

1017-E-421

945-E-1535

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

ORDER

January 18, 2007

FORMAL CASE NO. 1017, IN THE MATTER OF THE DEVELOPMENT AND DESIGNATION OF STANDARD OFFER SERVICE IN THE DISTRICT OF COLUMBIA, and

FORMAL CASE NO. 945, IN THE MATTER OF THE INVESTIGATION INTO ELECTRIC SERVICES MARKET COMPETITION AND REGULATORY PRACTICES ORDER NO. 14171

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") hereby accepts the December 22, 2006 Residential Aid Discount ("RAD") compliance filing made by Potomac Electric Power Company ("PEPCO") in response to Order No. 14139.<sup>1</sup>

II. BACKGROUND

2. As a result of the restructuring of the electric industry in the District, PEPCO's rates were unbundled and a generation rate cap was put in place until February 8, 2005 for non-RAD customers and until February 8, 2007 for RAD customers.<sup>2</sup> Prior to February 2005, the RAD discount was funded via a base rate subsidy and the Reliable Energy Trust Fund ("RETF") RAD Expansion program.<sup>3</sup> In February 2005, market-based generation rates were adopted for non-RAD customers.<sup>4</sup> Since that time, PEPCO has absorbed the generation revenue shortfall stemming from the difference between the level of the RAD rate cap and market-based generation rates.<sup>5</sup> This has benefited RAD customers by effectively creating a rate cap on all of their kWh purchases.<sup>6</sup> On February 8, 2007, PEPCO will no longer be obligated to provide generation service at capped rates to RAD customers.<sup>7</sup> To mitigate the impact of the rate

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<sup>1</sup> See *In the Matter of the Development and Design of Standard Offer Service in the District of Columbia, Formal Case No. 1017 ("F.C. 1017") and Formal Case No. 945, Phase II, In the Matter of the Investigation Into Electric Services Market Competition and Regulatory Practices, ("F.C. 945")*, Order No. 14139 at p. 9, rel., Dec. 13, 2006. ("Order No. 14139").

<sup>2</sup> See Order No. 14139 at p. 9.

<sup>3</sup> See Order No. 14139 at p. 9.

<sup>4</sup> See Order No. 14139 at p. 9.

<sup>5</sup> See Order No. 14139 at p. 9.

<sup>6</sup> See Order No. 14139 at p. 9.

<sup>7</sup> See Order No. 14139 at p. 9.

increase that RAD customers are expected to experience, Order No. 14139 provided an additional discount to RAD customers.<sup>8</sup>

3. In an effort to balance the needs of non-RAD and RAD customers, the Commission adopted a rate increase of 7.5% effective February 8, 2007.<sup>9</sup> The Commission directed PEPCO to file new RAD generation rates reflective of its decision to increase total RAD rates on an across-the board basis.<sup>10</sup> Order No. 14139 also directed PEPCO to file a revised Reliable Energy Trust Fund ("RETF") Surcharge.<sup>11</sup> The revised surcharge is intended to recover the net RAD generation revenue shortfall, exclusive of the historical shortfall that would continue to be funded by the original RAD discount and the RETF RAD Expansion program, associated with the expiration of the RAD generation rate cap on February 7, 2007. In compliance with Order No. 14139, PEPCO submitted a compliance filing on December 22, 2006.<sup>12</sup> Comments on the PEPCO Compliance Filing were due on December 28, 2006. No comments were filed. Accordingly, below is a discussion of the PEPCO Compliance Filing.

### III. DISCUSSION

#### *Revised Generation Rates*

4. In accordance with Order No. 14139, PEPCO revised the RAD generation rates by implementing an across-the-board ("ATB") increase of 7.5% to all RAD customers. Table 1 below summarizes the derivation of PEPCO's proposed generation rates for standard RAD customers. Column 1 of the table below includes PEPCO's calculation of the current total RAD rate, by rate block. Column 2 shows the 7.5% increase to the current total RAD rate, by rate block. Finally, PEPCO adds the ATB increase in column 2 to the current RAD generation rates in column 3 to arrive at the proposed RAD generation rates in column 4. As a result, all RAD customers would experience a 7.5% increase on a total bill basis, independent of usage levels.

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<sup>8</sup> See Order No. 14139 at p.4.

<sup>9</sup> See Order No. 14139 at p. 4.

<sup>10</sup> See Order No. 14139 at p.11.

<sup>11</sup> See Order No. 14139 at p.11.

<sup>12</sup> The Potomac Electric Power Company's Revised Tariff Pages Reflecting the New RAD Generation Rates filed December 22, 2006. ("PEPCO Compliance Filing").

