

# 945 - E - 1024

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA  
1333 H STREET, N.W., SUITE 200, WEST TOWER  
WASHINGTON, D.C. 20005

## ORDER

May 20, 2003

FORMAL CASE NO. 945, IN THE MATTER OF THE INVESTIGATION INTO ELECTRIC SERVICE MARKET COMPETITION AND REGULATORY PRACTICES, ORDER NO. 12738

### I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") approves the proposed Generation Procurement Credit Rider ("GPC") filed by the Potomac Electric Power Company ("PEPCO" or the "Company") on April 21, 2003.<sup>1</sup> The proposed GPC distribution provides customers in the District of Columbia bill credits of approximately \$20.0 million.<sup>2</sup> This particular phase of the proceeding examines PEPCO's compliance with divestiture sharing distribution obligations that are set forth in the Phase I and Phase II settlement agreements approved by the Commission.<sup>3</sup>

<sup>1</sup> *In The Matter Of The Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Letter to Sanford M. Speight, Acting Commission Secretary, from Paul H. Harrington, Associate General Counsel, PEPCO, ("GPC Letter") filed April 21, 2003.

<sup>2</sup> The total bill credits are composed of \$19.841 million of net GPC credits (i.e., those in excess of the guaranteed rate reductions), and \$0.134 million of deferred fuel credits from PEPCO's share of the Conemaugh settlement adjustment.

<sup>3</sup> *See In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Non-Unanimous Agreement of Stipulation and Full Settlement Regarding Divestiture Issues ("Phase I Settlement") dated November 8, 1999, as approved through Order No. 11576 at Appendix A, rel. December 30, 1999; *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Order No. 11613, rel. February 17, 2000 (Order establishing Phase II of Formal Case No. 945 to address the issue of PEPCO's post-divestiture unbundled rate structure); and *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Non-Unanimous Agreement of Stipulation and Full Settlement Regarding Unbundled Rate Issues ("Phase II Settlement"), as approved through Order No. 11845, rel. December 5, 2000.

## II. BACKGROUND

### A. Phase I Settlement GPC Provisions

2. In Order No. 11576,<sup>4</sup> the Commission approved the Non-Unanimous Agreement of Stipulation and Full Settlement Regarding Divestiture Issues ("Phase I Settlement"),<sup>5</sup> authorizing PEPCO to sell the bulk of its electric generating assets. The Commission's decision to approve the Phase I Settlement was based on its evaluation of the benefits to District ratepayers, as well as its determination that these benefits outweighed any potential detriments resulting from the divestiture. As part of the Phase I Settlement, the Commission found that the GPC provision was in the public interest because it benefited both ratepayers and shareholders.

3. Article IV of the Phase I Settlement establishes the general parameters for calculation of the GPC credit.<sup>6</sup> As specified in Article IV of the Phase I Settlement, during the rate cap period, any gains realized by PEPCO from the provision of Standard Offer Service ("SOS") generation are subject to sharing with DC ratepayers. The Phase I Settlement allows for a GPC mechanism whereby PEPCO will share profits gained from its divestiture of generation services and procurement of energy in the open market with all ratepayers and shareholders. Specifically, ratepayers receive 80 percent of any gains up to \$20.0 million, and 60 percent of any gains in excess of \$20.0 million. Finally, the sharing of any net profits with ratepayers is to be done via a per kilowatt-hour ("kWh") credit.<sup>7</sup>

4. The Phase I Settlement further specified that PEPCO would retain the portion of the net profit, if any, that would otherwise flow to ratepayers up to the amount of the *guaranteed rate reductions* included in Sections 3.03 and 3.05 of the settlement.<sup>8</sup> Residential customers received a base rate reduction of 3.5 percent or 2.77 mills per kWh

<sup>4</sup> *In The Matter Of The Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Order No. 11576, rel. December 30, 1999.

<sup>5</sup> *In The Matter Of The Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Non-Unanimous Agreement of Stipulation and Full Settlement ("Phase I Settlement") dated November 8, 1999, as approved through Order No. 11576, rel. December 30, 1999.

<sup>6</sup> *Id.* at § 4.01. Paragraphs 2, 5 and 7 of the Phase II Settlement include further refinements with respect to the GPC calculation, which are addressed later in this Order. *See In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Non-Unanimous Agreement of Stipulation and Full Settlement Regarding Unbundled Rate Issues ("Phase II Settlement"), as approved through Order No. 11845, rel. December 5, 2000.

<sup>7</sup> In effect, any net profit is allocated to the residential and commercial classes on a kWh basis.

