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File #: 2507/140056

September 10, 2009

BY HAND

James J. McNulty
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
PO Box 3265
Harrisburg, PA 17105-3265

**RE: Petition of PPL Electric Utilities Corporation Requesting Approval of a Voluntary Purchase of Accounts Receivables Program and Merchant Function Charge
Docket No. P-2009-**

Dear Secretary McNulty:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric" or the "Company") please find PPL Electric's Petition Requesting Approval of a Voluntary Purchase of Accounts Receivables Program and Merchant Function Charge. As indicated in the Petition, PPL Electric will file a *pro forma* tariff supplement necessary for implementing the Purchase of Receivables Program and Merchant Function Charge by September 17, 2009.

PPL Electric will be represented in this proceeding by the following counsel:

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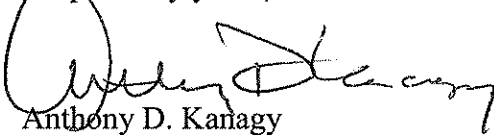
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PPL Electric's attorneys are authorized to receive all notices and communications regarding this Application.

If you have any questions regarding the enclosed filing, please call me at (717) 612-6034 or Paul E. Russell at (610) 774-4254.

Respectfully yours,



Anthony D. Kanagy

ADK/skr

Enclosures

cc: Honorable James H. Cawley
Honorable Tyrone J. Christy
Honorable Kim Pizzingrilli
Honorable Wayne E. Gardner
Honorable Robert F. Powelson
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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Date: September 10, 2009

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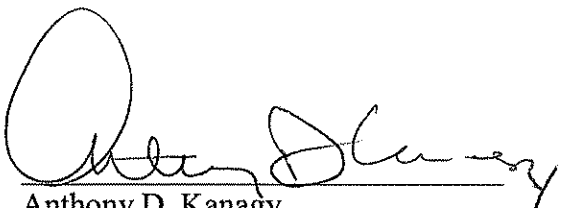
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Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation Requesting Approval of a :
Voluntary Purchase of Accounts : Docket No. P-2009-_____
Receivables Program and Merchant :
Function Charge :

**Petition of PPL Electric Utilities Corporation Requesting
Approval of a Voluntary Purchase of Accounts Receivables
Program and Merchant Function Charge**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby files this Petition, pursuant to 52 Pa. Code § 5.41(a), requesting that the Pennsylvania Public Utility Commission (“Commission”): (1) approve a voluntary purchase of accounts receivables (“POR”) program, (2) approve a Merchant Function Charge (“MFC”) by which PPL Electric proposes to unbundle generation related uncollectible accounts expense from base rates, and (3) authorize PPL Electric to file a tariff supplement containing the provisions described herein for implementing the POR and MFC and reducing base rates to account for the MFC.

Given the schedule for preparing this filing, PPL Electric has not had adequate time to finalize its tariff supplement for implementing the POR program and MFC. In addition, PPL Electric is finalizing the calculation of its POR program discount percentage and MFC percentage. PPL Electric will file a *pro forma* tariff supplement, which will include the POR discount percentage and MFC percentage, by September 17, 2009, at this docket for Commission approval. PPL Electric notes that in its Order at Docket No. M-2009-2104271, the Commission

directed PPL Electric to file tariff supplements necessary to implement the terms of the Order by September 10, 2009. *PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271 (“Retail Markets Order”). PPL Electric believes that this Petition satisfies the basic requirements of the Retail Markets Order because it sets forth the primary terms and conditions of the Company’s proposed POR program and the *pro forma* tariff supplement will incorporate the POR and MFC provisions discussed herein.

As explained below, PPL Electric proposes to limit the terms of the POR and MFC requested by this Petition to a one-year period beginning January 1, 2010 and ending December 31, 2010. Under the settlement of PPL Electric’s default service plan proceeding at Docket No. P-2008-2060309, the Company is required to file a POR program as part of its next distribution rate case. In the absence of a rate case filing with an effective date of January 1, 2011, PPL Electric is required to file, by July 1, 2010, a stand-alone POR plan, to be effective on January 1, 2011. The POLR II Settlement also provides that PPL Electric will conduct at least three stakeholder meetings to discuss the provisions of that POR program. By limiting the term of this POR program to Calendar Year 2010, PPL Electric will be able to comply with the conditions that it agreed to under the POLR II Settlement, which was approved by the Commission in its Order entered on June 30, 2009, for a POR program beginning January 1, 2011.¹

