C90G00
Public Service Commission

Operating Budget Data

($ in Thousands)

	FY 12 Actual	**FY 13 Working**	**FY 14 Allowance**	**FY 13-14 Change**	**% Change Prior Year**
Special Fund	$17,869	$16,022	$16,552	$530	3.3%
Contingent & Back of Bill Reductions	0	0	-17	-17	
Adjusted Special Fund	**$17,869**	**$16,022**	**$16,534**	**$512**	**3.2%**
Federal Fund	557	581	425	-156	-26.8%
Adjusted Federal Fund	**$557**	**$581**	**$425**	**-$156**	**-26.9%**
Adjusted Grand Total	**$18,426**	**$16,603**	**$16,959**	**$356**	**2.1%**

- The fiscal 2014 allowance of the Public Service Commission (PSC) increases by $356,226, or 2.1%, compared to the fiscal 2013 working appropriation, after accounting for a back of the bill reduction for health insurance due to favorable cost trends. An increase of $512,253 in special funds is partially offset by a decrease of $156,027 in federal funds.

- The decrease in federal funds is driven by the approaching end of grant funds from the American Recovery and Reinvestment Act of 2009 (ARRA). PSC's grant from the ARRA expires September 30, 2013, only one quarter into fiscal 2014, resulting in a decrease in federal funds of $244,725. This reduction has also led to an increase in special funds in some areas, such as contractual employee payroll, to allow PSC to continue activities at recent levels.

- Other major changes in PSC's fiscal 2014 allowance occur in the areas of personnel and consulting services.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	FY 12 Actual	FY 13 Working	FY 14 Allowance	FY 13-14 Change
Regular Positions	138.00	139.00	139.00	0.00
Contractual FTEs	9.82	12.60	12.60	0.00
Total Personnel	**147.82**	**151.60**	**151.60**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		6.37	4.58%	
Positions and Percentage Vacant as of 12/31/12		5.00	3.60%	

- There are no changes in the number of regular positions or contractual full-time equivalents in the fiscal 2014 allowance of PSC. However, contractual full-time equivalents created through ARRA funding, which expires in September 2013, are largely funded through special funds in the fiscal 2014 allowance.

- In the fiscal 2014 allowance, PSC's turnover expectancy decreases slightly from 4.69 to 4.58%.

- As of December 31, 2012, PSC had 5.0 vacant positions, a vacancy rate of 3.6%. To meet its turnover expectancy, PSC must maintain 6.37 vacant positions in fiscal 2014. At its current level of vacancies, PSC may have difficulty meeting its turnover expectancy in fiscal 2014.

Analysis in Brief

Major Trends

General Administration: PSC substantially improved its performance in fiscal 2012 in the area of work items completed within 30 days primarily due to efforts to automate and streamline certain processes related to Solar Renewable Facility applications. In fiscal 2012, PSC's performance in the area of resolving consumer complaints within 60 days was unchanged from fiscal 2011, remaining below the agency's goal. PSC indicates that planned staffing changes, efforts to improve the intake process, and work with the utilities to streamline processes will improve resolution timeliness.

Hearing Examiners Division: In fiscal 2011, primarily as a result of a vacancy in the position of chief hearing examiner, timeliness in the issuance of orders in nontransportation and transportation matters fell below goals. In fiscal 2012, the division exceeded each goal, even reaching 100% of taxicab decisions issued within 30 days of the close of record. PSC attributes the improvement to filling the vacant position, along with the additional case management and oversight resulting from having a chief hearing examiner.

Issues

Grid Resiliency: Over the last several years, considerable concern has been expressed regarding electric utility reliability and restoration following storm damage. A June 2012 derecho drew attention once again to the vulnerability of the electric distribution system. Following that storm, Governor Martin J. O'Malley issued an executive order requesting recommendations on how to improve the resiliency of the electric distribution system. The Task Force on Grid Resiliency submitted a report containing 11 recommendations, including a recommendation to allow utilities to implement a surcharge for accelerated reliability improvements and another to change the current ratemaking process. Although some utilities have made requests to PSC consistent with the recommendations, PSC has not yet made a decision on whether to implement the recommendations.

Customer Investment Fund: PSC placed 40 conditions on the approval of the merger between Exelon Corporation and Constellation Energy Group, including requiring a $113.5 million contribution into a Customer Investment Fund (CIF). After receiving numerous proposals for the use of the funds, in November 2012, PSC announced the allocation of the funds. In total, $42.5 million is expected to flow through the State budget for use in building net-zero energy schools, improving energy efficiency for industrial and small business customers, improving energy efficiency of master metered multifamily housing, and improving energy efficiency in the homes of high energy users receiving energy assistance. Despite the allocation, the fiscal 2014 allowance does not include any funds from the CIF.

Electric Universal Service Program Ratepayer Surcharge Collections Continue to Exceed Authorized Levels: In each of the last four fiscal years, collections of the Electric Universal Service program ratepayer surcharge exceeded the level allowed in statute, $37 million. In fact, the difference between actual collections and the level allowed statutorily has grown in each year. PSC is responsible for implementing the surcharge and monitoring collections. During the 2012 session, PSC indicated it would address the overcollection issue during the year. PSC is considering the issue as part of an ongoing comprehensive review of Maryland energy assistance programs.

Recommended Actions

1. Adopt committee narrative requesting a report on the status or outcome of the PSC review of Maryland's energy assistance programs.

Updates

Investigations of Illegal Carriers: The 2012 *Joint Chairmen's Report* included committee narrative requesting that PSC provide information on the process for investigating individuals operating passenger for-hire vehicles and taxicabs without authority, enforcement actions, and staffing levels to conduct these activities. PSC recommended an additional three common carrier investigators and the purchase of equipment that would allow for secure real time data transmission by investigators. The fiscal 2014 allowance does not include funding to support the implementation of the recommendations.

Examination of Power Purchasing Agreements: After a multi-year examination, in April 2012, PSC ordered Baltimore Gas and Electric, Potomac Electric Power Company, and Delmarva Power and Light to enter into an agreement for the output of a natural gas-fired electric generation plant by CPV Maryland, Inc. in Charles County. The parties and PSC continue to work on the specifics of the agreement, which has not been signed as of this writing.

Operating Budget Analysis

Program Description

The Public Service Commission (PSC) regulates natural gas, electric, energy suppliers, telephone, water, sewage disposal, and certain passenger transportation companies doing business in Maryland. PSC is authorized to hear and decide matters relating to (1) rate adjustments; (2) applications to exercise franchises; (3) acquisition of one public service company by another or authorization to exercise substantial influence over the policies and actions of a public service company providing electric or natural gas service; (4) approval of the issuance of securities; (5) promulgation of new rules and regulations; (6) quality of utility and common carrier service; and (7) issuance of Certificates of Public Convenience and Necessity. PSC sets utility rates, collects and maintains records and reports of public service companies, reviews plans for service, inspects equipment, audits financial records, handles consumer complaints, promulgates and enforces rules and regulations, defends its decisions on appeal to State courts, and intervenes in relevant cases before federal regulatory commissions and federal courts. PSC is primarily funded by special funds obtained through assessments on public service companies. PSC's key goals are:

