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BGE, Pepco face regulatory obstacle for proposed rate change

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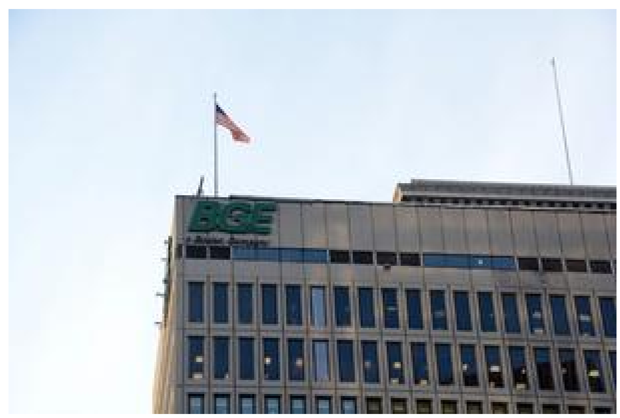

JESSICA IANNETTA/BBJ

BGE and Pepco want to change the calculation for transmission rates because they are consolidating their control centers.

Baltimore Gas and Electric Co. and Potomac Electric Power Co. have run into a speed bump as they look to change their formulas for calculating electricity transmission rates.

The utilities proposed changes to their ratemaking formulas in May as part of a planned consolidation of their transmission control centers. BGE and Pepco, both subsidiaries of Chicago-based Exelon, currently operate their own control centers and could save millions of dollars by consolidating.

Part of the rate calculation factors in wages and salaries, but it is not designed for shared employees. BGE and Pepco requested the changes to properly account for the work being performed on behalf of each of the utilities. Even though BGE and Pepco are both parts of Exelon (NASDAQ: EXC), they each operate independently with BGE customers paying BGE's costs and Pepco's customers paying for Pepco's costs.

The Federal Energy Regulatory Commission gave a preliminary OK to BGE and Pepco in a July 30 order while also determining that their request warrants further investigation.

"Our preliminary analysis indicates that the Companies' proposed tariff revisions have not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful," according to the FERC order.

The federal agency set the case for a trial-type evidentiary hearing while encouraging the utilities and the people's counsel to reach a settlement.

Maryland People's Counsel David S. Lapp said in a statement he was pleased by the FERC order.

"This ruling should help ensure that Maryland customers pay no more than they should to Pepco and BGE," Lapp said.

Maryland Deputy People's Counsel William Fields said in an interview the separation between Pepco and BGE became unclear in the requested rate calculation change. From what the companies filed, he said it was "impossible" to tell if the utilities would be charging customers a reasonable amount.

"The commission's order is going to allow us to dig into it and find out and determine what changes need to be made to get it to be reasonable," Fields said.

Jason Manuel, manager of revenue policy for BGE, said the company views the FERC order favorably because the agency accepted the tariff revisions requested by the utilities and did not suspend the effective date. The revisions became effective Aug. 1, but are subject to a refund depending on the outcome of settlement talks and the possible hearing.

Manuel described FERC's finding related to the legality of the revisions as "common typical language" the agency uses when it tariff revisions at the earliest possible effective date. With that said, we certainly appreciate OPC's engagement and look forward to working with OPC on any issues that they see."

A Pepco spokesman said he agreed with Manuel's comments.

BGE and Pepco argue that the cost savings from consolidating their control centers in one space will help them keep rates lower over the long term.

The companies are consolidating into a BGE-owned facility that is being renovated for $21 million. If Pepco were to build its own facility, it would cost between $60 million and $100 million. At the consolidated facility, Pepco is paying $10.3 million for upgrades and BGE is paying $10.7 million. Pepco is also paying an additional $4.2 million for the purchase of its ownership share in the building.

Pepco customers face a rate increase of approximately $4 million to $5 million in the 2022-2023 rate year as a result of the planned move. For BGE, there will be an estimated reduction of approximately $8 million in its annual revenue requirement in the 2022-23 rate year.

The utilities expect the transition to the renovated building to be completed by Jan. 1.

Fields said the Office of People's Counsel does not oppose the consolidation and just wants to ensure the rates the Exelon utilities charge customers are reasonable.

"This is about getting those numbers right," Fields said. "We're confident that the way that rates work, the efficiencies would flow through to customers. But you have to get the numbers right for that to really work."

Holden Wilen
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