What is the deal; is it in the public interest? Who gets what?
Will ratepayers pay more or less? Will grid reliability improve?
Will the deal lead to more or less competition?
If it is a bad deal, what would a better deal look like?

Is the proposed acquisition a good deal for DC?
Pepco chose to sell itself to the partner that offered the highest premium — $1.2 Billion that will go directly to the shareholders and the PHI execs that brought them the deal — as part of the $6.8 Billion purchase price. So, the answer to the question of whether or not the deal is in the public interest is clear: it’s in the best interest of PHI shareholders and executives, not the public.

Here’s what everyone gets from the proposed merger:
Pepco’s shareholders and executives get:
  • the $1.2 billion premium offered as part of the $6.8 billion purchase price.
Exelon gets:
  • rid of Pepco’s shareholders
  • Pepco’s distribution and all other assets
  • Pepco’s ratepayers.
DC’s Ratepayers get:
  • sold to Exelon — to pay Exelon for the rest of their lives for the grid they already spent their life paying for.

Why do Pepco and Exelon say it’s a good deal? How do their claims work for DC ratepayers?
Three reasons:
1. They say the deal will lead to costs savings (it will, for them, not for you).
2. They say they offer to pay ratepayers fifty bucks and freeze rates for three years.
3. Exelon says it will put $14 million into a Community Investment Fund

What they don’t tell ratepayers is that they do not pass those savings on to ratepayers; there is no discussion of any rate decrease. They don’t tell you that if their costs are lower, then even if our rates are frozen, they make more money off those rates. They don’t point out that the $50 payment to ratepayers is a pittance in comparison to the $1.2 Billion windfall to shareholders: if the merger is approved, it will be eaten up in two months of electric rates. Likewise, if approved, the $14 million will be shared across the entire Pepco rate base in DC, MD, DE and NJ. The Community Investment Fund will not reduce ratepayers pay ever-increasing rates.

Pepco’s provides electricity at the lowest price, with the best reliability, Exelon sells its nuclear electricity at the highest possible price. These businesses are in conflict! Pepco’s answer is that the DC Public Service Commission will protect ratepayers from rate increases (huh). But the DC PSC has approved every rate increase since 2009 to the tune of $100 million; and it encouraged the Council of DC to get DC’s ratepayers — not Pepco’s investors — to fund the $1Billion cost of undergrounding its primary feeders.

Will Exelon improve Pepco’s sorry reliability record? Exelon says no. Their testimony filed with the PSC specifically states that they will not be able to meet the targets for SAIDI (the average duration for outages experienced by Pepco customers) for 2018-2020. Exelon has no plans to upgrade DC’s distribution system to one that would improve reliability and resilience or promote the use of Distributed Generation that would result in lower prices for all ratepayers.
Why is the US's largest nuclear electricity producer buying utilities? Exelon's nuclear fleet is aging and getting more expensive. Distribution utilities provide excellent cash flow and utilities are monopolies. As a vertically-integrated energy business, Exelon controls generation, transmission and distribution assets, and — if the proposed merger is approved — will own four big-city utilities: Commonwealth Edison in Chicago, PECO in Philadelphia, BG&E in Baltimore and Pepco in DC, MD, DE and NJ. In addition to being the US's biggest nuclear electric producer, it will be the US's biggest distributor of power. Will Exelon have the same special relationship to DC Pepco had? Unlike Exelon effectively will operate beyond the control of the PJM Grid Operator or local state regulators like the DC Public Service Commission.

Won't the combination of Pepco and Exelon mean increased competition? Just the opposite. Here's what the Independent Market Monitor for the Independent System Operator — PJM Interconnect— that regulates the grids between here and Illinois stated to the PSC:

"Exelon’s transmission assets account for 16.8 percent of transmission service credits collected from the PJM markets and Pepco Holdings... for 6.6 percent. The concentration of ownership creates a concern about market power. Consolidation will reduce the competition to build competitive transmission projects. A reduction in competition will likely result in higher costs for customers."

