

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE ATTORNEY GENERAL



Public Interest Division
Public Advocacy Section

E-Docketed

March 20, 2015

Ms. Brinda Westbrook-Sedgwick
Public Service Commission
of the District of Columbia Secretary
1333 H Street, NW
2nd Floor, West Tower
Washington, D.C. 20005

Re: Formal Case No. 1119 – In the Matter of the Joint Application of Exelon Corporation, Pepco Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC and New Special Purpose Entity, LLC for Authorization and Approval of Proposed Merger Transaction.

Dear Ms. Westbrook-Sedgwick:

On behalf of the District of Columbia Government, I enclose for filing an original and fifteen (15) copies of the Answering Testimony of Maximillian Chang to Joint Applicants February Supplemental Direct Testimony. This document is preliminarily identified as Exhibit ___ DCG (2B). If you have any questions regarding this filing, please do not hesitate to contact the undersigned.

Sincerely,

KARL A. RACINE
Attorney General

By: */s/ Brian R. Caldwell*
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**BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA**

In the Matter of the Merger of Exelon Corporation, Pepco Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC and New Special Purpose Entity, LLC

Formal Case No. 1119

**Answering Testimony of Maximillian Chang
to Joint Applicants' February Supplemental Direct Testimony**

**On Behalf of the
District of Columbia Government**

MARCH 20, 2015

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Maximilian Chang. I am a Principal Associate with Synapse Energy
4 Economics, an energy consulting company located at 485 Massachusetts Avenue,
5 Cambridge, Massachusetts.

6 **Q. ARE YOU THE SAME MAXIMILIAN CHANG WHO FILED TESTIMONY**
7 **IN THIS MATTER ON NOVEMBER 3, 2014?**

8 A. Yes.

9 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR ANSWERING**
10 **TESTIMONY.**

11 A. My answering testimony responds to issues raised by the Joint Applicants' February
12 2015 supplemental direct testimony, primarily by Mr. Alden, Dr. Tierney, and Mr.
13 Gausman. My response to the Joint Applicants' February 2015 supplemental direct
14 testimony will address the following:

- 15 1. Mr. Alden's discussion of Exelon's proposed revised reliability
16 commitments and the 2014 SAIDI and SAIFI reliability metrics;
- 17 2. Dr. Tierney's use of the three-year (2011-2013) historical baseline; and
- 18 3. Mr. Gausman's presentation of Pepco's 2014-2020 distribution budgets.

19 **Q. WAS YOUR TESTIMONY PREPARED BY YOU OR UNDER YOUR**
20 **DIRECT SUPERVISION?**

21 A Yes.

1 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

2 A. My findings and recommendations are summarized as follows:

3 1. The Joint Applicants have not established any causal connection between the
4 merger and SAIDI and SAIFI improvements proposed in their revised reliability
5 commitments, particularly because Pepco's recent reliability metrics are already
6 close to the Joint Applicants' 2018-2020 reliability commitments.

7 2. The Joint Applicants fail to state that they will commit to meet the Commission's
8 annual Electricity Quality of Service Standard (EQSS) requirements established
9 by 15 D.C.M.R. § 3603.11 for 2018, 2019, and 2020, and in the February
10 Supplemental Testimony I find no evidence that implies such an annual
11 commitment.

12 3. The Joint Applicants' contingencies based on adherence to a particular
13 construction schedule for the DC PLUG initiative do not convert a possible future
14 failure to meet the Commission's EQSS standards into a success. Moreover, the
15 reliability benefits attributable to DC PLUG are unrelated to the proposed merger
16 and cannot be considered a benefit of the merger.

17 4. The Joint Applicants' reliability commitment for the three-year average for
18 System Average Interruption Duration Index (SAIDI) undermines the
19 Commission's annual requirements for Pepco by averaging reliability
20 performance.

1 5. The Joint Applicants have weakened their reliability commitment for System
2 Average Interruption Frequency Index (SAIFI) from what they originally filed in
3 June 2014.

4 6. The Joint Applicants fail to incorporate 2014 SAIDI and SAIFI values into their
5 establishment of a three-year historical baseline to be consistent with using
6 revised reliability commitments that reflect the 2014 SAIDI and SAIFI values.

7 7. The Joint Applicants' commitment to meet reliability targets within Pepco's
8 existing budgets should not bind the Commission, OPC, or Intervenors
9 concerning just and reasonable levels for distribution capital and operations and
10 maintenance spending in future rate cases. Should the Commission approve the
11 merger, Pepco still must prove in its next rate case that its distribution spending
12 has been reasonable and prudent.

