

**ORDER NO. 92264**

Potomac Electric Power Company's  
Application for an Electric Multi-Year  
Plan

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BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF MARYLAND

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Case No. 9655  
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**ORDER ON MULTI-YEAR RATE PLAN**  
**FINAL RECONCILIATION**

Before: Kumar P. Barve, Chair  
Frederick H. Hoover, Jr., Commissioner  
Bonnie A. Suchman, Commissioner

**Issue Date: March 31, 2026**

## APPEARANCES

Kim Curry, Esq., Douglas E. Micheel, Esq., Matthew Segers, Esq., and Taylor Beckham, Esq. for Potomac Electric Power Company

Lloyd J. Spivak, Esq., Michael Dean, Esq., Annette Garofalo, Esq., and Kenneth Albert, Esq. for the Technical Staff of the Public Service Commission of Maryland

Jacob Osulander, Esq. and Michael Sammartino, Esq. for the Maryland Office of People's Counsel

Frann G. Francis, Esq. and Katelyn Peter, Esq. for the Apartment & Office Building Association of Metropolitan Washington

James K McGee, Esq, for Prince George's County

## **I. Executive Summary**

In this Order, the Commission addresses Potomac Electric Power Company's ("Pepco" or the "Company") initial Multi-Year Rate Plan ("MRP-1")<sup>1</sup> Rate Year Three ("RY3") Reconciliation, the final reconciliation regarding Pepco's MRP-1 rates. Pepco has requested approximately \$30.6 million in its final reconciliation application. This is twice the revenue requirement originally awarded to Pepco for RY3 of MRP-1 (\$15.3 million) which would total \$45.9 million in revenue requirement in RY3 if awarded in full. If Pepco's request was approved in full this would result in a total revenue requirement of \$91.1 million over Pepco's entire MRP-1 which is a 74% increase above the original award of \$52.2 million.

After considering the testimony of numerous witnesses, evidentiary hearings, and the Parties' briefs, the Commission denies the approximately \$30.6 million request and determines instead that an updated or adjusted amount of \$13,360,473 should be added to Pepco's electric service distribution rates for its MRP-1. In allowing for this adjustment, the Commission is mindful of the burdens that increased electric rates place on customers, especially residential ratepayers. These concerns were noted by the Maryland General Assembly as well, when the legislature enacted SB937/HB1035 (2025), the Next Generation Energy Act (the "NGEA"), which, among other things, allows utilities to continue to propose multi-year rate plans and other alternative forms of ratemaking for recovery of costs associated with providing utility services, but prohibits reconciliation in future MRP cases.<sup>2</sup>

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<sup>1</sup> The acronym "MRP" refers to a multi-year rate plan, as discussed and approved for a pilot in Commission Order No. 89482. In this Order, "MRP" and "MYP" are used interchangeably.

<sup>2</sup> Md. Laws 2025, Ch. 625.

These concerns are also evident in the General Assembly’s establishment of the 2025 Legislative Relief Fund, as part of the NGEA. The 2025 Legislative Relief Fund authorized the transfer of \$200,000,000 from the Strategic Energy Investment Fund to provide residential customer credits based on each customer’s electricity consumption.<sup>3</sup>

The Commission was created by the General Assembly to supervise and regulate monopoly utilities in the State, to “ensure their operation in the public interest,” and to “promote adequate, economical, and efficient delivery of utility services in the State without unjust discrimination.”<sup>4</sup> In supervising and regulating public service companies, the Commission must consider – among other things – “the economy of the State, and more recently, “the preservation of environmental quality, including protection of the global climate ...”<sup>5</sup> While the MRP proceeding is quasi-judicial, the Commission’s powers are “legislative in character,”<sup>6</sup> requiring the Commission to determine whether the rates proposed by the utility are just and reasonable, as defined in PUA § 4-101.<sup>7</sup> Rates approved pursuant to PUA § 7-505—under an alternative form of ratemaking, as opposed to using historical data under a traditional form of ratemaking—also must protect consumers, ensure the quality, availability, and reliability of regulated electric services, and be in the interest of the public.

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<sup>3</sup> The Strategic Energy Investment Fund (“SEIF”) is a Maryland program that supports a wide range of energy efficiency, renewable energy, and climate change initiatives across the State. The purpose of the SEIF is to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy to fuel Maryland's future prosperity. Despite these important goals, given the exorbitant energy costs currently facing Maryland ratepayers, the General Assembly acted through the NGEA to remove \$200 million from the SEIF to reduce residential ratepayer bills. *See Md. Ann. Code*, State Gov. Article § 9-20B-05(i)(4), referencing the Legislative Energy Relief Refund.

<sup>4</sup> Md. Ann. Code, Pub. Util. Art. (“PUA”), § 2-113(a).

<sup>5</sup> *Id.*

<sup>6</sup> *See e.g., Chesapeake & Potomac Tel. Co. v. Pincoffs*, 23 Md. App. 474 (1974).

<sup>7</sup> PUA § 4-101 provides that a just and reasonable rate “means a rate that: (1) does not violate any provision of this article, (2) fully considers and is consistent with the public good, and (3)... will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other

In approving Pepco's MRP, the Commission denied the Company's initial budget request and approved a smaller amount. The Commission expected the Company to work within the parameters of that budget. While some variance was expected, as no forecast is 100 percent correct, the Commission authorized reconciliation process should have been viewed within the context of the MRP goals, which cannot be satisfied with reconciliation requests of this magnitude. MRP ratemaking does not allow for unbounded and run-away cost recovery when the utility overruns its budget projections, which the Company has clearly done.

In this case, the Commission finds that Pepco's proposed reconciliation of \$30,553,651 in costs following the completion of MRP-1 is not just and reasonable. The Commission is persuaded by the observations of intervenors that Pepco's RY3 final reconciliation request relies on numerous non-quantitative explanations and rationales to support the levels of the Company's expenditures in marked variance from the levels of costs set for its RY3 rates, that Pepco forecasted poorly in the presentation of its MRP-1 base rate case and further failed *even* to adhere closely to the MRP-1 budget accepted by the Commission in this case. In the base MRP-1 decision (Order No. 89868), a plurality of Commissioners expressed deep concerns with approving Pepco's MRP-1 request, noting significant deficiencies with regard to the Company's forecasting.<sup>8</sup> Approving Pepco's full RY3 reconciliation request on a base MRP-1 foundation of questionable forecasting, followed up by substantial overruns of its approved budgets, would reward the utility's

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necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company's property used and useful in providing service to the public."

<sup>8</sup> See Chair Stanek and Commissioner Richard concurrences and Commissioner Herman dissent, Order No. 89868, Case No. 9655.

performance rather than encourage a more disciplined approach to managing for results that benefit both the utility and its customers.

The impact of Pepco's proposed reconciliation on typical residential customers would amount to a monthly bill increase of approximately \$2.42 on a net basis (bill impact experience by the customer) and \$3.17 on a gross basis (size of the requested revenue requirement without considering the previously approved reconciliation surcharge).<sup>9</sup> The action of the General Assembly as well as Exelon itself demonstrate that a bill increase of this magnitude risks increased utility unaffordability by many customers and does not align with supporting the economy of the State. While the estimated \$0.64 monthly bill impact on a net basis and \$1.39 monthly bill impact on a gross basis resulting from this decision does not fully mitigate the utility affordability risks faced by residential customers, it does at least—to some degree—buffer the impact.

For these reasons, and as more fully discussed herein, the Commission rejects Pepco's MRP-1 RY3 requested reconciliation in the amount of \$30,553,651. Based on the record and the consideration of what is just and reasonable at this time, the Commission finds that the recovery of updated or adjusted rates in the amount of \$13,360,473 is just and reasonable in this case. As further explained in this order comma the decision does not deprive Pepco of future cost recovery for the cost of investments that are determined to be used and useful in providing utility services, so long as the cost for those investments are

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<sup>9</sup> Pepco's proposed rate was \$0.00385 which results in a bill impact of \$3.17 a month for an average customer using 824 kWh. As Pepco currently has a reconciliation rate in effect that ends April 1, 2026 the net effect of implementing Pepco's proposal revenue requirement against the old rate is \$2.42. (See Blazunas Rebuttal Testimony, at 6, fn 8).

paired with prudence and proposed within a requisite test-year context. The Commission's decisions are discussed further herein.

## **II. Background**

Pepco filed its RY3 Annual Informational Filing on June 28, 2024, stating that the Company under-recovered its RY3 revenue requirement by approximately \$30.6 million.<sup>10</sup> On July 29, 2024, Pepco filed its RY3 Final Reconciliation, seeking recovery of the \$30.6 million, and included direct testimony as well as a proposed procedural schedule.<sup>11</sup> On August 20, 2024, the Commission approved the procedural schedule.<sup>12</sup>

On September 20, 2024, AOBA filed a motion requesting that the Commission dismiss the RY3 Final Reconciliation filing and deny Pepco's requested recovery of the \$30.6 million.<sup>13</sup> On October 8, 2024, the Office of People's Counsel ("OPC") filed a letter in support of AOBA's Motion and requested that the Commission suspend the procedural schedule pending its decision on AOBA's Motion.<sup>14</sup> On October 10, 2024, Pepco filed a response to AOBA and OPC, maintaining that the Commission should reject AOBA's Motion and OPC's letter.<sup>15</sup>

The Commission issued an order on October 11, 2024, denying AOBA's Motion without prejudice and finding that there was not a sufficient record to dismiss Pepco's

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<sup>10</sup> Maillog No. 310505.

<sup>11</sup> Maillog No. 311238. Prepared Direct Testimony of Robert T. Leming ("Leming Direct"); Prepared Direct Testimony of Peter R. Blazunas ("Blazunas Direct").

<sup>12</sup> Order No. 91292.

<sup>13</sup> Maillog No. 312453, *citing* Motion of the Apartment and Office Building Association of Metropolitan Washington for Dismissal of the Potomac Electric Power Company's Rate Year 3 Reconciliation Filing and Denial of Recovery of Approximately \$31,000,000 Reconciliation Charges Through Rider MRP ("AOBA's Motion) filed September 20, 2025.

<sup>14</sup> Maillog No. 312770.

<sup>15</sup> Maillog No. 312828.

reconciliation filing.<sup>16</sup> However, the Commission suspended the procedural schedule and directed the parties to file, no later than October 18, 2024, a new consensus procedural schedule.<sup>17</sup> Pepco filed a revised consensus procedural schedule on October 18, 2024, which the Commission approved on October 21, 2024, directing that the Intervenors file direct testimony by November 15, 2024, the Parties file rebuttal testimony by December 27, 2024, and the Parties file surrebuttal testimony by January 24, 2025.<sup>18</sup> AOBA<sup>19</sup>, OPC<sup>20</sup>, and the Commission’s Technical Staff (“Staff”)<sup>21</sup> filed direct testimony on November 15, 2024. AOBA<sup>22</sup>, Pepco<sup>23</sup>, and OPC<sup>24</sup> filed rebuttal testimony on December 27, 2024.

On January 8, 2025, AOBA filed another motion, to suspend or extend the procedural schedule and strike Pepco’s rebuttal exhibits.<sup>25</sup> AOBA requested that the Commission strike all Pepco rebuttal exhibits that were: (1) available to Pepco before the filing of its application for reconciliation and direct testimony on July 29, 2024, (2) other information not included in the July 29 filing, and (3) information offered as support for Pepco’s RY3 capital expenditures and plant additions.<sup>26</sup> Additionally, AOBA requested that the Commission direct Pepco to immediately provide the name of the sponsoring witness

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<sup>16</sup> Order No. 91370.

<sup>17</sup> *Id.*

<sup>18</sup> Order No. 91376.

<sup>19</sup> Maillog No. 313614. AOBA filed Direct Testimony of Bruce R. Oliver (“Oliver Direct”).

<sup>20</sup> Maillog No. 313657. OPC filed Panel Direct Testimony of Paul J. Alvarez and Dennis Stephens (“Alvarez and Stephens Direct”) and Direct Testimony of David J. Effron (“Effron Direct”).

<sup>21</sup> Maillog No. 313659. Staff filed Direct Testimonies of Roger Austin (“Austin Direct”), Mark Rielly (“Rielly Direct”), and David Hoppock (“Hoppock Direct”).

<sup>22</sup> Maillog No. 314509. AOBA filed Rebuttal Testimony of Bruce R. Oliver (“Oliver Rebuttal”).

<sup>23</sup> Maillog No. 314515. Pepco filed Rebuttal Testimonies and Schedules of Company Witnesses Elizabeth Morgan Downs O’Donnell (“O’Donnell Rebuttal”), Robert T. Leming (“Leming Rebuttal”), Peter R. Blazunas (“Blazanus Rebuttal”), David M. Vahos (“Vahos Rebuttal”), David L. Vosvick II (“Vosvick Rebuttal”), Jaclyn Cantler (“Cantler Rebuttal”) and Amber Young (“Young Rebuttal”).

<sup>24</sup> Maillog No. 314520. OPC filed Panel Rebuttal Testimony of Paul J. Alvarez and Dennis Stephens (“Alvarez and Stephens Rebuttal”).

<sup>25</sup> Maillog No. 314716.

<sup>26</sup> *Id.*

for each Pepco response to AOBA, OPC, and Staff Data Requests that was required by Commission Order No. 91376.<sup>27</sup>

On January 27, 2025, after considering the motion, Pepco's response and AOBA's reply, the Commission granted AOBA's motion to extend the procedural schedule, and denied, without prejudice, AOBA's request to strike portions of Pepco's rebuttal and exhibits.<sup>28</sup>

On February 28, 2025, AOBA,<sup>29</sup> Staff,<sup>30</sup> Pepco and OPC<sup>31</sup> filed their surrebuttal testimony. The Commission hearings were held March 5, 6, 7 and 10, 2025.

### **III. Discussion and Findings**

#### **A. Overview of the MRP Reconciliation Process**

On October 26, 2020, Pepco filed its initial rate application requesting an increase in electric rates using the MRP framework, covering the three-year period of April 1, 2021 through March 31, 2024. In Order No. 89868,<sup>32</sup> the Commission authorized incremental revenue requirement for Pepco MRP-1 as follows:

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<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> Maillog No. 316346. AOBA filed Surrebuttal Testimony of Bruce R. Oliver ("Oliver Surrebuttal").

<sup>30</sup> Maillog No. 316347. Staff filed Surrebuttal Testimonies of Roger F. Austin ("Austin Surrebuttal"), Mark Rielly ("Rielly Surrebuttal"), and David Hoppock ("Hoppock Surrebuttal").

<sup>31</sup> Maillog No. 316349. OPC filed Panel Surrebuttal Testimony of Paul J. Alvarez and Dennis Stephens ("Alvarez and Stephens Surrebuttal") and David J. Effron ("Effron Surrebuttal").

<sup>32</sup> Order on Application for Multi-Year Rate Plan, Maillog No. 235923, as corrected.

**Table 1: Commission Authorized Incremental Revenue Requirement for Pepco MRP-1<sup>33</sup>**

Incremental Revenue Requirement	Requested	Approved	Reconciliation
Yr1	\$ 37,437,000	\$ 20,647,000	\$ 1,105,000
Yr2	\$ 35,436,000	\$ 16,260,000	\$ 7,243,000
Yr3	\$ 31,186,000	\$ 15,337,000	To Be Determined
Total	\$ 104,059,000	\$ 52,244,000	

The chart shows that for Pepco’s MRP-1, the Commission granted the Company a combined total authorized revenue requirement of \$52,244,253 based on a historic test year and the planned and projected capital and operations and maintenance expenditures for the MRP effective period 2021 to 2023. In other words, the Commission found that the proposed expenditures and adjustments approved in Pepco’s MRP were just and reasonable and supported an increase to Pepco’s electric rates at this level over the course of the MRP effective period.

