



Public Service Commission of the District of Columbia
1333 H Street, N.W., 2nd Floor, West Tower
Washington, D.C. 20005
(202) 626-5100
www.dcpssc.org

Betty Ann Kane
Chairman

February 22, 2010

To Retail and Wholesale Suppliers Serving the District of Columbia:

The Public Service Commission of the District of Columbia ("Commission") is writing to inform you of the most recent developments in the District of Columbia's implementation of Advanced Metering Infrastructure (AMI) and that this process may affect you.

As part of the Fiscal Year 2010 Budget Support Second Emergency Act of 2009 ("Budget Act"), the Council of the District of Columbia approved Pepco's implementation of AMI contingent on a determination by the Commission that Pepco has received a sufficient matching grant for AMI implementation under the American Recovery and Reinvestment Act of 2009 (ARRA). Pepco notified the Commission that it expected to receive a \$44.6 million ARRA grant and, by Order No. 15629, the Commission determined that a \$44.6 million award would be sufficient within the meaning of the Budget Act.

Among other things, Order No 15629 directs Pepco to file: (i) test results, and any additional information on the functions, for the General Electric and Landis+GYR meters by January 18, 2010, (ii) a revised non-AMI Demand Response (DR) Program by January 18, 2010, and (iii) its proposed rate design and dynamic pricing plan for use in AMI by April 1, 2010. (See attached.) This order and PEPCO's response were docketed under Formal Case Nos. 1056 and 1070. See our website www.dcpssc.org. PEPCO's plan is to replace all existing company owned commercial and residential meters in the District with new AMI meters beginning in the fourth quarter of 2010, with completion scheduled for the second quarter of 2011.

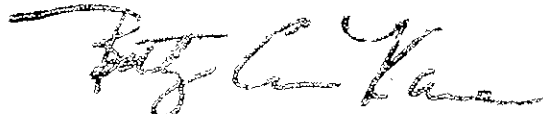
The Commission's decisions regarding AMI could have implications for the SOS procurement process, retail suppliers and wholesale providers. Among the issues the Commission may consider are the installation schedule, ownership of data, customer privacy, meter functionality, billing issues for SOS and retail providers, and how to get best use of AMI in a retail shopping environment. You can follow developments on our website by viewing the pleadings filed in FC 1056 and FC 1070 in the Commission's

eDocket system. You may also subscribe for notifications of filings in these cases by completing the subscription form located under the eDocket tab. This is a significant undertaking for the electric company, for electricity suppliers, and for District electricity consumers. The Commission hopes to be able to benefit by hearing from as broad a range of stakeholders as possible as we go through the process.

If you believe that your interests can best be advanced by your participation in the AMI proceeding, then you can petition to intervene. The rules governing intervention are located in Chapter 1, Section 106 of the Commission's Rules of Practice and Procedures which are located on our website under Orders & Regulations. If you have any problems assessing the website, please contact Ms. Doris Wilson on (202) 626-5150.

All Petitions for Intervention should be sent to Dorothy Wideman, Commission Secretary, 1333 H Street N.W., Suite 200, West Tower, Washington, DC 20005. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Betty Ann Kane". The signature is fluid and cursive, with a long horizontal stroke at the beginning.

Betty Ann Kane
Chairman

Attachment

cc: Commissioner Rick Morgan
Commissioner Lori Murphy Lee
Deborah M. Royster, Deputy General Counsel, Pepco
Dorothy Wideman, Commission Secretary

1056-E-180 AH

1070-E-7 AH

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
1333 H STREET N.W., 2ND FLOOR, WEST TOWER
WASHINGTON, D.C. 20005

ORDER

AH
DEC 17 2009
3:50

CHIEF CLERK

December 17, 2009

FORMAL CASE NO. 1056, IN THE MATTER OF THE APPLICATION OF POTOMAC ELECTRIC POWER COMPANY FOR AUTHORIZATION TO ESTABLISH A DEMAND SIDE MANAGEMENT SURCHARGE AND AN ADVANCE METERING INFRASTRUCTURE SURCHARGE AND TO ESTABLISH A DSM COLLABORATIVE AND AN AMI ADVISORY GROUP,

and

FORMAL CASE NO. 1070, IN THE MATTER OF THE INVESTIGATION INTO THE POTOMAC ELECTRIC POWER COMPANY'S NON-AMI DEMAND RESPONSE PROGRAM PLAN, Order No. 15629

