

FUMO/CEPD STMT NO. 1

5/10/00

Phb, PA

RIS

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

APPLICATION OF PECO ENERGY :
COMPANY, PURSUANT TO CHAPTERS :
11, 19, 21, 22 AND 23 OF THE PUBLIC :
UTILITY CODE, FOR APPROVAL: :
OF (1) A PLAN OF CORPORATE :
RESTRUCTURING, INCLUDING THE :
CREATION OF A HOLDING COMPANY :
AND (2) THE MERGER OF THE NEWLY :
FORMED HOLDING COMPANY AND :
UNICOM CORPORATION :

APPLICATION
DOCKET NO. A-110550F0147

DOCUMENT
DOCKETED
FOLDER
MAY 17 2000

**PREFILED DIRECT TESTIMONY OF
RICHARD H. SILKMAN, PH.D.**

ON BEHALF OF

**SENATOR VINCENT J. FUMO
CONSUMERS EDUCATION AND PROTECTIVE ASSOCIATION, ET AL.**

APRIL 18, 2000

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SECRETARY'S BUREAU

1 A. I have served on the faculties of the State University of New York at Stony Brook
2 (1978-1983) and the University of Southern Maine (1983-1986), where I also served as the
3 Acting Director of the Public Policy and Management Program (1986). I was appointed by
4 Governor John McKernan to become the Director of the Maine State Planning Office (1987-
5 1992), a cabinet level agency with broad policy and planning responsibilities, including
6 economic development, energy, telecommunications, taxation, budgetary, land-use
7 management and health care. In this capacity, I chaired a number of state level committees
8 and multi-agency task forces and was on the Board of Directors of a variety of quasi-
9 governmental agencies including the Maine Development Foundation, the Maine Science and
10 Technology Commission and the Maine World Trade Association. I also chaired a number
11 of Staff Advisory Committees of the National Governors' Association, including its Task
12 Force on Health Care (1989-90), Telecommunications Committee (1987-88) and Human
13 Resources Committee (1990-91). As chair of the Staff Advisory Committee on
14 Telecommunications, I developed the National Governors' Association policy position on
15 telecommunications.

16
17 I have been a member of the Board of Directors of the Council of Governors' Policy
18 Advisors (CGPA), an affiliate of the National Governors' Association (1988-92), and its
19 President (1990-1991). I have an undergraduate degree in economics (with honors) from
20 Purdue University (1972) and a Ph.D. in economics from Yale University (1980).

1 I currently serve as a consultant on telecommunications and energy matters for a variety of
2 clients in Maine and the northeast. In the telecommunications industry, I have testified as an
3 expert witness on matters related to rate design, the valuation of subsidiaries, interconnection
4 issues and the interface between regulated activities and the competitive market, and have
5 served on the faculty of numerous educational seminars and consulted for trade association
6 groups on matters related to the Telecommunications Act of 1996. In addition, I have been
7 actively involved in the market valuation of a number of businesses and business
8 opportunities in this field.

9
10 My clients in the energy area include a trade association of Maine's largest industrial
11 consumers of electricity, a Fortune 500 multi-state retail grocery company, a consortium of
12 consumer organizations, and a variety of municipal governments and agencies. In
13 representing these clients and others, I have negotiated many special electric rate contracts
14 with investor owned public utilities, have testified before the Maine, Massachusetts, New
15 Hampshire, California and Pennsylvania Public Utilities Commissions on matters of rate
16 design, the justness and reasonableness of rates, electric utility industry restructuring, and
17 utility mergers, and have been actively involved in electric utility restructuring issues and
18 legislation in a variety of states.

19
20 I have currently been retained by the Legislature in the State of New Hampshire to provide
21 advice and counsel on matters related to a comprehensive restructuring agreement entered

1 into between Public Service Company of New Hampshire (a subsidiary of Northeast Utilities)
2 and the Office of the Governor.

3
4 A brief copy of my resume is attached to my testimony as Exhibit RHS-1.

5
6 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY IN THIS CASE.**

7 **A.** The purpose of my testimony is to respond to the Comments and Objections of
8 Philadelphia Councilman David Cohen filed in response to the Joint Petition for Settlement of
9 the PECO-Unicom merger litigation. It is my intention to describe the value of the proposed
10 ratepayer / consumer benefits contained within the Settlement and compare it to the
11 regulatory value of the merger transaction.

