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File #: 2507/140056

November 6, 2009

BY HAND

James J. McNulty  
Secretary  
PA Public Utility Commission  
Commonwealth Keystone Building  
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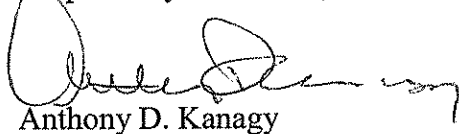
**RE: Petition of PPL Electric Utilities Corporation Requesting Approval of a Voluntary Purchase of Accounts Receivables Program and Merchant Function Charge  
Docket No. P-2009-2129502**

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Dear Secretary McNulty:

Enclosed for filing please find the Statement in Support of PPL Electric Utilities Corporation to the Joint Petition for Settlement in the above-referenced proceeding. Copies are also being provided as indicated on the certificate of service.

Respectfully Submitted,



Anthony D. Kanagy

ADK/skr

Enclosures

cc: Honorable Louis G. Cocheres  
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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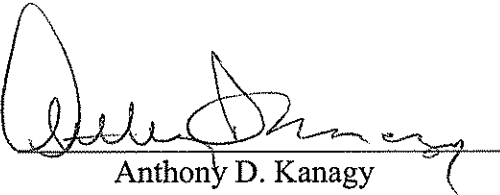
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Date: November 6, 2009



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-2009-2129502  
Receivables Program and Merchant :  
Function Charge :

**PPL ELECTRIC UTILITIES CORPORATION  
STATEMENT IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby submits this Statement in Support of the Joint Petition for Settlement (“Settlement”) filed on October 30, 2009 in the above-captioned proceeding. The Settlement is joined in, or is not opposed by, all parties to the proceeding (collectively, the signatory parties are referred to as the “Parties” or “Joint Petitioners”).<sup>1</sup> As explained below, PPL Electric believes that the Settlement, which resolves all but two issues in this proceeding, is in the best interest of its customers and should be approved.

**I. PROCEDURAL HISTORY OF DOCKET NO. P-2009-2129502**

On September 10, 2009, the Company filed its Petition Requesting Approval of a Voluntary Purchase of Accounts Receivables Program and Merchant Function Charge (“POR Petition”). In the POR Petition, the Company requested Commission approval of a voluntary purchase of receivables program (“POR Program”) and approval to unbundle its

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<sup>1</sup> The Joint Petitioners are PPL Electric, the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), the Retail Energy Supply Association (“RESA”), Dominion Retail, Inc. (“Dominion”), Direct Energy Services, LLC (“Direct”), FirstEnergy Solutions Corp. (“FES”), and Constellation New Energy (“Constellation”). The Pennsylvania Public Utility Commission’s (“Commission”) Office of Trial Staff and the PP&L Industrial Customer Alliance have indicated that they do not oppose the Settlement.

generation-related uncollectible accounts expense from base rates and recover such expense through a Merchant Function Charge (“MFC”).

On October 7, 2009, a Prehearing Conference was held before Administrative Law Judge Louis G. Cocheres (the “ALJ”). Following the submission of direct testimony by PPL Electric, OCA, RESA and Dominion, an evidentiary hearing was held on October 22, 2009, at which time the prefiled written testimony and exhibits were admitted into the record, and various witnesses presented oral rebuttal testimony and were cross-examined. The Joint Petitioners held multiple settlement conferences over the course of the proceeding. As a result of those conferences, a settlement in principle of all but two issues was achieved by the Joint Petitioners subsequent to the conclusion of the hearings, but prior to the submission of Main and Reply Briefs. All issues related to termination/reconnection of residential customers for non-payment of Electric Generation Supplier (“EGS”) charges and issues regarding the definition of “basic supply services” are reserved for litigation. The Parties have submitted Main and Reply Briefs on these reserved issues in accordance with the previously established procedural schedule.