13 **II. JOINT APPLICANTS' REVISED RELIABILITY COMMITMENTS**
14 **DO NOT EQUATE TO COMPLIANCE WITH ANNUAL EQSS**
15 **OBLIGATIONS**

16 **Q. PLEASE SUMMARIZE YOUR CONCERNS REGARDING THE JOINT**
17 **APPLICANTS' REVISED RELIABILITY COMMITMENT PROPOSAL.**

18 A. My first concern is that the Joint Applicants' revised reliability commitment for
19 SAIFI and SAIDI (Joint Applicants' Exhibit (4A)-2 at 2 (Condition 7); Exhibit (4D)
20 (Alden) at 1:17 through 3:5) does not explicitly commit Pepco to meet the
21 Commission's annual EQSS requirements for each year: 2018, 2019, and 2020. The

1 Joint Applicants' February Supplemental Testimony states their SAIDI and SAIFI
2 commitments in terms of a three-year average for 2018 through 2020. However, the
3 Commission's current EQSS standards are for each year, not the average over
4 multiple years. In addition, the Joint Applicants have weakened their SAIFI reliability
5 commitment from what was originally proposed in their direct testimony.

6 **Q. HAVE THE JOINT APPLICANTS PROVIDED REVISED RELIABILITY**
7 **COMMITMENTS?**

8 A. Yes. Exhibit (4A)-2 to the Joint Applicants' February Supplemental Testimony
9 summarizes their revised reliability commitments. I also note that in response to
10 discovery requests, the Joint Applicants have reaffirmed their commitments to meet
11 the Commission's annual EQSS standards for 2015, 2016, and 2017.¹ Additionally,
12 the Joint Applicants state that the revised requirements will exceed or meet the
13 average of the EQSS standard over 2018 through 2020 within existing budgets.^{2 3}

¹ OPC 20-3.

² OPC 21-4.

³ OPC 21-5.

1 **Q. WHAT ARE THE REVISIONS MADE BY THE JOINT APPLICANTS?**

2 A. I summarize Exhibit (4A)-2 comparing the original filing in the following table:

3

4

PROPOSED MERGER COMMITMENT THREE YEAR AVERAGE (2018-2020)

	Initial Filing	Exhibit (4A)- 2	Change
SAIFI (interruptions)	0.54	0.66	Increase of 22 percent
SAIDI (minutes)	107	90	Decrease of 16 percent
Notes: Alden. Direct Testimony of June 18, 2014 at 8:16-18 Exhibit (4A)-2 page 2 of 17.			

5

6 **Q. HAVE THE JOINT APPLICANTS PROVIDED UPDATED INFORMATION**
7 **REGARDING WHY THEY HAVE CHANGED THEIR RELIABILITY**
8 **COMMITMENTS?**

9 A. Yes, according to Mr. Alden, one of the reasons why the Joint Applicants revised
10 their reliability commitments was to incorporate 2014 SAIDI and SAIFI values.⁴

11 These values are:⁵

12 SAIFI: 0.69 interruptions

13 SAIDI: 1.61 hours or 97 minutes

⁴ Alden. Supplemental Direct at 4:10-11.

⁵ Staff 6-1.

1 **Q. HOW DO THE 2014 VALUES COMPARE TO THE JOINT APPLICANTS'**
2 **RELIABILITY COMMITMENTS?**

3 A. Figure MPC 1 and Figure MPC 2 show that, in the absence of the merger, Pepco's
4 historical reliability performance is now trending below the EQSS standard and
5 approaching the Joint Applicants' reliability commitments. Pepco's SAIFI reliability
6 performance in 2014 meets Mr. Alden's Table 1 SAIFI values for 2018 and 2019, and
7 its SAIDI performance meets Mr. Alden's SAIDI value for 2018. The 2014 SAIFI
8 numbers are very close to the Joint Applicants' 2018-2020 three-year average
9 reliability commitment of 0.66. While the 2014 SAIDI and SAIFI numbers represent
10 a single year, the 2014 reliability performance numbers reflect Pepco's pre-merger
11 reliability initiatives.⁶

12 Figure MPC 1 and Figure MPC 2 below show the following:

- 13 1. Pepco's historical SAIFI (Figure MPC 1) and SAIDI (Figure MPC 2)
14 performance for the last six years;^{7,8}
 - 15 2. DC EQSS Requirements (2014-2020); and
 - 16 3. Joint Applicants' (2018-2020) Average SAIFI and SAIDI Commitments.
- 17
18