I. INTRODUCTION AND BACKGROUND

1. PPL Electric provides electric distribution, transmission and provider of last resort services to approximately 1.4 million customers in a certificated service territory that spans approximately 10,000 square miles in all or portions of 29 counties in eastern and central

¹ PPL Electric notes that it is voluntarily filing a POR program in response to the Commission’s Retail Markets Order. As a voluntary proposal, PPL Electric retains the right to withdraw the proposal if modified by the Commission. Therefore, PPL Electric does not consider the Retail Markets Order a final order subject to judicial review.

Pennsylvania. PPL Electric is a “public utility” and an EDC as those terms are defined under the Public Utility Code, 66 Pa. C.S. §§ 102 and 2803.

2. On January 1, 1997, the Electricity Generation Customer Choice and Competition Act (“Competition Act”) became effective.² The Competition Act deregulated the generation of electricity, allowed EDCs to recover their stranded costs over a transition period, established caps on rates charged by EDCs during that transition period and created the framework for a competitive retail market under which customers can purchase generation supplies from electricity generation suppliers (“EGSs”).

3. To implement these changes, the Competition Act required all EDCs in Pennsylvania to file restructuring plans with the Commission. On April 1, 1997, PPL Electric’s predecessor, Pennsylvania Power & Light Company, filed a comprehensive restructuring plan with the Commission. After extensive litigation, the Company and almost all active parties reached a settlement of that case (“Restructuring Settlement”). By Order entered August 27, 1998, the Commission approved the Restructuring Settlement. *Application of Pennsylvania Power & Light Company for Approval of Its Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket No. R-00973954.

4. Among other things, the Restructuring Settlement extended PPL Electric’s statutory generation rate cap from the end of 2005 to the end of 2009.

5. The Restructuring Settlement also included a *de facto* POR program for EGSs offering retail supply in PPL Electric’s service area and using consolidated EDC billing. PPL Electric’s current POR program is set forth in its Supplier Tariff. Under that program, PPL Electric pays an EGS the entire amount for undisputed EGS charges, regardless of whether or not

² 66 Pa.C.S. Chapter 28.

the customer has paid the Company for up to a three-month period. Currently, PPL Electric cannot terminate service to a customer for failure to pay the EGS portion of its bill. In addition, PPL Electric cannot terminate consolidated EDC billing unless a customer is in arrears for 90 days or three billing cycles, whichever is shorter. Tariff-Electric Pa. P.U.C. No. 1S, Page No. 73. At that point, the EGS, after having received three months of payments at a zero discount, becomes responsible for billing its own charges, and may terminate EGS service if the customer fails to pay its bills. This program provides a substantial benefit to EGSs because it guarantees that they will receive payment for supply for up to three months even if customers do not pay EGS charges appearing on PPL Electric's bill. The program also limits PPL Electric's exposure to unpaid EGS charges to the three-month period.

6. On August 2, 2006, PPL Electric filed a Competitive Bridge Plan ("CBP") to procure default supply for 2010, which was described as a "bridge" year, because PPL Electric's generation rate cap expires one year before the generation rate caps for most other major Pennsylvania EDCs. After extensive review and certain modifications addressing issues raised by other parties, the Commission approved a revised CBP by Order entered May 17, 2007, at Docket No. P-00062227. PPL Electric notes that no party to the CBP proceeding proposed that PPL Electric implement a POR program.

7. On August 28, 2008, the Company filed a Petition for Approval of a Default Service Program and Procurement Plan for the Period January 1, 2011 through May 31, 2014 ("POLR II Plan"). The Company subsequently amended its POLR II Plan to end on May 31, 2013.

8. On March 11, 2009, the Company filed a settlement of the POLR II proceeding ("POLR II Settlement"). The POLR II Settlement resolved all but two issues in the POLR II

proceeding, which were related to default service for the National Railroad Passenger Corporation (“Amtrak”) and a controversy over certain provisions of the Supply Master Agreements.

