**Summary of Commission Vote on the Proposed F.C. 1139 Order**

Today, July, 24, 2017, the Public Service Commission of the District of Columbia (Commission) voted on and approved Opinion and Order No. 18846 in *Formal Case No. 1139*, In the Matter of the Application of the Potomac Electric Power Company (Pepco) to Increase Existing Retail Rates and Charges for Electric Distribution Services.

## Background:

On June 30, 2016, Pepco filed an Application with the Commission requesting authority to increase existing distribution service rates and charges for electric service in the District of Columbia by $85.477 million, subsequently revised to $77.494 million, representing an increase of approximately 21.44% in Pepco's distribution revenues of $361.5 million. The requested rates are designed to collect $439.0 million in total distribution revenues. Pepco requests authority to earn an 8.00% rate of return, including a return on common equity of 10.6%. The Company represents that its Application would translate to an increase in distribution rates of approximately $3.84 per month for a typical residential customer who uses 675 kWh per month. Pepco proposes to offset this rate increase for residential customers until approximately January 2019 by applying the Customer Base Rate Credit (CBRC) (for the R, R-AE, and MMA classes) and the Incremental Offset approved by the Commission in the Exelon/Pepco Merger, *Formal Case No. 1119*.

The Commission granted petitions to intervene filed by the Apartment and Office Building Association of Metropolitan Washington, the District of Columbia Government, the United States General Services Administration, the Baltimore Washington Construction & Public Employees Laborers District Council, the DC Consumer Utility Board, the Healthcare Council of the National Capital Area, the DC Water and Sewer Authority, and DC Solar United Neighborhood jointly with Public Citizen. The Office of the People's

Counsel of the District of Columbia is a party as of right in all Commission proceedings.

The Commission designated 19 issues to address various aspects of Pepco's rate application. Numerous ratemaking adjustments were proposed by Pepco, OPC, and the Intervenors. Pepco's final position requests a revenue requirement of $77.494 million for its electric distribution operations. OPC recommended a revenue requirement of no more than $25.139 million and HCNCA recommended a revenue requirement of no more than $20.724 million.

The Commission only sets rates for the distribution portion of a customer's electricity bill. Distribution service includes the construction, improvement, and maintenance of the physical infrastructure owned by Pepco, such as meters, poles, wires, conduits, substations, and transformers that are used by Pepco to bring electricity safely and reliably to a customer's premises. It also includes operational costs such as customer service, billing, tree trimming, taxes, supplies, management, and administration.

Pepco is the sole distributor of electric power to homes and businesses in the District of Columbia. So, for an average residential consumer, with an approximate monthly bill of $83.30, only $27.62 represents the distribution delivery charge. And of that amount, $7.24 represents taxes and surcharges that are set by the Council of the District of Columbia, not the Commission; so only $20.38 of an $83.30 bill is set by the Commission in the context of a rate case.

The Commissioners have carefully and thoroughly considered the record, including thousands of pages of filed testimony, seven days of evidentiary hearings and five days of community hearings throughout the District of Columbia, and numerous responses to data requests from all of the parties.

**On the topics of Pepco's cost of service and its revenue requirement:**

- The Commission found that:
    - Pepco's proposed test year ending March 31, 2016, is reasonable;
    - Pepco's District of Columbia rate base, as adjusted, for the test period is $1,614,803,000;

- Pepco’s adjusted District of Columbia net operating income was $98,645,000 for the test year;

- A capital structure of 49.14% common equity and 50.86% long term debt is reasonable;

- Pepco’s cost of long-term debt is 5.48%;

- No basis point reduction in Pepco’s return on equity as part of the approval of the Company’s Bill Stabilization Adjustment (“BSA”), is appropriate;

- A reasonable return on common equity for Pepco is 9.5%;

- A fair rate of return (including capital costs and capital structure) on Pepco’s District of Columbia rate base is 7.46%;

- The return requirement when the 7.46% rate of return is applied to the adjusted rate base of $1,614,803,000, the Company is authorized to earn $120,464,000;

- Pepco’s adjusted District of Columbia net operating income of $98,645,000 for the test year was deficient by the amount of $21,819,000; and

- The adjustment which would increase Pepco’s test-year revenue to the level of gross revenue requirements computed in accordance with the findings in this Opinion and Order is $36.888 million, which includes a proper allowance for taxes.