The DC Public Service Commission has identified 6 conditions the merger must meet before they determine it is in the public interest. Doesn't that protect the public interest? No. These conditions require no affirmative criteria or performance measures the utility must meet. This vagueness allows the utility to simply assert that this is the case and the PSC may deem it so.

What kind of deal would be in the public interest? One in which a utility committed to using 21st century SmartGrid technology and efficiency to manage demand and improve the reliability and resilience of the local electric distribution system is paired with the use of renewables (free energy sources) that would result in lower costs for all.

Instead, Pepco and Exelon propose to lock DCs ratepayers into the 20th-century model cost-recovery business and regulatory model, whereby the more a utility spends to generate and distribute power, the more they can charge the ratepayers for power and the higher the profit they make.

Pepco and Exelon say Exelon has a great record of using renewable energy, in fact, Exelon owns wind and solar power generation businesses.
No one contests that Exelon can own and sell solar- or wind-produced power to its customers. What Exelon opposes is its customers being able to own and use solar- or wind-power to produce their own electricity with renewables to meet their own power needs. Net Metering. They're fighting it all over the country.
Exelon-Pepco Takeover

Q-and-A

Exelon will pay $6.8 billion for Pepco’s Distribution System assets. Who will this benefit?
• Shareholders and the executives who brought them this deal. This deal sells-out the interests of rate-payers who spend a lifetime paying for the grid by prioritizing the interests of PHI shareholders.

If Exelon acquires Pepco, won’t it constrain our energy future for decades to come?
• Yes. We will face greater obstacles to Distributed Generation and building a grid that meets our needs.
• The rates we pay will be transferred out of DC’s local economy.
• We’ll be locked into a cycle of higher wholesale electricity costs and distribution rate increases.
• Exelon will manipulate our political process and energy policy with ratepayer dollars.

What’s the alternative?
• Building distribution around renewables and efficiency taps into a limitless, free energy source that reduces the consumption of fossil fuels that drive global warming’s severe warming; and
• enables technologies like demand management, battery storage, SCADA, micro grids and energy efficient buildings, making the management of our energy more predictable and resilient.

What difference does it make who owns Pepco? Why is local control so important?
• The less control we have, the less stable our energy future becomes.
• Our electricity paradigm — fossil & nuclear fuels and central generation-to transmission-to distribution system — is at the end of its lifecycle. No knows what replacing it will cost or how to pay for it.
• Fossil fuels creates global warming that drives the severe storms that can paralyze entire states.

What if Exelon commits to give Pepco and DC more local control?
• It didn’t happen in Baltimore: the sign there reads: BG&E — An Exelon Company. Pepco will be one of Exelon’s 5 utilities and 50 companies.

Isn’t Exelon’s proposed $50 premium and a freeze on rates for 3 years a good deal?
• If Exelon’s costs are lower after the takeover, Exelon will still make more, freeze or no freeze.

Pepco and Exelon say the merger will reduce their costs; won’t that be good for DC ratepayers?
• If their costs are lower, they should lower rates accordingly and pass on those savings to ratepayers. But that’s not what they propose to do. That’s why the PSC should insist this is a rate case!

Pepco provides cheap, reliable electricity to its customers. Exelon is a power generator in need of customers to buy its expensive nuclear power. How will this work for DCs ratepayers?
• It won’t. It’s a culture clash between Pepco with no business model and Exelon with a failing business model. We’ll pay more for more expensive power.

Grid 2.0 Working Group Robert Robinson 202.387.5956 robrobin@me.com
The DC Public Service Commission has identified 6 conditions which the merger must meet before they determine it is in the public interest. Doesn’t that protect the public interest?

- No. These conditions require no affirmative criteria or performance measures the utility must meet. This vagueness allows the utility to simply assert that this is the case and the PSC may deem it so.

Won’t the combination of Pepco and Exelon mean increased competition?

