



POWER LINE UNDERGROUNDING – Frequently Asked Questions

Financing and Cost Assignment

- 1. What are the benefits to Pepco’s customers if the costs for undergrounding power lines are partially financed by securitized bonds? Would it be less expensive for Pepco’s customers if all of the costs were recovered through the traditional rate base method or through a rate case surcharge on Pepco’s distribution services?**

The Finance Committee agreed that the benefits of partial securitization include (1) lower financing costs, and (2) a greater capacity to undertake more undergrounding projects in the near term that will produce tangible improvements in reducing outages during major storms. The Finance Committee concluded that it would be less expensive for Pepco’s customers when all of the costs are not recovered through the rate base method or a rate base surcharge on services because the length of term would cumulatively cost the customers more.

2. Why is it advantageous for customers to have a normalized rate structure or stable level of surcharge increases to pay for the cost of undergrounding over time?

By using the securitized funding method, we have the opportunity over its 15 year repayment period to “normalize the rate” – achieve a consistent fee for consumers that avoids yearly changes and the unpredictability that prevents budget planning. This does not mean that the exact amount of rate will be the same; it will not be a flat rate. But the rate increases will not be frequent, and the fee will be more stable and predictable. Consumers would not have the opportunity for stable rates without a securitization method. The reason is because we are paying a specific amount every year to pay off the bonds.

When securitization is combined with rate base surcharges customers will have the benefit of normalized rates throughout the debt service period, again alleviating the spikes and valleys from one year to the next.

That is why the Task Force endorses this hybrid approach.

3. Why should all of Pepco’s customers pay for the cost of undergrounding power lines? Are the benefits for undergrounding power lines localized to individual neighborhoods? Would it be more equitable if the customers that are located in areas of the District that already have underground power lines were exempt from paying for undergrounding in other parts of the District?

Pepco is obligated to provide reliable electrical service to all of the District’s customers. Pepco’s present day distribution infrastructure was paid for by all of the ratepayers. Those customers with less reliable services have contributed to the payment for infrastructure serving ratepayers who enjoy more reliable service, including those currently served by underground lines.

4. Will low income customers (recipients of “Residential Aid Discounts” - RAD) be exempted from surcharges, on their bills, to pay for undergrounding projects?

Yes, low income customers will be exempted from surcharges on their bills to pay for undergrounding projects in the same way that RAD customers do not currently pay for surcharges used to fund the (1) RAD program, (2) Sustainable Energy Trust Fund, and (3) Energy Assistance Trust Fund. This exemption strategy is consistent with the approach for other types of programs.

5. Why should local capital funds from the District or other economic development grant funds be used to finance undergrounding projects?

Improvement of electric service reliability will attract business investment, support economic growth, and upgrade a critical component of the District’s infrastructure.

Undergrounding power lines requires cutting open streets. Coordination with DDOT projects will lessen duplication (for instance, avoid the repaving necessary with separate improvement initiatives), reduce project costs (alleviate some of the permitting expense that would be incurred by Pepco), and promote time and scheduling efficiency. When improvements are coordinated with a DDOT financed project, joint planning and implementation is more likely than when Pepco undertakes a project on its own because the parties have a financial stake in ensuring the compatibility of time schedules and applicable design specs.

The inclusion of District funds will also provide a greater opportunity to increase District resident hiring. With more of the construction undertaken by DDOT, the District can incorporate tangible hiring strategies for the work that it finances.

6. Why should Verizon, Comcast, and other communication services be responsible for the cost to undergrounding their overhead lines and equipment? Could their costs be recovered through the securitized bond financing?

The Financing Committee concluded that Pepco's customers cannot be responsible for paying for services that are provided by other companies.

Pepco customers cannot be assessed a surcharge to support services that are not provided through the electric distribution system. Securitised bond financing is a mechanism that will be authorized to help fund the District's reliability improvements for electricity service particularly during major storms. And, the prudent use of these funds will be controlled under the regulatory oversight of the Public Service Commission, which monitors Pepco service delivery, as the distributor of electricity to the District.

