Office of the People's Counsel
District of Columbia
1133 15th Street, NW • Suite 500 • Washington, DC 20005-2710
202.727.3071 • FAX 202.727.1014 • TTY/TDD 202.727.2876

Elizabeth A. Noël
People's Counsel

May 22, 2008

VIA ELECTRONIC FILING
Dorothy Wideman
Commission Secretary
Public Service Commission
of the District of Columbia
1333 H Street, N.W.
Second Floor West
Washington, D.C. 20005

Re: **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**

Dear Ms. Wideman:

Enclosed for filing in the above-referenced proceeding are an original and three (3) copies of the "Initial Comments and Proposed Issues of the Office of the People's Counsel Addressing Potomac Electric Power Company's Business Case In Support of the Blueprint Application and Statement of Position of the Office of the People's Counsel on a Sustainable Energy Utility and the Role of PEPCO and Aspects of Its Blueprint".

If there are any questions regarding this matter, please contact me at (202) 727-3071.

Sincerely,

Sandra Mattavous-Frye
Deputy People's Counsel

Enclosure

cc: Parties of record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

In the Matter of	§	
	§	
The Application of Potomac	§	
Electric Power Company for	§	
Authority To Establish a Demand	§	
Side Management Cost Recovery	§	**Formal Case No. 1056**
Mechanism and an Advanced	§	
Metering Infrastructure Rate	§	
Adjustment Mechanism and To	§	
Establish a DSM Collaborative	§	
and an AMI Advisory Group	§	

COMMENTS AND PROPOSED ISSUES ADDRESSING POTOMAC ELECTRIC POWER COMPANY'S BUSINESS CASE IN SUPPORT OF THE BLUEPRINT APPLICATION

AND

STATEMENT OF POSITION OF THE OFFICE OF THE PEOPLE'S COUNSEL ON A SUSTAINABLE ENERGY UTILITY AND THE ROLE OF PEPCO AND ASPECTS OF ITS BLUEPRINT

Pursuant to Order Nos. 14568 and 14784, issued on October 12, 2007, and April 10, 2008, respectively, by the Public Service Commission of the District of Columbia ("PSC" or "Commission"),[1] the Office of the People's Counsel for the District of Columbia ("OPC" or "Office"), the statutory representative of District of Columbia ratepayers and consumers,[2] hereby submits its Initial Comments and Proposed Issues concerning the "Business Case in Support of the Blueprint for the Future" ("Business Case") filed by Potomac Electric Power Company ("PEPCO" or "Company") on October 1, 2007. In addition, OPC is submitting its Statement of

[1] *Formal Case No. 945, In the Matter of the Investigation into Electric Service Market Competition and Regulatory Practices* and *Formal Case 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*, Order No. 14568, rel. Oct. 12, 2007.

Position on a Sustainable Energy Utility ("SEU") currently being considered by the Council of the District of Columbia ("D.C. Council"). OPC wishes to make clear that its comments with respect to the SEU are not limited to the specific legislation presently before the Council. OPC notes that the legislation has had several iterations, and moreover, is likely to undergo further modification, prior to passage or enactment. Therefore, OPC emphasizes that it supports the concept of a SEU, i.e., an independent entity charged with the responsibility to make D.C. as energy efficient as possible.

The Office submits PEPCO's Business Case and the D.C. Council's proposed SEU, however ultimately configured, must be viewed in concert to determine whether or the extent to which the two courses of action are achievable. While each may have laudable measures, the Office does not believe either proposal is the silver bullet to address rising energy prices and the need to address the District of Columbia's footprint on the environment. However, they are good first steps towards the development of measures that will hopefully provide essential benefits for the District of Columbia and the many stakeholder interests.

Comments on the specifics of PEPCO's Blueprint Application and supporting Business Case, while important to this Commission's deliberations, do not capture the bigger picture and cannot be viewed in isolation. Indeed, there appears to be a high degree of likelihood that whatever decisions the Commission makes and whatever programs or proposals the Commission approves in this case will coexist in one form or another with a SEU of the sort currently being considered by the D.C. Council.[3]

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[2] D.C. Code Ann. §34-804 (2007).

[3] The D.C. Council's Committee on Public Services and Consumer Affairs is currently evaluating draft legislation entitled Bill 17-492, the "Clean and Affordable Energy Act of 2008, " which is a revised version of the bill that was first introduced in November 2007.

The Office believes, therefore, that it is important that the Commission, PEPCO, and the public in general understand the Office's position on the concept of the SEU and the possible roles that at least portions of the PEPCO Blueprint could play in conjunction with the SEU.

Succinctly and as fully explained below, OPC submits the Commission should not approve PEPCO's Blueprint Application, as filed, because it is significantly flawed and is in substantial and material respects unsupported by the facts necessary for a meaningful review and evaluation of the Blueprint Application. Moreover, as previously stated, the SEU is but one of many viable options to address the energy challenges the District faces. Consequently, while the Office finds some merit to certain aspects of the SEU proposal, does not endorse it as the solution for the District given other possible measures and options that may be considered.

A.

OVERVIEW AND SUMMARY OF OPC'S COMMENTS

OPC's comments are presented and organized as follows:

Section I. The District's Energy Future: Separate and Distinct Roles for the SEU and PEPCO Should Be Established

- The SEU Should Administer Demand Side Management, Energy Efficiency and Renewable Energy Programs in the District
- PEPCO Should not Be Permitted to Install Smart Meters in the District Until the Results of the Smart Meter Pilot Program Demonstrates That Such Installation Will Benefit Consumers

Section II. The Linkage between PEPCO's Blueprint and the PSC's Independent Energy Efficiency Administrator must be determined

- The Commission must explain how it will treat PEPCO's request to be the District's sole energy efficiency administrator given the D.C. Council's SEU proposal.

Section III. The Commission has requested comments on, and an identification of issues presented by, the Business Case filed by PEPCO in support of its Blueprint for the Future. The Office responds to those requests in detail in Section III, below.

OPC recommends the Commission reject PEPCO's Blueprint Application, as currently filed, because its Business Case is significantly flawed and is in substantial and material respects unsupported by the facts necessary for a meaningful review and evaluation. OPC notes the following:

1. As the Standard Offer Service provider in the District, PEPCO is not the right party to implement DSM programs and technologies.

2. PEPCO has failed to establish a baseline by not identifying its assumptions about its load forecasts.

3. PEPCO has provided insufficient detail to permit an evaluation of the merits of one program versus another.

4. PEPCO should be required to provide a detailed analysis of the projected net impact of its proposed rate increases and programs on the District consumer.

5. The Commission should direct PEPCO to submit a detailed analysis of the implications of the Company's proposed dynamic rate on the typical individual District consumer.

6. The Commission should be concerned about the interoperability of PEPCO's selection of its AMI System.

7. The Commission should reject the proposed accelerated depreciation of existing meters.

8. PEPCO fails to identify whether it will lease or purchase certain hardware and has failed to support and identify its proposed useful life for the components of the AMI System.

9. PEPCO fails to define and justify its proposed use of the Societal Cost-Effectiveness Test.

10. PEPCO fails to present any evidence to support its assertion that residential consumers will be able to reduce their energy demand using PEPCO's AMI System.

11. PEPCO offers no support for its assertions that its AMI System will support renewable generation.

12. PEPCO fails to explain and quantify how the AMI System will improve customer "My Account" data.

While there may be a viable role for PEPCO with respect to AMI, the Office notes the existence of several flaws in PEPCO's AMI analysis, which must be addressed and corrected:

1. PEPCO has neither analyzed nor selected the AMI System it intends to purchase and install.

2. PEPCO acknowledges that the costs to fully deploy the AMI System are subject to change.

3. PEPCO claims without explanation and support that implementing the AMI System will eliminate manual meter reading costs.

4. PEPCO claims without explanation and support that implementing the AMI System will eliminate the costs of field visits for collection, disconnection and reconnection.

5. PEPCO claims without explanation that implementing the AMI System will improve billing activities.

6. PEPCO claims without explanation and support that implementing the AMI System will reduce off-cycle meter reading labor costs.

7. PEPCO claims without explanation and support that implementing the AMI System will optimize its assets.

8. PEPCO claims without explanation and support that implementing the AMI System will eliminate hardware, software, maintenance, and operations costs.

9. PEPCO claims without explanation and support that implementing the AMI System will reduce the number of customer complaints.