I. INTRODUCTION

1. By this Order, the Public Service Commission of the District of Columbia ("Commission") grants the Potomac Electric Power Company's ("Pepco" or "Company") Motion for an Expedited Sufficiency Determination and Approval of its Cost Recovery Proposal. The Commission finds that Pepco has received sufficient federal funds to implement an Advanced Metering Infrastructure ("AMI") in the District of Columbia.¹ The Commission also grants Pepco's request to establish a regulatory asset to capture the costs related to its AMI deployment. Also, Pepco is directed to file by January 18, 2010, test results for the General Electric and Landis+GYR meters as well as any additional information describing the functions of the meters. In addition, Pepco is directed to file by April 1, 2010, the Company's proposed rate design and dynamic pricing plan for AMI in the District of Columbia. Finally, Pepco is directed to file a revised non-AMI Demand Response (DR) Program Plan with the Commission by January 18, 2010.

II. BACKGROUND

2. The Company originally proposed the implementation of AMI in the District of Columbia as part of its "Blueprint for the Future" initiative.² While this matter was under

¹ Our determination is contingent upon Pepco actually receiving an award of \$44.6 million from DOE. The Company shall notify the Commission if the award amount is different.

² *Formal Case No. 1056, In the Matter of the Application of the Potomac Electric Power Company for Authorization to Establish a Demand Side Management Surcharge and an Advance Metering Infrastructure Surcharge and to Establish a DSM Collaborative and an AMI Advisory Group ("F.C 1056")* filed, April 4, 2007.

Commission review, the federal government passed the American Recovery and Reinvestment Act of 2009 ("ARRA").³ The ARRA authorizes the U.S. Department of Energy ("DOE") to award grants up to 50% of the cost to facilitate the deployment of smart grid technologies, including AMI.⁴ In order to ensure that the District of Columbia is positioned to receive ARRA funding, the City Council passed the Fiscal Year 2010 Budget Support Second Emergency Act of 2009 ("Budget Act").⁵ The Budget Act effectively approves the implementation of AMI in the District of Columbia, provided the Commission determines that the Company has received a sufficient amount of federal funds (presumably) to make AMI cost effective.⁶ If the Commission finds that the amount of ARRA funding is sufficient, the Budget Act authorizes the Company to establish a regulatory asset for the costs associated with deploying AMI.⁷ Pursuant to the Budget Act, the Commission must make a determination of the sufficiency of federal funds within no more than 60 days after the receipt of notice from the electric company of the amount of federal funds awarded.⁸

3. On October 29, 2009, Pepco notified the Commission that DOE has awarded it \$44.6 million.⁹ According to Pepco, because the Company has received the maximum federal funding permitted by law, the Company has necessarily satisfied the sufficiency of funding requirement specified in the Budget Act.¹⁰ The Company requests that the Commission approve its proposal to establish a regulatory asset for the recovery of its AMI deployment costs.¹¹

4. On November 3, 2009, the Commission invited interested parties to comment on Pepco's October 29th filing.¹² The Commission received comments from the Apartment and Office Building Association of Metropolitan Washington ("AOBA"),¹³ the Office of People's

³ See Public Law 111-5 (February 2009).

⁴ *Id.*

⁵ See D.C. Act 18-207 (October 15, 2009).

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *F.C. 1056*, Motion of the Potomac Electric Power Company for an Expedited Sufficiency Determination and Approval of its Cost Recovery Proposal, filed October 29, 2009 ("Pepco's Motion"). The Commission notes that, prior to this filing, the Commission on March 27, 2009 and June 30, 2009, held legislative style hearings to, among other things, discuss Pepco's plan to apply for ARRA funding.