12
13 **Q. PLEASE DESCRIBE YOUR ROLE AND INVOLVEMENT IN THIS CASE.**

14 **A.** My role in this case initially focused on evaluating the potential for merger-related
15 synergies between PECO Energy (PECO) and UNICOM Corporation (UNICOM), and the
16 effects those synergies should have on delivery service rates for customers in the PECO
17 service territory. In this regard, Senator Fumo's Office asked that I review and evaluate the
18 negotiation positions put forward by PECO Energy and the Office of Consumer Advocate.
19 Subsequently, the Senator's Office asked that I review the entire scope of issues contained in
20 the initial proposals for settlement presented by PECO.

21

1 **Q. DID YOU DISCUSS ANY ASPECTS OF THE PROPOSALS FOR SETTLEMENT WITH THE**
2 **VARIOUS PARTIES, AND DID YOU ATTEND ANY OF THE NEGOTIATION SESSIONS?**
3

4 **A.** Over the past few months, I have had conversations with certain of the parties
5 supporting this Joint Petition for Settlement, including the Office of Consumer Advocate
6 (OCA), Community Legal Services (CLS) – as counsel for CEPA *et al.* and PECO, as well
7 as with Senator Fumo’s Office (Senator). I did not attend any of the negotiation sessions.
8

9 **Q. HAVE YOU REVIEWED ALL OF THE MATERIALS FILED BY ALL OF THE PARTIES IN**
10 **THIS CASE?**
11

12 **A.** No, I have not. I have reviewed portions of the multi-volume filing made by PECO and
13 responses by PECO to selected interrogatories. In addition, I have reviewed Volumes I and
14 II (Appendices) of the Joint Petition for Settlement and the comments filed by Councilman
15 David Cohen and PPL Electric Utilities Corporation. Finally, I reviewed prior drafts of
16 settlement proposals and a limited amount of financial information related to PECO and
17 UNICOM.
18

19 **Q. PLEASE SUMMARIZE YOUR TESTIMONY RELATED TO THE JOINT PETITION FOR**
20 **SETTLEMENT ENTERED INTO AMONG MANY OF THE PARTIES IN THIS CASE.**
21

22 **A.** I believe that the Joint Petition for Settlement represents a reasonable resolution of the
23 critical issues in this case, and that its approval by this Commission is in the public interest.

24 The Joint Petition provides for the recovery by PECO ratepayers of what I estimate to be the

1 full dollar value of merger-related synergies associated with the T&D component of PECO.
2 In addition, it requires the development and implementation of service standards that will
3 protect ratepayers from service quality degradation; it augments universal service programs
4 that will benefit low-income residential consumers in the Philadelphia area; it includes a
5 variety of measures that will promote the development of renewable energy and lower air
6 emissions in eastern Pennsylvania; and it increases the likelihood that PECO will maintain a
7 strong economic and community presence in Philadelphia after the merger is completed.

8
9 As with all settlement agreements, this one attempts to balance the interests of the various
10 parties. Accordingly, specific items in the Joint Petition for Settlement may fall short of the
11 litigation position of the parties; but taken as a whole, I believe the Joint Petition for
12 Settlement is in the public interest.

13
14 **Q. PLEASE DISCUSS THE ISSUE OF MERGER-RELATED SYNERGIES AND HOW THESE ARE**
15 **TREATED IN THE JOINT PETITION FOR SETTLEMENT.**
16

17 **A.** The merger of corporations that are similar in the types of services they supply is
18 referred to as a "horizontal" merger. One of the chief advantages of horizontal mergers is the
19 ability to lower overall costs through the capture and realization of scale economies
20 associated with the larger size of the combined entity. Specifically, horizontal mergers are
21 generally able to lower average production costs through the elimination of duplicate

1 facilities, personnel, operating systems and administrative functions. The elimination or
2 “rationalization” of these redundancies is what is meant by “merger-related synergies”.

3
4 The Joint Petition for Settlement proposes to reduce delivery service rates for PECO
5 ratepayers by varying amounts in each of the years 2001 through 2006 in anticipation of
6 PECO’s ability to achieve operational savings in the regulated portion of the company as a
7 result of the merger.

8
9 **Q. HOW LARGE ARE THESE PROPOSED REDUCTIONS?**

10 **A.** The reductions are as follows:

11	2001	\$ 0 million
12	2002	\$ 60 million
13	2003	\$ 60 million
14	2004	\$ 40 million
15	2005	\$ 40 million
16	2006	\$ 0 million

17
18
19 **Q. PLEASE COMMENT ON THE ADEQUACY OF THESE DELIVERY SERVICE RATE**
20 **REDUCTIONS.**

21
22 **A.** There are no hard and fast rules that determine the scope or magnitude of merger-
23 related synergies in the electric utility industry. Each merger must be examined on its own
24 merits. Certain mergers, especially where the merging utilities serve adjacent service
25 territories, may result in relatively large merger-related synergies. Other mergers, where the

1 functions and service territories of the merging utilities are not related, may result in much
2 lower levels of merger-related synergies. Still other mergers, where the merging utilities
3 engage in or provide complementary functions, may result in high levels of merger-related
4 synergies.