In addition, critical flaws in PEPCO's DSM analysis include the Company's inability to quantify the amount of load reductions and failure even to identify the DSM initiatives. Moreover, PEPCO's conclusions about the purported benefits of its AMI and DSM initiatives relies on a report issued by the Brattle Group that does not consider D.C. specific data, but relies on two extreme cases to estimate the number of customers on AMI-supported critical peak pricing rates.

B.

DISCUSSION

I. THE DISTRICT'S ENERGY FUTURE SHOULD INCLUDE SEPARATE AND DISTINCT ROLES FOR THE SEU AND PEPCO

There are currently two arguably competing visions of the District's energy future – that proposed by the District Council in Bill 17-492, the Clean and Affordable Energy Act of 2008 ("2008 Act") and that proposed by PEPCO in its Blueprint for the Future ("Blueprint"). The Office believes that the two visions can, in part, be reconciled in a manner that accommodates the overriding goals of the legislation, PEPCO's legitimate business interests, and the best interests of District ratepayers and consumers. Again, while the Office finds some merit to certain aspects of the SEU proposal, OPC does not endorse it as the sole and only solution for the District, and believes other options and measures should also be considered and vetted.

The Office believes that an entity other than PEPCO, should administer DSM, energy efficiency and renewable energy programs in the District. The Office also believes, however, that if the smart meter pilot program demonstrates that smart meters should be implemented in the District in a manner to be determined by the Commission, PEPCO should install and own the AMI as long as reasonable conditions are imposed that ensure that District ratepayers and consumers will obtain the full benefit of the investment they will be asked to underwrite through PEPCO's rates.[4]

A. PEPCO Should Not Administer Demand Side Management, Energy Efficiency and Renewable Energy Programs in the District.

The current draft of the proposed 2008 Act would create a SEU, a contractor to be retained by the District Department of the Environment ("DDOE") to administer the programs and other requirements that would be established by the 2008 Act. The SEU would implement, or contract with others to implement, Demand Side Management ("DSM"), end-user energy efficiency and renewable energy programs. The 2008 Act would also mandate the establishment of a smart meter pilot program to establish a baseline of actual experience upon which a decision to move to the widespread installation and implementation of smart meters in the District could be made.

PEPCO's Blueprint, on the other hand, would have PEPCO itself in largely the same role that the SEU would play under the 2008 Act. That is, PEPCO would administer DSM programs in the District and receive compensation through funds collected from electric customers in the District. The Blueprint also contains a proposal by which all current meters in the District would be replaced with Advance Metering Infrastructure ("AMI") – smart meters to be installed and owned by PEPCO and paid for by District ratepayers and consumers through an AMI rate adjustment mechanism to be proposed by PEPCO.

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[4] As discussed below, the Office does not agree with several aspects of PEPCO's AMI proposal, such as the Company's suggestion that there should be an AMI rate adjustment mechanism. *See* Office of the People's Counsel's Comments and Proposed Issues, August 10, 1007, at pp. 9-11.

As the Office has previously argued, and as demonstrated below, PEPCO is particularly ill-suited to serve in that capacity because, in addition to its role as the monopoly provider of distribution service in the District, PEPCO is also the provider of Standard Offer Service ("SOS") in the District. The failure of retail competition in the District means that, PEPCO, in its role as SOS provider, currently provides over 90% of the electric supply to District end-use customers and serves 99% of residential consumers. In its role as SOS provider, PEPCO earns a profit which depends directly on the volume of its SOS sales, *i.e.,* the more kWh of electricity PEPCO provides to SOS customers, the greater PEPCO's profit. Based on the SOS administrative charge approved by the Commission, PEPCO's profit for providing SOS sales to residential consumers **is $0.88 per 1000 kWh.**[5] The profit for sales to small commercial consumers and large commercial consumers is $1.17 per 1000 kWh and $1.75 per 1000 kWh, respectively. Consequently, PEPCO's business interest in maximizing its profit by maximizing SOS sales directly conflicts with the 2008 Act's goals of reducing energy consumption through energy efficiency and DSM programs in the District. Moreover, to, in effect, allow PEPCO to be the monopoly provider of regulated distribution service and unregulated generation supply and DSM harms the retail competitive environment that was envisioned by the Retail Electric Competition and Consumer Protection Act of 1999. In essence, the designation of a monopoly provider thwarts the intent of the 1999 Act to promote a robust, competitive retail electric market.

PEPCO as the ***de facto*** monopoly administrator of such programs would have a clear conflict of interest with its role as SOS provider, a circumstance which plainly is not in the best

[5] *See, Formal Case No. 1017*, Order No. 13426, Attachment A at 1, rel. Nov. 22, 2004.

interest of District ratepayers, or best designed to achieve the goals of the 2008 Act, particularly as PEPCO will be funding those programs with ratepayer, not shareholder dollars.

On the other hand, the SEU would also fund programs with consumer dollars, but the SEU would be independent of SOS or other factors that could deter it from its overriding goal – making DSM, energy efficiency and renewable energy programs work in the District. The 2008 Act also provides additional incentive for the SEU to perform well, as the 2008 Act requires that the SEU's compensation rise or fall with its level of performance. Section 7(c) of the Act requires that

> The SEU contract shall be performance-based, and shall provide financial incentives for the contractor to surpass the performance benchmarks laid out in the contract. The contract shall also provide financial penalties to be applied to the contractor should the contractor fail to meet the performance benchmarks laid out in the contract.

OPC does have some concerns and suggestions regarding the SEU. In particular, it is important that the SEU Advisory Board created by section 4 of the 2008 Act have additional members who will provide the perspective of the electricity end-users in the District who ultimately will be required to pay for these programs. The Office thus recommends that consideration be given to mandating that slots on the SEU Advisory Board be set aside for the District of Columbia Consumer Utility Board ("CUB"), for at least one representative of organized labor, and for at least one representative of the small commercial end-use customer class. In addition, given the fiscal implications, the SEU should consider ways to include or involve the D.C. Office of Chief Financial Office ("OCFO") on the board or planning committee.

B. PEPCO Should not Be Permitted to Install Smart Meters in the District Until After a the Results of the Smart Meter Pilot Program Demonstrates That Such Installation Will Benefit Consumers.

In addition to its proposal that PEPCO be the administrator of DSM programs in the District, PEPCO's Blueprint also proposes that PEPCO should be authorized, at considerable cost to District consumers, to replace all retail electric meters in the District with AMI. The Office objects to certain aspects of PEPCO's proposal, *e.g.*, the request for authorization to implement AMI even though the Company has not yet selected a particular meter to be installed, and therefore cannot specify what precise capabilities its smart meters would possess.[6] The Office nevertheless believes that, if those kinds of issues can be addressed, and if the smart meter pilot program demonstrates that District ratepayers and consumers will benefit from AMI, PEPCO, as the monopoly distribution service provider in the District, should be authorized to install AMI.

With regard to timing, the Office notes that a number of parties, including OPC, PEPCO itself, the PSC, CUB, and the International Brotherhood of Electrical Workers, have been working together for some time to implement a smart meter pilot project, the Smart Meter Pilot Program, Inc. ("SMPPI"). This pilot project is now very close to implementation, with a projected effective date of June 2008. This timeline fits nicely with the proposal in section 22 of the 2008 Act that installation of a smart grid, including smart meter technology, must be based on evaluation of the results of a pilot program and must be cost effective. It is important to note that the SMPPI pilot program is not using advanced two-way "smart meter" technology as required by Section 22 of the 2008 Act, but rather uses a limited communications infrastructure that does not provide the type of services an advanced two-way "smart meter" infrastructure

[6] The Office details other problems with PEPCO's AMI proposal in section IV.B, below.

would such as remote termination and reconnection. Despite this difference in technology, OPC believes that this proposal is far preferable to PEPCO's proposal that it be authorized now to replace all existing meters in the District with smart meter technology to be chosen by PEPCO.