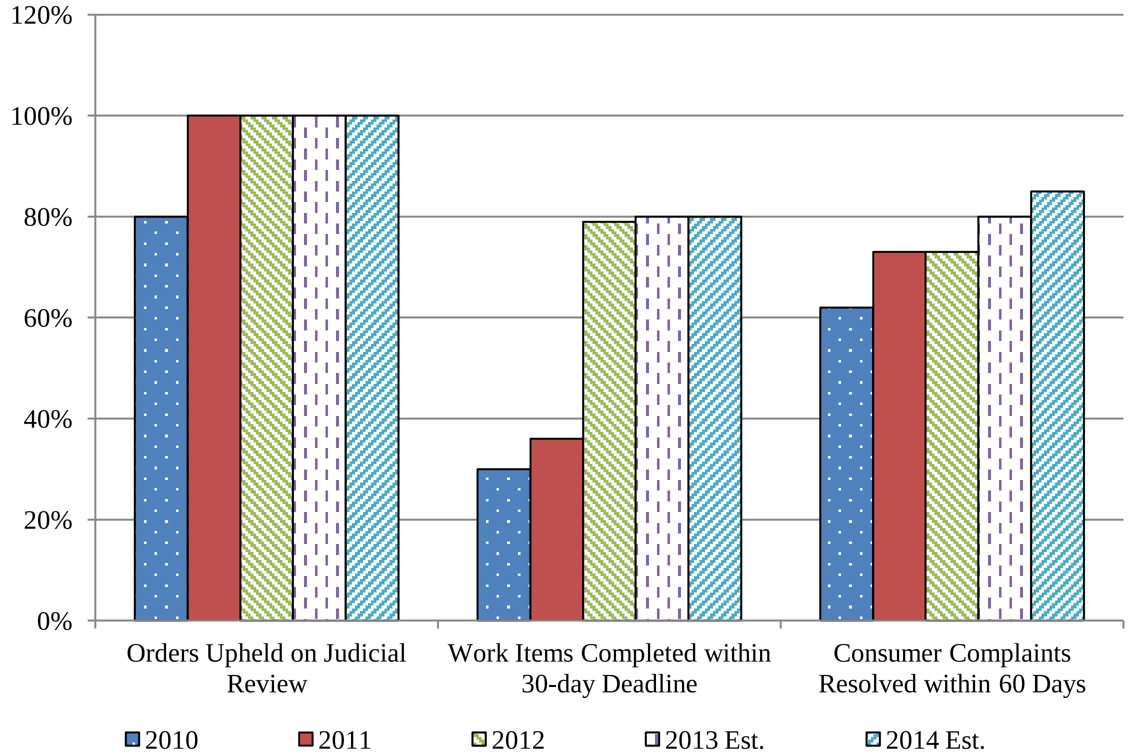
- to ensure that gas and electric utility companies operate utility systems safely;
- to ensure that public service companies deliver reliable services;
- to conduct open and fair proceedings and render timely decisions in accordance with statutory mandates and applicable law;
- to ensure that all Maryland consumers have adequate consumer protection; and
- to ensure that EmPower Maryland programs submitted by electric utilities are thoroughly reviewed, evaluated, and approved consistent with Section 7-211 of the Public Utilities Article.

Performance Analysis: Managing for Results

1. General Administration

As shown in **Exhibit 1**, PSC experienced a substantial increase (43 percentage points) in the percent of work items completed within the 30-day deadline in fiscal 2012 compared to the prior year. Due to this improvement, PSC nearly reached its goal of completing 80% of these items within

Exhibit 1
Administration
Fiscal 2010-2014 Est.



Source: Public Service Commission; Governor's Budget Books

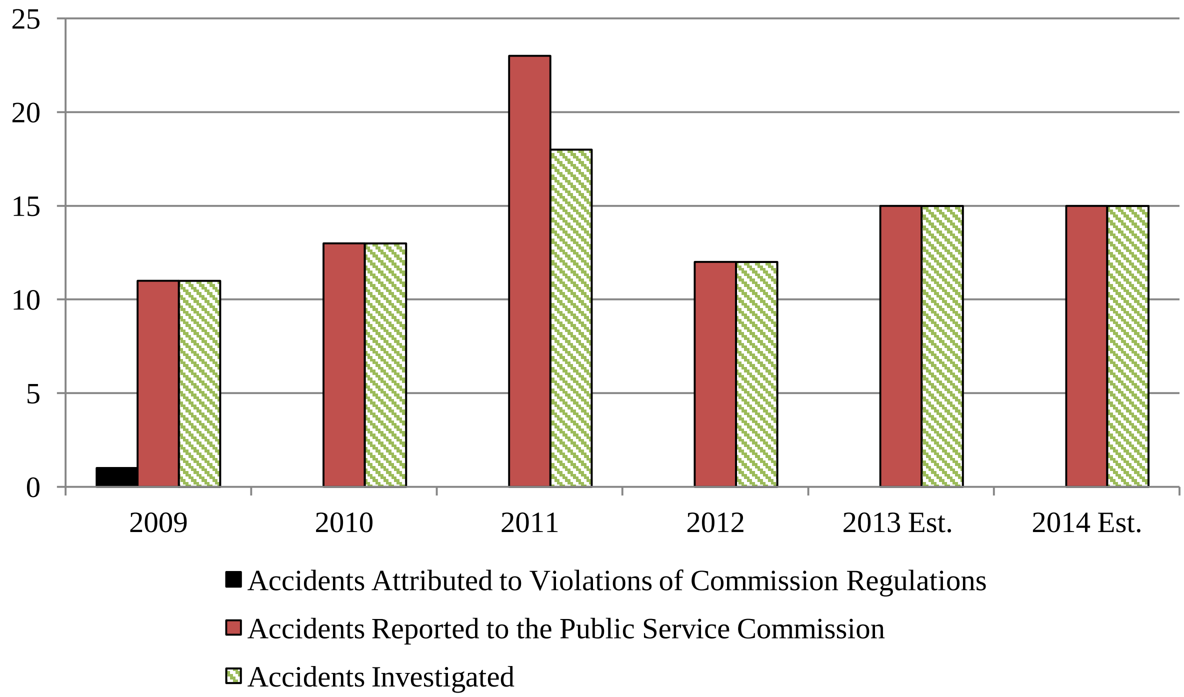
the deadline. PSC was able to improve performance in this area despite an increase of 25% in the number of items subject to the 30-day deadline. PSC attributes these improvements to efforts it began in fiscal 2012 to automate and streamline processes related to the numerous Solar Renewable Energy Facility applications it receives.

After improving performance in fiscal 2011, PSC's resolution of consumer complaints within 60 days remained stable at 73% in fiscal 2012, below its goal of 80%, as shown in Exhibit 1. PSC indicates it has reassigned two employees in the Office of External Relations to assist in the handling of investigations of consumer complaints. The Office of External Relations is also encouraging customers to submit complaints in writing to improve the efficiency of the intake process. Finally, PSC is working with utilities to streamline processes that will allow for quicker investigations and case resolution. **PSC should comment on the impact on customers that result from the delays in dispute resolution.**

2. Engineering Investigations Division

After failing in fiscal 2011 to investigate all reported accidents for the first time in recent history, the Engineering Investigations Division was again able to complete investigations of all reported accidents in fiscal 2012, as shown in **Exhibit 2**. PSC attributed the lower level of accidents investigated in fiscal 2011 to a vacant position, although it is notable that the number of accidents reported in that year was markedly higher than all other recent years.

Exhibit 2
Engineering Investigations Division
Fiscal 2009-2014 Est.

