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PUBLIC SERVICE COMMISSION

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Jennifer L. Petrisek
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The Potomac Edison Company
d/b/a Allegheny Power
800 Cabin Hill Drive
Greensburg, Pennsylvania 15601-1689

Dear Ms. Petrisek:

At its January 13, 2010 Administrative Meeting, the Public Service Commission (“Commission”) considered the revised tariff pages and additional information filed on November 18, 2009 and December 4, 2009, respectively, by the Potomac Edison Company d/b/a Allegheny Power (the “Company”). The Company filed proposed revisions to its Electricity Supplier Coordination Tariff and its Retail Electricity Tariff to implement the Company’s purchase of receivables (“POR”) program applicable to electric suppliers that bill their customers through the Company’s consolidated billing. The Company proposed to pay electricity suppliers for commodity receivables using a customer class-specific discount.

The Commission’s Technical Staff (“Staff”) filed written comments on the proposed tariff revisions and recommended an alternate set of discounts. A number of electric suppliers and associations representing electric suppliers also filed written comments on the Company’s proposed tariff revisions implementing the POR program.¹

At the Administrative Meeting, the Commission heard from Staff and the Company about the matter. Staff reiterated its recommendation on its alternative set of proposed discount rates. Specifically, Staff recommended that the uncollectible cost component of the Company’s POR discount rates be reduced because the component may be overstated. In its written comments, Staff attributed this potential overstatement to the fact that the uncollectible cost calculation was

¹ The Retail Electric Supplier Association, Liberty Power, Direct Energy, and Integrys Energy Services concurred with Staff’s alternate set of proposed discounts. Maryland Energy Marketers Coalition supported the proposed POR rates reflected in the Company’s December 4, 2009 supplemental filing, and encouraged the Company to consider reducing those rates even further in the future based on actual bad debt experience. Washington Gas Energy Services (“WGES”) opined that the POR discount rates proposed in the Company’s December 4, 2009 supplemental filing “are unreasonably high and will not result in a workable POR program.” WGES proposed instead a “revised cost recovery system” under which all customers would pay for the costs associated with developing and implementing the Company’s POR program.

based upon the Company's current payment posting method for payments to suppliers, which puts the suppliers' revenue behind that of the Company. At the Administrative Meeting, Staff further stated that the Company's failure to take into account the collection of late fees in calculating the uncollectible cost component also resulted in an overstatement of those costs. Staff, however, did not have data to support that assertion, and, based on the representation of the Company, such data is either not kept or was not readily available. Staff further contends that the Company has provided no support for the administrative cost component of its proposed POR discount rate.

The Company responded to questions from the Commission and defended the methodology it used to establish its proposed POR discount rates. The Commission took the matter under advisement.

On May 11, 2010, Staff submitted supplemental comments on the matter, revising its proposed POR discount rate based on data received from the Company since the Administrative Meeting. These revised POR discount rates are compared to the prior Staff recommendation and to the Company's revised discount rate reflected in its December 4, 2009 filing in the table below:

		Residential	Type I	Type II	HPS
Staff	–	1.1306%	0.1090%	0.0372%	0.0127%
5/11/10					
Staff –	1/6/10	0.49%	0.226%	0.226%	.02%
Company	–				
12/4/09		0.98%	0.57%	0.585%	0.36%

Staff states that for the non-residential uncollected cost component, the Company's data indicated that late fees completely offset the uncollected costs, and, consequently, Staff set that component at zero for the non-residential customer classes. Staff further calculated the program cost component of the discount rate with a recovery over a two-year period, due to the relatively low amount of actual costs, and allocated the costs using the average plan allocation factor from the Company's 1997 cost of service study.

After further deliberations, the Commission hereby approves POR discount rates as follows:

<u>Service Type</u>	<u>Uncollectible Cost Component</u>	<u>Programming Costs Component</u>	<u>Total POR Discount Rate</u>
Residential	0.3244%	0.8062%	1.1306%
Type I	0.0000%	0.1090%	0.1090%
Type II	0.0000%	0.0372%	0.0372%
Hourly-Priced	0.0000%	0.0127%	0.0127%

The Commission accepts Staff's calculation of the uncollectible cost component as it is based on known data and the Commission finds that the use of that data was reasonable. The

Commission expects that for future years, in connection with its annual recalculation and reconciliation of POR discount rates, the Company will calculate the uncollectible cost component based upon its actual POR uncollectibles experience, and that it will provide documentation and worksheets sufficient to support its calculations. Further, the Commission directs the Company to track any late fees that are assessed and collected on consolidated bills and to disclose that data when it files its next annual POR discount rates proposal for consideration by the Commission.

The Commission also accepts the programming costs component proposed by Staff, with the understanding that when the Company makes its next annual POR discount rates filing, it shall provide Staff with source documentation that supports the incremental costs associated with the current programming costs component, as well as any true-up needed to prevent over-recovery or under-recovery of those costs. Further, the Commission accepts the Staff's recommendation that the programming costs be amortized over a two-year period.

The Commission agrees with Staff that the Company has provided no support for the administrative cost component of its proposed POR discount rates, nor is the Commission persuaded that the Company will incur any such incremental administrative costs. Unless and until the Company can document and describe in detail any incremental administrative costs associated with the implementation of POR, the Commission concludes that this cost component is not appropriate in calculating the Company's POR discount rates.²

Finally, because the Company has volunteered to purchase the current billed accounts receivables balance on each consolidated bill account at the POR discount rate accepted by the Commission, the Commission directs the Company to purchase these receivables on the date on which the purchase of receivable discount rate goes into effect.

Subject to the revisions to Schedule 3 to conform to the decisions by the Commission as set forth in this Letter Order, the Commission accepts the tariff revisions for filing, and the Company is directed to file by July 1, 2010 an original and five (5) "clean" copies of its tariff revisions as well as Schedule 3 to Electricity Supplier Coordination Tariff which reflects the decisions made by the Commission herein with an effective date of July 15, 2010.

By Direction of the Commission,

/s/ Terry J. Romine

Terry J. Romine
Executive Secretary

² Although the Company's December 4, 2009 supplemental filing stated at page 2 that its proposed discount rate also included a "risk percentage associated with the continuation of the supplier-customer relationship" ("Risk Factor"), no such Risk Factor is reflected in the Company's POR discount rate calculations or in its tariff revisions. The Commission understands that the Company has withdrawn any Risk Factor component of its proposed POR discount rate.