CHESAPEAKE CLIMATE ACTION NETWORK

Not in Maryland's Public Interest:

The Pitfalls of the Proposed Exelon-Pepco Merger

Last April, utility giant Exelon Corporation announced its plan to acquire Pepco Holdings, Inc. (PHI), which currently serves nearly two million customers throughout Maryland, the District of Columbia, Delaware and New Jersey. While Exelon claims that this merger would benefit Maryland's economy and the customers already served by Pepco, an extensive coalition of community, business, environmental and faith advocates have come forward to emphasize the opposite. This merger would create a virtual monopoly for Exelon in our region, and severely restrict Maryland's ability to transition to the clean, affordable, and reliable electricity grid we need.

If approved, the merger would:

1. Put nearly 85% of Maryland's ratepayers in Exelon's service territory.
2. Reward a company that prides itself in fighting federal policy incentives for wind power.
3. Weaken Maryland solar energy due to Exelon's attacks on so-called "net metering" policies.
4. Make Exelon the largest utility in the country.
5. Tie Maryland ratepayers to the country's largest owner of aging and increasingly costly nuclear power.

WHAT IS NET-METERING?

A MECHANISM THAT ALLOWS ELECTRIC CONSUMERS TO BE MONETARILY COMPENSATED FOR ELECTRICITY PRODUCED THROUGH ELIGIBLE ON-SITE GENERATING FACILITIES, SUCH AS SOLAR PANELS OR SMALL WIND TURBINES.

Backwards on Clean Energy

Maryland's electricity system is at a crossroads. The coalition of groups opposing this merger believe that the way forward should be rooted in 21st century innovations. These include increased energy efficiency, increased renewable energy generation, more local opportunities for electricity generation and distribution through customer net-metering, community power and microgrids, and performance-based utility incentives to help achieve those goals. However, Exelon does not hold the same forward-looking vision for Maryland, and instead clings to a business model rooted in the 20th century.

Fighting Renewable Development

Exelon actively campaigns against state and federal initiatives that promote renewable energy across the country. In 2013, Exelon labeled itself a "leading voice against [the] extension of the Production Tax Credit (PTC)."[1] The PTC—the main federal incentive promoting land-based wind energy—is a reasonable way of keeping wind costs down. By opposing it, Exelon is helping to keep costs high in states like Maryland that have current renewable electricity goals in place. Similarly, Exelon directly supports groups that oppose net-metering, such as the American Legislative Exchange Council (ALEC), a group that calls for the weakening of solar net metering policies by taxing solar customers.[2]

"Renewable" by Requirement

Exelon's renewable electricity generation accounts for just 3.7% of its generation portfolio, which is otherwise dominated by nuclear power. And while company officials often boast about their commitment to develop 125 megawatts of wind and solar in Maryland (which represents 0.004% of the company's generation assets), they fail to mention that they were *required* to develop that energy by the Public Service Commission as a condition of their 2012 merger with Constellation Energy in Maryland. Without such requirements, the company has shown a pattern of vigorously opposing policies to expand renewable resources. This undermines the renewable energy progress that Marylanders have been working hard to achieve.

Static Energy Efficiency

Exelon also has no plan to improve energy efficiency if the merger is approved. Exelon's subsidiary, Baltimore Gas and Electric (BGE), is lagging behind in achieving its energy efficiency goals, which is a problem that Pepco does not have.[3] Exelon already provides electricity service to nearly 50% of Maryland through BGE, meaning that 50% of the state is being underserved on energy efficiency. If the proposed merger were to be approved, nearly 85% of the state would be served by an electric company that is resistant to clean energy.

Exelon Weakening Nuclear Fleet Puts Ratepayers at Risk

"In hindsight, I should have sold a piece of our nuclear when times were good and taken more risk on [transmission and distribution] assets, but I did not."

-John Rowe, retired CEO, Exelon Corporation[6]

Exelon owns the largest nuclear power fleet in the country. With 24 nuclear reactors operating across the nation, nuclear generation accounts for over 50% of Exelon's energy portfolio. These reactors have become increasingly expensive. The cost of nuclear energy has not followed the drop in energy prices over the years, as the "fracking" boom has driven electricity prices down. Natural gas expansion, coupled with lower energy demand thanks to advances in energy efficiency across the nation, has created a poor fiscal outlook for Exelon's nuclear fleet.

Exelon reported that six of its reactors in Illinois have failed to turn a profit over the past five years, and the company's stocks have fallen over 60% since 2008. A special report by the Nuclear Information and Resource Service on the aging nuclear industry even noted that this merger is "widely understood as an attempt by Exelon to hedge its exposure to risk on the nuclear side of business by increasing its guaranteed revenues from utility ratepayers."[4]

Yet the expensive hedge may not be paying off. Fitch Ratings announced a negative warning on Exelon's credit rating on the day the merger was announced, saying that they "did not consider the acquisition of PHI to meaningfully lessen [Exelon's] business risk."[5] For all of Pepco's problems, it is a financially sound company and it does not need a merger to stay afloat. By contrast, Exelon is in a precarious financial position that is overly reliant on an aging and uneconomic nuclear fleet. If the merger is approved and Exelon's credit rating declines, Maryland ratepayers could see rate hikes in the future as Exelon faces higher costs of borrowing.

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[1] Exelon Corporation. Proc. of Edison Electric Institute Financial Conference. N.p., 12 Nov. 2013. Web. <http://www.exeloncorp.com/performance/investors/events.aspx>
[2] Exelon Generation and Exelon's Illinois utility subsidiary, Commonwealth Edison, The Energy, Environment, and Agriculture Task Force reception at ALEC's 40th Annual Meeting in 2013. <http://www.prwatch.org/news/2013/08/12208/more-corporations-drop-alecs-conference-brochure>
[3] Maryland Public Service Commission. The EmPOWER Maryland Energy Efficiency Act STANDARD REPORT OF 2014. Mar. 2014. <http://webapp.psc.state.md.us/intranet/Reports/2014%20EmPOWER%20Maryland%20Energy%20Efficiency%20Act%20Standard%20Report.PDF>
[4] Nuclear Information and Resource Service. Killing the Competition: The Nuclear Industry Agenda to Block Climate Action, Stop Renewable Energy, and Subsidize Old Reactors. Pg. 12. August 2014. Web. < http://www.nirs.org/neconomics/killingthecompetition914.pdf>
[5] "Fitch Places Exelon's Ratings on Negative Watch Following Acquisition Announcement." Business Wire, 30 Apr. 2014. <http://www.businesswire.com/news/home/20140430007060/en/Fitch-Places-Exelons-Ratings-Negative-Watch-Acquisition#.VCx8AfldVnY>
[6] "How Exelon Lost its Spark." Steve Daniels. Crain's Chicago Business, 21 Jun. 2014. <http://www.chicagobusiness.com/article/20140621/ISSUE01/306219983/how-exelon-lost-its-spark>

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