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PCA Technical Conference, June 13, 2019

Pepco, OPC, and Commission Staff participated in this meeting.

Pepco Presentation

PCA is a rate mechanism (surcharge or sur-credit) to collect or return the difference for SOS generation and transmission costs compared to the amounts that Pepco collects from SOS customers. Monthly PCA rates for residential, small commercial, large commercial and MPS are posted on Pepco's website. The cumulative deferral balance is divided by 12 into a monthly rate, by customer class. The cumulative deferral balance started from 2004/2005 timeframe. The PCA information comes from Pepco's accounting team, who then provide it to Pepco's rates employees to perform the monthly calculation. The timing is that, for example, March actual numbers are calculated in April, and are included in SOS customer bills in May. Staff asks about the true-up for the 2018 example using a 12-month cumulative sales for the period May 2017 to April 2018. Pepco confirms that only actual sales numbers are used in this example and in currently calculating the PCA monthly rate. PCA in DC is calculated monthly, while Pepco's affiliate, Delmarva Power (DPL) in Delaware, calculates and sets a similar PCA annually. DC uses actual sales information in the calculation, while DE uses fully forecasted SOS sales to establish an annual PCA rate. Staff asks and Pepco confirms that there would be a true-up if an annual PCA rate is used in the future to shore up any difference between projected and actual collections. In DE, PCA was filed by DPL in April and get approved June 1 subject to refund, including a technical conference between the Commission and DPL to review the historical expenses. DE PCA rates are calculated based on 12 months actual ending December 31 prior to the implementation year starting from June 1 each year. Staff asks about the potential risk of less monitoring and tracking, and if DE had any problems with this. Pepco says that it is tracking the balances including quarterly reviews, and if something is of concern, they will make note of it. Pepco states DPL has not experienced any material issues so far in DE. Pepco added that there is plenty of time for review built into the timeline.

Staff notes the RAD surcharge issue in 2015, where overcollection in RAD was returned through PCA rates and which started the investigation to the

PCA through FC1134. Staff discusses the historical year data and notes the complications in verifying the long-standing deferral balance. If DC moves to an annual PCA timeframe, past year deferral balances will be much easier to review. Pepco also states the simplicity of stating rates annually and not having a monthly varying rate is easier to understand for customers. Staff notes that there are 4 numbers that are used in calculating the rate, and that using an annual process will be simpler than calculating those 4 numbers monthly based on Pepco's example. (See Pepco's presentation attached.) The potential for material balances is not a huge concern as it will be accruing only for a year at a time. Staff asks for the annual bill impact for DE residential customers. Pepco does not have the actual value but says it is a standard impact. Staff asks if there were any instances in DE of a refund. Pepco says that there has never been one since establishing a new timeframe in 2006.

Pepco proposes in Year 1 that a transition would take place. If approved timely, a PCA rate would be set in November 2019, which would be effective in the following January (2020), and that PCA rate would be held constant until June rates go into effect. Under this proposed timeline, Pepco proposes to file an actual accounting record for 2019 in March 2020. That filing would have actual numbers through February and forecasted data for March through May. The new annual PCA rate would go into effect June 1, 2020. Staff asks about the difference between this proposal and the one used by DPL in DE. The annual PCA rate calculation would be based on two previous PCA rates – 5 months of the older rate and 7 months of the current rate. Staff suggests an alternative of continuing the monthly PCA rate during the transition period until the June 1, 2020 implementation of annual PCA rates. In that instance, the few months before the annual rate is set would be trued-up in Year 2 of implementation. Pepco says that Staff's alternative method is also acceptable. Staff asks which method would be simpler to implement for Pepco. Pepco states using year-end data of December is simpler, because Pepco's proposal has more estimates. Staff asks if it is fair to assume that the transition period of early 2020 would be small compared to the year-end balance that would be used to set the rates in June 2020. Pepco confirms, and states that the difference going forward would be smaller compared to the original deferral balance. Staff stresses the need for those transition month calculations to be based only on the monthly activity, and not the overall deferred balance to avoid double-counting.

Two plans are being discussed: Pepco's proposal of using a fixed PCA rate from January 2020 through May 2020, and Staff's idea of continuing monthly PCA calculation of rates through May 2020, based off only the months of January, February, and March. Staff and OPC agree with Pepco on starting the rate on June 1 to align with seasonal SOS rates. OPC agrees that the annual rate based on Staff's suggestion is simpler for everybody. Pepco confirms that the under-collection amount used in the example is just illustrative, using actual under collection number from November 2018, and the actual deferral balance would be different.

Staff requests Pepco to provide the following:

- Rate impact analysis assuming the use of the staff-developed method for transition using 2018 data, for Residential, Small Commercial, Large Commercial and MPS customer classes

- January, February, and March 2019 would be the transitional period, assuming the method was already implemented for this year and June 1, 2019 we already have an annual PCA rate. This three-month adjustment or PCA level would be much smaller since all the deferral balance from 2004/2005 to end of 2018 was already wrapped up in the annual PCA calculation for June 1, 2019.

- 2018 total, including cumulative deferral dollar amount for residential, small commercial, large commercial and MPS. Also, PCA annual level for each category.

- Workpapers for the above

Pepco is concerned about the ability to implement by January 2020, considering the need to file for and obtain Commission approval. For example, Pepco needs to update the tariff, implement a new rate structure, and update the calculations of the PCA. None of that will happen before an Order is issued, which would probably have to be preceded by a Technical

Report or recommendation from a working group, preferably with party consensus.

Tentative next meeting of July 16 and Working Group Report by August 1.