

2005 Annual Report

Public Service Commission of Maryland

**William Donald Schaefer Tower
6 St. Paul Street
Baltimore, MD 21202-6806
www.psc.state.md.us**



**Robert L. Ehrlich, Jr.
Governor**

**Michael S. Steele
Lt. Governor**



Message from Chairman Kenneth D. Schisler

March 15, 2006

To Governor Robert L. Ehrlich, Jr. and Members of the General Assembly of Maryland:

It is my pleasure to submit to you the 2005 Annual Report of the Public Service Commission, highlighting last year's accomplishments and major policy initiatives.

As you will see from the prepared report, 2005 was a productive year for the Public Service Commission. The utility industry is rapidly evolving from the transition to a competitive market for electric and natural gas supply to awe inspiring technology developments impacting the telecommunications industry. The public transportation industry is observing a changing business environment as well, and is adapting to uphold its role as a critical component of Maryland's economic development and tourism infrastructure. The Commission is actively engaged in all of these issues and is ready to respond to the demands of a changing utility world. At the same time, we have worked to streamline and improve our internal processes and utilize technology which allows utility companies, consumers and advocacy groups greater access to information in a timely manner.

In today's ever changing public utility industry landscape, the Commission remains dedicated to ensuring that Maryland consumers continue to receive safe, reliable and reasonably priced utility services. We look forward to continuing to work with you to accomplish that goal.

Sincerely,

A handwritten signature in black ink that reads "Kenneth D. Schisler". The signature is written in a cursive style.

Kenneth D. Schisler
Chairman

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Membership of the Commission

	Term Expires
Kenneth D. Schisler, Chairman	June 30, 2008
Harold D. Williams, Commissioner	June 30, 2007
Allen M. Freifeld, Commissioner	June 30, 2009
Karen Smith, Commissioner	June 30, 2006
Charles R. Boutin, Commissioner	June 30, 2010



General Work of the Commission

In 1910, the Maryland General Assembly established the Public Service Commission (PSC or Commission) to regulate public utilities and transportation companies doing business in Maryland. The jurisdiction and powers of the Commission are found in the Public Utility Companies Article, *Annotated Code of Maryland*.

The Commission regulates gas, electric, steam heating, telephone, water, and sewage disposal companies. Also subject to the jurisdiction of the Commission are taxicabs operating in the City of Baltimore, Baltimore County, Cumberland, and Hagerstown. In addition, the PSC's jurisdiction extends to certain common carriers such as bus, railroad companies and passenger motor vehicle carriers engaged in the transportation for hire of persons within the State.

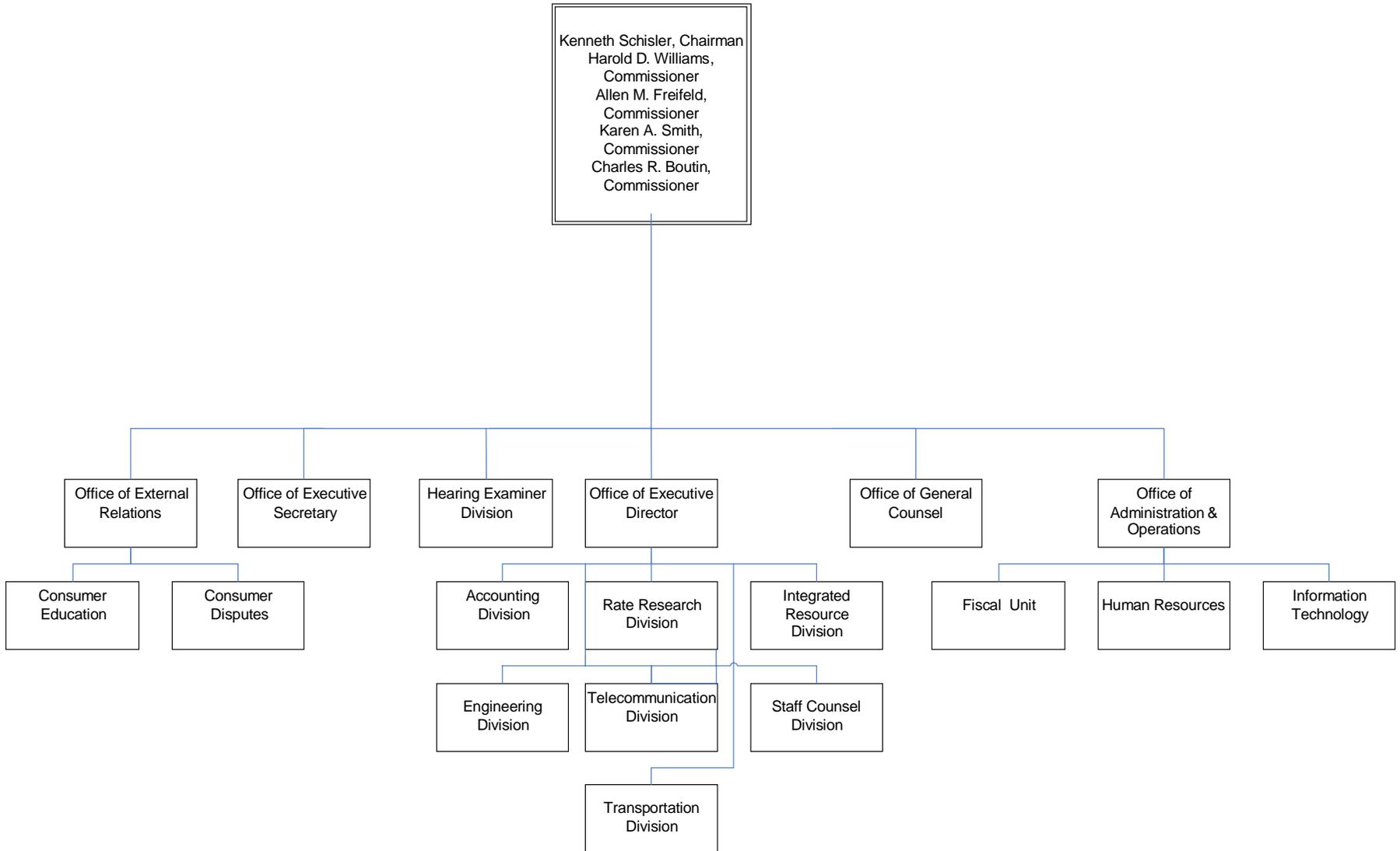
The Commission is empowered to hear and decide matters relating to: (1) rate adjustments; (2) applications to exercise or abandon franchises; (3) applications to modify the

type or scope of service; (4) approval of issuance of securities; (5) promulgation of new rules and regulations; and (6) quality of utility and common carrier service. The Commission has the authority to issue a Certificate of Public Convenience and Necessity in connection with an electric company's application to construct or modify a new generating plant or high-voltage transmission lines.

Best known to the public is the Commission's role of setting utility rates. However, the Commission has broader responsibility for regulation of activities of public service companies. The Commission collects and maintains records and reports of public service companies, reviews plans for service, inspects equipment, audits financial records, handles consumer complaints, promulgates and enforces rules and regulations, defends its decisions on appeal to State courts, and intervenes in relevant cases before federal regulatory commissions and federal courts.

The Commission's jurisdiction is limited to intrastate service. Interstate transportation is regulated in part by the U.S. Department of Transportation; interstate and wholesale activities of gas and electric utilities are regulated by the Federal Energy Regulatory Commission; and interstate telephone service is regulated by the Federal Communications Commission.

Public Service Commission of Maryland Organizational Structure



Division Reports

Office of Administration and Operations

The Division of Operations and Administration is responsible for the daily operations of the Commission. This is accomplished through the administration of the Procurement, Operations, Fiscal, Budgeting, Informational Technologies and Personnel functions. In addition to those responsibilities the Unit also conducts the strategic planning for the Commission; and the director serves as a policy advisor to the Commission.

The accomplishments of the Unit for the 2005 year include a reduction in the assessment to ratepayers for a second consecutive year. Information Technologies instituted a formal program for providing continuing technical training for Commission employees and launched a Public Service email subscription to allow any user the ability to receive automatic updates on any filings or proceedings. In addition, a filing fee system was launched which allows constituents to pay fees online and track fees as they are accrued. The Unit also began the process of allowing payment by credit card. The Unit installed a scanning system which has greatly improved operations for the Office of External Relations. Also, the Unit has established an application for the State Police to access the Commission's pay phone source provider database for their criminal investigations unit. Finally, the Unit has started the strategic planning process for the entire Commission by completing a report for streamlining operations in the Transportation Division.

Office of the Executive Secretary

The Executive Secretary is responsible for keeping the records of the Public Service Commission (“Commission”), including a record of all proceedings, filed documents, orders, regulations, decisions, dockets and files. The Executive Secretary is a principal policy advisor to the Commission and supervises a team of senior policy advisors.

The Administrative Division consists of three sections: Case Management; Document Management; and Regulation Management. In addition, the Executive Secretary oversees the procurement of expert consulting services and the Equal Employment Opportunity Program.

Case Management Section

The Case Management Section creates and maintains formal dockets associated with proceedings before the Commission. In maintaining the Commission’s formal docket, this Section must ensure the security and integrity of the materials on file, while permitting access by the general public. Included within this security function is the maintenance of highly confidential/proprietary information relating to the conduct of utility regulation, requiring compliance with detailed access procedures. During 2005, this Section established 31 new dockets and processed 2,043 case items.

Document Management Section

The Document Management Section is responsible for the development of Commission’s Administrative Meeting Agenda (“Agenda”), the official open meeting action agenda mandated by law. During 2005, this Section scheduled 44 Commission meetings to consider the Agenda and there were 452 items considered at these meetings. This Section also processed 3,658 filings, issuing 3,611 memoranda.

Regulation Management Section

This Section is responsible for providing expert drafting consultation, establishing and managing the Commission's rulemaking docket, and coordinating the adoption process with the Secretary of State's Division of State Documents. During 2005, this Section managed ten rulemaking dockets that resulted in final adoption of regulation changes to COMAR Title 20 – Public Service Commission, and six rulemaking dockets that remains active.

Office of External Relations

The Office of External Relations (OER) investigates and responds to consumer complaints relating to gas, electric, water and telephone services. OER Staff act as mediators to resolve disputes between consumers and utility companies based on applicable laws and tariffs. In 2005, the OER investigated 5,407 consumer complaints. Out of those complaints 2,987 involved gas and electric issues, 2,115 were telecommunication complaints and 25 complaints related to water companies. The majority of the complaints regarding gas and electric companies and suppliers concerned billing issues and service quality concerns. Most telecommunication disputes involved billing disputes, installation or repair problems, or slamming concerns. In addition, OER Staff responded to 8,624 general inquiries and requests for information concerning the PSC, utilities and suppliers. OER is also responsible for media relations and responding to information requests from legislators and state and federal agencies. OER responded to 181 specific inquiries from members of the media in 2005.



OER continued to focus on consumer education, including efforts related to Electric Choice. Two new brochures regarding Standard Offer Service and energy conservation were

produced and OER Staff attended numerous community outreach events on electric choice and other issues. Representatives from OER also participated in several conferences on low-income assistance programs and hosted delegations of industry and regulatory groups from several foreign nations. OER Staff work proactively to provide the public with timely and useful utility related information based on the feedback received from consumers.

Hearing Examiner Division

Under the Public Utility Companies Article, the Hearing Examiner Division constitutes a separate organizational unit reporting directly to the Commission. The Commission's Hearing Examiner Division has five attorney hearing examiners, including the Chief Hearing Examiner. Typically, the Commission delegates to the Hearing Examiner Division proceedings pertaining to the following: applications for construction of power plants and high-voltage transmission lines; rates and other matters for gas, electric and telephone companies; purchased gas and electric fuel rate adjustments; bus, passenger common carrier, water, and sewage disposal company proceedings; plant and equipment depreciation; and complaints which are not resolved at the administrative level. Also, the Commission has a part-time License Hearing Officer, who hears matters pertaining to certain taxicab permit holders and matters regarding taxicab drivers. The Commission may also conduct its proceedings in three-member panels, which panels may include one Hearing Examiner. As a panel member, a Hearing Examiner participates as a voting member in the hearings and in the panel's final decision. The decision of a three-member panel constitutes the final order of the Commission.



In delegated cases, the Hearing Examiners and Hearing Officer conduct formal proceedings and file Proposed Orders, which contain findings of fact and conclusions of law. During 2005, 562 cases were delegated by the Commission to the Hearing Examiner Division, 534 relating to transportation matters of which 146 were taxicab-related and referred to the License Hearing Officer for hearing. These transportation matters include license applications and disciplinary proceedings involving requests for imposition of fines or civil penalties against carriers for violations of applicable statutes or regulations. Unless an appeal is noted with the Commission, or the Commission takes action on its own motion, a Proposed Order becomes the final order of the Commission after the specified time period for appeal noted in the Proposed Order, which is between seven and thirty days.

Office of the Executive Director

The Technical staff under the direction of the Executive Director and his assistant consists of seven divisions: Accounting Investigations; Engineering; Integrated Resource Planning; Rate Research and Economics; Staff Counsel; Telecommunications; and Transportation. The Executive Director's major supervisory responsibility consists of directing and coordinating the work of the Technical Staff relating to the analysis of utility filings, operations, and the presentation of testimony in Commission proceedings, as well as supervising the Technical staff in their regulatory oversight activities. The Executive Director supervises formulation of staff policy positions and serves as the liaison between Staff and the Commission. The Executive Director is also the principal contact between the Staff and other State agencies, Commissions and utilities.

Accounting Investigations Division

The Accounting Investigations Division is responsible for auditing utility books of accounts and other records. The Division also provides expertise on a variety of accounting issues, tax issues, financial issues and consultation services to other Commission personnel and State agencies. The Accounting Division's primary functions include developing utility revenue requirements, investigating the application of rates and charges assessed by utilities, monitoring utility earnings, examining the effectiveness of industry cost allocations, and analyzing the financial integrity of companies that seek to become energy suppliers in the State of Maryland.

The accounting, analytical, investigative and theoretical analyses performed by Division personnel provide expertise and guidance in the form of expert testimony, formal comments on utility filings, advisory services, responses to surveys and other communications with the Commission. To be effective and to provide a high degree of service to the industries regulated by the Commission, the Division must keep abreast of the changes in accounting pronouncements and in tax laws.

During the course of the year, the Accounting Investigations Division participated in two major initiatives that demonstrated the breadth of its expertise. The Division assisted the Federal Securities and Exchange Commission (SEC) in its audit of the Potomac Electric Power Company's (PEPCO) revenue, expenses and other financial transactions to determine if they were in compliance with the Public Utility Companies Holding Act of 1935, as amended February 2, 1979. Secondly, the Division performed an exhaustive study of the books of account of the Baltimore Gas and Electric in conjunction with its application to revise its Gas Base Rates in Case No. 9036. The Division provided expert testimony on the Utility's revenue requirement, rate base, and cost of service.

Balance Sheet
For the Year Ended December 31, 2004
(In Thousands of Dollars)

	<u>Utility Plant Investment</u>	<u>Other Assets</u>	<u>Total Assets</u>	<u>Liabilities</u>	<u>Capital or Proprietorship</u>	<u>Total Liabilities and Capital</u>
Electric Utilities:						
Private	\$5,338,751	\$1,966,110	\$7,304,861	\$5,265,665	\$2,039,196	\$7,304,861
Municipal	34,852	6,607	41,459	17,995	23,464	41,459
Cooperatives	397,564	277,190	674,754	440,352	234,402	674,754
Gas Utilities:						
Private	1,690,836	729,919	2,420,755	1,512,553	908,202	2,420,755
Combined Gas and Electric Utilities:						
Private	3,358,749	1,495,824	4,854,573	3,098,497	1,756,076	4,854,573
Municipal						
Telecommunications:						
Local Exchange Carriers	2,374,004	771,600	3,145,604	2,501,528	644,076	3,145,604
Water Utilities	14,629	3,151	17,780	11,672	6,108	17,780
Combined Water and Sewage Utilities	8,623	401	9,024	5,693	3,331	9,024
Bridge	64		64			64
Total	<u>\$13,218,072</u>	<u>\$5,250,802</u>	<u>\$18,468,874</u>	<u>\$12,853,955</u>	<u>\$5,614,919</u>	<u>\$18,468,874</u>

Income Statement
For the Year Ended December 31, 2004
(In Thousands of Dollars)

	<u>Operating</u> <u>Revenues</u>	<u>Operating</u> <u>Expenses</u>	<u>Net Other</u> <u>Income /</u> <u>Expenses</u>	<u>Net Income</u>
Electric Utilities:				
Private	\$3,893,396	\$3,523,329	(\$170,567)	\$199,500
Municipal	29,835	31,243	579	(829)
Cooperatives	337,115	317,741	(7,714)	11,660
Gas Utilities:				
Private	1,406,639	1,261,216	(40,727)	104,696
Combined Gas and Electric Utilities:				
Private	2,724,734	2,458,617	(99,857)	166,260
Municipal				
Telecommunications:				
Local Exchange Carriers	2,264,844	2,099,441		165,403
Water Utilities	4,342	3,423	(373)	546
Combined Water and Sewage Utilities	1,508	1,248	(150)	110
Bridge	68	54		14
Total	<u>\$10,662,481</u>	<u>\$9,696,312</u>	<u>(\$318,809)</u>	<u>\$647,360</u>

**UTILITIES UNDER THE JURISDICTION OF
THE PUBLIC SERVICE COMMISSION OF
MARYLAND
AS OF DECEMBER 31, 2005**

<u>UTILITY TYPE</u>	<u>UNDER PSC JURISDICTION</u>
ELECTRIC	11
GAS	6
COMBINED GAS & ELECTRIC	2
TELECOMMUNICATIONS	466
WATER	20
WATER & SEWAGE	3
RAILROADS	5
PASSENGER BUSES	177
FERRY BOATS	8
BRIDGE	1
TAXICAB PERMITS	<u>1,499</u>
TOTAL	2,198

Choptank Electric Cooperative, Inc.	\$10,000,000	9049	80450	December 14
Southern Maryland Electric Cooperative, Inc.	\$7,000,000	9034	79862	March 30

Rate Research and Economics Division

The Rate Research and Economics Division conducts economic, financial and policy analyses relevant to the regulation of public utilities and provides recommendations to the Commission. This work includes: retail competition policy and implementation related to restructuring in the gas and electric utility industry, rate of return on equity and capital structure, pricing structure and design, low income customer issues, consumer protections, consumer education, codes of conduct, mergers, and jurisdictional and customer class cost-of-service determination. The Division's analyses and recommendations may appear as expert testimony in formal proceedings, special topical studies requested by the Commission, leadership of or participation in workgroup processes established by the Commission, or formal comments on other filings made with the Commission.

During 2005, the Division's work included expert testimony and/or policy recommendations in 15 formal and 40 informal proceedings before the Commission, some of which are listed below:

	<u>Case No.</u>
Rates:	
Baltimore Gas and Electric Company (Gas)	9036
City of Frostburg (Water)	9040
Hagerstown Municipal Electric Light Plant (Electric)	9039
Restructuring:	
Roundtables (Gas)	8683
Generic Standard Offer Service (Electric)	9037
Provision of Standard Offer Service by Choptank Electric Cooperative (Electric)	8987
Prudence review:	
Washington Gas Capacity Plan	8951
Baltimore Gas and Electric Gas Capacity Plan	8950

Integrated Resources Planning Division

The Integrated Resource Planning Division was established in March 1993, to provide economic analysis of the long-range plans for reliably meeting customers' demand of the electric companies subject to the



Commission's jurisdiction. Division members conduct analyses on a wide range of issues including power supply planning, applications for construction of major electric facilities, purchased power and co-generation contracts, competitive power solicitations, air emission compliance plans and emission monitoring, renewable portfolio standards, load management and conservation programs, certification of electric and natural gas suppliers, and competitive bidding as part of overall restructuring of electricity and natural gas services in Maryland.

