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PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1325 G STREET, N.W., SUITE 800
WASHINGTON, D.C. 20005

ORDER

May 1, 2024

FORMAL CASE NO. 1017, IN THE MATTER OF THE DEVELOPMENT AND DESIGNATION OF STANDARD OFFER SERVICE IN THE DISTRICT OF COLUMBIA, Order No. 21986

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") approves the Potomac Electric Power Company's ("Pepco" or "Company") proposed retail rates, including the modified administrative charges, for Standard Offer Service ("SOS") filed on March 1, 2024.[1] The Commission directs Pepco to file detailed forecasted Community Renewable Energy Facility ("CREF") costs for June 1, 2024, through May 31, 2025, by July 31, 2024, and to include the additional information requested herein. The Commission directs Pepco to extend the audit of the SOS administrative charge to include an additional year until May 31, 2024. Additionally, Pepco, as the SOS Administrator, shall file a revised tariff setting forth the adjusted SOS retail rates containing the updated administrative charge within seven (7) calendar days of the date of this Order. The new retail rates and modified administrative charges shall become effective on June 1, 2024.

II. BACKGROUND

2. A consumer's bill for electricity service consists of three (3) cost components – generation, transmission, and distribution – plus various taxes and surcharges.[2] Although Pepco serves as the District's SOS Administrator, Pepco does not produce electricity, and the rates for electricity, which are reflected in the generation and transmission portion of a customer's electric bill, are not regulated by the Commission. The Commission only sets rates for the distribution

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[1] *Formal Case No. 1017, In the Matter of the Development and Designation of Standard Offer Service in the District of Columbia* ("*Formal Case No. 1017*"), Potomac Electric Power Company's Retail Rates, Including Administrative Charges, for Standard Offer Service, filed March 1, 2024 ("SOS Filing").

[2] *Formal Case No. 1017*, Order No. 21133, ¶ 2, rel. March 23, 2022.

portion of a customer's bill,[3] which, on average, only accounts for 34% of a customer's bill, while the generation portion accounts for 58% of a customer's bill on average.[4]

3. Pursuant to Chapter 41 of the Commission's Rules, Pepco, as the SOS Administrator, obtains electric supply for SOS pursuant to a competitive wholesale procurement process. Pepco purchases this electric supply for SOS customers through power supply contracts in an annual auction. Following the procurement process (SOS auctions), Pepco is required to submit to the Commission, the retail SOS rates, including the administrative charges, based on the winning wholesale bids.[5] By Order No. 21099, the Commission directed Pepco to recover administrative costs associated with a CREF's use of Pepco's system and billing services through the SOS administrative charge.[6]

4. On March 1, 2024, Pepco filed its SOS retail rates.[7] Rule 4103.3 sets forth a comment period followed by a Commission order and a compliance filing by Pepco.[8] On March 1, 2024, the Commission posted a notice soliciting comments on Pepco's proposed SOS retail rates.[9] No comments were filed. On March 25, 2024, Pepco filed an errata to the March 1, 2024, SOS filing providing a corrected Attachment B because the rates in Attachment B for Master Metered Apartments and Small Commercial did not match the rates in the proposed Tariff and Attachment A.[10] On March 25, 2024, Commission staff issued Data Request No. 13 to Pepco.[11] On April 2, 2024, Pepco responded to the request.[12]

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[3] *Formal Case No. 1139*, *In the Matter of the Application of the Potomac Electric Power Company for Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service* ("*Formal Case No. 1139*"), Order No. 18846, ¶¶ 3-4, rel. July 25, 2017.

[4] *See* SOS Filing at Attachment C.

[5] 15 DCMR § 4103.

[6] *RM40-2020-01, In the Matter of 15 DCMR Chapter 40 – District of Columbia Small Generator Interconnection Rules, and Formal Case No. 1050, In the Matter of the Investigation of Implementation of Interconnection Standards in the District of Columbia*, Order No. 21099, ¶ 11, rel. January 14, 2022 ("Order No. 21099").

[7] SOS Filing.

[8] 15 DCMR § 4103.3.

[9] *Formal Case No. 1017*, Public Notice, rel. March 1, 2024 ("Public Notice").

[10] *Formal Case No. 1017*, Potomac Electric Power Company's Errata to the March 1, 2024, Standard Offer Service Filing, filed March 25, 2024 ("Errata to SOS Filing").

[11] *Data Request No. 1017*, Commission Staff's Data Request No. 13, filed March 25, 2024.

[12] *Data Request No. 1017*, Potomac Electric Power Company's Response to Staff Data Request No. 13, filed April 2, 2024 ("Pepco's Data Response").