5
6 In its Direct Testimony and in response to interrogatories filed in this case, PECO has
7 identified a variety of merger-related synergies that it expects to realize as a result of its
8 merger with UCM – see OTS-11. The pattern of these savings over the period 2001 through
9 2005 is as follows:

10

2001	2002	2003	2004	2005
1.29%	-1.58%	-2.50%	-2.93%	-3.29%

11
12

13 where the percentages in the table represent net merger-related costs as a percent of total
14 T&D revenues of approximately \$1.043 billion.

15

16 I believe that these figures are conservative and well below the synergies expected in other
17 similar mergers. My belief is echoed by Goldman Sachs:

18

19 “Excluding approximately \$150 million of costs to achieve, management is projecting
20 \$100 million of pretax cost savings in year one (60% from regulated operations and 40%
21 from nonregulated), increasing to \$180 million by year three. The projected cost savings
22 represent 5.5% of both companies’ aggregate operation and maintenance (O&M)
23 expense budgets, somewhat below the 10%-15% reduction estimated for other utility

1 mergers but reasonable given the two utilities' discontiguous service territories." (Sept.
2 27, 1999 – Amtrak-I-D-11)

3
4
5 A similar assessment was offered by Salomon Smith Barney – “Other previous mergers had
6 stated goals of operations and maintenance savings of approximately 10%.” In addition,
7 Salomon reported that “Management indicated that the cost savings estimates are very
8 conservative ...” (emphasis added).

9
10 I believe that the merger will realize larger merger-related synergies, and that therefore
11 PECO's ratepayers should see larger rate reductions in delivery service. Specifically, I
12 believe that total savings as a result of the merger to be closer to 6% of overall T&D related
13 revenues, which is approximately 10% of operations and maintenance costs for the T&D
14 component of PECO Energy. This level is at the lower end of the 10-15% range based on
15 the lack of geographic proximity between of the two utilities and the inability to rationalize
16 transmission and distribution operations and maintenance services. Accordingly, I believe
17 that merger-related synergies will represent the following percentages of total T&D revenue
18 requirements under the existing rate cap:

19

2001	2002	2003	2004	2005	2006
1.50%	-2.00%	-3.75%	-5.00%	-6.00%	-6.00%

20
21
22

1 **Q. HOW DOES YOUR ESTIMATE OF MERGER-RELATED SYNERGIES COMPARE TO THE**
2 **DELIVERY SERVICE RATE REDUCTIONS CONTAINED IN THE JOINT PETITION FOR**
3 **SETTLEMENT?**
4

5 **A. The proposed rate reductions in the Joint Petition for Settlement and my estimates of**
6 **the merger-related synergies are very close. As shown on the table in Exhibit RHS-2 (page 1**
7 **of 2), I estimate the total merger-related savings relative to the current delivery service rate**
8 **cap to be about \$222 million over the period 2001 through 2006. This is about 10% higher**
9 **than what is contained in the Joint Petition for Settlement. The net present value, however,**
10 **between the two savings streams is almost identical. The net present value of my estimates is**
11 **\$150 million as compared to the Joint Petition for Settlement amount of \$152 million, both**
12 **discounted at the Weighted Cost of Capital contained in the restructuring case of 8.71%.**
13 **This is because the pattern of my savings estimates differs from that in the Joint Petition for**
14 **Settlement.**

15
16 **This is shown very clearly in the graph in this same exhibit comparing PECO's originally filed**
17 **proposed rate reductions with my estimates and the rate reductions contained in the Joint**
18 **Petition for Settlement. My estimates of merger-related synergies are negative in the year**
19 **2001 as a result of costs that must be incurred to obtain future savings, and then increase**
20 **steadily over the next four (4) years as the merged company is able to realize the full savings**
21 **potential of the merger. In contrast, the Joint Petition for Settlement ramps up much faster,**
22 **but provides for no rate reductions vis a vis the rate cap in the last year, 2006.**

1

2 While I believe that my scenario is a more likely scenario in terms of timing of merger-related
3 synergies, the proposed pattern in the Joint Petition for Settlement results in rate reductions
4 sooner – something that certainly has value to PECO’s ratepayers, given the uncertainty that
5 now characterizes the electric utility industry. In any case, the total rate reduction for
6 PECO’s ratepayers in the Joint Petition for Settlement is virtually identical to my estimates of
7 merger-related synergies, and thus I believe the Joint Petition for Settlement’s treatment of
8 this issue to be reasonable and in the public interest.