In the current proceeding for its MRP-1 Final Reconciliation, Pepco is requesting rate recovery of reconciliation amounts of \$30.6 million for Pepco’s MRP-1 Rate Year 2023. When Pepco’s requested 2023 reconciliation amount is combined with the previously approved reconciliation amounts for 2021 and 2022, the Company’s overall additional revenue requirement for Pepco’s MRP-1 would equal \$38.9 million (or \$1.1 million (2021) *plus* \$7.2 million (2022) *plus* \$30.6 million (2023)). If fully authorized, this would increase the total additional revenue authorized over 2021 through 2023 relative to 2021 revenues from \$52.2 million to \$91.1 million, an approximate 74 percent increase. This is significantly above the amount authorized by the Commission and near the amount originally requested by the Company.

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<sup>33</sup> Order No. 89868, Case No. 9655, and Order No. 91181, Case No. 9702.

As the Commission previously stated in Order No. 91181: “The goal of any ratemaking proceeding is for the Commission to ensure that the rates approved for a public utility to charge customers for regulated service are just and reasonable.”<sup>34</sup> Here, the Commission must determine in the context of the MRP construct and its intended benefits whether Pepco’s request for an additional revenue requirement for \$30.6 million for 2023 MRP-1 Final Reconciliation is just and reasonable and thereby recoverable in customer rates.

In Order No. 89482, the Commission determined that the MRP reconciliation process would “strike the delicate balance of achieving increased transparency and accountability from the utility while realizing other benefits” which included shortened recovery period, predictable revenues for utilities, predictable rates for customers, spreading rate changes over multiple years, and decreasing administrative burden.<sup>35</sup> To achieve this the Commission required that there be annual information filings, consolidated reconciliation of Rate Year 1 and Rate Year 2 during the subsequent rate case filing, and a final reconciliation and prudence review after the conclusion of the initial MRP rate-effective period.<sup>36</sup> This structure was intended to prevent rapid and unexpected increases in customer rates. However, the magnitude of Pepco’s proposed Final Reconciliation would, if accepted, impose a significant increase in costs to customers when combined with the reconciliations for previous years. The outcome is excessive and could result in rate shock to ratepayers, especially in an environment of rising energy costs.

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<sup>34</sup> Order No. 91181 at 207.

<sup>35</sup> Order No. 89482 at 37.

<sup>36</sup> *Id.*

Pepco's request for an adjusted revenue increase of \$30.6 million for its MRP-1 RY3 Final Reconciliation, when viewed in the full context of Pepco's MRP-1, demonstrates an inability of the Company to properly forecast and stay within its authorized budget by exercising the judgment necessary to minimize cost impacts while maintaining safe and reliable service.<sup>37</sup> The Commission is also troubled that the Company's current request, if approved, would have the effect of approving nearly the full amount in the Company's initial MRP request, which the Commission had halved when it approved the MRP. The Commission hopes that the Company is not intending to use the reconciliation process to obtain today what it could not in its initial filing.

The Commission—being charged with setting just and reasonable rates—must ensure that rates are not only “just” compensation for the utility but also reasonable and affordable for ratepayers. Following the MRP construct set forth in Order No. 89482, the utility was expected to bear the risk of forecasting, while being allowed to experience a shorter cost recovery period and permitted more predictable revenues. Simultaneously, the MRP construct intends for ratepayers to experience more predictable rates throughout the lifecycle of the MRP including reconciliation. Here, the Commission finds that approval of Pepco's RY3 Final Reconciliation request - an additional \$30.6 million in revenues for Pepco MRP-1 RY3, an amount approximately twice the Company's approved budget for RY3 and nearly the same amount as requested by Pepco in its original case - would not be a just and reasonable rate in the context of the MRP construct. As discussed above, Pepco's

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<sup>37</sup> The Commission stated in Order No. 89868 at 254 that “forecasting by Pepco for its planned capital projects was challenging and that the Company's budget-to-spending history includes variances and fluctuations that do not allow for the confidence needed to approve all of the revenues requested.” Additionally, the Commission made clear in Order No. 91181 at 2 that it expected “strong scrutiny from parties when these costs are reviewed for prudence in the future, especially when cost variances are high.”

requested adjustment would undermine one of the MRP's key benefits—i.e., *more predictable rates for customers*—and would fail to protect consumers as required under PUA § 7-505(c)(2).

### **Commission Authority and Standard of Review**

Pursuant to PUA §§ 4-101, 4-102 and 4-201, the Commission has the statutory authority and responsibility to set “just and reasonable” rates, wherein the rate: (1) cannot violate any provision of the PUA, (2) must “fully consider and be consistent with the public good,” and (3) must “result in an operating income . . . that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company’s property used and useful in providing service to the public.”<sup>38</sup> The Commission’s sole obligation in this proceeding is “to determine what rates the utility should be allowed to charge in future years to cover prudent expenses and earn a reasonable profit.”<sup>39</sup> The Commission’s sole obligation in this proceeding is “to determine what rates the utility should be allowed to charge in future years to cover prudent expenses and earn a reasonable profit.”<sup>40</sup>

The Company’s burden in this MRP reconciliation request is to justify all its spending as well as the foundation upon which its projections are based, including at the individual account level. This burden is similar to that of the historic base rate case, where the utility bears the burden to justify the prudence of its spending, while the parties examine and analyze individual issues.

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<sup>38</sup> PUA § 4-101.

<sup>39</sup> *Off. of People’s Couns. v. Maryland Pub. Serv. Comm’n*, 355 Md. 1, 8 (1999).

<sup>40</sup> *Id.*

Regarding prudence, Pepco witness O'Donnell requested that the Commission adhere to its precedent and industry practice in making a prudence determination by applying two "foundational principles:" evaluating what the utility knew or should have known at the time an investment decision was made, and, given that knowledge, whether the decision would have been made by a reasonable management team.<sup>41</sup> She explained that this determination should not be a "hindsight review," and the Commission should not substitute its judgment for that of the Company.<sup>42</sup> Witness O'Donnell also described three standards Pepco is applying to demonstrate it has acted prudently in the instant case: (1) Capital projects must be used and useful, and provide service to customers, or for O&M expenditures, reasonably incurred in fulfilling the utility's obligations, (2) Projects must pass a reasonable business judgment decision process, and (3) Project costs are managed reasonably.<sup>43</sup> She noted that these standards align with Pepco's business practices through its "internal review processes" that evaluate customer, social and environmental benefits of its projects; consideration of alternative options; employing cost discipline measures with a prospective outlook; and implementing an expenditure review process that analyzes the purpose and benefits of an investment and determines whether the decision would have been made by a reasonable management team.<sup>44</sup>

Witness O'Donnell commented that the Commission's prudence determination in this MRP reconciliation proceeding should be similar to a determination made in a traditional test year filing, applying the same foundational principles.<sup>45</sup> Nevertheless, she

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<sup>41</sup> O'Donnell Rebuttal at 11.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at 13.

stated that the prudence review in this MRP proceeding provides significantly more information to stakeholders about the Company's planned work and spending than would have been available in a traditional rate case.<sup>46</sup>

AOBA witness Oliver, on the other hand, stressed that in evaluating a utility's proposed expenditures in the rate setting process, the process depends on: "(1) the utility's ability to forecast the details of its future expenditures with reasonable accuracy; and (2) the rigor that the Commission demands of the Company in terms of demonstration of the prudence of the utility's subsequent actual expenditures."<sup>47</sup> Concerning Pepco's RY3 Final Reconciliation, witness Oliver asserted that Pepco failed to explain large variances from the original proposed expenditures, and the Company's current proposal includes insufficient quantitative explanations.<sup>48</sup> Witness Oliver highlighted that Pepco's RY3 Final Reconciliation reveals significant discrepancies between forecasted budgets and actual expenditures undermining the integrity of the MRP process including demonstrating ratepayer benefits.<sup>49</sup> He observed that Pepco's business interest seems to be guided primarily by the economic interest of the Company, and only secondarily for the benefit of ratepayers.<sup>50</sup>

In Order No. 90948, the Commission determined that "prudency issues such as whether particular projects will ultimately benefit ratepayers, whether actual project costs were excessive, and whether the programs were executed effectively and efficiently will

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<sup>46</sup> *Id.*

<sup>47</sup> Oliver Direct at 4.

<sup>48</sup> *Id.* at 5.

<sup>49</sup> *Id.* at 6.

<sup>50</sup> Oliver Surrebuttal at 15.

become ripe for prudence review during the reconciliation process.”<sup>51</sup> The Commission further opined that “Commission-approved budgets and spending are not aspirational.”<sup>52</sup> The Commission expects utilities to manage their operations and spending within the limits the Commission approved and that the lack of a specific variance test should not be considered free rein to exceed budgets.<sup>53</sup> Hence, the burden is on Pepco to explain why its actual expenditures far exceeded its budgets as authorized by the Commission in its initial MRP. The Commission stated in Order No. 91181 that “[t]he final reconciliation was not intended to be a catch-all to sanction bad forecasting, cost overruns . . . , or new or emergent projects not originally authorized.”<sup>54</sup>

During the evidentiary hearing for the 2023 Pepco Final Reconciliation, in an exchange between Commissioner Richard and Pepco witness O’Donnell about the magnitude of Pepco’s RY3 reconciliation request, the Company acknowledged the Commission’s expectation that the utility exercise budgetary constraints.

Commissioner Richard: “Okay. So, when you're looking at these expenditures, particularly capital expenditures, you're aware that the Commission has been very concerned about that in the last couple of orders. I'm going to specifically make this into a question. Isn't it true in the [MRP]—PEPCO came in for a certain amount of capital spend, and the Commission reduced that spend?”

Pepco witness O’Donnell: “They reduced the revenue requirement that we requested, yes, and said to us that we needed to—that was the revenue requirement. If we chose to manage outside of that revenue requirement, then we certainly would need to come to the Commission and show prudence and explain why we had done that.”<sup>55</sup>

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<sup>51</sup> See Order No. 90948 at 2. *In the Matter of the Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan*, Case No. 9692 (Dec. 14, 2023).

<sup>52</sup> *Id.*

<sup>53</sup> See *id.* at 181.

<sup>54</sup> See Order No. 91181 at 15.

<sup>55</sup> Hrg. Tr. at Vol. 1 at 83:15-84:5, March 5, 2025.

In Pepco's initial MRP, the Commission made a clear finding that Pepco's forecasting for its capital projects was unsupported, and the Company's budget-to-spending history contained variances and fluctuations that did not instill the confidence the Commission needed to approve all the revenue requests.<sup>56</sup> In Pepco's RY3 Final Reconciliation, the Commission makes similar findings, as there are numerous projects with substantial variances between forecasts and actual spending, resulting in a reconciliation request that is twice the amount that the Commission had approved for spending. While numerous budgeted projects are not discretionary or may have exceeded the amount budgeted because of circumstances beyond Pepco's control, other projects involved discretionary measures and forecasting errors, where overspending is not justifiable.

This Order will discuss the spending requests that the Commission approves or denies based on the aforementioned standard and the determination of whether the Company met its burden of justifying the prudence of its spending and overruns. The Commission finds that it is Pepco's responsibility to ensure that the Commission and other parties can appropriately evaluate the reasonableness of Pepco's revenue requirement request through comparisons of actuals and variances on similar reporting bases in this MRP and any future rate case. In light of the above, the Commission finds a lack of prudence for several projects, and therefore has determined, as detailed in this Order, that disallowance of recovery for those projects is in the best interest of the ratepayers, particularly in the current economic climate. Because the prudence analysis is specifically

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<sup>56</sup> Order No. 89868, *Potomac Electric Power Company's Application for an Electric Multi-Year Plan*, Case No. 9655. (June 28, 2021).

focused on the question of whether Pepco’s management decision to proceed with spending in 2023 was prudent, prudence decisions herein do not, unless stated otherwise, preclude Pepco from seeking to request recovery of capital costs at future net book value<sup>57</sup> or future O&M costs related to these projects in future rate cases.

**B. Contested Project Costs**

1. Livingston Road Battery Energy Storage System (“BESS”)

Pepco

In his direct testimony, witness Leming discussed the final reconciliation costs related to the BESS—a utility owned battery system project that comprises a portion of Pepco’s Maryland Energy Storage Pilot Program in Case No. 9619.<sup>58</sup> Pepco determined that, based on various challenges impacting the project, the Company no longer supported the inclusion of the project in the pilot program and on September 11, 2023 filed with the Commission a request to reject the Livingston Road project from the pilot program as no longer in the public interest.<sup>59</sup> The Commission granted Pepco’s request and amended Order No. 89664 to reject the Livingston Road project, leading Pepco to abandon the project and write off \$4.1 million in capital expenditures that had been incurred.<sup>60</sup>

Mr. Leming stated that Pepco was not seeking recovery of \$1.8 million of the expenditures—which consisted of contracting and materials incurred by the project’s nonperforming vendor—through customer rates, and the Company removed the recovery

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<sup>57</sup> Historic cost less accumulated depreciation at the time of the rate case.

<sup>58</sup> Leming Prepared Direct at 10, referencing Case No. 9619, *In the Matter of the Maryland Energy Storage Pilot Program*.

<sup>59</sup> Leming Prepared Direct at 10.

<sup>60</sup> *Id.* at 11.

request from its RY3 Final Reconciliation.<sup>61</sup> However, Pepco is seeking recovery of the remaining \$2.4 million, including \$1 million in internal labor and overhead costs and \$500,000 for materials such as switchgear and transformers.<sup>62</sup> Mr. Leming testified that these costs were not incremental and represented labor and other costs that Pepco would have incurred regardless of whether the Company pursued the Livingston Road project, and the materials can be used for other system needs.<sup>63</sup> He added that the remaining \$0.9 million comprised contracting costs, such as engineering design and consulting services, and other services, such as environmental studies and communication services.<sup>64</sup> Mr. Leming emphasized that Pepco incurred the costs in order to comply with a legislative mandate requiring Maryland investor-owned utilities to submit applications for energy storage projects, and the costs were therefore prudently incurred, appropriate for recovery and reasonably included in Pepco's cost of service.<sup>65</sup>

Mr. Leming stated that Pepco is seeking recovery of the RY3 reconciliation amount through the MRP Adjustment Rider.<sup>66</sup>

On rebuttal, Mr. Leming explained the Company's reduction of its RY3 under-recovery to \$30.6 million, based on the adjustment of the project abandonment costs.<sup>67</sup> According to Mr. Leming, Pepco discovered that the project's switchgear, valued at \$61,200, could be utilized in another project under its sister company Delmarva Power & Light Co. ("Delmarva Power"), resulting in an offset of the switchgear cost to customers.<sup>68</sup>

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<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*

<sup>64</sup> *Id.* at 12.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> *Id.* at 28.

<sup>68</sup> *Id.*

He added that the Livingston Road project switchgear was deemed appropriate for similar projects, and Pepco subsequently recorded its value of \$340,883.96 into inventory for use in a future battery energy storage project.<sup>69</sup> Witness Leming stated that, based on these adjustments, Pepco is requesting \$2.0 million for abandoned costs related to the Livingston Road project.<sup>70</sup>

Mr. Leming disagreed with the proposed disallowance of the Livingston Road Battery Storage project, contending that the project's costs were appropriately incurred in order to comply with a "legislative mandate that required each investor-owned utility in the [S]tate of Maryland to submit applications for energy storage projects," and therefore the recovery request was reasonable.<sup>71</sup>

Pepco witness Amber C. Young stated that Pepco previously decided, in Case No. 9702, to not seek recovery of approximately \$1.8 million in contracting and materials expenditures in the project after Staff recommended disallowance.<sup>72</sup> Witness Young acknowledged that Staff recommended disallowance of the \$2 million and that OPC disputed the prudence of the project, with OPC claiming that Pepco was aware at the time it began developing the project that it would not be cost-effective, and the Company did not adequately manage the underperforming project contractor.<sup>73</sup> Ms. Young disagreed, stating that the parties were basing their disallowance recommendations on "20/20 hindsight" instead of analyzing the costs incurred at the time the decision was made to

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<sup>69</sup> *Id.*

<sup>70</sup> *Id.* at 29.