## **II. SUMMARY OF POR AND MFC PROVISIONS OF SETTLEMENT**

Pursuant to the Settlement, PPL Electric will implement a one-year voluntary POR Program commencing on January 1, 2010 under which it will purchase EGS accounts receivables for residential and small commercial and industrial shopping customers (“small C&I”). The Company also will continue its existing POR Program for large commercial and industrial customers (“large C&I”) for 2010.

Under the Settlement, the Company will purchase EGS accounts receivables for residential shopping customers who take service under Rate Schedules RS, RTS(R) and RTD(R) at a discount of 1.37%. This discount rate reflects an uncollectible accounts expense percentage factor of 1.32% and a POR administrative factor of 0.05%. (Settlement ¶ 18). The Company

will purchase EGS accounts receivables for small C&I shopping 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 at a discount of 0.17%. The discount rate reflects an uncollectible accounts expense percentage factor of 0.12% and a POR administrative factor of 0.05%. (Settlement ¶ 24). The uncollectible accounts expense percentage factors were developed from data filed in the Company's most recent distribution rate case at Docket No. R-00072155. (PPL Electric St. 1, pp. 6-7).

In order to be eligible for the residential POR program, EGSs must choose consolidated electric distribution company ("EDC") billing for their residential customer accounts and must sell all of their residential customer accounts receivables to PPL Electric. (Settlement ¶ 19). Further, EGSs participating in the residential POR program agree not to reject for enrollment a new residential customer eligible for the residential POR Program based upon a credit-related issue and agree not to require a deposit for providing service. Therefore, any customer who wishes to be served by an EGS participating in the residential POR Program will be accepted by the EGS. (Settlement ¶ 20).

Under the Settlement, PPL Electric's small C&I POR Program provides EGSs with the opportunity to select EDC consolidated billing for all or a portion of their small C&I accounts. For those small C&I accounts where an EGS selects EDC consolidated billing, the EGS will be required to sell its accounts receivables to PPL Electric. The EGS may continue to issue its own bills [dual billing] for all or a portion of its small C&I customers, but those small C&I accounts that receive dual billing will not be eligible to participate in the POR Program. (Settlement ¶ 24).

To avoid a potential increase to the uncollectible accounts expense percentage due to an EGS selling only its highest risk small C&I accounts receivables to PPL Electric, the Settlement

provides that PPL Electric will monitor for those individual EGSs that sell a portion of, but not all of, their small C&I uncollectible accounts receivables to the Company, to determine whether any individual EGS is engaging in unusual business behavior that results in an increase to the total uncollectible accounts expense percentage for the small C&I customer class. (Settlement ¶ 25).

As noted above, the issue of termination for non-payment of residential customers for non-payment of EGS charges has been reserved for litigation. The Settlement provides for termination for non-payment of all purchased receivables of EGSs that serve small C&I customers. The Settlement retains the current POR mechanism for large C&I customers, which returns a customer to dual billing after three months of non-payment. (Settlement ¶30).

The Settlement adopts the Company's proposal to unbundle its generation-related uncollectible accounts expense for residential and small C&I customers from distribution rates and collect them from default service customers through the MFC charges effective January 1, 2010.<sup>2</sup> PPL Electric will continue to recover uncollectible accounts expense associated with non-generation supply-related delivery service through distribution rates. The 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 Price to Compare. (Settlement ¶ 27).

Under the Settlement, the MFC charge for residential customers will be 1.32%, and the MFC charge for small C&I customers will be 0.12%. (Settlement ¶27). These are the same uncollectible accounts expense factors used to develop the discount rates for the POR.

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<sup>2</sup> These costs to be unbundled include default service generation uncollectible accounts expense and related transmission uncollectible accounts expense.

The Company will reduce its distribution rates by the amount of the bundled generation supply-related uncollectible accounts expense included in the Company's most recent distribution rate case at Docket No. R-00072155. Specifically, the Company will reduce residential distribution rates by \$12,596,000 and small C&I distribution rates by \$1,002,000. These reductions will be reflected in the Company's compliance filing submitted upon Commission approval of this Settlement. (Settlement ¶ 28).

