C90G00
Public Service Commission

Operating Budget Data

($ in Thousands)

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change	% Change Prior Year
Special Fund	$25,995	$26,950	$19,528	-$7,422	-27.5%
Adjustments	0	-183	124	307	
Adjusted Special Fund	**$25,995**	**$26,766**	**$19,652**	**-$7,114**	**-26.6%**
Federal Fund	695	559	593	34	6.1%
Adjustments	0	-6	4	10	
Adjusted Federal Fund	**$695**	**$553**	**$598**	**$44**	**8.0%**
Adjusted Grand Total	**$26,690**	**$27,320**	**$20,250**	**-$7,070**	**-25.9%**

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The fiscal 2019 allowance of the Public Service Commission (PSC) decreases by $7.0 million, or 25.9%, compared to the fiscal 2018 working appropriation after accounting for the across-the-board reduction in health insurance in fiscal 2018 and a distribution of the general salary increase in fiscal 2019.

- A decrease of $7.1 million in special funds is partially offset by a federal fund increase of $44,191. The special fund decrease primarily results from the distribution of the final grants from the Customer Investment Fund in fiscal 2018.

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

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Personnel Data

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change
Regular Positions	136.00	136.00	137.00	1.00
Contractual FTEs	10.78	15.00	15.00	0.00
Total Personnel	**146.78**	**151.00**	**152.00**	**1.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	5.78	4.25%
Positions and Percentage Vacant as of 1/1/18	4.00	2.94%

- The fiscal 2019 allowance includes 1 new commission advisor position. In addition to the traditional commission advisor role, this position is expected to provide support on nuclear energy and nuclear waste to a PSC commissioner currently serving as the chair of the National Association of Regulatory Utility Commissioners' Nuclear Energy Subcommittee. In total, in fiscal 2019, PSC will have 7 commission advisor positions. As of January 1, 2018, PSC had 1 vacant commission advisor position. However, PSC indicates an individual has already been hired to fill the vacant position.

- There are no changes in the number of contractual full-time equivalents in the fiscal 2019 allowance.

- Turnover expectancy increases from 4.02% to 4.25% in the fiscal 2019 allowance.

- As of January 1, 2018, PSC had a vacancy rate of 2.9% (4.0 positions). To meet its fiscal 2019 turnover expectancy of 4.25%, PSC would need to maintain 5.8 vacant positions. At its current level of vacancies, PSC may have difficulty meeting its budgeted turnover.

Analysis in Brief

Major Trends

General Administration: In fiscal 2017, PSC continued to achieve high levels of performance in the area of General Administration. For the third consecutive year, PSC completed more than 85% of work items within the 30-day deadline, despite substantial increases in filings in each year. In addition, for the second consecutive year, PSC resolved 90% of consumer complaints within 60 days, well above the 80% goal. The number of consumer complaints has decreased substantially in recent years. This decrease results, in part, from the Office of External Relations work with utilities and suppliers to improve the efficiency of complaint resolution.

Public Utility Law Judge Division: In fiscal 2017, the Public Utility Law Judge Division issued more than 90% of decisions within 60 days for nontransportation matters and within 30 days for transportation matters, which exceeded its goals for these measures.

Common Carrier Investigations Division: The workload of the Common Carrier Investigations Division has increased substantially with the implementation of Chapter 204 of 2015, which developed a regulatory structure for transportation network services. From fiscal 2015 through 2017, the number of licensed passenger-for-hire drivers more than tripled, while the number of regulated vehicles increased by more than 1,000%. Despite this growth, the number of passenger-for-hire complaints has held relatively even.

Issues

Offshore Wind Renewable Energy Credits: Chapter 3 of 2013 (the Maryland Offshore Wind Energy Act) established an application process and factors PSC was required to consider in the decision to approve, conditionally approve, or deny an application for offshore wind renewable energy credits (OREC). In May 2017, PSC conditionally approved two applications for ORECs. In total, the two projects are expected to lead to 368 megawatts of offshore wind energy capacity.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Review of Merger Between AltaGas Ltd. and WGL Holdings, Inc.: In April 2017, AltaGas Ltd. and WGL Holdings, Inc. submitted an application to PSC for approval of a merger between the companies. PSC would have been statutorily required to complete its review in December 2017. However, several parties to the case, including the Maryland Energy Administration, submitted a partial settlement agreement to PSC for approval in the case on December 1, 2017. To provide time to review the settlement, the applicants agreed to a stipulation that provides PSC until April 4, 2018, to make a decision.

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 rate adjustments, applications to exercise franchises, applications to exercise substantial influence over the policies and actions of a public service company providing electric or natural gas service, approval of the issuance of securities, promulgation of new rules and regulations, quality of utility and common carrier service, and issuance of Certificates of Public Convenience and Necessity. 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:

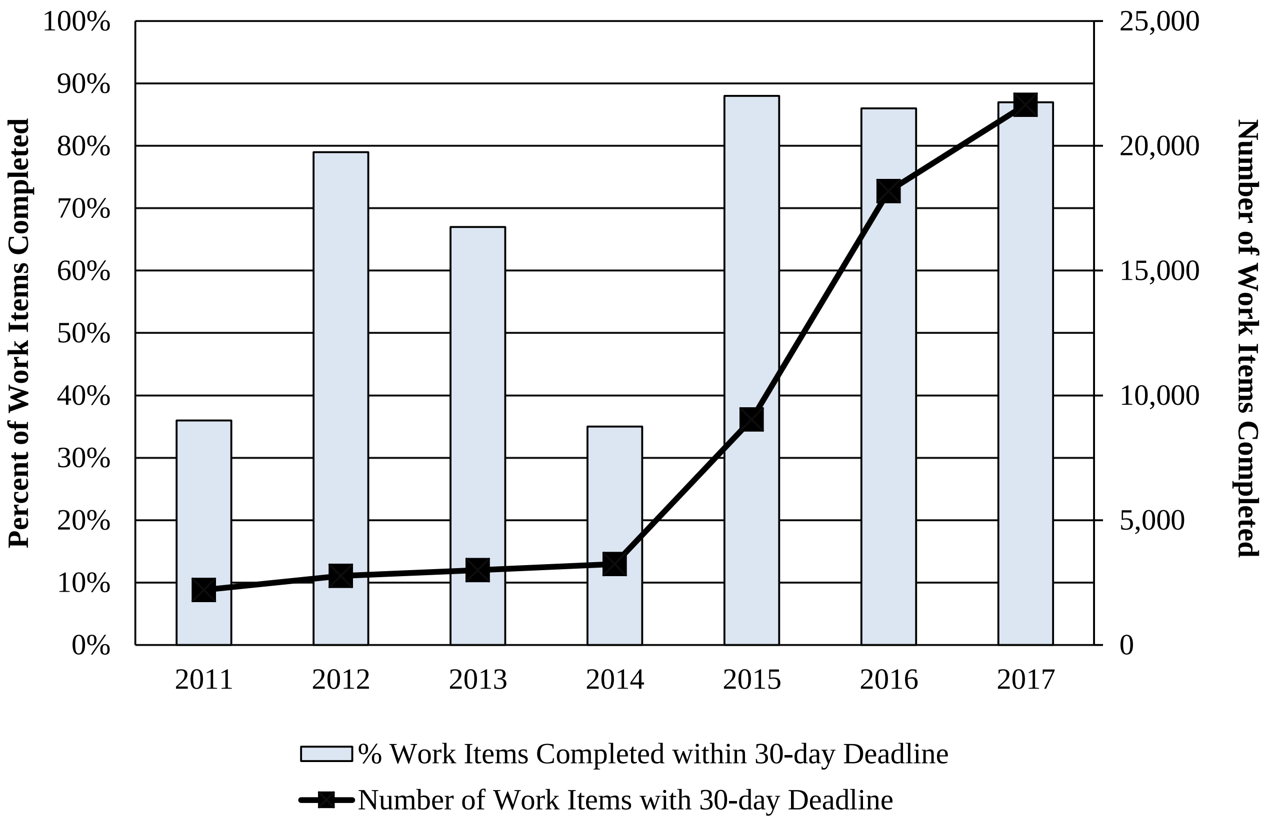
- ensure that gas and electric utility companies operate utility systems safely;
- ensure that public service companies deliver reliable services and that utility systems are adequate to meet customer demand;
- conduct open and fair proceedings and render timely decisions in accordance with statutory 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 communication 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

In fiscal 2017, for the third consecutive year, the percent of work items completed within the 30-day deadline was above 85%, as shown in **Exhibit 1**. PSC maintained this high level of performance despite an increase of 19% in items subject to the deadline. While the growth in items subject to the deadline was substantial, it was much lower than the prior two years when the number of items more than doubled, compared to the prior year. The growth in items subject to the 30-day deadline continues to be attributable primarily to Solar Renewable Energy Credit-related filings, as part of the State's Renewable Portfolio Standard (RPS).

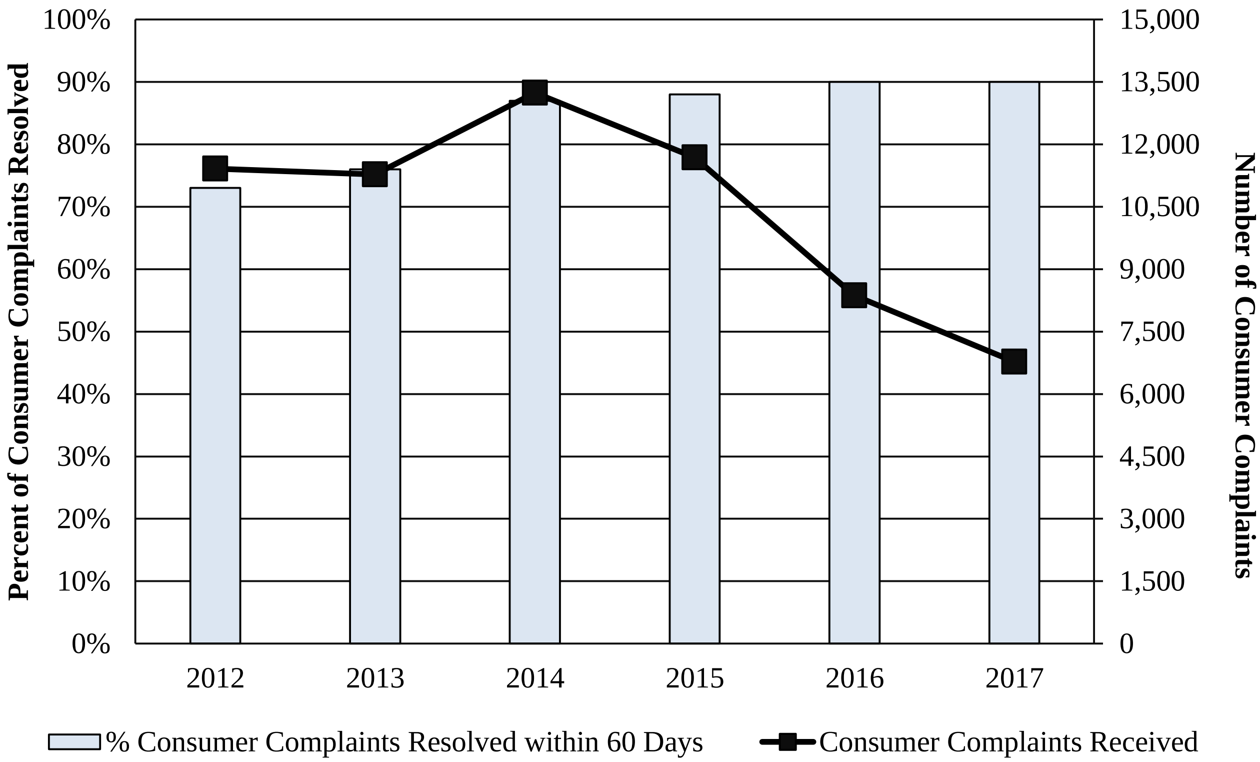
Exhibit 1
Work Items Completed within 30-day Deadline
Fiscal 2011-2017



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

PSC has a goal of resolving 80% of consumer disputes within 60 days. As shown in **Exhibit 2**, in fiscal 2017, PSC resolved 90% of consumer complaints within 60 days for the second consecutive year and met its goal in each year from fiscal 2014 to 2017. In fiscal 2017, for the third year, the number of consumer complaints decreased. The number of consumer complaints in fiscal 2017 was 19% lower than fiscal 2016 and 48.8% lower than fiscal 2014, PSC indicates changes to electric and gas supplier regulations has contributed to a reduction in the number of complaints related to these suppliers. In addition, PSC notes that the Office of External Relations has worked with utilities and suppliers to encourage more efficient handling of complaints. Complaints resolved directly by the utilities or suppliers do not then need to be directed to PSC.

