

**PUBLIC SERVICE COMMISSION
OF MARYLAND**

**REPORT TO BUDGET COMMITTEES
PURSUANT TO
JOINT CHAIRMEN'S REPORT
OF THE 2006 SESSION**

June 2006

Introduction

In response to the Joint Chairman's Report from the 2006 Session of the Maryland Legislature, the following is a status report on public hearings conducted by the Public Service Commission ("PSC" or "Commission") regarding the expiration of rate caps in the Baltimore Gas and Electric Company's ("BGE") service territory.

Background

The expected increase in the price for electricity, which residential customers in Central Maryland experienced in July 2006, prompted the Public Service Commission to take action. The magnitude of the increase is caused by, among other things, the duration of frozen rates for BGE's residential customers and historic high prices of the fuels that are used to generate electricity. The Commission is mandated by law to implement the provisions of the Electric Customer Choice and Competition Act of 1999 that reduced rates from 1999 levels and then froze them for an extended period of years. The statute also mandates that BGE (and similarly-situated companies) have the opportunity to recover their verifiable and prudently incurred costs of providing the electricity to residential and small commercial customers, plus a reasonable return. Md. PUC Code §7-510(c)(3)(i). The Commission's concern that the sudden rate increases could make it difficult for families, particularly low-income families, to adjust in time led to several Commission actions.

Hearings

In anticipation of the end of the rate freeze in BGE's service territory, the Commission publicly briefed the Legislature on numerous occasions and instituted Case No. 9052. In that case, the Commission held two hearings that were open to the public. The first hearing was held on February 28, 2006 at 10:00 a.m. and the second hearing was held on April 27, 2006 at 2:00

p.m. Both hearings occurred at the principal office of the Commission located at 6 St. Paul Street, Baltimore, Maryland in the Commission's 16th Floor Hearing Room.

Representatives from BGE and the other utilities, PEPCO, Delmarva and Allegheny Power, attended the hearings. WGES, a supplier, and Eastalco also provided comments. Representing residential consumers were the Office of People's Counsel (OPC), the City of Baltimore and the Maryland Public Interest Research Group ("MaryPIRG"). Appearances were also made on behalf of the U.S. Department of Defense and Federal Executive Agency, the Maryland Energy Administration, and the Fuel Fund of Maryland. In addition to the electric company and consumer representatives more than a dozen private citizens, including two State legislators, attended the second hearing held on April 27, 2006 and spoke to the Commission about their concerns. Finally, the Staff of the Public Service Commission participated in both hearings to make recommendations in consideration of public welfare and the economy of the State as prescribed in Md. PUC Code §2-113.

The first hearing in February was held for the purpose of cross-examination of witnesses sponsoring testimony. The four witnesses that were cross-examined were Phillip Vanderheyden from PSC Staff; Mark Case, Vice President of Performance Strategy and Regulatory Service for BGE; OPC witness Jonathan Wallach, Vice President of Resource Light; and Craig Goodman, President of NEMA.

Following the hearing, the Commission issued Order No. 80638 in March adopting a plan that would allow for deferral of part of the planned increase. In April, however, BGE negotiated a plan with Governor Robert L. Ehrlich Jr., which caused BGE to file a Motion to Amend Order No. 80638. In response to the proposed amendments, the Commission scheduled a legislative-style hearing and status conference for April 27, 2006.

At the hearing held on April 27, the parties and public were invited to comment on the rate mitigation plans. Following BGE's statement made by Mark Case, citizens were able to make their own statements. The general concern expressed by members of the public was how to afford the rate increase and how to repay any deferred amount. Many of the speakers asked questions that showed the great need to educate the public, regarding whatever plan the Commission implemented. Following comments from individual citizens, OPC, the City of Baltimore, and representatives from International Brotherhood of Electrical Workers and MaryPIRG made statements, as well as the Public Service Commission Staff. The next day the Commission issued Order No. 80764 adopting the modified rate stabilization plan as stated in BGE's Motion to Amend.

After the April 27th hearing, there were many developments in this case, particularly the Maryland General Assembly being called into Special Session. The Commission's Administrative Meeting on June 28, 2006 at 9:30am was held to consider the Rider 12- Rate Stabilization tariff proposal of BGE, which was a compliance filing intended to be consistent with Chapter 5 of the 2006 Maryland Laws, First Special Session ("Chapter 5"). BGE verified that interest would be charged to customers on amounts deferred pursuant to Chapter 5 and that there was no opportunity to opt out of participating in the mitigation plan.

In addition to the tariff revision, BGE requested that the Commission create a regulatory asset as consistent with Chapter 5. The Commission questioned BGE about establishing a regulatory asset when there are so many unknown factors. In particular, the interest rate and the method of financing are unknown as well as when the nuclear decommissioning charges will be applied and how they will be applied. BGE's response to this was that the Company will accrue

interest at their short-term interest cost which is consistent with the statute but only for a short term period.

After the Commission questioned BGE, a Baltimore city resident, Ms. Patricia Schley offered her comments. Ms. Schley was unhappy that she could not opt out of the deferred charge as she had done with the previous mitigation plan. Ms Schley was also concerned that the amount of interest to be charged to consumers still being unknown and people, including herself, being able to afford electricity. Following the hearing, the Commission issued a Letter Order that has been attached to this report.