 of a year or a period approximately 30 days between two regular consecutive readings.

1.22 Open Access Transmission Tariff - The tariff filed before the Federal Energy Regulatory Commission (FERC) applicable to the Electric Distribution Company.

1.23 Point of Delivery - The single point at which the service-supply lines of the EDC terminate and the Customer's facilities for receiving the service begin.

1.24 Power Factor - In a single-phase circuit the ratio of watts to the volt-amperes, and in a polyphase circuit, is the ratio of the total watts to the vector sum of the volt-amperes in the several phases.

## 2. Energy Delivery Service

2.1 Scope of Service. The scope of service of this Distribution Services Tariff is to outline the various functions and services provided by the EDC to a Customer to make available direct access to end-users.

2.2 Electric Distribution Company Responsibilities. The EDC has the responsibility to provide non-discriminatory access to its distribution facilities in a safe and reliable manner using good utility practice. The EDC may terminate service without notice if the End-User's installation has become hazardous or defective, or if the Customer's use of the distribution facilities might injuriously affect the equipment of the EDC or the service to other Customers or End-Users.

2.3. End-User Responsibilities. The End-User shall be responsible for safekeeping of the property of the EDC. In the event of injury or destruction of any such property the End-User shall pay the costs of repairs and replacement. The End-User shall protect the equipment of the EDC and the Customer on the premises and shall not permit any person, except an employee with one of the respective Companies, to break any seals upon or do any work on any apparatus of the EDC located on the End-User's premises. The End-User shall give notice of any changes that might affect safety of personnel or property of the EDC.

2.4 Customer Responsibilities. The Customer shall be responsible for ensuring that its use of the EDC's facilities are in accordance with good utility practice. The Customer shall be responsible for timely payment of services provided. The Customer shall give notice to any changes that might affect safety of personnel or property of the EDC.

2.5 Restrictions on Use of Service. Service is only to be used in the manner in which it is intended and within the applicable electric codes and standards.

### 3. Service Characteristics

3.1. Standard Single Phase, 60 Hertz, 24 hours/day. Standard single-phase secondary service is alternating current, 60 hertz, that is nominally 120/240 volts, 3 wires; or 120 volts, 2 wires to installations consisting of not more than two 15-ampere branch circuits or such other standard as established by the EDC and as approved by the applicable regulatory authority.

#### 3.2. Standard Polyphase Nominal Service Voltages

3.2.1. Secondary Service, 60 Hertz, 24 hours/day. Nominally 240 volts, 3-phase, 3 wires with a fourth wire neutral extended for the supply of 120/240 volt single-phase equipment; or nominally 120/208 volts, 3-phase, 4 wires where 3-phase is available; or nominally 277/480 volts, 3-

phase, 4 wires where 3-phase is available or such other standard as established by the EDC and as approved by the applicable regulatory authority.

3.2.2. Primary Service, 60 Hertz, 24 hours/day. Nominally 2,400 volts, 3-phase, 3 wires; 4,160 volts, 3-phase, 3 or 4 wires; 7,200/12,407 volts; or 7,620/13,200 volts, 4-wire, three phase service or such other standard as established by the EDC and as approved by the applicable regulatory authority.

3.2.3. Transmission Service (as appropriate). Nominally 34,500, 46,000, or 69,000 volts as available or such other standard as established by the EDC and as approved by the applicable regulatory authority.

### 3.3. Exceptional Service Requirements

3.3.1. Non-Standard Service Voltage. The Customer shall pay the cost of any special installation necessary to meet the Customer's unusual requirements for service, including but not limited to service at other than standard voltages, or for the supply of higher quality voltage regulation than required by standard service.

3.3.2. Non-Standard Facilities Configuration. The Customer shall provide or pay the cost of any special installation necessary to meet the Customer's unusual requirement for service in addition to standard service. If non-standard facilities are provided by the Customer, said facilities must be approved in advance by the EDC.

3.3.3. Underground Service. Customers desiring an underground service from overhead wires must bear the excess cost, if any.

3.4. Service Interruptions. The EDC shall use good utility practice to minimize service interruptions whether planned (example: planned transformer

replacement) or unplanned (example: weather) and shall act with due diligence to restore interrupted or curtailed service..

4. Service Availability

4.1. General Conditions. Electric delivery service shall be provided to one or more delivery points as requested by the Customer.

4.2. Initiating Service. The Customer may contact the EDC for initiation of service.

4.3. Obligation to Extend or Modify Facilities. The EDC is obligated to extend or modify facilities to serve End-Users consistent with the due diligence conditions in Section 6.2 of this Tariff.

5. Procedures for Arranging Energy Delivery Service

5.1. Conditions Precedent for Receiving Service. The EDC should be advised by the Customer of the premises to be equipped for electricity, giving exact location, and details of all current consuming devices to be installed. The Customer shall supply the EDC any information regarding potential or actual contamination, waste or hazardous materials on the End-User's premises.

5.2. Application Procedures. The Customer must inform the EDC of the request for service with at least 7 days notice and exact information concerning the location where service is to be delivered.

5.3. Creditworthiness. Before the EDC will render service or continue to render service, the EDC may require an applicant for service or a current Customer that has Bad Credit or an applicant for service whose credit is not established, to provide a cash deposit. In addition, the EDC may require Customers to post a deposit at any time if the EDC determines that the Customer is no longer creditworthy or has Bad Credit.

5.4. Deposit. The deposit shall not be less than \$1000.00 nor more than the estimated gross bill for the use of two months of service. The deposit shall either be applied with interest to the Customer's account or returned to the Customer with interest when the Customer becomes Creditworthy. Interest will be simple interest on cash deposits calculated at an annual rate determined by the average of 1-Year Treasury Bills for September, October and November of the previous year ("Interest Index").

5.5. Technical Arrangements to be Completed Prior to Commencement of Service. The facility to receive service shall be in compliance with the National Electrical Safety Code.

5.6. End-User Facilities. The End-User shall be solely responsible for constructing or installing all facilities on the End User's side of the delivery point which shall include all required building inspections and meet the applicable requirements of the EDC.

5.7. Service Agreement for Energy Delivery Service. The Customer must sign a Service Agreement with the EDC prior to initiation of Energy Delivery Service.

5.8. Unauthorized Use. Unauthorized connection to the EDC's electric service facilities, and/or the use of service obtained from the EDC without authority, or under false pretense, may be terminated by the EDC.

5.9. Required Customer Arrangements for Open Access Transmission Service and Ancillary Services. Customers requiring service at high voltages may be able to take service directly from the Transmission grid and may be eligible for service under the Federal Energy Regulatory Commission (FERC) tariffs.

6. Procedures for New or Modified Facilities

6.1. New Service Connections. The EDC shall have the right to inspect new service End-User facilities and reserves the right to reject any wiring or appliances not in accordance with the EDC's standard requirements.

6.1.1. Overhead Extension Policy. The EDC will extend a single-phase line or primary line up to 2,500 feet [or such other standard as established by the EDC with approval from the respective regulatory authority], along the normal development of the distribution system without the guarantee of revenue. The Customer shall pay the cost of any special installation necessary to meet the Customer's unusual requirements for services, including extensions beyond 2,500 feet.

6.1.2. Underground Policy. Customers desiring an underground service from overhead wires must bear the excess cost, if any.

6.2. Due Diligence in Completing New Facilities or Modifying Existing Facilities. The EDC has an obligation to provide access from the transmission grid to the point at which the customer's electrical facilities are connected to the EDC's electric facilities. The EDC will use good utility practice to provide reliable access for the conveyance of energy and power to the customer. If new facilities or if existing facilities need modification in order to provide reliable access, then the EDC shall apply due diligence in adding necessary facilities or modifying existing facilities.

6.3. Partial Interim Service. If the EDC determines that it will not have adequate distribution capability to satisfy the full amount of firm service, the EDC nonetheless shall be obligated to offer the portion of requested service that can be accommodated.

6.4. Non-Standard Facilities Requirements and Compensation. If non-standard facilities are required for the Customer then the directly assignable costs of the non-standard facilities shall be paid by the Customer prior to installation.

## 7. Service Changes

### 7.1. Requests for Changes in Service

7.1.1. Termination of Service. In the event the customer withdraws an application for either new or modified service, the customer will reimburse the EDC for all reasonable costs incurred by the EDC in anticipation of supplying the new or modified service.

7.1.2. Relocation of Service. Except where provided by law, the cost to relocate service or poles and/or their associated equipment shall be borne by the property owner. The relocation cost shall include labor (including overhead), materials, storage expense and transportation, less the salvage value of any equipment replaced. The EDC will notify the owner in writing of the relocation cost and advance payment to be made to the EDC prior to the relocation except in special circumstances.

7.2. Notification of Changes in Expected Use or Usage Patterns. Significant changes in either the amount of energy or the usage pattern should be communicated from the Customer to either the EDC or the Supplier. Failure to give notification of additions or changes in load or location shall render the Customer liable for any damage to the meters or their auxiliary apparatus, or the transformers, or wires, of the providers.

## 8. Operating Procedures

8.1. Cooperation. Cooperation is a necessary condition between the EDC, Customers, and other parties associated with supplying electric service to End-Users.

8.2. Energy Delivery Scheduling. The Customer is responsible for providing all information for energy scheduling required by the EDC or the Host Control Area.

8.3. Exchange of Load Shape Data. The EDC is responsible for providing load shape information to the Customer to the extent necessary in order for the Customer to meet its responsibility under paragraph 8.2.

8.4 Planned Outage Notification. The EDC and the Customer are required to inform each other as soon as reasonably achievable in the event of planned outages that may effect the Aggregated Daily Load Curve.

9. Billing and Payment

9.1. Billing Procedure. The EDC shall remit within 10 days following the end of the calendar month all charges as are applicable to the Customer.

9.2. Payment Provisions. Bills are payable upon presentation. Payment for service received must be made on or before the due date shown on the bill. The payment period will not be extended because of the Customer's failure to receive a bill unless said failure is due to the fault of the party responsible for billing.

9.2.1. Late Payment Charge. For late payments a finance charge of 1 1/4 % per month will be charged on the outstanding amount of the bill. Interest on delinquent amounts shall be calculated from the due date of the bill to the date of payment. If the party responsible for collections files suit to collect a delinquent balance on an account or to ensure payment of current bills, the Customer will be required to pay the collections agent's out-of-pocket court costs. Partial payments go first to the finance charge and then are allocated to the respective companies for energy delivery, revenue cycle services and electric supply.

9.3. Customer Default. The EDC may terminate its service on reasonable notice and remove its equipment in case of non-payment of charges.

9.4. Limits on Liability. The EDC shall not have duty or liability to a Customer arising out of or related to a contract or other relationship between a Customer and an End-User. (See Section 16.2)

10. Meters

10.1. Procurement, Type, Protection. The Customer, or at its election, the EDC (the "meter provide") shall provide, own and maintain any meter or meters required in the supply of service. The responsible party for meter service shall provide a type of meter meeting the architecture required for the supply of service and such other standards as established by the Commission.

10.2. Location/Access. There shall be provided, free of expense to the meter provider, at a location which the meter provider will designate in writing upon request, outdoors at its option, a suitable place for the meter or meters and any other supply, protective or control equipment of the meter provider which may be required in the delivery of the electric service. The meter provider and EDC shall have access at all reasonable times for the purpose of installing, testing, inspecting, repairing, removing or changing any or all equipment belonging to the meter provider.

10.3. Installation / Removal. Upon a minimum of 7 days notice to either the EDC or the Customer, meters may be installed or removed by the meter provider unless a non-standard location or configuration is required. In no event shall an End-User be without metering.

10.4. Maintenance / Testing. The meter provider will make periodic tests and inspections of its meters in order to maintain them at a high standard of accuracy.

10.5. Meter Tampering/Unauthorized Use/Diversion of Supply. In the event of the meter provider's meters or other property being tampered or interfered with, the End-User being supplied through such equipment shall pay for any repairs or replacements required, as well as for the costs of inspections, investigations, and protective installations. The End-User shall also pay for any energy being supplied through such equipment which the Customer may estimate is due for service used but not registered on the meter.

11. Meter Reading

11.1 The meter provider shall be responsible for reading of meters for billing and all other purposes.

11.2 Access to End-User Meter. The meter service provider and EDC shall have access to the premises of the End-User at all reasonable times for the purpose of reading meters.

11.3 Interval / Estimated Usage. Meters will be read at scheduled regular intervals of one month. The bill shall be estimated for the amount of service supplied to premises where access to the meter is not available, and to installations at remote locations when warranted by the type of installation, regularity of usage or other circumstances, and will render bills in standard form based on such estimate and so marked.

11.4 Historic Meter/Billing Data. The meter provider shall be responsible for data conversions necessary for translating the reading data collection format into the universal exchange data format. The meter provider shall provide the data processing system necessary to support the on-line storage, maintenance, and accessibility of these data. The billing data shall be maintained for three years or such other period as required by the Commission.

12. Authorization to Provide End-User Data to Customers

12.1 Name, Address, Phone Number. Upon the request for initiation of service, the EDC Customer shall make the End-User's usage available to the customer

12.2 Load Patterns, Demand/Energy Data. The EDC or meter provider, whoever has and/or retains the data, shall provide load and demand data, at cost, to eligible Customers within 30 days of the request.

12.3. Billing History. The party responsible for Customer billing and retains the meter and billing data, shall provide billing data, at cost, to eligible Suppliers within 30 days of the request.

13. Ancillary Energy Delivery Services

13.1 Power Factor Correction. Service to the extent that the Customer does not correct its End-Users' power factor to acceptable levels, the EDC shall supply the necessary reactive power and bill the Customer for power factor correction according to Schedule 4.

13.2 Real Power Losses Compensation Service. Real Power Losses result from energy delivery at all voltage levels. The Customer shall be responsible for such, during delivery of sufficient amounts of power and energy to the EDC's system to cover all losses associated with real power losses on the EDC's system. Procedures for determining the amount of losses to the Customer are provided for in Schedule 5 to this Tariff.

14. Disconnection and Reconnection of Service. The physical disconnection and reconnection of service shall be performed by the EDC. However, the costs of disconnects and reconnects shall be borne by the Customer if the service was discontinued by reason or act of the Customer.

15. Load Shedding and Curtailments.

15.1. Procedures. In order to maintain electric grid reliability, events may cause the need for load shedding or load curtailments. Policies of the respective NERC region and/or state Commission for load shedding shall remain in place.

15.2. Allocation of Curtailments. In the event that a curtailment of Energy Delivery Service is required to maintain reliable operation of the EDC system,

curtailments will be made on a non-discriminatory basis to the delivery point (s) that effectively relieves the constraint. All curtailments will be made on a non-discriminatory basis. The EDC or Host Control Area shall have the right to curtail at its sole discretion, using good utility practice, when an emergency or unforeseen conditions impairs or degrades the EDC's system or the regional transmission system.

16. Force Majeure and Indemnification

16.1 Force Majeure. An event of Force Majeure means any act of God, labor disturbance, act of the public enemy, war, insurrection, riot, fire, storm or flood, explosion, , breakage or accident to machinery or equipment, any curtailment, order , regulation or restriction imposed by governmental military or lawfully established civilian authorities, or any other cause beyond a Party's control. A Force Majeure event does not include an act of negligence or intentional wrongdoing. Neither the Customer nor the EDC will be considered in default as to any obligation if prevented from fulfilling the obligation due to an event of Force Majeure.

16.2 Indemnification. The Customer shall at all times indemnify and hold harmless the EDC from any and all damages, losses or claims, including death and injury or damage to property, court costs, attorney fees and other claims by third parties arising from the EDC's performance on behalf of the Customer, except in cases of negligence or intentional wrongdoing.

17. Dispute Resolution Procedures

17.1. Internal Dispute Resolution. Upon the submission of any complaint, representatives of the respective companies shall attempt resolution on an informal basis as promptly as practicable.

17.2. External Arbitration Procedure. Disputes between the EDC and Customers below a certain dollar amount may be well suited for use of an external arbitration

procedure. A single neutral arbitrator appointed by the respective parties should be called within 10 days of the referral of the dispute to arbitration.

17.3. Arbitration Decisions and Costs. The respective companies should have contracts in place to allow both arbitration and mandatory compliance with decisions and costs. The decision of the arbitrator shall be final and binding upon the parties unless the decision itself, violated the standards set forth in the Federal Arbitration Act.

18. Standards of Conduct

18.1. Electric Distribution Company.

(Tariff language reflecting Commission ordered standards of conduct.)

## Schedule 1

### Energy Delivery Services

#### Description of Service

Energy Delivery Services are those services necessary to convey electric power and energy for Customers from any point(s) of receipt available to the Electric Distribution Company under the applicable Open Access Transmission Tariff to the End User's or Host Control Area point(s) of delivery.

#### Compensation

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

High Tension Service

## Schedule 2

### Revenue Cycle Services

#### Description of Service

The Revenue Cycle Services include the provisions of meters, meter reading, and billing and collection. The meter service includes the selection, installation, calibration, maintenance, testing and replacement of meters appropriate to the customer service requirements. The meter reading service includes the accurate reading, retaining and appropriate transfer of End-User energy and demand usage data to the Customer or Electric Distribution Company or both. The billing service is the accurate computing and transmitting End-User bills for services rendered by the Electric Distribution Company or the Customer or both. The billing service includes the retention of necessary records and providing appropriate access to billing information. The collection service is the receiving of customer payments and applying payment to the correct specific service. The collection service includes assessing late charges, interest penalties, warning notices and reconnection charges.

#### Compensation

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

**Schedule 3**

**Competitive Transition Charge**

Description of Charge

The CTC shall apply during the transition period as follows:

Compensation

**Schedule 4**  
**Power Factor Correction Service**

**Description of Service**

Power factor is the ratio of active power (kilowatts) to the apparent power (kilovolt-amperes) used by an electrical device in an a c circuit. When the active power consumed (watts) is divided by the product of voltage (volts) times current (amperes), and the quotient is multiplied by 100, the result equals the power factor. It is possible for a device to draw AC current without consuming energy. The power factor indicates how much of the total current is actually doing work.

Standard power factor values, based on measured demands, are as follows: i) for 0 kW to 185 kW then the standard power factor is 80 %; ii) for 186 kW to 2,500 kW then the standard power factor is 90 %; and iii) over 2,500 kW the standard power factor is 95 % or other standard as established by the EDC and approved by the applicable regulatory authority. Whenever the measured power factor of a Customer is less than the prescribed standard, the Customer's measured demand shall be increased by the ratio of the standard power factor to the measured power factor. The demand thus determined shall be used as a basis for calculating the Customer's billing demand.

**Compensation**

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

High Tension Service

## Schedule 5

### Real Power Losses Compensation Service

#### Description of Service

Energy is "lost" or consumed in the process of transmitting or moving the energy from the point of generation to the point of delivery to the Customer. Real losses that occur in the Transmission System are addressed in the FERC Open Access Transmission Tariffs. Real Power losses that occur in the Distribution System need to be provided by the Customer.

The losses are included in the Aggregated Daily Load Curve as provided by the EDC or ISO.

#### Loss Factors

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

High Tension Service

Enron St. 6.0  
R-973954  
8/19/97  
*Abey Jan*

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

**MICHAEL D. DIRMEIER**

ON BEHALF OF  
ENRON POWER MARKETING INC.

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

JULY 2, 1997

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TESTIMONY OF MICHAEL D. DIRMEIER

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Exhibit - Prior Regulatory Experience

1 **I. STATEMENT OF QUALIFICATIONS**

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

3 A. My name is Michael D. Dirmeier and my business address is 456 Main Street,  
4 Ridgefield, Connecticut 06877.

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

6 A. I am a principal in the management consulting firm of Georgetown Consulting  
7 Group, Inc.

8 **Q. WHAT IS THE NATURE OF THE SERVICES PROVIDED BY YOUR**  
9 **FIRM?**

10 A. Our firm offers services in financial and management consulting, principally in  
11 the area of utility regulation. Members of our firm have performed analyses of  
12 petitioners' testimonies and have presented testimony before many commissions  
13 and boards in regulatory cases involving telephone companies, air carriers,  
14 pipeline companies, and electric, gas and water utility companies.

15 **Q. WHAT IS YOUR EXPERIENCE INVOLVING PUBLIC UTILITIES?**

16 A. I have analyzed utility companies' testimonies, managed the preparation of  
17 testimony or testified in the following jurisdictions: Arkansas, Colorado, Florida,  
18 Georgia, Maryland, Mississippi, New Jersey, New Mexico, New York, Ohio,  
19 Oklahoma, Pennsylvania, South Carolina, Vermont, Virginia, the U.S. Virgin  
20 Islands, the District of Columbia, the Federal Energy Regulatory Commission  
21 and the U.S. Nuclear Regulatory Commission. The Exhibit to this testimony

1 provides a complete listing of the jurisdictions and proceedings in which I have  
2 been involved.

3 **Q. WHAT OTHER PROFESSIONAL EXPERIENCE HAVE YOU HAD?**

4 A. Before joining Georgetown Consulting Group, Inc., I was employed by Touche  
5 Ross and Co. and the Bendix Corporation. My consulting experience includes  
6 operations reviews, design and implementation of procedures and product-line  
7 analysis. I have prepared and made presentations regarding the Tax Reform Act  
8 of 1986. My corporate work included capital budgeting, investment analysis,  
9 financial modeling and planning, analysis of acquisitions and divestitures, and  
10 preparation of financial reports for the Board of Directors.

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

12 A. I graduated from Texas A&M University in 1971 with a Bachelor of Science  
13 Degree in physics. I received a Master of Business Administration Degree in  
14 finance from the University of Chicago in 1973. In 1979, I received a  
15 Certificate in Management Accounting, which is a professional certification for  
16 management accountants and financial managers awarded by the Institute of  
17 Certified Management Accountants.

18 I am a member of the Institute of Management Accountants and the  
19 National Association of Accountants.



1                                    **III. CONCLUSIONS AND RECOMMENDATIONS**

2 **Q.    WHAT ARE YOUR RECOMMENDATIONS IN THIS PROCEEDING?**

3 A.    The Commission should adopt a code of conduct that goes beyond the code of  
4        conduct proposed by PP&L and embodies the following additions and  
5        enhancements: (1) there should be meaningful functional, financial and flow-of-  
6        information separation of the operations of the monopoly and competitive arms  
7        of the utility applicable to personnel, information dissemination, and cost  
8        allocation; (2) all monopoly customers who are not yet eligible for choice or do  
9        not exercise choice should be served by the distribution and transmission arm of  
10       the company at regulated, tariffed rates and the provision of unregulated  
11       services or market based rates or contracts should occur only through the EDC's  
12       separate affiliate/divisional supplier; (3) the EDC should not act as agent for any  
13       supplier of any competitive service; (4) the EDC's competitive affiliate or  
14       division should not be permitted to utilize the EDC's corporate name; (5) any  
15       service<sup>11</sup> that an EDC provides to participants<sup>12</sup> in the electric industry must be  
16       made available under the same notice, terms, prices and conditions to all; (6) all  
17       information developed by or acquired by the EDC, regardless of source, should

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1        In this context, "service" should include the provision of any information, the taking of any  
2        action or the utilization of any resource, whether or not undertaken for compensation.

3        "Participant in the electric industry" should include all generation and non-utility activities,  
4        whether undertaken by non-affiliated companies or affiliates/divisions of the EDC. It should also  
5        apply to any generation, transmission, distribution or electric service activity of any non-affiliated  
6        entity.

1 be subject to strict standards of confidentiality; (7) there should be no  
2 derogation of the right of electric generation suppliers or end-users to direct  
3 access; all tying arrangements between generation/supply services and EDC  
4 services should be prohibited; (8) the code of conduct should be applied to all  
5 persons employed by the EDC and any operations affiliated with the EDC; and  
6 (9) the Commission should modify the code of conduct proposed by PP&L  
7 consistent with the above recommendations and this testimony and the code of  
8 conduct should be implemented immediately.

1 **IV. BASIS FOR RECOMMENDATIONS**

2 **Q. WHAT IS THE OVERRIDING RECOMMENDATION REFLECTED IN**  
3 **YOUR TESTIMONY?**

4 A. The fundamental prerequisite to true and effective competition is that regulated  
5 and non-regulated activities should be as physically, financially and legally  
6 separated as is possible under the Act. Ideally, the EDC would no longer have  
7 any relationship, other than as between totally separate companies, with its  
8 present affiliated generation and marketing businesses. The Commission should  
9 mandate the maximum level of separation possible to ensure that EDCs treat all  
10 participants in the electric markets, including generation undertaken by related  
11 companies, in precisely the same manner.