The telecommunication companies will be responsible for managing a separate recovery process that is consistent with applicable regulations when those companies adopt undergrounding strategies for their services. The communications companies would likely examine cost and benefit impact before defining an undergrounding strategy to ensure not only responsiveness to consumer needs and interests, but also financing requirements.

7. Did Pepco's priority feeder study estimate the cost to underground the equipment of Verizon, Comcast, and other communication companies?

No, the estimates for power line undergrounding did not include the cost for undergrounding for telecommunications companies.

While the communication companies that participated on the Task Force briefly discussed cost factors that might impact the feasibility of undergrounding their telephone or video lines, they did not have the benefit

of a thorough analysis of costs and benefits that considered specific design and construction requirements like Pepco's evaluation of its electric system.

Project Selection

8. Should all power lines be undergrounded? Why should primary and lateral feeders be given priority without secondary feeders?

The 2010 Shaw Report demonstrated that the greater percentage of outage reductions is achieved when the primary and lateral feeders are undergrounded. Furthermore, the addition of secondary feeders doubled the cost of the project while only increasing the reduction in major storm outages by a small percentage. The analysis reveals that when a primary feeder is disrupted during a storm event a large number of customers are affected; whereas with a secondary line disruption a relatively small number of customers are impacted.

The prioritization of primary and lateral feeders has been endorsed by the Technical Committee.

9. Where are the areas that have the greatest service reliability problems that are related to overhead primary and lateral feeders?

As presented to the Technical Committee, the out-lying Wards of the District – that is Wards 3, 4, 5, 7, and 8 – have the greatest problems with electric service outages following major storms because of the inherent vulnerability of overhead power lines to damage from wind and downed trees.

10. Does Pepco currently allow customers to pay for additional undergrounding services?

Under Pepco's existing tariffs, any existing residential (including multi-tenant building) or commercial development owner may choose to pay Pepco to underground the service line on their property – that is the connection from the secondary line that is on a street pole to the connection at the building/property. This arrangement is at the customer's discretion; it is not mandatory.

11. Why not expand the size of equipment vaults and manholes to accommodate the equipment for Verizon, Comcast and other communications companies?

Undergrounded electric feeder circuits may not be co-located (using the same conduits, ducts, or vaults and manholes) with telecommunication service lines, according to electric safety codes.

In addition, the cost for the construction of conduits, ducts, manholes and vaults for the electric distribution system must be separated from the recovery of costs to underground communication facilities. The cost for enlarging the vault beyond the capacity of Pepco's need cannot be recovered from the securitized bonds. Pepco's customers cannot cross-subsidize the cost for undergrounding the overhead lines and equipment of Verizon, Comcast, or any other telecommunication company.

12. Should private developers be required to pay for the undergrounding of power lines on new development sites?

The undergrounding projects recommended by the Technical Committee involve higher voltage primary and lateral feeders that are located in public roadways and the public right-of-way. They do not involve locations on private properties. The provisions of Pepco's existing tariffs, which were

approved by the Public Service Commission, require service lines on private property for new large commercial and residential developments to be undergrounded; and the cost is paid by the developer.

Consumer Interest

13. Is there any chance the amount I pay for the undergrounding on my bill will increase? If so, under what conditions will this happen?

The Task Force has worked to keep the cost to consumers as low as possible. The incremental increases in the typical consumer's monthly bill are estimated to range from approximately \$1.50 in year one to a high of approximately \$3.25 in years 9- through-15, decreasing to the end of the repayment period.

14. Why should consumers pay for this undergrounding infrastructure project if Pepco continues to seek funding for reliability and maintenance in rate cases?

The undergrounding project is an aggressive, yet comprehensive approach to quickly address reliability problems. Undergrounding D.C.'s overhead power lines could be done on a piecemeal basis with a few lines being placed underground in each distribution rate case. However, that approach could take decades to complete. If we were to rely on the traditional rate case process we could not achieve the time sensitive improvements needed to support an electrical system that is more than 100 years in the making. While this project may not end rate proceedings, it provides regulators a new measure to evaluate future filings.

