Key Thoughts on DC Office of People's Counsel and Exelon (Pepco) Rate Case Proposal
DC Environmental Network DC OPC Briefing
September 5, 2019

Sandra Mattavous-Frye, DC People's Counsel:

"I am very pleased to have the opportunity to meet today with the DC Environmental Network. These kinds of engaging conversations allow us to shape our world to ensure the survival of our planet and the protection of our most vulnerable consumers. We may have different viewpoints, but we all can agree that the pathway we build must be sustainable, green, affordable and sturdy enough to sustain the weight of all consumers.

OPC's efforts to advocate, educate, and protect consumers are the cornerstones of our mandate and include our long-standing environmental and sustainability policies to promote equitable access for consumers in all eight wards of the District of Columbia. Our historical experience informs us as we confront new and evolving environmental and sustainability issues.

It's important for you to understand the fundamental change that Pepco has presented it its latest rate increase case. This application is different because Pepco is not just asking for a rate increase, but also is asking the Public Service Commission to change the way it sets Pepco's rates. They are seeking Commission approval of a multi-year rate plan (MYRP); along with pre-approval of three successive rate increases totaling $162 million dollars. The devil is always in the details and on behalf of Pepco ratepayers, my team has been doing a deep dive into the details of the case.

Your role in the outcome will be important.

We evaluating Pepco's proposal to change its ratemaking methodology to ensure that the new design

- Will not harm or negatively impact consumers.
- Will both ensure and advance the provision of safe and reliable service.
- It is good for the environment and advanced the District's climate action goals.

- Will produce actual benefits for all District consumers.

OPC believes any methodology that may be used to set utility rates in the District must meet three central objectives. The methodology:

- Should produce rates that are just and reasonable and affordable.
- Should not charge customers for costs that are not necessary or related to the provision of electric distribution service.
- Should advance the District's environmental goals, including the District's greenhouse gas reduction goals.

OPC is reviewing Pepco's application carefully to make sure that whatever rate methodology that is approved meets these objectives.

Pepco is now asking the Commission to approve a multi-year rate plan or MRP with three successive annual rate increases. Each of these rate increases is based on costs that Pepco forecasts it will incur over the long-term. Under Pepco's application the first-rate increase of $85 million would go into effect on May 1, 2019, and each subsequent rate increase would respectively go into effect on Jan. 1 the year after. Because the procedural schedule in the case extends until at least September, 2020 with an order likely in November or December 2020, if Pepco's proposal is approved, some adjustment may need to be made to the effective dates

The second mechanism that may have an effect on rates in the out years is that Pepco is proposing the adoption of five performance incentive mechanisms (or PIMs) with financial incentives. Two of these are related to safety and reliability measures, one relates to the percentage of calls made to the customer service center that are answered within 30 seconds, one relates to the number of calls abandoned from the customer service queue, the last relates to the time Pepco takes to complete the approval to install step in the DER interconnection process. Pepco is also proposing one additional PIM related to neighborhood reliability, but this PIM is tracking only and does not have an associated financial incentive.

For the five PIMs with financial incentives, Pepco is proposing that the incentives be reciprocal: if it exceeds the metric than it will get a bump in its ROE, if it does not meet the metric then it will get a reduction in its ROE. Pepco will report on its performance in the annual reconciliation filing, and the increase or reduction would apply in the following rate year. (e.g. 2019 annual reconciliation filing will be made in 2021, and any adjustment would apply in 2022).

Re-opener Provision. Re-opener allows any party to file a petition to re-open and review the Company's MRP, if there is enough evidence that there is a problem that cannot be resolved with any other way within the plan.

There are several issues that your organizations may be interested in exploring with respect to the rate case:

First, Pepco asserts that a change in ratemaking methodology will advance the District goals. OPC is analyzing and evaluating whether this assertion is valid, but these are questions that your organizations can also ask Pepco. Keep in mind that Pepco is a distribution only company. Consumers can choose their own generation supplier (third Party Suppliers) or they are placed on the default Standard Offer Service (SOS). Any advancement that Pepco claims it may achieve through its regulated arm must square with Pepco's role as a distribution only utility.

Second, Pepco's performance incentive mechanisms need to be reviewed carefully to make sure that they are designed to provide actual benefits and that they do not harm ratepayers or the environment. Additionally, because Pepco is required to provide safe and reliable service, the PIMs need to be reviewed to ensure consumers are not asked to pay more for the service that they should be receiving under the rates that they are already currently paying for.

Third, we can all likely agree that in order to reach the District's environmental goals, climate action, conservation, energy efficiency, renewable energy, and non-wires alternatives, capital investment are needed. We encourage your organizations to engage with Pepco in their planning processes to ensure that these efforts are being incorporated in truth and not just in rhetoric.

As for next steps, pursuant to OPC's suggestion, the Commission has scheduled a technical conference on September 25th and 26th to explore what framework it should use to evaluate an alternative rate design proposal. While the PSC has not yet issued its notice about the technical conference, we hope the conference will provide a venue for exploring the questions it should be asking about any alternative rate design application it receives. For example, in our view it is important that the Commission explore whether the design promotes the District's environmental policies, and if so how? And also, explore whether the design supports equity and affordability? We note that WGL has stated that it will likely be filing an alternative rate design as part of its next base rate case. The filing is scheduled to be made sometime between Jan and April of next year. As such this framework that comes out of the technical conference could apply to more than just Pepco. We encourage your organization to participate in the technical conference.