12 **Q. WHAT IS THE BASIS FOR THIS RECOMMENDATION?**

13 A. In my view, the Commission is given the responsibility to implement these  
14 competitive safeguard principles by the Electricity Generation Customer Choice  
15 and Competition Act of 1996 ("Act"):

16 The purpose of the Act is to provide for an orderly transition of  
17 the Pennsylvania electric industry from a vertically integrated  
18 monopoly to a structure which would support the development of a  
19 competitive retail electric generation market while retaining a  
20 natural monopoly in the transmission and distribution markets.<sup>3</sup>

21 Furthermore,

22 This Commonwealth must begin the transition from regulation to  
23 greater competition in the electricity generation market to benefit

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Proposed Rulemaking Order, Docket No. L-00970122 at 1 (Pa. P.U.C. entered April 10, 1997).

1 all classes of customers and to protect this Commonwealth's ability  
2 to compete in the national and international marketplace for  
3 industry and jobs.<sup>4</sup>

4 My recommendations in this proceeding are intended to meet the goal of  
5 supporting the development of a competitive retail electric market, consistent  
6 with the Act's purpose. Appropriate policies and standards are needed to bring  
7 and protect robust competition and customer choice to the retail electric market  
8 in Pennsylvania, because customers will benefit from the transition only if there  
9 is strong competition. Competition, customer choice and customer benefits will  
10 be enhanced only if the Commission adopts policies and standards that  
11 safeguard and enhance the development of a truly effective competitive  
12 environment for electric services.

13 **Q. WHY DOES THE COMMISSION HAVE A ROLE IN PREVENTING**  
14 **AND REMEDIATING THE ABUSE OF MARKET POWER IN**  
15 **RESTRUCTURING THE ELECTRIC INDUSTRY IN PENNSYLVANIA?**

16 A. PP&L's management has a fiduciary responsibility to attempt to set up the  
17 future market in a way that advantages PP&L and its investors, even if such  
18 activities are inconsistent with the development of competitive markets. Left  
19 unchecked, PP&L would lock-up customers and undertake transactions between  
20 its regulated and non-regulated business sectors, all designed to gain the greatest  
21 advantage for

22 PP&L without consideration of their effect on the development of a competitive

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<sup>4</sup> Act §2802(7), "Declaration of Policy."

1 market. The Commission must act now and in the future, so long as PP&L controls  
2 bottleneck facilities and has market power, to ensure that others are given a fair chance  
3 to compete and succeed in competition with PP&L.

4           The establishment of appropriate policies and standards at the outset of  
5 direct access of retail customers to electric generation supply is necessary to  
6 ensure that the pro-competitive goals of the Act are met. They will also result  
7 in time and money saved by reducing, if not eliminating, the requirement to  
8 investigate and respond to the inappropriate use of market power after the fact.

9 **Q. HAS THE COMMISSION RECOGNIZED THE NEED TO ESTABLISH A**  
10 **CODE OF CONDUCT IN ORDER TO EFFECTUATE A COMPETITIVE**  
11 **MARKET?**

12 A. Yes. The Commission recognized a need for a code of conduct when it  
13 promulgated a sample code of conduct in its February 13, 1997 Order,  
14 “Licensing Requirements for Electric Generation Suppliers,” and imposed this  
15 code on PP&L in its Preliminary Opinion and Order concerning PP&L’s Pilot  
16 program.<sup>15</sup>

17 **Q. CAN THE COMMISSION SIMPLY DECIDE TO PROCEED WITH THE**  
18 **SAMPLE CODE OF CONDUCT THAT ALREADY HAS BEEN**  
19 **PROPOSED?**

20 A. The code of conduct so far adopted by the PUC was a starting point but does  
21 not complete the task of ensuring and enhancing the development of

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<sup>15</sup> Petition of Pennsylvania Power & Light Company for Approval of a Retail Access Pilot Program,  
Docket No. P-00971183 at 21 (Pa. P.U.C., May 8, 1997).

1 competition. It is critical that the Commission recognize the difficulty of  
2 establishing a code of conduct that clearly delineates activities that the  
3 monopoly and its affiliates can, and cannot, undertake. Without question, the  
4 adopted code of conduct will be scrutinized in extreme detail in order for the  
5 monopoly to determine what types of conduct can be undertaken without clearly  
6 violating the code. Language that seemingly prohibits activities will be found to  
7 have unintended limitations that allows certain activities to occur, when to the  
8 contrary they should be prohibited because the original intent was to prohibit  
9 them. This is only understandable, because the utility's managers have a  
10 fiduciary responsibility to their investors to produce the best possible return.

11 **Q. WHAT MUST THE COMMISSION DO IN RECOGNITION OF THESE**  
12 **TENDENCIES?**

13 **A.** As the Commission adopts and enforces its code of conduct, it must take care to  
14 consider the ways that actions not specifically addressed can still be  
15 anti-competitive or inconsistent with the goals of the Act. The Commission  
16 should be specific and concrete about what utilities and their affiliates can and  
17 cannot do, and it should recognize that there likely will be unanticipated  
18 circumstances where activities are undertaken to forestall competition. Since the  
19 ultimate goal of competitors is to eliminate other competitors and to eliminate  
20 competition, the code of conduct must be an effective mechanism helping both  
21 to achieve and to

1 maintain competition in a situation where one competitor — the EDC — has market  
2 power.

3 **Q. SHOULD THE RULES THAT YOU RECOMMEND BE IMPLEMENTED**  
4 **IMMEDIATELY, OR SHOULD THEY AWAIT THE FIRST PHASE OF**  
5 **COMPETITION WHICH IS TO BEGIN JANUARY 1, 1999?**

6 A. The rules should apply immediately to PP&L and to any affiliate or division  
7 operating in PP&L's service territory. Immediate application is necessary  
8 because of the ability of PP&L to circumvent the rules if their application is  
9 delayed. For example, if PP&L and its non-regulated marketing or supply  
10 affiliate or division were able to freely exchange information today and for the  
11 next 1-½ years until the first phase-in period of direct access begins, its  
12 marketing or supply affiliate/division would be in a position of obtaining a  
13 wealth of customer-specific information that would enable it to get the jump on  
14 its future competitors. If competition is to flourish, the Commission must  
15 establish and begin immediate enforcement of prohibitions against special  
16 dealing between the monopoly business unit and any affiliated business unit  
17 engaged in non-monopoly products and services, including but not limited to  
18 generation.

19 **Q. ARE THERE ANY ACTIVITIES TAKING PLACE AT THIS TIME**  
20 **ABOUT WHICH THE COMMISSION SHOULD BE CONCERNED?**

21 A. PP&L may be using its Competitive Rate Rider ("CRR"), Electric Tariff Rule  
22 2B(1) and the Industrial Development Initiatives Rider ("IDI") to negotiate

1 long-term generation supply arrangements with customers prior to the time of  
2 Commission approval of its restructuring plan and prior to the time direct access  
3 is initiated.<sup>16</sup> While customer retention efforts are valid undertakings in a  
4 competitive market, they are not valid when one opponent is allowed to compete  
5 and the other is not allowed to compete for another 18 months, and even then  
6 only on a partial basis. PP&L should not be allowed to utilize its present  
7 monopoly and “market-priced” tariff arrangements to “lock-up” customers.

8 In the period before direct access is allowed, PP&L should not be  
9 permitted to enter into “market priced” contracts unless either: 1) PP&L first  
10 offers to all competitive suppliers (including its Generation Supply Group) the  
11 opportunity to bid to provide service to the customer; or 2) demonstrates that its  
12 price at least covers the imputed cost of the unbundled delivery service elements  
13 (T&D, etc.) plus the incremental cost of the generation to be sold.

14 At the initiation of direct access, all such “market priced” contracts  
15 executed by the utility should be required to be transferred to PP&L’s  
16 unregulated supplier affiliate or division and the affiliated supplier should be  
17 required to remit to PP&L all delivery service and other charges that would be  
18 applicable to any other non-affiliated supplier providing similar service. Last,  
19 the Commission should provide a penalty-free “fresh start” to customers who

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<sup>16</sup> See for example PP&L’s response to Interrogatory of Allegheny Power, Set 1, Q.7. Also, Tariff 201, Exhibit OGK 2 and Supplement No. 65, Exhibit OGK 3.

1 have entered into long-term contracts to purchase power from Pennsylvania  
2 Power & Light subsequent to the date on which the Act was passed to permit  
3 them to switch to a competitive supplier if they wish.

4 **Q. SHOULD THE COMMISSION REVIEW ITS CODE OF CONDUCT IN**  
5 **THE FUTURE?**

6 A. Yes, it should. A strong code of conduct is needed at this time because PP&L  
7 controls bottleneck facilities and has a pervasive presence in its service territory.  
8 As conditions change in the future, then it may be appropriate at that time to  
9 reconsider what rules would then be appropriate. As competition takes hold and  
10 PP&L truly separates competitive businesses from the EDC operations, there  
11 may be reasons to restructure these rules.

12 **Q. HOW DO YOU USE THE TERMS "EDC" AND "AFFILIATE" IN YOUR**  
13 **TESTIMONY?**

14 A. In discussing why its proposed Code of Conduct does not include a safeguard  
15 concerning the use of the corporate name that is included in the Commission's  
16 Model Code of Conduct, PP&L stated that the Model Code of Conduct is  
17 confusing because the Generation Supply group is not an affiliate, but a division  
18 of PP&L.<sup>17</sup> There should be no confusion, because the Company should  
19 understand that affiliate means related. In any event, in this testimony, the term  
20 "electric distribution company" or "EDC" means the *monopoly* transmission and  
21 distribution function. That function can be provided either as a division of a

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<sup>17</sup> PP&L response to Interrogatory Enron I-10.

1 vertically integrated electric utility, as a separate subsidiary, or as the remaining  
2 utility company after divestiture of generation and sales activities. Moreover,  
3 EDC does not include ancillary energy services that may be provided by the  
4 T&D utility, but which are subject to competition. "Affiliate" includes divisions  
5 and subsidiaries of the EDC, any operating unit within the EDC, and any entity  
6 under common ownership or control with the EDC.

1                   V. REQUIREMENTS TO SAFEGUARD COMPETITION

2 1. SEPARATION OF BUSINESS UNITS

3 Q.    WHAT STANDARDS AND POLICIES SHOULD THE COMMISSION  
4       ADOPT TO SAFEGUARD COMPETITION IN THE PENNSYLVANIA  
5       ELECTRIC INDUSTRY?

6 A.    The first and foremost requirement is that monopoly and non-monopoly  
7       activities should be as separate as possible. The purpose of the Act is to  
8       provide for a transition from monopoly to competitive provision of retail  
9       electric generation. However, whenever monopoly and non-monopoly services  
10      are commonly owned, controlled or operated, there is the potential to leverage  
11      the monopoly functions to gain an advantage in non-monopoly services, thereby  
12      delaying the advent of effective competition and limiting the benefits of  
13      competition realized by customers.<sup>18</sup>

14               Where the goal is to provide for a *transition* to competition from  
15      monopoly, it is especially important to ensure that such a goal is achieved by  
16      taking steps to prevent the use of monopoly power in any market other than the  
17      specific markets for which the monopoly is to be retained. In that regard, the

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<sup>18</sup> A May 15, 1997 *Public Utilities Fortnightly* news brief notes that a U.S. federal district court will allow a jury to hear antitrust complaints against Pennsylvania Power and Light Co.

The court sent substantial aspects of the oil dealer's complaint to trial. It found that in entering the "all-electric" agreements with developers, the utility had used its position to establish itself in the new construction market by excluding others on some basis other than superior efficiency.

The proceeding citation is *Yeager's Fuel, Inc., et al. v. PP&L, Civil Action Nos. 91-5176, 92-2539 (E.D.Pa, Jan. 31, 1997)*.

1 Act prescribes only that it is in the public interest for the transmission and  
2 delivery of electricity to continue to be regulated as a natural monopoly.<sup>19</sup>

3 **Q. WHAT DO YOU MEAN BY SEPARATION?**

4 A. By separation, I mean that the EDC must be functionally disaggregated to the  
5 greatest extent possible so that the EDC's competitive business units do not gain  
6 any discriminatory advantage over competitors. This separation includes  
7 products, services, money, information, and anything else that would not  
8 normally be shared with a competitor, including recommendations.

9 **Q. ARE CONCERNS REGARDING FUNCTIONAL SEPARATION**  
10 **PARTICULARLY RELEVANT TO REVIEW OF PP&L'S**  
11 **RESTRUCTURING PLAN?**

12 A. Yes. PP&L is the first electric utility in Pennsylvania that I am aware of that  
13 affirmatively has indicated that it will not structurally separate its monopoly  
14 distribution and transmission functions from its competitive generation supplier  
15 functions. Accordingly, concerns regarding functional separation are  
16 particularly relevant to PP&L's plan and should attract particularly close  
17 scrutiny by the Commission. Not only should functional separation requirement  
18 be equally applicable to PP&L's Delivery Group and Generation Supply Group  
19 as to separate corporate affiliates, but the separation requirement must be more  
20 clearly defined and more strictly enforced since the potential for abuse is much  
21 greater without the clear boundaries provided by structural corporate division.

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<sup>19</sup> Act §2802(16). The Act makes no other use of the term "monopoly."

1 Q. DOES PP&L AGREE TO SEPARATION OF EDC AND NON-  
2 MONOPOLY BUSINESS ACTIVITIES?

3 A. Not to the degree necessary. For example, in response to Interrogatory Enron I-  
4 7, PP&L stated that its position regarding preference to affiliates, including the  
5 safeguards that have been proposed, is set forth in its Retail Access Code of  
6 Conduct, Company Exhibit RMG 3. Unfortunately, Company Exhibit RMG 3  
7 is silent regarding EDC Customer Service Representatives ["CSRs"] ability to  
8 "point" or channel new customers exclusively to its competitive retail energy  
9 supply group or affiliate. Although the Company's response to Interrogatory  
10 Enron I-11 states that PP&L's CSRs employed by its Electric Delivery group  
11 will not favor the electric supply activities undertaken by either PP&L's  
12 Generation Supply group or any PP&L affiliate over such activities by third  
13 party suppliers, nothing in the Company's proposed Retail Access Code of  
14 Conduct would prevent such pointing activities. Any such pointing or  
15 channeling of customers to any PP&L affiliate would be inimical to the  
16 competitive process as it would provide PP&L with a significant competitive  
17 advantage which, if allowed and utilized, would certainly delay the advent of  
18 effective competition in Pennsylvania.

19 Furthermore, in response to Interrogatory Enron I-37, PP&L stated that  
20 its accounting and cost allocation rules governing the assignment of costs  
21 between the

1 Delivery Group and its Generation Supply Group are still under development. In fact,  
2 in response to Enron Interrogatory III-7, PP&L indicated that it intends to allocate  
3 costs between itself and its parent on a "case-by-case basis" rather than pursuant to  
4 reasonable rules and standards. Other interrogatory responses regarding intended  
5 implementation of its code of conduct are equally noncommittal. Overall, PP&L's  
6 proposed code of conduct is an "empty vessel." PP&L is only willing to commit to  
7 very general standards and is unwilling to commit to specific rules or even describe  
8 specific safeguards it intends to implement to preclude prohibited activity. Its "trust us  
9 on this one" approach simply does not provide the protection required to deter anti-  
10 competitive behavior in the transition from a monopoly to a competitive economic  
11 environment. Instead, in order to receive approval of a restructuring plan, PP&L must  
12 provide adequate assurances to the Commission and the parties that it will establish a  
13 code of conduct **and** implement the code of conduct in a manner that precludes it from  
14 utilizing its bottleneck access to customers to promote its competitive services or  
15 otherwise seek a competitive advantage for its affiliated supplier.

16 **Q. WHAT STEPS ARE NECESSARY TO REDUCE THE CHANCES THAT**  
17 **PP&L WILL BE ABLE TO EXPLOIT ITS POWER ASSOCIATED WITH**  
18 **ITS POSITION AS THE PROVIDER OF MONOPOLY, BOTTLENECK**  
19 **FACILITIES PERTAINING TO CONDUCT BY ITS CUSTOMER**  
20 **SERVICE REPRESENTATIVES?**

21 A. There are two ways to reduce PP&L's potential competitive advantage from the  
22 EDC's ongoing relationship with customers and the Commission should  
23 implement both of them. The *first* is to implement procedures that reduce the

1 EDC's hold on customers. When arranging service, end-use customers should  
2 be allowed to authorize competitive service providers to contact and, as  
3 necessary, negotiate with the EDC to arrange service as agent for the customer.  
4 This would allow competitors to increase their service offerings and not subject  
5 customers to the potential abuse of market power that would occur if a CSR  
6 were to attempt to reverse a customer's decision to change suppliers. Of course,  
7 customers should also have the right to arrange their own services.

8 *Second*, and at the same time, the code of conduct should preclude the  
9 EDC or Delivery Group's CSRs from acting as agent for the Generation Supply  
10 Group's competitive services by attempting to market such services. Within  
11 PP&L's service territory, only PP&L has contact with customer's in a monopoly  
12 context. Taking advantage of this ongoing relationship with customers on  
13 behalf of its affiliate confers a unfair competitive advantage on the incumbent  
14 and must be strictly prohibited.

15 **Q. ARE THERE OTHER AVENUES IN WHICH PP&L WOULD CONFER**  
16 **AN ADVANTAGE ON ITS AFFILIATES BY IMPROPERLY OR**  
17 **INCOMPLETELY SEPARATING ITS BUSINESS UNITS?**

18 **A.** Yes, there are. Preferential access to utility bills is a significant potential  
19 advantage for PP&L's affiliates. PP&L may require its non-regulated  
20 operations<sup>110</sup> to pay *only* the incremental direct mailing costs associated with

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<sup>110</sup> Such as "Power Watch (™) Service," "Carbon Monoxide Detector" program or prospectively, the Generation Supply group.

1 inserts in the Electric Delivery group's bills. While incremental cost *may*  
2 represent the out-of-pocket *additional* cost incurred for the bill inserts, it  
3 represents a significant advantage to PP&L's non-monopoly business units by  
4 allowing them to avoid the entire mailing cost, which they would incur if they  
5 were separate entities. Thus, PP&L's non-monopoly businesses may have a  
6 substantial head-start over the businesses of other competitive companies.  
7 Certainly, this situation does not ensure fair and equitable participation to which  
8 Mr. Geneczko refers on page 4 of his prefiled testimony (PP&L Statement 13).

9 Another issue relates to PP&L's proposal to offer service under Rate  
10 Schedule RTD (included in PP&L Exhibit OGK 2) only to customers who  
11 choose not to exercise choice. PP&L is attempting to use its rate schedules to  
12 encourage customers not to elect competitive generation supply, in conflict with  
13 the goals of the Act. PP&L should not be allowed to market "not to choose."  
14 Furthermore, any other rate designs with similar conditions that favor PP&L's  
15 generation should also be rejected.

16 **Q. DOES PP&L PROPOSE TO PERMIT NON-AFFILIATES TO HAVE THE**  
17 **SAME ACCESS TO THE BILL OF THE ELECTRIC DELIVERY**  
18 **GROUP?**

19 **A.** Again, PP&L is silent regarding its intended activities under its proposed code  
20 of conduct. As PP&L stated, "PP&L has made no determination whether to  
21 allow its non-utility activities and affiliates to make any use of the Electric

1 Delivery group's bill inserts or advertising channels."<sup>11</sup> Apparently, PP&L is  
2 presently contemplating whether it should attempt to retain the advantage that its  
3 non-monopoly businesses have of being able to utilize PP&L's bills as an  
4 avenue for self-promotion.

5 There is a significant potential for, and apparent actual use by, PP&L's  
6 competitive businesses regarding access not only to the normal promotional  
7 vehicles available to any competitor, but also to vehicles associated with the  
8 monopoly (*i.e.*, promotional flyers included in the monthly bill), bottleneck  
9 service *not available* to anyone else.<sup>12</sup> The Commission should declare that the  
10 door PP&L has left open to allow its Generation Supply Group to advertise and  
11 market through the Delivery Group's communications with its customers creates  
12 the potential for discriminatory activity which is inconsistent with the public  
13 interest and contrary to the Act and should affirmatively prohibit such activity --  
14 thus removing any uncertainty regarding PP&L's intended actions in the future.  
15 Otherwise, the Commission's silence could be viewed as a "green light" by  
16 PP&L.

17 If PP&L's affiliates are to have any access to billing inserts, then PP&L's  
18 competitors must have the same access under the same terms, conditions and  
19 pricing. This does not mean that PP&L must allow competitors to place bill

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<sup>11</sup> PP&L response to Interrogatory Enron I-13.

<sup>12</sup> PP&L response to Interrogatory Environmentalist I-15, Attachment 2.

1 inserts; it simply declares that if PP&L wishes to grant that privilege to its  
2 affiliate, it must grant it to competitors of the affiliate. The principle is that if  
3 anyone has access to bottleneck facilities and associated monopoly services such  
4 as the EDC bill, then everyone should have equal access to those bottleneck  
5 facilities and associated monopoly services at the same terms, conditions and  
6 rates.

7 **Q. WOULD CORPORATE SEPARATION RESOLVE THESE ISSUES?**

8 A. To guarantee completely the prevention of horizontal and vertical market power,  
9 full separation (*i.e.*, divestiture) may be necessary if a level playing field is ever  
10 to be achieved, depending on the utility response to the Commission's  
11 prescribed rules. For example, the Ohio Public Utilities Commission Chairman,  
12 Craig A. Glazer, has stated:

13 " [O]n the one hand, if a level playing field among competitors can  
14 ever be achieved, it can be argued that full disaggregation is  
15 necessary. So long as the disco, transco and genco presidents all  
16 report to a single chief executive officer and board of directors, the  
17 temptation to favor one's own generation is so overwhelming that  
18 no Chinese Wall or accounting separation could ever control it."<sup>13</sup>

19 Also, the United States Department of Justice could be said to have  
20 agreed with the above sentiment in the 1980's when it forced AT&T to spin-off  
21 its regulated businesses. The DOJ believed, along with others who were

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<sup>13</sup> Fitch Special Report, "Regulators on Disaggregation and Mergers," October 30, 1995, p.14 as cited in the Conclusion to the Comments of the Division of Energy Resources on the Department's Proposed Rules Governing Restructuring, Commonwealth of Massachusetts, Department of Public Utilities, Docket No. D.P.U. 96-100.

1 involved with Local Exchange Carrier regulation, that relying solely on  
2 regulation to prevent the regulated monopoly from favoring its unregulated  
3 operations was problematic. The DOJ believed that no matter what guidelines  
4 and auditing mechanisms it put in place, AT&T could devise clever  
5 technological and financial games to circumvent regulation.<sup>14</sup>

6 Nonetheless, the Act as I understand it, provides that the Commission  
7 may permit but not require the utilities to divest or reorganize their corporate  
8 structure.<sup>15</sup> Accordingly, there are a number of ways in which the utilities may  
9 structure themselves in the future. They may elect to divest themselves of their  
10 generation holdings, and the Commission may approve such divestiture. Or  
11 they could decide to divest portions of their generation, transfer some portions  
12 to affiliated subsidiaries, and retain some portion within the existing company.  
13 Or as PP&L' has chosen to propose, they may attempt to create fictitious  
14 boundaries within the existing corporate structure to separate generation supply  
15 activities.

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<sup>14</sup> Economic Report of the President, transmitted to the Congress, February 1996, pp.163 and 171 as cited in the Conclusion to the Comments of the Division of Energy Resources on the Department's Proposed Rules Governing Restructuring, Commonwealth of Massachusetts, Department of Public Utilities, Docket No. D.P.U. 96-100.

<sup>15</sup> Act §2804(5).

1 Q. ARE THERE FUNDAMENTAL REQUIREMENTS THAT MUST BE  
2 IMPOSED REGARDLESS OF THE STRUCTURE ULTIMATELY  
3 ADOPTED?

4 A. Yes. As noted, there are a variety of possible structures which could result but,  
5 in any event, the Commission should ensure that any future structure should  
6 focus on developing more competition, not less. The Commission should also  
7 understand that, while generation may be a large non-monopoly activity in  
8 which EDC affiliates will engage, it is not the only such endeavor. Any non-  
9 monopoly activity undertaken by an affiliate of an EDC, which was defined  
10 earlier to mean the *monopoly* transmission and distribution functions, should be  
11 subject to strict rules preventing the monopoly EDC from conferring any  
12 advantage to the non-monopoly activity.