In addition, the Company agrees not to request recovery of the difference between the cost of purchased receivables and amounts actually collected for 2010 as part of its uncollectible accounts expense in its next base rate case. However, this provision is not intended to limit the Company from basing its future uncollectible accounts expense on actual experienced bad debt costs or to limit any party from objecting to such a claim. (Settlement ¶ 31).

### **III. THE SETTLEMENT IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED**

PPL Electric submits that the Settlement is in the public interest and should be approved. The Settlement resolves all issues in this proceeding, with the exception of termination/reconnection for non-payment of residential purchased receivables and the definition of "basic supply charges."

Initially, it is to be emphasized that the Settlement covers the terms of the POR program and unbundling solely for 2010, and that all parties reserve their full rights as to all issues commencing January 1, 2011. (Settlement ¶ 32). This provision recognizes that, in PPL Electric's POLR II Settlement, the parties agreed to a process for the development of a POR program for 2011.

The POR Program and the MFC contained in the Settlement are responsive to the Commission's position of encouraging utilities to offer POR Programs for marketers and to

unbundle generation-related uncollectible accounts expense from base rates. *See Retail Markets Order*, p. 27; 52 Pa. Code § 69.1814. It was with these directives in mind that the Company proposed to implement a POR Program and to take the further step of unbundling generation-related uncollectible accounts expense from its distribution rates.

The Company believes that it is important to unbundle generation-related uncollectible accounts expense from base rates for several reasons. First, it will give EGSs the opportunity to include uncollectible costs in their competitive supply offers to customers, thereby placing EGSs on a level playing field with respect to uncollectible accounts expense. Second, it will avoid a situation where EGS customers pay twice for generation-related uncollectible accounts expense, once in base rates and a second time in EGS supply charges. This is particularly important for EGSs that choose not to participate in the POR, and incur separate uncollectible account expense.

The amount to be unbundled from base rates was determined from the generation supply-related uncollectible accounts expense included in the Company's most recent distribution rate case. This reflects the appropriate credit to distribution rates and should be adopted.

PPL Electric's POR Program and MFC were carefully designed as linked, integral parts of the Company's efforts to promote competition in its service territory. As described above, the discount rates proposed by the Company and agreed to by the Parities for its POR Program is comprised of an uncollectible accounts expense percentage factor, and a POR administrative factor. (PPL Electric St. 1, p. 6). For both the residential and small C&I classes, the uncollectible accounts expense percentage factor equals the MFC for each respective class. This program design allows EGSs to include the same amount for uncollectible costs in their competitive supply offers to customers that is included in the discount under the POR Program

for uncollectible accounts expense. The only other discount proposed by the Company was a very small percentage (0.05%) for both the residential and small C&I POR Programs to account for the Company's administrative costs of operating the POR Program.

The Company notes that the basic structure of its POR/MFC proposal is consistent with Commission policy regarding unbundling of uncollectible accounts expense and POR programs. The Commission has approved unbundling of supply-related costs from base rates for several other utilities in the Commonwealth, including Columbia Gas of Pennsylvania, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas Inc. *Pa.PUC v. Columbia Gas of Pennsylvania*, Docket No. R-2008-2011621 (Order entered October 28, 2008); *Pa.PUC v. UGI Penn Natural Gas, Inc.*, Docket No. R-2008-2079660 (Order entered August 27, 2009); *Pa.PUC v. UGI Central Penn Gas, Inc.*, Docket No. R-2008-2079675 (Order entered August 27, 2009). In addition, in its SEARCH Order, the Commission indicated that recovery of gas supply-related uncollectible accounts expense through base rates was a potential barrier to competition. *Investigation into the Natural Gas Supply Market: Report on Stakeholders' Working Group (SEARCH); Action Plan for Increasing Effective Competition in Pennsylvania's Retail Natural Gas Supply Services Market*, Docket No. I-00040103F0002 at pp. 11-12 (Order entered September 11, 2008). The Company's MFC is consistent with Commission Policy because it reflects generation-related uncollectible accounts expense in default service rates. In addition, with regard to the Company's POR Program, the Commission has stated in its Default Service Policy Statement that the public interest would be served by consideration of a purchase of EGS receivables program. 52 Pa. Code § 69.1814.