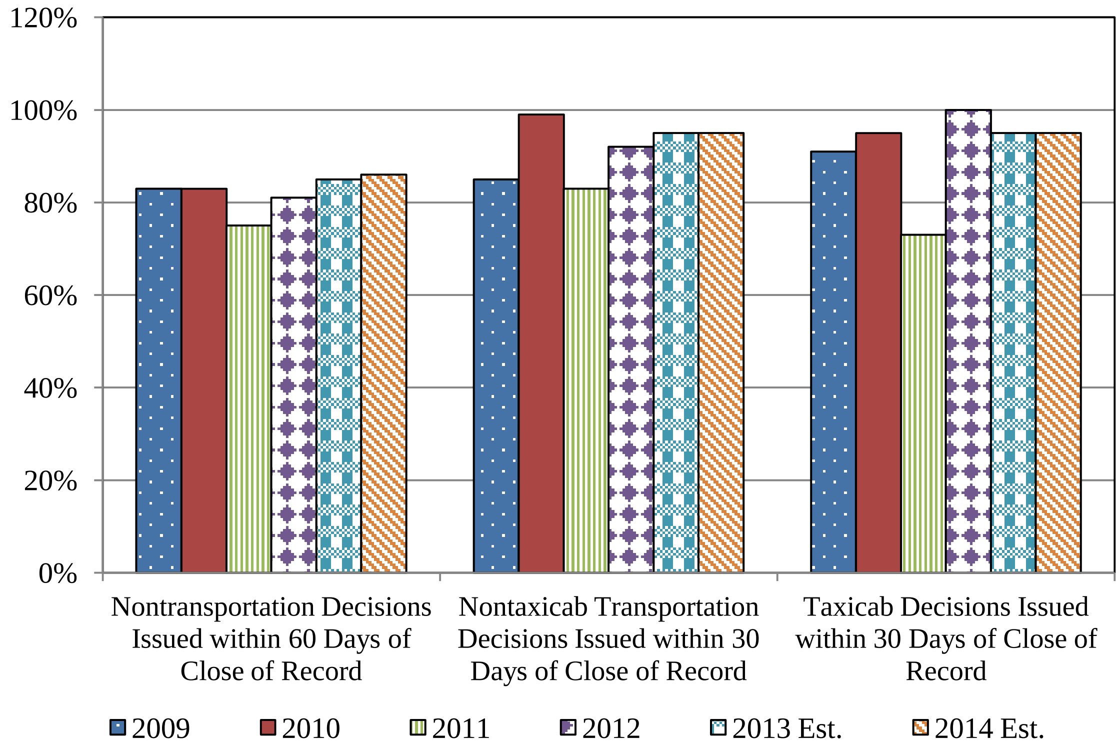


Source: Public Service Commission; Governor's Budget Books

3. Hearing Examiners Division

The Hearing Examiner Division has a goal of issuing 80% of decisions in nontransportation matters within 60 days of the close of record and 90% of decisions in transportation matters within 30 days of the close of record. As shown in **Exhibit 3**, after performance fell below the goals in each of the three measures in fiscal 2011, the Hearing Examiners Division was, once again, able to exceed

Exhibit 3
Hearing Examiner Division
Fiscal 2009-2014 Est.



Source: Public Service Commission; Governor's Budget Books

its goals in fiscal 2012. In fiscal 2012, the division issued 100% of taxicab decisions within 30 days of the close of record. The division's timeliness difficulty in fiscal 2011 was influenced by increased workloads due to a reduction in the number of hearing examiners (in particular the chief hearing examiner), an increased workload for administrative assistants that prepare the final orders, and an increased complexity of issues under review. PSC indicates the improvements in fiscal 2012 are the result of filling the vacant chief hearing examiner position, which has also allowed for greater case management and improved oversight of the timeliness of orders.

Proposed Budget

As shown in **Exhibit 4**, PSC's fiscal 2014 allowance increases by $356,226, or 2.1%, compared to the fiscal 2013 working appropriation, after accounting for a back of the bill reduction in health insurance due to favorable cost trends. An increase of $512,253 in special funds is partially offset by a decrease of $156,027 in federal funds.

Exhibit 4
Proposed Budget
Public Service Commission
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
2013 Working Appropriation	$16,022	$581	$16,603
2014 Allowance	16,552	425	16,977
Amount Change	$530	-$156	$374
Percent Change	3.3%	-26.8%	2.3%
Contingent Reductions	-$17	$0	-$18
Adjusted Change	$512	-$156	$356
Adjusted Percent Change	3.2%	-26.9%	2.1%

Where It Goes:

Personnel Expenses	
Employee retirement	$238
Employee and retiree health insurance net of a back of the bill reduction due to favorable cost trends	115
Annualization of the fiscal 2013 cost-of-living adjustment	113
Turnover adjustments including reduction in turnover expectancy from 4.69 to 4.58%	15
Unemployment compensation	-1
Social Security contributions	-19
Workers' compensation	-47
Regular earnings largely due to returning vacant positions to base salary amounts	-274
Cost Allocations	
Department of Information Technology services allocation and Annapolis Data Center charge	2
Retirement administrative fee	1
Department of Budget and Management paid telecommunications	-1
Statewide personnel system allocation	-9

Where It Goes:	
Other Changes	
Consultant services	220
Use of special funds in lieu of American Recovery and Reinvestment Act of 2009 (ARRA) funds that are no longer available after September 2013 to support 4 contractual full-time equivalents and postage	197
Rent paid to the Department of General Services	26
Information technology supplies to align with recent experience	12
Software licenses to align with recent experience	11
Legal services contracts to align with recent experience	5
Washington Metropolitan Area Transit Commission	3
One call/Miss Utility underground safety program due to lack of projects	-15
ARRA available until September 30, 2013, to support contractual full-time equivalents, communications, travel, and supplies	-245
Other	8
Total	**$356**

Note: Numbers may not sum to total due to rounding.

Federal American Recovery and Reinvestment Act Grant

PSC received a three-year State Electricity Regulator Assistance grant from the American Recovery and Reinvestment Act of 2009 (ARRA) totaling $893,591. These grants were provided to state public utility assistance commissions to provide funding for new staff and training for existing staff to enhance the ability of the commissions to review electricity projects, expected as a result of other ARRA funding, in a timely and effective manner. The grant was available in the PSC budget from fiscal 2010 to 2014. The grant expires September 30, 2013. As a result of the availability of these funds for only one quarter, PSC's fiscal 2014 allowance decreases by $244,725 primarily in the areas of contractual employee payroll and travel.

PSC's use of special funds has increased in some areas to allow certain activities to continue without the ARRA grant funds. For example, PSC will retain four contractual full-time equivalents (FTE) created with the availability of ARRA funds; however, PSC will use special funds to support the associated payroll after the expiration of the ARRA (an increase of $169,877). Similarly, PSC's fiscal 2014 allowance includes an increase of special funds for postage, $26,969, because ARRA funds budgeted for this activity in fiscal 2013 are not available at that level in fiscal 2014. Overall, special funds are replacing approximately 80% of the expired federal funds.

Federal Pipeline Safety Program

PSC receives federal funds from the federal Office of Pipeline Safety to support activities in the Engineering Investigations Division. The federal reimbursement rate is not always known prior to the development of the budget. PSC's fiscal 2013 working appropriation assumed a reimbursement rate of 40%. However, the actual fiscal 2012 reimbursement rate was 58%. The fiscal 2014 allowance assumes the fiscal 2012 experience will continue and, in combination with overall changes in funding levels, fewer special funds (a decrease of $31,352) and more federal funds (an increase of $111,330) are used for activities in the Engineering Investigations Division in fiscal 2014 than in fiscal 2013.