13 In any event, so long as the utilities have the potential for providing  
14 monopoly and non-monopoly services under common control or ownership, no  
15 matter how structured, the relationships between such activities should mimic as  
16 closely as possible the relationship that would exist if they were not commonly  
17 owned or controlled. In other words, no action should be taken by a T&D  
18 business unit on behalf of an affiliate under any term, circumstance or condition  
19 that differs from an action it would taken on behalf of a non-affiliate. In  
20 applying this rule, the term "affiliate" should be broadly defined as any person,  
21 company, division or operating unit that is providing non-monopoly services  
22 (not limited to electric generation).

1 Q. **WILL YOUR RECOMMENDATION REDUCE THE BENEFITS OF**  
2 **ECONOMY OF SCOPE?**

3 A. It may. However, the pro-competitive goals of the Act cannot be met by  
4 allowing information and services to flow freely between monopoly and non-  
5 monopoly business units.

6 Q. **SHOULD THE COMMISSION MANDATE THAT JOINT AND**  
7 **COMMON COSTS, IF ANY, BE ALLOCATED BETWEEN MONOPOLY**  
8 **AND NON-MONOPOLY ACTIVITIES?**

9 A. Yes, it should. Ideally, as noted above, the EDC would have no affiliated non-  
10 monopoly activities. If there are such activities, then the Commission should  
11 take care to ensure that common costs are held to a minimum and, where they  
12 occur, that a reasonable share are allocated, particularly to ensure that no  
13 advantage is conferred by the monopoly to the non-monopoly activity.

14 Q. **SHOULD THE BOOKS AND RECORDS OF AFFILIATES BE**  
15 **AVAILABLE TO THE COMMISSION?**

16 A. Yes, they should. The EDC and its affiliated competitive providers should keep  
17 separate books and records, which should be subject to review by the  
18 Commission. Moreover, the books and records of the competitive affiliates  
19 should be available to the Commission for its review to ensure that all costs are  
20 properly accounted for and assigned and allocated appropriately. Furthermore, as  
21 indicated above, the accounting and cost allocation rules utilized by the  
22 Company should be subject to the thorough review of the Commission.

1 2. PHASE-IN PARTICIPATION AND NON-ELECTION

2 Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL ON HOW TO  
3 TREAT A PP&L DELIVERY GROUP CUSTOMER WHO QUALIFIES  
4 FOR CHOICE BUT DOES NOT SELECT A GENERATION SUPPLIER?

5 A. No, I do not. In response to Enron Set III, Questions 16 and 17, PP&L  
6 indicated that a Delivery Group customer who qualifies for choice, but does not  
7 select a competitive generation supplier, will be provided generation supply at  
8 detariffed prevailing market prices by the Delivery Group. Specifically, PP&L  
9 indicated that customers who either are not eligible for phase-in, or choose not  
10 to choose will receive energy from:

- 11 • Delivery Group – if the customer “chooses not to choose”;
- 12 • Generation Supply Group – if choice not yet available.

13 PP&L's position appears to be backwards in that it delegates a monopoly  
14 customer to the competitive generation supply group, and a person with the  
15 ability to choose to the monopoly group. Moreover, it is inappropriate for three  
16 reasons: (1) it violates the customer's apparent intent to maintain the status quo  
17 and protection afforded by Chapter 13 of the Public Utility Code; (2) it places  
18 the Delivery Group in direct competition with third party suppliers thus mixing  
19 regulated and non-regulated activities in the same organization, thereby creating  
20 significant potential for abuse; and (3) it places third party suppliers at a distinct  
21 disadvantage in not being able to compete with the Delivery Group, which in  
22 effect locks up the customer for PP&L. Allowing the Delivery Group to

1 provide detariffed generation service to customers who do not exercise choice  
2 will provide an incentive on the part of the Delivery Group to market or  
3 otherwise convince customers not to exercise choice, thereby assuring that  
4 PP&L retains the customer's business. PP&L's proposal to allow its Delivery  
5 Group to compete in the competitive generation market ignores functional  
6 separation requirements, parity of information dissemination requirements and  
7 other competitive safeguards and is, by definition, anti-competitive.

8 **Q. ARE THERE OTHER REASONS WHY THE COMPANY'S PROPOSAL**  
9 **FOR ASSIGNING GENERATION SUPPLY RESPONSIBILITY IS**  
10 **INAPPROPRIATE?**

11 A. Yes. The above problem is exacerbated by PP&L's proposal made in its  
12 response to Enron Set III, Q16 and Q.17. In these responses PP&L proposes  
13 that unbundled rates become effective at the beginning of the phase-in of direct  
14 access and that *customers for whom choice is not available* will receive  
15 generation from the Generation Supply Group. Under this proposal, at a time  
16 when choice is not yet available and third party suppliers are precluded from  
17 signing up certain customers, the Generation Supply Group, the competitive arm  
18 of PP&L's business which will be competing with unaffiliated suppliers for  
19 direct access customers, would be permitted to provide monopoly customers  
20 with generation supply.

21 This proposal would create two very serious anti-competitive effects.  
22 First, it would create a built-in customer base for the Generation Supply Group

1 resulting in a huge revenue stream from essentially monopoly service, which  
2 revenue could be diverted to the Generation Supply Group's competitive  
3 activities. Second, it would allow the Generation Supply Group to maintain an  
4 ongoing business relationship with these customers until such time as they  
5 become eligible for direct access -- a clear advantage in opportunity to solicit  
6 that customer's business at the time of choice. In essence, the Generation  
7 Supply Group will merely be required to maintain these customers rather  
8 signing up new customers as is the case with every other supplier. Combined  
9 with PP&L's plan regarding customers who "choose not to choose," this  
10 proposal will have a devastating effect on meaningful marketplace development.  
11 Moreover, it raises serious questions concerning whether PP&L's (T&D)  
12 obligation to serve would be met at prevailing market prices. Accordingly, this  
13 PP&L proposal should be rejected outright by the Commission.

14

1 The following chart summarizes PP&L's proposal:

	GENERATION PROVIDER	
	T&D Delivery Group	Competitive Generation Supply Group
2 Customers Which Choose 3 Not To Chose	Generation Provided Through Detariffed, Unregulated Rates	
4 Customers Which Exercise 5 Choice But Return to 6 PP&L	Generation Provided Through Detariffed, Unregulated Rates	
7 Customers Which Are Not 8 Yet Eligible For Choice 9 During the Phase-In		Generation Provided Through Tariffed Regulated Rates

10  
11 Overall, it is my recommendation that in order to enable a viable competitive  
12 market structure, PP&L should be required to provide generation to all  
13 customers described in the above chart through its Delivery Group at regulated,  
14 tariffed rates. The competitive Generation Supply Group should not have  
15 privileged access to monopoly customers.

16 3. USE OF EDC NAME

17 Q. SHOULD NON-MONOPOLY ACTIVITIES BE ALLOWED TO UTILIZE  
18 A COMMON CORPORATE NAME WITH THE EDC?

19 A. Preferably not. The concept that should be foremost is that there should be no  
20 preference, of any type, conferred by the EDC to affiliated non-monopoly  
21 business units. If there is value in the existing name, then the advantage of that

1 value should not be conferred on the non-monopoly businesses without  
2 compensation.

3 **Q. WHAT IS PP&L'S POSITION CONCERNING THE NAME IT INTENDS**  
4 **TO APPLY TO ITS GENERATION BUSINESS?**

5 A. PP&L responded to discovery that, "All PP&L divisions and affiliates have the  
6 right to use the PP&L name."<sup>16</sup> PP&L's position is that:

7 The use of the PP&L name by affiliates or division, including its  
8 Generation Supply group, confers no anticompetitive or **unduly**  
9 discriminatory advantage to those affiliates or divisions, provided  
10 that customers are not led to believe competitive electricity supply  
11 services are being offered by PP&L's Electric Delivery  
12 group.(emphasis added)<sup>17</sup>

13 This latter statement is consistent with that of the Pennsylvania Electric  
14 Association, which has stated:

15

16 Mandating use of a different name would deprive consumers of the  
17 added assurance of quality and price derived from putting the  
18 parent's reputation at stake.<sup>18</sup>

19 While it is understandable that PP&L would want its non-monopoly business  
20 units to use the PP&L name, if the name has value then use of the name confers  
21 an advantage on those non-monopoly business units. Until there is effective

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<sup>16</sup> PP&L response to Interrogatory Enron - I-9(c).

<sup>17</sup> PP&L response to Interrogatory Enron I-9(a).

<sup>18</sup> Petition for Approval of Retail Access Pilot Program, Docket Nos. P-00971172, P-00871175, P-00971168, P-00971169, P-00971183, P-00970070 at 12 ("PEA Comments on Preliminary Opinions and Orders," May 22, 1997).

1 competition, no advantage should be conferred on PP&L's non-monopoly  
2 business  
3 units, and any such advantage will serve only to delay the advent of effective  
4 competition.

5 **Q. WHY DO YOU BELIEVE THAT NON-MONOPOLY USE OF THE**  
6 **EDC'S NAME IS IMPORTANT?**

7 A. If it were not important, then the utilities would not so adamantly argue that  
8 they should be able to use their name in any manner they want. The principal  
9 concern is that an affiliate of an EDC will use its relationship with the EDC to  
10 imply to customers that its quality of service will be better, as a result of its  
11 affiliation with the EDC. For example, some automobile dealers advertise that  
12 their repair services are better than others because of their relationship with the  
13 manufacturer. Similarly, a generation affiliate could allege that its customers  
14 will get preferential T&D treatment, such as faster hookups and more rapid  
15 restoration of service after storms, or just superior "electric service" overall  
16 because of the affiliation with the EDC. Even with the prohibition of implying  
17 superior service by the affiliate or division of the local utility or inferior service  
18 by a non-affiliated supplier, use of the utility's name in and of itself creates a  
19 value that alters the playing field relative to that entity using the name, logo or  
20 affiliation in its market offering.

1           Because utilities have historically provided customers with electric  
2 services as a single product with all the necessary functions and ancillary  
3 services bundled into one package, utilities have a great influence over the  
4 electric services market. Utilities have played a dominant role in the electric  
5 industry from the design, location and usage of transmission and distribution  
6 systems, to planning and operating major generation facilities, to deciding what  
7 products are ultimately delivered to the consumer. As a result of this dominant  
8 role, incumbent utilities are in a good position to either directly or indirectly  
9 influence the development of competition through their own standing and  
10 reputation in their monopoly.

11           With the name recognition of the EDC and its reputation developed over  
12 the years of providing regulated electric utility service, the user of that name for  
13 the provision of a variety of electric services will have a distinct advantage over  
14 its competition in the local jurisdiction of the EDC.

15 **Q. DOES PP&L'S PROPOSED CODE OF CONDUCT AND OTHER**  
16 **PORTIONS OF ITS PLAN ACCOMMODATE YOUR POSITION WITH**  
17 **RESPECT TO THE USE OF THE EDC'S NAME BY AFFILIATED**  
18 **SUPPLIERS?**

19 **A.** No, it does not. In fact, several aspects of PP&L's proposal heighten my  
20 concerns. First, contrary to the Code of Conduct proposed by PP&L in its  
21 restructuring filing and the Code appearing in the Preliminary Opinion and  
22 Order approving in part the PP&L's Pilot Program, PP&L's proposal does not

1 prohibit the Company's non-regulated operations from using the name of the  
2 EDC in a manner such that customers can reasonably imply from that use that  
3 the merchant services (for power) are being provided by PP&L as the EDC  
4 rather than a PP&L Supplier.

5 PP&L's position appears to be that customers will be able to distinguish  
6 and understand that the energy purchased from an affiliate is not being provided  
7 by the EDC. In fact, however, so long as energy and T&D services are  
8 provided by companies with the same name (*i.e.*, "PP&L"), few customers will  
9 do anything other than conclude that the merchant service for power is being  
10 provided by PP&L, and few will understand that there is any distinction  
11 between the EDC and the power supplier. Moreover, as long as the services are  
12 provided by companies under common control and ownership, as a practical  
13 matter there will in fact be very little distinction between the source of energy  
14 and the source of T&D services. This concern is particularly relevant when, as  
15 here, the utility proposes to utilize non-structural separation or divisions/groups,  
16 since customers must distinguish between two sectors of the same company.  
17 Under such a scenario, absent restrictions on the use of the corporate name,  
18 customers simply will not understand the distinction between the monopoly  
19 service function and the competitive service function.

20 Second, in response to Enron Interrogatory III-16, PP&L has made it  
21 clear that during the phase-in period to direct access, customers who are not yet

1 [eligible to choose will be provided monopoly generation service by the Generation Supply  
 2 Group -- the same division or group]

3 that will be providing competitive generation services to eligible customers who  
 4 choose PP&L's Generation Supply Group as their supplier of choice. This  
 5 mixing of monopoly and non-monopoly functions by a single division or group  
 6 within the Company, all under the PP&L name, will, if permitted, undoubtedly  
 7 result in total customer confusion. Moreover, it is inconsistent with what should  
 8 be happening, which is that the EDC should be getting out of the generation  
 9 business.

10 **Q. SHOULD THE GENERATION SUPPLY OR NON-MONOPOLY**  
 11 **BUSINESS ACTIVITIES BE ALLOWED TO TAKE THE PRESENT**  
 12 **UTILITY'S NAME, WITH THE T&D BUSINESS UNITS TAKING ON A**  
 13 **NEW NAME?**

14 **A.** No, they should not. While that might appear to be one way around the "name"  
 15 issue, retail customers, for whom competition is being implemented, would  
 16 know that their provider of T&D services has not changed and is the same  
 17 company that it had been in the past. The business that is being made subject  
 18 to competition, the retail generation business, is the activity that should be  
 19 prohibited from, or at least limited in, using the existing corporate name.

20 **Q. IN SUMMARY, WHAT IS YOUR RECOMMENDATION CONCERNING**  
 21 **THE USE OF THE PP&L NAME BY NON-MONOPOLY BUSINESS**  
 22 **UNITS?**

23 **A.** The Commission should recognize that if the PP&L name has value, then  
 24 allowing non-monopoly units to use that name confers an advantage to them. If  
 25 the name has no value, then the non-monopoly units simply will decide not to

1 use it. Therefore, the Commission should not allow non-monopoly business  
2 units to use the EDC's name. If the Commission finds that it cannot refuse the  
3 use of the EDC's name, then it should ensure that such use does not, in any  
4 manner, imply superior quality of service from the affiliate, that the services of  
5 a non-affiliated supplier may be inferior or that the customer may suffer any  
6 adverse effect from utilizing the services of a non-affiliated supplier. Another  
7 possible protection is that if the name is allowed to be shared, then all  
8 communications with customers by the Generation Supply Group should  
9 include a notice informing the customer that the Supply Group is not the same  
10 entity that provides the customer distribution and transmission services and that  
11 therefore, there are no inherent advantages in selecting the PP&L Generation  
12 Supply Group. Finally, contracts issued by non-regulated affiliates should  
13 reflect a disclaimer, in conspicuous type, placing the customer on notice that the  
14 EDC has no standing or responsibility for the service and will not support or  
15 fulfill the agreement on behalf of its non-regulated affiliate.

16 **4. EDC HAS NO AGENCY ROLE OR OTHER RELATIONSHIP WHICH**  
17 **CONFERS A PREFERENCE**

18 **Q. SHOULD THE EDC BE ALLOWED TO ACT AS AGENT FOR ITS**  
19 **AFFILIATES?**

20 **A.** No. Moreover, the EDC should not be allowed to act as agent for any supplier  
21 or provider of competitive service, whether or not that supplier is affiliated with

1 the EDC. The Commission should recognize the special position that the EDC  
2 has in its service territory. Every customer of every supplier is required to  
3 utilize the services of the EDC, whether or not he or she wants to, in order to  
4 receive electric service. As such, the EDC and its employees must be  
5 supervised so that every supplier has an equal opportunity to access customers.  
6 The EDC should display favoritism to no one.

7 In general, any transaction between the EDC and affiliated non-monopoly  
8 business units should be permitted to occur only if the same transaction would  
9 occur with a non-related entity and is made available to all non-related entities  
10 under the same terms and conditions. If the monopoly unit is unwilling or  
11 unable to offer a resource or service to a competitor of its affiliate, then it  
12 should not be allowed to offer the service to its own affiliate. In a competitive  
13 generation market, EDCs will not be acting as agents for *unaffiliated* suppliers.  
14 Accordingly, the EDC should not be permitted to act as an agent, in any  
15 manner, for its *affiliated* non-monopoly business units.

16 **Q. DOES YOUR RECOMMENDATION APPLY TO ALL ACTIVITIES**  
17 **THAT MAY BE UNDERTAKEN BETWEEN THE EDC AND ITS**  
18 **AFFILIATES?**

19 **A.** Yes, it does. The Commission should adopt a policy that no preference or  
20 advantage may be given to an affiliate or divisional supplier through agency or  
21 similar arrangement pertaining to any activity engaged in by the competitive  
22 provider including but not limited to: scheduling, balancing, metering, stand-by

1 and curtailment activities. If PP&L offers its generation or supply affiliate or  
2 division a discount or rebate or fee waiver for transmission services, balancing,  
3 meters, meter installation, stand-by service or other services, it must  
4 contemporaneously offer the same discount, rebate or fee waiver to all similarly  
5 situated third party generators or suppliers by providing them with appropriate  
6 notification and offer of such market term adjustments. Also, joint promotions  
7 between the EDC and any generator and/or supplier, such as inclusion of fliers  
8 for the generator or supplier in the utility bills, should be prohibited, unless such  
9 promotions are offered to all other generators and/or suppliers under the same  
10 terms and conditions. The EDC must not preferentially provide sales leads to  
11 any generator and/or supplier nor participate in joint solicitation calls on end-  
12 users by EDC personnel and any generator and/or supplier. Compliance with  
13 this standard should be monitored by the Commission.

14 **Q. SHOULD THE COMMISSION BE CONCERNED ABOUT JOINT**  
15 **MARKETING OF T&D AND GENERATION SERVICES?**

16 **A.** Yes, it should. There is considerable opportunity for anticompetitive conduct  
17 being carried out by the non-regulated affiliated supplier in the form of  
18 undertaking agency activities that abuse its relationship with the EDC. For  
19 example, the non-regulated supplier might make an offer to a potential customer  
20 for supply services that would be priced somewhat lower than current tariff  
21 levels of the EDC. Particularly, if the non-regulated supplier has and uses the

1 same name and logo as the EDC, the customer may believe that the deal being  
2 offered is actually provided, or at least backed up, by the EDC. The potential  
3 for misunderstanding is significant.

4 **Q. IF AN EDC HAS SURPLUS ENERGY OR CAPACITY, SHOULD IT BE**  
5 **ALLOWED TO SELL IT TO AN AFFILIATED MARKETER?**

6 A. If an EDC either owns or has contracts for the purchase of capacity and energy  
7 and it makes any such capacity or energy available to an affiliate, then it should  
8 be required to offer it to the market at the same time and under the same  
9 conditions that would be provided to its affiliate. Such offering should be made  
10 by either a posting to an electronic bulletin board that is a well known source of  
11 market information or by otherwise placing an offering that would constitute an  
12 offering to the market. The goal here is not to prohibit the sale of economic  
13 energy by an EDC's affiliate; rather, it is to ensure that the EDC not play  
14 "favorites" and that all transactions with affiliates be on an arms-length basis.

15 **5. PROHIBITION AGAINST TRANSFER OF INFORMATION**

16 **Q. IS THERE ANOTHER AREA IN WHICH COMPETITIVE**  
17 **SAFEGUARDS ARE NECESSARY TO PROTECT AGAINST**  
18 **ANTICOMPETITIVE BEHAVIOR?**

19 A. Yes, there is. The transfer of information between monopoly and non-  
20 monopoly activities can critically and unfairly impair the development of  
21 effective competition. The monopoly EDCs will have important information not

1 only concerning existing customers, but also concerning potential new  
2 customers, sources of generation, offer prices for generation, transmission  
3 constraints, economic conditions and potentially many other types of  
4 information that are of commercial and competitive value. The Commission  
5 should ensure that no information is made available by the EDC to non-  
6 monopoly business units, unless such information is also made available at the  
7 same time, in the same form, and under the same terms and conditions, to all  
8 competitors of the non-monopoly business units. The goal of this  
9 recommendation is to ensure that information changes hands only in that  
10 manner.

11 **Q. WHAT ARE YOUR RECOMMENDATIONS CONCERNING THE**  
12 **TREATMENT OF CUSTOMER INFORMATION?**

13 A. Customer information should be retained by the EDC and not be shared with  
14 any supplier, whether or not the supplier is affiliated with the EDC. The  
15 Commission should determine that, without the prior written consent of the  
16 customer, no utility employee shall disclose to any non-monopoly business unit,  
17 including a generator, supplier or marketer, whether it is an affiliate, division or  
18 third party, any information that the EDC receives from any of the following  
19 entities:

- 20 • a customer or supplier;
- 21 • a potential customer or supplier;

- 1 • an agent of a customer or supplier, or potential customer or
- 2 supplier;
- 3 • a marketer or other supplier entity seeking to supply
- 4 electricity to a customer or potential customer that is located
- 5 in the EDC's service territory.

6 However, the EDC may disclose information that is aggregated so that specific  
7 customer or supply contract information can not be ascertained, so long as such  
8 information is made available to all non-monopoly entities in the same format  
9 and under the same terms and conditions.

10 **Q. DOES PP&L AGREE THAT SHARING OF ALL INFORMATION**  
11 **SHOULD BE SIMULTANEOUS TO ALL COMPETITORS?**

12 A. No. PP&L's response to a question on this issue provides a view of its  
13 position:

14 Q. – Does PP&L agree that electric utilities should simultaneously  
15 make available to the market and all competitive suppliers any and  
16 all information they provide to affiliated competitive suppliers? If  
17 not, state the basis for this position.

18 A. – PP&L will provide information to electricity suppliers  
19 regarding *transmission and distribution matters* in accordance with  
20 its Order No. 889 Code of Conduct as amended . . . and FERC  
21 regulations at 18 C.F.R. § 37.4. As described in the Direct  
22 Testimony of Robert M. Geneczko (Statement No. 13), PP&L will  
23 simply extend its Order No. 889 Code of Conduct to its retail  
24 transmission and distribution operations.(italics added)<sup>119</sup>

25 The problem raised by PP&L's response is that it is restricted to transmission

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<sup>119</sup> PP&L response to Interrogatory Enron I-15(a).

1 and distribution matters. A description of transmission and distribution matters  
2 as the category of information to be safeguarded by the proposed code of  
3 conduct may provide PP&L with a loophole to provide information from the  
4 EDC to its supply affiliate which would not, in PP&L's view, need to be  
5 simultaneously provided to all suppliers. Furthermore, it would designate  
6 someone at PP&L to make the determination of what information must be  
7 provided on a competitively neutral basis. Similarly, PP&L's proposed code of  
8 conduct provides the limitation of "as deemed appropriate" on which employees  
9 involved in the administration of energy supply by alternative suppliers and  
10 having access to competitive information will be required to sign a  
11 confidentiality agreement prohibiting improper disclosure of competitive  
12 information.<sup>20</sup> Again, PP&L proposes to give itself open ended discretion,  
13 whereas, no such discretion was afforded similar Company employees in  
14 PP&L's Pilot Program.<sup>21</sup> The potential for discrimination is obvious and should  
15 be eliminated by a broader provision that *any* information made available from  
16 the EDC to any affiliated non-monopoly business unit shall be available to all  
17 competitors. In addition, to adding teeth to its proposal, PP&L should be  
18 required, at a minimum, to create an Internet or other electronic bulletin board

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<sup>20</sup> PP&L Exhibit RMG-3, page 2.

<sup>21</sup> PP&L response to PUC Guidelines for Electric Retail Access Pilot Programs, Docket No. P-00971183, Guideline VI, Attachment 1, page 3, F.4.

1 in which the date, time, charge for and type of information provided to affiliates  
2 is documented.

3 **Q. WHY IS IT IMPORTANT THAT INFORMATION BE MADE**  
4 **AVAILABLE IN THE SAME FORMAT AND UNDER THE SAME**  
5 **TERMS AND CONDITIONS?**

6 A. An important attribute creating the value of information is its timeliness. If an  
7 EDC's affiliate always has information in advance of when that information is  
8 made available to competitors, it has the obvious advantage of being able to  
9 consider and respond to changing events first.

10 Another important attribute of information is the charge assessed for the  
11 information. If certain information is made available to an EDC's affiliate at  
12 one price, and to competitors at a higher price, the advantage to the affiliate  
13 should be obvious. The pro-competitive goals of the Act would not be met if  
14 differential pricing and unfavorable terms of service were offered to competitors  
15 versus affiliates.

