GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE ATTORNEY GENERAL

KARL A. RACINE
ATTORNEY GENERAL

Public Advocacy Division
Social Justice Section

E-Docketed

July 27, 2020

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

Re: Formal Case No. 1156 – In the Matter of the Application of Potomac Electric Power Company for Authority to Implement a Multiyear Rate Plan for Electric Distribution Service in the District of Columbia.

Dear Ms. Westbrook-Sedgwick:

On behalf of the District of Columbia Government (DCG), I enclose for filing the Supplemental Testimony of DCG Witness Courtney Lane – Exhibit DCG (4A), with accompanying exhibits DCG (4A)-1 through DCG (4A)-11. Please note this is the publicly version of the testimony. A confidential version consisting of 1 confidential attachment is being separately filed. If you have any questions regarding this filing, please contact the undersigned.

Sincerely,

KARL A. RACINE
Attorney General

By: */s/ Brian Caldwell*
BRIAN CALDWELL
Assistant Attorney General
(202) 727-6211 – Direct
Brian.caldwell@dc.gov

cc: Service List

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF THE APPLICATION OF POTOMAC ELECTRIC POWER COMPANY FOR AUTHORITY TO IMPLEMENT A MULTIYEAR RATE PLAN FOR ELECTRIC DISTRIBUTION SERVICE IN THE DISTRICT OF COLUMBIA	)	**Formal Case No. 1156**

Supplemental Testimony of

Courtney Lane

On Behalf of

The District of Columbia Government

Regarding the Potomac Electric Power Company's Proposed Multi-Year Rate Plan and

Performance Incentive Mechanisms

July 27, 2020

Exhibit DCG (4A)

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<u>EXHIBITS</u>

Exhibit DCG (4A)-10: Pepco response to DCG 12-7(b)

Exhibit DCG (4A)-11: Pepco response to Staff DR 17-27

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, title, and employer.

A. My name is Courtney Lane. I am a Senior Associate at Synapse Energy Economics, located at 485 Massachusetts Avenue, Cambridge, MA 02139.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. On behalf of the District of Columbia Government (DCG or the District) I submitted direct testimony in this proceeding on March 6, 2020, rebuttal testimony on April 8, 2020, and surrebuttal testimony on June 1, 2020.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to respond to the Potomac Electric Power Company's (Pepco or Company) MRP Enhanced Proposal, proposed for the first time in its June 1, 2020 surrebuttal testimony, and assess how this proposal should be considered in light of the impacts of the COVID-19 pandemic.

Q. What materials did you rely on to develop your testimony?

A. The sources for my testimony and exhibits are public documents and responses to discovery requests, as well as my professional knowledge and experience.

Q. Did you prepare or direct the preparation of this testimony?

A. Yes.

II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q. Do you support the Company's MRP Enhanced Proposal?

A. No, I do not support the Company's MRP Enhanced Proposal for the reasons provided below.

Q. Briefly summarize why you do not support the Company's MRP Enhanced Proposal in its current form?

A. I cannot support the Company's MRP Enhanced Proposal, because similar to its Original MRP Proposal, it does not comply with the Commission's principles for alternative forms of regulation (AFOR), but instead shifts substantial risk onto ratepayers without advancing the clean energy policy goals of the District, and does not adequately account for the impacts of the COVID-19 pandemic. In particular, the Company's proposal suffers from the following three flaws:

1. The Company's MRP Enhanced Proposal does not provide appropriate incentives to the Company to contain costs or protect customers from unreasonable rates due to (a) the adoption of the Maryland reconciliation process and (b) the use of an unfounded escalation rate to build its revenue requirements.

2. Pepco's MRP Enhanced Proposal (a) still does not sufficiently advance or otherwise align with the District's public policy goals, such as grid modernization, the adoption of distributed energy resources (DERs), and the development of non-wires alternatives (NWAs), and (b) the proposed tracking metrics do not sufficiently advance the clean energy goals of the District.

3. Pepco's proposal does not adequately protect ratepayers against the potential impacts of the COVID-19 pandemic. Due to the great uncertainty regarding future electricity use in the District of Columbia, there is limited ability to establish the factual basis necessary to ensure that Pepco's forecasts are just and reasonable, and devoid of arbitrariness.

Q. Please summarize your recommendations.

A. I recommend that the Commission:

1. Reject Pepco's MRP Enhanced Proposal and direct Pepco to continue with traditional cost of service regulation until Pepco files a new MRP application that remedies the deficiencies in its current application.

2. Direct Pepco to develop and implement an integrated distribution plan and a comprehensive grid modernization plan that includes a system needs assessment, technology investment roadmap, timeline, and benefit-cost analysis.

3. Require that any future MRP filing:

    a. Provide strong cost containment incentives by not permitting any reconciliation of under-collections;

    b. Escalate the revenue requirement based on external indexes rather than arbitrary escalation rates or Company-specific cost forecasts; and

c. Include PIMs and tracking metrics that advance the District's climate and clean energy goals as proposed in my Rebuttal Testimony.

III. PEPCO'S MRP ENHANCED PROPOSAL SHOULD BE REJECTED

Q. Please provide a summary of Pepco's MRP Enhanced Proposal.

A. As part of its June 1, 2020 surrebuttal testimony, Pepco proposed an MRP Enhanced Proposal to purportedly address the COVID-19 pandemic as an alternative to the Original MRP Proposal. The MRP Enhanced Proposal includes several modifications to the Original MRP, including:

- No overall distribution rate increases for customers until January 1, 2022 and deferral of $60 million in capital spending.
- Change to Return on Equity (ROE) from 10.30% to 9.70%.
- Instead of using Company-specific cost forecasts, Pepco's plant additions and operation and maintenance (O&M) expenses are based on the Company's actual levels for the 12 months ended June 30, 2019 and then escalated at 2.5% annually.
- Removes the Original MRP's annual reconciliation filing with annual sharing with customers for under-earnings and over-earnings outside of the ROE deadband and replaces it with the Maryland reconciliation process.

- Adopts several customer assistance programs for both residential and small commercial customers to address the economic impact of the COVID-19 pandemic.

- Converts all Performance Incentive Mechanisms (PIMs) in the Original MRP Proposal to tracking metrics and proposes a greenhouse gas (GHG) reduction tracking metric.

Q. Does Pepco's MRP Enhanced Proposal meet the Commission's AFOR criteria?

A. No, it does not. As I will explain in more detail below, Pepco's MRP Enhanced Proposal does not meet many of the AFOR criteria because the proposal: (1) fails to provide adequate cost containment incentives; (2) shifts risks to ratepayers; and (3) fails to sufficiently advance or otherwise align with the District's public policy goals.[1]

<u>Pepco's Proposed Annual Reconciliation Process Should be Rejected</u>

Q. Please describe Pepco's proposal for an Annual Reconciliation Filing.

A. Pepco proposes to use the same reconciliation process approved by the Maryland Public Service Commission in Order No. 89482 in Case No. 9618 for Maryland utility multiyear rate plans.[2] As described by Pepco Witness Wolverton, the reconciliation of Pepco's costs will be conducted by three distinct means: (1) an "annual information filing" comparing projected data to actuals; (2) a "consolidated reconciliation and prudency review" in a subsequent rate case; and (3) a "final reconciliation and prudency review"

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[1] DC PSC, Order, December 20, 2019, at ¶ 94.
[2] Maryland Public Service Commission Case No. 9618, Order No. 89482 (*rel*. Feb. 4, 2020).

after the conclusion of the term of the rate plan.[3] The proposed consolidated and final reconciliations would consider actual versus projected variances based on updated detailed capital additions (by project) and O&M expense projections (by FERC account) for 2021-2022 to be filed with the Commission in February 2021, approximately 90-120 days after a final decision in this proceeding. The final reconciliation would include a proposal for a rider mechanism to adjust customer rates for any over- or under-collections ultimately approved by the Commission. In the case of over-collection, the carrying costs would continue to apply during the period of any repayment to customers. In the case of under-collection, there would be no carrying costs.[4]

Q. As Pepco Witness Wolverton states in his Surrebuttal Testimony, you referenced the Maryland reconciliation proposal in your Direct Testimony, does this indicate your support?

