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August 25, 2009

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INDEPENDENT REGULATORY REVIEW COMMISSION

VIA FEDERAL EXPRESS

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Natural Gas Distribution Companies and the Promotion of Competitive Retail Markets – Docket No. L-2008-2069114

Dear Secretary McNulty:

Enclosed are an original and fifteen (15) copies of the *Comments of PECO Energy Company to the Proposed Rulemaking Order* in the above-captioned matter. An additional copy of this letter is also enclosed to be date-stamped and returned to PECO Energy.

Very truly yours,

Michael S. Swerling
Enclosures

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AUG 25 2009

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

NATURAL GAS DISTRIBUTION COMPANIES AND THE PROMOTION OF COMPETITIVE RETAIL MARKETS	: : :	**Docket No. L-2008-2069114**

COMMENTS OF PECO ENERGY COMPANY TO THE PROPOSED RULEMAKING ORDER

INTRODUCTION

I. Executive Summary

The Public Utility Commission's ("PUC" or "Commission"), through its March 27, 2009 Proposed Rulemaking Order ("Proposed Order") at Docket L-2008-2069114, seeks comments on its efforts to boost retail competition by changing certain rights, duties and obligations of Natural Gas Distribution Companies ("NGDC") and Natural Gas Suppliers ("NGS"). PECO Energy Company ("PECO") is a leading provider of natural gas in Pennsylvania, serving approximately 438,000 natural gas customers, and is pleased to provide the following comments.

The Proposed Order's stated objective is to reduce market entry barriers. PECO believes this is best obtained through true and sustainable competition. PECO, therefore, supports removing supplier barriers, and appreciates the opportunity to share its views on the Commission's Proposed Order. The Proposed Order specifically addresses changes in the following areas:

(1) Reformulation of the Price To Compare,

(2) Purchase of Receivables,

(3) Mandatory Capacity Assignment,

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(4) NGDC Costs of Competition Related Activities, and

(5) Regulatory Assignments.

PECO provides its comments below in the same arrangement as contained in the Commission's Proposed Order.

II. PECO's Comments To The Proposed Order

A. Reformulation of the Price to Compare.

1. True and sustainable competition cannot be achieved by shifting fixed procurement costs from all customers to only NGDC customers.

In its March 27, 2009 Proposed Order, the Commission seeks comments on shifting procurement costs from NGDC base rates to the Price To Compare ("PTC"). The Proposed Order aims to remove NGDC procurement costs from base rates, place them into the PTC and adjust the Purchase Gas Cost ("PGC") monthly. Although PECO supports the Commission's efforts, it submits that caution should be exercised about what costs are shifted and to whom. Shifting fixed (unavoidable) procurement costs from all customers to only NGDC customers may hinder true and sustainable competition.

PECO is concerned that NGDC Supplier Of Last Resort ("SOLR") costs, which must be performed regardless of how many customers remain, will be borne by NGDC customers alone. As more customers shop, the remaining NGDC customers will pay continually increasing SOLR costs as protection for supplier failure to provide. Specifically, when customers shop, there are fixed procurement costs that must continue to support the SOLR function. All customers, including those who may shop, benefit from the NGDC that stands ready to serve the SOLR function. Whether there are 1 or 400,000 customers who receive NGDC commodity service, the NGDC must still perform certain procurement functions like forecasting, scheduling, nominations, confirmations, reviewing for open season availability, issuing Request For Proposals ("RFP") for purchases and monitoring Federal Energy Regulatory Commission ("FERC") and state regulatory activities. For these reasons, PECO respectfully recommends deletion of proposed section 62.223. PECO is concerned that these fixed SOLR costs will be wholly borne by NGDC commodity customers.

An important measure of successful competition must be a decrease in customer costs. Therefore, PECO respectfully suggests that any proposed regulation consider the effect of shifting SOLR costs to NGDC commodity customers with the view that true and sustainable competition, designed to lower costs, will not be obtained by simply shifting unavoidable procurement costs from all customers to NGDC commodity customers.

