

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

ORDER

August 7, 2024

PEPPOR-2024-01, PEPCO PURCHASE OF RECEIVABLES, Order No. 22259

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia (“Commission”) rejects the Potomac Electric Power Company’s (“Pepco” or “Company”) Purchase of Receivables (“POR”) proposed tariff. Pepco is directed to modify the POR Discount Rate calculation for the Residential Customer Class by using Calendar Year 2022 Residential Customer Class expenses as a proxy for calculating the Company’s 2024 POR Discount Rate.

II. BACKGROUND

2. By Order No. 16916, the Commission established a POR program for electricity in the District.¹ A POR program allows retail electricity suppliers to sell their unpaid customer bills (called receivables) to the utility, in this case Pepco. In this scheme, suppliers avoid the risk of not getting paid because the utility buys these bills at a discount. The utility then takes on the responsibility of collecting the payments from the customers. This arrangement helps suppliers manage their cash flow and reduces their financial risk, while the utility earns a small discount for taking on the risk of collecting the unpaid bills.² Ideally, a POR program should lead to more affordable options for consumers (through competition) while enhancing the reliability and stability of the District’s electricity grid.

3. In relevant part, Pepco’s POR program permits or requires the Company to purchase the receivables of retail electricity suppliers at a discounted rate—at least equal to the utility’s actual uncollectible rate (bad debt rate). POR programs shift the risk of collecting unpaid debt from the suppliers to the Company. Pepco’s POR Discount Rate is made up of several components, such as the Company’s actual bad debt expense, cash working capital, program costs, late payment revenues, Risk Component, and the Reconciliation Factor. The POR Discount Rate functions to provide a discount to Pepco for purchasing the electricity that a supplier requires to provide electricity to the supplier’s customer. The discount rate is applied to the monthly payments Pepco makes to retail suppliers and is subject to a periodic reconciliation process.

¹ *Formal Case No. 1085, In the Matter of the Investigation of a Purchase of Receivables Program in the District of Columbia*, Order No. 16916, rel. Sep. 20, 2012, (“Order No. 16916”).

² *Order No. 16916* at ¶ 3.

4. On April 30, 2024, Pepco filed a proposed tariff to update the POR Supplier Discount Rate.³ This POR Supplier Discount Rate Update represents Pepco's most current POR Supplier Discount Rate update. Pepco's POR Supplier Discount Rate Update modifies the Company's Electric Supplier Coordination Tariff (Electric Supplier—P.S.C. of D.C. No. 1). The Commission issued a Notice of Proposed Tariff ("NOPT") published in the *D.C. Register* on May 17, 2024, inviting public comments.⁴ On June 17, 2024, NRG Energy, Inc. and Constellation NewEnergy, Inc., and their respective retail affiliates (collectively, "the Suppliers") filed comments in response to the NOPT.⁵ On July 1, 2024, Pepco filed a motion for leave to file reply and limited reply comments, including new proposed tariff language in response to the Suppliers' Comments.⁶

III. DISCUSSION

5. **Pepco POR Tariff.** Pepco's POR Supplier Discount Rate Update includes the language of the Supplier Tariff, Schedule 3, describing the components and derivation of the POR Supplier Discount Rates, including the proposed Discount Factors. The tariff update describes how the Discount Rates are derived using the POR data from the period of January through December 2023, a summary showing the results of the Write-Offs, including Reinstatements and Late Payment Revenues expressed as a percentage of Third-Party Supplier Revenues for Residential Customers served under Schedules R and MMA, Small Commercial Customers served under Schedules GS-LV-ND, T, SL, TS, TN, and OL-LED, and Large Commercial customers served under Schedules GS-LV, GS-3A, MGT-LV, GT-LV, GT-3A, GT-3B, and RT. The discount rate proposed on the receivables associated with Residential customers is 14.8693% on Schedules R and MMA, and 0.0000% for Small Commercial customers, Schedules GS-LV-ND, T, SL, TS, and OL-LED. The discount rate for Large Commercial customers, Schedules GS-LV, GS-3A, MGT-LV, GT-LV, GT-3A, GT-3B, and RT, remains at 0.0000%.⁷ In addition, Pepco proposes two additional updates resulting from the elimination of the Market Price Service Tariff per Order No. 20775.⁸ Pepco stated that the update is to ensure that the rate reflects current financial conditions and costs. According to Pepco, the update allows it to continue purchasing receivables from suppliers at a rate that accurately reflects the Company's actual bad debt expense and other related

³ *PEPPOR-2024-01, Pepco Purchase of Receivables ("PEPPOR-2024-01")*, Potomac Electric Company's Purchase of Receivables Supplier Discount Rate Update, filed April 30, 2024 ("POR Supplier Discount Rate Update").