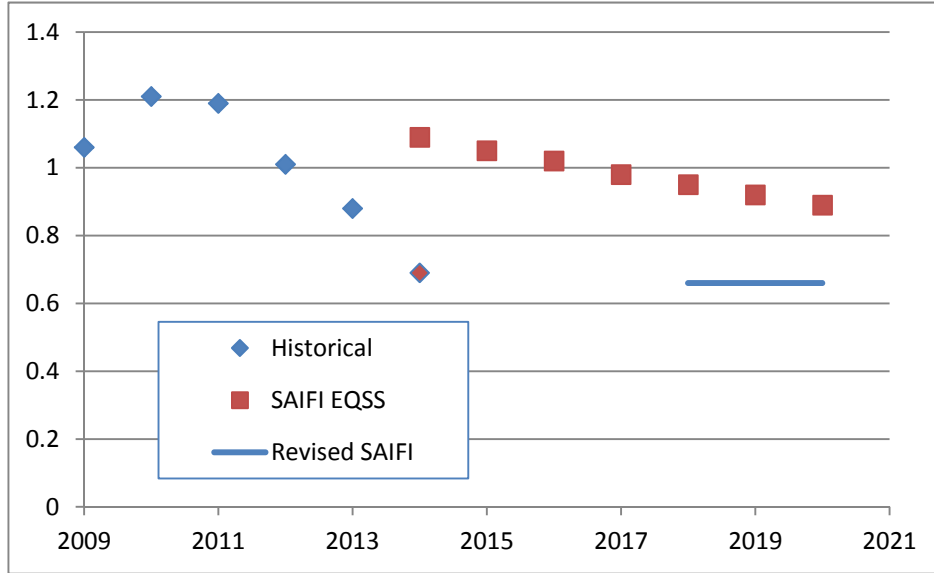
⁶ OPC 19-1

⁷ Potomac Electric Power Company. 2014 Consolidated Report. February 18, 2014. Table 2.4-F2. Page 277.
OPC 2-24 part a converts Table 2.4-F2 to minutes.

⁸ Both figures exclude Major Service Outages.

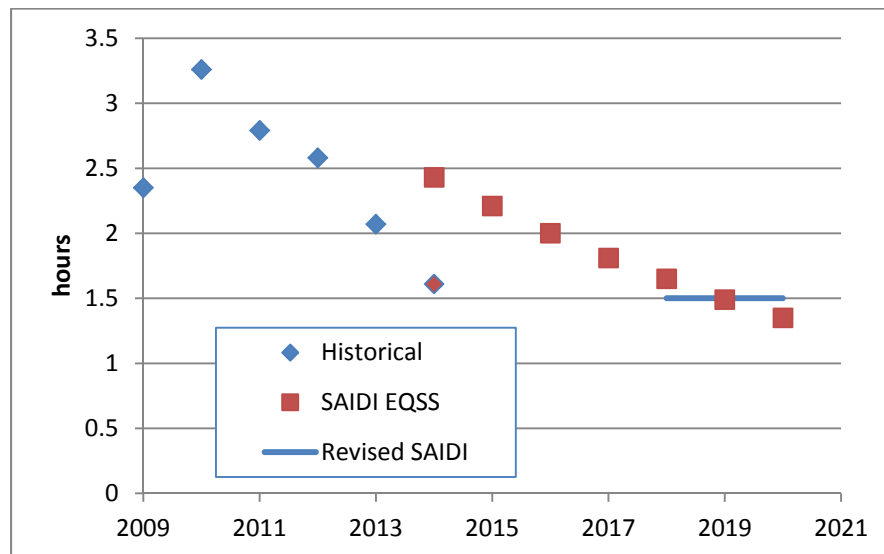
1
 2

Figure MPC 1: Pepco. SAIFI (excluding Major Service Outages): Historical (2009-2014), EQSS Requirements (2014-2020), and Joint Applicants' Revised Commitments (2018-2020)



3
 4

Figure MPC 2: Pepco SAIDI (excluding Major Service Outages): Historical (2009-2014), EQSS Requirements (2014-2020), and Joint Applicants' Revised Commitments (2018-2020)



1 As shown in the updated **Figure MPC 1** and Figure MPC 2, Pepco's historical SAIFI
2 and SAIDI performance have improved since 2010. Moreover, the two figures show
3 how the 2014 reliability statistics that I discussed earlier compare to the EQSS and
4 the Joint Applicants' reliability commitments. For both SAIFI and SAIDI, the 2014
5 reliability statistics already meet EQSS requirements for 2020 for SAIFI and 2018 for
6 SAIDI. These two figures indicate that the SAIFI and SAIDI levels proposed in Joint
7 Applicants' reliability commitments can be attributed to the reliability efforts
8 conducted by Pepco in the last few years prior to the merger announcement, rather
9 than to the merger.