<sup>71</sup> Leming Rebuttal at 4.

<sup>72</sup> Young Rebuttal at 54.

<sup>73</sup> *Id.* at 56-57.

proceed with the project.<sup>74</sup> She asserted that the cancellation costs being sought for recovery were legitimate business costs, because the project was required by legislation, was based on load information that Pepco had at the time of approval, and provided insight that can be applied to future efforts.<sup>75</sup>

*Staff*

Staff recommended disallowance of the approximately \$2 million in internal labor, overhead and contracting costs. Staff witness Austin testified that the Livingston Road Battery Energy Storage System project was initially launched in response to the Maryland Energy Storage Pilot Program Act.<sup>76</sup> He explained that on November 6, 2020, the Commission approved the project in Case No. 9619.<sup>77</sup> However, he noted that Pepco ultimately determined that the project was no longer in the public interest and proposed the Fairmount Heights Microgrid as an alternative to satisfy the legislative requirements. At the time the Company made this determination, he observed that Pepco had already incurred approximately \$4.2 million in expenditures.<sup>78</sup>

Witness Austin stated that of the \$4.2 million spent, \$1.8 million was attributed to a nonperforming vendor, which the Company planned to recover directly from the vendor.<sup>79</sup> He asserted the remaining \$2.4 million consisted of \$1 million for internal labor and overhead, \$0.5 million for materials such as switchgear and transformers, and \$0.9

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<sup>74</sup> *Id.* at 59.

<sup>75</sup> *Id.* at 61.

<sup>76</sup> Austin Testimony (Public version) at 203.

<sup>77</sup> *Id.*

<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

million for contracting costs.<sup>80</sup> Furthermore, he noted that the Company sought recovery of this \$2.4 million, asserting that the expenditures were incurred to comply with the legislative mandate.<sup>81</sup> In his testimony, however, Staff witness Austin asserted that the \$2.4 million should be disallowed.<sup>82</sup>

On surrebuttal, witness Austin maintained his position on Staff's recommended disallowance noting that Staff's previous stance that the project was not cost-effective had been proven valid.<sup>83</sup> He stated that Staff did not oppose possible future recovery for materials from the project if Pepco can use those materials for another project.<sup>84</sup>

Staff witness Rielly responded to Pepco witness Leming's rebuttal testimony on the Livingston Road Battery Energy Storage Project, including Mr. Leming's statement that Pepco recorded \$61,200 in revenue from Delmarva Power for the value of the switchboard, and that the \$340,884 switchgear was earmarked for future battery storage projects.<sup>85</sup> Mr. Rielly stated that Staff accepted Pepco's rebuttal adjustments but did not recommend that Pepco recover the internal labor, overhead, and contracting costs incurred, which Mr. Rielly calculated as \$2.12 million (including Maryland and federal taxes).<sup>86</sup> According to Mr. Rielly, Staff therefore accepted Pepco's above-referenced rebuttal adjustments for the switchgear but recommended disallowance of the \$2.12 million internal labor, overhead, and contracting costs incurred.<sup>87</sup>

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<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *Id.*

<sup>83</sup> Austin Surrebuttal at 3.

<sup>84</sup> *Id.*

<sup>85</sup> Rielly Surrebuttal at 3.

<sup>86</sup> *Id.*

<sup>87</sup> *Id.*

OPC

OPC Direct witnesses Alvarez and Stephens challenged the \$4.1 million costs incurred by Pepco for the Livingston Road Battery Energy Storage Project (“Livingston Project”) as imprudent.<sup>88</sup> Witnesses Alvarez and Stephens observed that Pepco initiated the Livingston Road Project based on the General Assembly’s 2019 enactment of SB 573, the Energy Storage Pilot Project Act,<sup>89</sup> to “require battery energy storage project proposals from Maryland investor-owned utilities.”<sup>90</sup> Witnesses Alvarez and Stephens stated that the Livingston Road Project was projected to cost \$4.9 million, and garner \$15.3 million in projected benefits, which included “\$10.2 million in Deferral/Avoidance of Utility Distribution Costs” involving the replacement of the Livingston Road substation.<sup>91</sup> However, Alvarez and Stephens disputed the legitimacy of the expense, arguing that Pepco knew or should have known the substation replacement would be unnecessary due to flat load growth, which was projected to remain consistent through 2032.<sup>92</sup>

Witnesses Alvarez and Stephens noted that Pepco defends the Livingston Road Project expenditures on the basis that they were incurred to comply “with a legislative mandate that required each investor-owned utility in the state of Maryland to submit applications for energy storage projects.”<sup>93</sup> However, witnesses Alvarez and Stephens

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<sup>88</sup> Alvarez and Stephens Direct at 16.

<sup>89</sup> Md. Laws 2019, Ch. 427.

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 16, *citing* Case No. 9619, *In the Matter of the Maryland Energy Storage Pilot Program*, Maillog No. 229744, Application of Joint Exelon Utilities for Approval of Energy Storage Pilot Projects at 61-70 (April 15, 2020).

<sup>92</sup> *Id.* at 16-17.

<sup>93</sup> *Id.* at 18, *citing* Leming Direct at 12.

argued that the legislature did not authorize imprudent spending, and they proposed that \$4.1 million of the expenditure be disallowed.<sup>94</sup>

In their surrebuttal testimony, witnesses Alvarez and Stephens recommended that the Commission disallow \$2 million of expenditures, which represented a reduction from the initial proposal of \$4.1 million.<sup>95</sup> Alvarez and Stephens reduced the proposed disallowance due to Pepco's decreased request for the Livingston Road Battery Storage project.<sup>96</sup> Alvarez and Stephens remained adamant that remaining disallowances were justified because: "(1) Pepco knew, or should have known, at the time it proposed the project, that the load relief provided by the project was no longer needed, and (2) Pepco did not adequately manage the project and contractor."<sup>97</sup> Furthermore, contrary to witness Young's statement that disallowance recommendation results from the use of hindsight, he argued the pitfalls of the Livingston Road project were known and knowable before and during the project's implementation.<sup>98</sup>

### **Commission Decision**

Pepco maintains that the costs were prudently incurred and based on information available to the utility at the time, and that circumstances, such as the contractor's abandonment of the project, should not prevent recovery. Pepco further asserts that the project costs were incurred prior to information obtained later that pointed to the project no longer being in the public interest. For its part, OPC notes what it describes as a number

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<sup>94</sup> *Id.* at 17 and 20.

<sup>95</sup> Alvarez and Stephens Surrebuttal at 18.

<sup>96</sup> *Id.* at 18-19.

<sup>97</sup> *Id.* at 14, *citing* Young Rebuttal FR at 58:4 (with respect to load growth) and 58:21 (with respect to contractor management).

<sup>98</sup> *Id.* at 15, *citing* Young Rebuttal FR at 59:18-21.

of missteps by Pepco—including unsupported load forecast evidence, contractor issues indicating faulty project management and lack of need indicated by no expected overload—in deeming the project to be imprudent and meriting disallowance of the \$2 million recovery. Staff similarly argues for a \$2.12 million disallowance for internal labor, overhead, and contracting costs, pointing to mismanagement of the project, and noting that ratepayers will not benefit from a canceled project or wasted costs, as well as taking issue with the contractor selection through lack of competitive bidding and subsequent lack of contract monitoring.

The Commission hereby disallows the entire \$4.1 million incurred for this project, including the requested recovery of approximately \$2 million, for the reasons outlined by both OPC and Staff. Ratepayers should not have to bear the costs of a project that is not only incomplete, but faced vendor issues that possibly could have been avoided with more foresight.

## 2. Wheaton Substation Transformer No. 3 Replacement

### Pepco

Pepco states that it incurred capital expenditures in 2023 related to the Wheaton substation transformer replacement due to the deteriorated condition of the transformer, which had leaking bushings and an oil pump, increasing overheating risk.<sup>99</sup> Pepco witness Young stated that the Company is seeking approximately \$3.6 million, with no forecast and spending approximately \$1.8 million in 2023, after discovering deterioration with Transformer No. 3 and its auxiliaries and replacing that transformer.<sup>100</sup> Ms. Young stated

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<sup>99</sup> Young Rebuttal at 36.

<sup>100</sup> *Id.*

that while Staff considered the project to be emergent and a standard occurrence in utility operations, OPC recommended a \$3.568 million disallowance because the transformer did not fail its most recent objective diagnostic tests and therefore questioned the prudence of the project.<sup>101</sup> Ms. Young disputed OPC's recommendation, explaining that the proactive work was based on an evaluation of Transformer No. 3's age, critical role and potential reliability risks.<sup>102</sup>

On surrebuttal, Ms. Young noted that Transformer No. 3 had leaking bushings and oil pumps.<sup>103</sup> She explained that the mechanically declining 50-plus-year-old transformer (69/13 kV, 20 MVA) was replaced in 2023 with a modern 33.6 MVA unit.<sup>104</sup> She noted OPC's opposition to the project, and countered that repairs would have addressed only the symptoms and not the root cause of the transformer's degradation, and would not have prevented future failures.<sup>105</sup>

*Staff*

Staff witness Austin did not recommend any disallowances for this emergent-based project, noting that such projects tend to occur in utility operations.<sup>106</sup> He explained the importance of proper oil circulation for oil-filled transformers to ensure consistent operation "at their nameplate capacity without overheating, and to avoid leaks which would pose safety and environmental risks."<sup>107</sup>

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<sup>101</sup> *Id.* at 37-38.

<sup>102</sup> *Id.* at 38.

<sup>103</sup> *Id.* at 20-22.

<sup>104</sup> *Id.*

<sup>105</sup> *Id.* at 26.

<sup>106</sup> Austin Direct at 113.

<sup>107</sup> *Id.*

OPC

In evaluating the prudence of Pepco's expenses, Alvarez and Stephens observed that "equipment testing is a time-honored practice intended to cost-effectively leave safe and reliable equipment in place while simultaneously reducing the number of failures of equipment in service."<sup>108</sup> Witnesses Alvarez and Stephens speculated that Pepco's efforts to prematurely replace equipment may not solely be initiated to ensure safety and reliability, but concurrently to remove fully depreciated equipment from service.<sup>109</sup> Indeed, Alvarez and Stephens stated that premature equipment replacement has never been the most cost-effective methodology in serving customers.<sup>110</sup>

As such, Alvarez and Stephens oppose Pepco's Wheaton Substation Transformer No. 3 Project ("Wheaton Project") replacement totaling \$3.568 million of expenditures, deeming the work to be premature.<sup>111</sup> Witnesses Alvarez and Stephens contended that in the case of the Wheaton Project, Pepco failed to use a dissolved gas analysis ("DGA") provide objective, conclusive evidence as to whether the substation needed to be replaced, despite the fact that this transformer had passed its most recent dissolved gas analysis.<sup>112</sup> They stated that in the event that repair was necessary, secondary replacements were a variable cost-effective option, and there was insufficient quantifiable evidence that replacement was the most cost-effective option.<sup>113</sup>

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<sup>108</sup> Alvarez and Stephens Direct at 24-25.

<sup>109</sup> *Id.* at 25.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.* at 29.

<sup>112</sup> *Id.* at 28. *See also* Alvarez and Stephens Rebuttal at 30-31. A dissolved gas analysis, or "DGA," is a laboratory test that measures the levels of various gases dissolved in a transformer's oil, including Hydrogen, Methane, Acetylene, and Carbon Dioxide. The Institute of Electrical and Electronics Engineers ("IEEE") has published standards that indicate acceptable levels of each gas (in parts per million, or "ppm") for transformers of various ages and characteristics.

<sup>113</sup> *Id.* at 29-30.

In rebuttal and surrebuttal, witnesses Alvarez and Stephens reasserted their opposition to Pepco's requested recovery for the prematurely replaced substation and circuit breaker equipment. Witnesses Alvarez and Stephens questioned Pepco witness Young's claims that replacing the Wheaton Substation allowed the Company to avoid one-time repair costs of \$225,000 and annual costs of \$15,000.<sup>114</sup> However, Alvarez and Stephens observed that Pepco's reliability risks are based on generalized data, but not reflective of reliability risks specific to the Wheaton Substation.<sup>115</sup> Additionally, Alvarez and Stephens calculated that "the dollar value of reliability risk presented by transformer failures on average is just \$47,000."<sup>116</sup> Furthermore, Alvarez and Stephens noted that "in net present value terms, \$3,094 in average annual consequence cost avoided over the expected 40-year life of a new transformer is just \$47,054.64," which is drastically lower than a \$3.568 million Pepco investment, even when adding in the cost of repair and maintenance of the Wheaton Substation.<sup>117</sup>

### **Commission Decision**

The Commission hereby disallows the \$3.6 million requested recovery of the Wheaton Substation Transformer No.3 Replacement project. While the Commission is not setting precedent regarding whether equipment replacement decisions need to always require a failure of an equipment diagnostic test, the Commission finds that in this case, Pepco did not provide adequate justification for replacing the transformer in light of the

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<sup>114</sup> Alvarez and Stephens Surrebuttal at 28-29.

<sup>115</sup> *Id.* at 28.

<sup>116</sup> Alvarez and Stephens Direct at 30.

<sup>117</sup> *Id.*

transformer not failing diagnostic tests combined with the availability of a less costly repair alternative and the utility's overrun of its budget projections.

### 3. Circuit Breaker Replacement

#### Pepco

Pepco spent approximately \$2 million on Distribution Circuit Breaker Replacements in 2023 in ITN 68163 but claimed that the Company was not seeking recovery of the costs as the plant was not in service.<sup>118</sup> Pepco witness Young noted that the program was introduced after the MRP application in order to replace the most at-risk distribution circuit breakers in Pepco's system.<sup>119</sup>

Ms. Young also discussed a specific program, ITN 73555: SPCC Distribution Breaker Replacements, that did go into service in 2023 and the program was for breakers that exceeded their useful life and .<sup>120</sup> Approximately \$2.6 million was included in the plant additions for 2023.<sup>121</sup> While Staff did not recommend a disallowance, OPC determined that Pepco did not prove that the project was necessary or cost effective.<sup>122</sup> Witness Ms. Young disagreed, asserting that the replacements were necessary to address environmental and worker safety concerns, and the project aligns with best industry practices.<sup>123</sup>

On surrebuttal, witness Young clarified the distinction between the two programs, stating that "ITN 68163 is a condition based deterioration breaker program" while ITN 73555 is an "environmental driven SPCC (Spill Prevention Control and Countermeasure)

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<sup>118</sup> Young Rebuttal Testimony at 39.

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* at 50.

<sup>121</sup> Lemming Rebuttal Testimony, (RTL-R)-2 Table 1 at 7.

<sup>122</sup> *Id.* at 42-43.

<sup>123</sup> *Id.* at 44.

breaker replacement program.”<sup>124</sup> Witness Young further explained that the ITN 73555 initiative was aimed at replacing aging oil-filled and SF6-filled breakers that posed increasing operational and environmental risks, and Pepco replaced three breakers, manufactured more than 60 years ago and exceeding the average age of 57 years, at the Quince Orchard substation.<sup>125</sup>

Witness Young disagreed with OPC’s assertions that the breakers had passed functional tests and thus did not justify immediate replacement, and that Pepco failed to provide a formal benefit-cost analysis (“BCA”) justifying expenses as more than discretionary spending.<sup>126</sup> Witness Young countered that functional tests only confirmed present-day operability, not long-term reliability, and aging infrastructure, elusive replacement parts, increasing maintenance burdens and environmental risks made continued use unsafe.<sup>127</sup> She added that a BCA is not required and the project was completed as part of “normal business” to maintain safety.<sup>128</sup>

*Staff*

Regarding ITN 73555, Staff witness Austin on direct did not recommend any disallowance for this project, noting assertions made by the Company when it first introduced the projects in its original application that the breakers under consideration were manufactured in 1963, the manufacture was no longer in business, it is hard to find replacement parts, and the breakers often fail routine maintenance tests.<sup>129</sup>

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<sup>124</sup> Young Surrebuttal at 12.