III. DISCUSSION

5. On March 1, 2024, Pepco filed its proposed retail rates, including the administrative charges, for SOS for the period June 1, 2024, through May 31, 2025.[13] On March 25, 2024, Pepco filed an errata to the March 1, 2024, SOS filing.[14] According to Pepco, the proposed retail rates reflect the prices in the power supply contracts awarded in the auctions held on December 4, 2023, and January 8, 2024. In addition to the market prices obtained through the competitive bidding process, and the administrative charge, a Capacity Price Adder was included in retail rates to adjust for the difference between the capacity proxy price in the Request for Proposals for SOS years 2021-2022 and 2022-2023, and the actual PJM Base Residual Auction price as part of the 2024-2025 PJM capacity auction.[15]

6. Pepco provided the average dollar and percentage change in total bills for each rate class. Residential customers will see an approximate increase of $8.22 per month or 8.1%,[16] customers in the Master Metered Apartment class will see an approximate increase of $4.69 per month or 7.0%, Small Commercial customers will see an increase of $21.67 per month or 8.2%,[17] and Large Commercial customers will see a decrease of 11.9%.[18] The Residential SOS customer's generation rate during the summer will increase from 8.4 cents per kWh to 9.7 cents per kWh, while the winter generation rate will increase from 9.3 cents per kWh to 10.7 cents per kWh.[19]

7. The administrative charge for Residential customers will decrease from $0.0053 to $0.0048 and will increase for Small Commercial customers from $0.0061 to $0.00705.[20] Pepco proposes a decrease in the administrative charge for Large Commercial customers from $0.00475 to $0.00140. Pepco represents that the decrease in the Residential administrative charge is primarily driven by the expected decrease in under-collections, while the decrease in the Large Commercial administrative charge is primarily driven by overcollections.[21] Pepco also explains that the increase in the administrative charge for Small Commercial customers is primarily driven

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13 SOS Filing.

14 Errata to SOS Filing.

15 SOS Filing at 1.

16 On average, the generation portion of the bill for SOS for a Residential customer (excluding Master Metered Apartment and Residential Aid Discount customers) will increase by about $8.22 per month for the average user of 631 kWh/month. SOS Filing at 2, and Attachment C.

17 On average, the generation portion of the bill for SOS for a Small Commercial customer will increase by about $21.67 per month for the average user of 1,519 kWh/month. SOS Filing at 2, and Attachment C.

18 SOS Filing at 2, and Attachment C.

19 SOS Filing at Attachment C.

20 SOS Filing at 2.

21 SOS Filing at 2.

by under-collections.[22] Pepco also notes that CREF related expenses for the period June 1, 2022, to May 31, 2023, are reflected in the administrative charge and that the administrative charge includes estimated CREF administrative and billing costs, including IT costs related to the implementation of a billing system to capture generation from CREF meters, for the period June 1, 2024, to May 31, 2025.[23]

IV. DECISION

8. The Commission has reviewed the SOS filing, and we conclude that the revised SOS rates are consistent with the winning bids received during the most recent round of the SOS auction bidding. Each year, Pepco only replaces a portion, about one-third, of its Residential and Small Commercial supply. For Residential and Small Commercial customers, winning SOS bid prices are about the same as compared to last year but are higher when compared to the expiring SOS contracts procured three years ago due to current market conditions.

9. Pepco notes that the CREF costs for the SOS year 2022 to 2023 were higher than forecast due to increased CREF subscribers and team staffing changes.[24] Pepco states that the actual CREF costs for June 2022 to May 2023 were $763,372.24.[25] More specifically, Pepco attributed those actual labor costs as being related to administrative responsibilities performed by Pepco employees such as program oversight, subscription and subscriber organization management, billing support, and reporting.[26]

10. Estimated CREF costs for SOS year 2024 to 2025 increased due to incremental costs related to the implementation of a billing system and process to capture generation from CREF meters.[27] Pepco states that the forecasted CREF costs for June 2024 through May 2025 are $1,776,537, while the actual CREF costs for June 2022 through May 2023 are $763,372.24.[28] Of the $1,776,537 forecasted CREF costs, Pepco states that $775,000 are forecasted labor costs related to the productive time spent on the following administrative responsibilities performed by Pepco employees for DC CREF: program oversight, subscription and subscriber organization management, billing support, and reporting.[29] Pepco notes that the Company tracked CREF labor

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22 SOS Filing at 2.

23 SOS Filing at 1.

24 *Data Request No. 1017*, Potomac Electric Power Company's Response to Staff Data Request No. 13, filed April 2, 2024 ("Pepco's Data Response") at 3.

