PUBLIC HEARING ON

Bill 20-387
"Electric Company Infrastructure Improvement Financing Act of 2013"

Before the
Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chairman

And the
Committee on Government Operations
Council of the District of Columbia
The Honorable Kenyan McDuffie, Chairman

October 21, 2013, 11:00 a.m.
Room 412, John A. Wilson Building

Testimony of
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Good morning, Chairman Evans and Members of the Committee on Finance and Revenue, and Chairman McDuffie and Members of the Committee on Government Operations. My name is John Ross, Senior Advisor and Director of Economic Development Finance for the Office of the Chief Financial Officer (OCFO). I am pleased to testify for the Office of the Chief Financial Officer on the Electric Company Infrastructure Improvement Financing Act of 2013.

The proposed legislation creates the legal authority and administrative processes for approving and financing a project to bury a portion of PEPCO's primary electric power lines and facilities to improve the reliability of electric power in the District. Approximately 77% of the current overhead wires and almost all poles will remain in place after completion of the project. The project is estimated to cost $1 billion over 6 years and the bill outlines a financing structure as follows:

First, the Public Service Commission will issue a financing order that approves surcharges, to be paid by PEPCO customers, to collect revenues sufficient to pay debt service on up to $375 million of District-issued bonds. Because the bonds are financed by customer surcharges, and not District imposed fees or taxes, they would be considered revenue bonds, and would not count toward District debt under the District's statutory debt cap.

Second, the Public Service Commission will review and approve an investment by PEPCO of up to $500 million. This investment will also be funded by a surcharge on customers to repay PEPCO's debt and equity and their return on investment.

Third, the District will contribute up to $125 million in capital funds through the District Department of Transportation (DDOT).

In addition, the bill requires periodic adjustments of the surcharge to assure there is sufficient revenue to meet the debt and equity requirements. These adjustments will occur at least annually and could increase or decrease the monthly surcharges to customers.

The surcharge to support the District's bonds will coincide with the term of the bonds, currently estimated to be 15 years. The surcharge to support PEPCO's debt and equity financing is expected to be in place for up to 60 years.

The legislation does not propose any funding for the undergrounding of the lower secondary wires nor the service lines that go directly into homes and buildings. However, the legislation provides for two subsequent analyses, in 2019 and 2027, on the efficacy of undergrounding additional wires.

Financial Plan Impact

Funds are not sufficient in the proposed FY 2014 through FY 2017 budget and financial plan to implement the proposed legislation. The proposed legislation will increase District expenditures by approximately $800,000 in FY 2014, $3.4 million in 2015, $4.1 million in FY2016, and $4.9 million in FY2017 through increased electricity billings.

The District government spends approximately $47 million on electricity consumption in its buildings, and another $10 million on the operation of streetlights. The projected surcharges will increase the District's electricity bills by up to $6.9 million per year when the surcharge reaches its maximum level in about 7 years. Surcharges will then decline, but continue for about 60 years.

In addition to the District's surcharges, the United Medical Center (UMC) will face increases to the approximately $11.8 million it spends per year on electricity. Any increase would have to be absorbed by UMC directly, or by the District indirectly through additional subsidy.

Finally, the fiscal impact does not take into account any funding for or reprogramming of DDOT's Capital Budget to accommodate the District contribution of up to $125 million in the proposed plan.

Council should be aware of two issues related to the plan proposed by the Mayor's Underground Powerline Taskforce.

First, the legislation authorizes a financing structure for an assumed six-year $1 billion project that includes a PEPCO expenditure of $500 million and a District bond issuance of $375 million. PEPCO's financing costs are higher than the District's borrowing costs. As a result, PEPCO's customers will pay more in total, and on a net present value basis, for the undergrounding project than they would have paid if the PEPCO portion were funded through a District securitized financing.

Second, the initial $1 billion plan that the legislation supports includes a contribution of up to $125 million of District capital funds. DDOT has indicated that they will align their planned resurfacing and reconstruction program with the undergrounding project. DDOT also indicates that they have flexibility within their Federal Highway funds and their local road reconstruction funds to move capital funds to support this project. However, it is possible that certain planned DDOT projects would have to be delayed or that funds would need to be reprogrammed to fill this funding need.

Thank you for the opportunity to testify. This concludes my testimony and I am happy to answer any questions you have at this time.