2. Requiring monthly adjustments may not provide accurate price signals.

PECO understands the Commission's aim to provide prospective shoppers with accurate price signals on a monthly basis. However, monthly PGC adjustments may not provide accurate gas commodity price signals. The PGC is statutorily designed to give customers signals that smooth out market volatility, regardless of how often a true up is performed. Monthly PGC adjustments will simply provide smoothed out market signals more often. Considering the administrative cost involved with doing such a time consuming adjustment each month, the benefit may not support the intended result.

A monthly PGC cannot represent actual natural gas commodity wholesale prices because many long-term contracts are hedged many months before they impact retail rates. Also, an NGDC's Weighted Average Cost of Gas ("WACOG") is the average cost of commodity purchased in a month, including gas injected or withdrawn from storage. Each NGDC uses a variety of pricing factors including utilizing storage purchased in advance of hedged prices. For example, PECO purchases natural gas at cheaper summer prices and stores it to be used in the winter months when gas is more expensive. Thus, fifty to sixty percent of PECO's gas commodity price is not germane to the month the commodity is consumed by customers.

The proposed regulation is costly to NGDC customers, administratively tasking and will not achieve true and sustainable competition. Therefore, PECO respectively recommends that the Commission continue with quarterly PGC adjustments.

3. Monthly adjustments may impact 66 Pa. C.S. § 1307(f).

PECO supports true and sustainable competition, but the proposed rulemaking may not fully consider implications raised by 66 Pa.C.S. § 1307(f)(1)(ii). That section explains that for monthly PGC adjustments, NGDCs must also offer an annual fixed rate. 66 Pa.C.S. § 1307(f)(1)(ii) states:

> In the event that the natural gas distribution company adjusts rates more frequently than quarterly, it shall also offer retail gas customers a fixed-rate option which recovers natural gas costs over a 12-month period, subject to annual reconciliation under paragraph (5).

The Proposed Order is unclear as to whether NGDCs are required to offer an annual fixed rate option. Offering an annual fixed rate option seems to contradict the purpose of a monthly

PGC adjustment. PECO does not support an annual fixed rate option and requests that the Commission clarify the effect of 66 Pa.C.S. § 1307(f)(1)(ii) on the proposed Order.

B. Purchase of Receivables.

1. PECO supports a voluntary POR program.

In its March 27, 2009 Proposed Order, the Commission seeks comments on using Purchase of Receivables ("POR") programs to reduce customer costs and ease market entry. PECO believes that POR programs can succeed if they remain voluntary. A voluntary POR program with standardized discounts, applicable to all suppliers, for installation, program, incremental and lost revenue costs and that allows for NDGC controlled billing can be fair and reasonable.

The Commission supported the development of voluntary POR programs in its December 18, 2008 Order, *Establishment of Interim Guidelines for Purchase of Receivables (POR) Programs* at Dockets M-2008-2068982 and I-00040103F0002, wherein it created interim guidelines for the design and implementation of voluntary POR programs. PECO urges that POR programs remain voluntary pursuant to the already established guidelines.

2. NDGC billing will minimize uncollectibles.

PECO supports POR programs where the NGDC controls billing. This Proposed Order intends to shift uncollectible supplier risk to NGDCs. Allowing NGDC billing will minimize uncollectibles in the spirit of Chapter 14. If an NGDC controls billing, it will have an existing customer account it can use to keep uncollectibles from growing too high. When an

NGDC controls billing it has real-time knowledge of the delinquency. Once it purchases the receivable immediate collection efforts may begin. NGDC billing also supports the purpose of 66 Pa.C.S. § 1402, which is to protect good paying customers from increased rates due to uncollectibles. Lower uncollectibles means that fewer costs will be spread over all customers. Therefore, NGDCs should be allowed to perform all billing so they can better control the risk of unpaid supplier balances.

3. PECO supports a POR program that allows NGDCs to purchase receivables at reasonable discounts.

PECO believes that a successful POR program will offer a standardized discounted rate for program costs and uncollectible risk. The main result of a POR program is to shift NGS risks and costs to NGDCs. NGS receivables do not contain enough value to fully cover these risks and costs. To make purchasing receivables fairer, NGDCs should be allowed reasonable discounts.

