Office of the People's Counsel's Presentation on the Proposed Exelon/Pepco Merger

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Overview

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Background of the Merger

- On April 30, 2014, Exelon and Pepco Holdings Inc. (PHI) publicly announced Exelon's offer to purchase PHI for $6.8 billion.

- On June 18, Exelon and PHI filed an application with the District of Columbia Public Service Commission requesting permission to merge.

- Exelon and PHI have also filed applications to merge in New Jersey, Delaware, and Maryland where PHI operates.

- As required by law, Exelon and PHI have filed applications with the Federal Energy Regulatory Commission and the Securities and Exchange Commission. Approvals are pending.

Legal Standard for Merger Approval

In the District of Columbia, all mergers and acquisitions must be approved pursuant to D.C. Code § 34-504

The law requires *each* of the following to be met:

- The benefits received by the merged companies "*must not come at the expense of the ratepayers*";
- The merger "*must produce direct and traceable financial benefits to ratepayers*;"
- A merger "<u>*taken as a whole*</u> *must be consistent with the public interest*."

Public Interest Factors

The Commission will consider the effects of the transaction on:

(1) ratepayers, shareholders, the financial health of the utilities standing alone and as merged, and the economy of the District;

(2) utility management and administrative operations;

(3) public safety and the safety and reliability of services;

(4) risks associated with all of the Joint Applicants' affiliated non-jurisdictional business operations, including nuclear operations;

(5) the Commission's ability to regulate the new utility effectively;

(6) competition in the local retail, and wholesale markets that impacts the District and District ratepayers; and

(7) conservation of natural resources and preservation of environmental quality.

Public Interest Entities

Commission	Ability to effectively regulate and hold the utility accountable
Utility	Unrestrained in the exercise of meeting its statutory obligations
Consumers	Receive safe, adequate, reliable service at just and reasonable rates, adequate consumer protections and tangible benefits
District of Columbia	Financial well-being of the District of Columbia is sound and an adherence to the District's goals for environmental quality

Exelon Overview

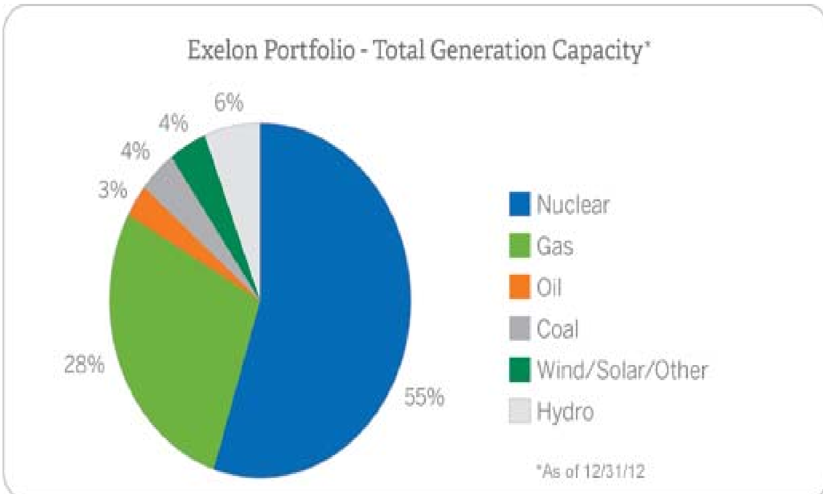
- Exelon is the leading provider of energy in the United States. Its portfolio includes generation, transmission, competitive energy solutions and distribution assets. It is the largest owner and operator of nuclear plants in the United States.

- Exelon, headquartered in Chicago, IL was created in 2000 by the merger of PECO Energy in Pennsylvania and ComEd in Illinois. It further expanded its operations in 2012 when it merged with BGE in Maryland.

- Exelon currently has approximately eight million natural gas and electric consumers in IL, PA, and MD.

- If the proposed merger with PHI is approved in all four jurisdictions, Exelon will have approximately 10 million consumers.

