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June 13, 2018

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

Re: Formal Case No. 1134

Dear Ms. Westbrook-Sedgwick:

Enclosed please find Potomac Electric Power Company's Technical Conference Report and power point presentation for June 7, 2018 Technical Conference in the referenced proceeding.

Please contact me if you have any further questions.

Sincerely,

Dennis P. Jamouneau

Enclosure

cc: All Parties of Record

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF	)	
	)	
THE INVESTIGATION INTO THE PROCUREMENT COST ADJUSTMENT FOR STANDARD OFFER SERVICE	)))	**Formal Case No. 1134**

TECHNICAL CONFERENCE REPORT

On December 18, 2015, the Public Service Commission of the District of Columbia ("Commission") initiated the instant proceeding to investigate Potomac Electric Power Company's ("Pepco") Procurement Cost Adjustment ("PCA") for Standard Offer Service ("SOS") in Order No. 18064. Subsequently, on May 31, 2018, the Commission issued a Public Notice, convening a technical conference on June 7, 2018 to discuss and provide recommendations on whether there are alternative methodologies for calculating the PCA in the District of Columbia. The Public Notice directed Pepco to provide a presentation on (1) how the PCA currently functions; (2) how the PCA is calculated; and (3) how the PCA methodology currently used in the District of Columbia differs from the PCA adjustment Delmarva Power ("DPL") uses in the state of Delaware. Pepco was also directed to file a Technical Conference Report, providing recommendations to the Commission based on the discussions at the June 7, 2018 technical conference.

Discussion and Recommendations

As directed by the May 31, 2018 Public Notice, Pepco provided a presentation on the three enumerated items stated above. See Attachment 1. Also present for the technical conference were members of Commission Staff and representatives from the Office of the People's Counsel for the District of Columbia ("OPC").

Commission Staff began the meeting by discussing the origin of Formal Case No. 1134 and the previous issue, identified in Order No. 18064, regarding how Pepco allocated over- and under-collections from the Residential Aid Discount Surcharge ("RADS") through PCA for SOS customers. The Commission initiated the PCA investigation in December 2015 and Commission staff had five meetings with Pepco through 2016. Staff confirmed that starting from January 1, 2016, Pepco ceased the use of PCA to handle RAD surcharge over- and under-collections. Commission Staff also explained that the current PCA process, based on previous discussions and exchanges of information with Pepco and Staff's own investigation, has led to the conclusion that the monthly PCA updates—which rely on data cumulatively compiled since 2005—are difficult to verify with certainty. Specifically, some data and workpapers for the years 2005 and 2006 are not available. Accordingly, Staff explained that it was interested in alternative PCA calculation and discussing alternatives with parties. Specifically, Staff is interested in details regarding how Pepco's affiliate, DPL, calculates and collects the PCA in the state of Delaware.

The meeting transitioned to a discussion, led by Pepco's slide presentation (attached), which provided an overview for how the PCA in the District currently functions and is calculated, and explained the differences in approaches between Pepco and DPL. On slide 3 of the presentation, Pepco provided an example for how the monthly PCA is calculated. Following a Staff question, Pepco explained that the "deferral balance" is cumulative and, as such, relies on data since the PCA was established in 2005. This point generated discussion concerning one of

Staff's original concerns, namely that the cumulative balance is difficult to verify given the amount of time that has elapsed since the PCA was approved.

Slides 4 and 5 explain how the PCA differs between the District and Delaware and also provides potential advantages and disadvantages in the two approaches. For example, both the District and Delaware use a deferral mechanism, which relies on audited data from Pepco's accounting department, but the two approaches differ in that Pepco calculates and applies a separate PCA each month, while DPL's PCA is set annually. In addition, DPL uses forecasted sales to calculate the PCA, while Pepco uses actual sales information. On Slide 7, Pepco explains another key difference in DPL; namely, that the PCA is submitted by April 1 each year—relying on calendar year data ending December 31—and the rates go into effect, subject to refund, by June 1 each year. The June 1 effective date also coincides with the DPL SOS effective date. On pages 6 and 7, Pepco provided other information explaining the differences in the broader SOS processes followed in DPL and the District in order to put into context the PCA and how it functions. Much of the discussion and questions from OPC and Staff centered around two key themes: potential advantages of using an annual PCA process (and timing) and the ability to verify the data used by Pepco in the current, monthly process. OPC stated that there is a potential advantage to setting one rate annually, which would allow stability for customers' bills. There was general agreement that this was an important feature of an annual mechanism. OPC also asked for more data (see below) from Pepco that would help the parties determine if a modification to the current process would be a good idea, and how such a change would be different from the PCA rate currently modified monthly. Staff agreed that further information would be helpful, and requested that Pepco provide such information for all customer classes (see below for more detail). Staff further raised the issue regarding the use of annual data to calculate PCA rather than the use of data starting from 2005. For example, if in the 2018 filing, we could have 2017 true up information and workpapers, the entire process would be much easier and transparent. Pepco indicates that this can be achieved but parties would need to agree to the treatment of the initial cumulative deferred balance. If the initial balance can be rolled into the first year of implementation, for example, then we can switch to an annual mechanism without worrying about initial cumulative balance, which would make the audit and verification difficult or impossible.