As the Commission has recognized, discounts should first be allowed for POR program costs including implementation, operating and incremental costs. POR Information Technology ("IT") costs can be expensive and timely. For example, PECO's IT costs alone would exceed $1.5 million. PECO also supports an appropriate discount for uncollectible risk as NGDCs will often sell the receivables below their purchase price.

PECO further requests that the discount be a standard rate proposed by the individual NGDC and approved by the Commission. Allowing each marketer to negotiate different discounts will require more time to manage and administer. PECO also supports setting different rates between different customer classes. Therefore, PECO supports voluntary POR programs which allow for reasonable discounts at a standard rate.

4. Using PORs to satisfy security requirements should be decided in another Proposed Rulemaking Order at Dockets L-2008-2069115 and I-00040103F0002.

The Commission's proposed regulation at 52 Pa. Code § 62.224(c) allows NGSs to use receivables to satisfy security requirements for market entry and maintenance. PECO suggests that this proposal is currently the subject of another proposed rulemaking[1] and should remain in that proceeding. Therefore, PECO requests that using receivables to satisfy security requirements should not be addressed in this Proposed Order.

C. Mandatory Capacity Assignment.

1. PECO supports capacity assignment that mirrors its Supplier Coordination Tariff.

In its March 27, 2009 Proposed Order, the Commission seeks comments on loosening NGDC control of natural gas pipeline capacity. The Commission proposes that all capacity transfers be nondiscriminatory and at applicable contract rates. PECO supports the Commission's goal of granting NGSs more capacity. PECO respectfully suggests that such assignment mirror its existing capacity transfer program.

PECO's Gas Choice Supplier Tariff already has a capacity assignment program that offers marketers the choice to accept its assigned capacity or shop for a better deal. Tariff rule 10.4.1 states:

[1] Licensing Requirements for Natural Gas Suppliers; SEARCH Final Order and Action Plan: Natural Gas Supplier Issues, Dockets L-2008-2069115 and I-00040103F0002

> **10.4.1 Assignment of Pipeline FT Capacity and Determination of Aggregate Daily Contract Quantity ("ADCQ").** Each Supplier shall receive a twelve (12) month assignment of the Company's Pipeline FT Capacity at the applicable maximum rate charged by the pipeline. The amount of Pipeline FT Capacity assigned to a Supplier shall be based on the Supplier's ADCQ in Dth/day. The ADCQ shall be determined based on the Supplier's LVT Customer Group estimated daily average usage under normal actual weather conditions in the winter period, December through February, as reflected in the Company's Reliability Plan. [Citation omitted.]

This rule gives NGSs more access to interstate natural gas pipelines by allowing NGSs assignments based on the amount of NGS Low Volume Transportation ("LVT") customers and the amount of capacity assigned to the NGS – the Aggregated Daily Contract Quantity ("ADCQ").[2] This rule also furthers Commission efforts for non-discriminatory capacity transfers as it applies equally to all marketers based on respective supplier needs.

Rule 10.4.1 also furthers the Commission's desire for capacity transfers at applicable contract rates. PECO's tariff states that, "Each Supplier shall receive a twelve (12) month assignment of the Company's Pipeline FT Capacity *at the applicable maximum rate charged by the pipeline.*" PECO pays the maximum rate to the pipelines and simply passes that cost to the supplier. As PECO makes no profit from assignment, participating suppliers will truly pay the applicable contract rate.

PECO's capacity assignment program also allows suppliers more freedom than the proposed mandatory capacity assignment. PECO's tariff rule 18.2 states:

> Character of Service under the DSO constitutes a limited exception to the otherwise applicable rules under this Tariff. An NGS taking service under the DSO (a) except as required under Rule 18.4, *shall not be required to take assignment or release of the Company's Pipeline FT Capacity as otherwise required under Rule 10.4.1, Assignment of FT Pipeline Capacity and*

[2] The firm transportation capacity ("Pipeline FT Capacity") in Dths assigned by the Company to the Supplier and required to deliver Competitive Natural Gas Supply to Supplier's LVT Customers (as defined later) or, pursuant to Rule 18.1, the capacity resource equivalent thereto for which the Supplier has the obligation to obtain and maintain each day during the effective period of its Delivery Service Option election.