Exelon



Exelon Transmission Company

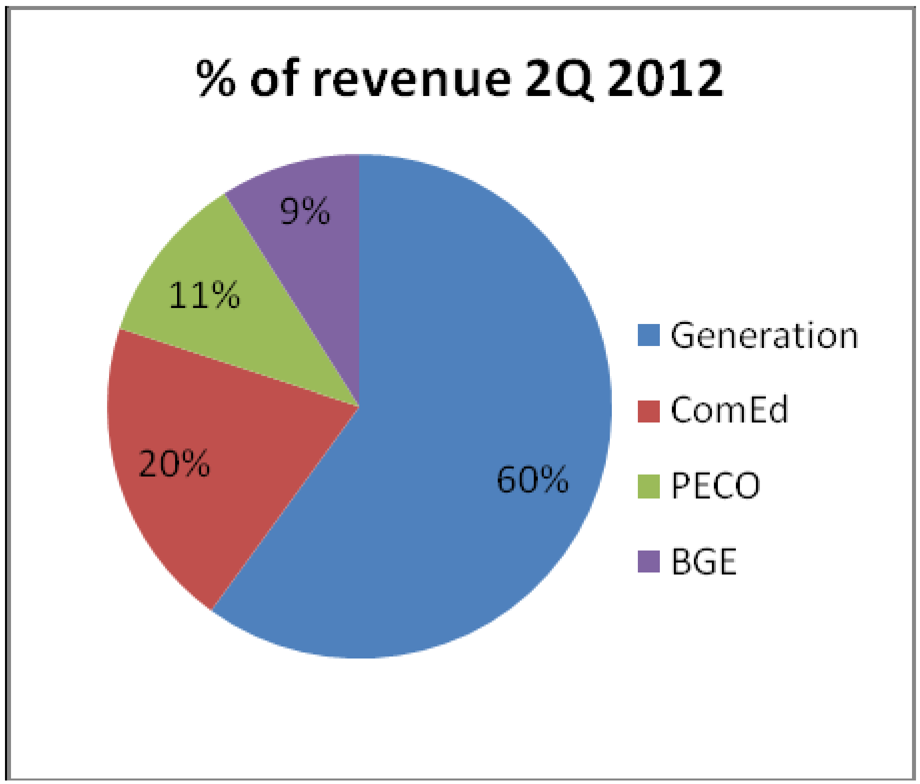
Constellation
An Exelon Company

Energy Distribution

ComEd An Exelon Company | PECO An Exelon Company | BGE An Exelon Company

Pepco Holdings Inc

Pepco DC



Source: Exelon's Q2 2012 earnings

Elements of Exelon's Proposal

- $14 million customer investment fund for the District of Columbia to be used for:
  - $50 rate credit check per consumer, or
  - assistance for low-income consumers, or
  - energy efficiency measures;
- a guarantee to meet certain reliability benchmarks or be fined for failing to do so;
- promise to continue providing charitable contributions and community support;
- No net reduction in employment levels for the first two years;
- Pepco will maintain local headquarters in the District of Columbia.

Status of the Proceeding

- Exelon and PHI have filed Initial Testimony in support of the Application to Merge.
- The PSC has issued two decisional orders.
  - **Order No. 17530** designated the initial public interest factors the PSC will consider.
  - **Order No. 17597** determined that the proceeding examining the proposed merger is an investigation for assessment purposes and established the procedural schedule. The designation of the proceeding as "an investigation" determines the amount of funds available to OPC and the PSC to litigate this case. This order also established the final set of 7 public interest factors to be considered by the PSC.

OPC's Review of the Merger
Current Activity

- Reviewing the application and identifying key issues -- reliability, cost savings, consumer protections & regulatory impacts;

- Engaging in discovery -- asking questions about the promises and proposals;

- Outlining our concerns and developing testimony to be filed October 20;

- Determining measurable and tangible benefits consumers should receive.

OPC's Concerns

- Reliability
  - Joint Applicants' reliability projections are based upon a faulty Department of Energy study. (10 years old; overstates the value of avoided interruptions; leads to approaches that are not cost-effective).
  - Joint Applicants have provided very few specifics in terms of investments or changes in best practices that provides a clear source of how improvements will be made.
  - Joint Applicants' commitment to reliability levels are not as good as those required of Pepco in the EQSS by 2018-2020.

OPC's Concerns

- Financial
  - Exelon has a much higher risk profile than Pepco's distribution-only business -- Capital costs could increase for Pepco's consumers.
  - Exelon cut its dividends in 2013. Similar cuts in the future may require Pepco to provide the cash flow to pay Exelon's dividends.
  - Cost allocations between multiple entities could be complicated.

OPC's Concerns

- The Commission's ability to regulate Exelon
  - Exelon's post-merger activities, *i.e.* additional purchases
  - Conflicting interest between Exelon and Pepco
    - Wholesale market impacts
  - Availability of resources to allow Pepco to fulfill its statutory duties

OPC's Concerns

- Impact on local jobs
  - What are the long term job loss projections?

- Ring fencing measures
  - How long will they be in place?

OPC's Concerns

- When will the proposed cost savings materialize?
- Will mechanisms to track costs savings be adopted?
- What happens if the promises are not met?
- Will energy efficiency, conservation and sustainability initiatives be retained and expanded?

Consumer Participation

- *Express your opinion to the DC Public Service Commission:*

Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission of the District of Columbia
1333 H Street, N.W. Second Floor, West Tower
Washington, D.C. 20005
BWestbrook@psc.dc.gov
Attn: Formal Case No. 1119

- *Attend the DC PSC's public hearings*

Thank you!!

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