10 **Q. DO THESE OBSERVATIONS LEAD YOU TO OFFER ANY**
11 **RECOMMENDATIONS TO THE COMMISSION CONCERNING THE**
12 **JOINT APPLICANTS' REVISED RELIABILITY COMMITMENT FOR**
13 **SAIDI?**

14 A. Yes. The Joint Applicants' claim of the SAIDI reliability benefits that would be
15 attributable to the proposed merger is murky and overstated. First, the revised SAIDI
16 reliability commitments do not reflect any actual measurable customer benefit
17 attributable to the proposed merger since they are the same as the EQSS standards.
18 Secondly, Pepco's attainments in achieving its actual 2014 SAIDI and SAIFI values,
19 in the absence of the merger, are close to the proposed reliability commitments.
20 Thirdly, the effects of the DC PLUG program (that I discuss later) have yet to

1 contribute to Pepco's reliability performance.

2 **Q. DO YOU HAVE ADDITIONAL CONCERNS ABOUT THE JOINT**
3 **APPLICANTS' REVISED RELIABILITY COMMITMENTS FOR SAIDI?**

4 A. Yes. On a positive note, the Joint Applicants have revised the SAIDI reliability
5 commitments significantly downward since the initial June filing.⁹ However, the
6 Joint Applicants' supplemental direct testimony only commits the Joint Applicants to
7 meeting the EQSS requirements on a three-year average basis for 2018 through
8 2020.¹⁰ This is confusing, since the Joint Applicants provide annual SAIFI and
9 SAIDI values to arrive at their three-year average reliability commitment.¹¹ The
10 calculation of how the Joint Applicants determined the three-year reliability
11 commitment compared to the EQSS is shown below:

⁹ Alden Supplemental Direct Testimony at 2:12

¹⁰ Alden at 2:2-3

¹¹ Exhibit (4A)-2, page 2 of 17.

1 **DERIVATION OF JOINT APPLICANT THREE-YEAR AVERAGE RELIABILITY COMMITMENT**

	2018	2019	2020	Average
SAIFI				
EQSS	0.95	0.92	0.89	0.92
Joint Applicants' Commitment				0.66
Difference				-0.26
SAIDI				
EQSS (hours)	1.65	1.49	1.35	1.48
EQSS (minutes)	99	89	81	89.6
Joint Applicant's Commitment				89.6
Difference				0
Notes Joint Applicants only commit to attaining the 2018-2020 average. Alden Supplemental Direct Testimony at 2:12 Exhibit (4A)-2 page 2 of 17.				

2

3 **Q. DO THE JOINT APPLICANTS EXPLICITLY COMMIT TO MEET THE**
 4 **2018-2020 ANNUAL EQSS REQUIREMENTS EVEN THOUGH THE JOINT**
 5 **APPLICANTS PROVIDE ANNUAL RELIABILITY COMMITMENTS FOR**
 6 **EACH YEAR 2018, 2019, AND 2020?**

7 A. No, they do not. The Joint Applicants' direct supplemental testimony does not
 8 explicitly state that they will meet the annual EQSS requirements for each year 2018,
 9 2019, and 2020. The Joint Applicants state that their reliability commitments for
 10 2018-2020 will meet "the EQSS regulatory standard's three year average for that
 11 same time period," but not for each year.¹² In a recent supplement to discovery, Pepco
 12 does state that it anticipates that it will meet the EQSS metrics for the years 2015

¹² OPC 21-5.

1 through 2020.¹³

2 **Q. IS THE EQSS AN AVERAGE STANDARD?**

3 A. To my knowledge, the EQSS sets forth annual reliability requirements and does not
4 allow averaging.¹⁴ Interestingly, I note that for the years 2015, 2016, and 2017, the
5 Joint Applicants acknowledge that they have an obligation to meet the EQSS
6 requirements each year.¹⁵

7 **Q. WHY DO YOU FIND THE JOINT APPLICANTS' COMMITMENT TO**
8 **ACHIEVING A THREE-YEAR AVERAGE EQSS PERFORMANCE METRIC**
9 **MISLEADING?**

10 A. I find this misleading because the Joint Applicants have a clear obligation to meet the
11 annual EQSS requirements, yet continue to evade explicitly acknowledging Pepco's
12 obligation to the Commission for those three future years (2018 through 2020). It is
13 thus possible for the Joint Applicants to fail to meet the EQSS in any given year
14 between 2018 through 2020 but to still meet their proposed reliability commitment, as
15 long as they meet the reliability commitments on a three-year average basis.¹⁶

¹³ OPC 3-34 (March 16, 2015 Supplement).