During 2005, IRPD was directly responsible or involved in significant initiatives including:

- ◆ Preparing the "Ten-Year Plan of Electric Companies in Maryland."
- ◆ Monitoring wholesale electricity prices in Maryland, including spot prices as measured by locational marginal prices. As a result, the Commission opened a notice of inquiry, Case No. 9047.
- ◆ Participating in the PJM Interconnection Long Range Regional Planning Process Working Group initiative. Assisting in putting in place a new planning process to identify the need for and eventually construct major new transmission facilities to serve Maryland and other states in PJM.
- ◆ Developing the regulations by which to implement Maryland's Renewable Portfolio Standard, which were adopted by the Commission. IRPD will monitor RPS developments, manage the program, and report on activities and results.
- ◆ Monitoring the SOS bidding process to ensure that it is conducted according to codified procedures. IRPD continued to work with electricity and natural gas suppliers to help bring retail choice to the residential and small commercial markets.
- ◆ Supporting the Wind Energy Technical Advisory Group, with the Director of IRPD serving as the Commission's representative on the panel.
- ◆ Participating in major rate cases and other regulatory proceedings.
- ◆ Monitoring, and where appropriate, participating in initiatives of the PJM the Federal Energy Regulatory Commission, and the Organization of PJM States.

Staff Counsel Division

The Staff Counsel Division directs and coordinates the preparation of Staff's position in all matters pending before the Commission. In performing its duties, the Staff Counsel Division evaluates public service company applications for identification of issues, legal sufficiency, and compliance with the Public Utility Companies Article of the Annotated Code of Maryland and the Code of Maryland Regulations. The Staff Counsel Division serves as a final reviewer of technical staff's testimony, reports, and comments before submission to the Executive Director. In addition, the attorneys in the Division: (1) draft and coordinate the promulgation and issuance of regulations; (2) review and comment on items handled administratively; (3) provide legal services to each division within the Office of Executive Director; and (4) handle inquiries from utilities, legislators, regulators, and consumers.

During 2005, Staff attorneys were involved in a wide variety of matters involving all public service companies regulated by the Commission. The Staff Counsel Division's work included matters involving the rates charged by public service companies and the safety, reliability, and quality of utility services. Additional matters addressed were the licensing of competitive suppliers, the development of retail utility markets, and consumer protection measures.

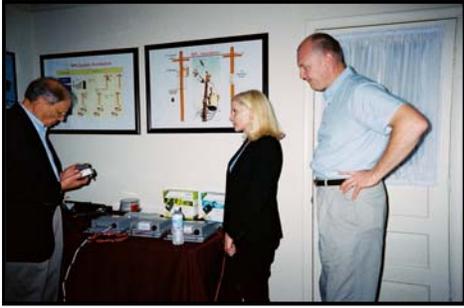


Transportation Division

The Transportation Division enforces the laws and regulations of the Public Service Commission pertaining to the safety, rates, and service of transportation companies operating in intrastate commerce in Maryland. The Commission's jurisdiction extends to most intrastate for-hire passenger

carriers by motor vehicle or waterborne vessel, intrastate for-hire railroads, as well as taxicabs in Baltimore City, Baltimore County, Cumberland and Hagerstown. The Commission is also responsible for licensing drivers of taxicabs in Baltimore City, Cumberland and Hagerstown, and other passenger-for-hire vehicles that carry 15 or fewer passengers. The Transportation Division monitors the safety of vehicles operated, limits of liability insurance, schedules of operation, rates, and service provided for all regulated carriers except railroads (only entry, exit, service and rates are regulated for railroads that provide intrastate service). If problems arise in any of these areas which cannot be resolved at the staff level, the Division requests the institution of proceedings by the Commission which may result in the suspension or revocation of operating authority or permits, or the institution of fines.

During 2005, the Transportation Division focused on two major challenges: strengthening its enforcement efforts; and improving internal efficiency. Enforcement was increased by the addition of four field investigators assigned to patrol throughout the State and coordinate activities with local, State and federal law enforcement agencies and other regulatory agencies. Administratively, the Division embarked on several successful projects designed to streamline processes through automation, electronic filings, and better communication among the Commission's databases as well as by providing information to the public via the Commission's website. In addition, the Transportation Division and Hearing Examiner Division jointly streamlined the civil penalty process by standardizing and automating forms.



Telecommunications Division

The Telecommunications Division assists the Commission in regulating the delivery of wholesale and retail telecommunications services within the State. As such, the Telecommunications Division reviews applications for licenses to provide service from local and intrastate toll service providers, reviews tariff filings from such providers and assists the Office of External Relations in addressing consumer complaints. In addition, the Telecommunications Division participates as a party in contested cases before the Commission, facilitates the migration of customers between telecommunications service providers and develops policy recommendations on a wide range of issues for the Commission's consideration.

As a result of an ongoing review of commission policies and rules, the Commission has adopted an updated and streamlined model application for authority along with a model tariff and a checklist to expedite the approval of local and access service tariffs. In addition, the Commission instituted new formal mechanisms to address various routine and non-controversial issues appearing before the Commission and revised its procedures to expedite the processing of more complex issues. As a result of these changes, the backlog of unprocessed filings fell to its lowest level in several years and Commission resources have been successfully reallocated to address other important goals and objectives within the Commission.

Upon adoption by the Commission of a settlement agreement produced by Staff and other parties, the Commission achieved significant benefits for Maryland's citizens. Specifically, the largest incumbent telecommunications service provider in Maryland has committed to make broadband capability available in all of its central offices throughout the state. In addition, the

largest incumbent telecommunications service provider has committed to offering an enhanced discounted rate service to low income customers throughout the state.

The Commission was engaged in several ways in on-going efforts to identify critical communications facilities within the State. The Commission Staff will continue to participate with the Maryland Emergency Management Agency and the Department of Homeland Security to identify and protect communications infrastructure that is critical to the interests of Maryland's citizens, businesses, nonprofit organizations and government agencies.

Engineering Division

The Commission's Engineering Division monitors the operations of public service companies. Engineers perform plant inspections and check the operation of utilities for safety, efficiency, reliability and quality of service. The Division's primary areas of responsibility include: a) Electric Generation



and Transmission, b) Metering, c) Electric, Water and Sewer Distribution and d) Natural Gas and Hazardous Liquid Pipeline Safety Programs. In addition, the Division supports the Maryland Emergency Management Agency (MEMA) during exercises and actual emergencies involving the loss of utility service.

Three of the most significant accomplishments in 2005 demonstrate the breadth of the work of the division. First the division worked with Verizon to establish an underground facility damage organization and training regimen for new excavation crews installing fiber optic distribution lines for Verizon's Fiber-To-The-Premise project that reduced damage rates to gas, electric, water and sewer lines during cable placement by over 50%. Second, the division

collaborated with BGE to develop a review of power line clearances with structures throughout Baltimore City and the business corridors along US 40 and York Road in Baltimore County. More than 1200 clearance violations were found and cleared. Finally, the division initiated a first in the nation statewide statistical sampling plan that pooled gas and electric meters from all the utilities for accuracy testing. The statewide testing plan resulted in savings over \$2,000,000 while improving confidence in the registration accuracy of the meter populations.

Major Activities and Special Projects

Gas and Electric

Electric Competition Activity - Case No. 8738

By letter dated September 13, 2000, the Commission ordered the four major investor - owned utilities in the state, Allegheny Power Company (APS), Baltimore Gas & Electric Company ("BGE"), Conectiv Power Delivery (Conectiv), and Potomac Electric Power Company ("PEPCO"), to file Monthly Electric Customer Choice Reports. The reports were to show the number of customers served by suppliers, the total number of utility distribution customers, the total megawatts of peak demand served by suppliers, the peak load obligation for all distribution accounts, and the number of electric suppliers serving customers. These data were to be collected for both residential and non-residential customers.

At the end of December 2005, electric suppliers in the state served 39,527 commercial, industrial and residential customers. Of these, 28,041 were residential and 11,486 were non-residential accounts. PEPCO had the highest number of residential (27,939) and non-residential (6,766) accounts served by suppliers. Between December 2004 and December 2005, the total number of customers statewide served by electric suppliers decreased from 56,186 to 39,527. The total statewide number of distribution service accounts eligible for electric choice was 2,161,623, of which 1,933,749 were residential and 227,874 were non-residential. Overall, as of December 2005, 1.5% of residential accounts and 5.0% of non-residential accounts were enrolled with an electric supplier.

The overall demand in megawatts (MWs) of peak load obligation served by all electric suppliers was 3,181 MWs at the end of December 2005. Of this amount, 113 MWs were residential and 3,068 MWs were non-residential. BGE had the highest peak-load served by

suppliers (1,828.65 MWs). The total statewide peak load obligation eligible for choice was 12,782.4 MWs of which 6,095.4 MWs were residential and 6,687 MWs were non-residential. Statewide at the end of December 2005, electric suppliers served 1.9% of eligible residential peak load and 45.9% of eligible non-residential peak load.

As of December 2005, AP had no suppliers serving residential customers, four suppliers serving Small C&I, seven suppliers serving Mid-Sized C&I, and six suppliers serving Large C&I. BGE had two suppliers serving residential customers, nine suppliers serving Small C&I, twelve suppliers serving Mid-Sized C&I, and sixteen suppliers serving Large C&I. Conectiv had three suppliers serving residential customers, six suppliers serving Small C&I, seven suppliers serving Mid-Sized C&I, and nine suppliers serving Large C&I. PEPCO had six suppliers serving residential customers, seven suppliers serving Small C&I, thirteen suppliers serving Mid-Sized C&I, and fourteen suppliers serving Large C&I.



Renewable Portfolio Standard Implementation

Under PUC Article § 7-701 *et seq.* (“RPS Legislation”) electricity suppliers are required to meet a Renewable Energy Portfolio Standard. Implementation of the RPS is required to be accompanied by a system that facilitates trading of Renewable Energy Credits (“RECs”) representing the use of electricity generated from renewable resources. A REC is equal to the renewable attributes associated with one megawatt-hour of energy generated using specified renewable resources. Each supplier must present, on an annual basis, RECs equal to the percentage of Tier 1 and Tier 2 renewable resources specified by the RPS Legislation. Generators and suppliers are allowed to trade RECs using a Commission

sanctioned or established REC registry and trading system. A REC has a three-year life during which it may be transferred, sold, or otherwise redeemed. The RPS Legislation allows generators and electricity suppliers to accrue RECs as of January 1, 2004. Suppliers that do not meet the annual RPS are required to pay a compliance fee, the amount of which is prescribed in the RPS Legislation. Compliance fees will be a source of funding for the Maryland Renewable Energy Fund. The Maryland Renewable Energy Fund is designed to promote the development of renewable energy resources in Maryland. The Commission is responsible for creating and administering the overall RPS Program; responsibility for developing renewable energy resources has been vested with the Maryland Energy Administration (“MEA”).

In Case No. 9019, the Commission considered certain threshold policy and administrative issues. At the close of formal proceedings, the Commission issued direction to Staff in a letter dated December 21, 2004. With Case No. 9019 as a foundation, Staff convened the RPS Working Group composed of representatives from electric utilities, electricity suppliers, renewable energy providers, REC traders, industry specialists, environmentalists, the Office of People’s Counsel, and other interested parties for a series of meetings. As a result of this effort, the RPS Working Group offered comments and alternative language on successive drafts of proposed regulations pertaining to the RPS Legislation.

On April 13, 2005, Staff filed recommended proposed RPS regulations, and the Commission opened Rulemaking 12. The Commission received comments and reply comments on the proposed regulations. The Commission held three Open Meetings on the RPS Regulations for the purpose of addressing outstanding issues raised by the parties. On May 25, 2005, the Commission voted to publish proposed RPS Regulations as Section 20.61 of the Code of Maryland Regulations (“COMAR”). The proposed regulations were published August 3, 2005 in

the *Maryland Register*. The Proposed Regulations were adopted as published on a temporary emergency basis effective July 1, 2005. After additional comments and an Open Meeting, COMAR 20.61 was finally adopted and became effective November 24, 2005.

With regulations in place, the full implementation of the RPS Program began. Staff created the necessary forms to begin program administration. Applications are now being received from RPS program participants. The Commission has certified various types of renewable energy facilities, including behind the meter facilities. Applications for retroactive RECs are also pending. The Commission has also established a website dedicated to the RPS Program: <http://www.psc.state.md.us/psc/electric/rps/home.htm>. The site contains program forms, reference documents, RPS related links and Frequently Asked Questions.

Mid-Atlantic Distributed Resources Initiative (MADRI)

The public utility commissions of Delaware, District of Columbia, Maryland, New Jersey, and Pennsylvania, along with the U.S. Department of Energy, PJM Interconnection, and the U.S. Environmental Protection Agency have established the Mid-Atlantic Distributed Resources Initiative (MADRI) to develop regional policies and market-enabling activities to support distributed generation and demand response in the Mid-Atlantic region. MADRI does not intend to dictate specific policy results among the Mid-Atlantic commissions but to provide technical information for the commissions on demand response and distributed generation issues. MADRI will provide model rules or policies for commission consideration with extensive technical and policy support. As a result of the Energy Policy Act of 2005, MADRI's efforts took on greater importance in assisting commissions with the policy reviews of advanced metering and pricing, net metering and distributed generation interconnection standards.

During 2005, MADRI's efforts focused on the following issues:

Distribution level technical standards for small distributed generation. The intent of this activity was to produce standards that remove unnecessary barriers to distributed generation while maintaining necessary safety and reliability requirements for the distribution system. A Mid-Atlantic small generator interconnection standard developed through extensive stakeholder discussions is now available.

Advanced Metering. Advanced metering and its supporting data management infrastructure (often called advanced metering infrastructure – “AMI”) has the potential to facilitate more economic and innovative electric services, including demand response, as well as to improve a variety of other traditional distribution utility functions such as outage detection and service restoration. MADRI completed the “AMI Toolbox” in 2005. This is a web-based resource that is intended to be a one-stop source of complete and current information for commissions examining advanced metering.

Business case. It is likely that approaches to distributed resources policy can have different effects on different types of customers or generators due to the specific circumstances of their utility and retail market structures. Business case analysis is an ongoing project to develop an analysis tool to bridge the gap between the policy theory and practice of distributed resources to provide commissions greater assurance that their distributed resources policies will have the intended results.

Regulatory framework for distribution companies. This project is examining distributed resource incentives, regulatory disincentives that may currently exist and distribution and generation price structures with the intent of developing a new framework for electric distribution company regulation that balances traditional regulatory objectives with the

facilitation of distributed resources. This project is of particular interest in those states, including Maryland, that are seeing the end of generation and distribution rate freezes related to electric restructuring.

Environmental regulation. It is important that environmental, energy and utility regulators all have a clear understanding of their respective roles and regulatory frameworks related to distributed resources. This project brings commission participants together with state and federal environmental regulators so that all participants have a clear understanding of the potential environmental benefits or difficulties with particular distributed resources proposals.

With the interconnection standards and AMI Toolbox projects largely completed, MADRI hopes to complete the remaining three projects during 2006 and will be providing detailed briefings to the participating commissions as well as other support as required.

Adequacy Report and Long Range Plans

In December 2005, the Maryland Public Service Commission completed its Ten-Year Plan (2005-2014) of electric companies operating in Maryland. The Ten-Year Plan is submitted annually by the Commission to the Secretary of the Department of Natural Resources in compliance with Section 7-201 of the Public Utility Companies Article (PUC Article), *Annotated Code of Maryland*. It is a compilation of information pertaining to the long-range plans of Maryland's electric companies. This report also includes summaries of major events that have or may affect the electric utility industry in Maryland in the near future. Major Sections of the Report include;

- ◆ The status of competition in Maryland's electric and gas markets at the retail level.
- ◆ Information on distribution reliability in Maryland, including utility responses to major storms and blackouts.

- ◆ Data and information on generation and transmission activity in Maryland and affecting its regional transmission organization, PJM Interconnection, LLC.
- ◆ A summary of utility efforts since January 1, 2005, to implement conservation programs to promote and utilize renewable resources and cogeneration.
- ◆ Information on national energy issues that have an impact on Maryland, including the passage of the Energy Policy Act of 2005.
- ◆ A compilation of data provided by Maryland electric companies.

The report has been used extensively by the Commission, public agencies in Maryland, Maryland utilities, the Federal Energy Regulatory Commission, and PJM and its members.

Transmission Planning in PJM

Planning the enhancement and expansion of transmission capability on a regional basis is one of the primary functions of an RTO. PJM implements this function pursuant to the Regional Transmission Expansion Planning Protocol (RTEP) set forth in Schedule 6 of the PJM Operating Agreement. A key part of this regional planning protocol is the evaluation of both generation interconnection and merchant transmission interconnection requests, the procedures for which are codified under Part IV of the PJM Open Access Transmission Tariff (OATT).



PJM annually develops an RTEP to meet system enhancement requirements for firm transmission service, load growth, interconnection requests and other system enhancement drivers. To establish a starting point for development of an RTEP, PJM performs a “baseline” analysis of system adequacy and security. The baseline is used for conducting feasibility studies for all proposed generation and transmission projects. Subsequent System Impact Studies for those projects provide recommendations which become part of the RTEP Report.

As a regional planning effort, RTEP determines the best way to integrate projects to provide for the operational, economic and reliability requirements of the grid. The RTEP applies reliability criteria over a five-year horizon to identify transmission constraints and other reliability concerns. Since transmission line projects require a long lead-time, this planning horizon is being extended to ten years. The Reliability Planning Process Working Group (RPPWG) was started this year to revise RTEP for a ten year planning horizon. RTEP integrates many bulk power system factors including:

- ◆ Transmission owner-identified project proposals
- ◆ Long-term firm transmission service requests
- ◆ Generation interconnection requests
- ◆ Generation retirements
- ◆ Load-serving entity capacity plans
- ◆ Transmission enhancements to alleviate persistent congestion
- ◆ Distributed generation and self-generation developments
- ◆ Demand response and energy efficiency
- ◆ Proposed merchant transmission projects

One of the outgrowths of recent PJM planning activities is an acknowledgement of the need to develop and put in place a long-term planning process that explicitly takes into consideration the potential benefits of large transmission projects. Up until now, the PJM planning process essentially looked out no more than five years into the future. This effectively eliminated consideration of large transmission projects that may take ten or more years to plan and build.

In a May 31, 2005, letter to the PJM membership, Phil Harris, the President and CEO of PJM wrote:

“It has become apparent that that the level and nature of transmission investment required for the region requires a longer time period. The Board is

directing PJM to work with the Membership to develop protocols for establishing a ten-year planning process by year-end.

The Board is concerned that PJM's current methodology for economic planning may not be achieving the desired outcomes of ensuring adequate transmission investment to support robust competitive markets. The Board is directing PJM to review its current economic planning process and work with the Members to identify appropriate changes. To the extent feasible, PJM will undertake this analysis in conjunction with the development of the longer term planning process.

