Second Testimony of Nuclear Information and Resource Service

Presented by Timothy Judson, Executive Director

Before the Public Service Commission of Washington, DC

On January 6, 2015

Thank you Commissioners for the opportunity to address you again tonight. My name is Tim Judson, and I am testifying tonight on behalf of the Nuclear Information and Resource Service, where I am the executive director. NIRS is a national environmental nonprofit organization, headquartered in Takoma Park, Maryland. I have sixteen years experience watchdogging the energy and utility sectors, with a particular focus on merchant nuclear power generators and utility restructuring. Exelon emerged as the largest player in both of those spaces more than a decade ago, and I have monitored the corporation's activities very closely with respect to the Pepco acquisition and a number of other current issues.

In my testimony on December 17, I testified that Exelon's acquisition of Pepco would be counter to the interest of Washington, DC residents and does not meet the public interest standard for approval. In short, DC deserves a much better utility than Pepco, but the evidence plainly shows that Exelon would actually be much worse. I provided an example of what life with Exelon is like in Illinois, where the company has long been both the largest utility and power generator. It is now exerting considerable political influence to suffocate efforts to improve the state's renewable portfolio standard, holding legislation hostage to Exelon's demand for subsidies, incentives, and preferences for its nuclear power plants, which could cost Illinois ratepayers $1.1 billion per year.

I would like to detail another such example tonight. Exelon is attempting to obtain a subsidy for a nuclear power plant in New York, in a way that illustrates another way Exelon could harm DC and Maryland ratepayers. Exelon has petitioned the New York Public Service Commission (PSC) to require a local utility, Rochester Gas & Electric (RG&E), to enter into an above-market rate contract for the R.E. Ginna Nuclear Power Plant, located near Rochester, NY. The Ginna reactor is one of the oldest and most economically challenged in the country. For two years, industry analysts have predicted it would need to close after a previous long-term contract with RG&E expired in June.

However, RG&E has developed a record of poor planning and investment in its service territory, just as Pepco is known for, and has failed to prepare for Ginna's likely closure. RG&E's problems have emerged over the last decade, since it was taken over by a Spanish conglomerate, Iberdola, documented in an audit commissioned by New York PSC in 2012. As a result of a questionable system reliability and RG&E's known reliability issues, PSC authorized Exelon and RG&E to negotiate a new power contract for Ginna continues to operate, which will be submitted for review next week.

NIRS has done an analysis of Exelon's filings, and projects that the Ginna contract would entail unprecedented costs to Rochester G&E ratepayers, over and above the market price of electricity in the area. That analysis was submitted to the New York PSC by the Alliance for a Green Economy on December 17. We calculate that, just to cover the reactor's operating costs, Exelon would require a contract averaging \$56.75/megawatt-hour – 43.5% higher than the average market price of electricity in the last five years. Such a price would amount to a subsidy of over \$80 million/year, or an average of \$216 for each of RG&E's 370,000 ratepayers.

However, Exelon has also stated its intent for the contract to include an 11% rate of return on investment. An article in Bloomberg published yesterday (January 5, 2015), quotes Exelon stating that it would require a contract price of $71/MWh for a reactor like Ginna – 83% above the market price of electricity, and resulting in a ratepayer subsidy of over $150 million per year, or nearly $412 per customer.

Exelon could do the same thing in DC, completely apart from any of the proposed ring-fencing provisions. Exelon operates the Calvert Cliffs Nuclear Power Plant in Lusby, Maryland, just 50 miles from Washington, DC. Calvert Cliffs contains two nuclear reactors and is approximately the same size as another plant in Illinois that Exelon is threatening to close. As the primary utility for Maryland and DC, Exelon would inherit a transmission and distribution system in which its predecessor, Pepco, has notably under-invested in planning and upgrades. The threat that a power plant closure would cause system reliability problems is much more credible if the utility has not been proactive in planning for such contingencies.

DC and Maryland regulators might be in a much weaker position to challenge such a claim if Exelon were granted control of the transmission and distribution system. This exposes DC ratepayers to the risk of increasing utility costs, well apart from the commitments Exelon has made in its petition. In fact, these risks are unprecedented for DC residents, since Pepco has never owned a nuclear power plant, nor, since utility restructuring, a direct financial interest any merchant power plant. The commingling of contrary interests Exelon's acquisition of Pepco represents is fundamentally counter to the public interest in DC, and is therefore grounds for denial.

Thank you. I hope this information is helpful.