9

10 **Q. DO YOU AGREE WITH COUNCILMAN COHEN THAT “THE DISTRIBUTION RATE CAP**
11 **PROVIDED IN PARAGRAPH 11 SHOULD BE LENGTHENED AT LEAST FIVE YEARS, AND**
12 **THE DOLLAR RATE REDUCTIONS OFFERED IN PARAGRAPH 10 THROUGH 2005**
13 **SHOULD BE AT LEAST DOUBLED, AND THEN MAINTAINED AT THE LOWEST LEVEL**
14 **ESTABLISHED IN THE YEAR 2005 FOR ANOTHER FIVE YEARS”?**
15

16 **A.** No, I do not. First, with respect to the distribution rate cap, I am concerned that any
17 lengthening of the cap beyond 2006 will expose ratepayers to risks that their rates may be higher
18 than they should otherwise be. My concern stems from three sources. The first source of
19 concern I have is related to sales growth. If the demand for electricity grows at any reasonable
20 rate over the period of Councilman Cohen’s proposed distribution rate cap, the benefits of any
21 such growth in sales will accrue to PECO and not to ratepayers. This is especially true during a
22 period of low inflation such as what we are currently experiencing.

23

1 My second source of concern relates to technological changes in the manner in which utilities
2 provide metering and billing services. The rapid growth of the internet and the dramatic
3 reductions in usage costs will ultimately alter the manner in which electric utilities read meters
4 and bill their customers. Remote meter reading, tied directly to billing services, may result in
5 substantial reductions in the costs utilities incur to read meters and process bills. Since both of
6 these areas represent significant cost centers to electric utilities currently, productivity gains in
7 these areas may result in important cost savings that should be passed on to ratepayers.

8

9 Finally, I believe that the same internet based technology that will alter information flows
10 between utilities and their customers will provide utilities with unprecedented levels of real time
11 data related to transmission and distribution system components and performance. This
12 information, coupled with enhanced artificial intelligence systems, will identify problems in the
13 grid in advance of their failure, thereby reducing the costs of operations and maintenance to the
14 utilities.

15

16 While it is not possible to predict with certainty when each of these opportunities may become
17 available and may begin to have a real impact on the costs of providing delivery service, it is clear
18 that the longer a rate cap remains in effect, the more likely it becomes that any benefits from
19 these opportunities will accrue to the utility's shareholders rather than to its ratepayers. I believe
20 that the 10 years proposed by Councilman Cohen imposes too large a risk on PECO's ratepayers

1 that, in the final few years of this proposed cap, they will pay rates in excess of the costs PECO
2 incurs to serve them.

3

4 I also take issue with Councilman Cohen's assertion that the rate reductions contained in the
5 Joint Petition for Settlement should be doubled. Councilman Cohen has not provided any
6 analytical or empirical support for this position. In contrast, as I have demonstrated earlier in my
7 testimony, the rate reductions contained in the Joint Petition for Settlement are (1) of an order of
8 magnitude that is consistent with the range of savings generally found in mergers of this type,
9 and (2) that the full amount of these savings are being returned to ratepayers in the form of rate
10 reductions. Further, as shown in Exhibit RHS-2, the level of rate reductions contained in the
11 Joint Petition for Settlement are more than twice those identified by PECO in its merger filing
12 and in responses to interrogatories in this case.

13

14 **Q. ARE THERE OTHER PROVISIONS OF THE JOINT PETITION FOR SETTLEMENT THAT**
15 **PROVIDE BENEFITS TO PECO'S RATEPAYERS?**

16

17 **A. Yes.** There are five areas in particular where ratepayers will benefit from the Joint Petition
18 for Settlement. First, low income ratepayers will benefit from the enhancements to the Electric
19 CAP program contained in the 1998 Electric Restructuring Settlement as well as from an
20 additional \$3 million for low-income fuel funds and an agreement to improve the monitoring of
21 universal service programs to determine whether "special needs" programs are necessary to
22 address specific unmet needs of the target population.

1

2 Second, PECO has committed to a rigorous reliability and customer service initiative that
3 establishes clear service quality standards that are designed to enhance reliability and customer
4 service. With respect to reliability, Paragraph 23 of the Joint Petition for Settlement identifies
5 seven areas of performance wherein PECO must achieve certain target indicators or take specific
6 actions. Similarly, Paragraph 24 of the Joint Petition for Settlement sets forth specific standards
7 that PECO must meet with respect to customer service.

