HB 1

Department of Legislative Services

Maryland General Assembly
2006 Special Session

FISCAL AND POLICY NOTE

House Bill 1 (Speaker and Chairman of House Economic Matters Committee)
Economic Matters

Public Service Commission - Electric Industry Restructuring

This emergency bill changes provisions governing electric industry operations and State oversight. The appointment process for the Public Service Commission (PSC) and Office of the People's Counsel (OPC) is altered. The obligation continues for electric companies to provide standard offer service (SOS) to residential and small commercial customers. Provisions relating to SOS include requiring studies by PSC, changing the electricity supply bid process, and specifying the framework for rate increase stabilization plans that allow for long-term securitization of electricity costs. The bill establishes specific provisions for a required rate stabilization plan for electric companies whose rate caps expire June 30, 2006 (*i.e.*, BGE) and related deferral recovery and mitigation of deferral payments. The bill establishes review requirements for specified mergers that involve PSC and the Office of the Attorney General. The funding level of the Electric Universal Service Program (EUSP) is enhanced and program eligibility is expanded.

Fiscal Summary

State Effect: EUSP special fund revenues would increase by $9 million in FY 2007 and by $3 million annually thereafter. General fund expenditures will increase by $250,000 for the State Department of Assessments and Taxation for consulting services in FY 2007 and special fund expenditures will increase by $1.8 million in FY 2007 for PSC, OPC, and Office of the Attorney General for various proceedings.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$9.0	$3.0	$3.0	$3.0	$3.0
GF Expenditure	.3	0	0	0	0
SF Expenditure	1.8	0	0	0	0
Net Effect	$6.9	$3.0	$3.0	$3.0	$3.0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential minimal benefit to small businesses from the limit in the electric company rate of return.

Analysis

Bill Summary and Current Law:

Public Service Commission (PSC)

The Bill: Members of PSC must represent the geographic and demographic diversity of the State. The current terms of the PSC commissioners terminate on June 30, 2006. By July 1, 2006, the President of the Senate and Speaker of the House must present a list of at least 3 names from which the Governor must select a new chairman and a second list of at least 10 names from which the Governor must select four commissioners. If the Governor fails to appoint five members by July 15, 2006, the President and Speaker shall promptly appoint the members and the Executive Secretary will be authorized to carry out the ministerial functions until members are fully appointed. The new commissioners have staggered five-year terms with the new chairman's term ending June 30, 2009. When the terms expire, members will be appointed by the Governor with the advice and consent of the Senate. If the removal of the current commissioners is found to be invalid, then the commissioners' terms are eliminated and these public officers serve at the pleasure of the Attorney General, who can terminate their service and appoint successors.

Current Law: Members are required to be broadly representative of the public interest. Members are appointed by the Governor with the advice and consent of the Senate serving five-year staggered terms.

Office of the People's Counsel

The Bill: The Attorney General will appoint the People's Counsel with the advice and consent of the Senate; the People's Counsel will serve a five-year term beginning July 1 and may be removed for good cause by the Attorney General.

Current Law: The People's Counsel is appointed by the Governor with the advice and consent of the Senate and serves at the pleasure of the Governor.

Required Studies

The Bill:

- By December 31, 2008, and every five years thereafter, PSC must report on the status of SOS, the development of competition, and the transition of SOS to a default service.
- PSC must initiate an evidentiary proceeding to study and evaluate the status of electric restructuring in the State as it pertains to the availability of competitive generation for residential and small commercial customers and report its findings by December 31, 2006. Specified items are required as part of the study.
- PSC must conduct investigatory and evidentiary proceedings to reevaluate the general structure of deregulation, agreements, and actions of the previous PSC with regard to the Electric Consumer Choice Act of 1999 and report its findings by December 31, 2006. PSC is authorized to hire consultants and experts.
- PSC is required to study changes to the SOS bidding process and must report its findings and recommendations by December 31, 2006.
- PSC is required to study opt-out local government aggregation and must report its findings and recommendations by December 31, 2006.
- PSC must report by October 1 each year from 2006 through 2010 on specified impacts of the costs of rising fuel prices on low-income residential consumers. An initial report is required by December 31, 2006.
- The State Department of Assessments and Taxation must study whether the current valuation of power plants provides an adequate and equitable determination of the value of power plants in a restructured electric industry and report its findings and recommendations by December 31, 2006. The study must include the potential fiscal impact to the State, counties, and electric companies of any proposed changes to the current valuation. The department must hire a consultant with expertise in plant valuation as part of the study. The department may not change the current method before May 1, 2007.

Current Law: PSC must annually reexamine the finding regarding whether the electricity supply market is competitive or that no acceptable competition exists for the obligation to provide SOS to be extended.

