
INTANGIBLE TRANSITION CHARGE 2 (ITC-2)

(N)

Applicable to All Schedules

The Intangible Transition Charge 2 ("ITC-2") is a non-bypassable charge applicable to all Customers accessing the transmission and distribution network. The ITC-2 is incorporated into all tariff rate schedules and recovers the Company's approved Qualified Transition Expenses ("QTEs") not recovered by other mechanisms.

Recovery Period

The ITC-2 shall apply to all Customers' bills for service rendered on and after the issuance date(s) of the Transition Bonds until the earlier of (1) payment of all Reconciliation Funding Requirements or (2) December 31, 2010. After the Transition Bond principal, interest and all other associated QTEs have been paid in full and the Capital Subaccount has been fully replenished, any overcollection of ITC-2 revenues, including an amount equal to the balances (plus any accrued interest) remaining in the General Subaccount, the Overcollateralization Subaccount and the Reserve Subaccount, will be reflected in a temporary reduction in distribution rates.

ITC-2 Revenue Requirement Allocation

The ITC-2 revenue requirement shall be allocated among Rate Schedules utilizing the same methodology approved by the Commission at Docket Nos. R-00973981, R-00994649, and R-00039022 to allocate generation-related stranded costs.

Reconciliation

- (1) Reconciliation shall be conducted separately for each of the following three customer classes:

<u>Customer Class</u>	<u>Rate Schedule</u>
Residential	10
Commercial	20, 22, 23, 24
Industrial	30, 40, 41, 44, 46, 86, 51, 52, 53, 54, 55, 56, 57, 58, 71, Special Contracts

Over/under collections for each Rate Schedule shall be combined to produce a total over/under collection for each of the three customer classes described above. The ratio of cumulative over/under collection to projected ITC-2 revenues for each customer class shall be applied to the projected ITC-2 revenues for each rate schedule within the respective customer class for the period during which the reconciliation adjustment applies to produce the appropriate adjustment.

- (2) Reconciliation Funding Requirements ("RFRs")

RFRs are amounts necessary to ensure the recovery of revenues sufficient to provide for the payment of principal, interest, acquisition, or redemption premiums and for other fees, costs and charges for the Transition Bonds approved by the Commission. The RFRs reflect amounts needed to satisfy any funding requirements of the Collection Account, less any amounts in the Reserve Subaccount which may include accrued interest on the balance within this subaccount, as well as any interest that may have been transferred to this subaccount from other accounts or subaccounts established by the bond trustee. The Collection Account may include the following subaccounts:

- (a) General Subaccount.
- (b) Overcollateralization Subaccount.
- (c) Capital Subaccount.
- (d) Reserve Subaccount.

(N) Indicates New

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(N)

(3) ITC-2 Adjustment

The ITC-2 rates included in each Rate Schedule shall be adjusted periodically to recover amounts sufficient to cover scheduled payments of principal and interest on the Transition Bonds, and all other RFRs, as well as the applicable Pennsylvania Gross Receipts Tax on the amount of the ITC-2, in full and on a timely basis. Filings made by the Company pursuant to the procedures established herein are subject to review and audit by the Commission, which review and audit must be concluded on a timely basis so as to permit implementation of the changes in ITC-2 rates by the applicable deadlines.

(4) Annual Procedure

This reconciliation will be conducted separately for each of the following three Customer Classes: (1) Residential; (2) Commercial; and (3) Industrial. Any over/under collection for a Customer Class will be allocated to each individual Rate Schedule included within that Customer Class based upon the ratio of (1) the cumulative ITC-2 over/under collection applicable to the Customer Class to (2) the projected ITC-2 revenues for the Customer Class for the period during which the ITC-2 reconciliation factor will be applied. Rates will become effective for bills rendered on or after January 1 and will remain in effect for a period of one year or until new ITC-2 rates are approved by the Commission.

Beginning in the first full or partial calendar year of the term of the Transition Bonds and continuing until twelve months prior to the last scheduled date for the payment of principal on each series of Transition Bonds, the ITC-2 shall be reconciled on an annual basis. Reconciliation may be conducted on a quarterly basis if deemed necessary by the Company.

On January 15, April 15 and July 15 of each year, the Company shall file with the Bureau of Audits, quarterly reconciliation updates.

On October 1 of each year, the Company shall file with the Commission a schedule of actual ITC-2 over/under collections for the nine months ended August 31, together with an estimate of over/under collections for the three months ending on the immediately following November 30. As part of the October 1 filing, the Company also will present re-forecasts of deliveries, uncollectibles, payment lags and other expenses for the next calendar year.

The Company shall submit monthly updates to the October 1 filing within fifteen (15) days following the conclusion of each calendar month, replacing estimated data with actual data. Following the Commission's action on the November 15 filing, the Company shall file, in compliance, actual ITC-2 over/under collections as of November 30, replacing the previously submitted estimates as well as a tariff supplement and supporting data setting forth ITC-2 rates to become effective on the next January 1.

(5) Interim Procedure

Commencing twelve months prior to the last scheduled date for the payment of principal on each series of Transition Bonds, the Company shall have the right, at its option, to make interim reconciliation filings as often as monthly in order to minimize any possible over/under collection of ITC-2s until the next interim reconciliation adjustment becomes effective. The interim adjustments may be monthly or quarterly as determined by the Company and shall continue until the earlier of (1) payment of all RFRs or (2) December 31, 2010. Interim adjustments shall become effective for service rendered on and after the first day of the next calendar month, upon not less than fifteen days' notice. Interim reconciliation filings shall be based upon the cumulative differences between (1) the RFRs and (2) actual ITC-2 remittances. Interim reconciliation adjustments shall remain in effect until the next interim reconciliation adjustment becomes effective.

(N) Indicates New
