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November 21, 2008

VIA UPS OVERNIGHT

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
Harrisburg, PA 17120

Re: *Revision of Guidelines for Maintaining Customer Services*
Establishment of Interim Standards for
Purchase of Receivables (POR) Programs
Docket No. M-2008-2068982

Dear Secretary McNulty:

Enclosed for filing are an original and eleven (11) copies of the *Reply Comments of Reliant Energy, Inc.* These are being filed by UPS Overnight Delivery pursuant to 52 Pa. Code § 1.11, and should be deemed filed today, November 21, 2008. Please time-stamp the extra copy which we will pick up by messenger on Monday, November 24, 2008. Please contact me if you have any questions.

Very truly yours,

Richard J. Hudson Jr.
For Reliant Energy, Inc.

Enclosures

cc: Patricia Krise Burket, Assistant Counsel (via e-mail to pburket@state.pa.us)
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PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Revision of Guidelines for Maintaining Customer Services: Establishment of Interim Standards for Purchase of Receivables Programs (POR)	**Docket No. M-2008-2068982**

REPLY COMMENTS OF RELIANT ENERGY, INC.

Reliant Energy, Inc. ("Reliant") is pleased to have the opportunity to offer these comments on the importance of properly structured Purchase of Receivables ("POR") programs for the development of retail competition. Reliant provides electricity and energy services to retail and wholesale customers in the Commonwealth of Pennsylvania as well as in other states. Reliant provides retail service to approximately 1.8 million customers nationwide, with sales of approximately 68,000 GWhs. Also, through its subsidiaries, Reliant has more than 15,000 MW of power generation capacity in operation in the United States.

Reliant has submitted comments to the Commission concerning POR in the electric industry in the Commission's Retail Markets Working Group ("RMWG") proceeding[1] and Reliant intends to fully participate in the RMWG process. During the first meeting of the RMWG, Reliant became aware that the development of these Interim Standards for POR in the natural gas industry may be informative on the development of similar Commission policy in the electric industry. Accordingly, to the extent that these Interim Standards affect the Commission's development of POR programs in the electric industry, Reliant offers the following comments.

[1] Docket No. M-00072009.

I. Why are POR programs important?

Reliant supports the implementation of properly structured Purchase of Receivables ("POR") programs. A POR program is a good tool to facilitate retail competition because it can level the playing field in terms of uncollectible debt expense between new suppliers and the incumbent electric distribution company ("EDC") or natural gas distribution company ("NGDC"). This is especially true in places like Pennsylvania where electric generation suppliers ("EGSs") and natural gas suppliers ("NGSs") cannot terminate service for non-payment of competitive supply charges. Also, as the Commission has recognized in its electric Default Service Policy Statement[2] and in its approval of the Duquesne Light POR program, POR can be an interim measure to mitigate the anticompetitive effects of improperly allocated uncollectible debt expense in distribution rates. POR also gives less creditworthy customers access to competitive supply offers because EGSs and NGSs have no reason to reject customers for credit reasons.

II. Reply Comments

A. Office of Consumer Advocate

i. Reliant supports "without recourse" POR programs that allow for termination of service for non-payment of competitive supply charges

In its comments, the Office of Consumer Advocate ("OCA") favored POR programs that do not involve termination of service for non-payment of competitive supply related charges. The OCA specifically refers to the billing and payment arrangement policies found in PECO's Electric Generation Supplier Tariff, whereby PECO pays EGSs the full amount of supply-related

[2] In its Final Policy Statement, the Commission noted that the Duquesne POR program "was adopted in lieu of fully and finally addressing the issue of embedded generation costs in distribution rates. As an interim step in responding to Section 69.1808, other EDCs may wish to consider proposing similar programs for Commission review and approval."

charges for 90 days. Reliant disagrees with OCA's recommendation for this form of POR program. POR programs should be "without recourse" meaning that the distribution company would purchase a supplier's receivables, would have the ability to pursue collection efforts from customers in the event of non-payment of competitive supply charges, but the supplier would have no liability for receivables that the distribution company is unable to collect.

The value of a POR program lies in placing the competitive supplier on equal footing with the distribution company in terms of bad debt expense. Where the distribution company has not fully unbundled its supply-related uncollectible expense from its distribution rates, a "without recourse" POR program with an appropriate discount rate can serve as a way of mitigating the anticompetitive effects of misallocated uncollectible debt expense. This is because a supplier can enroll and serve a customer and experience effectively the same level of overall bad debt risk as the distribution company. The PECO "POR" program does not provide this benefit because the distribution company is only obligated to purchases supplier receivables for 90 days. If an EGS enrolls a customer that develops arrearages after 90 days, the EGS must either absorb the full uncollectible expense for the customer or return the customer to default supply service provided by the distribution company. Such a program also has fewer customer benefits because suppliers still have an incentive to only market products to customers with good credit.

