C90G00
Public Service Commission

Operating Budget Data

($ in Thousands)

	FY 16 Actual	FY 17 Working	FY 18 Allowance	FY 17-18 Change	% Change Prior Year
Special Fund	$33,885	$28,099	$33,235	$5,137	18.3%
Adjustments	0	0	-54	-54	
Adjusted Special Fund	**$33,885**	**$28,099**	**$33,182**	**$5,083**	**18.1%**
Federal Fund	476	568	561	-7	-1.2%
Adjustments	0	0	-2	-2	
Adjusted Federal Fund	**$476**	**$568**	**$559**	**-$8**	**-1.5%**
Adjusted Grand Total	**$34,361**	**$28,666**	**$33,741**	**$5,075**	**17.7%**

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 allowance of the Public Service Commission (PSC) increases by $5.1 million, or 17.7%, compared to the fiscal 2017 working appropriation after accounting for the contingent reduction in fiscal 2018.
- The special funds in PSC increase by $5.1 million, or 18.1%, while federal funds decrease minimally ($8,361).
- Major changes in the fiscal 2018 allowance of PSC result from grants to non-State entities through the Customer Investment Fund and from the ongoing implementation of Chapter 204 of 2015 that added transportation network companies and transportation network operators to those licensed and regulated by the Common Carrier Investigations Division.

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

For further information contact: Tonya D. Zimmerman Phone: (410) 946-5530

Personnel Data

	FY 16 Actual	FY 17 Working	FY 18 Allowance	FY 17-18 Change
Regular Positions	137.00	136.00	136.00	0.00
Contractual FTEs	9.17	10.00	15.00	5.00
Total Personnel	**146.17**	**146.00**	**151.00**	**5.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	5.44	4.00%
Positions and Percentage Vacant as of 12/31/16	10.00	7.35%

- There are no changes in the number of regular positions in PSC in the fiscal 2018 allowance.

- There is a net increase of 5.0 contractual full-time equivalents (FTE) in PSC in the fiscal 2018 allowance. An increase of 6.0 contractual FTEs in the Common Carrier Investigations Division of PSC, due to the increased workload associated with Chapter 204, is partially offset by the elimination of 1.0 contractual FTEs in the General Administration Division as a result of the Human Resources Shared Services Initiative. While the additional contractual FTEs appear as new in the fiscal 2018 allowance, PSC explained that all are currently working in the Common Carrier Investigations Division.

- As of January 1, 2017, PSC had a vacancy rate of 7.4% (10.0 positions). To meet its fiscal 2018 turnover expectancy of 4.0%, PSC would need to maintain 5.4 vacant positions.

Analysis in Brief

Major Trends

General Administration: After completing only 35% of work items subject to the 30-day deadline in fiscal 2014, the performance of PSC improved to 88% in fiscal 2015 and remained near that level in fiscal 2016, despite significant increases in the number of items subject to the deadline. PSC attributes the improved performance to changes in the application process for solar renewable energy credits (a large driver of the increase in workload), improved communication among parties, and staffing. In fiscal 2016, PSC increased the percent of consumer disputes resolved within 60 days, from 88% to 90%.

Public Utility Law Judge Division: The Public Utility Law Judge Division improved the timeliness in issuing decisions in two of three areas in fiscal 2016. PSC issued decisions in 100% of nontransportation matters within 60 days of the close of record and 99% of nontaxicab matters within 30 days of the close of record, an increase of 3 percentage points in each area from fiscal 2015. While performance in the timeliness of issuing decisions declined in fiscal 2016, 97% of decisions in taxicab matters were issued within 30 days of the close of record.

Issues

Implementation of Transportation Network Services Legislation: Chapter 204 of 2015 created a requirement for PSC to regulate transportation network companies and license transportation network operators. PSC began issuing transportation network operator licenses in December 2015 and regulating the vehicles in fiscal 2016. During fiscal 2016, the number of passenger-for-hire drivers licensed (the category under which the new licenses are included) increased by nearly 200% and passenger-for-hire vehicles with a capacity less than 16 regulated increased by more than 450%. PSC has added 6 contractual FTEs to accommodate the additional workload. In addition, PSC modified regulations to reduce the number of safety inspections required to be conducted by PSC inspectors.

Offshore Wind Activities: Chapter 3 of 2013 (the Maryland Offshore Wind Energy Act) established an application process and factors that PSC is to consider as part of the decision to approve, conditionally approve, or deny an application for offshore wind renewable energy credits (OREC). In February 2016, the first application for ORECs was determined administratively complete, resulting in the opening of a general application period. In total, two applications were determined administratively complete and to have met the minimum threshold requirements. PSC began its review of the applications in November 2016, and has until May 17, 2017, to issue an order in the review of the applications.

Recommended Actions

		Funds
1.	Reduce the Customer Investment Fund appropriation based on fiscal 2018 disbursement schedule.	$ 6,231,927
	Total Reductions	**$ 6,231,927**

Updates

Child Support-related Professional License Suspension: In the most recent fiscal compliance audit of the Department of Human Resources Child Support Enforcement Administration (CSEA), the Office of Legislative Audits found that the Motor Vehicle Administration and PSC were not suspending licenses associated with the CSEA's referrals for professional license suspension program. Language in the fiscal 2017 budget bill restricted funds from the two agencies until a report was submitted detailing the status of the implementation of procedures to comply with the program. The report, submitted in September 2016, indicated that both agencies are in compliance with the program. In fiscal 2016, PSC suspended 72 licenses as a result of the referrals while some cases became compliant. The withheld funds were released in October 2016.

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 (CPCN). PSC sets utility rates, collects and maintains records and reports on public service companies, reviews plans for service, inspects equipment, audits financial records, handles consumer complaints, 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. The key goals of PSC are to:

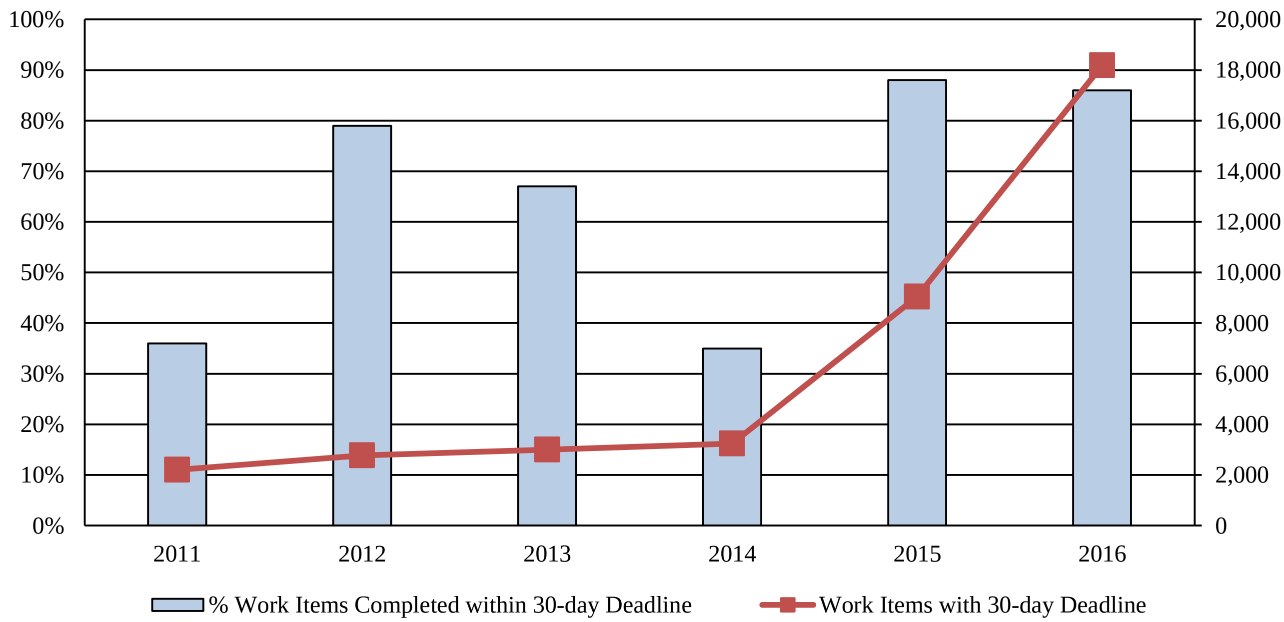
- ensure that gas and electric utility companies operate utility systems safely;
- ensure that public service companies deliver reliable services and that utility systems are adequate to meet customer demand;
- conduct open and fair proceedings and render timely decisions in accordance with statutory mandates and applicable law;
- ensure that all Maryland consumers have adequate consumer protection;
- ensure that rates for public utility services are just and reasonable;
- ensure that telecommunications companies provide reliable services; and
- ensure that taxicabs and passenger-for-hire carriers engage in safe practices.

Performance Analysis: Managing for Results

1. General Administration

As shown in **Exhibit 1**, after falling to a low of 35% in fiscal 2014, the percent of work items completed within the 30-day deadline increased in fiscal 2015 to 88% and remained near that level (86%) in fiscal 2016, despite having more than double the number of items subject to the deadline. Fiscal 2016 was the second consecutive year in which growth in the items subject to the deadline was greater than 100%. PSC indicates that the majority of the increase in filings with a 30-day deadline in both years relates to Solar Renewable Energy Credits as part of the State's Renewable Portfolio Standard. PSC credits several improvements in the application process for allowing the agency to maintain (and in the case of fiscal 2015) improve performance despite significant increases in the workload. The process improvements include making the application paperless, limiting the information required to be submitted, and information technology improvements. In addition to application process improvements, PSC explained that staffing changes and improved communication among the parties involved (PSC staff, applicants, and utilities) has allowed more of the work items to be completed before the deadline.

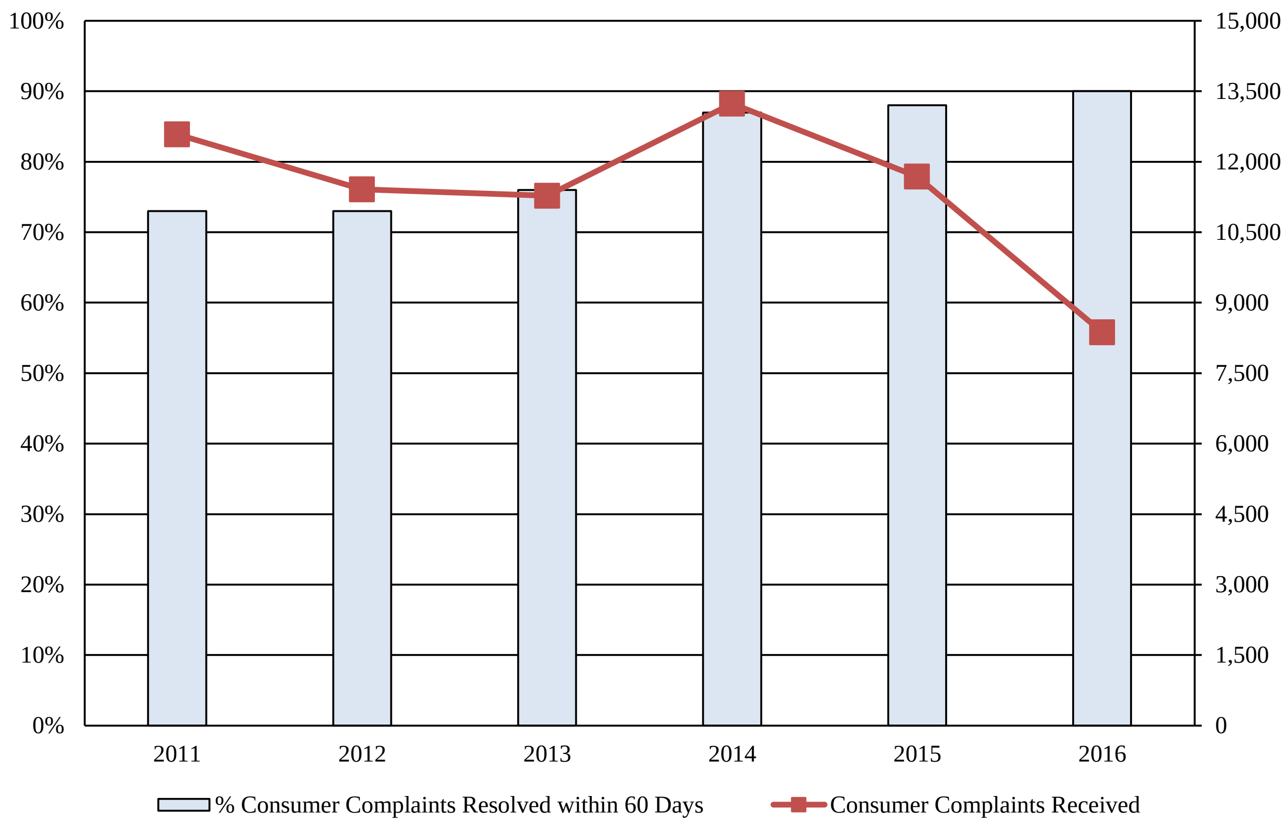
Exhibit 1
Work Items Completed within 30-day Deadline
Fiscal 2011-2016



Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

As shown in **Exhibit 2**, the number of consumer complaints received declined in fiscal 2016, and at 8,369, was well below recent levels, which, since fiscal 2011, have numbered at least 11,280. The reduced number of complaints is partly attributable to less inclement weather, which can drive complaints. However, PSC also attributes the reduced numbers of complaints to new consumer protection rules related to electric and natural gas suppliers adopted by PSC and new procedures in the Office of External Relations that reduce double counting among repeated complaints. The new consumer protection rules improve guidance for electric and natural gas suppliers when handling disputes and, as a result, fewer are directed to PSC. PSC has a goal of resolving 80% of consumer disputes within 60 days. For the third consecutive year, PSC has exceeded this goal, as shown in Exhibit 1. In fiscal 2016, the performance of PSC improved slightly compared to fiscal 2015, from 88% to 90%.

