

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

ORDER INITIATING PROCEEDING

February 21, 2003

FORMAL CASE NO. 1017, IN THE MATTER OF THE DEVELOPMENT AND DESIGNATION OF STANDARD OFFER SERVICE IN THE DISTRICT OF COLUMBIA, ORDER NO. 12655

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") initiates a new proceeding to address two key issues relating to our efforts to restructure the District of Columbia's electricity market pursuant to the Retail Electric Competition and Consumer Protection Act of 1999 ("Act").<sup>1</sup> Through this proceeding, the Commission seeks to determine the potential impact the expiration of price caps, on generation and transmission rates, will have on District of Columbia ratepayers. Moreover, the Commission is seeking to establish a procedure for selecting a new standard offer service (SOS) provider, given that PEPCO's obligation to serve as the District's SOS provider is set to expire next year. The Commission is required, under the Act, to establish standard offer service rules and regulations before January 2, 2004, and to select a standard offer service provider before July 2, 2004. Therefore, the Commission directs all interested parties to review the list of SOS parameters set forth herein and to file proposed issues and comments no later than March 20, 2003.

II. BACKGROUND

2. In Order No. 11576,<sup>2</sup> the Commission approved the Non-Unanimous Agreement of Stipulation and Full Settlement ("Phase I Settlement"),<sup>3</sup> which authorized PEPCO to sell the bulk of its electric generating assets. Thereafter, on December 19, 2000, PEPCO sold the bulk of its generation plants and other generation assets to Mirant

<sup>1</sup> D.C. Code, 2001 Ed. §§ 34-1501 - 1520.

<sup>2</sup> See Formal Case No. 945, *In the Matter of the Investigation into Electric Service Market Competition and Regulatory Practices*, Order No. 11576, rel. December 30, 1999.

<sup>3</sup> See Formal Case No. 945, *In the Matter of the Investigation into Electric Service Market Competition and Regulatory Practices*, Non-Unanimous Agreement of Stipulation and Full Settlement dated November 8, 1999, as approved through Order No. 11576 at Appendix A, rel. December 30, 1999. ("Phase I Settlement Agreement").

Corporation for \$2.75 billion. Divestiture of PEPCO's generation plants has enabled PEPCO's customers to avoid paying any stranded costs.<sup>4</sup>

3. The settlement required, *inter alia*, PEPCO to provide SOS during the rate cap period, and as long thereafter as the Commission shall so direct.<sup>5</sup> According to Section 34-1509 of the Act, the total rate charged to PEPCO's customers who receive SOS shall not exceed the total of the rates authorized by the Commission, and charged to customers, on December 31, 1999.<sup>6</sup>

4. A full-scale retail choice program began in the District of Columbia on January 1, 2001. For the retail choice program, the SOS is the electric supply service made available to customers: (1) who contract for electricity with an electricity supplier, but who fail to receive delivery of electricity under such contracts; (2) who cannot arrange to purchase electricity from an alternative electricity supplier; or (3) who do not choose an alternative electricity supplier.<sup>7</sup> The legislation further specifies that the SOS shall be provided by PEPCO from the initial implementation date through January 1, 2005.<sup>8</sup>

5. For low-income Residential Aid Discount ("RAD") customers, the price caps will expire on January 1, 2007. However, in another proceeding, Formal Case No. 1002, the Commission extended the price caps on PEPCO's distribution rates until August 2007 for most ratepayers; and until August 2009 for RAD customers. This extension is due to the Commission's approval of the Unanimous Agreement of Stipulation and Full Settlement, filed on February 27, 2002, subject to the terms and conditions specified in Order No. 12395.<sup>9</sup>

### III. STATUTORY SELECTION OF STANDARD OFFER SERVICE PROVIDER

6. The Act mandates that SOS be provided by PEPCO at capped rates until January 1, 2005. This price cap on total rates includes generation, transmission, and

<sup>4</sup> "Stranded costs," also known as "stranded investment," refers to utility plant not used in the provision of utility service due to technological obsolescence or market changes. See Public Utilities Reports, Inc., P.U.R. Glossary for Utility Management 141 (1992).

<sup>5</sup> Phase I Settlement Agreement at § 6.04.

<sup>6</sup> See D.C. Code, 2001 Ed § 34-1509 (b)(2)(B)(i)

<sup>7</sup> See D.C. Code, 2001 Ed § 34-1509 (a) (1) - (4).

<sup>8</sup> The initial implementation date is January 1, 2002. See D.C. Code, 2001 Ed § 34-1509 (b)(1).

