MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

ROGER BERLINER
COUNCILMEMBER
DISTRICT 1

CHAIRMAN
TRANSPORTATION, INFRASTRUCTURE
ENERGY & ENVIRONMENT COMMITTEE

Testimony of Montgomery County Council President Roger Berliner
Before the Maryland Public Service Commission
Pepco Rate Increase Case No. 9443

August 30, 2017

Pepco has asked you to approve a $68.6 million rate increase that would raise the typical residential bill by more than $7 a month. This comes on the heels of a $7 per month rate increase for the average residential customer that this Commission approved last November.

On behalf of the ratepayers of Montgomery County, I urge you to say no. This latest request for $68.6 million in additional ratepayer contributions is not justified. No way, no how. There are three fundamental reasons why you should reject this request.

(1) Pepco is asking for a rate of return that is too high. They are asking for a return on equity of 10.10 percent. A more reasonable return, according to the Office of People's Counsel, is between 8.75 and 9 percent.

(2) Pepco is seeking permission to recover from ratepayers the cost of investments that were not made at the time of their rate request and for some that aren't scheduled until later in the year. This request is contrary to the well-established fundamental rule of "used and useful", i.e., that a utility cannot recover from ratepayers the cost of investments until they are actually benefiting ratepayers.

(3) Perhaps most importantly, Pepco failed to honor a fundamental requirement of the Exelon merger that the Commission narrowly approved. One of the most consequential pledges that Exelon and Pepco offered in the course of the merger case was to meet certain reliability standards, a pledge this Commission enshrined in its order. Yet no more than three months after the last rate increase went into effect, Pepco advised the Commission that it had failed to meet its reliability pledge. In real terms, this means Pepco customers suffered approximately 20,000 more outages than they would have had Pepco met its target.

A deal is a deal. Pepco did not do what it pledged to do and what this Commission ordered it to do. It should face financial consequences for failing to honor its commitment. Instead, in the case before you, the company has requested extraordinary treatment as part of its rationale to again increase rates. They are not entitled to extraordinary treatment. Far from it.

STELLA B. WERNER OFFICE BUILDING ▪ 100 MARYLAND AVENUE, 6TH FLOOR, ROCKVILLE, MARYLAND 20850
240-777-7828 OR 240-777-7900, TTY 240-777-7914, FAX 240-777-7989
WWW.MONTGOMERYCOUNTYMD.GOV

The Office of the People's Counsel agrees that Pepco should not be compensated for these "post-test year expenses" and that along with other accounting adjustments and a more reasonable return on equity, argues for a rate increase of no more than $9.8 million and $13.3 million. And that should be the absolute ceiling of any rate increase you grant – less than 20 percent of the $68.6 million Pepco is requesting.

More broadly, this rate case once again demonstrates that the traditional manner in which utilities are compensated by ratepayers is utterly broken. It is time to fix it. As I have shared with you before, there is no other industry in America that is compensated on the basis of how much they invest. Instead, business earnings are keyed to how well they meet the needs of their customers. I urge you once again to move toward performance-based ratemaking, which will go a long way to ensure that ratepayers are finally treated fairly.

That is a fundamental facet of your responsibility – to treat ratepayers fairly. In this case, that means rejecting this rate increase request and to move beyond the historic way utilities like Pepco are compensated.

Thank you for your consideration of this testimony. Thank you for your service.