¹⁰ *F.C. 1056*, Pepco's Motion at 5-6.

¹¹ *Id.*

¹² *F.C. 1056*, Order No. 15589, rel. November 3, 2009. The initial comments and reply comments were due within 10 and 17 days from the date of the Order, respectively.

¹³ *F.C. 1056*, Comments of the Apartment and Office Building Association of Metropolitan Washington, filed November 13, 2009 ("AOBA's Comments").

Counsel (“OPC”)¹⁴ and the AARP.¹⁵ Pepco filed reply comments in response to the various parties’ initial comments.¹⁶

5. In AOBA’s opinion, Pepco’s filing is premature because Pepco has neither received an actual award from DOE nor a commitment to award a particular amount.¹⁷ Although AARP did not specifically join AOBA in arguing that Pepco’s filing is premature, both AOBA and AARP believe that at some point a hearing should be held to consider cost and policy issues related to the deployment of AMI.¹⁸

6. OPC, on the other hand, essentially agrees with Pepco that the amount is sufficient and that this matter is ripe for decision.¹⁹ However, OPC notes that the award is a matching grant and urges the Commission to make clear that ratepayers should not be required to do more than match the \$44.6 million grant.²⁰

III. DISCUSSION

7. Although there is some disagreement as to whether Pepco has received “official” notice of an award, we see nothing to prevent us from making a determination contingent on Pepco actually receiving \$44.6 million from DOE. Also, even though some parties contend that there are some factual issues that need to be resolved before we determine the sufficiency of Pepco’s funding, we conclude that there are no material issues of fact requiring resolution prior to determining the sufficiency of a DOE award.²¹ In the absence of material issues of fact, an evidentiary hearing is unnecessary.²²

8. A determination whether the funding is sufficient depends, in our opinion, upon whether the funding can assure cost effectiveness of the program or subject matter. Cost

¹⁴ F.C. 1056, The Office of the People’s Counsel’s Response to Commission Order No. 15589, filed November 30, 2009 (“OPC’s Comments”).

¹⁵ F.C. 1056, AARP Comments in Response to Order No. 15589, filed November 30, 2009 (“AARP’s Comments”).

¹⁶ F.C. 1056, Pepco Reply to the Initial Comments of the Apartment and Office Building Association of Metropolitan Washington, filed November 29, 2009; Pepco’s Reply to the Comments of the Office of the People’s Counsel and AARP, filed December 7, 2009. In its Comments, the Company reiterates its position that the award amount is sufficient and that this matter is ripe for a decision.

¹⁷ F.C. 1056, AOBA’s Comments at 1.

¹⁸ F.C. 1056, AOBA’s Comments at 9 and AARP’s Comments at 5-6.

¹⁹ F.C. 1056, OPC’s Comments at 2.

²⁰ *Id.*

²¹ The Commission is aware, however, that there may be other aspects in other phases in this proceeding where there may be material issues of fact that could require a hearing.

²² See *Office of the People’s Counsel v. Public Service Commission*, 797 A.2d 719 (2002).

effectiveness is determined by a Benefit/Cost ("B/C") ratio analysis. A cost effective program will have a B/C ratio greater than one. Thus, if the funding level can assure cost effectiveness, which means the B/C results in a numerical value of one or greater, we will consider it sufficient. Based on PEPCO's stimulus funding Application filed with DOE, the total smart grid program costs amount to \$89.2 million, and \$44.6 million is 50% of the total.²³ Out of the \$89.2 million, the AMI cost accounts for \$68.2 million.²⁴ Half of the AMI cost is \$34.1 million, and this amount will be paid by stimulus funding. In PEPCO's July 28, 2009 filing, to which no party objected, PEPCO provided a comparison of the costs and benefits based on a present value revenue requirement basis that compares the original business case with ARRA 50% funding scenario.²⁵ In the following comparison table provided by Pepco, the AMI benefit cost ratio for PEPCO's original business case is 1.072 and the benefit cost ratio for the 50% DOE grant is 1.871.²⁶

