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June 10, 2008

VIA OVERNIGHT UNITED PARCEL SERVICE

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

Re: Retail Markets Working Group, Docket No. M-00072009
Purchase of Receivables Statement

Dear Secretary McNulty:

Pursuant to the Notice published in the *Pennsylvania Bulletin* on April 26, 2008 regarding the Retail Markets Working Group, Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company (hereinafter collectively referred to as "the Companies" or "FirstEnergy") hereby submit an original and eleven (11) copies of the attached Purchase of Receivables Statement that represents the views of the Companies. Please date stamp the additional copy and return it as evidence of filing in the enclosed, postage-prepaid envelope.

Also being filed today are statements by the Energy Association of Pennsylvania ("EAPA"). Although FirstEnergy generally supports the statements made by EAPA, the Companies believe it is necessary to file an additional statement regarding the purchase of receivables topic. The contact people for all FirstEnergy issues are:

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June 10, 2008

Please contact me at the above phone number should you have any questions.

Sincerely,

Linda R. Evers /dm

Linda R. Evers, Esquire

dlm
Enclosures

c: Lawrence F. Barth, Esq. - Law Bureau (via email)
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Retail Markets Working Group	:	**Docket No. M-00072009**

PURCHASE OF RECEIVABLES STATEMENT OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY AND PENNSYLVANIA POWER COMPANY

I. Background and Introduction

Pursuant to its Final Policy Statement on Default Service and Retail Electric Markets adopted May 10, 2007 at Docket No. M-00072009, the Pennsylvania Public Utility Commission ("Commission" or "PUC") is convening the Retail Markets Working Group. Notice of the working groups and a request for statements on the following topics: information and data access, rate and bill ready billing, purchase of receivable, customer referral programs, supplier tariffs, and retail choice ombudsman were published the *Pennsylvania Bulletin* on Saturday, April 26, 2008. The purpose of the working group is to develop policy recommendations in certain areas to enhance customer choice and the development of robust and effective retail markets.

This position paper is being filed on behalf of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company (hereinafter collectively referred to as "the Companies" or "FirstEnergy"). It will discuss § 69.1814 Purchase of

Receivables ("POR"). Under separate cover, the Energy Association of Pennsylvania will be filing position statements which the Companies generally support. However, FirstEnergy felt it was necessary to file its own statement regarding POR.

II. Discussion

Pursuant to § 69.1814, "The public interest would be served by the consideration of an EGS receivables purchase program in each service territory." POR is being examined as a way to increase electric generation supplier ("EGS") participation and expand customer participation in the retail electric generation market. In a POR program, the electric distribution company ("EDC") purchases a retail EGS's accounts receivable, most often at a discount. FirstEnergy believes that allowing EGSs to develop collection procedures will be more effective than POR programs in creating a vibrant competitive market. The public interest is better served from a competitive market instead of the subsidization of one market participant over another. EGSs should not be subsidized in any way by an EDC's distribution ratepayers, default service customers, or shareholders.

An alternative to implementing POR programs is to unbundle a portion of the uncollectible accounts expense from the distribution charge and incorporate that amount into the retail generation price charged to customers for default service. Uncollectible accounts expense can be expected to rise proportionately as a result of the change in price for default service when rate caps expire. The first step in this method is to reflect the incremental cost of uncollectible accounts expense in the retail default service price to customers. This will enable competitive retail suppliers an a priori opportunity to factor that incremental cost into competitive supply offerings to customers until such time as a full unbundling of rates occurs.

Initially, there will be little historical experience available to budget additional uncollectible accounts expense a priori. Therefore, EDCs should develop an incremental uncollectible accounts expense based on the historical relationship of uncollectible accounts expense to total rates just prior to the company's generation rates going to market. This relationship is then applied to the change in generation price from capped rates to default service rates to develop an incremental amount of uncollectible accounts expense associated with market-based generation rates. Those incremental dollars divided by the projected sales in kWh yields a cents-per-kWh adjustment to the retail price of default generation supply.

The adjustment to the retail default service prices for uncollectible accounts expense will not be a component of the default service reconciliation. The reconciliation will address only the revenues billed to customers for generation supply and the costs paid to suppliers for generation supply associated with default service supply. The Companies believe this approach is better than having one market participant subsidize another. Additionally, the following is a partial list of concerns with implementation of a POR program:

1. Risk of uncollectible expense increasing. POR programs can result in thousands of dollars of additional expense to those companies electing to provide it in the form of unpaid supplier receivables. Current rules in place in Pennsylvania do not allow the EDC to disconnect customers for non-payment of advanced payment receivables. As a result, the EDC has little

ability to require payment from the customer. With growing concerns about the economy the magnitude of this risk is enormous.

2. No measurable impact on shopping statistics. There is no evidence of where an EDC offering a POR program lead directly to a boost in shopping levels. In fact, throughout the transition period some EDCs have offered an advanced payment POR program and no EGSs are currently active in those territories.

3. Negative impact on working capital. A POR program that includes an advanced payment provision would require that EGSs be paid for their residential receivables prior to the EDC receiving payment by customers. A POR program that required remittance to the EGS to be based on historic averages of retail customer payment lag places the EDC at risk for changes in the historic averages.

4. Significant cost for system programming changes, employee training and customer notification of changes. System changes would be extensive as would employee training requirements.

5. Ongoing administrative costs. A significant increase in customer calls to the EDC's contact center may arise related to a POR program. There would also be ongoing costs related to administering the program with EGSs, researching EGS and customer inquiries related to payments, etc.

6. Costs associated with increased customer complaints and/or confusion related to collection activities resulting from EGS receivables purchased by the EDC.

7. EGSs should not be subsidized in any way by an EDC's distribution ratepayers, default service customers, or shareholders.

III. Conclusion

In the event the Commission seeks to promote POR programs in spite of the aforementioned shortcomings, the Companies believe EDC implementation of POR programs should be voluntary. Terms of the programs, including purchase discounts, should be negotiated by each EDC that agrees to participate in the POR programs. As previously stated, no POR program can substitute for more competitive offerings from EGSs at the time of rate cap expiration. Instead of unfair subsidization, the most competitive market is a free market.

Respectfully submitted,

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