<sup>125</sup> *Id.* at 11-13.

<sup>126</sup> *Id.* at 14.

<sup>127</sup> *Id.*

<sup>128</sup> *Id.* at 14-15.

<sup>129</sup> Austin Direct at 109-110.

On surrebuttal, Staff witness Austin maintained his position and noted in a data response to OPC that he believed the Company had provided sufficient information to indicate that an environmental release was a distinct possibility and claims the Company would be negligent if it was sitting on the information but took no action to prevent an environmental release from occurring.<sup>130</sup>

OPC

On direct, witnesses Alvarez and Stephens claim Pepco is prematurely replacing circuit breakers and included \$2.654 million in MYP 1 - RY3 for recovery. They objected to Pepco's claim that the older circuit breakers were obsolete with hard-to-find parts. They also point out that Pepco is claiming to replace the breakers due to environmental concerns but note that from 2018 through 2023 there were 395 oil spills, but none originated with a breaker.<sup>131</sup>

OPC witnesses Alvarez and Stephens continue this objection in rebuttal testimony to Pepco's recovery request for its Circuit Breaker Replacement Program, arguing that Pepco's replacement of SF6 gas-filled circuit breakers based on risk of failure due to age and perceived environmental risks was imprudent.<sup>132</sup> Rather than Pepco's emphasis on the age of circuit breakers, Alvarez and Stephens proposed that aging circuit breakers should be tested for functionality and repaired as necessary.<sup>133</sup> Additionally, they continued to highlight that circuit breaker failure was not referenced as the cause of failure for any of the 695 oil spills reported by Pepco for the past five years.<sup>134</sup> The Commission notes that

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<sup>130</sup> Austin Surrebuttal, at 15 and RFA-SR2 OPC Question 1-2 (a) and (b).

<sup>131</sup> Alvarez and Stephens Direct at 31.

<sup>132</sup> Alvarez and Stephens Rebuttal at 27-28. *Citing*, Austin Direct from 101:3 through 101:10.

<sup>133</sup> *Id.* at 29.

<sup>134</sup> *Id.*

while OPC witnesses Alvarez and Stephens state their discussion in response to Staff Witness Austin is in response to ITN 73555, the citation in their testimony is to Staff Witness Austin's testimony for ITN 68163. In surrebuttal, responding to Pepco witness Young's testimony regarding ITN 73555, witnesses Alvarez and Stephens noted that Pepco argued aging breakers are more difficult to replace, due to the lack of replacement parts, and "have an increased likelihood of catastrophic failure, which can result in hazardous oil spills, presenting environmental risks that need to be mitigated."<sup>135</sup> However, they contended that functional tests should be the primary methodology used to determine the need to repair or replace circuit breakers, and allow cost savings to be passed on to consumers.<sup>136</sup> In the event action was needed to address safety concerns, Alvarez and Stephens stated Pepco could have fabricated a replacement part.<sup>137</sup> Witnesses Alvarez and Stephens concluded that premature replacement expenditures are discretionary, as they need to pass a cost-benefit test, which in this case, OPC argued Pepco failed, resulting in OPC's recommendation of disallowance.<sup>138</sup>

### **Commission Decision**

Pepco maintains that the Company used an asset management strategy to evaluate the breakers, including evaluation of the condition, age, performance, environmental impact and outage history. While Staff does not recommend a disallowance, OPC argues that Staff's recommendation was based solely on equipment age. OPC contends that the replacements were premature and takes issue with the evaluating factors, asserting lack of

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<sup>135</sup> Alvarez and Stephens Surrebuttal at 31.

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at 33.

prudence, necessity, data, and adequate cost-benefit analysis. While the Commission is not setting precedent regarding whether equipment replacement decisions must always require functional testing, the Commission finds that Pepco did not sufficiently justify replacing still functional equipment while the Company was experiencing significant overrun of its budget projections. Pepco did not sufficiently justify electing to replace functional equipment based on the equipment's condition or cost-effectiveness, when compared to maintenance or refurbishment alternatives. The Commission is also troubled that the Company cites failure of maintenance tests as a reason for these projects, but when records that could demonstrate the results of functional or diagnostic tests were requested, the Company claimed "the breakers are not replaced based on condition concerns, as such test results are not of relevance in this context."<sup>139</sup> Therefore, the Commission disallows recovery of the costs for ITN 73555.

#### 4. Tree Wire/Spacer Cable

##### OPC

OPC recommended that the Commission disallow recovery of \$9.753 million in costs to install tree wire in instances in which vegetation and animal contact represents a small proportion of (or zero) historical customer interruption causes.<sup>140</sup> OPC examined a subset of tree wire projects Pepco placed into service and witnesses Alvarez and Stephens stated that "the disallowance amount I am recommending is likely conservative relative to the amount of imprudent tree wire installation spending Pepco likely placed into

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<sup>139</sup> Alvarez and Stephens Rebuttal Ex. PJA-4 at 5-6, showing Pepco's response to OPC Data Request 1 - 13 (c).

<sup>140</sup> Alvarez and Stephens Direct at 24.

service.”<sup>141</sup> When considering Table No. 3 in the Direct Testimony of Paul J. Alvarez and Dennis Stephens, these recommended disallowances span four separate projects with the following costs:

1. ITN 72252: MDO / CEMI Remediation<sup>142</sup> - \$2.908 million
2. ITN 72269: Miscellaneous Reliability Improvements<sup>143</sup> - \$3.636 million
3. ITN 72995: Priority Feeder Improvements<sup>144</sup> - \$0.883 million
4. ITN: 72220 Tree Wire/Spacer Cable Installation<sup>145</sup> - \$2.328 million

Total = \$9.753 million

Witnesses Alvarez and Stephens asserted that the proposed disallowance is potentially conservative as it is based on only a subset of RY3 Tree Wire Projects.<sup>146</sup> Witnesses Alvarez and Stephens noted that in their experience, tree wire rarely reflects the most cost-effective means to prevent damage to wires.<sup>147</sup> Consequently, they concluded that Pepco’s use of tree wire failed to reflect the most cost-effective means to address resilience and other service-related goals.<sup>148</sup> Witnesses Alvarez and Stephens noted that tree wire installation is used to insulate/cover wire, which mitigates damage from animals, vegetation, and bare-wire slapping, which can result in service interruptions.<sup>149</sup> However, witnesses Alvarez and Stephens observed that the damage from animals and vegetation

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<sup>141</sup> *Id.*

<sup>142</sup> Alvarez and Stephens Direct, Ex. PJA-2 at 3-4 for Feeder 14772, Feeder 14488, Feeder 14221a, and Feeder 14221b.

<sup>143</sup> *Id.* at 9 for Feeder 14233/14229, Feeder 15284, Feeder 15288, and Feeder 14124.

<sup>144</sup> *Id.* at 12 for Feeder 14206.

<sup>145</sup> *Id.* at 59 for Feeder 14465a and 14465b.

<sup>146</sup> Alvarez and Stephens Direct at 24.

<sup>147</sup> *Id.* at 21.

<sup>148</sup> *Id.* at 20.

<sup>149</sup> *Id.* at 22.

only reflected 12.5% of interruptions in a subset of 11 projects reviewed.<sup>150</sup> Thus, they proposed that vegetation management (tree branch trimming) could address similar issues at a fraction of the cost.<sup>151</sup>

On rebuttal, Alvarez and Stephens disputed Staff witness Austin's allowance of Tree-Wire Projects, which involves the installation of insulated/covered wire in place of functioning bare wire, based on the goal of increasing grid reliability.<sup>152</sup> Witnesses Alvarez and Stephens explained that tree wire can be used to prevent service interruption by reducing the risk of: (1) vegetation overgrowth contacting bare-wire; (2) wildlife/animals contact with bare-wire; and (3) wind causing wires to slap together, which may cause a ground fault or other service interruption event.<sup>153</sup> They highlighted that these issues only cause a small fraction of Pepco's service interruptions, and vegetation management represented a much more cost-effective solution.<sup>154</sup>

Witnesses Alvarez and Stephens observed that Mr. Austin cites strong historical reliability performance results "including a SAIFI [System Average Interruption Frequency Index] of just 0.147 (one service interruption every 6.8 years) and a SAIDI [System Average Interruption Duration Index] of just 25.3 minutes per year" for circuit 14465.<sup>155</sup> However, Pepco spent \$2.328 million installing tree wire on circuit 14465 despite strong historical reliability performance results.<sup>156</sup> OPC's examination of performance results

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<sup>150</sup> *Id.*

<sup>151</sup> *Id.* at 21-22.

<sup>152</sup> *Id.* at 15 and 24.

<sup>153</sup> Alvarez and Stephens Rebuttal at 16.

<sup>154</sup> Alvarez and Stephens Direct at 19.

<sup>155</sup> *Id.* at 25. *Citing*, Austin Direct at 86-88. SAIFI represents how often customers on average experience an interruption in a given year. Mathematically, it is equal to the number of customer interruptions divided by the total number of customers serviced on the electric system. SAIDI measures the total time that customers on average face interrupted service in a given year. It is equal to the number of customer interruption minutes divided by the total number of customers serviced on the electric system.

<sup>156</sup> *Id.* at 25.

indicates that 97 customers lost power for as long as 5.75 hours on September 25, 2020.<sup>157</sup> Though acknowledging that any loss of power is regrettable, Alvarez and Stephens proposed that \$2.328 million in remediation expenses does not reflect a cost-effective or right-sized solution.<sup>158</sup> As such, they argued the requested cost recovery should be denied.

In surrebuttal, witnesses Alvarez and Stephens observed that Pepco's Tree-Wire Projects routinely replace bare wire with covered/insulated wire.<sup>159</sup> In reviewing 11 Pepco Tree-Wire Projects, Alvarez and Stephens concluded that the expenditures are not cost-effective when considering service interruption history and alternatives.<sup>160</sup> They noted that Pepco witness Young claims the programs are in the best interest of customers, due to tree wire being relatively inexpensive and only 50% more expensive than bare wire.<sup>161</sup> Witnesses Alvarez and Stephens conceded that tree-wire is technically 50% more expensive than bare-wire, but state this figure is irrelevant in situations where no replacement is necessary.<sup>162</sup>

Therefore, witnesses Alvarez and Stephens stated the proper comparison is not "bare conductor cost (\$1.13 per foot) to the cost of covered conductor (\$1.77 per foot)" resulting in an average expense of \$409,000 per mile, but \$409,000 per mile expense compared to zero.<sup>163</sup> As such, Alvarez and Stephens concluded that if Pepco conducted a cost-effectiveness study, then the Company would have discovered that less costly options

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<sup>157</sup> *Id.*

<sup>158</sup> *Id.*

<sup>159</sup> Alvarez and Stephens Surrebuttal at 20.

<sup>160</sup> *Id.*

<sup>161</sup> *Id.* at 20-21.

<sup>162</sup> *Id.* at 22.

<sup>163</sup> *Id.*

were available, such as, installing: (1) crossarms (on poles without them carrying multiple phases); (2) staggered insulators; or (3) spacers between conductors of different phases.<sup>164</sup>

Pepco

Witness Young explained that the MDO & CEMI<sup>165</sup> Remediation Program identifies customers who have experienced multiple interruptions and protective devices that experienced multiple operations during a twelve-month period. The Company forecasted approximately \$2.3 million and spent approximately \$4.2 million in 2023 for work related to its MDO & CEMI Remediation Program. Witness Young further explained that the actual scope of remediation is developed by engineers based on a comprehensive field condition assessment and that the Company disagrees with OPC's opposition to the tree wire reconductoring investment based solely on outage data.<sup>166</sup>

Witness Young explained the Miscellaneous Reliability Improvements Program involves follow-up proactive and planned remediation for areas where reactive, temporary repairs have been implemented previously.<sup>167</sup> Without these actions, preventable outages could occur. Typical tasks include line reconductoring, switch and fuse replacements, line equipment replacements, and other similar activities. According to Ms. Young, Pepco initially forecast \$3.3 million for the program in 2023 and spent approximately \$6.5 million for the completion of 73 work orders across approximately 65 feeders, reconductoring (including tree wire), fusing, and equipment replacements.<sup>168</sup> She noted that Staff initially

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<sup>164</sup> *Id.* at 23.

<sup>165</sup> CEMI refers to Customers Experiencing Multiple Interruptions. CEMIn is calculated as the ratio of the total number of customers experiencing sustained interruptions equal to or greater than “n,” where n is the number of interruptions, divided by the total number of customers served.

<sup>166</sup> Young Rebuttal at 145-149.

<sup>167</sup> *Id.* at 150.

<sup>168</sup> *Id.*

found the work to not be cost effective but prudent.<sup>169</sup> Witness Young disagreed with OPC's disallowance recommendation. Ms. Young argued that these projects were based on engineering analysis to mitigate outage risks in areas with dense vegetation, phase to phase contact potential, and/or field asset condition. Additionally, she noted that these installations were necessary to improve reliability and reduce future maintenance costs. Pepco maintains that these investments were prudent and in the best interest of customers.<sup>170</sup>

Witness Young explained that the Priority Feeder Improvements program is mandated by Code of Maryland Regulations (“COMAR”) 20.50.12.03, which requires electric companies to review the worst-performing feeders on their distribution systems. Feeders are included in this program if their SAIFI and SAIDI performance exceeds 250% of the system average. The Company estimated approximately \$4.6 million in expenditures for the Priority Feeder Improvements program in 2023. The Company incurred approximately \$10.5 million in total expenditures for the program that year. Pepco disagrees with the OPC claim that the tree wire installation for feeder 14206 was imprudent, stating that these projects were based on engineering analysis to mitigate outage risks in areas with dense vegetation, phase to phase contact potential, and/or field asset condition. Pepco contended these installations were necessary to improve reliability and reduce future maintenance costs. Pepco maintains that these investments were prudent and in the best interest of customers.<sup>171</sup>

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<sup>169</sup> *Id.* at 153.

<sup>170</sup> *Id.*

<sup>171</sup> *Id.* at 153-155.

Witness Young explained that the Tree Wire/Spacer Cable Installation program was designed to address areas of feeders with repeated outages caused by temporary phase-to-phase contact from bare primary conductors. The program replaces these bare conductors with covered tree wire or spacer cable, which provide better protection against phase-to-phase contact caused by tight spacing between conductors, long spans, tree limbs or weather. This program aims to reduce customer interruptions, improve SAIFI, and enhance overall system performance. The Company forecasted approximately \$992,000 in RY3 and spent approximately \$4.7 million. She argued that Pepco's tree wire program addresses critical reliability challenges and provides benefits, particularly in areas with heavy vegetation and tight conductor spacing. Witness Young also stated that Pepco's historical reliability improvements demonstrate the success of proactive measures like tree wire installation. For example, feeders with high tree-related outage rates in prior years benefited significantly from the program, reducing future risks and improving customer experience. Tree wire installations help reduce outages caused by tree and animal contact, ensuring a more reliable and resilient power system.<sup>172</sup>

Pepco witness Young disputed OPC's claims of wasteful spending, asserting that tree wire, while more costly, does not require changes to other equipment such as poles, reduces animal contact related outages, reduces the need for frequent vegetation management and aligns with best practices and industry standards.<sup>173</sup>

On surrebuttal, witness Young addressed OPC's contentions related to high costs, failure to consider cost-effective alternatives, and overall implementation.<sup>174</sup> Ms. Young

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<sup>172</sup> *Id.* at 26-35.