The OCA also refers to a Columbia Gas POR program where Columbia purchases the receivables of suppliers for a 5% discount rate, but is not permitted to terminate service for non-payment of NGS charges. Such a program is also ineffective because the inability to terminate service for non-payment of competitive supply charges leads to a higher level of uncollectible expense and thus a higher discount rate for the program. The ability to disconnect for non-

payment is the most effective collection tool and only EDCs and NGDCs have service termination rights. This places competitive suppliers at a severe competitive disadvantage compared to default supply service. As the OCA mentions in its comments, in the Duquesne Light POR program, Duquesne was given the ability to terminate service for non-payment of EGS charges. Future POR programs should contain this same feature. Permitting the distribution company to terminate service for non-payment will increase collection rates and reduce the overall uncollectible expense experienced by the distribution company resulting in a lower discount rate for the POR program and thus lower competitive supply offers for customers. Also, allowing distribution companies to terminate service for non-payment of competitive supply charges will reduce opposition from EDCs and NGDCs to implementing POR programs.[3]

The OCA also recommends that a POR program should be limited to the purchase of supplier receivables associated with basic commodity service. Reliant disagrees. This would prevent competitive suppliers from offering a wide range of innovative value-added products and services to customers in conjunction with a POR program. In the electric industry, for example, EGSs that wished to offer energy efficiency, conservation or demand response services would have to bill these services separately which could create confusion and a poor experience for customers. Furthermore, because suppliers would lose the benefit of controlled bad debt expense for such services, they would be less likely to offer the beneficial products to less credit worthy customers.

[3] Reliant notes the following statement from PECO in its comments in this docket: "PECO would more readily propose a gas POR program if it knew that it could apply reasonable termination rules to manage this [uncollectible expense] risk." PECO Comments in Docket No. M-2008-2068982 at 2.

ii. Reliant supports POR programs with a discount rate that only reflects actual, incremental cost incurred by the distribution company

Reliant agrees with the OCA that the discount rate should only reflect the actual incremental cost incurred by the distribution company in implementing and administering the program and any incremental uncollectible cost experienced by the company as a result of the POR program. The discount rate should also take into account the extent to which uncollectible expense is embedded in existing distribution rates and ensure against double collection of generation related uncollectible costs. For example, if an EDC has not fully unbundled generation costs from distribution rates, then the EDC would already be recovering uncollectible expense (associated with both distribution service and generation service) through its regulated distribution rates. If the discount rate charged to EGSs fails to properly account for this, the EDC would collect and customers would pay for the same costs twice (i.e. once through the distribution rate and again through the POR discount rate).

B. Energy Association of Pennsylvania

i. Reliant supports expedient implementation of POR programs for the electric industry

The Energy Association of Pennsylvania ("Energy Association") appears to oppose rapid implementation of POR programs for NGDCs, instead favoring a full rulemaking process and voluntary implementation of POR by NGDCs. Reliant opposes such a process to the extent the Commission would apply a similar process in implementing POR in the electric industry. As Reliant stated in its comments to the RMWG, the Commission has already recognized that POR programs are in the public interest and has articulated its intention that such retail market enhancement policies be put in place with sufficient time so programs like POR can be

implemented prior to the expiration of the remaining generation rate caps.[4] Therefore, Reliant believes that the RMWG should provide its recommendations on implementing POR in the electric industry as soon as possible. Reliant submits that an expedited process is necessary so the EDCs have sufficient time for the information technology and business process changes needed to implement many of the retail market enhancement measures. Reliant notes that PPL's generation rate cap expires on December 31, 2009, so time is of the essence.

III. Other Recommendations

A. The Commission should consider stand-alone POR programs for the electric industry

The Commission's development of particular POR policies for the gas industry in this docket should not preclude the Commission from considering other POR features or alternative ways of structuring POR programs in the RMWG. For example, Reliant recommends that POR should be available as a stand-alone program that can be used in conjunction with any of the billing options offered by the EDC. In other words, POR should not be limited to just those suppliers that choose to utilize the utility consolidated billing option where the EDC provides a single bill that includes both the distribution and supply charges. Competition and customer service will be enhanced if suppliers are able to directly bill their customers and foster an ongoing positive customer relationship. Accordingly, suppliers that wish to utilize supplier consolidated billing or dual billing should not be denied the benefit of participating in the POR program.

[4] "Our expectation is that the activities of this working group will be completed well before the expiration of the remaining generation rate caps." Final Policy Statement at 14.

IV. Conclusion

In conclusion, Reliant appreciates the opportunity to present these reply comments to assist the Commission in its development of properly structured POR policies.

Respectfully submitted,

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