¹⁴ District of Columbia Municipal Regulations Title 15, Chapter 36, Electricity Quality of Service Standards, (§3603). Available at http://dcpsc.org/esr/eqss_amend4_feb_24_2012.pdf.

¹⁵ OPC 20-3.

¹⁶ Understandably, reliability performance may fluctuate year to year due to weather events, but the current EQSS requirements have been established since 2012 and recent historical data show Pepco's improvement in reliability performance.

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE JOINT**
2 **APPLICANTS' REVISED SAIDI RELIABILITY COMMITMENT?**

3 A. I recommend that the Commission recognize that the Joint Applicants have failed to
4 straightforwardly acknowledge their obligation to meet the Commission's EQSS
5 requirements on an annual basis, as the Commission's regulations require. I also
6 recommend that, because compliance with the EQSS on an annual basis is an
7 obligation incumbent on Pepco with or without the proposed merger, the Commission
8 should find that the Joint Applicants' revised reliability commitment for SAIDI does
9 not achieve any direct, tangible benefit to ratepayers as a result of the merger. In
10 order to meet that Commission standard, the Joint Applicants would need to commit
11 to achieving more aggressive annual SAIDI requirements within existing budgets,
12 and they have not done so.

13 **Q. DO YOU HAVE CONCERNS ABOUT THE REVISED RELIABILITY**
14 **COMMITMENTS FOR SAIFI?**

15 A. Yes. I am concerned that, although the Joint Applicants' commitment for SAIFI
16 satisfies the Commission's EQSS requirement, the Joint Applicants have weakened
17 their commitments on SAIFI from the level proposed in their original application,
18 filed June 18, 2014. The Joint Applicants do not specifically indicate why they have
19 adopted a less rigorous SAIFI commitment than that which they proposed in their
20 original application.

1

2

III. THE JOINT APPLICANTS' DC PLUG CONSTRUCTION SCHEDULE

3

CONTINGENCIES CANNOT JUSTIFY RELAXING PEPSCO'S

4

OBLIGATION TO MEET ITS ANNUAL EQSS OBLIGATIONS, AND

5

THE RELIABILITY IMPROVEMENTS ATTRIBUTABLE TO DC

6

PLUG ARE NOT ATTRIBUTABLE TO THE MERGER

7

Q. PLEASE SUMMARIZE YOUR CONCERN ABOUT THE JOINT

8

APPLICANTS' LINKAGE BETWEEN THE DC PLUG INITIATIVE

9

SCHEDULE AND THE JOINT APPLICANTS' REVISED RELIABILITY

10

COMMITMENTS.

11

A. While I agree that the District of Columbia Power Line Undergrounding (“DC

12

PLUG”) projects will contribute to the Joint Applicants’ ability to meet their EQSS

13

obligations, the timing of the DC PLUG does not change Pepco’s obligation to meet

14

the Commission’s EQSS standards, and the benefits attributable to DC PLUG are not

15

attributable to the merger.

16

Q. DID THE JOINT APPLICANTS FACTOR THE BENEFITS ATTRIBUTABLE

17

TO DC PLUG IN THEIR ORIGINAL RELIABILITY COMMITMENTS?

18

A. Yes, I noted in my direct testimony that the Joint Applicants expressed concern that

19

they could not meet their original reliability requirements.¹⁷ When the Joint

20

Applicants proposed their original reliability commitments, their analysis

¹⁷ Maximilian Chang. *Direct Testimony* at 13:8-14.

1 incorporated the anticipated reliability benefits attributed to the DC PLUG.^{18, 19} The
2 Joint Applicants estimate that DC PLUG would improve SAIDI by about 20 minutes
3 by 2020.²⁰ This value is comparable to the Joint Applicants' Base Case with
4 undergrounding.²¹

5 **Q. SHOULD THE JOINT APPLICANTS' REVISED RELIABILITY**
6 **COMMITMENTS BE CONTINGENT UPON THE DC PLUG SCHEDULE?**

7 A. No. The Joint Applicants have indicated that they do not currently foresee hindrances
8 to the proposed schedule, notwithstanding possible delays in issuance of the bond-
9 financed portion of the DC PLUG financing.²² Further, the Joint Applicants have not
10 conducted any formal analyses associated with delays in the proposed schedule.²³
11 Therefore, the Joint Applicants' assertions that their reliability commitment should be
12 contingent on maintaining a particular DC PLUG construction schedule, or that
13 changes in the DC PLUG construction schedule could impact their ability to meet
14 their EQSS requirements, are not well-founded.²⁴ In addition, the inconsistency
15 between the construction schedule referenced in the Joint Applicants' latest version of
16 merger commitments is symptomatic of the kind of confusion that is likely to result

¹⁸ Confidential AOBA 1-10 Attachment A

¹⁹ OPC 2-22.