Determination of Aggregate Daily Contract Quantity; and (b) must Cash-out its Monthly Imbalance in accordance with Rule 18.5 below.

Rule 18.2 explains that NGSs shall not be required to take assignment. If a marketer does not want PECO's capacity and believes there is a better deal to be had elsewhere, it can shop. This gives suppliers the freedom to obtain the cheapest capacity available. PECO also requests that enough capacity remain available for NGDCs to recall in situations requiring NGDCs to meet SOLR requirements. Therefore, PECO supports capacity assignments and suggests that the proposed regulation mirror PECO's existing capacity assignment program.

D. NGDC Costs of Competition Related Activities.

1. PECO supports recovery of competition related activity costs through an automatic adjustment surcharge.

In its March 27, 2009 Proposed Order, the Commission seeks comments on implementing a surcharge so NGDCs may recover their competition related activities. PECO supports using a nonbypassable reconcilable surcharge " 'to recover reasonable costs that are prudently incurred in connection with the implementation of any changes designed to promote the development of effective competition in the retail market.' " (Proposed Order, p. 7, quoting from the Commission's Action Plan).

E. Regulatory Assignments.

1. PECO supports a nonbypassable surcharge to recover regulatory assignments.

In its March 27, 2009 Proposed Order, the Commission seeks comments on implementing a surcharge, calculated annually, so NGDCs may recover their assessments to fund the Commission. PECO supports using a nonbypassable reconcilable surcharge to recover these costs.

CONCLUSION

PECO appreciates the opportunity to comment on the Proposed Rulemaking Order. PECO respectfully requests that the Commission adopt its comments, which are reflected in the attached redlined copy of Annex A to the Proposed Order.

Respectfully submitted,

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Attachment

Annex A
TITLE 52. PUBLIC UTILITIES
PART I. PUBLIC UTILITY COMMISSION
Subpart C. FIXED SERVICE UTILITIES
CHAPTER 62. NATURAL GAS SUPPLY CUSTOMER CHOICE
Subchapter G. NATURAL GAS DISTRIBUTION COMPANIES
AND COMPETITION

§ 62.221. Purpose. To foster a competitive retail marketplace for natural gas service to residential and small commercial customers, it is essential that consumers be able to compare the price of gas purchased from their incumbent NGDCs with that offered for sale by NGSs. This subchapter sets forth a number of regulatory changes ~~which will provide a more level playing field between NGDCs and NGSs and, therefore,~~ to promote competition for natural gas supplies.

§ 62.222. Definitions

The following words and terms, when used in this subchapter, have the following meanings, unless the context clearly indicates otherwise:

Act -- The Natural Gas Choice and Competition Act (66 Pa.C.S. §§ 2201 -- 2212).

~~***GPC -- Gas procurement charge*** -- A mechanism by which the effect of natural gas procurement costs removed from an NGDC's base rates are recovered.~~

~~***GPRR -- Gas procurement reduction rate*** -- An equal offsetting credit to the GPC, billed to all residential and small commercial customers.~~

NGDC -- Natural gas distribution company -- As defined in § 2202 of the ~~a~~Act (relating to definitions).

~~***NGPA -- Net gas procurement adjustment*** -- A tariff rider designed to create a rate neutral adjustment to currently existing base rates and the PGC rate to develop a reasonable PTC by shifting SOLR costs related to procurement from the base rate cost of distribution to the PTC.~~

NGS -- Natural gas supplier -- As defined in § 2202 of the ~~a~~Act.

Natural gas supply service -- The provision of natural gas to end users as defined at 52 Pa. Code § 62.72 (relating to customer information disclosure).

PGC -- Purchase gas cost -- Natural gas costs which are collected, with adjustments, by NGDCs from their customers pursuant to 66 Pa. C.S. § 1307(f) (relating to recovery natural gas costs).

POR -- Purchase of receivables — Voluntary ~~P~~program by which an NGDC purchases the accounts receivable of NGSs at a standardized discount determined by the NGDCs and approved by the Commission.

PTC -- Price to compare -- ~~A line item that appears on a retail customer's monthly bill for SOLR service~~. The PTC is equal to the sum of all unbundled natural gas costs and natural gas procurement costs-related charges to a default service customer for that month of service.

