Why We Oppose the Proposed Exelon-Pepco Merger

As environmental, public health, business, faith, low-income, and social justice advocates, we, the undersigned groups, are writing to express our opposition to the proposed merger between Exelon Corporation and Pepco Holdings, Inc. (PHI) in Maryland. We are unequivocally opposed to this merger as proposed. Not only would it give Exelon a near-monopoly over our state's utility market, but also it would severely restrict Maryland's ability to transition to the clean, affordable, and reliable electricity grid we need. Furthermore, given Exelon's track record, we are concerned that there is no way forward for this merger that would produce the key reforms and positive elements that Maryland's electricity grid requires. Here is an inventory of the changes that we support and that Exelon has an explicit or implicit history of opposing.

Less Electricity Consumption

Our Position: Maryland should achieve nation-leading energy efficiency savings. Energy efficiency and conservation are the lowest-cost resources for meeting demand. Expanding energy efficiency to more Marylanders is also a cost-effective way to improve air quality, reduce greenhouse gas emissions, lower monthly electricity bills, and deliver measurable improvements in health, safety, and comfort. Maryland should seek to lower overall energy consumption while maintaining high quality energy service by setting nation-leading energy savings goals and investing at levels necessary to achieve those goals.

Exelon's Position: A record of falling short on energy efficiency. Exelon's only commitment to energy efficiency in this merger is to "maintain and promote [Pepco Holdings, Inc.'s] *existing* energy efficiency and demand response programs." It should be noted that Exelon's subsidiary, Baltimore Gas & Electric (BGE), has a worse energy efficiency track record than PHI in Maryland. In their 2014 EmPOWER Maryland Energy Efficiency report, the Maryland Public Service Commission projected that PHI's subsidiaries, Pepco and Delmarva Power & Light, would achieve 99% and 199% of their 2015 energy savings goals respectively and 96% and 830% of their 2015 peak demand production goals respectively. By contrast, Baltimore Gas & Electric, is projected to achieve only 67% of its 2015 energy savings goals and 76% its 2015 peak demand production goals. Similarly, in Illinois, where Exelon is the dominant utility, they are projected to achieve a dismal 35% to 47% of their statutory efficiency goals over the next three years. Exelon has made no specific commitments to improve their performance and their record indicates a lack of commitment to energy efficiency.

More Renewable Electricity

Our Position: Maryland needs more renewable electricity. As Maryland strives to reduce its electricity consumption through energy efficiency, the State also should focus on getting more of that electricity from renewable sources. Wind and solar prices have come down so dramatically in recent years that they are now cost-competitive with natural gas in many parts of the country and cheaper than coal and nuclear power. Maryland should take advantage of these falling costs and reap the health, environmental, and economic benefits of committing to a 40% renewable electricity standard by 2025.

Exelon's Position: A weak record on renewables, strong supporter of nuclear subsidies. Exelon calls itself a "leading voice against the extension of the Production Tax Credit [PTC]," which is the primary federal incentive for promoting land-based wind energy. The PTC is a reasonable way of keeping wind costs down, and by opposing it, Exelon is helping to shift those costs to states like Maryland that have current renewable electricity goals in place. At the same time, Exelon advocates for changes in the law designed

to support their nuclear fleet. For example, this year in Illinois they lobbied for a resolution (HR 1146) that would allow their nuclear plants in that state to receive "clean energy credits" like solar and wind, which would essentially shift support away from those renewables in favor of Exelon's nuclear fleet, which comprise 52% of its generation assets.

More Locally Generated Renewable Electricity

Our Position: More renewable energy should come from distributed generation (DG). As renewable electricity grows as part of Maryland's energy portfolio, a concerted effort should be made to maximize the share of renewables that comes from local distributed generation. DG, such as rooftop solar panels, small-scale wind turbines, and combined heat and power, allows customers to lower their energy bills, increase their independence, and creates local opportunities for economic growth. Maryland should continue and expand the successful state programs that have allowed the in-state solar market to grow from 0.1 megawatts in 2007 to more than 178 megawatts deployed through the State today.

Exelon's Position: Roll back distributed generation support. The primary driver of DG growth is a policy called "net metering," whereby rooftop solar and other DG customers can receive retail credit for the surplus energy they deliver back to the grid. Exelon directly supports groups that oppose net-metering, such as the American Legislative Exchange Council, who called for the weakening of solar net metering policies by taxing solar customers. This merger would give Exelon an even louder platform to oppose DG in Maryland.