Competitive Auction/Activities

The Bill: The bidding process for SOS must be a competitive process designed to obtain the best price for customers in light of market conditions and the need to protect customers from excessive price increases. Bids must be part of a portfolio of blended wholesale supply contracts of short, medium, and long terms as needed to meet demand cost effectively. The process may include different bidding structures for base load, peak load, and very short-term procurement. To prevent excessive upward price pressure, PSC must stagger the auction dates and may change set auction dates based on current market conditions. It may also allow an electric company to refuse to accept some or all of the bids received. Within 90 days of contract executions, the electric company is required to publicly disclose the names of all bidders and the names and load allocations of all successful bidders.

If found to be in the public interest, PSC may (1) require or allow an owner-invested electric company to procure electricity directly from a supplier through one or more bilateral contracts outside the auction process; (2) require or allow procurement of energy efficiency and conservation measures to offset demand and the imposition of other demand-side management programs; and (3) allow an owner-invested electric company to construct or acquire and operate its own generating and transmission facilities necessary to interconnect the generating facilities with the electric grid.

Current Law: To procure SOS supply, PSC, as provided in settlement agreements, has implemented a process for auctions of blocks of electric load at various times of year and day. The electric companies conduct three or four auctions involving offers of load blocks of one, two, and three years' duration on which all other contract terms except price are identical. PSC, the Office of People's Counsel, and an independent market monitor oversee the auction process to prevent collusion. Winning bids are based solely on the lowest price. At the conclusion of the auctions, the prices of the successful bids are blended to arrive at the resulting rate for each class of consumer.

Rate Increases, in General

The Bill: To determine an appropriate phased implementation of electricity rates to protect residential customers from sudden and significant rate increases, PSC is required to conduct an evidentiary proceeding in the case of an increase of 20% or more. A deferral of costs that is part of a phased implementation of rates must be treated as a regulatory asset to be recovered by the electric company from the customer as part of a rate stabilization plan or other plan approved by PSC. Deferred costs must be just, reasonable, and in the public interest.

PSC may approve a phased increase in customer electric costs by (1) placing a cap on rates and allowing recovery by the electric company over time; or (2) allowing rates to increase and providing a rebate to customers of excess costs paid. Cost recovery may be either a long-term recovery under a rate stabilization plan or a short-term recovery through a rate proceeding.

Current Law: There are no provisions for reviewing or deferring significant SOS rate increases. Increases in distribution rates are required to be approved by PSC as part of the continuing regulation of electricity distribution and transmission functions of the electric system.

The Bill: Based on a determination that total electric rates for residential customers of an electric cooperative are anticipated to increase by more than 20% in a 12-month period, the cooperative must survey its membership to determine whether a request to PSC should be made to initiate a proceeding investigating options for a rate stabilization plan.

Current Law: There is no provision for a cooperative to survey its membership regarding rate increases.

Rate Stabilization Plans, in General

The Bill: An electric company may file a rate stabilization plan or PSC may mandate a rate stabilization plan for the deferral of incremental expenses of electricity supplies. The rate stabilization plan may provide that a deferral is to be securitized as regulatory assets through the issuance of rate stabilization bonds authorized by a qualified rate order approved by PSC. Final determination on a rate stabilization plan must be made within 60 days after the electric company requests the order. Appeals may only be made to the Court of Special Appeals within 15 days of an order.

Tariffs implementing a rate stabilization plan may provide that (1) residential customers will be charged the full cost of SOS necessary to recover the electric company's costs; and (2) any credits or charges will be **included** as non-bypassable credits or charges on the electric distribution portion of the customers' bills. The non-bypassable charge applies to all customers regardless of electric generation supplier selection; that is, customers cannot bypass the charge by selecting another electric generator. The electric company's costs can include the carrying costs of the deferred regulatory asset in an amount equal to either the company's cost of debt or the actual cost of the securitized debt. The cost to be recovered or financed may be reduced by funds contributed from other sources. The cost recovery period may not exceed 12 years.

As part of an approved rate stabilization plan, an electric company may be allowed to issue securitized debt to cover its deferred costs.

Current Law: No provisions in law allow a rate stabilization plan for SOS.

Background: Securitization is a financing tool that has been employed for many years to expand the availability and reduce the cost of consumer and business credit. Securitization refers to the creation of a financial security or bond that is backed by a revenue stream pledged to pay the principal and interest of that security. It provides utilities an up-front, lump-sum payment from the sale of the security. Securitization creates a transferable property right to collect from the utility's ratepayers a customer charge or through some other non-bypassable obligation placed on ratepayers. The securitized bondholders then have the right to collect the charge from the utility's customers that are obligated to pay it. The utility or distribution company collects the customer charge from the customers and transfers the funds to the trustee that then transfers it to the securitized bondholders.