SOLR -- Supplier of last resort -- A supplier approved by the Commission under section 2207(a) of the ~~a~~Act (relating to obligation to serve) to provide natural gas supply services to customers:

(i) Who contracted for natural gas that was not delivered.

(ii) Who did not select an alternative NGS.

(iii) Who are not eligible to obtain competitive natural gas supply.

(iv) Who return to the supplier of last resort after having obtained competitive natural gas supply.

~~***Small business customer*** — As defined at 52 Pa. Code § 62.72.~~

~~**§ 62.223. Price to compare.**~~

~~(a)A NGDC shall establish a GPC. The GPC shall be added to the cost of supply rate developed under 66 Pa. C.S. §1307(f) (relating to recovery of natural gas costs) to create a comparable PTC. The GPC shall be adjusted and reconciled annually in conjunction with the 1307(f) process to become effective with new PGC rates.~~

~~(b)A NGDC shall remove all natural gas procurement costs from its base rates as part of its next filing under 66 Pa. C.S. § 1308(d) (relating to general rate increases). The expenses shall be recovered through a separate GPC surcharge. The NGDC shall include a proposed tariff rider to establish a GPC within the requirements of 66 Pa. C.S. §1307 (relating to sliding scale of rates; adjustments).~~

~~(c)A NGDC, in its next purchased gas cost filing under 66 Pa. C.S. § 1307(f), shall submit a proposed tariff rider to establish a NGPA within the requirements of 66 Pa. C.S. §1307.~~

~~(d)The NGPA shall be designed to create a rate neutral adjustment to currently existing base~~

~~rates and the PGC rate to develop a reasonable PTC by shifting SOLR costs related to procurement from the base rate cost of distribution to the PTC.~~

~~(e)The proposed NGPA tariff rider shall establish a GPC on a per MCF/DTH basis to be applied to customers' bills receiving SOLR service for the recovery of gas procurement costs currently recovered through base rates, and a GPRR on a per MCF/DTH basis, as an equal offsetting credit to the GPC, billed to all residential and small commercial customers.~~

~~(f)The GPC and NGPA riders shall identify:~~

~~(1)How the surcharge will be calculated.~~

~~(2)Which costs will be recovered through the surcharge by:~~

~~(i)Customer class and cost category~~

~~(ii)FERC account number including the specific sub-accounts used to recover eligible procurement costs.~~

~~(g)The NGPA rider shall remain in effect until establishment of new base rates and a PGC rider following a base rate proceeding under 66 Pa. C.S. § 1308(d).~~

~~(h)The GPC shall be adjusted monthly.~~

~~(i)The GPC shall be subject to audit.~~

~~(j)A NGDC shall adjust its PGC monthly.~~

§ 62.224. Voluntary Purchase of receivables programs.

(a) Program design.

(1) A NGDC may purchase accounts receivable from licensed NGSs which operate on the NGDC system and who wish to sell the receivables.

(2) A NGDC may purchase receivables associated with natural gas supply service charges and may not purchase other receivables that may be incurred by NGSs. The NGS shall certify that charges do not include receivables for any other products or services.

(3) A NGDC may voluntarily purchase NGS accounts receivable at a discount to recover 1) ~~incremental~~ costs associated with POR program development, implementation and administration; 2) uncollectible costs.

(4) ~~When a NGDC chooses to purchase accounts receivable at a discount, it shall negotiate the discount rate with the NGS on its distribution system~~The NGDC shall propose a standardized discount for purchases of receivables to the Commission for review and acceptance.

~~(i)It shall give fair notice to the NGSs of the time and place of negotiation.~~

~~(ii)It shall apply the same discount rate to all accounts receivable it purchases on its system.~~

~~(iii)~~(i)~~It shall renegotiate~~The Commission shall reset the discount rate based upon NGDC proposals for standard discounts not less than once every 5 years.

(5) POR programs shall include only receivables on residential and small business customer accounts.

(6) When a NGDC purchases accounts receivable from a NGS through a Commission-approved voluntary POR program and the accounts receivable are comprised only of charges for basic natural gas supply, the NGDC may terminate service to customers for failure to pay the NGS supply charges applicable to the purchased receivable.