*Table 1*

## Derivation of Proposed RAD Generation Rates

|                           | <i>Total<br/>Current<br/>RAD<br/>Rates a/</i> | <i>ATB<br/>7.5%<br/>Increase</i> | <i>Current<br/>RAD<br/>Generation<br/>Rates c/</i> | <i>Proposed<br/>RAD<br/>Generation<br/>Rates</i> |
|---------------------------|---|----------------------------------|--|--|
|                           | (1)   | (2) = (1) x .075                 | (3)  | (4) = (2) + (3)                                  |
| <b>Summer</b>             |   |                                  |  |  |
| 1 <sup>st</sup> 30 kWh b/ | \$1.18  | \$0.09                           | \$0.74   | \$0.83   |
| Next 370                  | \$0.02292                                     | \$0.00172                        | \$0.01384  | \$0.01556  |
| Over 400                  | \$0.11648                                     | \$0.00874                        | \$0.07707  | \$0.08581  |
| <b>Winter</b>             |   |                                  |  |  |
| 1 <sup>st</sup> 30 kWh b/ | \$1.18  | \$0.09                           | \$0.74   | \$0.83   |
| Next 370                  | \$0.03881                                     | \$0.00291                        | \$0.02368  | \$0.02659  |
| Over 400                  | \$0.08615                                     | \$0.00646                        | \$0.05577  | \$0.06223  |

Notes: a/ Includes Distribution, Transmission, Generation and Surcharges.

b/ Minimum charge applicable to first 30 kWh.

c/ Includes ancillary services charges formerly collected in transmission rates.

5. With respect to RAD-AE (electric heating) customers, PEPCO's application of the 7.5% ATB rate increase is summarized in Table 2 below. The proposed generation rates shown in column 4 of Table 2 result in a 7.5% increase on a total bill basis, independent of usage levels, for all RAD-AE customers.

Table 2

## Derivation of Proposed RAD-AE Generation Rates

|                           | <i>Total<br/>Current<br/>RAD-AE<br/>Rates a/</i> | <i>ATB<br/>7.5%<br/>Increase</i> | <i>Current<br/>RAD-AE<br/>Generation<br/>Rates c/</i> | <i>Proposed<br/>RAD-AE<br/>Generation<br/>Rates</i> |
|---------------------------|--|----------------------------------|---|---|
|                           | (1)  | (2) = (1) x .075                 | (3)   | (4) = (2) + (3)                                     |
| <b>Summer</b>             |  |                                  |   |   |
| 1 <sup>st</sup> 30 kWh b/ | \$1.18   | \$0.09                           | \$0.74  | \$0.83  |
| Next 370                  | \$0.02429  | \$0.00182                        | \$0.01469   | \$0.01651   |
| Next 300                  | \$0.08812  | \$0.00661                        | \$0.05815   | \$0.06476   |
| Over 700                  | \$0.11648  | \$0.00874                        | \$0.07707   | \$0.08581   |
| <b>Winter</b>             |  |                                  |   |   |
| 1 <sup>st</sup> 30 kWh b/ | \$1.18   | \$0.09                           | \$0.74  | \$0.83  |
| Next 370                  | \$0.02429  | \$0.00182                        | \$0.01469   | \$0.01651   |
| Next 300                  | \$0.04470  | \$0.00335                        | \$0.02830   | \$0.03165   |
| Over 700                  | \$0.07306  | \$0.00548                        | \$0.04658   | \$0.05206   |

Notes: a/ Includes Distribution, Transmission, Generation and Surcharges.

b/ Minimum charge applicable to first 30 kWh.

c/ Includes ancillary services charges formerly collected in transmission rates.

*Revised RETF Surcharge*

6. In order to compute the revised RETF Surcharge, PEPCO first calculated the difference between the market cost of RAD and RAD-AE generation supply (less the original RAD subsidy and RETF RAD Expansion discounts) and the generation revenues that would be produced by the proposed RAD and RAD-AE generation rates.<sup>13</sup> Based on PEPCO's analysis, the difference is \$2.986 million. PEPCO then adds the \$2.986 million in additional RAD subsidies to the approved RETF budget for Year 1 of \$9.520 million,<sup>14</sup> to produce a total RETF funding target of \$12.506 million. Finally, PEPCO divides the \$12.506 million funding target by the latest three-year annual average of the District's non-RAD distribution kWh consumption to arrive at a revised RETF Surcharge of \$0.00090 per kWh, effective February 8, 2007.<sup>15</sup> We note that the current RETF Surcharge is \$0.00065 per kWh.

<sup>13</sup> See PEPCO Compliance Filing at Attachment A, page 2.

