

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

**ORDER**

**March 6, 2025**

**PEPPOR-2024-01, IN THE MATTER OF POTOMAC ELECTRIC POWER COMPANY'S  
PURCHASE OF RECEIVABLES PROGRAM, Order No. 22379**

**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 for Residential Class customers. Pepco is directed to file a new tariff that modifies the POR Discount Rate calculation for the Residential Customer Class by using Calendar Year 2023 actual Residential net write-offs as a proxy for calculating the Company’s 2024 Residential POR Discount Rate. Pepco is directed to file a new tariff with a 2024 Residential POR Discount Rate calculation consistent with paragraph 9 within 10 days of the date of this Order.

**II. BACKGROUND**

2. By Order No. 16916, the Commission established a purchase of receivables (“POR”) program for electricity in the District.<sup>1</sup> 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 unpaid bills.<sup>2</sup> 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. However, the Commission approval made clear that no part of the POR program costs should be recovered from ratepayers.<sup>3</sup>

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

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

<sup>2</sup> *Formal Case No. 1085, Order No. 16916, ¶ 3, rel. September 20, 2012.*

<sup>3</sup> *Formal Case No. 1085, Order No. 16916, ¶ 42, rel. September 20, 2012.*

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.

4. On April 30, 2024, Pepco filed a proposed tariff to update the POR Supplier Discount Rate.<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> On August 7, 2024, the Commission issued Order No. 22259 rejecting Pepco's April 30, 2024, proposed tariff and directing Pepco to calculate its POR Discount Rate using Calendar Year 2022 Residential Customer Class expenses as a proxy for calculating the Company's 2024 POR Discount Rate.<sup>8</sup> Pepco filed a tariff update on August 16, 2024, in response to Order No. 22259, and filed a superseding, revised tariff update on September 6, 2024.<sup>9</sup> The Commission issued a NOPT published in the *D.C. Register* on October 4, 2024, inviting public comments.<sup>10</sup> No comments were received.

5. Pepco's Revised POR Supplier Discount Rate 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 7.7466% on Schedules R and MMA and 0.0000% for Small Commercial customers, Schedules GS-LV-ND, T, SL, TS, and OL-LED.<sup>11</sup> The discount

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<sup>4</sup> *PEPPOR-2024-01*, Potomac Electric Company's Purchase of Receivables Supplier Discount Rate Update, filed April 30, 2024.

<sup>5</sup> *71 D.C. Reg.* 006318-006320 (May 17, 2024).

<sup>6</sup> *PEPPOR-2024-01*, Comments of the Suppliers, filed June 17, 2024.

<sup>7</sup> *PEPPOR-2024-01*, Pepco's Motion for Leave to Reply and Limited Reply Comments, filed on July 1, 2024.

<sup>8</sup> *PEPPOR-2024-01*, Order No. 22259, rel. August 7, 2024.

<sup>9</sup> *PEPPOR-2024-01*, Pepco's Update of the POR Supplier Discount Rate, filed August 16, 2024; Pepco's Revised POR Supplier Discount Rate, filed September 6, 2024 ("Revised POR Supplier Discount Rate").

<sup>10</sup> *71 D.C. Reg.* 012073-012075 (October 4, 2024).

<sup>11</sup> Revised POR Supplier Discount Rate at Attachment A, Seventh Revised Page Nos. 41 and 42.

rate for Large Commercial customers, Schedules GS-LV, GS-3A, MGT-LV, GT-LV, GT-3A, GT-3B, and RT, remains at 0.0000%.<sup>12</sup> In addition, Pepco proposes deferring a net imbalance of \$1,880,658.91 for recovery in a future period and recording the net imbalance in balancing asset or liability segment to earn interest at Pepco's authorized distribution system rate of return.<sup>13</sup> Pepco states that the net imbalance results from the difference between Calendar Year 2022 and 2023 Bad Debt Expenses and Late Fee Revenues.<sup>14</sup> Pepco asserts that the deferral of this net imbalance is consistent with Pepco's Electricity Supplier Coordination Tariff, Schedule 3, paragraph 2, which states that the Reconciliation Component represents the difference between cumulative costs eligible for recovery and discount amounts for purchased receivables.<sup>15</sup> Pepco requested an effective date of October 1, 2024, for the POR Discount Rates.

### III. DECISION

6. In reviewing the three (3) 2024 Residential POR Discount Rate proposals Pepco filed with the Commission, the Commission found issues with each that conflicted with the goals of the POR program. The proposal filed on April 30, 2024, calculated a substantial residential rate increase and may have had anti-competitive results. The proposal filed on July 1, 2024, in Pepco's Limited Reply Comments, created a calculation that would postpone substantial Residential POR Discount Rate increases to the next year or future years. The September 6, 2024, filing proposed moving a net imbalance out of the Residential POR Discount Rate calculation in an effort to comply with Order No. 22259 and decrease the rate. However, the September 6 POR Discount Rate for residential customers creates a rate that would impose an additional financial burden on Standard Offer Service ratepayers that would not be just and reasonable. As we stated in Order No. 16916, at the beginning of the POR program, no part of the POR program costs should be recovered from ratepayers.<sup>16</sup>

7. Based on data in Attachment D of Pepco's September 6, 2024, proposed tariff filing, the Commission has identified an upward trend for the Residential Class uncollectible amounts since 2021.<sup>17</sup> This upward trend results from significant increases in Residential Class net write-offs in 2022 and 2023. Based on this upward trend of bad debt for the Residential Customer Class, the Commission is concerned that a POR Discount Rate calculation that creates a net imbalance would result in a POR Discount Rate that is not guaranteed to reduce the balance of net write-offs and capture Pepco's entire cost of administering the POR Program. This may result in a scenario where the net imbalance is recovered from non-POR ratepayers at some point in the future. Pepco has not adequately explained whether it is proper or reasonable for the Company to receive its

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<sup>12</sup> Revised POR Supplier Discount Rate at Attachment A, Seventh Revised Page Nos. 41 and 42.