A. No, it does not. On page 17 of my Direct Testimony, I cite the decision of the Maryland Commission to reject Staff's proposal for an annual reconciliation of all costs and revenues to help highlight the fact that utility commissions have been reluctant to adopt formula rate plans (FRP) due to their tendency to shift risks to ratepayers. I have not, in any written testimony or discovery response filed in this proceeding, indicated support for the Maryland reconciliation process, which is a de facto FRP. In fact, Pepco's proposal to adopt the Maryland reconciliation process is the fatal flaw of its MRP Enhanced Proposal.

[3] Pepco (6C) at 14.
[4] Pepco (6C) at 17 and 18.

Q. Please describe why the Maryland reconciliation process is flawed?

A. The Maryland reconciliation process included in Pepco's MRP Enhanced Proposal is flawed in that it allows for the reconciliation of under-collections, except for carrying costs, through the consolidated and final reconciliations if the costs are deemed prudent.

While this proposal no longer allows for annual reconciliation of under-earnings, it still allows for such a reconciliation the end of the MRP term though the consolidated and final reconciliations. This ability to reconcile all costs, except for carrying costs, makes this proposal more akin to an FRP due to the fact that it prevents Pepco's ROE from deviating far from its allowed ROE, while shifting the majority of the risk of overspending to customers.

Q. Is such a reconciliation mechanism common in MRPs?

A. No. Reconciliations of utility under-earnings are virtually unheard-of in an MRP. A key benefit of an MRP is to provide strong efficiency incentives by avoiding cost true-ups. As noted in a Brattle report filed by the Joint Utilities in Maryland, "Multi-year rate plans typically have reconciliations more limited in scope and typically focused on capital expenditures, to the extent that reconciliations are included at all."[5]

Q. Please define an FRP and why it is problematic.

A. As described in my direct testimony, an FRP ensures that a utility's earned ROE closely tracks its allowed ROE by reconciling revenues and costs. If a utility's earned return is

[5] The Brattle Group, Exploring the Use of Alternative Regulatory Mechanisms to Establish New Base Rates, Joint Utilities' Joint Initial Comments, Maryland PC51, March 2019.

above its authorized return on equity, it will be required to reduce its rates. Likewise, if a utility's earned return is below its authorized return on equity the Commission will permit the utility to increase its rates. In contrast, MRPs do not reconcile revenues to equal actual costs. Rather, the utility must operate within its authorized revenue amounts and is rewarded for finding the most cost-effective solutions for serving customers.

Q. How does this proposal affect Pepco's cost containment incentives?

A. The fact that the MRP Enhanced Proposal allows for Pepco to reconcile costs associated with utility over-spending, except for carrying costs, significantly undermines cost containment incentives. Outside of carrying costs, Pepco would be allowed to recover any cost overruns unless a cost was found to be imprudent. Since Pepco would endure little risk if its costs exceed expectations (i.e., no carrying costs), this would not create an adequate incentive for cost-containment.

Q. Will the proposal for a prudency review as part of the consolidated and final reconciliations provide sufficient protection to ratepayers?

A. No. As stated in my direct testimony, the practical burden of proving imprudence of costs incurred is high, as it requires extensive time and resources by the challenger to request and comb through a vast amount of data in an attempt to decipher exactly what the utility knew and when. However, this information is readily available to the utility. As a result, it is often extremely challenging for other parties or the Commission to establish imprudence of costs in all but the most egregious cases.[6]

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[6] DCG(A) at 20.

Q. How does the reconciliation process shift risks to ratepayers?

A. Pepco's annual information filing proposal places the full burden of proving utility overearnings on the other parties and the Commission. As Pepco describes, if the utility is over-earning the parties could petition (or the Commission on its own accord could initiate) for a review of whether rates should be decreased to address the over-earning shown in the annual information filing.[7]

Assuming the Maryland reconciliation process is adopted in full, it is unclear what level of over-earnings Pepco would be permitted to retain before a threshold of a "significant disparity" occurs. The Maryland order states that "[f]ollowing each annual informational filing, the Commission will allow non-utility parties 60 days to conduct discovery from the utility and provide written comments on the annual informational filing. If Staff, OPC, or another party demonstrates a significant disparity between revenues and expenses to the detriment of ratepayers, the Commission may hold a hearing and determine whether an adjustment of the revenue requirement and/or rates is appropriate."[8] This process creates significant uncertainty around permitted over-earnings and the level of ratepayer protection.

Q. What type of annual reconciliation process do you recommend be implemented as part of Pepco's Enhanced MRP Proposal?

A. I do not recommend any reconciliation over the course of the MRP or at the end of the MRP. As indicated above this would remove incentives for cost-efficiencies over the

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[7] Pepco (6C) at 15.
[8] Maryland Public Service Commission Order No. 89482 at ¶ 79.

MRP term. For an MRP to provide the desired benefits of cost-containment, rates should instead be reset with a new test year at the close of the MRP. Another option could be to allow the MRP to continue as originally approved with a revised evaluation for an updated escalation factor for revenues going forward.

Q. When is it appropriate for reconciliation to be included in an MRP?

A. It can be appropriate for MRPs to have certain limited reconciliations for certain unusual large investments, such as part of a grid modernization plan; recurring pass-through or mandated costs; or extraordinary costs that are largely outside of the utility's control. If the MRP includes a reconciliation for a limited category of spending, I recommend a one-way downward reconciliation at the end of the MRP term. The one-way nature of the reconciliation encourages the utility to keep costs below the projections over the course of the MRP and ensures that overspend is not considered until a subsequent rate case when rates are reset.

<u>Pepco's Indexed-Based Approach is Unsupported and Should be Rejected</u>

Q. Does Pepco's use of a cost escalation rate align with your recommendation?

A. Not entirely. One of my core recommendations from my direct testimony was for Pepco to escalate its historical test year revenue requirement according to an inflation index instead of relying on a Company specific forecast.[9] While Pepco's MRP Enhanced Proposal no longer relies on a Company-specific cost forecast, it does not escalate its revenue requirement by an external index. The Company instead chooses to escalate both

[9] DCG(A) at 44.

plant additions and O&M expenses based on the Company's actual levels for the 12 months ended June 30, 2019 by 2.5% annually, which was not derived from any external index.

Q. You previously advocated that Pepco use external indices for revenue escalation, does Pepco's adoption of an escalation rate resolve your concern?

A. No, it does not. Unfortunately, the use of the Maryland reconciliation process negates any benefit created from using an indexed-approach to escalation instead of a Company-specific cost forecast. It would also amplify the risk to ratepayers if Pepco's choice of the 2.5% escalation rate leads to overstated costs over the MRP term as I will discuss in more detail below. To build rate base, the Company can (a) overstate its costs (i.e., revenue requirements) to be allowed in the rate case through an arbitrary escalation rate, and (b) overspend the costs that are allowed in the rate case. The MRP Enhanced Proposal enables the possibility for both negative outcomes to occur.

Q. How does Pepco arrive at the 2.5% escalation rate?

A. Pepco Witness Wolverton indicates that the 2.5% escalation rate is in the range of escalation rates that other parties put forth in this case. He specifically cites OPC Witness DeCourcey's recommendation of a 2.17% escalation rate, my citation of a 2.49% escalation rate used in California, and AOBA Witness T. Oliver's note that Pepco's non-labor O&M expense has increased at an average annual rate of 7.64% from 2014-2019.

Witness Wolverton also indicates that Pepco is contractually obligated to provide a 2.5% annual wage increase to Local 1900 employees.[10]

Q. Do you have concerns with Pepco's proposed escalation rate of 2.5%?

A. Yes. The escalation of historical costs to develop an MRP's revenue requirement should not be based on an escalation rate that is unsupported and chosen simply because it "is in the range of escalation rates that other parties put forth in this case."[11] An escalation rate should ideally be based on a solid justification that includes the use of an independently published index.

Q. Did you recommend that Pepco adopt the 2.49% escalation rate of Southern California Edison in your previous testimony?

