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PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1333 H STREET N.W., 2nd FLOOR, WEST TOWER
WASHINGTON, D.C. 20005

ORDER

December 14, 2006

FORMAL CASE NO. 945, IN THE MATTER OF THE INVESTIGATION INTO
ELECTRIC SERVICE MARKET COMPETITION AND REGULATORY PRACTICES,
ORDER NO. 14143

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") addresses the July 13, 2006 and July 31, 2006 filings made by the Potomac Electric Power Company ("PEPCO" or "Company") pursuant to Order No. 13968¹ and directs PEPCO to address additional questions regarding its Generation Procurement Credit ("GPC") Rider.

II. BACKGROUND

2. In Order No. 11576,² the Commission approved the Non-Unanimous Agreement of Stipulation and Full Settlement ("Phase I Settlement"), which authorized PEPCO to sell the bulk of its electric generating assets.³ After the divestiture of its generation assets, PEPCO was required to purchase power on the open market to meet the needs of its customers.⁴

3. In addition to guaranteed base rate reductions for both residential and commercial customers, the Phase I Settlement also provided PEPCO with an added incentive to realize the greatest monetary value from its future power purchases by assuring that PEPCO would retain a share of any savings it was able to produce through the GPC mechanism.⁵ Accordingly, the GPC mechanism provides that PEPCO share profits gained from its divestiture of generation services and procurement of energy in the open market with all ratepayers and shareholders through a bill credit that reflects the shared savings amounts, if any, in excess of the guaranteed rate reductions.⁶

¹ *In the Matter of the Investigation into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945, ("F.C. 945") Order No. 13968, rel. June 15, 2006.*

² *See F.C. 945, Order No 11576, rel. December 30, 1999.*

³ *Id.* at 47.

⁴ *Id.* at 41.

⁵ *Id.* at 47.

⁶ *Id.*

4. On February 27, 2006, PEPCO filed a proposal to revise its current GPC Rider to reflect the proceeds derived from the sale of its Transition Power Agreement ("TPA") related claim against the Mirant estate.⁷ On March 22, 2006, PEPCO filed an amended GPC Rider to correct an error discovered when responding to a Commission Staff data request.⁸

5. On June 15, 2006, in Order No. 13968, the Commission conditionally approved PEPCO's amended GPC Rider, commencing with the July 1, 2006 billing cycle. As approved, the amended GPC Rider resulted in the distribution of \$24.3 million in bill credits to District ratepayers over a twelve-month period.⁹

6. As explained in Order No. 13968, the Commission uncovered a large discrepancy in the amount of GPC procurement revenue reported for the Fourth GPC Procurement Period in its review of PEPCO's GPC filings.¹⁰ Specifically, the Commission noted a \$10.2 million reduction in GPC revenues from that reported in PEPCO's original GPC filing covering the Fourth GPC Procurement Period which had been submitted on July 12, 2005. After further inquiry, the Commission concluded that PEPCO had not adequately explained why it was appropriate to include \$10.2 million of previously unrecorded, unbilled revenue adjustments in its GPC true-up filing. Therefore, we directed PEPCO to respond to specific questions set forth in Order No. 13968 to clarify the unbilled revenue discrepancy discovered by the Commission in connection with PEPCO's GPC filings.

7. On July 13, 2006, PEPCO filed its response to the Commission's questions set forth in Order No. 13968.¹¹ On July 31, 2006, PEPCO filed a copy of Attachment 1 to PEPCO's response to a data request which had been referenced, but not included, in PEPCO's July 13, 2006 filing.¹² There were no comments filed in response to PEPCO's filings.

⁷ Letter to Dorothy Wideman, Commission Secretary, Public Service Commission of the District of Columbia ("Commission"), from Paul H. Harrington, Associate General Counsel, PEPCO (February 27, 2006) ("February 27 GPC Filing").

⁸ Letter to Dorothy Wideman, Commission Secretary, Commission, from Paul H. Harrington, Associate General Counsel, PEPCO (March 22, 2006) ("March 22 GPC Filing").

⁹ See Order No 13968 at 5.

¹⁰ See Order No 13968 at 4.

¹¹ PEPCO's Response to Questions set forth in Order No. 13968, (July 13, 2006) ("PEPCO Responses to Questions").

¹² PEPCO's Supplemental Response to Questions set forth in Order No. 13968, (July 13, 2006) ("PEPCO Supplemental Responses").

III. DISCUSSION

8. Central to our inquiry, we asked PEPCO to explain why its GPC true-up filing shows a \$10.2 million unbilled revenue adjustment for the Fourth GPC Procurement Period but no unbilled revenue adjustment for the Third GPC Procurement Period. In general, PEPCO explains that although the accounting entries for its unbilled revenue adjustments were posted during the period from February through December 2005, these adjustments actually related to unbilled revenues that were accrued during the Fourth GPC Procurement Period from February 8, 2004 to February 7, 2005. In drafting the Questions set forth in Order No. 13968, the Commission was very interested in PEPCO's response as to why there are no new unbilled revenue adjustments appearing for the Third GPC Procurement Period. The response that PEPCO supplied states only that if there were any such adjustments, PEPCO would have applied them in Year 4, which was the period in which the adjustments were actually booked.

9. The Commission has reviewed the original monthly unbilled revenue adjustments reported by PEPCO for the GPC procurement Years 3 and 4. While the overall yearly totals are of the same general order of magnitude, the monthly results across the two years (e.g., positive or negative) can vary significantly. Although it is plausible that PEPCO's explanation that Year 3 unbilled revenue adjustments were simply booked in Year 4, we lack sufficient support to make a reasoned finding regarding this conclusion. Lacking such support at this time, we remain unable to determine whether the \$10.2 million unbilled revenue adjustment is appropriate. Therefore, we direct PEPCO to answer the following additional questions related to its February and March GPC Filings:

- a. PEPCO has previously responded that unbilled revenue is normally quantified by the 7th business day of the following month. Provide a detailed description of all of the reasons why the quantification of unbilled revenue could take longer, i.e., occur later than the 7th business day of the following month.
- b. Provide the following information for GPC Procurement Periods 1 through 4:
 1. Total unbilled revenue, by month;
 2. The date on which the unbilled revenue identified in part (b.1) was quantified;
 3. If applicable, the reason(s) why the date identified in part (b.2) occurred later than the 7th day of the following month; and
 4. If applicable, whether the unbilled revenue adjustment identified in part (b.1) was applicable to a GPC Procurement Period other than the one to which it was booked. In such cases, identify the actual month and GPC Procurement Period to which the unbilled revenue adjustment applied.

THEREFORE, IT IS ORDERED THAT:

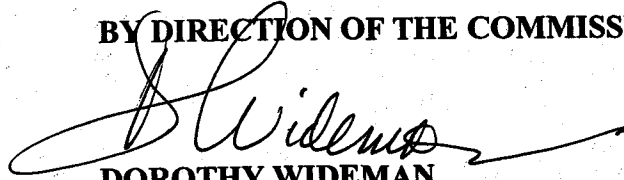
10. PEPCO is directed to respond to the questions set forth in paragraph 9 of this Order within thirty (30) days of the date of this Order; and

11. Interested parties may file initial comments regarding PEPCO's response to questions set forth in paragraph 9 of this Order within thirty (30) days of the date of the PEPCO's filing, and reply comments may be filed within fifteen (15) days after initial comments are filed.

A TRUE COPY:

BY DIRECTION OF THE COMMISSION:

CHIEF CLERK



**DOROTHY WIDEMAN
COMMISSION SECRETARY**