

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation Requesting Approval of a : Docket No. P-2009-2129502
Voluntary Purchase of Receivables :
Program and Merchant Function Charge :
:

**RETAIL ENERGY SUPPLY ASSOCIATION AND DIRECT ENERGY
SERVICES, LLC's JOINT STATEMENT
IN SUPPORT OF JOINT PETITION FOR SETTLEMENT**

The Retail Energy Supply Association (“RESA”) and Direct Energy Services, LLC (“Direct Energy”) (hereinafter jointly referred to as “RESA/Direct Energy”) submit this Joint Statement in Support of Pennsylvania Public Utility Commission (“Commission”) approval of the Joint Petition For Settlement (“Settlement”) regarding the Petition Requesting Approval of a Voluntary Purchase of Receivables Program and Merchant Function Charge (“POR Petition”) filed by PPL Electric Utilities Corporation (“PPL”) in this proceeding. RESA is a non-profit organization and trade association of retail energy suppliers who share the common vision that robust and sustainable competitive retail energy markets deliver more efficient, customer-oriented outcomes than regulated utility structures. RESA members include several companies that are licensed electric generation suppliers (“EGSs”) in the Commonwealth of Pennsylvania and sell, or are authorized to sell, electric energy in PPL's service territory.¹ Direct

¹ RESA’s members include ConEdison Solutions; Direct Energy Services, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Gexa Energy; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; RRI Energy; Sempra Energy Solutions LLC. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

Energy is a member of RESA, the second largest retail energy and energy services provider in North America, and a licensed competitive energy supplier in Pennsylvania, currently providing electricity and/or natural gas in several utility territories.

As set forth more fully below, notwithstanding concerns about various aspects of PPL's proposal, RESA/Direct Energy have elected to support the Program set forth in the Settlement – for 2010 only – in order to insure the implementation of a workable POR program in time for the PPL's market opening this coming January.

I. Background

In response to the Commission's Tentative Order, issued on May 15, 2009 directing PPL to take certain market-opening steps in advance of the expiration of its generation rate caps on January 1, 2010, as well the Commission's Final Order affirming its tentative decisions, PPL was, *inter alia*, ordered to file a POR program reflecting: (1) little or no discount; (2) no provision requiring a customer account purchased by PPL to revert to dual billing after accumulation of 90 days of arrearages; (3) no restriction on PPL's right to terminate service to customers for nonpayment of EGS charges in excess of default service charges; (4) no provision requiring an EGS to either have all of its customer accounts enrolled in the POR or none of them (so called "all-in/all-out"); and, (5) only available for "basic" supply service.²

² *PPL Electric Utilities Corporation Retail Markets*, Tentative Order entered at Docket No. M-2009-2104271 on May 15, 2009 ("*Tentative Order*") at 14-16; *PPL Electric Utilities Corporation Retail Markets*, Final Order entered at Docket No. M-2009-2104271 on August 11, 2009 ("*Final Order*") at 27-30.

II. Overall Position

While the PPL proposed POR/MFC structure creates issues and concerns for marketers, RESA/Direct Energy have elected to join in the Settlement rather than put most of the issues before the Commission.³ It did this several reasons. Most importantly, a workable and usable POR program that promotes competition and gives EGSs access on a comparable basis to PPL's billing and collection system is a key requirement for the development of robust competition in PPL's service territory in 2010. While there are aspects of PPL's program that could be designed better to achieve the goals of promoting competition and equal access, RESA/Direct Energy has elected to accept these approaches as a compromise in order to enhance the chances that a workable, viable POR program will be in place by January in time to permit competitors to offer lower prices and greater innovation to PPL's customers. From RESA/Direct Energy's perspective, the key elements of the Settlement, and their views on those provisions are as follows.

