



**Opening Statement
of
District of Columbia Public Service Commission**

**Before the Council of the District of Columbia Committee on Government
Operations and Committee on Finance and Revenue
On
B20-387, "The "Electric Company Infrastructure Improvement Financing
Act of 2013"**

Monday, October 21, 2013

Betty Ann Kane, Chairman

Good afternoon Chairman McDuffie, Chairman Evans and members of the Committee on Government Operations and Committee on Finance and Revenue. I am Betty Ann Kane, Chairman of the Public Service Commission of the District of Columbia. I am pleased to appear before you today to present testimony on Bill 20-387 – The "Electric Company Infrastructure Improvement Financing Act of 2013." Joining me today at the table is Commissioner Joanne Doddy Fort.

For the record, the Commission is in support of Bill 20-387. As you know, this legislation is designed to implement the recommendations of the Mayor's Power Line Undergrounding Task Force, of which I was a member. I would like to commend Mayor Gray for his comprehensive vision and leadership in

responding to the major storm outages in 2012 by calling for a game changer and creating the Task Force to explore this matter. Secondly, I would like to commend Task Force Co-Chairman City Administrator Allen Lew for his perseverance and negotiating acumen and Co-Chairman and Pepco Holdings, Inc. Chairman of the Board of Directors, President and Chief Executive Officer Joseph Rigby for his willingness to actively participate in the process. Finally, I would like to commend Councilmember Alexander, Peoples' Counsel Sandra Mattavous-Frye, Budget Director Eric Goulet, the Office of the Chief Financial Officer, the Department of Transportation, the Office of the Attorney General, the citizen representatives: Matt Frumin and Herb Harris, Jr., Comcast, Verizon, Washington Gas and the other members of the Task Force and its committees for their commitment to cooperatively work together to develop the recommendations that are embodied in this legislation.

As is documented in the Task Force's Final Report, there have been 12 major storm caused electric distribution system outages that affected more than 10,000 customers and lasted for more than 24 hours in the District over the past ten years. During the largest of the major storm outages last year, the "Derecho" storm on June 29th, 2012, there were nearly 76,000 Pepco customers in D.C. without service. As you can see from the map attached to my testimony, the greatest number of outages occurred in Wards 3, 5, 7, and 8, while there were virtually no storm related outages in the parts of the city where the power lines have been undergrounded for over a century.

We concur with the Task Force's findings that:

- a) Electric power distribution service in the District of Columbia is vulnerable to equipment failures on the overhead system of the electric company, caused by high winds, flooding, lightning strikes, snow and ice accumulations, foreign contact between overhead equipment and animals, trees and other objects, and for other causes. In the past, this damage has caused loss of electric power over extended time periods to residential and commercial customers, including critical infrastructure customers and other high priority users of electricity, and it can be expected that similar outages on the electric company's overhead distribution system will continue to occur, absent intensified outage prevention measures to address the increased frequency of weather events; and
- b) The frequency of electric power outages within the District can be expected to decrease when overhead power lines in vulnerable locations are relocated underground. Consequently, selectively undergrounding certain overhead power lines can be expected to minimize the economic, social and other impacts on the District's electricity users caused by increased weather events.

The Commission has undertaken several recent initiatives to ensure safe, reliable and quality electric distribution services in the District. These actions include oversight of Pepco's deployment of Advanced Metering Infrastructure and Smart Grid equipment; requiring Pepco to file and maintain a Major Storm Restoration Plan; and initiating an inquiry into the feasibility of establishing Major Storm Restoration Benchmarks for Pepco. And, as part of the Pepco rate case decided in 2012, the Commission approved an improved vegetation management program for Pepco.

Prior to the aforementioned actions, the Commission initiated a study of the economic and technical feasibility of undergrounding electric distribution lines in the District of Columbia that was completed on July 1, 2010 by Shaw

Consultants International, Inc. The Shaw report, "Study of the Technical and Reliability of Undergrounding Electric Distribution Lines in the District of Columbia", concluded that:

"Our analysis indicates that should Pepco invest in undergrounding, the greatest improvement in reliability will be achieved by focusing on primary distribution circuits rather than secondary, since more customers are addressed at the primary level. . . . We do not recommend that the Commission introduce undergrounding for all existing circuits. Rather, the Commission should consider undergrounding in specific situations, such as a pairing of undergrounding with road expansion efforts in specific geographic sections of the District, or neighborhood projects in which the electric distribution undergrounding could be completed as part of a greater effort involving roadway reconstruction or large scale water and sewer replacement. By bundling infrastructure investment in this manner, sufficient benefits may accrue to justify the level of undergrounding investment."

