

CONSUMER FACT SHEET

Myths and the Facts About Pepco's Request To Implement A Multiyear Rate Plan And Increase Electric Distribution Rates (DC PSC Formal Case No. 1156)

June 26, 2020

On May 30, 2019, Pepco filed for a **\$162 million rate increase** with the DC Public Service Commission requesting that the Commission abandon its current method for setting rates and instead authorize a multiyear rate plan (MRP) that would allow Pepco to set rates using forecasted costs to cover the Company's costs for 2020, 2021 and 2022. OPC reviewed Pepco's original plan and concluded that Pepco's request, including its MRP, should not be approved as filed. The emergence of the COVID-19 emergency further exacerbated the deleterious impact Pepco's plan would have on District ratepayers as they faced health issues and skyrocketing unemployment. OPC, AOBA, the District Government and GSA requested the PSC suspend the hearing during the emergency. The PSC denied the request but asked all parties to file comments detailing the impact of COVID-19 on their cases.

In response, Pepco unilaterally submitted a new MRP and reduced its request to **\$135.9 million**. The new proposal, however, contains numerous provisions that parties to the case have not reviewed, nor would they have an opportunity to do so under the current procedural schedule. OPC and the other parties filed a Motion to Strike and Request for Summary Judgement to protect the public's due process rights and ensure the public's right to a transparent evidentiary record. The PSC denied our Motion but will entertain responsive testimony from the parties.

Rate cases are by definition complex. Pepco's multi-year rate plan raises the level of complexity to exponential levels. This is not the time or case to circumvent the regulatory process and compromise adequate review by OPC and the parties. Reducing the inflated rate increase and delaying the impact of the increase, notably using ratepayer money, is by no means beneficial to ratepayers. A thorough analysis of Pepco's new plan will protect the integrity of the regulatory process.

Myths and Facts of FC 1156:

Myth # 1: Pepco's reduction of its proposed rate request from \$162 to \$135 million and return on equity from 10.3 percent to 9.7 percent is reasonable.

Fact: • ***Pepco's original request was over-inflated and higher than any rate increase ever approved by the Commission.***

Myth #2: Pepco is proposing to freeze customer energy delivery rates until 2022.

- Fact:**
- **Pepco is not freezing rates.** If the Pepco's new MRP is approved, **rates will go up by \$135.9 million** between 2020 and 2022. Pepco appears to be proposing to *offset* the rate increase in 2020 and 2021 by accelerating the return of certain funds Pepco owes its customers - customers will still pay for the rate increase, but with money owed to them that Pepco already has in its bank.
 - Pepco also plans to file for another rate increase in 2022. If Pepco's new proposal is approved as submitted, in 2023, customers will be subject to the \$135.9 million rate increase from this proposal and whatever rate increase comes out of the next proposal the Commission approves.

Myth #3: Pepco's MRP needs to be approved to get the proposed customer protections.

- Fact:**
- Pepco's proposed customer assistance programs have no relation to an MRP. Regardless of how its rates are set, Pepco can and should work with stakeholders to implement customer assistance programs such as modifying arrearage management programs and extending payment plans beyond the 12-month schedule that Council legislation requires.

Myth #4: Pepco has not raised rates since 2014.

- Fact:**
- Pepco's rates have changed twice since 2014, but customer bills have been protected because OPC negotiated a customer base rate credit (CBRC) as part of the merger settlement. In 2017, due to OPC's advocacy, the Commission approved less than half of Pepco's requested \$85.5 million rate increase. In 2018, Pepco requested a \$66.2 million increase, but OPC negotiated a \$24.1 million **decrease** in Pepco's rates and an increase to the CBRC.

Myth #5: Pepco has drastically reduced its rate increase request in consideration of the COVID-19 pandemic impacts on the District.

- Fact:**
- Pepco has revised its request several times over the course of the proceeding. It is currently requesting either a \$147.2 (original proposal) or \$135.9 million (June 1, 2020 proposal) rate increase.

<u>Date</u>	<u>Pepco's Requested Increase</u>
Initial Application, 5/30/2019	\$162 million
Supplemental Testimony, 9/16/2019	\$160 million
Supplemental Testimony (by PSC Order), 2/20/2020	\$157.9 million
Rebuttal Testimony 4/8/2020	\$147.2 million
Enhanced MRP 6/1 2020	\$135.9 million

Myth #6: Pepco's June 1 proposal is merely an enhancement of its earlier proposal.

Fact: • Pepco's June 1's MRP is radically different than its earlier proposal. Ratepayers and the public have a right to investigate and comment on the utility's applications in its entirety. PSC Order No. 20368 will permit OPC and the intervenors to submit additional testimony on the new filing.

Myth #7: 39 states have adopted a plan similar to Pepco's.

Fact: • Only 17 states have one or more utilities with an MRP, and none of those plans are like either of Pepco's plans.
• 39 states, including the District, have adopted alternative ratemaking mechanisms, including various surcharges that help utilities recover revenue faster. For example, Pepco has benefited from the bill stabilization adjustment which allows Pepco to charge customers more if the Company does not collect its expected revenue. Pepco also has a surcharge mechanism to collect powerline undergrounding (DC PLUG) costs.

Myth #8: Pepco's proposal supports the District's environmental and climate objectives.

Fact: • Pepco has provided no evidence that its original or its amended plan will support these objectives. OPC and DOEE witnesses have found that the plan does not support a cleaner, smarter, sustainable environment or otherwise advance the District's ambitious environmental and climate action goals.

Myth #9: Pepco is like other commercial businesses.

Fact: • Pepco is not like other commercial businesses – Pepco is a regulated company. The Company's ratepayers pay all of the Company's cost of providing service and its shareholders can earn a 9.5% return on their equity investments.

Myth #10: Pepco's MRP provides long-term benefits to consumers.

Fact: • **Pepco has not demonstrated any long-term benefits to consumers from its MRP.** Short term benefits do not suffice.

Myth #11: Pepco's philanthropic contributions are substantial.

Fact: • Pepco's charitable contributions have no bearing on the merits of this rate proceeding.

OPC will keep consumers up-to-date on this case. Contact OPC at (202) 727-3071 or info@opc-dc.gov for more information.