



Public Service Commission of the District of Columbia

Office of Consumer Services

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People Serving the Community...

PEPCO PROPOSES TO RAISE DISTRIBUTION SERVICE RATES (Docketed in F.C. No. 1053)

On December 12, 2006, the Potomac Electric Power Company (PEPCO) filed with the District of Columbia Public Service Commission (Commission) a proposal to increase distribution service rates in the District, effective September 2007. PEPCO indicates that it is proposing higher distribution rates—the first delivery rate increase in over a decade—to help pay for increased costs associated with providing safe and reliable service and to support investment in new technology to keep pace with growth and increasing customer demand for power.

Distribution service rates are separate from generation (energy production) and transmission rates. PEPCO is the sole distributor of power to homes and businesses; hence the Commission sets PEPCO's distribution rates in a rate case.

PEPCO's proposal anticipates that residential customers will see an increase of nearly 8 percent in their overall monthly bills. The typical bill for a Standard Offer Service (SOS) residential customer using 750 kilowatt-hours of electricity per month would increase by about \$6.

Customers who participate in PEPCO's Residential Aid Discount (RAD) program would not be affected by PEPCO's proposal, as distribution service rates for RAD customers will remain capped until August 2009.

PEPCO maintains that customers have benefited from stable electric delivery rates for more than a decade, while PEPCO's costs have increased during this same period. PEPCO claims the proposed rates are intended to reflect increases in the costs of maintaining the poles, wires, and critical equipment in its electric distribution system.

As part of its proposal, PEPCO includes a Bill Stabilization Adjustment (BSA) which would automatically adjust distribution service rates—increasing rates when actual revenues per customer are below the Commission-approved level and decreasing rates when actual revenues are above the Commission-approved level. In addition, PEPCO is seeking to introduce a surcharge for the purpose of recovering pension and other post-employment benefits expenses. PEPCO's proposed cost of service also includes the cost of a new Northeast substation that would be placed in service in June 2007. PEPCO contends this new substation is required in order to continue to reliably serve existing customer demand in the District.

A rate case generally is divided into three segments: (1) revenue requirement, (2) allocation of the revenue requirement across customer classes, and (3) rate design. The revenue requirement includes the test year, costs of service, and an allowed rate of return on rate base.

PEPCO's proposed increase in the revenue requirement is \$50.5 million, based on a partially forecasted 12-month test year ending September 2006. PEPCO proposes an allowed Rate of Return of 8.42%,

including an 11.00% allowed Return on Equity (ROE). PEPCO's proposed rate base is \$980.6 million. However, if the Commission approves PEPCO's BSA proposal, PEPCO proposes a lower Return on Equity of 10.75% and a lower overall allowed Rate of Return of 8.3%.

Other features of PEPCO's proposal are: (1) a sales adjustment, supported by a price elasticity of demand study; (2) a jurisdictional cost allocation study; (3) a marginal cost study, which the company argues is no longer necessary and asks the Commission to eliminate this requirement in future rate cases; (4) an increase in the minimum monthly customer charge from 47 cents to \$4.11 for the standard (R) and All Electric (AE) residential classes; and (5) an increase in the reconnection fee from \$35 to \$100. Other tariff changes are also proposed.

These and other related issues in the case will be vetted thoroughly as the Commission conducts a 9-month, litigated proceeding on all aspects of PEPCO's proposal. All interested parties who intervene in the proceeding, including the Office of the People's Counsel (OPC), will be able to file initial and rebuttal testimony and briefs on PEPCO's proposal and cross examine other parties' witnesses. The Commission will hold both formal evidentiary and community hearings in order to develop a full and complete public record before it renders its decision.

[A copy of PEPCO's entire filing, docketed in F.C. No. 1053, can be obtained by clicking here.](#)

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