TESTIMONY
of
BETTY ANN KANE, CHAIRMAN
PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
before the
COMMITTEE ON BUSINESS AND ECONOMIC DEVELOPMENT
KENYAN McDUFFIE, CHAIRMAN
FISCAL YEAR 2016 AND FISCAL YEAR 2017 TO DATE
OVERSIGHT HEARING
FEBRUARY 22, 2017

Good morning Chairman McDuffie and members of the Committee. I am Betty Ann Kane, Chairman of the Public Service Commission of the District of Columbia. Commissioner Willie Phillips is out of town on a previously scheduled energy related matter and is not able to be here today. With me is Commissioner Richard Beverly. Members of the Commission staff are also here today.

At the outset, let me thank you, the other members of the Committee and your staff for your interest in the Commission. Our mission is to serve the public interest by ensuring that financially healthy electric, natural gas and telecommunications companies provide safe, reliable and quality services at just and reasonable rates to residential, business and government customers in the District of Columbia. In supervising and regulating the utilities and competitive suppliers, we consider the public safety, the economy of the District, the conservation of natural resources and the preservation of environmental quality. We welcome the opportunity to work with the Committee to accomplish our mission.

Let me briefly touch upon the highlights of the year since our last oversight hearing. First, as you know, in August 2015 we denied the application for authorization and approval of a change of control of the Potomac Electric Power Company through merger of Pepco Holdings Inc. with a wholly owned subsidiary of the Exelon Corporation. Subsequently, Pepco and other parties filed a Non-Unanimous Settlement Agreement with the Commission ("NSA"). After a public interest hearing and two days of community hearings, the Commission took action on the NSA. I voted to reject the Agreement, as did then Commissioner Fort, who, in a separate statement, identified certain conditions that would make the settlement acceptable to her. Commissioner Phillips agreed to accept Commissioner Fort's conditions to the settlement agreement, if the terms were acceptable to all the parties. They were acceptable to Pepco and Exelon who on March 7, 2016 filed an independent request that the Commission consider three options, including adopting the terms of the Settlement Agreement, as revised by Commissioner Fort. On March 23, 2016 a majority of Commissioners approved the merger application on terms and conditions proposed by Pepco, which included many of the same terms as the Settlement Agreement, as well as additional terms proposed by the Commission. I dissented. The merger was consummated that day.

The case is under appeal and I am constrained from discussing it further. I do want to tell you, however, that the Commission has created a matrix showing the status of all 128 merger-related commitments made by Pepco and Exelon. That matrix, updated monthly, is available on our website and I have included a copy in the materials we provided the Committee. As you can see from the Matrix, Pepco and Exelon have satisfied their merger commitments to date and we expect that they will make the necessary filings on the anniversary of the consummation of the merger, March 23, 2017.

Second, we have completed the evidentiary proceedings in the Washington Gas Light Company rate case. In February 2016 WGL filed an application requesting authority to collect approximately $174.1 million in total annual revenues, which represents an increase in weather normalized revenues of approximately $17.2 million. Four community hearings were held last fall and evidentiary hearings covering a total of six days were completed in November. Briefs have been filed and we expect to issue a decision no later than March 9, 2017.

Also, for your information, we have been notified by Washington Gas that we can expect an application requesting approval of the acquisition of WGL by AltaGas Ltd. in April. We will seek community input on the matter and will keep you informed. In addition, we will begin hearings on March 15th to consider the request from Pepco for an increase in electric distribution rates, which was filed with the Commission on June 30, 2016. We are holding community hearings on February 23, 2017, March 1, 2017, March 4, 2017 and March 7, 2017.

Before addressing our third highlight, I want to draw your attention to a common misunderstanding about rate cases. As you can see from the illustrative bills I have attached to this testimony, only a portion of the amount that a typical customer pays for electricity or gas is regulated by the Commission. In the case of a residential electric customer with Standard Offer Service, the default service provided by Pepco, about one third of the bill represents distribution – or delivery – charges. So, for a total bill of $83.30, only $27.62 represents the delivery charge. And of that amount, $7.24

represents taxes and surcharges that are set by the Council, not the PSC. So only $20.38 of an $83.30 bill is set by the Commission in the context of a rate case.