<sup>9</sup> See Formal Case No. 1002, *In the Matter of the Joint Application of PEPCO and New RC, Inc. for Authorization and Approval of Merger Transaction*, Order No. 12395 at 59, rel. May 1, 2002. Ordering ¶ 4 at 59 states that "...the current cap on PEPCO's distribution rates is hereby extended by 30 months through August 7, 2007, and through August 31, 2009 for RAD customers..."

distribution rates. Specifically, the Act requires that: “[b]efore January 2, 2004, the Commission shall adopt regulations or issue orders establishing terms and conditions for standard offer service and for the selection of an electricity supplier to provide standard offer service after January 1, 2005.”<sup>10</sup>

7. After regulations or an order has issued, the Commission, before July 2, 2004, shall institute a competitive bidding process to select the standard offer service provider: “. . . [t]he Commission shall conduct a competitive bid process to select the standard offer service provider for the District of Columbia after January 1, 2005. The competitive selection of the standard offer service provider shall take occur [sic] before July 2, 2004.”<sup>11</sup> In conducting the competitive bid process for a standard offer service provider, the Commission is guided by three conditions. The Commission: (1) shall ensure that the price for SOS will not hinder the development of a competitive electricity supply market in the District of Columbia; (2) may, in its discretion, solicit the payment, by the electricity supplier chosen to provide SOS, of a bid premium; and (3) any bid premium collected by the Commission shall be deposited into the Reliable Energy Trust Fund.<sup>12</sup> In the event that the Commission directs that PEPCO continue to provide SOS,<sup>13</sup> there are additional conditions found in Order No. 12395, which may be applicable.<sup>14</sup>

#### IV. STATEMENT OF STANDARD OFFER SERVICE PARAMETERS

8. The Commission directs that interested parties submit, for the Commission’s consideration, the broad parameters of any SOS standards, terms, or conditions that they believe should exist in the District of Columbia. Due to the complexity of this proceeding, we recommend that interested parties submit proposed issues for designation no later than March 20, 2003. This approach will allow parties more freedom to voice their concerns in the initial round of comments. The list of issues should include, but not be limited to, the following areas:

<sup>10</sup> See § 34-1509 (c) of the D.C. Code. See D.C. Code, 2001 Ed. § 34-1509 (c) (1) – (4), which lists those terms and conditions for standard offer service:

- (a) Protection against a standard offer service provider’s failure to provide service;
- (b) An appropriate rate design;
- (c) The appropriate length of a standard offer service contract;
- (d) A contingency plan in the event of insufficient bids. A contingency plan may award the standard offer service to the electric company or an affiliate of the electric company if such a course of action is in the public interest.

<sup>11</sup> See D.C. Code, 2001 Ed. § 34-1509 (d) (1).

<sup>12</sup> See D.C. Code, 2001 Ed. §§ 34-1509 (d) (1)(A), 34-1509 (d) (1) (B), and 34-1509 (d) (2).

<sup>13</sup> See D.C. Code, 2001 Ed. §§ 34-1509 (c) (4).

<sup>14</sup> See Formal Case No. 1002, *In the Matter of the Joint Application of PEPCO and New RC, Inc. for Authorization and Approval of Merger Transaction*, Order No. 12395 at 17, rel. May 1, 2002.

- (1) Definition of Standard Offer Service/Default Service/Provider of Last Resort ("POLR");
- (2) Role of PEPCO in the post transition period;
- (3) Terms and conditions of the new standard offer service provider for different customer classes;
- (4) Different models for default services--retail bid, wholesale bid and others;
- (5) The impact of the municipal aggregation program on standard offer service selection, if any;
- (6) The impact of wholesale market changes, PJM's enlarged scope and Federal Energy Regulatory Commission's new rules and regulations on standard offer service selection;
- (7) Customer protection -- the need for safety net, the need for stable prices, the need for additional customer education, the need for reliable services at reasonable rates;
- (8) Competitive bidding and Request for Proposal issues; and
- (9) Default Service and POLR policies -- disconnection, pricing/tariff and rate design, minimum stay provisions, quality of service, reliability, billing and metering etc.

The Commission is mindful that the issues identified herein may not be exhaustive and, therefore, welcomes additional suggestions by any interested parties. Due to the complexity of this proceeding, the Commission asks that interested parties list the major tasks of this proceeding and to propose the timeline for each task in order to comply with the legislative mandate as specified herein.

**THEREFORE, IT IS ORDERED THAT:**

9. Formal Case No. 1017 is **OPENED** to investigate, examine and consider Standard Offer Service in the District of Columbia;

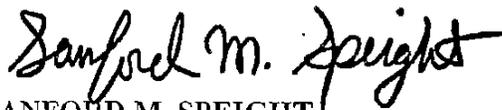
10. All interested parties to this proceeding shall review the parameters set forth herein and develop comments and propose issues responsive to the Commission's scope of inquiry by March 20, 2003; and

11. The Acting Commission Secretary shall open a formal investigation consistent with this Order.

A TRUE COPY

BY THE DIRECTION OF THE COMMISSION

CHIEF CLERK



SANFORD M. SPEIGHT  
ACTING COMMISSION SECRETARY