The PSC will also be convening community hearings in the Spring. The dates have not been selected. We encourage you all interested consumers and stakeholders to attend and provide their comments on and concerns about Pepco's application.

Additionally, we invite you to share your comments, questions, and concerns with us, especially as some of you operate in other jurisdictions which have or are exploring alternative rate designs. Your first-hand knowledge would useful for us and our advocacy efforts on behalf of the District's ratepayers."

DC climate leaders respond!

Here are some focused thoughts and ideas looking forward from a number of advocate who work on these issues every day. Please send yours and I will update this collection. Send to: cweiss@dcenvironmentalnetwork.org

Nina Dodge, DC Climate Action:

"The OPC's presentation on Pepco's first multiyear rate case clarified how this case bears on the MEDSIS grid modernization proceeding under way and vice versa. For the first time, Pepco is asking for ratepayers to compensate them for future grid development extending for three years, versus the past approach where compensation was for work already done over a shorter period. In both cases, stakeholders have very little input in what grid modernization is included in Pepco's planning and budgeting. To date, the MEDSIS process has not yielded an integrated grid plan that supports the District's clean energy and climate goals embodied in DC's new Clean Energy DC law. The only plan on the table is Pepco's big budget 3-year, 2020-22 plan that without key elements (such as a specific commitment to deploying the operations management software that will increase the grid's capacity to integrate solar photovoltaic or "hosting capacity") could greatly delay the achievement of DC's goals. If we are to advance urgently the District's clean energy goals, stakeholders must weigh in on Pepco's grid plans and ways to incentivize the utility to support DC's goals - in the DC Public Service Commission's public hearings and related workshops in this proceeding."

Ari Eisenstadt, DC Conservation Advocate, Audubon Naturalist Society:

"My main concerns surrounding OPC's case with Pepco and the proposed rate increases are that it is unreasonable to demand higher rates when Pepco's service is not on track to meeting statutory requirements for renewable energy sourcing. The Clean Energy DC Omnibus Amendment Act of 2018 states that energy suppliers in the district, of which Pepco is the largest, must obtain 20% of all energy from renewable sources by 2020. Currently, Pepco's latest fuel mix counts renewables as less than 6% of the total fuel mix.

Unless Pepco plans to use rate hikes to increase sustainability of its energy supply, it does the District a disservice by demanding more from its customers without offering higher quality service to match those fees. The Clean Energy DC Act also mandates that large buildings in the city reduce their energy consumption through Building Energy Performance Standards, meaning that overall, the city should be reducing its energy load in the coming years. This makes it even more outrageous for Pepco to forecast high energy loads and raise rates accordingly when the city will actually be using less energy.

I feel so grateful for the Office of the People's Council, who are ensuring that DC ratepayers are protected in this case. It is crucial that the environmental community demand that the city's largest energy distributor consider their responsibility to provide consumers with clean electricity at a reasonable and fair price."

John Capozzi, DC Shareholder Activist and Environmental Advocate:

"I appreciate the opportunity to hear all that the OPC is doing to represent DC residents in front of the Utilities and now overseeing DC Water. As individuals, we need to look at a variety of ways to make an impact on the Utilities--which can include shareholder activism, contacting the PSC, City council and the Mayor directly. There's a lot of talent at OPC and we need to share our concerns with them!"

Chris Weiss, Executive Director, DC Environmental Network

"It's not that hard to see that Exelon, through the Public Service Commission, and their current rate case proposal, is likely hampering the MEDSIS grid modernization process, moving towards locking in unjust rates for low-income ratepayers, and slowing down efforts to implement our latest Clean Energy DC climate bill. Their footprint is even bigger. They are also, through the legal process connected to the Anacostia River Sediment

Project, with their advocacy for adaptive management and working hard to limit liability and the scope of the cleanup, are putting toxic pollution remediation on a slow path, and the health of the Anacostia at risk.

Sadly, to the detriment of our urban environment, they are doing their job, which is to increase profits for shareholders. (We should not forget they do not exist to create a clean energy future or to protect and restore the Anacostia River beyond the limited requirements we make of them. That is left to us and the few decision makers who we are aligned with.)

The OPC, at this meeting, rightly suggested to the environmental community that we increase engagement both with the PSC and Exelon, and try to get them to support more of our environmental goals in a meaningful way. With climate change we don't have much time to do this.

If we are unsuccessful, we will need to move quickly to make other, bigger changes. Changes like convincing the DC Council to redesign the regulatory framework of the Public Service Commission (PSC) process to create a level playing field for our sustainability priorities. We need structural changes equal to those being pursued by the city of San Francisco who are attempting to take over their energy utility to better align climate mitigation policies with the delivery of energy to San Francisco utility ratepayers. These two ideas might seem currently impossible here in Washington, DC, but in reality, are the type of change we desperately need to protect ratepayers and win the battle against the worst impacts of climate change."

We all have lots of work to do. More to come!