When completed, this undergrounding project will significantly reduce the frequency, extent and duration of electric service outages caused by severe

weather events. Severe weather causes extensive outages in the overhead distribution system as a result of storm damage to trees. Placing the most significant lines underground will make the District less vulnerable to such outages. In addition, Pepco needs to upgrade its existing distribution system by replacing substations adding new substations and other projects to meet anticipated load growth.

15. Who is responsible for the restoration of the street surface (Pepco or DC?) once the lines are buried, i.e., are they going to clean up after themselves and leave the streetscape fully restored?

District government crews and equipment will support specific aspects of the project, such as opening and closing of streets and repaving. Pepco will be responsible for other work. DDOT will handle permitting. There has been no relaxation of District regulations and requirements for such work.

16. How will undergrounding costs affect seniors and low income consumers?

Seniors and consumers who already receive the Residential Aid Discount will not be charged for the undergrounding.

17. Is this a joint project with other utility providers such as telephone, cable-TV and gas? If so, will they be required to bury their service as well?

The undergrounding strategy is designed to improve the reliability of electric power circuits. While other utilities, including Verizon, Comcast and Washington Gas, have served on the task force, as stakeholders, this is not a joint project with non-electric service-providers. The technical approach and budget for undergrounding does not include underground conduits for other utility providers.

18. If I have another electricity provider do I still have to pay this added monthly fee?

Yes. All customers, regardless of their electricity provider, must contribute to the maintenance of Pepco's Infrastructure. Even if a District consumer buys electricity from another supplier, that electricity is delivered to the consumer over Pepco distribution facilities. All consumers pay the full distribution service charge. The cost for the undergrounding project will be a surcharge on your bill.

19. If the undergrounding work will not be performed in my neighborhood, why must I pay to have the work done in other neighborhoods? My electric service is already underground, how do I benefit and why do I have to pay for other areas to be undergrounded?

First, the undergrounding of overhead lines in areas with poor reliability performance will improve the overall reliability of the system which is a benefit to all customers. The economy of the entire District is adversely affected by prolonged storm-related outages and disruption of public services.

Second, the project is intended to improve the reliability everywhere in the District in which placing specific overhead lines will improve reliability. A key reason to adopt a comprehensive undergrounding program is to ensure that all areas of the District see the benefit of this investment within roughly the same time-frame.

Consumers who already benefit from underground distribution service are subsidized by overhead service customers. This program will put all customers on an equal footing.

20. What happens if the project costs more than current estimates? Who pays?

This project has a limited budget and more work may require a second phase. If there is a second phase, the District government will be involved in the determination of how much additional work is necessary and how it is paid for.

21. When can we expect this project to begin and how long is it expected to last?

If everything goes as planned then the project engineering and design would start early 2014. The project implementation could last for seven years.

22. This plan does not underground service in all communities. Explain how it is equitable and how decisions will be made regarding which lines are put underground and which are not.

The plan is to underground the overhead lines in the District that have experienced the most service outages and have the greatest impact on service reliability. Decisions will be made in the first instance on the basis of engineering analysis that will determine which overhead facilities should be placed underground to achieve the greatest improvement in reliability.

The results of that analysis will be matched with other objective criteria, such as coordination with other construction projects in the District and minimization of disruption to a single neighborhood or ward, to achieve the best results quickly and most economically.

The lines that will **not** be placed underground are those that do not have a significant history of service outages, e.g., primary or lateral lines that are in areas with little tree canopy that are generally reliable, and secondary lines that lead to service drops to individual homes. The undergrounding of these

secondary lines would be very expensive and will not produce a significant improvement in overall reliability. Those lines could in the future be placed underground, but not as part of this undergrounding plan.