The Shaw report demonstrated that undergrounding electric distribution lines and equipment is not a new idea and that selective undergrounding of power lines has successfully been undertaken in several other cities. The challenge in other states and cities has always been how to pay for costly undergrounding projects. The Shaw report estimated that implementation of the selective undergrounding of primary electric distribution lines in the District by Pepco would cost approximately \$1.126 Billion. This study served in many ways as a starting point for the Task Force and its work committees which came to a similar conclusion that the selective undergrounding of primary and lateral feeders and overhead equipment is the most cost effective approach to undergrounding power lines in order to significantly improve the reliability and resiliency of the electric distribution network in the District of Columbia.

I would like to explain why the Commission supports the undergrounding program that is outlined in this legislation; what role the Commission is assigned to perform and prepared to perform, and why this legislation and the undergrounding program that it would enact is more beneficial to District ratepayers than any undergrounding program that the Commission could authorize under its existing statutory authority.

The Commission supports the Task Force's recommendations and the implementing legislation because they embody several principles that are important to the Commission: transparency, in that decisions will be made in a public and participatory process; accountability, in that numerous provisions are included to insure that ratepayer and city funds are used properly and construction occurs as planned; and affordability for Pepco's customers. Regarding the latter principle of affordability, the Commission's technical staff, based on extrapolations of estimates by Pepco, have preliminarily determined that the combined monthly surcharges for residential customers that would be authorized by this legislation for repayment of the securitized bonds and the recovery of Pepco's costs, plus authorized return, could initially amount to \$1.50 and peak at \$3.25 in year seven through year 14 and then gradually decrease over the remaining 46 years of residual financing. These preliminary determinations will, of course, be subject to a more extensive analysis by the OPC, Pepco, DDOT and other interested intervenors when the application for the financing order and the triennial underground projects plans are filed and during

the expedited review proceedings to ensure that the ultimate combined surcharge rates are adequately justified.

The review of the application for the financing order and the review of the triennial underground project plans, including the annual surcharge true-up mechanisms, are the two major new tasks that the Commission will perform for this program. Both reviews would be conducted on an accelerated timetable to expedite the process for undergrounding power lines and within parameters that were discussed and agreed to by the Task Force and that are embodied in this legislation. The legislation sets forth deadlines for the submittal and approval of the application for the securitized bond financing order, including the Pepco customer surcharge needed to repay the bonds; for the triennial underground projects plan, including the underground projects charge needed to cover Pepco's project costs; and for the annual true-up mechanisms for the previously mentioned surcharges. The Task Force agreed that deadlines are necessary to ensure that the undergrounding program moves expeditiously forward.

A copy of the implementation timelines provided by the legislation is attached to my testimony. While these deadlines are, in some cases, more accelerated than those used in the Commission's normal practice, the Commission believes they are achievable, in part because of the extensive preliminary groundwork that was done in the Task Force by the key stakeholders in this process. The Commission is committed to taking the necessary steps, in

consultation with all of the key stakeholders and participants, to meet the deadlines that this legislation sets for this project.

This legislation also addresses and gives direction on a number of the issues that would otherwise have to be fully adjudicated by the Commission in time-consuming proceedings. For example, the legislation specifies the primary and secondary criteria for prioritizing the mainline and lateral feeders that should be relocated underground. These criteria, which have been developed by the Task Force's Technical Committee, have been contentious issues that have been the subject matter in past proceedings before the Commission. While the Commission anticipates that there will be some issues that need to be refined, the work of the Task Force and its committees, together with this legislation, has set a framework that will allow the Commission to act more swiftly, so the removal of vulnerable overhead power lines, transformers and other equipment and their placement in safer underground conduit and equipment vaults can proceed more swiftly.