²⁰ DCG 10-14 (J).

²¹ Confidential AOBA 1-10 Attachment A

²² OPC 20-4

²³ DCG 10-14

²⁴ Alden. *Supplemental Direct* at 2:7-9.

1 from the Joint Applicants’ pegging their “commitment” to a moving target.²⁵

2

3 **Q. SHOULD THE IMPROVEMENTS IN PEPCO’S RELIABILITY**
4 **PERFORMANCE THAT ARE ATTRIBUTABLE TO THE DC PLUG**
5 **INITIATIVE BE VIEW AS A BENEFIT TO RATEPAYERS RESULTING**
6 **FROM THE MERGER?**

7 A. No. The approval and planning for the DC PLUG predates the proposed merger. For
8 example, the Electric Company Infrastructure Improvement Act (D.C. Act 20-290) –
9 the enabling legislation for DC PLUG – was enacted March 3, 2014. That legislation
10 was the result of recommendations developed by a Task Force established by the
11 Office of the Mayor in Mayor’s Order No. 2012-130, issued August 16, 2012. The
12 Commission opened its proceeding concerning the Triennial Underground
13 Infrastructure Improvement Projects Plan in Formal Case No. 1116 through Order
14 17473 dated April 29, 2014. All of these activities predate, and were completed
15 independently of, the Joint Applicants’ announcement of their proposed merger.
16 Pepco would have proceeded with the DC PLUG absent the proposed merger. Thus,
17 the benefits of the DC PLUG initiative cannot be considered in any way as a benefit
18 attributable to the merger.

²⁵ Compare Joint Applicants’ Exhibit ___ (4A)-2 at 2 n. 1, referencing the construction schedule set forth in Appendix C to the June 17, 2014 Joint Application in Formal Case No. 1116, and Exhibit ___ (4D) at 3:5 & n. 2, referencing the February 5, 2015 Ninety Day Update as the baseline construction schedule affecting compliance with the revised reliability commitment.

1 **IV. THE JOINT APPLICANTS' THREE-YEAR HISTORICAL BASELINE**
2 **FAILS TO ACCOUNT FOR 2014 SAIDI AND SAIFI VALUES**

3 **Q. PLEASE SUMMARIZE YOUR CONCERN REGARDING THE JOINT**
4 **APPLICANTS' OMISSION OF THE 2014 SAIFI AND SAIDI VALUES IN**
5 **THEIR HISTORICAL BASELINE?**

6 A. Mr. Comings has filed Answering Testimony (Exhibit __ DCG (2C)) explaining why
7 it is not appropriate to use Pepco's 2011-2013 reliability performance as the baseline
8 for assessing whether or not the proposed merger creates reliability benefits, as Dr.
9 Tierney did in her economic analysis presented in Joint Applicants Exhibit __ (4G) at
10 3:11 through 5:7. In addition to sharing Mr. Comings' concerns about the baseline, I
11 am concerned that the Joint Applicants' use of that 2011-2013 baseline is further
12 flawed because the three-year average does not include updated 2014 reliability
13 statistics. This is despite the fact that the revised economic analysis incorporates the
14 revised reliability commitments that do incorporate the 2014 reliability statistics.
15 This omission inappropriately inflates the benefits in Joint Applicants' economic
16 analysis because of the difference between the Joint Applicants' historical baseline
17 and projected reliability improvements.

18 **Q. WHAT ARE THE BASELINE VALUES USED BY THE JOINT**
19 **APPLICANTS?**

20 A. As noted by both Dr. Tierney and Mr. Comings, the baseline used by Dr. Tierney was
21 the historical reliability values for 2011 through 2013. These values were 1.03 for

1 SAIFI and 149 minutes for SAIDI.²⁶ As noted previously in Mr. Comings' testimony,
2 the Joint Applicants should be using the future EQSS requirements as the appropriate
3 baseline comparison.