PSC has also in recent years received a reimbursement for indirect expenses associated with the federal Office of Pipeline Safety Program funds; the amount has varied, but in two of the last three years of actual expenditures, this amount was $57,479. Beginning in calendar 2013, the federal Office of Pipeline Safety will require an approved indirect cost rate to be in place prior to the reimbursement for these types of activities. PSC is in the process of completing a proposal for an indirect cost rate, but without an actual approval, the fiscal 2014 allowance does not assume federal funds will be available to support these indirect expenses.

Personnel

Personnel expenditures increase by $140,099 in the fiscal 2014 allowance. Increases in personnel largely result from employee retirement ($238,235), employee and retiree health insurance ($114,789), and the annualization of the cost-of-living adjustment (COLA) provided to State employees in January 2013 ($113,101). The contribution rate for the regular employees' pension plan increases in fiscal 2014. The rate increase is attributable to underattaining investment returns, adjusting actuarial assumptions, and increasing the reinvestment of savings achieved in the 2011 pension reform.

These increases are partially offset by decreases in other personnel expenditures. The largest of these decreases ($273,757) occurs in regular earnings due to positions that returned to the base salary upon vacancy.

Consultant Services

Annually, PSC requires the services of consultants to assist in investigation of cases before PSC, which are often driven by activity outside of PSC, such as filings by utilities. In recent years, consultants have participated in cases such as the transactions between Exelon Corporation and Constellation Energy Group and between FirstEnergy Corp. and Allegheny Energy, Inc., as well as the review of whether to require the electric utilities to enter into long-term power purchase agreements for new generation. PSC has also used consultants in its work before the Federal Energy Regulatory Commission to protect Maryland ratepayer interests.

PSC's expenditures in this area in fiscal 2012 were $3.6 million. The fiscal 2014 allowance includes $1.2 million for consultant services, an increase of $220,476, net of the reduction for the One Call/Miss Utility program, compared to the fiscal 2013 working appropriation. Although more closely reflecting recent expenditures than the fiscal 2013 working appropriation, the allowance is well below the amount spent in recent years (an average of $2.2 million).

Offshore Wind

The Maryland Offshore Wind Energy Act of 2013 (SB 275/HB 226) would require PSC to contract with independent consultants to evaluate a proposed offshore wind project and calculate the net benefits of an offshore wind project to the State. Uncodified language in Section 4 of the bill would allow $3 million ($1 million in fiscal 2014 and $2 million in fiscal 2015) from the offshore wind contribution required as a condition of the approval of the merger between Exelon Corporation and Constellation Energy Group to be transferred to PSC to be used for the required independent consultants. The fiscal 2014 allowance does not include this transfer. The section also authorizes a special assessment of the electric utility companies of no more than $3 million (less the cumulative amounts transferred) for this purpose.

Uncodified language in Section 5 of the bill authorizes PSC to employ staff and recover administrative costs through a special assessment necessary to implement the bill in each year for which the offshore wind renewable energy credit obligation exists to meet the renewable portfolio standard, likely beginning in fiscal 2017.

Issues

1. Grid Resiliency

In the last several years, a high level of attention has been directed at electric service quality and reliability issues at PSC and in the General Assembly due to several extreme weather events, including a series of severe summer storms in 2010, two tropical systems, and a derecho (a form of wind storm) in 2012. The initial focus of attention was on the Potomac Electric Power Company (Pepco) after extended outages following the summer storms in 2010. The attention led to a review of Pepco's reliability issues more broadly and ultimately led to, among other actions, a civil penalty of $1 million.

The General Assembly has also taken action to improve service quality and reliability. The resulting legislation (Chapters 167 and 168 of 2011) required PSC to adopt regulations to implement service quality and reliability standards, in particular as it relates to service interruption, downed wire response, customer communications, vegetation management, periodic equipment inspections, and annual reliability reporting. As required by the legislation, PSC established requirements focused on both the length and frequency of power outages in electric utility distribution systems. The initial requirements were set for the years 2012 to 2015 and are designed to tighten in each year. Requirements after this initial period were to be determined at a later date. Utilities are required to report their performance annually on these and other measures. These standards became effective in May 2012.

Following the 2012 derecho event, which caused widespread and long lasting power outages during a heat wave, Governor O'Malley issued an executive order requiring the Governor's Energy Advisor, in collaboration with the Maryland Energy Administration (MEA), the Department of Natural Resources Power Plant Research Program, the Maryland Emergency Management Administration, and staff of PSC to solicit input and recommendations from experts on issues relating to:

- the effectiveness and feasibility of selective undergrounding of supply and distribution lines;
- options for infrastructure investments to strengthen the grid and improve resiliency of the electric distribution system; and
- options for financing and cost recovery of capital investments to the electric distribution system.

The group held eight public roundtable discussions with experts in various topics in August and September 2012. The recommendations (contained in the report *Weathering the Storm: Report of the Grid Resiliency Task Force*) were submitted to Governor O'Malley on September 24, 2012.

Task Force Recommendations

The Grid Resiliency Task Force defined reliability as electric distribution during normal conditions and resiliency as the ability of the electric distribution system to withstand stress. The task force focused the recommendations on widespread outages from severe weather events, rather than normal conditions. In total, the task force made 11 recommendations, which in general do not appear to require legislative action to implement. The task force stated that the recommendations would work best if implemented in full. The recommendations included items for further study, such as:

- tasking the Energy Future Coalition to develop a pilot proposal for a system that would allow the utility industry to adapt to rapidly changing environments;
- determining a cost effective level of resiliency investment for various customer classes (*i.e.*, what level of investment are customers willing to pay for);
- reviewing utility staffing levels, including mutual aid, the age of the utility workforce, and related issues (such as retention and training of new workers); and
- reviewing vegetation management regulations and practices.

Several recommendations of the task force related to enhancing the standards developed by the PSC as a result of Chapters 167 and 168 of 2011; these recommendations were to:

- improve major storm reporting requirements;
- create additional reliability standards that include major storms and limit major storm exclusions from existing standards;
- strengthen standards related to the poorest performing feeders;
- accelerate the reliability investments into a shorter timeframe; and
- allow the utilities to establish a "tracker" (essentially a surcharge on bills) for the incremental cost of accelerating the reliability investments beyond the level set in the regulations.

The recommended tracker would allow the utilities to begin recovering the costs of the enhanced investments immediately, rather than waiting for the conclusion of a distribution rate case proceeding. The current distribution ratemaking process extends for six months and involves the review of costs eligible for recovery, the appropriate rate of return, and investments eligible for the rate of return. The task force also recommended altering the current ratemaking process to allow PSC to reward utilities for exceeding reliability requirements and penalize those who fail to meet the requirements through its rate of return.

The remaining recommendations focused on emergency management, preparation, and information sharing including efforts to increase participation in special needs customer lists and sharing of special needs customer lists between the utilities and emergency management agencies.

Status of Implementation

As of this writing, PSC is still in the process of deciding whether to implement the recommendations; the decision is expected to occur through a proceeding arising from the 2012 derecho event. However, some recent utility requests are related to these recommendations.

In late October 2012, prior to the impacts of Hurricane Sandy, Baltimore Gas and Electric (BGE) requested PSC decide whether BGE could share data with State officials on customer outages and the individuals on the special needs customer lists. PSC decided that, for outage restoration purposes only related to Hurricane Sandy (or its related storms), utilities were authorized to disclose certain information (including whether the customer is designated as special needs) about customers experiencing an outage. The information was to be treated as confidential, used only for official government purposes related to the storm, distributed only to those requiring access, and destroyed within 10 calendar days following completion of the storm restoration in the jurisdiction. However, the utilities were not authorized to provide the information if they knew or should know of a customer's intent that the information not be shared. This decision does not apply to any future outage events.