8

9 The focus placed on reliability and customer service is an important element in any utility merger
10 where the locus of control is changing and the interests of management expanding. By
11 incorporating in advance specific expectations of performance post-merger, the parties have
12 established these areas as important areas of concern for ratepayers and a place where the
13 merged company should focus its attention.

14

15 Third, PECO will forego recovery of \$50 million of its total nuclear decommissioning cost
16 obligations plus 5% of any additional increase above an established base level. Because of the
17 uncertainty associated with estimating decommissioning costs that will occur well in the future, it
18 is difficult to put a definitive value on this provision of the Joint Petition for Settlement.
19 Nevertheless, it does represent a concession on the part of PECO that is of some value to
20 PECO's ratepayers.

21

1 Fourth, the Joint Petition for Settlement includes a number of provisions that are designed to
2 stimulate the market for renewable energy. The contributions PECO has agreed to make to the
3 wind and solar programs will help both of these initiatives get started in Pennsylvania and will
4 spur the development and implementation of these technologies.

5

6 Finally, the Joint Petition for Settlement imposes a requirement that PECO's activities within
7 Philadelphia remain relatively comparable after the merger to what they have been historically.
8 Specifically, the Joint Petition for Settlement addresses employment obligations, maintenance of
9 a corporate headquarters in Philadelphia and continuation of charitable and civic giving and
10 general contributions. These provisions will ensure that the impact of the merger on Philadelphia
11 outside of the provision of electric service will be minimal during the next five years. This level
12 of stability and certainty will ease the transition from PECO to the newly created company and
13 will provide important benefits to the Philadelphia economy.

14

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

16 **A. Yes.**

17

18

1 **List of Exhibits**

2

3 RHS-1 *Brief Resume for Dr. Richard Silkman*

4 RHS-2 *Merger-Related Synergies*

5

1
2 **DR. RICHARD H. SILKMAN**
3 *Curriculum Vitae*
4
5
6

7 **PERSONAL:**

8 Born: May 21, 1951; married, three children
9
10

11 **EDUCATION:**

12 Purdue University, B.S. (w/ Distinction), Economics, 1972
13 Yale University, M.A. Economics, 1975
14 Yale University, Ph.D. Economics, 1980
15
16
17

18 **SELECTED RECENT EXPERIENCE:**
19
20

21 Partner - The Maine Energy Aggregation Company, LLC Present
22 148 Middle Street
23 Portland, Maine 04101
24 Phone (207) 772-6190
25 Fax (207) 772-6320
26

27 The Maine Energy Aggregation Company, LLC (MEAC) is a newly formed company to
28 provide a full range of consulting services under contract to the Maine Electric Consumer
29 Cooperative (MECC). The MECC is an electricity buyer's cooperative with over 200
30 members and approximately 250 MW of total load. The MEAC has recently completed a full
31 Request for Proposals process on behalf of the MECC resulting in the securing of a full
32 requirements supply contract for members of the MECC.
33
34
35

36 Owner - Richard Silkman Associates 1992 - Present
37 76 Main Street
38 Yarmouth, Maine 04096
39 Phone (207) 846-0539
40 Fax (207) 846-0494
41

42 Richard Silkman Associates is a consulting firm established by Richard Silkman in
43 1992, specializing in economic regulation, energy and telecommunications and in
44 economic impact analyses. Dr. Silkman is a nationally recognized expert in the
45 regulation of public utilities and energy policy. He has appeared as an expert witness
46 before public utility commissions and a number of legislative bodies. Silkman

1 Associates currently provides energy consulting services to a variety of large energy
2 users on matters related to electric utility deregulation and is actively involved in the
3 negotiation of special tariffs and contracts at the wholesale and retail levels for
4 electricity and natural gas for a wide range of industrial and commercial clients
5 throughout the Northeast and Mid-Atlantic states. Silkman Associates has also
6 provided consulting services to private companies and public authorities and agencies
7 to perform economic impact analyses of products, investment activities and various
8 public policies.

9
10
11 Vice President - The O'Brien Group, Inc. 1995 – Present
12 70 Franklin Street
13 Boston, MA
14 Phone: (617) 737-2255
15 Fax: (617) 737-3399
16

17 The O'Brien Group, Inc. is a privately held consulting company established to develop,
18 manage and implement strategies and programs to help ensure that the full range of client
19 activities are integral parts of coordinated strategies that best support their immediate and
20 long-term government relations and public affairs objectives. The O'Brien Group, Inc.
21 provides consulting services across a broad spectrum of industries and issues to position
22 clients in their marketplaces.