**With respect to Pepco’s Revenue Allocation and Rate Design:**

The Commission determined:

- That 20.2 percent of the revenue increase (or $7.45 million) will be assigned to the residential classes;

- That the Residential All-Electric class and Residential Time-of-Use class will be merged with regular R (residential class);

- That the Residential Customer Charge for the combined R class is increased by $2.09, from $13.00 per month to $15.09 per month with no change to the volumetric delivery charge of the residential rate;

- That a new rate class MMA is established and the customer charge will increase by $1.59 from $10.25 to $11.84;

- That no increase in rates will be assigned to Traffic Signal and Street Light classes;

- That Pepco's proposed methodology for distributing the remaining $29.44 million of Pepco's $36.89 million jurisdictional increase by a constant factor among the commercial classes is adopted; and

- That the Commission will open a new proceeding to address how the Commission can establish a mechanism to offer rate relief to disabled and senior citizens on fixed incomes.

The Commission's decision to reduce Pepco's rate request to $36.888 million dollars, cuts Pepco's request by 52%. For the typical residential consumer, this will increase the monthly bill by $2.09. However, the $2.09 increase will be fully offset for all residential customers, including MMA, with the use of $15 million of Merger-provided CBRC resulting in a $0 increase for two years. Similarly, the Commission is utilizing $2.3 million of the CBRC to give significant rate relief for certain small commercial class customers. The Commission reserved approximately $6 to $7 million of CBRC funds for further rate relief for disabled and senior citizens on fixed incomes in future Pepco rate proceedings. This decision reduces Pepco's requested return on equity (ROE) from 10.60% to 9.5% which provides a fair and appropriate return, and will allow Pepco to obtain any necessary capital investment and maintain its investment-grade credit rating.

We note that Pepco has not received an increase in its distribution rates since April 2014, prior to its parent company's, Pepco Holdings, Inc.'s, merger with Exelon Corporation. Since that time the Company has invested $340.6

million in a major construction program to improve its service and reliability in the District of Columbia. The Commission further notes that all residential customers received a $54.59 one-time credit on their electricity bills in April of 2016, as a result of the Pepco-Exelon Merger a credit which defrays the future effects of base rate increases for 256,454 residential customers in the District, amounting to $14 million in upfront rate relief. Thus, overall, with the CBRC offset, the net impact for a customer's bill would be a reduction.

Finally, none of the increases approved in this Order will affect low income District customers who are enrolled in the Commission's Residential Aid Discount (RAD) program. Under this program all RAD customers will continue to receive a credit equal to the full charge for distribution rates that are under the jurisdiction of the Commission. In other words, RAD customers will continue to receive distribution services for free; the cost of which is paid for by a surcharge imposed on all other customers. Customers are eligible for the RAD program with a single person household income up to $30,776, a two-person household up to $40,245, a three-person household income of $49,715, a four-person household income up to $59,184 and higher limits for larger families. For a RAD customer to whom Pepco delivers the average 675kwh a month, the value of the credit is about $20 a month. RAD customers are exempt by laws passed by the Council from paying the SETF, EATF, and the future undergrounding surcharges. RAD customers thus only pay the Right of Way fee and delivery tax that is imposed on their distribution bill by the District government. Currently 19,000 customer households are receiving free distribution service through the RAD program. Enrollment is handled on behalf of the Commission by the District's Department of Energy and Environment. The Commission will continue to work with DOEE to ensure that all eligible customers are aware of the RAD program and have the opportunity to enroll.

In making this decision, the Commission reaffirmed its commitment to use all the regulatory authority at its disposal to ensure that Pepco's reliability continues to improve in all areas of the District of Columbia.

In accordance with the decision, Pepco is directed to file revised rate schedules, together with supporting tables, by **August 7, 2017**. Rates authorized in the Opinion & Order shall be effective on or after 12:01 A.M. **August 15, 2017**, unless otherwise ordered by the Commission.