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STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

MEDIA CONTACT:

Regina L. Davis, rdavis@psc.state.md.us
410-767-8054 / 443-286-6870 (cell)

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Maryland Public Service Commission Imposes \$1 Million Initial Fine on Pepco

Utility Faulted for Poor Management and Ineffective Practices

(Baltimore)—The Maryland Public Service Commission (Commission) has ordered an initial fine of \$1 million against the Potomac Electric Power Company (Pepco). Commission Order No. 84564 finds that Pepco failed to maintain its system properly over a period of years; that those failures subjected its customers to excessively high frequencies and long durations of electric outages during storm events and on fair-weather days, and that Pepco compounded those reliability problems through poor customer communication.

In its decision, the Commission also found that reliability expenses in 2011 were increased because of “imprudent and inadequate expenditure and neglect.” Therefore, in Pepco’s next rate case, the Commission will review the 2011 and 2012 reliability spending and will disallow the increased amounts that are due to Pepco’s imprudent management in years earlier.

Specifically, the Order finds that “Pepco’s low level of reliability stems directly from its poor vegetative management practices.” Its inadequate vegetation management led to “dramatically higher outage durations and frequencies in 2010.”

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The case was initiated after the Commission received an unusually high number of complaints from customers and elected officials regarding reliability in the Pepco service territory, and issued Order No. 83526 on August 12, 2010, to begin formal proceedings.

In the current Order, the Commission noted that “Pepco’s history of inconsistent and sometimes contradictory tree trimming practices between 1999 and 2010 imposed more costs and outages on customers than otherwise would have been the case had the Company adhered to one coherent strategy.” Moreover, Pepco’s reliability problems were exacerbated by the utility’s refusal to transition from an ineffective two-year to a four-year tree trimming cycle years after other Maryland utilities had made the transition and a decade after the Tree Trimming Working Group had authorized this change, which ultimately imposed additional hardships on its customers. The Commission also finds that Pepco failed to conduct periodic inspections of its sub-transmission and distribution lines or to direct after-storm inspections or patrols, contributing to its low-level performance in reliability indices and its increased vulnerability to storms.

The effect of these failures on customers was not lost on the Commission, noting that “Pepco’s customers have paid a substantial price for Pepco’s neglect, measured not just by direct economic costs such as closures of businesses leading to lost wages and reduced tax revenue, but also by less tangible costs, including the physical discomfort caused by multiple outages and the uncertainty of knowing when persistent outages will end.”

The Order also addressed Pepco’s poor communication with customers during storm events. This was particularly evident with regard to developing and communicating accurate and timely estimates of service restoration, which was a significant contributor to customer dissatisfaction.

The Commission’s Order acknowledges Pepco’s proposed improvements to its reliability through the implementation of a six-element reliability enhancement plan that addresses vegetation management, feeder improvement, and other relevant issues. The five-year program

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will cost \$300-\$350 million. However, if Pepco “spends ratepayer money imprudently, it will face the risk that reimbursement for those costs will be denied.” The Order added that, “...it is Pepco’s legal duty to provide reliable service to its customers.”

In addition to the \$1 million initial fine, the Order requires that by February 21, Pepco file a detailed and updated work plan for the next five years that includes measures to improve communications and service restoration. The utility is also ordered to file a year-end status report and quarterly reports, and the Company could be fined further if it fails to demonstrate improvement in its reliability performance.

The complete Order can be found on the Commission’s website at www.psc.state.md.us.

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