In response, PJM has formed the Regional Planning Process Working Group (RPPWG). In addition PJM put forward a concept that eventually may result in bulk transmission investments that better connect the eastern, southern, and western elements of PJM. The concept has been named "Project Mountaineer."

The mission of the RPPWG is to determine how to change the RTEP to expand the planning horizon and to develop the transmission resources necessary to support competitive wholesale markets. A proposal for implementing the long term planning horizon and for developing the metrics to implement construction of transmission to support competitive wholesale markets is being discussed at this time.

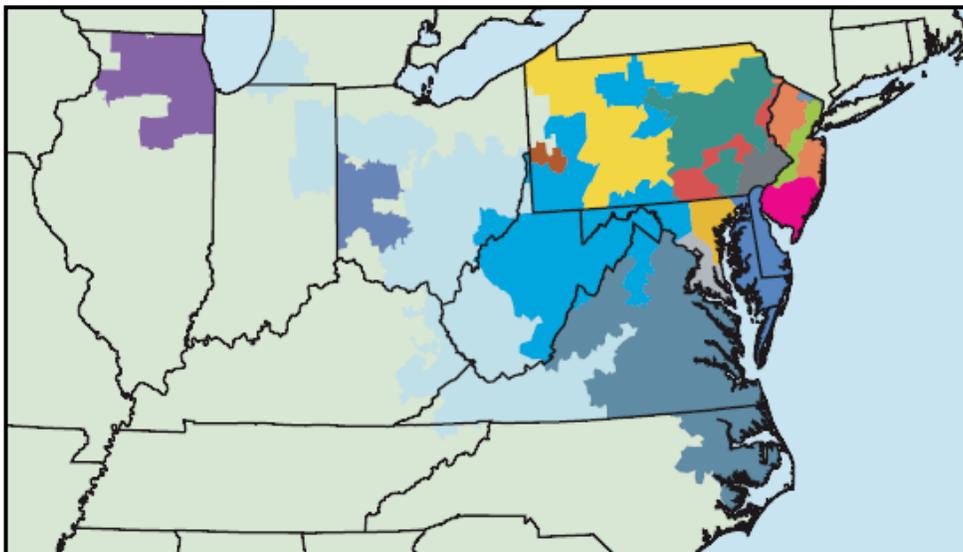
The RPPWG has met regularly throughout the second half of 2005, and will continue to meet in 2006 to develop and refine the proposal and seek approval from the appropriate PJM committees and board. The Commission actively supported the formation of RPPWG and has been directly engaged in its activities. Thus far, significant progress has been made, including the adoption by PJM of the long-term planning component that addresses reliability.

Formation of the Organization of PJM States

In May 2005, the Organization of PJM States, Inc. (OPSI) was formed. OPSI's members include all fourteen state regulatory commissions (inclusive of the District of Columbia Public Service Commission) within the PJM footprint. OPSI provides a means for the PJM States to act in concert with one another, when it is deemed to be in the common interest of their affected publics. According to its articles of incorporation, OPSI will undertake such activities as data collection and dissemination, market monitoring, issue analysis, policy formation, advice and consultation, decision-making and advocacy related to:

- ◆ PJM operations;
- ◆ The electric generation and transmission system serving the PJM States;
- ◆ FERC matters; and
- ◆ The jurisdiction and role of the PJM States to regulate and promote the electric utilities and systems within their respective boundaries.

Each state commission will have a member on the OPSI Board of Directors, and the OPSI executive committee consisting of the president, vice-president, secretary, and treasurer will set general policy direction. Maryland Commissioner Allen Freifeld is presently serving as the Treasurer of OPSI.



OPSI addresses regional issues directly related to PJM. OPSI positions do not bind individual commissions and are not official actions of any member state. It is anticipated that OPSI's budget will be less than \$500,000 and that it will be funded by a PJM tariff. PJM filed the tariff with FERC, and FERC has received and reviewed comments on the application. On December 15, 2005, FERC approved the tariff which will take effect in 2006.

OPSI has had several board meetings since its inception, and held its first annual meeting and strategic retreat on September 15 and 16, 2005. Both commissioners and commission staff representing each OPSI member were in attendance. Several working groups were formed during the meeting including those related to: (1) PJM's Reliability Pricing Model; (2) Regional Transmission Planning; (3) market monitoring and market mitigation; and (4) governance issues concerning the relationship and deliberations between OPSI and PJM.

Washington Gas Light Leak Issue

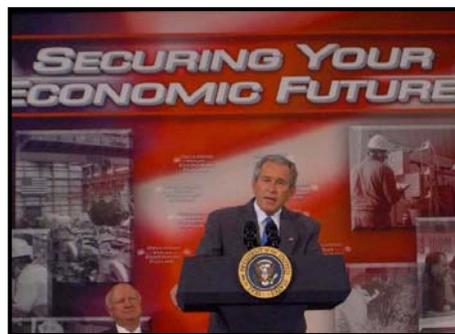
In early March, 2005, Washington Gas Light (WGL) approached the Commission with data showing an abnormal increase in winter heating season grade 2 gas leaks occurring in its Southeast Station territory that primarily serves Prince Georges County. Analysis of the data disclosed that the leaks were consistently occurring at the mechanical coupling that join the steel distribution and service lines used to build out the system from the mid 1950s to mid 1970s. Staff prepared a report for consideration by the Commission, which issued a Notice of Inquiry requiring monthly reports to be filed with the Commission.

WGL has repaired the initially identified grade 2 leaks in the affected area and is repairing newly identified grade 2 leaks on an accelerated basis. Also, WGL is replacing the mechanically coupled steel distribution system with plastic pipe and inserting plastic pipe in the

service lines to reduce the number of gas leaks to as low a level as practical. WGL has maintained an enhanced frequency of leak surveys. Two contracted research reports commissioned by WGL were filed with the Commission that determined the cause of the leaks and identified potential solutions to prevent occurrence of the abnormal leak rates in other parts of the WGL service territory. The Commission is still receiving monthly reports and monitoring any additional problems.

Energy Policy Act

On August 8, 2005, the Domenici-Barton Energy Policy Act of 2005 (EPACT 2005) became law. EPACT 2005 is the first major piece of energy policy legislation passed by Congress in over a decade. Among other things



EPACT 2005 repeals the Public Utility Holdings Act of 1935, amends the Public Utility Regulatory Policy Act of 1978 with regard to ratemaking standards, addresses various generation issues including fuel diversification and emissions, establishes certain transmission planning guidelines and requirements, and lays the foundation for time of use rates and interconnection services for most customers. The Staff Counsel Division has begun to examine the requirements of EPACT 2005 as they may relate to regulation of Maryland electric utilities and electricity suppliers.



Gas Regulation Restructuring Roundtable Process – Case No. 8683

Case No. 8683 was established by the Commission on January 10, 1995, following the submission of the Staff’s “A Framework for Future Regulation of Gas Services in Maryland.” The Commission established the Roundtable process on February 6, 1995, as the vehicle for developing restructuring filings. The first phase of the process was completed on August 2, 1995, when the Commission accepted Stipulations and Agreements and relevant tariffs filed by Baltimore Gas and Electric (BGE), Washington Gas Light (WGL), and Columbia Gas of Maryland (CGMD). The Stipulations and Agreements and relevant tariffs provided gas choice for smaller firm service commercial customers of third party gas suppliers.

As of the end of 2000, numerous additional utility filings developed in the Roundtables, and accepted by the Commission, expanded customer choice for small firm service residential and commercial gas customers such that all BGE, WGL and CGMD customers were eligible for gas choice. Gas choice also became available to larger non-residential customers of Chesapeake Utilities (CU) and NUI/Elkton (NUI).

BGE’s gas choice program is open to all residential and non-residential customers without restrictions or limits. As of the end of September 2005, BGE had overall 11.3% of all customers and 50.9% of total gas volumes served by gas suppliers. By customer class, 90.5% of large commercial/industrial; 16.3% of firm service commercial; and 10.8% of residential BGE customers were served by gas suppliers. In terms of total gas volumes delivered on the BGE system, suppliers provided 99.9% of the gas used by large commercial/industrial customers, 49.1% of the gas used by firm service commercial customers and 12.5% of the gas used by

residential customers. BGE has a provision in place to recover the cost of contracted interstate pipeline capacity that has been stranded by customers converting from sales to delivery service. To date, these costs have been minimal.

WGL's gas choice program is open to all residential and non-residential customers without restrictions or limits. As of the end of September 2005, WGL, Maryland had overall 18.3% of all customers and 48.4% of total gas volumes served by gas suppliers. By customer class, 100% of large commercial/industrial; 39.1% of firm service commercial; and 16.7% of residential WGL customers were served by gas suppliers. In terms of total gas volumes delivered on the WGL, Maryland system, suppliers provided 100% of the gas used by large commercial/industrial customers, 64.7% of the gas used by firm service commercial customers and 21.2% of the gas used by residential customers. WGL also has a provision in place to recover the cost of contracted interstate pipeline capacity that has been stranded by customers converting from sales to delivery service. In recent years there have been no charges under this provision.

CGMD's gas choice program is open to all residential and non-residential customers without restrictions or limits. CGMD has 122 larger daily metered customers with total annual usage of 2.68 million dekatherms (Dth) and 13 smaller commercial/industrial customers with total annual usage of 3,854 Dth using transportation service. CGMD's residential program is now in its seventh year. Residential delivery service enrollment has declined during the last three years. At the end of September 2005, 1,099 residential customers with total annual usage of 118,150 Dth bought their gas from suppliers.

Restructuring for Chesapeake Utilities (CU) went forward in 1998 with the first transportation service filings approved by the Commission in the summer of 1998. By the end of

2005, 16 large non-residential customers with annual volumes of approximately 202,000 Dth were taking delivery service.

The Gas Roundtables constantly monitor issues related to customer information, the information interchange between marketers and the utility, and customer complaints related to the residential pilot programs. During 2005, the Roundtable process continued to provide a valuable resource to Maryland gas utilities by way of providing an easy way for the utilities to communicate regularly and directly with marketers, customers, consumer advocates, and Staff about the success of existing customer choice programs and new unbundled services desired by customers or service providers.



Electric Universal Service Program – Case No. 8903

The Electric Universal Service Program (EUSP) was authorized as part of the Electric Customer Choice Act of 1999 to assist low-income electric customers with arrearage retirement, bill assistance and weatherization. The legislature directed the Commission to establish and oversee the program and the Department of Human Resources (DHR) to administer it.

Electric rate payers provide funding for the EUSP which has been set by law at \$34 million per year. Residential, commercial and industrial electricity customers contribute through a universal service charge collected by electric companies.

Families with incomes at or below 150 percent of the Federal poverty guidelines with electric bill responsibility are eligible. The 2000 Census indicates that there are about 278,000 low-income customers in Maryland, though all do not have electric bill responsibility. The EUSP operates on a fiscal year basis. In FY 2005, DHR's Office of Home Energy Programs

(“OHEP”) distributed EUSP benefits to 88,368 Maryland families. This represents an increase in participation from 80,825 in FY 2004 or a growth of 9.3 percent. OHEP uses a benefits matrix based on customer income and electrical usage to cover on average 50 percent of customers’ annual electric bills. The average bill payment assistance benefit amount was \$362. For FY 2006, the Commission approved a redesigned matrix that places greater emphasis on consumption.

In addition, this year, Governor Ehrlich allocated an additional \$13 million for energy assistance including the “Project Heat Up” initiative to provide benefits to applicants whose household income places them just above the EUSP and Maryland Energy Assistance Program eligibility range. As a result, families in the 151 to 175 percent of poverty income range are eligible for energy assistance during the 2005-2006 winter heating season.



Telecommunications

On November 23, 2005, the Commission issued an Order in Case Nos. 8745, 8918 and 8937 adopting a settlement agreement developed by Verizon, AT&T, MCI, the Office of the People’s Council and the Commission’s technical staff. The settlement agreement modified existing rules governing Verizon’s delivery of retail services throughout the state, created and enhanced a low income calling plan and made broadband Internet access available in every central office in the State. Specifically, the settlement agreement significantly decreased access charges and accepted the price cap compliance filings for the years 2003, 2004 and 2005. Following a modest one-time increase in Verizon’s retail rates, the settlement agreement capped

Verizon's residential rates for two years and constrained additional increases to the national rate of inflation.

The settlement agreement also required that an enhanced discounted rate service be offered to a larger population of low income consumers in the State. According to the settlement agreement, the new low income program shall be made available to the same population that currently receives benefits under the State's energy assistance program and shall include unlimited local calling as well as the ability to purchase up to two popular enhanced features such as caller ID and voice mail.

In addition, the settlement agreement required Verizon to equip all of its central offices in the State with the capability of offering broadband Internet access. Lastly, in adopting the settlement agreement, the Commission renewed its commitment to further streamline the processing of tariff filings submitted by Verizon.

Other Issues

New Regulations

The Commission initiated regulation changes to the Code of Maryland Regulations Title 20 in the areas of: (a) Service Supplied by Telephone Companies –Intrastate Switched Access and Pay Phone Dial Around Surcharge Rates; (b) Service Supplied by Electric Companies – Quality of Service; (c) Electricity Suppliers – Administrative Provisions; (d) Electricity Supplier and Gas Supplier – Residential Consumer Protection; (e) Renewable Energy Portfolio Standard Program; (f) Applications Concerning the Construction and Modification of Generating Stations and Overhead Transmission Lines; (g) Transportation – Violations and Penalties and Notice of Hearing; and (h) affiliate regulations.

COMAR 20.45.09 Service Supplied by Telephone Companies -- Intrastate Switched Access and Pay Phone Dial Around Surcharge Rates

This new chapter establishes simplified standards of review for intrastate switched access and payphone dial around surcharge rates charged by local exchange or interexchange telephone companies by establishing caps for the rates. The caps are based upon comparable rates the Commission has determined to be just and reasonable. This chapter contains a waiver provision and a civil penalty provision.

COMAR 20.50.07.03C(2) Service Supplied by Electric Companies – Quality of Service

The amendment to this chapter makes the period for calibrating working standards for voltmeters consistent with the period for calibrating secondary standards.

COMAR 20.51.02.08 Electricity Suppliers – Administrative Provisions

This chapter was amended to specify the evidence of financial integrity required of an applicant seeking authority to operate as a competitive electricity supplier. In addition to discussing various financial documents that an applicant may file, the amendments clarify the method of review for various types of financial documents and establish separate requirements for a supplier that operates solely as a broker or aggregator.

COMAR 20.53 Electricity Supplier and Gas Supplier – Residential Consumer Protection

This subtitle incorporates by regulation the consumer protections previously contained in various Commission orders. The consumer protections have been updated to reflect experiences with the competitive market to date. Major revisions of Commission ordered practices include elimination of the 10-day contract rescission period, adoption of enrollment and switching procedures that rely on competitive suppliers, and the requirement of regular provision of billing and payment information in cases of utility consolidated billing. The subtitle is limited to residential customers.

COMAR 20.61 Renewable Energy Portfolio Standard Program

This subtitle addresses the requirements of Sections 7-701 *et seq.* of the Public Utility Companies Article of the Annotated Code of Maryland which requires that all retail sales of electricity in Maryland meet a specified renewable energy portfolio standard that increases annually through 2017. The regulations address the following topics: (1) reporting requirements including calculation of sales, exclusions and exemptions; (2) certification of renewable energy facilities; (3) acquisition, retirement, and expiration of renewable energy credits; (4) renewable on-site generation; (5) consumer protection including special reporting requirements for certain renewable sales; and (6) compliance and enforcement. The regulations became effective on a temporary, emergency basis on July 1, 2005, and were adopted on a final and permanent basis in November 2005.

COMAR 20.79.01 Application Concerning the Construction or Modification of Generating Stations and Overhead Transmission Lines

This chapter was amended to clarify that approvals in addition to a Certificate of Public Convenience and Necessity are sometimes required when constructing or modifying a generating station or an overhead transmission line. The chapter was also amended to accommodate Section 7-207.1(a) of the Public Utility Companies Article of the Annotated Code of Maryland which exempts generating stations of 70 megawatts or less from the requirement of obtaining a Certificate of Public Convenience and Necessity provided that specified conditions are met.

COMAR 20.90.02.21 Taxicabs – Control and Operation of Taxicabs in Baltimore City and Baltimore County

COMAR 20.90.03.18 Taxicabs – Control and Operation of Taxicabs in the City of Cumberland and the City of Hagerstown

COMAR 20.95.01.06 Transportation – General

These revisions allow an operator of a taxicab in Baltimore City, Baltimore County, the City of Cumberland, and the City of Hagerstown and operators of other types of for-hire transportation regulated by the Commission to request a hearing, if desired, on or before the date set by the Commission in a citation or complaint. This replaces the requirement that a hearing at a specific date and time be set at the time of issuance of a citation. The proposed regulations were approved for publication in 2005 and are expected to become final in 2006.

COMAR 20.95.01.06B(6) Transportation – General

This chapter was amended to clarify that it is a violation to operate a motor vehicle for hire without a valid passenger for hire driver's license. The violation is subject to a civil penalty.

Affiliate Regulations

During 2004, the Commission met with representatives of electric and natural gas utilities and their affiliates, third party energy suppliers, and competitors of utility affiliates in a series of meetings to draft new regulations pertaining to the relationship between utilities and their affiliates. These proposed regulations are designed to promote competitive markets and to ensure that utilities do not subsidize their affiliates. In 2005 a revised version of the proposed regulations was approved by the Commission and noticed for comment in the Maryland Register. Comments have been received and the matter was pending as 2006 began. If adopted as proposed, the Affiliate Regulations would be accompanied by the deletion of COMAR 20.40 Promotional Practices.

Broadened Ownership Act

In compliance with §2-106 of Article 83A of the *Annotated Code of Maryland*, entitled the "Broadened Ownership Act," the Commission engaged in communications with the largest gas, electric, and telephone companies in the State in an effort to assure their awareness of this law. The law establishes the need to institute programs and campaigns to encourage the public and employees to purchase stocks and bonds in these companies, thus benefiting the community, the economy, the companies, and the general welfare of the State.

The following major utility companies submitted reports outlining various efforts to encourage public and employee participation in the stock purchase program:

(a) Pepco Holdings, Inc. (PHI) continues to encourage broadened ownership of the Company's capital stock particularly among Maryland residents. PHI is the parent company of Potomac Electric Power Company and Delmarva Power & Light Company. As of September 30, 2005, there are more than 189 million shares of PHI common stock outstanding and are held by over 74,000 shareholders. With respect to ownership of PHI stock by Maryland residents, PHI's records show that 13,226 shareholder accounts, representing 7.9 million shares, are registered directly to Maryland residents.

(b) NiSource, Inc. (Parent) owns all of the common stock of the Columbia Energy Group, which in turn owns all of the common stock of Columbia Gas of Maryland, Inc. The Parent has five plans which encourage broadened stock ownership. The Employee Stock Purchase Plan (ESPP) encourages broadened stock ownership by employees. The Parent maintains the NiSource Inc. Retirement Savings Plan, the Northern Indiana Public Service Company Bargaining Unit Tax Deferred Savings Plan, and the Bay State Gas Company Operating Employee Savings Plan collectively referred to as the Tax Deferred Savings Plans. In

addition, the Automatic Dividend Reinvestment and Stock Purchase Plan broadens capital ownership by all stockholders.