BGE Rate Stabilization Plan

The Bill: An electric company that has an obligation to provide SOS to residential customers for whom rate caps expire at the end of June 30, 2006 (*i.e.*, BGE) is required to file tariffs with PSC to implement a rate stabilization plan consistent with the bill. Within 20 days, PSC must issue an order implementing the plan. The plan must require the electric company to establish regulatory assets to account for the deferral of the SOS rate during the July 1, 2006 through May 31, 2007 period and allow payback to begin January 1, 2007 through charges to residential electric customers. The payback period may not exceed 10 years.

The plan must limit the increase in the total rates charged to residential electric customers on SOS, as compared to the total rates in effect on June 30, 2006, to 15% from July 1, 2006 through May 31, 2007 and by an amount determined by PSC from June 1, 2007. SOS for residential customers must be at full market rates starting June 1, 2008. As part of a BGE rate stabilization plan, PSC must incorporate by way of non-bypassable credits (1) any adjustments, in favor of customers, to allowances for stranded costs; and (2) any funds identified by PSC as properly allocated to customers as a result of the Constellation Energy Group, Inc merger with FPL Group, Inc. These credits may not be later recovered in rates or otherwise.

Beginning January 1, 2007, BGE shall apply credits totaling $38,661,980 annually for 10 years to the bills of all residential customers. The credits are non-bypassable and are derived from (1) suspension of the residential return component of the administrative charge, deemed a value of $20 million; and (2) a credit of the $18,661,980 annual nuclear decommissioning charge collected. The nuclear decommission charge may not be altered during the 10-year credit period. Credits may not be recovered through electric rates.

See **Appendix 2** for Legislative Services' estimate of the monthly customer impact from BGE rate mitigation deferral payments.

Background: Included in the deregulation settlement agreements, SOS rates after the rate caps expire include a component for an administrative charge. The total administrative charge is $0.004 per kilowatt hour. The components of the total administrative charge are (1) $0.0015 for the utility reasonable rate of return; (2) $0.0005 for incremental costs; and (3) $0.002 for administrative adjustment. **Appendix 1** provides a breakdown of the current components of the administrative charge and related revenues.

The regulation of nuclear facilities is the responsibility of the Nuclear Regulatory Commission (NRC). NRC regulations specify that decommissioning be completed within 60 years of permanent cessation of operations. The total cost of decommissioning depends on many factors, including the sequence and timing of the various stages of the program, location of the facility, current radioactive waste burial costs, and plans for spent fuel storage. The BGE deregulation settlement agreement contained provisions for customer payments toward Calvert Cliffs decommissioning. Customer funding of nuclear decommissioning is treated as follows: (a) customer contributions for nuclear decommissioning costs are made at a fixed annual rate of $18,661,980 until June 30, 2006; (b) the total contribution to the cost of nuclear decommissioning to be paid by customers is frozen at $520 million in 1993 dollars as established by PSC Order No. 72240; and (c) in BGE's compliance filing dated April 3, 2006, customer contributions would continue at the same annual rate until April 1, 2016 when a subsequent filing would be made. Calvert Cliffs was relicensed in March 2000, thereby extending the plant life from 2014 to 2034 for Unit 1 and 2016 to 2036 for Unit 2.

State Tax Provisions – Income Tax

The Bill: The current income tax credit for 60% of total property taxes paid by a public utility on its operating real property in the State, other than operating land, which is used to generate electricity or steam for sale is repealed. For fiscal 2007 only, the Comptroller will distribute $6.0 million in State income tax revenues to the Electric Universal Service Fund (EUSP). This provision applies to taxable years beginning after December 31, 2005.

Current Law: Chapter 5 and 6 of 1999 altered the taxation of utilities to account for restructuring and included the provision that a public utility can claim a credit against the State income tax equal to 60% of the total property taxes paid by the utility on its operating real property (other than land) in the State that is used for electricity or steam generation for sale. The amount of the credit may not exceed the tax liability in that year, and any unused amount may not be carried forward to any other tax year. When this income tax credit was enacted in 1999, all four of the State's investor-owned electric utilities (BGE, PEPCO, Potomac Edison/Allegheny Energy, and Delmarva Power/Conectiv) owned generation facilities in the State and were eligible for this credit for real property taxes paid on the generation facilities. However, since 1999, the power plants owned by the electric utilities other than BGE have been sold or transferred to unregulated entities and are no longer treated as part of the operating real property of the public utility for property tax purposes, and thus are no longer eligible for the income tax credit.

Electric Universal Service Program

The Bill: The income level for eligibility in EUSP is increased from 150% to 175% of the federal poverty level. The fund will receive an additional ongoing $3 million collected from industrial and commercial customers and a one-time $6.0 million from State corporate income tax revenues, the estimated value of the repeal of the above mentioned income tax credit. The $6.0 million may not be returned to customers as current assessment may and distribution is without limitations on retirement of arrearages. As determined by the Office of Home Energy Programs, bill assistance payments may be made on a monthly basis. (By allowing a monthly payment, more funds are able to remain in State controlled accounts and State interest earnings would be expected to increase.) See **Appendix 3** for funding sources and amounts for the EUSP for fiscal 2007.