Finally, I want to address why the undergrounding program that this legislation would enact is more beneficial to District ratepayers than any undergrounding program that the Commission could authorize under its existing statutory authority. The Task Force has recommended a unique public-private hybrid financing mechanism for implementing the undergrounding program that does not currently exist. This hybrid financing method utilizes a variation on securitized bonds that have been issued by electric utilities in other states to pay

for: (a) stranded costs associated with deregulation; (b) costs associated with the cancellation of nuclear power plant construction projects; (c) loss on power purchase agreements; (d) environmental regulation compliance costs; and (e) costs associated with hurricane restoration activities. The bonds that will be authorized by this legislation are unique in that they will fund future construction costs. They are also unique in that they will be issued by the DC Government and not by an affiliate of the electric utility as has occurred in the other 23 states that have enacted legislation to authorize the sale of securitized bonds. Because the bonds would be issued by a municipality, instead of by an affiliate of an electric company, and because they are securitized by revenues from a surcharge on Pepco's customers' bills the bonds will be able to obtain a lower interest rate than the debt issued by Pepco. The Task Force expects that the interest rates for the undergrounding program's securitized bonds will be one-half to two-thirds lower than the interest rates Pepco would otherwise be able to obtain through its traditional debt financing methods and substantially less than what Pepco is authorized to earn on its equity capital. Thus, the securitized bond financing of upwards to \$375 million for the undergrounding program that this legislation would authorize should significantly lower the amount of interest payments that need to be recovered from Pepco's ratepayers to finance this project.

Second, the legislation provides for the undergrounding project to be done through a unique public-private partnership whereby, the District's Department of

Transportation and Pepco will jointly work together. This project approach, which has not been done anywhere else in the U.S., is designed to reduce the costs of the undergrounding projects and thereby reduce the project costs that would otherwise be recovered in the form of higher rates for Pepco's customers. In addition, the use of DDOT's road capital improvement funds to pay for a portion of the costs for undergrounding conduit during road construction and repavement projects will also benefit Pepco's customers. This source of financing for a Pepco undergrounding project could not be a part of a rate proceeding before the Commission. These two aspects of this undergrounding program and this legislation will lower the program's costs and may reduce the costs that need to be recovered from Pepco's ratepayers by millions of dollars.

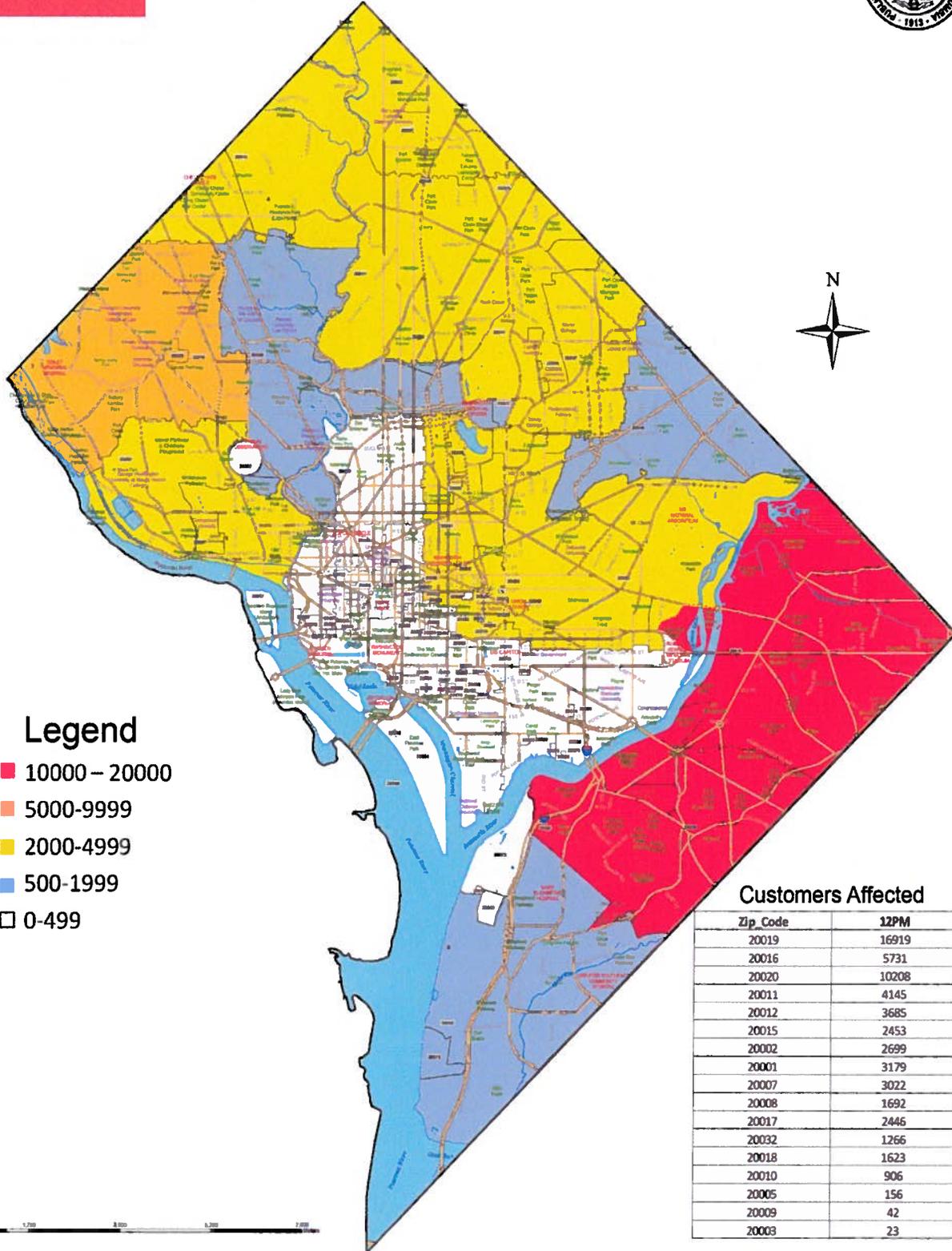
In 1889 Congress, then totally in charge of District matters, ordered all electric wires and communications wires in the part of the city south of Florida Avenue to be placed underground. A few years later Congress passed legislation ordering the same for the then separate city of Georgetown, and in 1902 extended the undergrounding requirement to Mount Pleasant and nearby areas. Residents of those areas have enjoyed the benefits of an underground power line system for over a century. The Commission is pleased to support the work of the Task Force and this legislation because it presents a viable and cost effective way to finish the job for the rest of the District that was started so long ago.