Exhibit 2
Consumer Complaints
Fiscal 2012-2017

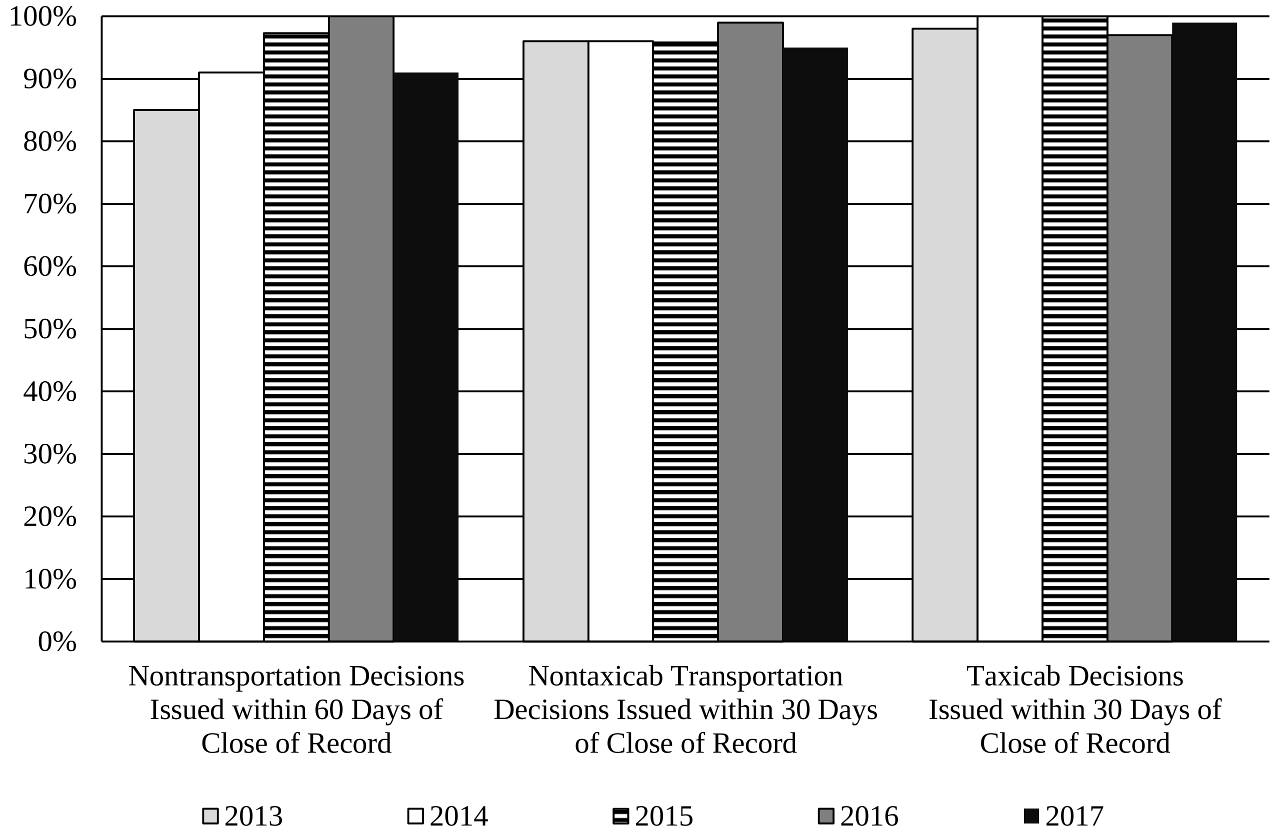


Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

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**, despite timeliness decreasing in two of these three areas from fiscal 2016 to 2017, the Public Utility Law Judge Division continues to exceed these goals. The larger decrease occurred among the timeliness of nontransportation decisions, a decrease of 9 percentage points to 91% of decisions issued timely. PSC attributes this decrease to a small number of cases with very complex issues.

Exhibit 3
Public Utility Law Judge Division
Fiscal 2013-2017



Source: Public Service Commission; Department of Budget and Management

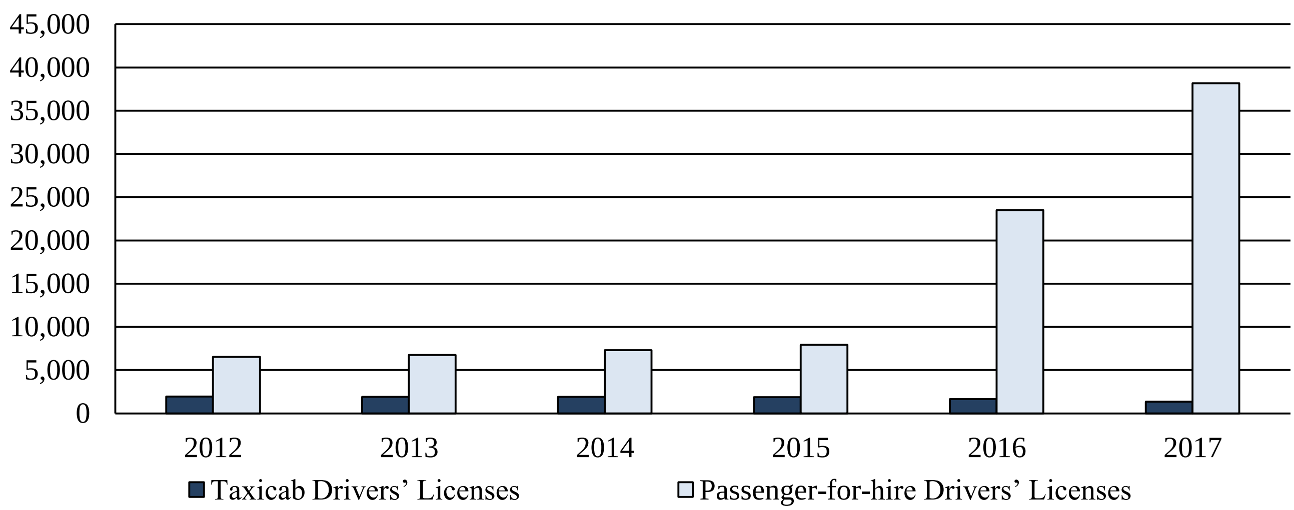
3. Common Carrier Investigations Division