Exhibit 2
Consumer Complaints
Fiscal 2011-2016

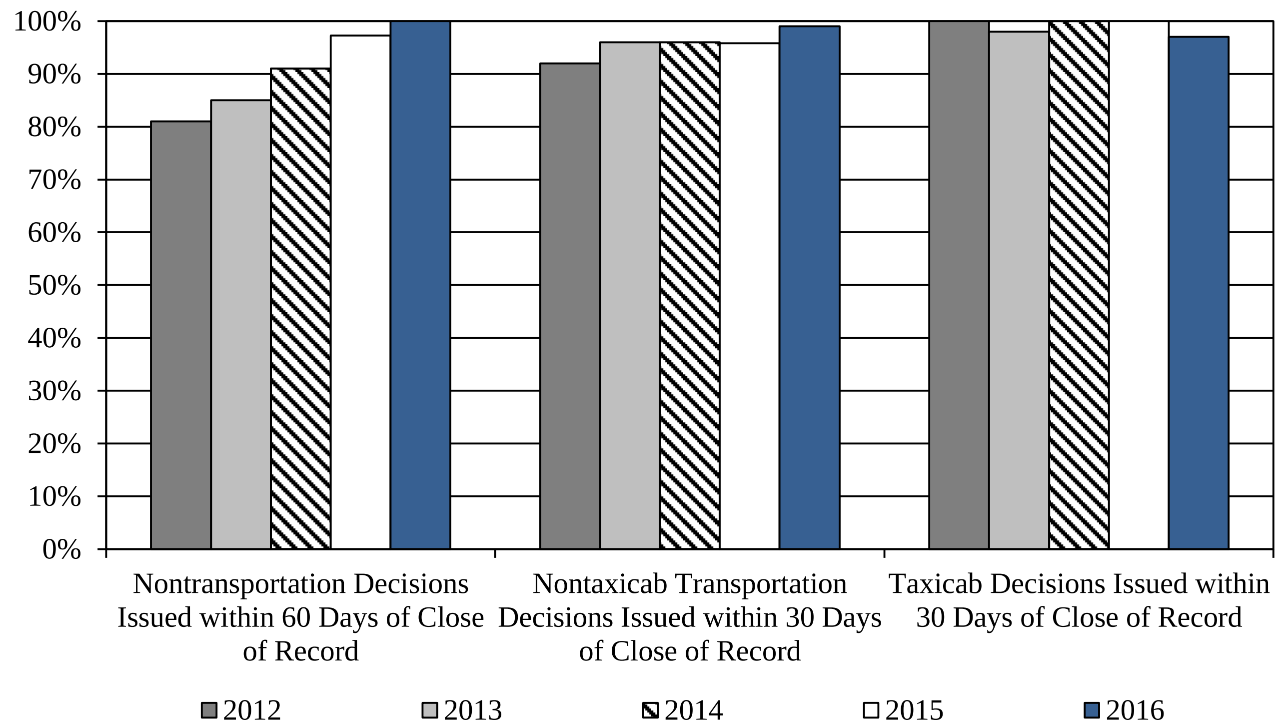


Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

2. Public Utility Law Judge Division

The Public Utility Law Judge 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**, the Public Utility Law Judge Division continues to exceed each of these goals. The division's performance improved to issue 100% of nontransportation decisions within 60 days of the close of record and 99% of nontaxicab decisions within 30 days of the close of record in fiscal 2016, increases of 3 percentage points compared to fiscal 2015 for each measure. While the percent of taxicab decisions issued within 30 days of the close of record decreased between fiscal 2015 and 2016, 97% of decisions were issued timely in fiscal 2016.

Exhibit 3
Public Utility Law Judge Division
Fiscal 2012-2016



Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

Fiscal 2017 Actions

Section 20 Position Abolitions

Section 20 of the fiscal 2017 budget bill required that 657 vacant positions be abolished and $20 million in general funds and $5 million in special funds to be cut. PSC had 1 position abolished as a result of this requirement. The abolished position was located in the Engineering Investigations Division. PSC explains that it was able to absorb the abolished position by seeking to fill other vacant positions within the division. Despite the position abolition and filling other vacancies, PSC still has 1 vacant position in the division. While the position was abolished, the funds associated with the position have not yet been reduced (approximately $75,000). These funds would be expected to be canceled in the fiscal 2017 closeout.

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2018 allowance of PSC increases by $5.1 million, or 17.7%, compared to the fiscal 2017 working appropriation after accounting for the contingent reduction. The increase occurs among special funds, which increase by $5.1 million. The increase is partially offset by a small reduction in federal funds ($8,361). Federal funds in the PSC budget are exclusively from the federal Pipeline Safety Program.

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

How Much It Grows:	**Special Fund**	**Federal Fund**	**Total**
Fiscal 2016 Actual	$33,885	$476	$34,361
Fiscal 2017 Working Appropriation	28,099	568	28,666
Fiscal 2018 Allowance	33,182	559	33,741
Fiscal 2017-2018 Amount Change	$5,083	-$8	$5,075
Fiscal 2017-2018 Percent Change	18.1%	-1.5%	17.7%

Where It Goes:

Personnel Expenses

Reclassifications to account for hiring vacant positions above base salaries and other planned salary adjustments	$210
Workers' compensation premium assessment	-14
Social Security contributions	-21

Where It Goes:	
Regular earnings in part due to the impact of Section 20 abolition not yet reflected in fiscal 2017	-43
Employee and retiree health insurance	-50
Employee retirement including contingent reduction	-66
Other fringe benefit adjustments	-6
Implementation of Transportation Network Company Legislation	
Clerical support due to increased need and aligning with recent experience	10
6 new contractual full-time equivalents	196
Cost Allocations	
Department of Information Technology services allocation and retirement administrative fee	11
Statewide personnel system due to lower than expected costs	-12
Enterprise budget system allocation ends statewide due to lower than expected costs	-21
Human resources shared services initiative	-33
Other Changes	
Customer Investment Fund grants to non-State agencies	5,209
Advertising and printing costs to better align with recent experience	54
Rent including rent paid to the Department of General Services	31
Office equipment to better align with recent experience	28
Audio visual equipment due to planned enhancements to hearing rooms	26
Eliminate 1 contractual full-time equivalent in General Administration due to human resources shared services initiative	-34
Eliminate funds for replacement vehicles not needed in fiscal 2018	-44
Consultant services to align with recent experience and anticipated need	-456
Other changes	101
Total	**$5,075**

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

Across-the-board Reductions

The fiscal 2018 budget bill includes a $54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. The PSC share of these reductions is $53,580 in special funds and $1,721 in federal funds. This action is tied to a provision in the Budget Reconciliation and Financing Act (BRFA) of 2017.

Customer Investment Fund

The Customer Investment Fund (CIF) was created by a condition of approval of the merger of Exelon Corporation (Exelon) and Constellation Energy Group (Constellation) by PSC. Exelon was to contribute a total of $113.5 million into the CIF in three equal annual installments. The distribution of the funds was determined by PSC following a Request for Proposals process. A November 2012 PSC order allocated the entire CIF to Baltimore City, Baltimore County, the Maryland Energy Administration, the Department of Housing and Community Development, the Fuel Fund of Maryland, and Comprehensive Housing Assistance, Inc., for a variety of programs.