9. During the POLR II proceeding, certain parties proposed that PPL Electric adopt a POR program to be effective on January 1, 2010. Other parties responded, objecting to the timing and design elements of the proposal. In order to reach a compromise on this issue, under the POLR II Settlement, PPL Electric agreed to file a voluntary POR plan as part of its next distribution rate case. In the absence of a rate case filing with an effective date of January 1, 2011, PPL Electric agreed to file, by July 1, 2010, a stand-alone POR plan to become effective on January 1, 2011. All parties reserved the right to challenge the design aspects of the proposed POR, in order to preserve their arguments presented in the POLR II proceeding.

10. On May 15, 2009, the Commission issued a Tentative Order identifying specific actions PPL Electric could take to reduce potential barriers to competition in the Company’s service territory. *PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271. One of the actions identified by the Commission was the filing of a POR program by September 10, 2009, to become effective on January 1, 2010.

11. In the Tentative Order, the Commission noted that it recently had issued proposed regulations for voluntary POR programs in the natural gas industry. *Natural Gas Distribution Companies and the Promotion of Competitive Retail Markets*, Docket No. L-2008-2069114, Proposed Rulemaking Order entered on March 27, 2009 (“Natural Gas Rulemaking Order”), 52 Pa. Code § 62.224. The Commission further indicated that PPL Electric should use the proposed regulations as a template, with the following differences:

- a. There should be little or no discount in the purchase of receivables, and the POR program should not become a

mechanism in which PPL makes or loses money. Tentative Order, p. 15.

- b. PPL should not revert to separate billing when an arrearage exceeds 90 days, and PPL will retain the ability to terminate customers for non-payment. Tentative Order, p. 15.
- c. PPL should not require an EGS to sell its all accounts receivables or none at all. Tentative Order, p. 15
- d. An EGS can bill only for basic supply service through a POR program. Tentative Order, p. 15.

12. The Tentative Order also provided that parties could file comments in response to that Order within 30 days of publication in the Pennsylvania Bulletin.

13. On June 30, 2009, the Commission approved the POLR II Settlement.

14. On July 6, 2009, PPL Electric filed comments in response to the Tentative Order.

In its comments, PPL Electric, *inter alia*, noted that the Company currently provides a *de facto* POR program and further noted that some of the details of the Tentative Order appeared to conflict with the POR provisions agreed to by the parties to PPL Electric's POLR II Settlement.

15. On August 11, 2009, the Commission issued its Retail Markets Order which addressed the comments filed in response to the Tentative Order. In the Retail Markets Order, the Commission concluded that one action to encourage development of competition in PPL Electric's service area was the filing of a POR program within 30 days after entry of the Order.

16. Consistent with the Commission's Retail Market Order, PPL Electric is filing a voluntary POR program for 2010.³ PPL Electric notes that it is proposing certain program designs that go beyond the guidelines set forth in the Commission's Tentative Order. PPL Electric believes that these program design modifications are essential to avoid an unacceptably

³ As stated above, PPL Electric will propose a POR program to become effective on January 1, 2011 pursuant to the terms of its POLR II Settlement.

high level of uncollectible accounts expense that PPL Electric and, ultimately, electric customers in its service territory will pay for EGS' accounts receivables. Such modifications are essential to achieve the Commission's program design goal that the POR program not cause PPL Electric to lose money.

17. In addition, in response to comments from both the Commission and parties in the Retail Market proceeding, PPL Electric is proposing to unbundle its default service generation related uncollectible accounts expense from base rates and collect it through a MFC. PPL Electric is proposing to implement the MFC so that EGSs which choose not to participate in the POR program (by not electing consolidated EDC billing) will have the opportunity to include uncollectible costs in competitive generation supply offerings, without having their customers incur the "double" expense of generation-related uncollectible accounts expense embedded in base rates. PPL Electric further proposes that the MFC be applied to default service generation rates and included in the Price to Compare ("PTC") to address parties' concerns that it is unfair for PPL Electric to recover generation-related uncollectible accounts expense in distribution base rates. The MFC percentage also will be used to set the POR discount rate.

II. DISCUSSION

A. Proposed POR Regulations

18. As noted above, the Commission has proposed POR regulations for NGDCs in Pennsylvania. The basic POR program design components included in the proposed regulations are summarized below:

- a. An NGDC may purchase receivables associated with natural gas supply service and may not purchase other receivables. Proposed 52 Pa. Code § 62.224(a)(2).
- b. An NGDC may voluntarily purchase receivables at a discount to recover incremental POR program development, implementation and administration costs. Proposed 52 Pa. Code § 62.224(a)(3).