16 A third attribute of information is the format in which it is given. If the  
17 EDC makes information available to its affiliate, then that information should be  
18 made available to competitors in the precise same format that it was made  
19 available to its affiliate. If the affiliate and the EDC had discussions or any  
20 documentation concerning how the information was structured or formatted, that  
21 should also be made available to competitors. This does not mean that an EDC  
22 has to make information available to competitors; it merely means that, if *any*

1 information is provided to an affiliate, then it must be made available to  
2 competitors on the same terms and conditions.

3 **6. RESTRICTIONS ON SHARING OF EMPLOYEES**

4 **Q. SHOULD THE EDC AND ITS AFFILIATES BE ALLOWED TO SHARE**  
5 **EMPLOYEES?**

6 A. While sharing of employees may be desirable from the perspective of the EDC  
7 and its affiliates, the resulting potential for anticompetitive dissemination of  
8 information to the EDC's affiliate which is not available to other suppliers  
9 requires restrictions on the utility's personnel decisions. Furthermore, contacts  
10 between system operation employees of the EDC and its affiliates should be  
11 limited in the same manner that normal caution and care is taken by competitors  
12 to ensure that they do not share information with their opponents. Moreover,  
13 crucial information can be transferred as easily, if not more easily, by  
14 transferring an employee rather than making data files available between  
15 affiliates. Accordingly, employees of the EDC should not be shared with and  
16 should be physically separated from those of affiliated competitive providers.<sup>122</sup>  
17 This means the Commission should not allow the EDC and its non-monopoly  
18 affiliates to have common officers or employees.

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<sup>122</sup> The PUC could consider a waiver of this separation requirement if a utility could show that waiver would be in the public interest.

1 Q. **DOES PP&L'S PLAN PROVIDE ADEQUATE SAFEGUARDS**  
2 **REGARDING EMPLOYEE SHARING?**

3 A. No. Again the Company's Plan provides little specific information regarding  
4 information sharing. PP&L apparently plans to allow employees to be  
5 transferred between the Delivery Group and the Generation Supply Group  
6 without significant restriction. PP&L does concede that employee transfers can  
7 not be used to intentionally circumvent applicable standards; however, such a  
8 standard is unenforceable and provides PP&L with too much discretion in  
9 transferring employees between the monopoly and competitive arms of its  
10 business.

11 7. **ASSURED RIGHT OF ACCESS**

12 Q. **SHOULD THE COMMISSION BE CONCERNED THAT THE T&D**  
13 **UTILITY MAY IN OTHER MANNER PROVIDE ADVANTAGES TO ITS**  
14 **NON-MONOPOLY AFFILIATE?**

15 A. Yes, it should. The Commission should adopt a policy whereby the derogation  
16 of the right of electric generation suppliers or end-users to direct access is  
17 prohibited. Transmission and distribution constraints for retail transactions may  
18 have to be addressed to mitigate a condition, such as failure to provide new  
19 distribution capacity when it is needed, which would effectively deny end-users  
20 direct access to multiple aggregators and, ultimately, generation suppliers.  
21 FERC Order 888 has dealt with a similar problem by establishing an "expansion

1 obligation” rule that requires a public utility to expand services when necessary  
2 to provide transmission service, or show good faith efforts to obtain the  
3 approvals necessary for that expansion. Distribution systems should be subject  
4 to the same type of standard to ensure access by all potential competitors.

5 **Q. WHAT OTHER MECHANISM COULD A T&D UTILITY USE TO**  
6 **ADVANTAGE ITS CORPORATE PARENT?**

7 A. The EDC could employ a tying arrangement. A tying arrangement is when a  
8 customer is faced with any barrier or condition to service contingent upon the  
9 taking of another service. For example, if the EDC were to suggest, in any  
10 manner, that a customer’s access to T&D services would be conditioned or  
11 improved if the customer also took generation or any other non-monopoly  
12 services from the EDC’s affiliate, that would be a tying arrangement. It would  
13 be a clear competitive advantage conferred on the EDC’s non-monopoly  
14 affiliate. Such arrangements must be prohibited. Bottleneck monopoly services  
15 must not be allowed to inhibit competitive entry and activity.

16 **8. “MARKET-BASED” TARIFF RATES**

17 **Q. MR. DIRMEIER, DO YOU HAVE A CONCERN WITH EDCs**  
18 **ATTEMPTING TO GET A HEAD START ON COMPETITION BEFORE**  
19 **DIRECT ACCESS IS INITIATED?**

20 A. Yes, I do. While the Act was passed in 1996, competitors of PP&L will not be  
21 able to enter the market to compete for energy supply customers until January 1,

1 1999. Moreover, competitors will not have full access to all customers until  
2 January 1, 2001, or later if the Commission decides to extend the transition  
3 period. Nonetheless, during this period of time in which competitors only can  
4 offer future service, EDCs have an opportunity to actively market and engage  
5 customers in term contracts that will preclude competitors from accessing those  
6 customers even after direct access becomes available on January 1, 2001. Such  
7 activity, if it occurs, allows EDCs to actively utilize the transition period to their  
8 competitive advantage by locking up customers to long-term contracts during a  
9 time in which competitors cannot do so.<sup>123</sup> While such activity may be good for  
10 EDCs, it has a stifling effect on future competition and will limit the  
11 achievement of the greater competition called for under the Act.

12 **Q. WHAT IS THE APPROPRIATE RESPONSE TO SUCH "FLEX-TARIFF"**  
13 **AGREEMENTS?**

14 **A.** Competitive activities should not be undertaken by the monopoly EDC.

15 Accordingly, term agreements should be negotiated by and become the risk of  
16 non-monopoly business units once direct access begins. Those business units  
17 should be required to obtain their own source of supply and, if they purchase  
18 from the monopoly utility, they should make such purchases at standard tariffed

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<sup>123</sup> While competitors theoretically could sign customers for delivery in the future when those customers become eligible for direct access, as a practical matter the EDC holds a significant competitive advantage because competitors cannot provide service under such contracts until that future date, and the EDC can. More importantly, the EDC currently has information that only a monopoly utility possesses.

1 rates. The affiliate should be required to pay all delivery or other charges that  
2 would apply to non-affiliates. In that manner, the risk of these agreements, if  
3 PP&L decides to enter into them, should be borne fully by shareholders.

4 In the time before the direct access begins to be phased in, PP&L should  
5 not be permitted to enter into "market priced" contracts unless PP&L first offers  
6 to competitive suppliers the opportunity to bid to provide service to the  
7 customer. In any event, if PP&L is permitted to and intends to enter into such  
8 a contract, PP&L should be required to demonstrate that its price at least covers  
9 the cost of the unbundled delivery service elements (T&D, etc.) that are  
10 determined to be applicable to PP&L plus the incremental cost of the additional  
11 generation (i.e. imputation).

12 In addition, the Commission should provide that customers who entered  
13 into such contracts subsequent to the date on which the Act was passed will  
14 have, in the future, the penalty-free right to cancel such contract — a "fresh  
15 start." Contracts entered into after a customer is subject to direct access would  
16 not be subject to this provision. Nor would contracts entered into prior to  
17 passage of the Act. But those contracts entered into during the PP&L-declared  
18 competition-free zone should be subject to cancellation at the customer's option.

19 **Q. DO YOU HAVE ANY INFORMATION INDICATING THAT PP&L IS**  
20 **ACTIVELY ENGAGING IN THIS ACTIVITY AT THE PRESENT TIME?**

1 A. No. PP&L's answers to Enron's Interrogatories indicate that PP&L may not be  
2 as active in attempting to engage current customers into long-term generation  
3 supply obligations as other Pennsylvania EDCs. However, I intend to look into  
4 this matter further as this litigation proceeds and certainly the Commission  
5 should closely investigate whether all customers have unimpeded choice at the  
6 time they become eligible for direct access.

7 **9. UNIFORMITY OF CODE OF CONDUCT**

8 **Q. DO YOU AGREE WITH PP&L THAT THE COMMISSION DOES NOT**  
9 **NEED TO ESTABLISH A UNIFORM CODE OF CONDUCT?**

10 A. No, I do not. PP&L does not believe that the Commission should establish a  
11 uniform code of conduct to be followed by all electric utilities. It believes that  
12 such a code of conduct is unnecessary and that company specific codes of  
13 conduct are completely appropriate.<sup>124</sup> I firmly believe that a uniform code of  
14 conduct should be established for electric utilities. As explained by Dr. Mayo  
15 in his testimony, the incentives to engage in anti-competitive does not vary  
16 between utilities -- the incentive is equally present for all monopolies. What is  
17 anti-competitive for one is anti-competitive for another. Necessary safeguards  
18 to preclude such anti-competitive behavior do not vary from utility to utility but  
19 are equally applicable to all. Accordingly, no legitimate purpose would be

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<sup>124</sup> PP&L response to Interrogatory Enron I-21.

1 served by allowing each utility a specific opportunity to design its own code and  
2 doing so, evade as many safeguards as possible. The Commission should  
3 establish a uniform code of conduct for all electric utilities while allowing for  
4 increased safeguard measures to be enacted if circumstances should require  
5 them.

6 **10. APPLICATION OF CODE TO ALL BUSINESS UNITS**

7 **Q. WHY DO YOU RECOMMEND THAT THE CODE OF CONDUCT**  
8 **APPLY NOT ONLY TO THE EDC, BUT TO ITS AFFILIATES?**

9 A. The Commission's goal should be to ensure compliance with its rules and  
10 regulations. If the Commission were to determine that its rules applied only to  
11 the EDC and not to non-monopoly affiliates of the EDC, then the EDC could be  
12 in full compliance with the rules and regulations while the affiliates are in  
13 blatant disregard of them. Such a situation would be damaging to the public  
14 interest since, if complete compliance were not required, the Commission would  
15 not have adopted the rules in the first place! Accordingly, the Commission  
16 should ensure adherence to the code of conduct, not only by the EDC, but by its  
17 affiliates.

1 **II. APPLICATION AND ENFORCEMENT OF CODE**

2 **Q. SHOULD THESE STANDARDS AND POLICIES BE CONSIDERED ALL-**  
3 **ENCOMPASSING?**

4 A. The above standards, although intended to be all-encompassing, should be  
5 considered basic requirements which, if followed, should prevent preferential  
6 treatment to affiliates of the EDC. They are intended to promote the  
7 development of competitive markets. However, it may be appropriate for the  
8 Commission to apply more severe conditions on an individual basis if a specific  
9 utility appears to be circumventing these standards or otherwise engaging in  
10 anti-competitive behavior. Individual circumstances will dictate what, if any,  
11 additional conditions may be necessary.

12 As the electric generation supply market evolves it is expected that  
13 changes will occur that will require modifications to these standards in order for  
14 them to remain an effective tool protecting ratepayers while allowing a truly  
15 competitive market to come to fruition. However, it is critical for the  
16 Commission to establish an initial, uniform code of conduct immediately and to  
17 enforce it strictly in order to deter anti-competitive behavior by utilities before it  
18 starts to occur.

19 **Q. HOW SHOULD THE COMMISSION ENFORCE THESE STANDARDS?**

20 A. Once this uniform code of conduct is adopted, the Commission should enforce  
21 them consistently and equitably. Each transaction in violation of the standards

1 of conduct should be considered to be a separate occurrence. When enforcing  
2 these standards, or any order of the Commission regarding the above standards,  
3 the Commission should avail itself of any of the following remedies:

- 4 • termination of any transaction that violates the standards;
- 5 • prospectively, limiting or restricting the amount, percentage  
6 or value of transactions that may be entered into between an  
7 EDC and a supplier affiliate or division for a violation of  
8 the standards; and
- 9 • application of any other remedies available to the  
10 Commission.

11 **Q. SHOULD THE COMMISSION MONITOR COMPLIANCE WITH THE**  
12 **COMPETITIVE SAFEGUARDS?**

13 A. Yes, it should. The Commission should require that a contact log be maintained  
14 by the EDC to verify that offers are made with the same terms and conditions.  
15 If an EDC provides any non-monopoly service, then it should be required to  
16 maintain complete and accurate records of all service requests, service refusals,  
17 and service transactions. The EDC should publicly disclose sales at discounted  
18 rates or transfers of electric supply or capacity or related services for all  
19 transactions that are not tariffed. The EDC should report all transactions within  
20 30 days following the end of the quarter in which the transaction occurred. For  
21 each transaction, the disclosure by the EDC should include the following:

- 1 • the date of the contract or arrangement;
- 2 • the period covered;
- 3 • the type of transaction (*e.g.*, commodity, capacity, balancing);
- 4 • the amount of transaction components sold or transferred;
- 5 • the conditions or restrictions placed on the transaction; and,
- 6 • the price for the transaction, including separate prices for
- 7 each service offered on a stand-alone basis.

8 **Q. PLEASE SUMMARIZE YOUR POSITION CONCERNING THE CODE**  
9 **OF CONDUCT.**

10 A. The Commission's adopted code of conduct should ensure that an effectively  
11 competitive generation market can and does develop in Pennsylvania. The  
12 Commission should be very careful, when reading PP&L's proposed code of  
13 conduct to consider not only what PP&L has said but also what it has failed to  
14 address. The Commission should assure a comprehensive code of conduct is  
15 established for PP&L so that the Commission's silence on a particular activity is  
16 not viewed by PP&L as acquiescence to that activity.

17 It is incumbent on the Commission to ensure that the EDC treat all  
18 competitors in precisely the same fair, open, and non-discriminatory arms-length  
19 manner. PP&L's proposed code of conduct simply does not achieve that goal.

20 **Q. DOES THIS CONCLUDE YOUR PREFILED TESTIMONY?**

21 A. Yes, it does.

- 1 20Exhibit \_\_\_\_\_ - Prior Regulatory Experience
- 2 Arkansas
- 3 Arkansas Power & Light Company  
4 • 1985 Grand Gulf proceeding Docket No. 84-249-U
- 5 Colorado
- 6 Mountain Bell Telephone  
7 • 1982 base rate I&S 1575  
8 • 1984 base rate I&S 1655  
9 • 1986 base rate I&S 1700  
10 • 1991 base rate Docket No. 90S-544T
- 11 Public Service Company of Colorado  
12 • 1981 base rate I&S 1525  
13 • 1983 base rate I&S 1640
- 14 Delaware
- 15 Diamond State Telephone Company  
16 • 1982 Docket No. 82-32  
17 • 1985 rate design Docket No. 84-33
- 18 Intrastate competition Regulation Docket No. 10
- 19 District of Columbia
- 20 Potomac Electric Power Co.  
21 • 1987 Tax Reform Act Formal Case Nos. 852-I & 852-II  
22 • 1993 base rate -- ERAM, DSM surcharge Formal Case No. 929  
23 and clause treatment of purchase  
24 power costs  
25 • 1994 base rate -- utility risk and costs from Formal Case No. 939  
26 nonregulated affiliate
- 27 C&P Telephone Company  
28 • 1987 Tax Reform Act Formal Case Nos. 854-I & 854-II  
29 • 1991 base rate case Formal Case No. 850  
30 • 1992 alternative regulation Formal Case No. 814, Phase III  
31 • 1993 base rate case Formal Case No. 926

Exhibit – Testimony List

- |    |   |                               |
|----|---|-------------------------------|
| 1  | Bell Atlantic - D.C.                        |                               |
| 2  | • 1995 alternative regulation               | Formal Case No. 814, Phase IV |
|    |   |                               |
| 3  | <u>Federal Energy Regulatory Commission</u> |                               |
|    |   |                               |
| 4  | Public Service Company of Colorado          |                               |
| 5  | • 1984 base rate                            | Docket No. ER-84-472          |
|    |   |                               |
| 6  | <u>Florida</u>                              |                               |
|    |   |                               |
| 7  | Southern Bell Telephone Company             |                               |
| 8  | • 1984 divestiture case                     | Docket No. 820263-TP          |
|    |   |                               |
| 9  | <u>Georgia</u>                              |                               |
|    |   |                               |
| 10 | Georgia Power Company                       |                               |
| 11 | • Vogtle phase-in                           | Docket No. 3549-U             |
| 12 | • Base rate & phase-in                      |                               |
| 13 | 1987  | Docket No. 3673-U             |
| 14 | 1989  | Docket No. 3840-U             |
| 15 | 1991  | Docket No. 4007-U             |
| 16 | • 1993 (Clean Air Act allowances)           | Docket No. 4152-U             |
|    |   |                               |
| 17 | Southern Bell Telephone Co.                 |                               |
| 18 | • 1990 Rule NiSi Proceeding                 | Docket No. 3905-U             |
|    |   |                               |
| 19 | <u>Maine</u>                                |                               |
|    |   |                               |
| 20 | New England Telephone Company               |                               |
| 21 | • 1995 base rate proceeding                 | Docket No. 94-254             |
|    |   |                               |
| 22 | <u>Maryland</u>                             |                               |
|    |   |                               |
| 23 | Delmarva Power & Light Company              | Case No. 7734                 |
|    |   |                               |
| 24 | Baltimore Gas & Electric Company            |                               |
| 25 | • 1977 base rate                            | Docket No. 7070               |
| 26 | • 1983 base rate                            | Docket No. 7695               |
|    |   |                               |
| 27 | Potomac Electric Power Company              |                               |
| 28 | • 1982 base rate                            | Docket No. 7662               |

- 1 Massachusetts
- 2 Massachusetts Electric Company
- 3 • 1996 Restructure of electric industry DPU 96-25
  
- 4 Minnesota
- 5 Northwestern Bell Telephone Company
- 6 • 1981 base rate Docket No. P-421/GR-80-911
- 7 • 1983/4 divestiture case Docket No. P-421/GR-83-600
  
- 8 Mississippi
- 9 South Central Bell Telephone Company
- 10 • 1984 Accounting and divestiture Docket No. U-4415
  
- 11 New Jersey
- 12 Atlantic City Electric Company
- 13 • 1982 base rate Docket No. 822-116
- 14 • 1984 Susquehanna phase-in Docket No. 822-116
- 15 • 1988 Tax Reform Act Docket No. ER8504434
- 16 • 1991 base rate (working capital) Docket No. ER90091090J
- 17 • 1994 levelized energy adjustment clause Docket No. ER94020033
  
- 18 AT&T Communications of New Jersey, Inc.
- 19 • 1985 Docket No. 8311-1035
  
- 20 Elizabethtown Gas Company
- 21 • 1981 Adjustment clause
  
- 22 Elizabethtown Water Company
- 23 • 1987 deposit requirements for OAL DKT. Nos. PUC
- 24 water main extensions 535386, PUC 5351-86, PUC 5354-86
- 25 and PUC 5352-86
  
- 26 Hackensack Water Company
- 27 • 1980 Docket No. 804-275
- 28 • 1981 Docket No. 815-447
- 29 • 1982 Docket No. 815-447
- 30 • 1985 base rate Docket No. WR8506-663
- 31 • 1990/I base rate Docket No. WR90090792J

Exhibit – Testimony List

- |    |  |                            |
|----|--|----------------------------|
| 1  | Jersey Central Power & Light Co.                           |                            |
| 2  | • 1979 & 1980 cases concerning TMI                         | Docket No. 795-427         |
| 3  | • 1991 proposal to purchase portion of                     | Docket No. EM91010067      |
| 4  | plant being restored to service, enter                     |                            |
| 5  | into long-term purchased power agreement                   |                            |
| 6  | and participate in construction of                         |                            |
| 7  | 500 kV transmission line                                   |                            |
| 8  | • 1991/2 investigation re economic retirement              |                            |
| 9  | of Oyster Creek Nuclear Generating Station                 |                            |
| 10 | Local Exchange Competition for Telecommunications Services |                            |
| 11 |  |                            |
| 12 | • 1996 Universal Service                                   | Docket No. TX95120631      |
| 13 | Middlesex Water Company                                    |                            |
| 14 | • 1979 and 1980 cases                                      | Docket No. 793-269         |
| 15 | New Jersey Bell Telephone Co.                              |                            |
| 16 | • 1978 base rate   | Docket No. 7711-1136       |
| 17 | • 1981 base rate   | Docket No. 815-458         |
| 18 | • Expensing Station Connections                            | Various Dockets            |
| 19 | • 1983 divestiture case                                    | Docket No. 8210-880        |
| 20 | • 1984/5 base rate   | Docket No. 848-856         |
| 21 | • 1992 Alternative regulation                              | BRC Docket No. TO92030358  |
| 22 | IntraLATA Toll Presubscription Docket (1995)               | BPU Docket No. TX94090388  |
| 23 | New Jersey Natural Gas Company                             | BPU Docket No. 815-459     |
| 24 | Public Service Electric & Gas Co.                          |                            |
| 25 | • 1980   | Docket No. ER8512-1163     |
| 26 | • 1985 LEAC  |                            |
| 27 | • 1986 base rate (working capital)                         | BPU Docket No. ER85121163  |
| 28 | • 1989 Rockport capacity purchase                          | BPU Docket No. ER85121163  |
| 29 | • 1992 Depreciation rates                                  | BRC Docket No. EE91081428  |
| 30 | • 1992 base rate (depreciation, nuclear                    | BRC Docket No. ER91111698J |
| 31 | decommissioning and treatment of                           |                            |
| 32 | retired plant)   |                            |
| 33 | PURPA Ratemaking Standards (1980)                          |                            |
| 34 | Rockland Electric Co.                                      |                            |
| 35 | • LEACs  |                            |
| 36 | 1979   | Docket No. 7911-920        |
| 37 | 1980   | Docket No. 7611-1100       |

Exhibit – Testimony List

- |    |   |                              |
|----|---|------------------------------|
| 1  | Salem Nuclear Station Outage                |                              |
| 2  | • 1996 Interim rates                        | BPU Docket Nos. ES96030158 & |
| 3  |   | ES96030159                   |
| 4  | Service Electric Cable TV of Hunterdon      |                              |
| 5  | • 1994-5 cable rate proceeding              |                              |
| 6  | South Jersey Gas Company                    |                              |
| 7  | • 1981 Overearnings case                    | Docket No. 808-517           |
| 8  | • 1987 base rate                            | Docket Nos. GR8704-329 &     |
| 9  |   | GR8608-902                   |
| 10 | Storer Cable Communications (Comcast)       |                              |
| 11 | • 1994-5 cable rate proceeding              |                              |
| 12 | West Keansburg Water Co.                    |                              |
| 13 | • 1978 base rate                            | Docket No. 7710-1026         |
| 14 | <u>New Mexico</u>                           |                              |
| 15 | El Paso Electric Company                    |                              |
| 16 | • 1986 sale/leaseback                       | Case No. 2032                |
| 17 | • 1986 phase-in                             | Case No. 2009                |
| 18 | Gas Company of New Mexico                   |                              |
| 19 | • 1985-6                                    | Lost gas investigation       |
| 20 | • 1986 gas purchasing                       | Case No. 1971                |
| 21 | Mountain States Telephone and Telegraph Co. |                              |
| 22 | • 1979 base rate                            | Docket No. 877               |
| 23 | Plains Electric Generation and Transmission |                              |
| 24 | Cooperative, Inc.                           |                              |
| 25 | • 1990 base rate                            | Case No. 2363                |

Exhibit – Testimony List

1	Public Service Company of New Mexico	
2	• 1985 base rate	Case No. 1916
3	• 1986 base rate rehearing	Case No. 1916
4	• 1986 inventory treatment of sale/leaseback	Case No. 2011
5	• 1986 line extension	Case Nos. 1988/1989
6	• 1986 utility holding company	Case No. 2019
7	• 1986 inventory update	Case No. 2067
8	• 1986 inventory filing	Case No. 2096
9	• 1987 inventory filing	Case No. 2159
10	• 1988 reorganization and treatment of	Case No. 2146 - Parts I & II
11	excess capacity	
12	• 1989 base case & phase-in	Case No. 2262
13	• 1990/1 investigation into prohibited	Case No. 2326
14	intercompany transactions	
15	• 1992 decertification of capacity	Case No. 2408
16	• 1992 asset disposition plan	Case No. 2429
17	• 1992 repurchase of capacity previously	Case No. 2444
18	sold and leased back	
19	• 1992 financing proceeding	Case No. 2469
20	• 1994 voluntary rate reduction	Case No. 2567
21	• 1996 treatment of nonutility activities	Case No. 2620
22	Southwestern Public Service Company	
23	• 1996 proposed merger with Public Service	Case No. 2678
24	Company of Colorado	
25	U S West Communications, Inc.	
26	• 1991 Expansion of Albuquerque EAS	Docket No. 90-255-TC
27	• 1992 Application seeking approval of	
28	CLASS tariffs	Docket No. 92-90-TC
29	• 1992 base rate proceeding	Docket No. 92-227-TC
30	• 1993 Expansion of Albuquerque EAS	Docket No. 93-218-TC
31	<u>New York</u>	
32	Consolidated Edison Company	
33	• 1980 base rate	Docket No. R-800-11069
34	• 1991/2 base rate	Case No. 91-E-0462
35	• 1994 gas & steam base rates	Cases 93-G-0996 & 93-S-0997
36	• 1994 electric base rates	Case No. 94-E-0334
37	Long Island Lighting Company	
38	• 1980 base rate	Docket No. 27774
39	• 1982/3 Shoreham phase-in	Docket No. 28252