Section 17 of the BRFA of 2012 required that funds received by the State, as a result of conditions of an approved merger between Exelon and Constellation, be expended only as authorized by an Act of the General Assembly or specifically authorized in the State budget. These funds are not allowed to be added by budget amendment. The funds from the merger, including the CIF, provided to State agencies are included in the budgets of those agencies. The distribution of funds from the CIF to non-State entities has been budgeted in PSC.

Initially all funds from the CIF were expected to be disbursed by the end of fiscal 2016. However, PSC periodically reviews the programs and has adjusted the timing of disbursements as a result of these reviews. Generally spending in any year is revised down due to delays in expending disbursed funds. Due to the revised timing of disbursements PSC has extended the disbursement schedule beyond the initial plan of fiscal 2016. In the October 2016 notice of a hearing, prior to one of the periodic reviews, PSC included a request from current recipients for proposals to expand or extend existing programs due to the availability of additional funds. The additional funds are available due to interest earned on the fund and a reallocation of a portion of one of the original grant awards. In January 2017, PSC issued two orders that, among other actions, provided a distribution of the anticipated additional funds. The orders establish a distribution for approximately $7.0 million of additional funding for programs in Baltimore City, as well as a distribution of deferred disbursements from prior years ($0.6 million). PSC indicates that the fiscal 2018 disbursements are the final planned disbursements. **Exhibit 5** provides information on the distribution of the fiscal 2017 and 2018 CIF funds for non-State entities.

Exhibit 5
Customer Investment Fund Planned Disbursements
Fiscal 2017 and 2018

Baltimore City	**2017 Disbursements**	**2018 Disbursements**
Case Management	$872,804	$0
Energy Assistance	504,601	1,000,000
Energy Efficiency	1,601,086	1,900,000
Energy Efficiency Plus	2,297,146	1,286,342
Baltimore City Energy Challenge	780,768	550,000
Retrofits and Upgrades	1,740,606	2,770,254
Urban Heat Island Mitigation	37,973	50,000
Evaluation, Measurement, and Verification	204,578	0
Subtotal Baltimore City	***$8,039,561***	***$7,556,596***
Comprehensive Housing Assistance, Inc. Energy Home Improvement Loan	540,258	0
Total	**$8,579,819**	**$7,556,596**
Appropriation	$8,579,819	$13,788,523
Difference	**$0**	**$6,231,927**

Note: Deferred disbursements from prior years for two Department of Housing and Community Development programs were also scheduled for fiscal 2018 but are not included in this exhibit that focuses on grants budgeted in the Public Service Commission.

Source: Public Service Commission; Governor's Budget Books

The largest change in the fiscal 2018 allowance of PSC relates to the grants to non-State entities through the CIF, an increase of $5.2 million compared to the fiscal 2017 working appropriation. In total, the fiscal 2018 allowance provides $13.8 million from the CIF. However, as shown in Exhibit 5, PSC has planned fiscal 2018 disbursements totaling far less than the amount included in the fiscal 2018 allowance. In fact, only the amounts planned for disbursement in fiscal 2018 will remain in the CIF at the close of fiscal 2017. The remainder of the CIF has already been disbursed. The difference in the fiscal 2018 allowance and the planned disbursements results from the uncertainty in the amount of funds that would be available in the CIF in fiscal 2018 prior to the January 2017 orders. **Therefore, the Department of Legislative Services recommends reducing the CIF included in the fiscal 2018 allowance of PSC to the level of funding that will remain in the CIF for non-State entities in fiscal 2018.**

Consultant Services

Annually, PSC requires the services of consultants to assist in cases before PSC. These cases are often driven by activity outside of PSC (such as filings by utilities). PSC may also use consultants in its work before federal regulatory bodies. Because the need for consultants is largely outside of the agency's control the amount of expenditures can vary widely from year to year. For example, in fiscal 2015, PSC spent $2.4 million on consultants, which included work related to the implementation of the Maryland Offshore Wind Energy Act (Chapter 3 of 2013), while in fiscal 2016, PSC spent only $62,440.

The fiscal 2018 allowance includes a decrease of $456,013 in consultant services for PSC, while providing $1.4 million in total for this purpose. Although this level of funding represents a nearly 25% decline compared to the fiscal 2017 working appropriation, it essentially provides funding at the three-year average of actual expenditures. In addition to being near the level of actual spending, PSC explains that recent additions to the technical staff are expected to allow the agency to handle work that was previously performed by consultants. On January 25, 2017, WGL Holdings, Inc. announced that it was acquired by AltaGas Ltd. The acquisition requires approval by a number of state and federal agencies including PSC. The timing of the review is uncertain, as the application for approval has not been filed as of this writing. Reviews under Section 6-105 of the Public Utilities Article must be completed within 180 days of the application, which in this instance would extend into fiscal 2018. **PSC should comment on whether, given the recent announcement, the fiscal 2018 allowance for consultants is sufficient to conduct the required review as well as support other anticipated case activity.**

Issues

1. Implementation of Transportation Network Services Legislation

The Common Carrier Investigations Division enforces laws related to:

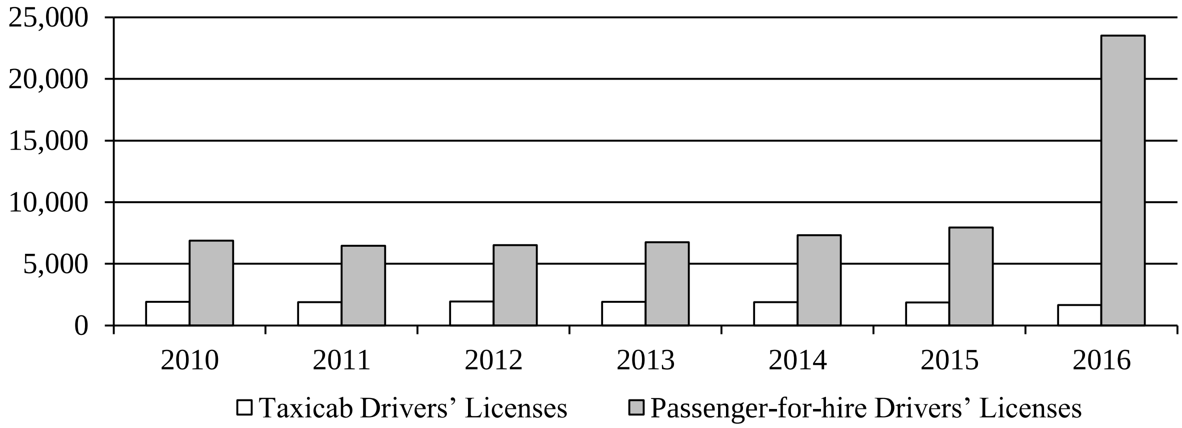
- the safety, insurance, and service provisions required for passenger-for-hire carriers;
- taxicab companies and drivers in Baltimore City, Baltimore County, Cumberland, and Hagerstown; and
- drivers of intrastate passenger-for-hire vehicles with a capacity of less than 16 passengers.