Current Law: Chapters 3 and 4 of 1999 required PSC to establish a continuing, nonlapsing EUSP to help electric customers with annual incomes at or below 150% of the federal poverty level. The Department of Human Resources (DHR) is required to administer the program through the Office of Home Energy Programs (OHEP). The universal service program includes (1) bill assistance, at a minimum of 50 % of the individual's need; (2) low-income weatherization; and (3) retiring arrearages.

PSC determines a fair and equitable way of allocating electric customers' charges among all customer classes. The total funds collected for the universal service program are $34 million annually: $24.4 million from the industrial and commercial classes; and $9.6 million from the residential classes. At the end of a fiscal year, any unspent funds collected during that year must be made available for disbursement during the first three months of the next fiscal year to customers who qualify for assistance during the given fiscal year, apply for assistance from the fund before the end of the given fiscal year, and remain eligible for assistance when services are provided. PSC may give an additional three-month extension to disburse the unspent funds in a given fiscal year. Any unspent funds that remain unspent at the end of the allowable period must revert back to each customer class in proportion to their contributions.

Electric companies receive a lump sum for each eligible customer to be used over several months to credit the customer's account.

PSC Jurisdiction over Public Service Company Actions

Merger Review

The Bill: PSC may not take final action to approve or disapprove a merger between FPL Group and Constellation Energy Group until the new PSC members are appointed. Any approval must meet the following conditions:

- may not allow the transfer of facilities between FPL or BGE and an associate company;
- may not allow the new issuances of securities by FPL or BGE for the benefit of an associate company;
- may not allow new pledges or encumbrances of assets of FPL or BGE for the benefit of an associate company;
- may not allow new affiliate contracts between nonutility associate companies and FPL or BGE (other than goods and services); and
- any savings realized must be applied in part to the elimination of carrying charges and the delay of increases in residential electric rates in a plan for rate stabilization or minimization.

The Office of the Attorney General is directed to intervene and participate in PSC proceedings and other appropriate State or federal hearings regarding the Constellation – FPL merger. Costs and expenses may not exceed $500,000 to be borne by public service companies in the same manner these companies are assessed annually.

Purchase of Stock of a Public Service Company, Issuance of Stock by a Public Service Company, Lending by a Public Service Company to an Affiliate

The Bill: Without prior PSC authorization:

- A public service company may not purchase/acquire/take/hold any part of capital stock of another public service company that operates in Maryland (currently, approval is only required for companies that are incorporated in Maryland).
- A public service company that operates in Maryland (currently, refers to incorporated in Maryland) may not issue stocks or bonds.
- A public service company that operates in Maryland may not lend money to an affiliate at rates or on terms that are significantly more favorable to the affiliate than the rates or terms that are otherwise commercially available to the affiliate.

- A public service company may not take/hold/acquire stock of a public service company or a subsidiary or affiliate of a public service company that operates in Maryland and is of the same class (currently, refers to incorporated in Maryland).
- A stock corporation (unless a public service company of the same class) may not take/hold/acquire more than 10% of the total capital stock of a public service company that operates in Maryland (currently, refers to incorporated in Maryland).

This provision takes effect January 1, 2007 and applies prospectively.

Acquisition of a Public Service Company by Person Not Engaged in the Public Utility Business

The Bill: Without prior PSC authorization, a person may not acquire, directly or indirectly, the power to exercise any substantial influence over the policies and actions of an electric company or gas company, if the person would become an affiliate of the electric company or gas company as a result of the acquisition. As part of its review, PSC is required to consider specified factors including (1) impact on rates and the continuing investment needs for the maintenance of infrastructure; (2) potential effect on employment; (3) projected allocation of savings between stockholders and ratepayers; (4) issues of reliability and quality of service; and (5) potential impact on community investment. PSC is required to issue an order granting the application if it finds that the acquisition is consistent with the public interest, convenience, and necessity, and provides a net benefit to consumers; however, PSC may condition an order on the applicant's satisfactory performance or adherence to specific requirements.

Current Law: PSC's authority to oversee mergers and purchases of public service companies operating in the State is part of its general, supervisory, and regulatory powers under the Public Utilities Article and relates strictly to companies incorporated in the State. Certain provisions explicitly require public service companies to seek permission from PSC prior to undertaking specified activities. A public service company must receive authorization from PSC prior to assigning, leasing, or transferring a franchise or right under a franchise. Without prior approval, a public service company may not purchase, acquire, take, or hold any part of the capital stock or indebtedness of another public service company incorporated in Maryland.