- c. An NGDC shall negotiate the discount rate with NGSs. Proposed 52 Pa. Code § 62.224(a)(4).
- d. POR programs must include only receivables on residential and small business customer accounts. Proposed 52 Pa. Code § 62.224(a)(5).
- e. The NGDC may terminate service to customers for failure to pay NGS supply charges. Proposed 52 Pa. Code § 62.224(a)(6).
- f. A POR program shall be designed and implemented in accordance with the Commission's standards of conduct at 52 Pa. Code §§ 62.141 and 62.142. Proposed 52 Pa. Code § 62.224(a)(7).
- g. A POR program shall be included in a supplier coordination tariff. Proposed 52 Pa. Code § 62.224(a)(8).
- h. An NGDC may include the difference between its cost of purchased receivables and the amounts it has actually collected as part of its uncollectible expense in its next base rate case when it agrees to share with its customers the losses or gains associated with POR program collections. Proposed 52 Pa. Code § 62.224(a)(9).
- i. The NGDC shall track its POR program purchases and collections. Proposed 52 Pa. Code § 62.224(a)(10).

19. PPL Electric's POR program, which is described below, is based substantially upon the Commission's Retail Markets Order and its proposed POR program design components for NGDCs.⁴

B. PPL Electric's POR Program

1. Program Availability

20. PPL Electric's proposed POR program and MFC are described below. As explained above, PPL Electric will file, by September 17, 2009, *pro forma* tariff sheets for

⁴ The proposed POR regulations provide that the POR rate should be negotiated with NGSs. Proposed 52 Pa. Code § 62.224(4). Given the schedule for filing this Petition, PPL Electric has not had adequate time to attempt to negotiate the discount rate with EGSs. However, by setting the discount equal to the MFC percentage, PPL Electric will establish a fair, competitively neutral and cost neutral process for discounting purchased receivables for uncollectible accounts expense.

implementing the POR program and MFC. In addition, the *pro forma* tariff sheets will modify PPL Electric's Supplier Tariff to remove the 90-day POR billing provision discussed above.

21. PPL Electric's POR program and MFC will apply to the following residential and small commercial and industrial customer classes: those residential customers who take service under Rate Schedules RS, RTS(R), RTD(R), and those small commercial and industrial customers who take service under Rate Schedules GS-1, GS-3, GH-1(R), GH-2(R), IS-1(R), BL, SA, SM(R), SHS, SE, TS(R) and SI-1(R), and standby service for the foregoing rate schedules. In addition, the POR program will be applicable only for basic generation supply services provided by EGSs.

22. Participating EGSs will be required to certify that purchased receivables are associated with basic electric supply services and do not include charges for other products or services.

2. POR Discount

23. Under the POR program, the Company will purchase EGS accounts receivables at a discount from standard EGS supply charges. See Proposed 52 Pa. Code § 62.224(3). The discount will be different for residential and non-residential customers.

24. The discount rates are composed of two components: (1) uncollectible accounts expense percentage factor (which will equal the MFC), and (2) POR development, implementation and administration percentage factor.

25. As explained above, given the time constraints in preparing this filing, PPL Electric is finalizing the calculation of its POR discount and MFC percentages. The above-indicated Uncollectible Accounts Expense/MFC percentages will equal the uncollectible accounts expense percentages for residential and small commercial and industrial customers reflected in PPL Electric's most recent base rate proceeding at Docket No. R-00072155. PPL

Electric notes that its prior base rate proceeding was settled, and the overall revenue amount was established as a “black box” number. However, the Company believes that these percentages are the appropriate discount values to use because they are based on the Company’s actual historical experience and reasonably reflect the amount of uncollectible accounts expense included in the Company’s rates.

26. The Commission’s proposed POR regulations for the natural gas industry specifically provide that NGDCs may recover POR program development, implementation and administration costs through the POR discount. See Proposed 52 Pa. Code § 62.224. The Company will include its POR program development, implementation, and administration costs in the POR discount percentage. Because PPL Electric will incur these costs to develop, implement and administer its entire POR program, those costs should be recovered on a pro rata basis from all participating EGSs. PPL Electric will provide an estimate of these costs with support for that estimate in its *pro forma* tariff supplement filing by September 17, 2009.