Chapter 204 of 2015 required PSC to develop a regulatory structure for transportation network services (such as Uber Technologies, Inc.) and transportation network operators (TNO) (or partners or drivers). The chapter also established a new type of license to be issued by PSC (a TNO's license). These licenses (either temporary or permanent) must be obtained before an individual may provide transportation network services. PSC staff began issuing temporary TNO licenses in December 2015. PSC also began regulating the vehicles associated with these operations in fiscal 2016. This regulation added to the existing responsibilities of the Common Carriers Division, which is responsible for intrastate passenger-for-hire carriers, vehicles, and licenses and taxicab companies and drivers in Baltimore City, Baltimore County, Cumberland, and Hagerstown.

Licensees

The addition of responsibilities for transportation network companies (TNC) and drivers has dramatically altered the workload of the division. As shown in **Exhibit 4,** the number of passenger-for-hire licensees has more than tripled between fiscal 2015 and 2017, an increase from 7,984 in fiscal 2015 to 38,172 in fiscal 2017. However, the rate of growth in fiscal 2017 was lower than the prior year. The number of taxicab licensees has decreased in recent years, from a recent peak of 1,952 in fiscal 2012 to 1,352 in fiscal 2017 (a decrease of 30.7%). The bulk of that decrease occurred in fiscal 2016 and 2017 (decreases of 10.6% and 18.7%, respectively), coinciding with the introduction of TNC regulation. PSC indicates that a number of former taxicab drivers have become TNOs.

Exhibit 4
Passenger-for-hire and Taxicab Drivers Licensed
Fiscal 2012-2017

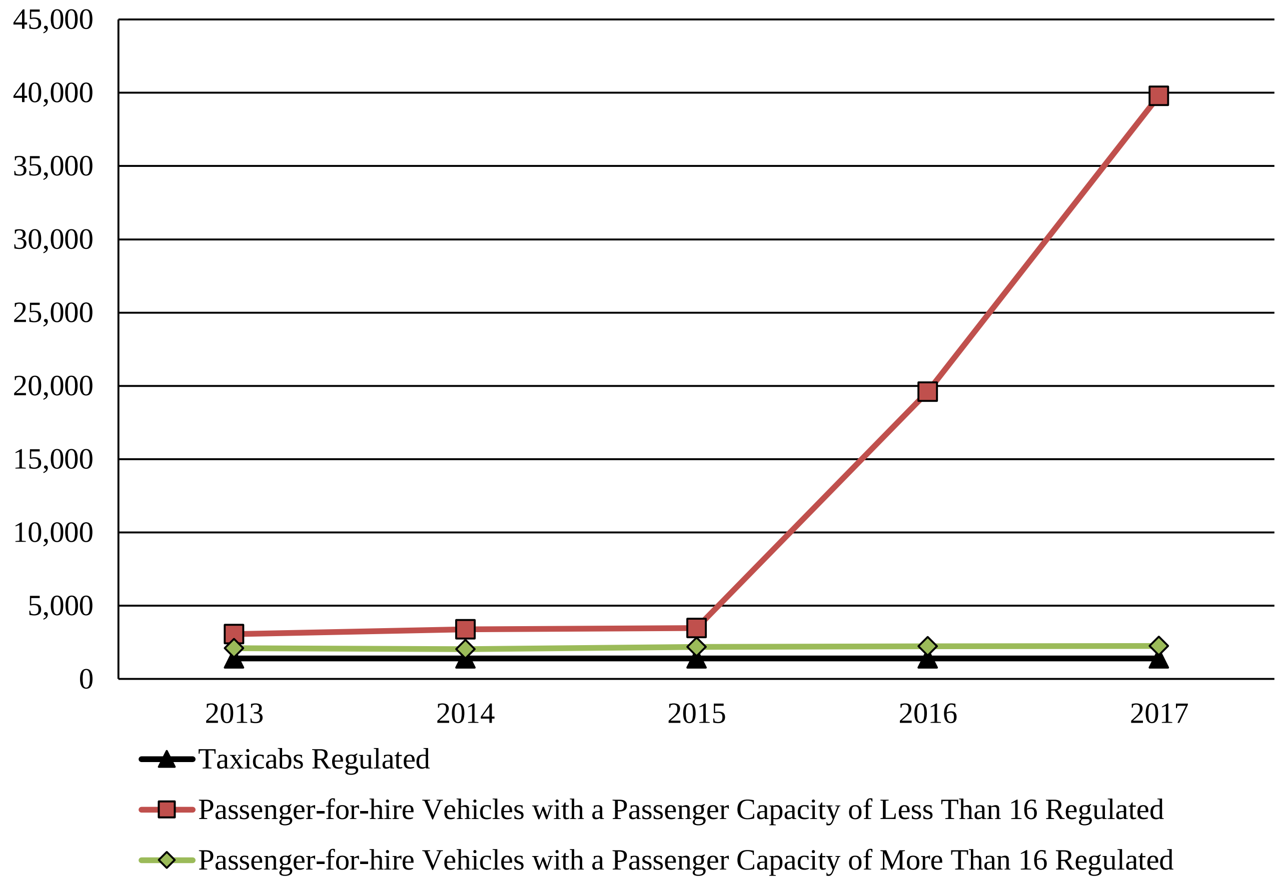


Source: Public Service Commission; Department of Budget and Management; Governor's Budget Books

The number of taxicabs regulated has remained essentially level since fiscal 2013, as has the number of passenger-for-hire vehicles with a passenger capacity of more than 16. In fact, in fiscal 2017, for the first time in any recent year, the number of taxicabs regulated was higher than the number of taxicab licensees. PSC said that not all taxicab permits were used due to a lack of driver availability.

