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March 29, 2019

Ms. Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission
of the District of Columbia
1325 G Street N.W., Suite 800
Washington, DC 20005

Re: Formal Case No. 1119

Dear Ms. Westbrook-Sedgwick:

In compliance with Paragraph 23 of Attachment B to Order No. 18148 for Formal Case No. 1119, enclosed is the 2018 Annual Economic Benefits report for Potomac Electric Power Company.

Please feel free to contact me if you have any questions regarding this matter.

Sincerely,



Dennis P. Jamouneau

Enclosures:

cc: All Parties of Record



An Exelon Company



2018 Annual Economic Benefits Report



Pepco District of Columbia

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Executive Summary

Pursuant to the merger between Exelon Corporation (Exelon) and Pepco Holdings, Inc. (PHI) (now known as Pepco Holdings LLC), Potomac Electric Power Company (Pepco) is delivering benefits to its customers and communities through a package of merger commitments. As part of that package, Pepco files an annual Economic Benefits Report (the Report) to measure the economic impact of the completed merger commitments and provide status updates on other commitments that will drive economic value in the future. Attached is the full Report, which provides a description and status update on the benefits District of Columbia customers and their communities have received as a result of the merger. Pepco contracted with Analysis Group, Inc. to assess the economic impacts through the IMPLAN model.

Washington D.C. customers and entities will receive approximately \$97.0 million in benefits as a result of the 2016 PHI-Exelon merger, including: the Customer Investment Fund (CIF), Workforce Development Program funding, and Charitable Contributions and Community Support. In 2018, Pepco provided \$9.4 million in financial benefits to District of Columbia customers, all of which was realized by customers and communities. Commitments such as the Modernizing the Energy Delivery System for Increased Sustainability (MEDSIS) Pilot Project Fund¹ and Energy-Efficiency and Energy Conservation Initiatives Fund, although fully funded, have not been quantified as customers and communities have yet to realize these benefits. The merger commitments benefits that have been realized by customers and communities in 2018 provided a total of \$12.4 million in direct, indirect and induced economic value, including 50 job years and \$393,441 in District of Columbia taxes. Pepco will continue to assess the economic value of the financial merger benefits, through the IMPLAN model, as they are provided to customers and communities and will submit the results of those analyses in the remaining annual reports.

In addition to the financial benefits provided in 2018 (the reporting period) as a result of the merger commitments, Pepco committed to – and exceeded – more stringent reliability standards, which has the effect of lowering the economic and other negative impacts of outages. This Report does not quantify these benefits. Continued integration efforts, which reduce customers' cost of service, below what it would otherwise be without the merger, provide further benefit to customers. These savings, though, are also not quantified in this Report.

Pepco will continue to ensure that its customers and the communities it serves receive the benefits of the merger in 2019 and beyond.

¹ See Formal Case No. 1130, Investigation into Modernizing the Energy Delivery System for Increased Sustainability

1 Introduction

1.1 Merger Condition Driving this Report

This document presents Pepco's 2018 Annual Economic Benefits Report, which has been developed in compliance with Paragraph 23 of Attachment B in Order No. 18148 (the Order).

Paragraph 23 states:

For each of the first five (5) years after Merger approval, Pepco will submit an annual report, or include as part of its existing reporting requirements, data detailing the economic benefits of the Merger for the District. The report will detail the methodology used to calculate the benefits and the specific description of the benefits.

The Pepco 2016 Annual Economic Benefit Report (2016 Report) was filed with the Commission on March 29, 2017, and the 2017 Report was filed with the Commission on March 29, 2018.

1.2 Scope of this Report

This Report includes information for the period January 1, 2018 through December 31, 2018. For the purposes of this Report, Pepco engaged Analysis Group, Inc. to assess the economic benefits of the merger to its District of Columbia customers. Analysis Group utilized the IMPLAN model to calculate the economic impacts of rate credits that have been provided to customers and charitable contributions made in the District of Columbia during the 2018 calendar year. Economic benefits are quantified for the following commitments that were completed within the reporting period:

- Merger Commitment Paragraph 2 (Customer Base Rate Credit)
- Merger Commitment Paragraph 25 (Charitable Contributions)

In addition to providing the economic benefits of the commitments described above, this Report provides a description of the fulfilled 2018 financial merger commitments as well as an overview of Pepco's reliability performance and integration efforts that have had a positive impact on our customers and communities. The economic benefits of several commitments, such as the MEDSIS Pilot Project Fund, cannot be quantified until a direct benefit has been provided to customers or communities in the District of Columbia service territory.

2 IMPLAN Methodology

Pepco provided the information to Analysis Group for input into the IMPLAN model. The model – which is well accepted and is utilized by many government agencies – provides for analysis of interactions in a defined economy (*e.g.*, the District of Columbia) and calculation of economic impacts in that economy when a new activity introduces a change in the conditions in the economy.

