Office of the People's Counsel for the District of Columbia • 1133 15th Street, N.W. •Suite 500• Washington, D.C. 20005 • (202) 727-3071 • Fax (202) 727-1014 • TTY/TDD (202) 727-2876 •www.opc-dc.gov

PRESS RELEASE

Contact: Consumer Services Division • (202) 727-3071 • email: ccceo@opc-dc.gov

Sandra Mattavous-Frye,
People's Counsel

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People's Counsel Urges Public Service Commission to Reject $6.8 Billion Pepco/Exelon Merger Proposal

Today, People's Counsel Sandra Mattavous-Frye filed testimony with the DC Public Service Commission urging the Commission to reject the proposed $6.8 Billion Exelon-PHI (Pepco) merger agreement, as filed, because it fails to meet minimum legal criteria set forth by the Commission's public interest standard.

Exelon's entry into the DC market through the acquisition of Pepco is by far the most significant undertaking in the local electric industry since Pepco's divestiture of its generation plants in 2000. *"Exelon's corporate footprint and influence will include 10 million customers, stretching from Illinois to Maryland. Policy and decision makers must make every effort to ensure that DC and its utility consumers receive maximum benefit,"* said Ms. Mattavous-Frye.

The Office's painstaking, comprehensive review and analysis details how the Pepco/Exelon application fails to meet each of the Commission's seven public interest factors. "*Overall, there are far too many risks for consumers and nothing but benefits for Pepco and Exelon,*" said People's Counsel, Sandra Mattavous-Frye. "*The 'so called benefit' of a short-term $14 million Customer Investment Fund is consumed by the uncertainty (and risk) associated with the three 'R's: Reliability, Rates and Renewables—all major areas where this application falls short,"* said the People's Counsel, and it raises the threat of the resurgence of serial rate cases once the merger is consummated. Ms. Mattavous-Frye cautioned, "If the merger is approved, consumers are likely to see higher rate increases than if the merger were not approved."

Ms. Mattavous-Frye is extremely alarmed with Exelon's initial projections indicating that it ***will not*** meet the Commission's required reliability quality of service standards. "*Failure to meet the reliability standards is a non-starter as it concerns the public interest,"* said the People's Counsel. "*For Exelon to offer to purchase Pepco, in a city plagued for over a decade with reliability issues and not offer detailed plans as to how to improve reliability is unconscionable,"* stated Ms. Mattavous-Frye.

Equally alarming is the potential threat to the District's economy; anticipated "merger downsizing" may signal the loss of a significant number of well-paying local jobs.

"Simply stated, there are too many unanswered questions, missed opportunities, and a clear shifting of risk to consumers for the application to be approved as filed. It notably and inexplicably falls short of the benefits provided to Maryland in the recent BGE merger. DC consumers deserve better," said the People's Counsel. *"OPC will continue to advocate for an outcome that provides adequate, tangible and commensurate benefits to DC consumers."*

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Public Interest Factor	OPC's Position Regarding the Merger
1. The effect of the transaction on ratepayers, shareholders, the financial health of the utilities standing alone and as merged, and the economy of the District.	The quantifiable consumer benefits of the merger are very limited and restricted almost entirely to the proposed Customer Investment Fund which is small when compared to the substantial risks created by the merger. Moreover, because Exelon has a riskier financial profile than Pepco, consumers will pay even higher rate increases than it would under Pepco.
2. The effect of the transaction on utility management and administrative operations	The merger will likely reduce District-specific input into corporate governance and cause the loss of high-paying jobs.
3. The effect of the transaction public safety and the safety and reliability of services.	The proposed merger is not in the public interest because Exelon will deliver a lower level of reliability than Pepco would provide. The application is devoid of any best practices to address vegetation management and feeder maintenance – two areas critical for improving reliability.
4. The effect of the transaction risks associated with all of the Joint Applicants' affiliated non-jurisdictional business operations, including nuclear operations.	Unless a strong set of protective measures are in place, District consumers are likely to be negatively impacted by Exelon's business activities outside of the control of the DC Public Service Commission.
5. The effect of the transaction on the Commission's ability to regulate the new utility effectively.	The merger will increase the difficulty of Commission oversight particularly during rate cases. Specifically, the Commission will need to be vigilant in scrutinizing future filings to avoid cross-subsidization. The Commission will also have to be proactive in defending against Exelon's corporate policies that favor generation and energy marketing, as these represent the largest portion of Exelon's revenues.
6. The effect of the transaction on competition in the local retail, and wholesale markets that impacts the District and District ratepayers.	The merger will likely have a detrimental impact on the wholesale electricity markets because Exelon could exert inordinate control over the PJM stakeholder process where energy stakeholders deliberate and vote on changes to market rules which are ultimately submitted to FERC for approval. Should the merger be approved, PHI's traditional advocacy for customer interests in the PJM stakeholder process could be effectively silenced by Exelon. Exelon's generation-driven priorities in PJM would conflict with and may nullify PHI's historic emphasis on cost implications and reliability for consumers.
7. The effect of the transaction on conservation of natural resources and preservation of environmental quality.	The merger is not in the public interest because it will likely undermine the District's objective of the conservation of natural resources and preservation of environmental quality as a result of Exelon's longstanding resistance to policies promoting behind-the-meter renewable energy development. While Exelon's has supported clean air laws and regulations, and energy efficiency in the past, these notable efforts are substantially outweighed by the fact that Exelon is a vocal opponent of policies fostering renewable energy generation and distributed generation. These are equal essentials in the fostering of a sustainable environment.