On July 29, 2005, the Parent had 272,489,710 shares of its common stock outstanding, of which 7 million or about 2.6% were held by employees in the ESPP Plan and the Tax Deferred Savings Plans. As of July 29, 2005, the Parent had approximately 1051 registered stockholders with Maryland addresses, holding approximately 301,972 shares of Parent common stock.

(c) As of September 30, 2005, 26,897 Maryland residents representing 60.57% of Constellation Energy Group, Inc. (“CEG” is the parent company of Baltimore Gas and Electric Company) total common shareholders, owned 13,171,443 or 7.38% of the outstanding shares of common stock. In addition, CEG employees (many of whom are Maryland residents) own additional shares of common stock through the CEG's Employee Savings Plan.

CEG established an Employee Savings Plan to provide employees with a convenient way to save toward retirement and to increase their ownership interest in CEG. Under this Plan, employees may save up to 50% of their income and invest such savings in either CEG common stock, an Interest Income Fund, 21 mutual funds, or a combination of all 23 investment options. As of September 30, 2005, 7,068,477 shares of common stock were held in the Employee Savings Plan for current and former employees, including approximately 442,011 shares allocated during the current reporting period.

(d) The Potomac Edison Company is a wholly-owned subsidiary of Allegheny Energy, Inc. (“AE”). In 2005, AE continued its Employee Stock Ownership and Savings Plan. Approximately 82% of AE's employees are currently contributing to the Plan and 4,919 participants have AE stock as part of their account balance within the Plan. As of December 31,

2004, 2,003 Maryland residents held AE stock as stockholders of record, which represents approximately 6.95% of all AE registered stockholders and 0.68% of all shares.

(e) Washington Gas Light Company (“WGL”), provides the following information regarding its efforts to broaden ownership of the Company’s capital stock, particularly among residents of Maryland and Company employees. Currently, approximately 26.6% of registered shareholders reside in Maryland, which represents 5.2% of the Company's outstanding common shares. WGL employees also actively participate in the ownership of the Company. As of October 1, 2005, over 153 employees were participating in the Company's Dividend Reinvestment and Common Stock Purchase Plan, and approximately 1307 employees (both active and retired) owned shares through its 401K Savings Plan.

(f) Verizon Maryland Inc. is a wholly owned subsidiary of The Verizon Corporation. Public stockholder ownership in the Verizon Maryland Inc. is obtained through the purchase of Verizon Capital Stock. The Verizon Savings Plan and the Verizon Savings and Security Plan enable employees to purchase Verizon stock. Employees are eligible to participate in the plans after one year of service. As of September 30, 2005, there were 31,144 Maryland residents who held Verizon stock.



Homeland Security

Commission Staff utilized the Federal Department of Energy, Energy Emergency Assurance Communication program during the 2005 hurricane season for daily updates on impact to natural gas and fuel supplies. Commission

Staff participated in several Federal Department of Homeland Security National Capital Region

Critical Infrastructure Protection group activities. The Commission continues to support the National Association of Regulatory Utility Commissioners (NARUC) Ad Hoc Committee on Critical Infrastructure. In 2005, Commissioner Karen Smith was appointed Chair of this Committee.

One illustration of Critical Infrastructure protection activities during 2005 are the series of workshops the Commission Staff conducted with the State Fire Marshal to increase first responder awareness of the need to safeguard natural gas and hazardous liquid pipelines and proper precautions to take when responding to an incident. The Commission is committed to ensuring the security of the utilities' critical infrastructure and maintaining a dialogue with appropriate regional and federal agencies.

Major Cases and Decision

Gas and Electric Utilities

The Matter of Baltimore Gas and Electric Company's Proposed: (a) Stranded Cost Quantification Mechanism; (b) Price Protection Mechanism; and (c) Unbundled Rates and the Petition of People's Counsel for a Reduction in the Rates and Charges of Baltimore Gas and Electric Company -- Case Nos. 8794/8804

On May 25, 2005, Baltimore Gas and Electric Company filed proposed revisions to its Competitive Transition Charge (CTC) in this docket which concerns BGE's electric restructuring and stranded cost recovery. On July 15, 2005, the Commission delegated to the Hearing Examiner Division the question as to whether the Stipulation and Settlement Agreement previously accepted by Order No. 75757 on November 10, 1999, allows for a final true-up of CTC dollar amounts payable to BGE from various customers that did not elect the lump sum payment options. Both BGE and the Staff took the position that true-ups were implied and necessary, while the Maryland Industrial Group (MIG) contends that the Stipulation does not provide for a final true-up and that the shortfall was due to BGE's errors.

On October 6, 2005, a Proposed Order of Hearing Examiner was issued which found that the Agreement intended the dollar amounts to be exact and ordered a final true-up to give effect to the terms of the Settlement. On November 4, 2005, MIG filed an appeal of the Proposed Order. Subsequently, on December 14, 2005, a Settlement Agreement between BGE and MIG was filed which would withdraw the appeal.

The Application of Prince George's County Government for a Certificate of Public Convenience and Necessity to Construct A 4.2 MW Generating Facility at the Brown Station Road Landfill in Prince George's County, Maryland -- Case No. 8838

This case, noted in the 2000 Annual Report, involves a Certificate of Public Convenience and Necessity (CPCN) by Prince George's County to construct a 4.2 MW generating facility at

the Brown Station Road Landfill to produce electricity from landfill gas. The CPCN was previously granted by Order No. 76471 entered on September 26, 2000. On January 6, 2005, the County's Department of Environmental Resources filed a request to amend the conditions of the certificate for consistency with requirements of the federal Clean Air Act. Following hearing held on April 18, 2005, the request to amend the conditions was granted in a Proposed Order issued April 22, 2005, which became Order No. 79942 on May 2, 2005.

The Merger Between Potomac Electric Power Company and Delmarva Power & Light Company -- Case No. 8890

This case, noted in prior Annual Reports, involves the merger of Potomac Electric Power Company and Delmarva Power and Light Company, which merger application, filed on May 11, 2001, was approved by Order No. 77685 issued on April 11, 2002.

In conformance with the provisions of the merger Order, the Companies proposed new rate schedules for retail transmission rates and distribution rates on May 4, 2005, in response to proposed changes in the Company's wholesale transmission rates, as the merger Order allows for adjustment of retail transmission and distribution rates beyond the first 10% change in FERC-approved wholesale transmission rates. These tariff revisions were accepted by the Commission on May 31, 2005, subject to adjustments pending the outcome of FERC transmission rate proceedings and a final true-up of the Companies' transmission and distribution rates. Opposition to the utilities' rate schedules was filed, but in Order No. 80373 issued October 28, 2005, the Commission confirmed the prior acceptance of the Companies' tariff revisions to properly adjust retail transmission and distribution rates based on changes in FERC-approved wholesale transmission rates.

The Commission's Inquiry into the Competitive Selection of Electricity Supplier/Standard Offer Service -- Case No. 8908

This case, initiated in 2001 and noted in prior Annual Reports, concerns review of issues regarding competitive selection of electricity supplier/standard offer service and default service plans. During 2005, the Commission's Technical Staff filed its Report on the Procurement Improvement Process for 2005-2006 on September 7, 2005, containing consensus recommendations and revised Full Requirements Service Agreements (FSA) and a model Request For Proposals (RFP) for 2006.

By Order No. 80276 issued on September 23, 2005, the Commission ordered that Maryland public service companies subject to the standard offer service procurement process shall use the revised Model 2006 RFP and FSA and the consensus recommendations in the Staff Report as they conduct their standard offer service procurement for the upcoming bid year.

The Application of Mirant Chalk Point Development, LLC for a Certificate of Public Convenience and Necessity to Modify Its Existing Generating Station in Prince George's County, Maryland -- Case No. 8912

As noted in prior Annual Reports, this request for an increase in generating capacity at Chalk Point was awaiting an agreement, to be filed, as to the environmental conditions to apply. On March 8, 2005, an executed Stipulation and Settlement was filed by the parties. A Proposed Order of Hearing Examiner accepting the Stipulation was filed on March 24, 2005, which became Order No. 79867 on April 1, 2005, concluding this matter.

The Matter of Baltimore Gas and Electric Company's Long-Term Gas Capacity Plan -- Case No. 8950

This case, noted in prior Annual Reports, concerns gas capacity planning of BGE. Order No. 79472, entered August 31, 2004, approved a settlement in Phase II of this case resolving many matters concerning the Company's obligation to provide service as a provider of last resort

to specified customer classes, while continuing a Phase III to consider implementation of a Gas Administrative Charge.

Subsequently, the parties filed a Stipulation and Settlement Agreement on August 22, 2005, that establishes a Gas Administrative Charge to be paid by those customers who purchase the gas commodity from BGE, and removing the recovery of related costs from gas base rates. The settlement was approved in its entirety by a Proposed Order of the presiding Commissioner issued August 29, 2005, which became final Order No. 80265 on September 16, 2005.

The Matter of Washington Gas Light Company's Gas System 2003-2007 Portfolio Plan -- Case No. 8951

This case, noted in prior Annual Reports, concerns review of WGL's 2003-2007 Portfolio Plan. Following extensive negotiations, the parties submitted a Stipulation and Settlement Agreement on September 21, 2005, which resolves both procedural and substantive matters of WGL's planning and development of the natural gas supply portfolio for the WGL distribution system. The settlement was accepted in a Proposed Order of Hearing Examiner issued November 2, 2005, which became final Order No. 80438 on December 3, 2005.

Columbia Gas Of Maryland, Inc.'s 2003-2007 Strategic Gas Plan -- Case No. 8952

As reported in the 2004 Annual Report, Order No. 79160 was issued on June 7, 2004. On February 3, 2005, Columbia Gas filed its Strategic Gas Supply Plan. Columbia Gas, the Office of People's Counsel, and the Commission Staff, on that same date, filed a Stipulation and Agreement which called for the implementation of a Fixed Price Portfolio Program. By Order No. 80018, issued on June 3, 2005, the Commission accepted the agreement and created a two-year pilot program as agreed upon by the parties.

The Application of Delmarva Power & Light Company for Authority to Introduce Rider "S" - Standby Service Under Its Retail Electric Service Tariff -- Case No. 8975

As reported in the 2004 Annual Report, a Stipulation was to be filed regarding Schedule "S" Standby Service of Delmarva. On March 17, 2005, an Agreement of Stipulation and Settlement was filed. Following hearing, the agreement was accepted by the Commission in Order No. 80060 issued on June 22, 2005, and Delmarva was directed to file clean copies of its Rider "S" tariff. On August 12, 2005, that filing was made by Delmarva.

The Inquiry into the Provision of Standard Offer Service By Choptank Electric Cooperative, Inc. -- Case No. 8987

This case, noted in prior Annual Reports, concerns the provision of Standard Offer Service (SOS) to be offered by Choptank Electric Cooperative for the period of July 1, 2005, through June 30, 2010. On March 31, 2005, Choptank, Staff, and the Office of People's Counsel filed a Stipulation and Settlement Agreement with the Commission. An evidentiary hearing was held on April 7, 2005 and an evening hearing was held in Choptank's service territory on April 13, 2005. Order No. 79922 was issued by the Commission on April 25, 2005, approving the Settlement.

The Investigation into Regulation of Washington Gas Light Company's Interruptible Service -- Case No. 8990

As noted in prior Annual Reports, this case is an outgrowth of Commission Order No. 78757 in Case No. 8959, issued October 31, 2003. In that Washington Gas Light Company rate case, the Commission affirmed a Proposed Order of Hearing Examiner that, among other things, authorized WGL to increase rates and charges for gas service. That Order left unresolved, however, the question of the appropriate regulatory regime that should apply to gas rates for customers of interruptible service.

Following delegation to the Hearing Examiner Division to conduct proceedings to consider and resolve this issue, a pre-hearing conference was held on April 15, 2004, and a schedule was established leading to an evidentiary hearing. Thereafter, the parties engaged in efforts to reach a settlement, resulting in an agreement filed on May 18, 2005, that proposed a tariff changing the method of pricing gas service for interruptible customers. In a Proposed Order issued July 6, 2005, the Hearing Examiner concluded that the resolution was reasonable in light of the adverse interests of the respective parties and it was in the public interest that the Stipulation and Agreement be accepted. The Proposed Order of Hearing Examiner became final Order No. 80130 on August 8, 2005.

The Application of Catoctin Power, LLC for a Certificate of Public Convenience and Necessity to Construct A Nominal 600 MW Generating Facility in Frederick County, Maryland -- Case No. 8997

This case, noted in the 2004 Annual Report, concerns an application by Catoctin Power, LLC for a Certificate of Public Convenience and Necessity (CPCN) to construct a nominal 600 MW generating facility on the Eastalco industrial site property located in Frederick County, Maryland. Following hearings which concluded in January 2005, a Proposed Order of Hearing Examiner which would grant the CPCN subject to certain conditions was issued on March 24, 2005. By Commission Order No. 79923 issued on April 25, 2005, the Commission on its own motion adopted the Proposed Order, while also including certain additional environmental requirements requested by the Maryland Departments of the Environment and Natural Resources in a Motion to Amend and Supplement the Proposed Order (Motion) submitted after the filing of the Proposed Order. Accordingly, the CPCN was granted with both the conditions of the Proposed Order and the additional conditions of the Motion.

Mirant Mid-Atlantic, LLC's Request for a Determination on Whether the Addition of Feedwater Heaters at the Chalk Point Generation Station is a Modification Pursuant to Section 7-205, Public Utility Companies Article -- Case No. 9007

This case, noted in the 2004 Annual Report, concerns the request filed on April 12, 2004, by Mirant Mid-Atlantic, LLC for approval to add feedwater heaters to Units 3 and 4 at the Chalk Point generating station. This matter was delegated to the Hearing Examiner Division on January 18, 2004. A pre-hearing conference was held on August 2, 2004. Discovery, including performance and review of a boiler impact study, continued throughout 2004. On January 12, 2005, Mirant filed a request to suspend the discovery and litigation schedule of Case No. 9007 pending further review of the boiler impact study. Following a series of interim reports to the Hearing Examiner, Mirant, on October 28, 2005, requested that this case be closed. The Proposed Order closing Case No. 9007 was issued on November 9, 2005, and became final as Commission Order No. 80447 on December 12, 2005.

The Application of Synergics Wind Energy, LLC. for a Certificate of Public Convenience and Necessity to Construct a 40 MW Wind Power Facility in Garrett County, Maryland -- Case No. 9008

As noted in the 2004 Annual Report, on June 30, 2004, Synergics Wind Energy, LLC (Synergics) filed an application for a Certificate of Public Convenience and Necessity to build and operate a wind power generating facility along a portion of the ridgeline of Backbone Mountain in Garrett County, Maryland. The initial proposal consisted of 24 wind turbines, generating 40 MW of electricity. On July 19, 2004, the Commission delegated the matter to the Hearing Examiner Division to conduct hearings on the application, and a procedural schedule was developed. However, in December 2004 that procedural schedule was delayed, at Synergics' request, to allow it to complete several studies required by the Power Plant Research Program (PPRP). Hearings were subsequently held from September 14-16, 2005.

In addition, on September 22, 2005, a final adjudicatory hearing as well as a public hearing was held in Garrett County. During the hearing, Synergics modified the project and proposed a 17 turbine configuration to accommodate environmental concerns. Since the close of the hearings, the parties have filed post-hearing briefs and the matter is pending a decision by the Hearing Examiner.

The Application of Baltimore Gas and Electric Company for a Certificate of Public Convenience and Necessity for the Brandon Shores to Riverside 230 kV Transmission Line -- Case No. 9009

As reported in the 2004 Annual Report, this application for a Certificate of Public Convenience and Necessity (CPCN) for a transmission line had concluded the hearing process and was awaiting the filing of a Proposed Order of Hearing Examiner. On January 20, 2005, a Proposed Order was issued which found that the requested CPCN had met all the requirements of § 7-207 of the Public Utility Companies Article of the *Annotated Code of Maryland*. It found that the need described would be properly serviced by the proposed project, and it granted the CPCN subject to nine conditions requested by other State Agencies. The Proposed Order became final Order No. 79800 on February 22, 2005.

The Petition of the Commissioners of St. Michaels and the St. Michaels Utilities Commission for Approval to Investigate the Impact of St. Michaels Utilities Commission Resuming the Exercise of its Franchise on Customer Choice Within its Franchise Area -- Case No. 9017

This case, noted in the 2004 Annual Report, involves a petition of the St. Michael's Utilities Commission (SMUC) filed July 28, 2004 for approval of the resumption of the exercise of its franchise as a municipal utility. Also, SMUC requests that the Commission confirm that there has been no election by SMUC to open its franchise service territory to electric retail competition.

This matter was initially considered by the Commission at the Commission's August 25, 2004 Administrative Meeting. The Commission noted the decision of SMUC to exercise its franchise and docketed the matter for further investigation into the impact of the resumption of SMUC's exercise of its franchise on customer choice within its service area. By Order No. 79715 entered on January 7, 2005, the Commission acknowledged the Commissioners' of the Town of St. Michaels and the SMUC's determination not to open the St. Michaels Utilities service area to competitive choice except for those customers who elected choice prior to the filing of the July 28, 2004 petition. Those customers retain their rights to choose an electric supplier.

The Application of The Potomac Edison Company d/b/a Allegheny Power for a Certificate of Public Convenience and Necessity to Construct an Overhead 230 kV Transmission Line in Frederick County, Maryland -- Case No. 9018

As noted in the 2004 Annual Report, this matter was scheduled for hearing in 2005. Extensive testimony has been filed and hearings were held on various days in February, April, August, November and December 2005. The matter had concluded its evidentiary hearings at year's end, and public comment hearings are set for early 2006.

The Application of Mirant Mid-Atlantic, LLC for Approval to Modify the Morgantown Generating Station -- Case No. 9031

As noted in the 2004 Annual Report, on November 4, 2004 Mirant Mid-Atlantic, LLC filed its application to modify its Morgantown generating station by installing a coal barge unloading facility capable of unloading 5.0 million tons of coal each year. On December 22, 2004 the Commission delegated Case No. 9031 to the Hearing Examiner Division for an expedited hearing. A pre-hearing conference was held on January 25, 2005. After filing of direct testimony by the parties and resolution of a motion to intervene by CSX Transportation,

Inc., a hearing for public comment was held on May 11, 2005. Briefs were filed in June 2005. The Hearing Examiner issued a Proposed Order approving construction of the proposed coal barge unloading facility, with conditions, on August 17, 2005. The Proposed Order became final as Commission Order No. 80270 on September 19, 2005.

The Complaint of the University of Maryland, College Park v. Potomac Electric Power Company -- Case No. 9032

As reported in the 2004 Annual Report, a panel was set to hold hearing in 2005 on the tariff interpretation dispute. A hearing was held on February 24, 2005. Briefs were filed by the University of Maryland and Potomac Electric Power Company (Pepco). The Commission's panel issued Order No. 79890 on April 7, 2005, which order found that all of the facilities in question pre-dated the University's installation of its co-generation facility. It further found that the Pepco tariff language applies to only newly constructed installations and therefore did not apply to the installations in question. The Order further stated that Pepco, after the rate caps expire, can correct this shortcoming in new tariff language.

On May 9, 2005, Pepco filed an application for rehearing; the University of Maryland filed a reply on June 1, 2005, opposing rehearing. Order No. 80065 was issued on June 22, 2005, which denied the rehearing request.