The Office emphasizes that there are number of critical questions that remain to be addressed on the record before a final AMI proposal could be implemented. For example, the potential cost of smart meter technology versus the potential benefits to ratepayers is a matter of great concern to OPC. *See* section IV.B, below. Before smart meter implementation is approved, it will be necessary for the Commission to scrutinize the costs very closely. The Office believes that these questions could be addressed now, assuming PEPCO provided greater detail,[7] or possibly at the conclusion of the smart meter pilot program and before the Commission decides whether to "require the cost-effective deployment of a smart grid throughout the District."[8]

Indeed, before PEPCO is authorized to implement smart meter technology, the Commission must explore the extent to which other utilities have been able to place such meters into service at lower cost to customers than is proposed by PEPCO. For instance, in its Business Case in support of the Blueprint filed in Formal Case No. 1056 on October 1, 2007, PEPCO noted that Portland General Electric Co. ("PGE") had requested authorization from the Public Utility Commission of Oregon to install 843,000 smart meters for both residential and non-residential customers. Interestingly enough, the trade press has only recently reported that PGE has received approval from the Oregon Commission to install those meters, and that it will do so

[7] Several of PEPCO's rate concepts also need to be addressed on the record, including the AMI rate adjustment mechanism. PEPCO's request that it be allowed to recover, with a return, the undepreciated costs of the remaining current meters has no justification. Certainly competitive businesses are not able to force their customers to keep paying for equipment that it is no longer used and useful in serving customers' needs. Similarly, there is no justification for PEPCO's request for accelerated depreciation on AMI.

without imposing any rate increase whatsoever.[9] Such an apparent wide disparity in the cost to implement a smart meter program is one of the many questions that must be answered before a specific program, such as the one PEPCO has proposed, can be approved.

The Office is also concerned that any deployment of smart meters must be done in a way that maximizes benefits to District of Columbia electricity consumers. This requires that consideration be given to issues of open architecture and interoperability. Although the Business Case does not discuss these issues, a lack of interoperability or open architecture could lock PEPCO into overly expensive or sub-optimal equipment and software and result in significant waste when upgrades or replacements are needed. Failure to employ an open architecture would sacrifice a number of present and future cost-saving and benefit-maximizing options such as mix-and-match hardware selection. Thus, it is important that PEPCO minimize the use of hardware or software that uses confidential proprietary formats, interfaces, methods, and the like. Most importantly, the Commission must ensure that AMI facilitates the development of effective DSM and energy efficiency programs. This requires, among other things, that the vendors and contractors selected by the SEU to implement such programs have access to, and can utilize the full functionality of, the AMI system for which District ratepayers would be required to pay.

II. PEPCO'S BUSINESS CASE SHOULD BE CONSIDERED IN LIGHT OF THE DISTRICT COUNCIL'S PROPOSED CLEAN AND AFFORDABLE ENERGY ACT OF 2008.

For purposes of these comments, the Office is including comments and designated issues with respect to all issues presented by the Business Case not transferred by the Commission to Formal Case No. 945. The Office notes, however, that the Commission has ruled that it will

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[8] 2008 Act, Section 22.

[9] "PGE Gains OK of Advanced Metering System," *Electric Power Daily,* (May 8, 2008). The article indicates that the cost of the smart meters would have resulted in a less than one percent rate increase but for the off-setting effects

issue a request for proposal to establish an administrator of energy efficiency and renewable energy resource programs.[10] It is unclear, therefore, how the Commission intends to treat PEPCO's request that it be made sole administrator of demand side management programs, especially in light of the D.C. Council's proposal in the "Clean and Affordable Energy Act of 2008."

III. SYNOPSIS

During the course of the last several years sweeping changes have taken place in the electric industry both at the national and local level. PEPCO's Application in many respects is a byproduct of these changes. PEPCO is requesting authorization to undertake the wholesale replacement of the existing electric meters on its distribution system at a cost of millions of dollars to District consumers. The Company is not only asking that its investment in new meter technology be depreciated on an accelerated basis, *i.e.*, over 15 years, but it is also suggesting that the Commission allow it to recover its remaining investment in the existing meters that its proposal would render obsolete. PEPCO is also asking that it be given, in substantial part, control over the future of energy efficiency and DSM programs in the District even though: (1) PEPCO is a transmission and distribution-only utility with no expertise in these matters; and, more importantly (2) as SOS provider, PEPCO's incentive lies in maximizing the sales of energy in the District. Despite the sweeping scope of these requests, PEPCO asks that the Commission authorize recovery of such costs not as part of a base rate increase, but rather through new or existing surcharge mechanisms.

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of a tax issue.

[10] *Formal Case No. 945* and *Formal Case 1056*, Order No. 14568 at ¶ 1, rel. Oct. 12, 2007.

PEPCO's Business Case, as its Blueprint for the Future, has the look of an advertising campaign -- long on catchphrases and promises, but short on detail. In reality, the Blueprint and Business Case are requests by PEPCO for Commission approval of new investment, rates treatments and programs which, if approved, would dramatically increase the monthly bills to District consumers -- implementation of PEPCO's proposed $60 million AMI deployment alone would increase monthly bills by $7.00.[11] PEPCO's proposed three-year $29.8 million DSM proposal would increase monthly bills by $1.25.[12] Yet, PEPCO has provided virtually no detail or cost support for these massive expenditures. PEPCO must be required to substantiate each and every element of its request. District consumers are entitled to know what they are being required to pay for, how much it will cost, and what benefits such increased costs will afford them. None of these questions can be answered on the basis of what PEPCO has filed to date.

The Office identifies below some of the myriad questions presented by PEPCO's Business Case and asks that the Commission require PEPCO to provide a full case in chief that answers these and all other questions associated with its Blueprint and Business Case filings. District consumers are entitled to no less.

The Commission in Order No. 14784 stated that it could not at this time determine whether PEPCO's Blueprint Application must be treated as an application to increase rates:

> [T]he AMI mechanism proposed by Pepco is so skeletal that its rate implications are, as yet, unclear. For instance, it does not explain how the customer class rates will be adjusted based upon the cost differences in the meters and smart thermostats. As a result, the Commission declines to treat the case as a rate case, at least at this juncture, and will rather proceed as an investigation. If in the future further information suggests a different course of action, then the Commission may revisit its decision and consider designating the matter as a rate proceeding.[13]

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[11] PEPCO Blueprint Application at 13.
[12] *Id.* at 12.
[13] Order No. 14784 at ¶ 7.

The Order, therefore, is a finding that the information provided by PEPCO to date is not sufficient to allow the Commission to determine that PEPCO is indeed seeking to advance a rate within the meaning of D.C. Code § 34-901(c) and,[14] per force, a finding that PEPCO has not yet complied with the statutory and other requirements for a rate increase application. *See, e.g.*, 15 DCMR Section 200, et seq. The Office presumes, therefore, that, before PEPCO can be considered to have submitted a rate increase application, the Commission will identify what additional information is necessary, direct PEPCO to file that information and otherwise comply with all applicable rate change requirements, and provide all parties an opportunity for discovery and hearing regarding that information.

IV. ANALYSIS

PEPCO initiated Formal Case No. 1056 by filing an Application for Authority to Establish a Demand Side Management Cost Recovery Mechanism and an Advanced Metering Infrastructure Rate Adjustment Mechanism and to Establish a DSM Collaborative and an AMI Advisory Group ("Application") on April 4, 2007. In support of that Application, PEPCO filed its Business Case on October 1, 2007. PEPCO claims the purpose of the Business Case is to "address the costs and benefits of the Blueprint for the Future."[15] However, PEPCO's Business Case is founded upon unsubstantiated and unverified assumptions. Such assumptions must be thoroughly reviewed and tested through discovery and a full hearing.

A. Fundamental Flaws of PEPCO's Business Case.

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[14] D.C. Code § 34-901(c) provides that "Any public utility desiring to advance or discontinue any such rate or rates may make application to the Commission in writing, stating the advance in or discontinuance of the rate or rates desired, giving the reasons for such advance or discontinuance."

[15] *Formal Case 1056, In the Matter of the Application of Potomac Electric Power Company For Authorization to*

1. As the Standard Offer Service Provider in the District, PEPCO Is Not the Right Party to Implement DSM and Energy Efficiency Programs.

PEPCO is the SOS provider in the District, which means PEPCO earns a guaranteed return on each kWh of SOS sold in the District. PEPCO is also a for-profit corporation in the business of obtaining a profit from energy consumption. In its Application in this proceeding, PEPCO asked the Commission to approve PEPCO as the sole administrator of its proposed DSM and energy efficiency programs. As discussed in OPC's Initial Comments and Proposed Issues Addressing PEPCO's Application, PEPCO is not the appropriate party to administer these programs given the Company's compelling financial reasons as SOS provider to want to see energy conservation fail in the District.[16] PEPCO's powerful financial motives are contrary to the proposals sets forth in its Application.