The Settlement reflects a compromise reached on several important design elements by the Parties to this proceeding. Specifically, in response to the position of the EGSs, the

Settlement provides that EGSs may selectively sell small C&I accounts receivables to the Company, but allows the Company to increase an individual EGS' discount rate if the EGS engages in unusual business behavior that increases the Company's uncollectible accounts expense. This provision provides the EGSs with the flexibility they requested for this customer class, but still protects the Company in case an EGS only sells the high-risk accounts to the Company.

In response to concerns raised by RESA, the Settlement confirms that the Company has modified the 12-month minimum stay provision for the POR program to coincide with the end of the term of the program on December 31, 2010, and has clarified that the minimum stay provision does not prohibit an EGS from enrolling a customer on a shorter-term product. (Settlement ¶ 29).

The Settlement contains various consumer protections, most of which were either originally proposed, or subsequently adopted, by PPL Electric during the course of the proceeding.

Under the Settlement, EGS customers on EDC consolidated billing will be able to select budget billing. PPL Electric will pay EGSs based upon actual billed supplier charges less the POR discount (versus budget amounts), and EGSs will not be impacted by the budget billing program. PPL Electric will inform customers of the opportunity to select an EGS and that their payment plan will be impacted only to the extent necessary to assure that the savings are reflected. The assurance that a customer can continue to receive budget billing retains a level playing field between EGS and default service.

The Settlement provides that EGSs participating in the residential POR program will not reject a customer for enrollment based upon credit issues, and agrees not to require a deposit for

service. (Settlement ¶ 20). The foregoing provision is appropriate, where the EGS is being paid for their receivable through the POR program. The EGS has no reason to reject residential customers, where it will be paid regardless of the customer's ability to pay. An EGS may continue to perform credit checks and reject service to small C&I customers based upon credit reasons; however, to avoid a potential increase to the uncollectible accounts expense percentage due to an EGS selling only its highest risk small C&I accounts receivables to the PPL Electric, the Settlement provides that PPL Electric will monitor for those individual EGSs that sell a portion of, but not all of, their uncollectible small C&I accounts receivables to the Company, to determine whether any individual EGS is engaging in unusual business behavior that results in an increase to the total uncollectible accounts expense percentage for the small C&I customer class.

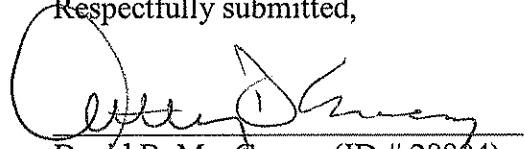
Following Commission approval of the Settlement and up to December 31, 2009, the Company will hold bi-weekly conference calls with Parties to report on the status of the Company's implementation of the POR program. This will enable PPL Electric and the parties to monitor the status of the necessary billing and collection system modifications needed to implement the POR program.

#### **IV. CONCLUSION**

As explained above, the Joint Petition for Settlement in this proceeding in the public interest and should be approved. The Settlement will allow PPL Electric to implement a voluntary POR Program for its residential and small C&I customers on January 1, 2010. Further, the proposed POR Program and MFC are consistent with the Commission's policy regarding unbundling of uncollectible accounts expense and POR programs. In addition, PPL Electric believes that a fair and reasonable compromise has been achieved in this proceeding as evidenced by the fact that an agreement has been reached regarding the majority of issues in this

proceeding. PPL Electric fully supports the Settlement and respectfully requests that the ALJ and the Commission review and approve the Settlement in its entirety, without modification, and rule on the reserved issues.

Respectfully submitted,



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