4 **Q. WOULD THE 2014 SAIDI AND SAIFI VALUES CHANGE THE**
5 **HISTORICAL BASELINE AVERAGES?**

6 A. Yes. The table below shows the difference between two three-year historical
7 averages, between 2011-2013 (used by Dr. Tierney) and 2012-2014:

8 **COMPARISON OF HISTORICAL BASELINES**

	2011-2013	2012-2014	DIFFERENCE
SAIFI	1.03	0.86	-17%
SAIDI (min)	149	125.2	-16%
NOTES DCG 1-76 Attachment A Staff 6-1			

9
10 In other words, if you look at the most recent three-year data, you see that Pepco has
11 improved its reliability performance over the earlier three-year period.

12 **Q. DOES DR. TIERNEY REFERENCE THE 2014 UPDATED SAIDI AND SAIFI**
13 **NUMBERS IN HER UPDATED ANALYSIS?**

14 A. To my knowledge, Dr. Tierney does not reference or use the updated 2014 reliability
15 values for Pepco.²⁷

²⁶ Tierney. Table SFT-3

²⁷ Tierney at 4:9 through 5:7.

1 **Q. DO THE JOINT APPLICANTS ACCOUNT FOR THE REVISED**
2 **RELIABILITY COMMITMENTS IN THE UPDATED ECONOMIC**
3 **ANALYSIS PERFORMED BY DR. TIERNEY?**

4 A. Yes. As discussed in more detail in Mr. Comings' testimony, I understand that Dr.
5 Tierney incorporates the Joint Applicants' revised reliability commitments in her
6 supplemental direct testimony. As Mr. Alden notes, the Joint Applicants' revised
7 reliability commitments factor in the 2014 SAIDI and SAIFI values.²⁸ Mr. Comings
8 shows the impact of the changes in both SAIFI and SAIDI commitments on Dr.
9 Tierney's economic analysis in his testimony.

10 **Q. FOR ILLUSTRATIVE PURPOSES, SHOULD THE BASELINE VALUES**
11 **INCORPORATE 2014 SAIDI AND SAIFI VALUES?**

12 A. Yes. If you are trying to determine whether the merger will provide reliability
13 benefits, you would be best advised to use the most recent Pepco historical reliability
14 values as a baseline comparison for illustrative purposes. So then, I would
15 recommend updating the three-year historical baseline to account for the 2014 SAIDI
16 and SAIFI values, especially if the updated reliability commitments incorporate the
17 2014 SAIDI and SAIFI values. Mr. Comings' testimony shows what would be the
18 impact on the Joint Applicants' economic analysis if Dr. Tierney had included both
19 the revised reliability commitments and the revised historical baseline.

²⁸ Alden. *Supplemental Direct* at 4:10-13

1 **V. BUDGETS TO MEET RELIABILITY COMMITMENTS SHOULD NOT**
2 **BE CONSTRUED AS AN ENDORSEMENT OF THE BUDGET IN**
3 **FUTURE RATE CASES**

4 **Q. PLEASE STATE YOUR CONCERNS REGARDING THE JOINT**
5 **APPLICANTS' COMMITMENT TO MEET RELIABILITY COMMITMENTS**
6 **WITHIN EXISTING BUDGETS.**

7 A. I am concerned that, should the Commission approve the merger, the Joint Applicants
8 may assert that such an approval is at least an implicit endorsement of the budgets
9 provided in the supplemental direct testimony. My experience with rate cases tells
10 me that Pepco will need to continue to demonstrate to the Commission that its
11 reliability-related expenditures remain reasonable and prudent. In light of Pepco's
12 2014 reliability performance, I would expect Pepco, with or without a merger, to
13 examine ways to reduce its reliability-related expenditures while maintaining the
14 reliability improvement trends I have shown in my earlier figures.

15 **Q. HAVE THE JOINT APPLICANTS RE-ASSESSED THEIR ABILITY TO**
16 **MEET THE EQSS REQUIREMENTS WITHIN EXISTING BUDGETS?**