<sup>13</sup> Revised POR Supplier Discount Rate at 2.

<sup>14</sup> Revised POR Supplier Discount Rate at 2.

<sup>15</sup> Revised POR Supplier Discount Rate at 2.

<sup>16</sup> *Formal Case No. 1085*, Order No. 16916, ¶ 42, rel. September 20, 2012.

<sup>17</sup> Revised POR Supplier Discount Rate at Attachment D.

authorized return on this net imbalance from the POR program. As such, the Commission does not find this net imbalance reasonable.<sup>18</sup>

8. In Order No. 22259, the Commission stated that we were “concerned that a high POR Discount Rate could make it impossible for suppliers to make competitive offers to residential customers in the future.”<sup>19</sup> However, it is apparent from reviewing Pepco’s proposals that there is no simple way to mitigate a high POR Discount Rate without impacting non-POR ratepayers. The Commission still believes that the POR Program must be a self-contained program with all of its cost components contained therein.<sup>20</sup> In Pepco’s August 16, 2024, filing, the Company used a calculation method that ensures *all* POR program costs (including uncollectible expense, working capital, etc.) stay within the group of customers actually participating in the POR. The Commission believes that the calculation of the POR Discount Rate from Pepco’s August 16, 2024, filing sufficiently aligns with the goals of the POR program and will have no impact on non-POR ratepayers.

9. Therefore, the Commission again directs Pepco to calculate the 2024 Residential POR Discount Rate in a manner consistent with Washington Gas Light Company’s (“WGL”) calculation to achieve a reasonable POR Discount Rate.<sup>21</sup> Pepco is to use 2023 Actual Residential net write-offs to calculate the Reconciliation Factor instead of using the 2022 Actual Residential net write-offs as a proxy for 2023 in the Reconciliation Factor calculation. Pepco is also directed to file its Residential POR Discount Rate tariff with a calculation consistent with the calculation used by WGL and consistent with the calculation in the Company’s August 16, 2024, filing on the POR Discount Rate.<sup>22</sup>

10. Since Pepco’s POR program began, it largely carried credit imbalances that helped keep the Residential Discount Rate at zero until 2023. Once that credit was exhausted, the Residential Customer Class experienced a steep decline in cumulative under-collections—now at \$2.6 million—while the Large Commercial Class retains a \$2.2 million over-collection. Pepco’s latest proposal defers some of these Residential under-collections and thereby risks shifting future costs to non-POR ratepayers. However, the Commission reiterates that the POR Program must be self-contained, meaning any under-collection tied to POR customers must not be recovered from non-POR ratepayers.<sup>23</sup> By rejecting this proposal, the Commission seeks to correct that potential cross-subsidization and ensure the POR Discount Rate fully captures Pepco’s actual costs. Accordingly, Pepco is directed to recalculate its 2024 Residential POR Discount Rate using 2023

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<sup>18</sup> *Formal Case No. 1085*, Order No. 16916, ¶ 42, rel. September 20, 2012.

<sup>19</sup> *PEPPOR-2024-01*, Order No. 22259, ¶ 8, rel. August 7, 2024

<sup>20</sup> *Formal Case No. 1085*, Order No. 16916, ¶ 42, rel. September 20, 2012.

<sup>21</sup> *PEPPOR-2024-01*, Order No. 22259, ¶ 10.

<sup>22</sup> *PEPPOR-2024-01*, Pepco’s Update of the POR Supplier Discount Rate at Attachment B, filed August 16, 2024.

<sup>23</sup> *Formal Case No. 1085*, Order No. 16916, ¶ 42, rel. September 20, 2012.

actual net write-offs, consistent with paragraph 9 above, and to strictly maintain the program's cost responsibility within the POR framework.

11. Finally, the Commission sees the need to address the continued increase in Residential Customer Class cumulative under-collection amounts and the increase in Large Commercial Class cumulative over-collection balance. The Commission will issue a separate Order seeking comments from stakeholders for both WGL and Pepco to address the future of the POR program in the District.

**THEREFORE, IT IS ORDERED THAT:**

12. Potomac Electric Power Company's proposed Purchase of Receivables Discount Rate for Residential Customers served under Schedules R and MMA, filed on September 6, 2024, is **REJECTED**;

13. Potomac Electric Power Company **SHALL** calculate its 2024 Purchase of Receivables Discount Rate consistent with paragraph 9 of this Order; and

14. Potomac Electric Power Company is **DIRECTED** to submit a revised 2024 Purchase of Receivables Discount Rate tariff 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, IN THE MATTER OF POTOMAC ELECTRIC POWER COMPANY'S PURCHASE OF RECEIVABLES PROGRAM,

Date 3/6/25 Formal Case No. PEPPOR-2024-01 Tariff No. \_\_\_\_\_ Order No. 22379

	Approve Initial & Date	Dissent Initial & Date	Abstain Initial & Date
Chairman Emile Thompson	<u>ET/CL 3/6/25</u>	_____	_____
Commissioner Richard A. Beverly	<u>RB/CL 3/6/25</u>	_____	_____
Commissioner Ted Trabue	<u>TT/CL 3/6/25</u>	_____	_____

Certification of Action

C. Lipscombe  
General/Deputy General Counsel

Hunter Davis  
OGC Counsel/Staff