These results are equitable because undergrounding overhead lines in areas with poor reliability will improve the overall reliability of the District distribution system which is a benefit to all customers. Prolonged storm-related outages and disruption of public services, as experienced last June and July after the Derecho storm, drag down the quality of life and the economy of the entire District. Undergrounding overhead lines and enhancing the District's ability to endure major summer and winter storms without significant or prolonged service outages to consumers and businesses will benefit the entire District.

In those areas in which distribution facilities are already underground, the cost of placing those facilities underground and the benefits of enhanced service reliability over the years has been subsidized by overhead service customers. This program will put all customers on an equal footing.

23. Breaking down the Securitization proposal, why is this considered the best deal for the District? What is Pepco's shareholder investment?

Securitization allows the District to acquire substantial funds for undergrounding at low interest rates without burdening the District's balance sheet or credit rating. The securitized funds will reduce the amount of investment that Pepco collects from consumers in its rates. Because Pepco will not earn a return on any securitized funds, overall costs to District consumers are reduced. District consumers will benefit because they will be obtaining funds at the lowest rate possible backed with the District rating of AAA. Pepco will be investing (half) 50% of the needed funds at the overall rate of return of 8.2%.

Pepco shareholders will provide the up-front capital for half of the undergrounding project that will be recovered in rates over (more than 50 years) a protracted amortization period.

24. What will be the impact of this construction project on business corridors?

As with any major construction project, there will be disruption of traffic and associated impacts during the period of construction. The affected communities will be informed well in advance of construction of what can be expected and what will be done to mitigate those adverse impacts on the neighborhoods. DDOT and Pepco will work to minimize those adverse impacts to the extent that they can.

25. Will the city use eminent domain to expand rights of way for construction?

There has been no discussion of the use of eminent domain.

26. How will reliability performance be evaluated? Are there penalties if goals are not met?

Pepco's reliability performance is measured and evaluated based on their compliance with PSC Electric Quality of Service Standards. Failure to meet these standards will result in penalties.

27. What/Who will be the central source for information as the project proceeds?

An Education and Outreach program for the general public will be established which will provide details as to how to get the message to the public.

28. What sort of job/training opportunities will this project offer DC residents?

The undergrounding project is an investment in the District and its future. Part of that future is enhanced opportunities for training and for jobs. The intent of the District government is to facilitate the employment of District residents for this work to the maximum extent feasible.

29. As a residential consumer what kind of reliability improvement should I expect in my community?

When the undergrounding project is completed, you should expect fewer outages overall and significantly fewer, shorter, and less widespread outages as a result of severe summer and winter weather events.

30. How will these recommendations impact Pepco's restoration time when there is an outage?

The strategic relocation of overhead feeders to underground will prevent outages caused by severe weather and other interference (e.g., trees and animals) that can damage overhead wires. With the undergrounding of the most vulnerable circuits, as recommended by the Task Force, Pepco will be able to direct its restoration services to a smaller group of feeders, and many of those feeders are lower voltage, which can be more quickly restored. Consumers will not only benefit from a reduction in outage frequency; the duration of outages will be shortened through more timely restoration.

- 31. I am a small business owner on a major street. My customers are both local and tourists. How will construction of the undergrounding affect traffic to my business? Street parking, traffic congestion and delays?**

As with any major construction project, there will be disruption of traffic and associated impacts during the period of construction. The affected communities will be informed well in advance of construction of what can be expected and what will be done to mitigate those adverse impacts on the neighborhoods. DDOT and Pepco will work to minimize those adverse impacts to the extent that they can.

- 32. What is the level and length of inconvenience? Will there be severe noise, parking restrictions or inaccessibility for my affected neighborhood?**

DDOT and Pepco will coordinate in an effort to take advantage of the construction plans of both the city and the undergrounding plan to facilitate construction synergies and avoid unnecessary double cuts or excavations.

- 33. Does this mean that my electricity will be off during the construction period of the undergrounding work?**

No, the work will be staged in such a manner that there should be no service interruption.