A. No, I did not. As indicated in my surrebuttal testimony, although I referred to California's approach of using various external indices to develop Southern California Edison's revenue requirement, I did not specifically recommend adopting California's 2.49% escalation rate. Further, it is interesting to note that while Pepco chooses an escalation rate of 2.5%, Pepco Witness Wolverton indicated in his rebuttal testimony that "the 2.49% rate referenced by DCG Witness Lane was specific to SCE and may not be appropriate for Pepco".[12]

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[10] Pepco (6C) at 8.
[11] Pepco (6C) at 8.
[12] Pepco (5C) at 15.

Q. Do you agree with Pepco Witness Wolverton that the method the Company used to escalate historical costs for plant additions in its MRP Enhanced Proposal is similar to that used by Southern California Edison?

A. Not entirely. While it is true that both Southern California Edison (SCE) and Pepco apply an escalation factor to an adopted capital additions test year, the rationale behind the choice of escalation factor could not be more different. The escalation factor chosen by Pepco to escalate its historical plant additions is unsupported except for the fact it was in a range of values cited by other parties in this proceeding. This is in stark contrast to SCE's method, which relies upon "published indices" that are commonly accepted by the California Public Utilities Commission, including: the Handy-Whitman Index of Public Utility Construction Costs and IHS Global Insight forecasts of O&M and capital cost escalation, to escalates non-labor expenses and capital costs.[13] SCE's capital escalation rates, except for General Plant, are based on the IHS Global Insight forecasts of the Handy-Whitman Index of Public Utility Costs. For General Plant capital escalation, it built an index based to estimate inflation. To accomplish this, it weighted the General Plant cost categories that comprise the General Plant index based on recorded General Plant costs for 2013 through 2015 as recorded in SCE's FERC Form 1. The General Plant cost categories were then assigned the appropriate IHS Global Insight variables and weighted by the General Plant recorded costs for 2013 through 2015. SCE then re-based

[13] Public Utilities Commission of the State of California, Decision 19-05-020, Application 16-09-001, May 16, 2019, at 279.

the indexes to equal 1.000 in 2015, so the base year of the index was equal to 1.000 during the last recorded year (2015).[14]

Q. Please explain why you do not support Pepco's approach to escalate both plant additions and O&M expenses by a 2.5% escalation rate.

A. I do not support Pepco's approach because the manner in which Pepco arrives at the 2.5% escalation rate is not based on any solid analysis, examination of the current economic conditions – particularly in this new COVID economy -- or factors specific to its geographic region. The only arguable justification Pepco has for the 2.5% escalation rate is the fact that Pepco is contractually obligated to provide a 2.5% annual wage increase to Local 1900 employees.[15] However, that is just one component of labor costs and should not dictate the escalation rate for all O&M and capital costs during the MRP term.

A key concern with this is approach is that Pepco may have chosen a 2.5% escalation rate because it enabled the Company to claim its now "aligned" with other parties' proposals while maintaining close to the same revenue requirement as proposed in its Original MRP Proposal.

In Table 1 below, I show the cumulative revenue requirement over the 3 years for the Original MRP Proposal and the MRP Enhanced Proposal. In comparing the two proposals, the MRP Enhanced Proposal's total cumulative proposed revenue requirement is just $11.3 million less than the original proposal.

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[14] Southern California Edison (U 338-E) 2018 General Rate Case Application 16-09-001 (SCE-09, Vol. 1) at 85-86.
[15] Pepco (6C) at 8.

Table 1. Comparison of Cumulative Revenue Requirement

($ millions)	2020	2021	2022
Cumulative Revenue Requirement Original MRP[16]	$77.3	$114.1	$147.2
Cumulative Revenue Requirement Enhanced MRP[17]	$69.6	$104.5	$135.9

Q. How are escalation rates typically determined for an MRP?

A. The basis for such escalation rates varies by jurisdiction, but the indices are often based on inflation rates and productivity factors. In some cases, different categories of costs are escalated at different rates based on separate cost indices. For example, SCE uses a variety of indices to forecast O&M and capital cost escalation, including the Handy-Whitman Index of Public Utility Construction Costs, IHS Global Insight Forecasts, and internal labor indexes.[18]

A common approach found in other jurisdictions is to escalate expenditures using a general measure of output inflation for the national economy, such as the GDP-PI the gross domestic product price index less a productivity factor ("X-Factor"). In other words, "GDP-PI – X-Factor" is often used as the external index. The productivity factor ("X-Factor") is typically included in an MRP index-based formula to reflect the fact that the formula should account for productivity trends of the target utility and the electricity industry in general. The productivity factor is often subtracted from an index-based

[16] FC 1156 Pepco Response to OPC DR 58-1, attached hereto as DCG (4A)-1.
[17] Pepco (6C) at 8. Represents the $69.6 million annualized 2020 cumulative revenue requirement without the adjustment by Pepco to pro-rate the portion for October 1, 2020 – December 31, 2020 which was $15.1 million. This was done to create a more accurate comparison to the Original MRP.
[18] Southern California Edison (U 338-E) 2018 General Rate Case Application 16-09-001 (SCE-09, Vol. 1) at 86.

growth trend (such as inflation) to provide the target utility with an incentive to increase productivity relative to that trend.

This approach is used in Massachusetts (Eversource, National Grid), Maine (Central Maine Power), Washington (Puget Sound Energy), and in the Canadian Provinces of Ontario and Alberta. To properly calibrate the "X-Factor", a productivity factor study would need to be conducted. Productivity factor studies typically require identifying a "peer group" with which to compare the target utility, assessing the historical productivity trends of that peer group over many years, and comparing those trends with the historical trends of the target utility.

For example, Eversource's recent MRP allows for an adjustment of base rates using the rate of input price inflation representative of the electric distribution industry, less offsets for productivity and a consumer dividend. On January 1st of each year, its base revenue requirement is adjusted through an adjustment formula equal to the percentage change in the U.S. GDP-PI, minus a productivity adjustment of -1.56%, minus a consumer dividend of 0.25%, plus an adjustment for exogenous costs.[19]

Q. What is your recommendation for an index-based approach within an MRP?

A. I recommend that Pepco be required to adopt an escalation rate that is based upon a known independent published external index that is not arbitrarily chosen to accommodate its desired growth in budget and revenue requirement. The key purpose of

[19] NSTAR Electric Co. d/b/a Eversource Energy, Tariff Sheets M.D.P.U. No. 59A, filed February 16, 2018.

using an external index is to allow rate changes to be independent of actual cost changes to give Pepco the incentive to control costs over the course of the MRP. It is not to enable the Company to escalate costs in a manner that equals its desired revenue requirements. The use of an external index is to provide some assurance that the trajectory of revenue requirements provided to the utility between rate cases is reasonable.

<u>The MRP Enhanced Proposal does not sufficiently advance the District's Policy Goals</u>

Q. Does Pepco's MRP Enhanced Proposal improve upon the Original MRP as it relates to advancing the District's policy goals?

A. Not sufficiently. While Pepco's MRP Enhanced Proposal now includes a GHG tracking metric and supplemental energy efficiency rebates and loans for small commercial customers, it still does not adequately advance or otherwise align with the District's policy goals, such as grid modernization, the adoption of DERs, and the development of NWAs.

Q. Why do you claim that Pepco's proposal does not adequately advance the District's policy goals?

A. Except for the discussion surrounding the GHG reduction tracking metric, the MRP Enhanced Proposal does not differ from its Original MRP proposal in this regard. It contains very little in the way of proposed actions or investments that would further grid modernization, GHG reductions, increased renewable energy, or other policy goals. In addition, the PIMs originally proposed by the Company that will now be tracking-only, do not advance the clean energy goals of the District and target activities that the Company is already required to perform under Commission regulations. Further, the

Company has provided no evidence that the MRP Enhanced Proposal would improve these outcomes relative to traditional cost of service regulation, other than potentially allowing faster investments due to faster revenue increases. Yet this can also be accomplished through limited cost riders or trackers for specific types of investments (such as grid modernization). Therefore, my initial critique of the Company's Original MRP Proposal as it relates to its failure to adequately support the District's public policy and clean energy goals from my direct testimony continues to apply to Pepco's MRP Enhanced Proposal.