Exhibit – Testimony List

- |    |   |                               |
|----|---|-------------------------------|
| 1  | New York Telephone Company                      |                               |
| 2  | • 1979 base rate                                | Docket No. 27469              |
| 3  | • 1980 base rate                                | Docket No. 27710              |
|    |   |                               |
| 4  | <u>Nuclear Regulatory Commission</u>            |                               |
|    |   |                               |
| 5  | Long Island Lighting Company                    |                               |
| 6  | • 1984 Shoreham Nuclear Power Station           | Docket No. 50-322-OL-4        |
| 7  | licensing                                       |                               |
|    |   |                               |
| 8  | <u>Ohio</u>                                     |                               |
|    |   |                               |
| 9  | Columbus and Southern Ohio Electric Co.         |                               |
| 10 | • 1977/8 base rate                              | Docket No. 77-545-EL-AIR      |
| 11 | • 1978/9 base rate                              | Docket No. 78-1439-EL-AIR     |
|    |   |                               |
| 12 | Toledo Edison Electric Co.                      |                               |
| 13 | • 1979 base rate                                | Docket No. 79-143-EL-AIR      |
|    |   |                               |
| 14 | <u>Oklahoma</u>                                 |                               |
|    |   |                               |
| 15 | Oklahoma Gas and Electric Company               |                               |
| 16 | • 1991/2 show cause proceeding                  | Cause Nos. PUD 898 & 1055     |
|    |   |                               |
| 17 | <u>Pennsylvania</u>                             |                               |
|    |   |                               |
| 18 | Bell of Pennsylvania                            |                               |
| 19 | • 1982 base rate                                | RID 1819                      |
| 20 | • 1983 base rate & divestiture                  | Docket R-811319               |
|    |   |                               |
| 21 | Commonwealth Telephone Co. of Pennsylvania      |                               |
| 22 | • 1986 Alternative regulation and network       |                               |
| 23 | modernization plan                              | Docket No. P-00961024         |
|    |   |                               |
| 24 | Duquesne Light Company                          |                               |
| 25 | • 1982 regarding Beaver Valley                  | Docket No. R-21945            |
|    |   |                               |
| 26 | Metropolitan Edison & Pennsylvania Electric Co. |                               |
| 27 | • 1979 & 1980 TMI emergency cases               | Docket Nos. I-79 & M-79040129 |

1	Metropolitan Edison Company	
2	• 1980 base rate	Docket No. R-80051196
3	• 1981 base rate	Docket No. R-80011601
4	• 1983 base rate	Docket No. R-822249
5	• 1984 base rate	Docket No. R-832549
6	• 1986 base rate	Docket No. R-860384
7	North East Water / Pennsylvania Gas & Water Company	
8	• 1990 application to purchase water	Docket No. A-210018
9	assets	
10	• 1990 ratemaking treatment of	Docket No. P-900453
11	purchased assets	
12	• 1990 base rate	Docket No. R-901726
13	PECO Energy Company	
14	• 1997 competition - code of conduct	Docket No. R-00973953
15	Pennsylvania Electric Company	
16	• 1980 base rate	Docket No. R-80051197
17	• 1981 base rate	Docket No. R-80011602
18	• 1983 base rate	Docket No. R-822250
19	• 1984 base rate	Docket No. R-832550
20	UGI-Luzerne Electric Division	
21	• 1979 base rate proceeding	Docket No. R-78030572
22	<u>Rhode Island</u>	
23	Newport Electric Company	
24	• 1979 base rate proceeding	Docket No. 1410
25	<u>South Carolina</u>	
26	• PURPA Ratemaking Standard (1980)	
27	<u>U.S. Virgin Islands</u>	
28	Virgin Islands Water & Power Authority	
29	• Various rate cases	
30	• 1985 cost of service study	

Exhibit – Testimony List

- 1 Virgin Islands Telephone Company
- 2     • 1978 depreciation rates
- 3     • 1984 rate design

Docket No. 180

4 Vermont

- 5 Central Vermont Pub. Ser. Co.
- 6     • 1989/90 base case

Docket No. 5372

7 Virginia

- 8 Telecommunications alternative regulation docket

Case No. PUC93008

Enron St. 6.1

R-973954

Hbg 8/19/97

jan

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SURREBUTTAL TESTIMONY OF

**MICHAEL D. DIRMEIER**

ON BEHALF OF  
ENRON POWER MARKETING INC.

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

AUGUST 15, 1997

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DOCKET NO. R-00973954  
SURREBUTTAL TESTIMONY OF MICHAEL D. DIRMEIER

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2. Robert M. Geneczko .....	22
3. Alfred E. Kahn .....	29
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1 **I. SCOPE AND PURPOSE OF SURREBUTTAL TESTIMONY**

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

3 A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of  
4 PECO witnesses Kalt, Geneczko, Kahn, Hill, Krall, and Tierney, and Philadelphia  
5 Area Industrial Energy Users Group (PAIEUG) witness Baron, concerning my  
6 positions on competitive safeguards and the appropriate code of conduct that  
7 should be adopted by the Pennsylvania Public Utility Commission (“Commission”  
8 or “PUC”) in the transition from a monopoly to a competitive structure for electric  
9 generation.

10 **Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR**  
11 **DIRECT SUPERVISION?**

12 A. Yes, it was; and I was assisted by Richard J. Koda, a Senior Consultant at  
13 Georgetown.

14 **II. CONCLUSIONS AND RECOMMENDATIONS**

15 **Q. WHAT HAVE YOU CONCLUDED REGARDING PP&L’S REBUTTAL**  
16 **TESTIMONY IN THIS PROCEEDING?**

17 A. This proceeding is about competition and whether competition will be allowed to  
18 develop in the electric generating markets within PP&L’s traditional service  
19 territory. It is clear that PP&L seeks to maintain and enhance a close identity  
20 between its monopoly and non-monopoly functions. The use of a common brand  
21 name, the simultaneous provision of generation through competitive and monopoly

1 groups, and the joint marketing of products all are designed to establish PP&L as a  
2 single company providing all electric services. The effect of PP&L's proposals, if  
3 authorized by the Commission, will be to make monopoly and competitive  
4 services indistinguishable and will create substantial customer confusion, all of  
5 which will serve PP&L's interests by delaying competition.

6 Taken together, competitors will face a daunting task. Not only will they  
7 have to compete with PP&L's generation group, which is already on the ground  
8 and running, but their effective competition will be against PP&L's  
9 single-branding of all electric services.

10 PP&L seeks to advance its own interests and the interests of the incumbent  
11 electric utilities in Pennsylvania rather than the interests of customers and  
12 ratepayers in the new environment of providing electric services. PP&L implores  
13 the Commission to maintain the inherent advantages of the EDCs, over their  
14 potential competition advantages which were developed through the regulated  
15 monopoly framework which has existed in Pennsylvania for many years.

16 PP&L's Generation Supply Group wants to be treated the same as other  
17 competitors in the generation market. If it wants to be treated the same then it  
18 should be the same, and should cease to have any affiliation with the monopoly  
19 T&D services, *i.e.*, divest. So long as the Generation Supply Group continues to  
20 be affiliated with the monopoly service provider, it is *different* from other  
21 competitors, and should be treated accordingly.

1 **Q. DO YOUR RECOMMENDATIONS DIFFER FROM THOSE YOU**  
2 **ORIGINALLY RECOMMENDED IN THIS PROCEEDING?**

3 **A.** No. The Commission should adopt a code of conduct that goes beyond the code of  
4 conduct proposed by PP&L and embodies the additions and enhancements  
5 recommended in my direct testimony.

6 **III. DISCUSSION OF ISSUES RAISED BY REBUTTAL WITNESSES**

7 **Q. WHAT CONCLUSIONS DOES DR. KALT REACH IN HIS REBUTTAL**  
8 **(PP&L STATEMENT NO. 1-R) REGARDING YOUR DIRECT**  
9 **TESTIMONY?**

10 **A.** On pages 10 and 11 of his rebuttal testimony Dr. Kalt contends that I, and other  
11 intervenor witnesses in this proceeding, recommend that the Commission impose  
12 detailed marketing restrictions on the affiliates of incumbent utilities which would  
13 handicap those affiliates as competitors by subjecting them to complex and  
14 cumbersome reporting, operational and compliance specifications not shared by  
15 their rivals. He opines that these so-called "handicaps" would functionally provide  
16 a subsidy to the incumbent utilities' rivals and therefore, enhance the fortunes of  
17 PP&L's competitors, but would not promote the interests of customers.

18 **Q. IS THERE A FLAW IN DR. KALT'S OPINIONS USED IN REACHING**  
19 **HIS CONCLUSION REFERRED TO ABOVE?**

20 **A.** In reaching his conclusion, Dr. Kalt inappropriately treats monopoly-derived  
21 advantages of the EDCs as competitive advantages achieved in the competitive  
22 marketplace. On page 13 of his rebuttal, he discusses the existence of advantages

1 and disadvantages in the context of a well-functioning competitive market rather  
2 then in the context of the reality in which this proceeding exists, that is dealing  
3 with the transition of leaving a monopoly environment and beginning an  
4 environment based on competition. He asserts that regulators should not care  
5 which competitors “win” at any particular time so long as customers benefit.<sup>11</sup>

6 Dr. Kalt is correct that the Commission should not care which competitors  
7 “win.” It should care that there is competition. Dr. Kalt’s prescription for the  
8 industry would delay competition and guarantee that PP&L wins. The same  
9 position that argues against favoring competitors also should be considered an  
10 argument against deciding on a regulatory regime that substantially favors the  
11 incumbent.

12 In contrast to his statements about customer benefits, Dr. Kalt asserts on  
13 page 11, lines 12 - 16 of his rebuttal that I would require PP&L to open up any  
14 pre-existing market-priced contracts to access by rivals upon the commencement  
15 of direct access, thereby creating an additional target customer base for rivals.  
16 Specifically, he argues that long-term contracting on a market-priced basis by a  
17 utility prior to the commencement of a general regime of open access cannot  
18 simply be presumed to be anticompetitive. He also maintains that long-term  
19 contracting is a mechanism by which customers “[c]an visit the force of impending

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<sup>11</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 14, lines 11 - 14.

1 competition on a utility's electricity sales even before the commencement of  
2 choice.<sup>12</sup> His position negates the only way to truly assess the extent of the  
3 impact of this theory and show concern about competitive benefits to customers,  
4 which is to allow potential competitors to vie for customers business.

5 **Q. DOES DR. KALT FULLY EMBRACE THE COMPETITIVE PROCESS?**

6 **A.** In spite of the fact that the Company states its willingness to renegotiate a  
7 Competitive Rate Rider contract that extended past January 1, 1999 and allow the  
8 customer to enter the market if the customer is interested in pursuing such an  
9 option,<sup>13</sup> Dr. Kalt apparently is not willing to recommend that customers be given  
10 the benefit of this competitive approach. If alternative providers are precluded  
11 from bidding on the potential business, there is no basis for believing that the  
12 supply contracts in question are market based. However, even Mr. Kasper's  
13 renegotiation proposal falls short if it means that customers would face any  
14 interference with a right to cancel their existing post-Act contract.

15 **Q. HOW DOES DR. KALT VIEW THE ADVANTAGES OF COMPETITORS**  
16 **IN TERMS OF COMPETITION V. MONOPOLY FUNCTION?**

17 **A.** Dr. Kalt admits the existence of advantages of various sorts in any competitive  
18 market on page 13, line 20 of his rebuttal, and that PP&L may have some

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<sup>12</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 51, lines 15 - 17.

<sup>13</sup> PP&L Statement No. 11-R, Rebuttal Testimony of Oliver G. Kasper., at 14, lines 18 - 22.

1 advantages from its brand name and reputation that are retained from a time in  
2 which PP&L was insulated from competition; but he contends that, from the point  
3 of view of consumers, it is not relevant when PP&L may have developed these  
4 advantages.<sup>14</sup> His position is that incumbent competitors should be allowed those  
5 advantages. This begs the question: Will the customer benefit be greater as a  
6 result of allowing PP&L to exercise its advantages obtained via its monopoly  
7 position, or as a result of the Commission establishing a level playing field for all  
8 providers? A level playing field *during transition* will provide customers with the  
9 greatest benefit. In addition, it would be inappropriate to implement deregulation  
10 without an effective competitive market being in place to begin with. To do so  
11 would deter the establishment of a truly competitive market, and could have  
12 disastrous results for customers by creating an unregulated monopoly. After the  
13 transition, any competitive advantages gained in a competitive market, including  
14 brand name advantages, should be retained by those who obtain and develop them  
15 fairly.

16 Although I disagree with a basic premise of Dr. Kalt's rebuttal that the  
17 market should be treated as if it were competitive before it is, I agree that  
18 restrictions on the incumbent EDCs should recede in proportion to the level of  
19 competition in effect. My disagreement with the Company's witnesses concerns

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<sup>14</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 17, lines 6 - 12.

1 what the regulators should do *before* the markets become competitive. For  
2 instance, Dr. Kalt would have the Commission do little to promote the  
3 development of a competitive market. He believes that in dealing with a  
4 restructured industry, the Commission should select an option that would prevent  
5 an extension of the utility's remaining market power by ensuring  
6 non-discriminatory access by all viable competitors into unregulated markets,  
7 regulate only relations between regulated utilities and their unregulated affiliates.<sup>15</sup>  
8 He reiterates that the primary positive roles for the Commission to undertake in  
9 promoting competition is in "breaking down legal and regulatory barriers to entry,  
10 in ensuring non-discriminatory access, and preventing cross subsidization"<sup>16</sup> even  
11 though one competitor, PP&L, would be granted and start with decided advantages  
12 as the incumbent monopoly.

13 **Q. HOW DOES DR. KALT VIEW THE SEPARATION OF UTILITIES AND**  
14 **THEIR AFFILIATES?**

15 **A.** Concerning functional separation, Dr. Kalt contends that:

16 . . . the imposition of detailed state marketing restrictions on  
17 affiliates of incumbent utilities would handicap those affiliates as  
18 competitors by subjecting them to complex and cumbersome

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<sup>15</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 9,  
lines 14 - 21.

<sup>16</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 18,  
lines 10 - 16.

1 reporting, operational, and compliance specifications not shared by  
2 their rivals.<sup>17</sup>

3 My position does not handicap anyone; rather, it is intended to place all  
4 competitors on the same initial footing, recognizing that, in reality, PP&L has a  
5 decided initial advantage that it seeks to prolong. I recommend that the  
6 Commission take actions to ensure the development of a competitive market, so  
7 that the removal of restrictions advocated by Dr. Kalt can then occur.

8 Furthermore, Dr. Kalt's rebuttal, quoted above, specifically objects to any  
9 reporting, operational or compliance specifications not shared by PP&L's rivals in  
10 the new to-be-competitive generation markets. Dr. Kalt's objection ignores a very  
11 fundamental difference between PP&L and its potential competitors in PP&L's  
12 service territory, which is that PP&L continues to have a monopoly on distribution  
13 services and has been the incumbent provider of generation in that territory. Dr.  
14 Kalt would have the Commission focus solely on generation and believe that the  
15 market becomes competitive simply by opening the doors to competition, while  
16 ignoring the realities of the market.

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<sup>17</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 10, lines 21 - 22 and at 11, lines 1 - 4.

1 **Q. DR. KALT DOES NOT BELIEVE THAT PP&L'S ADVANTAGES OF**  
2 **BRAND NAME AND CONTACT WITH THE EXISTING CUSTOMER**  
3 **BASE WOULD MAKE IT INFEASIBLE FOR RIVALS TO COMPETE**  
4 **AND SURVIVE. WOULD YOU COMMENT ON THIS?**

5 A. The key element which is missing in Dr. Kalt's discussion is one of *transition* to a  
6 competitive environment. His discussion of competition treats it as a robust  
7 reality. Dr. Kalt opines that:

8 [I]t is not plausible that the prospective entrants into electricity  
9 supply markets lack the capacity to find advantages of their own that  
10 PP&L will have difficulty matching and that will enable such new  
11 rivals to compete vigorously against the incumbent's strengths.

12 The fact is that presently there is no retail electric service competition in  
13 Pennsylvania and, although it is possible that some entrants will find advantages of  
14 their own, overcoming the name and goodwill advantages of the incumbent EDC  
15 will be daunting at best. An example of the inertia that customers have in  
16 switching their purchasing of commodity services from the incumbent utility and  
17 its non-regulated affiliate was provided by an independent marketer of gas services  
18 in Georgia at the July 8, 1997 Universal Service Fund Workshop sponsored by  
19 Atlanta Gas Light Company at AGL Resources Inc.'s corporate offices. The  
20 marketer stated that, when visiting his parents, he told them that they will be able  
21 to buy gas from the company that he worked for. When they heard this they asked  
22 their son why should they do that, since they had been buying gas from Atlanta  
23 Gas Light for many years and did not want to switch providers.

1           Dr. Kalt believes that the use of brand names does not restrict entry, even if  
2           the incumbent has developed name recognition and goodwill through past  
3           advertising. He contends that a potential competitor is not deterred from entering  
4           the jurisdiction of the incumbent because it will find advantages of its own that  
5           PP&L would have difficulty matching and that will enable such rivals to compete  
6           vigorously. I must disagree with Dr. Kalt's contention. First, the established  
7           reputation, goodwill and brand loyalty of an incumbent electric utility is the direct  
8           result of its providing regulated monopoly service under quality of service  
9           guidelines established, in this jurisdiction, by the Pennsylvania Public Utility  
10          Commission; these assets were not obtained by PP&L in a competitive  
11          marketplace. Second, potential entrants cannot simply overcome by means of an  
12          advertising blitz, what took the incumbent electric utility over 75 years to develop.  
13          The day-in and day-out provision of quality electric service to many customers for  
14          decades solidifies the position of the incumbent utility in the view of many of its  
15          jurisdictional customers, as was experienced by the Georgia gas marketer  
16          mentioned above.

17                 Most people would agree that brand names contain valuable information  
18                 and that through their brand names, firms signal quality to consumers. The  
19                 problem is that PP&L's valuable information was derived from its incumbent  
20                 electric utility status and operations, and PP&L has not proposed to provide any  
21                 compensation to its firm monopoly ratepayers for the competitive use of this

1 resource. To the extent that PP&L is able to exploit the monopoly-derived value  
2 from its name, then the continuing monopoly should be compensated for providing  
3 that value and such compensation should be reflected in customers' rates.

4 On page 17 of his rebuttal, Dr. Kalt contends that taking such advantages  
5 out of the marketplace by regulatory fiat impedes the competitive process and is  
6 deleterious to consumers. On the contrary, without leveling the  
7 *transitional* playing field by eliminating the inherent monopoly-derived  
8 advantages such as name and goodwill of the incumbent utilities, the development  
9 of effective and robust competition in the retail market will be thwarted.

10 **Q. PLEASE COMMENT ON DR. KALT'S ALTERNATIVES TO**  
11 **DIVESTITURE AS DISCUSSED ON PAGES 26 - 29 OF HIS REBUTTAL.**

12 **A.** Rather than divestiture, Dr. Kalt recommends a mixture of regulatory rules,  
13 incentives and oversight aimed at ensuring against the anticompetitive use (abuse)  
14 of relationships between monopoly and non-monopoly functions of the integrated  
15 utility without unduly handicapping the incumbent utility or supporting its rivals  
16 at the expense of the competitive process. Dr. Kalt lists what he believes to be the  
17 key elements of an effective policy for dealing with issues of affiliate relations and  
18 market power. Such key elements include:

- 19 • Functional separation of monopoly and non-monopoly activities;
- 20 • Unbundled, non-discriminatory access to monopoly services;

- 1 • No cross-subsidization of non-monopoly affiliates by monopoly
- 2 functions;
- 3 • Removal of regulatory and legal barriers to entry into non-monopoly
- 4 activities; and,
- 5 • Utility codes of conduct with regulatory oversight.

6 These key elements are fine if they worked in practice. However history  
7 has shown that, for instance, functional separation does not work as well as Dr.  
8 Kalt would have the Commission believe. Firms can and do use means to  
9 circumvent functional separation in an attempt to maximize their own returns,  
10 including but not limited to using their monopoly position in an effort to  
11 inappropriately increase their returns, especially during a period in which  
12 monopoly and competitive services are offered by affiliated entities. To be very  
13 clear about this, Dr. Kalt has stated that:

14 . . . competition in the real world is a process of dynamic search for  
15 and destruction of advantages, as rivals try *innumerable* approaches  
16 to attract customers to their products.<sup>18</sup> (italics added)

17 In fact, firms will go to great lengths to maintain market share and to maximize  
18 their returns, not only by offering consumers products and services at prices,  
19 quality levels and reliability standards that are more attractive than those offered  
20 by rival firms, but also by preventing rival firms from accessing customers and by

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<sup>18</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 13, lines 16 - 18.

1 exploiting any advantage possible over such rivals. There is no reason to believe  
2 that PP&L, in attempting to destroy the advantages of its competitors, would not  
3 attempt to extend its continuing or its past monopoly into areas that the  
4 Commonwealth has decided would be best-served via competition.

5 The Pennsylvania Public Utility Commission recognized this problem in  
6 Docket No. R-811819, which involved Bell Telephone Company of Pennsylvania.  
7 In its Long Form Opinion and Order pertaining to the Public Meeting held  
8 September 3, 1982, the Commission rejected over \$6 million of charges related to  
9 parent company or non-regulated operations that the regulated utility claimed  
10 pertained to the provision of telephone utility service. Bell of Pennsylvania was  
11 attempting to maximize its profit by receiving the cost of its non-regulated services  
12 from its monopoly operation. This condition was found to exist prior to the  
13 divestiture of AT&T.

14 Even after the divestiture of the local exchange carriers from AT&T, there  
15 have been problems with the integration of monopoly and competitive services  
16 within the Regional Bell Holding Companies. In its Report on NYNEX  
17 Corporation and Affiliates, the Office of Accounting and Finance of the New York  
18 State Public Service Commission found that there was the prospect for *diversion of*  
19 *telephone company resources* to enhance corporate profits, that compensation to  
20 the local operating telephone companies for personnel or services provided to  
21 affiliates was inadequate, and that the allocation of costs among affiliates benefited

1 the emerging non-regulated companies at the expense of the regulated monopoly  
2 local exchange telephone companies.

3 Recent recognition of various companies' attempts to inappropriately  
4 increase their return using their monopoly position includes the following: US  
5 West Inc., Docket No. 95-049-05, Utah Public Service Commission, November 6,  
6 1995, 165 PUR 4th 235; Washington Utilities and Transportation Commission v.  
7 US West Communications, Inc., Docket No. UT-950200, 15th Supplemental  
8 Order, Washington Utilities and Transportation Commission, April 11, 1996,  
9 169 PUR 4th 417; and, Pennsylvania Public Utility Commission v. Citizens  
10 Utilities Water Company of Pennsylvania, Docket No. R-00953300, R-  
11 00953300C0001-0072, Pennsylvania Public Utility Commission, Order entered  
12 March 29, 1996.

13 Therefore, as regulatory history has shown, the comment in my direct  
14 testimony regarding the potential for creating fictitious boundaries within the  
15 existing corporate structure is not simply rhetorical, as it appears to Dr. Kalt.

16 **Q. HAS DR. KALT MISCHARACTERIZED YOUR TESTIMONY IN OTHER**  
17 **RESPECTS?**

18 **A.** Yes, he has. For example, on page 35 of his rebuttal, Dr. Kalt states:

19 While this (Dirmeier's) perspective is in accord with his  
20 concern for PP&L's rivals, the development of complex,  
21 regulator-intensive and intrusive micro-management rules  
22 would be both a source of handicap for PP&L and is unlikely  
23 to provide a solution to problems of prohibited activity.

1 As I have stated earlier in my surrebuttal, my position does not handicap anyone;  
2 rather, it is intended to place all competitors on the same initial footing,  
3 recognizing that, in reality, PP&L has a decided initial and potential continuing  
4 advantage that it seeks to prolong. PP&L simply should not be allowed to enter  
5 those markets arm in arm with the regulated T&D company providing decided  
6 advantages to the unregulated businesses.