2. PEPCO has Failed to Establish a Baseline by Not Identifying Its Assumptions About Its Load Forecasts.

In order to properly quantify projected estimated savings ("benefits") five, ten, and fifteen years into the future, PEPCO must establish a number of baseline parameters to provide a context for its asserted benefits. In other words, the benefits PEPCO touts in its Business Case are meaningless outside the context of predicted results in the absence of PEPCO implementing any AMI or DSM technologies. Even if PEPCO is able to demonstrate that its AMI or DSM

Establish a Demand Side Management Surcharge and an Advance Metering Infrastructure Surcharge and to Establish a DSM Collaborative and an AMI Advisory Group, Business Case at 3.

[16] *Formal Case 1056* , Office of the People's Counsel's Comments and Proposed Issues, filed Aug. 10, 2007, at p. 9:

> PEPCO has a compelling financial reason to want to see DSM and energy conservation fail in the District. PEPCO is the Standard Offer Service ("SOS") provider in the District and, as such, it earns a guaranteed return on each kWh of SOS sold. As long as PEPCO is the SOS provider in the District, it will always have a powerful incentive to see high volumes of energy sold, because it earns a substantial profit on each kWh of SOS sales. If you want PEPCO to have incentive to encourage energy conservation and energy efficiency, the first thing you have to do is decouple PEPCO from SOS sales, i.e., take SOS service away from PEPCO.

PEPCO cannot be both the SOS provider and the provider of DSM services; there is an inherent conflict of proposals are cost effective, *i.e.*, that their impacts produce savings greater than their costs, and that those estimates are reliable, PEPCO must also show that those proposals are more appropriate than the available alternatives, including but not limited to current energy efficiency programs, other vendors providing the same or similar services, more or less aggressive DSM and demand response programs, other approaches to demand response, energy efficiency and outage monitoring, more selective deployment of AMI, or other options. Without knowing the assumptions underlying PEPCO's estimated savings and comparing them to the alternatives, it is not possible to tell whether PEPCO's proposals have merit.

PEPCO has failed to identify the assumptions it makes regarding its customers' behavior over the next fifteen years either with or without PEPCO's proposals. Nationwide there are numerous initiatives to reduce energy consumption and increase conservation awareness. The District is following this nationwide trend by implementing a number of local initiatives. For example, the Office has sponsored twelve home energy expos to provide District consumers with important information to make informed decisions about how they can do their part to reduce reliance on energy while also preserving the environment. The DDOE offers a number of educational programs such as its weekly Free Energy Workshops to teach District residents of the District low cost energy saving measures. The DDOE also offers a number of energy saving tips on its website as well as advocating the federal ENERGY STAR® Change-A-Light Campaign.

In addition to educational programs, the DDOE also offers a number of ENERGY STAR® rebates for residents who install qualifying air conditioners, refrigerators, and washing machines. For certain low income homeowner applicants, the DDOE will replace old air

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interest between the two.

conditioners and refrigerators with ENERGY STAR®-compliant appliances for free. The DDOE, through federally-funded grants, will weatherize homes of qualifying low income applicants. Some homeowners will also become eligible for tax credits or lower rate mortgages by installing exterior windows and doors, insulation, and/or appliances that meet specified criteria.

PEPCO has failed to identify the assumptions it makes regarding its customer forecasts over the next fifteen years. A number of questions should be answered, namely: Will the number of customers grow or shrink? How many of the newly constructed and newly renovated residential and commercial properties will be so-called "green" buildings? What are the assumptions about baseline energy efficiency in new appliance or equipment purchases, new construction and renovation? Will large customers participate in PJM-sponsored and other demand response programs? What difference, if any, would AMI make in that response?

PEPCO has failed to identify the assumptions it makes regarding the weather over the next fifteen years. Is PEPCO assuming warmer than average winters and summers in the District of Columbia?

In order for the Office or the Commission to fully evaluate PEPCO's proposal, PEPCO must identify not only its assumptions about weather trends, number of customers, and customer behavior over the next fifteen years, but also its assumptions about spontaneous price driven and third party conservation initiatives, as well as the costs and savings of other possible approaches. The Commission and OPC need to understand what assumptions underlie PEPCO's projections of power costs, transmission and distribution system investments, and other costs that PEPCO assumes are avoided by its DSM and AMI proposals. A number of questions should be addressed, namely: What level of savings would customers realize over the next fifteen years if

PEPCO did not implement any of the programs it proposes? Will PEPCO's Blueprint crowd out other initiatives? Would any programs be offered by third parties in PEPCO's absence? In order to answer these critical questions, the assumptions must be stated and an opportunity must be provided to test the validity of those assumptions through discovery and cross examination.

In addition to failing to establish its assumptions, PEPCO also fails to identify its current practices and reasonable alternative practices for comparison. In the same way, this lack of a baseline also renders PEPCO's predicted benefits meaningless. For example,

> Pepco projects that the elimination of the need to manually read meters would result in annualized O&M expense savings of $1.4 million (expressed in projected 2008 dollars). The O&M expense savings estimate is based on projected meter reading volume multiplied by the per read rates specified in the contract with the outside contractor.[17]

PEPCO fails to describe how "manual" meter reading is carried out now. PEPCO does not identify other options for reducing or controlling these costs. A number of questions need to be addressed, namely: Has PEPCO considered drive-by meter reading? Has PEPCO considered less complex AMI systems? Has PEPCO considered any other reasonable alternatives?

3. PEPCO Has Provided Insufficient Detail to Permit an Evaluation of the Merits of One Program Versus Another.

The Business Case provides little if any information about how much each individual program will cost in return for its estimated load reduction. PEPCO focuses on the magnitude of reduction to be achieved from all of the various programs, but it provides virtually no information with which the Office or the Commission can evaluate the merits of one program over another. For example, Figure A-1 of The Brattle Report[18] is a bar graph that purports to show estimated peak load reductions from energy efficiency and direct load control reductions

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[17] *Formal Case 1056,* Business Case at 14.

[18] *Formal Case 1056,* Business Case, "Quantifying Customer Benefits from Reductions in Critical Peak Loads from

during the period 2009-13. The projected load reductions, however, are the same Pepco Holdings, Inc. ("PHI")-estimated load reductions which are unsupported. In other words, PEPCO has not provided D.C. specific data upon which to evaluate its Blueprint Application and accompanying Business Case. Moreover, there is no way to evaluate the relative cost of one program versus another, in conjunction with its estimated value in producing load reduction.[19]

4. PEPCO Should Be Required to Provide a Detailed Analysis of the Projected Net Impact of Its Proposed Rate Increases and Programs on the District Consumer.

PEPCO's Business Case lacks any analysis of the implications of PEPCO's proposal for individual consumers. District consumers will be required to endure a substantial rate increase for the stated purpose of encouraging energy conservation and load reduction. Under PEPCO's proposal, District consumers will foot the bill for state-of-the-art metering and communications capability. There is no discussion of how the individual District consumer will be able to mitigate his or her cost of this massive rate increase apart from PEPCO's unsupported assertions that benefits will outweigh the clearly substantial costs. A few questions need to be addressed, namely: Is it reasonable to expect that the typical District consumer will be able to completely or partially offset the increase in his monthly electric bill as a result of this rate increase? Is it reasonable to expect that the individual consumer can accomplish material savings simply by altering his or her electricity consumption pattern? For example, is it reasonable to expect that a

PHI's Proposed Demand-Side Management Programs" ("The Brattle Report") at 62.

[19] Table A-10 on page 85 of the Blueprint provides the scantest of information from which one might discern the cost of a given program, but it falls far short of the kind of data and analysis necessary to make a meaningful evaluation of which of the several programs ought to be implemented and which should not. PEPCO also has provided no backup or supporting data or analyses for the data represented on that table.

low income residential consumer with relatively low usage will be able to materially alter his or her electricity consumption pattern in a way to avoid the combined impact of peak energy prices plus the cost of installing the AMI system?

PEPCO's Business Case focuses on the long-term benefits of its proposed programs and rate base additions. District consumers, however, will bear the costs of all PEPCO's proposals in the present. The Commission should require PEPCO to provide a detailed analysis of the projected net impact of its proposed rate increase and programs on the District consumer's monthly bill by rate class and by size of customer within each rate class and to explain how it will allocate the costs of the proposals among rate classes and rate elements. Ultimately, the long-term benefits of PEPCO's programs are speculative, but the immediate costs of such programs are certain, and District consumers will foot the bill even if the projected savings never materialize.

A significant percentage of the projected load reductions will be as a result of PEPCO's proposed "direct load control" programs.[20] Yet, neither the Blueprint nor the Business Case explains precisely what the implications of "direct load control" will be for individual consumers. It is imperative that PEPCO's customers be fully apprised of precisely what control PEPCO will exercise over their energy consumption decisions. This is critical, as it is assumed that 100% of the direct load control customers will also participate in the dynamic rate.[21] The lion's share of the projected load reductions is associated with direct load control and dynamic rate participation.