- Here’s what the Independent Market Monitor for the Independent System Operator — the PJM — that regulates the grids between here and Illinois stated to the PSC:

  “Exelon’s transmission assets account for 16.8 percent of transmission service credits collected from the PJM markets and Pepco Holdings . . . for 6.6 percent. The concentration of ownership creates a concern about market power. Consolidation will reduce the competition to build competitive transmission projects. A reduction in competition will likely result in higher costs for customers.”

Won’t Exelon be able to do a better job than Pepco has done in DC?

- Exelon owns utilities because there is no competition; we’re a captive market for their power.
- Innovation is not the focus in communities served by Exelon-owned utilities; why should it be here?
- **How will our PSC regulate Exelon?** Since 2000 electric rates increased 61%, COLA rose 38%; low-income families are 3 times as likely to be disconnected; our grid’s reliability is ranked in the bottom quartile, nationally; nearly half Pepco’s jobs are gone. Who will make more Exelon do better?

Exelon says it supports renewables. It even owns some wind and solar companies; isn’t that good?

- It remains the biggest nuclear energy producer in the US: selling nuclear electricity is its business.
- Exelon, has fought renewables directly and through front organizations like Nuclear Matters, or the American Legislative Exchange Council (ALEC).

Pepco donates millions to organizations and Exelon is an even bigger corporation. Will the merger mean more money for DC’s non profits and charitable organizations?

- We pay for donations and contributions with our rates; they aren’t paid out of corporate profits.
- Exelon may spend $millions in donations to non-profit organizations, elected officials and political campaigns, even DC government agencies to lobby for the merger.
- **But once DC’s ratepayers lose control of their electric utility the only way to get it back will be kick the utility out and municipalize — a process that could take ten years.**

Isn’t this merger inevitable?

- No. Exelon walked away from takeovers in NJ and FL. Here’s New Jersey Public Advocate, Ronald K. Chen, said about Exelon’s proposal to buy NJ’s Public Services Enterprise Group:

  “By consolidating so much generating power under one company, the proposed merger would reduce competition and could lead to dramatic increases in electric and natural gas prices for all New Jersey ratepayers.”

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PRESS RELEASE

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Sandra Mattavous-Frye,
People’s Counsel

November 3, 2014

People’s Counsel Urges Public Service Commission to Reject $6.8 Billion Pepco/Exelon Merger Proposal

Today, People’s Counsel Sandra Mattavous-Frye filed testimony with the DC Public Service Commission urging the Commission to reject the proposed $6.8 Billion Exelon-PHI (Pepco) merger agreement, as filed, because it fails to meet minimum legal criteria set forth by the Commission’s public interest standard.

Exelon’s entry into the DC market through the acquisition of Pepco is by far the most significant undertaking in the local electric industry since Pepco’s divestiture of its generation plants in 2000. “Exelon’s corporate footprint and influence will include 10 million customers, stretching from Illinois to Maryland. Policy and decision makers must make every effort to ensure that DC and its utility consumers receive maximum benefit,” said Ms. Mattavous-Frye.

The Office’s painstaking, comprehensive review and analysis details how the Pepco/Exelon application fails to meet each of the Commission’s seven public interest factors. “Overall, there are far too many risks for consumers and nothing but benefits for Pepco and Exelon,” said People’s Counsel, Sandra Mattavous-Frye. “The ‘so called benefit’ of a short-term $14 million Customer Investment Fund is consumed by the uncertainty (and risk) associated with the three ‘R’s: Reliability, Rates and Renewables—all major areas where this application falls short,” said the People’s Counsel, and it raises the threat of the resurgence of serial rate cases once the merger is consummated. Ms. Mattavous-Frye cautioned, “If the merger is approved, consumers are likely to see higher rate increases than if the merger were not approved.”

