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November 8, 2012

**VIA ELECTRONIC FILING**

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; **EXCEPTIONS OF DOMINION RETAIL, INC. TO RECOMMENDED DECISION**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission is the original Exceptions of Dominion Retail, Inc. to Recommended Decision in the above-captioned docket. Copies of the Exceptions have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

Todd S. Stewart  
*Counsel for Dominion Retail, Inc.*

TSS/jld  
Enclosures

cc: Honorable Susan D Colwell (via email and first class mail)

## 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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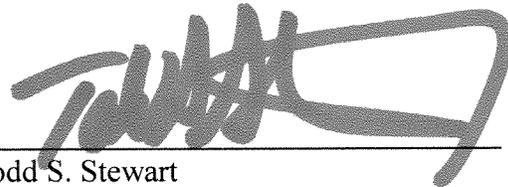
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Todd S. Stewart  
*Counsel for Dominion Retail, Inc.*

Date: November 8, 2012

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al	:	
	:	
v.	:	Docket Nos. R-2012-2290597 et seq.
	:	
PPL Electric Utilities Corporation	:	
	:	
(Supplement No. 118 to Tariff Electric	:	
PA PUC No. 201, Rate Increase Filing)	:	

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**EXCEPTIONS OF DOMINION RETAIL, INC.  
TO RECOMMENDED DECISION**

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AND NOW, comes Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) and hereby Excepts to the Recommended Decision (“RD”) of Presiding Administrative Law Judge Susan D. Colwell (“ALJ”) issued on October 19, 2012 in the above-captioned matter.

DES’s participation in this case has been focused on PPL Electric Utilities Corporation’s (“PPL”) request to substantially increase the purchase of receivables (“POR”) discount charged to Electric Generation Suppliers (“EGS”) such as DES, who participate in PPL’s consolidated billing program. PPL has proposed to increase the POR discount for residential accounts by 23.89%, and to increase the rate for small commercial accounts by 56.52%.

The POR discount is the amount by which PPL “discounts” or reduces payments to EGSs that participate in its consolidated billing program when it purchases their receivables. As a result, an increasing discount means less revenue for EGSs. The “discount” is intended to

compensate PPL for the risk of paying the EGSs before it has received payment from customers. The risk is that customers will not pay, which implicates the uncollectibles account expense factor, which has been the sole basis for setting POR discounts.<sup>1</sup>

The ALJ recommended not allowing PPL's proposed increase to the POR discount to go into effect until PPL can show that the discount is appropriate for shopping customers based upon their experienced uncollectibles expense. It appears therefore that the RD correctly denied the POR increase, at least temporarily. However, DES is concerned that the RD is ambiguous as to what rate applies in the interim and that the proposed mechanism may not provide dissenting parties with an adequate opportunity to test the basis of the adjustment or to have an adequate opportunity to be heard. Leaving the final POR discount rate to such an uncertain and potentially unfavorable process is not acceptable, but more importantly, is not necessary because the RD already concludes that the appropriate uncollectibles rate is 1.70%. (RD at 41-42). There does not appear to be any disagreement that the uncollectibles rate and the POR discount should be the same. Accordingly, the logical step should have been to simply set the POR discount at 1.70%, at least in the interim. DES asks the Commission to provide certainty as to what rate will apply and if there is to be a process to further adjust PPL's POR discount based upon actual experienced uncollectibles for shopping customers, that such process be defined in such a manner as to provide adequate due process protections.

While it is true that the Commission's Bureau of Investigation and Enforcement's ("I&E") uncollectibles rate of 1.7% that was accepted by the ALJ would reduce the POR discount to a level more consistent with that proposed by DES' witness, Mr. Butler, the RD does not even consider his argument that PPL has not proven the uncollectible expense levels upon which any increase would rely, and therefore, that PPL's requested increase should have been

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<sup>1</sup> PPL's over-all POR discount originally included an administrative charge, which PPL has proposed to eliminate.

denied outright. (DES' Main Brief, pp. 8-15). Moreover, and more troubling, the RD denies DES' position that as a matter of fundamental fairness and to avoid cross-subsidization, late payment fee revenue collected from shopping customers, should be offset against the actual uncollectible expenses that are the sole basis of the POR discount. This also is an error.

DES offers its specific Exceptions to the Recommended Decision below.

**Exception No. 1: The ALJ should have set the POR discount at the 1.7% uncollectibles rate she adopts for rate making purposes. (RD pp. 41-42; 129-133;142).**

At pages 41-42 of RD, the ALJ appropriately rejects PPL's proposed future test year uncollectibles account expense level of \$42,098,806,000.00, and instead adopts I&E's argument that the company should not be permitted to include a separate forecast (in the form of an allowance for doubtful accounts) within its future test year level of uncollectibles expense, which is itself a forecast. As a consequence, the ALJ concludes that I&E's proposed 1.7% uncollectible rate is "reasonable and recommended for approval." (RD at 42).