(7) To ensure that a NGDC's affiliated suppliers do not receive an advantage over non-affiliated suppliers, a POR program must be designed and implemented in accordance with 52 Pa. Code §§ 62.141 - § 62.142. (relating to standards of conduct).

(8) A NGDC POR program shall be included in a supplier coordination tariff, as defined by Commission rules, regulations and orders, and approved by the Commission prior to implementation.

(9) A NGDC may include the difference between its cost of the purchased receivables and the amounts it has actually collected as part of its uncollectible expense in its next base rate case, offset by any discount allowed for uncollectibles, when it agrees to share with its customers the losses or gains associated with POR program collections.

(10) The NGDC shall track its POR program purchases and collections.

(b) *Customer care.*

(1) A NGS shall follow Commission regulations relating to customer service including Chapter 56 (relating to standards and billing standards), §§ 62.71-62.80 (relating to customer information disclosure), and § 62.114 (relating to standards of conduct and disclosure for licensees).

(2) A NGS shall respond to customer complaints regarding rate disputes in not more than 30 days consistent with Chapter 56 § 141 (relating to dispute procedures), § 151 (relating to general rule) and Chapter 62 § 79 (relating to complaint handling process) of the Commission regulations.

(3) A NGDC shall follow Chapter 14 of the Public Utility Code (relating to responsible utility customer protection) and Chapter 56 of Commission regulations when terminating service to a customer for failure to pay NGS natural gas supply charges purchased under the POR program.

(4) Reconnection of service to NGS customers following termination must be made in accordance with provisions of Chapter 14 of the Code and applicable Chapter 56 regulations.

(5) A NGDC shall agree to inform all customers that service may be terminated for failure to pay NGS supply charges applicable to the purchased receivable by a separate bill insert that specifically describes the policy for termination of service.

(6) An enrollment letter issued by a NGDC at the time of selection of the NGS shall inform customers that service may be terminated for failure to pay the NGS supply charges applicable to the purchased receivable.

~~(c) *Satisfaction of the security requirements for licensing.* A NGS's accounts receivable may be used to satisfy in full or in part the security required for licensing as a natural gas supplier.~~

§ 62.225. Release, assignment or transfer of capacity.

(a) A NGDC holding contracts for firm storage or transportation capacity, ~~including gas supply contracts with Pennsylvania producers, or a city natural gas distribution operation,~~ may release, assign or transfer the capacity ~~or Pennsylvania supply~~, in whole or in part, associated with those contracts to licensed NGSs or large commercial or industrial customers on its system.

(1) A release, assignment or transfer shall be made on a nondiscriminatory basis.

(2) A release, assignment or transfer shall be at the applicable contract rate for capacity ~~or Pennsylvania supply~~ and shall be subject to applicable contractual arrangements and tariffs.

(3) The amount of capacity released, assigned or transferred shall be sufficient to serve the level of the customers' requirements for which the NGDC has procured the capacity determined in accordance with the NGDC's tariff or procedures approved in its restructuring proceedings.

§ 62.226. Natural gas distribution company costs of competition related activities.

(a) As part of its next annual filing pursuant to 66 Pa. C.S. § 1307(f), a NGDC may include a proposed tariff rider to establish a nonbypassable reconcilable surcharge filed within the requirements of 66 Pa. C.S. § 1307 designed to recover the reasonable and prudently incurred costs of implementing and promoting natural gas competition within the Commonwealth.

(b) The surcharge shall be calculated annually and adjusted to account for past over- or under-collections in conjunction with the 1307(f) process to become effective with new PGC rates.

(c) The surcharge shall be recovered on a per unit basis on each unit of commodity which is sold or transported over its distribution system without regard to the customer class of the end user.

(d) Before instituting the surcharge, a NGDC shall remove the amounts attributable to promoting retail competition from its base rates. This may be done through a 66 Pa. C.S. § 1308 (relating to voluntary changes in rates) rate case filed not less than 5 years after first seeking recovery through a 66 Pa. C.S. § 1307 nonbypassable mechanism.