Q. Do you support Pepco's GHG tracking metric?

A. Not as proposed. While I appreciate the Company's willingness to propose a GHG tracking metric, it does not appear to be impactful or provide any benefit above the business as usual reporting process. In my rebuttal testimony, I proposed that Pepco develop goals specific to actions taken within the District of Columbia and report out annually against those goals.[20] However, Pepco indicates that it is not planning to develop any goals as part of its proposal.[21]

The development of a District-specific goal is a critical component of my original proposal as the Company currently only has a combined GHG emissions commitment for Maryland and the District of Columbia.[22] The Company states that, in lieu of a goal, it is

[20] DCG (2A) at 35.
[21] FC 1156 Pepco Response to DCG DR 12-5(A-F), attached hereto as DCG (4A)-2.
[22] FC 1156 Pepco Response to Staff DR 17-22(A), attached hereto as DCG (4A)-3.

proposing a tracking mechanism for GHG emissions.[23] However, Pepco is already tracking this information as part of its established Key Performance Indicators (KPIs) and as included in its objectives in the ISO 14001 Environmental Management System (EMS).[24] It is therefore difficult to understand how this tracking metric improves upon business as usual.

Q. How can Pepco improve upon its proposed GHG tracking metric?

A. I recommend that Pepco establish a GHG emissions goal specific to the District of Columbia. Since this is a tracking metric and not a PIM, there would be no reward or penalty to the Company for performance related to this goal. However, the development of a goal will help determine the baseline for any future PIM for GHG reductions. This is particularly important given the fact that Pepco does not currently have a District-only GHG commitment.[25]

Q. Is it your opinion that Pepco has the flexibility to implement additional actions to support the District's policy goals in its MRP Enhanced Proposal?

A. Yes. Throughout this proceeding I have argued that there are numerous investments and PIMs the Company could propose to start advancing these goals today, whether as part of its Original MRP Proposal or its MRP Enhanced Proposal. These suggested investments and actions include:

- Increasing DER hosting capacity through the use of advanced inverters;

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[23] FC 1156 Pepco Response to DCG DR 12-5(A-F), attached hereto as DCG (4A)-2.
[24] Pepco (3K) at 3.
[25] FC 1156 Pepco Response to Staff DR 17-22(B), attached hereto as DCG (4A)-3.

- Reducing line losses on the distribution system through the deployment of conservation voltage reduction (CVR), volt/VAR optimization (VVO);
- Screening proposed capital investments related to load growth for NWAs; and
- Creating a holistic grid modernization plan to lay out its investment schedule for investments related to distributed resource management, field automation, substation automation, operational communication infrastructure, and sensing and measurement equipment.

In response to these recommendations, Pepco has continued to argue that such proposals ignore the fact that the District's clean energy and grid modernization goals are the subject of ongoing proceedings, and that it will be able to develop and implement more projects and programs that advance the District's public policy and clean energy goals once clear and definitive directives from the Commission are in place.[26] However, Pepco seems to contradict this point by proposing to offer supplemental energy efficiency rebates and loans to incentivize energy efficiency for small commercial customers in its MRP Enhanced Proposal. In proposing these energy efficiency offerings, the Company acknowledges that "there is a pending decision by the Commission on how the Company will be able to proceed with filing for energy efficiency programs."[27]

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[26] Pepco 4(B) at 37-38.
[27] Pepco 5(B) at 30.

I bring this point up, not to oppose Pepco's proposal for supplemental energy efficiency rebates, but as an observation that the Company could propose additional investments to advance the District's energy policy goals within this MRP. This could be accomplished in a manner similar to how the Company proposes these energy efficiency programs in its MRP Enhanced Proposal, which is "to accelerate the availability of these incentives" and in recognition that "the decisions made on these proposed programs in the context of this proceeding would not be viewed as precedential."[28] In addition to energy efficiency, there are other clean energy investments that the Company could accelerate as part of its MRP Enhanced Proposal in a similar manner.

IV. THE COVID-19 PANDEMIC'S IMPACT ON PEPCO'S ENHANCED MRP

Q. What are the anticipated impacts of the COVID-19 pandemic in the District of Columbia?

A. While there is significant uncertainty regarding future impacts of COVID-19, it is clear that some level of impact will continue over the course of the MRP term. As indicated in its response to AOBA data request 7-28, it may take at least two years following the end of the pandemic for the District of Columbia's economy to recover.[29]

Pepco anticipates overall 2020 calendar sales to be reduced by approximately 3.7% compared to 2019 based on five months of actuals.[30] This reduction in use is primarily driven by a reduction in commercial sales and an increase in residential sales. However, it

[28] Pepco 5(B) at 30.
[29] FC 1156 Pepco response to AOBA DR 7-28 Attachment, attached hereto as DCG (4A)-4.
[30] FC 1156 Pepco response to Staff DR 19-5 (CONFIDENTIAL), attached hereto as DCG (4A)-5.

is likely that this reduction will end up being much greater. Only two months of the 2020 actuals upon which Pepco's 3.7% usage reduction forecast is premised, occurred fully after the onset of the COVID-19 pandemic. Indeed, as cited by OPC Witness Dismukes, the impacts of the COVID-19 pandemic may create a decrease in electricity demand of 5 to 15 percent.[31]

In addition, Pepco acknowledges that the COVID-19 pandemic has already impacted spending in 2020. In response to Commission Staff data requests, the Company states there has been reduced amounts of construction spending on new commercial and residential customer connections due to the COVID 19 pandemic in 2020.[32]

Q. Does the MRP Enhanced Proposal adequately address the emerging impacts of the COVID-19 pandemic?

A. No. Pepco has made minimal adjustments due to the impacts of COVID-19. The Company indicated that no modifications have been made to the budget for capacity (or load) related projects in the MRP Enhanced Proposal due to the impacts of COVID-19.[33] Further, the Company expects capital projects to continue as planned through 2020. In addition, when asked whether the COVID-19 crisis has impacted Pepco's load forecasts and revenue requirement forecast, the Company indicated the impact is unknown at this time, and Pepco has not performed the requested analysis.[34]

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[31] OPC (3A) at 22.
[32] FC 1156 Pepco response to Staff DR 24-30(c) and 24-31(c), attached hereto as DCG (4A)-6 and DCG (4A)-7. respectively.
[33] FC 1156 Pepco response to DCG DR 12-4, attached hereto as DCG (4A)-8.
[34] FC 1156 Pepco responses DCG DR 8-11 and DCG DR 12-7(b), attached hereto as DCG (4A)-9 and DCG (4A)-10, respectively.

Given the fact that capital investments are typically driven by economic growth and development, and by replacing equipment as it fails, and that the pandemic is expected to have continuing lasting impacts on economic growth and development, it would seem reasonable to anticipate changes to the amount of capital invested during the MRP term compared to what was originally forecasted. In other words, lower economic growth would reduce the level of capital investment needed, all other things being equal.

The MRP Enhanced Proposal does defer $60 million of capital forecasted to be placed in service during the Original MRP Proposal into 2023 or later, which represents approximately 10% of forecasted capital planned for the last two years of the Original MRP Proposal.[35] While this effort is acknowledged, there is little justification for why this $60 million deferral amount was chosen. Further, in response to DCG 12-4(b) the Company argues that "a decrease in load in the short term does not itself impact Pepco's capital spend".[36] The deferral of $60 million in capital would seem to contradict this statement. This leads one to question whether this $60 million should have been included in the Original MRP proposal and if it was ever needed.

Q. Does the MRP Enhanced Proposal provide ratepayer protections considering the uncertainties surrounding the COVID-19 pandemic?

A. It does not. A well designed MRP would have provided significant protection to ratepayers, including incentives for cost-containment. It should provide flexibility by allowing for adjustments to reflect changes in the business environment rather than

[35] Pepco (5b) at 8.
[36] FC 1156 Pepco response to DCG 12-4(b), attached hereto as DCG (4A)-8.

changes in the utility's actual revenue and costs. However, these protections are not realized due to the flaws in Pepco's proposal, including the ability to reconcile all costs, except for carrying costs. Further, there is significant concern that Pepco's proposed 2.5% escalation rate simply justifies revenue requirements that are similar to its original MRP proposal. It is unclear given the impact of the COVID-19 pandemic that this level of revenue is justified, especially given the fact that Pepco did not provide support for why the 2.5% level of escalation is necessary or reasonable.