However, as shown in **Exhibit 5**, the number of passenger-for-hire vehicles with a passenger capacity of less than 16 (the category that vehicles of TNOs fall under) increased between fiscal 2015 and 2017 by more than 1,000%. In fiscal 2017, there were nearly 40,000 of these vehicles regulated, while in fiscal 2015, there were fewer than 3,500. In fiscal 2017, there were 3,879 more regulated passenger-for-hire vehicles than licensed passenger-for-hire drivers. PSC explains that the number of passenger-for-hire vehicles regulated is higher than the number of licensees, because TNOs sometimes have more than one authorized vehicle.

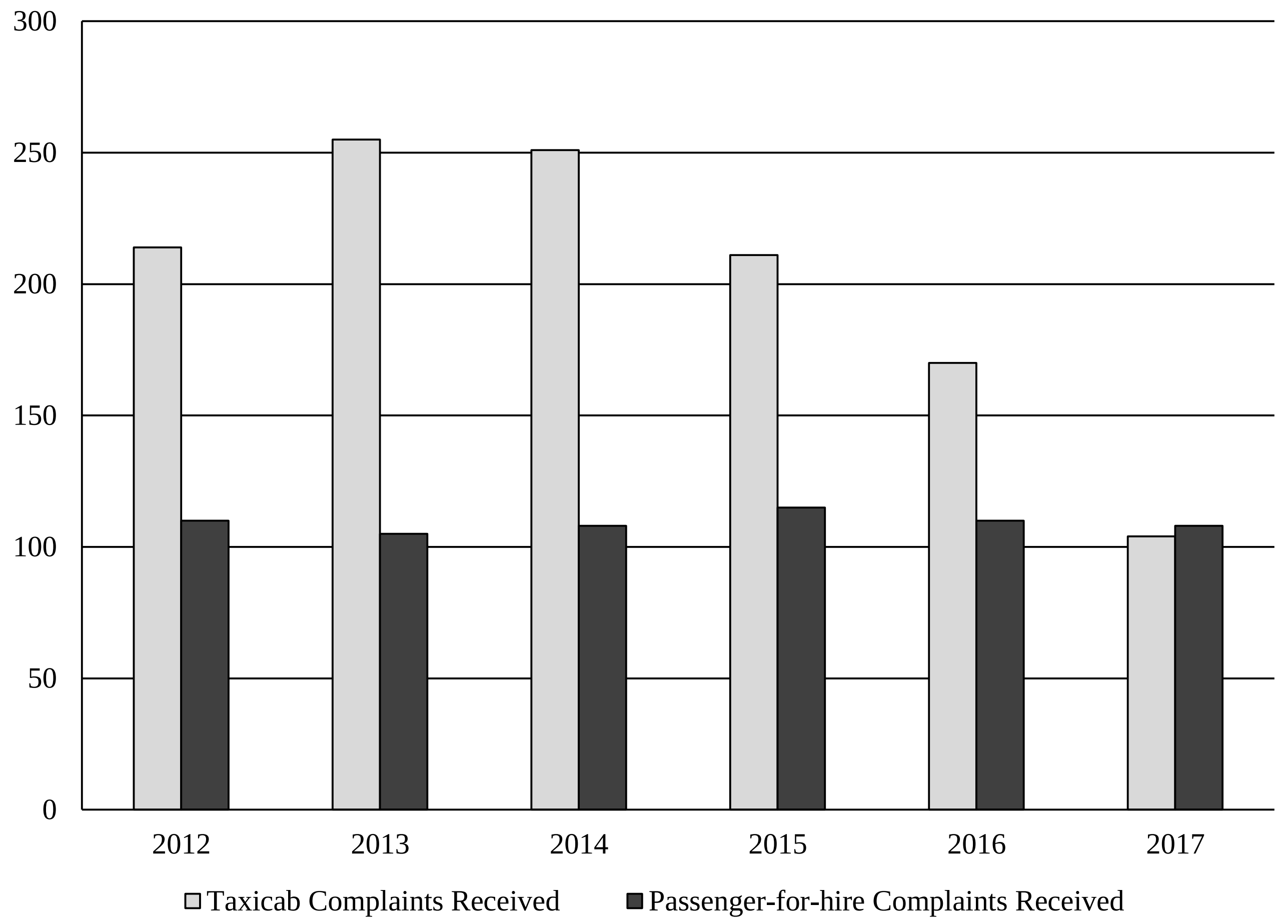
Exhibit 5
Passenger-for-hire and Taxicab Vehicles Regulated
Fiscal 2013-2017



Source: Public Service Commission; Department of Budget and Management

As shown in **Exhibit 6**, in general, the number of passenger-for-hire complaints has fluctuated within a very small range between fiscal 2012 and 2017, even with the significant increase in passenger-for-hire licensees in the last two years. PSC explains that the lack of increase in complaints is the result of good complaint resolution processes by TNCs. In addition, PSC also indicates that TNCs and PSC staff have a good working relationship, which allows the complaints to be resolved quickly. The number of taxicab complaints has fallen substantially since fiscal 2014, a decrease of 58.6% compared to fiscal 2017. PSC indicates that this decrease is partly due to a decrease in use of taxicabs with the addition of TNCs. In addition, PSC notes that taxicab companies have also sought to improve service to compete with TNCs.

Exhibit 6
Passenger-for-hire and Taxicab Complaints
Fiscal 2012-2017



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

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is $183,320 in special funds and $5,842 in federal funds.

Proposed Budget

As shown in **Exhibit 7**, the fiscal 2019 allowance of PSC decreases by $7.1 million, or 25.9%, compared to the fiscal 2018 working appropriation after accounting for the across-the-board reduction in health insurance in fiscal 2018 and the distribution of the general salary increase in fiscal 2019. A decrease of $7.1 million in special funds is partially offset by an increase of $44,191 in federal funds. Federal funds in the PSC budget are exclusively from the federal Pipeline Safety program.