Allegheny Power

The Bill: Rate caps for Allegheny Power are set to expire on December 31, 2008. The bill authorizes PSC on its own initiative or on request of an electric company (Allegheny Power) in the service territory of which a rate cap or freeze expires after July 1, 2006, to initiate a proceeding to investigate options available to implement a rate mitigation plan or rate stabilization plan.

Court Action

The Bill: If any action is brought to challenge the constitutionality of any provision of this legislation:

- The action must be filed in the Circuit Court of Baltimore City.
- The Attorney General must be permitted to intervene.
- A final decision of the circuit court must be reviewable by appeal directly to the Court of Appeals of Maryland.
- It is the duty of the circuit court and Court of Appeals to advance on the docket and to expedite the disposition of the action and the appeal.

Background: Due to short-term and long-term increases in the prices of commodities used to generate electricity since 1999, retail prices of electricity in areas of the State subject to market pricing are expected to rise dramatically. As a result of wholesale electricity auctions in the 2005 winter, the market-based cost of electricity for an average residential customer will increase by 35% on June 1, 2006 in Delmarva service territory, by 39% on June 1, 2006 in PEPCO service territory, and by 72% on July 1, 2006 in BGE service territory (see **Appendix 4** for breakdown in changes to BGE rates and **Appendix 5** for comparisons of all electric company rates in Maryland effective July 1, 2006). See a chart of rate increases experienced since rate caps began expiring across the State in **Appendix 6.** In order to lessen the impact of sudden rate increases for residential customers, PSC invited submission of proposals for rate mitigation plans for BGE service territory, as well as similar plans for PEPCO and Delmarva service territories. At the Governor's directive in January 2006, PSC initiated a proceeding to determine an equitable rate stabilization plan. On March 6, 2006, PSC issued its plan (Case 9052).

The presiding officers, as well as various members of the General Assembly, developed a rate stabilization plan during the 2006 session. A proposed plan was set forth under HB 1525 of 2006 but failed to pass. Following negotiations by the Governor, BGE, and others, on April 20, 2006, BGE filed a request with PSC to amend the March 6, 2006, rate stabilization order. Accordingly, on April 28, 2006, PSC issued its revised plan (Case 9052). However, a lawsuit filed by the Mayor and City Council of Baltimore ultimately resulted in PSC reverting to the original plan adopted in March 2006. See different rate mitigation plan comparisons in **Appendix 7**.

State Revenues: Special fund revenues could increase from two sources: (1) increase in EUSP funding through industrial user charges; and (2) increase in EUSP funding from the elimination of the income tax credit for property taxes paid on electric generating property.

EUSP Increases – EUSP revenues will increase a total of $9 million in fiscal 2007 and by $3 million annually thereafter. The bill increases the revenues for the EUSP fund by $3 million annually beginning in fiscal 2007. The increase in fees is to be achieved through an increase in assessments on the electric commercial and industrial customer classes.

EUSP fund revenues will also increase by an estimated $6 million beginning in fiscal 2007 only from the elimination of the income tax credit for 60% of total property taxes paid by a utility on its operating real property used for electricity or steam generation for sale. The revenue from the elimination of the income tax credit is only expected in fiscal 2007 because SDAT plans to reclassify BGE's generation facilities from utility-operated real property to business real property effective July 1, 2007 to reflect the fact that Constellation is the owner of the generation facilities and is not classified as a public utility. While this action is not finalized, it appears that SDAT is within its authority provided under Tax-Property Article. The bill provides that the department may not change the current method before May 1, 2007.

State Expenditures: General fund expenditures will increase in fiscal 2007 by $250,000 for a study by the State Department of Assessments and Taxation on the valuation of utility operating property.

Special fund expenditures will increase by $1,750,000 in fiscal 2007 for the following appropriations:

Public Service Commission	$750,000
People's Counsel	500,000
Attorney General	500,000

These funds are appropriated for additional expenditures related to various activities for the proceedings related to electric rate increases and the merger of Constellation and FPL. These special fund expenditures will be recouped from assessments on public service companies under the jurisdiction of PSC.

Additional Information

Prior Introductions: Various similar pieces of legislation were introduced in the 2006 regular session, none of which were enacted.

Cross File: SB 1 (President and Chairman of Senate Finance Committee) – Finance.

Information Source(s): Public Service Commission, Department of Legislative Services

Fiscal Note History: First Reader - June 14, 2006
mll/jr

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Appendix 1. SOS Administrative Charge for Residential Customer

Total SOS Administrative Charge (4 mills = $.004/kwh) breaks down into the following:

- Utility return component (1.5 mills = $.0015/kwh) – PROFIT.

- Incremental costs component (.5 mills/kwh = $.0005 kwh) – ACTUAL COST: This is actual uncollectibles that are not being recovered in a utility's distribution rates (*e.g.*, consultants, auction/procurement processes, incremental system costs, bill inserts for education, transition costs, and working capital revenue requirements).