<sup>173</sup> *Id.* at 29-32.

<sup>174</sup> Young Surrebuttal at 7.

opposed OPC's contentions that the tree wire installations could cost upwards of \$500,000 per mile, and Pepco failed to implement installation for areas with a significant history of outages.<sup>175</sup> She countered that tree wire was not merely a reactive measure, but a proactive reliability solution, designed to mitigate future risks related to vegetation, animals, and conductor spacing issues.<sup>176</sup> She added that the projects were implemented based on engineering assessments, field data, and historical outage records.<sup>177</sup>

Witness Young also noted that Staff witness Austin supported the tree wire initiative in his testimony, underscoring that relying solely on past outage data was insufficient for planning future reliability improvements and emphasizing the need for forward-looking solutions to address environmental conditions.<sup>178</sup> She stated that Pepco cited early evidence of improvement—such as the Vegetation SAIFI on Circuit 14990 dropping from 2 to 0 after tree wire installation—as an indicator of the project's effectiveness.<sup>179</sup>

### Staff

In his direct testimony, witness Austin observed that COMAR 20.50.12.04C stipulates that for protective devices that experience five or more activations that lead to sustained customer interruptions during the 12-month period of October 1 of a given year through September 30 of the next year, the utility shall implement reasonable remediation measures to reduce the number of activations. Under the Company's MDO & CEMI Remediation program, the Company states that it will remediate devices that have operated and caused sustained customer interruptions three or more times in the previous 12 months.

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<sup>175</sup> *Id.*

<sup>176</sup> *Id.* at 7-8.

<sup>177</sup> *Id.* at 8.

<sup>178</sup> *Id.* at 7-8.

<sup>179</sup> *Id.* at 10.

Despite the Company's MDO remediation program being more aggressive than required by COMAR, witness Austin did not recommend any disallowances for expenditures submitted by the Company for MDO remediation under its MDO & CEMI Remediation program for 2023, "as pockets of customers experiencing multiple sustained outages will not be satisfied even if overall system reliability is as good as Pepco's overall system reliability currently happens to be."<sup>180</sup>

Witness Austin described the analysis conducted to determine whether the cost of the Miscellaneous Reliability Improvements discretionary program exceeded its benefits, using the U.S. Department of Energy's ("DOE") Interruption Cost Estimate calculator.<sup>181</sup> He explained that he examined the five feeders that received remediation in excess of \$250,000, and determined that the 2023 remediation of Feeders 15284 and 15288 was not cost effective.<sup>182</sup> However, he did not recommend any disallowance, as he believed the Company took the appropriate pre-emptive steps to avoid reliability and outage risks.<sup>183</sup> On surrebuttal, witness Austin stated that he amended his previous recommendation of approval of recovery of the costs of remediation for Feeders 14229 and 14233 as a result of data request responses and other information obtained. Mr. Austin recommended disallowance of Pepco's 2023 expenditures for the feeders if the Company is unable to clarify the cost and prudence of the remediation.<sup>184</sup>

In his direct testimony, witness Austin described the Priority Feeder Improvements program as a COMAR mandated program where the work entailed remediating

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<sup>180</sup> Austin Direct at 65-66.

<sup>181</sup> *Id.* at 68.

<sup>182</sup> *Id.* at 70.

<sup>183</sup> *Id.*

<sup>184</sup> Austin Surrebuttal at 8.

deficiencies on the main line of the selected feeders and varied based on outage location, outage causes, and field conditions.<sup>185</sup> Priority Feeder Improvement consists of, but is not limited to, reconductoring of primary, crossarm replacements, pole replacements, transformer replacements, and installing additional feeder segmentation.<sup>186</sup> Witness Austin noted that utilities will almost always have at least one feeder whose SAIFI and SAIDI is greater than 250% of system average. Those feeders are known as poorest performing feeders. The key measure of success of the remediations that the utilities perform under their Priority Feeder Improvement programs is to ensure that none of the poorest performing feeders appear as poorest performing for three consecutive 12-month reporting periods. Witness Austin did not recommend any disallowances for expenditures submitted by the Company for its Priority Feeder Improvements program for 2023.<sup>187</sup>

Witness Austin determined that the 2023 remediation under Pepco's Tree Wire/Spacer Installation program was not cost effective based upon his analysis of the feeders' historical reliability.<sup>188</sup> However, he did not recommend any disallowances because "good utility practice" involved not only resolving problems but anticipating and preventing them, and he believed Pepco acted properly.<sup>189</sup>

Despite witness Austin's initial recommendations for no disallowances to the Miscellaneous Reliability Improvements program<sup>190</sup> and the Priority Feeder Improvements program,<sup>191</sup> for 2023, he modified his position in surrebuttal testimony to partially agree

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<sup>185</sup> Austin Direct at 72.

<sup>186</sup> *Id.*

<sup>187</sup> *Id.* at 71-72.

<sup>188</sup> *Id.* at 89.

<sup>189</sup> *Id.*

<sup>190</sup> *Id.* at 70-71.

<sup>191</sup> *Id.* at 72.

with witnesses Alvarez's and Stephens' direct and rebuttal testimonies. For the Miscellaneous Reliability Improvements program in 2023, witness Austin recommended in surrebuttal to disallow the expenditures the Company incurred to remediate Feeders 14229 and 14233 if it cannot satisfactorily clarify the cost and the prudence of the chosen remediation in the evidentiary hearings.<sup>192</sup> He also recommended in surrebuttal to disallow the expenditures the Company incurred to remediate Feeder 14206 under its Priority Feeder Improvements program in 2023 if it cannot satisfactorily justify the reasons for the chosen remediation in the evidentiary hearings.<sup>193</sup> Therefore, both Staff and OPC recommended disallowance for remediation of Feeders 14229, 14233, and 14206 based on imprudence and lack of a cost-benefit analysis.<sup>194</sup> However, OPC's recommendation spans eight other additional feeders for a total of 11 feeders.

Pepco maintains that its remediation programs are needed to reduce outages and enhance system reliability. The Company claims such replacements are standard practice, and cost-benefit analysis is not appropriate for projects such as these that address critical safety, reliability, and environmental risks.<sup>195</sup>

Staff recommends disallowance of the costs for remediating, for Feeders 14229, 14233 and 14206, finding lack of justification in particular for the remediation costs of Feeders 14229 and 14233, which more than doubled.<sup>196</sup> Regarding Feeder 14206, Staff found that Pepco failed to justify the recovery costs and questioned the use of tree wire and other options.<sup>197</sup>

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<sup>192</sup> Austin Surrebuttal at 29.

<sup>193</sup> *Id.*

<sup>194</sup> Staff Initial Brief at 26-27.

<sup>195</sup> *Id.*

<sup>196</sup> *Id.* at 25-26.

<sup>197</sup> Pepco Initial Brief at 35-36.

### Commission Decision

The Commission is persuaded by OPC's recommendations for the feeders analyzed by OPC that the remediation of these issues only caused a small fraction of Pepco's service interruptions and were therefore not cost-effective, a position also endorsed by Staff for Feeders 14229, 14233 and 14206. The Commission accepts OPC's recommendation for a \$9.755 million disallowance as described herein. The Commission further observes that the MDO & CEMI Remediation, Miscellaneous Reliability Improvements, Priority Feeder Improvements and Tree Wire/Spacer Cable Installation programs all significantly exceeded their budgets in 2023.

Although this Order does not intend to set a precedent regarding the use of tree wire in the future, with Pepco having significantly overrun its budget, Pepco's use of tree wire under these circumstances was not a cost-effective means of preventing damage to wires. Further, the problems solved by the Company's expenditures here resolved only a small fraction of Pepco's service interruptions, and other approaches, such as vegetation management, represented much more cost-effective solutions.

#### 5. New Business Category

##### Pepco

Pepco argued that new business connection projects for Pepco are not discretionary and that the Company uses historical data for forecasts to reduce variability.

In rebuttal testimony, Pepco witness Jaclyn Cantler noted that Pepco is seeking recovery of \$36 million in the New Business and Facility Relocations implemented during RY3 to ensure alignment with system needs, regulatory compliance, and responsibility to

customers.<sup>198</sup> Ms. Cantler took issue with AOBA's claims of lack of prudence, stating that AOBA did not consider the operational and economic realities of new customer service connections and facility upgrades.<sup>199</sup> According to witness Cantler, New Business executive category expenditures pertain to connecting new and upgrading existing residential and commercial customers to the electric grid, and include installing new infrastructure such as poles, primary conductors, cables, transformers, and secondary service lines.<sup>200</sup> She added that the category also includes the relocation of Company facilities needed to accommodate new service requests, and the installation of new or upgraded streetlights.<sup>201</sup> Ms. Cantler stated that customers provide a contribution in aid of construction ("CIAC") to the new or upgraded service, and new business projects are categorized by customer requests and regulatory requirements.<sup>202</sup>

She disputed AOBA's claim that Pepco exercised poor forecasting or planning, which accounted for the variances in budgeted versus actual New Business expenditures, explaining that New Business expenditures are influenced by customer demand.<sup>203</sup> She added that while Pepco attempted to forecast the New Business budget, new business requests fluctuated, and the forecast may not align with the actual expenditures, as recognized by Staff and OPC testimony.<sup>204</sup>

Ms. Cantler further disputed AOBA's request that the New Business expenditures be disallowed, contending that the New Business expenditures should not be evaluated

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<sup>198</sup> Cantler Rebuttal at 4.

<sup>199</sup> *Id.*

<sup>200</sup> *Id.* at 5.

<sup>201</sup> *Id.*

<sup>202</sup> *Id.* at 8.

<sup>203</sup> *Id.* at 9.

<sup>204</sup> *Id.* at 9-10.

from the standpoint of whether non-new business customers are benefited, since Pepco is obligated to service all customers within the Company's service territory and by Pepco's Commission-approved tariffs.<sup>205</sup>

AOBA

In rebuttal testimony, AOBA witness Oliver, in his disagreement with Staff witness Ausitn regarding these costs, noted that Pepco budgeted \$34.2 million for new residential and commercial service connections, but the Company's spending exceeded this amount by \$20.2 million, resulting in \$54.4 million total spend.<sup>206</sup> Witness Oliver laid out several criticisms of Pepco's New Business Connection costs. First, witness Oliver remarked that witness Austin fails to sufficiently verify Pepco's claims of "many new and unanticipated business connection projects."<sup>207</sup> Second, he observed that witness Austin accepts Pepco's claim that all New Business Connections are unavoidable because of the Company's obligation to provide service.<sup>208</sup> Third, witness Oliver submitted that witness Austin failed to thoroughly evaluate the possibility that customers are double billed due to including CIAC payments.<sup>209</sup> Witness Oliver also argued that there is no evidence of significant unanticipated increase in customer new business requests and that there was no analysis to verify Pepco excluded CIAC payments.<sup>210</sup>

On surrebuttal, witness Oliver responded to witness Cantler's rebuttal that Pepco is obligated to provide new connections to customers within the Company's service

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<sup>205</sup> *Id.* at 11.

<sup>206</sup> Oliver Rebuttal at 17.

<sup>207</sup> *Id.*

<sup>208</sup> *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Id.* at 18-20.

territory.<sup>211</sup> He did not contest this obligation. Instead, witness Oliver focused on Pepco's claims that the variance in costs had been driven by higher than anticipated customer requests. Mr. Oliver noted the contradiction that on rebuttal, Pepco witness Cantler conceded the number of commercial customers was declining.<sup>212</sup> Instead Pepco witness Cantler focused on an increase to labor and materials costs since COVID.<sup>213</sup> He argued that in connection with the expenses associated with new business connections, Pepco failed to provide documentation of: (1) "specific labor rates, material costs, transportation costs, or other factors that account for the dramatic increases in service connection costs it reports;" (2) "the Company's budgeted numbers of requests for New Business Connections;" or (3) "emergent work based on customer requests" and "higher than anticipated customer requests."<sup>214</sup>

*Staff*

Witness Austin testified that New Business Connections consisted of projects undertaken to meet customer requests for electric service, including new service installations, feeder extensions or upgrades, and customer-requested relocations needed to accommodate new or modified electric services.<sup>215</sup> He emphasized that these projects were not discretionary because the utility was obligated to serve all customers who requested electric service.<sup>216</sup>

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<sup>211</sup> Oliver Surrebuttal at 38-39.

<sup>212</sup> *Id.* at 40-41.

<sup>213</sup> *Id.* at 41.

<sup>214</sup> *Id.* at 39-40.

<sup>215</sup> Austin Direct at 46.

<sup>216</sup> *Id.* at 47.

He explained that Pepco forecasted approximately \$34.2 million in 2023 expenditures for anticipated new service connections.<sup>217</sup> However, in 2023 the Company ultimately spent about \$54.4 million on numerous new and unanticipated residential and commercial service connection projects.<sup>218</sup> As a result, since the connections are obligatory and because the Company confirmed it had not included CIAC payments, he concluded that no disallowances were warranted for the Company's 2023 New Business Connections expenditures.<sup>219</sup> Staff witness Austin continued to support his position on surrebuttal in response to AOBA witness Oliver.<sup>220</sup>

### **Commission Decision**

The Commission finds that the record demonstrates that New Business Connection projects are not discretionary but are undertaken to meet customer-initiated service requests and to satisfy Pepco's Commission-approved tariff obligation to provide electric service to all customers within its service territory. Therefore, the Commission will allow Pepco's New Business Connection expenses, notwithstanding the acknowledged variance between forecasted and actual expenditures. The Commission finds persuasive the testimony of Pepco and Staff that these projects were necessary to connect new and upgraded customers, maintain regulatory compliance, and ensure timely service. Accordingly, the Commission concludes that the New Business Connection expenditures were reasonable and prudent and approves their recovery. However, as discussed in the Commission Authority and Standard of Review above, Pepco does not have the unchecked freedom to permit cost

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<sup>217</sup> *Id.*

<sup>218</sup> *Id.*

<sup>219</sup> *Id.*

<sup>220</sup> Austin Surrebuttal at 17-18.

overruns without justification. The Company should be prepared to justify its increasing labor and materials costs, and explain the efforts taken to control these costs.

#### 6. Meter Installations and Purchasing

Witness Oliver proposed specific criticisms of Pepco's purchase of 14,112 meters.<sup>221</sup> Mr. Oliver argued that: (1) Pepco failed to provide "any breakdown of those costs by size and type of meter," (2) Pepco's pipe inventory needed to be justified by a quantitative verification,<sup>222</sup> and (3) an accounting inconsistency exists between the number of meters purchased, and the new and upgraded service connections reported by Pepco.<sup>223</sup> As such, witness Oliver argued that the Commission should require Pepco to provide evidence why the purchase of the additional 12,435 meters was necessary and appropriate.<sup>224</sup>

#### Staff

Staff witness Austin testified that the Company identified its primary ongoing capital project within Customer Operations as the work associated with meter installations, exchanges, maintenance, and removals, all intended to ensure customers receive timely and accurate measurements of their energy usage.<sup>225</sup> He explained that the equipment and activities required to perform this work were collectively referred to as Capital Meter

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<sup>221</sup> Oliver Rebuttal at 21.

<sup>222</sup> *Id.* at 21-22. Mr. Oliver acknowledged that Pepco needs to maintain a stock of metering equipment that can be readily deployed. However, Mr. Oliver stated that the need must be supported by quantitative analytics addressing the following factors: Pepco's meter inventory requirements (by size and type of meter), (2) comparisons of the Company's meter inventory with projected meter installation and replacement requirements, and (3) the expected lead times for obtaining additional meters. Mr. Oliver testified that Pepco did not provide any such information.

<sup>223</sup> *Id.* at 22.

<sup>224</sup> *Id.*

<sup>225</sup> Austin Direct at 139.