Ms. Mattavous-Frye is extremely alarmed with Exelon’s initial projections indicating that it will not meet the Commission’s required reliability quality of service standards. “Failure to meet the reliability standards is a non-starter as it concerns the public interest,”

The Office of the People’s Counsel is an independent agency of the District of Columbia Government representing energy and telecommunications services customers.
said the People’s Counsel. “For Exelon to offer to purchase Pepco, in a city plagued for over a decade with reliability issues and not offer detailed plans as to how to improve reliability is unconscionable,” stated Ms. Mattavous-Frye.

Equally alarming is the potential threat to the District’s economy; anticipated “merger downsizing” may signal the loss of a significant number of well-paying local jobs.

“Simply stated, there are too many unanswered questions, missed opportunities, and a clear shifting of risk to consumers for the application to be approved as filed. It notably and inexplicably falls short of the benefits provided to Maryland in the recent BGE merger. DC consumers deserve better,” said the People’s Counsel. “OPC will continue to advocate for an outcome that provides adequate, tangible and commensurate benefits to DC consumers.”

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<tr>
<th>Public Interest Factor</th>
<th>OPC’s Position Regarding the Merger</th>
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<tr>
<td>1. The effect of the transaction on ratepayers, shareholders, the financial health of the utilities standing alone and as merged, and the economy of the District.</td>
<td>The quantifiable consumer benefits of the merger are very limited and restricted almost entirely to the proposed Customer Investment Fund which is small when compared to the substantial risks created by the merger. Moreover, because Exelon has a riskier financial profile than Pepco, consumers will pay even higher rate increases than it would under Pepco.</td>
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<td>2. The effect of the transaction on utility management and administrative operations</td>
<td>The merger will likely reduce District-specific input into corporate governance and cause the loss of high-paying jobs.</td>
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<td>3. The effect of the transaction public safety and the safety and reliability of services.</td>
<td>The proposed merger is not in the public interest because Exelon will deliver a lower level of reliability than Pepco would provide. The application is devoid of any best practices to address vegetation management and feeder maintenance — two areas critical for improving reliability.</td>
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<td>4. The effect of the transaction risks associated with all of the Joint Applicants’ affiliated non-jurisdictional business operations, including nuclear operations.</td>
<td>Unless a strong set of protective measures are in place, District consumers are likely to be negatively impacted by Exelon’s business activities outside of the control of the DC Public Service Commission.</td>
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<td>5. The effect of the transaction on the Commission’s ability to regulate the new utility effectively.</td>
<td>The merger will increase the difficulty of Commission oversight particularly during rate cases. Specifically, the Commission will need to be vigilant in scrutinizing future filings to avoid cross-subsidization. The Commission will also have to be proactive in defending against Exelon’s corporate policies that favor generation and energy marketing, as these represent the largest portion of Exelon’s revenues.</td>
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<td>6. The effect of the transaction on competition in the local retail, and wholesale markets that impacts the District and District ratepayers.</td>
<td>The merger will likely have a detrimental impact on the wholesale electricity markets because Exelon could exert inordinate control over the PJM stakeholder process where energy stakeholders deliberate and vote on changes to market rules which are ultimately submitted to FERC for approval. Should the merger be approved, PHI’s traditional advocacy for customer interests in the PJM stakeholder process could be effectively silenced by Exelon. Exelon’s generation-driven priorities in PJM would conflict with and may nullify PHI’s historic emphasis on cost implications and reliability for consumers.</td>
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<td>7. The effect of the transaction on conservation of natural resources and preservation of environmental quality.</td>
<td>The merger is not in the public interest because it will likely undermine the District’s objective of the conservation of natural resources and preservation of environmental quality as a result of Exelon’s longstanding resistance to policies promoting behind-the-meter renewable energy development. While Exelon’s has supported clean air laws and regulations, and energy efficiency in the past, these notable efforts are substantially outweighed by the fact that Exelon is a vocal opponent of policies fostering renewable energy generation and distributed generation. These are equal essentials in the fostering of a sustainable environment.</td>
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