5. *The Commission Should Require the Submission of a Detailed Analysis of the Implications of PEPCO's Proposed Dynamic Rate on the Typical Individual District Consumer.*

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[20] The Brattle Report at 28, Figure 4.7.

[21] *Id.*

Another critical question is whether all District consumers should be required to participate in the dynamic rate?[22] PEPCO acknowledges that "[c]ustomer participation rates depend primarily on whether dynamic pricing becomes the default rate structure or merely an option that customers can elect."[23] In the past, PEPCO and the Commission have been reluctant to endorse opt out municipal aggregation because they considered it to be a form of "slamming." Yet, OPC submits, radically altering the pricing of electric service to 100% of the District consumers, without giving them any choice whatsoever, would result in far more significant disruption to electric service as currently experienced, at least by residential customers, than would opt out aggregation. Moreover, before any decision can be made as to whether the dynamic rate should be the default rate, there must be a detailed analysis of the cost implications of such a decision for the typical District consumer. Consumers are entitled to know how and why their rates for electric service are escalating and what, if anything, they can do to mitigate such increases. At the very least, PEPCO should conduct an analysis of the implication of PEPCO's dynamic rate on several different typical customer profiles.

6. The Commission Should Be Concerned About the Interoperability of PEPCO's Selection of Its AMI System.

As recommended by NARUC in a resolution adopted by NARUC's Board of Directors on February 21, 2007,[24] the Commission should be concerned about the issues of open architecture and interoperability as they apply to PEPCO's proposed AMI system and about the potential waste that could result from less than optimal equipment selection. The Business Case does not discuss these issues. A lack of interoperability or open architecture can lock PEPCO

[22] PEPCO does not clearly define the term "dynamic rate," but it appears to include a time-sensitive element.
[23] *Id.* at 25.
[24] *Formal Case 1056,* Business Case, Appendix 2 at 42.

into overly expensive or sub-optimal equipment and software or result in significant waste when upgrades or replacements are needed. Failure to employ an open architecture (*i.e.*, use of hardware or software that uses confidential proprietary formats, interfaces, methods, and the like) sacrifices a number of present and future cost-saving and benefit-maximizing options such as mix-and-match hardware selection. This can be a significant issue for information technology ("IT") systems in general for the first cost, ongoing support costs, and reliability/maintainability of IT systems over time. Closed architecture and a lack of interoperability also may potentially subject the utility to vendor market power, obsolescence, and discontinued support such as lack of updates and bug fixes, inability to obtain spares and parts, etc.

7. The Commission Should Reject the Proposed Accelerated Depreciation of Existing Meters.

PEPCO's Business Case calls not only for recovery of undepreciated rate base associated with meters (and possibly other rate base items) no longer used and useful, but for accelerated recovery of those amounts. The only support provided for this unusual ratemaking proposal consists of (1) one sentence from a NARUC Resolution[25] and (2) the unsupported assertion that doing so would "provide cash flow to help finance new AMI deployment."[26] There is no disputing the assertion that such ratemaking practices would "provide cash" to the Company. However, the Commission should not consider such a departure from the checks and balances of traditional ratemaking without carefully analyzing the necessity, costs and benefits of the proposed change and determining whether it is just and reasonable. The Commission should not assume that PEPCO is entitled to recover the costs of meters that its own current proposal would render obsolete. If least cost service requires that certain equipment be taken out of service, the

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[25] *Id.*

utility is obligated to do so despite the fact that such equipment would no longer be included in rate base because it is no longer used and useful. Arguably, refusal to do so would constitute a violation of the utility's public service obligations.

This is a policy question with potentially far reaching implications. The Company is asking that consumers be required to underwrite *all* costs associated with the replacement of existing equipment with new and improved equipment and technology, and to do so on an accelerated basis. In an unregulated industry, the potential for the Company to be required to absorb the costs of obsolete equipment is part of the business risk of the venture. Similarly, the risk that part of the Company's investment will become obsolete before it is fully depreciated is part of the risk for which PEPCO's shareholders are compensated through the return included as a component of the rates paid by PEPCO's captive distribution customers. The Office urges the Commission to reject this proposal by PEPCO.

8. PEPCO Has Failed to Identify Whether It Will Lease or Purchase Certain Hardware and Has Failed to Support and Identify Its Proposed Useful Life for the Components of the AMI System.

PEPCO has failed to explain the extent to which it has assumed that it will be leasing AMI-related hardware such as Meter Data Management System ("MDMS"). A few questions should be addressed, namely: If the meter hardware is to be leased, why should there be any allowance for depreciation, let alone accelerated depreciation, of that hardware? If the hardware is purchased, would the costs be higher or lower? If the hardware is being leased and depreciation does not apply, how does this affect PEPCO's cost analysis?

PEPCO has further assumed a 15-year life for the AMI system. What is the basis for PEPCO's assumption of an across the board 15 year rate of depreciation? This is, in effect, a

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[26] *Formal Case No. 1056*, Business Case at 33.

request for accelerated depreciation of meter investment PEPCO has not yet even made. There is no factual basis to assume that what PEPCO represents to be state-of-the-art meters will have served their useful lives in 15 years.

9. PEPCO Fails to Define and Justify Its Proposed Use of the Societal Cost-Effectiveness Test.

PEPCO recommends the Commission adopt a societal cost-effectiveness test that would capture the value associated with, among other things, reducing power plant air emissions.[27] PEPCO fails to provide any definition for the "societal cost-effectiveness test." What is to be included in such an analysis and what is to be excluded, and what are the assumptions that will underlie such an analysis? In the absence of any explanation by PEPCO as to the precise definition of the "societal cost-effectiveness test," it is not possible to evaluate whether it should be used in this case. Moreover, there may be other evaluation tests that can be used to establish whether PEPCO's proposal provides quantifiable benefits that are in the public interest.

10. PEPCO Fails to Present Any Evidence to Support Its Assertion that Residential Consumers Will Be Able to Reduce Their Energy Demand Using PEPCO's AMI System.

PEPCO has presented no evidence of the cost and effectiveness of achieving demand response for District residential consumers using its AMI system. PEPCO has supplied no data to support the claim that its AMI System would be more cost effective than simpler measures such as ripple or radio controlled AC or programmable thermostats. Furthermore, PEPCO has supplied no data on likely participation rates, customer education costs, dropout rates, etc.

11. PEPCO Offers No Support for Its Assertions that Its AMI System Will Support Renewable Generation.

[27] *Formal Case* 1056, Business Case at 4.

PEPCO claims the deployment of its AMI system will support plug-in vehicles and small scale renewable generators,[28] but it has failed to explain how its proposal for AMI will support plug in hybrids and the grid integration of small-scale renewable generation. Moreover, PEPCO has not explained why the AMI system is necessary for those purposes and has failed to identify whether the Company has considered other less costly ways to achieve grid integration of small-scale renewable generation.

12. PEPCO Fails to Explain and Quantify How the AMI System Will Improve Customer "My Account" Data.

PEPCO notes that it offers online services for its customers called "My Account," but it fails to identify what services are currently provided under "My Account." Nor does PEPCO explain what data supports any claim of savings or cost effectiveness of "My Account" or energy auditing software. A number of questions should be answered, namely: What is the accuracy of auditing results using "My Account" or energy auditing software? Does PEPCO provide any follow through on those results for customers? Exactly how will the AMI system give customers better information as PEPCO claims? What else will PEPCO need to do to achieve that end? What will those items cost? What is PEPCO's timeline for completing those measures?

B. Failure of PEPCO's AMI Analysis.

1. PEPCO Has Neither Analyzed Nor Selected the AMI System It Intends to Purchase and Install.

In footnote 9 on page 14 of the PEPCO Business Case, the Company acknowledges the difficulty of estimating any potential benefits to be realized through its deployment of AMI technology:

> The quantification of these benefits will be refined as PEPCO conducts the procurement phase of its AMI project and evaluates

[28] *Id.* at 5-6.

> the capabilities of the various AMI systems available in the market today. In addition, the quantifications will also change due to changing labor rates, payroll loading rates, inflation and other possible changes in the underlying assumptions used to derive the estimated value of the benefits.