25 SOS Filing at Attachment D.

26 Pepco's Data Response at 1.

27 Pepco's Data Response at 5.

28 SOS Filing at Attachment D.

29 Pepco's Data Response at 1.

costs for the period June 2022 through May 2023 and those costs amounted to $763,372.24.[30] Next, Pepco states that $499,945.92 are forecasted operating and maintenance costs related to the implementation of the system to capture generation from CREF meters made up of licensing fees, as well as maintenance and vendor operations for receiving, formatting, and managing meter data.[31] The final $501,590.66 are for amortization of capital costs placed in service estimated for the period October 2024 through May 2025.[32] Pepco indicates that these capital costs "relate to developing an interim and permanent solution for integrating CREF meter data into Exelon systems in order to perform billing activities."[33]

11. The Commission will allow the inclusion of the $775,000 forecasted administrative labor costs and $499,945.92 forecasted recurring operating and maintenance costs in the administrative charge because these are incremental costs for procuring and providing the service, which can be recovered through the SOS administrative charge.[34] According to Pepco's Semi-Annual CREF report, the number of CREFs has increased by 73 (409 vs. 336) over the past year, and the number of subscribers has increased by 1,791 (9,115 vs. 7,324).[35] This translates to an increase of 24.45% more subscribers. Nevertheless, the Commission is concerned about the increase in costs. The majority note that these are forecasted costs, and this will be trued up at a later date. The Commission will review these costs very carefully as changes to the CREF landscape continue to develop. The Commission is not inclined to allow the $501,590.66 capital costs in the administrative charge. These costs relate to implementing and developing a system for CREFs. These costs should not be recovered through the SOS administrative charge. Pepco may recover these implementation costs "solely through a rate assessment of the subscribers" as prescribed by D.C. Code § 34-1522.[36] Thus, if deemed appropriate, recovery of these costs will be determined in Pepco's next base rate case. Pepco is directed to remove the $501,590.66 in capital costs from the SOS administrative charge. We also direct Pepco to file detailed work papers, calculations, and explanations of all forecasted CREF costs from June 1, 2024, to May 31, 2025, by July 31, 2024, to quantify the benefits to the distribution system from CREFs, and to demonstrate that actual incurred CREF costs contained in the administrative charge do not include

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[30] Pepco's Data Response at 1.

[31] Pepco's Data Response at 1.

[32] Pepco's Data Response at 1-2.

[33] Pepco's Data Response at 1.

[34] Order No. 21099, ¶ 11. *See* 15 DCMR § 4103.4. "Commission Rule 4103.4, provides that the SOS administrative charge is designed to recover the SOS Administrator's incremental costs for procuring and providing the service, including costs related to the purchases of electric supply from CREFs and that includes incremental billing process expenses."

[35] *RM9-2015-01, In the Matter of 15 DCMR Chapter 9 – Net Energy Metering – Community Renewable Energy Amendment Act of 2013* ("*RM9-2015-01*"), Pepco's Report on the Community Renewable Energy Facilities Operating in the District of Columbia, filed January 20, 2023. *RM9-2015-01*, Pepco's Report on the Community Renewable Energy Facilities Operating in the District of Columbia, filed on January 22, 2024.

[36] *See* D.C. Official Code § 34-1522.

costs related to reading, billing, or removal of Pepco's installed meters at the CREF locations for June 1, 2022, until the present.[37]

12. The Commission also directs Pepco to extend the audit of the SOS administrative charge for an additional year until May 31, 2024, in order to provide a more comprehensive analysis of recent costs in the SOS administrative charge, including those related to CREFs.[38] Previously recovered costs associated with the installation of Pepco meters rather than the use of CREF-owned meters shall be reviewed in *Formal Case No. 1171* and *Formal Case No. 1176* for further action to ensure that ratepayers do not bear these costs.

13. We emphasize that in accordance with Rule 4103.2, the SOS Administrator must submit to the Commission "a detailed calculation and explanation of an administrative charge." For future SOS filings, the Commission expects Pepco to submit detailed calculations and explanations for these costs rather than just a topline number. This is especially important when certain costs, such as CREF costs, constitute a significant portion of the SOS administrative charge. If sufficient cost details are not provided, cost recovery will be denied.

14. After reviewing the information in the SOS filing, we conclude that the administrative charges, except for those costs outlined in paragraph 11, reflect reasonable administrative costs as prescribed by the Commission. The Commission, therefore, approves Pepco's proposed retail rates, including the administrative charges, except for those costs outlined in paragraph 11, for SOS. We direct Pepco to file a revised tariff setting forth the adjusted SOS retail rates containing the updated administrative charge consistent with the directive in paragraph 11 within seven (7) calendar days of the date of this Order. Accordingly, the new retail rates and modified administrative charges shall become effective on June 1, 2024, unless otherwise ordered by the Commission.