In November 2012, Pepco filed an application for a distribution rate increase, which included a proposal for a grid resiliency surcharge as recommended in the task force report. Pepco proposed improving additional feeders, accelerating its tree trimming schedule, and undergrounding six distribution feeders with the surcharge, activities which are beyond those it has planned to meet the reliability standards. Pepco also committed to specific improvements in its reliability performance as part of this proposal, with a $1 million incentive if it met the performance targets and a $1 million ratepayer credit if it failed to meet a certain level of performance. A decision on the rate increase proposal is not expected until June 2013. **PSC should comment on its anticipated timeline for a decision on whether to implement any or all of the task force recommendations.**

2. Customer Investment Fund

On February 17, 2012, PSC approved the merger of Exelon Corporation and Constellation Energy Group with 40 conditions including a condition that requires a $113.5 million contribution, in three equal annual installments, to a Customer Investment Fund (CIF). PSC explained that it would determine the allocation of the CIF at a later date and intended these funds to be directed in ways to provide short- and long-term benefits with the goal of creating a "meaningful and lasting impact on BGE's customer base and the community at large." Specifically, PSC planned to direct the funds to the following types of projects:

- low-income energy assistance;
- low-income energy efficiency and weatherization projects;
- zero-interest and low-interest financing for residential and commercial energy efficiency and conservation projects;
- targeted business energy efficiency programs; and
- other innovative energy efficiency programs that seek to remove barriers to technology adoption and energy use behavior.

PSC issued a request for proposals (RFP) for the use of the CIF. PSC received proposals from 19 parties including MEA/State of Maryland, BGE, Baltimore City, Baltimore County, the Office of People's Counsel, the Maryland Clean Energy Center, and a variety of other organizations.

Although the contribution was only initially required to be $113.5 million, a small amount of additional funds are now available to the CIF. An additional $151,380 is available to the CIF from Maryland's share of the required Exelon restitution for an inadvertent violation of market power mitigations commitments from the merger.

Due to the uncertainty surrounding how these funds (and other required contributions included as conditions of the merger) would be used, Section 17 of the Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the First Special Session of 2012) requires that funds from the merger be expended only as authorized through the General Assembly or through the State budget bill, except that, for fiscal 2013 only, funds could be transferred by budget amendment with review and approval of the Legislative Policy Committee and budget committees.

Fund Allocation

On November 8, 2012, PSC announced the allocation of the CIF. Not all of the allocation is available for use by State agencies. The largest share of the CIF is allocated to Baltimore City ($52.9 million) to be used primarily for a comprehensive set of energy assistance, energy efficiency, and case management activities. Some of these funds will also be used to support costs associated with constructing cogeneration plants at some Baltimore water facilities (reducing energy consumption and ensuring uninterrupted power during outage events), and to mitigate the urban heat island effect by planting trees and installing "cool roofs." The funding for Baltimore City included $19.8 million for a program designed to complement existing weatherization and EmPower Maryland programs to address health and safety concerns, shell improvements, lead abatements, roofing, heating improvements, and weatherization activities for low-income residential customers. BGE will receive $902,492 for administrative costs associated with implementation of the various allocations. Other CIF allocations will be used to support local government and nonprofit organization projects for:

- program expansion for the Fuel Fund of Maryland including increased energy assistance benefits, more office locations, a streamlined application process, expanded energy education, and development of a quasi-endowment fund ($14.9 million);

- development of a revolving energy home improvement loan fund with zero interest financing in certain areas of Baltimore City and Baltimore County by Comprehensive Housing Assistance, Inc. ($2.0 million); and

- energy efficiency upgrades in homes in Dundalk through the Baltimore County government ($350,000).

PSC funded $42.5 million of the MEA/State of Maryland's proposed use of the full complement of the CIF. The programs and funding that will be available to State agencies support:

- an energy efficiency program targeting high energy users receiving Electric Universal Service Program (EUSP) benefits and addressing lead paint, mold, roofing, structural issues, furnaces, and weatherization activities for areas outside of Baltimore City as a companion to the Baltimore City program ($19.0 million);

- a program targeting top tier property management companies with energy audits and energy loans for master metered multifamily affordable housing ($9.0 million);

- a program funding the incremental costs of energy efficiency upgrades and renewable energy systems at three to five new net-zero energy schools in the next three years ($9.0 million);

- an industrial sector energy efficiency program focused on creating self-directed "green teams" which will prioritize and strategize energy efficiency investments ($3.0 million); and

- a supplement to BGE's Small Business Energy Solutions program that funds advances for the 20% of the energy efficiency upgrades not funded by BGE's program, with advances repaid through a recovery charge ($2.5 million).

Based on the initial proposal, the Department of Housing and Community Development (DHCD) will serve as the lead agency for the programs targeted toward low-income households and mastered metered buildings ($28.0 million), and MEA will serve as the lead agency on the remaining programs ($14.5 million); however, BGE may actually administer the small business program. MEA will work with the Public School Program on the net-zero energy schools program. PSC specifically stated that funding provided to the State through the CIF is not to be used to offset State budgetary shortfalls.

Next Steps

Organizations receiving funding through the CIF are expected to spend funds only at the levels authorized for each program. PSC explained that, if an organization overspends its program authorization or mismanages the CIF, PSC could require repayment of the funds. PSC initially planned to issue an RFP for an organization to administer the CIF, but indicated, recently, it is evaluating the most cost effective method of administering the CIF. As a result, PSC has not issued an RFP.

CIF recipients are required to develop metrics to evaluate the programs and each year the recipients will be required to report on program expenditures and program metrics. The reporting requirements continue until the original funds are fully depleted. Organizations receiving funds are to work with PSC staff on a proposed funding schedule for each program and the amount of the first allocation of program funds by February 1, 2013. The proposed funding schedule has not been submitted as of this writing. None of the State agencies receiving funds through the CIF allocation (MEA, DHCD, or Public School Construction) have the CIF in the fiscal 2014 allowance to support the programs. **In light of this and the lack of budget amendments to provide CIF in fiscal 2013, the Department of Legislative Services (DLS) recommends funds provided in fiscal 2013 be made available through a deficiency appropriation rather than a budget amendment. PSC should comment on when it expects that State agencies will begin spending the CIF.**

3. Electric Universal Service Program Ratepayer Surcharge Collections Continue to Exceed Authorized Levels

Section 7-512.1(e) of the Public Utilities Article states that the total amount of funds to be collected for EUSP each year shall be $37.0 million and allocates these collections between customer classes ($27.4 million from commercial and industrial classes and $9.6 million from residential classes). PSC is responsible for establishing the mechanism for collections and monitoring the collections to ensure that the proper amount is being collected and the amount being collected does not exceed the amount allowed under the law. The current residential ratepayer surcharge for this program is $0.37 per month. The surcharge varies among the classes of commercial and industrial customers based on historic usage.

Despite PSC's monitoring of collections in recent years, the amount collected from the EUSP ratepayer surcharge has exceeded the authorized level of collections by:

- $1.16 million in fiscal 2009;
- $1.81 million in fiscal 2010;
- $2.04 million in fiscal 2011; and
- $2.75 million in fiscal 2012.

By fiscal 2014, PSC projects that EUSP overcollections will reach $4.56 million. The majority of the overcollections have occurred among the commercial and industrial classes. PSC previously attributed these overcollections to the structure of the charge for these classes. By statute, the charges cannot be based on kilowatt hour usage.