7 **Q. DR. KALT TAKES EXCEPTION TO YOUR POSITION THAT**  
8 **COMPANIES, IN EXERCISING FIDUCIARY RESPONSIBILITIES TO**  
9 **THEIR INVESTORS TO PRODUCE THE BEST POSSIBLE RETURNS,**  
10 **MAY SEEK OUT CERTAIN ACTIVITIES THAT ARE CONTRARY TO**  
11 **THE INTENT OF THE RULES, REGULATIONS AND CODE OF**  
12 **CONDUCT, WHEN THE ORIGINAL INTENT WAS TO PREVENT SUCH**  
13 **ACTIVITIES. PLEASE COMMENT ON THIS.**

14 A. Dr. Kalt reasons that:

15 It might just as well be argued that we all have incentive to  
16 rob banks, and to invent devious means for doing so that  
17 circumvent the intention of laws against bank robbery.<sup>19</sup>

18 While in fact companies do break laws and do invent devious schemes to bypass  
19 laws, the Commission should recognize that, even if PP&L abides by the law, an  
20 important issue for PP&L and for the Commonwealth is the extent to which PP&L  
21 can subvert the law to its own advantage. Section 2802 of the Act states:

22 (5) Competitive market forces are more effective than economic  
23 regulation in controlling the cost of generating electricity.

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<sup>19</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 36, lines 13 - 15.

1 (7) This Commonwealth must begin the transition from regulation to  
2 greater competition in the electricity generation market to benefit all  
3 classes of customers and to protect this Commonwealth's ability to  
4 compete in the national and international marketplace for industry  
5 and jobs.

6 (8) In moving toward greater competition in the electricity  
7 generation market, the Commonwealth must resolve certain  
8 transitional issues in a manner that is fair to customers, electric  
9 utilities, investors, the employees of electric utilities, local  
10 communities, nonutility generators of electricity and other affected  
11 parties.

12 This Commission is now faced with the responsibility of determining what is fair  
13 to the utilities, competitors and other parties in order to achieve the ultimate goal  
14 of real competition. As indicated earlier by Dr. Kalt, PP&L does not want real  
15 competition but, instead, would seek to impose every disadvantage possible on its  
16 potential competitors and destroy any advantage that they may have. If allowed to  
17 delay the development of a competitive market, PP&L may be abiding by the letter  
18 of the statute, but clearly not its intent or its spirit.

19 **Q. DO YOU AGREE WITH DR. KALT'S COMMENTS THAT REJECTION**  
20 **OF POSITIONS THAT ARE MORE RESTRICTIVE THAN THOSE OF**  
21 **THE COMPANY SHOULD NOT BE CONSIDERED "GOING LIGHT" ON**  
22 **INCUMBENT UTILITIES.**

23 **A.** No, I do not. On page 38 of his rebuttal, Dr. Kalt contends that regulators as well  
24 as anti-trust authorities should constantly oversee the actions of tying, denial of  
25 access and discrimination in the provision of essential regulated monopoly  
26 functions, and that to do otherwise would be to "go light" on integrated utilities in  
27 the restructured environment. In effect, Dr. Kalt is recommending an after-the-fact

1 remedy. Without question, however, monitoring incumbent utility activities and  
2 proving violations of the antitrust laws is a difficult, expensive and time-  
3 consuming undertaking. It is wrong to suggest that the Commission should rely on  
4 reactive after-the-fact means to ensure the development of a competitive market,  
5 particularly when it takes years to detect, prosecute or punish anticompetitive  
6 behavior.

7 Take, for example, the antitrust history of AT&T. A civil antitrust suit was  
8 instituted against AT&T and the Western Electric Company in 1949 by the United  
9 States, alleging that these companies had restrained and monopolized commerce in  
10 telephone equipment and supplies. This initial suit was concluded by a consent  
11 judgment that was entered in January 1956. Although the judgment contained  
12 provisions that limited the business of AT&T and its telephone subsidiaries to  
13 communication activities subject to regulation and limited the business of Western  
14 Electric to manufacturing and other activities, the fundamental relationships  
15 between AT&T, its telephone subsidiaries and Western Electric Co. were not  
16 altered. In spite of the fact that it was subject to regulation after the consent  
17 judgment, AT&T and certain of its subsidiaries were accused of unlawful  
18 conspiracy to monopolize, attempt to monopolize, and monopolization of interstate  
19 commerce in telecommunications service and equipment almost 19 years later.

20 In November 1974, the Department of Justice ("DOJ") initiated Civil  
21 Action No. 74-1698, United States of America, *Plaintiff* v. American Telegraph

1 Company; Western Electric Company, Inc.; and Bell Telephone Laboratories, Inc.,  
2 *Defendants*. In its First Statement of Contentions and Proof, the DOJ documented  
3 that AT&T had been engaged in anticompetitive behavior since the mid 1940s.  
4 This suit ended in 1982 when AT&T agreed to a Consent Decree which required  
5 AT&T to divest the local portions of its 22 wholly-owned local operating  
6 companies. The government, in turn, agreed to remove restrictions of the old  
7 decree limiting AT&T to the regulated telecommunications business, and the  
8 antitrust suit filed in 1974 was dismissed.

9 On August 24, 1982, the United States District Court for the District of  
10 Columbia approved and entered as in the public interest the proposed Modification  
11 of Final Judgment ("MFJ"). The MFJ was agreed to by AT&T and the  
12 Department of Justice with certain modifications which the Court had required.  
13 The divestiture was effective January 1, 1984.

14 So, for a period of approximately 35 years, the consumers of  
15 telecommunications services in the United States were subject to the  
16 anticompetitive behavior of AT&T. And even subsequent to 1984, certain  
17 telecommunications users have been subjected to the inappropriate behaviors of  
18 certain monopoly providers, including the progeny of AT&T, who are attempting  
19 to maximize their returns using their monopoly position. Monopolists have a  
20 position that is capable of being abused; competitors do not.

1 Q. PLEASE COMMENT ON DR. KALT'S ALLEGATION THAT YOUR  
2 REASONING IS FLAWED REGARDING PP&L'S PROPOSED SERVICE  
3 TO CUSTOMERS WHO "CHOOSE NOT TO CHOOSE".

4 A. On page 45 of his rebuttal, Dr. Kalt supports his allegation by stating that: "First,  
5 under the indicated tariff schedule, "choose not to choose" customers would carry  
6 no profit potential for the Company", and that I am therefore in error to maintain  
7 that:

8 PP&L's proposal to allow its Delivery Group to compete in  
9 the competitive generation market ignores functional  
10 separation requirements, parity of information dissemination  
11 requirements and other competitive safeguards and is, by  
12 definition, anti-competitive.<sup>110</sup>

13 However, he does not address the main focus of my concern that:

14 (1) it (PP&L's proposal) violates the customer's apparent  
15 intent to maintain the status quo and protection afforded by  
16 Chapter 13 of the Public Utility Code; (2) it places the  
17 Delivery Group in direct competition with third party  
18 suppliers thus mixing regulated and non-regulated activities in  
19 the same organization, thereby creating significant potential  
20 for abuse; and (3) it places third party suppliers at a distinct  
21 disadvantage in not being able to compete with the Delivery  
22 Group, which in effect locks up the customer for PP&L.<sup>111</sup>

23 In addition, the fact that the indicated tariff schedule would carry no profit  
24 potential for the Company, would make the regulated utility a *de facto* formidable  
25 competitor in terms of price. So rather than achieving "no net advantage for the

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<sup>110</sup> Enron Statement No. 6, Direct Testimony of Michael D. Dirmeier, at 26, lines 4 - 7.

<sup>111</sup> Enron Statement No. 6, Direct Testimony of Michael D. Dirmeier, at 25, lines 16 - 22.

1 generation supplier,” this PP&L strategy would keep customers away from  
2 alternative third party suppliers and reduce the size of the competitive market.

3 On page 47 of his rebuttal, Dr. Kalt comments upon my concern about huge  
4 revenues from customers not yet eligible for choice. He misconstrues the image I  
5 construct as being the “big is bad” theme. My concern is more appropriately the  
6 concern of large amounts of money flowing to an affiliate of the incumbent utility  
7 without customers being able to benefit from alternative suppliers having the  
8 opportunity to participate in a bidding process to provide electric service with  
9 different terms, conditions and price.

10 Dr. Kalt’s comments pertaining to whether the Delivery Group or the  
11 Supply Group would be the more appropriate entity to supply “not yet eligible”  
12 customers and, specifically, his comments that those customers would be having  
13 contact with PP&L anyway, heightens my concern regarding information flows  
14 between the PP&L Delivery and Supply groups. In addition, if the separation is  
15 maintained, there should be a clear and distinct difference between a “not yet  
16 eligible” customer being supplied by the Delivery Group as opposed to being  
17 supplied by the Supply Group. One clear difference is that customers of the  
18 Delivery Group would be under the protection of Chapter 13 of the Public Utility  
19 Code. Far from confusing customers “by preventing them from becoming aware  
20 that a PP&L affiliate would chase their electricity business upon the

1 commencement of choice”<sup>12</sup> I recommend that customers be explicitly made aware  
2 of the differences, and the fact that PP&L’s Delivery Group and its Supply Group  
3 are totally separate operations.

4 **Q. ON PAGES 4 THROUGH 6 OF HIS REBUTTAL (PP&L STATEMENT NO.**  
5 **13-R), MR. GENEZKO DISCUSSES SEVERAL REALITIES WHICH**  
6 **CANNOT BE OVERLOOKED IN ASSESSING APPROPRIATE**  
7 **COMPETITIVE SAFEGUARDS IN THIS PROCEEDING, ASSUMING**  
8 **PP&L’S CULTURE CHANGES. PLEASE COMMENT ON HIS**  
9 **POSITIONS.**

10 **A.** The second reality presented by Mr. Geneczko is that the Electric Delivery Group  
11 will remain a monopoly function directly under the regulation of both the PAPUC  
12 and FERC, and that both agencies have broad powers to conduct a general audit,  
13 target investigations, and to act upon inappropriate behavior including Code of  
14 Conduct violations. The Commission should also keep in mind the reality of the  
15 problems experienced by both State and Federal agencies in dealing with similar  
16 organizational structures, and abusive activities uncovered in the past.

17 The fact that there is no profit adder attached to the retention of energy  
18 customers by the Electric Delivery Group, as indicated by Mr. Geneczko’s fourth  
19 listed reality, establishes the PP&L Delivery Group as a formidable competitor that  
20 would effectively eliminate a number of customers from the competitive market  
21 pool.

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<sup>12</sup> PP&L Statement No. 1-R, Rebuttal Testimony of Joseph P. Kalt, Ph.D., at 49, lines 1 - 3.

1           Regarding the fifth reality concerning the use of the monopoly wires  
2 business, Mr. Geneczko states that, since the distribution business makes its money  
3 by transporting energy, refusal to accommodate new customers or suppliers means  
4 lower profits. Refusal to accommodate new customers or suppliers may or may  
5 not mean lower profits depending on the capital expenditures needed to  
6 accommodate the increase and the timing of the Company's recovery of such  
7 costs. The outcome is dependent on the specifics of the situation. So it is possible  
8 that a refusal to accommodate new customers or suppliers will actually mean  
9 higher profits than if new customers or suppliers were accommodated.

10 **Q.   ON PAGE 7 OF HIS REBUTTAL, MR. GENECZKO FINDS FAULT WITH**  
11 **YOUR RECOMMENDATION THAT THE COMPANY SHOULD ALLOW**  
12 **COMPETITIVE SERVICE PROVIDERS TO ACT AS AN AGENT FOR**  
13 **THE CUSTOMER TO ARRANGE SERVICE. PLEASE COMMENT ON**  
14 **HIS POSITION.**

15 **A.**   Mr. Geneczko alleges that PP&L can not rely on a third party to adequately  
16 represent a customer and that the third party agent introduces inefficiency and cost  
17 into the regulated business. Mr. Geneczko would take away a customer's choice  
18 to be represented by a third party who likely possesses more technical knowledge  
19 than does the customer. Not only is customer choice improved by allowing a third  
20 party agent, but efficiency may improve due to the technical knowledge of the  
21 agent interested in establishing the best energy deal for the customer.

22           If an end-user wishes to allow a third-party agent to arrange T&D services,  
23 then the customer has entrusted the agent with representing his/her interests.

1 There is no reason for PP&L to be involved in the transaction between the  
2 customer and PP&L's competitors, other than the fact that PP&L wishes to  
3 maintain a presence with the customer, in the hope either of getting the customer to  
4 stay with PP&L's generation at the present time, or to return to PP&L's generation  
5 in the future. PP&L should not be allowed to extend its monopoly over T&D  
6 services into the generation business by attempting to intrude into the relationship  
7 between customers and PP&L's competitors.

8 **Q. ON PAGES 15 AND 16 OF HIS REBUTTAL, MR. GENECZKO**  
9 **DISCUSSES SHARING OF INFORMATION. PLEASE COMMENT ON**  
10 **HIS POSITIONS.**

11 **A.** Mr. Geneczko maintains that matters discussed by Company personnel may be of a  
12 corporate nature or deal with specific personnel or matters concerning joint work  
13 outside the Electric Delivery group's service territory. As such he contends that  
14 much of this information is confidential and is not necessary for suppliers to  
15 achieve competitive access to all retail customers. The problem with his view is  
16 that under the Company's proposal, it is the Company who makes the  
17 determination as to whether the information is confidential or unnecessary for  
18 competitive access. In addition, input from the monopoly function of the Electric  
19 Delivery group has been generally paid for by the ratepayers of the monopoly  
20 provider and, therefore, should not be confidential to the Company and should be  
21 available to all competitors consistent with appropriate compensation. Without  
22 such reimbursement there is the potential occurrence of cross subsidies.

1           With regard to work relationships discussed on page 16 of his rebuttal,  
2           Mr. Geneczko believes that non-monopoly affiliate services obtained from the  
3           monopoly utility need not be made available to alternative suppliers so long as the  
4           Generation Supply group obtains no unfair competitive advantage. However, he  
5           does not say who will make the determination as to whether the competitive  
6           advantage is unfair.

7           Mr. Geneczko also brings up the point that the Electric Delivery Group may  
8           not have a monopoly on a particular service. Therefore, his opinion is that this  
9           particular service is not necessary to create a competitive market and need not be  
10          provided to alternative providers. I disagree with his conclusion. To the extent  
11          that a service is provided by a monopoly utility and jurisdictional to this  
12          Commission, that service should be made available to all entities who wish to  
13          obtain the service, for several reasons. First, charging the fully allocated cost or  
14          market price of this service, whichever is higher, to all who receive the service,  
15          will reduce the cost of monopoly service to monopoly ratepayers. Second, these  
16          services may, in fact, be helpful in establishing a competitive market. The  
17          decision as to whether or not it is helpful should not be left to the incumbent utility  
18          or its parent.

1 Q. ON PAGES 17 AND 18 OF HIS REBUTTAL, MR. GENECZKO  
2 DISCUSSES EMPLOYEE TRANSFERS. PLEASE COMMENT ON HIS  
3 POSITIONS.

4 A. Mr. Geneczko believes that there will be no problem regarding the possibility of  
5 information useful in the competitive environment being inappropriately  
6 transferred from the monopoly utility to its non-monopoly affiliates. He cites  
7 FERC Order 889 and the fact that PP&L is required to use the OASIS to post and  
8 track such transfers. He also cites the Retail Access Code of Conduct, indicating  
9 that employees having access to sensitive data in the Electric Delivery group or the  
10 Generation Supply group will not have shared responsibilities. He concludes by  
11 stating that "PP&L reserves the right to make such employee transfers when the  
12 transfer provides benefits to the Company."

13 There are several problems with the Company's proposal. First, the use of  
14 the OASIS to post and track employee transfers may make the transfer visible to  
15 all but it does not, in and of itself, prevent information from being inappropriately  
16 transferred. Second, just because employees in the Electric Delivery group or the  
17 Generation Supply group will not have shared responsibilities does not mean that,  
18 if and when such employees are transferred, they will not end up in positions  
19 where knowledge from their former position could not be inappropriately used.  
20 Third, even though PP&L's Code of Conduct will not permit a "revolving door  
21 policy," it is PP&L that would be making the judgement of what defines a  
22 "revolving door." Finally, the position that PP&L will have the right to transfer

1 employees when the “transfer provides benefits to the Company” is itself an open  
2 door permitting transfers that enable employees to apply confidential information  
3 gained in the monopoly arena to the competitive arena.

4 **Q. ON PAGE 23 OF HIS REBUTTAL, MR. GENECKO STATES THAT**  
5 **PP&L DOES NOT EXPECT TO ALLOW ALTERNATE SUPPLIERS TO**  
6 **UTILIZE THE ELECTRIC DELIVERY GROUP BILLING PROCESS AS A**  
7 **COMMUNICATIONS RESOURCE. DO YOU AGREE WITH HIS**  
8 **POSITION.**

9 **A.** To the degree that the Company precludes alternative suppliers from using its  
10 billing process as an avenue to communicate with customers or potential  
11 customers, it should also preclude its affiliate suppliers from its use. To do  
12 otherwise would be unfair and have a negative effect on the competitive process.

13 **Q. ON PAGES 24 AND 25 OF HIS REBUTTAL, MR. GENECKO**  
14 **DISCUSSES THE ELECTRIC DELIVERY GROUP’S INVOLVEMENT IN**  
15 **JOINT MARKETING AND PROMOTING COMPETITIVE PRODUCTS.**  
16 **PLEASE COMMENT.**

17 **A.** Mr. Genecko indicates that the Electric Delivery group may engage in a variety of  
18 joint marketing endeavors and may market products such as Power Watch™  
19 devices and Heat Comfort™ controls. This is potentially a dangerous  
20 involvement. As I have indicated in my prefiled direct testimony regarding the  
21 joint marketing of T&D and generation services :

22 The EDC must not preferentially provide sales leads to any  
23 generator and/or supplier nor participate in joint solicitation  
24 calls on end-users by EDC personnel and any generator  
25 and/or supplier.” . . . “There is considerable opportunity for  
26 anticompetitive conduct being carried out by the  
27 non-regulated affiliated supplier in the form of undertaking

1 agency activities that abuse its relationship with the EDC.  
2 For example, the non-regulated supplier might make an offer  
3 to a potential customer for supply services that would be  
4 priced somewhat lower than current tariff levels of the EDC.  
5 Particularly, if the non-regulated supplier has and uses the  
6 same name and logo as the EDC, the customer may believe  
7 that the deal being offered is actually provided, or at least  
8 backed up, by the EDC. The potential for misunderstanding  
9 is significant.<sup>113</sup>

10 Joint marketing of monopoly and non-monopoly services and products is a means  
11 of making such services indistinguishable, thereby enhancing customer confusion  
12 to the benefit of PP&L's Generation Supply Group. There should be no joint  
13 marketing by the Delivery Supply Group of non-monopoly services.

14 **Q. ON PAGE 27 OF HIS REBUTTAL, MR. GENECKO STATES THAT THE**  
15 **RECORDS OF THE GENERATION SUPPLY GROUP SHOULD BE MADE**  
16 **AVAILABLE ONLY TO THE EXTENT REQUIRED FOR ANY OTHER**  
17 **NON-REGULATED CORPORATION. PLEASE COMMENT.**

18 **A.** Mr. Genecko's position ignores the fundamental fact that PP&L's non-regulated  
19 affiliates would continue to be related to and affiliated with the EDC, which is  
20 under direct supervision by the Commission. Moreover, those affiliates and PP&L  
21 would have the incentive to subsidize PP&L's competitive efforts from earnings of  
22 the utility. That is a fundamental distinction between PP&L's non-regulated  
23 affiliates and other non-regulated corporations. Accordingly, all non-regulated  
24 companies affiliated with, and transacting with, regulated utilities in Pennsylvania

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<sup>113</sup> Enron Statement No. 6, Direct Testimony of Michael D. Dirmeier, at 36, lines 10 - 12 and 16 - 21; and at 37, lines 1 - 3.

1 should keep separate books and records, which should be subject to review by the  
2 Commission. Moreover, the books and records of the competitive affiliates should  
3 be available to the Commission for its review to ensure that all costs are properly  
4 accounted for, and assigned and allocated appropriately. My recommendation  
5 encompasses all such entities.

6 **Q. ON PAGE 35 OF HIS REBUTTAL (PP&L STATEMENT NO. 18-R),**  
7 **PROFESSOR KAHN CONTENDS THAT THERE IS NO JUSTIFICATION**  
8 **FOR IMPOSING ADDITIONAL RESTRICTIONS ON PP&L, OTHER**  
9 **THAN THE GENERAL PROHIBITIONS OF THE ANTITRUST LAWS, IN**  
10 **ORDER TO PROVIDE COMPETITIVE GENERATORS THE**  
11 **OPPORTUNITY TO COMPETE ON THE BASIS OF THEIR RELATIVE**  
12 **EFFICIENCY. PLEASE COMMENT**

13 **A.** Although some individuals believe antitrust laws may be adequate, they have been  
14 shown to work, at best, very slowly, i.e. the AT&T example cited above. In  
15 addition, A. Douglas Melamed, principal deputy attorney general in the U.S.  
16 Department of Justice antitrust division has testified that the "FERC's order which  
17 relies on the integrated utilities to engage in conduct that may be inconsistent with  
18 their economic interests, may prove insufficient to ensure open access."<sup>14</sup> It is  
19 clear that more is needed. While the Company's witnesses do not want PP&L's  
20 competitive supply groups or affiliates burdened with certain elements of a code of  
21 conduct that will appropriately advance competition, as mentioned earlier in this

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<sup>14</sup> An Antitrust Facelift for Power Market? FTC, DOJ Officials Say No, Special Report by Joseph A. Schuler, Public Utilities Fortnightly, July 15, 1997 at 49.

1 surrebuttal, Dr. Kalt apparently does not mind burdening competition by proposing  
2 that customers be kept out of the competitive process for as long as possible.

3 **Q. PLEASE COMMENT ON PROFESSOR KAHN'S POSITION REGARDING**  
4 **WHETHER THE COMMISSION SHOULD TAKE AFFIRMATIVE**  
5 **ACTION TO ENCOURAGE THE INTRODUCTION OF COMPETITION**  
6 **INTO INDUSTRIES PREVIOUSLY ORGANIZED AS FRANCHISED**  
7 **MONOPOLIES.**

8 **A.** Professor Kahn's view is that the Commission should not take such action. He  
9 maintains that the advantages arising out of economies of scope are precisely the  
10 kind of efficiency advantages that one expects and wants to prevail under  
11 competition.<sup>115</sup> Although the other three major electric utility companies in  
12 Pennsylvania would be able to compete in terms of the same advantage as PP&L,  
13 the other potential competitors would not. The question is not one of making  
14 competition possible, but rather for competition to reach its full potential as being  
15 robust and effective.

16 If PP&L is allowed to enter the competitive era as a vertically integrated  
17 utility, then it must be questioned whether robust competition will develop. While  
18 some competitors may appear in niche markets, full-scale across-the-board  
19 competition will be slow to develop, and it must be doubted whether the benefits  
20 of competition that the Act seeks to produce will be forthcoming.

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<sup>115</sup> PP&L Statement No. 18-R, Rebuttal Testimony of Alfred E. Kahn., at 41, lines 9  
- 11.

1 Q. ON PAGES 43 THROUGH 47 OF HIS REBUTTAL, PROFESSOR KAHN  
2 DISCUSSES REASONS TO FEAR THAT REGULATORY COMMISSIONS  
3 WILL ERR ON THE SIDE OF PROTECTING COMPETITORS AND  
4 SUPPRESSING EFFICIENT COMPETITION. DO YOU AGREE WITH  
5 HIS COMMENTS?

6 A. No. Take for example his comments regarding the telecommunications industry.

7 He contends that “[T]he most extreme example of these protections has of course  
8 been the line of business restrictions imposed on the severed Bell Operating  
9 Companies under the Modified Final Judgment that terminated the AT&T antitrust  
10 case.”<sup>16</sup> Professor Kahn, although conceding that it would be a distortion to  
11 characterize those restrictions as flatly anticompetitive, nevertheless characterizes  
12 them as being inherently anticompetitive and thus glosses over the reason why the  
13 line of business restrictions were established in the first place: the Bell Companies  
14 not only had the power and the incentive to exclude rivals from a fair opportunity  
15 to compete, but actually had a history of engaging in anticompetitive behavior as  
16 discussed earlier in this testimony.

