

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

ORDER

May 24, 2007

FORMAL CASE NO. 945, IN THE MATTER OF THE INVESTIGATION INTO
ELECTRIC SERVICE MARKET COMPETITION AND REGULATORY PRACTICES,
ORDER NO. 14304

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") addresses the January 17, 2007 filing made by the Potomac Electric Power Company ("PEPCO" or "Company") pursuant to Order No. 14143¹ and approves the proposed Generation Procurement Credit ("GPC") Rider filed by PEPCO on February 27, 2006,² as amended on March 22, 2006.³

II. BACKGROUND

2. In Order No. 11576,⁴ 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.⁵ After the divestiture of its generation assets, PEPCO was required to purchase power on the open market to meet the needs of its customers.⁶

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.⁷ Accordingly, the GPC mechanism provides that PEPCO share profits gained from its divestiture of generation services

¹ *In the Matter of the Investigation into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945, ("F.C. 945")* Order No. 14143, rel. December 14, 2006.

² Letter to Dorothy Wideman, Commission Secretary, Public Service Commission of the District of Columbia ("Commission"), from Paul H. Harrington, Associate General Counsel, PEPCO, filed February 27, 2006 ("GPC Letter").

³ Letter to Dorothy Wideman, Commission Secretary, Commission, from Paul H. Harrington, Associate General Counsel, PEPCO, filed March 22, 2006 ("March 22 GPC Filing").

⁴ *See F.C. 945*, Order No 11576, rel. December 30, 1999.

⁵ *Id.* at 47.

⁶ *Id.* at 41.

⁷ *Id.* at 47.

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.⁸

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.⁹ On March 22, 2006, PEPCO filed an amended GPC Rider to correct an error discovered when responding to a Commission Staff data request.¹⁰

5. In Order No. 13968, the Commission conditionally approved PEPCO's amended GPC Rider, commencing with the July 1, 2006 billing cycle.¹¹ However, during this analysis, the Commission identified a concern regarding to unbilled revenues that might impact the amended GPC credits proposed by PEPCO.¹² Specifically, the Commission noted a \$10.2 million reduction in GPC revenues from those reported in PEPCO's original GPC filing covering the Fourth GPC Procurement Period which had been submitted on July 12, 2005. Therefore, the Commission directed PEPCO to respond to certain questions about its February 27, 2006, GPC filing related to the new unbilled revenue adjustments.¹³

6. On July 13, 2006, PEPCO filed its response to the Commission's questions set forth in Order No. 13968.¹⁴ Several weeks later, PEPCO filed a supplemental response to its July 13, 2006 filing.¹⁵ PEPCO explained that its accounting entries for the unbilled revenue adjustments that were posted during the calendar period from February through December 2005 were actually related to unbilled revenues that were accrued during the Fourth GPC Procurement Period covering February 8, 2004 to February 7, 2005. On December 14, 2006, in Order No. 14143, the Commission considered PEPCO's supplemental response and determined that PEPCO's explanation was plausible; however, the Commission still felt it did not have sufficient information to determine whether the \$10.2 million unbilled revenue adjustment was reasonable. Therefore, the Commission directed PEPCO to address additional issues regarding its previous GPC filings.¹⁶ Specifically, the Commission required PEPCO to respond to the following issues:

⁸ *Id.*

⁹ Letter to Dorothy Wideman, Commission Secretary, Public Service Commission of the District of Columbia ("Commission"), from Paul H. Harrington, Associate General Counsel, PEPCO, filed February 27, 2006 ("February 27 GPC Filing").

¹⁰ Letter to Dorothy Wideman, Commission Secretary, Commission, from Paul H. Harrington, Associate General Counsel, PEPCO, filed March 22, 2006 ("March 22 GPC Filing").

¹¹ *See F.C. 945*, Order No 13968, rel. June 15, 2006.

¹² Because this issue was unrelated to the return of the net Mirant proceeds to District ratepayers, the Commission decided not to delay the approval of the \$24.3 million credit pending further review of PEPCO's unbilled revenue adjustment.

¹³ *Id.* at 4.

¹⁴ PEPCO's Response to Questions set forth in Order No. 13968, filed July 13, 2006.

¹⁵ PEPCO's Supplemental Response to Questions set forth in Order No. 13968, filed July 13, 2006.

¹⁶ *See* Order No 14143 at 3-4.

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.1) was quantified;
- (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.

7. On January 17, 2007, PEPCO filed a Motion for an Enlargement of Time that included its response to the issues set forth in Order No. 14143.¹⁷ No comments were filed in response to PEPCO's January 17, 2007 filing. Below is a discussion of PEPCO's January 17 filing and the issues that flow therefrom.

III. PEPCO'S JANUARY 17 ANSWER

8. In response to the Commission's inquiry, PEPCO states that unbilled sales and revenues occur during a billing period if customer usage occurs after a customer's meter is read.¹⁸ PEPCO further states that unbilled sales that are booked in any month are an estimate based on the data available at the time the unbilled sales are booked.¹⁹ PEPCO contends that during the GPC period, it based its estimates of unbilled sales on information from the Load Profiling and Settlement System ("LPSS"), which is used to report calendar usage in the PEPCO Zone to PJM for each Load Serving Entity ("LSE") in the Zone for a sixty-day period.²⁰ The LPSS makes an estimate of sales in the current calendar month based on limited billing data including, in some instances, a past usage estimate.²¹ Once actual data becomes available, LPSS re-estimates usage.²² Furthermore, PEPCO comments that if any other material data becomes

¹⁷ Motion of the Potomac Electric Power Company for Enlargement of Time, filed January 17, 2006 ("PEPCO's January 17 Response").