- Administrative Adjustment (2 mills/kwh = $.002/kwh) –TRUE UP: This is the mechanism used to adjust the cost of SOS (generation) while holding harmless customers through a commensurate credit. It increases the price to beat for competitive generation suppliers, which the settling parties assert will assist the development of a competitive generation market.

Estimated Total Annual Standard Offer Service Return Component Revenue

($ in millions unless noted otherwise)

	Residential	Small and Medium Commercial	Large Commercial and Industrial	Total
Return Component mills/kwh	1.5 mills ($.0015)	2 mills	2.25 mills	
Distribution Utility:				
Allegheny	$4.7 *	$2.9	$1.5	$9.1
BGE	$20.0**	$14.9	$1.2	$36.1
Delmarva	$3.3	$2.2	$0.9	$6.4
PEPCO	$8.4	$7.3	$1.1	$16.8
Total	**$36.4**	**$27.3**	**$4.7**	**$68.4**

*Allegheny's caps come off December 31, 2008; the anticipated annual revenue is $4.7 million.
**BGE's caps come off July 1, 2006; the anticipated annual revenue is $20 million.

EXAMPLE:

Average kwh is 1,000/month. Accordingly, the average customer will pay $4 (within SOS rates). Of the $4, $1.50 is profit/month ($1.50 x 12 = $18 per year x about 1 million customers = $18 million).

Appendix 2. BGE Deferral Financing Plan
Special Session Legislative Proposal

Deferral Begins	7/1/2006
To Market Rates (subject to PSC approval)	6/1/2007
Financing in Years	10
Repayment to Begin	1/1/2007
Deferral Costs ($ in Thousands)	
Total Amount Deferred	$573,760
Total Interest	$109,000
10-year Nuclear Decommissioning Charge Credit	($186,620)
10-year Reduced Residential Utility Return	($200,000)
Net Deferral Amount	$296,140
Average Residential Customer Repayment ($ in ones)	
Monthly Deferral Financing Cost	$5.02
Total Monthly Credits	($2.83)
Per Customer Net Monthly Deferral Financing Cost	$2.19

Impact on Average BGE Customer

Current Average Monthly Bill	$83.00	**Monthly Bill**	
Average Increase to Market (72%)	$59.76	At Market	$142.76
Allowed Increase (15%)	12.45	Under Bill	$95.45
Monthly Savings (for 11 months)	$47.31		
Final Cost to Consumers			
Paid by BGE (credits)	$23.00		
Paid by Customer	24.31		
Total	$47.31		

Source: Department of Legislative Services

Appendix 3. Funding for Assistance to Low-Income Electric Customers Fiscal 2007

Universal Electric Service Program (EUSP)

- $34 million annually
- for bill assistance ($31.5 million), arrearages ($1.5 million), and weatherization ($1 million)
- 150% of the federal poverty level (about 96,000 applicants)
- paid by ratepayers

Maryland Energy Assistance Program (MEAP)

- $35 million for 2007
- amount determined annually
- 150% of the federal poverty level
- paid by federal government
- also used for other sources (natural gas, oil, and propane users)

Program Enhancements/Project Heat Up (Governor's Initiative)

- $36 million of one-time funding for fiscal 2006 and 2007 to meet demand and expand eligibility.
- Funds provided from the Energy Overcharge Restitution Fund ($4.9 million) and general fund.
- Expand eligibility for EUSP and MEAP to 175% of federal poverty level in fiscal 2006 and 200% of federal poverty level in fiscal 2007.
- includes $400,000 for weatherization

Appendix 4. BGE Residential Rate Changes
(in kwhs unless noted otherwise)

Residential Rates	Rates Effective 6/30/2006		Rates Effective 7/1/2006		Change	
	Summer	**Winter**	**Summer**	**Winter**	**Summer**	**Winter**
Distribution						
Per Customer	$7.50	$7.50	$7.50	$7.50	0%	0%
1st 500 kwhs	$0.02369	$0.02369	$0.02279	$0.02279	-4%	-4%
Transmission						
Transmission Rate	$0.00356	$0.00356	$0.00315	$0.00315	-12%	-12%
Generation (SOS)						
Energy	$0.05759	$0.03961	$0.11474	$0.10118	99%	155%
Other Charges						
Franchise Tax	$0.00062	$0.00062	$0.00062	$0.00062	0%	0%
MD Conservation Surcharge			$0.00067	$0.000067		
MD Environmental Surcharge	$0.00015	$0.00015	$0.00015	$0.00015	0%	0%
Universal Service (per Bill)	$0.37	$0.37	$0.37	$0.37	0%	0%
Ave. Usage	$390.90	$510.00	$645.86	$964.42	65%	89%
	Average Monthly	**Average Annual**	**Average Monthly**	**Average Annual**		
Annual rates	$75.07	$900.89	$134.19	$1,610.28	78.74%	
Annual cost – charges	7.87	94.44	7.87	94.44	0.00%	
Total	**$82.94**	**$995.33**	**$142.06**	**$1,704.72**	71.27%	