Exhibit 7
Proposed Budget
Public Service Commission
($ in Thousands)

How Much It Grows:	**Special Fund**	**Federal Fund**	**Total**
Fiscal 2017 Actual	$25,995	$695	$26,690
Fiscal 2018 Working Appropriation	26,766	553	27,320
Fiscal 2019 Allowance	19,652	598	20,250
Fiscal 2018-2019 Amount Change	-$7,114	$44	-$7,070
Fiscal 2018-2019 Percent Change	-26.6%	8.0%	-25.9%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance, primarily the impact of the health insurance deduction holidays in fiscal 2018	$173
1 new commission advisor position in part to provide support on nuclear energy and nuclear waste	162
Salary and wage adjustments, including hiring positions above base salary and annualization of reclassifications	148
General salary increase, 2% effective January 1, 2019	128
Employee retirement contributions	28

Where It Goes:	
Turnover expectancy increases from 4.02% to 4.25%	-37
Decrease in anticipated reclassifications	-314
Other fringe benefit adjustments	31
Cost Allocations	
Human Resources Shared Services Initiative	18
Statewide personnel system allocation	-8
Other Expenses	
Consultants due to anticipated increased filings, including rate increases and statutorily required Strategic Infrastructure Development and Enhancement filings from three natural gas utilities	128
Replacement of two vehicles in the Common Carrier Investigations Division	39
Out-of-state travel, primarily to align with recent experience	36
Rent	30
Maryland allocation for the Washington Metropolitan Area Transit Commission	23
Audio-visual equipment due to one-time purchases in fiscal 2018	-16
Printing and office equipment, primarily to align with recent experience	-37
Elimination of Customer Investment Fund grants to non-State agencies because the final grants were made in fiscal 2018	-7,557
Other changes	-45
Total	**-$7,070**

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

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 over a three-year period. In November 2012, PSC allocated the funding to a variety of entities, including Baltimore City, Baltimore County, the Maryland Energy Administration (MEA), 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 Budget Reconciliation and Financing Act (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 in the State budget. The funds from the merger, including the CIF funds provided to State agencies, were included in the budgets of those agencies. The distribution of funds from the CIF to non-State entities was budgeted in PSC.

Initially, all funds from the CIF were expected to be disbursed by the end of fiscal 2016. However, PSC adjusted the timing of the disbursements as a result of periodic reviews. These reviews generally lowered disbursements and extended the timing of disbursements beyond fiscal 2016. In addition, during calendar 2017, PSC announced a reallocation of funds from a previously approved program to other entities. The fiscal 2018 budget appropriated the remaining funds available from the CIF, including $7.6 million in PSC for remaining grants to non-State entities, primarily Baltimore City. PSC indicates that the remaining funding has been provided to CIF grantees in fiscal 2018 as planned. As a result, the fiscal 2019 allowance eliminates funding from the CIF in PSC as well as other agencies, such as MEA. This reduction accounts for the majority of the change in the PSC budget in fiscal 2019.

Issues

1. Offshore Wind Renewable Energy Credits

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. The RPS requires a certain percentage of electricity sales to be generated by qualifying renewable energy sources each year. The percent of electricity required to come from renewable energy increases annually until reaching 25% in calendar 2020. Each renewable energy credit represents 1 megawatt hour of electricity generated. These credits are purchased and submitted to show compliance with the RPS. ORECs are the renewable energy credits issued specifically from a qualified offshore wind project under the State's RPS.

The statute defined a qualified offshore wind project as a wind turbine electricity generation facility, including the associated transmission-related interconnection facilities and equipment that is (1) located on the outer continental shelf of the Atlantic Ocean that the U.S. Department of the Interior designates for leasing after coordination and consultation with the State in accordance with Section 388(A) of the Energy Policy Act of 2005 and is between 10 and 30 miles off the coast of the State; (2) interconnects to the PJM Interconnection, LLC grid at a point located on the Delmarva Peninsula; and (3) PSC approves under Section 7-704.1 of the Public Utilities Article. Among the requirements included in the statute establishing limits on when PSC can approve a project, the statute prohibits PSC from approving projects unless (1) the OREC carve-out of the RPS to an amount does not exceed 2.5%; (2) the projected net rate impact for an average residential customer (based on annual consumption of 12,000 kilowatt hours combined for approved projects does not exceed $1.50 per month in 2012 dollars or 1.5% of nonresidential customers total annual electric bills over the duration of the pricing schedule; and (3) the price set in the proposed OREC price schedule does not exceed $190 per megawatt hour in 2012 dollars.

OREC Application Approval

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 and Associates notified PSC that applications were submitted for two offshore wind projects. Levitan and Associates determined that both applications were administratively complete and met the minimum threshold criteria. Subsequently, PSC opened its review of both projects. On May 11, 2017, PSC issued an order approving ORECs for both projects with a number of conditions. The companies had until May 25, 2017, to respond in writing as to whether it accepted the conditions of approval. Both companies submitted the required notice.

Proposed Projects

The US Wind, Inc. (US Wind) project is a 750 megawatt (MW) project. However, the company sought ORECs for only the development of an initial 248 MW project. US Wind projects a commercial operation date of January 1, 2020, for the 248 MW project. The project was expected to be located approximately 12 nautical miles east of Ocean City, in the Maryland Wind Energy Area. US Wind was awarded the rights to the Maryland Wind Energy Area through a U.S. Department of Interior Bureau of Ocean Energy Management (BOEM) auction process in August 2014.

The Skipjack Offshore Energy, LLC (Skipjack) project is a 120 MW project approximately 17 to 21 nautical miles off of the cost of Maryland in the Delaware Wind Energy Area. Skipjack anticipates a commercial operation date of November 2022 for the project. PSC concurred with a determination made by a consultant that the project met the definition of a qualified offshore wind project, despite being located in an area deemed the Delaware Wind Energy Area. The project is located within 10 to 30 miles of Maryland, and the State was involved through coordination and consultation in the designation of the Delaware Wind Energy Area by BOEM.

OREC Awards

Based on the PSC order, the OREC carve-out in the RPS will vary by year, with the lowest levels in the first two years, 2021 and 2022, when only the US Wind project is included and in the last two years, 2041 and 2042, when only the Skipjack project is included. The carve-out will peak in 2023 at 2.03%, and slowly decline to 1.82% in 2040. US Wind will receive 913,845 ORECs per year and Skipjack will receive 455,482 ORECs per year. Each company will have a gross levelized OREC price of $131.93 (in 2012 dollars), with a 1% price escalator. Combined, the order indicated that the residential ratepayer impact of the two projects is approximately $1.40 per month (in 2012 dollars), and the nonresidential ratepayer impact is approximately 1.4%, both of which are within the statutorily allowed levels.