PEPCO has identified one of the fundamental problems with its underlying assumptions and cost benefit analysis: PEPCO has not yet investigated and selected the AMI technology it intends to install and implement in the District. Without having selected a specific AMI system, PEPCO and the Commission cannot even begin to fully evaluate the AMI system costs, benefits, and capabilities. Under its current level of analysis, PEPCO may be assuming functionalities and capabilities that do not exist in the AMI system it ultimately selects. More importantly, what functionality is appropriate for the District of Columbia? The Commission must ultimately decide what functions are needed and those that are not, *i.e.*, what functionality is cost-effective for the consumers of the District of Columbia.

At a minimum, PEPCO must supply the Commission with answers to the following questions in order to allow the Commission to have before it a complete record by which it can determine whether the "benefits" PEPCO claims accurately reflect the "benefits" actually achievable.

A number of important questions must be answered, namely: What are the unit costs of each smart meter? What are the costs to install each smart meter? What additional costs are there for software, hardware, and installation of the AMI system? How reliable is the AMI system? What are the costs of maintenance to the AMI system? What are the costs of repairs and replacements to the AMI system? What are the actual (as opposed to conceptual) capabilities of the AMI system PEPCO selects? What feedback does the AMI system provide? What is the likelihood that the AMI meters installed by PEPCO will become technologically obsolete in 5 years or at some other point prior to the proposed useful life assumption? However, before any of those questions can be answered, there must be a decision as to what kinds of functionality and what kind of capabilities are necessary and appropriate.

Questions related to functionality go beyond the use of AMI in providing electric distribution service. As one example, PEPCO does not discuss whether the proposed AMI installation will include Broadband over Power Line ("BPL") technology to enable communications with the smart meters it plans to install. A number of questions should be answered, namely: If BPL is not to be used for AMI, would the AMI system interfere with later use of BPL or become obsolete if BPL is adopted later? If BPL technology will be installed, what additional services will PEPCO then have the capability to deliver? Will it be able, if it chooses, to provide internet and/or cable television service? If so, how does PEPCO plan to treat revenues related to the provision of those services? If the AMI system installation supports or enables BPL, some or all of the AMI cost should be allocated to shareholders and away from retail electric service.

2. *PEPCO Acknowledges that the Costs to Fully Deploy the AMI System Are Subject to Change.*

In Footnote 8 on page 13 of its Business Case, PEPCO warns that "[a]s always final numbers are subject to change based on the programs selected and the actual costs." With respect to costs to deploy, the Business Case also states:

> The costs will change as the Company conducts the procurement phase of its AMI project and evaluates the capabilities of the various AMI systems available in the market today. In addition, the quantifications will also change due to changing labor rates, payroll loading rates, inflation and other possible changes in the underlying assumptions used to derive the estimated cost values.[29]

[29] *Id.* at 29.

This point is stressed by the Company despite the fact that the Business Case already incorporates a contingency allowance of approximately $3 million for "unexpected" increases in equipment costs, labor costs or material prices. These statements beg the question – upon what costs should the Commission rely? While it is certainly normal for some contingencies to impact project costs over a number of years, this unqualified caveat leaves the Commission and parties with no foundation for informed decision-making.

3. PEPCO Claims Implementing the AMI System Will Eliminate Manual Meter Reading Costs.

While PEPCO may be correct that implementing the AMI system will eliminate manual meter reading costs,[30] at least a portion of those costs will be reallocated to the management and oversight of the AMI communication network infrastructure. Although PEPCO may no longer need third party contractors to read its customers' electric meters, PEPCO will need contractors and/or employees to read and monitor its AMI network. To better understand and estimate these costs, PEPCO must, at a minimum, supply the Commission with answers to the following questions.

Will the AMI system be accessible from a single computer system or via a central database? Will employees or contractors be hired to monitor and manage the AMI system? What type of initial and ongoing training will such employees or contractors need? How many and what level employees or contractors will be needed to monitor and manage the AMI system?

4. PEPCO Claims that Implementing the AMI System Will Eliminate the Costs of Field Visits for Collection, Disconnection and Reconnection.

[30] *Id.* at 14.

PEPCO assumes the AMI system it selects will offer remote connect/disconnect capabilities for 200 ampere and lower electric service.[31] Based on this assumption, PEPCO assumes that it will reduce the number of field visits associated with delinquent accounts (*i.e.*, collection, disconnection, and reconnection). The unstated assumption underlying the suggested savings is that PEPCO will save on expenses by not having to dispatch field cut and collection personnel (although PEPCO fails to itemize these savings). Such a savings would occur only if PEPCO will use its new technology to automatically disconnect electric service customers without dispatching a field collector.

As a threshold question, the Commission must decide **whether it is in the public interest to allow for the automated cut off of electric customers and the elimination of the last clear opportunity for customers to pay before their electricity is disconnected.** If the Company's savings do not assume elimination of that last opportunity to pay a bill, then PEPCO would still incur expenses on field collectors, service representatives receiving reconnection requests, and employees trained to remotely disconnect/reconnect customers' meters. This is an area of particular importance to low income consumers, and the Commission must demand clarity from PEPCO as to precisely what it intends, and then evaluate the impact on consumers – particularly limited-income consumers.

PEPCO should respond to the following questions: How many field employees or contractors will no longer be needed because of PEPCO's switch to the AMI system? Will any field employees be retained in case of AMI system failure? How many employees will be retained and retrained to operate the remote disconnect/reconnect system? What are the costs of

[31] *Id.* at 15.

training? How does PEPCO arrive at the $5 to $10 estimate for remote connection and disconnection costs? PEPCO provides answers to none of these questions.

5. PEPCO Claims that Implementing the AMI System Will Improve Billing Activities.

PEPCO claims that full deployment of the AMI system will significantly reduce the number of billing issues it addresses in its back office billing department.[32] PEPCO assumes that full deployment of its AMI system will eliminate 90% of the exceptions work volume. PEPCO fails to provide any explanation of how implementing its AMI system will reduce customer billing exceptions. How did PEPCO arrive at its 90% reduction conclusion? Why were lower reduction rates not considered? What are the detailed types of activities that would be affected and what fraction of the total number of checks and worker time is represented by each? Exactly how would AMI reduce the occurrence of each type?

PEPCO states that it has "a total of 29 back office billing analyst and supervisory personnel to handle the system wide exceptions work volume."[33] A number of questions should be answered, namely: Will any of these employees be retained? How many analysts? How many supervisory personnel? What are the fully loaded annual labor costs for those employees who will be retained? If some employees are to be retained, what savings will be achieved?

6. PEPCO Claims that Implementing the AMI System Will Reduce Off-Cycle Meter Reading Labor Costs.

PEPCO currently retains ten special meter readers to obtain field readings outside of normal meter reading cycles. PEPCO assumes with full deployment of its AMI system, it will eliminate any need for off-cycle meter reading work.[34] OPC submits that even with full

[32] *Id.* at 16.
[33] *Id.*
[34] *Id.* at 17.

deployment of the AMI system, there will still be a need for off-cycle meter reading. While field visits may not be necessary to obtain these readings, PEPCO employees will still be required to read meters using the AMI system during these off-cycles. A few questions to address are: How many employees will be retained and retrained? What are the costs of training? What are the fully loaded annual labor costs for those employees who will be retained?

7. PEPCO Claims that Implementing the AMI System Will Optimize Its Assets.

PEPCO claims that full deployment of its AMI system will improve its response to false positive customer outage reports and improve its asset management program resulting in accurate sizing of transformers and fuses.[35] PEPCO claims it responds to over 1000 power outage calls annually and to 1500 storm-related power outage calls annually where, upon arrival, PEPCO finds the power has already been restored but not recorded in its outage management system, or the problem is on the customer side of the meter or in the house. A number of questions to address include: How will implementation of the AMI system eliminate these field trips and reduce the number of outage Call Center calls? How will implementation of the AMI system reduce the number of outages? How will implementation of the AMI system reduce the number of special load readings at substations?

In response to Hurricane Isabel in 2003, PEPCO installed an Outage Management System "OMS"). Given the existence of the OMS, two important questions need to be answered, namely: Is the OMS now obsolete? Will PEPCO's AMI system operate in tandem with its OMS? If so, how will that work and what benefits are achieved by these two systems?

8. PEPCO Claims that Implementing the AMI System Will Eliminate Hardware, Software, Maintenance and Operations Costs.

[35] *Id.* at 18.

PEPCO claims that implementing its AMI system will eliminate the maintenance fees PHI pays on its existing meter reading devices.[36] It is not clear, however, what assumptions it is making with respect to maintenance costs for its AMI system.