Work.<sup>226</sup> He noted that Pepco was obligated to maintain its metering equipment in accordance with National Institute of Standards and Technology requirements, and that the Meter Installations program ensured meters were installed in compliance with those standards.<sup>227</sup>

He further stated that the Company needed to maintain an adequate inventory of metering equipment that could be deployed as needed, which was the purpose of the Meter Purchasing program.<sup>228</sup> Witness Austin testified that he reviewed both the Meter Installations and Meter Purchasing programs to verify the accuracy of the Company's 2023 expenditures.<sup>229</sup>

Witness Austin testified that the Company had forecasted approximately \$2.6 million in 2023 expenditures for meter installations.<sup>230</sup> He stated that in 2023, the Company installed 5,547 meters and exchanged an additional 3,144 meters within its Maryland service territory.<sup>231</sup> He explained that the Company ultimately spent about \$2.3 million on meter installations—an underspend the Company attributed to global supply chain challenges that delayed the delivery of meter equipment.<sup>232</sup>

Witness Austin testified that Pepco had forecasted approximately \$2.4 million in 2023 expenditures for meter purchases.<sup>233</sup> He stated that the Company purchased 14,112 meters for use in its Maryland service territory during 2023 at a total cost of roughly \$2.2

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<sup>226</sup> *Id.*

<sup>227</sup> *Id.* at 140.

<sup>228</sup> *Id.*

<sup>229</sup> *Id.*

<sup>230</sup> *Id.* at 141.

<sup>231</sup> *Id.*

<sup>232</sup> *Id.*

<sup>233</sup> *Id.* at 142.

million, resulting in overall spending below the budgeted amount.<sup>234</sup> Based on his review, witness Austin concluded that no disallowances were warranted for the Company's 2023 Meter Purchasing program expenditures.<sup>235</sup> Staff witness Austin continued to defend his position to not disallow the \$2.2 million for meter purchases in response to AOBA witness Oliver claiming that many more meters were installed in 2023 than represented by AOBA Witness Oliver.<sup>236</sup>

### **Commission Decision**

The Commission finds that Pepco's 2023 Meter Purchasing expenditures were prudently incurred and are approved for recovery. The evidence demonstrates that Pepco's Meter Purchasing program is an essential component of its broader Capital Meter Work activities, which include meter installations, exchanges, maintenance, and removals necessary to ensure customers receive accurate measurements of energy usage in compliance with National Institute of Standards and Technology requirements. Pepco purchased 14,112 meters in 2023 at a total cost of approximately \$2.2 million—below its budgeted amount—and Staff verified that these expenditures accurately reflected the Company's meter procurement needs and practices. Staff further confirmed that Pepco must maintain an adequate inventory of meters to respond promptly to customer requests, planned installations, and replacement cycles, particularly in light of ongoing supply chain constraints that require multi-year procurement planning.

Although AOBA questioned the sufficiency of Pepco's documentation regarding the types of meters purchased, inventory needs, and deployment levels, the record does not

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<sup>234</sup> *Id.*

<sup>235</sup> *Id.*

<sup>236</sup> Austin Surrebuttal at 18-20.

support a finding that Pepco's 2023 meter purchases were excessive, unnecessary, or imprudently managed. Staff reviewed the same information and concluded that no disallowances were warranted, and no other party challenged the prudence of these expenditures in post-hearing briefing. Based on the full record, including Staff's analysis, the Commission determines that Pepco acted reasonably in managing its meter inventory and procurement activities in 2023. Accordingly, the Commission approves recovery of Pepco's 2023 Meter Purchasing program expenditures.

7. Double Wood Pole Removals

Pepco

The Company claimed that the Double Wood Pole Removal program is necessary due to risks associated with double wood pole installations, such as structural issues, hazards in severe weather, and negative aesthetics. On rebuttal, Pepco witness Young stated that this new program, which was not included in Pepco's original MRP application, tracks Pepco's capital expenses attributed to the removal of old poles that had been replaced but whose removal was delayed until third-party attachments were relocated to the new poles.<sup>237</sup> She noted that in 2023, Pepco removed 464 double wood poles, spending approximately \$1.5 million.<sup>238</sup>

On surrebuttal, witness Young noted that Pepco implemented the program to address safety and operational concerns arising from old poles left standing after new ones were installed, as required by State law.<sup>239</sup> She acknowledged that although the project was not initially included in the MRP, it was essential to address public complaints and safety

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<sup>237</sup> Young Rebuttal at 132-133.

<sup>238</sup> *Id.* at 133.

<sup>239</sup> Young Surrebuttal at 33-34.

risks.<sup>240</sup> Ms. Young disputed AOBA's contention that the program was discretionary and of questionable necessity, noting that the program responded to legislative and regulatory directives.<sup>241</sup>

### AOBA

AOBA witness Oliver responded to Staff witness Austin's recommendation regarding double wood poles in rebuttal.<sup>242</sup> He observed that Staff witness Austin remarked that: (a) "double wood poles are not aesthetically pleasing," and (b) "may create safety hazards as support for his belief that efforts to reduce the amount of double wood poles should be encouraged."<sup>243</sup> In relation to aesthetics, AOBA witness Oliver pointed out that it does not present a compelling reason to substantially reduce the number of Double Wood poles, as there was no imminent safety risk.<sup>244</sup> AOBA witness Oliver argues the program is an example of the Company not managing its work within Commission approved funding. He argues that Pepco did not demonstrate the benefits of double wood pole removal in 2023 versus a future year such that is warranted ratepayer burdens in the current proceeding.

### Staff

On direct, Staff witness Austin, identified Pepco spent approximately \$1.5 million to remove 464 Double Wood poles.<sup>245</sup> Staff witness Austin explained that double poles can create safety hazards and that they are not aesthetically pleasing and there have been

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<sup>240</sup> *Id.* at 33.

<sup>241</sup> *Id.* at 34.

<sup>242</sup> Oliver Rebuttal at 24-27.

<sup>243</sup> *Id.* at 25.

<sup>244</sup> *Id.* at 25-26.

<sup>245</sup> Austin Direct at 51.

numerous complaints from members of the public regarding their appearance.<sup>246</sup> He ultimately did not recommend a disallowance for these costs.

Staff witness Austin continued to defend the recommendation on surrebuttal explaining that double wood poles had previously come to the attention of the General Assembly which had led to House Bill 541 (2015) and ultimately Public Conference 38 (“PC 38”).<sup>247</sup> Staff Witness Austin reiterated his position from direct testimony to not disallow these costs.<sup>248</sup>

### **Commission Decision**

The Commission allows Pepco’s Double Wood Pole Removal expenses. The removal of double wood poles addresses legitimate safety and operational concerns associated with aging and abandoned poles left standing after replacement, including heightened risks during severe weather and potential hazards to the public and employees. Although the program was not expressly included in Pepco’s original MRP and actual spending exceeded the initial forecast, the evidence demonstrates that the work was responsive to statutory and regulatory requirements, public complaints, and the Company’s obligation to maintain a safe and reliable distribution system. Accordingly, the Commission concludes that the Double Wood Pole Removals expenditures were reasonable and prudent and permits recovery.

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<sup>246</sup> *Id.* at 51-52.

<sup>247</sup> Austin Surrebuttal at 20. *See* PC 38, *In the Matter of the Current Status of the Market for Attachments to Utility Poles in Maryland*. PC 38 was docketed on June 10, 2015, to review the current status of the market for attachments to utility poles in Maryland, and whether regulation of pole attachment agreements at the State level is in the public interest. *See also*, HB 541. Md. Laws 2015, Ch. 431. HB 541 required the Commission to convene a workgroup to study attachments to utility poles in Maryland and to report to the General Assembly on its findings and recommendations.

<sup>248</sup> *Id.* at 20-21.

## 8. Storms

### Pepco

According to Pepco witness Young, the Distribution: Pepco Maryland Storms project involves repairing and replacing infrastructure damaged by significant storm events in order to restore service promptly, and the work aligns with Commission regulations that set forth service restoration standards.<sup>249</sup> Pepco witness Young identified the storm costs to cover both minor and major storms. She indicated that major storms were not included in the Company's capital budgets due to the unpredictability and scale of them.<sup>250</sup> Witness Young explained that during RY3, Pepco responded to a major storm in July 2023 as well as seven minor storms.<sup>251</sup> She disputed AOBA's argument that an expenditure may be considered necessary to provide safe and reliable service, but not be prudent, as the expenditure must still be reasonable and cost-effective.<sup>252</sup> Ms. Young countered that Pepco did not consider the customer-produced annual base rate distribution revenue for the work in this project, and she noted that Pepco is obligated to restore all customers expeditiously in accordance with COMAR 20.50.12.06.<sup>253</sup>

On Brief the Company cited an exchange between Commissioner Suchman and Pepco witness Vahoss where it was explained that the Company's budget forecasts minor storm O&M expenditures and capital investments but for major storms the Company defers O&M expense associated with those storms into a regulatory asset for recovery in a future case.<sup>254</sup>

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<sup>249</sup> Young Rebuttal at 92-93.

<sup>250</sup> *Id.* at 93.

<sup>251</sup> *Id.*

<sup>252</sup> *Id.* at 95.

<sup>253</sup> *Id.*

<sup>254</sup> Pepco Initial Brief at 2, fn 1.

AOBA

In brief AOBA argued that when Pepco filed its initial Application in Case No. 9655, there was no discussion of “minor storm expense.”<sup>255</sup> AOBA raises that claims of cost overruns driven by major storms may be acceptable but argues that there is no evidence for how Pepco treated minor storm costs in Pepco’s initial application, which in turn highlights a concern with minor storms being claimed as a significant justification for its increased capital expenditures highlight a major short-coming in Pepco’s MRP budget projections.<sup>256</sup>

AOBA continued its assertions in its reply brief that Pepco’s initial MRP-1 application in October 2020 did not explicitly discuss minor storm costs nor make a presentation that backed out historic minor storm costs from O&M budgets such that some level of historic O&M costs for minor storms impacted the budget.<sup>257</sup> AOBA argues that Pepco was already compensated for the historic level of minor costs adjusted for inflation and as such any attempt to compensate Pepco for the “uncontrollable” costs is inappropriate.<sup>258</sup>

Staff

Staff witness Austin testified that utilities had a responsibility to monitor weather systems and maintain procedures to mobilize ahead of forecasted severe weather and to respond after such events occurred.<sup>259</sup> He noted that COMAR 20.50.12.12A required any utility serving 40,000 or more customers in the State to file a major outage event plan with

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<sup>255</sup> AOBA Initial Brief at 45-46.

<sup>256</sup> *Id.* at 46-47.

<sup>257</sup> *Id.* at 13.

<sup>258</sup> *Id.*

<sup>259</sup> Austin Direct at 23.

the Commission describing its preparation for and response to major outage events caused by severe weather.<sup>260</sup>

He explained that Pepco did not create a capital budget for major events such as storms.<sup>261</sup> Instead, to present a more consistent year-to-year level of spending, the Company excluded major event spending from its capital distribution forecast due to the unpredictable nature and extent of such events.<sup>262</sup> He stated that one storm in 2022 had capital costs that carried into 2023 and that the Company responded to seven minor storms in Maryland in 2023, incurring \$2.7 million in capital costs.<sup>263</sup> He further noted that the Company experienced one major storm in its Maryland service territory in July 2023 and incurred \$12.5 million in capital expenditures in response.<sup>264</sup> In total, the Company's capital storm expenditures for 2023 were approximately \$15.2 million.<sup>265</sup>

He testified that Pepco followed the procedures in its Emergency Operating Plan in preparing for and responding to all declared storms in 2023.<sup>266</sup> He noted that Pepco incurred \$1,022,000 in costs in connection with Winter Storm Toby in 2018, which involved 3,371 sustained outages in Maryland, resulting in a cost of \$303 per customer restoration.<sup>267</sup> In contrast, the July 2023 storm involved 64,514 sustained outages and cost the Company approximately \$191 per customer restoration.<sup>268</sup> Based on this information,

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<sup>260</sup> *Id.*

<sup>261</sup> *Id.*

<sup>262</sup> *Id.*

<sup>263</sup> *Id.* at 24.

<sup>264</sup> *Id.*

<sup>265</sup> *Id.*

<sup>266</sup> *Id.* at 25.

<sup>267</sup> *Id.*

<sup>268</sup> *Id.*

he did not recommend any disallowances for the Company's RY3 storm response expenditures.<sup>269</sup>

### **Commission Decision**

The Commission finds that Pepco's RY3 storm-related expenditures were prudently incurred and approves their recovery. The record establishes that Pepco is obligated under COMAR 20.50.12 to plan for, prepare for, and respond to severe weather events, and to restore service to all affected customers safely and expeditiously. Pepco's 2023 capital storm costs totaled approximately \$15.2 million and were driven by one major storm in July 2023—resulting in 64,514 sustained customer outages—and seven additional minor storms. Staff verified that Pepco followed its Emergency Operating Plan for all declared storms and that its storm response activities met all applicable regulatory requirements. Staff further compared Pepco's restoration costs to prior events and found the Company's performance to be both reasonable and cost-effective, with a per-customer restoration cost for the July 2023 storm (\$191) that was significantly lower than the comparable 2018 Winter Storm Toby (\$303). Based on this review, Staff did not recommend any disallowances.

AOBA's objections focus on the variance between Pepco's budgeted and actual storm costs. While the Commission is cognizant that budget overruns in this case are at unacceptable levels the Commission also notes the inherent volatility of this cost category and that there was not a budget for major storm capital costs. No evidence in the record shows that Pepco's storm response spending was avoidable, excessive, or inconsistent with prudent utility practice. To the contrary, the evidence demonstrates that these costs were

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<sup>269</sup> *Id.*

necessary to restore service following severe weather events and were incurred in accordance with Commission-approved procedures.

Accordingly, the Commission concludes that Pepco's storm-related expenditures for RY3 were reasonable, necessary, and prudent, and approves recovery. Although the Commission finds the present costs to be prudent, based on the record at hand, the unpredictable nature of storms is not a blank check for utility spending, and the Commission anticipates greater scrutiny of storm costs going forward, which should include benchmarking for these costs, both for minor and major storms.

9. 69kV Planned Corrective Main

Pepco

Pepco witness Young noted that the inspection-driven 69 kV program exceeded its 2023 budget by approximately \$7.2 million due to a substantial backlog of required maintenance and the need to address aging infrastructure and prevent system failures.<sup>270</sup> According to Ms. Young, in 2023, nine 69 kV circuits and five 13 kV circuits located beneath them were corrected, and twelve 69 kV circuits and two 13 kV circuits beneath them were being prepared for future maintenance.<sup>271</sup> She added that while Staff and OPC did not recommend a disallowance, AOBA objected to what it described as Pepco's anecdotal assessment of its aging equipment.<sup>272</sup> She explained that for non-69kV wood poles, Pepco identified those needing replacement based on inspections, but the inspection data does not include pole size until the initiating of the design phase.<sup>273</sup> Ms. Young noted

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<sup>270</sup> Young Rebuttal at 83.

<sup>271</sup> *Id.*

<sup>272</sup> *Id.* at 84.

<sup>273</sup> *Id.*

that there was data available on pole size for 69kV wood poles, except for 2019-2020.<sup>274</sup> She disagreed with AOBA's assertions that Pepco's reference to its aging equipment should be viewed in the context of its most recent depreciation study, countering that Pepco does not and should not consider depreciation studies when deciding to replace a pole based on inspections, which are required by regulations.<sup>275</sup>

### AOBA

AOBA disputed Pepco's explanation for the cost variance for this project and contended that little to no explanation or evidence was provided to support the variance. AOBA focused on Pepco's claim of a significant backlog of poles needing replacement in 2023, with actual expenditures more than tripling the Company's initial budgeted amount for that year.<sup>276</sup> AOBA noted that in contrast, Pepco's projections for 2021 and 2022 were more conservative at approximately 25% of the Company's overall initial projected expenditures.<sup>277</sup> AOBA also took issue with Pepco's position that the need for replacements could be spread over the next one to five years, stating that the Company was not clear in its distinction between emergent and emergency work requirements.<sup>278</sup> AOBA questioned Pepco's ability to forecast costs a year in advance, noting that Pepco filed its revised projection for 2023 with the Commission in late January 2023. AOBA also questioned Pepco's ability to forecast costs a year in advance, noting that Pepco filed its revised

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<sup>274</sup> *Id.* at 85.