23
24
25 Director Maine State Planning Office 1987 – 1992
26

27 Dr. Silkman was appointed by Governor John R. McKernan, Jr. to direct the Maine State
28 Planning Office, a cabinet-level office with a staff of approximately forty (40). In this
29 capacity, Dr. Silkman served as the chief policy advisor to the Governor on matters related to
30 economic policy, energy, hydropower and river management policy, telecommunications
31 regulation, state tax policy, health care regulation and cost-containment and land-use and
32 natural resources policy. During his tenure as Director, Silkman chaired a number of
33 commissions and task forces including the Land for Maine's Future Board, the Land and
34 Water Resources Council, the Gulf of Maine Council on the Marine Environment and the
35 Governor's Tax Policy Committee, and was a member of the Board of Directors of the
36 Maine Development Foundation, Maine Science and Technology Commission and Maine
37 World Trade Association.

38
39 Dr. Silkman also was very much involved in national organizations during his term in state
40 government. He served on the Board of Directors and as President of the Council of
41 Governors' Policy Advisors (CGPA), an affiliate of the National Governors Association.
42 CGPA is a professional association of senior policy advisors to the nation's governors, with
43 approximately 200 members from the 50 states and territories. In addition, Dr. Silkman
44 chaired or co-chaired staff advisory committees of the National Governors' Association in
45 Telecommunications, Health Care and Human Resources.

1
2
3 University Appointments

1978 - 1987

4
5 Dr. Silkman was on the faculty of the State University of New York at Stony Brook and
6 subsequently of the University of Southern Maine, where he served as Acting Director of the
7 *Public Policy and Management Program*. During his tenure at both institutions, Dr. Silkman
8 taught courses in applied economics, statistics, economic regulation and policy analysis, and
9 served as a consultant to a number of private companies and public sector agencies.

10
11
12
13 **SELECTED RECENT PROJECTS:**

14
15 Dr. Silkman has been retained (along with Anthony Buxton, Esq.) by the New Hampshire
16 Legislature to provide expert consulting services and advice regarding the proposed
17 Settlement Agreement between PSNH and the Governor's Office.

18
19 Dr. Silkman has provided testimony on behalf of a coalition of State Senators in
20 Pennsylvania related to a general proceeding involving interconnection and competitive
21 issues in telecommunications and the proposed merger of Bell Atlantic and GTE.

22
23 Dr. Silkman provided testimony on behalf of the California Office of Ratepayer Advocacy
24 (through a subcontract with Economics and Technology, Inc.) in the 1998 PG&E rate
25 case. This testimony utilized a new mathematical technique to evaluate the efficiency
26 with which electric transmission and distribution utilities provide electric service to their
27 customers.

28
29 Dr. Silkman has been retained by Cablevision Systems to assist it in its efforts to ensure that
30 electricity restructuring in Massachusetts results in competitive markets and fair and
31 commercially reasonable relationships between regulated utilities and unregulated subsidiaries
32 and affiliates.

33
34 Dr. Silkman has been retained by Champion International to provide economic consulting
35 services related to the development of a 175 MW "within the fence" natural gas-fired
36 cogeneration project at its Bucksport, Maine mill. In this capacity, Dr. Silkman has been
37 actively involved in the negotiation of a 15-year Purchased Power Agreement with H.Q.
38 (U.S.) and a complementary natural gas supply agreement involving the Maritimes &
39 Northeast Pipeline from Sable Island, Canada. In addition, Dr. Silkman worked closely
40 with Champion during dispute resolution with NEPOOL regarding the development of an
41 interconnection protocol and agreement for this facility, filed testimony at FERC in
42 support of Champion's efforts to obtain NEPOOL Section 18.4 approval for
43 interconnection, and has continued to advise Champion in its attempts to secure a final
44 interconnection agreement with CMP and NEPOOL.
45

1 Dr. Silkman has been retained by the Philadelphia City Council to assist it in
2 understanding and evaluating the impacts of natural gas deregulation on its municipal gas
3 company and on its citizens and businesses.
4

5 Dr. Silkman has been retained by a consortium of consumer groups to provide expert
6 advice and testimony regarding PECO Energy's efforts to secure Pennsylvania Public
7 Utility Commission approval to securitize \$3.6 billion of stranded costs and of its
8 comprehensive restructuring plan. In this capacity, Dr. Silkman led the negotiating team
9 that developed a settlement proposal of most of the major issues associated with
10 restructuring. This settlement, which has subsequently been rejected by the Pennsylvania
11 Public Utility Commission, included a write-off of \$2 billion of stranded costs by PECO
12 and guaranteed rate reductions of 10% for ratepayers.
13