A typical change could be an investment in a new facility being built, or a new government or private-sector program supporting an economic development strategy. IMPLAN relies on a detailed system of accounting for relationships among different parts of an economy, and employs locality-specific economic data. While the model is focused on economic activity inside an economy, the model also tracks the movement of money and people into and out of that economy. The model thus examines inflows, outflows, and interactions within the regional economy under study.

Two primary metrics were used to assess the economic impact of the Exelon-PHI Merger Commitments:

- “*Employment*” effects (the total number of job years created. One job year is defined as, for example, one job for 12 months or two jobs over 6 months); and
- “*Value-added*” effects (the total economic value added to the economy, which reflects the gross economic output of the area less the cost of the inputs. This metric is most closely associated with Gross State Product in Washington, D.C.).

There are various ways in which the new activity creates impact, each of which is separately tracked by the model:

- “*Direct*” effects (the initial set of inputs that are being introduced into the economy. For example, the Merger Commitments aimed at rate credits and workforce-development programs); and
- “*Indirect*” effects (the new demand for local goods, services and jobs as a result of the new activity. For example, growth in regional insulation manufacturing as a result of energy-efficiency installations that result from Merger Commitments); and
- “*Induced*” effects (incremental spending on goods and services resulting from additional income. For example, additional consumer purchases due to having more money in their pockets from having received a credit on their utility bill as a result of the Merger Commitments).

The indirect and induced effects are often referred to as “multiplier” effects, as they measure the impact of the direct activity as it flows further throughout the regional economy.

3 Measured Benefits

The Company, in conjunction with Exelon, provided a total of \$9.4 million in financial benefits through credits and charitable contributions in 2018. The measured benefits section provides an overview of the total financial benefits that the Company, in conjunction with Exelon, delivered during the reporting period.

3.1 Customer Investment Fund

Pursuant to Merger Commitment Paragraph 1 of the Order, Pepco established a CIF to credit \$72.8 million to District of Columbia customers and communities. Several of the credits and funds that make up the CIF were established and/or allocated to customers beginning in 2016.² Below are updates to the commitments that were either outstanding or ongoing as of the 2017 Report.

Customer Base Rate Credit (CBRC) - On July 25, 2017, the Commission issued Order No. 18846 directing the Company to allocate the following amounts over a two-year period: \$15 million to all residential customers (including MMA), and \$2.3 million to certain small commercial customers. In addition, the Commission directed the Company to set aside the remaining CBRC funds (approximately \$8.3 million) to offset rate increases for a future rate class comprised of senior citizens and disabled persons on fixed incomes. The Company began applying the CBRC to customer bills in August 2017. During the reporting period, Pepco has credited approximately \$7.2 million to customer bills.³

MEDSIS Pilot Project Fund – On May 20, 2016 the Company established and funded the \$21.55 million MEDSIS Pilot Project escrow fund. Funding for the MEDSIS Pilot Project will allow the Commission to “investigate new technologies that could improve Pepco’s grid with the incorporation of distributed generation including solar energy, and the exploration of micro-grid architecture opportunities, and other conservation and environmental quality issues.” Developments surrounding this commitment are contained within Formal Case No. 1130. The Commission did not approve disbursements for this Commitment as of the end of the reporting period.

Energy-Efficiency and Energy Conservation Initiatives Fund – The Company established and funded the \$11.25 million Energy-Efficiency and Energy Conservation Initiatives Fund, which is held in escrow, on May 20, 2016 with the goal of supporting innovative energy conservation and/or energy-efficiency programs for limited- and low-income residents. On October 19, 2017, the Commission issued Order No. 19145 and opened an investigation in Formal Case No. 1148 into the establishment and implementation of energy-efficiency and energy conservation programs in the District of Columbia. The proceeding is still in the working group phase and no funds were spent in 2018.

² The Company satisfied requirements for the Residential Customer Bill Credits and Forgiveness of Low-Income Residential Customer Accounts More Than Two Years Old commitments in the 2016 and 2017 reporting period. Additional commitment detail is included in the annual Economic Benefits Reports of 2016 and 2017.

³ In 2018, residential customers received approximately \$6.4 million in credits. Commercial customers received \$840,434 during this period.

3.2 Charitable Contributions and Other Commitments

Charitable Contributions – As a condition of the merger, Pepco, in conjunction with Exelon, provides significant levels of charitable contributions and traditional community support. Specifically, charitable contributions of at least an annual average in excess of \$1.9 million are made for the ten-year period following the close of the merger. For the reporting period, Pepco, in conjunction with Exelon, made approximately \$2.1 million in charitable contributions to District of Columbia organizations.