Chapter 204 of 2015, required PSC to develop a regulatory structure for transportation network services (such as Uber Technologies, Inc.) and transportation network operators (or partners or drivers). The chapter established a new type of license to be issued by PSC (a transportation network operator's license). These licenses (either temporary or permanent) must be obtained before an individual may provide transportation network services. PSC staff began issuing temporary transportation network operator licenses during December 2015. PSC also began regulating the vehicles associated with these operations in fiscal 2016. In light of the December 2016 orders relating to waivers of certain licensing requirements, it is likely that the Transportation Network Operator market will continue to grow rather than contract as might have occurred.

Workload Impacts

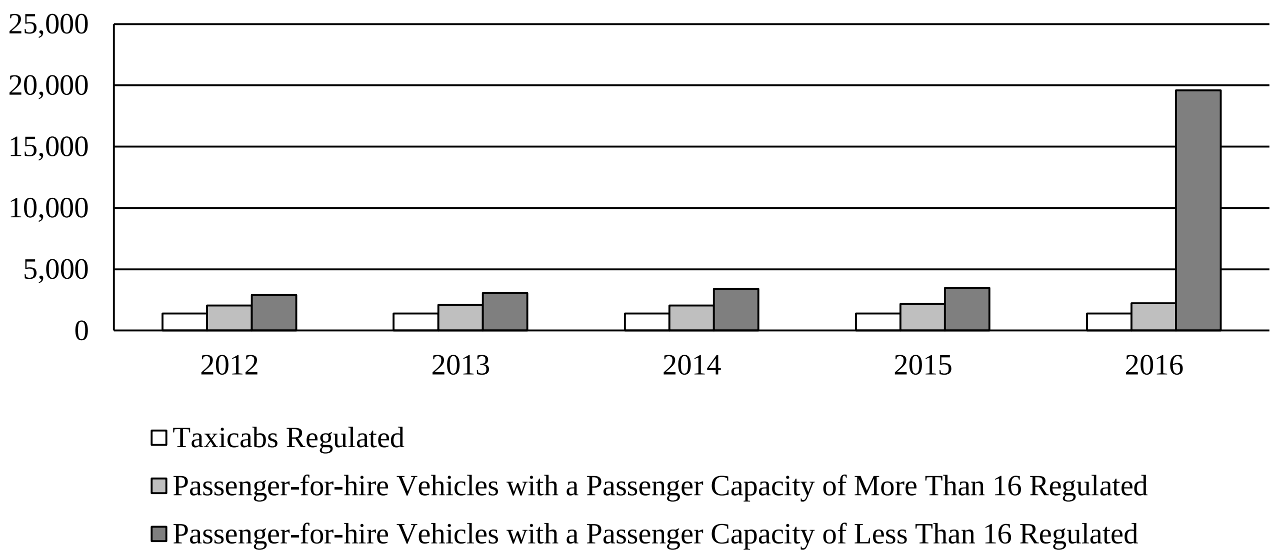
As shown in **Exhibits 6** and **7**, the implementation of Chapter 204 and resulting requirements for licensing and vehicle regulation dramatically increased the number of passenger-for-hire drivers' licensed and the number of passenger-for-hire vehicles with a capacity of less than 16 regulated by PSC. In fiscal 2016, the number of passenger-for-hire drivers' licensed (the category under which the new transportation network operator licenses are counted) increased from 7,948 in fiscal 2015 to 23,500 in fiscal 2016, an increase of nearly 200%. PSC anticipates the number of licensees to increase by an additional 80% (to 42,400) in fiscal 2017. The number of passenger-for-hire vehicles with a capacity of less than 16 regulated by PSC (the category under which the additional regulated vehicles are captured) increased by approximately 464% from fiscal 2015 to 2016 (3,473 to 19,602). PSC anticipates this number to nearly double in fiscal 2017 (to 38,840).

Exhibit 6
Passenger-for-hire and Taxicab Drivers Licensed
Fiscal 2010–2016



Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

Exhibit 7
Passenger-for-hire and Taxicab Vehicles Regulated
Fiscal 2012–2016

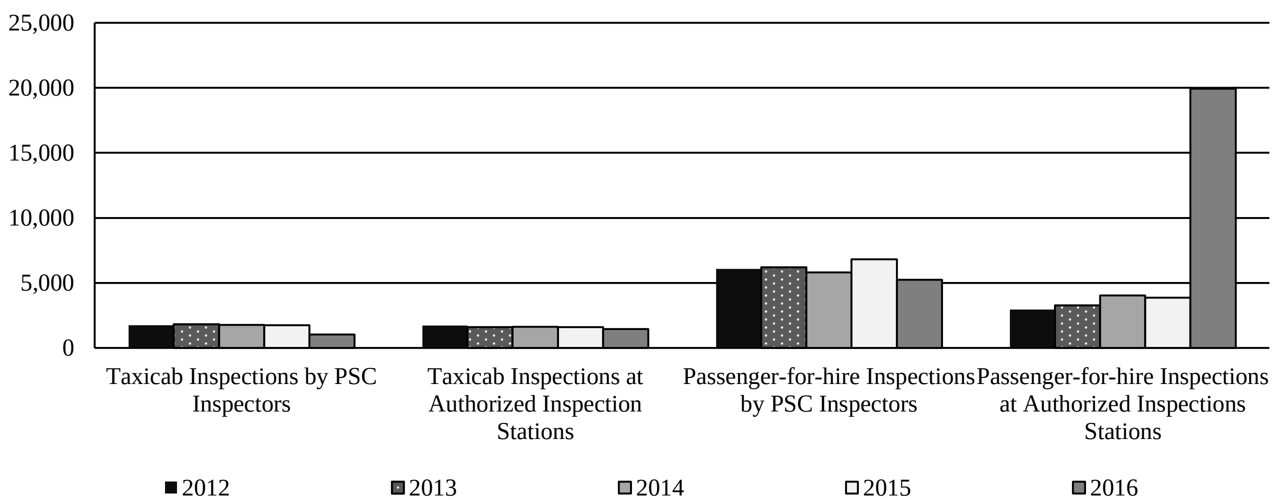


Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

PSC indicates that it has been able to handle the increased workload through streamlining and efficiency improvements, the addition of 6 contractual full-time equivalents (FTE), and reducing the number of annual vehicle inspections performed by PSC Common Carrier Inspectors. The change in inspections resulted from a change in regulations to have vehicle inspections be largely conducted by authorized inspections stations rather than by PSC inspectors. PSC inspectors, under the revised regulations, still conduct some inspections including when a customer complaint has been received or any time that the PSC requests a vehicle be presented for inspection.

The decrease in annual inspections due to the change in regulations, effective March 2016, is evident in the number of inspections in fiscal 2016. The number of taxicab inspections by PSC inspectors decreased by 41.1% between fiscal 2015 and 2016, and the number of inspections of passenger-for-hire vehicles by PSC inspectors decreased by 23.1% between fiscal 2015 and 2016, as shown in **Exhibit 8**. While the number of inspections of passenger-for-hire vehicles conducted by PSC inspectors decreased, the number conducted at authorized inspection stations significantly increased, as would be expected under the change in regulations.