¹⁸ See PEPCO's January 17 Response at p. 1 of 3.

¹⁹ *Id.*

²⁰ *Id.* at p. 2 of 3.

²¹ *Id.*

²² *Id.*

available such as a billing adjustment due to metering or billing problems, then the LPSS system will also re-estimate the affected periods and PEPCO will report the changes to PJM and the LSEs.²³

9. PEPCO also asserts that the LPSS presents the changes in usage estimates to PJM and PJM adjusts the energy cost billings for LSEs.²⁴ PEPCO contends that for its Standard Offer Service ("SOS") load, this means that the expenses for providing SOS during the GPC period, as well as the revenue, will change.²⁵ As such, PEPCO contends that while the revenues in PEPCO's updated GPC filing for the Fourth GPC period decreased by \$10.2 million, the SOS expense also decreased by \$5.8 million as a result.²⁶

10. Finally, PEPCO asserts that if it had not recognized the unbilled revenue adjustment of \$10.2 million in the Fourth GPC Procurement Period, the Company would have had to reduce SOS revenues booked to the initial post-GPC SOS period by \$10.2 million.²⁷ However, since the Company receives full recovery of its SOS expenses in the post-GPC SOS period, an adjustment to increase overall SOS rates would have been required to recover a \$10.2 million reduction to post-GPC SOS revenue.²⁸ PEPCO implies that on net, this alternative accounting treatment of the \$10.2 million unbilled revenue adjustment would have benefited the Company at the expense of ratepayers.²⁹

IV. DISCUSSION

A. PEPCO's Motion for the Enlargement of Time

11. PEPCO requests that the Commission grant a one-day enlargement in time for filing the responses requested by the Commission in Order No. 14143. In support of its motion, PEPCO asserts that, due to the many other ongoing responsibilities of its personnel responsible for gathering and reviewing the requested information, it was unable to file its response until the day after the response date established by the Commission in Order No. 14143. Based on the representations in PEPCO's motion, the Commission finds good cause to grant its request. The Commission determines that an additional day will not unnecessarily delay our consideration of the issue before us. Moreover, the Commission prefers that parties submit comprehensive responses to our orders because these responses enhance the record of the proceeding. Further, the information provided by PEPCO is instrumental to our consideration of this matter. Accordingly, the Commission will grant PEPCO's motion.

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.* at p. 3 of 3.

²⁸ *Id.*

²⁹ *Id.*

B. PEPCO's Unbilled Revenue Adjustment

12. Based on the additional information provided by PEPCO in response to the Commission's questions set forth in Order No. 14143, we are now able to make a reasoned determination regarding the apparent revenue discrepancy and the appropriateness of the unbilled revenue adjustment.

13. As an initial matter, the Commission notes that the net additional GPC Procurement Revenue in question is not \$10.2 million as previously stated, but rather \$4.4 million, because PEPCO's \$10.2 million unbilled revenue adjustment was offset by a corresponding \$5.8 million decrease in expenses. This important clarification was not disclosed to the Commission until PEPCO filed its January 17th response. Similarly, the Commission finds the Company's discussion of the LPSS system helpful in explaining why certain unbilled revenue adjustments may not be known or finalized until months after the close of a given accounting period. Finally, our review of the evidence indicates that disallowing PEPCO's post-GPC period adjustments would generate an additional \$4.4 million in net Generation Procurement Revenue and an additional \$2.64 million of ratepayer bill credits.³⁰ However, this hypothetical gain of \$2.64 million could result in a \$1.76 million net loss for ratepayers because the shifting of \$4.4 million of net revenues to the Fourth GPC Procurement Period would cost ratepayers \$4.4 million of additional SOS expense when PEPCO's SOS revenues and expenses from the first post-GPC SOS period are finally reconciled. Under this scenario, the net loss to ratepayers would be \$4.4 million minus \$2.64 million, or \$1.76 million. Based upon the above information, the Commission concludes that neither the magnitude nor the timing of PEPCO's proposed unbilled revenue adjustment is unreasonable, given the Company's fundamental reliance upon the LPSS system. Moreover, it is now clear to the Commission that PEPCO's unbilled revenue adjustment would not, in fact, penalize ratepayers when viewed in the context of the results obtained for the combined Fourth GPC Procurement and initial post-GPC SOS periods.

14. Consistent with the above discussion, the Commission finds that all of its questions concerning PEPCO's March 22, 2006 GPC filing have been answered satisfactorily, and we now approve PEPCO's amended GPC Rider without condition.

³⁰

Ratepayers' share would be 60% of \$4.4 million, or \$2.64 million.

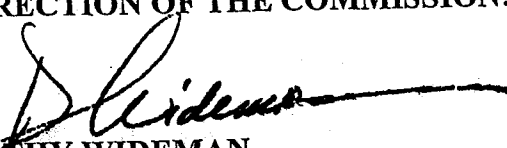
THEREFORE, IT IS ORDERED THAT:

15. PEPCO's motion to enlarge time is **GRANTED**; and
16. PEPCO's GPC Rider filed on February 27, 2006, as amended on March 22, 2006 is **APPROVED**.

A TRUE COPY:

CHIEF CLERK

BY DIRECTION OF THE COMMISSION:


DOROTHY WIDEMAN
COMMISSION SECRETARY