Description	PEPCO – District of Columbia	
	Original Business Case (Dollars in Millions)	50% DOE Grant Prevailing Wage (Dollars in Millions)
Projected Cost PVRR	\$54.3	\$31.1
Projected Energy Delivery Operating Benefit PVRR	\$29.2	\$29.2
Projected Customer Savings from reductions in peak loads	\$29.0	\$29.0
Projected total benefit	\$58.2	\$58.2
B/C Ratio	1.072	1.871
Projected Capital Expenditure	\$61.3	\$32.9
Operational B/C Ratio	0.538	0.939

²³ F.C. 1056, Pepco Submission of Department of Energy Documents Regarding the Smart Grid Investment Grants, filed November 13, 2009.

²⁴ F.C. 1056, The Potomac Electric Power Company, Public version of the Application for the Department of Energy ("DOE") Smart Grid Investment, filed August 19, 2009 at 35.

²⁵ F.C. 1056, The Potomac Electric Power Company Response to Commission Inquiries, filed July 28, 2009.

²⁶ *Id.* We note that Pepco changed its total expenditures of AMI from \$65.8 million (Pepco's July 28 filing with the Commission) to \$68.2 million in its DOE Application. The Company states that the additional \$2.4 million will be incurred as a result of work to be performed by Carnegie Mellon University ("CMU") to meet DOE requirements. Pepco indicates that out of the incremental \$2.4 million, CMU would bear 50% of the cost with the other 50% requested as a grant from DOE. As a result, Pepco submits that the total benefit cost ratio of 1.871 remains unchanged. F.C. 1056, Pepco's Response to Staff Data Request 8, filed September 29, 2009 and attached to Order No. 15589. We agree with Pepco that while the total program costs increase by \$2.4 million, Pepco's stand alone costs remain unchanged and the total benefit cost ratio of 1.871 remains unchanged.

9. Based on this table, the 50% funding scenario is cost-effective with a B/C ratio of 1.871.²⁷ As a result, based on the information of record, Pepco's AMI plan is cost effective.

10. Pepco has also requested to establish a regulatory asset to capture the costs related to its AMI deployment. While not protesting this request, OPC suggests that the Commission make clear that ratepayers should not be required to do more than match the \$44.6 million grant. Notwithstanding OPC's suggestion, the Budget Act provides that "the electric company may establish a regulatory asset for the costs, net the amount of the ARRA funds received, including depreciation and amortization expense incurred by the electric company between base rate cases for the implementation of Advanced Metering Infrastructure...."²⁸ The determination of these factors as well as "any utility cost savings resulting from the regulatory asset"²⁹ have not been determined at this juncture; thus it is premature at this time for the Commission to consider OPC's recommendation.³⁰ However, we grant Pepco's request to establish a regulatory asset to capture the costs related to its AMI deployment.

11. The Commission will address in subsequent phases in this proceeding the types of smart meters Pepco proposes to install and the functionality of the software and communications system and meters, as well as issues related to Pepco's reporting requirements, customer education and dynamic pricing rate design.³¹ Also, in subsequent phases, we will require an updated AMI deployment schedule by customer class (residential or commercial) and by geographic area (wards) as well. With respect to meter types, Pepco states that it has selected meters manufactured by General Electric and Landis+GYR for its AMI deployment in the District of Columbia.³² However, it appears that the Company did not provide the testing information on the meter model and type. To that end, the Commission directs Pepco to submit by January 18, 2010, test results for the General Electric and Landis+GYR meters. The Company should include with this filing any additional information describing the functionality of the software and communications system and meters.³³ Regarding dynamic pricing rate

²⁷ In the table, the benefit cost ratio is derived by (a) total benefit-operational benefit plus demand response benefit divided by (b) total cost. Thus, (a)/(b)=58.2/31.1=1.871. We note that Pepco did not include stranded costs for existing meters in the B/C analysis. This is acceptable because the stranded costs are sunk costs or embedded costs which are already included in current rates. For our decision making purposes, only future benefits and costs should be included, not past.

