



OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

MEMORANDUM

September 10, 2012

To: Nancy Floreen, Councilmember

From: Isiah Leggett, County Executive 

Subject: Ongoing role, influence and participation by the Montgomery County Government before the Public Service Commission (PSC) on performance issues related to Pepco

Thank you for your suggestion that Montgomery County have a clear roadmap of what it is asking from Pepco or the PSC. You have requested that the Council and I be provided with a full assessment of the Pepco work plan, including an evaluation of Pepco's responses to the Derecho storm and the continuing occurrence of blue sky outages. Let me assure you that the County has been actively involved in several matters regarding Pepco's performance before the PSC including the establishment of performance standards for the utility, and is currently a party in the case to review their handling of the Derecho storm of June 29, 2012. We have made it clear in the past and will continue to make clear what we expect both from Pepco and the PSC now and in the future.

I think the most productive course we can take to ensure a high level of Pepco reliability is to work with the PSC to ensure Pepco achieves the performance standards that we helped create. The standards are at a sufficiently high level to place Pepco on track to achieve performance in the top quartile of utilities nationwide for reliability. The standards are the metrics that we should be focusing on because they indicate the results that we expect from the utility's investment. Having said that, updating and hardening infrastructure does not happen overnight. Pepco is currently two years into a five-year Reliability Enhancement Plan (REP). The plan's purpose is to dramatically improve reliability. While the implementation of the plan is not nearly as expedited as I believe appropriate, it remains incumbent on the County to monitor how the plan achieves the PSC established standards, and if those standards result in the utility moving to a high level of reliability. In addition to our own efforts, we have been able to leverage our influence at the PSC by adding our voice to those of other agencies such as the Maryland Office of the People's Counsel and organizations such as AARP to advocate improved reliability for the residents of Montgomery County.

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In 2010, after several storms, I formed a Pepco Work Group to study the causes of and solutions for Pepco's frequent outages and their duration. This Work Group was headed by Retired Lockheed Martin Chairman and CEO Norman Augustine and their 200 page report was submitted as part of a PSC case investigating Pepco's reliability. In this report, which addressed both major storms and blue sky outages, were detailed recommendations for both Pepco and the PSC. The County is currently a party in the case to review Pepco's response to the Derecho. If there are recommendations regarding storm restoration from the Pepco Work Group Report that have not been implemented, we will ask for them to be reconsidered.

In their 2010 case investigating Pepco's reliability (case #9240), the PSC found that Pepco had acted imprudently and fined them \$1 million. During the course of that case, the PSC also initiated a Rulemaking proceeding (RM 43) to consider revisions to the Code of Maryland Regulations which implement or modify electric company reliability and service quality standards. This Rulemaking, which the County was an active participant in, resulted in actionable and quantifiable performance standards. While we certainly did not obtain through this process all of the regulations we had targeted, the PSC did implement a set of standards that became effective on May 28, 2012. Only after we have some experience with the standards from RM 43 will we know if they are adequate and, if they are not, have cause to suggest additional modifications to state regulations through our delegates. Pepco is required to meet the standards or there will be consequences.

I believe that the best way to ensure Pepco's accountability is not to micro manage its REP, but to focus on the PSC established performance standards and to increase the possibility for penalties should they not be achieved, or to modify them if they do not result in the utility achieving the top quartile nationally for reliability. I, along with the County Council, recommended in RM 43 that there be additional penalties including credits to ratepayers, reduction in the rate of return on equity, and franchise forfeiture. The General Assembly specifically declined to include these options when they passed the Maryland Electricity Service Quality and Reliability Act in 2011. Legislation that expressly states these penalties would place Pepco on notice as to the potential remedies for violation of the service quality and reliability standards and let the public know that Maryland is serious about electric reliability. We will continue to actively work with our elected delegates to the General Assembly to advocate for the inclusion of more structured penalties and a clear path for escalating consequences if the imprudence of Pepco's past continues to mar its future performance.

Thank you for your continuing support in these efforts.

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cc: Councilmembers  
Eric Friedman, Director, Office Consumer Protection  
Marc Hansen, County Attorney