1. Discount Rate

In its Petition, PPL proposed to purchase the accounts receivables of EGSs through POR after application of a discount rate. The proposed discount rate would be comprised of: (1) an uncollectible accounts expense percentage factor; and, (2) a POR

³ OCA's claim that PPL's POR program may not terminate a residential customer's service for nonpayment of charges in excess of the default service rate, and the issue of the types of services that can be included in the POR program (*i.e.*, can attribute-based green energy programs be billed via POR), could not be settled and will be decided by the Commission.

development, implementation and administration percentage factor.⁴ RESA/Direct Energy did not object to the proposed administrative discount rate of 0.05 percent.⁵

In its testimony, RESA/Direct Energy did object to the proposed uncollectible accounts expense percentage factor and recommended that it be eliminated.⁶ As claimed by PPL, the uncollectible accounts expense factor equals what PPL used in its most recent distribution rate case; it proposes to apply the same factor to its default service customers through its Merchant Function Charge (“MFC”).⁷ RESA/Direct Energy pointed out that there was not sufficient time by which to investigate whether the charge proposed to be imposed on EGSs through the discount rate (and also included in its MFC charged to default service customers) was reflective of the uncollectibles PPL would actually experience in 2010 on purchased EGS generation charges. It was also unclear, for that matter, whether the percentage proposed accurately reflected PPL’s likely generation related uncollectible level.⁸ Accordingly, RESA/Direct Energy recommended in this instance that, rather than unbundle generation related uncollectible expense from distribution rates as PPL proposed, PPL should be directed to track its incremental uncollectible expense during 2010 (over and above the amount PPL recovers it is recovering in its distribution rates) and permit PPL to make a claim for recovery of this amount in its next distribution rate case.⁹ PPL opposed this approach. In the interests of

⁴ PPL St. 1 at 6.

⁵ RESA St. 1 at 5.

⁶ RESA St. 1, at 5.

⁷ PPL St. 1 at 7.

⁸ RESA St. 1 at 6.

⁹ RESA St. 1, at 5-6.

compromise, RESA/Direct Energy have elected to accept PPL's approach for 2010 only, even though it does not agree that it is appropriate on a permanent, long-term basis.

2. Merchant Function Charge/All-In/All-Out

In addition to bad debt expense experienced by PPL as a result of purchasing the accounts receivable of EGSs, PPL will also experience bad debt from its own default service customers. Currently, all of this bad debt expense is recovered for all of its services, and from all customers through its distribution rates. PPL's initial proposal was to separate the bad debt expense associated with EGS customers (through POR) from bad debt expense associated with default service customers. For default service bad debt expense, PPL proposed to charge the same uncollectible accounts expense factor that it claims is reflected in its distribution service rates and to recover this amount via a new, bypassable MFC that will be included within the Price to Compare. As noted above, that same rate will be charged to EGSs as the uncollectible portion of the POR discount rate. While RESA/Direct Energy generally support unbundling of generation-related costs, they are concerned that PPL's MFC proposal could end up imposing unreasonable charges on EGSs. Because the MFC is bypassable, PPL claimed that the POR program either had to be "all-in/all-out" or that some other mechanism had to be established to address the potential that an EGS's mix of customers being served via POR versus dual bill might result in PPL incurring higher than average uncollectible expense and that it would not be able to recover via its bypassable charge.¹⁰

While they were willing to agree to making the Residential POR program "all-in/all-out," RESA/Direct Energy made clear that for business customers it was necessary

¹⁰ PPL St. 1 at 10-11.

to allow EGSs to be able to choose between POR/EDC consolidated billing and dual billing (*i.e.*, no “all-in/all-out”). RESA/Direct Energy showed that there are many reasons for an EGS to place a customer on dual billing that have nothing to do with trying to “game” the system.¹¹ PPL responded by insisting that if the small C&I POR program was not “all-in/all-out” it needed a mechanism that would permit it to recover additional uncollectible expense if an EGS using POR and dual billing experienced a POR uncollectible percentage that exceeded the “average” uncollectible rate on which the EGS discount factor is calculated.¹² Unfortunately, the mechanism proposed by PPL would have imposed a higher individual discount rate on an EGS if a particular EGS using POR experienced an uncollectible expense that exceeded the average uncollectible level to any degree. Such clause would have unfairly penalized legitimate business activity, such as those focusing on smaller customers, even though this business activity failed to result in any increase to system wide bad debt expense.¹³ The potential of unfairly applied higher discount rates could be a deterrent to the development of competition in PPL’s service territory.

RESA/Direct Energy submit that the better approach is to unbundle uncollectible accounts expense associated with all generation service (both default and EGS) and to have PPL recover it from all customers through a socialized, nonbypassable charge just as does today. This is the approach agreed to in the pending Settlement of the Met-

¹¹ RESA St. 18 at 19.