The increased availability of funding from overcollections has encouraged the Department of Human Resources (DHR) Office of Home Energy Programs (OHEP), which implements EUSP, to count on those additional revenues as part of its budget. DHR's fiscal 2013 budget includes $38.7 million of EUSP, $1.7 million more than the authorized level of collections. A portion of the appropriation is related to refunds that it anticipates each year, but DHR indicated that a portion is due to anticipated overcollections. DHR's fiscal 2014 allowance includes EUSP funds which exceed the $37.0 million authorized by approximately $3.2 million, or 8.6%.

During the 2012 session, PSC indicated that the agency decided to wait for OHEP to submit a plan for long-term funding sustainability requested in the 2011 *Joint Chairmen's Report* (JCR) to make an adjustment to the surcharge. PSC indicated the agency believed it was better to overcollect than undercollect. However, PSC indicated that it would address the issue in the coming year. PSC recently stated this issue would be reviewed as part of the overall funding in its review of the energy assistance programs more broadly. The timeline for final action in this review is unclear.

The DLS understands PSC's preference for overcollecting EUSP funds rather than undercollecting given the funding uncertainty for OHEP in recent years. However, allowing collections to exceed, by an ever increasing amount, the level that is authorized in statute is concerning. The General Assembly established a level of funding, which in the absence of a change by the General Assembly, should be followed. **DLS recommends committee narrative requesting the status or outcome of the PSC's review of the energy assistance programs including a discussion of the steps PSC plans to take to limit collections to the authorized level of the EUSP ratepayer surcharge.**

Recommended Actions

1. Adopt the following narrative:

   ***Outcome of the Review of Energy Assistance Programs*:** The Public Service Commission (PSC) began a comprehensive review of Maryland's energy assistance programs in calendar 2012. The review is expected to include the overall funding level of the programs including the Electric Universal Service Program (EUSP), which will factor into the ratepayer surcharge paid by customers for EUSP. PSC indicates that the issue of the recent overcollections of the EUSP surcharge will be part of this review. The budget committees request that PSC submit a report on the status or outcome of the review. The report should include steps that the PSC plans to take to limit overcollections of the EUSP surcharge or any customer surcharge that results from an alternative energy assistance program proposed through the review.

Information Request	**Author**	**Due Date**
Outcome of the review of energy assistance programs in Maryland	PSC	December 15, 2013

Updates

1. Investigations of Illegal Carriers

Concerns arose during the 2012 session that PSC did not have adequate staff to undertake enforcement against operators of taxicabs or limousines operating without a license. As a result, committee narrative in the 2012 JCR requested that PSC provide information on the current process for addressing individuals operating without a license, enforcement actions used in these cases, current staffing for investigating and hearing matters related to these cases, and the number of staff necessary to investigate and hear these matters. PSC submitted a response on October 22, 2012.

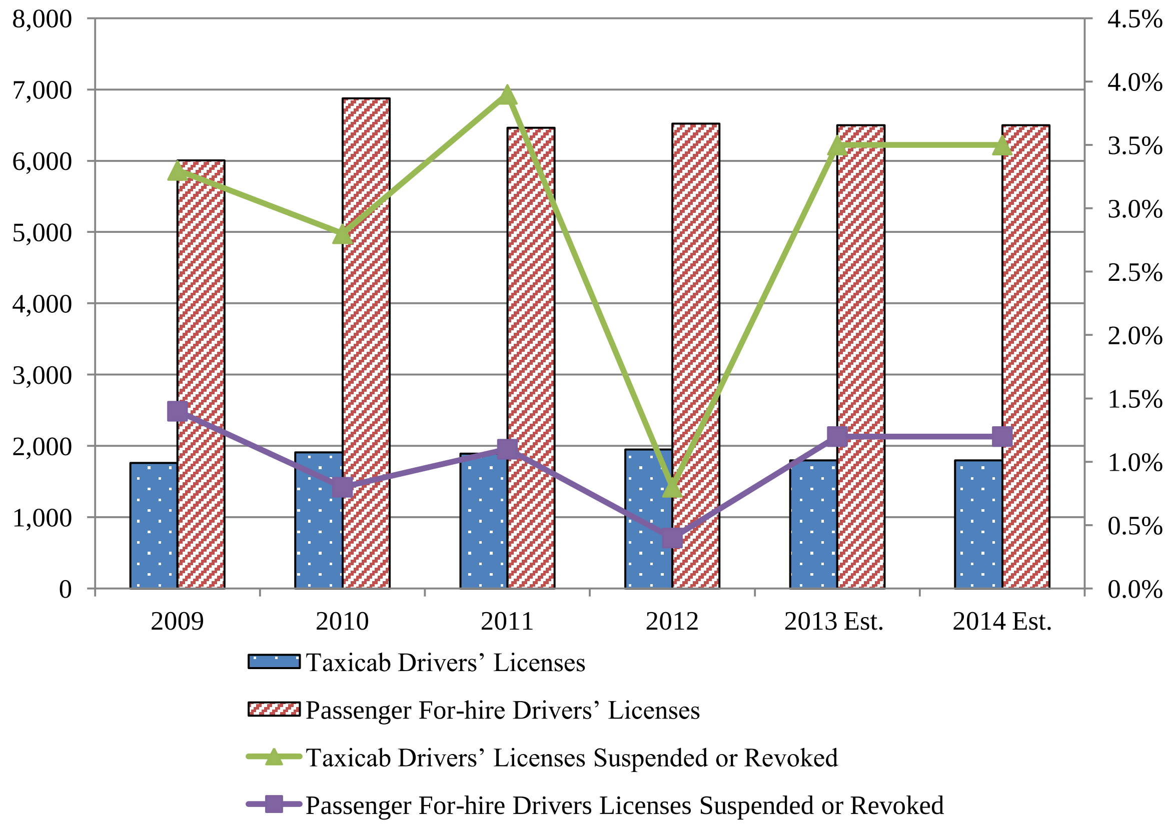
Background

PSC oversees most motor vehicle intrastate for-hire passenger carriers and taxicabs (in Baltimore City, Baltimore County, Cumberland, and Hagerstown only) and is responsible for the safety of the vehicles; fitness of new applicants for operating authority and for-hire driver's licenses; and monitoring compliance with rules including liability insurance coverage, rates, driving records, criminal records, and immigration documents. PSC is also responsible for licensing taxicab drivers in Baltimore City, Cumberland, Hagerstown, and passenger for-hire drivers operating vehicles that carry 15 or fewer passengers. Under Section 10-112 of the Public Utilities Article, PSC is authorized to make an assessment on permits for for-hire driving services to be used for enforcement activities related to taxicabs, limousines, and sedan services.

As shown in **Exhibit 5**, the number of taxicab and passenger for-hire driver's licenses fluctuates within relatively small ranges (between 1,700 and 2,000 taxicab drivers' licenses and between 6,000 and 7,000 passenger for-hire driver's licenses). The number of licenses suspended or revoked generally hovers around 3% for taxicab drivers' licenses and around 1% for passenger for-hire driver's licenses. In fiscal 2012, both areas decreased to below historic levels due to a decrease in notifications of suspensions or revocations from the Motor Vehicle Administration (MVA). PSC indicates a new process for notification is expected to return the figures to historic levels.