<sup>8</sup> *See* Article 3.03 and 3.05 of the Phase I Settlement

on February 8, 2001.<sup>9</sup> Commercial customers received a base rate reduction of 1.5 percent or 1.09 mills per kWh at that same time. Accordingly, the proposed GPC *bill credit* reflects the shared savings amounts in excess of the above levels.

#### B. Phase II Settlement GPC Provisions

5. As previously noted, the method of calculating the GPC is also addressed in the Phase II Settlement.<sup>10</sup> In Paragraph 2 of the Phase II Settlement, the GPC calculation is amended to include the net benefits, if any, associated with PEPCO's energy use management ("EUM") (curtailable load) programs. Accordingly, PEPCO has taken the value of the PJM Interconnection, L.L.C. ("PJM") capacity benefits received from the EUM programs (\$0.962 million) and subtracted billing credits, equipment costs and miscellaneous expenses (\$1.055 million) to arrive at a net EUM benefit of *negative* \$0.093 million. This amount is subtracted from the total GPC margin that is to be shared between PEPCO and District of Columbia ratepayers.<sup>11</sup>

6. By way of comparison, the net EUM benefits included in PEPCO's initial GPC filing<sup>12</sup> were a *positive* \$0.144 million. In reviewing the two GPC filings, we conclude that the primary reason for the swing in net EUM benefits is a decline of \$0.456 million in the value of capacity benefits received from PJM.<sup>13</sup> Since PJM benefits are market-driven, one may expect year-to-year fluctuations in the value received for EUM programs – and ultimately in the net EUM benefits that are included in the annual GPC calculation.

7. Paragraph 5 of the Phase II Settlement clarifies that any GPC credit will be distributed to customers over a twelve-month period, on a cents per kWh basis. In addition, Paragraph 5 specifies that if the difference in actual versus intended GPC credits, to either class of customers, is greater than \$100,000 during a given twelve month period, PEPCO will adjust<sup>14</sup> the GPC credit, as necessary, to reflect the amount of the

<sup>9</sup> PEPCO implemented the guaranteed rate reductions via its January 29, 2001, Compliance Filing.

<sup>10</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Order No. 11845 at Appendix A, Non-Unanimous Agreement of Stipulation and Full Settlement Regarding Unbundled Rate Issues ("Phase II Settlement"), rel. December 5, 2000.

<sup>11</sup> The Office of the People's Counsel ("OPC") submitted a comment regarding PEPCO's net EUM benefit calculation, which is discussed in Section III below.

<sup>12</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Order No. 12452, rel. August 2, 2002. (The Commission approved PEPCO's initial GPC filing, filed April 16, 2002).

<sup>13</sup> EUM programs produced \$1.419 million of PJM benefits in the 2002 GPC filing but are worth only \$0.962 million in the present GPC filing.

<sup>14</sup> The GPC adjustment may be either positive (for an under-credit) or negative (for an over-credit).

difference, including interest calculated at a rate equal to PEPCO's most recently authorized overall rate of return for retail electric service in the District of Columbia.

8. In Order Nos. 12582 and 12635, the Commission determined that the first GPC application period would begin on August 15, 2002, and would extend until August 14, 2003.<sup>15</sup> In those Orders, the Commission also determined that the second GPC Application period would begin on June 1, 2003, and end on May 31, 2004.<sup>16</sup> In its proposed GPC Rider, PEPCO appropriately combines the GPC credits from the first and second application periods for all bills rendered in the overlapping period, from June 1, 2003 to August 14, 2003. Consequently, the \$100,000 interest threshold contained in Paragraph 5 of the Phase II Settlement is not yet applicable, and PEPCO's current GPC filing contains no interest-related calculations. Instead, we order PEPCO to file a petition that provides a final accounting of actual versus intended GPC credits provided during the first GPC application period on or before September 15, 2003. All questions regarding interest are deferred until that time.

9. Finally, Paragraph 7 of the Phase II Settlement amends the GPC calculation to include *any* deferred fuel balance that remained on PEPCO's books at the close of the calendar month immediately preceding the asset sale. Importantly, any deferred fuel balance is not to be included in the SOS sharing formula, which states that 100 percent of the deferred balance is to be collected and refunded to ratepayers. Previously, PEPCO reported an over-collection of \$13.4 million in its deferred fuel account, and this amount was included in the GPC credit for the first GPC Application period. Accordingly, we would not have expected any further deferred fuel balance component to be included in future GPC Riders. However, PEPCO's filing does include a deferred fuel balance credit of \$0.134 million to reflect the Company's share of the Conemaugh Generation Station's settlement adjustment to deferred fuel costs. We have reviewed the Company's work papers supporting its Conemaugh calculation and find the calculation reasonable.<sup>17</sup>

### C. PEPCO's Proposed Generation Procurement Credit Rider

10. On April 21, 2003, PEPCO filed its currently proposed GPC.<sup>18</sup> PEPCO states that the proposed GPC will provide District of Columbia customers with approximately \$20.0 million in bill credits.<sup>19</sup> PEPCO further proposes that these GPC

<sup>15</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945, Phase II*, Order Nos. 12582 and 12635, rel. October 23, 2002 and January 17, 2003, respectively.