14 Dr. Silkman has served as the external project manager for a comprehensive effort by
15 Hannaford Bros., Fortune 500 grocery company to reduce its greater than \$30 million a year
16 energy costs. This effort has included negotiating special rate contracts with electric utilities
17 at rates well-below retail tariffs, negotiating natural gas supply and pricing contracts with gas
18 marketers, securing more favorable gas transportation tariffs with local distribution
19 companies and installing self-generation (natural gas engine-generators) at multiple retail
20 locations in Maine and New Hampshire. These efforts have received national attention,
21 leading to the Company's recognition as one of the 6 most savvy energy buyers in 1996 by a
22 leading trade publication in the field.
23

24 Dr. Silkman has served and continues to serve as the lead economic consultant for the
25 Industrial Energy Consumer Group, a consortium of large energy users in Maine. In this
26 capacity, he has been involved with negotiating hundreds of millions of dollars of electricity
27 supply contracts incorporating substantial rate reductions and in regulatory proceedings
28 where regulated electric utilities have been denied millions of dollars of rate increases.
29

30 Dr. Silkman was retained by a governmental commission on Long Island, New York to
31 perform an economic impact analysis of a system of "Transferable Development Rights"
32 designed to protect an environmentally sensitive region in the northeast, while balancing the
33 property interests of a variety of constituencies.
34

35 Dr. Silkman has performed an economic impact analysis of a major electric utility project
36 seeking authority to switch fuels at one of its northeastern generating stations.
37

38 Dr. Silkman served as the lead economic consultant for NYNEX in Maine in its efforts to
39 seek a redesign of its telephone rates to bring them more in line with costs. In this capacity,
40 he performed an econometric analysis of demand elasticity for the Telephone Company and
41 provided testimony on the economic theory of efficient rate design and the public benefits of
42 investments to modernize the telecommunications network.
43

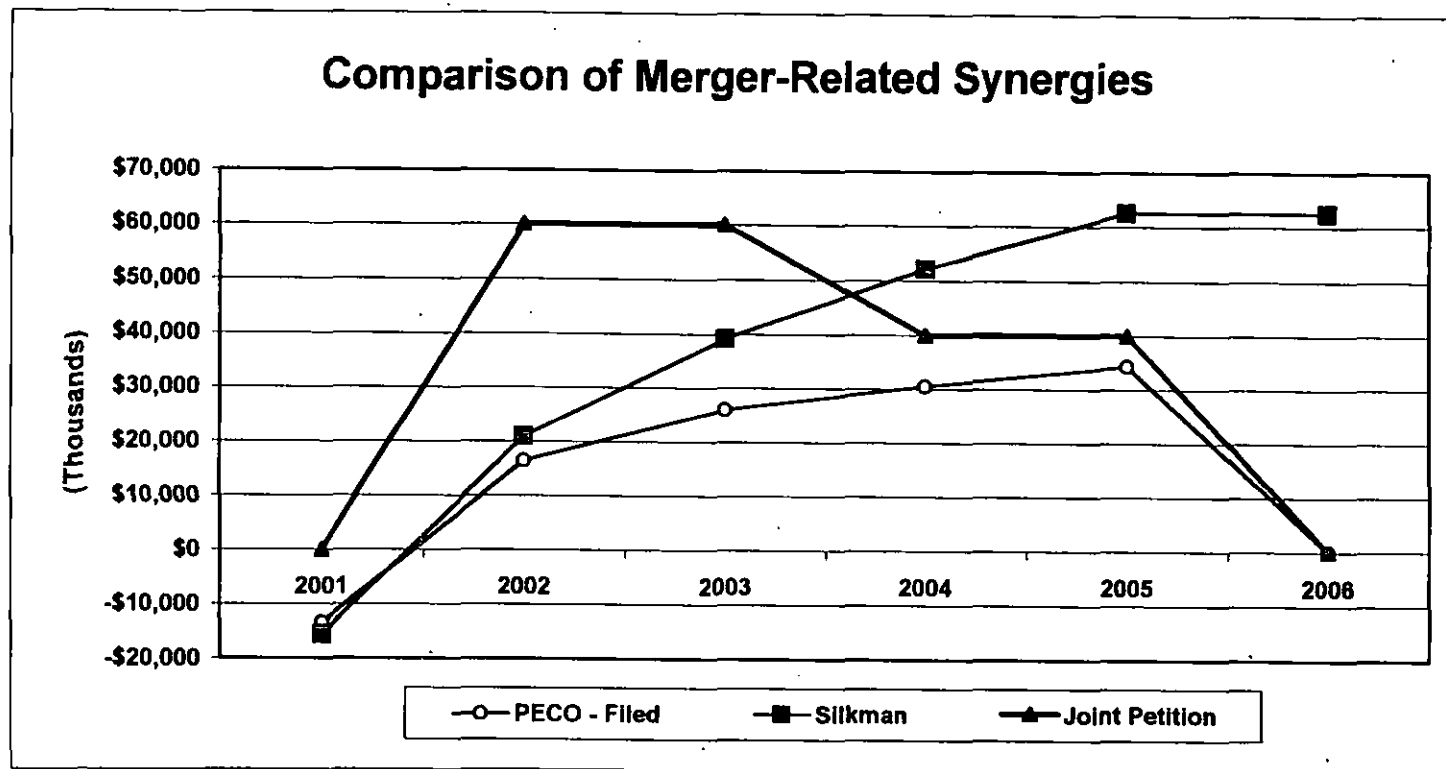
1 Dr. Silkman served as a consultant to a regional paper company and an expert witness in a
2 successful action it filed with the regulatory commission challenging the reasonableness of its
3 electric utility to provide service at higher voltage.