<sup>275</sup> *Id.* at 88.

<sup>276</sup> AOBA Initial Brief at 42-43.

<sup>277</sup> *Id.*

<sup>278</sup> *Id.* at 43.

projection for 2023 with the Commission in late January 2023, including the revised 2023 projection for ITN 63711 that was 120% above Pepco's initial 2023 projection.<sup>279</sup>

Staff

While Staff witness Austin did not recommend any disallowances, he acknowledged that 69 kV emergent corrective maintenance, which had not been included when the Company filed its MRP application, was a more cost-conscious approach to addressing the Company's aging 69 kV infrastructure than the complete rebuilds proposed under the 69 kV Feeder Rebuild program.<sup>280</sup> Accordingly, he did not recommend any disallowances for the Company's RY3 69 kV Emergent Corrective Maintenance program expenditures.<sup>281</sup> Furthermore, Mr. Austin noted that the corrective maintenance expenditures, comprising work performed to replace defective materials and equipment identified through the Company's inspection programs, were not discretionary, as COMAR 20.50.12.10A requires utilities to follow written operation and maintenance procedures to maintain safe and reliable service.<sup>282</sup>

**Commission Decision**

The Commission will allow Pepco's 69 kV Maintenance (Corrective/Emergent) expenses, notwithstanding the variance between forecasted and actual expenditures. Pursuant to COMAR 20.50.12.10A, utilities are required to follow written operation and maintenance procedures to ensure safe and reliable service. As part of this obligation, Pepco is required to replace defective materials and equipment identified through the

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<sup>279</sup> *Id.*

<sup>280</sup> Austin Direct at 13.

<sup>281</sup> *Id.*

<sup>282</sup> *Id.*

Company’s inspection programs. The Commission finds that the corrective and emergent maintenance performed by Pepco on its 69 kV system was reasonable and prudent and the Commission approves recovery.

#### 10. O&M Recovery

##### Pepco

Pepco argued that it provided robust documentation for O&M spending variances in specific FERC Accounts.<sup>283</sup> Pepco witness David M. Vahos in rebuttal sought to clarify that the majority of RY3 O&M spending variance was due to uncontrollable costs like pension expenses and minor storm activity.

According to Mr. Vahos, Pepco’s RY3 reconciliation’s actual O&M results, excluding uncontrollable expenses, was \$236.9 million, or \$6.2 million above the \$230.8 million projection, resulting in a 2.7% increase in O&M compared to inflation of 4.1% over the 2022-2023 period.<sup>284</sup> He stated that the year-over-year trend of Pepco’s Maryland distribution O&M, normalized for uncontrollable costs, was “relatively stable” and increased at a rate below inflation.<sup>285</sup>

Pepco rebuttal witness Leming disputed OPC witness Alvarez’s claims that Pepco failed to meet its burden of demonstrating the prudence of RY3 O&M and plant additions in the Company’s Final Reconciliation filing, stating that OPC did not thoroughly consider other information previously made available—specifically RY3 project listings that include “problem, solution, and justification statements for capital investments and

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<sup>283</sup> Referring to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (“FERC”) for regulated utilities. These accounts provide consistent financial reporting, tracking utility costs for plant construction, operations, and maintenance.

<sup>284</sup> Vahos Rebuttal at 9.

<sup>285</sup> *Id.*

descriptions and drivers of projected O&M expenditures”—that is similar to information the Commission relied upon to determine the prudence of investments for RY1 and RY2 in Case No. 9702.<sup>286</sup> He asserted that the witnesses should have been aware of this information, as they participated in all of Pepco’s MRP proceedings.<sup>287</sup>

Mr. Leming noted that Pepco planned to provide additional detail, addressing the reasonableness of the expenditures and benefits to Pepco customers, on the FERC accounts by responsibility area, in order to address similar Commission requests made in the BGE MRP-1 RY3 Reconciliation, including information regarding work performed at the FERC account level.<sup>288</sup>

He stated that for its capital investments, Pepco has stipulated that its projects must be used and useful and provide service to its customers, and for all expenditures, the projects must be reasonably incurred in fulfilling Pepco’s obligations, and pass a reasonable business judgment standard, with costs that must be managed in a reasonable manner.<sup>289</sup>

Pepco witness Vahos maintained that Pepco has long used these criteria consistently, as well as management and cost controls, in the Company’s long-range planning and project execution processes.<sup>290</sup> According to Mr. Vahos, the other parties should consider the previous, available information Pepco has provided, along with the information provided in its reconciliation filing, instead of focusing solely on the RY3 reconciliation filing.<sup>291</sup> Mr. Vahos noted that Pepco has complied with Order No. 89482 as part of the RY1 and RY2 reconciliation processes, and the Company received full recovery

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<sup>286</sup> Leming Rebuttal at 9.

<sup>287</sup> *Id.*

<sup>288</sup> *Id.* at 5.

<sup>289</sup> *Id.*

<sup>290</sup> Vahos Rebuttal at 5.

<sup>291</sup> *Id.* at 7.

of its RY1 and RY2 O&M expenditures, using the same process as that used for RY3 with no concerns raised during the two previous reconciliations.<sup>292</sup> He explained that the RY1 O&M reconciliation total was \$227.4 million, \$3.5 million below the projection of \$230.8 million and a 1.5% decrease compared to inflation of 4.7% over the 2020 to 2021 period.<sup>293</sup> He added that the RY2 reconciliation O&M actually was \$229.3 million, \$0.6 million above the \$228.7 million projected, with a 0.3% increase in O&M compared to inflation of 8.0% over the 2021 to 2022 period.<sup>294</sup>

Mr. Vahos disputed OPC's and AOBA's assertions that Pepco failed to demonstrate the prudence of its RY3 O&M and expenditures based on its reconciliation filing.<sup>295</sup> He discussed the information Pepco provided to support its claim of prudence for its O&M and capital expenditures, including the Company's updated RY3 Annual Information Filing ("AIF"), which it filed in January 2023, describing its projected and actual expenditures based on FERC account, and identifying new and previous projects that cost less than \$1 million.<sup>296</sup>

Witness Vahos described the Long Range Plan ("LRP") for Pepco's parent company, Pepco Holdings, Inc. ("PHI"), utilizing five years of projected O&M costs (for planning future expenditures and managing costs), capital spending, financial statements, and financial metrics, with the first year of the LRP determining the budget for the upcoming year.<sup>297</sup> He noted that the LRP process is intended to align PHI's operational and

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<sup>292</sup> *Id.* at 8.

<sup>293</sup> *Id.* at 8-9.

<sup>294</sup> *Id.*

<sup>295</sup> *Id.* at 6-7.

<sup>296</sup> Leming Rebuttal at 4.

<sup>297</sup> *Id.* at 10.

financial goals, which in turn align with Pepco's overall goal of providing safe and reliable electric distribution service.<sup>298</sup>

Mr. Vahos stated that the O&M in the LRP comprises consolidation of inputs provided by responsibility areas, and the O&M for each responsibility area is combined into a consolidated reporting view and shared with PHI's senior management for their review and approval, followed by the approval of the budgeted spending and financing plans by PHI's Board of Directors. He noted further that Pepco also ensures costs are appropriate and reasonable through its materials and services procurement process.<sup>299</sup>

Mr. Vahos described the function and costs of each operational and financial project listed in RY3, including work performed at the FERC account level, and discussed how each met Pepco's criteria for usefulness and reasonableness. He discussed Pepco's \$255.4 million Pepco Maryland ("Pepco MD") distribution O&M expenditures (excluding \$9 million in rate making adjustments provided by FERC account), specifically the direct costs incurred and 100% directly charged to Pepco MD; the direct costs incurred at Pepco and allocated to Pepco MD distribution; and service company costs incurred at the Business Service Company ("BSC")<sup>300</sup> and the PHI Service Company ("PHISCO")<sup>301</sup> and billed to Pepco, and allocated to Pepco MD distribution.<sup>302</sup>

Pepco Rebuttal witness David L. Vosvick II responded to the discussion by Staff witness Austin and AOBA witness Oliver regarding the prudence of Pepco's capital O&M projects. He explained that the Company's Customer Operations organization integrates

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<sup>298</sup> *Id.*

<sup>299</sup> *Id.* at 12.

<sup>300</sup> BSC, a subsidiary of Exelon, which merged with PHI in 2016, provides services to Pepco.

<sup>301</sup> PHISCO, a subsidiary of PHI, also provides services to Pepco.

<sup>302</sup> Vahos Rebuttal at 16.

the following business groups in its service delivery: field and meter services; customer care; customer financial operations; business and customer support; large customer services; and customer strategy and governance.<sup>303</sup>

According to Mr. Vosvick, Pepco's ongoing Customer Operations capital initiatives consist of capital meter work (equipment and associated installation, exchange, maintenance and removal of meters to ensure timely and accurate energy use measurement) and IT projects (the design, development, implementation, lifecycle upgrades and replacements, and security of customer facing IT systems, in addition to the development and implementation of web tools for customer access) that Pepco deemed to be useful in providing service to customers.<sup>304</sup> Mr. Vosvick emphasized that the metering projects were useful in providing or facilitating service to customers, and necessary to comply with State regulatory metering requirements.

Witness Vosvick stated that the following was billed for O&M for RY3 reconciliation in the Customer Operations area: \$2.53 million in operations expenses, \$493,000 in maintenance expenses, \$27.5 million in customer account expenses, \$2.03 million in customer service expenses; \$3.67 million in A&G Operations and \$0 in A&G Maintenance, for an unadjusted total of approximately \$36.3 million.<sup>305</sup>

Regarding overspending in specific FERC accounts raised by OPC in its initial brief, Pepco attributes costs in FERC Account 588 (Miscellaneous Distribution Expense) to various factors including job skills training,<sup>306</sup> BSC IT billings,<sup>307</sup> and services billed by

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<sup>303</sup> Vosvick Rebuttal at 2-3.

<sup>304</sup> *Id.* at 5.

<sup>305</sup> *Id.* at 35.

<sup>306</sup> Cantler Rebuttal at 62.

<sup>307</sup> Vahos Rebuttal at 35.

PHI's Service Company ("PHISCO") primarily pertaining to Governmental, External and Regulatory Affairs, Information Technology, and Regulated Electric Operation Services functions.<sup>308</sup> In addition, Pepco referenced costs associated with the Anacostia River and Benning projects and geography as an explanation for overspending, whereby costs were budgeted in one FERC account but they were incurred in another account.<sup>309</sup>

Pepco explained spending in Account 592 (Equipment Maintenance) as costs related to corrective and preventative maintenance of Substation equipment such as relays, breakers, batteries and transformers. This maintenance consists primarily of internal labor and related expenses, as well as contractor spend supporting more specialized repairs. These maintenance costs are necessary for ensuring the reliability and safety of the electrical power supply.<sup>310</sup> Costs associated with Livingstone Road Battery Energy Storage System and a high rate of corrective and preventative maintenance were identified as an explanation for overspending.<sup>311</sup> Initially the overspend associated with this account was \$7.9 million. Once geography of \$1.6 million in costs that were originally budgeted to this account but were incurred in FERC Account 591 are taken into consideration, the overspend increases to \$9.5 million.<sup>312</sup>

Pepco explained spending in Account 594 (Underground Line Maintenance) to include costs associated with work on underground conduits, such as cleaning ducts, manholes, replacing primary cable elbows or arresters, and server connections and for contractors to perform manhole assessments.<sup>313</sup> The Manhole assessment program that is

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<sup>308</sup> *Id.* at 26.

<sup>309</sup> Leming Errata, Ex. RTL-1, Schedule 3 at 1 (line 9).

<sup>310</sup> Cantler Rebuttal at 50.

<sup>311</sup> Leming Errata, Ex. RTL-1, Schedule 3 at 1 (line 14).

<sup>312</sup> Maillog No. 317026, Pepco response to Bench DR-1 Ex. RTL-R-1 Electronic Only Attachment line 14.

<sup>313</sup> Cantler Rebuttal at 63.

contained in Pepco's O&M procedures filed with the Commission in compliance with COMAR 20.50.12.10, ensures the integrity and safety of manholes.<sup>314</sup> Pepco attributes the overspending in the account to an increase in emergent underground residential distribution (URD) cable fault work, raw material price fluctuations, and accounting geography with FERC Account 596 (Street Lighting & Signal System Maintenance).<sup>315</sup> Initially, the overspend associated with this account was \$5.8 million. Once geography of \$3.1 million in costs that were not originally budgeted to this account but were incurred in FERC Account 596 are allowed for, the overspend decreases to \$2.7 million. However, once this, along with other costs budgeted to other FERC Accounts are considered, there is an unexplained overspend of \$3.1 million in FERC Account 596.<sup>316</sup>

#### OPC

On brief, OPC criticizes Pepco's lack of explanation and justification for significant overspending on O&M in RY3. OPC argues that Pepco provided limited details for O&M variances, failing to explain the prudence of incurred costs. Unlike capital projects, O&M information was only provided at the account level, offering no insight into specific drivers or their contribution to variances. Project and program-level data, crucial for understanding deviations, was largely absent.<sup>317</sup> In addition, OPC argues that the Company excessively overspent O&M in that Pepco's O&M variance of \$15.6 million in RY3 accounts for approximately 50-51% of its total reconciliation revenue requirement.<sup>318</sup> While Pepco attributed some of this to pension and minor storm costs (totaling about \$8.55 million), the

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<sup>314</sup> *Id.* at 54.

<sup>315</sup> Leming Errata, Ex. RTL-1, Schedule 3 at 1 (line 16).

<sup>316</sup> Maillog No. 317026, Pepco response to Bench DR-1 Ex. RTL-R-1 Electronic Only Attachment line 15-18.

<sup>317</sup> OPC Initial Brief at 7.

<sup>318</sup> *Id.* at 8.

majority stems from spending in categories Pepco acknowledges are within its control for Accounts 588 (Miscellaneous Distribution Expenses), 592 (Equipment Maintenance), and 594 (Underground Line Maintenance).<sup>319</sup> OPC argues that for Account 588 (Miscellaneous Distribution Expenses), a \$12.4 million variance from forecast, with \$4 million in "job skills training" and "other" expenditures lacked meaningful explanation to support a prudence determination.<sup>320</sup> For Account 592 (Equipment Maintenance) a \$7.9 million variance, reduced to \$6.1 million after accounting for a BESS write-off, remains unexplained and a 40% increase in preventative maintenance spending lacked justification.<sup>321</sup> For Account 594 (Underground Line Maintenance) a \$5.8 million over-budget was attributed to geographic accounting differences, emergent URD cable fault work, and raw material price fluctuations.<sup>322</sup> However, the impact of project geography is unclear, and there is insufficient information on how much each driver contributed or if expenses were necessary and prudently incurred.

### **Commission Decision**

Pepco attributes its RY3 O&M expense variance to higher than projected pension and minor storm activity costs, and contends that those costs are volatile, outside of the Company's control and difficult to forecast. Pepco adds that it attempted to mitigate the costs through negotiating with business partners, bulk purchases and attempting to optimize resources, and it disputes what the Company essentially describes as an eleventh-hour \$14 million disallowance recommendation from OPC. However, OPC counters that

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<sup>319</sup> *Id.* at 9.

<sup>320</sup> *Id.* at 11.

<sup>321</sup> *Id.* at 15.

<sup>322</sup> *Id.* at 19.

