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## PUBLIC SERVICE COMMISSION

**#18, 1/13/10 AM; ML#s 119763, 120017, 120905 & 122880, RR-2408; RR-2408-S**

June 10, 2010

Marc K. Battle, Esq.  
Pepco Holdings, Inc.  
701 Ninth Street, NW, Suite 1100  
Washington, DC 20068

Dear Mr. Battle:

At its January 13, 2010 Administrative Meeting, the Public Service Commission (“Commission”) considered the revised tariff pages, additional information, and comments to Commission Technical Staff’s POR Discount Rate Proposal filed by Delmarva Power & Light Company (“Company”) on November 6, 2009, November 19, 2009, and January 11, 2010, respectively. The Company proposed to modify revisions to its Maryland Electricity Supplier Coordination Tariff (“Supplier Tariff”) by including a purchase of receivables (“POR”) discount rate as directed by the Commission’s October 7, 2009 Letter Order.<sup>1</sup>

The Commission’s Technical Staff (“Staff”) filed written comments on the proposed tariff revisions and recommended an alternate set of discount rates. Staff further recommended that, in order to avoid customer confusion and unnecessary loss of revenue for suppliers, the Commission should direct the Company to include language in its Supplier Tariff that requires the Company, at its option, to either (1) purchase all receivables, including past due amounts; or (2) allow suppliers to continue to bill past due amounts on the Company’s consolidated bills for up to 90 days. A number of electric suppliers and associations representing electric suppliers also filed written comments on the Company’s proposed tariff revisions implementing the POR program.<sup>2</sup>

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<sup>1</sup> The Company filed revisions to its Supplier Tariff in compliance with COMAR 20.53 on May 21, 2009. After consideration of these proposed revisions, the Commission accepted certain of the proposed tariff revisions in the Commission’s Letter Order of October 7, 2009. The Company filed “clean” copy of those accepted tariff revisions on November 2, 2009.

<sup>2</sup> The Retail Energy Supplier Association, Liberty Power, Direct Energy, and Integrys Energy Services concurred with Staff’s alternate set of proposed discounts. Washington Gas Energy Services (“WGES”) opined that the POR discount rates proposed in the Company’s November 6, 2009 filing “are unreasonably high and will not result in a workable POR program.” WGES proposed instead a “revised cost recovery system” under which “shopping customers pay for ongoing POR administrative costs proportionate to those receivables, and all customers pay for the implementation costs associated with developing and implementing DPL’s POR program.”

In its January 11, 2010 filing responding to Staff’s written comments on the matter, the Company stated that it would accept Staff’s recommended uncollected cost component of the Company’s proposed POR discount rates. Staff also contended, in its written comments, that the Company has provided no source documentation for the administrative cost component of its proposed POR discount rate, and argued that previous related programming costs associated with the Supplier Tariff were funded through the 0.5 mill/kWh (0.05 cents) incremental Standard Offer Service (“SOS”) Administrative Charge. Staff further challenged the Company’s inclusion of an additional \$90,000 per year to cover the cost of a full-time employee to manage the POR operation. The Company, in response, stated that it had provided the invoices associated with the program development charges, that this work was being performed by a third-party contractor and that it is incremental to the standard IT work that it included in utility rates or SOS rates. The Company, however, agreed to remove the salary associated with the full-time employee included in the incremental cost component of the proposed POR discount rates. Finally, Staff recommended that the risk component be reduced to zero. The Company disagreed with Staff’s recommendation, but agreed to reduce its proposed 0.22% risk adder in each of the proposed POR discount rates to 0.12% “because the risk adder is comprised of one half of the implementation costs.” Accordingly, the Company revised its proposed POR discount rates to the following:

Service Type	Uncollectible Component (Net Write-offs)	Incremental Cost Component (Program Development and Operations Cost)	Risk Factor	<b>Total POR Discount Rate</b>
Residential	0.91%	0.25%	0.12%	<b>1.28%</b>
Small Commercial	0.29%	0.25%	0.12%	<b>0.66%</b>
Large Commercial	0.06%	0.25%	0.12%	<b>0.43%</b>

The Company took issue with Staff’s recommendation that the Commission require the Company to either purchase all of a supplier’s receivables, including past due amounts, or allow the supplier to continue to bill past due amounts on consolidated bills for up to 90 days. In its written comments, the Company argued: “Staff has recommended that despite the fact the Commission recently ruled that Delmarva is not required to purchase any supplier receivables prior to the implementation date for POR, Delmarva should be required to develop a ‘workaround’ to avoid unnecessary loss of supplier revenue by either purchasing all of the suppliers’ past due amounts as of the implementation date, or to perform specialized billing to avoid suppliers having to bill for their past due amounts.” According to the Company, Staff’s recommendation would require the Company to create “a separate utility consolidated billing program to continue to bill delinquent balances for Suppliers under the previous program rules (i.e., operate two consolidated billing scenarios simultaneously).”

The Commission heard from the Company and the Staff at the Administrative Meeting and took the matter under advisement. On April 22, 2010, Staff supplemented its initial written comments, based on additional data that was provided by the Company through data requests

issued by Staff. In its supplemental comments, Staff recommended the following POR discount rates:

Service Type	Uncollectible Component (Net Write-offs)	Programming Costs	Total POR Discount Rate
Residential	0.6145%	1.3711%	<b>1.9856%</b>
Type I	0.5092%	0.1204%	<b>0.6295%</b>
Type II	0.0316%	0.0049%	<b>0.0366%</b>
HPS	0.0045%	0.0004%	<b>0.0048%</b>

On April 28, 2010, the Commission provided the Staff's supplemental comments to the Company, Office of People's Counsel ("OPC") and other interested persons, and offered each the opportunity to respond to the comments by April 30, 2010. The Company and OPC each filed comments by April 30, 2010.