The Complaint of the Mid-Atlantic Power Supply Association vs. Potomac Electric Power Company -- Case No. 9033

On November 10, 2004, Mid-Atlantic Power Supply Association filed a complaint against Potomac Electric Power Company. The Commission delegated the matter to the Hearing Examiner Division and thereafter a procedural schedule was established that allowed discovery, the pre-filing of testimony, the intervention of parties, and hearing, if necessary. Subsequently, the parties reached a mutually agreed resolution of the complaint. In a Proposed Order, dated

October 31, 2005, the Hearing Examiner accepted the parties' Joint Motion to Accept Settlement and Dismiss Proceeding, which includes a Dispute Resolution Procedure as a full settlement of the issues in this dispute between Pepco and power suppliers. The Proposed Order was not appealed and became final Order No. 80430 on December 1, 2005.

The Matter of the Inquiry Into Natural Gas Leaks From the Washington Gas Light Company Distribution System -- Case No. 9035

On April 7, 2005, the Commission issued a Notice of Inquiry ("NOI") to Washington Gas Light Company (WGL). The NOI established an inquiry into natural gas leaks on WGL's Maryland Distribution System. The NOI required WGL to file documents showing WGL's plans to find and repair gas leaks on its system and notify affected entities and the public about the leaks. The Commission also directed WGL to file monthly reports describing ongoing repair and replacement of gas service lines, and explaining plans to correct or reduce future leaks. WGL filed nine such reports in 2005, and also responded to several additional Commission Notices of Inquiry regarding specific items on its monthly reports. Case No. 9035 remains open.

The Application of Baltimore Gas and Electric Company for Revision in its Gas Base Rates -- Case No. 9036

On April 29, 2005, Baltimore Gas and Electric Company (BGE or Company) filed an application to increase its base rates for gas service by \$52.7 million annually, representing an increase of approximately 4.7 percent in gas distribution rates.

In the application, the Company notes that it last filed for revisions to its gas base rates in 1999. The Company further states that since that time, its costs have increased substantially, and the Company contended that its present gas base rates were no longer just and reasonable and did not yield a reasonable return. A pre-hearing motion to dismiss was filed alleging BGE's failure to comply with § 4-208 of the Public Utility Companies Article of the *Annotated Code of*

Maryland regarding an independent audit opinion on the Company's Cost Allocation Manual (CAM). Order No. 80072 was issued on June 24, 2005 which held the case in abeyance until a new independent audit opinion on BGE's CAM was filed. On June 24, 2005, BGE filed a copy of a report from the independent audit firm of Ernst & Young, LLP regarding BGE's CAM for the 2004 calendar year. The Commission then issued Order No. 80076 on June 27, 2005, suspending the proposed rates from the June 24, 2005, date of the perfected filing.

Following hearings on the rate request, by Order No. 80460 issued on December 21, 2005, the Commission found a revenue increase of \$35,645,000 will result in just and reasonable rates. A dissent regarding the issue of short-term debt was also noted.

The Matter of Default Service for Type II Standard Offer Service Customers -- Case No. 9037

This case, instituted on May 26, 2005, involves the design of Standard Offer Service (SOS) for Type II customers, who are non-residential customers not eligible for Type I SOS, with capacity peak load from 25 kW to 600 kW, depending on the utility service territory. The Commission received a number of proposals, including a non-unanimous "Type II Settlement" signed by numerous parties, a proposal from the Mid-Atlantic Power Supply Association, a joint proposal from Washington Gas Energy Services, Inc. and Ohms Energy, LLC, and a separate proposal from Reliant Energy, Inc.

By Order No. 80272 issued on September 20, 2005, the Commission adopted the Type II Settlement with modifications regarding smaller Type II customers and implementation of the Settlement for one year rather than two years. The four investor-owned electric utilities agreed to provide the Type II SOS in their respective service territories according to the terms of the Order, with certain modifications requested by Delmarva Power and Light Company and Allegheny Power, which were accepted by Order No. 80342 issued October 12, 2005.

The Application of Hagerstown Municipal Electric Light Plant for Authority to Increase Its Rates for Electric Service -- Case No. 9039

On June 10, 2005, the Hagerstown Light Department (HLD) filed an application with the Commission for authority to increase its rates and charges for electric service to produce additional annual operating revenues of approximately \$865,496 and also make certain changes in its electric tariff.

On October 17, 2005, the HLD, Staff and the Office of People's Counsel filed a Settlement Agreement (Settlement). According to the Settlement, the parties agreed that HLD should be allowed to increase annual base revenues by \$813,247, such rates to be effective for bills rendered on and after November 1, 2005, and to be apportioned among the rate classes as set out in the attached Exhibit I to the Settlement.

The Hearing Examiner issued a Proposed Order on October 24, 2005, accepting the Settlement. By Order No. 80374, the Commission, on October 31, 2005, accepted the Settlement as revised by a new Exhibit I and determined that the Settlement will result in just and reasonable rates.

The Application of INGENCO Wholesale Power, LLC for a Certificate of Public Convenience and Necessity to Construct A 6 MW Generating Facility at the Newland Park Landfill in Wicomico County, Maryland -- Case No. 9044

On August 11, 2005, INGENCO Wholesale Power, LLC filed with the Commission an application for a Certificate of Public Convenience and Necessity (CPCN) to construct a 6 MW landfill gas electric generation facility on the Newland Park Landfill located in Wicomico County. The proposed plant would produce electricity by capturing and burning landfill gas from the County which gas would otherwise escape into the atmosphere. The application was delegated to the Hearing Examiner Division, and a pre-hearing conference was held on September 19, 2005. Further proceedings are anticipated in 2006.

The Application of Constellation Power Source Generation, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Modification of the Charles P. Crane Generating Station in Baltimore County, Maryland -- Case No. 9048

On November 4, 2005, Constellation Power Source Generation, Inc. filed an application for a Certificate of Public Convenience and Necessity authorizing the modification of the Charles P. Crane Generating Station in Baltimore County, Maryland. By letter dated November 23, 2005, the Commission delegated this matter to the Hearing Examiner Division to conduct proceedings. A pre-hearing conference was held on December 8, 2005 at which a procedural schedule was set. Hearings will be held during 2006.

The Application of Baltimore Gas and Electric Company for A Certificate of Public Convenience and Necessity to Upgrade Its 115 kV Transmission Line from Its Northwest Substation to Finksburg Substation in Baltimore and Carroll Counties, Maryland -- Case No. 9050

On December 5, 2005, Baltimore Gas and Electric Company filed an application for a Certificate of Public Convenience and Necessity to upgrade its 115 kV transmission line from its Northwest Substation in Baltimore and Carroll Counties, Maryland. By letter dated January 4, 2006, the Commission delegated this matter to the Hearing Examiner Division to conduct proceedings. Hearings will be held in 2006.

Telecommunications

The Matter of the Provision of Universal Service to Telecommunications Consumers; the Review of Verizon Maryland, Inc.'s Price Cap Regulatory Plan; and the Matter of the Refund of Telecommunications Access Charges to End-Use Customers -- Case Nos. 8745, 8918, and 8937, Respectively

Case Nos. 8745 (universal service), 8918 (Verizon price cap), and 8937 (access charge refund), noted in prior Annual Reports, concern various aspects of Verizon Maryland, Inc.'s telecommunications services. On October 7, 2005, Verizon, Staff, AT&T Communications of

Maryland, and MCI filed a Joint Petition for Approval of Settlement Agreement to resolve previously disputed issues in all three cases. All parties in the three cases were provided an opportunity to comment on the proposed settlement, and only one intervenor in Case No. 8918, the Verizon price cap proceeding, opposed the settlement.

By Order No. 80407 issued on November 23, 2005, the Commission approved the settlement agreement resolving these three cases, noting numerous benefits including access charge reductions, enhanced universal telecommunications service to low-income customers, and continuation of a revised price cap which will protect customers and is in the public interest. Also, the settlement provided for development of Digital Subscriber Line (DSL) service so that all central offices in Maryland will be equipped to provide DSL.

The Investigation into the Appropriate Level of the PIC Change Charge -- Case No. 8862

This case, noted in prior Annual Reports, was instituted in 2000 as an investigation into the appropriate level of the charge by Verizon Maryland, Inc. for processing a request to change an end-user customer's primary interexchange carrier ("PIC change charge").

By Order No. 80108 issued on July 19, 2005, the Commission affirmed the findings of the Proposed Order of Hearing Examiner issued April 14, 2004, which reduced the charge from \$5.00 to \$2.25 for intraLATA PIC change orders, with the exception of modifying the Proposed Order when customers simultaneously change their interLATA PIC and intraLATA PIC at the same time. In these instances, Verizon may charge \$3.875 for a manually processed dual change and 1.75 for an electronically processed dual change.

The Investigation into Recurring Rates for Unbundled Network Elements Pursuant to the Telecommunications Act of 1996 -- Case No. 8879

This case, noted in prior Annual Reports, deals with amounts Verizon Maryland Inc. may charge competitors for Verizon's unbundled network elements (UNEs).

On December 29, 2004, the Commission, noting developments at both the Federal and State levels, issued Order No. 79696. Order No. 79696 suspended the rates for Verizon's recurring UNE costs that had been established in prior Order No. 78552, issued on June 30, 2003, while also adopting interim recurring UNE rates. The Commission also indicated that it may docket new cases to address recurring and non-recurring UNE rates and other issues presented in Case No. 8879, including a proceeding to develop a batch hot cut process.

On January 28, 2005, AT&T Communications of Maryland, Inc. Verizon Maryland, Inc., and MCI petitioned the Commission for rehearing of Order No. 79696. On March 29, 2005, Mountain Communications, LLC, doing business as Procom, filed a Petition for Emergency Declaratory Relief in a dispute with Verizon regarding charges for certain unbundled loops. On April 1, 2005, the Commission ordered Verizon to respond to Procom's petition. Verizon filed its Opposition to Petition for Emergency Declaratory Relief on April 15, 2005. No further developments occurred in Case No. 8879 during 2005.

The Petition of AT&T Communications of Maryland, Inc. for Arbitration Pursuant to 47 U.S.C. § 252(b) Concerning Interconnection Rates, Terms and Conditions -- Case No. 8882

This proceeding was discussed in prior Annual Reports. Case No. 8882 involves the arbitration of an interconnection agreement pursuant to Section 252(b) of the Telecommunications Act of 1996, among Verizon Maryland Inc., AT&T Communications of Maryland, Inc. and TCG Maryland. The parties have appealed various rulings contained in the Proposed Order of Hearing Examiner issued on September 16, 2003. The Commission resolved

those issues in Order No. 79250, issued July 7, 2004, upholding the Proposed Order of Hearing Examiner in some issues and altering or clarifying the Proposed Order in other areas. Verizon petitioned for rehearing of Order No. 79250 on August 9, 2004, which petition was opposed by AT&T. On January 20, 2005, the Commission issued Order No. 79745, denying Verizon's request for rehearing. Order No. 79745 was not appealed.

The Petition of Core Communications, Inc. for Interconnection Agreement Amendment Dispute Resolution -- Case No. 8910

This case has been discussed in prior Annual Reports. Case No. 8910 involves a dispute over the extent to which Core Communications, Inc. will be permitted access to information about Verizon Maryland's unused fiber optic cable. On February 17, 2004, the Hearing Examiner issued a Proposed Order granting in part and denying in part Core's requests for information on Verizon's dark fiber resources. Verizon appealed the Proposed Order on March 18, 2004. Verizon, Core and Staff filed memoranda on appeal. On February 14, 2005, the Commission issued Order No. 79787 denying Verizon's appeal and upholding the Proposed Order.

The Arbitration of US LEC of Maryland, Inc. vs. Verizon Maryland, Inc. Pursuant to 47 U.S.C. § 252(b) -- Case No. 8922

This case has been noted in prior Annual Reports. On April 15, 2002, US LEC of Maryland filed a petition with the Commission to arbitrate certain unresolved issues in the negotiation of an interconnection agreement with Verizon Maryland Inc. Following hearing on the petition, a Proposed Order of Hearing Examiner was issued on May 17, 2004, that resolved the disputed issues and recommended approval of the parties' interconnection agreement. Verizon appealed the Proposed Order of Hearing Examiner, and on March 10, 2005, the

Commission issued Order No. 79813 that resolved the issues appealed and affirmed the decision of the Hearing Examiner.

Complaint of CloseCall America, Inc. v. Verizon Maryland Inc. -- Case No. 8927

As noted in prior Annual Reports, Order No. 79638 was issued on November 30, 2004, in which the Commission determined it does not have jurisdiction to regulate voice mail and DSL services, but retains authority over the impact of Verizon's services. On March 29, 2005, Verizon filed a motion to amend that order based upon a Federal Communications Commission decision of March 29, 2005, in Docket No. 03-251, which Verizon argued preempted state authority rendering Order No. 79638 unlawful. CloseCall America, Inc., the Office of People's Counsel, and the Commission Staff filed answers in opposition to this motion.

On June 24, 2005, Order No. 80067 was issued which retains intact the findings of the prior order but deletes the requirement that Verizon Maryland, Inc. refrain from blocking the availability of Verizon Internet Service's DSL service to customers who choose or who switch to non-Verizon local service providers. The order also directed the parties to devise a transition plan to minimize customer disruptions.

Complaint of Core Communications, Inc. v. Verizon Maryland, Inc. -- Case No. 8967

This case, noted in prior Annual Reports, involves a Petition for Declaratory Ruling filed by Core Communications, Inc., requesting the Commission compel Verizon to pay Core for collocation services. By Order No. 79695 issued December 29, 2004, the Commission rejected Core's appeal and affirmed a Proposed Order that had determined no collocation fees were due from Verizon. In Order No. 79837 issued March 21, 2005, the Commission denied Core's petition for rehearing and closed Case No. 8967 on the docket of the Commission.

**The Matter of the Approval of a Batch Cut Migration Process for Verizon Maryland, Inc. Pursuant to the Federal Communication Commission's Triennial Review Order -
- Case No. 8988**

This case has been discussed in prior Annual Reports. It concerns procedures for transfer of customers from one switch-based carrier to another switch-based carrier. On August 21, 2003, the Federal Communications Commission (FCC) released its *Triennial Review Order*, in which the FCC adopted new requirements for unbundling telecommunications networks and for determining if and when the ability of other local exchange carriers to compete with Verizon is "impaired" and may require a regulatory fix. On October 31, 2003, Verizon Maryland Inc. filed with this Commission a petition and supporting testimony challenging certain findings of the *Triennial Review Order*. On November 17, 2003, the Commission determined that Case No. 8988 should be docketed to consider Verizon's batch hot cut proposal. The Commission delegated Case No. 8988 to the Hearing Examiner Division on November 26, 2003.

On March 18, 2005, the Commission rescinded the delegation of Case No. 8988 to the Hearing Examiner Division and also rescinded the procedural schedule. On March 29, 2005, Verizon moved to dismiss this case and adopt the same hot cut conversion processes and rates adopted in New York, while retaining existing rates for conversions that are neither large job hot cuts or batch hot cuts. After reviewing other parties' responses to Verizon's motion, the Commission dismissed this proceeding on May 16, 2005, noting the staleness of the record, and retained the existing rates for an initial loop basic hot cut and for additional loops, which rates were adopted in Case No. 8879. The Commission's action was not appealed. Therefore, Case No. 8988 is closed on the docket of the Commission.

The Complaint of Core Communications, Inc. vs. Verizon Maryland Inc. for Breach of Interconnection Agreement -- Case No. 9005

This case was reported in the 2004 Annual Report and involves a complaint by Core Communications, Inc. against Verizon Maryland Inc. for breach of an interconnection agreement. Core filed its complaint against Verizon in August 2002. Initially, litigation was delayed by the Commission because the complaint and relief being sought was similar to a pending case (Case No. 8881). Litigation resumed in June 2004, when Verizon filed an Answer along with a motion to dismiss the complaint.

A pre-hearing conference was conducted on July 9, 2004 where the parties developed a procedural schedule and established that hearings would be held on December 14-15, 2004. With regard to the motion to dismiss, the Hearing Examiner rendered a decision on September 14, 2004 that dismissed two of the three claims that formed the basis of Core's complaint. On October 7, 2004, Core filed an appeal of the dismissed claims; and a hearing was held on the remaining claim in December 2004. By Order No. 79775 issued on February 3, 2005, the Commission ruled on Core's appeal reversing the Hearing Examiner's decision and reinstating the two dismissed claims. A petition for reconsideration and motion for stay were denied by Order No. 79838 issued on March 21, 2005. Thereafter, the parties engaged in discovery and other procedures culminating in a hearing on January 9, 2006, to resolve the remaining claims of Core's complaint. The case is pending a decision by the Hearing Examiner.

The Petition for Arbitration of Interconnection Rates, Terms and Conditions with XO Maryland LLC; New Frontiers Telecommunications, Inc.; Xspedius Management Co. Switched Services, L.L.C. and Xspedius Management Co. of Maryland, L.L.C.; and Core Communications, Inc. Pursuant to 47 U.S.C. Section 252(B) -- Case Nos. 9010, 9011, 9012 and 9013

Case No. 9013 is a consolidation of Case Nos. 9010, 9011, 9012 and 9013; all were filed by Verizon to obtain expedited arbitration of interconnection rates, terms and conditions with

competitive local exchange carriers, and were consolidated for hearing in September 2004. At Verizon's request, Case No. 9010, involving XO Maryland LLC, was closed and removed from these proceedings on December 10, 2004. Case No. 9011 involves New Frontiers Telecommunications, Inc.; Case No. 9012 concerns Xspedius Management Co. Switched Services, L.L.C. and Xspedius Management Co. of Maryland, L.L.C.; and Case No. 9013 involves Core Communications, Inc. A pre-hearing conference on the consolidated cases was held before the Commission on October 13, 2004, and a procedural schedule in this matter was issued on December 9, 2004. The consolidated cases were delegated to the Hearing Examiner Division on January 12, 2005.

After resolution of discovery issues, the parties completed filing their testimony in March 2005. Hearings for cross-examination of pre-filed testimony were held on April 12-13, 2005. Initial and reply briefs were filed in June and July 2005. The matter remains pending at the end of the year.

The Complaint of Verizon Maryland Inc. Concerning Customer Winback Charges Imposed by Cavalier Telephone Mid-Atlantic, LLC -- Case No. 9022

As noted in the 2004 Annual Report, on July 20, 2004, Verizon Maryland Inc. filed a formal complaint against Cavalier Telephone Mid-Atlantic, LLC (Cavalier) alleging that Cavalier was wrongly attempting to impose charges on Verizon when Verizon "wins back" a customer from Cavalier. The Commission delegated this matter to the Hearing Examiner Division on September 1, 2004, and a pre-hearing conference was held on October 21, 2004. Verizon and Cavalier filed their direct testimony on December 22, 2004. Following submission of reply and rebuttal testimony, hearings were held on May 4-5, 2005. The parties filed briefs and reply briefs in June and July 2005.

A Proposed Order of Hearing Examiner was issued on November 23, 2005, which would approve Cavalier's "winback" and "truck roll" tariffs, the latter charge imposed for failure to meet appointments with dispatched trucks. Verizon appealed the Proposed Order on December 23, 2005. Resolution of Verizon's appeal was pending at the end of the year.