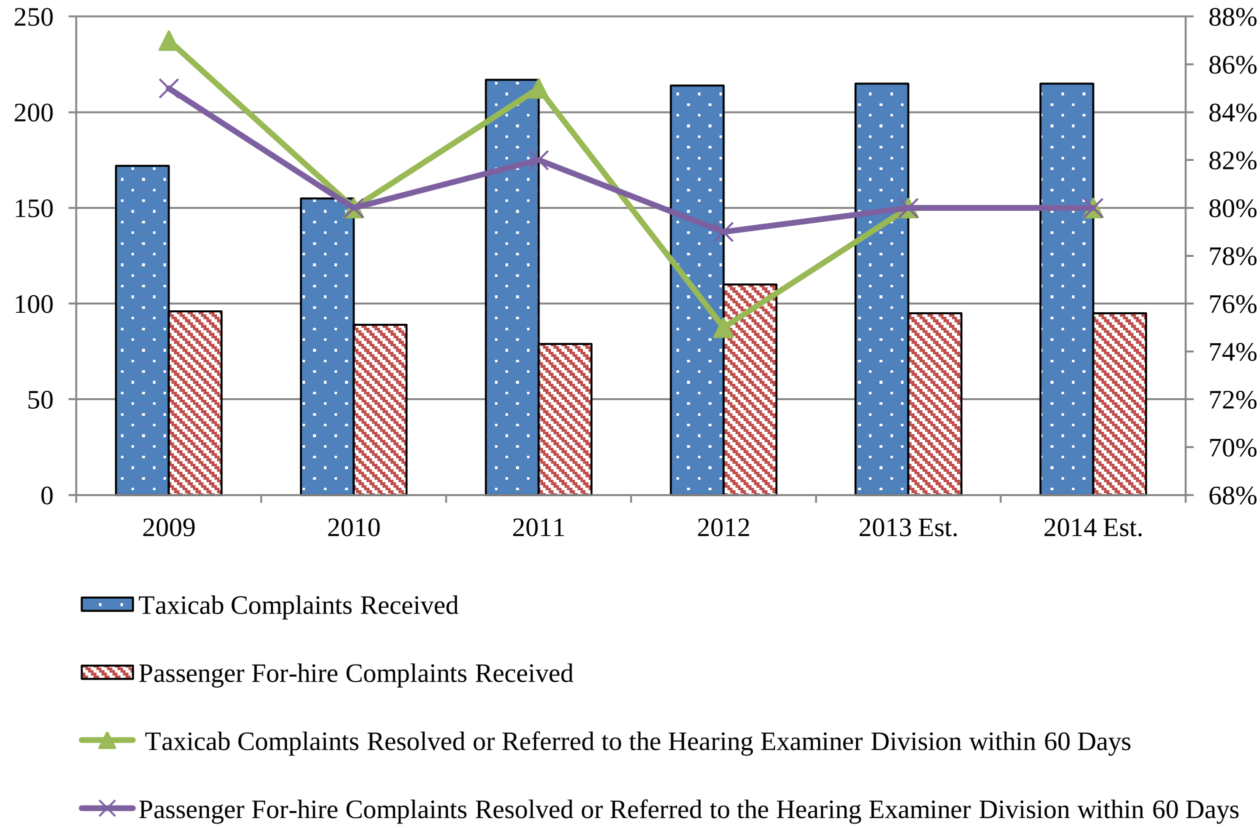
As shown in **Exhibit 6**, although PSC was able to improve the timeliness of its resolution or referrals in fiscal 2011, the division's performance fell below its goals in fiscal 2012. PSC noted that this decrease is largely the result of factors outside of the PSC control, such as the lack of billing documentation or contracts. PSC reports that processing these complaints often requires written and other communication regarding the complaint.

Exhibit 5
Common Carriers Drivers' License Activity
Fiscal 2009-2014 Est.



Source: Public Service Commission; Governor's Budget Books

Exhibit 6
Common Carriers Complaint Resolution
Fiscal 2009-2014 Est.



Source: Public Service Commission; Governor's Budget Books

Current Processes for Investigations and Enforcement

PSC takes a number of actions to ensure operators have a license and are following regulations including:

- observing and monitoring driver behavior;
- interviewing drivers, dispatchers, and passengers;
- reviewing advertisements; and
- determining if vehicles are properly registered and have been inspected.

If companies or individuals have been identified as operating without PSC authority, a formal investigation is launched, and the vehicle tags and MVA records are searched. If the individual is found to be operating without authority, PSC sends a letter advising the individual or carrier of the requirements and the penalties for continuing to operate illegally. If the individual does not respond, a notice is sent to MVA to flag the vehicle registration tags to prevent renewal or additional registration by the same individual or company and the matter is referred for further action. Additional letters, suspension of the vehicle registration tags, and movement of the matter into the court system may occur later in the process. PSC may also issue civil penalties or revoke the operating authority for safety violations.

Current Staffing

PSC explained that it currently has 3 field investigators in this area, which are funded through the For-Hire Enforcement Fund. The investigators, on a rotating basis, cover the various areas of the State. Additional enforcement is initiated through reports from the public, government officials, law enforcement, and the industry. PSC has 4 full-time hearing examiners and a part-time license hearing officer. The license hearing officer hears 3 to 6 transportation cases each Wednesday. Each hearing examiner hears 6 to 10 transportation issues a month.

Recommendations

PSC noted that it has a sufficient number of hearing examiners plus the license hearing officer to hear all transportation matters that come before the agency. Performance data supports this, as shown in Exhibit 3 and, with the exception of fiscal 2011, taxicab decisions were issued timely more than 90% of the time between fiscal 2009 and 2012, and nontaxicab transportation decisions were issued timely 85% or more of the time in those years.

PSC stated that 3 additional investigators would improve its enforcement activities. PSC explained that the 3 investigators could be dedicated to (1) Baltimore City including the port and hotels; (2) cyber investigations and supplementing night time enforcement activities of investigators; and (3) enforcement related to limousines and for-hire sedans as well as supplementing coverage in other areas. PSC later indicated that if it were to have the 3 additional investigators, the investigators would be contractual FTE and the total salary cost would be $128,000. PSC would also need, for each investigator, to purchase a vehicle ($14,000 each) or provide for reimbursement of expenses ($8,250 each).

PSC also explained that equipping field investigators and inspectors with laptops that have equipment to allow for secure real time transmission of data would further improve enforcement. The cost for the recommended additional equipment would be $5,900 with annual charges of $5,000. The fiscal 2014 allowance does not include funds for either additional investigators or equipment.

2. Examination of Power Purchasing Agreements

In July 2009, CPV Maryland, LLC (CPV) filed a motion requesting that PSC order one or more investor-owned utilities to enter into a 20-year power purchase agreement with CPV for the output of a planned new combined cycle natural gas-fired facility. In the filing, CPV claimed that under current conditions, financing for new generation cannot occur without a long-term agreement.

As a result, PSC undertook an examination of whether it should exercise its statutory authority provided in Section 7-510 of the Public Utilities Article to issue an order requiring investor-owned utilities to procure Standard Offer Service through bilateral contracts and to require investor-owned utilities to build, acquire, lease, or operate new generation facilities. In the initial announcement, PSC requested that those interested in proposing a new generation facility for Maryland submit a proposal by December 1, 2009. However, PSC later lifted that deadline as it attempted to better define the scope for the proposals.

In December 2010, PSC released a draft RFP for public comment, and in September 2011, PSC ordered the utilities to release the RFP. The RFP was for a 20-year agreement and limited to natural gas-fired generation in the Southwestern Mid-Atlantic Areas Council (known as SWMAAC) region of PJM Interconnections, LLC (PJM) territory (including the BGE and Pepco service territories). Several parties expressed concern regarding the RFP, such as:

- issuing the RFP before PSC made a determination that new capacity was needed and the related question of whether new capacity is needed;
- limitations placed on responses to the RFP including the type of generation, the limited geographic area, and not including options for a utility-built generation; and
- whether the RFP was consistent with a competitive capacity market.

