

Task Force Report

May 15, 2013



Agenda

- Project Plan
- DDOT & Pepco Roles and Responsibilities
- Project Financing
- Uses of Financing
- Next Steps



Project Plan

- The construction of underground facilities will be facilitated through a partnership between Pepco and the District of Columbia Government.
- The project consists of the conversion of approximately 60 overhead constructed feeders to underground construction during the next seven years.
- Selection of feeders based on past reliability performance including outages associated with major storms.



DDOT & Pepco Roles and Responsibilities

- DDOT will build conduit within the public roadway for identified underground projects in conjunction with road projects.
- When DDOT completes construction and the conduits are accepted by Pepco for its use and maintenance, DDOT will issue a permit for public space access to Pepco. DDOT will retain the ability to manage the public space where the conduit is located.
- DDOT will transfer ownership of the conduit to Pepco for little or no financial consideration. As a result, Pepco will not earn a return on the contributed property and the transfer will not impact customer surcharge.



Pepco & DDOT Roles and Responsibilities (continued)

- Pepco will be responsible for all ongoing operation and maintenance of the conduit system including line location for construction, conduit identification for local development activities, emergency repair response and collection of repair cost related to damage by third-party.
- Pepco will be responsible for the repair or replacement of electrical equipment contained within the conduits or manholes as well as any compliance directives required by the Public Service Commission.



Project Financing

- How much?
 - Targeted at \$1 billion for capital construction
- Funding Sources
 - Combination of Pepco traditional financing (50% Debt, 50% Equity) and Securitization, each with recovery through a customer surcharge, and DDOT capital improvement funds
 - Pepco financing: \$500 million
 - D.C. Government Securitized Bonds: \$375 million
 - DDOT Capital Improvement Funds: \$62 million
- Coordination of undergrounding projects with road construction reduces overall cost of program
 - DDOT funding above \$62 million could be requested as part of future project work and if authorized, could increase up to \$125 million.
- Customer impact will range from \$1.50 to \$3.25 in year seven for the average residential customer.



Project Financing (continued)

- Securitization
 - The D. C. Government will issue securitized debt as revenue bonds under Section 490 of the Home Rule Act.
 - Bond proceeds will be used for design and construction of the conduit system and the services of a financial advisor to the Public Service Commission.
 - No bond proceeds are to be used to fund any portion of conduit facilities constructed for the undergrounding of communication facilities or for conduit build for future undergrounding projects.
 - Conduit built for communication lines are in addition to the conduit required for electric needs and are included in approved road project budgets.
- The securitized funds will be paid to DDOT as the conduit facilities are constructed, and combined with the capital improvement funds, will not exceed 50% of the total cost of the project.



Uses of Financing

- Pepco's financing will be used to
 - design the overall underground projects, install all electrical equipment both underground and padmounted, remove the overhead equipment no longer required once the lines have been placed underground and
 - fund the construction of conduit lines outside of the public rights-of-way and any portions of the conduit system that DDOT does not construct as part of a street reconstruction project.
- In addition to the capital expenses for construction of the electrical equipment, Pepco will also incur additional expenses associated with an increased labor force to design these projects, customer communications and to attend project coordination and community meetings.



Public Service Commission

- Issue Financing order and other orders to establish cost recovery mechanisms
- Approve Underground Infrastructure Improvement Projects Plan including selection of feeders, priority order of work and estimated cost
- Approve annual adjustment of the customer surcharge for:
 - Securitized Bonds Repayment and
 - Pepco's Underground Infrastructure Improvement Projects Plan Costs.
- Approve annual adjustment of the customer surcharge to:
 - To insure that the annual surcharge revenues are adequate to cover bond repayment obligations.
 - To adjust the customer surcharge for actual costs incurred by Pepco compared with the projected costs when the Projects Plan was approved by the Commission, and
 - To account for the projected costs for the next year's Projects Plan.



Next Steps

- Legislation is needed to authorize the issuance of the bonds and approve the capital investment.
- Legislation is needed to direct the PSC to issue orders to approve recovery of revenue through the customer surcharge.
- Develop project plan to select feeders to be undergrounded over the next three years and coordinated with DDOT capital improvement plan
- Develop operating procedures to look for additional opportunities to coordinate undergrounding with other major construction or economic development projects