I would be happy to answer any questions that you and the Committees' members may have at this time.

District Derecho Storm Map



**District of Columbia Electric Customers
Affected by Zip Codes on July 1st at 12PM**



Legend

- 10000 – 20000
- 5000-9999
- 2000-4999
- 500-1999
- 0-499

Customers Affected

Zip_Code	12PM
20019	16919
20016	5731
20020	10208
20011	4145
20012	3685
20015	2453
20002	2699
20001	3179
20007	3022
20008	1692
20017	2446
20032	1266
20018	1623
20010	906
20005	156
20009	42
20003	23

“Electric Company Infrastructure Improvement Financing Act of 2013”

- Implementation Timelines

1. Start-Up Actions Following Enactment of Legislation

<u>Days From Effective Date</u>	<u>Who Must Act</u>	<u>What Action</u>	<u>Section</u>	<u>Description</u>	<u>Page</u>
-30	Commission	Publish RFP.	N.A.	Commission releases Financial Advisor RFP as soon as the Mayor has signed the legislation (30-day Congressional review period follows).	N.A.
-9	Offerors	Submit bids.	N.A.	Potential bidders must respond to the RFP within 21 days; RFP remains open for 21 days.	N.A.
12	Commission Staff	Complete Evaluation.	N.A.	Staff evaluate submissions and make recommendation to Commissioners (this can be expedited).	N.A.
19	Commission	Approve Selection.	N.A.	Commissioners review and approve Staff's recommendation within one week (estimated).	N.A.
26	Commission	Sign F.A. Contract.	N.A.	Contract is negotiated with Financial Advisor and signed within one week (estimated).	N.A.
30	Commission	Issue Order establishing expedited discovery.	Sec. 309 (b)	Discovery period for approval of triennial Underground Infrastructure Improvement Projects Plan shall be 60 days; Commission may toll if a party does not comply.	41
45	Pepco + DDOT	File UG Plan with Commission.	Sec. 307 (a)	Triennial Underground Infrastructure Improvement Projects Plan; initial application includes authorization to collect Underground Project Charges.	34
60	District	Give Pepco estimates of DDOT's Annual RR.	Sec. 302	District must estimate Annual Revenue Requirement for debt service and other financing costs related to bonds for DDOT Underground Electric Company Infrastructure Improvement Activities.	29
90	Pepco	File Application for Financing Order with Commission.	Sec. 302	Financing Order covers repayment of bonds for DDOT Underground Electric Company Infrastructure Improvement Activities.	29
120	Commission	Amend Rules to expedite reconsideration.	Sec. 317	Amend Commission's rules and procedures to expedite reconsideration of any matter pursuant to Title III.	53