Pepco provided scant justification for its significant overspending in this category, therefore not meeting prudence standards, and the majority of the spending variance is attributed to accounts that Pepco acknowledges are within its control. According to OPC, Account 588 (Miscellaneous Distribution Expenses) experienced a \$12.4 million variance from Pepco's forecast, Account 592 (Equipment Maintenance) experienced a \$7.9 million variance but was reduced to \$6.1 million with no explanation, and Account 594 (Underground Line Maintenance) experienced a \$5.8 million variance, with insufficient information regarding the necessity and prudence of the expenses. One of the reasons OPC notes, is that Pepco did not include any project-specific budgets for its RY3 O&M spend that would have enabled parties to fully assess how well Pepco adheres to its O&M budgets, which the Company confirmed during the hearing it does not have this information that would allow for such a comparison.<sup>323</sup>

The Commission hereby disallows overspend of \$4 million in Account 588 (Miscellaneous Distribution Expenses), \$6.1 million in Account 592 (Equipment Maintenance), and \$3.9 million in Account 594 (Underground Line Maintenance). The expenses that make up the disallowance in Account 588, as described by OPC herein, appear discretionary and have not been fully explained based on the evidence presented.

With regard to Account 592 and Account 594, the Commission agrees with OPC that Pepco did not provide sufficient evidence to fully explain its spending in these accounts, nor did it explain why overspending had occurred and whether it was justified. In some instances, overspending attributed to geography in fact made overspending greater in an account, or created unexplained overspending in other accounts. As discussed

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<sup>323</sup> *Id.* at 7-8, *citing* Pepco witness Vahos; *see* fn 19.

previously in this order, the burden is on Pepco to explain why its actual expenditures far exceeded its budgets as authorized by the Commission in its initial MRP.

11. Other Recommendations

Beyond the specific recommendations presented by parties concerning various contested matters discussed above, AOBA proposed that the Commission fully disallow Pepco's proposed RY3 Final Reconciliation request.

AOBA

Specifically, witness Oliver argued that the Company failed to: (1) accurately forecast future expenditures, and (2) demonstrate that expenditures were prudent.<sup>324</sup> Furthermore, witness Oliver observed that Pepco's reconciliation failed to explain large variances from the original proposed expenditures, and the Company's current proposal includes insufficient quantitative explanations.<sup>325</sup>

He asserted that Pepco's filings were based on three faulty assumptions: (1) the necessity of projects justifies expenditures as prudent regardless of costs, (2) project lists submitted after the initial filing provide sufficient evidentiary review by stakeholders, and (3) meeting minimum filings requirements satisfies prudency requirements.<sup>326</sup> Additionally, Mr. Oliver highlighted that these assumptions fail to take into consideration pricing concerns or evidence of quantifiable benefits to ratepayers.<sup>327</sup> As such, he proposed that the filings should include: (1) quantitative justifications for changes in capital spending, (2) analytics comparing the costs and benefits of new or revised projects, and (3)

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<sup>324</sup> Oliver Direct at 4.

<sup>325</sup> *Id.* at 5.

<sup>326</sup> *Id.* at 7.

<sup>327</sup> *Id.* at 26.

documentation of criteria used for asset replacement due to aging.<sup>328</sup> Witness Oliver emphasized that the generalized references to “aging infrastructure” are insufficient without specifics, and rather, aging equipment must be evaluated based on expected service life, and early replacement must be supported by evidence of deterioration instead of solely age.<sup>329</sup>

Pepco

Witness O’Donnell requested that the Commission adhere to its precedent and established industry practices in making prudency determinations by applying two foundational principles: (1) evaluating what the utility knew or should have known at the time an investment decision was made, and (2) given that knowledge, whether the decision would have been made by a reasonable management team.<sup>330</sup> She explained that this determination should not be a “hindsight review,” and the Commission should not substitute its judgment for that of the Company.<sup>331</sup>

Ms. O’Donnell described three standards Pepco used to demonstrate it acted prudently: (1) capital projects must be used and useful, and provide service to customers, or for O&M expenditures, reasonably incurred in fulfilling the utility’s obligations, (2) projects must pass a reasonable business judgment decision process, and (3) project costs are managed reasonably.<sup>332</sup> She noted that these standards align with Pepco’s business practices through its internal review processes that evaluate customer, social, and environmental benefits of its projects; consideration of alternative options; employing cost

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<sup>328</sup> *Id.* at 27.

<sup>329</sup> *Id.*

<sup>330</sup> O’Donnell Rebuttal at 11.

<sup>331</sup> *Id.*

<sup>332</sup> *Id.* at 14.

discipline measures with a prospective outlook; and implementing an expenditure review process that analyzes the purpose and benefits of an investment and determines whether a reasonable management team would have made similar investment decisions.<sup>333</sup> As such, Ms. O'Donnell concluded AOBA's disallowance proposal should be rejected.

### **Commission Decision**

The Commission denies AOBA's recommended total disallowance. While Pepco's expenditures for RY3 were twice the amount approved by the Commission, and the Commission therefore is not approving the total overextended amount requested, Pepco's request does not deserve a wholesale rejection. Pepco has overspent its MRP budget by 75%, with the RY3 reconciliation request being \$20 million higher than the second year of reconciliation. As noted above, several of the projects presented in Pepco's RY3 Final Reconciliation involved addressing statutorily required, emergent, and unavoidable issues.

Additionally, Pepco's MRP-1 was filed under the MRP construct established in Order No. 89482 allowing for reconciliation prior to the passage of SB937/HB1035 (2025), the Next Generation Energy Act (the "NGEA"), which among other things, allows utilities to continue to propose multi-year rate plans and other alternative forms of ratemaking for recovery of costs associated with providing utility services, but prohibits reconciliation in future MRP cases. Therefore, given the timing of Pepco's RY3 Final Reconciliation filing, an examination of expenses for reconciliation purposes is proper. Nonetheless, where Pepco's overspending fails to demonstrate prudence within the MRP reconciliation process, the Commission is compelled to impose limits by disallowing or reducing those

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<sup>333</sup> *Id.* at 12-13.

expenses. As discussed above, there are multiple instances where the Commission has disallowed overspending, finding that recovery would be unjust and unreasonable.

## 12. Rate Design – Rate Effective Period

### Pepco

On direct, Pepco witness Blazunas explained that Pepco proposes recovering the RY3 revenue requirement deficiency (April 1, 2023 through March 31, 2024) through the Rider MRP Adjustment as approved by the Commission in Case No. 9655.<sup>334</sup> Pepco's original proposal comprised the recovery of the RY3 revenue requirement deficiency over the period of May 1, 2025 through March 31, 2026, with the Rider MRP adjustment rate in effect for that same period being the sum of the currently approved Rider MRP adjustment rate revenue requirement deficiency from April 1, 2025 through March 31, 2026, and the proposed Rider MRP adjustment rate would recover the RY3 revenue requirement deficiency over the period of May 1, 2025 through March 31, 2026.<sup>335</sup> According to Mr. Blazunas, Pepco is proposing to allocate the RY3 revenue requirement deficiency by using each rate schedule's proportion of the awarded Case No. 9655 RY3 revenue requirement increase.<sup>336</sup> As a result, Pepco will exclude any rate schedule, which did not receive an allocation of the revenue requirement increase in RY3, from the RY3 allocation of the RY3 revenue requirement deficiency.<sup>337</sup> Mr. Blazunas explained that for the April 1, 2025 through April 30, 2025 period, Pepco's currently approved Rider MRP adjustment for the period of April 1, 2025 through March 31, 2026 will be in effect.<sup>338</sup> He

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<sup>334</sup> Blazunas Rebuttal at 3.

<sup>335</sup> *Id.*

<sup>336</sup> *Id.* at 4.

<sup>337</sup> *Id.*

<sup>338</sup> Blazunas Direct at 5.

added that for the period May 1, 2025 through March 31, 2026, Pepco's proposed Rider MRP adjustment rate will equal the Company's currently approved Rider MRP adjustment for April 1, 2025 through March 31, 2026, plus the RY3 Proposed Rider MRP adjustment.<sup>339</sup> Pepco did not propose further changes to the Rider MRP adjustment tariff, other than to include the proposed rates for the period of May 1, 2025 through March 31, 2026.<sup>340</sup>

Witness Blazunas noted that as a result of the proposed adjustment, the average residential customer using 824 kwh per month would experience an increase of approximately \$3.44 per month over the charge associated with the currently approved Rider MRP adjustment rate for the period of April 1, 2025 through April 30, 2025.

This proposal was modified on rebuttal. On rebuttal, Pepco witness O'Donnell noted that Pepco accepted Staff witness David Hoppock's recommendation to amend the rate effective period for RY3 to April 1, 2026 through March 31, 2027, and emphasized that Pepco subsequently reduced the RY3 under-recovery by approximately \$400,000, changing its request to \$30.6 million.<sup>341</sup>

Pepco witness Blazunas, in his rebuttal testimony, stated that the Company agreed with Staff regarding the revenue allocation methodology and forecasted billing determinants used to design the proposed Rider MRP adjustment to recover the RY3 reconciliation revenue requirement, and accepted Staff witness Hoppock's recommendation to recover the RY3 reconciliation during the period of April 1, 2026

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<sup>339</sup> *Id.*

<sup>340</sup> *Id.* at 6.

<sup>341</sup> O'Donnell Rebuttal at 8.

through March 31, 2027.<sup>342</sup> Mr. Blazunas added that as a result, Pepco's updated proposed Rider MRP adjustment differs from Staff's proposed Rider MRP adjustment only because of the updated reconciliation revenue requirement of approximately \$30.6 million.<sup>343</sup>

Mr. Blazunas further stated that Pepco has updated its proposed rate design, utilizing its original proposed revenue allocation methodology and forecasted billing determinants.<sup>344</sup> He noted that the updated version has a new rate effective period for recovery of April 1, 2026 through March 31, 2027, and reflects the updated RY3 reconciliation revenue requirement of approximately \$30.6 million.<sup>345</sup>

Witness Blazunas explained that the proposal for the above-referenced period is expected to increase the bill of the average residential customer, consuming 824 kWh per month, by about \$2.428 per month more than the monthly charge associated with the currently approved Rider MYP adjustment rate for the April 1, 2025 through March 31, 2026 period.<sup>346</sup>

Staff

On direct Staff witness David Hoppock proposed that the Commission reject Pepco's proposal to recover the RY3 revenue requirement and instead accept his proposal that shifted cost recovery to April 1, 2026 - March 31, 2027.<sup>347</sup> Staff witness Hoppock noted no change to Pepco's proposed allocation method.<sup>348</sup> Pepco noted its agreement to this methodology in response to a data request.<sup>349</sup>

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<sup>342</sup> Blazunas Rebuttal at 2-3.

<sup>343</sup> *Id.*

<sup>344</sup> *Id.* at 4.

<sup>345</sup> *Id.*

<sup>346</sup> *Id.* at 6.

<sup>347</sup> Hoppock Direct at 2.

<sup>348</sup> *Id.* at 3.

<sup>349</sup> *Id.*

On surrebuttal Staff witness David Hoppock explained that Mr. Blazunas accepted the recommended recovery period for the rate year 3 reconciliation, which proposed recovery of the Case No. 9655 RY3 reconciliation revenue requirement over the 12 months from April 1, 2026, through March 31, 2027.<sup>350</sup> Witness Hoppock observed that witness Blazunas provided updated Rider MYP Adjustment rates for this recovery period, reflecting Pepco's rebuttal rate year 3 reconciliation revenue requirement, along with an updated Rider MYP Adjustment tariff.<sup>351</sup> He noted agreement between the witnesses that the revenue allocation methodology and the forecast billing determinants used to establish the rate year 3 reconciliation rates were acceptable.<sup>352</sup>

According to Mr. Hoppock, Mr. Rielly recommended a rate year 3 reconciliation revenue requirement of \$28,228,000.<sup>353</sup> In recommending Pepco's allocation method for rate year 3, he noted the method was consistent with the rate years 1 and 2 reconciliation recovery.<sup>354</sup> He observed that based on Staff Witness Rielly's revenue requirement, the proposed rate year 3 reconciliation rates under Rider MYP Adjustment would result in a \$2.18 monthly bill increase for an average Schedule R residential customer using 824 kWh per month, effective April 1, 2026, relative to rate year 2 recovery.<sup>355</sup>

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<sup>350</sup> Hoppock Surrebuttal at 2.

<sup>351</sup> *Id.*

<sup>352</sup> *Id.*

<sup>353</sup> *Id.*

<sup>354</sup> *Id.*

<sup>355</sup> *Id.*

### Commission Decision

The Commission accepts the consensus recommendation as to how the approved revenue requirement will be allocated to establish the surcharge. The resulting revenue requirement allocation and surcharges of this order are presented in the following table and will be in effect April 1, 2026 - March 31, 2027. As a result of this decision, the net bill impact is \$0.64 and the gross bill impact is \$1.39 for the average residential customer using 824 kWh a month.

Schedule	Allocated Revenue Requirement	Resulting Surcharge
R	\$ 7,612,775	\$ 0.00168
RTM	\$ 1,200,190	\$ 0.00154
GS LV	\$ 402,583	\$ 0.00123
T	\$ 13,450	\$ 0.00084
EV	\$ 17	\$ 0.00033
MGT LV	\$ 2,438,836	\$ 0.00061
MGT 3A	\$ 36,502	\$ 0.00043
GT LV	\$ 551,360	\$ 0.00062
GT 3B	\$ -	\$ -
GT 3A	\$ 713,811	\$ 0.00049
TMRT	\$ 92,703	\$ 108.81
SL	\$ 41,263	\$ 0.00074
SSL	\$ 248,123	\$ 0.15806
OL	\$ 8,861	\$ 0.21744
TN	\$ -	\$ -
<b>Total</b>	<b>\$ 13,360,473</b>	

#### **IV. Conclusion**

The goal of any ratemaking proceeding is for the Commission to ensure that the rates approved for a public utility to charge customers for regulated service are just and reasonable. This requires that the rates established by the Commission also be consistent with the public good. Pepco's MRP-1 RY3 reconciliation is being addressed during a

period of economic difficulties for consumers, especially residential utility customers. The Company's base MRP-1 rates were established during the onset of the COVID-19 pandemic, which presented economic uncertainties in and of itself. While the Commission approved the base MRP, the Commission has repeatedly emphasized that MRP utilities should not expect full recovery of their reconciliation requests, and that rate affordability by customers should be a serious consideration – warning utilities that close adherence to budgets is a crucial consideration in addressing reconciliation requests.

Having duly considered the entire record in this proceeding, including all of the filed and oral testimony and exhibits, and taking into account recent Commission decisions, the Commission hereby authorizes adjusted MRP-1 electric distribution revenues of \$13,360,473. The Commission finds that these terms encompass just and reasonable rates that mitigate the risk of rate shock that customers would otherwise experience were Pepco's full reconciliation request to be approved.

**IT IS, THEREFORE,** this 31<sup>st</sup> day of March, in the year of Two Thousand Twenty-Six, by the Public Service Commission of Maryland, **ORDERED:**

(1) that the MRP-1 RY3 Reconciliation Request filed by Potomac Electric Power Company on June 28, 2024, seeking an increase in its MRP-1 revenues of \$30.6 million, is hereby denied, as discussed in the body of this Order;

(2) that Pepco is hereby authorized additional MRP-1 revenues in the amount of \$13,360,473, consistent with the findings in this Order;

(3) that Pepco is directed to file tariffs in compliance with this Order, subject to acceptance by the Commission; and

(4) that any motions or requests not granted herein are denied.

*s/ Kumar P. Barve*

*/s/ Frederick H. Hoover, Jr.*

*/s/ Bonnie A. Suchman*

Commissioners<sup>356</sup>

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<sup>356</sup> Commissioners Odogwu Obi Linton and Ryan C. McLean did not take part in the Commission's decision in this matter.