The same is true of natural gas rates, although the proportions are different. In the case of a gas customer with a total bill of $123.47, delivery charges set by the Commission amount to less than half of the total bill, or, in this case $57.58. The rest of the bill, $65.89, consists of gas supply charges and taxes and surcharges. So, while our rate cases are important and represent the public's best opportunity to affect the charges on their bills, we do not set the charges for most of the items found on the typical customer's bill.

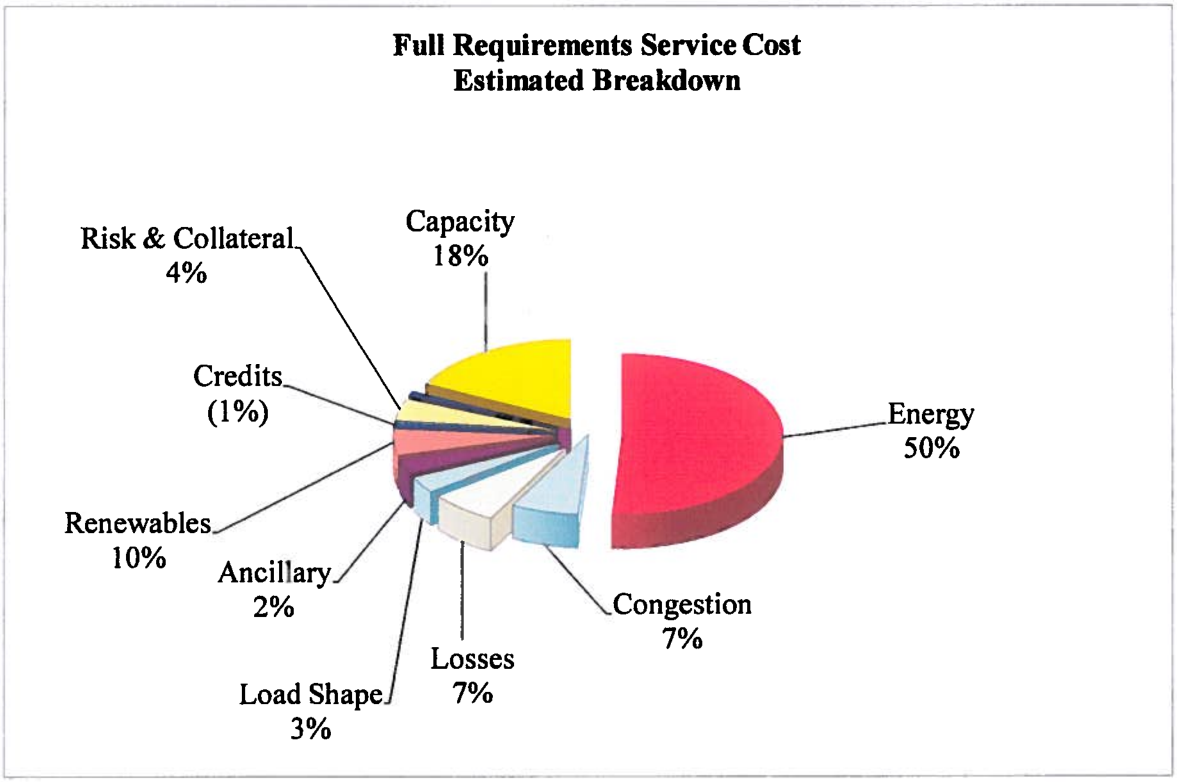
Turning again to our highlights, we accomplished one of our most important goals this year, that is, assuring that our low-income residents have an opportunity to make a choice about their electric or gas supplier without losing the benefits of discount programs. We have reformed the electric and gas utility discount programs to assure that discounts apply fairly among all providers. The Residential Aid Discount ("RAD") program affects low-income customers' electricity bills. In December 2015, we instituted changes to apply RAD credits equally whether the customer buys electricity through the Standard Offer Service or from a competitive electric supplier. In FY 2017, we made the same reform for the Residential Essential Service ("RES"), the low-income discount program for natural gas customers. We will continue to monitor the Utility Discount Programs to be sure that they are applied appropriately in a competitive environment.