3.3 Economic Value of Measured Benefits

Pepco’s District of Columbia customers and communities received \$9.4 million in financial benefits, in the form of Rate Credits and Charitable Contributions for the reporting period. The IMPLAN model determined that Pepco created total economic value of more than \$12.4 million in direct and “indirect and induced” benefits, including \$393,441 in District of Columbia taxes, and 50 job years in 2018.

The IMPLAN model determined that the CIF provided a total of \$10.3 million in benefits⁴ – \$7.0 million in direct and \$3.3 million in “indirect and induced” economic value, including \$311,364 in District of Columbia taxes for the reporting period. As a result, five job years were directly created and 30 job years were indirectly created to handle the additional demand and spending created by the credits.

Pepco, in conjunction with Exelon, exceeded the charitable contributions commitment for the third consecutive year by spending approximately \$2.1 million. To determine the total economic value of spend, the IMPLAN model accounted for organizations that utilize goods and services both inside and outside of the District of Columbia to support their efforts. Based on that determination, the total direct, indirect and induced economic value of Pepco’s contributions was determined to be approximately \$2.1 million for 2018. As a result of the 2018 charitable contributions, 16 job years were created, 11 of which were the direct result of Pepco’s spending and another five were established indirectly.

⁴ IMPLAN calculated the 2018 direct economic value for C&I Customer Base Rate Credit as less than the total dollars spent. C&I rate credits are modeled in IMPLAN as incremental sales to the District’s C&I electric customers. Under this framework, a portion of the direct rate credit represents the costs of the goods or services sold. Therefore, the direct economic value of the C&I rate credits is less than the total dollars spent.

Table 1: Summary of Measured Benefits

| Table 1 Summary of Measured Benefits | | |
|---|---|--|
| Benefits to: | Type of Benefits: | Economic Benefits Associated with Merger's Regulatory Commitments to the District of Columbia: |
| Pepco customers | Currently quantifiable benefits | Customer Investment Fund: <ul style="list-style-type: none"> Customer Base Rate Credit in the amount of \$6,383, 691 for Residential customers and \$840,434 for certain small commercial customers. Charitable Contributions: <ul style="list-style-type: none"> Total charitable contributions in the amount of \$2,141,304 were made to the District of Columbia in 2018. |
| | Other unquantified benefits and commitments | Customer Investment Fund: <ul style="list-style-type: none"> Formal Case No. 1119 Escrow Fund with two subaccounts: \$21.55 million MEDSIS Pilot project and \$11.25 million Energy-Efficiency and Energy Conservation Initiatives Fund established and funded on May 20, 2016. |

Table 2: Summary of Economic Impacts

| Summary of Economic Impacts Exelon-PHI Merger Commitments for Calendar Year 2018 District of Columbia ⁵ | | | | | | | | | |
|--|--------------------------------|------------------------|--------------------|-----------|-------------------------------|--------------------|---------------------|----------------------------|------------------|
| | Total Dollars Realized in 2018 | Employment (job-years) | | | Economic Value Added (\$2019) | | | Taxes (\$2019) | |
| | | Direct | Indirect & Induced | Total | Direct | Indirect & Induced | Total | State & Local ⁶ | Federal |
| Residential and C&I Rate Credits | | | | | | | | | |
| Residential | \$6,383,691 | - | 28 | 28 | \$6,383,691 | \$3,107,953 | \$9,491,644 | \$253,446 | \$332,914 |
| Commercial & Industrial | 840,434 | 5 | 2 | 7 | 592,446 | 214,156 | 806,602 | 57,918 | 87,778 |
| Charitable Contributions | 2,141,304 | 11 | 5 | 16 | 1,561,663 | 575,815 | 2,137,478 | 82,078 | 240,394 |
| Total | \$9,365,429 | 16 | 34 | 50 | \$8,537,800 | \$3,897,924 | \$12,435,724 | \$393,441 | \$661,086 |

4 Additional Benefits

4.1 Integration Efforts

The Company continues to implement Exelon Utilities (EU) best practices including internal and industry-wide benchmarking and process enhancements which improves operational performance and lowers the cost to customers. The Peer Group process serves to share best practices and experiences across many facets of the utility business and where practical, align utilities in common approaches to solving system challenges. The peer group process is the framework for company-to-company comparisons as well as industry benchmarking. As a result of the peer group process, Pepco implemented EU's approach regarding recloser installation which reduces the numbers of trips required to complete a recloser installation and increases the number of reclosers that can be installed with similar resources. In addition, implementation of the Work Management process at PHI helps Pepco to screen, plan and schedule more effectively which

⁵ Due to rounding, numbers in Table 2 may not add up precisely to the totals.