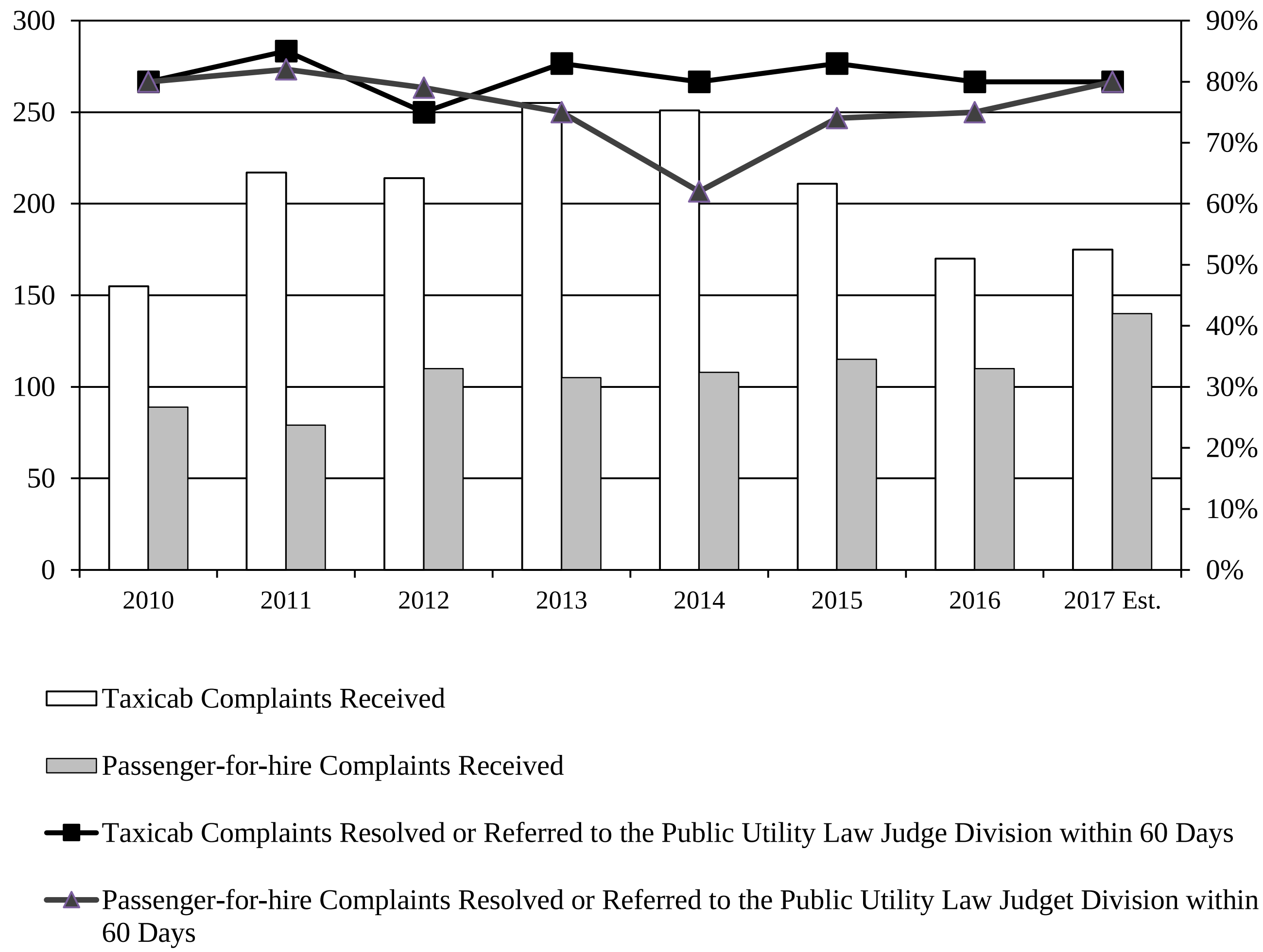
Exhibit 8
Passenger-for-hire and Taxicab Inspections
Fiscal 2012-2016



Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

Despite the increased number of passenger-for-hire licensees in fiscal 2016, the number of complaints received slightly decreased compared to fiscal 2015, 115 to 110, as shown in **Exhibit 9**. However, PSC anticipates an increase in the number of passenger-for-hire complaints in fiscal 2017. The number of taxicab complaints also fell in fiscal 2016, a decrease of 19.4%. The number of taxicab complaints fell below 200 in fiscal 2016 (170) for the first time since fiscal 2010. Despite the decrease in complaints, the number of taxicab complaints resolved or referred to the Public Utility Law Judge Division within 60 days decreased from 83.0% in fiscal 2015 to 80.0% in fiscal 2016. The percent of passenger-for-hire complaints resolved or referred to the Public Utility Law Judge Division within 60 days slightly increased in fiscal 2016 to 75.0%, but for the fifth consecutive year was below 80.0%. **Given the likely increase in complaints with additional licensed passenger-for-hire drivers, PSC should comment on steps it plans to take to improve the timeliness of the taxicab and passenger-for-hire complaint process resolution.**

Exhibit 9
Passenger-for-hire and Taxicab Complaints
Fiscal 2010-2017 Est.



Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

Budgetary Impacts

As noted earlier, PSC hired six contractual FTEs to accommodate the increased workload. While these additional contractual FTEs appear for the first time in the fiscal 2018 allowance, all of the additional contractual FTEs are currently employed at PSC. The additional FTEs were hired between October 2015 and September 2016, but do not appear in the fiscal 2017 counts. PSC also has no funding dedicated for the additional FTEs in the fiscal 2017 working appropriation, which results in the appearance of an increase of $196,195 in the fiscal 2018 allowance. PSC plans to reduce expenditures in other subobjects to absorb the cost of the additional FTEs. If necessary, PSC would process a budget amendment to increase its fiscal 2017 appropriation for any costs that could not be absorbed.

With the additional contractual FTEs, the Common Carriers Investigation Division has a total of 10 contractual FTEs in the fiscal 2018 allowance. PSC plans to continue to monitor the volume of transportation network operator driver's license applications to determine whether the number of contractual FTEs could be reduced in future budgets. However, PSC anticipates that the need for the 10 contractual FTEs will continue into fiscal 2018. **PSC should comment on whether any additional contractual FTEs or regular positions are expected to be needed if application volume continues to increase.**

In addition to the increased number of contractual FTEs, PSC has also increased the clerical/secretarial support in the division, an increase of $9,582 in the fiscal 2018 allowance. PSC indicates that given the increased demand, the fiscal 2018 funding was required. The funding is equivalent to an average of recent expenditures in this area.