²⁸ *Id.*

²⁹ As required by law, the Company shall net any utility cost savings from AMI deployment from the regulatory asset. See D.C. Act 18-207 (October 15, 2009).

³⁰ The Commission notes that in the future, it will review the prudence of costs associated with implementation of AMI. At that time, Pepco shall have the burden to prove that all of the costs have been prudently incurred. See D.C. Act 18-207 (October 15, 2009).

³¹ The Commission will be determining if the accuracy of the smart meters meet the standards of the American National Standards Institute.

³² *F.C. 1056, Testimony of Pepco Witness William Potts, filed May 22, 2009 at 11.*

³³ The Commission notes that in the Testimony of Pepco Witness William Potts, Pepco provided some information regarding meter functions. *F.C. 1056, Testimony of Pepco Witness William Potts, at 14-15.*

design, the Company is directed to provide by April 1, 2010 its dynamic pricing rate design for all relevant classes. This proposed rate design should take into account experience gained from the D.C. smart meter pilot program known as PowerCentsDC.

12. Finally, On March 3, 2009, the Commission directed Pepco to file a non-AMI Demand Response Service Program Plan ("non-AMI DR Program Plan").³⁴ The Commission directed Pepco to include in the filing, among other things, a program budget, projected benefit cost ratios and a cost recovery mechanism for the non-AMI DR Program Plan.³⁵ On April 2, 2009, Pepco filed its non-AMI DR Program Plan which includes a Direct Load Control Program.³⁶ The Commission is aware that part of the \$44.6 million in ARRA funding will be used to deploy Pepco's Direct Load Control Program.³⁷ As result, we assume that Pepco's initial program budget and projected benefit cost ratios for its Direct Load Control Program will have to be adjusted in light of the ARRA funding. Thus, the Commission directs Pepco to file a revised non-AMI DR Program Plan with the Commission by January 18, 2010.

THEREFORE, IT IS ORDERED THAT:

13. Pepco's Motion for an Expedited Sufficiency Determination and Approval of its Cost Recovery Proposal is **GRANTED**;

14. Pepco has received sufficient federal funds to implement AMI in the District of Columbia;³⁸

15. Pepco's request to establish a regulatory asset to capture the costs related to its AMI deployment is **GRANTED**;

16. Pepco is **DIRECTED** to file by January 18, 2010, test results for the General Electric and Landis+GYR meters as well as any additional information describing the functionality of the software and communications system and meters;

17. Pepco is **DIRECTED** to file by April 1, 2010, the Company's proposed rate design and dynamic pricing plan for AMI in the District of Columbia; and

³⁴ *Formal Case No. 1070, In the Matter of the Investigation into the Potomac Electric Power Company's Non-AMI Demand Response Program Plan ("F.C. 1070")*, Order No. 15205, rel. March 3, 2009.

³⁵ *Id.*

³⁶ *F.C. 1070, Response of the Potomac Electric Power Company to Commission Order No. 15205*, filed April 2, 2009.

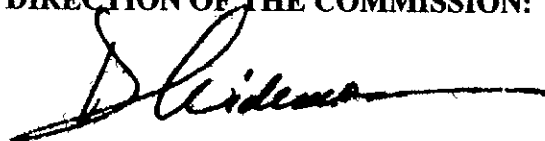
³⁷ *F.C. 1056, Pepco Submission of Department of Energy Documents Regarding the Smart Grid Investment Grants*, filed November 13, 2009.

³⁸ Our determination is contingent upon Pepco actually receiving an award of \$44.6 million from DOE. The Company shall notify the Commission if the award amount is different.

18. Pepco is **DIRECTED** to file by January 18, 2010 a revised non-AMI DR Program Plan.

A TRUE COPY:

BY DIRECTION OF THE COMMISSION:

A handwritten signature in black ink, appearing to read "D. Wideman", with a long horizontal flourish extending to the right.

CHIEF CLERK:

**DOROTHY WIDEMAN
COMMISSION SECRETARY**