

**BEFORE THE
FEDERAL TRADE COMMISSION**

Comments Regarding Retail
Electricity Competition

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**COMMENTS OF
POTOMAC ELECTRIC POWER COMPANY
ON RETAIL COMPETITION PLANS**

On March 6, 2001, the Federal Trade Commission (“FTC” or “Commission”) published a notice in the *Federal Register* requesting comments on retail electricity competition plans. 66 *Federal Register* No. 44 at p. 13536 (March 6, 2001) (“Notice”). The Notice requests information about the results, to date, of different regulatory approaches to the issues that arise in restructuring the retail sale of electricity. Below are the comments of Potomac Electric Power Company (“Pepco” or “Company”) in response to the Notice issued by the Commission. The Company will not respond to each question in the Notice, but will provide Company-specific information that will assist the Commission in its review of retail electricity restructuring throughout the United States.

Background

Pepco (www.pepco.com) is an investor owned utility that distributes and sells electricity in Washington D.C. and the Maryland suburbs, serving more than 700,000 customers. Through its family of subsidiaries, Pepco also operates in the competitive areas of telecommunications and energy products and services in the Mid-Atlantic region. In December 2000 Pepco divested the majority of its generating assets. On February 5,

2001, Pepco and Conectiv, an electric distribution and generation utility that operates in Maryland, New Jersey, Virginia, and Delaware, announced their intention to merge.

Implementation of Retail Competition in Maryland and the District of Columbia

The Maryland Public Utility Companies Article of the Annotated Code of Maryland provides for the phased-in implementation of retail competition over a three-year period beginning July 1, 2000. MD Annotated Code, Public Utility Companies Art., Section 7-510(a) (2000). However, Pepco agreed in a Settlement Agreement that retail competition would begin for all customers in Pepco's service territory on July 1, 2000. The Settlement Agreement was approved by the Public Service Commission of Maryland ("Md. PSC"). Thus, all customers in Pepco's Maryland service territory have had the right and ability to choose their electricity provider since July 1, 2000.

In the District of Columbia, Section 102 of the Retail Electric Competition and Consumer Protection Act of 1999 provides for the implementation of retail competition by July 1, 2002. However, in the District of Columbia, like in Maryland, Pepco agreed to the full implementation of retail competition for all customers beginning January 1, 2001. All customers in the District of Columbia now are able to purchase electricity from a supplier other than Pepco.

CONSUMER PROTECTION ISSUES

Question 1. What efforts were made to educate consumers about retail competition? How was the success of these efforts measured? Were the programs successful? Who funded these efforts?

The law mandating retail competition in Maryland requires the Md. PSC to conduct a statewide consumer education program lasting up to three years and to direct the electric utilities to implement customer education programs.

In April 1999, the Maryland Public Service Commission formed the Maryland Consumer Education Advisory Board (Md. CEAB). The Board was formed to oversee the RFP process to select a consultant and to advise the Md. PSC on all aspects of the consumer education program. Four members of the Board represent consumers and four represent electric suppliers. The Md. PSC also designated two PSC Staff liaisons. With the guidance of the Md. CEAB, an education consultant was selected to design and implement a statewide education campaign over a period of up to three years that would:

- create awareness among consumers
- educate consumers about changes in the electric industry
- deliver unbiased easy-to-understand information
- assist consumers in making informed choices, and
- enhance understanding of the changes taking place in the markets for electricity.

The Md. PSC education program has completed one year of implementation. Employing a mix of media, written communications, a toll-free call center and a web site, the consultant has attempted to reach mainstream and hard-to-reach customer populations. To date, the Md. PSC education campaign has proven flexible in the face of changing market conditions and has resulted in increasing awareness and knowledge levels among consumers as measured by a series of consumer surveys.

In the District of Columbia, the law mandating retail competition also requires the District of Columbia Public Service Commission (“DC PSC”), Pepco, the Office of People’s Counsel and the District of Columbia Energy Office to establish a consumer education program. With assistance from the District of Columbia Customer Education Advisory Board (“DC CEAB”)- composed of participants from Pepco, the Office of the People’s Counsel, the District of Columbia Energy Office, the Consumer Utility Board and other interested participants – on April 2, 2001 Pepco released a Request for Proposal

soliciting an education consultant to design and implement an education campaign in the District of Columbia. The selected consultant will work with the DC CEAB, the DC PSC, community groups and other interested groups to promote and increase public awareness about electric utility restructuring, customer choice and how to participate in the evolving electricity market.

In addition, as early as 1997 Pepco began informing customers through its customer newsletter *Lines* of impending changes in the electric industry. By 1998 and early 1999, limited radio and print ads and an informational brochure supplemented our newsletter efforts to inform customers of coming changes. In November 1999, Pepco formally launched its Customer Choice Information Campaign, *Pepco Answers*.