The Petition of Verizon Maryland Inc. for Consolidated Arbitration of an Amendment to Interconnection Agreements of Various Competitive Local Exchange Carriers and Commercial Mobile Radio Service Providers Pursuant to Section 252 of the Telecommunications Act of 1996 -- Case No. 9023

This case was noted in the 2004 Annual Report and involves a petition filed by Verizon Maryland Inc. on February 20, 2004, for arbitration of an amendment to interconnection agreements with Competitive Local Exchange Carriers and Commercial Mobile Radio Service Providers in Maryland. Various pleadings have been filed in this case, and on September 3, 2004, the Commission docketed the consolidated proceeding to consider 27 arbitrations for amendments to interconnection agreements involving similar subject matter and issues of law. On October 4, 2004, the Commission held a pre-hearing conference and established a procedural schedule.

During 2005, a negotiation period, status conference on June 6, 2005, and filing of briefs in June and July 2005 occurred, with a panel designated on August 25, 2005, for hearing of this matter. The matter remains pending.

The Application of Cavalier Telephone Mid-Atlantic, LLC Tariff Revisions to: (1) Eliminate the 911 Address Information Rate Element; and (2) Proposed Automatic Number Identification Rate Elements -- Case No. 9024

As noted in the 2004 Annual Report, a Proposed Order of Hearing Examiner was filed on December 14, 2004. That Proposed Order rejected the proposed Cavalier tariff changes. No

appeal was filed, and on January 14, 2005, the Proposed Order was finalized as Order No. 79732.

The Petition of AT&T Communications of Maryland, Inc. and TCG Maryland for an Order Preserving Local Exchange Market Stability -- Case No. 9026

This case, noted in the 2004 Annual Report, involves a petition filed by AT&T Communications of Maryland, Inc. and TCG Maryland (collectively AT&T) on May 24, 2004 seeking an order preserving local exchange market stability with respect to the provision of unbundled switching as an unbundled network element (UNE) under interconnection agreements with Verizon. During 2004, the Commission set up a process to review the interconnection agreements. The Commission delegated to the Hearing Examiner Division consideration of requests for waiver by Verizon of the directives contained in an October 15, 2004 Letter Order. Accordingly, Verizon filed waiver requests on October 22, 2004 with respect to various carriers whereby Verizon seeks to discontinue provision of unbundled switching to certain carriers.

The Hearing Examiner issued a Proposed Order on January 7, 2005, finding that there was no other "applicable law" which required Verizon to continue providing unbundled switching to competitive local exchange carriers subject to the Four-Line Carve-Out Rule. The Hearing Examiner then concluded that the language of the parties' specific interconnection agreements governed Verizon's actions. Based upon a review of the pertinent interconnection agreements, the Hearing Examiner concluded that Verizon's request should be granted with respect to Capital, Global, InfoHighway, LightWave, New Frontiers, Sprint and Z-Tel, and denied with respect to MCI.

On January 14, 2005, appeals were filed by Global, InfoHighway, LightWave, and Verizon. By Order No. 79893 issued on April 8, 2005, the Commission found that the Hearing

Examiner correctly interpreted the interconnection agreements of all parties to this appeal and affirmed the Proposed Order.

The Petitions of AT&T Communications of Maryland, Inc. and TCG Maryland, MCIMetro Access Transmission Services, LLC and LightWave Communications, LLC for Enforcement of Interconnection Agreements with Verizon Maryland Inc. -- Case No. 9041

This case involves petitions filed by three competitive local exchange carriers (AT&T Communications of Maryland, Inc. and TCG Maryland, MCIMetro Access Transmission Services, LLC, and LightWave Communications, LLC) for enforcement of their interconnection agreements with Verizon Maryland Inc. All three petitions arose from Verizon's decision to convert its Gaithersburg switch to a packet switch. By Letter Order dated July 12, 2005, the Commission consolidated the three petitions and associated filings into Case No.

Each of the three petitioning parties filed letters with the Commission advising the Commission that they had resolved their differences with Verizon and withdrawing their petition. By Order No. 80306 issued on September 29, 2005, the Commission dismissed and closed Case No. 9041 on the docket of the Commission.

The Proposal of Verizon Maryland Inc. to Reduce the Residential Monthly Directory Assistance "Free" Call Allowance -- Case No. 9042

On June 21, 2005, Verizon proposed a tariff change to decrease the call allowance for residential Directory Assistance Service (DA) calls from six free calls per month to four free calls per month, while increasing the rate for additional DA calls from \$0.25 to \$0.75 (residential DA) and from \$0.40 to \$0.75 (business DA service calls). Following comments on the proposal, by Order No. 80114 issued on July 21, 2005, the Commission accepted the increase in the rate for DA service as consistent with such calls classification as a competitive service, while setting the reduction in the "free" residential call allowance for hearing. After hearing held on August

17, 2005, by Order No. 80210 issued on August 31, 2005, the Commission accepted the proposal to reduce the number of free residential DA calls to four per month, while noting that the Company shall not levy charges on DA calls on persons who suffer from physical or visual disabilities that preclude use of a telephone directory.

Other Cases and Decisions

The Petition of the Water and Sewer Advisory Commission of Washington County, Maryland for an Investigation into the Reasonableness of Water and Sewer Rate Increases by the City of Hagerstown -- Case No. 8934

As noted in the 2004 Annual Report, a Proposed Order of Hearing Examiner was issued on December 6, 2004, which upheld Hagerstown's water and sewer rates. The Water and Sewer Advisory Commission of Washington County filed an appeal on January 5, 2005.

On March 10, 2005, Order No. 79812 was issued, which affirmed the Proposed Order's finding that the rates charged by the City of Hagerstown were fair and reasonable. It also denied the request for a Phase II inquiry and directed that a new cost of service study be filed, thereby closing Case No. 8934 without prejudice to the County to initiate a new proceeding in the future. The updated cost of service study was filed on June 24, 2005.

The Appeal of the National Archives and Records Administration against Washington Suburban Sanitary Commission for the Levying of Service Charges -- Case No. 9006

As reported in the 2004 Annual Report, the parties were in discovery at the end of 2004 regarding this dispute concerning billing for alleged water discharge into the WSSC sanitary sewage system. The parties subsequently advised the Hearing Examiner that they had entered into a settlement of their dispute. Since the dispute was between only two parties and had no impact on any other entity, the parties requested that the terms of the settlement be kept confidential. On August 31, 2005, a Proposed Order of Hearing Examiner was issued which

accepted the settlement and by its terms dismissed the case with prejudice. Order No. 80313 was issued on October 3, 2005, which finalized the Proposed Order.

The Application of Taxicab Permit Holders of Baltimore City and Baltimore County to Increase Rates for Taxicab Service -- Case No. 9028

This case, noted in the 2004 Annual Report, concerns an application filed on November 12, 2004, to increase rates for taxicab service in Baltimore City and Baltimore County by approximately 30 percent.

On May 18, 2005, a Stipulation and Agreement was filed by the parties to this proceeding, the taxicab permit holders, Staff, and People's Counsel. The settlement provided for a uniform "drop" rate and mileage rate in both jurisdictions, representing approximately a 20 percent increase, while also providing for an automatic fuel adjustment surcharge which may adjust periodically in response to gas price changes. Also, future drop rate and mileage charges may be adjusted by the Commission based upon changes in the Consumer Price Index. Following a hearing on the settlement held on June 6, 2005, clarifications were submitted in a June 10, 2005 modified Stipulation and Settlement, which modified Stipulation was accepted by the Commission panel in Order No. 80056 entered on June 21, 2005.

The Petition of Allegany County, Maryland for the Commission to Set Rates for Water Supplied by the City of Frostburg Within Allegany County -- Case No. 9040

On June 13, 2005, Allegany County, Maryland filed a petition with the Commission requesting the Commission exercise its jurisdiction to set inter-jurisdictional water rates for water supplied by the City of Frostburg within and to the County. The Commission delegated this matter to the Hearing Examiner Division on June 22, 2005. On July 29, 2005, the City of Frostburg filed its Answer to the petition of Allegany County, Maryland. A procedural schedule was established for the pre-filing of testimony, hearings and briefs. The matter remains pending.

Report of the General Counsel

The Office of General Counsel provides legal advice and assistance to the Commission, represents the Commission in external administrative proceedings, defends Commission orders in court and initiates and defends other legal actions on the Commission's behalf. In addition, the General Counsel's Office maintains continued involvement in the Commission's enforcement activities involving carriers allegedly operating without Commission authority, as well as utilities delinquent in filing their annual reports. The Office also coordinates the enforcement of autodialer complaints.

Annually, a variety of requests for information are fulfilled involving issues such as: cross-subsidization between a utility's regulated and non-regulated activities; privacy concerns; various telephone services; bankruptcy; universal service; and electric restructuring. The Office also reviews legal issues involving the Environmental Trust Fund, and implementation issues concerning the Telecommunications Act of 1996, as well as implementation issues regarding the Commission's oversight of the Standard Offer Service bidding process.

The Office of General Counsel also provides assistance to the Commission and its various technical divisions with regard to the development, preparation and submission of various reports to the General Assembly. In addition to special reports such as those relating to Renewable Portfolio Standards, Demand Side Management and Emissions Disclosure, the Office also assists the Commission and Staff with the development, preparation and submission of the biannual Electric Supply Adequacy Report, the Ten-year Plan for Electric Utilities and the annual Electric Universal Service Program Report.

In its ongoing role as the Commission's Legislative Liaison, the General Counsel's office drafts the Commission's legislative initiatives. Further, the Office of General Counsel monitors

and furnishes testimony to the General Assembly on legislation affecting the Commission. Summaries of the cases in litigation during 2004-2005 are listed below:

Summary of Litigation

Dotson v. Bell Atlantic-Maryland, Inc. and the Maryland Public Service Commission, Circuit Court for Prince George's County, Case No. CAL 99-21004

On September 30, 1999, Plaintiff's filed an Amended Complaint adding the Commission as a defendant in this class action suit. The plaintiff's contend that the Commission lacked the authority to amend Code of Maryland Regulations (COMAR) 20.30.03 to permit telephone companies to charge residential subscribers a late payment charge. On December 1, 1999, the Commission and Bell Atlantic-Maryland, Inc. both filed Motions to Dismiss. On January 19, 2000, Plaintiff filed their Opposition to these Motions. On January 24, 2000, Plaintiffs filed a Motion for Summary Judgment. On February 22, 2000, the Commission filed its Opposition to the Motion for Summary Judgment and its Reply Memorandum in Support of the Motion to Dismiss. On May 16, 2000, the Court denied the Defendant's Motion to Dismiss and granted Plaintiff's Motion for Summary Judgment as to liability. Subsequent to the filing of various motions to dismiss and motions for summary judgment, the General Assembly enacted SB 145 (Chapter 59). This law rendered the late fees lawful and was retroactive. The Commission and Bell both filed second motions to dismiss based on this law's passage. The Court has stayed the proceedings pending a ruling by the Court of Appeals concerning whether the retroactive provisions of SB 145 are lawful.

On August 29, 2002, the Court of Appeals ruled that the retroactive provisions of SB145 were unconstitutional. Subsequently, on December 12, 2002, the circuit court lifted the stay. On December 9, 2002, the Plaintiffs and Bell submitted a Stipulation of Settlement and moved for

preliminary approval. The Commission filed no opposition to the Settlement. On December 12, 2002, the Court granted preliminary approval of the Settlement. On April 11, 2003, certain objecting Class Members, filed objections to Stipulation of settlement. On November 13, 2003, the court denied Plaintiff's motion for final approval of the proposed settlement.

The parties subsequently filed a second Stipulation of Settlement which the Commission supported. After notice to the class, the Court granted final approval of the Settlement. Intervenor's appealed the Circuit Court's approval of the settlement but the Court of Appeals ruled that the appeal was premature. Still pending before the Circuit Court is the determination of Plaintiff's and possibly intervenor's attorneys' fees.

Scrocco v. Bell Atlantic-Md., Inc. and the Maryland Public Service Commission,
Circuit Court for Prince George's County, Case No. 00-09962

This case involves a class action lawsuit that was filed on April 21, 2000, on behalf of commercial customers in the State of Maryland against Bell-Atlantic-MD, Inc. and the PSC. This proceeding is the companion case to Dotson, supra, which concerns residential customers. The Plaintiffs contend that the Commission lacked the authority to amend COMAR 20.30.03 to permit telephone companies to charge commercial subscribers a late payment charge. On June 13, 2000, the Commission filed its Motion to Dismiss. On July 3, 2000, Plaintiffs filed a Motion for Summary Judgment. On July 17, 2000, the Commission filed its Opposition to the Motion for Summary Judgment and its Reply Memorandum in Support of the Motion to Dismiss. These motions are currently pending before the Court. Prior to the filing of the Plaintiffs' complaint, the General Assembly enacted SB 145 (Chapter 59). This law rendered the late fees lawful and was retroactive. The Court has stayed the proceedings pending a ruling by the Court of Appeals concerning whether the retroactive provisions of SB 145 are lawful.

On August 29, 2002, the Court of Appeals ruled that the retroactive provisions of SB 145 were unconstitutional. Subsequently, the Circuit Court lifted the Stay. On December 9, 2002, this case was consolidated with Dotson. (*See the Dotson case summary above for further information regarding this case.*)

CAT Communications, Inc. v. Verizon Maryland Inc., Circuit Court for Montgomery County, Civil Action No. 255354-V; Court of Special Appeals - Sep. Term, 2004 - No. 2221

CAT Communications Inc. (“CCI”) filed a Petition for Judicial Review of Order No. 79167 on October 15, 2004, seeking to overturn the Commission’s dismissal of its complaint against Verizon regarding a billing dispute pertaining to CCI’s customers use of unblocked Verizon Services. The Commission decided the matter in Verizon’s favor based on the terms of the parties’ resale agreement, yet suspended Verizon’s Notice of Utility Payment Failure to allow CCI and Verizon to come to terms to forestall service disruption to CCI’s low-income customers.

CCI’s case was heard in the Circuit Court for Montgomery County, in May 2005. The Commission’s decision was affirmed and the case was dismissed. Ancillary, procedural matters, taken in the Court of Special Appeals by Verizon and CCI were subsequently withdrawn.

Case No. 8938 Appeals

Eric Tribbey, Russell W. Bounds, and Troy Gnegy v. PSC, Circuit Court for Baltimore City, Civil Action No. 24-C-03-006366//AA and Paul C. Sprenger v. PSC, Circuit Court for Baltimore City, Civil Action No. 24-C-03-006325//AA.

On March 31, 2004, the Circuit Court for Baltimore City granted the Commission’s Motions to Dismiss Petitions for Judicial Review filed by Eric Tribbey and others concerning the Commission’s denial of their petitions for rehearing relating to Commission Order No. 78354 (In the Matter of the Application of Clipper Windpower, Inc. for a Certificate of Public Convenience

and Necessity to Construct a 101 MW Generating Facility in Garrett County, Maryland) (Commission Case No. 8938).

An appeal of the Circuit Court decision was taken by Mr. Tribbey to the Court of Special Appeals. In an order issued July 17, 2005, the Court of Special Appeals reversed the Circuit Court and remanded the matter to the Commission. The Court's mandate in the case issued on December 15, 2005. The Commission and Clipper have both filed Petitions for a Writ of Certiorari in the Court of Appeals in this matter.

Paul C. Sprenger, et al v. PSC, Garrett County Circuit Court, Civil Action No. 11-C-05-008898 DJ

The Sprenger versus PSC Garrett County case was a second case filed in opposition to the Clipper windpower project. This case, filed under PUCA § 3-201, sought a declaratory judgment against the Commission's order approving the Clipper facility. On motion of the Commission, the Circuit Court action was dismissed. Sprenger, et al have noted an appeal of the Circuit Court dismissal in the Court of Special Appeals. The Commission anticipates taking appropriate procedural steps in this matter, including, if the Petitions for Certiorari are granted, possibly consolidating the case with the forgoing Tribbey appeal.

D. Daniel Boone v. PSC, Baltimore City Circuit Court Case No. 24-C-05-006833

D. Daniel Boone filed a petition for judicial review in the Circuit Court for Baltimore City of the Commission's June 24, 2005, ruling that Clipper Windpower's proposed modifications to the Clipper Facility were in compliance with the Commission's order and conditions in Order No. 78354. On motion of the Commission, the Circuit Court dismissed the petition for judicial review on December 20, 2005. A subsequent motion, filed by Petitioner

Boone, to alter or amend judgment and a motion to revise, was denied. Further appellate action in this matter can be expected.

Verizon Maryland Inc. v. CloseCall America, Inc., et al., United States District Court for the District of Maryland, Northern Division, Civil Action No. JFM-04-CV-4073

On December 30, 2004, Verizon Maryland Inc. filed a Complaint for Declaratory and Injunctive Relief from the Commission's Order No. 79638, issued on November 30, 2004, in Commission Case No. 8927. Verizon Maryland Inc. asserts federal preemption. Answers were filed and a scheduling conference was held on February 11, 2005. This case has been dismissed.

AES Warrior Run, Inc vs. Potomac Edison Company, Case No. 24-C-02-002348AA Circuit Court for Baltimore City

On August 19, 2003, the Court closed Case No. 24-C-02-002348AA due to a lack of prosecution. On May 27, 2004 AES Warrior Run, Inc. filed a Motion to Vacate Dismissal. The Opposition of the Public Service Commission of Maryland to Plaintiff's Motion to Vacate Dismissal was filed on June 8, 2004. The Potomac Edison Company, d/b/a Allegheny Power filed a Reply to Motion to Vacate Dismissal on June 7, 2004. AES filed an Answer on June 28, 2004. The Court entered an Order on July 13, 2004, striking its 2003 dismissal order. The Court stated that an Order of Dismissal is deferred until December 31, 2004, if the case is not finally disposed of by that date. On January 27, 2005, the Court entered an Order of Dismissal.

Midwest ISO Transmission Owners, et al., v. Federal Energy Regulatory Commission, United States Court of Appeals for the District of Columbia Circuit, No. 02-1121 (September Term, 2003)

Reference to this case was made in the Commission's 2003 annual report. This is an appeal by the Midwest ISO transmission owners from FERC's decision to apportion a portion of the operating costs of the Midwest ISO to the transmission owners' native load and to deny the

transmission owners' request to preempt state retail rate freezes which preclude them from recovering these costs from retail customers. The Public Service Commission intervened in this proceeding to support FERC's ruling regarding retail rate freezes, since the Court's decision might impact the viability of Maryland retail rate caps in other cases. The case was briefed between November and January 2004, and argued before the United States Court of Appeals on April 16, 2004. On July 16, 2004, the Court issued a decision upholding FERC's decision.

Commission Decisions Relating to Consumer Disputes with Utilities

The Commission enters its appearance and participates in all actions that are instituted to obtain judicial review of decisions which are rendered by the Commission on appeal from rulings of its Office of External Relations or Proposed Orders of Hearing Examiner relating to consumer disputes with public utilities and suppliers of gas or electricity.

Tom Clark/Complaint vs. Bernard D. Bell/Driver, Case No. 24-C-04-006381//AA; Circuit Court for Baltimore City

On August 23, 2004, Tom Clark filed a Petition for Judicial Review of Commission Case No. 04TD12-VP. In that case the Commission had upheld the decision of the Commission's License Hearing Officer not to discipline taxicab driver Bernard D. Bell based upon Mr. Clark's complaint. On September 1, 2004, the Commission filed its Response to the Petition. The Appellant filed his Memorandum on November 17, 2004, and the Commission filed its Answering Memorandum on December 16, 2004. The Appellant filed his Reply Memorandum on December 29, 2004. A hearing was scheduled for January 21, 2005.