Q. In light of the COVID-19 pandemic, what do you recommend?

A. Similar to its Original MRP Proposal, it does not seem prudent to approve Pepco's MRP Enhanced Proposal at this time given the uncertainty of the COVID-19 impacts and the fact that the proposal shifts risks to ratepayers and does not contain sufficient mechanisms for cost containment. The Company itself notes that it will not conduct an analysis of the longer-term impact of the COVID-19 pandemic into 2021 and beyond until sometime this summer and / or fall, likely after evidentiary hearings in this matter have concluded.[37]

I therefore recommend that the Commission continue with traditional cost of service regulation until the impacts of the pandemic on system needs are better understood and until Pepco remedies the deficiencies in its MRP Enhanced Proposal that I summarized in the proceeding sections.

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[37] FC 1156 Pepco response to Staff DR 17-27, attached hereto as DCG (4A)-11.

V. SUMMARY AND CONCLUSIONS

The Commission should reject the MRP Enhanced Proposal because it does not improve upon the status quo. It would not provide additional tools to address the District's energy policy goals or make a meaningful contribution to reductions in GHG emissions. Most significantly, the proposal is essentially a formula rate plan that would reduce cost-containment features compared to the current cost of service regulation in the District of Columbia, thereby shifting the risk of overspending to ratepayers.

I therefore recommend that the Commission:

1. Reject Pepco's MRP Enhanced Proposal and direct Pepco to continue with traditional cost of service regulation until Pepco files a new MRP application that remedies the deficiencies in its current application(s).

2. Direct Pepco to develop and implement an integrated distribution plan and a comprehensive grid modernization plan that includes a system needs assessment, technology investment roadmap, timeline, and benefit-cost analysis.

3. Require that any future MRP filing:

    a. Provide strong cost containment incentives by not permitting any reconciliation of under-collections;

    b. Escalate the revenue requirement based on external indexes rather than arbitrary escalation rates or Company-specific cost forecasts;

c. Include PIMs and tracking metrics that advance the District’s climate and energy goals as proposed in my Rebuttal Testimony.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATION

I certify on this 27th day of July 2020, that the foregoing Supplemental Testimony is true and correct to the best of my knowledge, information and belief.

/s/ *Courtney Lane*
Courtney Lane

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO OPC DATA REQUEST NO. 58

QUESTION NO. 1

Revenue Requirement. With reference to Mr. Wolverton's testimony, Pepco (6C) at 2:17, please compare the Company's total revenue requirement each year under the Enhanced MRP Proposal to the proposed total revenue requirement under the Original MRP Proposal in the following format. Assume that all elements of each plan are accepted as filed by the Company and that the annual reconciliations included in each plan result in no changes in any year to the revenue requirement compared to current forecasts.

	2020	2021	2022
Enhanced MRP Proposal			
Original MRP Proposal			

RESPONSE:

	2020	2021	2022	2023
MRP Enhanced Proposal[1]	$0	$0	$72.6	$135.9
Original MRP Proposal[2]	$77.3	$114.1	$147.2	$147.2

[1]See Pepco (6C)-1, page 1.

[2]See Pepco (5C)-1, page 1

SPONSOR: Tyler Wolverton

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO DCG DATA REQUEST NO. 12

QUESTION NO. 5

Referring to the development of an annual GHG emissions goal for its emissions sources as described on page 4 of Witness Sanford's Surrebuttal Testimony, answer the following;

A. Does Pepco plan to submit the annual GHG emissions goal as part of its MRP Enhanced Proposal? If no, why not?

B. If the answer to (A) is yes, when will the goal be shared with the parties to FC 1156?

C. If the answer to a) is no, when will Pepco develop this goal and share it publicly?

D. What methodology will Pepco use to determine the annual GHG emission goal?

E. Describe how Pepco intends to report out on progress towards this goal during the course of the 2020-2022 MRP cycle.

F. Describe how the annual GHG emission goal will differ from the current GHG emissions target for the Pepco service territory in the District of Columbia?

RESPONSE:

A. The use of the term goal in Witness Sanford's Surrebuttal Testimony was confusing and does not represent what the Company is proposing as part of its proposal. In lieu of a goal, the Company is proposing a tracking mechanism for GHG emissions in DC. The tracking mechanism will track the emissions sources over which the Company has direct operational control in the District to understand whether such a metric can be transformed into a PIM and, if so, what the appropriate goals and metrics should be for the PIM.
B. N/A
C. As indicated in the response to part A of this question a tracking mechanism for GHG emissions in DC is proposed which could potentially transform into a PIM with goals established at a later point in time.
D. and E. See response to part A. of this question.
F. The current Pepco GHG emissions target includes emissions from both DC and MD – if at some point it is determined that a GHG goal is appropriate as a PIM it will be based on emissions from DC only.

SPONSOR: Tammy D. Sanford

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO STAFF DATA REQUEST NO. 17

QUESTION NO. 22

Please refer to Pepco (3K), page 2, lines 12-15, Witness Sanford's Testimony. Pepco states: "For, example, Pepco is committed to reducing GHG emissions by 15% by 2022 (using a 2015 baseline) as part of an Exelon-wide effort to reduce emissions by more than one million tons during this period. Pepco is currently on track to achieve this goal." With regard to this statement, please clarify:

(a) The commitment of reducing GHG emissions by 15% by 2022, is this for DC and Maryland together or just DC?
(b) If the answer to (a) is DC and Maryland, what is the commitment for DC by 2022?
(c) Please provide DC specific commitment in terms of CO2e (tons per year) goal by 2022 and provide the baseline number in 2015.
(d) Please provide the plan or study to move toward the goal specified in (c) above.

RESPONSE:

A. The commitment of reducing GHG emission applies to Maryland and DC together.

B. Pepco does not currently have a DC only commitment.

C. The Pepco 2022 goal (MD and DC combined) was 50,706 metric tons CO2e. The 2015 Baseline was 64,918 metric tons CO2e.

D. Pepco has already achieved a 15% reduction in emissions and is continuing to set lower targets for emissions every year. The goal was achieved by establishing a program to identify leaking SF_6 breakers and repairing or replacing the equipment.

SPONSOR: Tammy Sanford

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO AOBA DATA REQUEST NO. 7

QUESTION NO. 28

Re: Pepco's Witness McGowan's Surrebuttal Testimony, Exhibit Pepco (5B), page 30, lines 3-4. The referenced portion of Witness McGowan's Surrebuttal Testimony suggests that there is an "immediacy" of need for the Company's proposed Supplemental Energy Efficiency Incentive Programs. Please provide the data, analyses, workpapers, studies and other documents on which the Company has relied to assess "the immediacy of the need" for such programs.

RESPONSE:

The Coronavirus epidemic has had an unprecedented impact on local businesses and employment within the District. Prior to Coronavirus there were over 2,760 restaurants in DC, and these restaurants employed around 65,000 employees.

Since the COVID epidemic it is estimated that nearly 38% of these businesses have closed, resulting in 25,000 employees being furloughed or no longer employed. These businesses are struggling to meet sales targets and maintain overhead costs. Reducing overhead costs and implementing energy efficiency measures will allow these businesses to optimize and prepare for reopening once this epidemic subsides.

See FC 1156 AOBA DR 7-28 Attachment.