2. Offshore Wind Activities

Chapter 3 of 2013 (the Maryland Offshore Wind Energy Act) includes a number of requirements related to the process for offshore wind applications, evaluation criteria, offshore wind renewable energy credit (OREC) establishment, and establishment of regulations to implement these requirements. PSC was required to adopt regulations by July 1, 2014, that:

- establish an application process and timeframes, including a notification period following the receipt of an application; the opening of an application period to all other projects to be proposed after receipt of an initial application; and a requirement for a determination on the application (180 days from the end of the application period);

- detail the application requirements as specified in the statute that include cost benefit analysis requirements, the proposed financing, a proposed OREC schedule, a decommissioning plan, commitments in a variety of matters (such as contributions of certain funds, applying for grants, rebates, tax credits, and loan guarantees, and to pass along 80% of the value of the those funds received), and a plan for small business engagement;

- specify the evaluation criteria to be used by PSC, including those related to the price impacts, impacts on capacity prices, congestion prices, and locational marginal price;

- establish limitations on when PSC can approve a project or must not approve a project, including requirements related to seeking minority investors for the project (if investors are being used in the project), providing positive net economic, environmental, and health benefits, the maximum price impacts for customers, and the maximum OREC price;

- specify requirements for an order of approval such as that it must contain the OREC price schedule, the length of the OREC schedule, the number of the ORECs to be sold each year, limitations on the OREC payments until after generation has begun, hold harmless provisions for cost overruns for ratepayers and purchasers of the ORECs, and a statement that debt from the project is not debt of the State;

- establish OREC obligations, including a mechanism to adjust the obligations based on prior year shortfalls and allow for an extension of the OREC schedule beyond the initial term for up to two five-year terms under certain conditions and at certain price calculations;

- establish an escrow account for the purchase of the ORECs; and

- detail requirements for the offshore wind project to sell energy, capacity, and ancillary services related to the OREC creation into the markets operated by PJM Interconnection, LLC (the regional transmission operator and operator of the regional electricity capacity auctions).

PSC promulgated regulations as required, with the final regulations published in the *Maryland Register* on September 5, 2014.

On August 19, 2014, the U.S. Department of Interior, Bureau of Ocean Energy Management held a competitive lease sale for nearly 80,000 acres off the cost of Maryland for offshore wind development, split into lease areas. US Wind, Inc. won the lease sale in each of the two lease areas, with a bid of $8.7 million. The lease was executed December 1, 2014. The lease provides a preliminary term of 1 year, a site assessment term of 5 years, and an operations term of 25 years.

Chapter 3 also required PSC to contract with independent consultants to evaluate the application and calculate the net benefits to the State for a proposed offshore wind project. On October 1, 2014, the Board of Public Works approved a PSC contract with Levitan & Associates, Inc. to provide application review services related to offshore wind projects. The contract extends until October 5, 2017, with a total cost of $1.3 million.

Application Process

Under the adopted regulations, after receiving an initial application, the Executive Secretary of PSC has to determine within 30 days whether the application is administratively complete. If not, the applicant is informed of the missing items/information and is provided the opportunity to submit the items. If/when the initial application is administratively complete, a general application period is opened for 180 days with one or more extensions of up to 30 days provided. Any applications submitted during the period must also be reviewed for administrative completeness and have any missing information submitted before the close of the application period. In practice, this review is completed by the consultant. The consultant also determines whether the application(s) meet the minimum threshold criteria. The minimum threshold criteria are that (1) the project complies with the relevant statute; (2) the OREC price schedule is no longer than 20 years and beginning no earlier than January 1, 2017; (3) the OREC price is lower than the level specified in statute; and (4) the application contains evidence of site control or demonstration of a feasible plan to obtain site control for the area where the project is located.

PSC is not involved in the review until after the application period is closed and the consultant notifies PSC of a recommendation that PSC open proceedings to consider an application. Once the proceedings are opened by PSC, the applicant(s) submit the application(s) to the executive secretary. PSC has 180 days to review the application, unless extended by mutual consent to approve, conditionally approve, or deny the application.

Application Status

In February 2016, after an initial application was received and determined administratively complete, a general application period was opened. The application period was scheduled to close August 23, 2016, but the application period was extended three times (a total of 90 days), ultimately closing on November 18, 2016. On November 21, 2016, Levitan & Associates notified PSC that applications were submitted for two offshore wind projects (one application was submitted by US Wind, Inc., a subsidiary of Toto Holding SpA and one application was submitted by Skipjack Offshore Energy, LLC, a subsidiary of Deepwater Wind Holdings, LLC). Levitan & Associates determined that both applications were administratively complete and met the minimum threshold criteria. On November 22, 2016, PSC ordered that the applicants submit copies of their proposed offshore wind project applications by Wednesday, November 30, 2016.

The two applicants submitted applications by the required date. As described in the application, the US Wind, Inc. project is proposing to produce 248 megawatts (MW) of electricity from 62 turbines, as a part of a larger 750 MW project from 124 turbines. US Wind, Inc. anticipates a commercial operation date in calendar 2020. Skipjack Offshore Energy, LLC, is proposing a 120 MW project from 15 turbines with a commercial operation date of 2022.

PSC plans to hold two public hearings, one in Anne Arundel County, and one in Worcester County. As of the date of this writing, the hearing dates have not been set. PSC hearings on this matter are scheduled for the period between March 13 and March 24, 2017. Under the required timeline for a decision, PSC must rule on the applications no later than May 17, 2017.

Funding Requirements

Chapter 3 required transfers of $1.0 million in fiscal 2014 and $2.0 million in fiscal 2015 to PSC from the Strategic Energy Investment Fund (SEIF) for consultant services needed to carry out the Act. Specifically, the funds were to be from the Offshore Wind Development funds, deposited to the SEIF, which were from a contribution required as a condition of the merger approval between Exelon and Constellation. The funds were transferred as required. However, only $2.4 million of the $3.0 million were spent, or encumbered, in those years. Chapter 3 allows funds transferred, but not used, to carry forward into the next fiscal year, except that funds not encumbered by June 30, 2019, are to be returned to the SEIF.

Of the transferred funds, $603,263 has not been encumbered. Neither the fiscal 2017 working appropriation nor the fiscal 2018 allowance contains any specific funding from the Offshore Wind Development Fund for consultant services. As discussed earlier, the BRFA of 2012 requires funds from the Exelon and Constellation merger to be only expended as authorized through the budget bill or other acts of the General Assembly. If PSC were to need to access the unencumbered funds in fiscal 2017 or 2018 for its review, a deficiency appropriation would be required. However, PSC does not currently anticipate requiring any of the unencumbered funds. Some of the funds that were encumbered in fiscal 2015 from the transfer are available for use for the consultants to conduct OREC application review activities during fiscal 2017.

Chapter 3 also authorizes PSC to conduct a special assessment for staff and administrative costs associated with implementing the Act in any year during which an OREC obligation exists. The timing of an OREC obligation to exist would depend on the approved applications, because the applications have different anticipated commercial operation dates. Neither has an estimated commercial operation date before calendar 2020. Therefore, it is likely to be several more years before this special assessment would be expected to occur.

