

# ***Exelon-Pepco Deal Must Be Balanced with the Public Interest***

Dear Lay Advocate,

As a District electricity consumer, you may have recently heard news reports or received a notice from Pepco regarding the proposed acquisition of Pepco Holdings, Inc. ("PHI") which owns Potomac Electric Power Company ("Pepco"), Delmarva Power, and Atlantic City Electric-by Exelon Corporation ("Exelon"). If approved, this acquisition may have monumental short-and long-term impacts on District electricity consumers. As People's Counsel, I believe consumers must have balanced viewpoints to assist them in deciding whether what is being presented is a good deal for them, local business, and the District as a whole. It is for this purpose that I am providing my preliminary views on the proposed Exelon acquisition of Pepco.

Exelon's proposed acquisition of Pepco shows that the one constant in today's utility industry is change. Pepco has served District consumers for over 118 years. While the relationship has at times been stormy, it is one with which we are familiar. If the proposed merger is approved, our locally managed utility will become part of a Chicago-based corporate empire that is, by any reasonable measure, enormous. Exelon reportedly had revenues of \$24.9 billion last year, operates in 47 states and Canada, and lists \$79 billion in assets, including a significant nuclear generation portfolio. In contrast, PHI operates in 4 states and has revenues of \$4.8 billion.

We have been down this road before. Barely 15 years ago, District ratepayers were given a laundry list of assurances from Pepco in return for approval of a new and "deregulated" utility structure, including a one-time \$75 bill credit and promises that competition would thrive and the quality of electric service would not suffer.

Those promises were not kept. Instead, we saw minimal investments in the electric distribution system, a sharp decline in the quality of service, poor coordination, and delayed responses to extended storm-related power outages, blue sky outages, exploding manhole covers, and a general rift in the relationship between Pepco and DC consumers.

Both Exelon and Pepco will benefit if the proposal is approved. The principal motivation behind Exelon's interest in this deal is reportedly the reduced margins its massive portfolio of unregulated nuclear generation has been experiencing in down wholesale markets. Utility operating companies like Pepco offer stable sources of revenue and rates of return, which will help offset the losses of Exelon's unregulated generation assets. Distribution utilities like Pepco offer stable sources of revenue and high rates of return. For Pepco, its shareholders will be rewarded with a 24% premium, and top management will presumably garner

substantial bonuses. From my perspective as People's Counsel, these facts are beside the point! District law is clear that the key questions are whether Exelon's acquisition of Pepco will produce direct and traceable benefits to ratepayers and is in the public interest.

Exelon and Pepco are expected to file their proposal with the Public Service Commission in mid-June. Once the proposal is filed, several critical questions must be asked and answered. First, if not foremost, will the presence of Exelon bring an end to back-to-back rate increases? Will there be a loss of local regulatory control? Will Exelon's substantial nuclear generation plants impose new risks on Pepco, and are there ways to protect DC consumers from those risks? How and to what extent will Exelon commit to improving reliability and support implementation of the recently enacted power line undergrounding law? Will the new entity, with its increased market power, prove too big to regulate effectively?

The combined company would serve approximately 10 million customers in heavily populated parts of the midwest and mid-Atlantic regions. The ability of the DC Public Service Commission to influence the actions of a company of this size and geographical dispersal is problematic at best.

The public interest is not met with promises; it requires the local utility to consistently deliver safe, adequate, and reliable service at just and reasonable rates. Exelon's purchase of Pepco cannot be permitted to weaken Pepco's ability to meet its statutory obligations nor diminish the ability of the Public Service Commission to regulate and protect the public interest.

I am not averse to change if it will benefit consumers. Change can produce winning results. However, consistent with the law and my statutory mandate, my focus in evaluating the proposed merger is to ensure it not only does no harm to the public, but also provides direct and tangible consumer benefits. Taken as a whole, the outcome must be in the public interest. Considering the scale and impact of this decision on future rates and services, I encourage all District stakeholders to carefully evaluate the proposal as well.