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September 14, 2012

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Filing Room
Harrisburg, PA 17120

RE: PPL Electric Utilities Corporation Supplement No. 118 to Tariff Electric PA PUC No. 201 (Rate Increase Filing); Docket No. R-2012-2290597; **REPLY BRIEF OF DOMINION RETAIL, INC.**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are the original and three (3) copies of the Reply Brief of Dominion Retail, Inc. d/b/a Dominion Energy Solutions in the above-captioned docket. Copies of the Reply Brief have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions related to this filing, please contact the undersigned.

Very truly yours,



Todd S. Stewart
Counsel for Dominion Retail, Inc.

TSS/alh
Enclosures

cc: ALJ Susan D Colwell, (via email and hand delivery)

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MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PPL Electric Utilities Corporation :
Supplement No. 118 to Tariff Electric : Docket No. R-2012-2290597
PA PUC No. 201 (Rate Increase Filing) :

REPLY BRIEF OF DOMINION RETAIL, INC.

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DATED: September 14, 2012

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I. INTRODUCTION

On or about March 30, 2012 PPL Electric Utilities Corporation (“PPL”) filed Supplement No. 118 Tariff Electric Pa. P.U.C. No. 201 (“Supplement No. 118”) with the Pennsylvania Public Utility Commission (“Commission”) in which it seeks approval of a rate increase in the total amount of approximately \$104.6 million in distribution rates to be effective for service rendered on or after June 1, 2012. Included as part of that request for a substantial rate increase, PPL proposed to increase its Purchase of Receivables (“POR”) discount from 1.8% to 2.23% for residential customers. PPL’s basis for this significant increase is its unsupported assertion that its uncollectables expenses have risen rapidly over the past year, and will continue to rise at the same levels into the future. That is, PPL’s proposed POR discount is based upon its projections of what the future may look like, not upon past results.

PPL’s projection of the future also includes an accounting adjustment which only serves to further increase the POR discount, amplifying the magnitude of its projections for increased uncollectables expense. This increase in the reserve, however, is only a paper expense, and is not actually incurred unless uncollectables expense increases. What this means is that PPL’s proposed POR discount is based upon guess and speculation rather than sound market analysis. Dominion’s witness, to the contrary, projected a reduction in uncollectables based upon the actual market price drop and increased ability of customers to pay.

Finally, PPL does not offset the uncollectables expense related to shopping customers with late payment fees that are paid by those customers. PPL’s witness does not dispute the fact that shopping customers do not cause PPL to incur cash working capital expense related to energy purchases, since PPL does not purchase energy supplies for those customers. However, that has not stopped PPL from using these late payment fees from shopping customers to offset

cash working capital costs generated solely by default service customers. The result is an effective subsidy of default service by shopping customers.

Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) and others have argued that this subsidy should be ended and that those late payment fee revenues should be used to offset any increase in the POR discount charge to shopping customers.

II. SUMMARY OF THE REPLY ARGUMENT

PPL has proposed a residential POR discount of 2.23% and a small C&I customer class POR discount of .23% (PPL Main Brief, pp. 185 – 186). PPL argues first that its POR program is voluntary and therefore the Commission “cannot make PPL offer a POR program and EGS’ are not required to participate in the program.” (PPL Main Brief, pp. 186). Its contention is belied by the fact that PPL’s requirements for EGS’ operating on its system are that if an EGS wishes to employ PPL’s consolidated billing option, it must sell all of its accounts receivable for which it is using consolidated billing to PPL. That is, while the program may be “voluntary”, suppliers wishing to avail themselves of the option of consolidated billing must use the service and pay the POR discount, therefore making it significantly less voluntary than PPL otherwise implies.

PPL also assails DES’ contention that it incorrectly calculated the amount of its actual write-offs for 2011 and 2012. (PPL Main Brief, pp. 186-7). Contrary to PPL’s argument, there is no mistake that PPL’s un-collectable’s expense inexplicably has increased by more than twenty-five percent (25%) from 2010 to 2012 while its reported allowance for doubtful accounts has remained at approximately the same at approximately \$17 million. (Dominion Retail Statement No. 1 “DR St. No. 1”, 5:9). Moreover, PPL cannot refute the fact that the level of uncollectable expense that it used as the basis for the 2.23% residential POR discount in this case is based

upon projections of 2012 uncollectables (PPL Statement No. 8-R, 44:3-4), which, according to DES' witness, are not accurate. (DR St. No. 1, 5:9-21). The use of projections does not end there, however. The proposed POR discount also based upon a change in reserve in the amount of nearly \$3 million, which alone is responsible for 7.89% of the increase. (DR St. No. 1, 5:9-6:14). These projected significant increases over the prior actual year's balances substantially inflate the POR discount above what the otherwise might be, as revealed in the record. (DR St. No. 1, 5:2-5; DR St. No. 1-SR, 3:13-4:4).

Finally, PPL cannot refute the suggestion that it be required to offset increases in POR discounts for shopping customers with late payment fees provided to the company for those same customers, because PPL admits that shopping customers do not contribute to its cash working capital needs for default service energy purchases, which are the alleged basis for the offset of those fees and which currently are a subsidy to default service customers. (DR St. No. 1-SR, 3:8-2:2).

Accordingly, DES believes that PPL's proposals are unreasonable and must be rejected.