In the Company's response, it identified several issues it had with Staff's calculations. First, it stated that Staff, in its calculation of programming costs, had not included any return to the Company on unamortized balances. The Company submitted that it was not appropriate to require the Company to finance these costs without an appropriate return on capital, and suggested that the annual POR cost recovery amount is 31.4% higher than Staff's calculation (based on the Company's most recently authorized rate of return grossed up for taxes). Second, the Company found the supply rate assumption that Staff used for residential and small commercial customer to be too high. It believed that a more appropriate supply rate to use for the calculation would be \$0.09614 or 5% less than the price to compare for residential customers and \$0.09833 for Type I customers. Third, the Company stated that it estimates the average usage for a residential customer at 12,200 kWh per year rather than the 14,000 kWh per year figure used by Staff. Using the foregoing modifications to Staff's calculations, the Company's further revised proposed POR discount rates are as follows:

Service Type	Uncollectible Component (Net Write-offs)	Programming Costs	Total POR Discount Rate
Residential	0.61435%	2.1945%	<b>2.8090%</b>
Type I	0.5092%	0.1641%	<b>0.6733%</b>
Type II	0.0316%	0.0065%	<b>0.0381%</b>
HPS	0.0045%	0.0005%	<b>0.0050%</b>

Finally, the Company continued to oppose Staff's assertion that the risk component should be set at zero. It reiterated its argument that the Commission specifically included a risk adder in its directive for developing a discount rate for purchasing receivables, and that Staff's

recommendation is inconsistent with the Commission's directive. Further, the Company asserted that it has identified the actual risk; if suppliers do not use the Company's consolidated billing and the Company is not able to purchase the receivables, the Company is unable to recover the costs of implementing POR. Consequently, the Company used one-half of the implementation costs to calculate the risk factor.

OPC's comments noted OPC's support for the revised discount rate developed by Staff.

After further deliberations, the Commission accepts Staff's recommended revised Uncollectible Cost Component set forth in its supplemental comments, as accepted by the Company. In light of the smaller (compared to other companies) base of Company customers currently electing to buy from alternative supplier, the Commission adopts Staff's recommendation that the programming costs be recovered over a five-year period; according to Staff, this period also is consistent with the Company's accounting practices.<sup>3</sup> The Commission, however, disagrees with the Company that the Company is entitled to return on the unamortized balance of its programming costs, and accepts Staff's calculations that did not use such a return. The Commission agrees with the Company that Staff's calculations of the programming costs should reflect an average use for a residential customer of 12,200 kWh per year rather than the 14,000 kWh per year used by Staff. Additionally, the Commission finds that that supply rate assumption used by Staff is more appropriate than the Company's suggested supply rate, as the Commission does not believe that all residential customers are able to contract for such supply rates currently (without having been a prior customer of the supplier or having to lock into a long-term contract).

Further, the Commission agrees with Staff that the Company has not provided any quantitative support for its proposed risk adder. Although the Commission in its October 7, 2009 Letter Order to the Company indicated that a risk component could be included in the POR discount rate, the Commission finds that the Company has failed to support the need for the risk factor. Accordingly, the Commission accepts Staff's recommendation and sets the risk factor at zero, and excludes it from the approved POR discount rates.

The Commission therefore approves the POR discount rates as follows:

Service Type	Uncollectible Component (Net Write-offs)	Programming Costs	Total POR Discount Rate
Residential	0.6145%	1.5734%	<b>2.1879%</b>
Type I	0.5092%	0.1204%	<b>0.6295%</b>
Type II	0.0316%	0.0049%	<b>0.0366%</b>
HPS	0.0045%	0.0004%	<b>0.0048%</b>

<sup>3</sup> In its written supplemental comments, Staff states that the Company, in its response to SDR20-13, indicated that it will amortize the POR programming costs booked in FERC account 903 over a period of five years and provided the account allocation for this account used in the Company's most recent rate case.

The Commission expects that for future years, in connection with its annual recalculation and reconciliation of POR discount rates, the Company will calculate the uncollectible cost component based upon its actual POR uncollectibles experience, and that it will provide documentation and worksheets sufficient to support its calculations. Further, the Commission directs the Company to track any late fees that are assessed and collected on consolidated bills and to disclose that data when it files its next annual POR discount rates proposal for consideration by the Commission.

Finally, the Commission will not require the Company to purchase receivables prior to the date on which the purchase of receivable discount rate goes into effect; provided, however, the Company shall continue to bill any past due supplier balances outstanding as of the effective date of the POR program effective date for a period of 90 days. Despite the suppliers' argument that their customers may be confused about these outstanding amounts due, the Commission concludes that the supplier was working with these customers previously to collect these amounts due, and there is no reason that the customer would be confused by the suppliers' continued effort to collect these outstanding amounts. The Commission will not place the burden of these uncollectibles on the Company or its other ratepayers.

Except to the extent that the provisions in the Company's revised Schedule 3 to the Electricity Supplier Coordination Tariff (Electric Supplier Tariff - P.S.C. MD No. 8) do not conform to the Commission's decisions herein and the addition of the billing provision discussed above, the Commission accepts the revised tariff pages filed on November 6, 2009. The Company is directed to file, by July 1, 2010, an original and five (5) "clean" copies of the accepted revised tariff as well as Schedule 3 to Electric Supplier P.S.C. MD No. 8 which reflects the decisions made by the Commission herein and adds the provision that allows suppliers to continue to bill past due amounts on consolidated bills for up to 90 days after the effective date of the POR discount program, with an effective date of July 15, 2010.

By Direction of the Commission,

*/s/ Terry J. Romine*

Terry J. Romine  
Executive Secretary