On January 21, 2005, the Court held a hearing in this case. On March 21, 2005, the Court issued an order affirming the decision of the Commission and dismissing the Petition for Judicial Review with prejudice.

Paul K. Harrington v. Public Service Commission, Case No. 21-C-05-022031AA, Circuit Court for Washington County.

On April 28, 2005, Paul K. Harrington filed a Petition for Judicial Review of the Commission's April 1, 2005, decision upholding the imposition of a security deposit by the Potomac Edison Company d/b/a Allegheny Power. A hearing was held in this matter on October 7, 2005, and on November 30, 2005, the court issued an opinion affirming the Commission's decision.

Valerie Johnson v. Baltimore Gas and Electric Company, Case No. 24-C-05-003987AA; Circuit Court for Baltimore City.

On April 11, 2005, Valerie Johnson filed a Petition for Judicial Review of the Commission's March 10, 2005, decision regarding her billing dispute with Baltimore Gas and Electric Company ("BGE"). In its March 10, 2005, decision the Commission affirmed the determination of its Office of External Relations that BGE had properly billed Ms. Johnson. The Court held a hearing in this matter on September 8, 2005. In its order of September 9, 2005 the Court reversed the Commission's decision and remanded the case to the Commission for further testimony. The Commission filed a Motion to Alter or Amend a Judgment on September 16, 2005. Ms. Johnson filed a Response on September 30, 2005. The case is currently pending before the Court.

Debra J. McClain v. PSC, Circuit Court for Frederick County, Civil Case No. 10-C-04-001798 // AA

This case was referenced in the Commission's 2004 annual report. It involves a petition filed on August 4, 2004 by Ms. McClain, seeking judicial review of the Commission's July 9, 2004 decision to dismiss her complaint against Allegheny Power. On January 10, 2006, the Clerk of the Court issued a notice that this proceeding will be dismissed for lack of jurisdiction or prosecution without prejudice 30 days after service of the notice.

Carpenter's Point Water Co. v. PSC, Circuit Court for Cecil County, Civil Action No. 07-C-04-00407 AA.

This case was referenced in the Commission's 2004 annual report. It involves a petition filed by Carpenter's Point seeking judicial review of a Commission decision issued on November 8, 2004, which ordered the Company to restore water service to Mary Gifford without requiring her to pay accumulated quarterly fees for the 6-year period that she was not a Carpenter's Point water customer. Nothing has happened in this case since both the Commission and the Office of People's Counsel (representing Ms. Gifford) filed responses to the petition, and the Commission filed the administrative record with the Circuit Court on February 7, 2005.

Proceedings Before the Federal Communications Commission and the Federal Energy Regulatory Commission

The Office of General Counsel participates in and monitors various proceedings conducted by the Federal Communications Commission as they pertain to wireline telecommunications issues. The Office of General Counsel also participates in and monitors

proceedings at the Federal Energy Regulatory Commission (FERC) addressing matter relating to wholesale transmission and energy providers in general, matters pertaining to PJM Interconnection in particular. Following is a list of some of these proceedings:

Midwest Independent Transmission System Operator, Inc. and PJM Interconnection, LLC, Docket EL02-111; Midwest Independent Transmission System Operator, Inc. and PJM Interconnection, LLC, Docket ER05-6; Midwest Independent Transmission System Operator, Inc., et. al., Docket EL04-135

These proceedings were addressed in prior annual reports by the Commission, and concern the loss of revenue associated with the elimination of the border rates for transactions between the region controlled by the Midwest Independent Transmission System Operator (“MISO”) and the region controlled by PJM Interconnection, LLC (“PJM”).¹ Notwithstanding objections raised by many (including the Commission), FERC approved the use of a Seams Elimination Cost Adjustment (“SECA”), which assigns responsibility to make up for the transmission owners’ “lost revenue” to load that imported generation across the PJM/MISO border during a historical test period, regardless of current transactions.

Prior attempts to obtain stakeholder agreement on either acceptable SECA charges or appropriate end-state rates to be applied to transactions within the combined PJM/MISO footprint failed; and in November 2004, FERC rejected both of the end-state rate designs that were proposed. Further, FERC ordered the use of SECAs (beginning December 1, 2004 and ending March 31, 2006) to recover "lost revenues" not only associated with the elimination of border rates between PJM and MISO, but also the “lost revenues” associated with the

¹ As discussed in the Commission’s prior annual reports, FERC conditionally approved the decisions by the former Alliance Companies to join either PJM or MISO in *Alliance Cos.*, 100 FERC ¶ 61,137 (7/31/02). Elimination of border rates for transactions between PJM and MISO was one of the conditions. In addition, FERC established 10/1/04 as the deadline for implementing a functional common market across MISO and PJM. This deadline slipped as a result of various factors (including delays in the implementation of MISO’s energy markets); and as discussed *infra*, the cost-effectiveness of implementing a common PJM/MISO market is being re-examined.

elimination of border rates for internal transactions within the expanded PJM footprint.² Many parties sought rehearing of FERC's orders in this regard. FERC issued tolling orders to address these rehearing petitions, but still has not ruled on them, despite requests by various stakeholders. During 2005, certain parties also requested the U.S. Court of Appeals for the D.C. Circuit to issue a Writ of Mandamus requiring FERC to rule on these petitions, but the Writ was denied in *In Re Quest Energy LLC et al.*, Case No. 05-1179.

Several SECA filings were made and consolidated for hearing; a pre-hearing conference in the consolidated SECA case was held on July 19, 2005; and by order of FERC's Chief Judge, a procedural schedule was adopted under track 3 (i.e., the longest term available at FERC for contested cases). Under the Phase I schedule, written testimony concerning the quantification and allocation of lost revenues to particular zones (including adjustments to reflect "hubbing" transactions to loads outside the PJM/MISO footprint) was due between August 29, 2005 and January 16, 2006; the hearing was scheduled to start on May 17, 2006; and the initial decision was due on October 11, 2006. Under the schedule adopted for Phase II, written testimony on claims that SECA charges should be shifted to the shipper and Allegheny Power's request for a sub-zonal SECA is due between June 20, 2006 and August 22, 2006; and the Phase II hearing starts on September 13, 2006. Attempts to settle Phase II issues are ongoing and have produced some settlements between the parties involved in shift-to-shipper claims, but attempts to settle Phase I issues have failed.

² As indicated in the Commission's 2004 annual report, Commonwealth Edison Co., American Electric Power, and Dayton Power and Light Co. were successfully integrated into PJM in 2004; and as indicated *infra*, Virginia Electric Power Co. (or Dominion Virginia Power) was successfully integrated into PJM in 2005. Consequently, PJM now comprises the largest centrally dispatched control area in North America (covering all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia); and it runs the largest energy market in the world.

In the conference report accompanying the Energy and Water Development Appropriations Act, Congress stated: “[t]he conferees expect the Commission to review its SECA policies and take expeditious and appropriate remedial steps.”³ Citing this language, FERC issued an order on January 20, 2006, which shortened the date for an initial decision by the administrative law judge (“ALJ”) to August 11, 2006. FERC Commissioner Kelly dissented on the basis that the ALJ has not been charged with the responsibility to examine the Commission’s SECA policies, and shortening the deadline would be detrimental to efforts to thoroughly examine the testimony and exhibits filed regarding the proposed SECA charges.

Neptune Regional Transmission System, LLC v. PJM Interconnection, LLC, Docket EL05-48; PJM Interconnection, L.L.C., Docket No. EL05-60-000

Reference to this case was made in the 2004 annual report. This proceeding involves a complaint filed by Neptune Regional Transmission System, LLC (“Neptune”) against PJM on December 21, 2004. Neptune sought a FERC ruling that PJM cannot re-study the costs of interconnecting its merchant transmission project when a generation owner announces unit retirement(s), and asked FERC to order PJM to enter into an Interconnection Agreement with Neptune based upon network upgrade costs forecasted prior to the retirement announcements. On 2/10/05, FERC granted Neptune's complaint. FERC also stated that it was not determining how the extra costs will be allocated, and the party who obtains transmission service from the generator to Neptune's line may be held responsible. Several parties sought rehearing; a tolling order was issued; and FERC denied rehearing on June 23, 2005. Appeals from FERC’s orders are pending in the US Court of Appeals for the D.C. Circuit in *Jersey Central Power & Light Co v. FERC*, Case 05-1330.

³ H.R. Rep. No. 109-275 (2005), Cong. Rec. H9911-12 (daily ed. Nov. 7, 2005)

Docket EL05-60 was the proceeding that FERC instituted on February 10, 2005 to examine the justness and reasonableness of the provisions of PJM's procedures related to interconnection studies, in light of its decision in Docket EL05-48. Nothing has happened in this case.

Financial Reporting and Cost Accounting, Oversight and Recovery Practices for RTOs/ISOs, Docket RM04-12

Reference to this proceeding was made in the 2004 annual report. On September 16, 2004, FERC issued a Notice of Inquiry (“NOI”) seeking comments on its accounting and financial reporting requirements for independent system operators (ISOs) and regional transmission organizations (RTOs). After receiving comments, FERC issued a Notice of Proposed Rulemaking (“NOPR”) on June 2, 2005. After receiving comments on the NOPR, FERC adopted final rules by Order 668 (issued December 15, 2005). On request by certain parties, FERC postponed implementation of reporting requirements from January 1, 2006 to April 1, 2006.

PJM Interconnection, LLC, Docket Nos. ER04-608 and EL05-127

Docket ER04-608 was addressed in the Commission’s 2004 annual report. It involved the matter of PJM’s market rules for behind-the-meter (BTM) generation, especially relating to the netting against metered usage of generation produced by BTM generating units owned by municipal electric companies and cooperatives. A BTM proposal was developed during the PJM stakeholder process that FERC previously ordered, but did not garner the requisite super-majority support of PJM’s Members Committee. On March 18, 2005, PJM informed FERC that it was not going to pursue the matter further, and would continue to implement the existing BTM

generation rules (which FERC previously found to be just and reasonable). Certain parties protested PJM's filing.

On July 6, 2005, FERC instituted an investigation under § 206 of the Federal Power Act (Docket EL05-127) and established hearing and settlement judge procedures, to examine the justness and reasonableness of PJM's BTM program. After several settlement conferences (in which the Commission participated), an agreement was reached by which BTM generation of municipal electric companies and cooperatives could be netted against their metered usage without affecting reliability; and the settlement was filed on October 24, 2005. No parties opposed the settlement; the presiding ALJ certified it to FERC; and on December 16, 2006, FERC approved the settlement (and dismissed the rehearing petition that had been filed by industrial customers).

PJM Interconnection, L.L.C., Docket No. ER04-742

Reference to this proceeding was made in the 2004 annual report. This proceeding was established to address PJM's financial transmission right ("FTR") and auction revenue right ("ARR") allocations, particularly concerns about differences in the allocation process between network and long-term firm point-to-point customers.

On January 7, 2005, PJM made a § 205 tariff filing (approved by the PJM's Member's Committee after a stakeholder process) to address FTR and ARR allocations between network and long-term firm point-to-point customers. The allocations are based upon the historic location of generation resources serving particular loads and apply regardless of the RTO in which the load is located. On March 7, 2005, FERC accepted PJM's tariff filing subject to modifications; and on 5/9/05, FERC granted PJM's request for clarification, and accepted the compliance filing that PJM made under FERC's 3/7/05 order.

PJM Interconnection, LLC & Virginia Electric and Power Co., Docket ER04-829

This proceeding was referred to in the 2004 annual report. It involves the joint filing made by PJM and Virginia Electric and Power Company ("Dominion") to establish PJM South, which was granted by FERC subject to conditions. On December 9, 2004, Dominion reported that owing to a delay in a hearing scheduled before the North Carolina Commission in connection with its application to join PJM, integration would be delayed. Ultimately, the N.C. Commission granted Dominion's application; and the company was integrated into PJM on May 1, 2005.

Midwest Independent Transmission System Operator, Inc. and PJM Interconnection, LLC, Docket ER04-375; Wisconsin Public Service Corporation v. MISO and PJM, EL06-20

Reference to Docket ER04-375 was contained in the Commission's 2004 annual report. It was instituted to examine the Joint Operating Agreement proposed by MISO and PJM to enhance their combined operational reliability, to administer a joint and common market, and to facilitate the present and future integration of utilities into the PJM markets and into the operation of both RTOs. FERC accepted the Joint Operating Agreement; and on October 28, 2004, FERC denied rehearing of its decision, while granting clarification that PJM and MISO still are obliged to create a joint and common market.

On October 31, 2005, PJM and MISO filed a status report in Docket ER04-375 that indicated that the RTOs are no longer planning to establish a joint and common market, because most of the economies appear to have been achieved without taking this costly step. Docket EL06-20 is the complaint filed by various parties against PJM and MISO in response to their

status report, which maintains, *inter alia*, that FERC has required the RTOs to create a joint and common market and questions the basis of the RTOs' cost-benefit determination.

PJM Interconnection, LLC, Dockets EL03-236 and EL04-121

Reference to Docket No. EL03-236 was made in prior annual reports. This matter involves the rules employed by PJM to mitigate local market power in transmission-constrained load pockets. After a PJM stakeholder process was unable to achieve consensus, PJM made a §206 filing with FERC to address this issue; protests to PJM's filing were filed; FERC issued orders in 2004 requiring certain changes to PJM's original filing; PJM made compliance filings under FERC's orders; and protests were filed regarding PJM's compliance filings.

On July 5, 2005, FERC issued its "Order on Rehearing, Clarification, and Compliance Filings, Establishing Further Hearing Procedures, and Consolidating Proceedings." By FERC's order, Docket EL03-236-006 was consolidated with Docket EL04-121 (which involved local power mitigation in the new PJM region); and the scope of Docket EL03-236 was "expanded to include the relationship between PJM's mitigation measures, including the appropriate test for determining whether to apply offer caps, and the ability of prices in load pockets to increase appropriately during periods of scarcity and related issues as discussed in the body of the order."

At the prehearing conference held in the consolidated proceeding, a procedural schedule was adopted to allow a substantial period for initial settlement discussions. After several conferences (in which the Commission participated) produced an agreement in principle, the procedural schedule later was suspended, to allow time for formal documents to be drafted, filed and reviewed under FERC's procedures. Basically, the settlement terms: (1) provide for scarcity pricing in PJM and set forth policies and procedures in connection therewith; (2) clarify and amend PJM's no-three pivotal suppliers test and offer caps for frequently mitigated generating

units; (3) add an exemption from market mitigation for the APS South interface and provide procedures for quarterly review by PJM's market monitoring unit ("MMU") of exempt statuses, posting of results, consideration of recommendations of PJM members, and adding or deleting exemptions of interfaces from market mitigation; (4) provide for review by PJM, its MMU and stakeholders of the eligibility of units that are dispatched out of economic merit order to resolve a transmission constraint to set locational marginal prices ("LMPs") and recommendations for any changes; and (5) require an initial report by the MMU to be filed with FERC within 15 months after FERC acceptance of the proposed settlement, set forth the content of this report and procedures for stakeholder review of the draft report prior to submittal to FERC, and provide for FERC notice of the report and stakeholder comment (and the possibility of additional FERC proceedings); and (6) provide for the inclusion of a discussion of scarcity pricing and mitigation thereafter in the MMU's annual state of the market reports.

On November 16, 2005, the settlement filing was made; and while some parties filed comments on the settlement, no party opposed its essential terms; and on December 20, 2005, the presiding ALJ certified the settlement to FERC for its consideration.

Transmission Congestion on the Delmarva Peninsula, Docket PA03-12

Reference was made to this case in prior annual reports. On April 15, 2005, FERC issued an order dismissing a pending rehearing petition and terminating this proceeding, on the basis that a number of issues addressed therein subsequently have been addressed in separate dockets. One request for rehearing was filed on May 17, 2005; and FERC issued a tolling order. On July 26, 2005, FERC issued an order denying rehearing in which it noted, *inter alia*, that Docket PA03-12 was a discretionary proceeding.

Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design, Docket RM01-12

Reference to this proceeding was made in prior annual reports. This is a rulemaking proceeding to establish standards governing how RTOs perform their responsibilities and market design. This so-called standard market design ("SMD") NOPR was issued on July 31, 2002. After reviewing stakeholder comments, FERC issued a White Paper on April 23, 2003, which addressed some of the concerns raised in the comments regarding the need for regional flexibility; and many parties filed comments regarding the White Paper.

On July 19, 2005, FERC issued an order terminating its SMD NOPR proceeding, in light of the progress made toward RTO formation and FERC's stated intention to consider revisions to FERC Order 888's requirements pertaining to *pro forma* Open Access Transmission Tariffs ("OATTs") of transmission owners, to reflect the experience over the past decade.⁴

PJM Interconnection, L.L.C., RT01-2-012

Reference to this proceeding was made in prior annual reports. This proceeding involves compliance filings to further modify and refine PJM's Regional Transmission Expansion Program ("RTEP") process to include planning for "economic" upgrades needed to relieve congestion and support competitive markets, which were made in response to prior FERC directives. On November 24, 2003 and April 21, 2004, PJM made RTEP filings to comply with FERC's Order on Rehearing and Compliance Filing Regarding Transmission Expansion Projects Needed to Promote Competition, 105 FERC ¶ 61,123 (October 24, 2003). On October 18, 2004, FERC issued an order denying various petitions that sought rehearing of its October 24, 2003

⁴ Order 888 was issued on 4/4/96; and the regulations adopted thereunder are codified at 18 CFR Parts 35 and 385. As discussed *infra*, FERC has since issued a Notice of Inquiry into whether Order 888 should be reformed in *Preventing Undue Discrimination and Preferences in Transmission Services*, Docket RM05-25.

order, and accepting PJM's November 24, 2003 and April 21, 2004 compliance filings, with modification. On November 17, 2004, PJM made a compliance filing under the October 18, 2004 order; and by order issued on March 29, 2005, FERC denied rehearing of its October 2004 order and accepted PJM's November 2004 compliance filing. As a result of the stakeholder process that is currently underway to introduce long-term planning into PJM, the Regional Transmission Expansion Program may be further amended in the future.

Baltimore Gas and Electric Co. and PHI Holdings, Inc., Docket ER05-515

Docket ER05-515 concerns a filing made on January 31, 2005 by BGE and PHI Holdings, Inc., proposing a formula for companies in the PJM region that want to use formulary transmission rates instead of stated rates. No other transmission owners joined in the formulary rate filing. Protests were filed by many and the Commission intervened. On May 31, 2005, FERC issued an order in this and related dockets; i.e., Docket ER05-513 (addressing the PJM transmission owners' filing regarding new transmission investment recovery) and Docket ER04-156-006 (addressing the PJM transmission owners' filing to retain a "license plate" rate structure for intra-PJM transactions).⁵ FERC allowed the formulary rates to become effective as of June 1, 2005, subject to refund after a hearing to examine whether the rates are just, reasonable, and nondiscriminatory.

A prehearing conference was held on June 23, 2005, at which a procedural schedule was adopted. Settlement conferences were held on July 20, 2005 and August 12, 2005. By motion filed 8/30/05, certain parties requested suspension of the procedural schedule and institution of settlement judge proceedings, which motion was granted on August 31, 2005. Several conferences were held at FERC between September and December 2005; and another settlement

conference was held on January 6, 2006. The Commission has been participating in these conferences; and progress is being made toward settlement.

