

ORDER NO. 77409

IN THE MATTER OF THE PROPOSAL	*	BEFORE THE
BY POTOMAC ELECTRIC POWER	*	PUBLIC SERVICE COMMISSION
COMPANY FOR AN INCREASE IN	*	OF MARYLAND
SERVICE LINE EXTENSION CHARGES	*	_____
FOR RESIDENTIAL CUSTOMERS.	*	CASE NO. 8844
_____	*	_____

I. INTRODUCTION

This matter is before the Public Service Commission of Maryland (“Commission”) pursuant to an appeal of the Proposed Order of Hearing Examiner (“Proposed Order”) issued July 13, 2001. The Proposed Order approved Potomac Electric Power Company’s (“Pepco” or “Company”) revised residential service interconnection rates, from which Staff filed a timely appeal. Pepco and the Office of People’s Counsel (“OPC”) filed Reply Memoranda on Appeal, respectively.

II. DISCUSSION AND DECISION

On appeal, Staff maintains that Pepco has failed to meet its burden of proof in requesting an increase in service line charges for residential customers because the Company used estimated costs rather than actual costs to establish that the increase is just and reasonable and calculated according to the Company’s filed tariff. Staff’s premise is that the Company should have submitted cost studies or some other methodology utilizing actual data.

Staff relies upon §3-112 of the Public Utility Companies Article (“Article”) which states that a party must show by clear and satisfactory evidence that granting the type of

request Pepco seeks complies with the Article and is either required by the public interest or is consistent with the public interest.¹ Staff further relies upon Case Nos. 8819 and 8842.² Staff argues that the Commission found in Case No. 8819 that the evidentiary record with respect to Washington Gas Light's ("WGL") potential rate increase lacked any evidence of a rigorous analysis of WGL's capital structure and financing costs in order to make a decision to freeze rates that had been heretofore unexamined for six years. With respect to its reliance upon Case No. 8842, Staff argues that while addressing Verizon's rates related to the wholesale provisioning of DSL service inputs, the Commission opined that Verizon's cost study should have provided a clear basis for its figures, established how the cost factors were derived and/or identified what inputs were used in the derivation.

For these reasons, Staff requests that the Commission overturn the Hearing Examiner's Decision and deny Pepco's rate increase entirely, or in the alternative, limit the rate increase to the inflation rate since the previous rate increase in 1995, as reflected by the change in the Consumer Price Index.

In response to Staff, Pepco argues that its use of estimated costs complies with the Order of the Commission in Case No. 7708 in which the Commission directed the Company to set forth in its tariff a formula to derive the average residential connection cost.³ Moreover, Pepco argues that in 1994, the Commission granted the Company permission to set connection rates based upon a 3-year average of estimated costs.

¹ Maryland Annotated Code, Public Utility Companies Article §3-112(a).

² *In the Matter of the Application of Washington Gas Light Company for Authority to Implement an Incentive Rate Plan*, Case No. 8819 (2001); *In the Matter of the Arbitration of Rhythms Links, Inc. & COVAD Communications Company v. Bell Atlantic-MD, Inc., Pursuant to Section 252(b) of the Telecommunications Act of 1996*, Case No. 8842 (2001).

³ *Re Potomac Electric Power Company*, 74 Md. PSC 443, at 447 (1983).

Pepco states that in order to derive the average residential connection costs based upon the 3-year average, it utilizes the job estimates for each of the three most recent years. The costs associated with the service connection portions are divided for use in calculating fees for the next update period. The job estimates themselves are developed from labor, material and other costs. (*See* Pg. 7 of the Proposed Order). Pepco further argues that Case Nos. 8819 and 8842, which Staff has relied upon, have no bearing on the instant case since the facts are distinguishable and the circumstances surrounding those decisions are unlike this case. Pepco believes that it has satisfied its burden of proving that its requested increases in residential service line extension fees are just and reasonable.

OPC argues that the Hearing Examiner was correct in approving the requested increase. OPC and Pepco agreed to utilize the recommended methodology of OPC's witness Lanzalotta which utilized the weighted average cost increase percentage of allocated overheads for labor and materials since Pepco's last fee change in 1995. OPC argues that this methodology is the most efficient way to ascertain the costs involved in calculating the service line connection rates. Furthermore, OPC believes that the requested increases are reasonable and within the public interest.

The Commission has carefully considered the parties' Memoranda on Appeal and, having examined the record in this case, concludes that the Hearing Examiner was correct in approving Pepco's methodology of utilizing the process of estimation in assessing the cost of residential service connections. Moreover, Pepco has met its burden of proof set forth by PUC §3-112(a) in showing that its requested increase to residential service line

extensions is within the public interest and that the rates are just and reasonable pursuant to PUC §4-201.

Pepco is in compliance with the directives of Case No. 7708 in which this Commission mandated that Pepco provide “a formula to derive the average residential connection cost in its residential tariff.”⁴ In addition, Pepco’s tariff also reflects the 1994 Commission-approved use of the prior three years’ average estimated costs of residential service connections to set residential service connection fees for each of the following years.

This Commission commends Staff for the diligence it has exhibited in this case in an attempt to clarify any discrepancies that it believes may appear in cases having the same or similar issues. However, Pepco’s use of estimated costs is not unreasonable given the directives found in prior Pepco-specific Orders relative to this very matter. Indeed, the Commission notes the outcome is not dissimilar to that which Staff is proposing.

While Staff is correct to raise its concerns, the issue in this case can be distinguished from those that were cited by Staff *supra*, i.e. Case Nos. 8819 and 8842. The facts of those two cases are distinguishable from the instant case and the circumstances surrounding them are inapposite to the case at hand. In Case No. 8819, the *WGL* case, the Commission concluded that a proposed five year rate freeze was inappropriate because the rates at issue had been set back in 1995, and thus the rate freeze would have allowed them to remain in effect for an eleven year period without a review of their reasonableness. However, in the case at hand, Pepco has continually utilized the

⁴ *Id.*

Commission-approved estimation of service line connection costs. Furthermore, there is no rate freeze proposed here, and as such, costs can be revisited at any time by any party having a concern. Accordingly, Case No. 8819 has no bearing here.

For similar reasons, Case No. 8842, the *Rhythms* case, is as distinguishable. In the *Rhythms* case, the Commission expressed concerns regarding the appropriateness of the selected proxy numbers due to dissimilar plant characteristics and their location as well as concerns about numbers which were unsupported by any real analysis in the cost study provided by Bell Atlantic-MD. That is just not the case here. The Commission is satisfied that the estimation of costs utilized by Pepco is based upon calculations relating to “job estimates” which include labor, material and other costs. These are costs that have already been incurred and are then being estimated in order to derive residential service line connection costs for each of the ensuing years. Thus, there is a reasonable basis upon which to estimate these costs, unlike Case No. 8842.

The Hearing Examiner properly decided that Pepco has provided sufficient information in this case to accomplish a showing that its requested increase in residential service line extension costs is just and reasonable.

III. CONCLUSION

For the foregoing reasons, the Proposed Order of Hearing Examiner is affirmed in accordance with the findings and conclusions set forth herein.

Signature Page:

COMMISSIONERS

DATED: December 11, 2001