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Via e-Filing

Ms. Brinda Westbrook
Secretary
Public Service Commission of the District of Columbia
1325 G Street N.W., Suite 800
Washington, D.C. 20005

Re: Formal Case No. 1017

Dear Ms. Westbrook:

On April 15, 2025, Atrium Economics, LLC (“Atrium”) submitted its Pepco DC SOS Administrative Audit Report (“Report”), consistent with prior Commission orders.¹ The Retail Energy Supply Association (“RESA”),² the nation’s leading trade association representing competitive retail energy suppliers, submits these comments on the Report. RESA’s members participate in, or want to participate in, the competitive retail electricity and natural gas markets in the District.

As Atrium explains, the intent of the Report is to “perform an evaluation of the processes, procedures, mechanics, and internal controls related to Pepco’s Administrative Charge for its Standard Offer Service (‘SOS’) program for the period June 1, 2018, through May 31, 2024 (a six (6) year audit period).”³ As the SOS Administrator, Pepco includes an Administrative Charge for each SOS customer class in addition to the charge for SOS electricity supply. The Administrative Charge includes four components: (1) Pepco’s incremental costs of procuring and providing SOS to District residents and businesses; (2) Pepco’s SOS uncollectible costs; (3) an adder; and (4) a return.⁴

¹ Formal Case No. 1017, Order Nos. 21934 (Nov. 22, 2023), 21949 (Feb. 7, 2024); and 21986 (May 1, 2024).

² The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

³ Report at 2.

⁴ DCMR Rule 4103.4; Order No. 21934 at ¶ 8.



These comments focus on the Report's conclusions regarding the adder component of the Administrative Charge. In sum, the adder is a necessary and vital component of the Administrative Charge and should be calculated to attain its intended purpose of allowing suppliers to compete against SOS on a level playing field.

The Report explains the purpose of the adder.⁵ RESA, too, has submitted filings throughout the years in this docket regarding the importance of the adder.⁶ In sum, the adder serves as Pepco's proxy for competitive energy suppliers' costs. As the SOS provider, Pepco does not incur certain costs, such as marketing, customer acquisition, and customer care costs that suppliers must incur. Pepco also incurs other costs providing SOS but which it recovers through its distribution rates. Whereas Pepco enjoys guaranteed rate recovery from captive ratepayers, suppliers must recover all of their costs through the prices they charge their customers. Thus, absent a full unbundling of Pepco's costs, the adder serves as an efficient mechanism to ensure a level playing field – and not at a competitive disadvantage against an artificially low SOS rate – with Pepco.⁷

The adder's purpose is consistent with the statutory mandate in D.C. Code § 34-1509(d)(1)(A) that the Commission "shall ensure that the [SOS] price will not hinder the development of a competitive electricity supply market in the District of Columbia." Indeed, in approving the adder in 2004, the Commission concluded that:

Absent an adder, SOS rates would likely be below what the market for competitive electricity supply will demand. Therefore, the adder places SOS on par on a rate basis with competitive electricity supply in a way that meets the 1999 Act's mandate that SOS not impede the development of a competitive retail market and allows this service to retain its backstop nature.⁸

Here are the Report's primary findings with respect to the adder:

Page 4:	"The Adder - The Adder provides an important function in ensuring a level, competitive playing field in Washington DC for electric supply. But, as the SOS Administrative Charge and the Adder are currently derived, there is very little association between the third-party marketing costs, for which the Adder is established as a proxy, and the Adder itself." (Emphasis added)
Page 28:	"Pepco goes through a circular process whereby the Administrative Charge is determined by first forecasting the over/under recovered balance through the end of the upcoming SOS year and setting the rate to recover the forecasted over/under recovered balance. Due to the one-year lag, the over/under recovered

⁵ Report at 7-8.

⁶ See, e.g., Application of RESA for Reconsideration of Commission Order No. 18829, Formal Case No. 1017 (Aug. 7, 2017).

⁷ Pepco collects the adder as part of the Administrative Charge, but it is returned to all distribution customers through an Administrative Credit.

⁸ Formal Case No. 1017, Order No. 13268, ¶ 107 (Aug. 19, 2004).



	<p>calculation used for the Administrative Credit calculation is utilized in forecasting over/under recovery through the end of the upcoming SOS year. The Adder is the residual between the cost components and the administrative rate that is set, and since it is set to eliminate any over or under recovered balance, the Adder would as a result be quite small and inconsequential; and the SOS Administrative Charge may not necessarily be representative of what is required to place SOS service on a level playing field with third-party suppliers." (Emphasis added).</p>
Page 29:	<p>"The Adder provides an important function in ensuring a level, competitive playing field in Washington DC for electric supply. But, as the SOS Administrative Charge and the Adder are currently derived, there is very little association between the third-party marketing costs, for which the Adder is established as a proxy, and the Adder itself. The Adder portion of the SOS Administrative Charge is currently the residual that attempts to fully collect any over/under recoveries of SOS Administrative Costs as closely as possible and is not tied to or verified against third party electric supply quotes. Atrium recommends a potential enhancement to Pepco's process so that the SOS Administrative Charge and Adder may be tied to or verified against third-party quotes to ensure that the Adder does not undercut competition." (Emphasis added).</p>