THEREFORE, IT IS ORDERED THAT:

15. The Potomac Electric Power Company's Response to Commission Staff's Data Request No. 13, dated April 2, 2024, is **ENTERED** into the record;

16. The Commission **DIRECTS** the Potomac Electric Power Company to file detailed work papers, calculations, and explanations of the Community Renewable Energy Facility costs for the period of June 1, 2024, through May 31, 2025, by July 31, 2024, and to include the additional information requested in paragraph 11;

17. The Commission **DIRECTS** the Potomac Electric Power Company to extend the audit of the Standard Offer Service administrative charge for an additional year until May 31, 2024;

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[37] This filing shall include an itemized list of each individual cost.

[38] *See Formal Case No. 1017*, Order No. 21949, rel. February 7, 2024.

18. The Potomac Electric Power Company is **DIRECTED** to submit a revised tariff setting forth the new rates for Standard Offer Service consistent with the directive in paragraphs 11 and 14 within seven (7) calendar days of the date of this Order;

19. The Potomac Electric Power Company's proposed retail rates, including the administrative charges as modified herein, for Standard Offer Service filed on March 1, 2024, are hereby **APPROVED**; and

20. The new retail Standard Offer Service rates and modified administrative charges shall become effective on June 1, 2024, unless otherwise ordered by the Commission.

A TRUE COPY: **BY DIRECTION OF THE COMMISSION:**

CHIEF CLERK: **BRINDA WESTBROOK-SEDGWICK**
COMMISSION SECRETARY

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1325 G STREET, N.W., SUITE 800
WASHINGTON, D.C. 20005

May 1, 2024

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

STATEMENT OF COMMISSIONER BEVERLY

Dissenting in Part

For the period June 2024 through May 2025, Pepco has proposed CREF-related costs of $1,776,537, and constituting 69% of the entire administrative charge for SOS. The majority has approved CREF-related costs of $1,274,945.92, which will constitute 62% of the administrative charge for SOS.[1] The majority has also asked Pepco to provide detailed cost forecasts of CREF-related costs by July 31, 2024. The majority believes this increase is reasonable, but I think that the finding is premature based on the existing record and applicable law.

Although I agree that the $501,590.66 capital expense for developing and implementing a billing system for CREFs should be recovered through a rate case rather than the administrative charge, I do not agree that it is appropriate to recover $1,274,945.92 of labor and operating expenses through the administrative charge simply because they may be recurring expenses. My review of Pepco's request begins with the law.

D.C. Code § 34–1522 governs recovery of CREF implementation costs. It states: "Pursuant to §§ 34-1101 and 34-901, the electric company may seek recovery of any costs associated with the implementation of this chapter in a base rate case. In a base rate case filing that includes recovery of such costs, the electric company shall include in its filing with the Commission any benefits and costs to the electric company. Any recovery of the *net* costs by the electric company approved by the Commission shall occur solely through a rate assessment of the subscribers." Implementation costs generally include all expenses associated with creating the system which, to me, includes all initial labor costs and operating expenses. However, by law, only net implementation costs are recoverable. Net costs are determined by weighing them against benefits. That takes me to 15 DCMR § 908.7 which requires Pepco to file bi-annual reports for CREFs that include: "To the extent possible, the benefits to the distribution system from CREFs including use of CREFs to supply ancillary services including, but not limited to, voltage support, volt-ampere reactive (VAR) support, and frequency regulation." Pepco's reports, however, do not attempt to address any benefits. Instead, the reports avoid the exercise entirely by saying "Pepco does not conduct measurements nor compensate for ancillary markets for PV Generation or DER Generators participating in CREF." Without the data allowing us to calculate the benefits of CREFs, I'm not prepared to reach a determination that any of Pepco's billing costs are *net* costs of CREFs, whether they are recurring or not.

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[1] Pepco's proposed administrative charge for all non-CREF costs totals $795,000.

Even if it were a recurring cost, somehow outside the ambit of D.C. Code §34-1522, the Commission's decision in Order No. 21099 presupposes that Pepco first shows that the *actual* costs themselves are reasonable rather than simply presuming that the *estimated* costs provided by Pepco are reasonable, subject to an audit, especially when we know that an auditor does not address the "reasonableness" of costs (e,g, why a new billing system is necessary and why the cost for it is reasonable).

To be clear, I'm not opposed to Pepco recovering reasonable expenses. What I want is for the recovery to be consistent with the law and considered as part of a process that allows the meaningful participation of all our stakeholders.