2. Annual Cycle of Reports to Commission and True-Up Requests

<u>Due By</u>	<u>Who Reports</u>	<u>About What</u>	<u>Section</u>	<u>Description</u>	<u>Page</u>
1-Apr	Pepco	Request True-Up DDOT Underground Electric Company Infrastructure Improvement Charges	Sec. 314 (a)	Adjust DDOT Underground Electric Company Infrastructure Improvement Charges based on formula in Financing Order.	47-48
1-Apr	Pepco	Request Adjustment Underground Project Charges	Sec. 315 (a)	After initial approval, Pepco can request adjustment that will remain in effect until the next adjustment is approved.	50
30-Sep	Pepco + DDOT	Triennial Underground Infrastructure Improvement Projects Plan	Sec. 307 (a)	After initial filing, Plan must be filed by 9/30/16, 9/30/19, and 9/30/22.	34
30-Sep	Pepco + DDOT	Triennial Underground Infrastructure Improvement Projects Plan status report.	Sec. 307 (b)	Other than the years when a triennial plan is filed (2016, 2019, and 2022), DDOT and Pepco must file a status report.	35
31-Dec	DDOT	Bond proceeds and payments.	Sec. 202(d)	DDOT files accounting report covering the previous fiscal year.	15

Normal Font indicates Bond-related; *Italics indicates Project-related*; **Boldface indicates Generic.**

3. Application for Financing Order

<u>Days From Effective Date</u>	<u>Action</u>	<u>Section</u>	<u>Description</u>	<u>Page</u>
90	Pepco files Application.	Sec. 302	Pepco files Application for Financing Order with Commission.	29
114	Public comment period ends.	Sec. 303 (a)	10 days to file notice for 14 days for public comment and motions to intervene.	30
174	Commission issues decision.	Sec. 303 (f)	Commission must issue decision no more than 60 days after the public comment period.	32
189	Commission issues decision after protest.	Sec. 303 (f)	If a protest is filed, then the period for decision is extended by 15 days.	32
215	Commission issues decision after evidentiary hearing.	Sec. 303 (f)	If an evidentiary hearing is required (unspecified - assume 45 days), then the Commission must issue decision no more than 60 days after the close of the hearing record.	32
add 60	Commission issues decision after reconsideration.	Sec. 317	30 days to apply for reconsideration plus 30 days for Commission action on reconsideration (subject to expedited action pursuant to Sec. 317).	53

4. Application for Triennial Underground Projects Plan

<u>Days From Effective Date</u>	<u>Action</u>	<u>Section</u>	<u>Description</u>	<u>Page</u>
45	Pepco + DDOT file Plan.	Sec. 307 (a)	Pepco and DDOT file Projects Plan with Commission.	34
115	Public comment period ends.	Sec. 309 (a)	10 days to issue notice of 60 days for public comment and motions to intervene.	40-41
105	Discovery period ends.	Sec. 309 (b)	60 days for discovery; may be extended.	41
46 - 160?	Public Community Hearings.	Sec. 309 (c)	Commission shall convene a public community hearing; timing not specified.	42
160	Commission issues decision.	Sec. 309 (d)	Commission must issue decision no more than 45 days after the public comment period unless a protest is filed during public comment period.	43
175	Commission issues decision after protest.	Sec. 309 (d)	If a protest is filed and can be resolved without an evidentiary hearing, then the deadline for decision is extended by 15 days. Commission may toll this deadline when application is determined to be deficient.	43
???	Commission issues decision after evidentiary hearing.	Sec. 309 (d)	If an evidentiary hearing is required, then the Commission must issue decision no more than 60 days after the close of the hearing record.	43
250 or ???	Pepco and DDOT file est. start and end dates.	Sec. 308(c)(10)	Within 90 days of Commission decision to approve plan, Pepco and DDOT file estimated start and end dates for each project in Plan with identification of secondary criteria.	37

5. Application for True Up of DDOT Underground Improvement Electric Company Infrastructure Improvement Charges

<u>Days From Filing Date</u>	<u>Action</u>	<u>Section</u>	<u>Description</u>	<u>Page</u>
10	Comment period.	Sec. 314 (d)	Comments may be filed within 10 days of filing of Application.	49
20	Commission issues decision.	Sec. 314 (d)	Commission shall act within 20 days of filing of Application.	49
20	Request deemed approved.	Sec. 314 (d)	If Commission does not act within 20 days, the request is deemed approved.	49

6. Application for Adjustment of Underground Project Charges

<u>Days From Filing Date</u>	<u>Action</u>	<u>Section</u>	<u>Description</u>	<u>Page</u>
45	Commission issues decision.	Sec. 315 (f)(1)	Commission must decide on uncontested application within 45 days.	53
75	Commission issues decision after protest.	Sec. 315 (f)(1)	If protest is filed, decision deadline is extended by 30 days.	53