Contract Award

Three bidders met the minimum requirements of the RFP; the CPV project was determined to have the best price for ratepayers, with an average impact of a $0.49 per month credit over the life of the contract. On April 12, 2012, PSC ordered BGE, Pepco, and Delmarva Power and Light to enter into a contract for differences with CPV for the output of a natural gas-fired combined-cycle generation plant in Charles County. PSC limited the order to the three investor-owned utilities in the constrained area of Maryland, essentially the area east of Frederick, because the new generation is needed due to the constraints; therefore, the customers in those areas will benefit from the new generation. The companies will enter into the contract in proportion to their share of the load.

Specifically, PSC explained this order was designed to ensure that Maryland has sufficient electricity to prevent blackouts/brownouts. Despite changes in the load forecasts indicating lessening need, PSC expressed concern over the uncertainty inherent in load forecasting, particularly as it relates to the uncertainty of coal-fired generation retirements. PSC also noted concern about

Maryland's dependence on out-of-state generation resources and demand response to meet capacity needs. Finally, PSC stated that no significant new generation has been built in Maryland since 2003. According to PSC, the timing of the order provides time for the plant to be operational before the conservative forecasts indicate new electric generation will be required.

Under the required contract for differences, payments or credits are determined by the difference between the actual revenue from the PJM capacity auctions and energy sales and the fixed contract price. Actual impacts vary by year with a cost to ratepayers in the early years and credits in the final 15 years. The utility costs and credits are recovered or paid in the Standard Offer Service surcharge. The CPV project is expected to be operational on June 1, 2015. Since the order, the relevant parties have continued to negotiate the terms of the contract; however, as of this writing the contract has not been executed.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Public Service Commission
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2012					
Legislative Appropriation	$0	$15,748	$700	$0	$16,447
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	2,603	132	0	2,735
Reversions and Cancellations	0	-482	-275	0	-756
Actual Expenditures	**$0**	**$17,869**	**$557**	**$0**	**$18,426**
Fiscal 2013					
Legislative Appropriation	$0	$15,915	$579	$0	$16,494
Budget Amendments	0	108	2	0	109
Working Appropriation	**$0**	**$16,022**	**$581**	**$0**	**$16,603**

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

In total, PSC's fiscal 2012 expenditures were approximately $2 million higher than the legislative appropriation.

PSC's special fund expenditures were $2.1 million higher than the legislative appropriation. The majority of the increase ($2.5 million) was the result of the need for additional consulting services to review the merger of Exelon Corporation and Constellation Energy Group. The remainder of the increase ($103,297) was due to the $750 one-time bonus provided to State employees. These increases were partially offset by cancellations totaling $481,743. The cancellations occurred largely as a result of higher than anticipated vacancies among regular positions and contractual FTEs ($258,051). Other cancellations occurred primarily as a result of lower than anticipated needs for consulting services, supplies, equipment purchases, and higher than anticipated refunds from the Washington Metropolitan Area Transit Commission.

The fiscal 2012 federal fund expenditures of PSC were $143,039 lower than the legislative appropriation. An increase of $121,700 resulted from funds available from the federal Office of Pipeline Safety to support increases in staff, training, inspections, program enhancements, and public awareness campaign, which were used for:

- equipment, travel to training and inspections, and supplies ($46,700);
- contractual services to conduct underground utility locator training and outreach materials ($40,000); and
- the purchase of two motor vehicles ($35,000).

The remainder of the increase was in salaries and wages in the Engineering Investigations Division due to higher than anticipated reimbursement from the federal Office of Pipeline Safety. These increases were more than offset by cancellations totaling $274,673. The largest portion of the cancellations were the result of higher than anticipated vacancies among contractual FTEs funded through the ARRA grant ($137,529), which in part led to the lower than expected expenditures for travel ($50,593). Other cancellations were associated with lower than expected expenditures of federal Pipeline Safety funds in areas including travel, contractual services, and equipment.

Fiscal 2013

PSC's fiscal 2013 appropriation has increased by $109,318 in total funds ($107,600 special funds and $1,718 federal funds) to support the 2% COLA provided to State employees in January 2013.

Object/Fund Difference Report
Public Service Commission

Object/Fund	FY 12 Actual	FY 13 Working Appropriation	FY 14 Allowance	FY 13 - FY 14 Amount Change	Percent Change
Positions					
01 Regular	138.00	139.00	139.00	0.00	0%
02 Contractual	9.82	12.60	12.60	0.00	0%
Total Positions	**147.82**	**151.60**	**151.60**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 12,215,582	$ 12,899,860	$ 13,057,788	$ 157,928	1.2%
02 Technical and Spec. Fees	441,868	522,026	539,084	17,058	3.3%
03 Communication	122,722	109,875	115,163	5,288	4.8%
04 Travel	78,030	136,208	80,223	-55,985	-41.1%
07 Motor Vehicles	159,571	142,170	143,295	1,125	0.8%
08 Contractual Services	3,948,351	1,288,718	1,498,679	209,961	16.3%
09 Supplies and Materials	75,109	64,494	74,590	10,096	15.7%
10 Equipment – Replacement	43,711	31,675	31,675	0	0%
11 Equipment – Additional	112,168	4,000	4,000	0	0%
12 Grants, Subsidies, and Contributions	296,611	451,141	454,504	3,363	0.7%
13 Fixed Charges	932,200	952,730	977,951	25,221	2.6%
Total Objects	**$ 18,425,923**	**$ 16,602,897**	**$ 16,976,952**	**$ 374,055**	**2.3%**
Funds					
03 Special Fund	$ 17,869,330	$ 16,022,211	$ 16,551,911	$ 529,700	3.3%
05 Federal Fund	556,593	580,686	425,041	-155,645	-26.8%
Total Funds	**$ 18,425,923**	**$ 16,602,897**	**$ 16,976,952**	**$ 374,055**	**2.3%**

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
Public Service Commission

Program/Unit	FY 12 Actual	FY 13 Wrk Approp	FY 14 Allowance	Change	FY 13 - FY 14 % Change
01 General Administration and Hearings	$ 11,886,004	$ 9,512,262	$ 9,604,636	$ 92,374	1.0%
02 Telecommunications, Gas, and Water Division	588,234	583,947	606,344	22,397	3.8%
03 Engineering Investigations	1,328,551	1,356,022	1,436,000	79,978	5.9%
04 Accounting Investigations	491,896	573,446	595,467	22,021	3.8%
05 Common Carrier Investigations	1,422,382	1,354,271	1,406,356	52,085	3.8%
06 Washington Metropolitan Area Transit Commission	215,183	369,713	373,076	3,363	0.9%
07 Electricity Division	394,828	413,749	442,743	28,994	7.0%
08 Hearing Examiner Division	550,942	706,918	714,225	7,307	1.0%
09 Staff Attorney	762,733	866,527	878,492	11,965	1.4%
10 Energy Analysis and Planning Division	785,170	866,042	919,613	53,571	6.2%
Total Expenditures	**$ 18,425,923**	**$ 16,602,897**	**$ 16,976,952**	**$ 374,055**	**2.3%**
Special Fund	$ 17,869,330	$ 16,022,211	$ 16,551,911	$ 529,700	3.3%
Federal Fund	556,593	580,686	425,041	-155,645	-26.8%
Total Appropriations	**$ 18,425,923**	**$ 16,602,897**	**$ 16,976,952**	**$ 374,055**	**2.3%**

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.