PJM Interconnection, LLC, Docket ER05-513

This docket involves the January 31, 2005 filing made by PJM transmission owners to address recovery of costs associated with new transmission investment made under PJM's RTEP. The filing provided for such cost recovery through three options: (1) a full rate case; (2) an RTEP adder onto existing wholesale rates (without a full rate hearing); or (3) formulary rates. Many protests were filed and the Commission intervened. On May 31, 2005, FERC issued its order in Dockets ER04-156-006, ER05-515 and ER 05-513.

In its May 2005 order, FERC noted that the primary issues concern option two (i.e., RTEP adders), and observed that this method will ensure full recovery in a timely manner and will hasten construction. However, FERC noted that no RTEP-adder rate proposal was before it; and reporting requirements or true-ups may need to be imposed. FERC also observed that the filing did not address the applicability of incentive rates to option two, and stated that it would not decide the issue of whether incentive adders are proper, given the incentive inherent under option two. FERC also ordered the PJM transmission owners to make a compliance filing restoring the requirement that PJM designate the "responsible customer" that must pay the Transmission Enhancement Charge associated with new RTEP investment in such a way as to allow customers to obtain FERC review of the designation. Certain FERC Commissioners dissented from particular aspects of the order. Requests for rehearing of the order have been filed; a tolling order was issued; and the matter is pending.

⁵ It should be noted that certain FERC Commissioners dissented from particular aspects of the 5/31/05 order, and requests for rehearing are pending before FERC.

Allegheny Power Systems Cos., et al., Docket ER04-156-006; PJM Interconnection, LLC, Docket EL05-121

Docket ER04-156-006 involved the January 31, 2005 filing by the PJM transmission owners to retain license plate rates for intra-PJM transactions until 2008 (when MISO is due to switch from license plate rates, if appropriate). The Commission timely filed its notice of intervention. On March 14, 2005, American Electric Power (“AEP”) filed an untimely notice of intervention and protest against retaining license plate rates in the expanded PJM footprint, stating that it preferred the regional rate design that AEP proposed in the SECA/end state rate dockets. No other party opposed retaining license plate rates.

On May 31, 2005, FERC issued an order in this (and related) dockets. FERC held that in an ISO/RTO environment, it is no longer clear that zonal or license plate rates are necessarily just and reasonable. FERC said AEP may be right that new PJM companies should be able to socialize the costs of its high-voltage facilities over the entire PJM footprint, like the original or “classic” PJM companies did a long time ago in the original footprint. FERC instituted a § 206 proceeding (Docket EL05-121) to address whether the existing rate design is just and reasonable, or whether it should be modified, stating it expected a final order on the matter within 180 days. A prehearing conference was held in Docket EL05-121 and a procedural schedule was adopted on June 23, 2005. (A plenary settlement conference was held on July 21, 2005, but settlement talks were unsuccessful and did not persist.) So far, there have been several proposals. Many transmission owners advocate retaining the current approach; i.e., costs of existing facilities are allocated to the zone where they are located and recovered by license plate rates, while PJM allocates the costs of new RTEP facilities to beneficiaries under its existing Schedule 12. Three other rate designs that have been proposed are variations of the highway/byway approach; i.e.,

the costs of existing and new facilities that are allocated to the highway are socialized and recovered by a postage stamp rate, while the cost of existing and new facilities allocated to the byway are allocated by zone and recovered by license plate rates. Another proposal is to socialize all existing transmission facilities by means of a postage stamp rate, while PJM continues to allocate costs of new RTEP facilities under Schedule 12. These proposals will be addressed by additional written testimony to be filed under the procedural schedule for this case; the hearing is scheduled to start on April 18, 2006; and the ALJ's initial decision is due July 21, 2006.

Finally, it should be noted motions are pending before FERC to expand the scope of this proceeding to include the interregional PJM-MISO proceeding, Docket EL04-135 (which docket was instituted as part of the settlement of the initial SECA proceeding and has not been closed). The rationale is that rates should not be designed to recover from PJM customers 100 percent of the costs of PJM transmission facilities that also benefit customers located in MISO. That motion, which was opposed by certain parties, remains pending.

Capacity Markets in the PJM Region, Docket PL05-7; PJM Interconnection, LLC, Docket Nos. EL05-148 and ER05-1410

During 2004-2005, PJM conducted a stakeholder process on its proposal to replace PJM's current installed capacity ("ICAP") construct with its Reliability Pricing Model ("RPM"), which PJM asserted is a better means of ensuring reliability, particularly in transmission-constrained load pockets. On May 19, 2005, FERC issued a Notice of Technical Conference in Docket PL05-7 to discuss PJM capacity markets; and the conference was held on 6/16/05. The Commission was an active participant in the discussions concerning RPM during PJM's stakeholder process and attended the technical conference.

Since the stakeholder process did not produce consensus on an appropriate capacity construct, PJM made its RPM filing with FERC on August 31, 2005 under § 206 of the Federal Power Act (“FPA”); and it was docketed as EL05-148 and ER05-140. Many parties, including the Commission, filed comments on the RPM proposal on October 19, 2005. In its comments, the Commission supported a move from ICAP to a new capacity construct with a locational component, maintained that the RPM proposal had some problems and must be thoroughly examined to prevent unintended consequences, and urged FERC to carefully consider any alternative proposals as well. In its answer to the filed comments, PJM proposed to delay implementation of RPM to June 1, 2007.

FERC scheduled a technical conference for February 3, 2006 on whether PJM’s ICAP market produces just, reasonable, and nondiscriminatory rates that provide adequate assurance that necessary resources will be provided to assure reliability, or whether change is needed. In addition, whether PJM’s RPM proposal would meet this goal, or whether PJM’s RPM proposal must be changed to meet this goal; and whether an alternative approach to RPM is necessary to ensure just and reasonable wholesale power prices in the PJM footprint.

Promoting Regional Transmission Planning and Expansion to Facilitate Fuel Diversity Including Expanded Users of Coal-Fired Resources, Docket AD05-3; Transmission Independence and Investment, Docket AD05-5; Regulations Providing Incentive-Based Rate Treatments for the Transmission of Electric Energy in Interstate Commerce by Public Utilities, Docket RM06-4

On March 21, 2005, FERC issued a Notice of Technical conference in Docket AD05-5 to examine impediments to investment in electric transmission infrastructure and to explore potential solutions, including the formation of new business models and appropriate ratemaking policies that would encourage new investment in transmission. The technical conference was held on April 22, 2005; and many parties (including the Commission) filed post-conference

comments on May 6, 2005. Among other things, the Commission strongly endorsed PJM's decision (announced at the conference) to lengthen the planning horizon that had been used in PJM's RTEP as a result of PJM's prior focus upon preserving short-term reliability, so that reliable electric service at reasonable prices will be ensured in the long term. (Stakeholders currently are looking at changes that are necessary to establish a long-term transmission planning process in PJM.)

On February 16, 2005, FERC issued a Notice of Technical Conference in Docket AD05-3 to identify regional solutions to promoting regional transmission planning, expansion and enhancement to facilitate fuel diversity including increased integration of coal-fired resources to the transmission grid. The technical conference was held on May 13, 2005. Many parties (including the Commission) filed comments shortly thereafter. The Commission's comments emphasized the need for new transmission investment to unlock coal resources in the United States in general and in PJM in particular, and that with new clean coal technology, coal-fired generation also may be an environmentally-friendly alternative.

As instructed by the Energy Policy Act of 2005 ("EPAct"), FERC issued its incentive transmission NOPR in Docket RM06-4 on November 17, 2005, with comments due on January 11, 2006. The Commission filed comments on January 4, 2006 generally supporting forward-looking transmission pricing incentives that are carefully targeted to encourage new investment, as well as a thorough vetting of incentives by stakeholders.

PJM Interconnection, LLC, Docket ER05-1181

On July 1, 2005, PJM filed with FERC under § 205 of the Federal Power Act, a proposal to change its current cost-based formula for administrative charges to a fixed, stated rate, and to revise the PJM operating agreement regarding the provision of information by PJM to its Finance

Committee and the advisory role of the Finance Committee. Many parties (including Finance Committee representatives) filed protests. By order issued on August 31, 2005, FERC found PJM's filing to be deficient until PJM provides additional information and data. FERC gave PJM the option of withdrawing the application to allow additional discussion with the Finance Committee and PJM members, or filing additional information and cost-of-service data within 60 days of the order to cure the deficiencies. PJM made the information filing required by FERC within the deadline; and after obtaining an extension of time from FERC, PJM filed on November 30, 2005 its cost-of-service data (which many parties still found to be deficient). On December 1, 2005, PJM's request for settlement proceedings was granted and settlement conferences are being held.

PJM Interconnection, LLC, Docket ER06-78

During 2005, the state commissions located in the expanded PJM footprint (including the Commission) formed the Organization of PJM States, Inc. ("OPSI") to discuss matters of mutual concern, to facilitate interaction with PJM, and to present joint positions to FERC when possible. OPSI sought funding from PJM (as is done in MISO, with the Organization of MISO States). PJM's filing to implement OPSI funding was made in Docket ER06-78. Certain parties protested the filing, and OPSI filed a response thereto. On December 20, 2005, FERC accepted the OPSI funding tariff with minor changes.

Dominion Cove Point LNG, LP; Docket Nos. CP05-130-000 and CP05-132-000 and Dominion Transmission, Inc., Docket No. CP05-131-000

On December 7, 2005 the Public Service Commission ("PSC") filed a Motion To Intervene Out Of Time and Comments in Support of Hearing in these proceedings before the Federal Energy Regulatory Commission ("FERC").

Washington Gas Light Company (“WGL”) has experienced some gas leaks on its distribution system in recent years. WGL contends that it is due to receipt of unblended liquid natural gas (“LNG”) from Cove Point. Cove Point contends the problem is do to the age of WGL’s distribution system and that WGL is responsible for maintaining its system. The Commission in 2001 had intervened in other FERC dockets recommending a hearing regarding gas interchangeability issues between WGL and Cove Point. The instant filing was made to monitor issues and concerns on gas interchangeability. These proceedings are currently pending before the FERC.

Rulemakings Resulting From the Energy Policy Act of 2005

Preventing Undue Discrimination and Preferences in Transmission Services, Docket RM05-25

Notice of Inquiry issued by FERC on September 16, 2005 to inquire into whether Order 888 (and the *pro forma* OATT adopted thereunder) should be reformed. Comments were filed and the matter is pending.

Pre-Filing Procedures for Review of LNG Terminals and Other Natural Gas Facilities, Docket RM05-31

This NOPR was issued on August 26, 2005; and after receiving comments, FERC adopted final regulations on October 7, 2005.

Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005, Docket RM05-32

This NOPR was issued on September 16, 2005; and after receiving comments, FERC adopted final regulations on December 8, 2005.

Joint Boards on Security Constrained Economic Dispatch, Docket AD05-13. On 9/30/05, FERC issued an order convening joint board under FPA, §223

Joint board meetings commenced in November 2005; the joint board recommendations are due in May 2006; and FERC's report to Congress on this matter is due in August 2006. Commission Chairman Schisler was appointed Vice Chair of the joint board for the PJM/MISO region.

Revised Regulations Governing Small Power Production and Cogeneration Facilities, Docket RM05-36

This NOPR was issued on 10/11/05, proposing to eliminate ownership restrictions and to ensure that thermal output of facilities is used productively and beneficially. Comments have been filed and the matter is pending.

Electric Energy Market Competition Task Force, Docket AD05-17

On November 13, 2005, FERC issued a notice regarding the inter-agency task force mandated by EAct, to include one employee from: FERC, the Federal Trade Commission, the Department of Justice, the Department of Energy, and the Rural Utilities Service. Public comments were requested (and filed) on a variety of questions, to assist the task force in completing its report to Congress.

Prohibition of Energy Market Manipulation, Docket RM06-3

This FERC NOPR, which was issued on October 20, 2005, proposed regulations comparable to the regulations enforced by the Security Exchange Commission. After receiving comments, FERC issued final regulations on January 19, 2006.

Amendments to Codes of Conduct for Unbundled Sales Service and for Persons Holding Blanket Marketing Certificates, RM06-5

This NOPR was issued on November 21, 2005, proposing to repeal certain regulations requiring pipelines and all sellers for resale to adhere to a code of conduct with respect to certain sales of natural gas, as implemented pursuant to Order No. 644.⁶ FERC is proposing this change in light of the NOPR in *Prohibition of Energy Market Manipulation*, Docket RM06-3, which FERC feels is broader in scope.

Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations, EL06-16

This NOPR was issued on November 18, 2005, proposing to repeal the market behavior rules that currently are included in all public utility sellers' market-based rate tariffs and authorizations pursuant to Order Amending Market-Based Rate Tariffs and Authorizations.⁷ FERC is proposing this change in light of the NOPR in *Prohibition of Energy Market Manipulation*, Docket RM06-3, which FERC feels is broader in scope.

Enforcement of Statutes, Orders, Rules, and Regulations, Docket PL06-1

This is FERC's Policy Statement on Enforcement (issued October 20, 2005), which was intended to provide guidance and regulatory certainty regarding FERC's enforcement of the statutes and regulations that it administers; the policy statement sets forth the factors that will be taken into account to determine remedies for violations, including enhanced civil penalties under EPCRA. No provision was made for the filing of comments.

⁶ *Amendments to Blanket Sales Certificates*, Order No. 644, 105 FERC ¶ 61,217 (2003), *reh'g denied*, 107 FERC ¶ 61,174 (2004), *appeal pending sub nom Cinergy Marketing & Trading, LP v. FERC*, Case No. 04-1168 *et al.* (D.C. Cir.) (filed 4/28/04).

⁷ *Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorizations*, 105 FERC ¶ 61,218 (2003), *reh'g denied*, 107 FERC 61,175 (2004), *appeal pending sub nom Cinergy Marketing & Trading, LP v. FERC*, Case No. 04-1168, *et al.*(D.C. Cir.) (filed 4/28/04).

Rules Concerning Certification of the Electric Reliability Organizations; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards, RM05-30

This NOPR was issued on September 1, 2005, with comments due on October 7, 2005. FERC held technical conferences to examine the many issues raised by comments filed by stakeholders on the NOPR. The matter is pending.

Assessment of Demand Response Resources, AD06-2

FERC is required to prepare a report, by appropriate region, that assesses demand response resources, including those available from all consumer classes. To that end, a voluntary survey will be taken to obtain information on meter saturation and penetration. FERC asked for comments on the survey design; allowed stakeholders to provide input on the other issues raised under the EPCRA; and scheduled a technical conference for January 25, 2005. The Commission filed comments with FERC on the technical topics on December 12, 2005.

Regulations Providing Incentive-Based Rate Treatments for the Transmission of Electric Energy in Interstate Commerce by Public Utilities, RM06-4

This NOPR was addressed *supra*.

Investigation of Terms and Conditions of Public Utility Market-Based Rate Authorization, EL06-16

This Investigation was initiated on November 17, 2005 to determine whether FERC's market behavior rules should be repealed in light of broader regulations being considered in *Prohibition of Energy Market Manipulation*, Docket RM06-3. Comments are due December 29, 2005 and reply comments are due January 13, 2006.

Transactions Subject to FPA, § 203, RM05-32

This NOPR on mergers and acquisitions was issued on October 3, 2005; and after receiving comments, FERC issued final rules governing mergers and acquisitions on December 23, 2005.

Market-Based Rates for Developers of Natural Gas Storage Facilities Docket RM05-23

On December 15, 2005, FERC issued this NOPR on market-based rates for developers of natural gas storage facilities. Comments are due on March 1, 2006.

Receipts and Disbursements

C90G0001 - General Administration and Hearings

Salaries and Wages	\$ 3,827,392
Technical and Special Fees	183,147
Operating Expenses	<u>1,978,767</u>
Total Disbursements for Fiscal Year 2004	\$ 5,989,306
Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004 *	<u>\$ 5,989,306</u>

C90G0002 - Telecommunications Division

Salaries and Wages	\$ 568,950
Operating Expenses	<u>14,327</u>
Total Disbursements for Fiscal Year 2004	\$ 583,277
Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004	\$ <u>583,277</u>

C90G0003 - Engineering Investigations

Salaries and Wages	733,396
Operating Expense	<u>128,012</u>
Total Disbursements for Fiscal Year 2004	\$ 861,408
Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004 *	<u>861,408</u>

* Includes \$21,404 Federal Funds.

C90G0004 - Accounting Investigations

Salaries and Wages	\$ 529,849
Operating Expenses	<u>48,207</u>
Total Disbursements for Fiscal Year 2004	\$ 578,056
Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004	\$ 578,056

C90G0005 - Common Carrier Investigations

Salaries and Wages	\$ 921,545
Technical and Special Fees	48,699
Operating Expenses	\$ <u>39,268</u>
Total Disbursements for Fiscal Year 2004	\$ 1,023,623
Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004 *	<u>1,023,623</u>

* Includes \$ 140,900.89 Special Fund attainment for the For-Hire Driving Services Enforcement Fund

C90G0006 - Washington Metropolitan Area Transit Commission

Operating Expenses	\$ <u>290,116</u>
Total Disbursements for Fiscal Year 2004	\$ 290,116
Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004	\$ <u>290,116</u>

C90G0007 - Rate Research and Economics Division

Salaries and Wages	\$ 622,878
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Operating Expenses	\$	<u>14,805</u>
Total Disbursements for Fiscal Year 2004	\$	637,683
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2004	\$	<u>637,683</u>

C90G0008 - Hearing Examiner Division

Salaries and Wages	\$	748,687
Operating Expenses		<u>55,608</u>
Total Disbursements for Fiscal Year 2004	\$	804,295
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2004	\$	<u>804,295</u>

C90G0009 - Staff Attorney

Salaries and Wages	\$	716,993
Technical and Special Fees		0
Operating Expenses		<u>47,493</u>
Total Disbursements for Fiscal Year 2004	\$	764,486
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2004	\$	<u>764,486</u>

C90G0010 - Integrated Resource Planning Division

Salaries and Wages	\$	383,331
Operating Expenses		<u>17,284</u>
Total Disbursements for Fiscal Year 2004	\$	400,615

Reverted to State Treasury	<u>0</u>
Total Appropriation for Fiscal Year 2004	\$ <u>400,615</u>

Summary of Public Service Commission
Fiscal Year Ended June 30, 2004:

Salaries and Wages	\$ 9,053,021
Technical and Special Fees	231,846
Operating Expenses	<u>2,647,944</u>
Total Disbursements	\$ 11,932,811
Reverted to State Treasury	<u>0</u>
Total Appropriations *	<u>\$ 11,932,811</u>

- * Public Utility Regulation Fund: \$11,766,730.11
- For-Hire Driving Services Enforcement Fund: \$140,900.89
- Federal Funds: \$25,180

Assessments (Costs and expenses of the Public Service Commission, Office of People's Counsel and the Railroad Safety Program) remitted to the State Treasury during Fiscal Year 2004: \$ 14,837,145

Miscellaneous Fees remitted to the State Treasury during Fiscal Year 2004:

1) Misc. Fines & Citations	\$44,500
2) Return of Unexpended Funds	\$ 0
3) Rent To Department of General Services	<u>\$632,982</u>
Total Miscellaneous Fees	<u>\$677,482</u>