SPONSOR: Kevin M. McGowan

DC Demographics

Diverse Population

45% African American

42% White

13% Other

Income Gap

25% live in poverty[4]

46% make over **$100k**

Education Disparity[5]

17% **high school** diploma

25% **postgraduate** degree

Housing Comparison

42% homeowners

58% renters

High Cost of Childcare

$24,240 annual cost of infant care, which is

28% of DC residents' median income

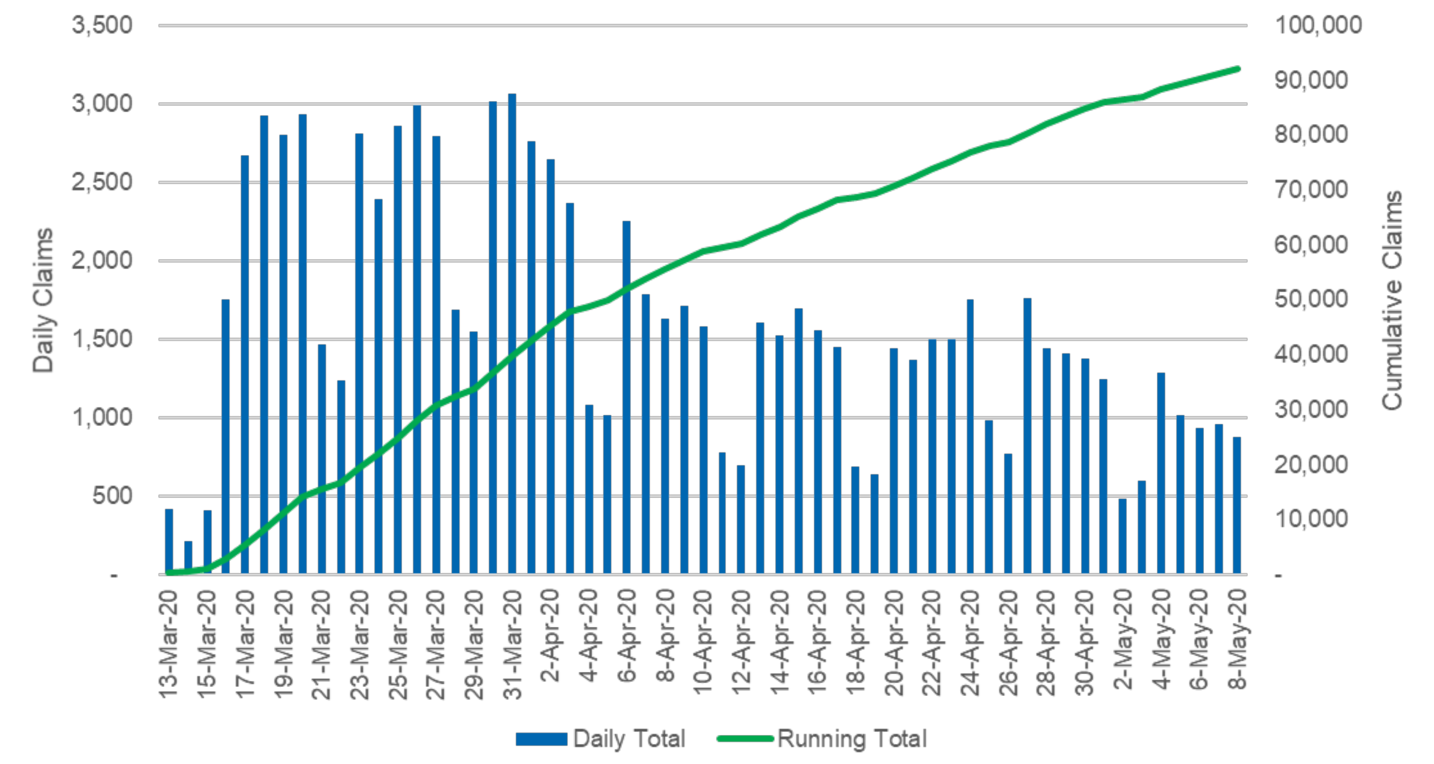
(1) Source: Scarborough, Washington DC, 2019
(2) Census Quick Facts
(3) DC Health Matters
(4) Estimate of number of people living below $39,999, the approximate income level for a family of 4 at or below 150% of FPL
(5) Education disparity captures the highest level of education obtained

Pepco Holdings
An Exelon Company

Status of Unemployment in DC

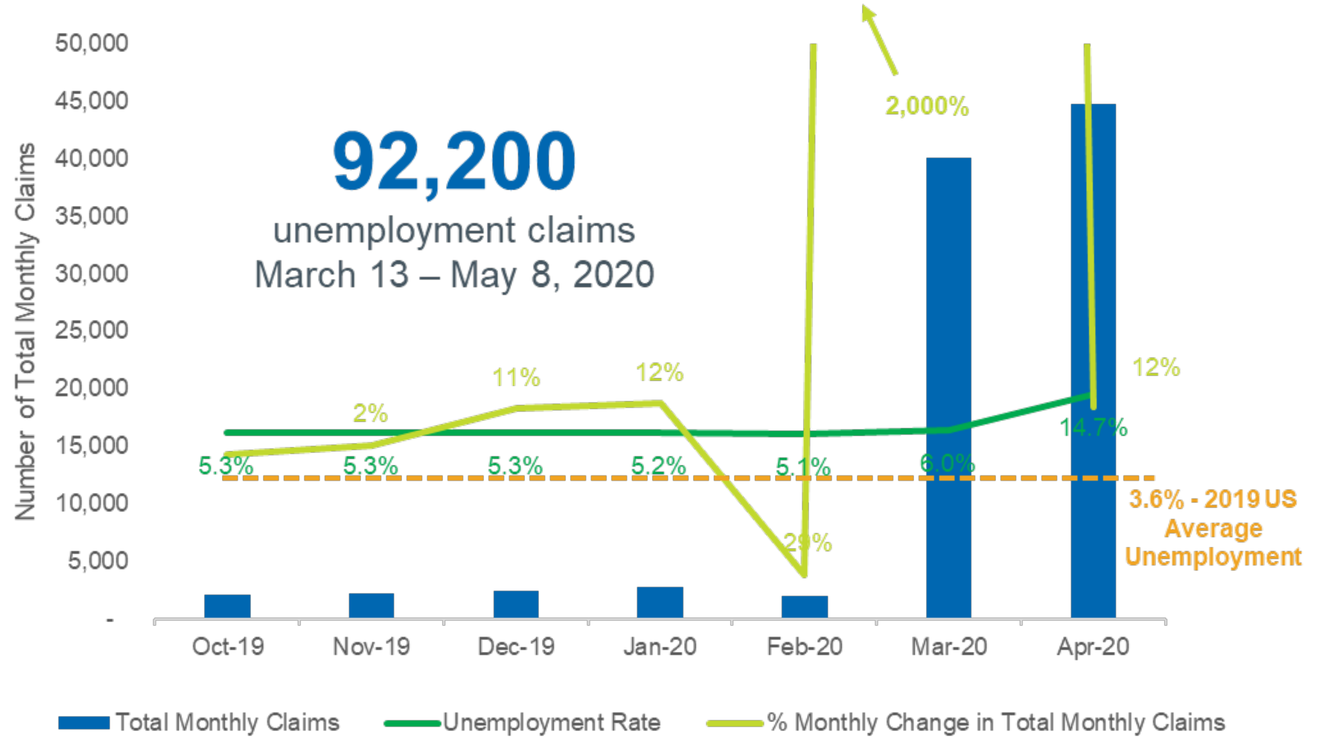
Daily Unemployment Claims in DC

March 13, 2020 – May 8, 2020



Monthly Unemployment Rate in DC

October 2019 –April 2020 [1 2]



11,339	3,064	92,200	2,000%
unemployment claims October 2019 – February 2020	claims made in one day on March 30, approximately **1,150** more than the total claims in the month of February 2020	unemployment claims March 13 -- May 8, 2020	increase in unemployment claims in DC between February and March 2020

(1) **Unemployment Rates:** March and April unemployment rate is estimated by the Bureau of Labor Statistics. Actuals for unemployment rates for March will be available May 18, 2020 and April will be available June 12, 2020.
(2) **Unemployment Claims:** Unemployment Claims in DC provided by DC Employment Services
(3) District of Columbia Department of Employment Services, Daily Unemployment Compensation Claims Data
(4) US Bureau of Labor Statistics, Economy at a Glance
(5) US Bureau of Labor Statistics, Databases, Tables and Calculators by Subject

Pepco Holdings
An Exelon Company

DC Commercial Segment Characterization

Customer Sector	Number of Entities	Number of Entities in Opportunity Zones	Average Size in Sq. Ft.	Total Number of Employees in Sector	Estimated Annual Revenue to Pepco (in Millions)[1]
Restaurants	2,760	700	4,410	65,000	$26 - $40
Hotels	360	50	19,510	21,410	$36 - $52
Performing Arts Venues	60	20	–	310	$7 - $11
Human Service-Oriented Non-Profits (>$300K budget)	120	30	–	–	$3 - $4
Houses of Worship	1,120	600	6,290	8,600	$7 - $11
Early Childhood Learning Center/Daycare	350	190	5,450	3,300	$2 - $3
Small Business Entities (<50 employees)[2]	38,000	–	–	175,600	–