Pepco's education campaign was a two-tiered approach – first to create awareness and second to educate customers. The campaign employed a variety of methods to reach customers:

- Television, radio and newspaper advertising
- Publications
- Bill inserts
- Community outreach
- Internet communications
- Special operations call center
- Employee education

Pepco's education campaign was designed to provide factual information and reach a variety of customers through multiple channels.

Educating customers is a collaborative effort. Pepco, the Public Service Commissions in Maryland and the District of Columbia and other interested agencies and community groups have combined efforts to raise awareness and provide unbiased information to consumers about a topic which many find confusing. Research results to date indicate that these efforts have been successful in raising awareness and knowledge

levels, but that market development has to take place before consumers can begin to apply what they have learned.

Question 3. Have consumers complained about unauthorized switching of their accounts to alternative suppliers (slamming) or the placement of unauthorized charges on their electric bills (cramming)? Were rules adopted to prevent these practices?

Both the Maryland and District of Columbia Public Service Commissions established retail competition working groups comprised of all of the parties interested in effectuating competition. The participants included the utility companies, the Staff of the PSCs, various representatives of suppliers and supplier organizations, and consumer advocates. In the working groups, the parties attempted to reach consensus on a variety of issues, including the best manner in which to educate consumers on retail competition and the necessary consumer protections for the implementation of retail competition in electricity.

In both the District of Columbia and Maryland, consumer protection standards were adopted which reduce the opportunity for suppliers to switch customers without the customers' consent. In both service territories, the Company sends a letter to the customer after receiving enrollment information from a supplier and before the switch is to take place. This provides the customer the opportunity to inform the utility company that they have been switched without their consent prior to the switch taking place. The District of Columbia and Maryland Public Service Commissions adopted a number of other consumer protections, including standards on marketing and advertising electricity products. Pepco is not aware of any cases of slamming in either its Maryland or District of Columbia service territories.

RETAIL SUPPLY ISSUES

Question 3. Have customers switched to new suppliers?

In Pepco's Maryland service territory, as of March 23, 2001, there were 18,350 customers purchasing electricity from competitive suppliers. Of that 18,350, almost 3,000 are commercial customers and more than 15,000 are residential customers. In Pepco's Maryland service territory, as of March 23, 2001 there are five suppliers actively serving customers. In the District of Columbia, where retail competition began only three months ago, there is one active supplier serving customers. That supplier has enrolled 238 customers of which one is a residential customer; the remaining customers are commercial customers.

RETAIL PRICING ISSUES

Question 2. Has the state required retail rate reductions prior to the start of retail competition?

Pursuant to the Settlement Agreement reached in Maryland, rates for Pepco-provided standard offer service ("SOS") were reduced by 7 percent with the implementation of retail competition. Pepco's rates are capped for the duration of Pepco's standard offer service obligation, which is scheduled to end on June 30, 2004. In the District of Columbia, residential rates for Pepco-provided SOS were reduced in several steps by approximately a total of 7 percent as of February 8, 2001. Pepco's rates also are capped in the District of Columbia until June 30, 2004, also the term of Pepco's standard offer service obligation in the District of Columbia.¹ The Company entered into long-term contracts with the purchaser of its power plants, Mirant, to cover the Company's standard offer service obligation through June 30, 2004.

¹ Pepco's standard offer service obligation to low income customers extends an additional two years until June 30, 2006.

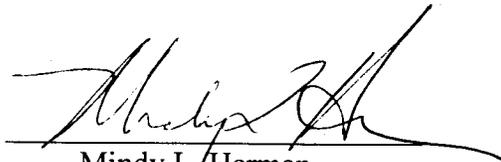
Question 4. How has the state addressed public benefits programs (e.g., universal service requirements, low income assistance, conservation education, etc.) as it has implemented retail competition?

In both the District of Columbia and Maryland, the statutes mandating retail competition also provide for Universal Service Programs. In Maryland, the law provides a fund of \$34 million to be collected from all electric consumers in the State each year for three years. The law requires that of the \$34 million collected, \$24.4 million is to be collected from industrial and commercial classes, with the remaining \$9.6 million collected from residential customers. In the District of Columbia, the fee charged to electric customers for Universal Service is not to exceed \$0.0008 per kilowatt-hour for the first four years, and not to exceed \$0.002 after that period. The actual fee for the Universal Service Program has not been determined by the District of Columbia Commission at this time.

Respectfully submitted,

Potomac Electric Power Company

By



Mindy L. Herman
Assistant General Counsel

Kirk J. Emge
Paul H. Harrington
Mindy L. Herman
1900 Pennsylvania Avenue, N.W.
Room 841
Washington, D.C. 20068

Of Counsel For Potomac Electric Power Company

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