Source: Public Service Commission

Appendix 5. Comparison of 7/1/06 Residential Rates
(in kwhs unless noted otherwise)

Residential Rates (Excludes Local Taxes and Surcharges)	**Pepco Rates Effective 7/1/2006**		**Delmarva Rates Effective 7/1/2006**		**BGE Rates Effective 7/1/2006**		**Allegheny Rates Effective 7/1/2006**	
	Summer	**Winter**	**Summer**	**Winter**	**Summer**	**Winter**	**Summer**	**Winter**
Distribution								
Customer	$5.54	$5.54	$3.64	$3.64	$7.50	$7.50	$5.00	$5.00
Energy								
1st 800 kwrhs	$0.03133	$0.01974	$0.02474	$0.03118	$0.02369	$0.02369	$0.01691	$0.01691
Excess	$0.03133	$0.01524	$0.02474	$0.01184	$0.02369	$0.02369	$0.01691	$0.01691
Transmission								
Transmission Rate	$0.00417	$0.00417	$0.00414	$0.00414	$0.00315	$0.00315	$0.00396	$0.00396
Ancillary Services Rate	$0.00417	$0.00417			$-	$-	$0.00158	$0.00158
Generation (SOS)								
1st 800 kwrhs	$0.10050	$0.09331	$0.107251	$0.099131	$0.11556	$0.10200	$0.03907	$0.03907
Excess	$0.10050	$0.09331					$0.03907	$0.03907
Phase-in Adjustment			($0.005581)	($0.027927)				
Other Charges								
Gen Procurement Credit	($0.0003420)	($0.0003420)						
Administrative Credit	($0.0015020)	($0.0015020)	($0.0013900)	($0.0013900)	($0.0008200)	($0.0008200)	($0.00276)	($0.00276)
Customer Choice Credit							($0.00444)	($0.00444)
Energy Cost Adjustment							($0.00354)	($0.00354)
Franchise Tax			$0.00062	$0.00062	$0.00062	$0.00062	$0.00062	$0.00062
MD Conservation Surcharge	$-	$-	$-	$-	$0.00067	$0.00067		
MD Environmental Surcharge	$0.0001315	$0.0001315	$0.0001315	$0.0001315	$0.0001315	$0.0001315	$0.0001315	$0.0001315
Universal Service (per Bill)	$0.37000	$0.37000	$0.37000	$0.37000	$0.37000	$0.37000	$0.37000	$0.37000
Cogeneration PURPA Surcharge							$0.00765	$0.00765

Appendix 6. Impact on Residential Customers of Market Prices

	Average Current Annual Bill (prior to rate increase)	Dollar Amount Increase in Annual Bill	Percent Increase in Total Annual Bill	Percent Increase in SOS Power Supply Part of Bill
Pepco				
July 1, 2004	$1,027	$164	16.0%	26.0%
June 1, 2005	$1,164	$53	4.5%	6.6%
June 1, 2006	$1,215	$468	39.0%	59.0%
Delmarva				
July 1, 2004	$1,122	$131	12.0%	19.0%
June 1, 2005	$1,240	$72	5.8%	8.7%
June 1, 2006	$1,315	$464	35.0%	52.0%
BGE				
July 1, 2006	$1,033	$743	72.0%	132.0%

Source: Public Service Commission

Appendix 7. BGE Residential Customers
Comparison of Plans
Impact on Standard Rate Electric Rates Beginning July 1, 2006

	PSC (IN EFFECT) March 6, 2006 Plan	**Legislative Proposal HB 1525 of 2006**	**Governor/PSC April 28, 2006 Plan**	**Legislative Proposal Special Session 2006**
Status of Plan, as of June 12, 2006	Indicated as an option by the Circuit Court for Baltimore City in its May 30, 2006 order – as of June 2, 2006, PSC continued this plan on the docket	Did not pass during the 2006 session	Appealed to Circuit Court for Baltimore City – not indicated as an option by the court in its May 30, 2006 order Plan is vacated	Proposed at the special session, June 14, 2006
Phase-in Rate **(without plan: average 71-72%)**	21% July 1, 2006, with varied monthly increments through March 1, 2007 (similar to a budget billing approach – shaves peaks and adds to shoulder months)	15% July 1, 2006 29% June 1, 2007	19.4% July 1, 2006 5% January 1, 2007 25% June 1, 2007	15% July 1, 2006 Any subsequent phase-in increases start June 1, 2007, as determined by PSC
Market Rates Begin	March 1, 2007 (8 months after July 1, 2006)	January 1, 2008 (an estimated 16% increase) (18 months after July 1, 2006)	January 1, 2008 (an estimated 9% increase) (18 months after July 1, 2006)	No later than June 1, 2008 but not before June 1, 2007