The District's designated Opportunity Zones demonstrate both a robust need for investment and significant investment opportunities:

- Average unemployment rate: **22%**
- Average percentage of population below the federal poverty line: **32%** compared to **26%** for non-selected tracts

DC Economic Impact of COVID-19

2 year
recovery period

$722 million
budget shortfall

(1) Revenue estimate ranges are derived from rough PHI revenue estimates for fully operational entities; we expect declines in usage due to COVID19 closures. Estimates do not include third party vendor revenue.
(2) DC Policy Institute
(3) DC Economy May Take 2 Years to Recover After Coronavirus, $722 Million Deficit, NBC Washington, April 24, 2020
(4) Washington D.C. Office of the Deputy Mayor for Planning & Economic Development, 2020
(5) Washington D.C. Office of the Deputy Mayor for Planning & Economic Development 2018

Pepco Holdings
An Exelon Company

DC Commercial Segment – Restaurant Spotlight

Pre COVID-19

Restaurants were the second largest private employer in the DC region

65,000
restaurant employees

2,760
restaurants in DC

$4.4+ billion
in annual sales

$400+ million
in annual sales tax

Post COVID-19

38% of restaurants in DC are now closed

70%
average decrease in sales for open restaurants

25,000+
estimated laid off or furloughed employees[1]

20%
According to DOES, 20% of unemployment applications were submitted by those in the restaurant and food service industry

(1) Based on 500 surveyed RAMW members
(2) DC Food Economy Study 2019
(3) DC Planning
(4) RAMW

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO STAFF DATA REQUEST NO. 19

QUESTION NO. 5

Follow-up DR - Please provide an updated version of the “Pepco DC-Calendar WN Sales (based on 20-yr WN)” found in the Company’s response to OPC DR 54-1 Confidential Attachment that incorporates the actual sales for May 2020.

RESPONSE:

See FC 1156 Staff DR 19-5 Confidential Attachment.

SPONSOR: Kevin M. McGowan

EXH. DCG (4A)-5

CONFIDENTIAL ATTACHMENT TO

PEPCO RESPONSE TO STAFF DR 19-5

OMITTED FROM PUBLIC VERSION

QUESTION NO. 30

Follow-up to Pepco's Response to Staff DR No. 21-15, regarding UDLPCS6WX 75093: NB Commercial Pepco DC.

a. Please identify the ten largest categories of cost drivers under this project and the amounts spend for each in the years 2015, 2016, 2017, 2018, and 2019.
b. How many new commercial customers received new connections under this project in the years 2015, 2016, 2017, 2018, and 2019?
c. How many new commercial customers are projected by Pepco to receive new connections under this project in the years 2020, 2021, and 2022?
d. How much new revenue resulted from these new commercial customers connected under this project in the years 2015, 2016, 2017, 2018, and 2019?
e. How much new revenue is projected by Pepco to result from expected new commercial customers connected under this project in the years 2020, 2021, and 2022?
f. How does Pepco estimate the budget for commercial new business category? Explain the criteria used in the budget estimation.

RESPONSE:

a. The table below shows the largest categories of cost drivers in 2018 and 2019. The capability to manually extract some of the required details for historical residential and commercial work is no longer available with the company's financial system conversion to WPT in 2018 and work management/asset management system to Asset Suite 8 in 2019.

UDLPCS6W	Level 3 Resource Type	2018	2019
NB Commercial DC	Contracting-Operations	$ 30,501,348	$ 23,160,528
	Materials	$ 26,810,138	$ 20,354,890
	Base Payroll	$ 6,179,480	$ 4,446,779
	Corporate Allocations and Other Operating Costs	$ 4,354,025	$ 4,054,216
	Overtime	$ 2,174,277	$ 1,333,537
	Fringe-Benefits	$ 1,471,216	$ 833,369
	Utility Services	$ 1,150,140	$ 957,402
	Pension-and-OPEB	$ 802,338	$ 1,220,231
	Transportation	$ 1,044,311	$ 853,929
	Business and Contract Services	$ 682,877	$ 548,495

b. The company is currently tracking the new connections in DC and MD combined. The data is only available from 2017 to 2019 due to software conversions.

Pepco	2017	2018	2019
Number of New Commercial Customers	3,908	3,977	3,742

c. This data shows the number of new projected commercial customers in 2020 to 2022. This projection is based on the reduced amount of construction spending in this category due to the COVID 19 pandemic in 2020.

Pepco	2020	2021	2022
Number of New Commercial Customers	3,500	3,700	3,800

d. Pepco has not conducted the requested analysis.
e. The forecast of billing determinants, including growth in residential and commercial customers, is included in the revenue forecast and the rate design workpapers, and is based on an econometric model as described in the response to FC 1156 Staff DR 2-25.
f. Pepco estimates commercial new business work by first identifying large projects expected to cost more than $1.5 M. Projects are estimated based upon a Design Estimate showing unit cost pricing with specific materials identified with cost of material and labor to install each component. New Business (NB) forecasts spending by month based upon customer Required In Service Date. NB projects less than $1.5 M are grouped as a part of Program work, which includes frequently repeated projects. The company forecasts this work by subaccount using trending methods based on previous months and years.

SPONSOR: Bryan L. Clark & Tyler Wolverton

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO STAFF DATA REQUEST NO. 24

QUESTION NO. 31

Follow-up to Pepco's Response to Staff DR No. 21-16, regarding UDLPCS1W 75092: NB Residential Pepco DC.

a. Please identify the ten largest categories of cost drivers under this project and the amounts spend for each in the years 2015, 2016, 2017, 2018, and 2019.
b. How many new residential customers received new connections under this project in the years 2015, 2016, 2017, 2018, and 2019?
c. How many new residential customers are projected by Pepco to receive new connections under this project in the years 2020, 2021, and 2022?
d. How much new revenue resulted from these new residential customers connected under this project in the years 2015, 2016, 2017, 2018, and 2019?
e. How much new revenue is projected by Pepco to result from expected new residential customers connected under this project in the years 2020, 2021, and 2022?
f. How does Pepco estimate the budget for this new residential category? Explain the criteria used in the budget estimation.

RESPONSE:

a. The table below shows the largest categories of cost drivers in 2018 and 2019. The capability to manually extract some of the required details for historical residential and commercial work is no longer available with the company's financial system conversion to WPT in 2018 and work management/asset management system to Asset Suite 8 in 2019.

UDLPCS1W	Cost Drivers	2018	2019
NR Residential DC	Contracting-Operations	$ 9,880,508	$ 8,995,088
	Base Payroll	$ 2,227,791	$ 1,262,992
	Materials	$ 1,550,216	$ 1,081,646
	Corporate Allocations and Other Operating Costs	$ 1,534,310	$ 777,907
	Fringe-Benefits	$ 530,886	$ 237,249
	Utility Services	$ 362,044	$ 330,801
	Pension	$ 264,049	$ 365,909
	Overtime	$ 356,306	$ 226,768
	Transportation	$ 252,895	$ 214,111
	Payroll Taxes	$ 215,281	$ 127,466

b. The company is currently tracking the new connections in DC and MD. The data is only available from 2017 to 2019 due to software conversions.

Pepco	2017	2018	2019
Number of New Residential Customers	2,856	2,864	2,145

c. This data shows the number of new projected residential customers in 2020 to 2022. This projection is based on the reduced amount of construction spending in this category due to the COVID 19 pandemic in 2020.

Pepco	2020	2021	2022
Number of New Residential Customers	2,000	2,150	2,200

d. Pepco has not conducted the requested analysis.
e. The forecast of billing determinants, including growth in residential and commercial customers, is included in the revenue forecast and the rate design workpapers, and is based on an econometric model as described in the response to FC 1156 Staff DR 2-25.
f. Pepco estimates residential new business (NB) work by first identifying large projects expected to cost more than $1.5 M. Projects are estimated based upon a Design Estimate showing unit cost pricing with specific materials identified with cost of material and labor to install each component. NB forecasts spending by month based upon customer Required In Service Date. NB projects less than $1.5 M are grouped as a part of Program work, which includes frequently repeated projects. The company forecasts this work by subaccount using trending methods based on previous months and years.

