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EP9628
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May 19, 2025

Ms. Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission
of the District of Columbia
1325 G Street NW, Suite 800
Washington, DC 20005

Re: FC1017

Dear Ms. Westbrook-Sedgwick:

Enclosed please find Potomac Electric Power Company's Initial Comments on Atrium Standard Offer Service Administrative Charge Audit Report in above referenced matter.

Please feel free to contact me if you have any questions regarding this matter.

Sincerely,

/s/ Kunle Adeyemo

Kunle Adeyemo

Enclosures

cc: All Parties of Record

The Commission retained Atrium to evaluate Pepco's compliance with Commission orders, assess the accuracy and appropriateness of cost components included in the Administrative Charge, and recommend areas for process improvement. The Audit was comprehensive and included reviews of records and spanned across multiple departments.

I. Executive Summary

Atrium's Audit of Pepco's SOS administrative charge encompassed a thorough review, involving detailed examination of internal controls, financial systems, source documentation, customer billing records, and interviews across multiple departments. Atrium concluded that Pepco's SOS Administrative Charge process is materially sound and aligned with regulatory expectations.⁵ Atrium's Audit was based on rigorous review and analysis, including tests of mechanical accuracy, substantive testing of annual compliance filings, interviews with internal personnel, and review of thousands of customer records and source documents. The Audit produced the following key findings:⁶

- The SOS Administrative Charges were properly calculated and generally accurate across all rate classes.
- Cost recovery did not result in duplication within the distribution rate base or the Procurement Cost Adjustment.
- Internal controls were generally sufficient to detect and mitigate calculation errors.
- Only a few minor errors were identified, none of which materially affected compliance or customer rates.
- Pepco's processes could be further enhanced through improved FERC account mapping, more consistent cost classifications, better alignment of the Adder mechanism with market conditions, and timelier crediting practices.

II. Scope and Methodology

Atrium employed a multi-layered Audit approach designed to validate compliance and technical integrity. Audit activities included: Interviews with Pepco's Energy Acquisition, Retail

⁵ Atrium Report, pg. 3.

⁶ *Id.* pg. 3, 26–27, 33–34

Rates, Applications Technology, Accounting, Revenue Requirements, and Billing teams to document process flows and control measures. Atrium also reviewed Pepco's Cost Allocation Manual, general ledger entries, journal vouchers, invoices, employee timecards, and annual compliance filings. The Audit selected testing of two annual periods—June 2019–May 2020 and June 2021–May 2022—by tracing each rate component back to source documents and validating accuracy of billed charges.⁷ Furthermore, a year-over-year variance analyses was conducted and control walkthroughs to assess the effectiveness of internal procedures and identify potential misclassifications or overstatements.⁸

Following the Audit, Atrium concluded that overall Pepco is properly executing controls in a timely manner and the controls are sufficient to track and identify errors in the SOS administrative charge calculation.⁹ Nevertheless, Atrium did identify areas where possible modifications could be implemented. However, this robust Audit shows that Pepco's current practices are rigorous and result in consistent SOS calculations.

III. Isolated Issues Identified Through the Audit had No Material Impact on the SOS Administrative Charge

Atrium identified a few isolated issues, none of which had a material impact on rates or compliance:

- Duplicate Payroll Costs: Fringe benefits and payroll taxes tied to wholesale bidding were recorded in both the SOS and distribution accounts in 2021 (\$3,602.46). The issue was corrected and mapping protocols improved.¹⁰
- Duplicated Vendor Charges: A vendor payment of \$51,000 was recorded in two categories. Atrium recommended adjusting this in the next compliance filing and reinforcing classification controls.¹¹
- Billing System Flag Error: Out of over 217,000 customer contracts, only 12 were inadvertently excluded from SOS charges due to a legacy system conversion error during

⁷ *Id.* at 26-27.

⁸ *Id.* at 18, 32-33.

⁹ *Id.* at 32-33.

¹⁰ *Id.* at 24.

¹¹ *Id.* at 25.

the 2015/2016 timeframe. Pepco reviewed and corrected the issue, and Atrium recommended monthly sampling across all customer classes.¹²

The three matters that were identified in the Audit were all isolated issues and the two matters that could be remedied were already addressed. The third, related to vendor charges, is a matter that will be addressed in the next annual SOS retail rates filing. Nevertheless, the Audit shows that Pepco's processes are reliable and prevent persistent errors.

IV. The Audit Found Pepco's Controls to be Effective and Noted Some Areas for Potential Enhancements

Pepco's SOS Administrative Charge mechanisms were generally found to be well-executed and compliant. The Company timely and effectively executed key financial controls, such as monthly reconciliations, rate card reviews, and regulatory deferral entries, effectively throughout the Audit period. The SOS charges were accurately calculated and reflected in billing systems and tariff schedules, with data tied to original financial documentation. Pepco's internal systems, including those in the Revenue Requirements Department, ensure that SOS-related costs were stripped from distribution rates, preventing double recovery. The Company implemented a monthly review process to evaluate "first bills" for new customers, flagging any anomalies in rate application.¹³

Atrium identified opportunities for targeted enhancement and acknowledged several internal practices as effective and well-managed:

Atrium Recommendations:

- ***FERC Account Mapping Controls:*** Atrium recommended strengthening processes to ensure all incremental SOS costs are booked to non-distribution FERC accounts to avoid even minor duplication in distribution rate recovery.¹⁴

¹² *Id.* at 27.

¹³ *Id.* at 16.

¹⁴ *Id.* at 3, 24.