Our Position: Maryland should embrace community renewable energy. Although the State's current net metering statute allows thousands of Marylanders to enjoy the benefits of renewable energy, there are many millions more who are presently excluded from this growing market. They include low-income individuals, renters, and those with properties unsuitable for renewable energy development. Virtual net metering, also known as "community renewables," would allow those individuals to pool their resources and benefit from the production of clean, locally-produced electricity. Community renewable energy could allow every Marylander to invest in the growing distributed generation market—regardless of whether they own, rent, or have limited financial means—and receive rate-saving credits from that power back on their individual power bills.

Exelon's Position: Oppose community renewable energy. Exelon and its Maryland utility subsidiary, BGE, opposed a very reasonable and modest community renewable bill in Maryland in 2014 (HB 1192). The bill would have established a 2-year pilot program to test community renewable systems across the State. BGE claimed that it opposed "subsidies" for community renewable systems, despite the fact that by some estimates the U.S. nuclear industry has received $100 billion in government subsidies over the past half-century, and that federal subsidies are now worth up to $13 billion per plant. By contrast, Pepco Holdings did not oppose efforts to establish community renewables in Maryland, and the company was in fact recently a strong advocate of a successful community renewable law in Washington, D.C.

More Locally Distributed Electricity

Our Position: Deploy "microgrids" across the State to improve reliability and grid flexibility. Marylanders today have more choices than ever before about how their electricity is generated, but for the most part, they are still forced to rely on regulated monopolies like Exelon to deliver that power to them. Microgrids could change that by injecting more choice and competition into the electric distribution system. Microgrids are modern, self-sufficient, small-scale systems that generate and deliver energy within a

defined geographic area by combining clean DG with advanced controls, battery storage, and smart communication technologies. These systems can reduce the frequency of outages by locating electricity generation closer to where it's ultimately consumed, which reduces the need to transport energy over long distances, and by using smart control technologies to automatically connect or disconnect from the "macrogrid" when it's most economical to do so. Maryland should join the growing number of jurisdictions pursuing microgrids by developing a set of regulations that would allow utilities and third parties to own and operate these systems.

Exelon's Position: Consolidate market power, decrease opportunities for innovation. Microgrids involve cutting-edge technologies which require experimentation and bold application to determine the full benefits to ratepayers. The proposed merger may depress regional competition, thus reducing the rate of advancement for microgrids. If the merger is approved, Exelon will control over 23.4% of the transmission service activity within our *regional* electricity grid. This would include over 80% of Maryland customers. Furthermore, Exelon would essentially become the sole electric utility serving customers in Baltimore, Washington, D.C., Chicago, Philadelphia, Dover, and Atlantic City. Bigger cities are the most fertile ground for innovative microgrid programs. But if one company controls all the major cities in our electric grid region, there will be less of a chance that such innovation occurs.

<u>Better Utility Incentives to Achieve These Goals</u>

Our Position: We need performance-based incentives for utilities. The goals outlined above envision a paradigm shift in how Maryland produces, delivers, and consumes energy. The traditional utility business model does not place a value on those performance objectives, and thus provides little incentive for the innovations that are required. A sustainable 21st century grid should align utility incentives with the outcomes that Marylanders want to see: cleaner and more reliable energy. We believe that performance-based ratemaking is necessary to steer substantial new investment into a modernized customer-centric grid that strives to achieve the aforementioned goals.

Exelon's Position: Expand the existing and outdated utility business model. The proposed merger appears to be a reaction to this paradigm shift. Breakthroughs in energy generation, distribution, and energy-use management technologies threaten the existing utility model. As a result, traditional energy companies are seeking to combine assets and grow their market power to better weather the storm of technological change. Exelon, for example, had a 2013 operating budget of nearly $25 billion with which it exercised substantial power in the electric generation, transmission, and delivery markets, as well as the natural gas delivery market, in 48 states, the District of Columbia, and Canada. The proposed merger will only amplify this market power. Maryland deserves electric companies that encourage innovation and harness these technological trends to turn them into customer value and local economic growth. Rather than approving bigger mergers, Maryland should take advantage of this rapidly changing market by creating a performance-based utility incentive system.

For all these reasons, we are opposed to the proposed merger between Exelon and Pepco Holdings, Inc. The energy and grid changes that Maryland so urgently needs are fundamentally at odds with Exelon's current business practices. Therefore, the merger as proposed should not go forward. Furthermore, given Exelon's track record, we are concerned that there is no way forward for this merger that would produce the key reforms and positive elements that Maryland's electricity grid requires.

Signed,

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Central Maryland Ecumenical Council, Rev. Dellyne Hinton, vice president

Sierra Club, Josh Tulkin, Maryland director

Labor Network for Sustainability, Joe Uehlein, director

Maryland PIRG, Emily Scarr

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Chesapeake Climate Action Network, Mike Tidwell, director

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Students for Environmental Action, UMBC

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