In total, PSC's order included 27 conditions for US Wind and 28 conditions for Skipjack. These conditions include:

- requiring the companies to sign an Memorandum of Understanding (MOU) with PSC within 90 days to require the company to make "serious, good-faith efforts" to interview minority investors in future attempts to attract new investors or raise venture capital, and within six months engage in good-faith efforts to establish a clear plan for setting appropriate Minority Business Enterprise participation goals for each phase of the project;

- requiring the companies to file the Site Assessment Plan, Construction and Operations Plan, and National Environmental Policy Act documents to PSC concurrent with the submission to the relevant federal agency and specifying that the companies OREC award is contingent of positive review and/or approval of those documents by the relevant federal agency;

- requiring US Wind to locate its project in the eastern most portion of the Maryland Wind Energy Area that can reasonably accommodate the project;

- requiring Skipjack to conduct comprehensive and timely outreach with Maryland and Delaware local, state, and federal officials and agencies in areas including those related to siting and submit a report on those efforts;

- requiring the companies to use the best commercially reasonable efforts to minimize the daytime and nighttime viewshed impacts of its project and minimize the sounds produced during the construction and operation phases of the project;

- requiring the companies to contribute $6.0 million each ($2.0 million at three separate points) to the Maryland Offshore Wind Business Development Fund (MOWBDF);

- requiring the companies to have in-state direct expenditures as a certain percent of total capital expenditures and to contribute the difference into the MOWBDF if the threshold is not met;

- requiring the companies to invest a combined $76.0 million ($51.0 million for US Wind and $25.0 million for Skipjack) in a Maryland steel fabrication plant; and

- requiring the companies to invest a combined $39.6 million ($26.4 million for US Wind and $13.2 million for Skipjack) into upgrades at Tradepoint Atlantic shipyard or a comparable Maryland port facility.

The companies have made the first of the required contributions to MOWBDF ($2.0 million each). The companies have also taken other steps to comply with the PSC conditions of approval. For example, both companies have worked with the PSC Office of External Relations to develop an MOU related to diverse suppliers in contracting opportunities in the development of the project and making good-faith efforts to interview minority investors.

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. The funds were transferred as required. However, only $1.8 million of the $3.0 million were spent for a contract with consultants to assist in the review of applications and the development of regulations.

Chapter 3 allows funds transferred, but not used, to carry forward until June 30, 2019, when unencumbered funds are to be returned to the SEIF. Of the transferred funds, $1.2 million has not been spent. Neither the fiscal 2018 working appropriation nor the fiscal 2019 allowance contains any specific funding from the Offshore Wind Development Fund for consultant services. As noted earlier, the BRFA of 2012 requires funds from the Exelon and Constellation merger to be expended as authorized through the budget bill or other acts of the General Assembly. As a result, absent a supplemental or deficiency appropriation, the Department of Legislative Services (DLS) expects the unencumbered transferred funds to revert back to the Offshore Wind Development Fund. **PSC should comment on if it expects to require any of the remaining funds before the funds must be returned to the Offshore Wind Development Fund/SEIF.**

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. Under the PSC order, the first OREC obligation would not occur until 2021. Therefore, no special assessment for this purpose is expected until at least fiscal 2021.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Review of Merger Between AltaGas Ltd. and WGL Holdings, Inc.

On January 25, 2017, AltaGas Ltd (AltaGas) and WGL Holdings, Inc. (WGL) reached a merger agreement. The merger is an all cash transaction totaling $4.5 billion. Under the merger agreement, WGL shareholders would receive $88.25 for each share of Washington Gas Light Company (Washington Gas) stock. On April 24, 2017, AltaGas, WGL, and Washington Gas submitted an application to PSC for approval under Section 6-105 of the Public Utilities Article for AltaGas to acquire the power to exercise substantial influence over the policies and actions of Washington Gas.

AltaGas is a Canadian company and will be the parent company following the merger. AltaGas utility companies serve more than 570,000 customers through five local natural gas distribution companies in two states (Michigan and Alaska) and three Canadian provinces (Alberta, British Columbia, and Nova Scotia). AltaGas also operates businesses in the areas of natural gas gathering and processing extraction, transmission, storage, and marketing, as well as clean electric generation. Washington Gas serves a total of 1.1 million customers (of which 473,000, or 41%, are in Maryland). In addition to Washington Gas, WGL also operates natural gas storage facilities and several unregulated businesses, which include residential and commercial retail energy.

In addition to approval by PSC, the merger was subject to a number of federal and State reviews. AltaGas has submitted to PSC letters indicating that the merger has received approval from the Federal Energy Regulatory Commission, the federal antitrust review, and Virginia's State Corporation Commission. The review of the merger by PSC of the District of Columbia is still ongoing as of this writing.

Merger Application

In the merger application, the companies made 43 commitments that the companies believed showed that the merger is consistent with the public interest, provides benefits to customers, and ensures that no harm is caused. Some of the commitments were territory-wide, without specifically identified amounts for Maryland. The commitments included:

- a one-time $50 rate credit for residential heating Maryland Washington Gas customers;
- the development of 5 MW of electric grid energy storage or Tier 1 renewable resources in the Greater Washington, DC metropolitan area; and
- a contribution of $450,000 to assess the development of biogas facilities in the metropolitan area.

Maryland Review

Under statutory requirements, PSC would have been required to complete its review of the merger by December 5, 2017. However, on December 1, 2017, the companies submitted a settlement agreement reached with the State of Maryland (represented by MEA), Montgomery and Prince George's counties, and Laborers' International Union of North America. To allow PSC the time to review the settlement agreement, the companies agreed to a stipulation that provides PSC until April 4, 2018, to issue an order in the case.

The settlement agreement (which did not include all parties to the case) added several additional commitments. Two of these new commitments would provide funding to be administered by MEA. The additional commitments include:

- the establishment of a Maryland Gas Expansion Fund, with a total of $33 million, to be administered by MEA to be used to promote the expansion of natural gas infrastructure including, for example, use as a matching grant to local distribution companies for building this infrastructure;

- a contribution of $4.6 million to be administered by MEA for an existing commercial and industrial customer energy efficiency program with a focus on Calvert, Charles, Frederick, and St. Mary's counties;

- an agreement by AltaGas and Washington Gas to work with MEA to develop additional gas expansion proposals for PSC review and approval;

- a contribution of $28.4 million to be administered by Montgomery ($15.0 million) and Prince George's ($13.4 million) counties for programs including energy efficiency and workforce development, of which 20% must be used to benefit low- and moderate-income customers; and

- a development (either directly or indirectly) of 5 MW of renewable or other distributed generation in Maryland (2.5 MW in each Montgomery and Prince George's counties).