27. In the Commission’s proposed POR regulations for NGDCs, an NGDC may include any difference between its cost of purchased receivables and amounts actually collected as part of its uncollectible accounts expense in its next base rate case. Proposed 52 Pa. Code § 62.224(a)(9). Pursuant to this proposed regulation, PPL Electric may propose to include any difference in purchased receivables and receivables actually collected in its next base rate case and recover or credit this difference to customers.

28. In the Retail Markets Order, the Commission stated that “any discount in the purchase of receivables should, as much as possible, reflect only the Company’s actual expenses”. Retail Market Order, p. 29. The Company believes that its proposed POR program fully complies with this directive. As explained below, PPL Electric proposes to unbundle

generation related uncollectible accounts expense from distribution base rates and recover the uncollectible accounts expense associated with generation supply to default service customers through a MFC. For each of the two eligible customer classes, the MFC will equal the Uncollectible Accounts Percentage in the discount rate and will reflect the Company's actual uncollectible accounts expense percentage from its most recent base rate proceeding.

29. In addition, the only other discount that PPL Electric proposes to charge will be a percentage that is designed to recover its administrative costs from each of the two eligible customer classes, which is consistent with the Commission's proposed POR regulations and the Tentative Order.

30. As noted above, PPL Electric intends to propose a POR program to become effective on January 1, 2011 in the Company's next base rate proceeding.⁵ In that proceeding, parties will be able to investigate both the Company's uncollectible accounts expense and the POR program administrative costs for any future POR program.

3. Selling Selective Accounts Receivables

31. In its Tentative Order, the Commission stated that PPL Electric should not require an EGS to sell all of its accounts receivable or none at all. Tentative Order, p. 15. PPL Electric respectfully requests that the Commission modify this aspect of its POR program guidelines.

32. Allowing a participating EGS to selectively choose which accounts receivables to sell to PPL Electric has the potential to increase significantly the uncollectible accounts expense percentage. If an EGS is allowed to select which accounts receivables it can sell, the EGS may have a financial incentive to sell only its accounts receivables from low-income customers, customers with low credit scores or other indicia of poor payment prospects. The uncollectible

⁵ If PPL Electric does not file a base rate proceeding early next year, the Company will file the POR program in a separate proceeding.

accounts expense percentages from these customers obviously will be significantly higher than the uncollectible accounts expense percentages from other customers. For example, as of August 31, 2009, 82% of PPL Electric's residential overdue accounts receivables were from Level 1 customers (150% of the Federal Poverty Level ("FPL")) and Level 2 customers (151-250% FPL). In addition, the Company's records show that 90% of the residential customers currently in the collection process are low-income customers. However, PPL Electric's records also indicate that only 18% of the Company's residential customers are low-income customers.

33. Based upon this evaluation, if an EGS selectively sold only its accounts receivables from low-income customers, PPL Electric would incur substantially higher uncollectible accounts expense, on a percentage basis, from this EGS. These higher costs are not factored into the average uncollectible accounts expense percentage and, therefore, PPL Electric would need to recover these additional costs from either its customers or other EGSs. Neither of these options are fair alternatives.

34. To eliminate the financial incentive for an EGS to sell only its highest risk accounts receivables, PPL Electric proposes to require participating EGSs to sell all of their accounts receivables to PPL Electric. PPL Electric notes that this is consistent with many of the POR programs that have been recently filed with the Commission and are pending Commission approval.

35. If the Commission does not approve this aspect of PPL Electric's proposed POR program, then it is imperative that the Commission establish a separate discount rate for EGSs that do not sell all of their accounts receivables to the Company. To address this possibility, PPL Electric will propose a separate discount rate in its September 17, 2009, *pro forma* tariff filing. In the event that a particular EGS's uncollectible accounts expense rate exceeds this percentage,

PPL Electric also reserves the right to collect any difference from the EGS on a dollar for dollar basis and adjust the discount rate on a prospective basis.