9. PEPCO Claims that Implementing the AMI System Will Reduce the Number of Customer Complaints.

PEPCO claims that full deployment of its AMI system will contribute to fewer customer complaints and faster resolution of complaints.[37] It is not intuitively obvious how installing the AMI system will reduce the number of customer complaints. Presumably, consumers will continue to have complaints about their service regardless of whether or not AMI smart meters are installed. PEPCO assumes its complaint handling group will be able to improve its work flow so that it may reduce its complaint response team to the equivalent of one full time employee, but PEPCO does not explain how the AMI system will produce such a result.

There also remains the problem that PEPCO has not identified the baseline from which the Commission is to evaluate the estimated savings. How many employees does PEPCO currently have responding to customer complaints? Will the employees PEPCO retains be entry level or supervisory personnel?

C. Failure of PEPCO's DSM Analysis.

A significant portion of PEPCO's Business Case is directed towards estimating the value to customers of load reductions resulting from PHI proposed DSM initiatives. This analysis depends on the magnitude of the load reductions and the associated value of such reductions to

[36] *Id.*
[37] *Id.*

the customers.[38] It is difficult, if not impossible, to assess the magnitude of load reduction from PEPCO's unidentified DSM initiatives.

With respect to DSM/demand response savings, PEPCO states "[l]oad reductions associated with PHI's proposed programs involving energy efficiency and AMI-enabled direct load control are taken directly from PHI's most recent Blueprint Filing for its DSM programs."[39] Clearly the Commission must allow full discovery and hearing regarding those reduction estimates.

With respect to Critical Peak Pricing ("CPP") savings, PEPCO states "[l]oad reductions associated with AMI-enabled CPP programs were estimated using the PRISM model, which is based on empirical data from the California Statewide Pricing Pilot and is calibrated to the load characteristics of residential and small commercial customers in PEPCO."[40] Clearly those reduction estimates, modeling, "calibration," and so on require discovery and detailed analysis. Further, it is important to consider empirically whether California Statewide data, which includes vast differences in climate, urban/rural mix, and other characteristics, are appropriate, even with "calibration," for use in the District. It is also important to consider how California "calibrated" estimates were allocated among the PHI jurisdictions as the load makeup and customer characteristics may differ considerably.

D. Inadequacies of The Brattle Group Report.

PEPCO's conclusions about the benefits of its proposals are dependent upon the results of The Brattle Report. However, The Brattle Report relies on PEPCO's assumptions to conduct its analysis of the benefits. In addition, The Brattle Report simply adopts data from The Brattle

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[38] *Id.* at 19.
[39] *Id.*
[40] *Id.*

Group's prior studies without providing justification for such adoption here in the District of Columbia. For example, "Brattle's analysis of AMI-enabled demands response in PEPCO simply adopts these figures [from the Brattle-PJM-MADRI study] by adding 12-36 percent of the estimated capacity savings."[41] This statement raises numerous complex questions and lines of analysis, including the likely need to conduct discovery on The Brattle Report concerning the Brattle-PJM-MADRI study itself. The set of complex and contingent scenarios used in the analysis intensify this concern.

The Brattle Report focuses on estimating the benefits from reductions in "critical peak loads" achieved through PHI's energy efficiency and advanced metering programs. The Report relies heavily on two additional studies to support its results:

> *Quantifying Demand Response Benefits in PJM*, The Brattle Group, January 2007 for PJM and MADRI; and
>
> *The Price Impact Simulation Model ("PRISM")*, developed during the California Statewide Pricing Pilot (2004).

The Commission needs to review and analyze both of these studies in order to understand the Report filed in this proceeding.

The scenarios analyzed by the report use two extreme cases to estimate the number of customers on AMI-supported "critical peak pricing" rates. One extreme assumes voluntary enrollment with a penetration rate of 20% after two years. The other extreme assumes mandatory enrollment with an opt-out choice and estimates a penetration rate of 80% after two years. The Commission needs to understand the basis for these two extremes, as well as which of the extremes PEPCO supports (or does PEPCO assume a different penetration rate?).

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[41] *Id.* at 21.

Significant savings are attributed to a "delayed supplier" scenario[42] that assumes no market response to inadequate supply as reflected by high RPM capacity prices. The Commission needs to understand the basis for assuming such a "delayed" response and whether the savings are reasonable to assume or rely upon.

The Brattle Report at page 13 identifies three major changes to the assumptions in the PJM-MADRI study. The Commission needs to understand the basis for these changes and the impact that these changes have on the final savings estimates.

The section on "Short-Term Capacity Price Impacts"[43] contains assumptions about supplier reaction options (immediate, slow, or delayed). The Commission should recognize this section will require careful analysis because it has a very large impact on the overall savings estimates.

V. PROPOSED ISSUES

The Office proposes the following additional issues for designation in this proceeding:. The entire list of proposed issues is contained in Appendix I.

1. What are all the assumptions and methodologies relied on by PHI and used by The Brattle Group in reaching their conclusions summarized in their report, *Quantifying Customer Benefits from Reductions in Critical Peak Loads from PHI's Proposed Demand-Side Management Programs,* and what is the basis for each such assumption and methodology?

2. What are all the assumptions and methodologies relied on by PHI regarding current and projected operating and maintenance expenses

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[42] The Brattle Report at 9-10.
[43] *Id.* at 46.

related to metering, billing, and customer service, and what is the basis for each such assumption and methodology?

3. What are the implications of direct load control programs, as proposed by PEPCO, for District of Columbia consumers?

4. Is it just and reasonable to require District consumers to participate in the dynamic rate?

5. Will PEPCO's failure to commit to open architecture and interoperability in the selection of a specific AMI system result in District consumers overpaying for a less than optimal system?

6. Is the societal cost-effectiveness test recommended by PEPCO the appropriate test to ensure that the interests of District of Columbia consumers are protected?

7. How does PEPCO define the societal cost-effectiveness test?

8. Is PEPCO's claim that deployment of its AMI system will support plug-in vehicles and small scale renewable energy resources a reasonable assertion?

9. Is it reasonable to approve PEPCO's proposed AMI surcharge when PEPCO has not even selected the particular technology it intends to deploy?

10. Is PEPCO's apparent plan to eliminate field visits associated with delinquent accounts reasonable?

11. Is PEPCO's assumption that deployment of AMI technology will make billing activities more efficient reasonable?

12. If BPL technology will be installed, what additional services will PEPCO then have the capability to deliver? How does PEPCO plan to treat revenues related to the provision of those services?

VI. CONCLUSION

For the reasons stated above, the Office urges the Commission to order that PEPCO's Business Case be set for a full evidentiary hearing and to allow for thorough discovery.

Respectfully submitted,

Betty Noël

Elizabeth A. Noël, Esq.
People's Counsel
D.C. Bar No. 288965

Sandra Mattavous-Frye, Esq.
Deputy People's Counsel
D.C. Bar No. 375833

Karen R. Sistrunk, Esq.
Assistant People's Counsel
D.C. Bar No. 390153

Brian O. Edmonds, Esq.
Assistant People's Counsel
D.C. Bar No. 475869

OFFICE OF THE PEOPLE'S COUNSEL
1133 15th Street, N.W., Suite 500
Washington, D.C. 20005
(202) 727-3071

Of Counsel:
John Michael Adragna, Esq.
Barry Cohen, Esq.
Bethany Pribila, Esq.
Miller, Balis & O'Neil, P.C.
1140 Nineteenth Street, N.W., Suite 700
Washington, D.C. 20036-6600
(202) 296-2960

Dated: May 23, 2008

Formal Case No. 1056-OPC's Proposed Issues

1. Are PEPCO's proposed surcharges for DSM and energy efficiency programs just and reasonable?

    A. Is it reasonable to establish a rate to recover the costs of programs before the programs are known and established?

    B. Would the proposed surcharges constitute impermissible spot adjustments and single issue ratemaking?

2. Will the costs of DSM and energy efficiency programs proposed by PEPCO produce benefits in energy savings that would justify those costs?

3. Should the Commission select a single supplier of DSM and non-low income energy efficiency programs in the District?

    A. Should the provider of such services be determined by a competitive RFP process?

    B. Should the selection of a provider of such services be determined as part of a SOS RFP process currently under deliberation in Formal Case No. 1047?

    C. Will the selection of a sole supplier of these services impede the SOS RFP proves or otherwise prove detrimental to the interests of ratepayers in the District?

    D. Will the additional costs of PEPCO managing the vendors be justified by additional savings to District consumers?

4. Is PEPCO the reasonable and appropriate choice to be selected the sole supplier of DSM and non-low income energy efficiency programs in the District?