These findings culminate in the following recommendation on page 29 of the Report:

Atrium proposes a potential enhancement to Pepco's SOS process so that the Administrative Charge is set such that it is tied more closely to competitive third-party supply pricing. For example, it could be set such that the SOS rate would equal the higher of i) the highest 12-month electric supply quote as published for the upcoming 12-month period, as can be found on www.search.dcpowerconnect.com/search-offers and filtered for a 12-month contract length (or other more comprehensive resource for third party supply quotes), or ii) actual incremental SOS Administrative costs, i.e., Incremental Costs, Uncollectible Expenses, Cash Working Capital, Margin, and Taxes.

In i) above, the Administrative Charge would be the residual of the highest quoted third-party supply rate, less Pepco's SOS generation charge and the SOS transmission charge. The Adder should then be calculated as the residual between the Administrative Charge and SOS's incremental SOS costs. This would truly place the SOS rate on an equal playing field with third-party electric suppliers. In situations where Pepco's SOS incremental administrative costs exceed the otherwise calculated SOS Administrative Charge, the SOS Administrative Charge would exactly equal the sum of Pepco's incremental SOS Administrative costs, and the Adder would be zero.



Atrium summarizes on page 4 that this recommendation is “a potential enhancement to Pepco’s process so that the SOS Administrative Charge and Adder may be tied to or verified against third-party quotes to ensure that the Adder does not undercut competition.”

RESA continues to believe that the adder serves a vital and necessary purpose in a wholesale SOS procurement structure. Simply put, any business that must compete against a competitor that is able to offer an artificially low price cannot be expected to succeed. That is the case with the District’s electricity suppliers if they must incur costs that Pepco either does not incur to provide SOS or can collect from all customers through its SOS rates.

Moreover, it should not be surprising that Atrium found: (1) that the adder is “quite small and inconsequential;” (2) that the adder “may not necessarily be representative of what is required to place SOS service on a level playing field with third-party suppliers;” and (3) “very little association between the third-party marketing costs, for which the Adder is established as a proxy, and the Adder itself.”⁹ This is consistent with the Commission’s 2017 description of the adder as resulting in only a slight increase to SOS rates and questioned whether the adder is sufficient to help electricity suppliers compete effectively with SOS.¹⁰ Recent data demonstrates that the Commission’s statement questioning whether the level of the adder was sufficient to encourage competition was legitimate; residential shopping has dipped from 15.1% in January 2018 to 10.06% in April 2025.¹¹

Here, Atrium’s findings shed light on why the adder was, and remains, too low. According to Atrium, the calculation of the Administrative Charge, of which the adder is the residual amount after subtracting the other components from the capped Administrative Charge, is unrelated to, and therefore not an accurate proxy for, actual supplier costs. This has resulted in an adder that is too low, which makes the SOS Administrative Charge an artificially low market price against which supplier must compete.

Atrium’s recommended potential enhancements to ensure a more accurate adder merits Commission consideration. Using the Commission’s www.DCPowerConnect search engine, where suppliers post their available offers, allows the Commission and stakeholders to ascertain actual supplier offers and pricing. Other methods may exist that also warrant consideration to ensure: (1) a more accurate and transparent adder, assuming the Commission declines to fully unbundle Pepco’s distribution rates to properly account for SOS-related costs that are

⁹ Report at 28-29.

¹⁰ Order No. 18829 at ¶ 127. In a Statement accompanying the Order, Commissioner Beverly opined that, “Our sole rationale for eliminating the adder is that the adder is so small that it has little to no impact on competition, despite RESA’s representation that the adder helps to even the playing field for the suppliers it represents. Even Pepco cautions against eliminating the adder because, without it, SOS rates would be below competitive rates and make it more difficult for suppliers to compete.” *Id.*, Statement of Commissioner Richard Beverly (July 7, 2017). Two months later, the Commission granted RESA’s Application for Reconsideration and did not eliminate the adder. Formal Case No. 1017, Order No. 19106 (Sept. 13, 2017).

¹¹ See Pepco’s April 2025 Monthly Market Monitoring Report, Docket PEPEMMR (May 15, 2025).



recovered through distribution rates; and (2) that the SOS rate satisfies the D.C. Code. RESA would be willing to participate in discussions or provide comments on how to ensure that the level of the adder serves its intended purpose.

Thank you for the opportunity to submit these comments. Should you have any questions about this filing, please do not hesitate to contact me.

Sincerely,

/s/ Brian R. Greene

Brian R. Greene

C: Service List for Formal Case 1017 (by email)