The fourth highlight of the year was the publication of our Centennial Book, *The First 100 Years: Protecting the Public Interest.* Designed for the layman, the book celebrates the 100 year history of the Public Service Commission and the utilities it regulates. It contains historical photos and is an entertaining – John Kelley of the Washington Post called it "fascinating" – study of how utility regulation has changed over a century. Copies of the book, which emphasizes the role of public input in Commission decision making, have been provided to each D.C. library, the Councilmembers' offices, historical associations, utilities and members of the public. We launched the book at a well-attended reception in March 2016 which included a panel presentation by the book's authors.

Another highlight concerns our efforts to implement the District's clean energy goals. One major effort in this regard is the MEDSIS docket, which I will discuss in a moment. Other efforts include implementing the Community Renewable Energy Act of 2013 and the Community Renewable Energy Credit Rate Clarification Amendment Act of 2016. The CREA Act, passed in 2013, was intended to allow a greater number of consumers to participate in renewable energy efforts by creating a new class of project, the community-owned, rather than individually-owned facility. In 2015 the Commission published its rules implementing CREA. However, there was some debate over the term "CREA Credit Rate" and its impact on the compensation model for Community Renewable Energy Facilities subscribers. To clarify this issue, the Council adopted the Community Renewable Energy Credit Rate Clarification Amendment Act of 2016. In December 2016, the Commission completed its rulemaking implementing this legislation, and we will take the final actions on the matter at our Open Meeting tomorrow. We are hopeful that ending the debate about the meaning of the CREF Credit Rate will kick-start deployment of CREFs. In a January 10th filing, Pepco informed us that there are no CREFs presently operating in the District, however three have been given authorization and seven other CREFs are at various stages of the interconnection application process at Pepco.

We have also been focused on RPS expansion. The Renewable Portfolio Standard Expansion Amendment Act became effective on October 8, 2016. This Act, among other things, adds raw or treated wastewater as a Tier 1 renewable resource, raises the Renewable Portfolio Standard for Tier 1 renewable sources to 50%, increases the D.C.-based solar requirement to 5% by 2032, and keeps the peak compliance fee at the 2016 level for 7 additional years. We have published the necessary rulemakings to implement the Act and will adopt final rules after the prescribed comment period.

There is one aspect of RPS expansion that I feel I must bring to your attention. Up until fairly recently, the cost of compliance with RPS requirements has been quite small and has not affected the price of electricity in the District. However, the consultants who assist us in analyzing the market for Standard Offer Service have disaggregated the cost elements for the price of SOS electricity. They have concluded that the largest cost, after energy and capacity, is the cost of renewables. I have included a table provided by our consultants which shows that, following the most recent amendments to the law passed by the Council, 10% of the cost of electricity sold to consumers in the District can be attributed to the requirement that an increasing percentage be sourced from renewable sources and the maintenance of the higher compliance fee.



This percentage will increase over time as the effects of the mandate for increasing amounts of renewable resources are incorporated into the price of electricity. We urge the Committee to be alert to this developing trend and to be sure that the cost, as well as the benefits, of renewables are taken into consideration.

In a related matter, I also want to draw your attention to an audit conducted by the D.C. Auditor and released on June 20, 2016. The Commission requested this audit of the Sustainable Energy (SETF) and Energy Assistance Trust Funds (EATF) because of our concern that money intended to support the District's clean energy goals was being diverted to other uses. The audit confirmed our belief. The D.C. Auditor found that the Clean and Affordable Energy Act of 2008 requires that the money deposited in each fund, and interest earned thereon, shall not revert to the unrestricted fund balance of the DC General Fund at the end of a fiscal year. However, the audit showed that since the inception of these funds, there have been multiple transfers in and out of SETF and EATF to and from the General Fund. A net total of $24.1 million has been transferred to the General Fund from the SEFT and $7.4 million from the EATF since 2009, contrary to the intent of the 2008 law. Funds in the SETF and EATF are not tax dollars, but are surcharges added to monthly utility bills and collected from District ratepayers for the specific purpose of funding clean and affordable energy initiatives. I have included a copy of the D.C. Auditor's Report in the materials provided to the Committee last week. I urge the Committee members to study the audit and to do all that you can to prevent any future improper diversion of these finds intended to support the District's clean energy goals.