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<sup>16</sup> PP&L Statement No. 18-R, Rebuttal Testimony of Alfred E. Kahn, at 45, lines 14 - 17.

1 **Q. ON PAGE 3 OF HIS REBUTTAL (PP&L STATEMENT NO. 2-R), MR.**  
2 **HILL STATES HIS BELIEF THAT THE PROPOSED RESTRICTIONS ON**  
3 **THE USE OF THE PP&L NAME ARE UNFAIR AND INAPPROPRIATE.**  
4 **DO YOU AGREE?**

5 **A.** No, I do not. The restriction is both fair and appropriate because it eliminates  
6 preferences which would be conferred by the monopoly utility on affiliated  
7 non-monopoly business units. If there is value in the existing name, then the  
8 advantage of that value should not be conferred on the non-monopoly businesses  
9 without compensation. An example of an electric utility which will preclude its  
10 affiliated competitive suppliers from using the monopoly's name is Portland  
11 General Electric Company. In its latest filed tariff for its Customer Choice  
12 Program, Portland General has included a Standards of Conduct section which  
13 affirmatively states that an affiliated competitive supplier will not use the name,  
14 logo, service mark, trademark, or trade name of the monopoly utility. This is  
15 attached to this surrebuttal testimony as Enron Statement 6.0 SR MDD-1.

16 **Q. DO HAVE ANY COMMENTS REGARDING THE REBUTTAL**  
17 **TESTIMONY OF DOUGLAS A. KRALL (PP&L STATEMENT NO. 10-R)?**

18 **A.** Yes. Mr. Krall discusses the response of PP&L to an interrogatory from Enron in  
19 an attempt to clarify PP&L's intent in dealing with how customers who do not  
20 qualify for choice, and those who do qualify but do not elect an alternative  
21 generation supplier, will be dealt with. PP&L's position, expressed by Mr. Krall  
22 and described in the Company's response to Enron's interrogatories, appears to be  
23 backwards in that it delegates a monopoly customer to the competitive generation

1 supply group, and a person with the ability to choose to the monopoly group.  
2 Moreover, it is inappropriate for all of the reasons set forth on pages 25 and 26 of  
3 my prefiled direct testimony and page 20 of this testimony.

4 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE REBUTTAL**  
5 **TESTIMONY OF SUSAN F. TIERNEY, PH.D. (PP&L STATEMENT NO. 9-**  
6 **R)?**

7 **A.** Yes. On pages 15 through 18 of her rebuttal, Dr. Tierney discusses the Company's  
8 proposed approach for the Competitive Transition Charges ("CTC") and whether  
9 they are consistent with the Competitive Act's goals. Dr. Tierney believes that:

10 [T]he Company's proposal ensures a competitive generation  
11 market because, among other things, the PP&L Electric  
12 Delivery group is not a competitor to either PP&L's Retail  
13 Energy supply group or any other market competitor, since  
14 the Company's provision of generation services to customers  
15 of last resort service must be provided at prevailing market  
16 rates -- as a pass through, without a mark-up. Essentially, the  
17 Electric Delivery group must obtain supplies from the market  
18 at prevailing market rates and pass this cost through to  
19 customers.<sup>17</sup>

20 As I have stated earlier in this testimony, PP&L's proposal to have the Electric  
21 Delivery group provide generation services to customers on a pass through without  
22 mark-up would in fact make the Electric Delivery group a formidable competitor,  
23 decreasing the available pool of potential customers for non-monopoly service  
24 providers.

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<sup>17</sup> PP&L Statement No. 9-R, Rebuttal Testimony of Susan F. Tierney, Ph.D., at 17, lines 3 - 10.

1 Q. ON PAGES 12 THROUGH 14 OF PAIEUG STATEMENT NO. 1R,  
2 MR. BARON DISCUSSES YOUR RECOMMENDATION THAT PP&L  
3 SHOULD NOT BE ALLOWED TO ENTER INTO "MARKET PRICED"  
4 CONTRACTS UNLESS PP&L FIRST OFFERS TO COMPETITIVE  
5 SUPPLIERS THE OPPORTUNITY TO BID TO PROVIDE SERVICE TO  
6 THE CUSTOMER. DO YOU HAVE ANY COMMENTS REGARDING HIS  
7 CONCERNS?

8 A. Yes. It appears that Mr. Baron is concerned with the potential of customers being  
9 precluded from negotiating with suppliers regarding market contracts under  
10 PP&L's current tariffs that will stretch into the future "direct access" era. I  
11 understand that concern, but my recommendation is that to encourage competition,  
12 potential customers should be given more options than solely dealing with PP&L  
13 or its Generation Supply group.

14 An approach that would allow the establishment of long term contracts  
15 between the incumbent utility and customers without allowing competitive bids by  
16 alternative suppliers would enable PP&L to lock-up customers during the  
17 transition so that, at the onset of regulation, there would be an ineffective market in  
18 PP&L's service territory. I recommend that the Commission should provide  
19 customers who have entered into long-term market-priced contracts subsequent to  
20 the date on which the Competition Act was passed, a penalty-free right to cancel  
21 such contracts, at their option, and to negotiate with alternative suppliers for the  
22 period of time when direct access is in effect. However, contracts entered into  
23 *after* a customer is subject to direct access should not be subject to this provision,  
24 nor should contracts entered into prior to passage of the Act. In addition, as I

1 previously testified, the option to cancel should be given to the customer only, and  
2 not to PP&L or its Generation Supply group. As I have indicated earlier in this  
3 testimony, Company witness Kasper has stated that the Company would be willing  
4 to re-negotiate the Competitive Rate Rider contract which extended beyond  
5 January 1, 1999, if the customer is interested in pursuing such an option.

6 My recommendation to not permit PP&L to enter into "market priced"  
7 contracts unless it first offers to competitive suppliers the opportunity to bid to  
8 provide service to the customer pertains to providing a level playing field that will  
9 benefit all customers in the long run, and will not restrict industrial customers from  
10 discussions or negotiations with PP&L under its existing tariffs.

11 **Q. DOES THIS CONCLUDE YOUR PREFILED SURREBUTTAL**  
12 **TESTIMONY?**

13 **A.** Yes, it does.

**(20) DISPUTE RESOLUTION**

Disputes regarding the application of this tariff between the Company and the ESP will be resolved by the filing of a complaint with the Commission in accordance with its dispute process except as otherwise provided in the Service Agreement.

**(21) STANDARDS OF CONDUCT**

The following standards of conduct pertain to the Customer Choice Program and the Company's relationship to the ESPs participating in it. The standards are not intended to supersede the provisions of Commission Order 97-196, dated June 4, 1997.

**(a) Provision of Products and Services**

The following standards pertain to the Customer Choice Program and the Company's relationship to the ESPs participating in it. The standards are not intended to supersede the provisions of Commission Order 97-196, dated June 4, 1997.

- (i) The Company shall strictly enforce tariff provisions for which there is no discretion in the application of the provision. The Company shall apply tariff provisions in the same manner to the same or similarly situated ESPs if there is discretion in the application of the provision. The Company shall not, through a tariff provision or otherwise, give its affiliated ESP or customers of its affiliated ESP preference over non-affiliated ESPs or their customers in matters relating to any regulated services or products provided within the Company's service territory ("regulated services").
- (ii) All regulated services offered by the Company shall be available to all ESPs simultaneously (to the extent technically possible) and on a comparable basis. Any discount, rebate, or fee waiver for any

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regulated services offered by the Company shall be offered to all ESPs simultaneously and on a comparable basis.

(iii) The Company shall not sell or otherwise provide regulated services to its affiliated ESP without either posting the offering electronically on a well-known source or otherwise making a sufficient offering to the market for that regulated service.

(iv) The Company shall process all similar requests for regulated services in the same manner and within the same period of time.

(b) Tying

The Company shall not condition or tie the provision of any regulated service or rate agreement by the Company to the provision of any product or service in which an affiliated ESP is involved.

(c) Information

(i) The Company shall process all similar requests for information in the same manner and within the same period of time. The Company shall not provide information to an affiliated ESP without a request in cases where information is made available to non-affiliated ESPs only upon request. The Company shall not allow an affiliated ESP preferential access to any non-public information regarding the distribution system or End Use Consumers that is not made available to non-affiliated ESPs upon request, and shall instruct all of its employees not to provide affiliated ESPs or non-affiliated ESPs any preferential access to non-public information.

(ii) Employees of the Company are prohibited from sharing with any affiliated ESP or any non-affiliated ESP (a) any market information pertaining to End Use Consumers participating in the Customer Choice Program that was acquired from the affiliated ESP or from any non-affiliated ESP; or (b) any market information pertaining to End Use

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Consumers participating in the Customer Choice Program that was developed by the Company in the course of responding to requests for distribution service.

(iii) The Company shall not release any proprietary End Use Consumer information without the prior written or other approved authorization of the End Use Consumer.

(d) Promotion of Affiliate

The Company shall refrain from promoting any affiliated ESP. Neither the Company nor an affiliated ESP shall in any way represent that any advantage accrues to an End Use Consumer or others in the use of the Company's regulated services as a result of that End Use Consumer or others dealing with the affiliated ESP. The Company shall not engage in joint advertising or marketing programs with its affiliated ESP, nor shall the Company promote or market any product or service offered by its affiliated ESP. The Company shall maintain a current list of all ESPs. If an End Use Consumer requests information about ESPs, the Company shall provide a copy of the list with ESP names appearing in random sequence and not in alphabetical order, but the Company shall in no way promote its affiliated ESP.

(e) Shared Employees

Employees of the Company who have responsibility for operation of the distribution system, such as receiving requests for transmission or distribution services, operating the control area, or scheduling ESP deliveries, shall not be shared with an affiliate ESP or the Company's wholesale merchant function, and their offices shall be physically separated from the office(s) of the affiliate ESP. Any shared facilities shall be fully and transparently allocated between the two entities.

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(f) Books of Account

The Company and its affiliated ESP shall keep separate books of accounts and records.

(g) Dispute Resolution Procedure

The Company shall establish and file with the Commission a dispute resolution procedure to address complaints alleging violations of these Standards of Conduct. The procedure, at a minimum, shall designate a person to conduct an investigation of the complaint and communicate the results of the investigation to the claimant in writing within thirty (30) days after the complaint was received, including a description of any action taken and the complainant's right to file a complaint with the Commission if not satisfied with the results of the investigation. The Company shall maintain a log of all new, resolved, and pending complaints. The log shall be subject to annual review by the Commission and shall include, at a minimum, the written statement of the complaint and the resolution of the complaint or the reason why the complaint is still pending.

(h) Penalties

The Commission's penalty authority provided in the Oregon statutes shall apply to violations of these rules.

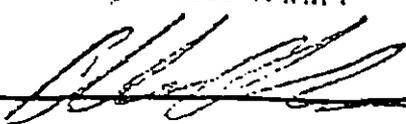
(i) Corporate Identification

The affiliate ESP shall not use the name, logo, service mark, trademark, or trade name of the Company.

**(22) LIMITATION OF LIABILITY**

The Company's obligations with respect to the continuity and quality of Distribution Services, Billing Service, and Power Delivery Service shall be covered by, subject to, and limited by Rule C(2) of this tariff. The Company is neither bound by, nor will it enforce, contracts between ESPs and their End Use

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Enron St. 3.1  
R-973954  
8/19/97  
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JAV  
4 PDR-8

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SURREBUTTAL TESTIMONY OF

**PAUL D. REISING**

ON BEHALF OF

ENRON POWER MARKETING INC.

DOCKET NO. R-00973954

RE: PP&L RESTRUCTURING PLAN

AUGUST 15, 1997

J. G. ...

AUG 20 1997

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PROTHONOTARY'S OFFICE

DOCUMENT  
FOLDER

1       **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2       A.    Paul D. Reising, 550 Congressional Boulevard, Suite 290, Carmel, IN  
3            46032.

4       **Q.    DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY IN THIS**  
5            **PROCEEDING?**

6       A.    Yes, I submitted direct testimony in this proceeding on July 2, 1997.

7       **Q.    WHAT IS THE PURPOSE OF YOUR SURREBUTTAL**  
8            **TESTIMONY?**

9       A.    In my surrebuttal testimony I will respond to comments made by several of  
10            PP&L's witnesses in their rebuttal testimony in this proceeding.

11            Specifically, I will respond to rebuttal testimony of PP&L witnesses Mr.

12            William Whitehead, Dr. Susan Tierney, Mr. Oliver Kasper, Mr. Joseph

13            Kleha and Mr. B. J. Bujnowski.

14       **Q.    WHAT COMMENTS DO YOU HAVE IN RESPONSE TO THE**  
15            **REBUTTAL TESTIMONY OF PP&L WITNESS WHITEHEAD?**

16       A.    I am pleased to see that PP&L and Mr. Whitehead agree with Enron's  
17            recommendation concerning the need to unbundle and set rates for  
18            transmission and ancillary services on the basis of FERC approved rates  
19            under the PJM Open Access Transmission Tariff. I would point out  
20            however, that merely referencing the PJM Tariff does not eliminate the  
21            need properly to functionalize and remove PP&L's transmission-related  
22            revenue requirements from retail rates.

1       **Q.   ON PAGE 19, LINE 2 OF DR. TIERNEY'S REBUTTAL**  
2       **TESTIMONY, A REFERENCE IS MADE CONCERNING PP&L'S**  
3       **RETAIL ENERGY SUPPLY GROUP AND PP&L'S ELECTRIC**  
4       **DELIVERY GROUP, DO YOU HAVE ANY COMMENTS**  
5       **CONCERNING THESE REFERENCES?**

6       A.   Yes, I do. There are two points I wish to make. First since the PP&L  
7       Electric Delivery Group is responsible for providing "last resort service," I  
8       believe this part of the business should be bid competitively and not  
9       automatically ceded to the PP&L Retail Energy Supply Group. Ensuring  
10      competitive supply to "last resort service" would "prevent extension of  
11      remaining monopoly power" as noted by PP&L's witness Dr. Kalt at page  
12      9-10 of his rebuttal testimony.

13               Second, the relationships among Suppliers, End-Users, and Electric  
14      Distribution Companies ("EDCs") need to be defined. That is why Enron  
15      witness Mr. Coles sponsored a Supplier Tariff and why I sponsored a  
16      Distribution Pro Forma Tariff in my Direct Testimony. Dr. Tierney and  
17      other PP&L witnesses mentioned various groups such as these two PP&L  
18      groups, but are silent as to how these groups will coordinate in providing  
19      reliable service. To provide clarity to the various roles and responsibilities,  
20      I presented a pro forma Distribution Services Tariff in my Direct  
21      Testimony, a revised version of which is appended to this Testimony as  
22      Exhibit 3.1, PDR-8.

1       **Q.   WHAT COMMENTS DO YOU HAVE IN RESPONSE TOT HE**  
2       **REBUTTAL TESTIMONY OF PP&L WITNESS KASPER?**

3       A.   In response to my direct testimony regarding the merits of a pro forma  
4       Distribution Services Tariff, Mr. Kasper opines at page 16-17 that because  
5       electric utilities throughout Pennsylvania have different cost structures and  
6       different work practices it would be impractical to try to standardize  
7       distribution service tariffs. I disagree for several reasons. First, the  
8       Distribution Services Tariff was offered as a working document to facilitate  
9       dialogue by all interested parties as to the rules which should govern the  
10      relationship between the EDC and Electric Suppliers on behalf of end-users.

11             Second, I did not intend to suggest that rates for service would be  
12      uniform across the state. To the contrary, the Distribution Services Tariff I  
13      offered in Exhibit 3, PDR-7 specifically allowed for separate compensation  
14      schedules for each applicable distribution service. The concept of  
15      providing for compensation schedules which would be different for each  
16      Electric Distribution Company mirrors the approach used by the FERC in  
17      its pro forma Open Access Transmission Tariff.

18             Third, the Distribution Services Tariff was intended to be a generic  
19      document, similar to the concept underlying the FERC's *pro forma* Open  
20      Access Transmission Tariff. The concept we had in mind is that the  
21      Distribution services Tariff would set forth a common set of basic rules that

1 would apply to retail open access across Pennsylvania. We did not intend  
2 to suggest that the Distribution Services Tariff would cover all of the  
3 particulars that might have to be considered on a case-by-case, utility  
4 specific basis, for example, a utility's standard service voltages. Just like  
5 the FERC's OATT is a *pro forma* tariff, the FERC left room for  
6 modification to reflect the special circumstances unique to individual  
7 utilities as is the case for the service schedules appended to the *pro forma*  
8 tariff. In these schedules the FERC has established the basic framework,  
9 but leaves it up to individual utilities to set the basis for compensation,  
10 including the determination of service revenue requirements and rate  
11 design.

12 Fourth, the Distribution Services Tariff was intended to apply to all  
13 suppliers whom will be responsible for making all necessary arrangements  
14 for individual or aggregated end-users. This would apply to the PP&L  
15 Retail Energy Supply Group as a supplier as well as for those individual or  
16 aggregated end-users who want to continue doing business with PP&L.  
17 The Distribution Services Tariff and the Supplier Tariff, sponsored by Mr.  
18 Coles, would also apply where PP&L is the supplier of last resort in the  
19 event that the end user reverts to PP&L Electric Delivery Group as its  
20 supplier.

1           Finally, I disagree with the notion expressed by Mr. Kasper that  
2           development of a pro forma tariff is impracticable. The Federal Energy  
3           Regulatory Commission has proven otherwise with its pro forma Open  
4           Access Transmission Tariff. The FERC was able to develop a transmission  
5           pro forma tariff for the entire country affecting 165 utilities who most  
6           certainly have vastly different cost structures and work practices. Further,  
7           having now reviewed several of the restructuring filings in Pennsylvania  
8           and other states, including their respective rules and service standards for  
9           retail open access, I believe more than ever that there is a genuine need for a  
10          set of rules and standards that apply uniformly within the jurisdiction of this  
11          Commission. The rules of the game should be standardized across the state.  
12          Without such standardization each EDC and every EDC can "balkanize" the  
13          marketplace and impede non-affiliated suppliers from entering the market.

14          **Q.   WHY ARE YOU OFFERING A REVISED VERSION OF THE**  
15          **DISTRIBUTION SERVICES TARIFF?**

16          A.   Based on my review of testimony in this and other Pennsylvania  
17          restructuring cases, I believe some clarifications and modifications to the  
18          initial version are in order. For example, partly in response to concerns  
19          raised by Mr. Kasper regarding facilities standards which may be unique  
20          from utility to utility, I have amended various sections of the Distribution  
21          Services Tariff to cover such standards as attachments to the Tariff rather

1 than trying to embed such standards in the Tariff. Examples of unique  
 2 standards which would be covered in attachments to the Tariff include  
 3 policies covering line extensions, underground facilities, service voltage  
 4 levels, and reimbursement for non-standard facilities.

5 **Q. WHAT SUBSTANTIVE REVISIONS HAVE YOU MADE TO THE**  
 6 **DISTRIBUTION PRO FORMA TARIFF YOU NOW PRESENT AS**  
 7 **EXHIBIT 3.1, PDR-8.**

8 A. The following table provides a brief description of the reasons for  
 9 substantive changes to the Distribution Services Tariff and the Section  
 10 number associated with the change.

11 **DST Changes Table**

Section	Reason
1.2	Changed language to add clarity concerning Customer bad credits.
1.8	Changed language in attempt to add clarity. This definition allows flexibility in future markets with full service options to End Users.
1.23	"End User" substituted for "Customer" to avoid confusion.
2.2, 2.3, 2.4	Minor changes in working of responsibilities to add clarity between EDC, Customers and End Users.
3.3	Modified working to add clarity concerning exceptional service requirements would be End User driven
4.1	Clarified language concerning multiple delivery points.
5.3	Creditworthiness in this document addresses Customer, not End User creditworthiness.
5.5	Customer responsible for assuring meeting the appropriate codes.
5.6	Merged into new 5.5
6.1.1 and 6.1.2	EDC specific requirements concerning new or modified facilities can be attached as Attachment B (Line Extension) and Attachment C (Underground).
7.1.2	EDC specific reimbursement of costs can be attached as Attachment D.

- 1           7.2           Language clarified concerning the EDC being informed of End User load changes.
- 2           8.3           Language added to state the cost responsibility should be borne by the Customers through  
3           a distribution ancillary service.
- 4           11.3          Required six months actual reading added.
- 5           12.1          Language clarified.
- 6           14.0          Language changed concerning disconnection and reconnection costs.

7           **Q.   DO YOU HAVE ANY OTHER COMMENTS CONCERNING DR.**  
8           **TIERNEY'S TESTIMONY?**

9           A.   Yes, at pages 26-27, of her rebuttal testimony, Dr. Tierney presents a list of  
10          rate design goals. I do not disagree with this list as such, but I find  
11          missing from this list a discussion of the complementary rules and  
12          regulations needed in moving to the unregulated environment. It is to  
13          provide guidance in this void that the Distribution Services Tariff is offered.

14          **Q.   IN MR. KLEHA'S REBUTTAL TESTIMONY, HE STATES**  
15          **"PP&L'S COST ALLOCATION STUDY AND FUNCTIONAL**  
16          **UNBUNDLING ANALYSIS SUBMITTED IN THIS PROCEEDING**  
17          **ARE FULLY CONSISTENT WITH THE LANGUAGE AND THE**  
18          **INTENT OF THE ACT AND THE COMMISSION'S**  
19          **RESTRUCTURING PLAN FILING GUIDELINES," DO YOU**  
20          **AGREE WITH THIS CHARACTERIZATION?**

21          A.   No, nor do other PP&L witnesses agree. Mr. Whitehead and Dr. Tierney  
22          each note that further unbundling is required. Dr. Tierney states, "First of  
23          all, MAPSA, PPLICA and Enron are right in pointing out that the  
24          Company's Delivery charges should be further unbundled into two parts:  
25          Transmission and Distribution. This is an important change to enable retail

1 customers to see proper price signals. . . ." I agree. Services and rates must  
2 be unbundled so that retail customer can be armed with the price signals  
3 needed to make informed decisions.

4 Further, Mr. Kleha makes the statement that "electric utilities are  
5 required only to unbundle their present cost structure into generation,  
6 transmission and distribution functional categories." The fact that the  
7 Commission may have only "required" identification of generation,  
8 transmission and distribution functional costs should not limit examination  
9 of the merits of a further functionalization of distribution costs (e.g., into  
10 energy delivery Services and revenue cycle Services) as I and other Enron  
11 witnesses proposed in Direct Testimony.

12 **Q. DO YOU HAVE COMMENTS CONCERNING MR. BUJNOWSKI'S**  
13 **TESTIMONY?**

14 **A.** Yes, I do. At pages 3-6 of his rebuttal testimony, Mr. Bujnowski criticizes  
15 the testimony of Enron witness Bowen stating that the cost of billing and  
16 metering amounts to only \$1.50 for residential non-electric heat customers.  
17 He reasons that this is small compared to the average monthly bill for such  
18 customers. While Mr. Bujnowski does not provide any support for this  
19 \$1.50 number, I believe that figure substantially understates the cost of  
20 metering and billing, and as a result, understates the importance of  
21 competitive supply of these Services. The analysis I presented in Exhibit 3,

1 PDR-2 through PDR-6 computes charges for metering, meter reading and  
2 billing for secondary voltage customers. Exhibit 3, PDR-6, Schedule 3  
3 shows reflects metering costs of \$1.44 per month, meter reading of \$0.89  
4 per month and billing at \$2.46 per month. These components total \$4.79,  
5 an amount which is more than three times Mr. Bujnowski's \$1.50.

6 **Q. DO YOU HAVE ANY OTHER COMMENTS IN RESPONSE TO MR.**  
7 **BUJNOWSKI'S DIRECT TESTIMONY?**

8 A. Yes, I do. At pages 9-10 of his Rebuttal Testimony, Mr. Bujnowski states  
9 his disagreement with the concept of allowing customers to enter into an  
10 agency relationship. The apparent basis for his conclusions is that billing  
11 customers for electric use requires customer Services infrastructure, and  
12 since no other party has provided testimony demonstrating that they have  
13 the needed infrastructure in place, suppliers should not be permitted to serve  
14 as agents to end-users. The fact that Mr. Bujnowski has been unable to find  
15 testimony covering his concern is hardly dispositive. Enron witnesses Mr.  
16 Shapiro and Dr. Mayo make a compelling case for permitting suppliers such  
17 as Enron to be the full service provider for end-users. Their testimony more  
18 than adequately supports the need for "supplier as agent," a concept which  
19 is the foundation for the Distribution Services Tariff offered in exhibit 3.1,  
20 PDR-8.