<sup>16</sup> *Id.*

<sup>17</sup> PEPCO's total share of the Conemaugh settlement is \$0.299 million, of which D.C. customers are allocated \$0.134 million based on kWh.

<sup>18</sup> See GPC Letter.

<sup>19</sup> See GPC Letter, Attachment B at 2-3.

credits become effective with the billing month of June 2003 and remain in effect through the billing month of May 2004.<sup>20</sup> On May 2, 2003, the Commission provided an opportunity for interested parties to comment on PEPCO's proposed GPC.<sup>21</sup> On May 12, 2003, OPC filed comments on PEPCO's proposed GPC.<sup>22</sup> On May 14, 2003, PEPCO filed reply comments.<sup>23</sup> On May 19, 2003, the District of Columbia Water and Sewer Authority filed reply comments.<sup>24</sup>

### III. DISCUSSION

#### A. OPC'S COMMENTS

11. OPC's comments are limited in nature, addressing only one aspect of PEPCO's Net EUM Revenue calculation. Specifically, OPC questions the amount of \$30,821.37 for EUM equipment costs reported for the period February 1 through February 7, 2003.<sup>25</sup> OPC notes that this reported (7 day) equipment cost amount is of the same magnitude as the costs reported for prior (30 day) months. OPC concludes that there is likely an error in the calculation of this one component of the GPC. While OPC states that this error should not materially affect the amount of the GPC bill credit received by District of Columbia ratepayers, OPC believes this issue should be addressed.

12. In its reply, PEPCO submitted its response to OPC Data Request No. 22.<sup>26</sup> PEPCO states that the \$30,821.37 equipment cost amount at issue is, in fact, correct. PEPCO explains that the increase in equipment costs for that period is due to a change in accounting methods. PEPCO states that proper accounting methods require that it amortize the remaining unamortized capital costs associated with the EUM program over

<sup>20</sup> See GPC Letter at 2.

<sup>21</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Order No. 12720, rel. May 2, 2003.

<sup>22</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Comments of the Office of the People's Counsel On The Proposed Generation Procurement Credit Rider Filed By Potomac Electric Power Company On April 21, 2003 Pursuant To Order No. 12720 ("OPC Comments"), filed May 12, 2003.

<sup>23</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Reply Comments of Potomac Electric Power Company ("PEPCO Reply"), filed May 14, 2003.

<sup>24</sup> See *In the Matter of the Investigation Into Electric Service Market Competition and Regulatory Practices, Formal Case No. 945*, Reply Comments of the District of Columbia Water and Sewer Authority ("DC WASA"), filed May 19, 2003. DC WASA took no position on the accuracy of the calculation of the EUM component of the GPC, but urged no delay on the effective date of the GPC Rider. Parties are reminded to adhere to the deadlines set forth by the Commission concerning comments and reply comments.

<sup>25</sup> See OPC Comments at 2.

<sup>26</sup> See PEPCO Reply at 2.

the remaining life of the equipment – now projected to be December 2004.<sup>27</sup> In any event, PEPCO acknowledges that OPC is correct that the amount at issue should not materially affect the GPC calculation. In fact, PEPCO claims that the amount is too small to have any effect on the proposed GPC credit rates of \$0.00042 per kWh and \$0.00210 per kWh, respectively, for residential and non-residential customers.

13. To address this issue, we performed an independent analysis to verify PEPCO's claim that removal of the disputed equipment cost amount would have no impact on the GPC calculation. First, we calculated the *decrease* in equipment costs that would result from a continuation of PEPCO's prior accounting methods and determined that it would be \$23,251. This decrease in costs would increase the total GPC margin by the same amount. The increase in GPC margin of \$23,251 would be shared at a rate of 60 percent with ratepayers (see Table 2 below) to produce an increase of \$13,951 in the total customer share shown in Table 2. However, when \$13,951 is divided by the total distribution sales forecast of 11,255,307,510 kWhs, the result is too small to affect the Gross GPC Credit of \$0.00318 shown in Table 3.<sup>28</sup> Accordingly, we concur with PEPCO that the net GPC credits, as filed, would be unaffected.