36. PPL Electric notes that Duquesne Light Company's ("Duquesne") POR program contains a provision that allows Duquesne to adjust the purchase price discount for individual EGSs in the event that an EGS is engaging in unusual business behavior which increases the uncollectible accounts expense percentage above a set threshold. See Duquesne Tariff Supplement No. 7 to Electric Pa. P.U.C. No. 3S, Original Page No. 30B.

37. As explained above, PPL Electric strongly prefers a POR program that requires participating EGSs to sell all accounts receivables for the applicable customer classes. However, if the Commission does not approve this provision, it is critical that the Commission allow PPL Electric to establish a discount rate that reflects its risk and further allow PPL Electric to bill individual EGSs for their uncollectibles that exceed this discount rate. Otherwise, if PPL Electric cannot recover all of the costs associated with EGSs selectively selling high risk accounts from the Company's customers or other EGSs, PPL Electric potentially could lose money as a result of implementing the POR program. This is inconsistent with the Commission's directives in both the Tentative Order and Retail Markets Order. Tentative Order, p. 15; Retail Markets Order, p. 29.

38. PPL Electric further notes that, if the Commission allows EGSs to selectively sell their accounts receivables to the Company, this approach will create substantial additional administrative costs that will need to be recovered from EGSs. PPL Electric will be required to program a second set of discount rates for both residential and small commercial and industrial customers. In addition, each account served by an EGS will need to be marked to identify whether it is part of the POR program or not. This programming will be complex and

challenging in the limited amount of time remaining between the date when the POR program is approved and January 1, 2010. Moreover, this option would require the Commission's Electronic Data Exchange Working Group to modify one or more of its standard electronic data interchange transactions to include this information and would require EGSs to revise their programming to either use or ignore the modifications.

39. Given the limited amount of time that will be available for PPL Electric to implement the POR program prior to January 1, 2010, the fact the this POR program is limited to a one-year term, the significant potential increase in that uncollectible accounts expense percentage rate, and the associated complications, PPL Electric does not believe that it is appropriate to allow EGSs to sell only selective accounts receivables to PPL Electric under this POR program. PPL Electric will commit to evaluate this option for its POR program beginning January 1, 2011.

4. Consolidated EDC Billing

40. PPL Electric proposes that in order to be eligible to participate in the POR program, EGSs also must elect consolidated EDC billing. PPL Electric should not be required, under any circumstances, to pay for receivables associated with amounts that have been billed by another entity. Under such an approach, PPL Electric would have no control over revenues received and could be in the position of terminating service for purchased receivables that, in fact, have been paid. PPL Electric believes that this result would not be appropriate. In addition, allowing EGSs to participate in the POR program, which do not elect consolidated EDC billing, will require programming changes that may not be completed between the date when the Commission approves the POR program and January 1, 2010.

41. PPL Electric also proposes to require all EGSs that choose consolidated EDC billing must also participate in the POR program. Similar to the earlier discussion regarding the

option of using different discount rates, permitting some EGSs to participate and others to not participate would require programming changes to standard transactions, the Company's billing system, and EGS' billing system that are not likely to be completed in time to permit January 1, 2010 implementation. PPL Electric will commit to evaluate this option for its POR program beginning January 1, 2011.

42. PPL Electric is not proposing to change the provisions of its Supplier Tariff regarding consolidated EDC billing other than removing the 90-day POR provision discussed above. The *pro forma* tariff supplement required to make that change will be filed by September 17, 2009.

5. Credit Issues

43. Under the POR program, PPL Electric proposes that participating EGSs must accept all applicable customers without performing credit checks or requiring additional deposits. Because participating EGS' receivables will be purchased by the Company, those EGSs will not be exposed to non-payment risks. PPL Electric notes that this is a common feature of POR programs that have been filed with the Commission.

6. Termination of Customers

44. Under its proposed POR program, PPL Electric requests the right to terminate service for non-payment of EGS generation charges, even to the extent that those charges may exceed default service rates. The Company also requests the right to require full payment for reconnection, subject to Chapter 14 of the Public Utility Code and Chapter 56 of the Commission's regulations.

45. Absent a right to terminate for non-payment of EGS charges, PPL Electric would have to build in a substantial discount to protect against losses from customers who take, but do not pay for, EGS supply.