⁴ *71 D.C. Reg.* 006318-006320 (May 17, 2024).

⁵ *PEPPOR-2024-01, Comments of the Suppliers*, filed June 17, 2024 ("Suppliers' Comments").

⁶ *PEPPOR-2024-01, Pepco's Motion for Leave to Reply and Limited Reply Comments*, filed on July 1, 2024 ("Pepco Reply Comments"). The Commission finds good cause exists to grant Pepco's Motion for Leave to Reply and that no interested person would be prejudiced by granting the Motion. Accordingly, we grant Pepco Motion, and accept the Reply Comments.

⁷ *POR Supplier Discount Rate Update* at Attachment A, Seventh Revised Page Nos. 41 and 42.

⁸ *POR Supplier Discount Rate Update* at 2; citing *Formal Case No. 1017, In the Matter of the Development and Designation of Standard Offer Service in the District of Columbia*, Order No. 20775, rel. July 23, 2021.

costs, thereby ensuring the program's financial sustainability and effectiveness.⁹ Pepco requests an effective date of July 1, 2024, for the POR Discount Rates.

6. **Suppliers' Comments.** The Suppliers state that the proposed POR Discount Rate would cause harm to the competitive retail electricity market, averring that the proposed Discount Rate increase from 3.9807% to 14.8693% is substantial and is by far the highest POR Discount Rate proposed in any jurisdiction where the Suppliers transact business. The Suppliers state that a small increase can be manageable, but a 273.5% increase is not. The Suppliers assert that existing retail contracts were most likely priced pursuant to the existing discount rate of 3.9807% or the 2022-2023 discount rate of 0.00%, and the proposed increase would render existing contacts uneconomic. The Suppliers further stated that if this proposed POR Discount Rate is approved, it would be impossible for suppliers to offer competitive savings to District residential customers. The Suppliers suggested alternative solutions based on the POR rates that Pepco's affiliate distribution utility, Delmarva Power and Light, offers in Maryland and Delaware to keep the POR Discount Rate at a level where it mitigates harm to the competitive market.¹⁰

7. **Pepco Reply Comments.** In response to the Suppliers' Comments, Pepco filed a new proposed tariff calculation for the POR Discount Rate similar to the one used by Delmarva Power and Light that would result in a Discount Rate of 5.42% rather than the 14.87% proposed originally.¹¹ Pepco requested that the Commission consider this alternative but states that the Company's initial 14.87% discount rate is based on the calculation previously approved by the Commission, and a change to that calculation may require a waiver of the language in the current tariff.¹²

IV. DECISION

8. The Commission has reviewed the proposed tariff and the comments received and has determined that Pepco's proposed calculation of its April 30 POR Discount Rate for residential creates a rate that would not be just and reasonable and harm retail suppliers and retail electricity competition in the District. Although Pepco's POR Discount Rate calculation is consistent with the calculations approved by the Commission in prior years, the use of 2023 actual expenses to calculate the 2024 POR Discount Rate leads to a significantly higher POR Discount Rate because of the resumption of collection activity following the lifting of the COVID-19 moratorium.¹³ The

⁹ *POR Supplier Discount Rate Update* at 2; citing *Formal Case No. 1017, In the Matter of the Development and Designation of Standard Offer Service in the District of Columbia*, Order No. 20775, rel. July 23, 2021.

¹⁰ *Supplier Comments* at 1-2.

¹¹ *Pepco Reply Comments* at 1-2.

¹² *Pepco Reply Comments* at 3, Attachment A.

¹³ Mayor's Order No. 2021-096 (July 24, 2021). *See also* DC Act 24-0079, the Coronavirus Public Health Extension Emergency Amendment Act of 2021, effective May 19, 2021. *See also Formal Case No. 1164, In the Matter of an Inquiry into the Impacts of the COVID-19 Pandemic on District Utilities and Consumers*, Order No. 20707. The COVID-19 moratorium on utility disconnections started with the onset of the public health emergency declared by the Mayor on March 11, 2020, and ended on July 24, 2021. The moratorium stopped all utility disconnections related to

Commission is concerned that a high POR Discount Rate could make it impossible for suppliers to make competitive offers to residential customers in the future.

9. The Commission also rejects Pepco's alternative July 1 discount rate proposal. The proposed calculation methodology included in Pepco's Reply Comments will not resolve the magnitude of the future POR Discount Rate increase for residential customers and may have a chilling effect on electricity supplier competition in the District. POR Discount Rate increases are, in part, driven by bad debt expenses, and the Commission is concerned that current bad debt trends are outside the norm and may be reflected in future POR Discount Rate increases. Given the current bad debt trends, the proposed two-year amortization of 2023 uncollectibles that Pepco proffers as an alternative rate will postpone the resulting significant POR Discount Rate increase for residential customers to next year.¹⁴ As such, the Commission rejects Pepco's July 1 alternative proposal.