    A. Should PEPCO's status as SOS provider in the District disqualify it from consideration as a sole supplier of DSM and non-low income energy efficiency programs in the District?

    B. What incentive will PEPCO have to maximize the potential of DSM and energy efficiency programs for the benefit of District consumers as long as PEPCO is SOS provider in the District?

    C. Will PEPCO have adequate incentive to maximize the value of DSM and non-low income energy efficiency programs in the District?

D. Will the flow-through nature of the proposed DSM and non-low income energy efficiency programs in the District make PEPCO indifferent to the success or failure of the programs?

5. Is PEPCO's proposed rate treatment for AMI just and reasonable?

   A. Is there any reason to treat AMI additions to PEPCO distribution rate base differently than other additions to that rate base?

   B. Will the AMI rate base adjustment mechanism proposed by PEPCO permit the kind of scrutiny of costs necessary to ensure that the charges to District consumers are just and reasonable?

   C. Would the AMI rate base adjustment mechanism constitute impermissible spot adjustments and single issue ratemaking?

6. Is PEPCO's proposed stranded cost treatment of the costs of existing meters to be replaced by AMI just and reasonable?

7. Will the costs of AMI proposed by PEPCO produce benefits in energy savings that would justify those costs?

   A. What incentive would PEPCO have to maximize the potential of AMI investment for the benefit of District consumers in the form of DSM, energy conservation and related savings?

   B. What incentive would PEPCO have to maximize the potential of AMI investment for the benefit of District consumers as long as PEPCO is SOS provider in the District?

   C. If the Commission adopts PEPCO's proposal, should it also adopt performance metrics and an enforcement mechanism that would ensure that PEPCO would have incentive to maximize the potential benefits to consumers of the AMI?

8. What will be the rate impact on District ratepayers if the Commission adopts PEPCO's proposals?

9. Will all classes of customers benefit equally from the PEPCO's proposals?

   A. Will low income and other low electricity usage residential customers benefit in energy usage reduction to the same extent as higher usage customers?

10. Do PEPCO's proposals shift all of the business risk associated with the proposed DSM and non-low income energy efficiency programs and AMI to District ratepayers?

11. Would the granting of PEPCO's Application have a detrimental effect on the outcome of Formal Case No. 1047?

    A. Would the granting of PEPCO's Application be inconsistent with or undermine the SOS Portfolio Management Standards and other determinations in Formal Case No. 1047?

    B. Would PEPCO's implementation of the programs described in its Application before, or without consideration of, the results of Formal Case No. 1047, likely require PEPCO to modify, adapt, or reconsider its programs?

12. Would the granting of PEPCO's Application be detrimental to District of Columbia consumers?

    A. Would the granting of PEPCO's Application limit or otherwise impair the competitive RFP process for DSM, energy efficiency, and AMI programs?

    B. Would the granting of PEPCO's Application undermine prospective SOS auction participants' ability to accurately bid all-requirements and other services?

    C. Would the granting of PEPCO's Application, without consideration of its impact on and interaction with any programs acquired through SOS Portfolio Management Standards, yield lower than optimal cost benefits of such programs?

    D. Should Commission action on PEPCO's Application be deferred until the completion of the SOS Portfolio Management Standards in Formal Case No. 1047?

13. What are all the assumptions and methodologies relied on by PHI and used by The Brattle Group in reaching their conclusions summarized in their report, *Quantifying Customer Benefits from Reductions in Critical Peak Loads from PHI's Proposed Demand-Side Management Programs,* and what is the basis for each such assumption and methodology?

14. What are all the assumptions and methodologies relied on by PHI regarding current and projected operating and maintenance expenses related to metering, billing, and customer service, and what is the basis for each such assumption and methodology?

15. What are the implications of direct load control programs, as proposed by PEPCO, for District of Columbia consumers?

16. Is it just and reasonable to require District consumers to participate in the dynamic rate?

17. Will PEPCO's failure to commit to open architecture and interoperability in the selection of a specific AMI system result in District consumers overpaying for a less than optimal system?

18. Is the societal cost-effectiveness test recommended by PEPCO the appropriate test to ensure that the interests of District of Columbia consumers are protected?

19. How does PEPCO define the societal cost-effectiveness test?

20. Is PEPCO's claim that deployment of its AMI system will support plug-in vehicles and small scale renewable energy resources a reasonable assertion?

21. Is it reasonable to approve PEPCO's proposed AMI surcharge when PEPCO has not even selected the particular technology it intends to deploy?

22. Is PEPCO's apparent plan to eliminate field visits associated with delinquent accounts reasonable?

23. Is PEPCO's assumption that deployment of AMI technology will make billing activities more efficient reasonable?

24. If BPL technology will be installed, what additional services will PEPCO then have the capability to deliver? How does PEPCO plan to treat revenues related to the provision of those services?

CERTIFICATE OF SERVICE

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

I hereby certify that on this 22nd day of May, 2008, a copy of the "Initial Comments and Proposed Issues of the Office of the People's Counsel Addressing Potomac Electric Power Company's Business Case In Support of the Blueprint Application" was served on the following parties of record by hand delivery; first class mail, postage prepaid; or, electronic mail:

Richard Beverly, Esq.
General Counsel
Public Service Commission of the
District of Columbia
1333 H Street, N.W., 7th Floor East
Washington, D.C. 20005

Anthony C. Wilson, Esq.
Keith Townsend, Esq.
Potomac Electric Power Company
701 Ninth Street, N.W., Suite 1100
Washington, D.C. 20068
acwilson@pepcoholdings.com
ktownsend@pepcoholdings.com

Frann G. Francis, Esq.
Senior Vice President & General Counsel
Apartment and Office Building
Association of Metropolitan Washington
1050 17th Street, N.W., Suite 300
Washington, D.C. 20036
ffrancis@aoba-metro.org

Honorable Agnes A. Yates
Chairperson
Public Service Commission of the
District of Columbia
1333 H Street, N.W., 7th Floor East
Washington, D.C. 20005

Honorable Richard E. Morgan
Commissioner
Public Service Commission of the
District of Columbia
1333 H Street, N.W., 7th Floor East
Washington, D.C. 20005

Honorable Betty Ann Kane
Commissioner
Public Service Commission of the
District of Columbia
1333 H Street, N.W., 7th Floor East
Washington, D.C. 20005

Phylicia Fauntleroy Bowman
Executive Director
Public Service Commission of the
District of Columbia
1333 H Street, N.W., 6th Floor East
Washington, D.C. 20005

Honorable Mary M. Cheh, Chairperson
Patrick Leibach, Legislative Assistant
Committee on Public Services
and Consumer Affairs
Council of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Suite 108
Washington, D.C. 20004

Bennett Rushkoff, Esq., Chief
Consumer and Trade Protection Section
Office of the Attorney General
441 4th Street, N.W., Suite 450-N
Washington, D.C. 20001
bennett.rushkoff@dc.gov

Marc Biondi, Esq.
Assistant General Counsel
WMATA
600 5th Street, N.W., Room 2C-08
Washington, D.C. 20001
mebiondi@wmata.com

Coralette Hannon
AARP
6705 Reedy Creek Road
Charlotte, North Carolina 28215
channon@aaprp.org

Barbara Alexander
Consumer Affairs Consultant
83 Wedgewood Drive
Winthrop, ME 04364
For AARP
barbalex@ctel.net

Edward Manchester, Esq.
Schnader Harrison Segal & Lewis, L.L.P.
2001 Pennsylvania Avenue, N.W., Suite 300
Washington, D.C. 20006-1825
For the City of Alexandria
emanchester@schnader.com

Robert C. Smith, Esq.
David A. Leib
Office of General Counsel
General Services Administration
1800 F Street, N.W., Room 4124
Washington, D.C. 20405
robertc.smith@gsa.gov

Robert I. White, Esq.
Nancy A. White, Esq.
Squire, Sanders & Dempsey
1201 Pennsylvania Avenue, N.W.
P.O. Box 407
Washington, D.C. 20044-0407
For the D.C. Water and Sewer Authority
rwhite@ssd.com
NaWhite@ssd.com

Brian R. Greene, Esq.
Katharine A. Hart
SeltzerGreene, P.L.C.
Eighth & Main Building
707 East Main Street, Suite 1025
Richmond, Virginia 23219
For Retail Energy Supply Association
bgreene@seltzergreene.com
khart@seltzergreene.com

Laurence C. Daniels

Laurence C. Daniels
Assistant People's Counsel