46. It has been proposed by the OCA in other proceedings that termination rights should be limited to only the level of default service charges (i.e., the PTC). It is not practical or feasible for the Company to limit termination and reconnection to default service charges. The Company's billing software is not capable of performing this function, which would require not only the tracking and allocation of payments, but "shadow" calculations of what the default charge would have been and the difference. In addition, the cost to implement such a system is expected to be significant, although extremely difficult to estimate precisely at this time based upon the complexities that are involved. Furthermore, the Company would have to build in an additional discount or have a right to charge back to EGSs for non-payment of charges above the PTC.

47. Upon Commission approval of this POR program, PPL Electric will inform all customers that service may be terminated for failure to pay EGS supply charges through an article in Connect, the Company's newsletter included with each monthly bill.

48. In addition, PPL Electric will amend its enrollment letter issued at the time of selection of an EGS to inform customers that service may be terminated for failure to pay EGS supply charges, consistent with the proposed POR regulations for NGDCs at 52 Pa. Code § 62.224(b).

C. Uncollectible Accounts Expense Unbundling Through the MFC

49. PPL Electric currently recovers all of its uncollectible accounts expense through its distribution rates. One of the primary comments of EGSs and the Commission in the Retail Markets proceeding was that the bundling of uncollectible accounts expense creates a competitive disadvantage for EGSs. See, e.g., RESA Comments, p. 17; FirstEnergy Solutions Corp. Comments, p. 6; Retail Markets Order, pp. 28-29. In response to these comments, PPL

Electric proposes to unbundle from its distribution base rates the uncollectible accounts expense associated with generation supply.⁶

50. Under its unbundling proposal, PPL Electric will continue to recover uncollectible accounts expense associated with non-generation supply-related delivery service through distribution rates. Uncollectible accounts expense associated with generation supply for default service customers will be separated from the Company's distribution rates and recovered through the MFC. PPL Electric will include the MFC in its PTC.

51. PPL Electric's proposed MFCs for residential and small commercial and industrial customers will be based on the uncollectible accounts expense percentages that were filed in PPL Electric's most recent base rate proceeding at Docket No. R-00072155.

52. PPL Electric will reduce its distribution rates for residential accounts and small commercial and industrial accounts by the amount that was reflected in the Company's rate case for generation-related uncollectible accounts expense. These reductions will be contained in the compliance tariff supplement that PPL Electric will file with the Commission after approval of its proposed POR plan and MFC.

53. For each of the two eligible customer classes, the MFC will equal the uncollectible accounts expense percentage included in the discount percentage under the POR program. As noted above, the POR program proposed in this filing will be in effect for only a one-year period (Calendar Year 2010), and PPL Electric will propose a POR program to become effective on January 1, 2011 under the terms of its POLR II Settlement. Therefore, PPL Electric also is proposing that the MFC be effective only for Calendar Year 2010. In its next distribution base rate proceeding, or next POR filing, PPL Electric may propose to continue the MFC, based

⁶ These costs include default service generation uncollectible accounts expense and related transmission uncollectible accounts expense.

upon updated uncollectible accounts expense experience, and parties will have the opportunity to examine the new MFC in that proceeding.

54. PPL Electric notes that the Commission has approved MFCs for several utilities, including Columbia Gas of Pennsylvania, UGI Penn Natural Gas, Inc. and Central Penn Gas, Inc.

55. PPL Electric believes that it is in the public interest for the Commission to approve the MFC in conjunction with the POR program because it will give EGSs that choose not to participate in the POR program the opportunity to include uncollectible costs in their competitive supply prices.

III. CONCLUSION

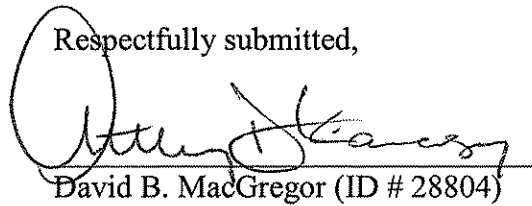
56. PPL Electric Utilities Corporation believes that its proposed POR program and MFC are consistent with the Pennsylvania Public Utility Commission’s goal of reducing barriers to competition that was set forth in the Retail Markets Order.

57. The Company requests that the Pennsylvania Public Utility Commission approve the POR program and MFC without modification and allow the Company to submit the *pro forma* tariff supplement that will be filed on September 17, 2009, to become effective on January 1, 2010.

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