In addition to these new commitments, the companies more explicitly provided information on the Maryland portion of certain commitments originally offered. For example, of the $1.5 million contribution to the Washington Area Fuel Fund, at least $595,000 will be used for customers in Maryland. As another example, of the contribution of $1.2 million per year for 10 years for charities, at least $475,000 per year will be provided to charities serving Maryland customers. The settlement agreement also includes a Most Favored Nation provision, which would provide for an increase in certain benefits in Maryland if the benefits provided in the final order of PSC of the District of Columbia are higher than those provided in Maryland. A similar provision was approved in the merger between Exelon and Pepco Holdings, Inc. and led to an increase of benefits in Maryland from that merger.

In a number of recent orders issued by PSC, various companies have been required to contribute funds, which were to be used by State agencies. The settlement agreement, if approved, would also provide a State agency (MEA) with significant additional funding (at least $37.6 million). In the MEA budget analysis, DLS recommended adding a provision to the BRFA of 2018 requiring funds provided to State agencies as a result of any conditions of merger approval being expended as appropriated in the State budget, other legislation, or through a budget amendment.

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2017					
Legislative Appropriation	$0	$27,927	$568	$0	$28,495
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	171	128	0	299
Reversions and Cancellations	0	-2,104	0	0	-2,104
Actual Expenditures	**$0**	**$25,995**	**$695**	**$0**	**$26,690**
Fiscal 2018					
Legislative Appropriation	$0	$26,950	$559	$0	$27,509
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$26,950**	**$559**	**$0**	**$27,509**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

The fiscal 2017 expenditures of the Public Service Commission (PSC) were $1.8 million lower than the legislative appropriation. An increase in federal fund expenditures ($127,793) was more than offset by lower special fund expenditures ($1.9 million). Increases totaling $299,124 ($171,331 in special funds and $127,793 in federal funds) occurred by budget amendment. Special fund increases resulted from the distribution of employee increments that were budgeted centrally. Federal fund increases resulted from a higher than anticipated reimbursement of federal pipeline safety funds and federal pipeline safety funds available from prior years in the Engineering Investigations Division for a variety of operating expenditures. These increases were more than offset by special fund cancellations totaling $2.1 million. The cancellations occurred primarily due to lower than anticipated expenditures for consultant services ($1.3 million) and higher than expected vacancies ($0.7 million).

Fiscal 2018

There has been no change to the legislative appropriation of PSC in fiscal 2018.

Appendix 2
Object/Fund Difference Report
Public Service Commission

Object/Fund	FY 17 Actual	FY 18 Working Appropriation	FY 19 Allowance	FY 18 - FY 19 Amount Change	Percent Change
Positions					
01 Regular	136.00	136.00	137.00	1.00	0.7%
02 Contractual	10.78	15.00	15.00	0.00	0%
Total Positions	**146.78**	**151.00**	**152.00**	**1.00**	**0.7%**
Objects					
01 Salaries and Wages	$ 14,553,874	$ 14,994,134	$ 15,149,179	$ 155,045	1.0%
02 Technical and Spec. Fees	481,262	603,018	599,898	- 3,120	- 0.5%
03 Communication	118,710	304,039	150,474	- 153,565	- 50.5%
04 Travel	124,643	112,998	148,257	35,259	31.2%
07 Motor Vehicles	186,002	130,687	187,329	56,642	43.3%
08 Contractual Services	1,153,609	1,998,458	2,093,108	94,650	4.7%
09 Supplies and Materials	63,857	94,486	85,989	- 8,497	- 9.0%
10 Equipment – Replacement	15,847	88,197	50,368	- 37,829	- 42.9%
11 Equipment – Additional	28,558	65,428	53,344	- 12,084	- 18.5%
12 Grants, Subsidies, and Contributions	8,864,754	7,971,713	438,218	- 7,533,495	- 94.5%
13 Fixed Charges	1,098,854	1,145,810	1,165,178	19,368	1.7%
Total Objects	**$ 26,689,970**	**$ 27,508,968**	**$ 20,121,342**	**- $ 7,387,626**	**- 26.9%**
Funds					
03 Special Fund	$ 25,994,625	$ 26,949,777	$ 19,527,921	- $ 7,421,856	- 27.5%
05 Federal Fund	695,345	559,191	593,421	34,230	6.1%
Total Funds	**$ 26,689,970**	**$ 27,508,968**	**$ 20,121,342**	**- $ 7,387,626**	**- 26.9%**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

Appendix 3
Fiscal Summary
Public Service Commission

Program/Unit	FY 17 Actual	FY 18 Wrk Approp	FY 19 Allowance	Change	FY 18 - FY 19 % Change
01 General Administration and Hearings	$ 18,556,313	$ 18,600,330	$ 11,221,450	- $ 7,378,880	- 39.7%
02 Telecommunications, Gas, and Water Division	538,542	534,928	536,572	1,644	0.3%
03 Engineering Investigations	1,961,389	2,023,088	2,044,059	20,971	1.0%
04 Accounting Investigations	602,759	691,569	694,993	3,424	0.5%
05 Common Carrier Investigations	1,770,797	1,879,429	1,932,217	52,788	2.8%
06 Washington Metropolitan Area Transit	284,935	415,117	438,218	23,101	5.6%
07 Electricity Division	366,269	554,074	531,725	- 22,349	- 4.0%
08 Public Utility Law Judge Division	927,827	952,515	927,522	- 24,993	- 2.6%
09 Staff Attorney	1,119,893	1,102,764	1,094,373	- 8,391	- 0.8%
10 Energy Analysis and Planning Division	561,246	755,154	700,213	- 54,941	- 7.3%
Total Expenditures	**$ 26,689,970**	**$ 27,508,968**	**$ 20,121,342**	**- $ 7,387,626**	**- 26.9%**
Special Fund	$ 25,994,625	$ 26,949,777	$ 19,527,921	- $ 7,421,856	- 27.5%
Federal Fund	695,345	559,191	593,421	34,230	6.1%
Total Appropriations	**$ 26,689,970**	**$ 27,508,968**	**$ 20,121,342**	**- $ 7,387,626**	**- 26.9%**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.