⁶ State and local taxes are included in Economic Value Added.

drives efficiencies in how routine work is executed on a daily basis. This peer group process is embedded in the management structure of the utilities to ensure that Pepco obtains the performance improvements projected for each best practice and follows-up on the implementation to capitalize on opportunities for continuous improvement.

4.2 Reliability

Pepco committed to improve reliability in the District of Columbia, and Pepco exceeded its standards in 2018. The Enhanced Reliability Commitments require Pepco to meet a set of quantifiable metrics that (a) reduce the frequency of outages to customers (b) reduce customer’s outage-duration time:

Table 3: Reliability Commitments

| Annual Commitment | | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Merger Commitment⁷ | SAIFI | 0.91 | 0.82 | 0.74 | 0.66 | 0.58 |
| | SAIDI | 118 | 107 | 97 | 87 | 79 |
| EQSS⁸ | SAIFI | 1.02 | 0.98 | 0.95 | 0.92 | 0.89 |
| | SAIDI | 120 | 109 | 99 | 89 | 81 |
| Actual | SAIFI | 0.82 | 0.55 | 0.53 | N/A | N/A |
| | SAIDI | 115 | 58 | 52 | N/A | N/A |

System Average Interruption Frequency Index (SAIFI) – SAIFI measures outage frequency on a per customer basis during a time period. In the District of Columbia, Pepco recorded a SAIFI of 0.53 for 2018, outperforming its goal and improving 4% over its 2017 results.

System Average Interruption Duration Index (SAIDI) – SAIDI measures the length of time customers are without power. The SAIDI values in this Report are expressed in minutes. In the District of Columbia, Pepco recorded a SAIDI of 52 minutes for 2018, outperforming its goal and improving 10% over its 2017 results.

Pepco has met the minimum performance requirements established in the Order as well as the EQSS minimum performance requirement. As a result, customers have experienced fewer and shorter disruptions of service which can have adverse impacts on customers’ household activities, business operations, and other aspects of their day-to-day lives. The value to customers of shorter and fewer outages is that they will experience lower economic and other negative impacts from outages.

⁷ Formal Case 1119 Order No. 18148, page A-11

⁸ Electric Quality of Service Standards. Pursuant 15 D.C.M.R. §§ 3600 *et seq.*

Joining the Exelon family of utilities has allowed the Company to improve its operational efficiency by capitalizing on its access to additional resources and materials. One benefit that the Company has experienced from the merger is having access to more mutual assistance resources during storms. Mutual assistance not only increases the number of resources available, it reduces the significant financial commitment necessary to acquire and pre-stage resources for an impending major weather event, and is especially cost effective when a forecasted event does not materialize. In fact, Pepco mobilized line and field support personnel from its sister-utilities ComEd and PECO to restore power to all customers impacted by Storm Riley in March 2018.

Additionally, Pepco has instituted Exelon's best practice process improvements in several areas such as corrective action programs, project management, financial management and work management. The Work Management Process, for example, helps Pepco to screen, plan and schedule work more effectively. The organizational control allows Pepco to better plan the work in accordance with the resources at its disposal.

Note that the IMPLAN analysis presented here does not reflect savings and benefits from reduced outages and durations (and is thus understated as to benefits from the merger).

4.3 Employee Hires

For information on Pepco's integration and hiring efforts, see the 2018 Annual Employment Report filed with the Commission. Note that the IMPLAN analysis presented here does not reflect hiring (and is thus understated as to benefits from the merger).

5 Conclusion

Pepco, in conjunction with Exelon, delivered considerable economic benefits to its District of Columbia customers and communities through the CIF and charitable contributions in 2018. For the reporting period, the total economic value added to the District of Columbia's economy as a result of the merger was \$12.4 million, including \$393,441 in District of Columbia taxes. The economic value and tax base were further aided by the 50 job years created through the merger's financial benefits. As noted in the 2017 Report, Merger commitments – MEDSIS Pilot Project Fund, Energy-Efficiency and Energy Conservation Initiatives Fund – require further direction and approval from the Commission before their economic value to customers can be realized and quantified. These commitments will provide quantifiable benefits for customers and the District of Columbia's economy at a future time outside of this reporting period. Difficult-to-quantify but still important economic benefits, such improved reliability, greatly benefited customers through fewer and shorter outages.

Pepco is committed to fulfilling all of its commitments to ensure District of Columbia customers and communities continue to benefit from the merger. In compliance with the provisions of

Paragraph 23 of the Order, Pepco will provide updates on the economic benefits of the merger on an annual basis for five years following the merger close. The next Report will be filed in 2020.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the 2018 Annual Economic Benefits Report for Potomac Electric Power Company was served this March 29, 2019 on all parties in Formal Case No. 1119 by electronic mail.

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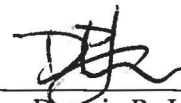
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