The parties also discussed, in the event that a change to an annual process were approved, how the timing would work in terms of when Pepco would make the annual filing, what data would be included, and when the annual PCA rate would go into effect. As noted above, DPL uses calendar year data and makes its filing by April 1 each year. However, the new PCA rate and SOS rates go into effect, subject to refund, by June 1 of the same year. Pepco noted its preference, if an annual PCA rate were approved, to have the new PCA rate go into effect coinciding with the new annual SOS rates. However, there is a timing issue in that it would be difficult to have the necessary discovery and approval processes to have rates go into effect between April 1 and June 1. DPL is able to use those dates because it has a practice of filed rates going into effect subject to refund, a feature not currently utilized by the Commission. Pepco suggested making a March 1 filing—for rates to go into effect June 1—and the parties agreed to discuss timing at a later date, and after further considering data provided by Pepco. The parties also discussed Pepco filing a mid-year report—for example, six months after each annual PCA is established—that would detail the over- or under-collection for the first six-month period in order to allow the parties and public to get a sense of the amount deferred instead of waiting for the annual filing to be made. Finally, the parties agreed that Pepco would, consistent with the

Public Notice, draft and send the report to Staff and OPC by Friday, June 8, with the intention of filing the report with the Commission by June 13. The parties further agreed that, after Pepco provided further information, subsequent meetings may be necessary.

Information to be provided by Pepco by June 29, 2018:

1/ Cumulative (since 2005) deferral balances for each customer group up through May 2018.

2/ Using 2017 as an example, what would an annual PCA rate be for each customer class and, similarly, what would be the bill impact for an average Residential SOS customer.

3/ Comparison of what example annual PCA rate (see #2) compared to actual monthly PCA billed to customers in 2017.

Respectfully submitted,
POTOMAC ELECTRIC POWER COMPANY

By:______________________
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Counsel for Potomac Electric Power Company

Washington, DC
June 13, 2018

ATTACHMENT

DC SOS PCA Review

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Presented by: Susan DeVito
June 7, 2018

What is the Procurement Cost Adjustment (PCA)

- The PCA is a rate mechanism which enables Pepco to ensure that it collects the appropriate amount of revenue from customers for their SOS generation and transmission costs
- The PCA is calculated monthly by rate class and can be a positive or negative rate. It is applied to customer's bills in the following month
- The PCA compares the revenue collected from generation and transmission to the expenses incurred for generation and transmission and creates a deferral balance
- The deferral balance is added to the previous deferral balance. The new cumulative deferred balance is divided by a 12 month rolling sales number to develop a monthly rate
- The PCA information is provided from the Accounting team who is responsible for recording Pepco's customer revenue and expenses

How is the PCA Calculated?

March 2018 Actual, bill month May 2018			
			Residential
Current Month Revenue Generation			$ 11,541,676
Current month Expense Generation			$ 10,743,972
			$ 797,704
Current Month Revenue Transmission			$ 1,185,715
Current Month Expense Transmission			$ 1,203,020
			$ (17,305)
Monthly over/(under) collection			$ 780,399
Cumulative Deferral (from previous month)			$ (2,078,920)
Monthly over/(under) collection			$ 780,399
Cumulative Deferral (current month)			$ (1,298,521)
Sales Actual (May 17 - April 2018)			1,870,782,504
		May 2018 PCA Rate	$ 0.0006941

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How does the PCA in DC differ from DPL DE

- Similarities
  - Both utilize data that is calculated from the Accounting Team
  - Both utilize a deferral mechanism

- Differences
  - In DC we prepare a PCA rate each month, in DE the PCA gets reset annually
  - In DC we utilize actual sales information for the rate development, in DE we utilize fully forecasted sales for the rate development

Advantages/Disadvantages of resetting the PCA Annually

- Advantages
  - Helps normalize and stabilize customer bills
  - Change rates less frequently (less risk of rate errors and customer confusion)
  - More efficient (less time requirements by key resources including Regulatory, IT, Accounting)
- Disadvantages
  - Potential for material balances of over/under collection
  - Potential risk of less monitoring and tracking

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Other Similarities between DC and DPL DE SOS

- Both have a fixed margin
- Both have a cash working capital component
- Both have an incremental cost component
- Both have an uncollectible component (however calculated differently)

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Other Differences between DC and DPL DE SOS Process

- DC
  - Annual filing is done in February, includes true up from period ending May 31 of prior year
  - Filing review is approximately 2 weeks, rates effective June 1
  - Has administrative credit rate
  - Has a fixed Administrative Charge
  - PCA and Admin Credit reset monthly, the rest are reset annually
  - Does not allow interest on over/under collections

- DE
  - Annual filing is done in April, includes true up from the period ending December 31 of prior year
  - Filing review could be months, conducts informal discovery, rates effective June 1, subject to refund
  - Does not have an administrative credit rate
  - Does not have a fixed Administrative Charge, all charges are combined for bill purposes, but calculated individually
  - All administrative rates are reset annually
  - Allows interest on over/under collections

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CERTIFICATE OF SERVICE

I hereby certify that a copy of Potomac Electric Power Company's Technical Conference Report and power point presentation for June 7, 2018 Technical Conference was served on the parties of record in Formal Case No. 1134 by electronic mail this June 13, 2018.

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