The ALJ also accepts the argument raised by at least one EGS that PPL be required to "take the next step and determine that amount [actual uncollectible expenses] for shoppers and to determine that amount for default customers, and to collect it accordingly." (RD at 143). The ALJ also concludes that "this proposed increase in the POR discount rate should be delayed until the company provides data indicating the proportions of uncollectibles attributable to default customers and to shopping customers, to support the proper discount rate." (RD at 133). The thrust of this approach is an effort to ensure that the POR discount is related to PPL's actual uncollectibles for shopping customers and is otherwise appropriate. It is not clear, however, what process would be used to set the rate, or what rate would apply in the interim, until such

new rate is established, assuming the Commission believes that it is appropriate to calculate a separate uncollectibles rate for shopping customers as the basis of the POR discount.

DES submits that the ALJ should have concluded that the 1.7% uncollectibles expense rate that she adopted for ratemaking purposes (RD at pp. 41-42), should be the same number as the POR discount. There is no real dispute in this case that the POR discount is the same as the uncollectibles rate. Moreover, the record is unambiguous that PPL currently does not track uncollectibles separately as between shopping and non-shopping customers. (Transcript at pp. 404-405). Accordingly, it does not appear likely that PPL would be in possession of historical data that would allow the immediate development of an appropriate uncollectable expense level, based on actual experience, for residential or commercial customers and which is differentiated as between shopping and non-shopping customers. Therefore, any PPL proposed differentiation would be speculation, at best, which is not permitted.

The more certain path would be to require PPL to implement a POR discount based upon an uncollectible expense rate of 1.7%, which the RD accepts as reasonable. The EGSs agree that any future change in the POR discount could reflect the differentiation in uncollectibles expense between shopping and non-shopping customers, but in order to accomplish that end, PPL first must be required to collect the data and there should be a defined process for reviewing any new rate based on that data. Until then, the POR discount should reflect the actual experienced uncollectable expense rate recommended for approval by the RD.

DES asks that the Commission affirm the ALJ's conclusion in the RD with regard to the uncollectibles rate, that POR discounts must be set based upon actual uncollectibles expense levels, and not projections of expense levels, nor should those expense levels include allowances for doubtful accounts or other such mechanisms which are entirely subjective and do not result in

actual costs. Accordingly, DES Excepts to the RD's failure to translate the uncollectibles expense rate into a corresponding POR discount of 1.70%. DES also Excepts to the ALJ's rejection of DES' proposed reduction to the POR discount based upon PPL's ambiguous and varied reporting of uncollectibles expenses in reports filed with the Commission and other agencies.

**Exception No. 2: The RD errs by rejecting DES's proposal that PPL be required to use late payment fee revenue to reduce the POR discount. (RD p. 134).**

The ALJ rejects DES and Direct Energy's proposal to further reduce the POR discount by offsetting uncollectibles expenses attributed to shopping customers with revenue gleaned from those same shopping customers who were assessed late payment fees. (RD at 134). Rather, the ALJ accepts, without much in the way of explanation, PPL's contention that late payment fees are used to reduce the overall distribution revenue requirement by offsetting the working capital requirements for *default service*. The RD also accepts PPL's incorrect assertion that using late payment fee revenue from shopping customers to offset the POR discount for shopping customers would result in double counting. This conclusion is contrary to the facts. PPL cannot and does not reasonably dispute the fact that applying late payment fee revenue from shopping customers to offset the cash working capital expense for default service results in a subsidy to default service, because those shopping customers do not contribute to the need for cash working capital for default service.

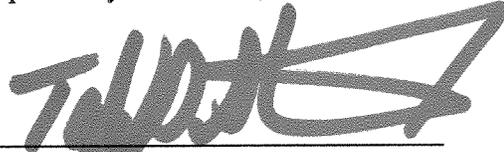
DES proposed a reasonable means of eliminating this unnecessary subsidization by using the late payment fee revenue (only from shopping customers) to offset uncollectibles expense of shopping customers, which will reduce the POR discount charged on the receivables of shopping customers. Under the methodology used today, shopping customers subsidize non-shopping or default service customers with every dollar of late payment fee revenue. This late payment fee

revenue for shopping customers should instead be used in a manner that provides at least some benefit to shopping customers, not an exclusive benefit to default service customers as it does today. Accordingly, the ALJ erred in accepting the company's argument and should be reversed on this point.

**CONCLUSION**

As discussed above, the ALJ erred by not translating directly and immediately the 1.7% uncollectibles expense rate proposed by I&E, into the POR discount for residential customers on the going forward basis. Likewise, the ALJ erred in not requiring the company to use late payment fee revenue generated from shopping customers to offset the POR discount even further for those customers, and to avoid the current subsidization that occurs with those revenues being used to offset the cash working capital expense for default service for default service customers. DES respectfully requests that its Exceptions be granted and that the RD be reversed and modified on these points.

Respectfully submitted,



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Dated: November 8, 2012