10. To lower the impact of Pepco's proposed rate, the Suppliers suggested alternative solutions based on the amortization of bad debt expenses over a number of years or based on average annual percentage rates. More recently, the Commission approved Washington Gas Light Company's ("WGL") proposed POR Discount Rate.¹⁵ WGL's POR Discount Rate used 2022 bad debt expenses and late fees as a proxy for the projection of Residential Bad Debt Expense and Late Fees. WGL argued that the CY2022 Bad Debt Expense provides a more reasonable estimate of 2024 costs due to the resumption of disconnections as the COVID-19 moratorium ended. WGL stated that if it had used 2023 Bad Debt Expense and Late Fees for 2024 projections, it would have resulted in a Residential POR Discount Rate of more than 15%.¹⁶ The Commission found that WGL's methodology resulted in a more reasonable estimate of 2024 bad debt costs, and we accepted WGL's proposed POR Discount Rate as reasonable.

11. The purpose of the POR program is to encourage electricity competition in the District by encouraging Suppliers to participate in the electricity market. The Commission finds that it is in the best interests of ratepayers for Pepco to calculate the POR Discount Rate using a methodology that facilitates electricity competition. Although the Commission expects the POR Discount Rate to change, we are concerned that Pepco's POR proposals could have unintended anti-competitive consequences. Therefore, we believe the better course of action is for Pepco to follow WGL's approach. Accordingly, we direct Pepco to submit a new residential POR Discount Rate tariff using Residential Calendar Year 2022 Bad Debt Expenses and Late Fees Revenues as a proxy for calculating the Company's 2024 residential POR Discount Tariff. Pepco is to submit a

nonpayment (i.e. uncollectible expenses) in the District. The COVID-19 moratorium has lifted and the increase in uncollectible expenses is reflected in Pepco's POR Discount Rate Update filing.

¹⁴ *Pepco Reply Comments at 2. POR Supplier Discount Rate Update at Attachment C.* Pepco's 2023 bad debt expense is approximately \$3.9 million.

¹⁵ *See WGPOR-2024-01, In the Matter of the Investigation into the Establishment of a Purchase of Receivables Program for Natural Gas Suppliers and their Customers in the District of Columbia ("WGPOR-2024-01"), Order No. 22244, rel. July 29, 2024, Washington Gas Light Company's Purchase of Receivables Supplier Discount Rate Update, filed April 5, 2024 ("WGL POR Supplier Discount Rate Update").*

¹⁶ WGL POR Supplier Discount Rate Update.

revised 2024 Purchase of Receivables Discount Rate as prescribed herein within 10 days of the date of this Order.

THEREFORE, IT IS ORDERED THAT:

12. Potomac Electric Power Company’s Motion for Leave to Reply is **GRANTED**, and the Limited Reply Comments are **ACCEPTED**;

13. Potomac Electric Power Company’s proposed Purchase of Receivables Discount Rate Update for Residential Customers served under Schedules R and MMA, filed on April 30, 2024, is **DENIED**;

14. Potomac Electric Power Company’s alternative Purchase of Receivables Discount Rate Update for Residential Customers served under Schedules R and MMA, filed on July 1, 2024, is **DENIED**;

15. Potomac Electric Power Company **SHALL** calculate its 2024 Purchase of Receivables Discount Rate consistent with this Order; and

16. Potomac Electric Power Company is **DIRECTED** to submit a revised 2024 Purchase of Receivables Discount Rate within 10 days of the date of this Order.

A TRUE COPY:

BY DIRECTION OF THE COMMISSION:



CHIEF CLERK:

**BRINDA WESTBROOK-SEDGWICK
COMMISSION SECRETARY**

COMMISSION ACTION

PEPPOR-2024-01, PEPCO PURCHASE OF RECEIVABLES

Date 8/7/24 Formal Case No. PEPPOR-2024-01 Tariff No. _____ Order No. 22259

	Approved Initial & Date	Dissent Initial & Date	Abstain Initial & Date
Chairman Emile Thompson	<u>ET/CL 8/7/24</u>	_____	_____
Commissioner Richard A. Beverly	<u>RB/CL 8/7/24</u>	_____	_____
Commissioner Ted Trabue	<u>TT/CL 8/7/24</u>	_____	_____

Certification of Action

C. Lipscombe
General/Deputy General Counsel

Hunter Davis
OGC Counsel/Staff