¹² PPL St. 1 at 11, Exh. JMR-3.

¹³ *See*, RESA St. 1 at 18-19.

Ed/Penelec default service procurement plan.¹⁴ While RESA/Direct Energy intend to press in the future for adoption of the socialized, unbundled charge approach adopted by Met-Ed/Penelec, they agreed to PPL's less desirable approach, in the spirit of compromise and in order to have a plan in place by January 1, 2010.

However, the Settlement reflects a significant modification in the "unusual business behavior" tariff provision originally proposed by PPL. PPL's original proposal would have given PPL the ability to charge a higher discount rate to an EGS merely because the EGS's experienced uncollectible rate for its POR customers that exceeded PPL's average uncollectible rate. This would have punished legitimate business behavior and is materially different than the way in which a similar clause was structured for Duquesne Light, where Duquesne agreed that it would not be able to even consider imposing a higher discount rate for "unusual business behavior" unless the EGS's experienced uncollectible rate was greater than a threshold level of 5%.¹⁵ This "trigger" is approximately 12 times the Duquesne average discount rate.¹⁶ PPL agreed to modify its original proposal and the Settlement reflects a "trigger" of 1.5% for Small Commercial & Industrial customers uncollectible levels (compared to an average uncollectible level of .12%).¹⁷ That is, if the experienced uncollectible level for a particular EGS is higher than 1.5% then PPL would have the right to consider imposing a higher uncollectible rate, if the higher uncollectible level is found to be caused by "unusual business

¹⁴ *Joint Petition of Metropolitan Edison Company and Pennsylvania electric Company for Approval of their Default Service Programs*, Docket No. P-2009-2093053 and P-2009-2093054, Petition filed February 20, 2009.

¹⁵ See, Exh. JMK-1R.

¹⁶ Tr. 77.

¹⁷ Settlement, Para. 25, 27.

behavior.”¹⁸ While this trigger level is not as high (on an absolute basis) as the trigger in Duquesne, and could still make EGSs inappropriately subject to such a higher discount rate even though the EGS is engaging in otherwise legitimate business strategies, RESA/Direct Energy agreed to accept the revised “unusual business behavior” provision in the spirit of compromise and to insure that a workable POR plan will be in place by 2010.

3. Other Provisions

The Settlement has several other positive provisions that RESA/Direct Energy support. First, the Settlement clarifies that PPL will continue its existing POR program for large C&I customers for 2010.¹⁹ Even though this program turns the customer back to “dual billing if the customer is more than 90 days (or three billing cycles) in arrears, this existing program may be an attractive option for some EGSs to serve large customers, despite the limited nature of the receivables purchase and the lack of authority to terminate a customer for non-payment of EGS charges. PPL also agreed to clarify that its Residential and Small Commercial and Industrial POR program ends December 31, 2010 (and EGSs need not agree to continue in the program beyond 2010 since the Settlement only extends through 2010), and that the minimum stay provision does not prohibit an EGS from enrolling a customer on a short term product.²⁰

¹⁸ PPL would not be able to charge a higher discount rate “if the increase in the uncollectible accounts percentage primarily is the result of providing service to previously poor paying customers currently on POLR service, and the EGS is able to provide a reasonable explanation that the significant increase in uncollectibles account percentage is not the result of a particular price offering, marketing strategy, selling selective accounts receivables, or other actions of the individual EGS.”

¹⁹ Settlement, Para. 30.

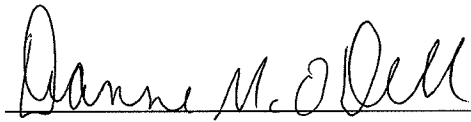
²⁰ *Id.*, Para. 29.

Finally, PPL has agreed to hold bi-weekly conference calls with the Parties to report on the status of the Company's implementation of the POR program.²¹ While, technically, the PPL commitment does not begin until after the Commission approves the Settlement (and only up to December 31, 2009), RESA/Direct Energy are hopeful that PPL will see the value in such cooperative interactions and will start the calls prior to Commission approval of the Settlement and continue them into 2010.

III. Conclusion

For the reasons stated above, RESA/Direct Energy request that the Commission approve PPL's POR Petition, as modified by the Joint Petition for Settlement.

Respectfully submitted,



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²¹ *Id.*, Para. 33.