1           **Q.    AT PAGE 19 OF HIS SURREBUTTAL TESTIMONY ENRON**  
2           **WITNESS DIRMEIER STATES THAT OVERHEADS,**  
3           **TRANSACTIONS AND OTHER COSTS PROPERLY ALLOCATED**  
4           **TO GENERATION SHOULD BE INCLUDED IN THE TOTAL**  
5           **PRICE CHARGED THE "CHOOSE NOT TO CHOOSE"**  
6           **CUSTOMERS. BASED ON YOUR REVIEW OF THE COMPANY'S**  
7           **COST OF SERVICE AND FUNCTIONALIZATION STUDIES, HAS**  
8           **THE COMPANY PROPERLY ALLOCATED ALL APPROPRIATE**  
9           **COSTS TO GENERATION?**

10          A.    No. As I pointed out at pages 11 and 13-14, PP&L has allocated fully to the  
11               distribution function, and thereby rolled into its proposed delivery charge,  
12               100% of its Uncollectible Accounts, Customer Information and Assistance  
13               and Sales Expenses. These are costs that clearly cross all functional  
14               boundaries -- production, transmission, energy delivery and revenue cycle.  
15               Failure to allocate these costs amount all functions (which perhaps the  
16               exception I note for Customer Information at pages 30-31 of my direct  
17               testimony) will result in a net advantage for PP&L as the default generation  
18               supplier for "choose not to choose" customers.

19          **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

20          A.    Yes, it does.

DISTRIBUTION SERVICES TARIFF ("TARIFF")

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- Schedule 1 -- Energy Delivery Services
- Schedule 2 -- Revenue Cycle Services
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- Schedule 4 -- Power Factor Correction Service
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- Schedule 6 -- Fee Schedule for Additional Services

## **Attachments**

- Attachment A -- Customer Service Agreement
- Attachment B -- Line Extension and Reimbursement Policy
- Attachment C -- Standards for Underground Service in New Developments
- Attachment D -- Reimbursement Policy for Relocation of Electric Distribution Facilities

1. Definitions:

1.1 AC - alternating current

1.2 Aggregated Daily Load Curve - The hourly load curve provided by the EDC which establishes the amount of energy a Supplier will be obligated to supply in each hour of the month for those End Users for which hourly demand interval metering is not available.

1.3 Bad Credit - A Customer has bad credit if the Customer has been delinquent on two non-disputed consecutive bills or three or more non-disputed bills in the last twelve billing cycles or has tendered two or more checks which the drawee returns as unpaid within the past twelve billing cycles.

1.4 Billing Demand - The calculated or measured demand after correction, if any, for power factor; except that the billing demand may be limited to a minimum figure.

1.5 Capacity Charge - A charge based on demand, either with or without power factor correction.

1.6 Commission - The respective regulatory body in the state handling jurisdictional electric utilities.

1.7 Continuous Service - Service which the EDC endeavors to keep available at all times.

1.8 Control Area - An electric power system or combination of electric power systems to which a common automatic generation control scheme is applied.

1.9 Creditworthy - A creditworthy Customer pays the EDC's charges as and when due and otherwise complies with the rules and regulations.

1.10 Customer - An eligible Electric Generation Supplier acting on behalf of one or more End Users pursuant to a contractual arrangement between the End Users and the Electric Generation Supplier which expressly authorizes the Electric Generation Supplier to purchase service from this Tariff on the End Users' behalf.

1.11 Demand - The maximum rate-of-use of energy during a specified time interval, expressed in kilowatts.

1.12 Energy Charge - A charge based upon kilowatt-hours of use.

1.13 Electric Generation Supplier (or "Supplier") - a potential or actual supplier of electric power and/or energy. An eligible Supplier is one who meets Commission criteria to offer and is licensed to supply electric energy to End Users.

1.14 EDC - The local Electric Distribution Company, "the wires company" that provides electric distribution service.

1.15 End User - Any person, partnership, association or corporation, lawfully receiving electric power and/or energy at a single meter location.

1.16 Good Utility Practice - Any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period.

1.17 Host Control Area - The EDC, or if the EDC does not act as the Control Area, the appropriate Control Area for the Customer's load within the EDC's franchise area.

1.18 kV - kilovolts - 1000 volts.

1.19 kVA, kilovoltampere - Unit of measurement of rate of use which determines electrical capacity required.

1.20 kW, kilowatt - Unit of measurement of useful power.

1.21 kWh, kilowatt-hour - Unit of measurement of energy.

1.22 Meter Service Provider - the provider of the meter for measuring electrical energy and power use.

1.23 Month - A month means 1/12 of a year or a period approximately 30 days between two regular consecutive readings.

1.24 Open Access Transmission Tariff - The tariff filed with the Federal Energy Regulatory Commission (FERC) applicable to the Electric Distribution Company.

1.25 Point of Delivery - The single point at which the service-supply lines of the EDC terminate and the End User's facilities for receiving the service begin.

1.26 Power Factor - In a single-phase circuit the ratio of watts to the volt-amperes, and in a polyphase circuit, is the ratio of the total watts to the vector sum of the volt-amperes in the several phases.

## 2. Energy Delivery Service

2.1 Purpose. The purpose of this Distribution Services Tariff is to outline the various functions and services provided by the EDC to a Customer to make available direct access to End Users.

2.2 Electric Distribution Company Responsibilities. The EDC has the responsibility to provide non-discriminatory access to its distribution facilities in a safe and reliable manner using Good Utility Practice. The EDC may terminate service to a Point of Delivery without notice if the End User's installation has become

hazardous or defective, or if the Customer's or End User's use of the distribution facilities might injuriously affect the equipment of the EDC or the service to other Customers or End Users.

2.3. End User Responsibilities. The Customer shall ensure that the End User is responsible for safekeeping of the property of the EDC. In the event of injury or destruction of any such property the Customer shall require that the End User pay the costs of repairs and replacement. The Customer shall obligate the End User to protect the equipment of the EDC and the Customer on the End User's premises and shall not permit any person, except an employee of either the EDC or the Customer, to break any seals upon or do any work on any apparatus of the EDC located on the End User's premises. The Customer shall require that the End User give notice of any changes that might affect safety of personnel or property of the EDC.

2.4 Customer Responsibilities. The Customer shall be responsible for ensuring that its and the End User's use of the EDC's facilities are in accordance with Good Utility Practice. The Customer shall be responsible of timely payment of services provided. The Customer shall give notice of any changes that might affect safety of personnel or property of the EDC.

2.5 Restrictions on Use of Service. Service is only to be used in the manner in which it is intended and within the applicable electric codes and standards.

### 3. Service Characteristics

3.1. Standard Single Phase, 60 Hertz, 24 hours/day. Standard single-phase secondary service is alternating current, 60 hertz, that is nominally 120/240 volts, 3 wires; or 120 volts, 2 wires to installations consisting of not more than two 15-ampere branch circuits or such other standard as established by the EDC and as approved by the Commission.

3.2. Standard Polyphase Nominal Service Voltages

3.2.1. Secondary Service, 60 Hertz, 24 hours/day. Nominally 240 volts, 3-phase, 3 wires with a fourth wire neutral extended for the supply of 120/240 volt single-phase equipment; or nominally 120/208 volts, 3-phase, 4 wires where 3-phase is available; or nominally 277/480 volts, 3-phase, 4 wires where 3-phase is available or such other standard as established by the EDC and as approved by the Commission.

3.2.2. Primary Service, 60 Hertz, 24 hours/day. Nominally 2,400 volts, 3-phase, 3 wires; 4,160 volts, 3-phase, 3 or 4 wires; 7,200/12,407 volts; or 7,620/13,200 volts, 4-wire, three phase service or such other standard as established by the EDC and as approved by the Commission.

3.2.3. Transmission Service (as appropriate). Nominally 34,500, 46,000, or 69,000 volts as available or such other standard as established by the EDC and as approved by the Commission.

### 3.3. Exceptional Service Requirements

3.3.1. Non-Standard Service Voltage. The Customer shall require the End User to pay the cost of any special installation necessary to meet the End User's unusual requirements for service, including but not limited to service at other than standard voltages, or for the supply of higher quality voltage regulation than required by standard service.

3.3.2. Non-Standard Facilities Configuration. The Customer shall require the End User to provide or pay the cost of any special installation necessary to meet the End User's unusual requirement for service in addition to standard service. If non-standard facilities are provided by the Customer or the End User, said facilities must be approved in advance by the EDC.

3.3.3. **Underground Service.** The Customer shall require the End User to bear the excess cost, if any, where the End User desires underground service from overhead wires.

3.4. **Service Interruptions.** The EDC shall use Good Utility Practice to minimize service interruptions whether planned (example: planned transformer replacement) or unplanned (example: weather) and shall act with due diligence to restore interrupted or curtailed service..

4. **Service Availability**

4.1. **General Conditions.** Energy Delivery Service shall be provided to one or more Points of Delivery as requested by the Customer.

4.2. **Initiating Service.** The Customer may contact the EDC for initiation of service.

4.3. **Obligation to Extend or Modify Facilities.** The EDC is obligated to extend or modify facilities to serve Customers consistent with the due diligence conditions in Section 6.2 of this Tariff.

5. **Procedures for Arranging Energy Delivery Service**

5.1. **Conditions Precedent for Receiving Service.** The EDC should be advised by the Customer concerning the End User's premises to be equipped for electricity, giving exact location, and details of all current-consuming devices to be installed. The Customer shall supply the EDC any information regarding potential or actual contamination, waste or hazardous materials on the End User's premises.

5.2. Application Procedures. The Customer must inform the EDC of the request for service with at least 7 days notice and exact information concerning the location where service is to be delivered.

5.3. Creditworthiness. Before the EDC will render service or continue to render service, the EDC may require a current Customer that has Bad Credit or a new Customer whose credit is not established, to provide a cash deposit. In addition, the EDC may require Customers to post a deposit at any time if the EDC determines that the Customer is no longer Creditworthy or has Bad Credit.

5.4. Deposit. The deposit shall not be less than \$1,000.00 nor more than the estimated gross bill for the use of two months of service. The deposit shall either be applied with interest to the Customer's account or returned to the Customer with interest when the Customer becomes Creditworthy. Interest will be simple interest on cash deposits calculated at an annual rate determined by the average of 1-Year Treasury Bills for September, October and November of the previous year ("Interest Index").

5.5. End User Facilities. The Customer shall be responsible for assuring that construction or installation of all facilities on the End User's side of the Point of Delivery pass all required building inspections, meet the applicable requirements of the EDC and are in compliance with the National Electrical Safety Code.

5.6. Service Agreement for Energy Delivery Service. The Customer must sign a Service Agreement with the EDC prior to initiation of Energy Delivery Service.

5.7. Unauthorized Use. Unauthorized connection to the EDC's electric service facilities, and/or the use of service obtained from the EDC without authority, or under false pretense, may be terminated by the EDC.

5.8. Required Customer Arrangements for Open Access Transmission Service and Ancillary Services. The Customer shall be responsible for making all arrangements necessary for transmission and ancillary services pursuant to the Open Access Transmission Tariff applicable to Host Control Area.

6. Procedures for New or Modified Facilities

6.1. New Service Connections. The EDC shall have the right to inspect End User facilities and reserves the right to reject any wiring or appliances not in accordance with the EDC's standard requirements.

6.1.1. Line Extension Policy. Standards governing the extensions of overhead and underground lines to new Points of Delivery and related cost reimbursement policy are set forth in Attachment B of this Tariff.

6.1.2 Standards for Underground Facilities in New Developments. Specific standards and regulations applicable to underground service in new developments are provided in Attachment C to this Tariff.

6.2. Due Diligence in Completing New Facilities or Modifying Existing Facilities. The EDC has an obligation to provide access from the transmission grid to the Point of Delivery. The EDC will use Good Utility Practice to provide reliable access for the conveyance of energy and power to all Points of Delivery. If new or existing facilities require modification in order to provide reliable access, then the EDC shall apply due diligence in adding necessary facilities or modifying existing facilities.

6.3. Partial Interim Service. If the EDC determines that it will not have adequate distribution capability to satisfy the full amount of firm service required for a Point of Delivery, the EDC nonetheless shall be obligated to offer the portion of requested service that can be accommodated.

6.4. Non-Standard Facilities Requirements and Compensation. If non-standard facilities are required for the Customer then the directly assignable costs of the non-standard facilities shall be paid by the Customer prior to installation.

7. Service Changes

7.1. Requests for Changes in Service

7.1.1. Termination of Service. In the event the Customer withdraws an application for either new or modified service to a Point of Delivery, the Customer shall reimburse the EDC for all reasonable costs incurred by the EDC in anticipation of supplying the new or modified service.

7.1.2. Relocation of Service. Except where provided by law, the cost to relocate service or poles and/or their associated equipment shall be borne by the Customer. The relocation cost shall include labor (including overhead), materials, storage expense and transportation, less the salvage value of any equipment replaced. The EDC will notify the Customer in writing of the relocation cost and advance payment to be made to the EDC prior to the relocation except in special circumstances. Reimbursements of costs, resulting from relocation of service shall be covered by the provision of Attachment D to this Tariff.

7.2. Notification of Changes in Expected Use or Usage Patterns. The Customer shall require that significant changes in either the amount of energy or the usage pattern shall be communicated from the End User to either the EDC or the Customer. If the End User communicates this information to the Customer, the Customer shall provide such information to the EDC in a timely manner. If the End User communicates this information to the EDC then the EDC shall provide such information to the Customer in a timely manner. If the End User does not provide notification of changes in expected use or usage patterns to either the Customer or

EDC then the End User shall be liable for any damage to the meters or their auxiliary apparatus, or the transformers, or wires, of the EDC and Customer.

8. Operating Procedures

8.1. Cooperation. Cooperation is a necessary condition between the EDC, Customers, and other parties associated with supplying electric service to End Users. The EDC and the Customer shall negotiate in good faith to resolve service issues.

8.2. Energy Delivery Scheduling. The Customer is responsible for providing all information for energy scheduling required by the EDC or the Host Control Area.

8.3. Exchange of Load Shape Data. If the EDC is the Meter Service Provider, the EDC shall be responsible for providing load shape information to the Customer to the extent necessary in order for the Customer to meet its responsibility under Section 8.2. Fees for providing such load shape data are set forth in Schedule 6 appended to this Tariff.

8.4. Planned Outage Notification. The EDC and the Customer are required to inform each other as soon as reasonably achievable in the event of planned outages that may effect the Aggregated Daily Load Curve or other electric service functions.

9. Billing and Payment

9.1. Billing Procedure. The EDC shall render within 10 days following the end of the calendar month all charges as are applicable to the Customer. Unless otherwise stipulated, the EDC shall bill the Customer separately for each Point of Delivery based on the rates under this Tariff.

9.2. Payment Provisions. Bills are payable upon presentation. Payment for service received must be made on or before the due date shown on the bill. The payment

period will not be extended because of the Customer's failure to receive a bill unless said failure is due to the fault of the party responsible for billing.

9.2.1. Late Payment Charge. For late payments a finance charge of 1 1/4 % per month will be charged on the outstanding amount of the bill. Interest on delinquent amounts shall be calculated from the due date of the bill to the date of payment. If the party responsible for collections files suit to collect a delinquent balance on an account or to ensure payment of current bills, the Customer will be required to pay the collections agent's out-of-pocket court costs.

9.3. Customer or End User Default. The EDC may terminate its service to a Point of Delivery, upon reasonable notice, and remove its equipment in case of non-payment of charges applicable to that Point of Delivery.

9.4. Limits on Liability. The EDC shall not have any duty or liability to a Customer arising out of or related to a contract or other relationship between a Customer and an End User. (See Section 16.2.)

## 10. Meters

10.1. Procurement, Type, Protection. The Customer, or at its election, the EDC shall be the Meter Service Provider and shall provide, own and maintain any meter or meters required in the supply of service. The Meter Service Provider shall provide the types of meters meeting the architecture required for the supply of service and such other standards as established by the Commission.

10.2. Location/Access. There shall be provided, free of expense to the Meter Service Provider, at a location which the Meter Service Provider will designate in writing upon request, outdoors at its option, a suitable place for the installation of the meter or meters and any other supply, protective or control equipment of the Meter

Service Provider which may be required in the delivery of the electric service. The Meter Service Provider and EDC shall have access at all reasonable times for the purpose of installing, testing, inspecting, repairing, removing or changing any or all equipment belonging to the Meter Service Provider.

10.3. Installation / Removal. Upon a minimum of 7 days notice to either the EDC or the Customer, meters may be installed or removed by the Meter Service Provider unless a non-standard location or configuration is required.

10.4. Maintenance / Testing. The Meter Service Provider will make periodic tests and inspections of its meters in order to maintain them at a high standard of accuracy.

10.5. Meter Tampering /Unauthorized Use/Diversion of Supply. In the event of the meters or other property being tampered or interfered with, the Customer being supplied through such equipment shall be responsible for the cost of any repairs or replacements required, as well as for the costs of inspections, investigations, and protective installations. The Customer shall also be responsible for any energy and demand being supplied through such equipment which the EDC may estimate is due for service used but not registered on the meter.

## 11. Meter Reading

11.1 The Meter Service Provider shall be responsible for reading of meters for billing and all other purposes.

11.2. Access to Meter. The Meter Service Provider and EDC shall have access to the premises of the End User at all reasonable times for the purpose of reading meters.

11.3. Interval / Estimated Usage. Meters will be read at scheduled regular intervals of one month. Bills rendered in accordance with this Tariff shall be estimated for the

amount of service supplied to the Point to Delivery where access to the meter is not available, and for installations at remote locations when warranted by the type of installation, regularity of usage or other circumstances. Where estimated bills are rendered, the Meter Service Provider shall be required to make an actual meter reading at least once every six months.

11.4. **Historic Meter/Billing Data.** The Meter Service Provider shall be responsible for data conversions necessary for translating the reading data collection format into the universal exchange data format. The Meter Service Provider shall provide the data processing system necessary to support the on-line storage, maintenance, and accessibility of these data. The billing data shall be maintained for three years or such other period as required by the Commission.

12. **Authorization to Provide End User Data to Customers**

12.1. **Name, Address, Phone Number.** Upon request by an End User, the EDC shall provide the End User's name, address and phone number to all Eligible Generation Suppliers. The EDC shall make available to Eligible Generation Suppliers, within 30 days and at cost, the names, addresses and phone numbers of End Users authorizing dissemination of such information.

12.2. **Billing History.** Upon request, the EDC shall make available to the Customer within 30 days, at cost, the End User's billing history including historical monthly demand and energy usage.

12.3. **Load Patterns, Demand/Energy Data.** The EDC or Meter Service Provider, whichever has and or retains the data, shall provide the End User's load pattern, demand and energy data, at cost, to the Customer within 30 days of a request by the Customer.

13. **Ancillary Energy Delivery Services**

13.1 Power Factor Correction Service. To the extent that the Customer does not correct its End Users' Power Factor to acceptable levels at an applicable Point of Delivery, the EDC shall supply the necessary reactive power and bill the Customer for power factor correction according to Schedule 4.

13.2. Real Power Losses Compensation Service. Real Power Losses result from energy delivery at all voltage levels. The Customer shall be responsible for scheduling the delivery of sufficient amounts of power and energy to the EDC's system to cover all real power losses attributable to the EDC's service to the Customer. Procedures for determining the amount of losses attributable to the Customer are provided for in Schedule 5 to this Tariff.

14. Disconnection and Reconnection of Service. The physical disconnection and reconnection of service shall be performed by the EDC. However, the costs of disconnects and reconnects shall be borne by the Customer if the service was discontinued by reason or act of the Customer or the End User.

15. Load Shedding and Curtailments.

15.1. Procedures. In order to maintain electric grid reliability, events may cause the need for load shedding or load curtailments. Policies for load shedding of the respective NERC region and/or Commission shall apply.

15.2. Allocation of Curtailments. In the event that a curtailment of Energy Delivery Service is required to maintain reliable operation of the EDC's system, curtailments will be made on a non-discriminatory basis to those Points of Delivery that effectively relieve the constraint. All curtailments will be made on a non-discriminatory basis. The EDC or Host Control Area shall have the right to curtail delivery at its sole discretion, using Good Utility Practice, when an emergency or unforeseen conditions impairs or degrades the EDC's system or the regional transmission system.

16. Force Majeure and Indemnification

16.1 Force Majeure. An event of Force Majeure means any act of God, labor disturbance, act of the public enemy, war, insurrection, riot, fire, storm or flood, explosion, breakage or accident to machinery or equipment, any curtailment, order, regulation or restriction imposed by governmental, military or lawfully established civilian authorities, or any other cause beyond a party's control. A Force Majeure event does not include an act of negligence or intentional wrongdoing. Neither the Customer nor the EDC will be considered in default as to any obligation if prevented from fulfilling the obligation due to an event of Force Majeure.

16.2 Indemnification. The Customer shall at all times indemnify and hold harmless the EDC from any and all damages, losses or claims, including death and injury or damage to property, court costs, attorney fees and other claims by third parties arising from the EDC's performance on behalf of the Customer, except in cases of the EDC's negligence or intentional wrongdoing.

17. Dispute Resolution Procedures

17.1. Internal Dispute Resolution. Upon the submission of any complaint, representatives of the respective parties shall attempt resolution on an informal basis as promptly as practicable.

17.2. External Arbitration Procedure. Disputes between the EDC and Customers below a certain dollar amount may be well suited for use of an external arbitration procedure. A single neutral arbitrator appointed by the respective parties should be called within 10 days of the referral of the dispute to arbitration.

17.3. Arbitration Decisions and Costs. The respective parties should have contracts in place to allow both arbitration and mandatory compliance with decisions and costs.

The decision of the arbitrator shall be final and binding upon the parties unless the decision itself, violated the standards set forth in the Federal Arbitration Act.

18. Standards of Conduct

18.1. Electric Distribution Company.

(Tariff language reflecting Commission ordered standards of conduct.)

## Schedule 1

### Energy Delivery Services

#### Description of Service

Energy Delivery Services are those services necessary to convey electric power and energy for Customers from any point(s) of receipt available to the Electric Distribution Company under the applicable Open Access Transmission Tariff to the End User's or Host Control Area Point(s) of Delivery.

#### Compensation

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

## Schedule 2

### Revenue Cycle Services

#### Description of Service

The Revenue Cycle Services include the provision of meters, meter reading, billing and collections. The meter service includes the selection, installation, calibration, maintenance, testing and replacement of meters appropriate to the Customer's service requirements. The meter reading service includes the accurate reading, retaining and appropriate transfer of End User energy and demand usage data to the Customer or Electric Distribution Company or both. The billing service is the accurate computing and transmitting End User bills for services rendered by the Electric Distribution Company or the Customer or both. The billing service includes the retention of necessary records and providing appropriate access to billing information. The collection service is the receiving of customer payments and applying payment to the correct specific service. The collection service includes assessing late charges, interest penalties, warning notices and reconnection charges.

#### Compensation

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

**Schedule 3**

**Competitive Transition Charge**

Description of Charge

The CTC shall apply during the transition period as follows:

## Schedule 4

### Power Factor Correction Service

#### Description of Service

Power Factor is the ratio of active power (kilowatts) to the apparent power (kilovolt-amperes) used by an electrical device in an AC circuit. When the active power consumed (watts) is divided by the product of voltage (volts) times current (amperes), and the quotient is multiplied by 100, the result equals the power factor. It is possible for a device to draw AC current without consuming energy. The power factor indicates how much of the total current is actually doing work.

Standard Power Factor values, based on measured demands, are as follows: i) for 0 kW to 185 kW then the standard power factor is 80 %; ii) for 186 kW to 2,500 kW then the standard power factor is 90 %; and iii) over 2,500 kW the standard power factor is 95 % or other standard as established by the EDC and approved by the Commission. Whenever the measured power factor of a Customer is less than the prescribed standard, the Customer's measured demand shall be increased by the ratio of the standard power factor to the measured power factor. The demand thus determined shall be used as a basis for calculating the Customer's billing demand.

#### Compensation

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service

High Tension Service

## Schedule 5

### Real Power Losses Compensation Service

#### Description of Service

Energy is "lost" or consumed in the process of transmitting or moving the energy from the point of generation to the Point of Delivery. Real Power Losses that occur in the Transmission System are addressed in the FERC Open Access Transmission Tariffs. Real Power Losses that occur in the Distribution System need to be provided by the Customer.

The losses are included in the Aggregated Daily Load Curve as provided by the EDC or ISO.

#### Loss Factors

Secondary Voltage, Single-Phase Service

Secondary Voltage, Three-Phase Service

Primary Voltage Service