<sup>14</sup> See *F.C. 945*, Order No. 13475, rel. March 7, 2005.

<sup>15</sup> See PEPCO Compliance Filing at Attachment B. Note that this surcharge will increase to \$0.00111 per kWh in August 2007 upon expiration of the PEPCO-funded Merger Settlement credit of \$0.00021 per kWh.

### Commission Decision

7. In Order No. 14139, the Commission evaluated several options with respect to the appropriate level to increase RAD rates.<sup>16</sup> The Commission voiced its concern about the impact an increase could have on defaults, disconnections, and the increased cost of uncollectible bills and arrearages.<sup>17</sup> The Commission articulated its goal to provide all customers with greater price transparency to encourage the efficient use of energy resources and to reduce, to the extent possible, the long-term reliance on the RETF for RAD rate subsidies.<sup>18</sup> As stated previously, the Commission believes that, over time, a shift in the use of RETF funds will ultimately provide greater resources to meet other public purpose goals, such as the advancement of energy efficiency and renewable energy programs.<sup>19</sup> Based on a review of PEPCO's December 22 Compliance Filing, the Commission finds that PEPCO has generally complied with the directives set forth in Order No. 14139.

8. With respect to PEPCO's calculation of the surcharge, the Commission notes that PEPCO used the Year 1 RETF budget of \$9.52 million rather than the Year 2 RETF budget of \$10.52 million.<sup>20</sup> Thus, the RETF Surcharge may need to be further adjusted. Since the parties have not commented on the appropriateness of PEPCO's use of Year 1 figures, the Commission will approve the proposed RETF Surcharge, without modification, at this time. However, if any party believes that this level should be adjusted to reflect the Program Year 2 RETF budget, such party should file a motion with the Commission by March 12, 2007. Comments on all motions are due 10 days thereafter. The Commission will act upon any motions filed on this issue in a subsequent order.

9. The Commission notes that PEPCO's filing fails to include the current residential Generation Procurement Credit ("GPC") of \$0.000358 per kWh in the total surcharges applicable to present RAD rates.<sup>21</sup> This omission effectively increases the proposed RAD generation rates by approximately \$0.00003 per kWh, or 2¢ per month for a 750 kWh user. However, the Commission finds that the impact of this omission is *de minimus* and, as such, will not require PEPCO to revise its proposed generation rates to include the current GPC.

10. The Commission further notes that the proposed summer tailblock generation rate of \$0.08581 per kWh applicable to both RAD and RAD-AE customers exceeds the current market-based rate of \$0.07923 per kWh and \$0.07896 per kWh paid by non-RAD residential and residential-AE customers, respectively. This outcome arises from the fact that the current RAD and RAD-AE summer tailblock rate of \$0.07707 per kWh is not discounted and, as such, is very close to the current market-based rates paid by non-RAD residential customers. As a result, the

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<sup>16</sup> See Order No. 14139 at pp. 9-11.

<sup>17</sup> See Order No. 14139 at p. 10.

<sup>18</sup> See Order No. 14139 at p. 10.

<sup>19</sup> See Order No. 14139 at p. 10.

<sup>20</sup> The Year 1 and Year 2 RETF budgets were authorized in Order No. 13475.

<sup>21</sup> See PEPCO Compliance Filing at Attachment A, page 1 for a list of surcharges included in the rate calculation.

application of the ATB 7.5% increase to the tailblock rate causes the proposed generation rate to exceed current market-based levels. Notwithstanding this discrepancy, the Commission accepts PEPCO's December 22 Compliance Filing without modification, since the District's Standard Offer Service generation rates applicable to both RAD and non-RAD customers are expected to change once more for service rendered on or after June 1, 2007.

**THEREFORE, IT IS ORDERED THAT:**

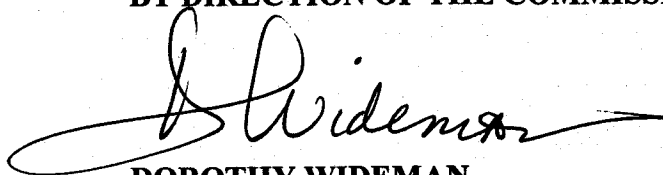
11. PEPCO's December 22 Compliance Filing is **ACCEPTED** in accordance with the discussion set forth herein; and

12. In accordance with paragraph 8, any party wishing to comment on PEPCO's calculation of the RETF Surcharge should file a motion with the Commission by March 12, 2007. Comments on all motions are due 10 days thereafter.

**A TRUE COPY:**

**BY DIRECTION OF THE COMMISSION:**

**CHIEF CLERK**



**DOROTHY WIDEMAN  
COMMISSION SECRETARY**