SPONSOR: Bryan L. Clark & Tyler Wolverton

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO DCG DATA REQUEST NO. 12

QUESTION NO. 4

Referring to Witness Clark's Surrebuttal Testimony on page 6, which indicates that "Pepco's capital projects fall into one of three categories: capacity (or load) projects, reliability projects, and customer-driven projects. The only projects for which Pepco uses the load forecast are capacity projects", answer the following:

A. Explain how Pepco has modified its budget for capacity (or load) related projects in its MRP Enhanced Proposal due to the impacts of COVID-19.

B. If the Company has not modified its budget for capacity (or load) related projects, explain why it has not done so.

RESPONSE:

A. No modifications have been made to the budget for capacity (or load) related projects in the MRP Enhanced Proposal due to the impacts of COVID-19. See also Pepco's response to Staff DR 12-9.

B. A decrease in load in the short term does not itself impact Pepco's capital spend. The need dates for capacity projects in the Construction Report are based on multi-year 90/10 forecasts that ensure that Pepco's distribution system will be able to withstand the worst peak conditions in 10 years, an industry standard for load forecasting. By looking at peak load and over a 10-year period, in keeping with best practices, the Company avoids planning its system to temporary load decreases which then causes the system to fail under harsh peak conditions. Please see Pepco's response to DCG DR 2-3 and the extensive discussion on 90/10 forecasting methodology in Company Witness Clark's Surrebuttal Testimony, pages 7-16.

SPONSOR: Bryan L. Clark

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO DCG DATA REQUEST NO. 8

QUESTION NO. 11

Refer to the rebuttal testimony of Pepco witness Kevin McGowan, page 8, lines 17-20. Has the COVID-19 crisis impacted Pepco's load forecasts and revenue requirement forecast? Explain.

RESPONSE:

The impact is unknown at this time, and Pepco has not performed the requested analysis.

SPONSOR: Kevin M. McGowan

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO DCG DATA REQUEST NO. 12

QUESTION NO. 7

Referring to Witness McGowen's Surrebuttal Testimony on page 6, which states that "For 2020, based on four months of actual and eight months of estimated data, we anticipate overall 2020 calendar sales in the District of Columbia to be reduced by approximately 3%, as compared to 2019", answer the following:

A. Does the Company assume that COVID-19 will only impact is sales forecast in 2020?

B. Is the Company planning to revise its load forecast for the period 2020-2022 based on the impacts of COVID-19?

C. How do changes in electricity sales impact Pepco's operation and maintenance expenses?

D. How will a decrease in load compared to what Pepco has forecasted for the MRP term impact Pepco's capital spend?

E. How will a decrease in load compared to what Pepco originally forecasted for the MRP term impact Pepco's earned rate of return over the course of the MRP based on the Company's MRP Enhanced Proposal?

RESPONSE:

A. No. As identified in Company Witness McGowan Surrebuttal testimony, the Company will incur other COVID-19-related costs-such as bad debt expense, higher personal protective equipment costs, additional feeder inspections for feeders serving hospitals and higher building cleaning cost. In addition, depending on the timing of the economic recovery, there could be impact on sales beyond 2020.
B. See FC 1156 DCG DR 8-11.
C. Changes in kWh sales year to year may not necessarily result in significant changes in O&M expense as the majority of the costs to maintain and operate the system are fixed within varying levels of kWh sales.
D. See FC 1156 DCG DR 12-4, part B.
E. Increases or decreases in load may or may not impact the earned rate of return - it depends on what factors cause the increase or decrease in load. For example, to the extent that fewer customers is the reason for the decrease in load, a reduction in will generate lower revenues which will result in a lower earned rate of return.

SPONSOR: Kevin M. McGowan

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO STAFF DATA REQUEST NO. 17

QUESTION NO. 27

Reference the Surrebuttal Testimony of McGowan PEPCO (5B) at 24:12-25:2.

(a) Is the $60 million split evenly between 2021 and 2022?
(b) Please explain how the Company arrived at the figure of $60 million.
(c) Please describe the expected effect of COVID-19 on the Company's construction program.
(d) Will the Company seek recovery of the deferred projects in future base rate cases?
(e) Are the deferred projects primarily reliability, load, or customer-driven?
(f) When does the company expect to identify the deferred projects? Provide an estimated timeframe.
(g) Will the deferral of the $60 million have any impact on Pepco's projected level of SAIDI and SAIFI? Please explain your answer.

RESPONSE:

A. No. See FC 1156 Staff DR 17-26.
B. See FC 1156 OPC DR 57-1.
C. As discussed in the Surrebuttal Testimony of Company Witness McGowan, analysis of the longer-term impact of the COVID-19 pandemic in 2021 and beyond is expected to be developed over the summer and the fall. Capital projects, however, are currently expected to continue as planned through 2020. This will allow the Company time to gather several months of actual data that is reflective of the onset of the COVID-19 pandemic and assess the conditions once the public health emergency is lifted and "non-essential" businesses in the District of Columbia are allowed to reopen and re-commence operation.
D. Yes, if the project is constructed and placed in service in the future, the Company would seek recovery.
E. This has not yet been determined. See FC 1156 OPC DR 57-2.
F. This has not yet been determined. See FC 1156 OPC DR 57-2.
G. See the response to FC 1156 OPC DR 56-10.

SPONSOR: Kevin M. McGowan

CERTIFICATE OF SERVICE

I certify that on July 27th, 2020, a copy of the Supplemental Testimony of District of Columbia Government Witness Courtney Lane (public version) was served via electronic mail on the following parties:

Kimberly Lincoln-Stewart, Esq.
Public Service Commission
of the District of Columbia
1325 G Street, N.W. Suite 800
Washington, D.C. 20005
kstewart@psc.dc.gov

Kim Hassan, Esq.
Dennis Jamouneau, Esq.
Andrea Harper, Esq.
Potomac Electric Power Company
701 Ninth Street, N.W.
Washington, D.C. 20068
Kim.hassan@exeloncorp.com
djamouneau@pepcoholdings.com
ahharper@pepcoholdings.com

Brian Greene, Esq.
Eric Wallace, Esq.
Greenehurlocker, PLC
Counsel for Maryland DC Virginia Solar Energy Industries Association
1807 Libbie Avenue, Suite 102
Richmond, VA. 23226
bgreene@greenehurlocker.com
ewallace@greenehurlocker.com

Lucas Aubrey, Esq.
Logan Place, Esq.
Sherman Dunn, P.C.
Counsel for International Brotherhood of Electrical Workers, Local No. 1900
900 7th Street, N.W. Suite 1000
Washington, D.C. 20001
aubrey@shermandunn.com
place@shermandunn.com

Anjali Patel, Esq.
Office of the People's Counsel
of the District of Columbia
1133 15th Street, N.W. Suite 500
Washington, D.C. 20005
apatel@opc-dc.gov

Frann Francis, Esq.
Apartment and Office Building
Association of Metropolitan Washington
1025 Connecticut Avenue, N.W.
Suite 1005
Washington, D.C. 20036
ffrancis@aoba-metro.org

Michael Engleman, Esq
Engleman Fallon, PLLC
Counsel on behalf of D.C. Water
1717 K Street, N.W. Suite 900
Washington, D.C. 20032
mengleman@efenergylaw.com

Cathy Thurston-Seignious, Esq.
Washington Gas Light Company
1000 Maine Avenue, S.W., Suite 700
Washington, D.C. 20024
cthurston-seignious@washgas.com

Kristi Singleton, Esq.
United States General Services
Administration
1800 F Street N.W., Suite 2016
Washington, D.C. 20405
Kristi.singleton@gsa.gov
Lariza.sepulveda@gsa.gov
dgoinspmg@verizon.net

Brian Petruska, Esq.
Laborers' International Union of North
America (LiUNA) Mid-Atlantic Region
11951 Freedom Drive, Suite 310
Reston, VA. 20190
bpetruska@maliuna.org
mlor@liuna.org

James Birkelund, Esq.
Small Business Utility Advocates
548 Market Street, Suite 11200
San Francisco, CA. 94104
james@utilityadvocates.org
microbiznetwork@gmail.com

/s/ *Brian Caldwell*
Brian Caldwell
Assistant Attorney General