(e) Until a NGDC which seeks a nonbypassable recovery of its costs of promoting retail competition files a base rate case under 66 Pa. C.S. § 1308(d), the NGDC shall eliminate the effect of recovery of these costs in base rates though the filing of a credit to its base rates equal to the amount in base rates. This may be established through the filing of a fully allocated cost of service study and a proposed tariff rider in the NGDC's proceeding under 66 Pa. C.S. § 1307(f) to establish a revenue neutral adjustment clause to credit base rates for the costs associated with promoting retail competition that are currently reflected in base rates and to recover fully those costs through a nonbypassable reconcilable surcharge. The credit and surcharge shall be adjusted not less than annually through the 66 Pa. C.S. § 1307(f) process.

(f) The revenue neutral adjustment clause rider shall remain in effect until establishment of new base rates under 66 Pa. C.S. § 1308(d) which include a fully allocated cost of service study to remove these costs from base rates.

(g) The surcharge shall be subject to audit.

§ 62.227. Regulatory assessments.

(a) As part of its next annual filing pursuant to 66 Pa. C.S. § 1307(f), a NGDC shall include a proposed tariff rider to establish a nonbypassable reconcilable surcharge filed within the requirements of 66 Pa. C.S. § 1307 designed to recover the NGDC regulatory assessment payments made pursuant to 66 Pa. C.S. § 510 (relating to assessment for regulatory expenses upon public utilities).

(b) The surcharge shall be calculated annually and shall include costs associated with regulatory assessments for the Public Utility Commission at 66 Pa. C.S. § 510, the Office of Consumer Advocate at 71 P.S. § 309-4.1 (relating to assessment upon public utilities, disposition, appropriation and disbursement of such assessments), and the Office of Small Business Advocate at 73 P.S. § 399.46 (relating to assessment upon public utilities; disposition, appropriation and disbursement of such assessments). The NGDC shall include in its annual filing:

(1) Copies of its most recent annual bills for the Commission for each assessment.

(2) Copies of adjusted bills or refunds received since its prior filing.

(3) Proof of payment of each bill.

(c) The surcharge shall be recovered on a per unit basis on each unit of commodity which is sold or transported over its distribution system without regard to the customer class of the end user.

(d) The surcharge shall be adjusted annually to account for past over- or under-collections in conjunction with the 1307(f) process to become effective with new PGC rates.

(e) <u>Before instituting the surcharge, a NGDC shall remove the amounts attributable to the regulatory assessments from its base rates. This may be done through a 66 Pa. C.S. § 1308 rate case filed not less than 5 years after first seeking recovery through a 66 Pa. C.S. § 1307 nonbypassable mechanism.</u>

(f) <u>Until a NGDC which seeks a nonbypassable recovery of its regulatory assessments files a base rate case under 66 Pa. C.S. § 1308(d), the NGDC shall eliminate the effect of recovery of assessment payments in base rates though the filing of a credit to its base rates equal to the amount of assessment costs in base rates. This may be established through a fully allocated cost of service study and a proposed tariff rider in the NGDC's next proceeding under 66 Pa. C.S. § 1307(f) to establish a revenue neutral adjustment clause to credit base rates for the assessment costs reflected in rates and to recover fully those assessment costs through a nonbypassable reconcilable surcharge. The credit and surcharge shall be adjusted not less than annually through the 66 Pa. C.S. § 1307(f) process.</u>

(g) <u>The revenue neutral adjustment clause rider shall remain in effect until establishment of new base rates under 66 Pa. C.S. § 1308(d) which include a fully allocated cost of service study to remove these costs from base rates.</u>

(h) <u>The surcharge shall be subject to audit.</u>

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

NATURAL GAS DISTRIBUTION COMPANIES AND THE PROMOTION OF COMPETITIVE RETAIL MARKETS	: : :	Docket No. L-2008-2069114

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a true copy of Comments of PECO Energy Company to Recommendations to Coordinate Jurisdictional Universal Service Programs Into a Statewide Network upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Service by First Class Mail, postage prepaid, addressed as follows:

James McNulty, Secretary
Pennsylvania Public Utility
Commission
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Harrisburg, PA 17120

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Counsel for PECO Energy Company
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Dated: August 25, 2009

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