Resolution opposing Pepco's Multi-Year Rate Plan and advocating other changes in Formal Case 1176 before the DC Public Service Commission

In Formal Case 1176 (FC1176), Pepco submitted an application to the DC Public Service Commission (PSC) on April 13, 2023, asking the PSC to approve a three-year rate increase using an alternative approach to utility ratemaking based on projected future costs, which Pepco calls a "multi-year rate plan" (MYP). Pepco's application would result in a 3-year increase in electric rates of $190.7 million.

As part of the same proceeding, the PSC is considering:

1. An evaluation of the results of an 18-month pilot of "multi-year ratemaking" through the end of 2022, which the PSC approved in the previous Pepco rate case (FC1156) on June 8, 2021.
2. A traditional "historical test year" rate plan that would provide a rate increase to cover costs that Pepco has actually incurred to provide service to its customers.

Parties including the DC Office of the People's Counsel (OPC) have ksubmitted requests to the PSC urging the Commission to review the individual elements of the case separately so that the findings in the review of the pilot of and the review of the historical test year rate plan could be applied as a foundation for evaluating the proposed new MYP multi-year rate plan. The PSC did not accept that initial request.

On March 12, 2024, OPC joined the DC Government and the Apartment and Office Building Association of Metropolitan Washington (AOBA) in filing a Joint Motion to Dismiss Pepco's request for the MYP on the basis that it is structurally deficient and premature.

At ANC 3A's monthly public meeting on April 16, 2024, OPC made a presentation to explain its position in FC1176, and share the reasoning behind the Joint Motion. OPC described its concerns in the case and most specifically its concerns with the MYP leading to OPC's conclusion that Pepco's proposed MYP is not supported by sufficient evidence and would be premature for the PSC to consider at this time.

As OPC explains, Pepco's proposed MYP would allow Pepco to increase its rates and collect payments from ratepayers to cover the utility's expected expenditures and capital investments before the company has proven that those expenditures are prudently incurred and were used and useful in delivering efficient, effective utility service to ratepayers.

To this point, the PSC has not conducted a thorough analysis of the pilot MYP. There has been no determination that the pilot was successful or an assessment of changes that would be necessary before any further MYP should be approved.

Another major area of concern with the Pepco's proposed MYP is the potential effect that approach could have on achievement of the District's climate and energy goals. Pepco's rate request in FC1176 has serious shortcomings in that area as well.

Pepco has not shown how the MYP plan would support the transition to cleaner, greener electricity or more efficient use of energy in the District. The performance incentive mechanisms that Pepco proposes as part of the MYP would not create effective impetus for the utility to make significant gains toward energy and climate change goals. OPC's expert witnesses in this case also found that the capital investments included in the MYP focus primarily on routine investments in reliability – largely "like for like" replacements – which would not create meaningful progress toward reaching the District's climate-related targets or modernizing the electric grid to meet the needs of the future.

The proposed MYP also includes a number of investments described as related to climate change that are under review in a separate proceeding but the PSC has not yet approved them. OPC has found that the cost of those investments are not appropriate to include in what ratepayers will have to cover in the current Pepco rate case.

The historical test year approach to ratemaking has the advantage that any approved rate increase does not tie ratepayers into paying for investments that prove not to be what is needed, as the technology and the energy sector itself continue to evolve.

After reviews of these factors, ANC resolves that the PSC should:

- reject Pepco's proposed Multi-Year Ratemaking plan;
- complete a careful review of the experiences in the previously approved multiyear ratemaking pilot;
- use the historical test year approach to determine the next Pepco rate increase, but make substantial reductions in Pepco's rate request as OPC and others have advised;
- hold evidentiary hearings in the Pepco rate case and any other utility rate case, to ensure transparency, accountability, and fairness in the rate-setting process and to allow the Commissioners to hear and participate in thorough cross-examination of the applicants; and engage in a full and rigorous assessment of the reasonableness of the utility's proposed rates, their impact on consumers, and whether and how they would be consistent with the District's energy and climate goals.

The ANC would also find it useful for the PSC to work with affected parties to create an "affordability index" for utility rates, as OPC recommends, which could serve as a real-time measure of the financial impact on consumers of actual and proposed utility rates and services.

[signature]
Chair

Ann Lane Mladinov
Secretary

The Commission approved this resolution by a vote of _4 - 0_ at its duly noticed public meeting of April 16, 2024, at which a quorum was present. (Three of the five Commissioners constitute a quorum.) By the same vote, the Commission also designated the Chair or his designee to represent the Commission on this matter.