- **Cost Classification Consistency:** Certain expenses, such as Purchase Power Agreement (PPA) and wholesale transaction fees, were classified differently across years. Atrium recommended standardization to improve comparability and reduce confusion.¹⁵
- **Sampling of Customer Bills:** Atrium recommended that on a monthly basis, at least one customer from each rate class is selected for testing to ensure the SOS customers are receiving the approved SOS Administrative Charge rate.¹⁶
- **Adder Alignment with Market Data:** The Adder, designed to reflect competitive supplier costs, allows Pepco's total SOS price to better align with the electric supply market price. Atrium proposed linking it to third-party price quotes to better preserve market neutrality;¹⁷
- **Administrative Charge Adjustments:** In instances where actual costs exceeded the fixed Administrative Charge, Pepco zeroed out the Adder rather than adjusting the charge. Atrium recommended recalibrating the charge to recover actual costs transparently;¹⁸
- **Contemporaneous Administrative Credits:** Credits to distribution customers are returned on a forward-looking basis. Atrium advised returning them concurrently with collections to improve accuracy and fairness.¹⁹
- **Documentation of Regulatory Deferral Changes:** Despite material changes to Community Renewable Energy Facility (CREF) treatment, Pepco did not issue a conformance memo. Atrium recommended formal documentation for Audit transparency.²⁰

Pepco's Comments:

FERC Account Mapping Controls

Pepco agrees with Atrium's recommendation to enhance its already robust process, ensuring all incremental SOS costs are allocated to non-distribution FERC accounts to prevent duplication in distribution rate recovery. Although Pepco has identified and rectified an isolated instance of minor cost duplication, it remains committed to continuously refining its process to eliminate any risk of potential duplication in recovery.

¹⁵ *Id.* at 3, 25.

¹⁶ *Id.* at 27.

¹⁷ *Id.* at 4, 29.

¹⁸ *Id.* at 4, 29.

¹⁹ *Id.* at 4, 31.

²⁰ *Id.* at 4, 51.

Cost Classification Consistency

Pepco recognizes that although certain expenses, such as Purchase Power Agreement (PPA) and wholesale transaction fees, were classified differently across years, they ultimately consolidated into a single category labeled as incremental expenses in the annual filing. Consequently, the variation in classification over the years did not affect the overall calculated rate. However, Pepco acknowledges the advantages of maintaining consistent expense classification year over year and will adopt this recommended enhancement.

Sampling of Customer Bills

Pepco maintains a robust Sarbanes Oxley (“SOX”) control process for daily rate verification, involving the sampling of random bills across different rate classes to ensure rates align with approved tariff rates. Over the years, this process has undergone continuous improvements to verify that customers are charged the correct rates. As part of this effort, Pepco also reviews the SOS Administrative Charge on customer bills to confirm that the approved rate is being applied.

Adder Alignment with Market Data

Pepco will explore Atrium's recommendation to link the adder to third-party price quotes to better preserve market neutrality. Additionally, Pepco will evaluate how this specific recommendation synergizes with other Atrium recommendations to determine the feasibility of its implementation,²¹ particularly in scenarios where the adder is set to zero.

²¹ In Maryland, the Administrative Adjustment - functionally equivalent to the Adder in the District of Columbia—is established and approved through a distribution rate case proceeding. For further details, see Maryland Public Service Commission Order No. 90445 (Case No. 9681) and Order No. 91181 (Case No. 9702).

Administrative Charge Adjustment

The Administrative Charge is based on a true-up of prior period actual costs and a forecast of costs for the upcoming SOS deferral year. The adder is the residual amount after all known components of the Administrative Charge are deducted.

According to Atrium's recommendation, if it is determined that Pepco's SOS Administrative Costs exceed its SOS Administrative Charge for any given rate class, Pepco should increase the fixed Administrative Charge so that the adder is not negative, and no negative Administrative Credit rate will result. This recommendation aligns with Pepco's current process, where Pepco manually adjusts the adder if it is negative, bringing the rate to at least zero and effectively increasing the Administrative Charge.

Contemporaneous Administrative Credit

Pepco has historically distributed the administrative credit on a rolling 12-month basis, incorporating the cumulative administrative balance and the adder. Each month, the administrative credit rate is calculated based on the cumulative balance from the previous month. This approach has allowed Pepco to mitigate monthly volatility, as the balance can fluctuate between over-collections and under-collections throughout the year due to seasonal usage variations when transitioning between summer and winter months and vice versa. The cumulative method ensures stability and predictability in credits for distribution customers and has helped Pepco manage its administrative burden effectively.

Atrium proposed that Pepco return the administrative credits concurrently with collections to enhance accuracy and fairness. According to Pepco's interpretation of this recommendation, the administrative credit rate would be set as a direct offset to the adder, ensuring that all monies collected from SOS ratepayers via the adder are directly distributed to distribution customers.

Implementing this recommendation will require significant effort to change the current process for administrative credits and requires further analysis and review.

Documentation of Regulatory Deferral Changes

Pepco agrees with Atrium's recommendation to formally document the material changes to the CREF cost treatment in a conformance memo to enhance Audit transparency.

V. Conclusion

Atrium's six-year Audit found that Pepco's SOS Administrative Charge practices are highly accurate, procedurally robust, and compliant with Commission orders. The Audit affirmed that Pepco has appropriate systems to prevent duplication and misclassification and maintains a framework of key financial controls that generally functions as intended. Minor deficiencies were isolated and non-material, and the Company is reviewing Atrium's recommended enhancements.

CERTIFICATE OF SERVICE

I hereby certify a copy of Potomac Electric Power Company's Initial Comments on Atrium Standard Offer Service Administrative Charge Audit Report was served this May 19, 2025 on all parties in Formal Case No. 1017 by electronic mail.

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