PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Default Service Reconciliation Interim Guidelines

Public Meeting: July 19, 2012
2314313-CMR

MOTION OF COMMISSIONER CAWLEY

As of January 1, 2011, all electric distribution companies (EDCs) in Pennsylvania have moved beyond the rate cap period to a market based default service plan. In order to fully recover the cost of providing default service, all EDCs have implemented reconciliation riders to recover the cost of generation, transmission and other related default supply services. Ideally, EDCs would have reasonably forecasted and matched these costs to revenues, resulting in only minor cash imbalances. Unfortunately, however, traditional methods of reconciliation accounting and of allocating costs to rate classes as well as significant customer participation in the retail market have caused a great deal of volatility in default service pricing associated with the recovery of revenue/cost imbalances. In some instances, these imbalances have resulted in significant rate adjustments referred to as "E-factors,"[1] have produced rate volatility and inaccurate price signals, and have complicated shopping decisions for consumers.

These challenges have been well documented in recent proceedings pending before the Commission.[2] In these proceedings, issues have arisen that are likely to have industry-wide implications. The Commission's goals are to ensure that the industry's current prices reflect current costs as accurately as is feasible, that EDCs are able to fully recover their just and reasonable default service costs, and that default service customers pay the full cost of default service. To further these goals, the Commission seeks feedback from market participants on changes that this Commission should make to reconciliation riders in order to better ensure that costs and associated revenues are: (1) appropriately matched; (2) assigned to the appropriate class; and (3) recovered expeditiously and accurately, as required by Act 129. This will also help ensure that interest charges and credits are minimized.

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[1] An E-factor is a surcharge to an existing rate to recover differences between actual revenues and actual costs.

[2] *See, e.g.*, Docket No. P-2011-2256365, *Petition of PPL Electric Utilities Corporation for Approval to Implement a Reconciliation Rider for Default Supply Service*; Docket No. C-2011-2245906, *PPL Electric Utilities Corporation Proposed Generation Supply Charge-1 For the Period June 1, 2011 Through August 31, 2011*, M-2011-2243137.

Accordingly, the Commission shall seek comments on the following questions that have been raised in the above-referenced proceedings:

1. Should recognition of revenues for monthly reconciliation purposes include "unbilled revenues"[3] for service provided during the month? If not, are there other methods of accounting for revenues that more appropriately match revenues and costs on a monthly basis?
2. Should costs and revenues be reconciled on a quarterly, or longer basis, or on some combination of quarterly and some other period? How often should adjustments to E-factors be made?[4]
3. Should transmission and generation reconciliation amounts be netted? If so, how?
4. Should default service basic and optional (Time of Use/Real time pricing) services be reconciled together or separately for each rate class?
5. How should/could working capital costs be recovered for default service?
6. Should the Commission alter how interest is charged/credited on under/over collections? Is the current rate of interest reflective of market rates of interest? How can these interest provisions be improved?
7. When would it be appropriate to use a Competitive Transition Rider (CTR) for the purposes of addressing default service collection issues?
8. Should E-factors be included in the Price to Compare, as is the current practice?
9. Can the process for assigning PJM capacity costs or other demand or customer based costs between rate classes be improved? If so, please describe how best to assign costs for various services to the appropriate rate classes, and provide examples.

The Commission seeks comments and reply comments on these important questions, as well as any additional issues that market

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[3] "Unbilled Revenues" is a term used in the industry to designate revenues earned from providing utility service during a calendar month, but for which the full cost of service provided has not been billed during the calendar month due to billing cycles that do not coincide with a calendar month. The "unbilled revenues" of one month will become the "billed revenues" of the next month as part of the next billing cycle. "Unbilled revenues" does not mean that the revenues were not billed prior to submission of a reconciliation filing.
[4] The Commission believes that discussion of this issue will complement reconciliation filings in EDC default service proceedings filed in compliance with the final Commission Order at Docket I-2011-2237952.

participants feel the Commission needs to address regarding default service reconciliation riders. After receiving these comments, the Commission intends to establish interim guidelines and make modifications to the existing default service policy statement and regulations, if necessary.

The Commission also takes note of an ongoing parallel proceeding regarding *transmission* cost reconciliation in Docket M-2011-2239714. We anticipate taking action in that parallel proceeding at an upcoming public meeting. Where appropriate, we will also incorporate the relevant findings/recommendations from that proceeding for the purposes of establishing guidelines to improve our default service reconciliation process for both transmission and generation related costs.

THEREFORE, I MOVE THAT:

1. The Law Bureau draft an order consistent with this Motion.
2. Comments be filed within 30 days of the entry date of the Law Bureau's order.
3. Reply comments be filed 45 days from the entry date of the Law Bureau's order.

July 19, 2012

James H. Cawley
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Commissioner