Recommended Actions

		Amount Reduction	
1.	Reduce the Customer Investment Fund (CIF) appropriation based on the fiscal 2018 disbursement schedule. In January 2017, the Public Service Commission issued two orders that contained the disbursement schedule for all remaining CIF. The schedule includes fiscal 2018 disbursements of reallocated funds, fund interest, and available funding due to prior year undisbursed funds. The total available funding for disbursement in fiscal 2018 is approximately $7.6 million, which is less than the appropriation. This reduction brings the appropriation in line with planned fiscal 2018 disbursements and remaining CIF.	$ 6,231,927	SF
	Total Special Fund Reductions	**$ 6,231,927**	

Updates

1. Child Support-related Professional License Suspension

The fiscal 2017 budget bill included language withholding $100,000 in special funds from both PSC and the Motor Vehicle Administration (MVA) pending an update on the status of implementation of procedures to comply with the Department of Human Resources Child Support Enforcement Administration's (CSEA) professional license suspension program. The most recent legislative audit of CSEA found that PSC and MVA were not in compliance with the program.

On September 27, 2016, PSC submitted a letter to the budget committees detailing the license suspension process at PSC and MVA and the number of licenses suspended at both agencies. In fiscal 2016, PSC took action on all 84 CSEA notices for suspension that were eligible for suspension. Actions taken by PSC resulted in 72 license suspensions and CSEA compliance from the remaining 12 licensees. In fiscal 2016, MVA took action on all 60 CSEA notices for suspension that were eligible for suspension. Actions taken by MVA resulted in 44 license suspensions and CSEA compliance from the remaining 16 licensees. Both agencies continue to comply with the CSEA professional license suspension program in fiscal 2017. On October 6, 2016, the budget committees authorized release of the funds that were withheld for this purpose.

Appendix 1
Current and Prior Year Budgets
Public Service Commission
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2016					
Legislative Appropriation	$0	$37,975	$532	$0	$38,507
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	236	4	0	240
Reversions and Cancellations	0	-4,326	-60	0	-4,386
Actual Expenditures	**$0**	**$33,885**	**$476**	**$0**	**$34,361**
Fiscal 2017					
Legislative Appropriation	$0	$27,927	$568	$0	$28,495
Cost Containment	0	0	0	0	0
Budget Amendments	0	171	0	0	171
Working Appropriation	**$0**	**$28,099**	**$568**	**$0**	**$28,666**

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The fiscal 2016 actual expenditures of PSC were $4.1 million lower than the legislative appropriation: $4.1 million in special funds and $56,454 in federal funds. The appropriation increased by $240,000 in total funds ($236,000 in special funds and $4,000 in federal funds) to restore the 2% employee pay reduction. This increase was more than offset by special ($4.3 million) and federal fund ($60,454) cancellations. The largest special fund cancellation was the result of lower than expected expenditures from the CIF grants to non-State entities ($1.8 million). PSC also canceled $1.5 million in contractual services, primarily due to lower than expected expenditures for consultant services. Other significant special fund cancellations occurred as a result of higher than expected vacancies and lower than expected expenditures for the continuity of operations plan and travel. Federal fund cancellations were due to lower than expected federal reimbursement in the Engineering Investigations Division for pipeline safety activities.

Fiscal 2017

To date, the fiscal 2017 budget of PSC has increased by $171,331, all in special funds, to account for the agency's share of funding for employee increments that were budgeted centrally.

Appendix 2

Audit Findings

Audit Period for Last Audit:	December 17, 2012 – February 8, 2016
Issue Date:	December 2016
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating:	n/a

The audit did not disclose any findings.

Appendix 3
Object/Fund Difference Report
Public Service Commission

Object/Fund	FY 16 Actual	FY 17 Working Appropriation	FY 18 Allowance	FY 17 - FY 18 Amount Change	Percent Change
Positions					
01 Regular	137.00	136.00	136.00	0.00	0%
02 Contractual	9.17	10.00	15.00	5.00	50.0%
Total Positions	**146.17**	**146.00**	**151.00**	**5.00**	**3.4%**
Objects					
01 Salaries and Wages	$ 13,875,265	$ 15,138,288	$ 15,049,435	-$ 88,853	-0.6%
02 Technical and Spec. Fees	383,857	430,597	603,018	172,421	40.0%
03 Communication	134,293	145,747	304,039	158,292	108.6%
04 Travel	100,449	109,707	112,998	3,291	3.0%
07 Motor Vehicles	135,849	175,081	130,687	-44,394	-25.4%
08 Contractual Services	822,719	2,446,924	1,998,458	-448,466	-18.3%
09 Supplies and Materials	76,025	79,438	94,486	15,048	18.9%
10 Equipment – Replacement	35,195	37,316	88,197	50,881	136.4%
11 Equipment – Additional	109,425	9,202	65,428	56,226	611.0%
12 Grants, Subsidies, and Contributions	17,597,273	8,988,094	14,203,640	5,215,546	58.0%
13 Fixed Charges	1,090,600	1,105,665	1,145,810	40,145	3.6%
Total Objects	**$ 34,360,950**	**$ 28,666,059**	**$ 33,796,196**	**$ 5,130,137**	**17.9%**
Funds					
03 Special Fund	$ 33,884,967	$ 28,098,507	$ 33,235,284	$ 5,136,777	18.3%
05 Federal Fund	475,983	567,552	560,912	-6,640	-1.2%
Total Funds	**$ 34,360,950**	**$ 28,666,059**	**$ 33,796,196**	**$ 5,130,137**	**17.9%**

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

Appendix 4
Fiscal Summary
Public Service Commission

Program/Unit	FY 16 Actual	FY 17 Wrk Approp	FY 18 Allowance	Change	FY 17 - FY 18 % Change
01 General Administration and Hearings	$ 26,645,928	$ 19,924,858	$ 24,859,321	$ 4,934,463	24.8%
02 Telecommunications, Gas, and Water Division	500,328	548,616	536,910	-11,706	-2.1%
03 Engineering Investigations	1,780,625	2,144,414	2,030,004	-114,410	-5.3%
04 Accounting Investigations	603,972	699,432	693,833	-5,599	-0.8%
05 Common Carrier Investigations	1,702,919	1,674,557	1,884,234	209,677	12.5%
06 Washington Metropolitan Area Transit Commission	239,168	408,275	415,117	6,842	1.7%
07 Electricity Division	429,333	567,782	555,979	-11,803	-2.1%
08 Public Utility Law Judge Division	839,647	854,761	956,202	101,441	11.9%
09 Staff Attorney	1,080,533	1,089,451	1,106,960	17,509	1.6%
10 Energy Analysis and Planning Division	538,497	753,913	757,636	3,723	0.5%
Total Expenditures	**$ 34,360,950**	**$ 28,666,059**	**$ 33,796,196**	**$ 5,130,137**	**17.9%**
Special Fund	$ 33,884,967	$ 28,098,507	$ 33,235,284	$ 5,136,777	18.3%
Federal Fund	475,983	567,552	560,912	-6,640	-1.2%
Total Appropriations	**$ 34,360,950**	**$ 28,666,059**	**$ 33,796,196**	**$ 5,130,137**	**17.9%**

Note: Does not include targeted reversions, deficiencies, and contingent reductions.