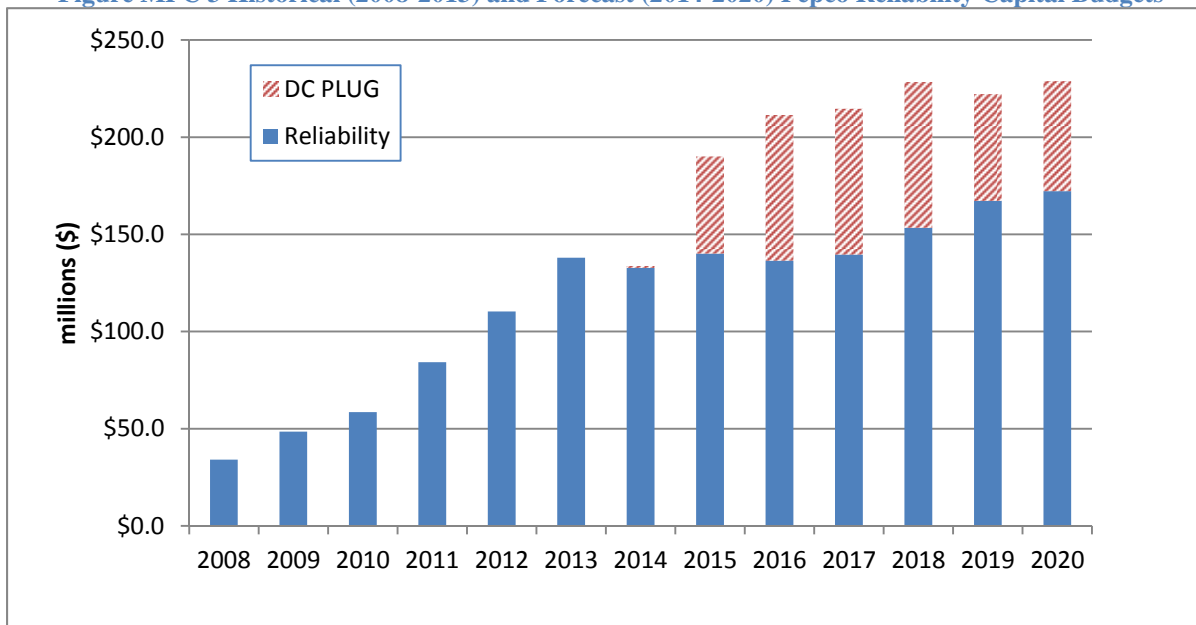
17 A. The Joint Applicants have noted in their supplemental direct testimony that the Joint
18 Applicants are "reasonably confident that reliability performance improvements"
19 would be achieved within Pepco's existing reliability-related capital and O&M

1 forecasted spending levels.²⁹

2 **Q. HAVE THE JOINT APPLICANTS INDICATED HOW THE CURRENT**
 3 **PEPCO RELIABILITY CAPITAL SPENDING BUDGETS WILL MEET THE**
 4 **JOINT APPLICANTS' RELIABILITY COMMITMENTS?**

5 A. Yes. The Joint Applicants have provided reliability-related budgets for 2014 through
 6 2020.³⁰ These budgets include Pepco's portion for the DC PLUG initiative. **Error!**
 7 **Reference source not found.** shows the revised budgets with the DC PLUG initiative
 8 separated.

Figure MPC 3 Historical (2008-2013) and Forecast (2014-2020) Pepco Reliability Capital Budgets^{31 32}



²⁹ Alden. 4:16-18.

³⁰ Gausman. Table 1. At 3:2.

³¹ Pepco. 2014 Consolidated Report. Page 36. Table 1.2-H.

³² OPC 20-5.

1 **Q. IF THE JOINT APPLICANTS ARE REASONABLY CONFIDENT THAT**
2 **THE RELIABILITY BUDGETS THROUGH 2020 ARE ADEQUATE TO**
3 **MEET PEPCO'S CURRENT AND FUTURE RELIABILITY**
4 **COMMITMENTS, WHAT IS YOUR CONCERN?**

5 A. I am concerned that, were the Commission to approve the merger, the Joint
6 Applicants would argue that such an approval was, in effect, an endorsement of
7 Pepco's future budgets. The efficiency of the reliability expenditures should be left to
8 future rate cases; and not assumed here. At this time, the Joint Applicants do not
9 foresee that actual spending will be less than 90 percent of the provided budgets.³³

10 **VI. CONCLUSION**

11 **Q. DOES THIS CONCLUDE YOUR RESPONSE TO SUPPLEMENTAL DIRECT**
12 **TESTIMONY?**

13 A. Yes.

³³ OPC 20-7

I declare under penalty of perjury that the foregoing testimony is true and correct to the best of my knowledge, information, and belief.

Executed this 20th day of March, 2015.

A handwritten signature in blue ink, appearing to read 'Maximilian Chang', written in a cursive style.

Maximilian Chang

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of March, 2015, I caused true and correct copies of the foregoing Answering Testimony of Maximillian Chang to Joint Applicants February Supplemental Direct Testimony to be electronically delivered to the following parties:

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