The final highlight of the year has been our important proceeding called MEDSIS, or Modernizing the Energy Distribution System for Increased Sustainability. The purpose of this case has been to both identify the barriers to modernization of the energy delivery system that existing rules and regulations in the District present and to then provide actionable solutions to removing these barriers in a manner that comports with the Commission's statutory duties and the District's goal of promoting a clean energy economy. During FY 2016 we held a series of workshops intended to identify technologies and projects for grid modernization. We also asked commenters to give us their views on barriers to achieving the goals we have set out.

On January 25, 2017, we released a Staff Report on MEDSIS. That report, which is available on our website, discusses the existing restructured energy market in the District, as well as critical infrastructure concerns. It recognizes that we need District-specific solutions to the issues our modernization efforts present. The legal section of the Staff Report also proposes regulatory changes that Staff believes are needed to further the goals of MEDSIS, including the recommended adoption of new definitions within the Commission's regulations, amending the existing definitions of Electric Company and Electricity Supplier, and streamlining the Commission's Notice of Construction rules for generation and transmission facilities. Finally, Staff proposes detailed preliminary parameters addressing how the funding from the MEDSIS Subaccount Fund, established in the Pepco-Exelon Merger, can be used to implement District-appropriate pilot and demonstration projects. Staff also suggests that an independent consultant or board of stakeholders be created to review pilot projects submitted for MEDSIS grant funding using the parameters adopted by the Commission after considering public comment.

I would like to emphasize that none of these proposals are set in stone and we are looking forward to comments from interested persons. The Commission will hold a Town Hall meeting on February 28th beginning at 5:30 p.m. at our office, so that members of the public can give us their views on the Staff Report, and particularly on the selection and funding of proposed pilot projects. Comments on the Staff Report itself are due by March 27, 2017. We expect to issue an Order in the MEDSIS docket in late 2017.

I am sure you have noticed the increased emphasis on public engagement in our report this year. We have hosted numerous community hearings over the years and have participated in hundreds of outreach events, but in 2016 we have made even greater efforts to assure that the public is informed of what we are doing and to assure that we get the public's views. Our MEDSIS workshops are one example, as is the Centennial book. Similarly, we hosted a very successful event in October called *Winter Ready DC*, designed to help consumer advocates meet utility and agency representatives to learn about initiatives to conserve heat during the winter months. That event also focused on available programs and discounts for low-income consumers. It was very successful and we hope to be able to do it again next year.

We also launched a Social Media presence in September 2016. We can now be found on Facebook, Twitter and YouTube, which we use to publicize events and provide information on how to participate in Commission proceedings. For example, I would like to show a short video we produced to encourage people to attend the MEDSIS Town Hall meeting on February 28th. It is narrated by our animated energy liaison, Mary MEDSIS, who also starred in a MEDSIS "explainer" video available on Facebook, Twitter and on our website.

SHOW VIDEO

We encourage people to come to our Town Hall meeting and give your views on how we can best encourage a modern energy system in DC.

Thank you for this opportunity. I am happy to answer any questions you may have.

Illustrative Residential Electric Bill

Delivery Charges:			
	Distribution Charges (PSC)		
	RAD Surcharge	$ 0.11	
	Customer Charge	$ 13.00	
	Energy Charge	$ 7.27	
	Total	$ 20.38	
	Taxes + Surcharges (not-PSC)		
	EATF	$ 0.04	
	SETF	$ 1.09	
	ROW	$ 1.38	
	Delivery Tax	$ 4.73	
	Total	$ 7.24	
	Total Electric Delivery Charges	**$ 27.62**	
Supply Charges:			
	Transmission + Generation Energy Ct rges @ 675 kWh	**$ 55.68**	
Total Bill			**$ 83.30**

Illustrative Residential Gas Bill

Delivery Charges:			
	Distribution Charges (PSC)		
	RES Surcharge	$ 0.34	
	PROJECTPipes	$ 3.76	
	Customer Charge	$ 9.90	
	Distribution Charge	$ 43.58	
	Total	**$ 57.58**	
Supply Charges:	Supply Se vice @116.0 TH	**$ 50.92**	
Taxes & Surcharges	EATF	$ 0.59	
	SETF	$ 1.75	
	ROW	$ 4.43	
	Delivery Tax	$ 8.20	
	Total	**$ 14.97**	
Total Bill			**$ 123.47**