4
5 Dr. Silkman served as a consultant to a national consortium of telecommunication
6 companies, managing the consortium's relationship with national organizations, including
7 the National Governors' Association and the Council of Governors' Policy Advisors.

8

COMPUTATION OF MERGER-RELATED SYNERGIES

	2001	2002	2003	2004	2005	2006		
Rate Cap T&D Average Rate	\$0.02980	per kWh						
Estimated Annual Sales	35,000	GWh						
Rate Cap Revenue Requirement	\$1,043,000							
Discount Rate	8.71%	WAC from Settlement Agreement						
Pro Forma Synergies - Annual	1.50%	-2.00%	-3.75%	-5.00%	-6.00%	-6.00%		
Pro Forma Revenues	\$1,058,645	\$1,022,140	\$1,003,888	\$990,850	\$980,420	\$980,420		
Rate Cap Revenues	\$1,043,000	\$1,043,000	\$1,043,000	\$1,043,000	\$1,043,000	\$1,043,000		
Pro Forma Synergies - Amount	-\$15,645	\$20,860	\$39,113	\$52,150	\$62,580	\$62,580	Silkman	
Annual Savings	-\$1,058,645	-\$1,022,140	-\$1,003,888	-\$990,850	-\$980,420	-\$980,420		
Total Savings		\$221,638						
NPV of Total Savings		\$150,178						
Joint Petition for Settlement								
Proposed Rate Reductions	\$0	\$60,000	\$60,000	\$40,000	\$40,000	\$0	Joint Petition	
Total Savings		\$200,000						
NPV of Total Savings		\$152,460						
PECO Estimated Synergies								
Proposed Percentage Reductions	1.29%	-1.58%	-2.50%	-2.93%	-3.29%	0.00%	PECO - Filed	
Proposed Rate Reductions	-\$13,503	\$16,447	\$26,055	\$30,557	\$34,265	\$0		
Total Savings		\$93,821						
NPV of Total Savings		\$66,224						



**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

APPLICATION OF PECO ENERGY	+	
COMPANY, PURSUANT TO CHAPTERS	+	
11, 19, 21, 22 AND 28 OF THE PUBLIC	+	
UTILITY CODE, FOR APPROVAL OF	+	PUC Dkt. No. A-110550 F0147
(1) A PLAN OF CORPORATE	+	
RESTRUCTURING, INCLUDING THE	+	
CREATION OF A HOLDING COMPANY	+	
AND (2) THE MERGER OF THE NEWLY	+	
FORMED HOLDING COMPANY AND	+	
UNICOM CORPORATION	+	

CERTIFICATION OF SERVICE

I, Christopher B. Craig, attorney for Senator Vincent J. Fumo, hereby certify that a copy of the foregoing document has been served in person or by first class mail at the addresses indicated below. I further certify that the manner of service satisfies the requirements of 52 Pa.Code §§ 5.74 and 1.54.

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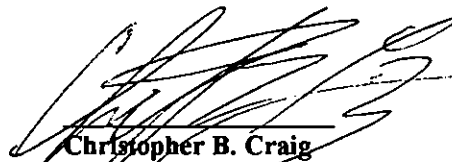
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