	PSC (IN EFFECT) March 6, 2006 Plan	Legislative Proposal HB 1525 of 2006	Governor/PSC April 28, 2006 Plan	Legislative Proposal Special Session 2006
Payment of Deferral Begins and Length of Recovery Period	March 1, 2007 15 months recovery period (1 extra year for low-income customers)	January 1, 2007 10 years recovery period	June 1, 2007 24 months recovery period (1 extra year for low-income customers)	January 1, 2007 10 years recovery period
Plan Date Ends (End of Deferral Period)	May 31, 2008	December 31, 2016	May 31, 2009	May 31, 2017
Opt-in or Opt-out of Phase-in and Deferral	Opt-out	No option (must participate in the phase-in and the deferral)	Opt-in	No option (must participate in the phase-in and the deferral)
Deferred Amount to be Paid Eventually	Yes But, credits may be available through merger proceeding	Yes But, credits may be available through merger proceeding	Yes But, credits may be available through merger proceeding	Yes But, credits available in the legislation and may be available through merger proceeding

	PSC (IN EFFECT) March 6, 2006 Plan	Legislative Proposal HB 1525 of 2006	Governor/PSC April 28, 2006 Plan	Legislative Proposal Special Session 2006
Total Cumulative Deferred Amount of Electric Charges, including Interest Charges	Number of months when deferral is growing: 8 months Number of months/years to repay deferral: 15 months Principal: $257 million Interest: 8 million Total $265 million (short-term loan: interest 5%) Assumes 100% participation	Number of months when deferral is growing: 18 months Number of months/years to repay deferral: 10 years Principal: $725 million Interest: 132 million Total $857 million (securitization) 100% participation	Number of months when deferral is growing: 18 months Number of months/years to repay deferral: 24 months Principal: $588 million Interest: 0 Total $588 million (short-term loan: interest 0% per PSC – would have been $24 million if interest were allowed at 5%) Assumes 100% participation	Number of months when deferral is growing: 11 months Number of months/years to repay deferral: 10 years Principal: $573 million Interest: 109 million Total $682 million (securitization) 100% participation

	PSC (IN EFFECT) March 6, 2006 Plan	Legislative Proposal HB 1525 of 2006	Governor/PSC April 28, 2006 Plan	Legislative Proposal Special Session 2006
Total Cumulative Credits (may be contingent on the merger)	$0 (merger proceedings not addressed: PSC has separate proceedings)	$600 million (realized over a 10-year period) Only if merger is approved: – decommissioning $18.6 million per year – return component $20 million per year – merger savings $21.4 million per year	$600 million as offered by BGE/Constellation (realized over a 10-year period) (not in order; instead, as a placeholder in separate proceedings) Only if merger is approved: – decommissioning $18.6 million per year – return component $20 million per year – merger savings $21.4 million per year	$386 million or more (realized over a 10-year period) Not based on merger: – decommissioning $18.6 million per year – return component $20 million per year Potential savings from merger and PSC proceedings
Impact on Average Customer per Month Under Plan Beginning July 1, 2006*	$17/month increase (21% increase) for a few months, with varied monthly increments through March 1, 2007	$12/month increase (15% increase) until June 1, 2007	$16/month increase (19.4% increase) until January 1, 2007	$12/month increase (15% beginning July 1, 2006 through May 31, 2007)

	PSC (IN EFFECT) March 6, 2006 Plan	Legislative Proposal HB 1525 of 2006	Governor/PSC April 28, 2006 Plan	Legislative Proposal Special Session 2006
Impact on Average Customer per Month for Deferral Payback	Deferral pay back Principal $15.60 Interest .49 Total $16.09 Credits Not based on merger $0 Based on merger $0 Net deferral charge $16.09 Over 15 months	Deferral pay back Principal $5.15 Interest 1.20 Total $6.35 Credits over 10 yrs Based on merger $4.40 Net charge w/o merger $6.35 Net w/merger $1.95 Over 10 years	Deferral pay back over 3 yrs Principal $14.76 Interest 0 Total $14.76 Credits over 10 years Based on merger $4.40 Over 3 years: Net charge w/o merger $14.76 Net w/merger $10.36 Net charge after 3rd yr $0	Deferral pay back Principal $4.07 Interest 0.95 Total $5.02 Credits over 10 years Not based on merger $2.83 Merger saving – based on PSC determinations Net deferral charge $2.19 Over 10 years

***Note:** Without any plan average current annual bill of $995 increases about $708 (or by $59/month) = $1,703 per year (71-72% increase); average bill is about 12,000 kWh per year with 4,500 kWh in four summer months and 7,500 kWh in eight non-summer months; BGE has approximately 1.1 million residential customers.

Source: Department of Legislative Services, June 2006