#### B. PEPCO'S GENERATION PROCUREMENT CREDIT RIDER

14. The following information is derived from PEPCO's April 21, 2003 GPC filing. Table 1 below presents the total GPC margins to be shared between PEPCO and District of Columbia ratepayers. The total margins reflect SOS generation revenue and procurement expenses (including net EUM revenues), but exclude any Conemaugh credits.

Table 1

	<i>12 Months Ending 2/7/03</i>
SOS Generation Revenue	\$244,042,576
Net EUM Revenue	(92,559)
SOS Procurement Expense	(190,987,906)
Total GPC Margin	\$52,962,111

15. By way of comparison, the total SOS Generation Revenue included in PEPCO's initial GPC filing was considerably greater at \$335.5 million. In response to Commission Staff Data Request No. 1, Item 2, PEPCO explained that the approximate 27 percent decline in SOS Generation Revenue from the first to the second GPC application

<sup>27</sup> PEPCO notes that it will continue to investigate options for the EUM program after 2004, and will submit its plans to the Commission by July 1, 2004.

<sup>28</sup> As calculated by PEPCO, the Gross GPC is actually \$0.0031787, which rounds to the reported \$0.00318. If the \$13,951 were to be included in the calculation, the result would be \$0.0031799, which again rounds to \$0.00318.

period is due to an increase in the number of customers choosing alternative suppliers. We sought to verify this statement by comparing the total number of SOS Generation supplied in the first and second GPC application periods. We found that the number of SOS Generation supplied declined from 7.987 billion kWh to 5.682 billion kWh, respectively, or approximately 29 percent, which comports with PEPCO's explanation.

16. Table 2 shows the application of the sharing agreement contained in the Phase I Settlement. After dividing the total \$52.962 million into tiers, the ratepayers' share (before guaranteed rate reduction offsets) is \$35.777 million.

Table 2

<i>Total GPC Margin</i>	<i>\$52,962,111</i>
<i>Customer Share of the Margins</i>	
80% of First \$20.0 million	\$16,000,000
60% of Remaining \$32.96 mil.	19,777,267
Total Customer Share	\$35,777,267

17. Because the ratepayers' share of PEPCO's GPC profit is to be distributed on a kWh basis, PEPCO appropriately divides the \$35.777 million from Table 2 by total estimated distribution sales to arrive at an average (gross) GPC credit of 3.18 mills per kWh.<sup>29</sup> However, the Phase I Settlement provides for a reduction in the average GPC credit up to the amount of the guaranteed rate reduction received by each customer class. Since the Phase I Settlement's guaranteed rate reduction varies by class, the net GPC credit will also differ by class. This step in the calculation is summarized in Table 3 below.

Table 3

	<i>Residential</i>	<i>Commercial</i>
Gross GPC Credit	\$0.00318	\$0.00318
Guaranteed Rate Reductions	<u>0.00277</u>	<u>0.00109</u>
Net GPC Credit	\$0.00041	\$0.00209

<sup>29</sup> PEPCO uses an estimated level of distribution sales of 11,255,307,510 kWh for the twelve-month period beginning June 1, 2003.

18. According to paragraph 7 of the Phase II Settlement, the Conemaugh deferred fuel credit of \$0.00001 per kWh must be added to the net GPC shown above to arrive at the total GPC to be applied to customer bills. For residential customers, the GPC is \$0.00041 plus \$0.00001 or \$0.00042 per kWh. For commercial customers, the GPC is \$0.00209 plus \$0.00001 or \$0.00210 per kWh.

19. When applied to forecast distribution sales, this GPC Rider would provide District of Columbia customers with combined residential and commercial bill credits totaling approximately \$20.0 million for the second GPC application period.

20. Based upon our review, it is the determination of the Commission that the proposed GPC filed by PEPCO on April 21, 2003, accurately comports with applicable provisions in the Phase I and Phase II Settlements. The combined bill credits of approximately \$20.0 million will provide significant benefits to PEPCO's residential and commercial customers. Accordingly, the Commission approves PEPCO's proposed GPC as filed.

**THEREFORE, IT IS ORDERED THAT:**

21. The proposed Generation Procurement Credit Rider, filed by Potomac Electric Power Company on April 21, 2003, is hereby **APPROVED**;

22. Application of the Generation Procurement Credit Rider, filed by Potomac Electric Power Company on April 21, 2003, shall commence with the billing cycle beginning June 1, 2003; and

23. Potomac Electric Power Company shall file with the Commission a final accounting of actual versus intended GPC credits provided during the first GPC application period on or before September 15, 2003.

A TRUE COPY:

BY DIRECTION OF THE COMMISSION:

CHIEF CLERK

  
SANFORD M. SPEIGHT  
ACTING COMMISSION SECRETARY