- III. RATE BASE – N/A
 - A. FAIR VALUE – N/A
 - B. PLANT IN SERVICE – N/A
 - C. DEPRECIATION RESERVE – N/A
 - D. ADDITIONS TO RATE BASE – N/A
 - E. DEDUCTIONS FROM RATE BASE – N/A
- IV. REVENUES – N/A
 - A. MISCELLANEOUS REVENUES, RECONNECT FEES – N/A
- V. EXPENSES – N/A
 - A. CAP – N/A
 - B. CONSUMER EDUCATION – N/A
- VI. TAXES – N/A
- VII. RATE OF RETURN – N/A

- VIII. RATE STRUCTURE – N/A
 - A. COST OF SERVICE STUDY – N/A
 - 1. Introduction
 - 2. Parties’ Positions
 - B. REVENUE ALLOCATION – N/A
 - 1. Introduction
 - 2. Parties’ Positions
 - 3. Scale Back
 - C. TARIFF STRUCTURE – N/A
 - 1. Rate Design
 - a) *Parties’ Positions*
 - 2. Customer Charge
 - a) *Residential Customer Charge*
 - b) *Non-Residential Customer Charge*
 - 3. Elimination of Rate Schedule RTD
 - 4. Other Issues (If needed)
 - D. TARIFF RULES AND RIDERS – N/A
 - 1. Introduction
 - 2. Net Metering
 - 3. Other Tariff Rules and Riders (If needed)
 - E. SUMMARY AND ALTERNATIVES – N/A

IX. MISCELLANEOUS ISSUES

A. PURCHASE OF RECEIVABLES – PPL’s CLAIMS REGARDING ITS PROPOSED FOR DISCOUNT ARE MISLEADING AND MUST BE REJECTED

1. PPL’s POR program is not completely “voluntary.”

PPL contends in its Main Brief (p.183) that its POR program is voluntary and therefore implies that the Commission cannot impose any requirements on PPL with regard to the POR program. PPL goes on to argue that suppliers can either “take it or leave it” with regard to the POR program, since it is “voluntary” for them as well. Neither of these contentions is accurate. The Commission clearly has the authority to rule in the justness and reasonableness of any rates, including a POR discount, charged by PPL. 66 Pa. C.S. § 1301. Moreover, PPL’s requirements for the POR program for suppliers serving residential customers require that if an EGS has even one customer in PPL’s consolidated billing, the EGS must all of its residential customers in the POR program. Accordingly, the program is not quite so voluntary as PPL otherwise contends,

which results in the vast majority of customers being billed under PPL's POR program, and which would result in an windfall to the company under the rate proposed in this case.

2. PPL's proposed POR rates are not supported by its baseless arguments.

DES' witness, Mr. Butler, contended that PPL apparently does not believe that its uncollectables are significantly increasing, because its allowance for doubtful accounts in various filings has remained virtually unchanged for the past several years. (DR St. No. 1-SR, 3:13-4:4). Mr. Butler's contention is that if PPL's actual uncollectables expense levels were rising at the rate, twenty-five percent (25%), projected in this filing, that PPL would almost certainly be inclined to increase the allowance for doubtful accounts in the public filings it makes with both the Securities and Exchange Commission and the Pennsylvania Public Utility Commission, which it did not do. (*Id.*, DR St. No. 1, 5:7-6:14). Accordingly, Mr. Butler raised concerns about the veracity of PPL's proposed increase. Not only is DES' witness skeptical because the proposed increase is based upon projections and over which PPL retains sole control, but because PPL's witness admitted that once the rates are set, they will stay that way and provide PPL with the opportunity to earn profit. (Transcript 409:22-410:8). Accordingly, Mr. Butler recommended that PPL's POR rates be based upon its actual uncollectables expense, either for the past year or an average of the past several years. (DR St. No. 1, 7:6-15). This would eliminate the undue influence of PPL's forward looking and self-serving projections.

Late payment fees associated with shopping customers should be used to offset the POR discount for those shopping customers. PPL argues, without merit, that late payment fees should be used to offset the cash working capital expense associated with its purchases of energy supply for non-shopping customers. (PPL Main Brief 188-9). This argument must fail. To continue the *status quo*, would continue a subsidy that should have been removed at the creation of the POR

program. (OSBA Statement No. 2, 11:24). PPL admits, that there are no cash working capital expenses associated with customers who shop because PPL does not buy energy supply for those customers. (PPL St. No. 8-RJ (II) 8:20-9:4). Nonetheless PPL contends that late payment fees paid by shopping customers, should continue to be used to subsidize shopping customers, and not be used to offset POR discounts. This position is untenable. (DR. St. No. 1-SR, 2:8-3:2). PPL should be required to use shopping customer late payment fees as an offset to increase the POR discount so that they receive a benefit from the fees they pay that is commensurate with the benefit default service customers receive from late payment fees they pay.

- B. CAP
- C. CONSUMER EDUCATION
- D. CER/RMI
- E. OTHER ISSUES (IF NEEDED)

X. CONCLUSION

PPL's proposed POR discount is neither just nor reasonable for all the reasons set forth herein and in DES' Main Brief and its Testimony in the record of this proceeding. PPL's POR discount should be based upon \$31 million of actual write-offs, not PPL's projections, and should also be further reduced by the late payment fee revenue generated by shopping customers.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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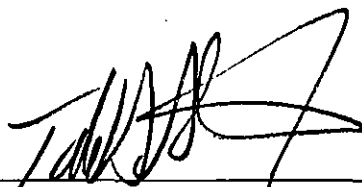
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